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County wants leeway on borrowing money

Mecklenburg hopes to preserve bond rating

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Slideshow



Polo Ridge Elementary teachers (from left) Becky Earley, Janie Kendrick, Amy Earley, Kelly Baggett and Jennifer Parker write letters to students' parents in the school's media center. DAVIE HINSHAW - dhinshaw@charlotteobserver.com

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Mecklenburg County may change how it borrows money for construction projects after bond agencies warned that the county is not following all of its debt policy.

County leaders say they need greater flexibility to continue to pay for projects some view as vital to managing growth, such as new schools.

But the proposed changes, which will be presented to commissioners today, also could help ensure the county keeps its top AAA rating from bond agencies.

As spending on construction has grown in recent years, the county has fallen out of compliance with its debt per capita target and the percentage of its operational budget that is spent on debt payments.

At the end of June, the county owed \$3,641 per person. That exceeded the county's policy target of \$3,600.

Projections show that figure could grow to \$4,180 during the 2012 budget year once the county sells bonds on projects already approved and those identified by county departments.

In addition, debt payments made up 17.1 percent of the county's budget at the end of June, again more than the current debt goal of 16 percent.

In its most-recent rating review from December, Moody's Investor Service said "continuing to exceed this fiscal target could have negative credit implications moving forward."

Fitch, another credit rating agency, also said "it views with concern the increased operating pressures posed by growing debt service payments."

The county is meeting two other spending goals, including how quickly it pays off its debt.

Finance Director Dena Diorio said Monday the county "is not at risk of losing its bond rating. ... But for the sake of transparency, we want people to see the long view and the potential impact (the debt) may have."

The new proposal would, among other things, more accurately reflect the amount of money leaders think they'll need to borrow, Diorio said.

It would raise the per capita debt target to \$4,200. It also would allow the county to spend up to 22 percent of its operational budget for debt payments, an increase from 16 percent.

Diorio said county staff have consulted with the rating agencies as they crafted the new guidelines, which also include setting aside more money to pay for construction projects as they are built instead of borrowing money.

General feedback was the policy reflects the reality of the level of borrowing the county will have in the future, but the rating agencies also said the amount of outstanding debt is high for a community rated AAA.

It is unclear what the proposed changes could mean for the property tax rate, because the county uses a variety of pools of money to pay off its debt.

County commissioners are expected to vote on a new policy this fall.

Commissioners chairman Jennifer Roberts said Monday she wants to hear more from the county staff about the proposed debt per capita targets, though she added the county has been given high marks for its financial management.

“We know that we have a lot of debt because we're a growing county,” Roberts said. “But we also know we are keeping careful track (of spending.) I'm interested to hear about what this will mean.”

But commissioner Bill James said commissioners ought to rein in the county's debt by cutting back the amount of money it borrows, including limiting how much money is available to Charlotte-Mecklenburg Schools.

“Until we set some sort of limit for each group vying for bond money,” he said, “nothing is really going to change.”



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