



Effective Debt Management Policies: Efforts in Tennessee

**Justin P. Wilson, Comptroller, State of TN
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Debt Management Policies

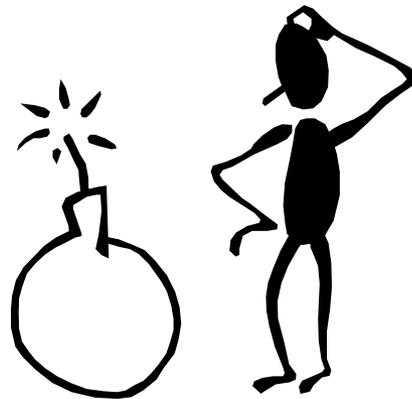
Recent concerns in Tennessee and across the Nation about debt transactions due to:

- **Not understanding the transaction**
- **Lack of transparency**
- **Self-dealing / excessive costs**
- **“Kicking the can down the road”**
- **Too much debt**
- **Defaults**



Debt Management Policies

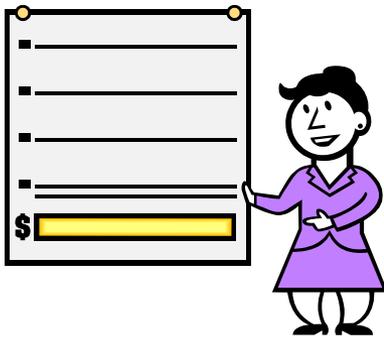
Is there a problem in your state?





Debt Management Policies

It is in your state's best interests to have financially healthy local governments.





Debt Management Policies

Lay the groundwork

- Establish the need
 - Build support





Debt Management Policies

Four principles for strong financial management in the public sector:

- Understand the transaction
- Explain to citizens what is being considered
- Avoid conflicts of interest
- Disclose costs and risks



Debt Management Policies

Tennessee law authorizes the State Funding Board to develop model Finance Transaction Policies, including a debt management policy, for use by Public Entities.



Debt Management Policies

**What is a debt management
policy?**





Debt Management

Debt Management is the practice of planning, executing and monitoring of financial borrowing activities in conformance with federal, state and local laws policies rules and regulations.

Leonard P. Wales
Debt Manager
Fairfax County, Virginia

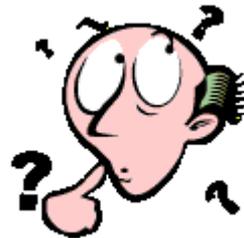


Debt Management Policies

- **How to finance debt**
- **How to structure and sell debt**
- **How to manage debt**
- **How to fit debt in overall financial management**

Debt Management Policies

**Why have a debt management
policy?**





Debt Management Policies

Adopting a debt management policy can help a public entity:

- make better financial decisions;
- provide clear objectives for staff;
- demonstrate strong financial management practices to credit rating agencies; and
- distinguish policy decisions from transaction decisions.



Debt Management Policies

**What debt management policy
should be adopted?**



Debt Management Policies

A public entity needs to adopt its own policy designed for its own needs.

“local decision making and responsibility”



Debt Management Policies

■ Tennessee Definitions:

- Public entity- state, state agency, local government, local government instrumentality, and any board, district, instrumentality, or entity created by them or any combination
- Debt obligation- bonds, notes, capital leases, loan agreements, installment deeds or evidence of lawful indebtedness (agreements to repay money over time)



Debt Management Policies

Adoption of policy

- Is evidence of strong financial management practice
- Separates policy discussion from immediacy of transaction
- Provides guidance for decision-making
- Does NOT prevent unforeseen or negative events from occurring

Debt Management Policies

Adoption Process

When adopting the debt management policy in an *open and transparent process*, the public entity needs to:

- Articulate
- Discuss
- Adopt





Debt Management Policies

What should be in the debt management policy?



Debt Management Policies

A debt management policy should address (in Tennessee minimum requirements):

- Transparency
- Professionals (Written agreements, Disclosures of compensation and fees, Permitted roles)
- Conflicts of interest
- Specific justification of deferral of principal repayment (No blanket approval)



Minimum Language- Transparency

“Clear disclosure of terms and life of each debt issue, including principal and interest payments”
and “debt service schedule outlining the rate of retirement for the principal amount”



Issues and Considerations

Professional selection

- Process
- Timing
- Criteria
- Documentation/contracts



Issues and Considerations

Professionals:

- Financial Advisor
- Bond Counsel
- Issuer's Counsel
- Underwriter/Banker/Lender
- Trustee/Paying Agent



Suggested Minimum Language- Professionals

The Entity shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the Entity and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.



Suggested Minimum Language- Conflicts

Professionals involved in a debt transaction hired or compensated by the Entity shall be required to disclose to the Entity existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the Entity to appreciate the significance of the relationships.



Debt Management Policies

What else should be in the debt management policy?



Issues and Considerations: Derivatives

Does your jurisdiction permit derivative or synthetic debt products?

- Circumstances and restrictions
- Professionals: Swap Advisor, Swap Counsel
- Demonstration of understanding of transaction



Issues and Considerations: Commodity Hedges

Commodity hedge embedded in debt issues should be addressed in the debt policy.



Recommendations

It is strongly recommended that the public entity address:

- Maximum total level of debt
- Level and type of variable rate debt
- Process for decision-making and debt issuance
- Management and monitoring of issued debt
- Plan for regular review and update of policy



Recommendations

Limitation on:

- Debt outstanding
 - “as per capita debt”
 - “a comparison of debt to property values”
- Annual debt service
 - “debt service as a percentage of revenues or expenditures”

“The policy should either require or recommend that this limitation be evaluated before additional debt is assumed and be monitored and reported to the governing body periodically.”



Recommendations

Limitations on:

- Debt structures
- Maximum maturity
 - “In no event may payment of either principal or interest exceed the useful life of any asset financed”
- Timing for principal and interest payments
 - “Must require specific justification for each deferral—it may not, however, permit blanket approval”
- Use of credit enhancement



Debt Management Policies

**How to start the process for
development of a debt
management policy?**



Resources

Comptroller of the Treasury (<http://www.comptroller1.state.tn.us/sl/index.asp>)

Government Finance Officers Association (GFOA) (www.gfoa.org)

Municipal Technical Advisory Service (<http://www.mtas.tennessee.edu/>)

County Technical Assistance Service (<http://www.ctas.utk.edu/>)

Rating Agencies:

- a) Fitch Ratings (www.fitchratings.com)
- b) Moodys (www.moodys.com)
- c) Standard & Poors (www.standardandpoors.com)

Municipal Securities Rulemaking Board (www.msrb.org)

- Electronic Municipal Market Access (www.emma.msrb.org)

Securities Industry and Financial Markets Association (www.sifma.org)

- Investing in Bonds (<http://investinginbonds.com/>)



We're Here to Help

<http://www.comptroller1.state.tn.us/sl/index.asp>

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