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 ongoing 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 is 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 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, 2014, 67.6% of long-term debt owed by the County will be retired within ten years and 41.3% will be retired in five years. New Consolidated Public Improvement Bonds bonds issued in November 2014 have an aggregate principal amount of $15.0 million in new bonds and $58.5 million in refunded bonds.

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

Credit evaluation, to some extent, is subjective which may result in different analysts looking at different data or assigning 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.

[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 -.

Moody’s has assigned Carroll County an **Aa1** rating, Standard and Poor’s an **AAA** 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 calls provisions; prepares the official statement; selects 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. 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 which is debt that is 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 requirements 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, 2015

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 Total Debt
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Debt Service	Principal	Interest	Total	Service (1)
2016	$27,911,073	$10,988,415	50,792	23,885	210,379	52,922	0	1,728,795	$28,172,244	12,794,016	$40,966,260	2,068,037	738,832	2,806,869	$43,773,129
2017	26,930,894	9,998,710	52,608	22,069	219,350	43,951	0	1,728,795	$27,202,852	11,793,525	$38,996,377	2,050,288	655,781	2,706,069	$41,702,445
2018	25,412,987	8,943,844	54,489	20,188	228,704	34,597	0	1,728,795	$25,696,180	10,727,424	$36,423,604	1,965,547	562,861	2,528,407	$38,952,012
2019	23,857,295	7,903,661	56,437	18,240	238,456	24,845	1,201,212	1,728,795	$25,353,400	9,675,540	$35,028,941	1,911,882	470,830	2,382,712	$37,411,653
2020	22,112,298	6,937,020	58,455	16,222	248,625	14,676	0	1,656,722	$22,419,378	8,624,640	$31,044,018	1,787,826	386,782	2,174,608	$33,218,626
2021	19,027,884	6,030,319	60,546	14,132	193,402	4,074	0	1,656,722	$19,281,832	7,705,247	$26,987,078	1,495,516	306,617	1,802,133	$28,789,211
2022	15,453,169	5,230,339	62,710	11,967	0	0	246,000	1,656,722	$15,761,879	6,899,028	$22,660,907	1,436,831	242,034	1,678,864	$24,339,771
2023	14,573,017	4,529,615	45,198	9,724	0	0	680,930	1,625,277	$15,299,145	6,164,616	$21,463,761	1,326,983	179,089	1,506,073	$22,969,834
2024	13,799,697	3,869,131	33,755	8,094	0	0	1,006,624	1,604,963	$14,840,076	5,482,187	$20,322,263	700,303	134,268	834,571	$21,156,834
2025	11,856,485	3,289,506	30,776	7,021	0	0	2,179,934	1,494,996	$14,067,195	4,791,523	$18,858,718	513,515	82,973	596,488	$19,455,206
2026	12,207,352	2,804,458	23,986	5,739	0	0	1,346,000	1,426,771	$13,577,338	4,236,968	$17,814,306	537,648	60,918	598,566	$18,412,871
2027	12,550,207	2,334,556	24,861	4,864	0	0	2,584,000	1,379,884	$15,159,068	3,719,304	$18,878,372	559,793	41,873	601,665	$19,480,037
2028	12,907,898	1,830,664	25,769	3,956	0	0	0	1,242,904	$12,933,667	3,077,524	$16,011,190	582,102	21,910	604,012	$16,615,202
2029	13,279,351	1,299,037	26,709	3,016	0	0	107,290	1,242,904	$13,413,350	2,544,957	$15,958,307	605,649	1,150	606,799	$16,565,106
2030	9,482,615	808,683	27,686	2,042	0	0	4,662,430	1,161,776	$14,172,731	1,972,501	$16,145,231	127,385	3,708	131,094	$16,276,325
2031	5,667,229	477,608	28,264	1,031	0	0	13,115,500	788,795	$18,810,993	1,267,434	$20,078,427	2,771	68	2,839	$20,081,266
2032	4,390,000	284,675	0	0	0	0	0	205,835	$4,390,000	490,510	$4,880,510	0	0	0	$4,880,510
2033	3,080,000	150,263	0	0	0	0	445,320	194,145	$3,525,320	344,408	$3,869,728	0	0	0	$3,869,728
2034	2,010,000	59,738	0	0	0	0	3,475,344	182,456	$5,485,344	242,193	$5,727,537	0	0	0	$5,727,537
2035	750,000	11,250	0	0	0	0	0	0	$750,000	11,250	$761,250	0	0	0	$761,250
	$277,259,448	$77,781,490	$663,041	$172,190	$1,338,916	$175,065	$31,050,584	$24,436,05	$310,311,989	$102,564,795	$412,876,784	$17,672,078	$3,889,692	$21,561,770	$434,438,554

(1) Totals may not add due to rounding.
(2) Loans paid from revenues or by repayments by others:
(a) Promissory Notes $0
(b) Capital Lease Agreements $1,338,916

Source: Carroll County Department of the Comptroller.

Projected Statement of Direct and Enterprise Fund Bonded Debt Issued and Outstanding As of June 30, 2015 (1)

Direct Bonded Debt	Principal Date of Issue	Issued	Outstanding
Volunteer Fire Dept. Project Bonds	11/01/03	2,100,000	660,000
Consolidated Public Improvement Refunding Bonds	03/11/04	32,090,354	0
Consolidated Public Improvements	07/27/04	21,995,000	0
Taxable Pension Funding Bonds	07/27/04	12,800,000	0
Volunteer Fire Dept Project Bonds	09/22/04	2,065,000	829,402
Consolidated Public Improvement	12/01/05	31,799,320	2,160,989
Volunteer Fire Dept Project Bonds	12/01/05	2,900,000	1,145,000
Consolidated Public Improvement	10/10/06	20,260,000	2,696,757
Consolidated Public Improvement Refunding Bonds	01/09/07	23,165,983	11,938,239
Consolidated Public Improvement & Refunding	11/13/07	27,100,000	14,399,637
Consolidated Public Improvement	11/13/08	72,088,000	15,554,627
Consolidated Public Improvement & Refunding-Series A	11/12/09	30,931,089	12,776,647
Consolidated Public Improvement Series B	11/12/09	33,577,761	33,577,761
Consolidated Public Improvement Refunding Series A	10/21/10	12,480,329	4,608,198
Consolidated Public Improvement Refunding Fire Company Series B	10/21/10	2,210,000	855,000
Consolidated Public Improvement Series D	10/21/10	19,649,128	17,773,030
Consolidated Public Improvements and Refunding	11/10/11	28,623,957	25,988,134
Consolidated Public Improvement and Refunding	11/08/12	37,680,345	35,530,345
Consolidated Public Improvement	11/14/13	26,000,000	24,665,000
Taxable Pension Refunding Bonds	12/23/13	4,524,000	4,524,000
Consolidated Public Improvement and Refunding	11/13/14	67,576,682	67,576,682
Installment Purchase Agreements:			
Installment Purchase Agreements Issued Fiscal Year 2002	7/1/01-6/30/02	396,000	396,000
Installment Purchase Agreements Issued Fiscal Year 2003	7/1/02-6/30/03	530,930	530,930
Installment Purchase Agreements Issued Fiscal Year 2004	7/1/03-6/30/04	100,000	100,000
Installment Purchase Agreements Issued Fiscal Year 2005	7/1/04-6/30/05	2,179,934	2,179,934
Installment Purchase Agreements Issued Fiscal Year 2006	7/1/05-6/30/06	1,346,000	1,346,000
Installment Purchase Agreements Issued Fiscal Year 2007	7/1/06-6/30/07	2,584,000	2,584,000
Installment Purchase Agreements Issued Fiscal Year 2009	7/1/08-6/30/09	2,215,126	2,215,126
Installment Purchase Agreements Issued Fiscal Year 2010	7/1/09-6/30/10	4,662,430	4,662,430
Installment Purchase Agreements Issued Fiscal Year 2011	7/1/10-6/30/11	13,115,500	13,115,500
Installment Purchase Agreements Issued Fiscal Year 2013	7/1/12-6/30/13	445,320	445,320
Installment Purchase Agreements Issued Fiscal Year 2014	7/1/13-6/30/14	3,475,344	3,475,344
Farmers Home Administration:			
Watershed Bond — 1972	06/01/72	769,700	210,640
Watershed Bond — 1974	07/01/74	253,000	97,135
Watershed Bond — 1979	09/02/80	678,800	355,266
		$563,269,032	$308,973,073

Enterprise Fund Bonded Debt			
Consolidated Public Improvement Refunding Bonds	03/11/04	2,166,411	0
Consolidated Public Improvements	07/27/04	378,474	0
Consolidated Public Improvements	12/01/05	302,525	20,139
Consolidated Public Improvements	10/10/06	200,000	28,884
Consolidated Public Improvement Refunding Bonds	01/09/07	212,504	109,511
Consolidated Public Improvement & Refunding	11/13/07	9,401,000	5,008,570
Consolidated Public Improvements	11/13/08	7,616,000	1,563,731
Consolidated Public Improvement & Refunding Series A	11/12/09	745,461	408,163
Consolidated Public Improvement Series B	11/12/09	1,072,239	1,072,239
Consolidated Public Improvement Refunding Series A	10/21/10	6,371	2,352
Consolidated Public Improvement D	10/21/10	13,742	12,430
Consolidated Public Improvements and Refunding	11/10/11	484,429	418,539
Consolidated Public Improvement and Refunding	11/08/12	198,549	198,549
Consolidated Public Improvement and Refunding	11/13/14	5,446,058	5,446,058
Water Quality Loan — MD Dept. of the Environment	03/22/00	532,680	188,125
Consolidated Public Improvement Refunding Bonds (Solid Waste)	03/11/04	1,004,270	0
Solid Waste	07/27/04	2,449,026	0
Solid Waste	01/09/07	345,658	178,130
Solid Waste	11/13/07	604,000	321,793
Solid Waste	11/13/08	296,000	86,642
Solid Waste Series A	11/12/09	203,450	5,190
Solid Waste	11/10/11	789,648	789,648
Solid Waste	11/13/14	406,860	406,860
Septage	10/09/06	200,000	24,359
Septage	11/08/12	62,391	62,391
Airport	11/13/01	2,200,000	770,000

Consolidated Public Improvement Refunding Bonds (Airport)	03/11/04	278,964	0
Airport	07/27/04	407,500	0
Airport	12/01/05	58,155	3,871
Airport	01/09/07	240,854	124,121
Airport Series A	10/21/10	93,300	34,450
Airport Series D	10/21/10	27,130	24,540
Airport	11/10/11	286,966	258,680
Airport	11/08/12	18,715	18,715
Airport	11/13/14	85,400	85,400
		$ 38,834,730	$ 17,672,078
		$563,269,032	$326,645,150

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

(a) Promissory Notes $0
(b) Capital Lease Agreements $1,338,916

(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, 2015.

Projected County Debt
Exclusive of Enterprise Fund Debt (1)

	Bonded Debt	Estimated Population	Assessed Value	Bonded Debt Per Capita	Bonded Debt to Assessed Value
2015	$308,973,073	171,094	$18,588,705,000	$1,805.87	1.66%
2014	322,300,607	170,643	18,514,343,538	1,888.74	1.74
2013	319,294,954	169,519	18,789,765,921	1,883.53	1.70
2012	323,601,170	168,570	19,813,576,019	1,919.68	1.63
2011	331,907,961	167,929	20,895,165,478	1,976.47	1.58
2010	319,629,519	167,134	22,066,168,625	1,912.41	1.45

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
2015	$326,645,150	171,094	$18,588,705,000	$1,907,40	1.76%
2014	342,092,417	170,643	18,514,343,538	2,004.72	1.85
2013	341,226,838	169,519	18,789,765,921	2,012.91	1.81
2012	347,723,989	168,570	19,813,576,019	2,062.79	1.75
2011	359,464,291	167,929	20,895,165,478	2,140.57	1.72
2010	349,771,337	167,134	22,066,168,625	2,092.75	1.59

(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, 2015

Net assessed value- Real Property	$ 17,967,373,000	
Debt limit - 6% of net total assessed value (1)		$ 1,078,042,380
Assessed Value-Personal Property	516,876,000	
Debt limit- 15% of Net Assessed Value		77,531,400
Total Debt Limit		1,155,573,780
Amount of debt applicable to debt limit:		
Total Bonded Debt	$ 326,457,025	
Less- Agricultural Preservation Program Self Supporting Debt	31,050,583	
Less- Fire Company Loans- Self Supporting Debt	7,869,230	
Less - Bureau of Utilities bonds and loans payable	14,289,163	
Less - Septage bonds payable	86,750	
Total amount of debt applicable to debt limit		273,161,299
Legal debt margin		$ 882,412,481

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
2006-2015

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
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	20,409,412,280	6%/15%	1,274,735,894	268,496,244	1,006,239,650	21.06%
2010	22,066,168,625	6%/15%	1,373,814,980	303,156,906	1,070,658,074	22.07%
2011	20,895,165,478	6%/15%	1,302,726,361	301,960,750	1,000,765,611	23.18%
2012	19,813,576,019	6%/15%	1,248,709,194	292,937,714	955,771,480	23.46%
2013	18,789,765,921	6%/15%	1,175,305,137	287,113,093	888,192,044	24.43%
2014	18,514,343,538	6%/15%	1,158,193,261	286,486,025	871,707,236	24.74%
2015	18,484,249,000	6%/15%	1,155,573,780	273,161,299	882,412,481	23.64%