LEASOURCE FINANCIAL SERVICES, INC.

1000 River Rock Drive, #218 · Folsom, CA 95630 · Phone: 800-991-0099 or 916-988-7723 · Fax: 916-988-3931 · Email: info@leasource.com

MUNICIPAL FINANCING

Overview

We would like to introduce you to our Tax-Exempt Municipal Lease Financing Program. With the increasing demand for services, public agencies have embraced tax-exempt leasing as an alternative means of acquiring needed **equipment, real property and facilities** construction or upgrade.

Municipalities may leverage annually appropriated funds from their budget by three or four times the annual amount available. They may, for example, turn an annual $100,000.00 budget appropriation into a $300,000.00 or $400,000.00 equipment acquisition by borrowing at tax-exempt rates. These loans may be paid off early or re-financed in a forthcoming bond issue.

The process begins with you defining for us your need. It can be any essential equipment, project or real property. You decide what and how much it costs, and we stay out of the way. We *interface* rather than *interfere* in that process.

During the next stage, we offer a finance quote based on the cost, term and expected delivery date of the equipment. Upon acceptance of our quote, documents are prepared for your review and signature. Commencement of the lease begins once the equipment is delivered and accepted.

While this process is technically referred to as “Tax-Exempt Lease/Purchase” financing, it is in reality a series of one-year installment sale payments (including non-appropriations language in the contract), renewable each year for the duration of the payback period. Lease contracts may amortize over 2 to 10 years for equipment and 15 years, or longer, for real property.

To the municipality, this means:

- Retention of your borrowing capacity (a Lease does not contribute to your debt ceiling)
- Fully amortized payment schedule with no balloon payments at the end
- Additional benefits as defined in the following pages

Attached to this summary page is an expanded overview of municipal leasing plus some possible applications where a Lease can be an effective tool.

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WHAT CAN THE GOVERNMENT LEASE?

A Partial List ... from A to X

(Equipment must be for an essential government purpose)

Air Compressors
Aircraft
Airport Facilities
Alarm Systems
Ambulances
Athletic Field Lighting
Audio / Visual
Equipment
Automobiles
Bleachers
Buildings –
Jails/Hospitals
Bulldozers
Card Entry & Control
Cash Registers
Communication Base
Station
Computers
Computer Software
Controls (HVAC)
Copiers
Cranes
Data Retrieval
Desktop Publishing
Dry Cleaning/Laundry
Energy Management
Fax
Fire Engines
Fitness

Food Service
Forklifts
Fuel Dispensing
Furniture
Graders
Hospital
Beds/Furniture
Ice Machines
Imaging
Incinerators
Inflatable Domes
Lockers
Mailing Systems
Medical
Microfilm
Modular Classrooms
Mowers
Musical Instruments
911 Systems
Office Furniture
Parking Meters
Playground
Police Vehicles
Power Generators
Printing
Recycling Containers
Refrigeration
Resuscitation

Refuse Vehicles
School Buses
Scientific
Scrapers
Scoreboards
Security Systems
Sound Systems
Sweepers
Telephone Systems
Theater
Trash Compaction
Two-Way Radios
Utility Vehicles
Video Editing
Voice Mail Systems
Water Filtration
Water Purification
X-Ray

REAL PROPERTY

Waste Water
Lighting Upgrades
Site Improvements
Synthetic Fields
School Buildings
Fire Station
Multi-Purpose Building
Recreation Facility

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QUESTIONS AND ANSWERS

Public borrowing in the form of installment lease/purchase agreements is a rapidly growing area of public finance. Total volume of municipal leases soared from $700 million in 1980 to $3.5 billion by 1984 and to over $12 billion in recent years, according to the Association for Government Leasing and Finance.

What is a Municipal Lease/Purchase Agreement?

A Tax-Exempt Municipal Lease/Purchase Agreement is essentially an *installment sale contract* that fully amortizes during the term of the Agreement. There is no balloon payment or purchase option at the end. The Lessee owns it from day one. The issuer (lessee) is able to acquire and utilize equipment or facilities and pay for them over a specified time period. If structured properly, the interest portion of the lease payment is exempt from federal and state income tax resulting in low *tax-exempt* interest rates to the borrower. However, care must be taken if the property has a private use or involves federal funds.

Why is a Municipal Lease/Purchase generally not considered debt?

A Municipal Lease/Purchase Agreement is a yearly obligation renewable at the option of the lessee. The obligation is subject to the annual appropriation of funds by the borrower. If funds are not appropriated in a given year, the Municipal Lease/Purchase Agreement may be terminated. While voter approval is generally not required for a public agency to enter into a Municipal Lease/Purchase Agreement, terms of the transaction are fully disclosed in their annual audited financial statements. Due to a *non-appropriation clause* in the contract, payments are considered an operating expense rather than debt.

Who is eligible to utilize tax-exempt leasing?

Basically, any municipality or political subdivision who can issue tax-exempt securities may utilize *tax-exempt* leasing. Examples: State & Local government agencies, special assessment districts, public hospitals, fire districts (including volunteer departments), public transit districts, school districts, etc. The interest can also be done at a taxable rate.

Why should Government Officials consider Lease/Purchase Agreements?

Lease/Purchase Agreements should be used to compliment, rather than replace, traditional bond financing. Many times Lease/Purchase Agreements can be a more timely, efficient, and cost effective means of financing essential equipment and facilities. In addition to the low cost of issuance, uncomplicated financing documents save both administrative and legal expenses. For issuers expecting to do multiple transactions over a period of time, additional savings can be attained by use of an *Advance Payment/Purchase Agreement*.

What type of equipment should I consider leasing?

Virtually any type of essential use equipment may qualify for a Lease/Purchase Agreement. In general, terms may be offered from *two* to *ten years* or more, depending on the useful life of the asset.

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MUNICIPAL LEASING

Advantages to the Lessee

Municipal Lease/Purchase financing is designed to compliment, rather than replace bond financing. As governmental units have become cognizant of the advantages of Municipal Lease/Purchase Agreements over bonds, they have increased their utilization of this unique financing vehicle to satisfy many of their equipment and facility financing needs. The advantages of Municipal Lease/Purchase Agreements are as follows:

No Cash Down Payment

These financings may provide for 100% of the equipment purchase price or facility construction cost plus related expenses. The governmental lessee only makes periodic lease payments. Substantial down payments may reduce interest rates charged.

Tax-Exempt Interest

Properly structured, these transactions result in each payment representing some principal and some interest. The Internal Revenue Service has determined that interest paid in this manner is exempt from federal income tax. The interest may also be exempt from state and local income tax. Charter schools do not directly qualify for tax exempt financing.

No Public Debt Created

Since the lease payments due in the transaction are subject to annual appropriation, the obligation created by the *lease is not subject to constitutional or statutory debt limitations in most states*. Since public debt is not created, voter approval for a Municipal Lease/Purchase transaction is not usually required.

Matching Cost with Revenue

Payment obligations correspond more closely to the useful life of the asset(s) financed by the lessee. A full cash purchase charges one year's operating budget with the cost of an asset, which will be in use for several years. Lease/Purchase transactions can and should be designed to match the finance terms with the expected useful life of the asset, thereby spreading the cost over the budgets for all the years benefiting from the use of the asset. Amortization can be designed on a monthly, quarterly, semi-annual, or annual basis or even on a SKIP payment basis.

Flexibility

Shorter lead time to arrange a financing, as the procedural aspects of traditional bond financing may be complicated by rigid constitutional requirements which serve capital project financing control, but are inflexible for asset acquisitions and future refinancing.