



State of Tennessee

Justin P. Wilson, State Comptroller

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Comptroller to Submit Debt Policy to State Funding Board for Final Review

Comptroller Justin P. Wilson will recommend Wednesday that the State Funding Board adopt a model debt management policy for governmental entities throughout Tennessee.

If the Funding Board agrees with Comptroller Wilson's recommendations, state and local governments and government entities that borrow money would be directed to draft their own debt management policies by Jan. 1, 2012, using the state's model policy as a guideline.

The state's model policy was developed after months of input by state and local government officials and professionals familiar with public debt transactions. Comptroller Wilson's staff made numerous revisions based on the comments to the model policy before finalizing the version that will be presented to the Funding Board for consideration.

The model policy urges Tennessee governments to follow four guiding principles while developing their own policies:

- 1) Debt transactions should be clearly understood by the decision-makers
- 2) Citizens should be able to get clear explanations about transactions
- 3) Steps should be taken to avoid conflicts of interest among the parties involved in transactions
- 4) Costs and risks associated with transactions should be clearly disclosed

The model policy contains some minimum requirements for governments. For example, deferral of debt payments is only allowed if specific justification is provided – and no payments of principal or interest may be extended beyond the useful life of any asset financed through debt.

The model policy recommends that governments set limits on their total debt and the variable rate debt they will assume.

"I believe this model policy provides a common sense roadmap that governments can use in developing their own debt management policies," Comptroller Wilson said. "We are not trying to stop Tennessee local governments and state agencies from issuing debt. No policy will safeguard against bad decision-making or unforeseen events that might negatively affect an entity's financial situation. However, it seems smart for government officials to understand the transactions they are considering, to make available to the citizens clear explanations of the transactions, to avoid conflicts of interest and to disclose costs and risks associated with

transactions.”

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Media contact: Blake Fontenay, Communications Director, (615) 253-2668 or blake.fontenay@tn.gov

[Tennessee Comptroller of the Treasury](#)
State Capitol Nashville, TN 37243
Phone: (615) 741-2501
Email: comptroller.web@tn.gov