

Municipal Leasing 101

A lease typically refers to an arrangement where one party owns or controls equipment, called the lessor, transfers possession and use of that equipment for a period of time to another party, called the lessee, in exchange for the payment by the lessee to lessor of periodic rent (i.e., monthly, quarterly or semi-annually).

A Municipal Lease has a few variations. For example, A Municipal Lease or Lease Purchase is essentially an installment purchase contract otherwise known as a Lease-to-Own program with no residual and no end-of-lease buyout. A Municipal Lease is renewed annually and as such, its payments constitute a current expense of the municipality and thereby does not create debt. Because the interest can be exempt from federal and state income tax, this financing offers the municipality a significant savings compared to conventional leasing.

Not all equipment acquisitions, budgets or equipment finance agreements are the same.

Municipal Lease financing has distinctive advantages over commercial equipment leasing:

- The Municipal Lease includes termination for non-appropriation language. The non-appropriation clause, in cases where the lessee is unable to obtain funding for future payment obligations on the lease, enables the lessee to terminate the lease agreement at the end of the current appropriation period without further obligation or penalty.
- A Municipal Lease is referred to as a “Municipal Lease purchase”. During the term of the lease, the municipality holds the title to the leased

equipment while the lessor holds the security interest. It is a full payout contract to purchase the equipment rather than a series of rental payments as with traditional commercial leases. The financing is structured so that there is no residual value, balloon payment or purchase option to consider.

- A Municipal Lease is also referred to as “tax-exempt” because the interest income on a Municipal Lease is tax exempt to the lessor. The municipality benefits when the lessor passes these savings on to the municipality in the form of a lower interest cost.
- Municipal Lease payments build equity in the future unencumbered ownership of the asset. Without penalty, the lessee has the option of purchasing the equipment outright, at any time, for a predetermined purchase price consisting of the remainder of principal and any accrued interest.

SUMMARY OF MUNICIPAL LEASING BENEFITS:

- Preserves capital.
- Up to 100% financing.
- Interest rates approach municipal bond rates but no bond referendum required.
- Assets can be financed over their useful life.
- Fixed rate.
- Simplified documentation.
- Termination without penalty.
- Not subject to state bid laws.

