



# Leases, Installment Contracts and Debt Certificates

Leases and installment contracts are often entered into by governmental units for the purchase of real or personal property. They may be issued without certain legal requirements associated with other types of debt instruments. For example, leases and installment contracts typically may be issued without referendum approval and may be structured with appropriation risk without application of a constitutional or statutory debt limit. They may be issued as general obligation debt or may be made payable from one or more specific revenue sources.

The payment obligation of a governmental unit under an installment contract or a lease may be sold to the general public, rather than privately placed with a single institution, pursuant to certificates of participation ("COPs"). In order to provide for the issuance of COPs, a governmental unit may enter into an installment contract or lease with a corporate trustee. COPs are then issued by the trustee to evidence the repayment obligation of the governmental unit under the installment contract or lease.

In Illinois, debt certificates may be issued by a governmental unit to evidence the payment obligations of the governmental unit under a lease or installment contract. Whereas a lease or installment contract may only be able to be placed with a single institutional investor, debt certificates enable a governmental unit to divide its payment obligations under a lease or an installment contract into smaller denominations (e.g. \$5,000), similar to municipal bonds, and can thereby be sold in the public markets. As with the underlying lease or installment contract, debt certificates are paid from lawfully available funds of the governmental unit. There is generally, however, no separate tax levy available for the purpose of making such payments.

**Publications:** For a copy of any of the following publications, please call or e-mail any of the attorneys in the Public Finance Group.

## Attorneys

Erin P. Bartholomy  
Ryan D. Bjerke  
Juliet H. Huang  
Eric T. Hunter  
Kelly K. Kost  
Anjali Vij  
Lawrence E. White

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