
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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FROM: Fred Van Dorp, Budget Director

SUBJECT: Operating Balance Calculation for Debt (The “15/50 Rule”)

DATE: May 21, 2021

This memorandum is being released to restate how the Department of Local Government Finance (“Department”) will calculate the operating balance that any unit may request for a specific debt issuance during budget certification.

IC 6-1.1-17-22 governs the amount of operating balance a political subdivision could have in a debt service fund. In determining the amount of the levy for a debt service fund for a budget year, the maximum amount allowed for an operating balance in the debt service fund is the sum of the maximum allowable operating balance for each debt included in the debt service fund. The maximum allowable operating balance for an individual debt is calculated as follows:

- (1) For debt originally incurred before July 1, 2014, the lesser of:
 - (A) 50% of the budget estimate for the debt for the year after the budget year; or
 - (B) the debt payment to be made in the first six months of the year after the budget year.

- (2) For debt originally incurred after June 30, 2014, the lesser of:
 - (A) 15% of the budget estimate for the debt for the year after the budget year; or
 - (B) the debt payment to be made in the first six months of the year after the budget year.

Examples of how this calculation will be applied can be found in Exhibit A, below.

Refinancing adds an additional level of complexity to the determination above. If a debt is refinanced, the date the refinanced debt was originally incurred, and not the date that the refinancing is closed, is the date to be used for purposes of the operating balance calculation. In this example, the Department assumes that the refinancing exclusively includes the original debt issuance, and that no new money is included in the newly refinanced debt. If a debt is refinanced and includes new funds along with refinanced money, and is issued as a single debt, then the Department will treat the entire issuance using the date the refinancing is closed. Finally, if a debt is refinanced and includes new funds along with refinanced money, but is issued as multiple debts, then the Department will use the date the refinanced debt was originally incurred for the refinanced portion and use the date that the refinancing is closed for the new debt.

EXHIBIT A

This exhibit includes three examples of how this calculation will be applied for the purposes of calculating the operating balance as part of the budget review and certification process.

Example 1: Debt Service Fund with One Debt

Note: Debt Incurred Before July 1, 2014
 For the 2021 Budget Year, the Operating Balance will be Based on the Payments Due in 2022.

Step 1: Calculation of Maximum Balance	Amount
First Payment Due in 2022	\$ 400,000
Second Payment Due in 2022	\$ 600,000
Total Payments Due in 2022	\$ 1,000,000
Times: Operating Balance Factor	50%
Maximum Operating Balance Allowed	\$ 500,000

Step 2: Calculation of Allowable Balance	Amount
First Payment Due in 2022	\$ 400,000
Maximum Operating Balance Allowed	\$ 500,000
Lessor of First Payment and Maximum Allowable	\$ 400,000

Example 2: Debt Service Fund with One Debt

Note: Debt Incurred After June 30, 2014
 For the 2021 Budget Year, the Operating Balance will be Based on the Payments Due in 2022.

Step 1: Calculation of Maximum Balance	Amount
First Payment Due in 2022	\$ 400,000
Second Payment Due in 2022	\$ 600,000
Total Payments Due in 2022	\$ 1,000,000
Times: Operating Balance Factor	15%
Maximum Operating Balance Allowed	\$ 150,000

Step 2: Calculation of Allowable Balance	Amount
First Payment Due in 2022	\$ 400,000
Maximum Operating Balance Allowed	\$ 150,000
Lessor of First Payment and Maximum Allowable	\$ 150,000

Example 3: Debt Service Fund with Two Debts

Note: The operating balance allowed for this fund will be the sum of the allowed operating balance for each individual debt. In this example, Debt 1 was incurred before July 1, 2014, and Debt 2 was incurred after June 30, 2014.

Debt 1: Debt Incurred Before July 1, 2014

Step 1: Calculation of Maximum Balance	Amount
First Payment Due in 2022	\$ 400,000
Second Payment Due in 2022	\$ 600,000
Total Payments Due in 2022	\$ 1,000,000
Times: Operating Balance Factor	50%
Maximum Operating Balance Allowed	\$ 500,000

Step 2: Calculation of Allowable Balance	Amount
First Payment Due in 2022	\$ 400,000
Maximum Operating Balance Allowed	\$ 500,000
Lessor of First Payment and Maximum Allowable	\$ 400,000

Debt 2: Debt Incurred After June 30, 2014

Step 1: Calculation of Maximum Balance	Amount
First Payment Due in 2022	\$ 400,000
Second Payment Due in 2022	\$ 600,000
Total Payments Due in 2022	\$ 1,000,000
Times: Operating Balance Factor	15%
Maximum Operating Balance Allowed	\$ 150,000

Step 2: Calculation of Allowable Balance	Amount
First Payment Due in 2022	\$ 400,000
Maximum Operating Balance Allowed	\$ 150,000
Lessor of First Payment and Maximum Allowable	\$ 150,000

Debt 1: Total Plus Debt 2 Total

Step 3: Calculation of Allowable Balance	Amount
Debt 1 Allowable Operating Balance	\$ 400,000
Debt 2 Allowable Operating Balance	\$ 150,000
Total Allowable Operating Balance	\$ 550,000