

DEBT MANAGEMENT

Capital vs. Current Expenditures

Local government expenditures can be broadly categorized as either current or capital. Generally, current expenditures are related to on-going operations or purchases that are relatively inexpensive or short-lived. Capital expenditures tend to be one-time, relatively high-cost or long-lived assets. There is not a perfectly clear line separating current and capital expenditures but current expenditures should be funded with current sources of revenue and it may be appropriate to fund capital expenditures with current revenue and/or debt financing. When debt financing is used, it is important that the useful life of the asset exceed the time necessary to pay for the asset. Carroll County's operating expenditures are entirely funded by current revenue and a mix of sources are used to fund capital expenditures.

Paying for Capital Assets

There are two general approaches to paying for capital assets; paygo, or using current resources to pay as the expenditure occurs and debt financing, and paying over time as the asset is used. Paygo funding creates no long-term obligation but may require years of saving that delay addressing a need. Constraints on accumulating funds over time may make it difficult or impossible for a local government to save for a future project. Paygo funding places the entire burden on the existing taxpayer, even though a long-lived asset may benefit new taxpayers in future years. Debt financing commits the County to a long-term obligation and increases the cost of the funding but allows timely filling of needs and spreads the cost of an asset over a larger number of taxpayers who will benefit from its use. To benefit from the advantages of each of these approaches, Carroll County uses a mix of paygo and debt funding in the Capital Budget.

Bonds

For local governments, financing with long-term debt usually means issuing bonds. What is a bond? A bond is like a mortgage; it is written evidence of the issuer's obligation to repay a specified principal amount on a certain date (maturity date), together with interest at a stated rate, or according to a formula for determining that rate.

General Obligation bonds are used when the benefits of a capital project are to be enjoyed by all members of the community. Examples would be expenditures for law enforcement, fire protection, education, public health facilities, or roads and bridges. The payments are financed by all the taxpayers of the issuing government because general obligation bonds are secured unconditionally by the full faith, credit, and taxing powers of the issuing government. These bonds typically carry high credit ratings with correspondingly low risk.

Serial bonds are a package of individual bonds with more than one term to maturity. Typically, a municipal serial bond issue has maturities ranging from one year

to more than twenty years. General obligation bond issues are usually entirely in serial form.

Rating Agencies

There are currently three credit rating agencies used by Carroll County: Moody’s, Fitch and Standard & Poor’s. These agencies tackle the difficult and costly task of evaluating municipal bond issues in light of demographic, economic, financial and debt factors. The result of the evaluation process is a “rating” that is assigned to the bond issue. Ratings generally measure the probability of the timely repayment of principal and interest on municipal bonds. The higher the credit rating assigned to the issue, the lower the interest rate the County must pay to issue bonds.

The following table displays the various rating categories used by the rating agencies:

Moody’s ¹	Standard & Poor ²	Fitch	Description
Aaa	AAA	AAA	Highest quality, extremely strong capacity to pay
Aa	AA	AA	High quality, very strong capacity to pay
A	A	A	Upper medium quality, strong capacity to pay
Baa	BBB	BBB	Medium quality, adequate capacity to pay
Ba	BB	BB	Questionable quality, low capacity to pay

Because credit evaluation is to some extent subjective and because different analysts may look at different data or assign different weight to the same data, the rating agencies do not necessarily give the same credit ratings to the same bond issues.

In addition, it is important to realize that bonds carrying the same rating are not of absolutely equal quality. In a broad sense they are alike in position, but since there are only a small number of rating classes used in grading thousands of bonds, the symbols cannot reflect fine shadings of risk. It should be apparent, therefore, that two bonds carrying the same rating are unlikely to be precisely the same in investment quality.

Ratings are initially made before issuance and are continuously reviewed and amended as necessary to reflect change in the issuer’s credit position. According to the rating agencies, Carroll County demonstrates a very strong credit worthiness. Moody’s has assigned Carroll County an **Aa2** rating, Standard and Poor’s an **AA** Rating and Fitch

¹ Relative ranking within a range may be designated by 1,2, or 3.

² Relative ranking within a rating may be designated by a + or -.

an **AA+**. These high ratings allow Carroll County to pay lower interest rates on capital projects that are financed with long-term debt issues.

Sale of Bonds

Bonds are sold to investors through the services of an underwriter. Underwriters buy the entire bond issue from the issuer and then resell the individual bonds to investors. Since they assume the responsibility of distributing the bonds, they risk having to sell the bonds at a price below the purchase price and thus realize a loss.

The underwriter can also help the issuer design the issue in terms of maturity dates, maturity amounts, and call provision; prepare the official statement; select an appropriate time to mark the issue; and comply with legal requirements.

Carroll County uses a competitive bid process to sell its bonds. This means that at a specified date and time, bids are accepted from various underwriters. The underwriter submitting the lowest bid (interest rate) is selected to purchase the bonds. The underwriter then, within a few days of purchasing the bonds, sells the bonds to various investors.

Debt Affordability

Carroll County uses a debt affordability model to evaluate the County's ability to support debt. The model establishes guidelines for the amount of debt the County can initiate each year, and projects the effects of that financing through six years of the CIP.

Debt affordability measures a number of criteria such as total debt to assessable base and debt service to General Fund revenue and compares the projected ratios to guideline ratios. The model takes into account potential changes in revenue and interest. The model distinguishes between direct debt, debt to be paid with general fund revenue, and indirect debt, debt backed by the government, but with an associated revenue stream separate from the general fund.

**CARROLL COUNTY
LONG-TERM DEBT (BONDS)
AS OF JUNE 30, 2008**

<u>Direct Debt</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Watershed Bond - 1972	June 1, 1972	1973-2023	\$ 769,700	\$ 366,252
Watershed Bond - 1974	July 1, 1974	1975-2025	253,000	149,304
Watershed Bond - 1979	September 2, 1980	1981-2031	678,800	457,186
County Refunding Bonds	March 15, 1997	1998-2020	8,925,000	0
Public Improvement Bonds	December 1, 1997	1998-2017	15,310,000	0
Volunteer Fire Department Project	December 1, 1997	1998-2017	5,525,000	2,750,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	34,370,665	12,215,751
Public Improvement Bonds	November 15, 1999	2000-2019	21,578,939	2,157,894
Public Improvement Bonds	November 13, 2000	2001-2021	20,100,000	5,025,000
Public Improvement Bonds	November 13, 2001	2002-2016	11,511,499	6,898,912
Public Improvement Bonds	November 14, 2002	2003-2017	16,200,000	10,700,000
County Refunding Bonds	August 8, 2003	2004-2014	29,232,224	14,305,697
Public Improvement Bonds	November 18, 2003	2004-2019	7,600,000	5,854,908
Volunteer Fire Department Project	November 18, 2003	2004-2019	2,100,000	1,615,000
County Refunding Bonds	February 26, 2004	2005-2020	32,090,354	30,541,818
Public Improvement Bonds	July 27, 2004	2006-2020	21,995,000	17,588,154
Taxable Pension Funding Bonds	July 27, 2004	2006-2020	12,800,000	10,235,000
Volunteer Fire Department Project	September 22, 2004	2006-2020	2,065,000	1,741,724
Public Improvement Bonds	December 6, 2005	2007-2021	31,799,320	27,517,457
Volunteer Fire Department Project	December 6, 2005	2007-2021	2,900,000	2,510,000
Public Improvement Bonds	October 10, 2006	2008-2022	20,260,000	18,906,718
County Refunding Bonds	January 9, 2007	2008-2021	23,165,983	22,537,655
Public Improvement Bonds	November 13, 2007	2009-2023	20,430,000	20,430,000
County Refunding Bonds	November 13, 2007	2009-2021	6,670,000	6,670,000
Installment Purchase Agreements:				
Gorsuch Property	February 21, 2002	2002-2022	246,000	246,000
Spangler Property	June 28, 2002	2002-2023	150,000	150,000
Rodkey Property	September 13, 2002	2003-2023	230,930	230,930
Dell Property	November 27, 2002	2003-2023	300,000	300,000
Vaughn Property	December 9, 2003	2004-2024	100,000	100,000
Hoff Property	November 22, 2004	2005-2025	600,000	600,000
Nevius Property	November 15, 2004	2005-2025	647,946	647,946
Seiler etal Property	November 15, 2004	2005-2025	684,350	684,350
Seiler Property	November 15, 2004	2005-2025	147,638	147,638
Leister Property	November 15, 2004	2005-2025	100,000	100,000
Stonesifer Property	November 17, 2005	2006-2026	450,000	450,000
Reddick Property	November 17, 2005	2006-2026	200,000	200,000
Haines Property	February 7, 2006	2006-2026	696,000	696,000
Sherwood Property	February 13, 2007	2007-2027	1,584,000	1,584,000
Barnes Property	March 9, 2007	2007-2027	1,000,000	1,000,000
Total Direct Debt:			<u>\$ 355,467,348</u>	<u>\$ 228,311,296</u>
Indirect Debt				
MD Dept of the Environment-Series A	March 1, 1990	1991-2011	6,761,498	1,793,887
MD Dept of the Environment-Series B	November 1, 1990	1993-2012	5,347,120	1,575,120
MD Dept of the Environ.-Hampstead Filtration	March 21, 2002	2003-2021	508,694	373,944
Public Improvement Bonds	November 15, 1999	2000-2019	2,521,061	252,106
Public Improvement Bonds	November 13, 2001	2002-2017	18,501	11,088
Public Improvement Bonds	November 18, 2003	2004-2019	990,000	762,679
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	2,166,412	2,061,871
Public Improvement Bonds	July 27, 2004	2006-2020	378,474	302,644
Public Improvement Bonds	December 6, 2005	2006-2021	302,525	262,150
Public Improvement Bonds	October 10, 2006	2007-2022	200,000	186,641
Refunding Bonds	January 1, 2007	2007-2021	212,504	206,740
Public Improvement Bonds	November 13, 2007	2009-2023	9,401,000	9,401,000
Subtotal - Bureau of Utilities			<u>28,807,789</u>	<u>17,189,869</u>
Public Improvement Bonds	December 1, 1997	1998-2017	1,800,000	0
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	454,335	289,249
Public Improvement & Refunding Bonds	August 5, 2003	2004-2014	3,727,776	1,824,303
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	1,004,270	955,808
Public Improvement Bonds	July 27, 2004	2006-2020	2,449,026	1,958,347
Refunding Bonds	January 1, 2007	2007-2021	345,658	336,283
Public Improvement Bonds	November 13, 2007	2009-2023	604,000	604,000
Subtotal - Solid Waste Management			<u>10,385,065</u>	<u>5,967,990</u>
Public Improvement Bonds	October 10, 2006	2007-2022	<u>200,000</u>	<u>186,641</u>
Subtotal - Septage			<u>200,000</u>	<u>186,641</u>
Public Improvement Bonds	November 15, 1999	2000-2019	500,000	50,000
Public Improvement Bonds	November 13, 2000	2001-2021	600,000	150,000
Public Improvement Bonds	November 13, 2001	2002-2017	2,200,000	1,540,000
Public Improvement Bonds	November 18, 2003	2004-2019	425,000	327,413
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	278,964	265,502
Public Improvement Bonds	July 27, 2004	2006-2020	407,500	325,855
Public Improvement Bonds	December 6, 2005	2006-2021	58,155	50,394
Refunding Bonds	January 1, 2007	2007-2021	240,854	234,322
Subtotal - Airport Bonds			<u>4,710,473</u>	<u>2,943,485</u>
Total Indirect Debt:			<u>\$ 43,903,327</u>	<u>\$ 26,287,985</u>
GRAND TOTAL:			<u>\$ 399,370,675</u>	<u>\$ 254,599,281</u>

**CARROLL COUNTY, MARYLAND
RATIO OF OUTSTANDING DEBT
TO
ASSESSED VALUE AND OUTSTANDING DEBT PER CAPITA**

Fiscal Year	Population	Assessed Value (1)	Outstanding Debt		Ratio of Outstanding Debt To Assessed Value		Outstanding Debt Per Capita	
			Direct	Direct and Indirect	Direct	Direct and Indirect	Direct	Direct and Indirect
Starting in 2002 Assessed Values shown at 100% of full cash value								
2008	173,978	\$ 17,780,344,000	228,311,296	254,599,281	1.28%	1.43%	1,312.30	1,463.40
2007	172,792	\$ 15,299,926,000	228,076,689	246,582,049	1.49%	1.61%	1,319.95	1,427.05
2006	171,742	13,470,143,079	224,511,673	245,494,183	1.67%	1.82%	1,307.26	1,429.44
2005	168,521	12,034,458,190	206,709,068	224,123,584	1.72%	1.86%	1,226.61	1,329.94
2004	166,234	10,948,754,959	183,290,565	205,124,654	1.67%	1.87%	1,102.61	1,233.95
2003	163,400	10,340,867,012	186,209,228	208,822,746	1.80%	2.02%	1,139.59	1,277.98
2002	159,442	9,726,556,899	195,657,213	220,121,714	2.01%	2.26%	1,227.14	1,380.58
2001*	155,221	9,180,260,290	197,478,808	221,997,414	2.15%	2.42%	1,272.24	1,430.20

* For comparison purposes, 2001 information was converted to 100% full cash value.

Assessed Values shown at 40% of full cash value

2001	155,221	\$3,968,204,470	197,478,808	221,997,414	4.98%	5.59%	1,272.24	1,430.20
2000	155,336	3,784,635,220	189,685,554	215,729,863	5.01%	5.70%	1,221.13	1,388.80
1999	152,020	3,594,358,170	182,890,270	208,027,145	5.09%	5.79%	1,203.07	1,368.42
1998	149,139	3,446,926,740	167,092,741	194,125,205	4.85%	5.63%	1,120.38	1,301.64
1997	146,589	3,347,844,015	153,574,575	180,629,145	4.59%	5.40%	1,047.65	1,232.21
1996	143,797	3,205,763,771	140,868,137	169,488,855	4.39%	5.29%	979.63	1,178.67
1995	140,396	3,079,400,531	115,731,513	144,883,569	3.76%	4.70%	824.32	1,031.96
1994	136,068	2,874,555,126	96,725,642	126,988,056	3.36%	4.42%	710.86	933.27
1993	132,160	2,632,900,921	84,721,755	115,576,443	3.22%	4.39%	641.05	874.52
1992	129,033	2,357,589,793	76,105,881	121,376,099	3.23%	5.15%	589.82	940.66
1991	126,357	2,126,487,477	58,253,110	86,477,731	2.74%	4.07%	461.02	684.39
1990	123,372	1,931,534,350	43,826,821	56,992,521	2.27%	2.95%	355.24	461.96
1989	122,726	1,751,816,910	34,989,003	43,674,990	2.00%	2.49%	285.10	355.87
1988	120,096	1,561,510,530	31,516,494	40,381,494	2.02%	2.59%	262.43	336.24
1987	116,257	1,421,021,330	28,678,674	37,928,674	2.02%	2.67%	246.68	326.25
1986	113,037	1,285,282,086	18,084,980	27,639,980	1.41%	2.15%	159.99	244.52
1985	108,600	1,185,184,315	19,374,622	29,309,622	1.63%	2.47%	178.40	269.89

- (1) The Maryland Truth in Taxation Act, Chapter 80 of the Laws of Maryland of 2000, mandated that real property be assessed at 100% of its market value for the purposes of determining State and County real property taxes. This change is effective for fiscal years beginning July 1, 2001. Prior to fiscal year 2002, assessments are shown at 40% of full cash value. For fiscal year 2008, the County tax rate is \$1.048 per \$100 of market value.

**STATEMENT OF DEBT MARGIN
As of June 30, 2008**

Net Assessed Value-Real Property (1)	\$17,225,804,000	
Debt Limit - Percent of Assessed Value-Real Property (2)	<u>6%</u>	
Debt Limit-Real Property		1,033,548,240
Net Assessed Value-Personal Property(1)	\$554,540,000	
Debt Limit - Percent of Assessed Value-Personal Property (2)	<u>15%</u>	
Debt Limit-Personal Property		<u>83,181,000</u>
Total Debt Limit		1,116,729,240
Amount of debt applicable to debt limit:	\$234,279,286	
Less-Agricultural Perservation Program Self Supporting Debt	7,136,864	
Less-Fire Company Loans-Self Supporting Debt	10,061,724	
Amount of debt applicable to debt limit		<u>217,080,698</u>
DEBT MARGIN		<u><u>\$899,648,542</u></u>

(1) The Maryland Truth in Taxation Act, Chapter 80 of the Laws of Maryland of 2000, mandated that real property be assessed at 100% of its market value for the purposes of determining State and County real property taxes. This change is effective for fiscal years beginning July 1, 2001. For fiscal year 2008, the County tax rate is \$1.048 per \$100 of market value.

(2) Recommended Limit - Carroll County does not have a legal debt limit.

CARROLL COUNTY, MARYLAND
DEBT AFFORDABILITY DEBT SERVICE SCHEDULE
FISCAL YEAR 2009 - 2033

Fiscal Year	Indirect Debt												Total Debt Service Charges
	Direct Debt		Bureau of Utilities Bonds		Solid Waste Management Bonds		Septage Bonds		Airport Bonds		Total Direct and Indirect Debt		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2009	21,633,168	8,879,492	1,838,390	686,210	836,118	231,667	13,359	7,198	250,393	110,762	24,571,428	9,915,330	34,486,758
2010	21,694,138	8,043,578	1,876,795	616,879	797,251	196,940	13,359	6,664	250,646	101,829	24,632,190	8,968,159	33,600,349
2011	21,038,084	7,199,442	1,866,388	546,583	736,732	164,586	13,359	6,130	235,594	93,099	23,890,157	8,012,441	31,902,598
2012	20,707,467	6,379,603	1,907,076	475,896	695,894	132,896	13,359	5,595	235,638	84,527	23,559,435	7,081,494	30,640,928
2013	18,595,118	5,605,821	1,002,637	358,765	426,021	99,363	13,359	5,061	236,048	75,662	20,273,183	6,148,476	26,421,659
2014	18,374,003	4,860,326	1,021,527	320,728	454,120	81,845	13,359	4,527	228,102	66,595	20,091,111	5,338,562	25,429,673
2015	18,036,254	4,105,725	1,023,476	281,505	385,555	64,866	13,311	3,993	230,752	57,418	19,689,347	4,518,691	24,208,037
2016	17,143,475	3,378,466	1,024,218	242,189	345,280	50,692	13,311	3,461	231,618	48,029	18,757,902	3,728,766	22,486,668
2017	16,193,927	2,665,762	1,015,166	202,063	330,926	37,420	13,311	2,928	223,459	38,602	17,776,790	2,953,274	20,730,064
2018	14,451,504	2,008,901	947,479	160,149	298,072	28,481	13,311	2,396	215,657	29,460	15,926,023	2,236,132	18,162,155
2019	12,247,637	1,463,571	897,148	126,132	272,635	20,894	13,311	1,864	209,884	21,499	13,640,615	1,640,056	15,280,671
2020	10,229,566	1,007,253	802,581	97,801	253,752	10,530	13,311	1,331	161,370	14,453	11,460,580	1,137,082	12,597,662
2021	6,624,159	664,124	701,941	68,284	55,212	4,422	13,311	799	124,324	8,033	7,518,945	751,284	8,270,229
2022	2,921,009	476,876	639,179	39,148	40,211	2,498	13,311	266	110,000	2,613	3,723,710	526,556	4,250,266
2023	1,990,049	363,926	625,869	12,987	40,211	834					2,656,128	380,360	3,036,488
2024	133,755	315,755									133,755	315,755	449,510
2025	2,210,709	259,114									2,210,709	259,114	2,469,823
2026	1,369,986	189,606									1,369,986	189,606	1,559,592
2027	2,608,861	141,844									2,608,861	141,844	2,750,705
2028	25,769	3,956									25,769	3,956	29,725
2029	26,709	3,016									26,709	3,016	29,725
2030	27,684	2,042									27,684	2,042	29,726
2031	28,264	1,031									28,264	1,031	29,295
2032											0	0	0
2033											0	0	0
											0	0	0
	<u>\$228,311,296</u>	<u>\$58,019,229</u>	<u>\$17,189,869</u>	<u>\$4,235,319</u>	<u>\$5,967,990</u>	<u>\$1,127,936</u>	<u>\$186,641</u>	<u>\$52,213</u>	<u>\$2,943,485</u>	<u>\$752,580</u>	<u>\$254,599,281</u>	<u>\$64,253,025</u>	<u>\$318,852,306</u>