

Fiscal Year 2024

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: July 22, 2024

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 2024

The Comptroller’s Division of Local Government Finance received and approved two requests to issue balloon indebtedness for fiscal year 2024. This represents the lowest number of requests since the balloon indebtedness took effect in fiscal year 2015. We attribute the continued decrease in requests to higher interest rates during the period, which caused a reduction in the number of refunding bonds being issued for savings.

The two requests for 2024 were both refunding bonds. See [Appendix A](#) for a list of balloon debt issues for the past three years.

FISCAL YEAR 2015 THROUGH FISCAL YEAR 2024

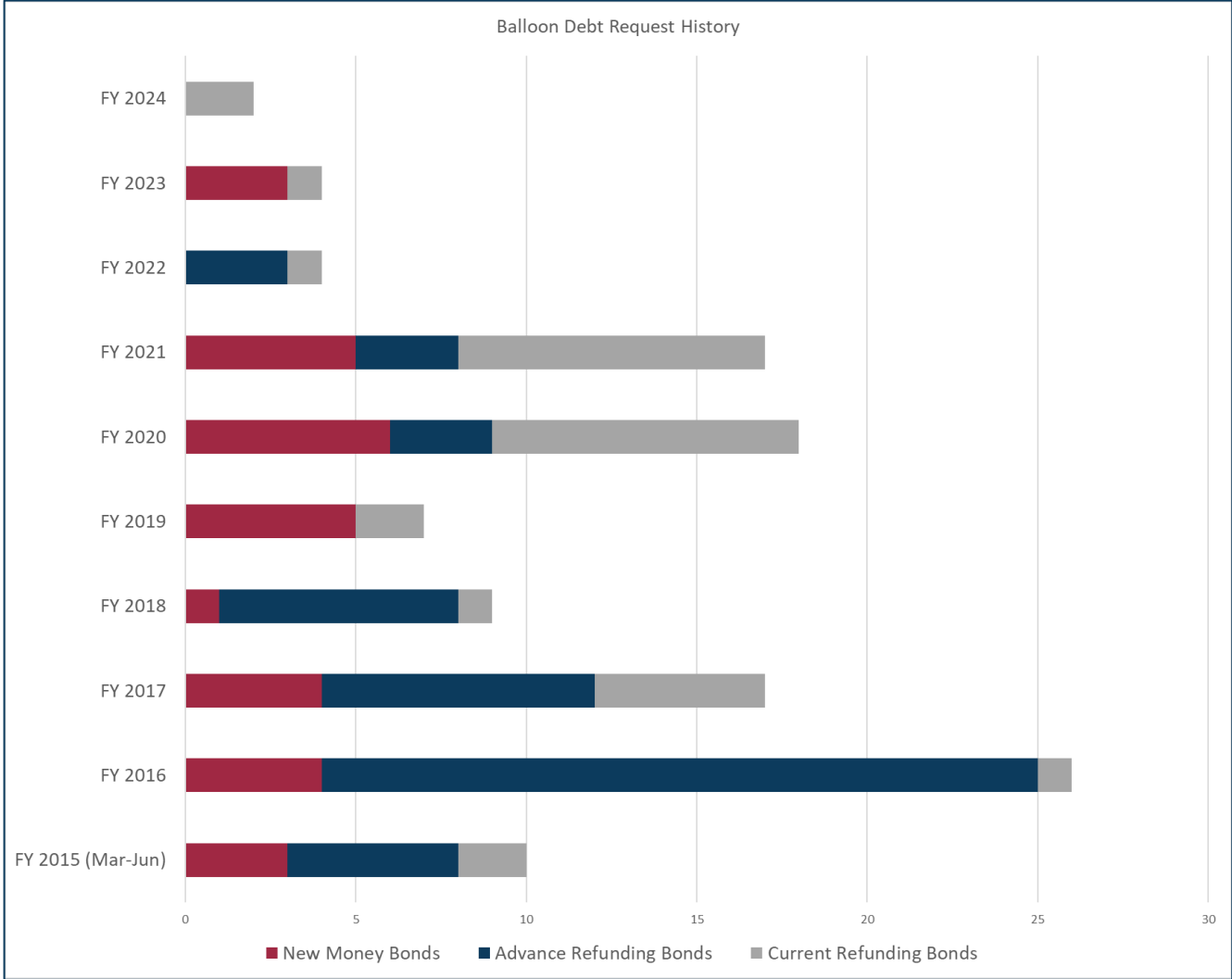
Since our office first began approving balloon debt structures in 2015, we have received 114 requests, and only one of the requests was not approved. Several local governments and their financial advisors have reached out to our office prior to requesting approval and were able to make changes to the debt structure to avoid a balloon structure. We are not aware of an instance where a local government approved the issuance of balloon debt without first requesting approval from our office.

Summary of Requests (2015-2024)

	New Money Bonds	Advance Refunding Bonds	Current Refunding Bonds
Requests Received	31	50	33
% of Total Requests	27%	44%	29%
Requests Not Approved	1	0	0
Approval Not Requested	0	0	0
Issued as Balloon Debt *	26	47	29

The following chart depicts requests we have received by fiscal year and by type of debt. The majority of requests (83, or 73%) have been for refunding bonds. Over the past ten 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 2022 – 2024

Entity	Security	Amount	Approved	Issued	Project / Purpose
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FY 2024

New Money

None

Advance Refunding

None

Current Refunding

Memphis

General Obligation

\$ 149,200,000

Y

P

Savings

Tennergy Corporation

Revenue

\$ 750,000,000

Y

Y

Refund Gas Prepurchase Bonds

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 Corporation

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

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

Appendix B

New Money Bonds Issued with a Balloon Structure by Entity Type Fiscal Years 2015 – 2024

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
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
Metropolitan Nashville Sports Authority	2019	Revenue	\$ 225,000,000	Major League Soccer Stadium
Utility Districts				
Madison Suburban Utility District	2016	Revenue	\$ 9,250,000	Water lines
Mallory Valley UD	2020	Revenue	\$ 20,066,049	Water system improvements