



State of Tennessee

*Secretary of State Tre Hargett
State Comptroller Justin P. Wilson
State Treasurer David H. Lillard, Jr.*

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NEWS RELEASE: STATE FUNDING BOARD APPROVES MAJOR REFORMS FOR MUNICIPAL FINANCING DEALS

The Tennessee State Funding Board has approved a sweeping set of changes implementing enhanced requirements to the guidelines that govern cities and counties that propose to enter into interest rate swaps and other exotic financial transactions.

The revised guidelines are aimed at eliminating potential conflicts of interest by prohibiting individuals or companies from representing more than one side in derivative transactions. These revisions require greater transparency in the way information is reported and communicated about the transactions and require comprehensive disclosure of fees paid.

Cities and counties will have to demonstrate that they employ people with sufficient expertise to understand these complex transactions, including a chief financial officer and an accountant. Cities and counties must also meet minimum outstanding debt requirements and have an audit committee and a capital improvement plan.

Communities that do not meet all the requirements laid out in the guidelines have the option of appearing before state Comptroller Justin P. Wilson or his staff to explain that they fully understand all the risks involved and can comply with their debt and derivative management policy and the ongoing risk monitoring and reporting requirements.

“The goal here is not to prohibit cities and counties from entering into swaps, forward purchase agreements or similar transactions,” Comptroller Wilson said. “Our goal is to make sure officials in these cities and counties really understand what they’re doing. And the taxpayers who live in these cities and counties should know what risks are being undertaken and what fees are being paid on their behalf.”

Comptroller Wilson became concerned after a number of cities and counties ran into financial trouble after using swaps and other derivative transactions to lower interest rates on their bond debt without fully understanding the risks involved.

On May 1, he presented the State Funding Board with a set of proposed changes to the guidelines. The guidelines approved by the State Funding Board Tuesday include revisions that were made after receiving public input throughout the spring, summer and early fall.

Other members of the State Funding Board are: Secretary of State Tre Hargett, Treasurer David H. Lillard Jr., Finance and Administration Commissioner David Goetz and Governor Phil Bredesen.

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The guidelines can be viewed at the Comptroller's web site at:
<http://www.tn.gov/comptroller/lf/lfsfundbd.htm>