Department of Local Government Finance

Debt Submission Review

Guidance for Gateway

Debt Management Submissions

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July 2026

Disclaimer

- This presentation and other Department of Local Government Finance ("Department") materials are not a substitute for the law. The following is not intended as legal or financial advice, but rather an informative presentation. The Indiana Code always governs.

Agenda

- Debt Management Application
- Debt Documentation & Review
- Debt & the Budget Application
- Debt Operating Balance Facts & Calculations

Debt Management Application

Debt Management - Submission Requirements

- All units of government must report new bonds or leases within the statutorily required timelines. Statute does provide guidelines for said timelines.

- IC 5-1-18-6 states the debt information must be provided either within <u>1 month</u> or <u>5 days</u>, depending on the issuance date:

IC 5-1-18-6 Information report for bonds and leases

Sec. 6. A political subdivision that issues bonds or enters into a lease after December 31, 2005, shall supply the Department with a debt issuance report not later than:

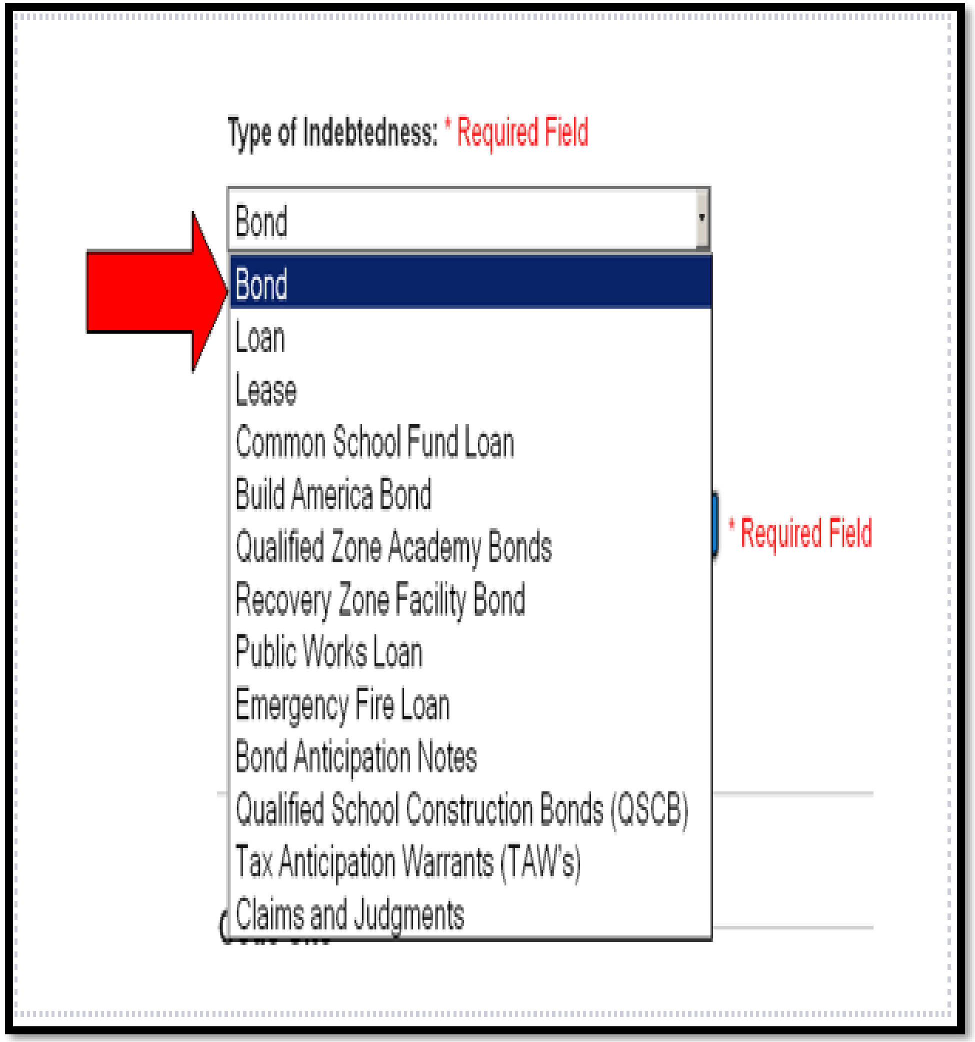
(1) one (1) month after the date on which the bonds are issued or the lease is executed, if the bonds are issued or the lease is executed before October 1; or

(2) five (5) business days after the date on which the bonds are issued or the lease is executed, if the bonds are issued or the lease is executed after September 30.

Debt Management – Type Designation

- When submitting the debt information for Gateway Debt Management it is important that the correct “type” of debt be marked. Incorrect designation can cause worksheet errors.

- The debt worksheet in the Budget Application is dependent on this designation for the information retrieved to populate the debt worksheet.
    - All debts marked as a lease will populate from the Lease Payments column.
    - All other debt types will populate from the period total plus trustee fees.



Debt Management– Debt Submission Correction

- Submitting a debt report in Debt Management locks the debt data so no further changes can be made.

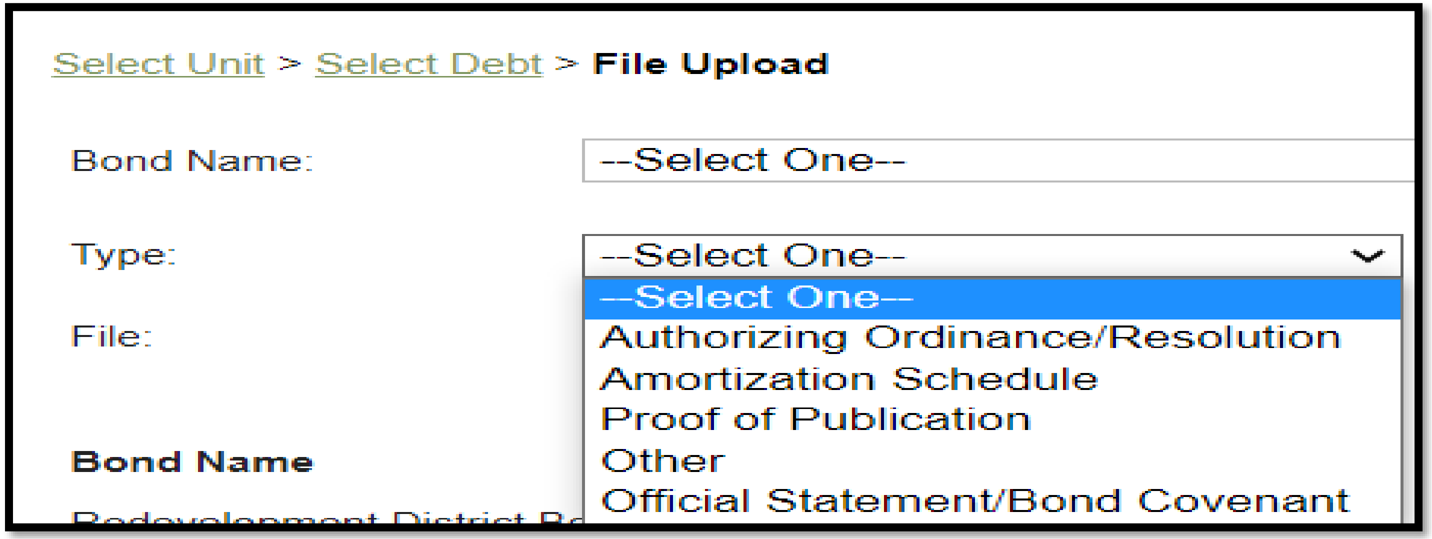
- If the submitted information requires a correction or update, then you can request the debt be unlocked:
  1. Email your field representative with the exact name of the debt.
  2. Once you are notified it is unlocked, you can make corrections and updates.
  3. Re-submit the debt report.

Debt Management- Document Uploads

- Indiana Code requires that in addition to the data entry submission completed in Gateway Debt Management, units are also required to upload copies of the debt issuance reports and a copy of the original amortization schedule into the File upload section of Gateway Debt Management.
- **Please note:** The original amortization schedule required is a copy of the unaltered lending institution's repayment schedule, not to be confused with the amortization schedule uploaded from a .csv file.

Debt Management- Document Uploads

- In Gateway Debt Management, there are several options to choose from when uploading documentation. It is important to note:
  - If the debt is a bond, then the amortization schedule is the only payment schedule needed.
  - If the debt is a lease, then the lease payment schedule must be uploaded in addition to the underlying bond payment schedule.
  - Both the bond and the lease payments need to match what is entered in the amortization schedule of the debt report.



Debt Management- Document Upload Requirements

- **Indiana Code specifies the types of documents that must be submitted to the Department:**

IC 5-1-18-7 Bond report requirements; uniformity; electronic submission

Sec. 7. (a) Except as provided by subsection (b), the debt issuance report required by section 6 of this chapter must be submitted on a form prescribed by the Department and must include the following information concerning bonds:

(1) The par value of the bond issue.
(2) A schedule of maturities and interest rates.
(3) The purposes of the bond issue.
(4) The itemized costs of issuance information, including fees for bond counsel, other legal counsel, underwriters, and financial advisors.
(5) The type of bonds that are issued.
(6) Other information as required by the department.

A copy of the official statement and bond covenants, if any, must be supplied with this information.
(b) A political subdivision or a person acting on behalf of a political subdivision shall submit the debt issuance report information described in subsection (a) to the Department electronically, in the manner prescribed by the department.

Debt Documentation & Review

Amortization Schedule Upload

- A copy of the original lending institution's amortization schedule is an essential part of the required upload documents by the Department.

- The Department compares the debt report data entry submission and verifies the payment information matches the original amortization schedule for both the bonds and the lease payment.
  - Important Note: A .csv file is not acceptable. This file type used only to upload the payment schedule into Gateway and is not considered an official amortization schedule.

Appropriations and Payments Due

- As part of the Department's review process, the Department may collect the debt fund expenditure report generated by a financial software or something comparable.
- The purpose is to verify debts have/are being paid timely in the period they have an appropriation. Specifically, a unit may be asked for:
  - Debt expenditures made from January – June of the current year.
    - This amount needs to match line 6 of the current year financial worksheet (pre-line 5 of the debt worksheet).
  - Debt expenditures made from July – December of the current year – this amount needs to match line 9 of the current year financial worksheet (= line 5 on the form 4B). An explanation will need to be provided for any/all differences, if applicable.

Adjustments Necessitated through Department Review

- It is important that the total yearly expenditures do not exceed the total yearly appropriations. If payments are made or will be made that are more than the approved appropriation, an additional appropriation should be requested.

- Common reasons for adjustments by the Department:
  - Payments not made timely in the previous year and carried over to the current year.
    - Could be notated as encumbered.
  - Fees paid that have not been reported or reported in a different time period.
  - Temporary loan interest.

Debt Worksheet (Pre-Budget and Budget)

- Active debts from the reports listed in Debt Management need to be linked to the budget application if they are being paid from a Department reviewed fund.
  - If there are new, anticipated, or unlinked debts the first step will be to verify these debt are reported in Debt Management.
  - Once a debt report is submitted in Debt Management, the debt can then be linked to the budget form debt worksheet as active for the incoming years' budget. This may not be possible until the following year based on the date of closing. The anticipated debt line can be used in this case.
  - Step by step linking instructions can be found in Gateway
    - User Guide https://www.in.gov/dlgf/files/210101-Debt-Management-User-Guide.pdf

Debt Management vs Budget Forms

- Once a debt has been fully paid off, then the debt will need to be marked as retired in Gateway Debt Management application.

- Due to the timing of when a debt is retired and the budget forms are available, extra steps may be required to remove the debt from the debt worksheet.

Debt & Budget Application

Debt Worksheet- Marking Payments

- Correctly marking payments ensures proper cash flow and alignment of budgeted funds.

- It is important when selecting debt payments to keep in mind when revenue for making the debt payment will be received and not necessarily when a payment is due.
  - Property tax distributions take place only twice a year in **June** and **December**.
  - If a debt is scheduled to be paid by July 15th, the revenue to make that payment will not be received until the December distribution. This may cause a cash flow problem and initiate the need for temporary loans.
  - Pulling back the due date to when the funds are received, is permissible. Scheduling and making debt payments by June 30 vs July 15 (or Dec. 31 vs Jan. 15) will allow the funds for the payment to be budgeted and therefore disbursed with the June and December distributions.

Debt Worksheet- Marking Payments

- When marking payments on the debt worksheet 6 (six) different payments will be marked. The columns are for specific time periods.
  - Column 1: payments made in the first 6 (six) months of the current year. Should match line 6 of the current year financial worksheet.
  - Column 2: payment(s) scheduled to be paid by July - Dec. of the current year (line 5, form 4b).
  - Column 3: the 2 (two) payments scheduled to be paid in the ensuing (upcoming) budget year (line 15, form 4b).
  - Column 4: payments scheduled to be paid by June 30 in the year after the ensuing year (included in line 18, form 4b).
  - Column 5: payments scheduled to be by July – Dec in the year after the ensuing year (included in line 18, form 4b).

Debt Worksheet -Marking Debt Payments

Payment Due Date	Lease Payments	Total	2026 January 1 - Jun 30	2026 July 1 - December 31	2027 January 1 - December 31	2028 January 1 - June 30	2028 July 1 - December 31
07/01/2026	$300,000	$300,000	☑	☐	☐	☐	☐
01/01/2027	$300,000	$300,000	☐	☑	☐	☐	☐
07/01/2027	$300,000	$300,000	☐	☐	☑	☐	☐
01/01/2028	$300,000	$300,000	☐	☐	☑	☐	☐
07/01/2028	$300,000	$300,000	☐	☐	☐	☑	☐
01/01/2029	$300,000	$300,000	☐	☐	☐	☐	☑

- Once a debt has been linked to the budget the payments due can be selected. The payments are selected by checking the applicable box for the time frame the debt will be paid (not necessarily when due).

Debt Operating Balance Facts

Debt: Allowable Operating Balances

- Scheduling the two payments in the year after the ensuing budget year (i.e., Jan. – Dec.) is also important since it establishes the allowable operating balance that may be levied and retained for future debt payments.

  IC 6-1.1-17-22 governs the amount of operating balance that taxing units may retain in a debt service fund.

- The code states that each individual debt’s allowable operating balance will be taken into consideration when calculating the sum of all debts’ allowable operating balance.

Debt: Allowable Operating Balances (Pre 2014)

- For a debt originally incurred before June 30, 2014, the allowable operating balance is the lesser of:
  - 50 % of the budget estimate for the debt for the year after the budget year; or
  - the debt payment to be made in the first six months of the year after the budget year.
    - The date of a refinanced debt considered for this calculation is the date the debt was originally incurred.
    - If new monies are involved in a refinance, they should not be considered for the 50% calculation.

Debt: Allowable Operating Balances (Post 2014)

- For a debt originally incurred after June 30,2014, the allowable operating balance is the lesser of:
  - 15% of the budget estimate for the debt for the year after the budget year; or
  - the debt payment to be made in the first six months of the year after the budget year.
    - The date of a refinanced debt that is considered for this calculation is the date the debt was originally incurred.
    - If new monies are involved in the refinance, they should be notated as a different closing date when possible.

50% Operating Balance Example #1

A debt service fund has 1 (one) debt incurred before June 30, 2014.

In the ensuing budget year, the allowable operating balance will be based on payments due in the year after the ensuing year (the lesser of 50% of the total of the following year's debt payments or the first debt payment to be made in the following year.

Example 2 Pre June 30,2014	50% Calculation
First payment due in the year after the ensuing year.	$ 400,000
Second payment due in the year after the ensuing year.	$ 600,000
Total Payments due in the second year	$1,000,000
(multiplied by Operating Balance factor)	X 50% = $500,000
Maximum allowable Operating Balance	**$ 400,000** ($400,000<$500,000)

15% Operating Balance Example #2

A debt service fund has 1 (one) debt incurred <u>after June 30,2014.</u>

In the ensuing budget year, the allowable operating balance will be based on payments due in the year after the ensuing year (the lesser of 15% of the total of the following year's debt payments or the first debt payment to be made in the following year).

Example 1 Post June 30,2014	15% calculation
First payment due in the year after the ensuing year.	\$ 400,000
Second payment due in the year after the ensuing year.	\$ 600,000
Total Payments due the year after the ensuing year.	\$1,000,000
(multiplied by Op. Bal factor)	X 15% = \$150,000
Maximum allowable Operating Bal	**\$ 150,000** \$150,000 < \$400,000

Operating Balance, Levy, and Tax Rate

- Since each debt's allowable operating balance is part of the calculation for determining the total levy for each debt fund, calculating each debt's allowable operating balance can help to determine a more accurate levy and tax rate estimate on your budget submission.

$$(CNAV \div 100) * \text{Tax Rate} = \text{Tax Levy}$$

- OR -

$$\text{Tax Levy} \div (CNAV \div 100) = \text{Tax Rate}$$

Potential Action Items for Local Units of Government

- Review debt payment dates and their correlation with receipt of June and December property tax distributions.

- Verify all amortization schedules match uploaded documents.

- Request a budget workshop with your field representative to review debt payments / debt worksheet.

Contact Us

- Website: www.in.gov/dlgf
- Contact Us: www.in.gov/dlgf/2338.htm
- Telephone: (317) 232-3777

- Budget Field Representative Map: https://www.in.gov/dlgf/files/Budget_Field_Reps.pdf

- Gateway Support: support@dlgf.in.gov
- DLGF Customer Service Survey: Customer Survey