Treasury Board's
Master Equipment Leasing Program

History: The Master Equipment Leasing Program began in 1987 in response to growing concern about the coordination of leasing activity of Commonwealth agencies and institutions. In 1997, the Master Equipment Leasing Program was expanded to incorporate financing for energy efficiency projects in addition to equipment.

Purpose: The Master Equipment Leasing Program ensures that all Commonwealth agencies obtain consistent and competitive credit terms for financing equipment and energy efficiency projects.

Code Reference: Section 2.2-2417

- **Eligibility for Financing**

  - **Eligible Agencies:** All administrative units of State government, including agencies, departments, institutions, commissions, boards, councils, authorities, or other such bodies.

  - **Personal Property:** Personal property is defined as new or reconditioned tangible personal property that includes personal property to be affixed to realty and must be used for governmental purposes.

  - **Energy Projects:** Energy efficiency projects may include personal property, the installation or modification of an installation in a building, professional management, and other special services which are primarily intended to reduce energy consumption and demand or allow the use of an alternative energy source.

  - **Minimum Amount:** Credit purchases less than $10,000 are not eligible for financing through the Master Equipment Leasing Program.

  - **"Soft" Costs:** Soft costs are defined as installation, shipping and handling, maintenance, etc. Soft costs are typically not included in equipment financings. Energy projects, by definition, include a soft cost component.

  - **Software:** As a general rule, software alone cannot be financed through this program since it involves a license agreement and is not considered personal property of the user. Software purchased in conjunction with a hardware purchase may be acceptable to the finance company.

  - **Essential Property:** The property to be financed must be used for an essential governmental purpose.

- **Lease Terms**
  - **Available Terms:** 3, 5, 7 and 10 years.

    a) **Rate -** The rates are indexed to the Interest SWAP Rate on the annualized interest rate on either three, five, seven or ten-year Interest SWAP Rate (the "ICE SWAP Rate") as published on the report date (the Daily Rate") on the Intercontinental Exchange, Inc. website under ICE Benchmark Administration Market ("ICE Benchmark") on a weekly average basis for the week preceding the Acceptance Date. The rates are fixed at the time of each financing lease.

    b) **Payments -** May be made monthly, semiannually or annually as established at the time of financing.

  - **Useful Life:** The term may not exceed the useful life of the equipment.

- **Interest Rates**
  - **Interest Rates:** For leases of a three-year term, such Index shall be the three-year ICE SWAP Rate. For leases of a five-year term, such Index shall be the five-year ICE SWAP Rate. For leases of a seven-year term, such index shall be the seven-year ICE SWAP Rate. For leases of a ten-year term, such Index shall be the ten-year ICE SWAP Rate.
  - **Rates are fixed at the time of the financing.**

- **Legal Structure of the Master Equipment Leasing Program**
  - **One Blanket Lease Agreement:** The Treasury Board, through an Invitation for Bids (IFB) process, procures a line of credit through one or more finance companies to provide financing for state agencies, institutions, boards and authorities.

    a) **Contract** – A new lease agreement is entered into every 12 months, depending on the Treasury Board's IFB process.

    b) **Appendix** – Each acquisition/financing under the Master Lease contract constitutes an "appendix" to the Master Lease agreement.

  - **Tax-Exempt and Taxable Leases:**

    a) **Governmental Borrower –** All state agencies, institutions, boards and authorities can borrow money through the program to finance equipment.

    b) **Governmental Use** – The equipment financed must be for governmental use.

    c) **Lease Payments Subject to Appropriation** – The lease payments are subject to appropriation by the General Assembly each year.

    d) **Lease Term -** The term of the lease may not exceed the useful life of the equipment.

- **Security Structure of the Master Equipment Leasing Program:**

  a) **Cross-Default Provision** – If one agency does not make lease payments on an appendix, all the appendices under the Master Lease contract will be in default.

  b) **Cross-Non-Appropriation** – In the event of non-appropriation for any or all payments due under the Master Lease, the Master Lease contract terminates.

  c) **Lessor's Security Interest in Equipment/Project** – If an agency defaults or if the Master Lease terminates, the lessor can repossess all of the equipment/projects financed under the Agreement.

  d) **Creditworthiness of the Commonwealth** – The creditworthiness of the Commonwealth as a whole is considered and enhances the interest rates available through the program.

- **Prepayment Provisions:**

  - **Prepayment Penalties:** Leases can be prepaid at the following prepayment prices, expressed as a percentage of the principal amount outstanding, plus accrued interest to the prepayment date. Prepayment penalties apply as follows:

Acceptance Date – 6 Months	3%
7-12 Months	2%
13-18 Months	1%
Over 18 Months	0%

  - **Purpose:** Prepayment should be used where financially beneficial to the agency and the Commonwealth.

  - **Prohibition:** Financings and subsequent prepayments should not be used in an abusive manner solely to enhance annual cash flow.

- **Accessing the Master Equipment Leasing Program**

  - **Apply to the Department of the Treasury:** Agencies should submit financing requests to the Department of the Treasury. Financing requests should include:
    1. Request Form
    2. Project Description
    3. Estimated Financing Costs
    4. Estimated Financing Date

  - **Primary Contact:**

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- **Review of Requests:** A request is reviewed for appropriateness and potential questions.
- **Approved Requests:** Agencies will be notified of approval/disapproval generally within a week.
- **"Red Flags":** Specific items Treasury looks for in agency requests include:

  a) Financing other than personal property;
  b) Requested lease term greater than useful life;
  c) Inclusion of soft costs; and
  d) Essentiality.

- **Vendor/Third Party Financings**
  - **Treasury Board Approval:** Agencies are not required to use the Master Equipment Leasing Program however, alternative financing arrangements must first be approved by the Treasury Board.
  - **Minimum Amount:** Equipment purchases less than $10,000 are not eligible for review by the Treasury Board.
  - **Apply to the Department of the Treasury:** Agencies should submit application seeking approval to the Department of the Treasury. Submissions should include:
    1. Application/Letter from Agency
    2. Financing Summary (available from the Department of the Treasury)
    3. Pricing/Term Sheet
    4. Form of Lease Agreement
  - **Treasury Board Meetings**: Applications for Treasury Board approval will be considered only at regular monthly meetings of the Board. Board meetings are usually held on the third Wednesday of the month at 9:00 a.m., however the meeting dates are subject to change and should be confirmed. Requests for consideration of Treasury Board approval of terms and structure must be received in the Debt Management Division of the Department of the Treasury a minimum of three (3) weeks prior to the scheduled meeting date. Final documentation must be received in the Debt Management Division of the Department of the Treasury one (1) week prior to the scheduled meeting date for inclusion to the Treasury Board package submitted to the board members.
  - **Procurement Process:** Agencies must adhere to the State's procurement laws and regulations procuring financing arrangements.
  - **Treasury Board Review:** Treasury Board review is limited to the financial terms and conditions of the financing arrangement.
  - **Approval:** Financing arrangements that offer more favorable rates and terms are typically approved.
  - **Documents:** Agencies must provide the Treasury Board with a copy of the final executed

- financing contract.

- **Official Intent**

  - **Definition:** "Official Intent" applies in cases where agency funds are spent on an acquisition or project and then reimbursed from proceeds of a tax-exempt financing.

  - **Federal Regulation:** IRS regulations require that a Declaration of Official Intent (DOI) be executed not later than 60 days after payment of the original expenditure is made, if the expenditure is to be repaid from the proceeds of a tax-exempt financing.

    a) **Form of Declaration –** The DOI must meet certain specific criteria. Treasury will base the DOI on information provided on the financing request form.

    b) **Regulations Inflexible –** The federal regulations are specific and inflexible so if a reimbursement financing is contemplated, it must be indicated on the request form.

  - **Purpose:** The regulations are intended to prevent abuses of reimbursements and are informally called the "pyramid" rules.