

# DEBT IS NOT A BAD WORD

## Utilizing Debt to Fund Infrastructure Projects

Debt, when used wisely, is an investment in the future that can prevent financial burdens. It is a means of financing large capital assets such as crucial infrastructure improvements, development, and the acquisition of large equipment. Debt can be leveraged to create long-term value by ensuring that investments increase over time, ultimately providing greater income and capital growth than the amount spent on servicing the loan.

## Benefits of Debt for Project Sponsors

### Enhanced Project Funding

Loans facilitate the undertaking of large-scale projects by providing access to capital markets with favorable interest rates. Additionally, loans can secure the necessary financial resources without immediate strain on existing funds, allowing for more strategic planning and project implementation over time.

### Capacity for Immediate Improvements

By reducing upfront costs, debt can accelerate the timeline for critical infrastructure projects and address urgent needs without waiting for accumulated savings.

### Enhanced Financial Management

Utilizing debt enables large-scale projects to proceed without exhausting cash reserves. A structured debt payment schedule distributes expenditures over time, ensuring a more predictable cash flow and aligning the debt service with the lifespan of the infrastructure.

### Economic Development

Infrastructure improvements make towns and cities more competitive and attract new businesses and residents, strengthening the economy and increasing the local tax base.

### Leveraging Cash and Debt

Debt is still beneficial even with sufficient cash reserves. Loans are advantageous when loan interest rates are lower than fund balance/cash reserve interest rates. Cash reserves/fund balances are best used in the event loan disbursements are delayed or don't align with the development schedule.



Debt is an important tool for large-scale development and infrastructure improvements. For municipalities and utilities, leveraging debt financing allows for the timely execution of essential projects that enhance public services, boost economic growth, and improve quality of life. With the availability of various funding mechanisms, such as municipal bonds, federal revolving funds, and public-private partnerships, the strategic use of debt can be a prudent approach to ensuring long-term sustainability and resilience in public infrastructure.



## Benefits of Debt for Taxpayers and Ratepayers



### Economic Growth and Stability

Infrastructure improvements yield job creation and economic stimulation through planning and construction. Improved infrastructure is also associated with the long-term economic benefits of modernization.



### Enhanced Service Quality and Reliability

Better infrastructure equals better service delivery and increased reliability and safety of water systems.



### Fair Cost Allocation

Debt payments distribute the cost of infrastructure over its useful life, ensuring that future users contribute to its funding. Using debt also prevents significant, one-time tax or rate hikes that occur when large expenses are paid upfront.



Find additional resources at:

[New Jersey Future Funding Navigator](#)

[Debt Indicators and Debt Structure in Infrastructure Finance](#)

[How has infrastructure been financed in the past?](#)

[If You Build It: A Guide to the Economics of Infrastructure Investment](#)

[It's Time for States to Invest in Infrastructure](#)

For more information please reach out to Jessika Sherman, Policy and Program Coordinator for New Jersey Future's Funding Navigator Program, at [jsherman@njfuture.org](mailto:jsherman@njfuture.org).

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