



# State of Tennessee

Justin Wilson, State Comptroller

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## **COMPTROLLER WILSON SEEKS PUBLIC COMMENT ON DEBT MANAGEMENT POLICY FOR LOCAL GOVERNMENTS**

Attracted by low interest rates, many cities and counties across Tennessee have turned to variable rate bonds to finance their parks, libraries and other public works projects. Comptroller Justin P. Wilson today is asking whether the state should provide more oversight of those transactions, among others, to protect taxpayers.

Wilson will inform fellow members of the Tennessee State Funding Board this afternoon that his office is asking for public comment concerning model debt and derivative management policies for local governments. He is asking for particular emphasis on the role of variable rate financing.

Variable rate bonds are similar to adjustable rate mortgages used by some homeowners.

"Variable rate bonds may seem like a great idea when the market conditions are favorable," Wilson said. "As interest rates rise, so can the cost to the taxpayer. Other circumstances outside the control of the borrower also can drive up the cost of borrowing dramatically. The state hasn't historically had a lot of oversight over the use of variable rate debt by cities and counties. Perhaps that should change. That's why I invite those interested in this topic to offer suggestions on what safeguards are appropriate."

Comments may be submitted in writing to:  
Comptroller of the Treasury  
c/o Model Debt & Derivative Comments  
First Floor, State Capitol  
Nashville, TN 37243-1402

Comments may also be e-mailed to: [comptroller.web@tn.gov](mailto:comptroller.web@tn.gov)

The Comptroller's office is also developing disclosure documents regarding the fees and other costs local governments pay in debt financing and derivative transactions. The office is currently in discussions with the Municipal Securities Rulemaking Board about making that information available on the Internet.

“Local government officials and the taxpayers ought to understand clearly all of the costs involved,” Wilson said. “And they can’t understand the costs unless they’re able to find out what they are.”

At the Funding Board’s May 1 meeting, Wilson asked for comments concerning proposed changes in guidelines regulating “interest rate swaps” and “forward purchase agreements” – two of the more exotic types of transactions local governments sometimes use in connection with debt.

Swaps and forward purchase agreements are contracts intended to reduce the borrower's interest rate risk related to debt. Under certain market conditions, payments on these transactions increase sharply.

Comments made in response to the proposed guideline changes are available for viewing at: <http://www.tn.gov/comptroller/lf/lfsfundbd.htm>

Wilson and his staff are currently reviewing the comments before making recommendations to the Funding Board.

“We have to be very careful about what we’re doing here,” Wilson said. “Developing a comprehensive debt management policy for local governments is a priority for this office. It's not the type of work that can be rushed.”

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