

# *Model Debt Policy*

*September 22, 2011*

# Model Debt Policy

January 1, 2012 - All public entities incurring debt must adopt a debt management policy.

- Improve financial decisions;
- Provide clear objectives;
- Demonstrate strong financial practices; and
- Distinguish policy decisions.

# Model Debt Policy

*Signals that the City is using a disciplined approach to financing capital needs.*

# Model Debt Policy

## Process

- 1) Approval of Policy in Advance of Issuance
- 2) Bond anticipation, capital outlay, grant anticipation and tax anticipation notes require approval before issuance – prescribed forms.
- 3) Refunding of debt issues also must be approved prior to issuance.
- 4) Capital leases forwarded to Comptroller w/in 45 days.

# Model Debt Policy

## Four Requirements:

- 1) Transparency
- 2) Professional Selection and Qualifications
- 3) Conflicts of interest; and
- 4) Review

# Model Debt Policy

## Transparency –

### 1) Public Notice

- a. Customary and Websites
- b. Open Disclosure
- c. Place, Time and Terms

# Transparency

## Understanding the Transaction

- Why Debt is Necessary
- All Costs Clearly presented
- Terms and Life of Debt – Clear and Disclosed
- Debt Schedule – Open and Disclosed

# Transparency

## Role of Debt:

- Long-term debt – Minimize short-term borrowings
- Capital purchases or construction.
- The maturity of the underlying debt will not be more than the useful life of the assets – up to 30 years



# Transparency

## Types and Limits of Debt:

- Decision - The City establishes a limit on total debt obligations using a limit defined by the City – % of assessments, per capita amount, etc., excluding Overlapping, Revenue and Enterprise Debt.
- The City may issue General Obligation, Revenue, and TIF debt as it determines most appropriate.

# Transparency

## Types and Limits of Debt:

- The City will seek to structure debt with *level or declining* debt service payments over the life of each individual bond issue.
- *No exotic debt or terms - backloading, use “wrap-around” techniques, derivatives or balloon payments.*

# Transparency

## Refunding/Refinancing

- Establish Criteria
- Substantial Benefit

# Model Debt Policy

## Professional Services:

- Written letters of Engagement
- Requirements for Advisors and Ability to Bid

## Conflicts:

- Professionals involved required to disclose all relationships

# Model Debt Policy

## Review

- Annually with Budget

# Model Debt Policy

## Next Step

- Provide Requirements to Advisor

OR

- IPS Agencies to help develop custom policy

MTAS – (865) 974-041

<http://www.mtas.tennessee.edu/>

# Questions?