

Leasource Financial Services, Inc.

The State of Municipal Finance March 2011

I guess you could sum up the current Municipal Marketplace by saying the long-term questions still linger. Due to continuing economic conditions we are experiencing as a result of the national real estate and finance market upheaval, and the expiration of the federally subsidized Build America Bond program, which is currently being proposed for renewal in the pending budget, the market is wracked with uncertainty about just who is going to buy long-term tax-exempt bonds, or leases. With fewer long term investors because of perceived risk, long-term rates have been rising. In addition, numerous Private Placement sources remain out of the market, or have narrowed their transaction appetite dramatically.

As municipalities grapple with their budgets and the continuing need to provide services and replace outdated equipment and systems, they are facing some difficult decisions, understanding that the general public has not been kind to long term bond measures on their ballots. If they deem their needs essential, their choices are cash, the Tax-Exempt Lease-Purchase, a Certificate of Participation offering, or the traditional Bond marketplace for large projects and infrastructure.

We have come up with an approach to address this market. Below are what we believe to be the major differences in our placement process.

Tax-Exempt Lease Purchase Financing: This tried and true structure works extremely well for the essential needs of the municipal client for small to medium sized needs, if they choose not to pay cash. It is not considered debt, is inexpensive and relatively easy to document and fund. Even though the current investment appetite is somewhat restricted, there is still plenty of capital to fund these needs. Again, the long term structures (10+ years) are fairly difficult at this time using this form of finance.

Certificates of Participation (COP): A COP is a Public Offering, as is its big brother, the Municipal Bond. The COP utilizes substantially the exact municipal lease structure as previously discussed, but allows the lease to be fractionalized and sold to multiple investors in the public markets. Even though they are structured with the same overview of the Securities Exchange Commission (SEC), COP's are not considered debt and therefore not subject to a positive election result from the voters. COP's are brought to market by licensed broker-dealers, as are bonds. The COP is the perfect middle-market product that sits between the tax-exempt lease and the large-ticket Bond structure. Longer term structures are much more readily available with this form of finance as is the

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ease of handling much larger transactions.

Choosing which product is best is not a science as the functional edges of each product overlap widely. Like the placement of most transactions, the details of the need will tell you how it should be structured.