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Financing & Leasing –
Part of your Acquisition Strategy?

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Goals for our Session

- Give you some ideas on building a strategic, long-range plan to address your agronomic, economic, and safety requirements
 - Evaluate options for executing your plan
- In depth exploration of the tax-exempt options
- Best-practices and lessons-learned from a colleague





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Agenda

- Building and executing a successful long-range acquisition strategy
- Financing a consideration for your plan execution?
- Overview of financial products available for consideration
- Pending lease accounting changes
- Tips on navigating the approval process
 - "Business Case" Justifications
- How do I get started?
- Summary
- Q&A

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Decision Road Map



↓

Available Capital Budget / Cash

↓

Adequate to Cover – pay cash?

Inadequate – Consider financing Options?

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Building your Long-Range Acquisition Plan



An enlarged version of a long-term (12 year) budget horizon
You may have your own format, or utilize others that are available
Having a plan is the key!


Building a Strategic Acquisition Plan



- Some items for consideration –
 - What equipment?
 - How much equipment?
 - Fleet level required to support your “customer (user) value proposition”?
 - How long should we keep the equipment?
 - Any Vendor “value added” options that will help me operate more effectively?
 - Extended warranty (help level budgets?)
 - Fleet management bundles
 - Wireless hour meters, automated fleet maintenance tracking, etc.
 - Some level of Vendor supplied maintenance?
 - All of these may be worth at least exploring / Talk to your Vendor representative

The good news – all of the above can be easily incorporated into a “predictable” monthly payment


Evaluating Alternatives



- Option 1 – Continue to operate current equipment
 - + Avoid cost of new equipment
 - - higher maintenance costs / more down-time
- Option 2 – Purchase new equipment (Cash)
 - + new, efficient and reliable equipment
 - + reduced R&M expenses / less down-time
 - - Miss out on other opportunities for cash
- Option 3 – Finance new equipment
 - + Plusses from # 2
 - + May free up cash for other desired acquisitions
 - - creates future obligations, which may impact future acquisitions
 - - Interest expense incurred

“Doing nothing is always an option” – may still come at some cost

Financing Can Help You Expand Your Purchasing Power




Example: If your equipment purchase (cash) for the year is \$100,000 you could finance the following:

\$384,000 - 36 month True Lease
\$465,800 - 48 month True Lease
\$284,300 - 36 month Conditional Sale (1.00 out / loan)
\$360,000 - 48 month Conditional Sale
\$449,400 - 60 month Conditional Sale

*Amounts approximate – based on Dec. 2017 rates
 *2 – 4% higher – utilizing tax-exempt rates (Depending upon term)
 *Annual Payments – first in advance


Financing may offer you the ability to execute your strategic acquisition plans, on a long-term horizon

Financing – A Potential Solution?



- Scenario –
 - Years of deferred equipment acquisition
 - Lacking a strategic acquisition plan –
 - “Rainbow fleet” of varying “vintages”
 - Wide range of parts stock required to maintain fleet
 - High repair and maintenance expenses
 - Excessive down-time
- Potential Financing solution –
 - Helps to facilitate a “package solution” that supports your (newly developed?) strategic acquisition plan?
 - Reduce repair and maintenance expenses
 - Reduce your parts stock
 - Reduce down-time
 - A higher quality sports field for user groups

Financing – A Potential Solution?



- Scenario –
 - Sub-optimal performance / high operating costs with current situation
 - Examples
 - Fleet of small width mowing equipment
 - Aged irrigation components that waste water & electricity
- Potential Financing solution –
 - Allow you to upgrade to new, efficient mowing equipment
 - From 72” width-of-cut to 192”?
 - ~ 2.6X more mowing productivity per employee?
 - Save water and electricity by upgrading to precision sprinkler heads that place water, where / when it is needed – in the correct amount

Financing may allow you to unlock immediate savings, even if you lack the immediate cash to acquire new assets

Financing – A Potential Solution?



- Scenario –
 - Current situation has some condition / equipment that compromises user safety. You lack the cash budget to address the situation
 - Example – a “hard” turf athletic field – in desperate need of an aggressive aeration program
- Potential Financing solution –
 - Allow you to acquire the equipment required to execute a remedial program, even though you may lack the immediate cash to do so
 - Improved user safety
 - You may also improve the aesthetics / turf health too!

User safety is an especially important criteria to address – Avoid injuries / potential litigation?

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Could a Financing Solution Have Prevented This??



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Available Financing Alternatives - Comparisons

Some Upcoming Regulatory Changes

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Lease / CSC Comparisons

Lease –

- “rental like”
- Most equipment per dollar of pmt.
- Operating expense
 - Pmt. usually tax deductible (For tax paying enterprises)
- Usually not on balance sheet
 - Future Changes
- Mid-term upgrades may be less onerous, due to not being on your balance sheet
- Best suited for higher usage items you want to cycle through quicker
 - “desire latest technology”
 - Avoid higher maintenance part of equipment life-cycle
- Care & hours requirements
- Flexible end of term options
 - Renew (mo.-to-mo. or fixed)
 - Purchase at FMV
 - Return equipment

CSC – “Conditional Sale Contract” (\$1.00 out)

- You own it, subject to a security interest by Finance Co.
- Asset & Liability
- Tax treatment -
 - Depreciation + interest expense
 - ****“Bonus Depreciation” and generous Section 179 expensing available for owned equipment**
 - 7 years MACRS property
 - Turf maintenance equipment
 - Varies for other collaterals
- Often subject to more “volatility” – based upon availability of CAPEX dollars
- Best suited for long-life assets
 - That you intend to keep for a long time
- (Tax exempt – “Muni” financing is most like a CSC – with a few “twists”)

Tax Cut Impacts??

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Lease Accounting Changes – Impactful or Y2K?

- History –
- Effective in 2020 for most non-publicly traded enterprises
 - However, some re-statement of previous two years
 - Need to start gathering data in 2018
- Primary impact is the addition of Operating leases (FMV) to the balance sheet
 - Asset = “Right of use”
 - Liability = “Present Value” (PV) of future payment stream
 - Could include anticipated renewal payments
- Are you preparing for this?
- Anticipated impact?

Please note that the core economics of an FMV lease will not change FASB vs. GASB

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New Lease Accounting - Overview

	Finance Lease	Operating Lease	Short-Term Lease*
Balance Sheet	Right-of-use asset; Lease liability	Right-of-use asset; Lease liability	
Income Statement	Amortization expense; Interest expense	Single lease expense on a straight-line basis	Single lease expense on a straight-line basis
Cash Flow Statement	Cash paid for principal (financing) and interest payments (operating)	Cash paid for lease payments (operating)	Cash paid for lease payments (operating)

* Short term Lease = Lease term must be 12 months or less at commencement

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New Lease Accounting - Example

Year	Both Methods Lease Liability	Finance Lease			ROU Asset	Operating Lease		
		Interest Expense -<Y>	Amortization Expense -Y>	Total Lease Expense -<X+Y>		Liability Expense -<Z>	Reduction in ROU Asset -<Z- X>	ROU Asset
0	\$38,000				\$38,000			\$38,000
1	31,038	\$3,038	\$12,667	15,704	25,334	\$15,000	\$11,962	26,038
2	18,520	2,481	12,667	15,148	12,667	15,000	12,519	13,519
3	-	1,481	12,667	14,148	-	15,000	13,519	-
Total		\$7,000	\$38,000	\$45,000		\$45,000	\$38,000	

Example assumes pay schedule as follows:

- \$10,000 – end of year 1
- \$15,000 – end of year 2
- \$20,000 – end of year 3

This example compares accounting with the customer election of lease type – with identical pay schedules. A \$1.00 out transaction and FMV would be different cash flows

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Business Case Justification

Securing Required Approvals



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Securing Required Approvals A/K/A – “Internal Selling”

- Critical to have a “Champion / Advocate”
 - Indifference does not get the job done!
 - Some success stories
- Keep in mind who you are “selling” your proposal to
 - Different priorities / position
 - I.E. – Finance Dept.
 - Language they speak is \$\$
 - Legal Dept.
 - Risk avoidance / safety risks being addressed
 - Operations –
 - Operator concerns, ease of usage, training, down-time, etc.
 - Decisions often require a consensus of many




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Comparing Competing Proposals

	Project A	Project B
Initial Capital cost	\$500,000.00	\$450,000.00
Expected net return – Yr. 1	\$105,000.00	\$80,000
Year 2	\$110,000.00	\$92,000.00
Year 3	\$130,000.00	\$100,000.00
Year 4	\$143,000.00	\$135,000.00
Year 5	\$165,000.00	\$155,000.00

“Investment Metrics”	Project A	Project B
Payback Period	~ 49 Months	~ 53 Months
Internal Rate of Return (IRR)	8.5%	6.8%
Net Present Value (8% rate used) (PV less investment)	+\$7,781	(\$16,795)


There can be a difference between lowest price and the best investment!



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Comparing Alternatives

- “Apples to apples” comparisons is always the goal
 - Are they really ever?
- Employ financial tools to evaluate alternatives with different costs and benefits
- Paybacks could include:
 - Anticipated increase in user fees resulting from the investment
 - Identified savings resulting from your investment
 - Depending upon collateral being evaluated, “recoveries” / paybacks could vary significantly
- Employing these tools can help you gauge what is the best use for scarce capital dollars




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Build Business Case Justifications

- Irrigation – for \$\$\$ I can upgrade my sprinkler heads and save \$\$ / year - as the new precision heads will save XX gallons of water per year – by not watering the surrounding woods that we do today
- New sprayer – by spending \$\$\$ I can save \$\$ / year in chemicals, as the new technology is more precise and helps eliminate overspray



“Aesthetics” are nice– but dollars are the common denominator, that is employed in capital / spending decisions
This practice will improve your chances of gaining approvals



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Moving Forward -


Additional Details -

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How Can Financing Help Me?


- Financing can be an enabler to help you effectively implement your overall acquisition strategy
 - Get equipment you need -now
 - Get the work you need done - now!
 - By consolidating into larger purchases, you may qualify for more favorable terms / pricing levels and the like
 - Reduce repair and maintenance expense by operating newer / more efficient equipment
 - Bundle complete solution packages – with minimal up-front cash
 - Acquire the equipment you need to meet your quality objectives, even when budgets are tight



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What Can Be Financed?


- Many collaterals / "Hard assets"
 - May vary by lender
- Software
- Extended protection plans, wireless hour meters, maintenance, up-front taxes, other



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How Do I Start The Process?

- Typically, completing a credit application with the lender gets the ball rolling
- Depending upon transaction size / scope –
 - Varying levels of financial due-diligence required
 - For tax-supported entities, much of this is public information
- After approvals granted –
 - Document execution
 - Delivery / installation of equipment / collateral



Professional Education

Tim Borger , TCF Equipment Finance

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Tax-Exempt Financing

Leverage the Advantages of Municipal Financing

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Traditional Ways to Acquire Capital Equipment

- CASH**
 - Is the money currently available in the budget?
- BONDS**
 - Often very complex and takes time
 - Not suited for smaller equipment purchases
- MUNICIPAL LEASES**
 - Offers low interest rate financing with simplified documentation and funding process






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What is a Tax-Exempt Lease?


- A lease purchase / installment sale agreement in which:
 - Lessor purchases equipment
 - Municipality (lessee) makes periodic payments (flexible time)
 - Municipality builds equity in property
 - Interest portion of payment is tax-exempt for the lessor
 - Tax savings are passed on through lower rate
 - Certain entities have a right of non-appropriation
 - Fair Market Value leases do not qualify



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Tax-Exempt Lease Basics

- Transfer to lease of title during lease term in most jurisdictions
- Essential-use equipment
- Lease must be a validly authorized and legal obligation of lessee (opinion of counsel and resolution of lease governing body)
- Bargain purchase option with clear intent to purchase equipment (e.g. \$1)
- Principal and interest is clearly defined and broken out
- Lease must be reported to the IRS (8038-G or GC)



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Qualifications of Tax-Exempt Financing

- The issuer of a tax-exempt obligation must be a state or a political subdivision thereof as defined by IRS code section 103.

Examples of qualified issuers generally include:

- Cities, towns, counties, school districts, certain special purpose districts (fire, parks, utility, water, etc.), certain hospitals, agencies, authorities, boards and commissions.

Lease? Tax-Exempt Lease Purchase? Municipal Lease?

"Tax-exempt financing" is probably a better description. In both form and substance, a municipal lease is a financing. Again, the purpose is to allow you, the municipal client, to purchase your solution today while spreading the investment across multiple budget cycles.


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Municipal Lease Basics

- A form of tax-exempt financing used by state & local governments across the country
- Provides for 100% financing of equipment, vehicles or property
- Provides financing for both small and large essential use equipment purchases
- Fixed monthly, quarterly or semi-annual payments
- Terms of 2 – 10 years and longer

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Municipal Lease Basics, *continued*



- Provides low interest rates that are comparable to bonds
 - Interest earned by the lessor is tax-exempt, savings is passed on to the lessee in the form of a lower rate
- Does not create an indebtedness; lease is subject to "Annual Appropriation"
- Fully amortizing, nominal purchase option at the end
- Simplified documentation; can usually be approved, documented and funded in less than 30 days
- Escrow funding is available to lock in rate

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Why Projects Stall



- Lack of Money
- Lack of time or personnel to design and plan the projects because of other, higher priorities
- Lack of internal expertise to implement projects

Whether real or perceived, resolving the first barrier frequently provides the solution to the second two.

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Objections to Financing a Project

"Taxes or fees will have to be increased to pay for these improvements"

"It's not in this year's budget"

"Paying less interest (by floating bonds) or no interest (by delaying the project and planning it into future budgets) saves more money, and therefore is in the best interest of our organization"



"Municipal lease - purchase agreements are expensive alternate funding solution"

"We have to delay the project while we accumulate a cash reserve"

"Projects must be paid for from the capital budget"

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How Familiar is This?

- We want it and we need it, but didn't budget for it.
- We want to implement the project over the next three years.
- We are waiting on a bond election next year.
- We're applying for a grant.
- We're saving up to pay cash.


Our goal is to provide you with the right tools at the right time to assist you in overcoming the #1 objection in public sector procurement:
BUDGET CONSTRAINTS

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Financing as a SALES STRATEGY

- Anticipates and eliminates the affordability (financial capacity) objection
- Allows you to identify the real objection, if one remains
- Provides your team with more tools to sell their project
- Protects budgets
- Compresses the purchase cycle
- Again, it's not about financing...
 - It's about overcoming

BUDGET CONSTRAINTS



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Price Comparison Example

- 60 month term
- \$250,000 opportunity

Municipal/Tax-Exempt Rate:	Commercial Rate:
3.89%	5.99%

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How Financing Benefits You

- Provides the answer to, "That's great, but how are we going to pay for it?"
- Preserves capital dollars for other projects for which financing is not an option
- Does not create statutory debt (bonds), thus it is approved by the same board/council that approves the project
- Low, tax-exempt rates
- Provides financing with a \$1 payoff at contract completion
- Can include a limited amount of installation and other soft costs (except dirt work, concrete & real property expenses)
- Early payoff options

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What is the Process?

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    graph TD
      A[Municipality selects the equipment or vehicles it wants to acquire] --> B[Municipal opportunity quoted by finance company (comparison of tax exempt pricing / commercial pricing)]
      B --> C[Municipality seeks board approval to move forward with financing quote]
      C --> D[Finance company provides credit approval]
      D --> E[Finance company prepares necessary documents for signature]
      E --> F[Municipality obtains official approval from its board/council for the acquisition]
      F --> G[Documents are executed by the Municipality and funding occurs]
  
```



QUESTIONS / COMMENTS





Municipal Dedicated Team



TIM BORGER
 TCF Equipment Finance
 Municipal Finance Representative
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- Municipal leasing and public finance professional for over 30 years
- Developed vendor programs within the golf, healthcare, energy savings, construction and IT markets
- Graduate of Bowling Green State University in Ohio
- Resides in Sugar Land, TX




THANK YOU



Professional Education

Dean Whitehead, CSFM, Christopher Newport University



Experts on the Field, Partners in the Game.



Equipment Acquisitions at Christopher Newport University



Experts on the Field, Partners in the Game.




Background & Bio

- Introduction
- Certified Nutrient Manager Planner, Certified Fertilizer Applicator, Certified Commercial Pesticide Applicator, and CSFM.
- Past President of Virginia Sports Turf Managers Association
- Virginia Turfgrass Foundation Board of Directors



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Christopher Newport University

- CNU is a state-funded, liberal arts, university
- 5,100 students
- 3,800 residential students
- Recently completed over \$1 billion in capital construction
- 10 Men's and 11 Women's varsity athletic teams

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Christopher Newport University

- In 2018 *U.S. News & World Report* rankings, the University now ranks 4th among public universities in the South and 11th among all Southern regional universities.
- Selected by The Princeton Review to be included in The 381 Best Colleges: 2017 Edition, Christopher Newport University is a public school offering a private school experience.

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CNU Facts

- 40 Acres Campus Turf- (35) Bermudagrass, (5) Tall fescue
- 17 Acres Athletic Turf
 - Baseball, Softball, Soccer, & Football game fields
 - (2) Football, (1) Soccer, (3) Multi-purpose practice fields
- 32,000 lbs. ryegrass seed; 2,000 lbs. Tall Fescue
- 6 acres of beds
- 18 Irrigation Systems, 630 Zones

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CNU Facts

- 1600 yards of mulch(600-800 blown)/2,000 bales of pine straw
- 150 flower Pots/160 Trash receptacles
- 12,000 annual flowers planted (spring & fall)/4,000 bulbs
- Staff: (2) Supervisors, (5) Landscapers, (5) Groundskeepers, (4) Technicians, (1) Equipment Operator, (1) Mechanic, (10) Students, (1) Office Manager, (3) Part-time
- 20 FT, 4 Pt, 11 Students

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Prior to CNU

- Kingsmill Resort
 - Purchased annually over \$200,000 in equipment
 - That ended in 2002
- Hampden-Sydney College
 - Large endowment and very frugal with funds
 - Why lease when we can purchase?

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Little like the Shirk Brothers



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CNU


- January 2008- Most everything we had needed replacing!
- We didn't have the equipment to meet the expectations
- Or Future Growth
- How do I get what I need?



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CNU


- Historically we had been allocated about \$25,000
- Historically the university had excess funds
- In December 2011, I was meeting with the Budget Director and learned about the MELP through the State of Virginia...I was off and running in 2012 with leasing!



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Leasing/Financing


- Yes...Most definitely!
- Get more sooner
 - In a year, we had leased \$152,160
 - Pickup with snow blade
 - 4 Utility Vehicles> 3 of which had snow plows
 - Large sprayer for turf and mower with lower cut capabilities



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Leasing/Financing


- Shows Commitment & Trust
 - Budgets are tight so you better have a good "pitch"
 - Commitment
 - Administration is committing to you and you to them for a long time
 - They believe in you and your plan...Makes you feel good!



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Lease/Finance Rewards

- Trust
 - When the equipment rolls in ...Results...Make sure they see it!
- Yearly Budget
 - Expense becomes part of the operating cost of the department
 - Dedicated cost prevents budget fluctuations



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MELP

- The Treasury Board is responsible for the operation and administration for the lease financing of personal property by State agencies.
- Procure through an IFB a line of credit from financing companies under the terms of a Master Lease Agreement under which individual agencies and institutions can finance equipment over 3, 5, 7 and 10-year terms.
- The consolidation of lease purchasing under this Program results in a lower interest costs for agencies than would otherwise be possible if agencies individually entered into leasing arrangements.



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MELP Rates

- As of 12/1/17
- 3 Year Term - Monthly 1.6426%
- 5 Year Term - Monthly 1.8570%
- 7 Year Term - Monthly 1.9162%
- 10 Year Term - Monthly 2.0508%

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Grounds Equipment	Lease Begin	Lease End	Cost	Interest Rate	Total Cost	Monthly Cost	Yearly Cost	Replacement Equipment	Cost
(2) JD HPX Gators	5/1/12	4/1/19	\$30,510	2.04%	\$32,778	\$390.10	\$4,681.20	Utility Cart	\$35,000
Toro 3505	10/1/12	9/1/19	\$25,194	1.46%	\$26,548	\$316.05	\$3,792.60	?	?
Toro Multipro 5800	4/1/13	3/1/20	\$43,537	1.51%	\$44,845	\$533.87	\$6,406.44	?	?
JD HPX & XUV	4/1/13	3/1/20	\$24,725	1.54%	\$26,130	\$311.07	\$3,732.84	Utility Cart	\$35,000
Ford 350 w/Snow blade	7/1/13	6/1/20	\$28,194	1.43%	\$29,675	\$353.29	\$4,239.48	Same	\$33,000
Kubota 6060	2/1/18	1/1/23	\$38,538	1.85 %	\$40,428	\$673.80	\$8085.60	?	
Totals			\$190,698		\$200,404	\$2,578.18	\$30,938.16		\$103,000

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Equipment	Year	Funding	Condition	Cost
JD Prognator	2009	Year-End	Under 500 hours	\$13,000
JD 300 D Skid Steer	2011	Year-End	New	\$32,000
JD Worksite Snowblade	2011	Annual	New	\$3,000
JD Worksite Brush	2012	Year-End	New	\$6,000
Toro Z Master	2012	Year-End	New	\$6,700
Toro Z-Master	2012	Year-End	New	\$6,700
Lely Thatcher	2012	Annual	New	\$3,100
Vicon Spreader	2012	Annual	New	\$4,000
Snowex Spreaders	2013	Year-End	New	\$7,000
Toro Workman HDX Diesel	2013	Year-End	New	\$22,300
Club Car Turf 2	2013	Year-End	New	\$8,100
Club Car Turf 2	2013	Year-End	New	\$8,100
(1) JD HPX Gator	2013	Year-End	New	\$10,900
Walker Mower	2013	Year-End	New	\$14,500
Toro Workman HDX	2014	Year-End	Under 500 hours	\$17,000
Toro Z-Master	2014	Year-End	New	\$9,000
(2) JD HPX Gators	2014	Year-End	New	\$19,000
2012 Club Car	2016	Annual	Under 1,100 hours	\$4,600
Toro 5510 D Reelmaster	2017	Year-end	Under 500 hours	\$29,000
Toro 3280 Groundsmaster	2017	Year-end	New	\$25,000
TurfTime Roller	2017	Annual	New	\$5,000
Total				262,200

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Athletics Assignment

- The Ride- April 2016
- The Equipment
 - Toro > 4500 & 3505, Propass 1800, 686
 - Kubota B7800
 - First Products Aerator
 - Pull behind sprayer
- Here we go again...

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Athletic Equipment	Lease Begin	Lease End	Cost	Interest Rate	Total Cost	Monthly	Yearly	Replacement Equipment
Toro Topdresser	4/1/13	3/1/20	\$11,920	1.51%	\$12,566	\$149.60	\$1,795.20	T.B.D
Club Car	4/1/13	3/1/20	\$5,599	1.51%	\$5,902	\$70.27	\$843.24	T.B.D
Club Car Carryall 6	4/1/13	3/1/20	\$9,989	1.51%	\$10,530	\$125.37	\$1,504.44	T.B.D
Greensgroomer Litter Kat	4/1/13	3/1/20	\$7,949	1.51%	\$8,380	\$99.77	\$1,197.24	T.B.D
(2) John Deere Gator Tx	4/1/13	3/1/20	\$22,329	1.51%	\$23,540	\$280.24	\$3,362.88	T.B.D
Totals=			\$57,786		\$60,918	\$725.25	\$8,703.00	

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Outside the Box

- The athletics budget was already "financed out"
- Only about \$5,000 annually for equipment
- Then it hit me
 - Donors and Sponsors
 - Athletics didn't have the relationships that I had developed on the Grounds so why not use that to my advantage

Outside the Box

- So I sold the idea to the Athletic Director
 - 5 vendors picked as an initial group
 - Goal of \$25k per year for 5 years = \$125,000
- To date we have \$5,000 in the account and all those approached are very interested

Lessons Learned

- When you go to the well get plenty to drink
 - Have a good plan with great reasoning on why the equipment will improve operations and fields
 - Don't go back to the well too soon and don't stay away too long
- 5 year financing makes more sense
 - You can flip in 5, 10, or 15 years
 - As opposed to 7, 14, or 21

Lessons Learned

- Equipment is much easier to get than positions
- Purchase? Absolutely... Get something when you can!
 - Buy used, lease return, or new
 - Much easier to repair/replace a piece of equipment if you have it

Questions?

