



The Purpose of Debt

Municipal Officials Handbook, Page 143

MANAGING PUBLIC DEBT

5.201 Purpose of Debt

Debt in a municipal government is an effective financial management tool. Active debt management provides fiscal advantages to local governments and its citizens. Debt can serve several different purposes.

- It is useful in matching costs to benefits of public assets.
- It is useful as an economic development tool.
- It allows governments to build and acquire assets that would not otherwise be able to be built or acquired.
- Debt eliminates the need for governments to build up large reserve balances to build or acquire assets.

In other words, debt is not something that should be avoided or eliminated. Rather, debt is something that should be used and managed prudently. Debt can be mismanaged, however. Over use of debt places a burden on the financial resources of the government and its taxpayers. Thus, it is important to create policies and follow practices to insure debt is used wisely.

Debt is often incurred through the issuance of bonds. There are many different types of bonds. The most common types of bonds issued by Montana local governments are described on pages 143-145 of the Municipal Officials Handbook.

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