

Municipal Lease vs. Bond Issues

Municipal Lease

Bond Issue

	Municipal Lease	Bond Issue
Voter Approval	<p>Voter approval not needed.</p> <ul style="list-style-type: none"> • Funding comes from annual operating budget • Non-appropriation clause provides cancellation provision if future funds are not available 	<p>Need voter approval.</p> <ul style="list-style-type: none"> • Risk loss of referendum • Cost of election and advertising • Cost of delay, inflation
Issuance Cost	<p>A lease APR compares favorably with Bond issues when issuance costs and staff time are taken into consideration.</p>	<p>Issuance cost will be high and measurably affects true borrowing rates. Issuance cost is 1-2% and includes fees for items such as:</p> <ul style="list-style-type: none"> • Bond counsel • Underwriter • Rating Agency • Printing costs • Reserve fund of Bond financing
Term	<p>Proves effective for terms 20 years and under less than \$30 million.</p>	<p>Appropriate for large issues and for long terms to lock in low rates.</p>
Fees	<p>No additional fees or reporting requirements. No Reserve Fund.</p>	<p>Costs continue after bonds are sold:</p> <ul style="list-style-type: none"> • Trustee fees • Compliance reports • Footnote disclosure and added audit fees • Periodic rating agency reviews and fees

Covenants	Leases renew on a year-to-year basis and are dependent on annual operation budget for funding thus are not considered debt. Keeps future bond alternatives open.	Restricts future bond issues because of covenant constraints.
Buy-Out	Early buyout options are available on any payment date.	Generally, will have call provisions with prepayment penalties after a period of time.
Dollar Amount	Finance only what is needed. 100% financing.	Bond issues may not exactly match capital needs. Excess bond proceeds may end up in general fund and earn less than the borrowing rate or general funds will be used to make up balance of cash needed.
Termination	Provides ability to terminate without penalty if funding is not available.	Commits the government entity to fixed payments regardless of local economy cycles.
Useful Life	Matches expected useful life of leased property to the term of lease.	Bond term may exceed life of equipment.
Payments	Flexible payments structured to start when project accepted/installed. Designed to meet your needs (monthly, quarterly, semi-annually or annually).	Typically, semi-annual only payments start prior to project acceptance.
Rates	Fixed rates quoted prior to funding, typically held for 30 days. Rate lock option available.	Exact rates unknown prior to funding.