**DEBT POLICY**

*This template provides the basics of a debt policy. You should adjust this policy to fit your government’s needs. For further guidance, refer to the GFOA book “Financial Policies.” The book describes the elements in this template plus additional options.*

# **Why a Debt Policy Is Important**

Debt is a powerful tool to help [name of your government] provide our community with the infrastructure it needs to thrive. With power comes responsibility. This policy forms the guidelines to make sure [name of your government] uses debt responsibly.

# **When Debt Could Be Issued**

Debt is one option that [name of your government] has to pay for a capital asset. Below are the conditions when debt would be a better choice for [name of your government].

**Low interest rates.** Low interest rates mean a lower total cost of borrowing.

**Soft construction market.** The community can benefit if [name of your government] uses debt to build more assets while construction costs are low.

**The asset has a long, useful life**. Assets that last a long time will benefit citizens and taxpayers far into the future. It is fair for these future taxpayers and citizens to help pay the cost of the asset by paying for some of the debt.

**[Name of your government]’s forecasts show that debt is affordable.** Debt adds a long-term cost to the budget.

**Use of debt is consistent with legal and other limits**. Other levels of government and this policy describe limits that [name of your government] must observe.

# **When Debt Shouldn’t Be Issued**

There are many cases where debt is not the right financing tool. Below are important cases where debt should not be used:

**Paying for ongoing public services.** Ongoing public services benefit today’s citizens and taxpayers, but debt will be paid by tomorrow’s citizens and taxpayers.

**Life of the debt is longer than the life of the capital asset it funds.** If the debt lasts for longer than the capital asset, then future taxpayers and citizens will pay for an asset that they do not benefit from.

**Cost of issuing debt is too high.** [Name of your government] has to pay certain costs and fees to issue debt. These costs may outweigh the benefits that debt provides, especially for small capital projects.

# **Allowable Debt Instruments**

The debt instruments that [name of your government] is allowed to use are described by state [or provincial] law. [This statement is a good starting point. If you wish to exclude any instruments that are allowed by state law, then those could be noted here.]

# **General Debt Limitations**

There is a limit on the amount of debt that is affordable for [name of your government]. [Name of your government] defines two measures of affordability: [To make it easy, this policy template includes only two measures. Some governments include more.]

First, “annual debt service as a percent of general expenditures” measures the resources that debt uses in the annual budget. If this measure gets too high, [name of your government] could have trouble providing regular services to the citizens. *[Name of your government] will limit annual debt service as a percent of general expenditures to no more than 15%.* [This figure is based on a broad benchmark study by a rating agency. You may wish to adjust this figure to match your conditions.]

The second measure is “overlapping debt divided by market value of the properties in the community.” This shows the size of the burden that debt puts on taxpayers. This measure includes not only debt issued by [name of your government] but also debt issued by overlapping government jurisdictions that taxpayers live in. This is important because taxpayers are affected by the debt from all governments, not just [name of your government]. *[Name of your government]’s policy is that overlapping debt divided by market value of properties in the community should not exceed 10%.* [This figure is based on a broad benchmark study by a rating agency. You may wish to adjust this figure to match your conditions.]

# **Maturity Guidelines**

Foremost, the term of any debt issued should not exceed the useful life the asset is funding.

The average weighted bond maturities of all debt should be 10 years or less. [The policy on weighted bond maturity is optional if you wish to make sure the government does not have too much unpaid debt too far into the future. The number of years can be changed based on your situation.]

# **The Process To Issue Debt**

[*Note to users of this template: Frequent issuers of debt should have policy guidance on how to issue debt. This might include: approval of debt issuance; determining method of sale; and selection and use of professional service providers. The language will depend on local conditions. Refer to the GFOA book “Financial Policies” for guidance on the topics you might consider*.]

# **Management of Debt**

[*Note to users of this template: Frequent issuers of debt should have policy guidance on how to manage debt. Two key topics are: investment of bond proceeds and compliance practices. The best language will depend on local conditions (i.e., your investment policy). Refer to the GFOA book “Financial Policies” for guidance on the topics you might consider*.]