

Viewpoint: Municipal leasing prepares for a comeback

Dec 29, 2010 11:48 AM, By Robert Neptune

Renewed interest from lenders points to more financing options for governments in 2011



After a two-year downturn, municipal leasing is picking up steam as a viable and available financing alternative for the acquisition of municipal equipment, projects and facilities. Municipal leasing is a catch-all term used to describe installment financing for governmental entities, the interest on which is usually tax-exempt to the lender/lessor. The terms of the contracts look and act very much like car or house loans. However, because the periodic payments are usually subject to annual appropriation by the obligor, they give the "appearance" that the asset is being "leased" from year to year.

According to the "2009 Survey of Industry Activity" from the Mount Royal, N.J.-based Association for Governmental Leasing and Finance (AGLF), however, the actual incidence of non-appropriation in 2009 was approximately 0.03 percent. As a result, many lending institutions are willing to treat the contracts as a safe and secure way to meet local government financing needs for the acquisition of essential assets.

With the crash of the financial markets in 2008, the municipal leasing market took a big hit. Several very large institutions and a number of smaller ones simply exited the business. Others severely curtailed their activities in the market. Those that remained became much more selective with respect to credit analysis and pricing. Long-term financing for facilities and longer-term projects virtually dried up. Although municipal borrowing slowed considerably, there was still substantial underserved demand as a result of the funders' withdrawal from the market.

Now, there seems to be renewed interest in the business. Several of the larger institutions have hired new staff and increased production. In addition, several new companies, including one very large financial institution, have entered the business for the first time.

With the demise of the Build America Bond program at the end of 2010, the competition for tax-exempt leasing should heat up, with more players and more money focused on that market.

Municipal leasing tips

If city and county managers are thinking about using municipal leasing in the near future, the KISS (Keep It Simple Stupid) methodology is advised. Remember that the core benefits of municipal leasing are faster, easier and less expensive financing than with a larger bond issue. So, keep these few things in mind:

- You don't need a 10-page RFP for a municipal lease (unless your equipment list is that long). Most terms can be summarized in one page. If you must use a financial advisor, make sure they have some experience with this product and understand this. It's not a bond issue.
- You don't need a 40-page document. Most good municipal lease documents should only be a small handful of pages with an attachment or two, plus the required 8038 forms. If they are longer than that, you are probably unnecessarily wasting money on legal reviews.
- Get bids from a diverse group of providers, not just three local banks or three national finance companies. Sometimes different appetites can produce significantly different pricing and documentation requirements.
- The exception to the first two items above comes with financing for real estate or complex projects. They will look and cost much more like a bond issue than the simpler process and documentation used for equipment financings.

And finally, before using this type of financing, be certain that your needs will require you to own, use and pay for the financing in full. It really isn't renting or short-term leasing. Default or non-appropriation could severely impair your ability to obtain similar financing in the future.

For more information, see the [Association for Governmental Leasing and Finance site](#). Group members encompass all facets of municipal leasing and include third-party lessors, placement agents, investment bankers, government officials, vendors, manufacturers, captives and commercial bankers.

What do you think? Tell us in the [comment box](#) below.

Until December 2008, Robert Neptune served as founder and president of De Lage Landen Public Finance (a part of De Lage Landen Financial Services/Rabobank). Before joining De Lage Landen, Mr. Neptune established and managed public finance units at ORIX Financial services, Transamerica Financial Corporation, Heller Financial Corporation, Chrysler Capital Corporation and B.C. Christopher Securities Co. He can be reached at 816-520-2158 or bneptune@kc.rr.com.