SYNERGEM EMERGENCY SERVICES
1007 Warren Street Greensboro, NC 27403
Toll Free: 866.859.0911 Email: synergem@synergemtech.com

Leasing FAQ's

What is a municipal lease?

It is a financial instrument that enables a municipality to use any available revenue to make payments for essential equipment and services at tax-exempt interest rates.

What types of municipalities qualify?

Cites, counties, legally constituted independent districts such as schools or joint communications boards, townships and villages, etc., qualify.

What is a tax-exempt lease?

Lessees that qualify can purchase goods and services using financing that is exempt from federal income tax (and often state tax as well). This increases the value of the investment to lessor and lowers the lessee's barrowing costs. These leases can be used to finance real property such as buildings housing emergency services, vehicles, hardware, software, other equipment such as radios or generators, installation services, extended maintenance if part of the original sales price

Why use a municipal lease?

In addition to saving money, the products leased are titled to the client and this adds to his capital inventory positively impacting his community's bond rating. Payments, however, are considered an operational expense and do not increase bonded indebtedness. The latter relieves the client from many of the restrictions placed on debt creation.

What is the difference between a Municipal lese and a commercial lease?

Commercial leases are often rental agreements that do not allow the lessee to build equity or enjoy the benefits described above. If equity is involved, interest rates are usually considerably higher since commercial leases cannot qualify as tax-exempt.

What happens to the systems when the lease term is paid in complete?

There is usually a one dollar buyout clause in the lease.

Can maintenance be included in a lease?

Leasing maintenance can only be included in a tax-exempt lease when it is part of the initial cost of the system such as might occur if offered five years of extended maintenance for the price of four, paid at closing. Then the maintenance cost can be considered part of the purchase price much as software upgrades are considered part of the initial product price.

What about non-appropriation clauses?

Many state and municipal laws limit the commitment of funds beyond the term of the agency that must approve that commitment (such as the term of a county council). In another words, governing bodies can seldom commit their successors to a lease. Therefore, most municipal leases contain what is called a non-appropriation clause that enables the lessee to terminate the lease agreement at the end of applicable appropriation period without penalty. Such clauses, however usually commit the governing body to make its “best efforts” to pay the commitment in full. Failure to pay would have serious financial repercussions for the agency that took such action so use of such clauses is extremely rare and, thus, the risk is acceptable to most investors.

What if the customer wants to use a bond to finance this purchase?

A bond is a much more formal instrument than a municipal lease and it requires the borrower to pledge a designated revenue source such as 911 tariff fees toward payment. A bond also obligates the client to raise revenues if the pledged source falls short. Because of this pledges, the interest rate associated with a bond is much less than that of a lease. A bond, however, is a debt that affects the customer's credit rating. Use of a bond would be attractive, if the project costs were fairly high, or the customer wished to include the 911 purchase within a greater project such as the construction of fire station or procurement of an RF system.