From: "Woody, Ron" <ron.woody@tennessee.edu>
To: <comptroller.web@tn.gov>
Date: 5/14/2009 8:43 AM
Subject: Debt Management Comments

We have recently gone across the state teaching a CTAS class on Debt Management and as I have talked with various officials, researched for the class and taught the class, I think I have gained a better understanding of some of debt issues but also discovered probably a lot more that I don't know. I do; however, have a few comments and observations:

1) I truly believe that a county should have a formal debt management policy (which could change as the economic climate changes) that should address at minimum:

- a. Percentage of Fixed and Variable debt that the county is willing to have.
- b. Optimal Fund Balance for debt service funds and other operating funds and the county should manage around the Fund Balance target.
- c. Specifically document cost of wrapped, back loaded, balloon, bullet debt as compared to cost of more straight-line amortized debt. Not that we should not wrap on occasion but we need to know the additional cost and maybe not wrap more than a specific number of years.
- d. Have all proposers for your debt complete state from No. CT-0253 prior to issuing the debt and then again as required my law after the issuance. We should be comparing what was the promised cost to issue to what the true cost is/was. Appears to be some promises not fulfilled as least that is what we have heard.
- e. Assets that would be eligible for the particular county to borrow money for. My opinion we should get out of the practice of borrowing for computers, vehicles and short term replaceable assets. That what I told the classes, that I hoped within 10 years we would have these items budgeted on replacement schedules and not have to issue debt to purchase same.
- f. Term of any indebtedness for respective classes of assets. Don't allow refinancing by grouping debt that was for short-term assets now on long term debt instruments due to refinancing a group of old debt instruments.
- g. Multi-year debt service budgets should be used.
- h. Comparison of Benchmark ratios prior to issuing debt (current debt only) and then with the new proposed issued debt (current and proposed debt ratios).

2) I do not have a problem with variable rate debt in certain circumstances (again addressed in a debt management policy) example would be matching variable debt with the idle or investment funds of the county trustee. In a certain study where we identified that the county had $30,000,000 on average invested over a course of a year if could be an acceptable policy to have variable debt of the $30,000,000 in my opinion. As variable debt interest rates increase so should the investment interest rates and generally I think we would see the investment interest rate would be greater (or at least protective) than the debt interest rate changes. One reason that we have IRS arbitrage law. Certain cases we must be aware of an inverted interest rate yield curve that could affect the rates.

Just a few thoughts thanks for the forum and help from the comptroller's staff on writing the Debt Management Workshop manual. We are already in the process of updating the document and would welcome future comments.

Ron

"Great Leaders are almost always great simplifiers" Colin Powell

Ron Woody, CPA, CGFM, CSBA
University of Tennessee   County Technical Assistance Service
Cell phone 865.414.1743   Office 865.946.3212   Fax 865.946.3214   www.ctas.utk.edu