

Balloon Debt Law Flowchart

Tennessee Code Annotated § 9-21-133

Is the entity a local government (i.e., incorporated city or town, metropolitan government, county, 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 (See TCA § 9-21-133(a)(3))?

NO = Act not applicable

YES

Is the entity issuing indebtedness (i.e., bond, note, loan agreement, or any other debt obligation)?

NO = Act not applicable

YES

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 **original** date of 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 the 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 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 the average rate of interest at which fixed interest rate bonds of the same maturities would be sold.
 - Principal is treated as payable on its stated maturity, upon any mandatory redemption date, and on any date on which principal can be put or accelerated by the debt holder.
 - 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.

YES

NO = Act not applicable

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 (principal is treated as payable on its stated maturity, upon any mandatory redemption date, and on any date on which principal can be put or accelerated by the debt holder);
- Every annual **PRINCIPAL** installment is not more than 50% in excess of the smallest prior **PRINCIPAL** installment (principal is treated as payable on its stated maturity, upon any mandatory redemption date, and on any date on which principal can be put or accelerated by the debt holder);
- The proposed debt 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;
- The proposed debt 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;
- The proposed debt is a conduit transaction with a private entity/borrower;
- It is evidenced by a loan with the USDA or HUD; OR
- The proposed debt 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 Act and must receive Comptroller approval pursuant to the State Funding Board Guidelines.

YES = Act not applicable (In other words, it is not balloon debt.)