

Fiscal Year 2023

Annual Report on Balloon Debt Requests by Tennessee Local Governments



Tenn. Code Ann. § 9-21-133

Tennessee State Funding Board Guidelines: *Comptroller Approval of Balloon Indebtedness*

Presented to the Members of the Tennessee State Funding Board

By: The Division of Local Government Finance

Date: August 21, 2023

Statutory Requirement

Tenn. Code Ann. § 9-21-133 requires that local governments obtain approval from the Comptroller's Office prior to issuing debt with a balloon structure and authorizes the State Funding Board to establish guidelines with respect to approvals and exemptions.

A balloon structure defers repayment of principal to later dates in the maturity schedule. Under state law, **balloon indebtedness** is defined as debt with a structure that:

- matures 31 or more years from the original date of issuance;
- postpones paying principal more than three years after the debt is issued;
- borrows money to pay interest beyond the construction period, or three years from issuance, whichever is later; or
- has a principal and interest repayment schedule that is not substantially level or declining.

The Comptroller's Division of Local Government Finance reviews plans of balloon indebtedness and approves plans when the repayment structure of the balloon debt is in the public's interest. Local governments must follow the requirements outlined in the State Funding Board Guidelines: *Comptroller Approval of Balloon Indebtedness* when requesting approval for balloon indebtedness plans.

Types of Debt

Requests to issue a balloon structure can be divided into two types of debt: refunding bonds and new money bonds.

Refunding bonds are generally issued with a balloon structure for the following reasons:

- The original debt being refinanced was issued with a balloon structure that already fits in with the local government's overall debt management.
- Specific individual maturities that occur later in the repayment schedule are refunded.
- Debt that is exempt from approval (and would otherwise be defined as balloon indebtedness) is refunded with the same structure into a non-exempt debt instrument.
- Debt is advance refunded more than three years in advance of the call date.

New money bonds are issued for projects authorized in state law. Sometimes construction timelines or revenue projects may not allow for level debt service.

History and Purpose

Tennessee’s general assembly passed legislation in 2014 requiring approval of balloon debt issued by local governments. The legislation was aptly named the Anti Kicking the Can Act. Prior to the legislation some local governments deferred principal payments for multiple years and in the most egregious scenarios local governments waited until years 29 or 30 of the repayment schedule to make the first principal payment. This resulted in higher interest costs over the life of the debt and often an unmanageable debt burden once the deferred principal payments became due. Local officials have a fiduciary obligation to manage and issue debt in a fiscally responsible manner. Since its passage, the legislation has been effective in limiting the amount of debt issued with a balloon structure to only what has been determined to be in the public’s interest. The Anti Kicking the Can Act has encouraged responsibility in the management of public dollars and helped local officials better understand the impact of balloon indebtedness in their overall debt management.

Fiscal Year 2023

For the second consecutive year, the Comptroller’s Division of Local Government Finance received and approved four requests to issue balloon indebtedness. 2022 and 2023 represent the lowest number of requests since the law went into effect in 2015. We attribute the decrease in requests to higher interest rates during 2022 and 2023, which caused a reduction in the number of refunding bonds being issued for savings.

Of the four requests for 2023, three were for new money bonds, and one was for refunding bonds. The new money requests were from three different issuers for the following projects: prepurchase of natural gas, airport improvements, and the new Titans Stadium. The new money bonds for airport improvements were issued without a balloon structure. See **Appendix A** for a list of balloon debt issues for the past three years.

Fiscal Year 2015 through Fiscal Year 2023

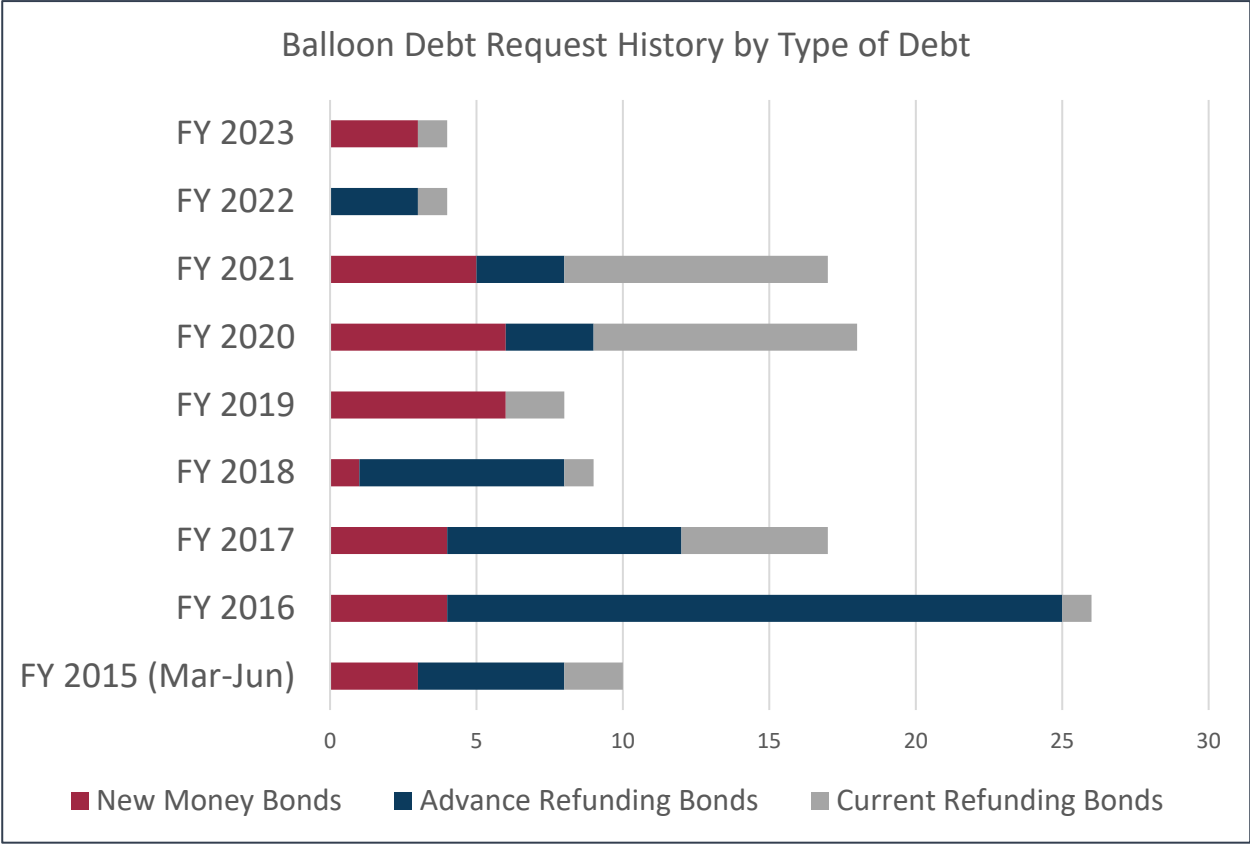
Since our office first began approving balloon debt structures in 2015, we have received 112 requests, and only one of the requests was not approved. Several local governments and their financial advisors have reached out to our office prior to requesting approval and were able to make changes to the debt structure to avoid a balloon structure. We are aware of only one instance where a local government approved the issuance of balloon debt without first requesting approval from our office.

Summary of Requests (2015-2023)

	New Money Bonds	Advance Refunding Bonds	Current Refunding Bonds
Requests Received	31	50	31
% of Total Requests	28%	44%	28%
Requests Not Approved	1	0	0
Approval Not Requested	1	0	0
Issued as Balloon Debt *	27	47	29

* Includes one debt issued with a balloon structure that did not request Comptroller approval.

The following chart depicts requests we have received by fiscal year and by type of debt. The majority of requests (81, or 72%) have been for refunding bonds. Over the past eight years, we have received 31 requests to issue new money balloon debt, with 26 actual issues, and in all but one case, it was determined the balloon structure was in the public’s interest. **Appendix B** includes a listing of all new money bonds issued with a balloon structure.



Additional information on balloon indebtedness plans and approval requirements may be found at: tncot.cc/debt.

Appendix A
Summary of Balloon Indebtedness Requests
Fiscal Years 2023 – 2021

Entity	Security	Amount	Approved	Issued	Project / Purpose
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FY 2023

New Money Bonds

Metropolitan Nashville Airport Authority	Revenue	\$ 735,345,000	Y	N	Airport improvements
Metropolitan Nashville Sports Authority	Revenue	703,385,000	Y	Y	Titans Stadium construction
Tennergy	Revenue	785,000,000	Y	Y	Prepurchase of natural gas

Advance Refunding Bonds

None

Current Refunding Bonds

Tennessee Energy Acquisition Corp	Revenue	\$ 850,000,000	Y	Y	Refund Gas Prepurchase Bonds
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FY 2022

New Money Bonds

None

Advance Refunding Bonds

Bristol	Revenue Electric System	\$ 22,710,000	Y	Y	Savings
Memphis	General Obligation	252,000,000	Y	Y	Savings and Restructure
West Wilson Utility District	Revenue Water System	21,220,000	Y	N	Savings

Current Refunding Bonds

Munford	General Obligation and Revenue	\$ 572,514	Y	Y	Savings, USDA
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FY 2021

New Money Bonds

Clarksville	Revenue (Series A)	\$ 185,745,000	Y	Y	Utility system improvements
Crossville	Revenue (Series C)	9,835,000	Y	Y	Utility system improvements
Memphis	Revenue Capital Appreciation Bond	182,000,000	Y	Y	Parks, revitalization, 3.0 project
Memphis Shelby County Airport Authority	Revenue	150,000,000	Y	Y	Airport improvements
Pulaski	General Obligation PBA Loan	12,000,000	Y	Y	Utility system improvements

Advance Refunding Bonds

Clarksville	Revenue (Series B)	\$ 64,225,000	Y	Y	Savings
Memphis Light Gas and Water	Revenue	51,470,000	Y	Y	Savings
Robertson County	General Obligation	14,310,000	Y	Y	Savings

Current Refunding Bonds

Bristol-Bluff City Utility District	Revenue	\$ 8,060,000	Y	Y	Savings, USDA Loan
Crossville	General Obligation (Series A1)	4,135,000	Y	Y	Savings
Crossville	Revenue (Series C)	21,160,000	Y	Y	Savings
Cumberland Gap	General Obligation and Revenue	288,000	Y	Y	Savings, USDA Loan
Jonesborough	General Obligation	6,105,000	Y	Y	Savings, USDA Loan
Lakeview Utility District	Revenue	3,655,000	Y	Y	Savings, USDA Loan
Memphis Shelby County Airport Authority	Revenue	30,290,000	Y	Y	Savings
New Johnsonville	Revenue	2,800,000	Y	Y	Remove variable interest rate risk
Unicoi Water Utility District	Revenue	2,200,000	Y	Y	Savings, USDA Loan

Appendix B

New Money Bonds Issued with a Balloon Structure by Entity Type Fiscal Years 2015 – 2023

Issuer	Fiscal Year	Security	Amount	Project
Airport Authorities				
Memphis-Shelby County Airport Authority	2017	Revenue	\$ 110,000,000	Airport improvements
Memphis-Shelby County Airport Authority	2021	Revenue	\$ 150,000,000	Airport improvements
Metropolitan Nashville Airport Authority	2020	Revenue	\$ 1,000,000,000	Airport improvements
Counties				
Henry County	2018	General Obligation	\$ 8,885,000	School construction
Madison County	2020	Lease Agreement	\$ 19,579,215	School construction
Maury County	2015	General Obligation	\$ 47,000,000	School construction
Wilson County	2016	General Obligation	\$ 55,000,000	School construction
Wilson County	2017	General Obligation	\$ 21,500,000	School construction
Energy Acquisition Corporations				
Tennergy Corporation	2019	Revenue	\$ 1,000,000,000	Prepurchase of natural gas
Tennergy Corporation	2020	Revenue	\$ 750,000,000	Prepurchase of natural gas
Tennergy Corporation	2023	Revenue	\$ 785,000,000	Prepurchase of natural gas
Tennessee Energy Acquisition Corporation	2017	Revenue	\$ 850,000,000	Prepurchase of natural gas
Tennessee Energy Acquisition Corporation	2019	Revenue	\$ 900,000,000	Prepurchase of natural gas
Tennessee Energy Acquisition Corporation	2020	Revenue (Series A&B)	\$ 1,022,963,000	Prepurchase of natural gas
Housing Authorities				
Metropolitan Development & Housing Agency	2019	Revenue	\$ 25,000,000	Tax Increment Financing
Municipalities				
Clarksville	2021	Revenue (Series A)	\$ 185,745,000	Utility system improvements
Crossville	2021	Revenue (Series C)	\$ 9,835,000	Utility system improvements
Greeneville	2017	General Obligation	\$ 2,210,000	Airport improvements (joint venture)
Jackson	2020	Lease Agreement	\$ 11,927,878	School construction
Lawrenceburg	2015	General Obligation	\$ 5,000,000	Road construction and equipment
Memphis	2021	Revenue (Capital Appreciation Bonds)	\$ 182,000,000	Parks, revitalization, 3.0 project
Pulaski	2021	General Obligation (PBA Loan)	\$ 12,000,000	Utility system improvements
Selmer	2016	General Obligation	\$ 3,650,000	Street and road construction
Sports Authorities				
Metropolitan Nashville Sports Authority	2023	Revenue	\$ 703,385,000	Titans Stadium construction
Sports Authority of the Metropolitan Government of Nashville & Davidson County	2019	Revenue	\$ 225,000,000	Major League Soccer Stadium construction
Utility Districts				
Madison Suburban Utility District	2016	Revenue	\$ 9,250,000	Water lines
Mallory Valley UD	2020	Revenue	\$ 20,066,049	Water system improvements