

Balloon Debt Law Flowchart

Tenn. Code Ann. § 9-21-133

Is the entity an incorporated city or town, metropolitan government, county, water, wastewater, or energy authority, or utility district; or a local government instrumentality, which is any authority (other than an Industrial Development Board) created by law on behalf of a county, metropolitan government, or municipality?

No

Not Applicable

Yes

Balloon Indebtedness

Is the entity issuing any one of the following types of indebtedness?

- First **principal** payment is due more than three years after the date of issuance;
- Interest is capitalized beyond the construction period or three years, whichever is later;
- The final maturity is 31 or more years from the date of the original issuance; OR
- Debt service (**principal + interest**) that is NOT substantially level or declining. When determining whether the debt service is substantially level or declining:
 - Do not take first three years of debt service into account.
 - Compare each annual debt service payment to the **lowest** prior debt service payment.
 - Determine if any annual debt service payment is greater than the **lowest** prior debt service payment by the greater of 5% or \$10,000. If any annual debt service payment is greater, then debt service is NOT substantially level or declining.
 - For variable rate debt, an interest rate assumption should be made based on average rate of interest at which fixed interest rate bonds of the same maturities would be sold.
 - Debt service may be accounted for on a fiscal year basis, a calendar year basis, or an issue date basis, as elected by the local government.
 - Principal is treated as payable on its stated maturity or upon any mandatory redemption

No

Not Applicable

Yes

Exceptions from Balloon Indebtedness Approval

Does the debt fall under one of the following exceptions:

- 75% of total **PRINCIPAL** is payable within 10 years from the date of issuance AND no more than 25% of **PRINCIPAL** is payable in any one year;
- Every annual **PRINCIPAL** installment is not more than 50% in excess of smallest prior **PRINCIPAL** installment;
- Has a general obligation pledge and the entity issuing it has some amount of long-term general obligation indebtedness outstanding or proposed to be issued that is rated AA+/Aa1 or better;
- Is **SECURED SOLELY** by a revenue pledge and the entity issuing it has some amount of long-term revenue indebtedness outstanding or proposed to be issued that is rated AA+/Aa1 or better;
- State or federal law requires the entity to participate in the financing program;
- Is a conduit transaction with a private entity/borrower;
- Is evidenced by a loan with the State of Tennessee a department or agency of the federal government; OR
- Is a note the issuance of which is otherwise subject to Comptroller approval.

No

Since it does not fall under an exception, it is balloon indebtedness under the law and must receive Comptroller approval pursuant to the State Funding Board Guidelines.

Yes

Not Applicable - In other words, it is not balloon indebtedness.