

Municipal Buildings

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The Lease Purchase Agreement is the Newest Financial Tool

BRE BUTLER REAL ESTATE
A BlueScope Steel Company


Municipal Financial Group
THE FLEXIBLE OPTION

Through the Butler Real Estate and Municipal Financial Group alliance, we specialize in funding the real property and equipment purchases of city, county, and state governments, and all their political subdivisions. We help you respond to the needs of your community while staying within their budget.

Today, municipalities enjoy various options for financing real property projects. You can select from among general obligation bonds, revenue bonds, or – the newest financial tool – lease purchase agreements.

The Association for Government Leasing and Finance (AGLF),

established in 1981, greatly enhanced the recognition and use of the lease purchase industry. Based in Washington, D.C., this organization monitors state legislation and lobbies Congress on behalf of its members. Municipal Financial Group is a member in good standing of AGLE.



Sample of Projects

Airport Facilities
Hangars
City Halls
Fire Stations
Fire Trucks
Jails
Mental Health Facilities
Municipal Hospitals
Water Systems
Waste Incinerators
Water Towers
Sewers
Swimming Pools
Recreational Facilities
Maintenance Buildings
Generators
School Buildings
Senior Citizens Housing
University Projects
Community Centers
Renovations
Refinancings
Equipment (all types)
501(C)(3) Projects
Nursing Homes

In the past few years, municipal, state, and federal budgets have suffered cutbacks in funding. In increasing numbers, services previously performed by the public sector, have been joined with the private sector, for more cost-effective operation. This type of financing - privatization - typically includes

water/sewage projects, prisons, waste management, and mass transit systems. As communities seek out new approaches to providing necessary buildings and equipment, they also look for innovative ways to finance those purchases. Traditional avenues include the general obligation bond, based on the pledge of

revenues from a specific source.

The newest tool is the lease purchase agreement, a contract CONTINGENT UPON THE ANNUAL APPROPRIATION OF FUNDS during the life of the agreement. Such agreements are considered to be an annual expense item, not debt, for the municipality.

Attractive to Both Parties

Flexibility is the answer to many communities' financing needs, and lease purchase agreements can offer those opportunities. Under certain guidelines, municipalities can use lease purchase agreements in conjunction with private industry and still qualify for tax-exempt interest rates. As communities more and more frequently join with the private sector on project ownership,

taxable rate transactions also grow in popularity.

The investment community does not consider lease purchase agreements as secure as general obligation bonds because they are subject to annual appropriations. Thus, interest rates for lease purchase agreements typically will run from 0% to % higher than interest for an equivalent general obligation bond.

These higher rates may be offset, however, by significantly lowered legal costs, and ease in completing the transaction.

Lease purchase agreements are not the answer to every financing situation. They do however offer you certain kinds of flexibility unavailable through other sources.

Who Provides the Money?

Both individuals and corporations can buy and hold lease purchase agreements. Offered much like bond issues, Certificates of Participation (COPs) may be purchased in \$5,000 increments by the public.

They can also be offered as private placements to one investor, typically a bank or large corporation. Both COPs and private placements can be insured and rated, thereby providing investors with a higher degree of

comfort. Most often, the interest income is exempt from Federal Income Tax.

Any Questions?

Q: Are lease purchase agreements legal in my state?

A: Lease purchase agreements are legal in most states. A few states do require the inclusion of specific conditions in the contract.

Q: How much is the minimum transaction and what is the payback structure?

A: Transactions generally range from \$100,000 to \$10,000,000 for real property, and from \$25,000 to \$5,000,000 for equipment. Based on type of project, terms range from three to twenty years.

Q: Can we use lease purchase for capital improvements? Renovations? Infrastructure needs? Refinancing? Construction period financing? "Turn-key" projects?

A: Yes to every item.

Q: Who holds the title during the term of the lease?

A: This is negotiable.

Q: What do you mean by annual appropriation?

A: In most instances, municipalities cannot commit themselves to payments beyond the current fiscal year. Our contracts contain a non-appropriation

clause stating that the agreement is subject to appropriation each year.

Q: How long does it take to get the money?

A: Usually from 60 to 90 days for real property and under 30 days for equipment purchases. Funding requires three steps: (1) financial approval; (2) drawing up the contract; and (3) closing.

Q: How can I learn more?

A: We will be happy to discuss how you can qualify to receive funding for your projects.

Contact Butler Real Estate at
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