

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# Module 6: Establishing a Debt Policy

# Establishing a Debt Policy

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- Debt is a tool that can be used to leverage available resources
- A mixture of debt and current resources should be used to finance projects



# Establishing a Debt Policy

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- An unreasonable or heavy debt burden will limit future opportunities that a local government can take advantage of.
- A heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Total Expenditures exceeding 15% or exceeding that of similar units.



# Establishing a Debt Policy

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- Debt service must be included in the budget.
- LGC notifies local governments of debt service obligations for the upcoming fiscal year.
- Governing board should establish a debt management policy.
- A debt policy will help the government manage its finances and meet obligations.



# Establishing a Debt Policy

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## A well written debt policy should include the following

1. Uses of debt (When should debt be used?)
2. Types of debt permitted (What types of debt should be used in different situations? )



# Establishing a Debt Policy

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3. Debt limitation (How much debt?)
4. Debt repayment (When should debt be paid off and payments structured over time?)



# Resources

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LGC Staff (919)-814-4300

[LGC Website](#)

<https://www.sog.unc.edu>

[www.nclm.org](http://www.nclm.org)

[www.ncacc.org](http://www.ncacc.org)

<https://www.gfoa.org/best-practices--resources>



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## Module 6

1. What is a tool that can be used to leverage available resources?
2. Does debt service have to be included in the budget?
3. What is one thing a good debt policy should include?

