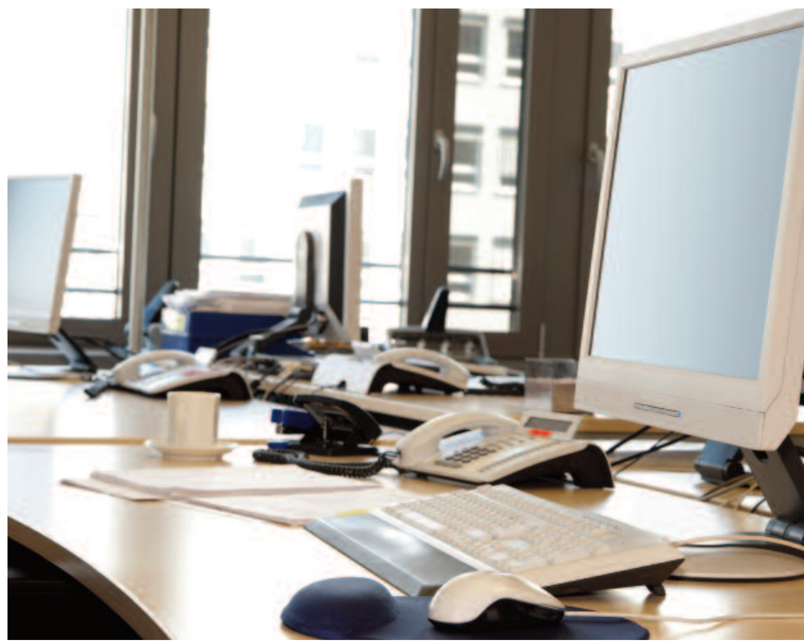
Municipal Leasing and the Risk of Nonappropriation



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The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

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Preface

The Tax-Exempt Municipal Lease has become a popular financing vehicle used by many municipal governments. In turn, government finance is a significant part of the leasing and finance business for a *select subset* of the equipment finance industry membership as evidenced by the following data from the **2013 ELFA Survey of Equipment Finance Activity**:

- The total amount of Tax-Exempt Leases financed by surveyed members in 2012 equaled **$6.0 billion**. *(Chart 7b. – New Business Volume by Financial Product Category – page 28)*
- 33 ELFA members offered financing to State and Local Government: This comprised 38% of the 86 ELFA members responding to the question pertaining to New Business Volume by End User. *(Chart 5c. - New Business Volume by End User Industry – page 23)*

It should be noted that the ELFA Survey also refers to Federal Government Leasing. The risks associated with Federal Government Leasing are substantially different from those associated with Municipal Leasing and are not a subject of this study.

The Annual Appropriation Clause in Municipal Leases

A primary distinguishing characteristic of a Municipal Lease is the annual appropriation clause. The annual appropriation clause supports the theory that the municipal government does not bind its citizens to an obligation beyond that single year's approved budget and can terminate the contract without penalty if they are unable to appropriate funds for future year's payments. The risk of nonappropriation under this contractual arrangement has caused many financial institutions to preclude or severely limit their investment in these transactions. Active equipment finance operations have underlying ongoing questions as they look at the municipal lease product, including:

- What are the real and perceived risks associated with government nonappropriations actions?
- What is the likelihood of increased future nonappropriation of Municipal Lease transactions?
- What are the risk mitigants for consideration by those active or wishing to be active in financing for governmental entities?

Assessing Nonappropriation Risk

How should credit and risk leadership within equipment finance companies view and assess this risk of transaction nonappropriation? A key element to answering this question is determining *how municipal government Finance Officers view their obligation to pay Municipal Lease contracts.* To make this determination financial institution senior managers and credit executives must understand the Municipal Lease Value Proposition for municipal governments. Specifically, these lessors seek answers to the following questions.

- Under what circumstances and for what purposes do governmental entities use annual appropriation Municipal Leases as a financing tool?
- What are the attitudes, beliefs and practices of various governmental entities toward their obligations under an annually appropriating Municipal Lease?
- What is the expectation for usage of Municipal Leasing in the current economic climate?
- How may current and anticipated economic conditions and budget restraints affect governmental entity payment performance?

To address these issues, the Equipment Leasing & Finance Foundation has commissioned The Alta Group to create a statistically grounded understanding of how and why municipal governments use Municipal Lease financing and to quantitatively measure the incidence of non-appropriation or default while assessing the reasons for which they do occur. The study does not include consideration or analysis of the various asset financing contracts used in select jurisdictions which do not contain or require an annual appropriation requirement.

In a recovering economy, the market of approximately 90,000 municipal governmental entities could be well poised to take advantage of additional financing opportunities. The Municipal Lease marketplace has the potential to provide lessors with new and/or increased opportunities. Understanding the real risk incurred is the key to turning opportunity into reality.

John Deane
CEO

The Alta Group™

Executive Summary

This study was commissioned by the Equipment Leasing & Finance Foundation and designed and conducted by The Alta Group to explore the underlying beliefs, attitudes and practices that shape governmental usage of Municipal Leasing and their actions regarding nonappropriation and default. The goal is to provide leasing and finance companies with the data and background necessary to better understand nonappropriation risk and to make informed decisions for Municipal Lease investment. By comparing and contrasting data obtained directly from municipal finance officers with lessor portfolio experience from the Association for Governmental Leasing & Finance Survey of Industry Activity we have identified a Municipal Lease Value Proposition which drives government activity in this business in a consistent and logical manner. The underlying criteria for mitigation of nonappropriation risk grow directly from this value proposition.

Nonappropriation – The Perceived Risk

Municipal governments' use of Tax-Exempt Municipal Leasing (Municipal Leasing) to acquire much needed essential equipment and facilities has been growing for over 30 years. While origination volume in this market has increased substantially over that period, the number of leasing and finance companies offering the product has not kept pace. Recent studies from the Association for Governmental Leasing & Finance (AGLF) have shown significant portfolio growth from fewer companies responding. A primary reason for this reluctance to enter the market is the existence of an annual appropriation clause in Municipal Lease contracts. This clause allows the municipality to terminate a lease, usually on an annual basis, if they are unable to appropriate the funds necessary to continue making payments. The ability to terminate the contract in this manner comes with no penalty to the Municipal Lessee, although there is a requirement to return the asset financed.

Since the inception of Municipal Leasing, this threat of "nonappropriation" has been a difficult risk for leasing and finance companies to understand or accept. Even in the face of reports showing historically low rates of nonappropriation and default, some risk managers remain concerned that some underlying bubble may burst bringing significant losses in its wake.

Nonappropriation – The Real Risk

Lessor surveys demonstrate that originations and portfolio size have been growing while nonappropriation and default have been shrinking. AGLF members reported portfolio growth from $8 billion to over $13 billion from 2008 through 2011. During the same period nonappropriations as a percent of portfolio fell from 0.0116% to 0.0003%. The causes for this performance have been clearly delineated by municipal finance officers and represent a merging of the lease value proposition and the risk management decision criteria they apply when selecting municipal leasing as a funding method.

- More financing is needed to manage cash flow and stretch the capabilities of ever tightening budgets.
- Ease of access along with consistent competitive financing costs often makes Municipal Leasing more attractive than bonds for specific asset financing.
- Financing "essential" assets is the target for municipal leasing, creating a *must have / must keep* dynamic for the assets financed through the product. Municipalities must have the financed assets to perform essential government functions. Consequently, they must avoid nonappropriation and default in order to keep them and preserve their ability to perform those same functions.
- Both elected and appointed public officials have a strong sense of moral obligation to pay all debts in full and on a timely basis.
- In order to meet public demands at reasonable costs, Municipal governments must do everything possible to protect and preserve their credit ratings and borrowing ability.

In addition to the survey data collected, virtually every municipal finance officer interviewed personally repeated these same basic concepts in describing their approach to Municipal Leasing.

The Fundamental Importance of Essential Assets

The use of essential assets as collateral creates a strong deterrent to nonappropriation. The municipality must have the asset in order to perform essential functions. Consequently, they cannot afford to lose it due to repossession. In addition to their "moral" obligation to pay, municipal finance officers know that a nonappropriation will bring negative attention to their fiscal condition and their management abilities. This can result in credit downgrades and potential loss of borrowing capacity. As with the laws of physics, for every action there is an opposite but equal reaction. In the case of nonappropriation, the reactions are as fundamental as the physical laws. The consequences of nonappropriation are logically untenable for municipal governments.

High Value on Avoiding Nonappropriation

Understanding that this strong set of value factors drives municipal governments to avoid nonappropriation and default, leasing and finance companies can develop an approach to the municipal lease market that further strengthens the governments' basic value proposition. That approach would emphasize investment based on fiscal strength, asset essentiality, municipal management quality and, vendor integrity. Focusing on these issues should allow lessors to operate consistently at extremely low default and loss levels in the municipal lease market.

Background

The Tax-exempt Municipal lease is a popular financing vehicle used by many municipal governments for the acquisition of capital equipment and real property in the form of government facilities. Often called a tax-exempt lease purchase (TELP) or tax-exempt municipal lease (TEML), a Municipal Lease is generally defined as an installment loan or conditional sale agreement for which the interest income is exempt from Federal income taxes – and in some cases exempt from State income taxes as well. (Throughout this discussion we will refer to this as a “Municipal Lease” or “Municipal Leasing”). In addition to the tax exempt status of the interest to the lender or investor, the primary distinguishing characteristic of a Municipal Lease is the annual appropriation clause. This contractual aspect of the Municipal Lease allows the municipal government to enter into the financing agreement without the otherwise required customary public notices, voter referendums and other time consuming requirements of a typical municipal bond issuance – which can be cost prohibitive when a municipality has interest in acquiring specific equipment through a stand-alone term financing vehicle. The annual appropriation clause supports the theory that the municipal government does not bind its citizens to an obligation beyond that single year’s approved budget and can terminate the contract without penalty if they are unable to appropriate funds for future year’s payments.

This annual appropriation feature, along with simplified contracting, faster service and lower issuance cost makes Municipal Lease financing an attractive efficient financing alternative for municipal governments. There remains an underlying concern within the equipment leasing and finance industry that the perceived prospect of annual termination remains a valid risk. This has caused many financial institutions to restrict their municipal leasing business to key clients and vendors. Many lessors have elected not to offer any Municipal Lease products. The number of active equipment finance firms with significant investment in Municipal Lease products is rather modest in contrast to those offering equipment financing to commercial businesses.

The customer base for Municipal Leasing is quite large, consisting of almost 90,000 potential lessees. The most recent data from the U.S. Census Bureau (2012) counted 38,917 general purpose local governments, which includes 19,522 municipal governments, 16,364 township governments and 3,031 county governments. There are 50,087 special purpose local governments, which includes 37,203 special districts, and 12,884 independent school districts.

Any sort of “total” data for this market is elusive at best. Recent surveys by the Association for Governmental Leasing & Finance (AGLF) show total financial portfolios in the range of $8 to $12 billion, with annual origination volumes around $5 billion. However, these studies do not include significant portions of the market such as very large certificate of participation issues or smaller financings done quietly by local banks across the country. Due to the “private placement” nature of the business, there is no current source for total market numbers. It is safe to say, however, that the size of this market pales in comparison to the overall municipal bond market which according to the SEC’s July, 2012 Report on the Municipal Securities Market measured $3.7 trillion in outstanding issues, or to the overall equipment leasing and finance market, which, according to the Equipment Leasing & Finance Foundation, originated $725 billion in new business volume in 2012.

Scope of Work and Methodology

Scope

The general scope of work for this study included the following:

- Determine why and under what circumstances municipalities think it is appropriate to use Municipal Leases to finance asset acquisition.
- Identify the types of assets considered appropriate for and currently being financed with Municipal Lease financing.
- Quantify the incidence of non-appropriation and default.
- Ascertain what government officials believe are acceptable reasons to non-appropriate.
- Characterize repercussions to non-appropriation and determine what municipal officials understand about them.
- Understand how government finance officers view Municipal Leasing obligations compared to other borrowing methods.
- Investigate the historical use of Municipal Leasing and expectations for future capital acquisition and future use of municipal leasing.
- Analyze historical non-appropriation experience and patterns.
- Identify any correlations and/or anomalies between lessors' experience and municipal understanding.

Methodology

The methodology for this study consisted of the following:

- ***Design and preparation of a survey questionnaire:*** A survey questionnaire was designed for the purpose of obtaining online responses as well as conducting one on one interviews with Municipal Financial Officers by telephone. The survey questions are attached as an **Appendix**.
- ***Conduct Survey:*** Survey responses were solicited from municipal finance officers and directors of all types. Responses were solicited in the following manner.
  o Notices in the weekly electronic member newsletter of the Government Finance Officers Association (GFOA)
  o Notice in the monthly electronic and print versions of the National Association of Counties (NACo) *County News*.
  o A direct e-mail campaign to municipal government financial executives
- ***Conduct interviews:*** A pool of interview candidates was created through inquiry of active financing entities and industry participants as well as requests for interviews in the online survey. A total of 17 telephone interviews were conducted with Municipal Finance Officers. The interviews ranged from 40 minutes to one

hour and included discussion about the market in general and how their organization acts and reacts within the confines of market activity. Their more subjective personal experiences with, attitudes toward, and practices regarding the use of Municipal Lease financing given in the context of their industry and product knowledge were also captured in the discussion.

- ***Compilation and analysis of online and interview responses:*** Survey responses were compiled on a spreadsheet in order to determine statistical frequency for each response. Responses to open ended questions were compared to determine any patterns or trends. A Series of graphs and charts were created from the tabulated statistical responses. These are presented throughout the body of the study.

- ***Review and Analysis of AGLF Survey of Industry Activity, 2008 - 2011:*** Key elements of this annual industry survey were analyzed for averages and trends. Those results were, in turn, reviewed and compared to municipal finance officer responses to identify cause and effect correlations driving government behavior with Municipal Leasing.

- ***Preserve Confidentiality:*** The subject of nonappropriation is sensitive to both Lessees and Lessors. Most Lessees do not want to suggest in any way that they might nonappropriate on a lease. Those that have nonappropriated or even contemplated nonappropriation are not eager to share information that might affect their financial reputation or future borrowing capability. Lessors, while somewhat more open, are still sensitive to providing specific information about portfolio defaults and the customers responsible for them. Consequently, in order to obtain complete and concise information The Alta Group has conducted its research for this study with the promise of complete confidentiality to all Lessees and Lessors who have participated. No Lessee or Lessor names or the names of their representatives will be divulged in this study.

- ***Conclusions:*** Conclusions have been drawn from analysis of the data regarding the issues raised in the scope of work described above.

Survey Questionnaire Response

Survey Respondents

The survey included responses from Finance Officers representing 60 governmental entities. The total population was in excess of 97 million. Annual budgets of all respondents exceeded $105 billion. Current outstanding Municipal Lease balances for all respondents were greater than $1.5 billion. A breakdown of these figures is shown in Chart #1 to Chart #5 below.

Chart #1: Census of Survey Participants

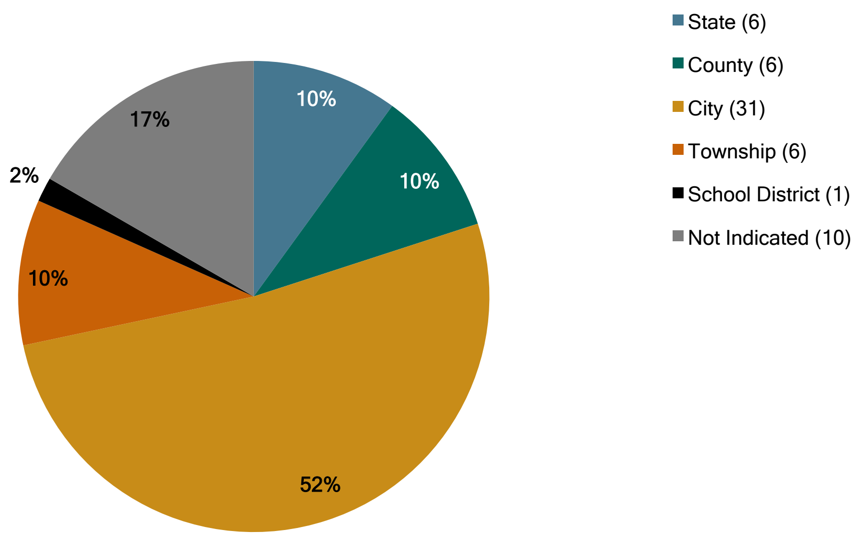


Chart #2: Population Represented in Survey: $97.8 million

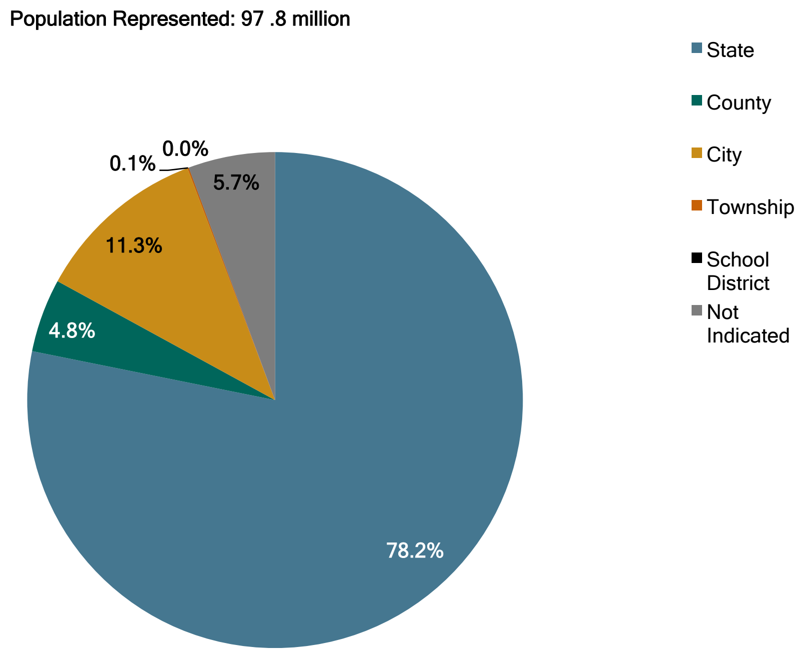


Chart #3: Governmental Budgets Represented in Survey: $105.8 billion

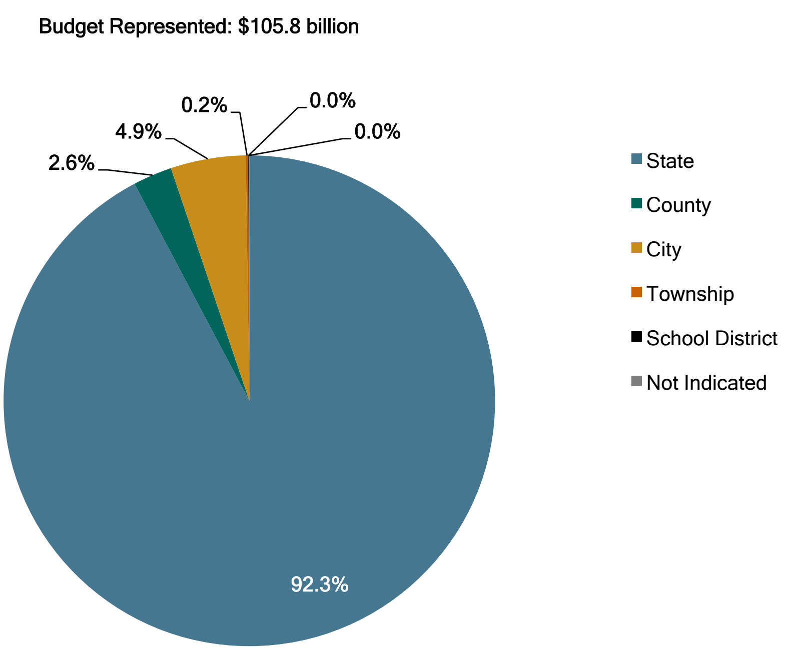


Chart #4: Outstanding Municipal Lease Portfolio Represented in Survey: $1.5 billion

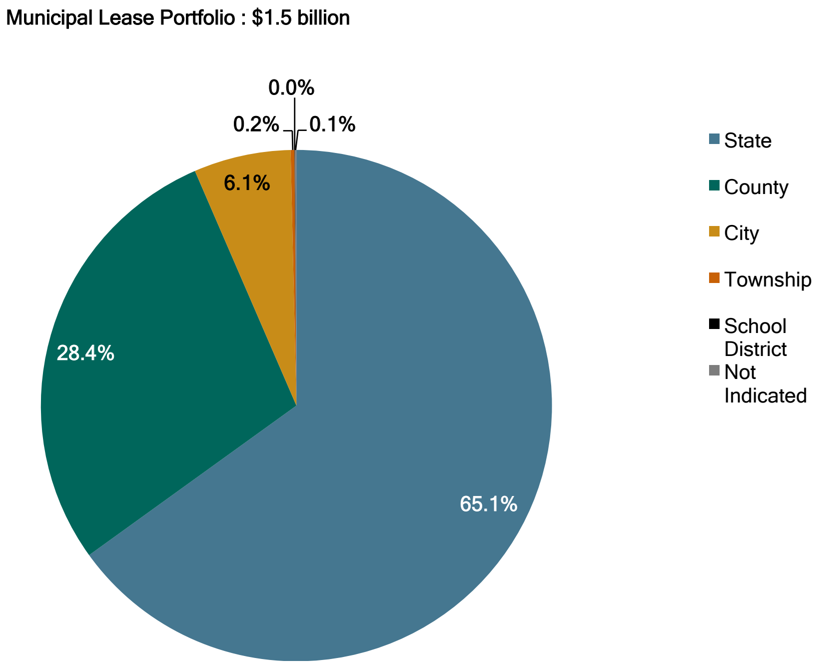
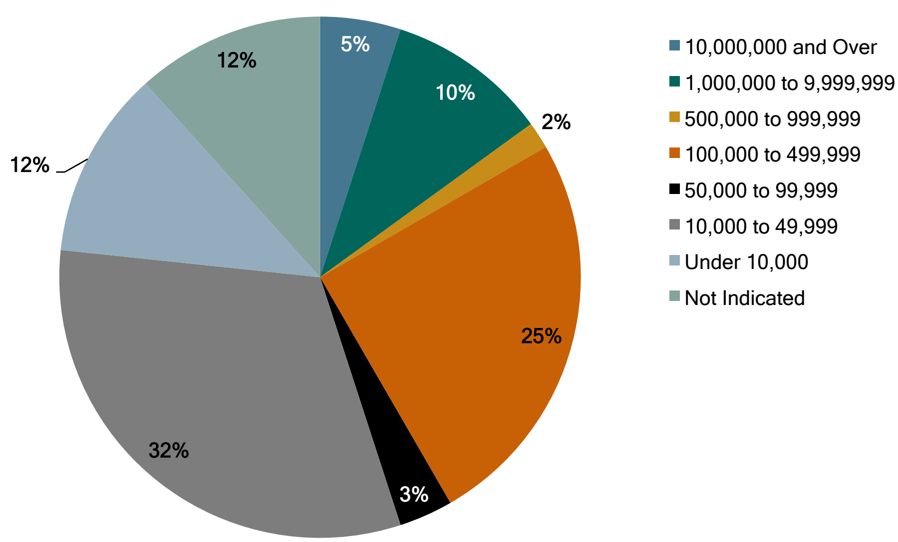


Chart #5: Population Served by Survey Participants



Municipal Lease Usage

It is clear that Municipal Leasing has become an integral and regular part of the respondents' capital asset acquisition and budgeting and planning process. Municipal Leasing was approved as an appropriate method for financing equipment by 90% of the respondents. In addition, 77% indicated its use as an effective budget management tool.

The responses relating to the acquisition of real property were less positive with 59% approving and 41% disapproving. Interview discussions revealed that much of the hesitation with respect to real property was likely attributed to either a statutory restriction or a long-standing practice of using only bond financing for this purpose. There was no indication that respondents considered financing real property with Municipal Leasing as inappropriate for any other reason.

Chart #6: Consider Municipal Leasing to be Appropriate for Equipment Financing

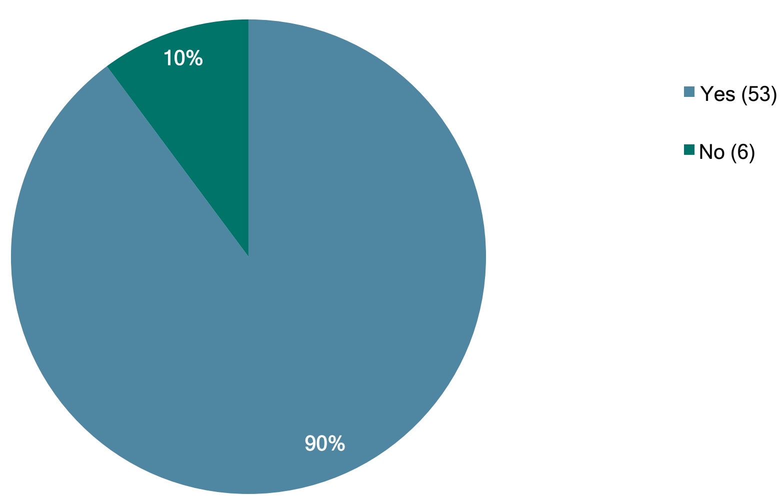


Chart #7: Consider Municipal Leasing to be Appropriate for Real Estate Financing

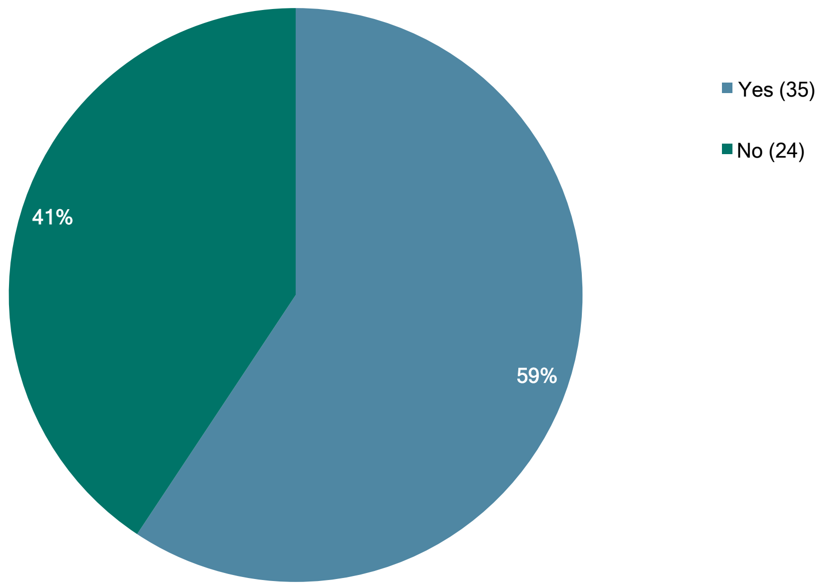
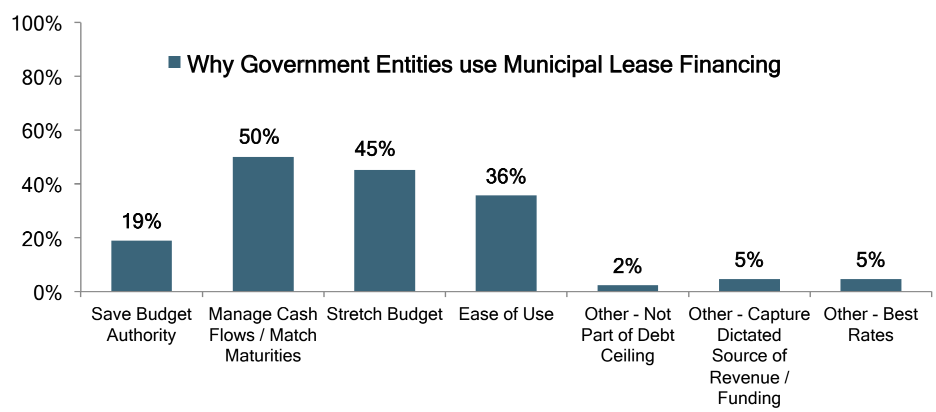


Chart #8: Reasons Governmental Entities Use Municipal Leasing



The primary reasons given by 93 % of respondents for using Municipal Leasing included:

• Stretch the budget
• Manage cash flow and match maturities, and
• Ease of use

All of the reasons offered suggest a common rationale for using this financing tool. Municipal budgets are constantly under pressure to provide essential services to growing populations. Bonding capacities are generally restricted by statute and require voter approval. Municipal Leasing fills an important gap that allows the immediate acquisition of essential assets that would otherwise be unattainable. The resultant effect is to stretch the budget. The private placement nature of the transaction allows for access and a process that eliminates much of the structure required for bond financing. In addition to these primary benefits, a number of interview subjects cited reasonable and consistent financing rates as additional incentive to use the municipal lease product. In general, all of these beliefs constitute the Municipal Lease Value Proposition for those using the product.

It is likely that usage of Municipal Leasing will continue at increased rates in the near future. A full 70% of respondents expect their capital asset expenditures to either increase or continue at the current rate in the next year. A total of 65% said they expect to use Municipal Leasing more or continue to use it at the same rate in the next 5 years.

Chart #9 and Chart #10 depict expectations for future capital expenditures and increases in the use of Municipal Lease financing.

Chart #9: Planned Capital Expenditures Over Next 12 Months

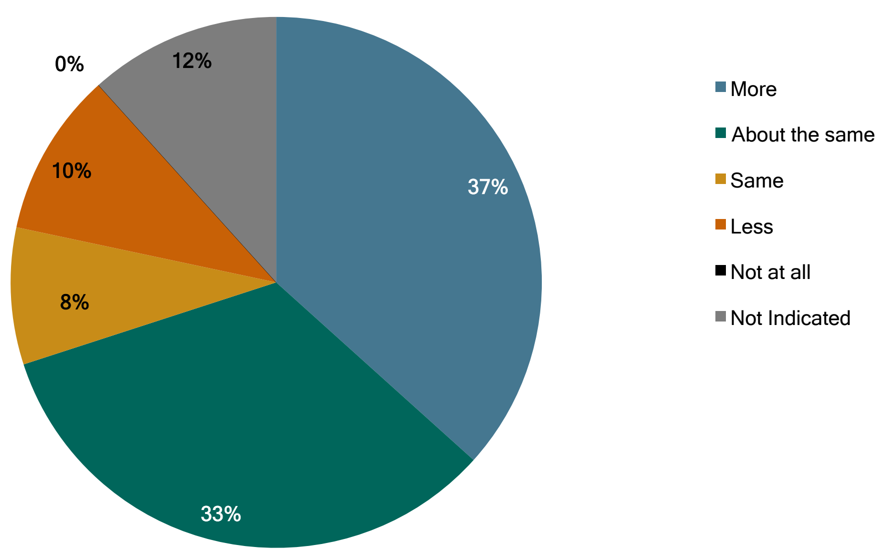
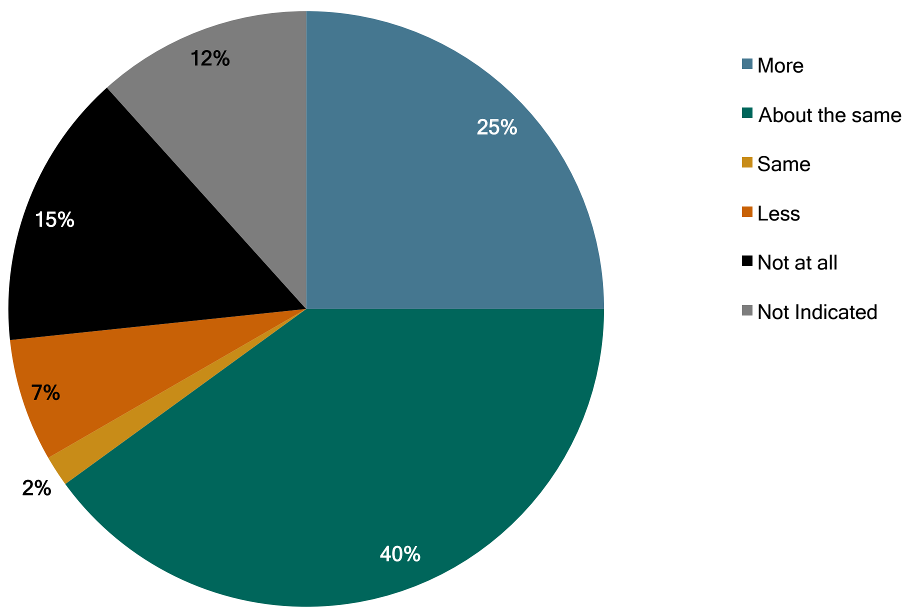


Chart #10: Intended Use of Municipal Leasing Over Next 5 Years



The fact that 70% of respondents are currently using Municipal Lease financing for either equipment or real property or both, and 86% have been using it for more than five years provides significant validation of the viability of this financing vehicle within the municipal budgeting equation.

Chart #11: Years of Municipal Leasing Use

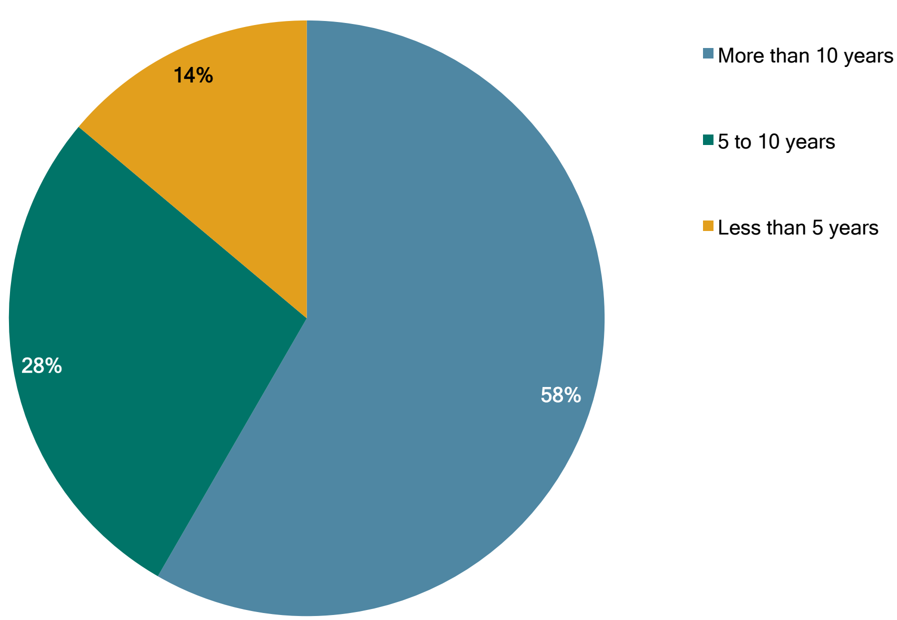
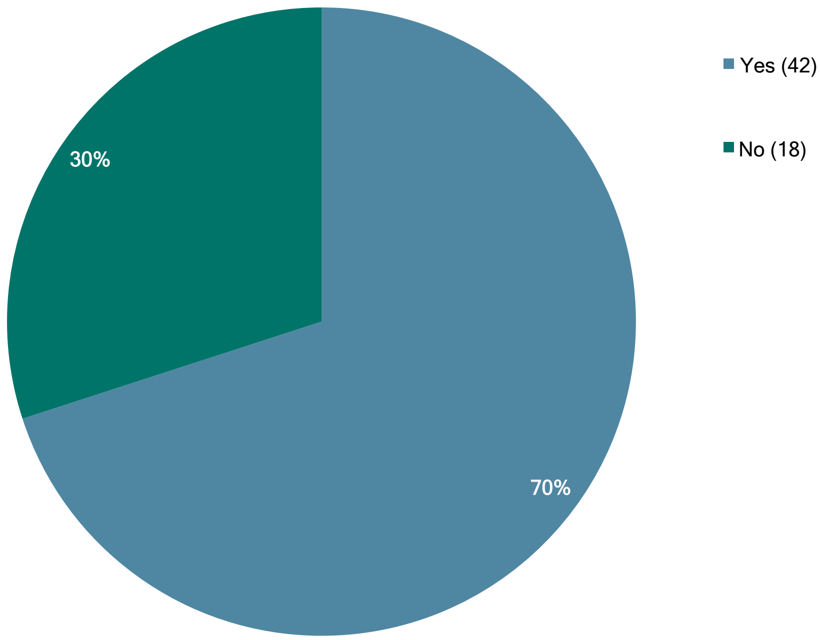


Chart #12: Currently Use Municipal Leasing



Assets Financed

Respondents were asked about the appropriateness of using Municipal Lease financing to acquire assets in 15 different popular equipment categories. Responses indicated that most types of assets are acceptable for municipal lease financing. The assets receiving the highest rates of approval were predominantly basic *essential use* assets. They included heavy equipment, information technology, office equipment and public safety. Telecommunications, transportation and software were not far behind. Considering the limited resale value and licensing restrictions associated with software, its addition to the list of acceptable assets for municipal lease financing is a recent interesting development. There seems to be a growing realization that key software applications are necessary for providing essential government services. That essentiality enhances their acceptance for municipal leasing.

The lower approval rates for aircraft and medical financing can most likely be attributed to the limited number of potential users. Aircraft are generally only used by state governments or very large cities. In the case of medical equipment (including medical aircraft) there were a limited number of medical or hospital related entities responding to this survey. The low approval rate for revenue lease financings reflects the historic practice of directing this business to the bond market in order to access the larger public investment markets.

Collectively, all asset types, excluding revenue and aircraft were endorsed at a rate of 42%. Adjusting for medical equipment also, approval goes to almost 45%. Looking across the asset categories there are few assets that at least a significant number of municipal finance officers would not consider financing with Municipal Leasing if the need arises.

The issue of assets currently being financed presents a different picture. Using the same 15 asset categories referenced, respondents were asked which categories of assets they are currently financing with Municipal

Lease financing. The use of Municipal Leasing is more diffuse across the various asset categories. There is no single asset category that is currently being financed by more than 35% of the respondents. There are 8 categories currently being financed by 15% or more respondents and 7 categories being financed by less than 15%.

Consistent with the responses for the appropriateness of assets financed, the types of equipment being financed by most respondents are highly used essential assets such as heavy equipment, IT, and public safety. The lowest usage was for aircraft, revenue, medical and modular buildings. The factors mentioned above for aircraft, revenue and medical are also at play here. Modular buildings also have narrow government usage patterns, primarily serving the education and jail/prison markets.

The breakdown of equipment appropriate to finance and currently being financed is shown in Chart #13 and Chart #14 which follow below.

Chart #13: Municipal Lease Financing – by Equipment Type

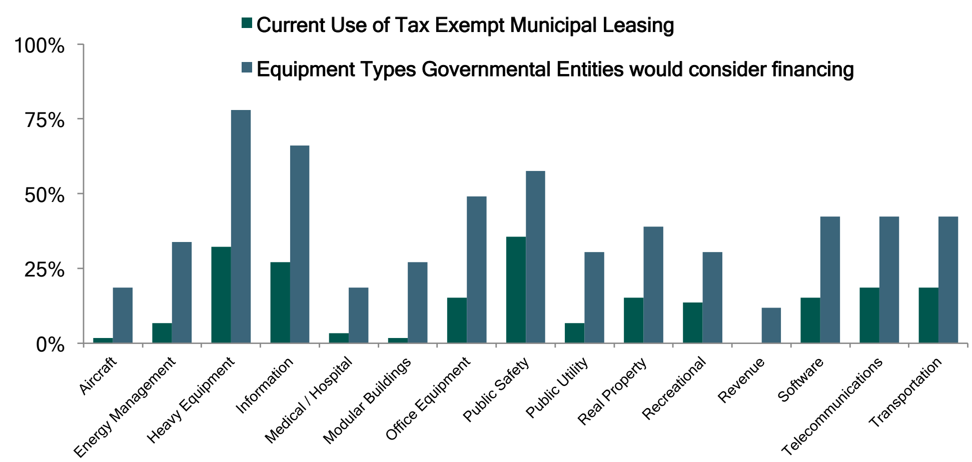


Chart #14: Municipal Lease Financing by Equipment Type

EQUIPMENT TYPE:		Air-craft	Energy Manage-ment	Heavy Equip-ment	Infor-mation Tech-nology	Medical/ Hospital	Modular Buildings	Office Equip -ment	Public Safety	Public Utility	Real Property	Recrea-tional	Revenue	Soft-ware	Telecom-muncations	Transpor -tation
Equipment Types Governmental Entities would consider Financing	#	11	20	46	39	11	16	29	34	18	23	18	7	25	25	25
	%	18%	33%	77%	65%	18%	27%	48%	57%	30%	38%	30%	12%	42%	42%	42%
Current Use of Tax Exempt Municipal Leasing	#	1	4	19	16	2	1	9	21	4	9	8	0	9	11	11
	%	2%	7%	32%	27%	3%	2%	15%	35%	7%	15%	13%	0%	15%	18%	18%

Non-Appropriation and Default

When analyzing performance percentages and trends in the Municipal Lease market, the gross characteristics of the market should be taken into account in order to comprehend the effect of incremental indications of activity. For example, a recent AGLF industry survey reported the overall incidence of non-appropriation as approximately 0.0003%, essentially, a statistically insignificant number. Consequently, a 20% increase, which might otherwise cause a significant change in risk parameters, in this case produces a 0.00036% incidence of non-appropriation which is still a statistically insignificant number.

The respondent's attitudes and practices toward non-appropriation and/or default on Municipal Leases were strikingly clear. Only 2 of the respondents (3%) have nonappropriated on a municipal lease. A total of 85% have never nonappropriated and none of those responding have defaulted. (12% did not respond to this question.) Four respondents (7%) have considered nonappropriation while 82% have never considered it. Two Finance Directors indicated in interviews that they had considered nonappropriation due to contract deficiencies in order to force certain remedies from the lessor. In both cases, the issues were solved through negotiation with the lessor.

Chart #15: Survey Participants who have ever Nonappropriated on a Municipal Lease

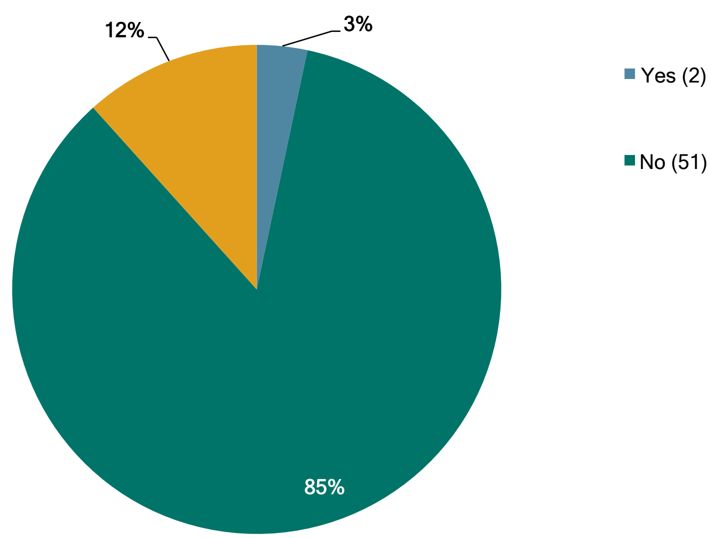


Chart #16: Survey Participants who have ever *considered* Nonappropriation on a Municipal Lease

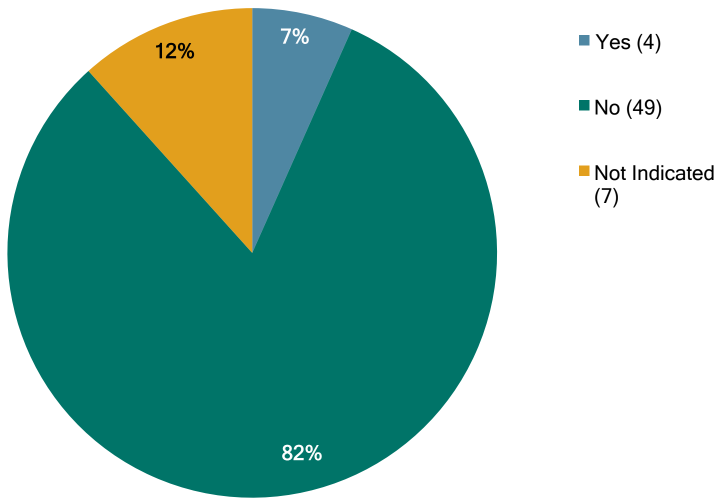
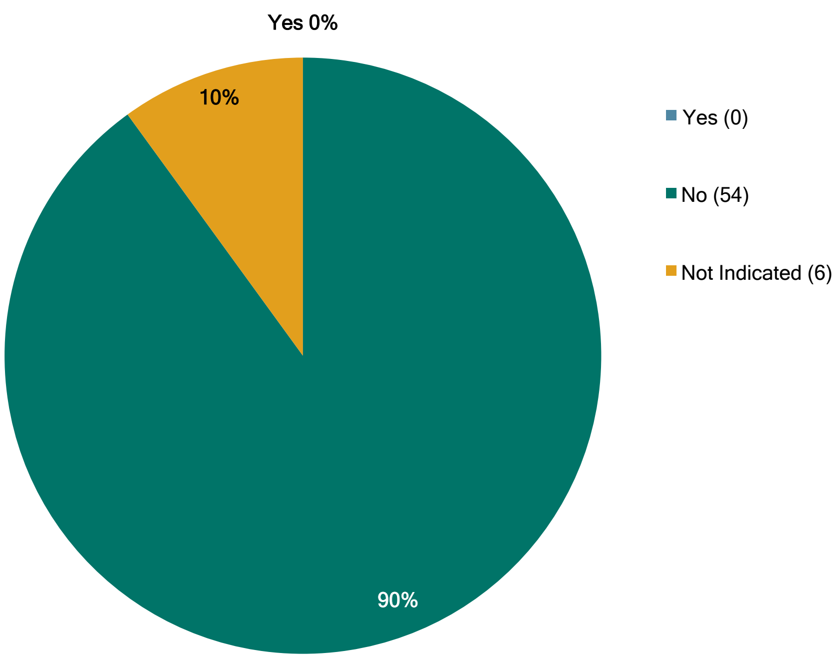
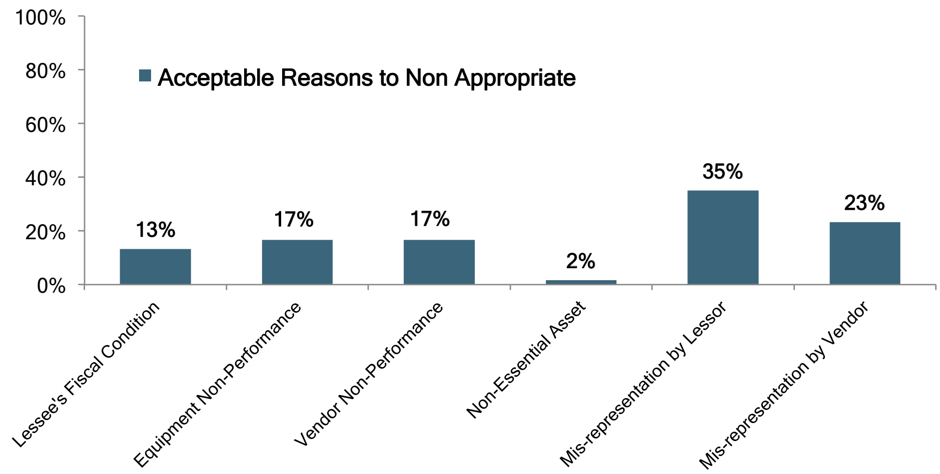


Chart #17: Survey Participants who have ever DEFAULTED on a Municipal Lease



When asked to identify acceptable reasons for nonappropriation, only misrepresentation by the lessor (35%) or by the vendor (23%) were cited by more than 20% of respondents. Only 13% thought the lessee's fiscal condition was an acceptable reason for nonappropriation. This is interesting considering that the lack of money to make payments is the fundamental underlying reason for not forcing the obligation to continue in future years, thereby creating an invalid debt. The fact that only 2% indicated non-essential asset as an acceptable reason for nonappropriation supports the importance of using Municipal Leasing for acquisition of essential assets and not for financing capricious purchases.

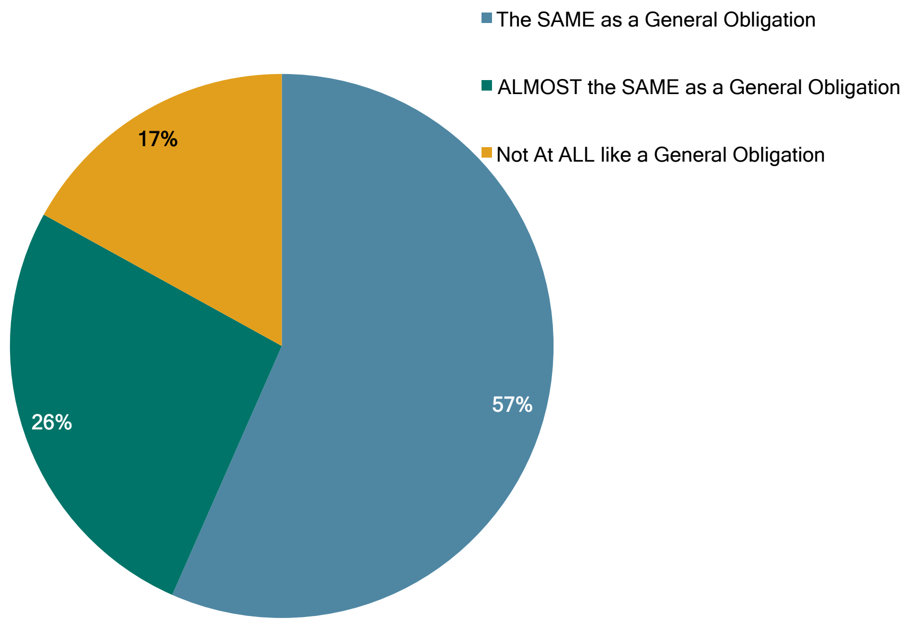
Chart #18: Survey Participants Suggested Acceptable Reasons for Nonappropriation



One area of interest and concern in the Municipal Leasing industry has been the attitude and treatment of leases originated by the vendors themselves. In the past, some rating agencies have indicated their preference to attribute a higher degree of risk to vendor leases in the municipal sector. In this study, 17% of respondents thought equipment non-performance or vendor non-performance are acceptable reasons for non-appropriation. Interview discussions suggested that these opinions were based on the assumption that the vendor was also the lessor, thereby creating direct linkage between the asset sale and the financing. Even so, the 17% number does not indicate a significantly higher propensity to non-appropriate in this instance as opposed to any other.

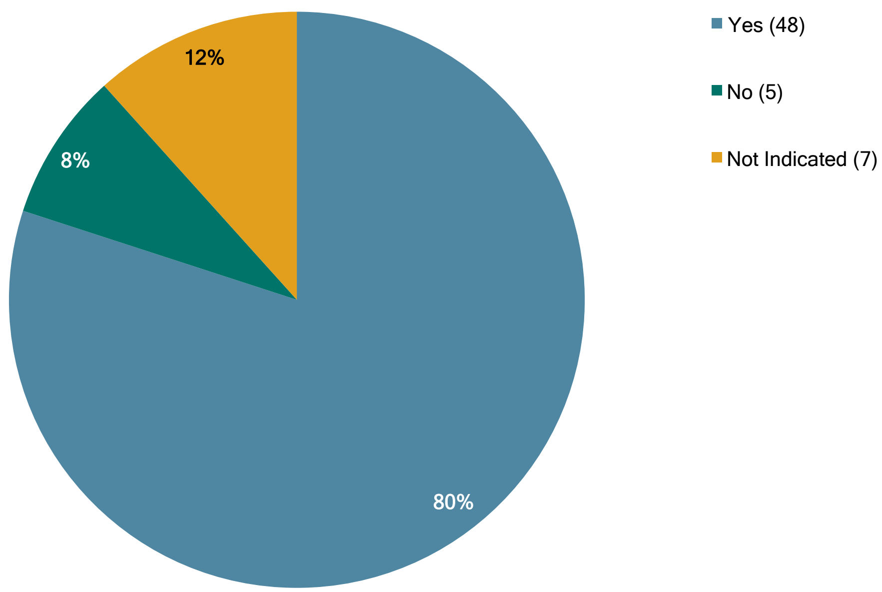
Perhaps one of the most telling results of the survey is expressed in the respondents' views of how they compare Municipal Leasing with General Obligation Bond financing. General Obligation ("GO") Bonds are backed by the full faith and credit of the governmental unit. It is the ultimate financing tool supported by the legal right to levy taxes in order to make payments. GO Bonds are paid above all else. Notwithstanding the legal differences between Municipal Leases and General Obligation Bonds, respondents were asked to compare the two obligations from a moral and ethical standpoint. A substantial majority (83%) considered their obligation to make Municipal Lease payments to be the same or almost the same as their obligation to make GO Bond payments.

Chart #19: View of Municipal Lease Obligations in comparison with General Obligations



This strong sense of "moral" obligation to make lease payments is, no doubt, significantly bolstered by the fact that 80% of respondents believe that a nonappropriation would have a negative effect on their credit rating or future ability to obtain financing. Chart #20 below demonstrates the direct relationship between these attitudes regarding payment of Municipal Lease obligations and the lack of any non-appropriation or default.

Chart #20: Contend that Nonappropriation would Adversely Affect Credit Rating



It should be noted that the respondents were not asked if their governmental entity was rated or not rated. However, given the diverse nature of the respondents and that 44% had populations less than 50,000, it is likely there was representation from both rated and non-rated entities.

Interviews

Direct interviews were conducted with finance officers from 17 governmental entities. All respondents were openly forthcoming with data and comments on the business. There was no hesitation to respond on any subject. There was a substantial amount of discussion clarifying certain questions as they related to specific types of governmental entities. It should be noted that each respondent's answers were given while taking into account the missions and responsibilities of their particular governmental entity. Consequently, if their municipality was not responsible for the ownership or operation of a public utility, for instance, they would not deem it appropriate to finance public utility equipment. Responses also took legal controls and limitations into account. For example, if a state or local law prohibited the use of Municipal Lease financing for the acquisition of real property, the response would indicate that as an inappropriate use of this financing method. In a few cases, we noted that a long-standing practice or policy favored the use of bond financing for certain assets, thereby precluding the use of Municipal Lease financing in those instances. Many of the respondents were hopeful that the study might encourage the development of additional financing participants and sources for the Municipal Leasing business.

In general, the responses from all interviewees were consistent with respect to the key and salient points addressed by the survey.

- Their use of Municipal Leasing was primarily driven by the need to stretch budget dollars, free up funds or otherwise match up budget authority with equipment and facility needs.
- Most agreed that there is really no good or acceptable reason for nonappropriation - save the possible exception of total financial disaster. Many explained they preferred dealing with contract, vendor and equipment issues through the normal legal process.
- There was almost unanimous agreement that the obligation to make lease payments was essentially the same as a general obligation bond. The general theme was expressed by one of the finance officers as simply "…we borrowed the money, we should have to pay it back."
- Many pointed to the ease of use and accessibility as additional motivation to use Municipal Lease financing. The informality of the process and the ability to have ongoing dialogue with the providers were also cited as positive aspects of using Municipal Lease financing.
- More than half of those interviewed also indicated that their financing rates for Municipal Leases were attractive and competitive with bond rates for comparable circumstances.
- Well over half of those interviewed expressed a strong desire to have additional sources available to provide Municipal Lease financing.

Some of their individual comments are included below.

A small town in Rocky Mountain ski country reported using Municipal Leasing to finance town hall improvements and for development of a city owned recreational park. The Finance Director said this freed up funds for other important projects. The use of municipal leasing for recreational projects begs the essential use question and places added importance on the credit analysis. Nonetheless, AGLF studies indicate that an identifiable amount of recreational financing is done every year.

In addition to more traditional uses, a large Western State indicated a growing use of Municipal Leasing to finance information technology services. They expressed a desire for more financial institutions to get up to speed on financing services. This same lessee indicated they considered nonappropriation due to improper contracting on a large contract. In the end they decided to handle it through legal channels and negotiated a satisfactory settlement.

The state health system in another Western state indicated substantial use of leasing because it is "easy to call for quotes and the rates are great."

A Midwestern city of 50,000 people uses Municipal Leasing to create some budget flexibility in the face of a highly rigid, state imposed debt policy. They have used leasing for a variety of equipment types including ball park lighting.

A large Eastern state financing authority uses Municipal Leasing to help their municipal borrowers save budget authority and "fill the gaps". They do not see any legitimate reason for nonappropriation short of financial disaster. They would like to see more credentialing in order to better qualify lease financing providers. They also want providers to get better at submitting financing proposals and to provide more information about their financing programs via the Internet.

A large Midwestern city says simply they use it to "get today what you can't afford until tomorrow". They use Municipal Leasing primarily for short lived assets.

A large county on the Eastern Seaboard aligns their use of Municipal Leasing with the life of the assets financed or with their ability to produce revenue. They like it because it is more accessible than bond financing and helps stretch their budget.

Other interviews included small cities in the Midwest and Mountain West and a large Eastern state government. Their comments included similar remarks regarding the "streamlined" process, competitive and consistent rates, and cash flow and budget management benefits.

The similarity and consistency of comments from the subjects interviewed were consistent with the responses received in the online survey.

The Lessors' Perspective

The first surveys to document the incidence of nonappropriation and default of Municipal Leases were conducted in the late 1980's by the Municipal Leasing Industry Committee of a predecessor to the ELFA. The task of gathering Municipal Leasing industry data eventually fell to the AGLF when they began their Survey of Nonappropriation and Default in the early 2000's. Their initial surveys were focused only on new business volume, portfolio size and the incidence of nonappropriation and default. In 2008 those surveys were expanded to include a breakdown of assets financed and lessee types.

In order to compare and contrast lessor experiences with those of the lessee, with the cooperation of the AGLF, we have summarized some of the key results of the AGLF Survey of Industry Activity for the years 2008 through 2011.

Assets Financed

As Chart #21 below shows, the primary equipment types being financed are:

- Energy Management
- Information Technology (IT)
- Real Property
- Transportation
- Medical/Hospital

That these asset types top the list is not surprising. Energy management assets/projects have been heavily promoted by equipment manufacturers, equipment sellers and their energy service companies creating a multi-faceted marketing effort. As a collateral type, energy management crosses all types of lessees resulting in the highest overall investment by lessors.

The fact that IT equipment is the second largest category also stems from very active vendor marketing in this segment as well as the almost overwhelming information management requirements of state and local governments.

While the transaction volume is not as high as other categories, the general size and higher cost of government real estate projects creates a higher dollar volume of financing.

Transportation and medical/hospital operations are among the most critical government services and equipment intensive in nature.

The AGLF usage numbers are not entirely inconsistent with those reported by municipal governments. When reviewing the percentage of usage by those governments reporting, the highest five categories of usage were:

- Public Safety
- Heavy Equipment
- Information Technology
- Transportation
- Telecommunications

In both surveys the assets favored are fundamental essential use assets. A loss of these types of assets through nonappropriation would likely present the governmental lessee with significant problems providing the related essential services.

Chart #21 shows the full list of asset categories listed in the AGLF Survey and their percent of outstanding portfolio for the four year period from 2008 through 2011.

Chart #21: Assets Financed through Municipal Leasing

	2008	2009	2010	2011
Total Portfolio ($)	$8,049,581,443	$12,284,299,973	$12,252,004,875	$13,806,019,978
Asset Type:	Percent of Portfolio			
Aircraft	1.8%	1.5%	2.6%	1.4%
Energy Management	13.5%	20.0%	20.0%	13.7%
Heavy Equipment	5.5%	4.7%	3.2%	4.5%
IT	12.7%	8.1%	11.2%	9.3%
Medical/Hospital	8.0%	9.1%	10.5%	8.3%
Modular Buildings	0.4%	0.1%	0.6%	0.2%
Office Equipment	1.3%	3.0%	1.2%	1.2%
Public Safety	4.9%	6.2%	3.1%	3.8%
Public Utility	3.8%	7.4%	11.4%	10.7%
Real Property	12.6%	11.4%	11.8%	8.9%
Recreational	6.7%	0.3%	0.2%	1.3%
Revenue	6.4%	7.1%	5.9%	2.0%
Software	0.8%	0.7%	1.9%	3.9%
Telecommunications	4.7%	3.4%	3.0%	2.5%
Transportation	11.8%	10.5%	12.0%	12.4%
Other	4.6%	6.1%	19.3%	15.5%

Source: *Association of Government Leasing & Finance*

Lessee Types

The AGLF Survey lists 18 categories of lessees as follows.

- Airport
- City
- County
- Fire Protection District
- Healthcare 501c3
- Healthcare Government
- Higher Education
- Housing Authority
- Indian Tribe
- Not for Profit Organization
- Parking Facility
- PK – 12 Education 501c3
- Port Authority
- Public Utility
- Sanitation/Landfill

- State
- Water Sewer
- Other

The top four categories in outstanding portfolio balances over the period 2008 through 2011 are:
- Education (Combined)
- State
- Healthcare (Combined)
- City

During that period, these categories consistently accounted for approximately 75% of the total portfolio amounts reported. Considering the predominance of these four categories we have not broken down numbers for the other lessee types.

Nonappropriation and Default

The early ELFA predecessor surveys generally reported nonappropriation as approximately 0.5% (one half of one percent) of outstanding portfolios. Actual defaults were generally equal to or less than nonappropriation. Given the ability to terminate a lease without penalty through the use of nonappropriation, actual defaults can often be less than nonappropriations. Thus, eliminating at least some of the penalties and stigma associated with default.

The more recent AGLF Surveys have demonstrated that industry growth over the past 30 years has produced a more sophisticated and more diligent approach to the business, resulting in a dramatically reduced instance of nonappropriation and default. Over the four year period from 2008 through 2011, nonappropriation - as a percentage of aggregate municipal lease outstandings - averaged only slightly higher than two hundredths of 1 percent (0.0151%). During the same period, defaults also averaged slightly less than two hundredths of one percent (0.0188%). During this period defaults actually averaged slightly higher than nonappropriations due to the economic downturn in 2009. In 2009, during the worst of the recent recession, there was also a noticeable increase in nonappropriation. Even so, nonappropriations in that year only reached 0.0455% of outstanding portfolio – which remains statistically insignificant.

It is important to note that the AGLF Surveys do not show any pattern or correlation between lessee types and instances of nonappropriation or default.

As in any asset finance business, there is often the prospect for some recovery after default. Consequently, actually losses incurred can be less than the amount defaulted or nonappropriated. The municipal leasing business is no exception. With nonappropriations and defaults so low, actual loss numbers begin to approach zero. The AGLF Surveys show2009 combined losses from nonappropriation and default of approximately 0.03%. For 2008, 2010 and 2011, combined losses averaged a little less than two one thousandths of one percent (0.0017%).

Chart #22 describes nonappropriation and default numbers for each of the years from 2008 through 2011.

Chart #22: Nonappropriation and Default

	2008	2009	2010	2011
Total Portfolio ($)	$8,049,581,443	$12,284,299,973	$12,252,004,875	$13,806,019,978
# of Nonappropriations	5	10	14	3
Amount ($)	$930,000	$5,592,385	$385,632	$36,619
Percent of Portfolio	0.0116%	0.0455%	0.0031%	0.0003%
No. of Defaults	22	7	16	5
Amount ($)	$2,107,387	$2,447,621	$3,226,397	$420,118
Percent of Portfolio	0.0262%	0.0199%	0.0263%	0.0030%

Source: *Association of Government Leasing & Finance*

The reasons reported to lessors for nonappropriation are quite telling. There were twenty nine (29) nonappropriated transactions reported over the four year period reviewed. Nineteen (19), or approximately two thirds, were reported as being a result of the lessee's fiscal condition. This is certainly consistent with the fact that most municipal finance officers reported fiscal condition as the primary, if not the only legitimate cause for nonappropriation. This clearly signals the paramount nature of financial due diligence in the effort to avoid nonappropriation.

The other two specific reasons given for nonappropriation were for non-essential assets and misrepresentation by the lessor. Even though the overall incidence of nonappropriation may be statistically insignificant these cases also point out basic tenets for avoiding nonappropriation. The lessor misrepresentation is a significant red flag for third party buyers. Due diligence with respect to when, how and who you are buying from along with the need for direct contact with potential lessees are important deterrents for future problems. The non-essential asset problem is somewhat more interesting. There is no single definition for what makes an asset essential to a municipal government. Because a governing body says that an asset is essential does not make it so. Often, some in depth investigation is worthwhile to fully understand how essentiality can be established. Simply put, a fire engine sounds like a surefire essential asset. However, the 15th fire engine in a town that only needs 14 is, very likely, not essential.

It is clear that the AGLF Surveys do not reflect the performance of the entire Municipal Leasing marketplace. Further, due to the lack of any additional data sources for Municipal Leasing, it is not possible to determine just how much of the market these numbers do represent. However, the consistency of the numbers and the overwhelming nature of the results strongly suggest that these surveys represent a reasonably accurate picture of the overall Municipal Leasing market. When the Municipal Lease Value Proposition identified in the survey of municipal finance officers is applied to a larger volume of business over an extended period of time, the validity of the values expressed is confirmed by dramatically low incidences of both nonappropriation and default.

Nonappropriation Stories

As the data has revealed, there aren't very many actual nonappropriation stories to tell. The ability to obtain these stories is further diminished by the fact that the municipalities are generally not willing to advertise or otherwise discuss their inability or unwillingness to pay their debts for whatever reason. Conversely, however, lessors are somewhat more forthcoming in exposing lessee transgressions for the purpose of warning other lessors of potentially dangerous ground. Perhaps even more interesting are the stories of attempted nonappropriations that never happened. They can often reveal potential remedies to forestall future nonappropriation attempts. The following stories were taken from conversations with various lessors who are regularly active in the Municipal Leasing marketplace. These stories have taken place over the past 30 years.

Bad Service: A community owned Midwestern junior college used Municipal Lease financing to acquire a new university wide telephone system. During the first year of use they experienced what they thought were an inordinate amount of operational and technical problems with the system. These problems were bad enough that the system was rendered unusable from time to time. The college claimed that as the problems became more frequent they had a harder and harder time getting the vendor to respond promptly for service. Neither the vendor nor the lessee were prompt in advising the lessor of this rift. Ultimately, the college called the lessor and advised them they were exercising their right to nonappropriate on the lease, specifically because they were unable to get adequate service from the vendor. Further, the college advised the lessor that they had another company install a new system. They stated that the old system was essentially on the door step and could be picked up at the Lessor's convenience. The Lessor advised the college that the issue of service was between the college and the vendor, separate and apart from the finance contract. Consequently, it was not a legitimate reason for nonappropriating. The college was also advised that they had not complied with the stated return provisions of the lease. The equipment was not returned to the location and in the condition required by the lease. Undaunted, the college indicated that they didn't care and were not intimidated. The Lessor (through counsel) responded that the college had breached several technical aspects of the contract, including among others, terminating payments on a date and time that did not qualify as a nonappropriation and the return provisions previously mentioned. They were further advised that their default would be reported to the appropriate credit reporting agencies and become a matter of public record. Shortly thereafter the college agreed to settle the matter by paying the Lessor an amount roughly equivalent to the outstanding balance on the lease.

Embezzlement: A small town in the far north leased a bulldozer for the purpose of clearing roads in the winter. The town was responsible for clearing the highway from their town half way to the next town. The winter months were brutal and the town roads were consistently snow covered. The equipment was clearly essential to maintain contact with the outside world. Two years into the lease, the town Mayor absconded with most of the town's excess funds and fled the country. The town was essentially destitute. The town administration tried everything they could to continue making the payments, including petitioning the State for emergency funds. Ultimately, the State refused to provide funds for the lease payments and the town had to nonappropriate the lease. They did spend what little money they had left making the remaining payments for the fiscal year so they could legally nonappropriate rather than actually defaulting. The bulldozer under this municipal lease was a marketable and value retaining piece of collateral. The Lessor indicated they would not have lost any money on the municipal lease transaction - including the nonappropriation action returning the equipment - were it not for the fact that they had to leave the equipment in place for six months until the winter was over and then ship it a long distance for resale.

Specialized Equipment: A state university which is part of a large university system used municipal leasing to acquire a highly specialized computer system to conduct oceanographic research. The equipment and research were to be paid from a U.S. Navy grant. The lease specifically tied the payments to the annual funding of the Navy grant. After a year or two, for some unknown reason the Navy decided to move the grant to a different institution. Since the university had no other source for repayment, they were faced with the prospect of non-appropriation. To their credit the university tried, through their larger, statewide system, to find another place for the computer. Unfortunately, the equipment was too specialized to be of use anywhere else in the system. Ultimately, the university nonappropriated on the lease and returned the equipment. This was a specialized piece of equipment and a specialized contracting situation. The de-facto nonappropriation was a termination based on rights under the contract related to the grant, spotlighting the risks associated with both special use assets and contracts with special terms.

Financing the Taj Mahal: A large, wealthy Eastern U.S. county used municipal leasing, in the form of Certificates of Participation (COP's), to finance a new, state–of-the-art office park, to house county government functions. Upon completion, certain taxpayers' rights advocates began to take exception to the concept that the county government officials and workers should have such an expensive and elaborate workplace. As their protests began to get more publicity, these taxpayer rights advocates mounted a campaign to get the county to abandon the facilities, move to cheaper quarters and refuse to pay the "debt". Since the facilities were financed with a municipal lease underlying the COP's, they could, in fact, terminate the lease by nonappropriation. Under some pressure the county began to give more serious consideration to this possibility. This, in turn, mobilized the municipal finance industry. Being a large county with lots of outstanding municipal debt this situation caught the eye of, credit rating agencies, credit enhancement companies and municipal finance companies across the country. Eventually, a large group, representing all of these various interests trekked to the county to present them with a scenario of what would happen if they went through with the nonappropriation. At that meeting, the county learned that the credit enhancement on some of their bonds might be withdrawn, all of their outstanding debt ratings would likely be downgraded and their ability to borrow efficiently in the future could be severely impeded. If these actions took place, the county's long term cost on its current debt could possibly go up more than they would save by moving to cheaper quarters. Upon realizing the potentially disastrous consequences, the county decided to keep the new facilities and continue making the lease payments while working through their other issues in a different manner.

Better System: A northwestern city attempted to nonappropriate on a lease for a 911 Dispatch System. After installation, a different company offered them a system at a lower price. Shortly thereafter, the city notified the lessor of their intent to nonappropriate. The lessor sent them a folder full of clippings describing how the national rating agencies had downgraded numerous cities for nonappropriating on various leases. The lessor's cover letter suggested that the increased cost of future borrowings could be significant. After lengthy consideration the city opted to not terminate the lease.

Invalid Lease: In this case a Western school district leased an energy management system for their existing school building. Sometime later, they decided to demolish the building and build a new school. In doing so they also demolished the energy management system. So, they nonappropriated on the lease, claiming that the lease contract was invalid. The lessor sent them the usual information indicating that his could cause significant harm to their credit rating and future borrowing costs. In this case, however, the town was so small, they had no credit rating and they weren't too concerned about future borrowing costs. So, the implied threat of future problems did not move them to reconsider. Nonetheless, after commencing legal action the lessor was able to get a settlement for approximately 50 cents on the dollar. Although, not certain, it is likely the schools destruction of the equipment had something to do with this. The validity of the contract was never determined.

Fitness Pyramid: At one time or another, almost every niche of the leasing and finance industry falls prey to some sort of scam or pyramid type scheme. Municipal leasing is no exception. Several years ago a fitness related company burst on to the municipal finance scene with a large financing appetite. The company was offering to sell fitness equipment along with some sophisticated fitness training software to school systems across the country. The package was ideal for high school gyms and sports training. In addition the company claimed they had a robust program to solicit and obtain ongoing government grants for fitness related programs. The program required that the school enter into a lease financing for the equipment and software. In return the company would pass on a pro-rata share of the grant money it was receiving in order to defray a significant portion of the schools lease payments. The program was highly publicized. They had several prominent endorsements, including one from a U.S. Senator. Numerous municipal lessors across the country began financing these projects. Eventually, some of the schools began to complain because they were not receiving any grant money. As the discontent grew, more than one state's attorney general started investigating. Ultimately, it was discovered that the company's founder and some of the senior management were not successful in obtaining the grant money they had advertised. They were in fact using lease proceeds from new projects to feed back to prior customers. In the process they were receiving substantial sums of money for their own account. The authorities shut down the operation and the lessors were left to deal with the unhappy schools. In most, if not all, cases the schools had received their equipment and software programming. To their credit, based on limited feedback, it appears that a majority of lessees decided to keep making lease payments. Their reasoning being that they had received the equipment and were using it. A few schools used the fact that they weren't receiving the grants as an opportunity to negotiate an outright purchase of the assets for less than full price. Some lessors indicated getting about half of their money back. Ultimately, some nonappropriated and did not pay. It is interesting to note that even in this situation where the lessors were somewhat helpless due to the fraud that had occurred, many of the lessees acted honorably and made their payments.

Essential Use: During a budget re-evaluation a major Southern State chose to nonappropriate a transaction for printers, located in each county in the State. Since these printers were used by the counties, the State's budgeting people assumed they should be paid for by the counties and not the State. Upon notification of the nonappropriation the lessor contacted the State to inform them of three things.

- They needed to return the equipment
- The Lessor would be notifying the various rating agencies of their action to nonappropriate.
- They should not expect similar funding to be available to them in the future.

The responsible State officials were not aware of the consequences, most significantly the requirement to return the equipment. After review, they realized that the printers were used to print out car tag receipts, a significant source of revenue for the State. They immediately began searching for funds to rectify the situation. During this process, they did pay some of the ongoing interest expense. After almost a year, the lessor received full payment for the remaining balance of the lease.

The more nonappropriation stories you hear, the more the similarities become evident. The themes are recurrent.

- Municipal governments want to pay their legitimate obligations regardless of contractual rights to do otherwise.

- The threat of damaging their credit reputation is real because the consequences are real.
- The essentiality and sensibility of the asset are paramount.
- The character and integrity of every party involved are critical.

Certainly there are situations where nonappropriations occur and the lessor gets no relief. It seems clear both statistically and anecdotally, however, that those situations are rare and much can be done, both before and after a lease is in place, to avoid this ultimate disaster.

Conclusion

To a great degree this study was undertaken to provide context and give logical basis for either accepting or perhaps not accepting the ongoing validity of the extremely low incidence of nonappropriation and default previously reported by lessors in the Municipal leasing industry. Historical defaults in the municipal bond business have long been below 1%. This, however, has not fully explained lease nonappropriations and defaults being reported in the tenths or even hundreds of percentage points. It's little wonder these low numbers have been hard to believe until you understand the municipal mindset with respect to its debt and the targeted usage for municipal lease financing. The survey of Municipal Finance Officers has provided a qualitative review of why and how municipal leasing is used, and a defining look at the logic which practically eliminates nonappropriation as a serious risk to municipal lessors. These factors represent the municipal governments' value proposition for Municipal Leasing. A recap of the last four years' results from the AGLF Survey of Industry Activity has shown the quantitative effect of applying the Municipal Lease Value Proposition to a large volume of ongoing Municipal Lease business. By combining and contrasting information received directly from municipal governments with historical reporting from municipal lessors in the AGLF Industry Survey, we have identified the underlying factors responsible for the remarkable historical credit performance of Municipal Leases.

- **Municipal governments use municipal leasing to acquire essential assets. This essentiality virtually precludes them from nonappropriating because they cannot provide essential government services if they have to give up the equipment.**
- **The asset type is not as critical as its use. Consequently, a wide variety of assets are acceptable for this type of financing.**
- **As a matter of public trust, municipal governments - through both elected and appointed officials - demonstrate a strong moral sense of obligation to pay their debts.**
- **Municipal Finance Officers and Directors believe nonappropriation will have a negative effect on their credit rating or their ability to obtain financing in the future.**
- **Municipal Officials believe the benefits of Municipal Leasing – especially ease of access – are important to protect and preserve**

While simplistic in nature, these tenets provide a solid foundation for the strength of the business. Municipalities are telling us they don't borrow to acquire things they don't need; they pay their debts because they are supposed to; and they don't want to jeopardize or diminish their reputation or credit standing in any way. Market data indicates that the use of Municipal Leasing was not curtailed during the recent recession. The AGLF Survey reveals portfolio growth at a compounded annual rate of 17.5% from 2008 through 2011. Municipal Finance Officers stated intentions to both continue and increase usage of Municipal Leasing in the immediate future further emphasizes its importance in managing constrained budgets under current and anticipated economic conditions.

There will always be nonappropriations and defaults in the Municipal Leasing market. History guarantees us that lessors and lessees will both cross the bounds of reason and common sense from time to time. Mistakes will be made by both and sometimes economic conditions beyond anyone's control may cause disaster for a particular municipality. To date, however, in spite of all of these factors and even through the very difficult recent recession, the incidence of nonappropriation and default on Municipal Leases has been anecdotal. It has not represented a statistically relevant risk. Going forward, understanding the important aspects of the Municipal Lease Value Proposition should help leasing and finance companies looking for additional investment opportunities to more effectively evaluate their appetite for this business. By applying these established value criteria to their due diligence process, lessors can mitigate and minimize nonappropriation risk:

- **Establish intermediate to long term fiscal strength**
- **Evaluate the quality of municipal management**
- **Properly determine asset essentiality**
- **Verify the strength and integrity of all transaction participants including manufacturers, vendors and other third parties**

It is also important to note that these beliefs are widely held across all types and sizes of municipalities. *There is little or no correlation between nonappropriation and any factor other than these, with fiscal strength being the primary criteria.*

By focusing on these issues diligently municipal lessors should be able to operate successfully and profitably in a market which offers broad asset, borrower and geographic diversity with unquestionably the lowest default and loss ratio in the U.S finance industry.

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CROSS REFERENCE TO CHARTS

Appendix

Survey Questions
(1 of 6)

Tax Exempt Municipal Lease Survey

The Alta Group

Tax Exempt Municipal Lease Survey

1. Do you consider Tax-Exempt Municipal Lease Financing to be a viable and appropriate method for financing the acquisition of Capital Equipment (Personal Property)?

- Yes
- No

2. Do you consider Tax-Exempt Municipal Lease Financing to be a viable and appropriate method for financing the acquisition of Real Estate (Real Property)?

- Yes
- No

3. What Types of Assets do you - or would you - finance with Tax-Exempt Leasing (Check all that apply)?

- Aircraft
- Energy Management
- Heavy Equipment
- Information Technology
- Medical / Hospital
- Modular Buildings
- Office Equipment
- Public Safety
- Public Utility
- Real Property
- Recreational
- Revenue
- Software
- Telecommunications
- Transportation
- None - Would not finance any Assets
- Other

Other (please describe)

4. Do you currently use Tax-Exempt Municipal Leasing to finance the acquisition of Capital Equipment or Real Estate?

- Yes
- No

Survey Questions
(2 of 6)

5. If so, please provide the current (approximate) outstanding balance of your lease obligations:

- $50,000,000 and over
- $10,000,000 to $49,999,999
- $5,000,000 to $9,999,999
- $1,000,000 to $4,999,999
- $500,000 to $999,999
- Under $500,000

6. Which of these Assets are you CURRENTLY financing with Tax-Exempt Leasing (Check all that apply)?

- Aircraft
- Energy Management
- Heavy Equipment
- Information Technology
- Medical / Hospital
- Modular Buildings
- Office Equipment
- Public Safety
- Public Utility
- Real Property
- Recreational
- Revenue
- Software
- Telecommunications
- Transportation
- Other

Other (please describe)

7. Why do you use municipal lease financing (Check all that apply)?

- Save budget authority
- Manage cash flow, match maturities
- Stretch Budget
- Ease of use
- Other

Other (please specify)

8. How long have you used municipal lease financing?

- Less than 5 years
- 5 to 10 years
- More than 10 years

9. If you do NOT use Tax-Exempt Municipal Lease financing, what is the REASON that your governmental entity does not use this financing method?

Survey Questions
(3 of 6)

10. Have you ever non-appropriated on a municipal lease?

- Yes
- No

11. If you HAVE non-appropriated on a municipal lease, what was the primary reason?

- Government's Fiscal Condition
- Equipment Non-Performance
- Vendor Non-Performance
- Non-Essential Asset
- Mis-representation by Lessor
- Mis-representation by Vendor
- Other

Other (please describe)

12. Have you ever CONSIDERED non-appropriation on a municipal lease?

- Yes
- No

13. If you did consider non-appropriation on a municipal lease, what was the primary reason considered?

- Government's Fiscal Condition
- Equipment Non-Performance
- Vendor Non-Performance
- Non-Essential Asset
- Mis-representation by Lessor
- Mis-representation by Vendor
- Other

Other (please specify)

14. Have you ever DEFAULTED on a municipal lease?

- Yes
- No

15. If you have defaulted on a municipal lease, what was the primary reason?

- Government's Fiscal Condition
- Equipment Non-Performance
- Vendor Non-Performance
- Non-Essential Asset
- Mis-representation by Lessor
- Mis-representation by Vendor
- Other

Other (please specify)

Survey Questions
(4 of 6)

16. Which of these, if any, do you consider to be acceptable reasons for defaulting and/or non-appropriating on a municipal lease? (Check all that apply - do not check any if "None")

- ☐ Government's Fiscal Condition
- ☐ Equipment Non-Performance
- ☐ Vendor Non-Performance
- ☐ Non-Essential Asset
- ☐ Mis-representation by Lessor
- ☐ Mis-representation by Vendor
- ☐ Other

Other (please describe)

17. Do you believe Non-Appropriation or Default on a municipal lease would have a negative effect on your credit rating or your borrowing ability in the future?

- ○ Yes
- ○ No

18. Within the next 1 to 5 years, do you expect to use Municipal Lease financing ...

- ○ More
- ○ Less
- ○ About the same
- ○ Not at all

19. In the next year, do you expect your capital asset expenditures to be:

- ○ More
- ○ Less
- ○ About the same

20. Overall, do you consider Municipal Lease Financing to be an EFFECTIVE budget management tool?

- ○ Yes
- ○ No

21. How do you view your Lease Obligations in comparison to General Obligations?

- ○ The SAME as a General Obligation
- ○ ALMOST the SAME as a General Obligation
- ○ Not At ALL like a General Obligation

Survey Questions
(5 of 6)

Demographics Profile

These next 5 questions will enable accurate categorization of your governmental entity within the survey results.

22. Where did you learn about this survey?

- National Association of Counties (NACo)
- Government Finance Officers Association (GFOA)
- National League of Cities (NLC)
- City & State Magazine
- Other

Other (please describe)

23. Your type of public organization

- State:
- County:
- City:
- Township:
- School District:
- Hospital / Healthcare District:
- Public Utility:

Other (please describe)

24. In which state is your organization located?

State: -- select state --

25. What is the population served by your organization?

- 10,000,000 and over
- 1,000,000 to 9,999,999
- 500,000 to 999,999
- 100,000 to 499,999
- 50,000 to 99,999
- 10,000 to 49,999
- Under 10,000

26. What is the annual budget of your organization?

- $50,000,000 and over
- $10,000,000 to $49,999,999
- $5,000,000 to $9,999,999
- $1,000,000 to $4,999,999
- $500,000 to $999,999
- Under $500,000

Survey Questions
(6 of 6)

Census Detail on Population and Budget (Optional)

You already delineated Population Census, Budget and Lease Balance (if any) by range. If possible, please also provide your estimate of Population (in a full NUMBER without commas - and NOT thousands or millions) - plus Budget ... and Lease Balance (both in full DOLLARS without commas - and NOT in thousands or millions). While elective, if you are able to provide this information, these next 3 questions will enable a more precise survey tabulation.

27. What is the actual population served by your organization?

Population:

28. What is the annual budget of your organization?

Annual Budget $:

29. What is the current (approximate) outstanding Lease Obligation Balance?

Current Outstanding Lease Obligation Balance $:

Researcher Biographies

Robert C. Neptune
Government Finance Practice Leader

The Alta Group

Bob Neptune brings decades of experience in municipal, state, and federal leasing to The Alta Group, both as a leader in public finance, and as an advisor to financial services firms involved in governmental leasing programs.

Serving in recent years as an industry consultant, Bob was President of De Lage Landen Public Finance from 2005-2008. There, he helped integrate new products into eight separate business units and, in late 2008, structured and sold one of the industry's largest municipal lease securitizations. He was president of ORIX Public Finance from 2001-2005 until De Lage Landen took over ORIX's governmental leasing business. Earlier in his career Bob held senior executive positions at Transamerica Public Finance, Heller Public Finance, and Chrysler Capital Corp.

He is on the board of directors of the Association for Governmental Leasing & Finance, a former member of the Equipment Leasing and Finance Association (ELFA) Public Finance Policy Committee, and former chairman of the Municipal Leasing Industry Committee of the AAEL (now the ELFA).

Based in Kansas City, Missouri, he holds a bachelor of business administration degree from the University of Oklahoma.

David S. Wiener
Managing Director

The Alta Group

David Wiener has been respected in the disciplines of sales, credit, and capital markets/syndications within the equipment finance industry for more than 30 years. As an expert in transaction and portfolio pricing and negotiation execution, he has personally structured and closed more than $2 billion in volume from more than 700 transactions, and managed or collaborated with capital markets staff collectively closing over $50 billion in portfolios and transactions. He has created full capital markets syndications capabilities for top-ten vendor leasing organizations in the U.S.

As a member of The Alta Group, David has conducted research for major financial institutions focused on company acquisition due diligence, CRM development, lease systems analysis, financial performance process improvement, application of securitization alternatives, benchmarking studies, vertical market entry studies in adjacent product sectors, and de novo equipment finance platform creation.

Prior to his work at Alta, David gained broad industry management experience as a transaction leader at LEAF Financial, GE Capital Markets, Tokai Financial Services, and Maryland National/MNC Leasing. He is a past recipient of the GE Capital Pinnacle and Tokai Winners Circle awards. David has utilized Six Sigma quality tools and e-commerce initiatives for process improvement in the execution of syndication activities. He successfully directed an effort to internationally outsource capital markets analytic activities, a cost saving endeavor that significantly reduced deal evaluation cycle time and became a recognized best practice within the world's leading international outsourcing company.

David is a respected authority on equipment finance demographics. He was a member of the Equipment Leasing and Finance Association (ELFA) committee that oversees the Survey of Equipment Finance Activity benchmarking report for 25 years.

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