TO BUY OR NOT TO BUY…THAT IS THE QUESTION

10 reasons governmental agencies lease heavy equipment

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LEASING CAN BE A GREAT ALTERNATIVE

As a procurement professional in a government agency, your struggles may not compare to Hamlet's, so you're probably not questioning the value of life itself. But when budgets are tight and resources are scarce, you may find yourself wondering whether it makes sense to buy—or not to buy—your next piece of heavy equipment. Leasing can be a great alternative to an outright purchase.

KNOW YOUR OPTIONS

There are at least three ways governmental buyers can lease equipment assets:

- **A lease-purchase agreement with a full payout** provides the most direct path to ownership. You'll make equal payments over the life of the contract and own the unit at the end of the leasing period.
- **A lease-purchase agreement with a balloon payment** is similar, but you make smaller payments through the life of the contract, then pay off the balloon at the end of the leasing period in order to assume ownership.
- **A tax lease is essentially a long-term rental.** You don't own the asset; you just pay to use it. At the end of the contract, if you want to purchase the unit you're welcome to do so.

CONSIDER THE BENEFITS

Although it's common practice for governmental agencies to buy heavy equipment, here are 10 reasons why leasing is becoming more popular.

1. GET MORE FOR YOUR MONEY.
Let's say you have an equipment budget of $200,000. You can use that funding to buy one new machine—or make lease payments on three, four, maybe five new units. Assuming you need more than one additional piece of equipment, leasing helps make that happen.

2. RUN A NEWER FLEET.
Leasing gives you a way to upgrade your fleet quickly. For the cost of one new unit, you can replace several old machines, and in the process, improve reliability, increase fuel efficiency, reduce emissions and lower repair costs.

3. SAVE CASH FOR OTHER PRIORITIES.
Even if you're only acquiring one new machine, leasing lets you put it to work without a major capital outlay. As a result, you'll have more resources available for other projects, unplanned expenses or emergency situations.

4. MINIMIZE MONTHLY PAYMENTS.
A tax lease is your best bet if reducing payment size is your top priority. Your lender can work with you to structure a tax lease that fits your budget.

5. STREAMLINE BOOKKEEPING.
Save time and improve efficiency with a lease that allows you to make a single payment for your machine and its warranty.

6. CONTROL REPAIR COSTS.
Leased units typically come with warranty coverage for the duration of an agreement, so should problems arise, you'll likely experience fewer budget surprises.

7. KEEP CREWS ON SCHEDULE.
Rolling a maintenance and service plan into a lease agreement means the equipment will be well taken care of—in a timely fashion—so it's ready to work whenever your crew is.

8. BYPASS THE BOND ISSUE.
Because tax leases have lower payments, you may not have to issue a bond to acquire new equipment.

9. ALTERNATIVE TO THE BIDDING PROCESS.
Because tax leases are considered long term rentals, they are typically not subject to the bidding process. So they're a good solution if you already know what kind of equipment you need and want to move along with the process.

10. MAXIMIZE FLEXIBILITY.
Leases can be customized to accommodate cash flow, budgeting cycles, seasonal work load and other factors. They can be extended or terminated should your situation change. And when you reach the end of a lease, you have the flexibility to either buy, trade or simply return the unit.

"Leasing is the way to go. You have a machine that has a warranty on it for the duration that you'll have it, and the payment is smaller than if you bought."

Kenny Hicks
Road Superintendent
Tattnall County, GA

GOVERNMENTAL LEASING OPTIONS AT A GLANCE

	LEASE-PURCHASE (Full payout)	LEASE-PURCHASE (Balloon payment)	TAX LEASE (Long-term rental)
KEY BENEFITS	Direct path to ownership	Path to ownership with lower payment	Lowest possible payment; lender retains ownership
PAYMENTS	Equal payments over life; principal + interest	Equal payments over life; principal + interest	Equal payments over life; rental charges
TIMING	Monthly, semi-monthly or annual payments	Monthly, semi-monthly or annual payments	Monthly payments
BALLOON	$1	≤ 80% of residual value	None (unless agency decides to buy)
RATES	Below market	Below market	Commercial
PURCHASE OPTION	Agency must buy at end of lease	Agency must buy at end of lease	Agency may buy or return to lender
INSURANCE	Required	Required	Required
TAX ISSUES	N/A	N/A	Personal property tax assessed to lender; agency billed for reimbursement
NON-APPROPRIATIONS CLAUSE	Yes	Yes	Yes
EARLY PAYOFF OR TERMINATION ALLOWED	Yes	Yes	Yes

CHOOSE WISELY

If leasing sounds like a good option for your agency, take time to find the right lending organization. The best ones:

- **Understand your equipment and the work it does.** There's a world of difference between leasing a motor grader and a copy machine.
- **Recognize and account for differences in residual value.** The way your lender quantifies the future value of your machine can make a big difference in your monthly payment.
- **Offer long-term agreements.** Find a lender that can structure leases for up to seven years to really bring your payment down.
- **Welcome customized payment plans.** Insist on terms that fit your budget: pay monthly, semi-annually or annually. Ask about skip payments during certain seasons.
- **Accommodate cooperative purchasing agreements.** Coop purchasing is not just for buyers; leasers use it too—to save time and streamline procurement. Make sure your lender can help you leverage the power of cooperative procurement.

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