

New State Law Requirements: Lease Financings

Betsy Knotts, Director
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TENNESSEE COMPTROLLER OF THE TREASURY



Lease Memorandum


TENNESSEE COMPTROLLER OF THE TREASURY



JASON E. MUMPOWER
Comptroller

December 15, 2021

TO: Finance Officers

FROM: Betsy Knotts, Director 
Division of Local Government Finance

SUBJECT: New Lease Financing Preapproval Requirement in Effect January 1, 2022

Pursuant to Tenn. Code Ann. §§ 9-24-101 et seq., all financing leases (identified as financed purchases under GASB) entered into on and after January 1, 2022, are subject to preapproval from the Comptroller's Division of Local Government Finance. For detailed information on how to properly request approval, please consult pages 30 -32 of the Debt Manual which can be found on our website at tncot.cc/debt.

Attached to this memo is our graphic representation of the changes in law and accounting standards as they relate to all leases. You will also find this illustration on our website under the "Leases" tab at tncot.cc/debt.

In addition, a new Lease Information Summary Sheet is attached. It can also be found in a fillable format on our website under the "Leases" tab at tncot.cc/debt. We believe having this summary information before submitting a plan of lease financing to our office for approval will be beneficial to not only our reviewers but also your governing bodies. The vendor (lessor) that you are leasing the asset(s) from should be able to assist you in completing this form. Finally, under the "Leases" tab on our website you will find a link to our weighted average maturity calculator.

Please feel free to contact your financial analyst if you have any questions regarding submission requirements or if we may be of assistance.

Enclosures: All Leases Illustration
Lease Information Summary Sheet
Local Government Finance Contact Information


Pre-approval Requirement

Comptroller Pre-approval required for lease financings entered into on and after January 1, 2022, Tenn. Code Ann. § 9-24-101 et seq.

- Lease terms that are reasonable and comparable to debt being issued in the current markets.
- A weighted average maturity of the lease principal payments that does not exceed the estimated weighted average life of the property being financed.
- Not to exceed interest rate that is less than the state usury maximum.

Lease Information Summary Sheet



Lease Information Summary Sheet		
T.C.A. §§ 9-24-101 et seq.		
December 2021		
		
Name of Lessee		
Type of Entity		
Note: If the lessee is not a public entity within the meaning of T.C.A. § 9-24-102(7), then the lessee does not need to complete this form.		
Yes	No	Is the lease subject to T.C.A. §§ 9-24-101 et seq.?
<input type="checkbox"/>	<input type="checkbox"/>	1. Does proposed lease contain an identifiable interest component (not an imputed interest rate) in the lease document?
<input type="checkbox"/>	<input type="checkbox"/>	2. Does the lessee have the right to purchase the property that is subject to the lease at a price that is not based upon the fair market value of the leased property? (If the expected useful life of the leased assets is approximately equal to the term of the lease, the lessee will be deemed to have a purchase option for this purpose.)
<input type="checkbox"/>	<input type="checkbox"/>	3. If the answer to both previous questions is "No", then the proposed lease does not need to be submitted to the Comptroller for approval. If the answer to either of the previous questions is "Yes", then please continue with the completion of this sheet.
Yes	No	Is Comptroller approval required?
<input type="checkbox"/>	<input type="checkbox"/>	1. Does the proposed lease have a principal component in excess of \$100,000?
<input type="checkbox"/>	<input type="checkbox"/>	2. Does the principal component of proposed lease, together with the principal amount of all other lease financings entered into during the fiscal year, have a principal amount in excess of \$100,000?
<input type="checkbox"/>	<input type="checkbox"/>	3. If the answer to both previous questions is "No", then the proposed lease does not need to be submitted to the Comptroller for approval. If the answer to either of the previous questions is "Yes", then please continue with the completion of this sheet.
Complete the following and include with your request for approval.		
1.	Identify proposed amount to be financed.	
	administrative or similar fees paid over the life of the lease.	



tncot.cc/debt for calculator tool and to videos for calculating weighted average maturity and age life of assets.

not enter into a

times, the lessee term exceeds 12

identifiable interest that is principal

curring

Impact of GASB 87 & T.C.A. Changes

BEFORE			
	GASB	Tenn. Code Ann.	TN Comptroller—Division of LGF
1	Operating Lease (Liability – No)	<ol style="list-style-type: none">1. Permitted by TCA2. Approval at local level3. Approval by State – No	<ol style="list-style-type: none">1. Approval – No2. File Report on Debt Obligation – No
2	Capital Lease (Liability – Yes)	<ol style="list-style-type: none">1. Permitted by TCA as a “lease-purchase”2. Approval at local level3. Approval by State – No	<ol style="list-style-type: none">1. Approval – No2. File Report on Debt Obligation – Yes

AFTER

	GASB	Tenn. Code Ann.	TN Comptroller—Division of LGF
1a	Short-Term Financing Lease (Term ≤ 12 months – see Note) (Liability – No)	<ol style="list-style-type: none">1. Permitted by TCA2. Approval at local level3. Approval by State – No	<ol style="list-style-type: none">1. Approval – No2. File Report on Debt Obligation – No
	Note: A non-appropriation or annual cancelation clause only impacts the lease term <u>IF</u> it is reasonably certain the clause <u>will be</u> exercised. Intent by the lessee on the planned usage period of the leased asset is the determining factor.		
1b	Financing Lease (Term > 12 months) (Liability - Yes)	<ol style="list-style-type: none">1. Permitted by TCA2. Approval at local level3. Approval by State – No	<ol style="list-style-type: none">1. Approval – No2. File Report on Debt Obligation – No
2	Not a lease – A financed purchase (Liability – Yes and GASB 62 applies)	<ol style="list-style-type: none">1. Permitted by TCA as a “lease-purchase”2. Approval at local level3. Approval by State – Yes	<ol style="list-style-type: none">1. Approval – Yes2. File Report on Debt Obligation – Yes

