



# Five Things You Should Know About Tax-Exempt Municipal Lease Purchase Financing

Is there a new backhoe in your organization's future? Or maybe a truck? Perhaps there is a building project or property you've been planning to purchase.

If so, you might think twice about how you intend to pay for it. With interest rates still at or near record lows, it may make good sense for many water utilities and other state and local governments to finance – rather than pay cash for – major purchases. It may make even better sense to consider a tax-exempt municipal lease-purchase as a way to obtain the equipment you need, while protecting your cash flow and balance sheet.

Are you new to municipal leasing? Here are five things you should know:

**1. A tax-exempt municipal lease isn't a "lease" in the traditional sense.** When you lease equipment, you ordinarily do it with the intention of renting or returning the equipment when the lease is up, or purchasing it at fair market value (FMV) to obtain ownership.

With a tax-exempt municipal lease, however, your goal from the onset is to purchase the item and take title to it. Your financing, therefore, is for its full value, plus interest, which you pay in equal installments over the life of the lease. Principal and interest are included in each payment and are shown in the contract. At the end of the term – usually two to seven years, depending on the item's expected life – it belongs to you assuming all payments have been made.

**2. A tax-exempt municipal lease is often the least expensive financing**

**alternative.** The interest you pay on this type of financing is exempt from federal tax. That can save you substantial overall interest cost over the life of the lease, as the lender's interest exemption savings is passed onto the borrowers in the form of a lower interest rate.

Obtained through a bank that holds the lease, this type of financing also typically doesn't include the administrative and legal costs or voter approval requirements associated with generating a bond issue or pursuing other types of tax-exempt financing structures where fees and issuance costs can total as much as five percent of the principal amount of the amount borrowed. Overall borrowing cost is therefore usually lower with a tax-exempt municipal lease than with other financing alternatives. Traditional bond financing does play an important role in lending to state and local governments and is normally reserved for larger transactions and terms equal to or greater than twelve years.

**3. A tax-exempt municipal lease can be used to finance virtually any size purchase.** Vehicles, bulldozers and other equipment needed for day-to-day operations can be purchased and financed with a municipal lease. Any equipment deemed "essential" to a governing body's operations can be financed with this type of financing. So can larger purchases, including real estate and water towers. These leases can also be written in amounts of up to \$35 million, presuming you have the credit to back them. It is good business to contact a Kansas bank lender for all



equipment financing needs. Financing through a vendor or captive finance source may or may not be the best alternative available. Commerce Bank is here to assist you in the process.

**4. A tax-exempt municipal lease is one of the simplest financing approaches available.** A municipal lease avoids many of the requirements of a traditional bond financing. There is no "Official Statement", a simplified credit and documentation process, and no retail sale of the bonds means a quicker, more cost effective and simpler solution to your financing needs. A municipal lease may not provide the solution to "all" government borrowing requirements, however a quick call to your Commerce Bank tax-exempt specialist can assist you in making the right decision.

**5. A tax-exempt municipal lease gives you greater control over cash flow.** By taking a "pay as you use" approach, you can spread out the cost of your purchase over the useful life of the equipment. Financing terms designed to match the economic life of your equipment allow for scheduled

upgrades and replacement of your equipment when it is time. A municipal lease also does not impact your agency's credit availability, giving you more flexibility in deciding how to allocate your resources.

Did you know that financing your equipment or project with a bank in your state or community keeps our Kansas tax dollars in Kansas, working for our state and your community? Commerce Bank has fifty-three locations throughout Kansas, working for you and your community.

Interested in learning more? Additional information on tax-exempt municipal leases and other financing alternatives is available by contacting Frank Hill, Commerce Bank's Tax-Exempt Specialist at [Frank.Hill@CommerceBank.com](mailto:Frank.Hill@CommerceBank.com), or 785-587-1541.

*Frank Hill has twenty-five years experience in both tax free leasing and bond type financing. He is a past board member and chairman of the Association for Governmental Leasing and Finance*





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