



**Presentation to House Finance
Ways and Means Committee**

**Re: Debt Management
Policies**

**Justin P. Wilson, *Comptroller*
February 8, 2011**



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**



Debt Management Policies

- Strong financial management practices help improve financial soundness and stability
- Written financial policies are critical



Debt Management Policies

T.C.A. Section 9-21-151(b)(1) authorizes the State Funding Board to develop Debt and Derivative Transaction Policies, including a debt management policy, for use by Public Entities.



Debt Management Policies

Timeline:

November 2, 2009- Publicly began seeking input from interested persons

September 22, 2010- Public hearing held

December 15, 2010- SFB adopted statement on debt management



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

**What is a debt
management policy?**



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

■ **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, or evidence of lawful indebtedness (agreements to repay money over time)



Debt Management Policies

A debt management policy must address (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)



Debt Management Policies

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 issuance
- Management and monitoring of issued debt
- Plan for regular review and update of policy



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 transparent process*, the public entity needs to:

- Articulate
- Discuss
- Adopt



Debt Management Policies

Next Steps

Education and assistance: Will be offered by TGFOA, CTAS, MTAS and others

Encouragement: Office of State and Local Finance will require requests for approval to include statement as to transaction's compliance with adopted debt management policy



Debt Management Policies

Deadline

January 1, 2012 is the deadline for public entities to have their own debt management policies in place in order to issue or enter into debt.



Debt Management Policies

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