

NOV, 2019



Tax Exempt Financing

Leverage the Advantages of Municipal Financing

Traditional Ways to Acquire Capital Equipment

CASH

- Is the money currently available in the budget?



BONDS

- Often very complex and takes time
- Not suited for smaller equipment purchases

MUNICIPAL LEASES

- Offers low interest rate financing with simplified documentation and funding process



What is a Tax-Exempt Lease?

A lease purchase / installment sale agreement in which:

- Lessor purchases equipment
- Municipality (lessee) makes periodic payments (flexible time)
- Municipality builds equity in property
- Interest portion of payment is tax-exempt for the lessor – tax savings are passed on through lower rate
- Certain entities have a right of non-appropriation
- Fair Market Value leases do not qualify



Tax-Exempt Lease Basics



- Transfer to lease of title during lease term in most jurisdictions
- Essential-use equipment
- Lease must be a validly authorized and legal obligation of lessee (opinion of counsel and resolution of lease governing body)
- Bargain purchase option with clear intent to purchase equipment (e.g. \$1)
- Principal and interest is clearly defined and broken out
- Lease must be reported to the IRS (8038-G or GC)



Qualifications of Tax-Exempt Financing



- The issuer of a tax-exempt obligation must be a state or a political subdivision thereof as defined by IRS code section 103.

Examples of qualified issuers generally include:

- Cities, towns, counties, school districts, certain special purpose districts (fire, parks, utility, water, etc.), certain hospitals, agencies, authorities, boards and commissions.

Lease? Tax-Exempt Lease Purchase? Municipal Lease?

“Tax-exempt financing” is probably a better description. In both form and substance, a municipal lease is a financing. Again, the purpose is to allow you, the municipal client, to purchase your solution today while spreading the investment across multiple budget cycles.

Municipal Lease Basics



A form of tax-exempt financing used by state & local governments across the country

Provides for 100% financing of equipment, vehicles or property

Provides financing for both small and large essential use equipment purchases

Fixed monthly, quarterly or semi-annual payments

Terms of 2 – 10 years and longer



Municipal Lease Basics, continued

Provides low interest rates that are comparable to bonds

- Interest earned by the lessor is tax-exempt, savings is passed on to the lessee in the form of a lower rate

Does not create an indebtedness; lease is subject to “Annual Appropriation”

Fully amortizing, nominal purchase option at the end

Simplified documentation; can usually be approved, documented and funded in less than 30 days

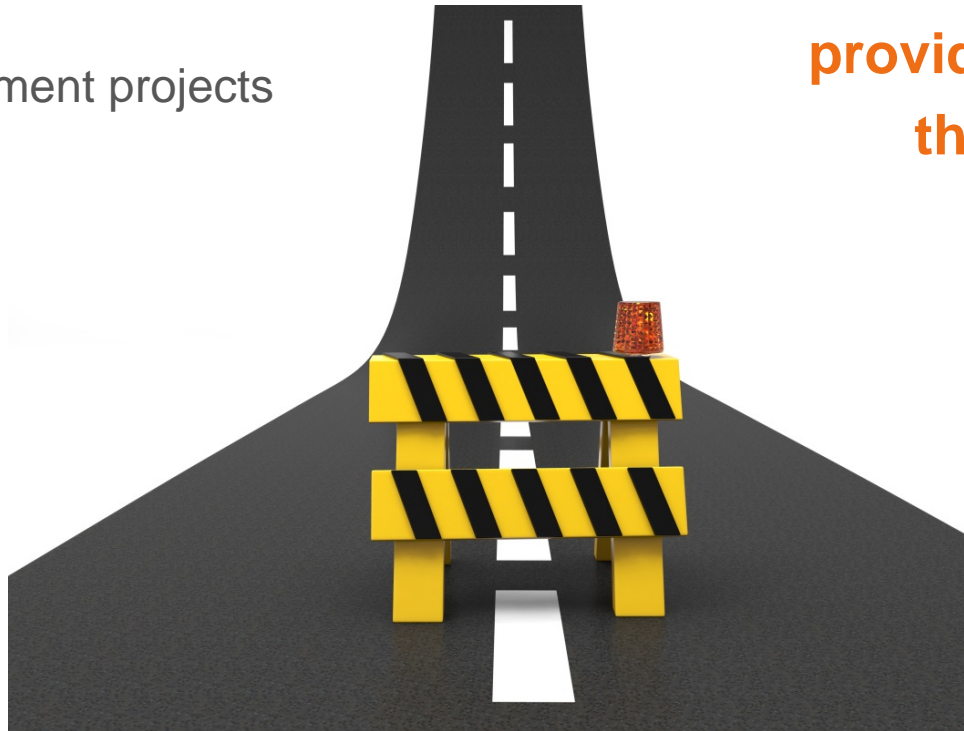
Escrow funding is available to lock in rate



Why Projects Stall

- Lack of Money
- Lack of time or personnel to design and plan the projects because of other, higher priorities
- Lack of internal expertise to implement projects

Whether real or perceived, resolving the first barrier frequently provides the solution to the second two.



Objections to Financing a Project

“Taxes or fees will have to be increased to pay for these improvements”

“It’s not in this year’s budget”



“Municipal lease - purchase agreements are expensive alternate funding solution”

“We have to delay the project while we accumulate a cash reserve”

“Paying less interest (by floating bonds) or no interest (by delaying the project and planning it into future budgets) saves more money, and therefore is in the best interest of our organization”

“Projects must be paid for from the capital budget”

How Familiar is This?



- We want it and we need it, but didn't budget for it.
- We want to implement the project over the next three years.
- We are waiting on a bond election next year.
- We're applying for a grant.
- We're saving up to pay cash.

Our goal is to provide you with the **right tools**
at the **right time** to assist you in overcoming the
#1 objection in public sector procurement:
BUDGET CONSTRAINTS

Financing as a SALES STRATEGY



Anticipates and eliminates the affordability (financial capacity) objection

Allows you to identify the real objection, if one remains

Provides your team with more tools to sell their project

Protects budgets

Compresses the purchase cycle

Again, it's not about financing...

- It's about overcoming

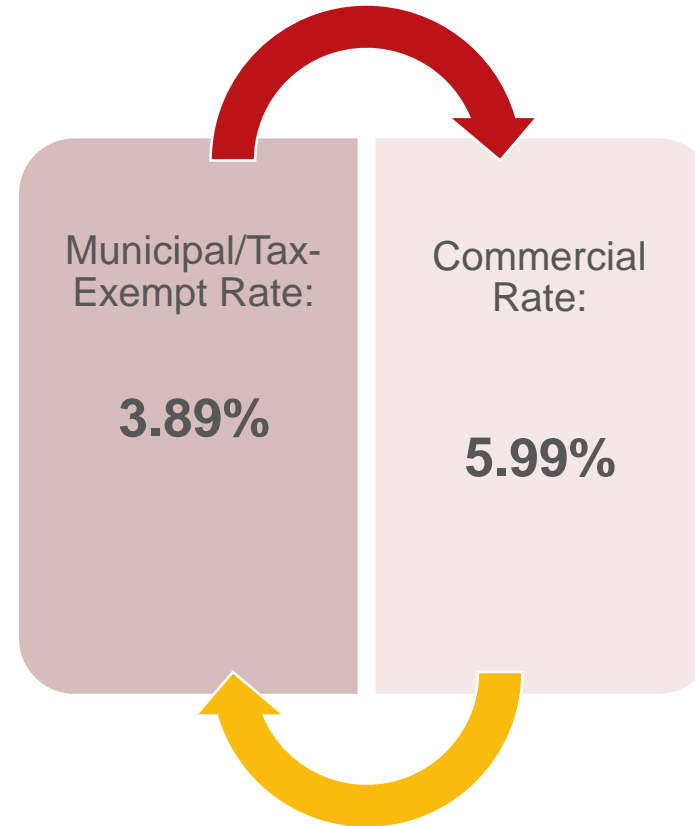
BUDGET CONSTRAINTS



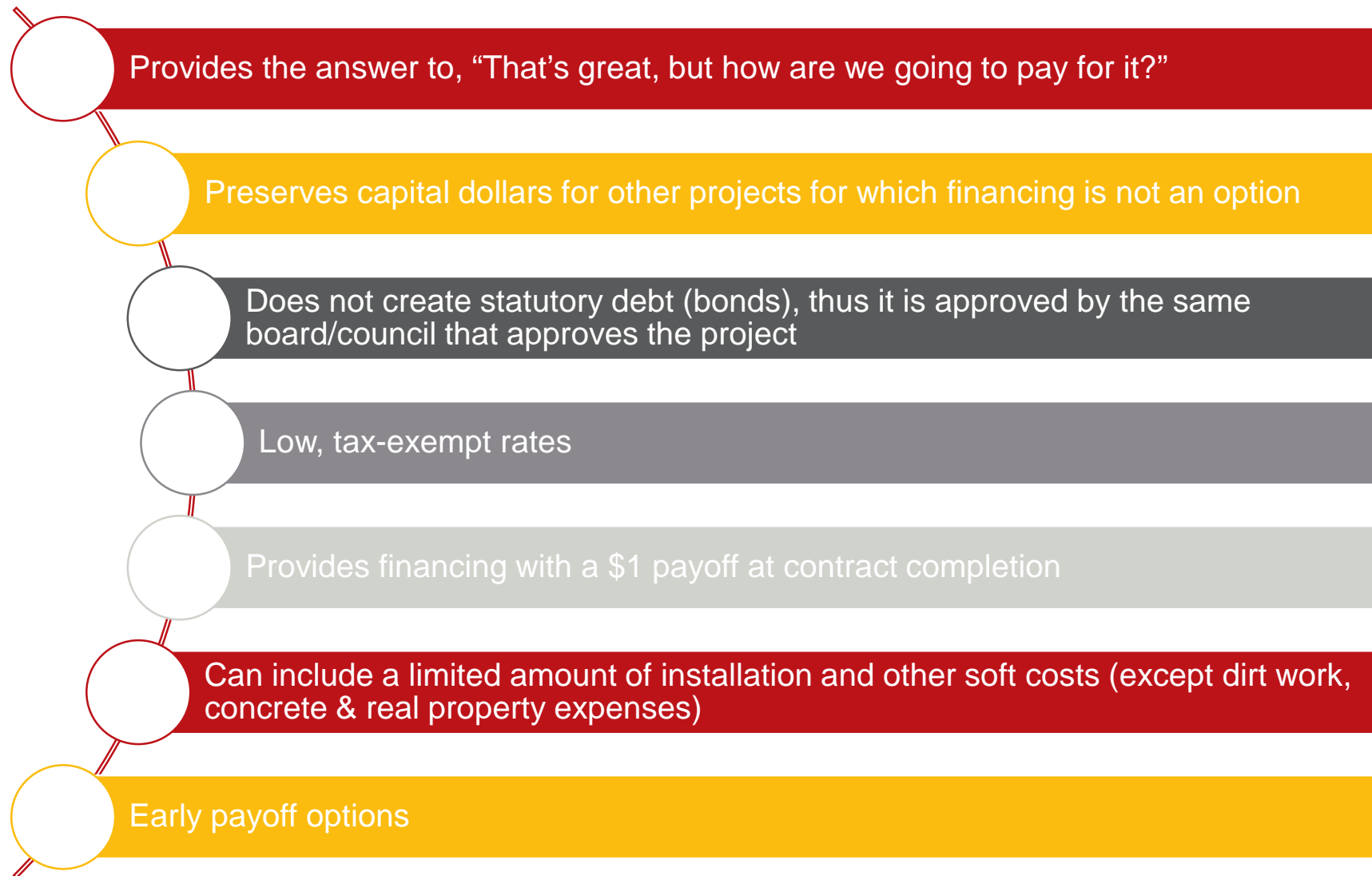
Price Comparison Example

60 month term

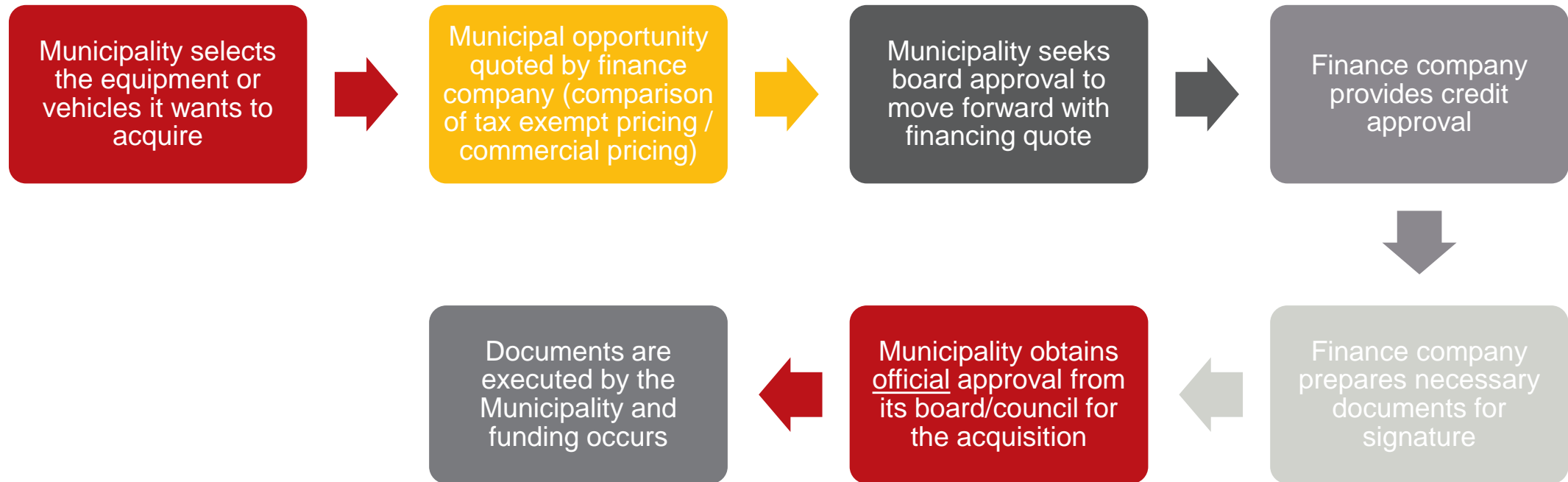
\$250,000 opportunity



How Financing Benefits You



What is the Process?



Municipal Dedicated Team



PHIL VEERMAN

Business Development Manager

P: 866.204.8756 C: 612.840.1632

E: pveerman@tcfbank.com

- Commercial and Municipal leasing professional for over 35 years
- Developed vendor programs within the sports field and grounds, golf, transportation, machine tool, automotive, and construction markets
- Graduate of Bethel University in Minnesota
- Resides in Victoria, MN



Thank you