

Debt Management

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, or 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, 2009, 74.3% of long-term debt owed by the County will be retired within ten years and 39.8% will be retired in five years. New bonds issued in November 2009 have an aggregate principal amount of \$66.5 million and include approximately \$31.9 million of Consolidated Public Improvement and Refunding Bonds, Series A and \$34.6 million of Federally Taxable Build America Bonds. Series A bonds will mature in annual installments beginning in year 2010 and mature in 2019. The Build America Bonds will mature in annual installments beginning in year 2020 and mature in 2029.

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 will need to attract investors.

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.

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 -.

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. Moody's has assigned Carroll County an **Aa1** rating, Standard and Poor's an **AA+** Rating and Fitch an **AAA**. 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 46-47). 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.

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, 2010.

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			Total Debt Service (1)	
											Service	Principal	Interest		
2011.....	22,599,020	12,693,513	42,611	32,066	908,701	116,015	0	641,710	23,550,332	13,483,304	37,033,636	2,918,526	1,256,339	4,174,865	41,208,501
2012.....	25,796,153	11,767,982	44,134	30,543	378,016	90,285	0	641,710	26,218,303	12,530,520	38,748,823	3,259,148	1,134,938	4,394,086	43,142,909
2013.....	23,858,260	10,769,866	45,712	28,965	185,607	77,694	0	641,710	24,089,579	11,518,235	35,607,814	2,099,210	957,477	3,056,687	38,664,501
2014.....	23,870,279	9,791,138	47,346	27,331	193,522	69,779	0	641,710	24,111,147	10,529,958	34,641,105	2,123,486	876,161	2,999,647	37,640,752
2015.....	23,733,835	8,810,951	49,039	25,638	201,774	61,527	0	641,710	23,984,648	9,539,826	33,524,474	2,076,472	792,369	2,868,841	36,393,315
2016.....	23,057,661	7,871,881	50,792	23,885	210,379	52,922	0	641,710	23,318,832	8,590,398	31,909,230	2,074,449	711,330	2,785,779	34,695,009
2017.....	22,365,559	6,907,320	52,608	22,069	219,350	43,951	0	641,710	22,637,517	7,615,050	30,252,567	2,063,623	628,105	2,691,728	32,944,295
2018.....	20,922,865	5,958,531	54,489	20,188	228,704	34,597	0	641,710	21,206,058	6,655,026	27,861,084	1,978,668	543,763	2,522,431	30,383,515
2019.....	19,032,191	5,107,083	56,437	18,240	238,456	24,845	1,201,212	641,710	20,528,296	5,791,878	26,320,174	1,921,987	468,680	2,390,667	28,710,841
2020.....	17,331,087	4,329,978	58,455	16,222	248,625	14,676	0	569,637	17,638,167	4,930,513	22,568,680	1,786,038	396,187	2,182,225	24,750,905
2021.....	14,061,495	3,658,011	60,546	14,132	193,402	4,074	0	569,637	14,315,443	4,245,854	18,561,297	1,476,905	327,607	1,804,512	20,365,809
2022.....	10,464,467	3,114,531	62,710	11,967	0	0	246,000	569,637	10,773,177	3,696,135	14,469,312	1,415,534	262,815	1,678,349	16,147,661
2023.....	9,484,148	2,660,330	45,198	9,724	0	0	680,930	538,192	10,210,276	3,208,246	13,418,522	1,310,852	202,963	1,513,815	14,932,337
2024.....	8,615,866	2,249,977	33,755	8,094	0	0	1,006,624	517,878	9,656,245	2,775,949	12,432,194	679,134	159,662	838,796	13,270,990
2025.....	6,641,478	1,882,161	30,776	7,021	0	0	2,179,934	407,912	8,852,188	2,297,094	11,149,282	508,522	131,415	639,937	11,789,219
2026.....	6,954,193	1,549,056	23,986	5,739	0	0	1,346,000	339,686	8,324,179	1,894,481	10,218,660	535,807	106,308	642,115	10,860,775
2027.....	7,285,147	1,198,149	24,861	4,864	0	0	2,584,000	292,799	9,894,008	1,495,812	11,389,820	564,854	80,361	645,215	12,035,035
2028.....	7,634,337	821,171	25,769	3,956	0	0	0	155,819	7,660,106	980,946	8,641,052	595,662	52,283	647,945	9,288,997
2029.....	8,001,767	423,851	26,709	3,016	0	0	107,290	155,819	8,135,766	582,686	8,718,452	628,233	22,387	650,620	9,369,072
2030.....	3,905,290	109,836	27,686	2,042	0	0	3,090,430	74,691	7,023,406	186,569	7,209,975	124,708	3,507	128,215	7,338,190
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
	\$305,615,098	\$101,675,316	\$891,883	\$316,733	\$3,206,536	\$590,365	\$12,442,420	\$9,967,097	\$322,155,937	\$112,549,511	\$434,705,448	\$30,141,818	\$9,114,657	\$39,256,475	\$473,961,923

- (1) Totals may not add due to rounding
- (2) Loans paid from revenues or by repayment by others:

- (a) Promissory Notes \$937,966
- (b) Capital Lease Agreements \$2,268,570

Source: Carroll County Department of the Comptroller

**Projected Statement of Direct and Enterprise Fund Bonded
Debt Issued and Outstanding
As of June 30, 2010 (1)**

Direct Bonded Debt	Principal Date of Issue	Issued	Outstanding
Volunteer Fire Dept. Project Bond	12/01/97	5,525,000	2,200,000
Consolidated Public Improvement & Refunding	11/13/00	20,100,000	3,015,000
Consolidated Public Improvements	11/13/01	11,511,499	5,361,383
Consolidated Public Improvements	11/14/02	16,200,000	8,500,000
Consolidated Public Improvement Refunding Bonds	08/05/03	29,232,224	6,673,922
Consolidated Public Improvements	11/01/03	7,600,000	4,940,211
Volunteer Fire Dept. Project Bonds	11/01/03	2,100,000	1,360,000
Consolidated Public Improvement Refunding Bonds	03/11/04	32,090,354	26,112,916
Consolidated Public Improvements	07/27/04	21,995,000	14,650,257
Taxable Pension Funding Bonds	07/27/04	12,800,000	8,525,000
Volunteer Fire Dept Project Bonds	09/22/04	2,065,000	1,506,864
Consolidated Public Improvement	12/01/05	31,799,320	23,225,594
Volunteer Fire Dept Project Bonds	12/01/05	2,900,000	2,120,000
Consolidated Public Improvement	10/10/06	20,260,000	16,200,155
Consolidated Public Improvement Refunding Bonds	01/09/07	23,165,983	20,691,336
Consolidated Public Improvement & Refunding	11/13/07	27,100,000	23,935,611
Consolidated Public Improvement	11/13/08	72,088,000	72,088,000
Consolidated Public Improvement & Refunding-Series A	11/12/09	30,931,089	30,931,089
Consolidated Public Improvement Series B	11/12/09	33,577,761	33,577,761
Installment Purchase Agreements:			
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
Strawbridge Property	06/30/09	107,289	107,289
Owings Property	06/30/09	906,624	906,624
Hull Property	10/15/09	765,000	765,000
Leppo Property	12/15/09	1,742,020	1,742,020
Jewell Property	12/15/09	583,410	583,410
Farmers Home Administration:			
Watershed Bond — 1972	06/01/72	769,700	324,548
Watershed Bond — 1974	07/01/74	253,000	135,709
Watershed Bond — 1979	09/02/80	678,800	430,626
		<u>\$417,185,149</u>	<u>\$318,949,401</u>
Enterprise Fund Bonded Debt			
Consolidated Public Improvements	11/13/01	18,501	8,617
Consolidated Public Improvements	11/01/03	990,000	643,527
Consolidated Public Improvement Refunding Bonds	03/11/04	2,166,411	1,762,877
Consolidated Public Improvements	07/27/04	378,474	252,091
Consolidated Public Improvements	12/01/05	302,525	221,774
Consolidated Public Improvements	10/10/06	200,000	173,510
Consolidated Public Improvement Refunding Bonds	01/09/07	212,504	189,804
Consolidated Public Improvement & Refunding	11/13/07	9,401,000	8,146,020
Consolidated Public Improvements	11/13/08	7,616,000	7,616,000
Consolidated Public Improvement & Refunding Series A	11/12/09	745,461	745,461
Consolidated Public Improvement Series B	11/12/09	1,072,239	1,072,239
Water Quality Loan — MD Dept. of the Environment	03/01/90	6,194,231	939,767
Water Quality Loan — MD Dept. of the Environment	11/01/90	5,347,120	826,071
Water Quality Loan — MD Dept. of the Environment	03/22/00	532,680	324,214

Consolidated Public Improvement Refunding Bonds (Solid Waste).....	08/05/03	3,727,776	851,078
Consolidated Public Improvement Refunding Bonds (Solid Waste)	03/11/04	1,004,270	817,206
Solid Waste.....	07/27/04	2,449,026	1,631,228
Solid Waste.....	01/09/07	345,658	308,734
Solid Waste.....	11/13/07	604,000	523,369
Solid Waste.....	11/13/08	296,000	296,000
Solid Waste Series A.....	11/12/09	203,450	203,450
Septage.....	10/09/06	200,000	146,335
Airport.....	11/13/00	600,000	90,000
Airport.....	11/13/01	2,200,000	1,320,000
Airport.....	11/01/03	425,000	276,262
Consolidated Public Improvement Refunding Bonds (Airport)	03/11/04	278,964	227,002
Airport.....	07/27/04	407,500	271,424
Airport.....	12/01/05	58,155	42,632
Airport.....	01/09/07	<u>240,854</u>	<u>215,126</u>
		<u>\$ 48,217,799</u>	<u>\$ 30,141,818</u>
		<u>\$465,402,948</u>	<u>\$349,091,219</u>

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

(a) Promissory Notes.....	\$937,966
(b) Capital Lease Agreements.....	\$2,268,570
(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, 2010.

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

	Bonded Debt	Estimated Population	Assessed Value	Bonded Debt Per Capita	Bonded Debt to Assessed Value
2010.....	\$318,949,401	175,265	\$22,093,994,000	\$1,819.82	1.44%
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

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

	Bonded Debt (2)	Estimated Population	Assessed Value	Bonded Debt Per Capita	Bonded Debt to Assessed Value
2010.....	\$349,091,219	175,265	22,093,994,000	1,991.79	1.58%
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

(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 Debt Margin
As of June 30, 2010

Net assessed value - Real Property	\$ 21,539,976,000	
Debt limit - 6% of Real Property net assessed value (1)		\$ 1,292,398,560
Net assessed value - Personal Property	554,018,000	
Debt limit- 15% of Personal Property net assessed value (1)		83,102,700
Total Debt Limit		1,375,501,260
Amount of debt applicable to debt limit:		
Total Bonded Debt	\$ 347,001,167	
Less - Agricultural Preservation Program Self Supporting Debt	10,116,989	
Less - Fire Company Loans - Self Supporting Debt	10,423,586	
Less - Bureau of Utilities bonds and loans payable	20,831,920	
Less - Airport bonds payable	2,442,446	
Less - Septage bonds payable	146,335	
Total amount of debt applicable to debt limit		303,039,891
Debt Margin		\$ 1,072,461,369

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

Schedule of Recommended Debt Margin
2001-2010

Fiscal Year	Assessed Value	Recomm Debt Limitation	Recomm Borrowing Limitation	Debt Subject to Limitation	Debt Margin	Ratio of Debt Subject to Limitation To Borrowing Limitation
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%
2010	22,093,994,000	6%/15%	1,375,501,260	303,039,891	1,072,461,369	22.03%

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