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Basic Debt Practices and Beliefs

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Table of Contents

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Reference Number: CTAS-1749

Here are some Basic Best Practices and Beliefs regarding county financial management:

1. You should be as efficient in use of taxpayer money as possible. There may be disagreement on how this is achieved, but there should be agreement that we want efficiency.
2. Tax rates and the related tax levy should be in most circumstances stable and not fluctuate up or down from year to year. There is little benefit in raising a tax one year, only to reduce the tax the next year, only to raise it again the third year.
3. Issuance of debt should not exceed the life expectancy of the asset being purchased or constructed.
4. Understand to the best of our ability how we perceive risk and the related cost of that risk. You should have an understanding of the risk of interest rate changes and the changes in the value of money, along with the risk of making and not making decisions or putting off a decision.
5. Decisions are made based on the facts at hand, and that better decisions are made based on the best facts. However, you should realize that you will never have all the facts, and you will not always make the best decision. This limitation should not impede you from trying to understand your current situation and facts and how that will impact the future. You should not make capital investment decisions hastily, or draw the decisions out over a number of years.
6. Money has a value, and that value changes over time. The changes in the value of money are related to a number of factors, the greatest of which are inflation and interest rate changes. This concept is known as the time value of money.
7. Capital projects can be funded out of current revenue and savings, debt obligations, or a mixture of the savings, current revenue and debt obligations. A county’s capital project plan and debt service plan should address these funding issues.
8. Excessive debt or no debt can be bad policy for your government and citizens. This is based on the theory that individuals who use an asset should assist in the payment of that asset by the payment of debt service, and also that if a county has excessive debt, generally the interest rates are higher than considered normal and their flexibility in current operations can be hindered due to a larger percentage of revenue required to pay debt interest and principal.
9. As we discuss being conservative or aggressive in our approach to debt management, we are not drawing a conclusion whether one approach is better than the other; however, we are saying that you and the county must understand the risk involved in being conservative, aggressive or moderate in your debt management approach.

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