



State of Tennessee

Justin Wilson, State Comptroller

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NEWS RELEASE: COMPTROLLER'S OFFICE SEEKS INPUT ON MODEL DEBT POLICY FOR LOCAL GOVERNMENTS

Tennessee Comptroller Justin P. Wilson is asking Tennesseans what they think about a debt policy that he is developing as a model for city and county governments throughout the state.

After collecting input, Wilson intends to present a proposed model debt policy to the State Funding Board for consideration. If the Funding Board adopts a model debt policy, local governments would be required to develop and adopt their own debt policies consistent with the model.

"I am very troubled by some of the debt management practices I have learned about since I became Comptroller earlier this year," Wilson said. "Many city and county governments need some help to manage debt so their citizens are not exposed to unnecessary financial risks."

Wilson expects the model debt policy to include procedures for informing citizens and members of local governing bodies about the details of debt transactions, including the relationships of various parties involved in the transactions.

"A good dose of sunlight needs to shine on any kind of public debt deal," Wilson said. "Taxpayers and the people who represent them need to know how these deals are being structured."

The model debt policy will also include provisions to guard against conflicts of interest. For example, a local government's financial advisor or bond counsel would be banned from representing any other party in a transaction. Also, financial advisors would be banned from serving as underwriters or bidding on the local government's debt. And all relationships and contracts between companies, their employees and independent contractors and the fees involved in debt transactions would have to be disclosed.

"If financial advisors and bond counsels are representing multiple parties in bond

transactions, it stands to reason that could affect the advice they would give to the local governments they represent,” Wilson said. “Therefore, we want a model debt policy that stops those types of conflicts from arising.”

Also, the model debt policy will set standards for the amounts of fixed rate and variable rate debt that local governments can have. And there will also be provisions that discourage the practice of structuring debt so that excessively high payments are due in later years.

“I am concerned that some local governments have been getting into deals that have low initial debt service payments, but payments balloon over time,” Wilson said. “Some of these deals look good on the front end, but not so good on the back end. It’s a bit like the furniture sold with no payment for a period of time, but big monthly payments due in the future.”

Tennesseans can review the proposed model debt policy at:

<http://www.tn.gov/comptroller/lf/pdf/20091030DraftModelDebtPolicy.pdf>

They can also make suggestions, offer comments or ask questions by e-mailing the Comptroller’s office at comptroller.web@tn.gov.

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