



Capital Leasing vs Short Term Borrowing— Actions Needed

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*Handouts and presentations are available in the event
app.*



CAPITAL LEASING VS. SHORT TERM BORROWING WHAT YOU NEED TO KNOW

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DISCUSSION TOPICS

- ESSENTIAL CORPORATE PURPOSES AND GENERAL CORPORATE PURPOSES
 - CAPITAL LEASES
 - SHORT TERM BORROWINGS
 - DEBT CAPACITY CALCULATION
 - QUESTIONS & TAKE AWAYS
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ESSENTIAL CORPORATE OR GENERAL CORPORATE

➤ Essential Corporate Purpose

Ambulances

Water Meters

Police Vehicles

Street Sweeper

Public Works Equipment

Essential Corp. Purp. Obligations require a no less than 4, no more than 20-day notice for a public hearing. The City's Bond Counsel will prepare the proceedings to set the date of the hearing and hold the public hearing. This will include the notice that goes to the newspaper.

➤ General Corporate Purpose

City Hall Buildings

Library Buildings

Golf Courses & Related Facilities

Community Centers

General Corp. Purp. Obligations may require a GO referendum at a November election. If the amount meets threshold constraints the City may use a 10-day public hearing notice. Using Bond Counsel to prepare the public hearing or referendum.



GENERAL CORPORATE PURPOSE Non-Voted Thresholds

Calendar Year 2025

Population

5,000 or less	\$534,040
5,001 to 75,000	\$934,570
75,001 and above	\$1,335,100

If your City's project exceeds this amount you should consult your Municipal Advisor and Bond Counsel to prepare ballot language and pass a Resolution of Necessity asking the County Auditor's office to include your referendum question.

Per HF718 the threshold amounts could go up annually tied to Consumer Price Index-Urban Users



WHAT IS A CAPITAL LEASE?

- ▶ A capital lease is an agreement entered into as a purchase of a capital asset.
- ▶ Leases are structured to transfer ownership of the asset to the lessee (the City) at the end of the term of the lease
- ▶ Leases are not rental agreements, the City is not renting, they plan to take ownership.
- ▶ Many equipment companies or dealerships offer lease programs through themselves or national lease companies.
- ▶ Leases are presented with a structure of semi-annual or annual payments
- ▶ A lease may have a bargain buyout price at the end or something like a final balloon payment.



WHAT IS A SHORT-TERM BORROWING

- ▶ An obligation (i.e. bond, bank loan) entered into by the City to finance an asset/purchase the City will take ownership of immediately.
 - ▶ The short-term borrowing should be structured in a manner that the financing term does not exceed the useful life of the asset. Typically financed for 1-3 years
 - ▶ City may finance the entire amount or finance a lesser amount if using cash resources towards the purchase.
 - ▶ Short term borrowings could include multiple items being financed at one time.
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THE SAME OR DIFFERENT

SIMILARITIES

- ▶ Any obligation requires public hearings or referendums for financing options
- ▶ If executed properly is a general obligation of a city that can be levied in the debt service levy fund
- ▶ Recognized as a debt obligation for possible continuing disclosure purposes- Material Events Notice
- ▶ Both financing options will count against the City's debt capacity

DIFFERENCES

- ▶ Capital Lease shows the interest rate in fine print. A short-term loan indicates the interest rate in the structured debt payment schedule
- ▶ A lease holds the asset as the collateral, a short-term borrowing is the full faith and credit of the Issuer (City)
- ▶ A lease agreement may not have an option to pay the asset off early

DEBT CAPACITY CALCULATION

- 5% OF 100% Actual Valuation
 - use military exemption amount
 - use regular & agricultural
- Total principal of GO; LOST Revenue and TIF Revenue debt counts against debt capacity
- Total aggregate amount of rebate agreement counts against, if no annual appropriation language is used
- Total annually appropriated amount of rebate counts against

100% Valuation

\$109,526,378

At 5%

=\$5,476,318

Total GO outstanding \$4,205,000

No Rebates outstanding

Remaining Debt Capacity

=\$1,217,318

**Approximately 22.2% Remaining in
Total Debt Capacity**

**Debt Capacity should be reviewed and calculated annually,
based on valuation changes and change in debt outstanding.**

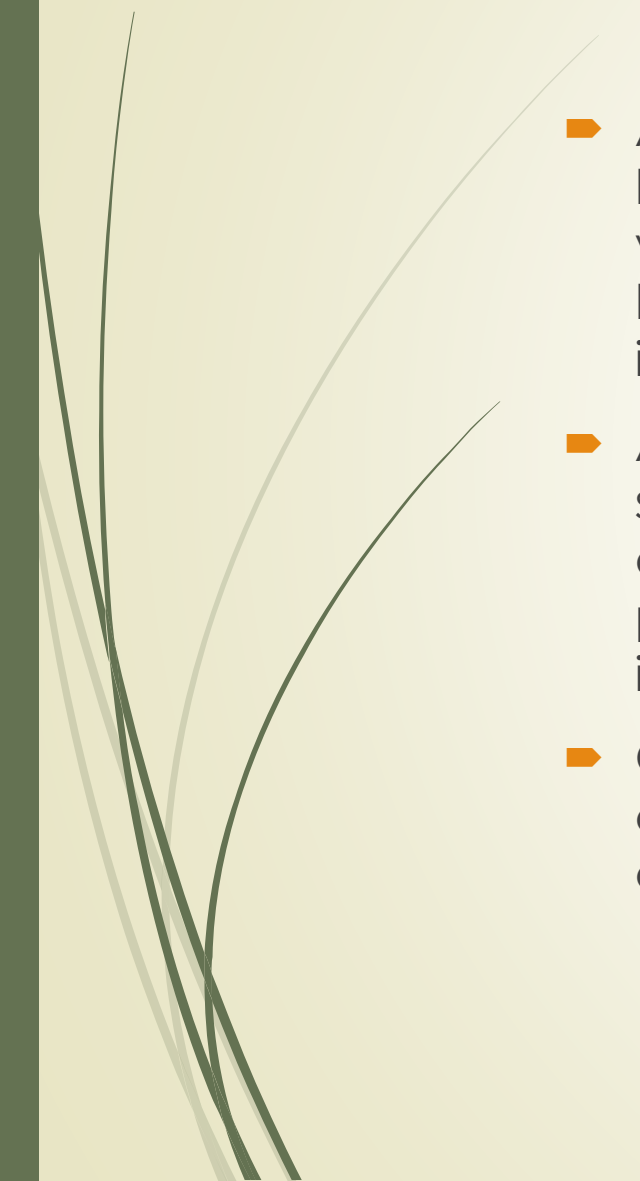


COMMON QUESTIONS (OR ERRORS)

- ▶ The Police Chief ordered the new police vehicles and signed the lease agreement on them.
 - ▶ The Police Chief is not authorized to enter into obligations on behalf of the City. The lease or short-term borrowing must be processed through the Council with the Mayor signing on behalf of the City.
- ▶ This is a bank loan, it doesn't require public hearings or other authorization
 - ▶ Any debt obligation in the state of Iowa requires a City follow Iowa Code Chapter 384 for authorization purposes.
- ▶ The lease agreement does not charge interest
 - ▶ Interest charges are embedded within the lease payment. If you add the total lease payments you will note that it is more than the total price of the asset being leased.



TAKE AWAY NOTES

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- ▶ A lease agreement or short-term borrowing must be reflected on your long-term debt page in the budget and should be included in your annual debt report
 - ▶ Any type of obligation can take some time with public hearings, agreements. It is important to plan ahead, using capital improvement planning (CIP)
 - ▶ Operating Leases for copiers, computers, etc. are not considered capital leases
 - ▶ Discuss the borrowing process with your departments that might be more active with equipment leasing.
 - ▶ Prior to HF718 some Cities may have used General Fund monies for capital lease payments, but with restrictions on collection of GF funds, most Cities have turned to debt service levy or other funds to make payments