



BLOUNT COUNTY BOARD OF COUNTY COMMISSIONERS

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The Honorable Justin P. Wilson  
Comptroller of the Treasury  
State of Tennessee  
Capitol Building  
Nashville, TN 37201

RE: Comments on Proposed Swap Guidelines

Dear Mr. Wilson:

First, let me say what a pleasure it was to meet with you back in April when I was in Nashville. I left there *much* encouraged by your willingness to take a closer look at the role of swaps in local government financing. I also appreciate this opportunity to provide input into proposed changes to the swap guidelines.

As I recall, you wanted to ensure that counties who choose to enter swap agreements fully understand the risks and benefits of those agreements. As a lay person in government finance, I would not pretend to have such an understanding. However, I have learned a great deal over the past few months by attending CTAS classes, talking with persons with expertise in these areas, reading educational material, and gathering county documents that help clarify the picture. I do not presume to speak for any other commissioner. However, rather than comment on specific wording of the guidelines themselves, I thought it might help to hear what changes would help someone like me in my role on the legislative body.

- 1. State Recommended Thresholds.** Blount County's debt has increased from \$126,350,185 in 2004 to \$211,740,313 in 2009. As I understand it, roughly two-thirds of that debt is in variable rate bonds, with approximately 93 million in swaps. Reportedly best practice guidelines suggest that municipal governments should have only 10-20% of their net debt in variable rate bonds. Is that accurate? What would the state recommend? Of that, what percentage should be in traditional variable rate, and what percentage in variable rate synthetically fixed by swaps? Could such a recommendation be mentioned in the guidelines?
- 2. Ensure Informed Consent.** Because of my career in healthcare, I've learned to appreciate the importance of 'informed consent' when providing treatment to my clients. However, as a county commissioner, we often approve bond resolutions that refer to documents we've never seen. For example, when we refinanced \$50M in February as a temporary fix for two of our swaps, the resolution before us referred to the following: "*Loan Agreements*", "*Outstanding Loan Agreements*", "*Liquidity Agreement*", "*Standby Bond Purchase Agreement*", "*Swap Agreements*", "*Indenture of Trust*", "*Bond Purchase Agreement*" and more. Much of the language suggested that by approving that resolution, we agreed that we'd seen, read and understood these underlying agreements, which is typically inaccurate. It would be helpful if the state required that all contracts, agreements, indentures, etc. were either distributed to the legislative body or made publicly available on the county, or Comptroller's, website (whichever is easiest for the county in question).
- 3. Require Ongoing Full Disclosure.** In recent months I've learned of the existence of certain documents that provide important information for commissioners who want to follow the changes in swaps over time. The CT-0253 Forms, required by the state but rarely shared with commissioners, offer an easy-to-follow overview of the fees, interest and principal schedules on each loan. Mark-to-market letters indicate the termination value as it changes each month and have served as an

alarm bell of sorts in some counties. The "Interest Rate Agreement Information Sheet" in Appendix A of the proposed guidelines appears to be quite inclusive. If those exist, it would help to see them as well. Everyone would be better informed if these documents were *routinely* shared with the commission.

4. **Prevent Conflicts of Interest.** In the "Official Statement" for that refinancing we approved in February, there is a paragraph on page 15 entitled "Relationship of the Parties" that shows how interwoven the relationships are between persons and companies serving as underwriter, trustee, loan administrator, swap advisor and financial advisor. Again, as a lay person, I didn't know that Official Statement existed, much less how to find it or read it. Disclosing the existence of such relationships in a document we never see does little to support the 'informed consent' I mentioned earlier. Rather than simply disclose these relationships, I would prefer that certain roles remain completely independent of one another- especially those of financial advisor and swap advisor. Also, allowing several subsidiary companies to participate on the same loan constitutes a major concern.
5. **Offer Independent Education and Review.** Finally, I would find it very helpful to have educational opportunities and financial reviews by independent third parties who have no way to gain financially from their work with a county. For example, the Comptroller's Office could provide a non-interested party to complete an analysis of a county's overall debt structure and make recommendations for improvements. CTAS could provide annual workshops and printed materials on the use of swaps and derivatives specifically designed for the lay public.

I hope these ideas are helpful as you move forward on this project. As you pointed out to me, even Federal Reserve Chairman Ben Bernanke and the United States Congress have considered taking action on the use of swaps in local governments. Your leadership in these matters right here at home is most welcome, and I look forward to significant improvements across the state.

Very sincerely yours,

Wendy Pitts Reeves  
Blount County Commissioner  
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