

# Debt Management

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## **Capital Expenditures 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. A mix of sources such as bonds, grants and paygo are used to fund capital projects.

## **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. 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 generally enjoyed by 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 each bond potentially having a different maturity than the rest. 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.

**Debt Retirement**

As of June 30, 2008, 82.3% of long-term debt owed by the County will be retired within ten years and 46.5% will be retired in five years. New bonds issued in November 2008 have an aggregate principal amount of \$80 Million and will mature in annual installments beginning in year 2011 and mature in 2028.

**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 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 <sup>1</sup>	Standard & Poor <sup>2</sup>	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.

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 very strong credit worthiness.

<sup>1</sup> Relative ranking within a range may be designated by 1, 2, or 3.

<sup>2</sup> Relative ranking within a rating may be designated by a + or -.

Moody's has assigned Carroll County an **Aa2** rating, Standard and Poor's an **AA+** Rating and Fitch an **AA+**. These high ratings allow Carroll County to pay lower interest rates on capital projects that are financed with long-term debt issues. The County's goal is to maintain or improve our current bond ratings in order to minimize borrowing costs.

### **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 financial advisor helps the issuer design the bond issue in terms of maturity dates, maturity amounts, and call provisions; prepare the official statement; select an appropriate time to mark the issue; and comply with legal requirements.

Carroll County historically has used 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 does not have a legal debt limit. The County uses a debt affordability model to evaluate the county's ability to support debt (see pages 37-38). 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.

**Projected Statement of Direct and Enterprise Fund Bonded  
Debt Issued and Outstanding  
As of June 30, 2009 (1)**

<b>Direct Bonded Debt</b>	<b>Principal Date of Issue</b>	<b>Issued</b>	<b>Outstanding</b>
Volunteer Fire Dept. Project Bond .....	12/01/97	5,525,000	2,475,000
Consolidated Public Improvements & Refunding .....	10/15/98	34,370,665	10,069,220
Consolidated Public Improvement .....	11/15/99	21,578,939	1,078,947
Consolidated Public Improvement & Refunding .....	11/13/00	20,100,000	4,020,000
Consolidated Public Improvements .....	11/13/01	11,511,499	6,130,148
Consolidated Public Improvements .....	11/14/02	16,200,000	9,600,000
Consolidated Public Improvement Refunding Bonds .....	08/05/03	29,232,224	10,345,689
Consolidated Public Improvements .....	11/01/03	7,600,000	5,403,882
Volunteer Fire Dept. Project Bonds .....	11/01/03	2,100,000	1,490,000
Consolidated Public Improvement Refunding Bonds .....	03/11/04	32,090,354	28,307,051
Consolidated Public Improvements .....	07/27/04	21,995,000	16,119,205
Taxable Pension Funding Bonds .....	07/27/04	12,800,000	9,380,000
Volunteer Fire Dept Project Bonds .....	09/22/04	2,065,000	1,626,670
Consolidated Public Improvement .....	12/01/05	31,799,320	25,371,525
Volunteer Fire Dept Project Bonds .....	12/01/05	2,900,000	2,315,000
Consolidated Public Improvement .....	10/10/06	20,260,000	17,553,437
Consolidated Public Improvement Refunding Bonds .....	01/09/07	23,165,983	21,609,662
Consolidated Public Improvement & Refunding .....	11/13/07	27,100,000	25,712,805
Consolidated Public Improvement .....	11/25/08	72,088,000	72,088,000
<b>Installment Purchase Agreements:</b>			
Gorsuch Property .....	02/21/02	246,000	246,000
Spangler Property .....	06/28/02	150,000	150,000
Rodkey Property .....	09/13/02	230,930	230,930
Dell Property .....	11/27/02	300,000	300,000
Vaughn Property .....	12/09/03	100,000	100,000
Hoff Property .....	11/22/04	600,000	600,000
Nevius Property .....	11/15/04	647,946	647,946
Seiler etal Property .....	11/15/04	684,350	684,350
Seiler Property .....	11/15/04	147,638	147,638
Leister Property .....	11/15/04	100,000	100,000
Stonesifer Property .....	11/17/05	450,000	450,000
Reddick Property .....	11/17/05	200,000	200,000
Haines Property .....	02/07/06	696,000	696,000
Sherwood Property .....	02/13/07	1,584,000	1,584,000
Barnes Property .....	03/09/07	1,000,000	1,000,000
W. Hoff Property .....	02/23/09	1,201,212	1,201,212
<b>Farmers Home Administration:</b>			
Watershed Bond — 1972 .....	06/01/72	769,700	346,250
Watershed Bond — 1974 .....	07/01/74	253,000	142,628
Watershed Bond — 1979 .....	09/02/80	678,800	444,144
		<u>\$404,521,560</u>	<u>\$279,967,339</u>
<b>Enterprise Fund Bonded Debt</b>			
Consolidated Public Improvements .....	11/15/99	2,521,061	126,053
Consolidated Public Improvements .....	11/13/01	18,501	9,852
Consolidated Public Improvements .....	11/01/03	990,000	703,927
Consolidated Public Improvement Refunding Bonds .....	03/11/04	2,166,411	1,911,002
Consolidated Public Improvements .....	07/27/04	378,474	277,368
Consolidated Public Improvements .....	12/01/05	302,525	241,962
Consolidated Public Improvements .....	10/10/06	200,000	188,004
Consolidated Public Improvement Refunding Bonds .....	01/09/07	212,504	198,228
Consolidated Public Improvement & Refunding .....	11/13/07	9,401,000	8,773,510
Consolidated Public Improvements .....	11/25/08	7,616,000	7,616,000
Water Quality Loan — MD Dept. of the Environment .....	03/01/90	6,194,231	1,377,028
Water Quality Loan — MD Dept. of the Environment .....	11/01/90	5,347,120	1,209,871
Water Quality Loan — MD Dept. of the Environment .....	03/22/00	532,680	349,398
Solid Waste .....	10/15/98	454,335	245,780

Consolidated Public Improvement Refunding Bonds (Solid Waste).....	08/05/03	3,727,776	1,319,311
Consolidated Public Improvement Refunding Bonds (Solid Waste)	03/11/04	1,004,270	885,871
Solid Waste .....	07/27/04	2,449,026	1,794,788
Solid Waste.....	01/09/07	345,658	322,436
Solid Waste.....	11/13/07	604,000	563,685
Solid waste.....	11/25/08	296,000	296,000
Septage.....	10/09/06	200,000	158,560
Airport.....	11/15/99	500,000	25,000
Airport.....	11/13/00	600,000	120,000
Airport.....	11/13/01	2,200,000	1,430,000
Airport.....	11/01/03	425,000	302,191
Consolidated Public Improvement Refunding Bonds (Airport)	03/11/04	278,964	246,075
Airport.....	07/27/04	407,500	298,640
Airport.....	12/01/05	58,155	46,513
Airport.....	01/09/07	240,854	224,674
		<u>\$ 49,376,045</u>	<u>\$ 31,261,725</u>
		<u>\$453,897,605</u>	<u>\$311,229,064</u>

(1) This table reflects indebtedness of the County exclusive of the following obligations:

- (a) Promissory Notes ..... \$1,969,903  
(b) Capital Lease Agreements..... \$2,432,322
- (2) This subtotal reflects the direct bonded indebtedness of the County exclusive of those items in Note (1) of this table and Enterprise Fund Bonded Debt and is exclusive of any related bond premiums/discounts or other unamortized charges.

Source: Carroll County Department of the Comptroller.

The following tables set forth the County's long-term debt per capita and ratios of debt to assessed value for the six most recent fiscal years ended June 30 and a projection for the fiscal year ended June 30, 2009.

**Projected County Debt  
Exclusive of Enterprise Fund Debt (1)**

	<u>Bonded Debt</u>	<u>Estimated Population</u>	<u>Assessed Value</u>	<u>Bonded Debt Per Capita</u>	<u>Bonded Debt to Assessed Value</u>
2009.....	\$279,967,339	174,567	\$20,328,488,000	\$1,603.78	1.37%
2008.....	228,311,296	174,249	17,902,568,898	1,310.25	1.28
2007.....	228,076,689	172,792	15,299,926,000	1,319.95	1.49
2006.....	224,511,674	171,742	13,470,143,079	1,307.26	1.67
2005.....	205,365,415	168,521	12,034,458,190	1,218.63	1.71
2004.....	179,720,882	165,786	10,948,754,959	1,084.05	1.64
2003.....	181,374,749	163,400	10,340,867,012	1,440.00	1.75

**Projected County Debt  
Inclusive of Enterprise Fund Debt (1)**

	<u>Bonded Debt (2)</u>	<u>Estimated Population</u>	<u>Assessed Value</u>	<u>Bonded Debt Per Capita</u>	<u>Bonded Debt to Assessed Value</u>
2009.....	\$311,229,064	174,567	\$20,328,488,000	\$1,782.86	1.53%
2008.....	254,599,282	174,249	17,902,568,898	1,461.12	1.42
2007.....	246,582,049	172,792	15,299,926,000	1,427.05	1.61
2006.....	244,819,164	171,742	13,470,143,079	1,425.51	1.82
2005.....	228,414,313	168,521	12,034,458,190	1,355.41	1.90
2004.....	201,322,949	165,786	10,948,754,959	1,214.35	1.84
2003.....	203,974,684	163,400	10,340,867,012	1,248.32	1.97

(1) These tables reflect indebtedness of the County exclusive of MD Industrial Land Act and MD Industrial Commercial Redevelopment Fund Loans, Promissory Notes, Capital Lease Agreements, and any related bond premiums/discounts or other unamortized charges..

(2) This chart includes, among other things, the bonded indebtedness originally incurred by the Carroll County Sanitary Commission, which indebtedness is to be paid first from various charges which the County is authorized to levy together with State and federal monies received, but which indebtedness is ultimately secured by the full faith and credit of the County.

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY**  
**Westminster, Maryland**

**Computation of the Projected Legal Debt Margin**  
**As of June 30, 2009**

Net assessed value- Real Property	\$ 19,771,903,000	
Debt limit - 6% of net total assessed value (1)		\$ 1,186,314,180
Assessed Value-Personal Property	556,585,000	
Debt limit- 15% of Net Assessed Value		83,487,750
Total Debt Limit		1,269,801,930
Amount of debt applicable to debt limit:		
Total Bonded Debt	\$ 308,292,768	
Less- Agricultural Preservation Program Self Supporting Debt	8,338,076	
Less- Fire Company Loans- Self Supporting Debt	11,200,214	
Less - Bureau of Utilities bonds and loans payable	22,982,202	
Less - Airport bonds payable	2,693,092	
Less - Septage bonds payable	158,560	
Total amount of debt applicable to debt limit		262,920,625
Legal debt margin		\$ 1,006,881,305

Note: (1) Recommended limit - Carroll County does not have a legal debt limit.  
Source: Carroll County Department of the Comptroller.

Schedule of Legal Debt Margin  
2000-2009

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin	Ratio of Debt Subject to Limitation To Legal Borrowing Limitation
2000	3,784,635,220	15.0%	567,695,283	179,921,140	387,774,143	31.69%
2001	3,968,204,470	15.0%	595,230,671	188,977,240	406,253,431	31.75%
2002	9,725,556,889	6.0%	583,593,413	175,760,607	407,832,806	30.12%
2003	10,340,867,012	6.0%	620,452,021	179,403,473	441,048,548	28.91%
2004	10,948,754,959	6.0%	656,925,298	186,294,353	470,630,945	28.36%
2005	12,034,458,190	6.0%	722,067,491	213,655,613	508,411,878	29.59%
2006	13,470,143,079	6.0%	852,874,621	226,319,103	626,555,518	26.54%
2007	15,441,306,101	6%/15%	974,208,067	211,725,319	762,482,748	21.73%
2008	17,902,568,902	6%/15%	1,124,225,213	214,237,099	909,988,114	19.06%
2009	20,328,488,000	6%/15%	1,269,801,930	262,920,625	1,006,881,305	20.71%

In fiscal year ending June 30, 2002, assessments were changed from 40% of market

### Schedule of Debt Service Requirements on Direct County Debt

The following table sets forth the schedule of debt service requirement for the County's direct general obligation bonded debt, State of Maryland Loans, Promissory Notes, Capital Leases, and Enterprise Fund bonded debt, projected as of the year ended June 30, 2009.

#### Schedule of Debt Service Requirements (1)

Fiscal Years Ending June 30	G.O. Bonds (2)		Watershed Bonds		Notes, Capital Leases, and Other Debt		General Obligation Debt		Total General Fund		Enterprise Funds			Grand	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Total Debt Service (1)
2010.....	\$21,652,998	\$10,958,121	\$41,140	\$33,537	\$1,195,689	\$148,797	\$0	\$431,493	\$22,889,827	\$11,571,948	\$34,461,775	\$2,938,052	\$1,285,680	\$4,223,732	\$38,685,507
2011.....	20,995,473	10,115,457	42,611	32,066	908,701	116,015	0	431,493	21,946,785	10,695,031	32,641,816	2,852,073	1,173,765	4,025,838	36,667,654
2012.....	23,764,300	9,219,616	44,134	30,543	378,016	90,285	0	431,493	24,186,450	9,771,937	33,958,387	3,181,001	1,054,056	4,235,057	38,193,444
2013.....	21,758,889	8,317,735	45,712	28,965	185,607	77,694	0	431,493	21,990,208	8,855,887	30,846,095	2,018,582	880,233	2,898,815	33,744,910
2014.....	21,662,652	7,454,999	47,346	27,331	193,522	69,779	0	431,493	21,903,520	7,983,602	29,887,122	2,071,113	802,464	2,873,577	32,760,699
2015.....	21,458,787	6,548,582	49,039	25,638	201,774	61,527	0	431,493	21,709,600	7,067,240	28,776,840	2,021,521	720,259	2,741,780	31,518,620
2016.....	20,713,500	5,672,923	50,792	23,885	210,379	52,922	0	431,493	20,974,671	6,181,223	27,155,894	1,998,611	640,916	2,639,527	29,795,421
2017.....	19,929,375	4,803,969	52,608	22,069	219,350	43,951	0	431,493	20,201,333	5,301,482	25,502,815	1,984,807	560,785	2,545,592	28,048,407
2018.....	18,370,442	3,954,951	54,489	20,188	228,704	34,597	0	431,493	18,653,635	4,441,229	23,094,864	1,896,092	479,670	2,375,762	25,470,626
2019.....	16,363,528	3,207,925	56,437	18,240	238,456	24,845	1,201,212	431,493	17,859,633	3,682,503	21,542,136	1,835,650	407,966	2,243,616	23,785,752
2020.....	14,555,871	2,539,698	58,455	16,222	248,625	14,676	0	359,421	14,862,951	2,930,017	17,792,968	1,696,253	338,995	2,035,248	19,828,216
2021.....	11,183,401	1,990,871	60,546	14,132	193,402	4,074	0	359,421	11,437,349	2,368,498	13,805,847	1,384,999	274,370	1,659,369	15,465,216
2022.....	7,494,313	1,585,566	62,710	11,967	0	0	246,000	359,421	7,803,023	1,956,954	9,759,977	1,320,688	213,991	1,534,679	11,294,656
2023.....	6,417,089	1,274,750	45,198	9,724	0	0	680,930	327,975	7,143,217	1,612,449	8,755,666	1,212,912	158,717	1,371,629	10,127,295
2024.....	5,447,056	1,016,459	33,755	8,094	0	0	100,000	307,661	5,580,811	1,332,214	6,913,025	577,944	120,272	698,216	7,611,241
2025.....	3,366,071	809,749	30,776	7,021	0	0	2,179,934	252,093	5,576,781	1,068,863	6,645,644	403,929	97,170	501,099	7,146,743
2026.....	3,562,500	645,441	23,986	5,739	0	0	1,346,000	183,867	4,932,486	835,047	5,767,533	427,500	77,453	504,953	6,272,486
2027.....	3,772,322	478,049	24,861	4,864	0	0	2,584,000	136,980	6,381,183	619,893	7,001,076	452,679	57,366	510,045	7,511,121
2028.....	3,995,535	295,921	25,769	3,956	0	0	0	0	4,021,304	299,877	4,321,181	479,464	35,510	514,974	4,836,155
2029.....	4,232,143	100,514	26,709	3,016	0	0	0	0	4,258,852	103,530	4,362,382	507,857	12,062	519,919	4,882,301
2030.....	0	0	27,683	2,042	0	0	0	0	27,683	2,042	29,725	0	0	0	29,725
2031.....	0	0	28,264	1,031	0	0	0	0	28,264	1,031	29,295	0	0	0	29,295
2032.....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	<b>\$270,696,245</b>	<b>\$80,991,296</b>	<b>\$933,020</b>	<b>\$350,270</b>	<b>\$4,402,225</b>	<b>\$739,162</b>	<b>\$8,338,076</b>	<b>\$6,601,769</b>	<b>\$284,369,566</b>	<b>\$88,682,497</b>	<b>\$373,052,063</b>	<b>\$31,261,725</b>	<b>\$9,391,700</b>	<b>\$40,653,425</b>	<b>\$413,705,488</b>

(1) Totals may not add due to rounding

(2) Loans paid from revenues or by repayment by others:

- (a) Promissory Notes \$1,969,903
- (b) Capital Lease Agreements \$2,432,322

Source: Carroll County Department of the Comptroller