

## Model Debt Policy

The State Funding Board has developed expectation and standards for accountability and transparency related to the issuance of public debt in Tennessee. The attached model debt policy was drafted in collaboration with and assistance of the Tennessee Municipal League, the local governments of the state, and the Comptroller's Office for the State of Tennessee to meet these standards.

The Municipal Technical Advisory Service (MTAS) of the University of Tennessee provides these guidelines with the assumption that the staff of MTAS will assist with the development of a policy for individual cities and towns.

- **Form of Policy:** A policy of the elected Council may be expressed through either a resolution or ordinance in Tennessee, and municipalities may select either process for approval of this policy.
- **Deadline:** Cities and towns with recurring or regular debt, or anticipating debt in early 2012, must adopt a debt policy meeting these requirements by the end of calendar year 2011. Local governments not anticipating debt at this time may elect to adopt a debt policy at a later date, but under any condition the debt policy must be adopted by the elected policy board and both reviewed and approved by the Comptroller's Office well in advance of the issue.

The debt policy provided on this website brings a number of decisions to the local government, and at a minimum with this policy the elected Council or Board has an opportunity to provide guidance on the following:

1. Types and limits of debt: The city is establishing a limit to general obligation debt with a measure approved by the Council or Board. This is a policy of the city, and may be changed in the future, but this becomes a scale by which debt is measured in the community. There are advantages and disadvantages to each of the measures suggested.
2. Under types and limits of debt, the Council must also identify the person responsible for monitoring and reporting debt-related issues. This may be the Mayor, city or town manager or administrator, the recorder, the finance director, or other official.
3. Under types and limits of debt, the council or board has an opportunity to both inventory the type of debts that have been issued in the past, and make a statement on any types of debt not anticipated to be issued in the future.

4. Under types and limits of debt, there is a bullet outlining specific debt techniques and payment methods that the city will not consider. This is a city policy, and the city may decide whether some or any of these techniques may be useful at this point or at some future point. Again, this is a policy of the city, and may be changed as conditions change in the future.
5. Under use of derivatives and exotic financial tools, the Council or Board has the ability to decide whether derivatives and other exotic financial structures will be considered now or at some point in the future. These are issues that have carried considerable concerns in the past, and the policy simply expresses that any future use will require a full report on the use of these techniques and structures.
6. Under refinancing of outstanding debt, the city has the ability to establish a minimum present value savings percentage required of any refinancing. The state typically considers 4 percent adequate, and many communities use something in the range of 2 to 3 percent as a reasonable threshold.
7. Under the section regarding the underwriter, the governing body must be notified in advance of the pricing of the debt.

Please contact the Municipal Technical Advisory Service at the University of Tennessee for further assistance and guidance.