Gee, I Thought It Ran Forever!

Equipment Purchasing & Inventory: Part I

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THINK BACK for a moment. For some of you it may seem like years, and for others it may be as close as yesterday. As you think, visualize this: A truckster rattling across the fairway with its tailgate held in place with baling wire; or was it a chain guard, engine shrouding, or perhaps a headlight held in place on some other piece of machinery? Maybe it is the duct tape used as a battery tie-down, or used to fix the cracks and tears in the mower's seat. Maybe you see the welding job done to hold a wheel hub to its axle because there are no more threads left for the trust nut, or is it the numerous times the reel blades have been re-welded to the spiders?

Be honest, look around the maintenance center and all will probably find at least one example similar to the imagery given above, if for no other reason than the fact that the mechanic simply has not reached that part of the day's agenda.

Sadly, when it comes to handling the huge monetary resources required to operate the grounds maintenance programs at their clubs, few memberships realize the financial responsibility they have. Oh sure, they can tell you how many hundreds of thousands of dollars they spend each year and how they generate those revenues. But ask how the club goes about replacing the enormously expensive equipment inventory, and they are likely to say, "Gee, I thought that stuff lasted forever!"

Well, forever is a long time, but in this case not long enough. Turf maintenance equipment needs to be replaced, and should be replaced on a regular basis.

Assuming that The Camel Golf Club has finally passed over the hump and is through dealing with money-gobbling peripheral projects (remodeling the clubhouse, refurbishing the pool, and adding paddle tennis courts), the superintendent finds, once again, he has a chance to have his golf course equipment inventory reviewed. The last time this happened is likely to be beyond recall. What are his options and how

can he develop an inventory of equipment that is reliable and will allow him to produce the best golf playing conditions possible?

There are three basic premises from which to work. They are (1) short-term rentals, (2) long-term leases, (3) direct purchasing. A well-informed decision on which premise to work from can only be made if a thorough system of record keeping has been used. A review of these records can readily show which pieces of equipment are used with the greatest frequency and which are not. Seldom-used machines, such as chippers, stump cutters, and trenchers are obvious candidates to be acquired through renting. A search of the records would probably show many other specialized pieces of equipment that are used only from time to time through the year. Purchasing specialized but seldom used pieces of equipment can tie-up thousands of dollars in inventory. Valuable storage space is also consumed, making usually tight maintenance centers more crowded than need be. The number of clear-cut cases where renting is the right and proper thing to do may surprise you.

What about the heart of the equipment inventory, the primary mowing machines, utility trucksters, sprayers, tractors and such? Many golf courses can simply rebuild this equipment during the off season and by doing so often keep the equipment in service well beyond the good sense of economics. There eventually comes a point at which time repairing a machine is no longer monetarily feasible. The superintendent and club must evaluate the cost of anticipated repairs, the cost of replacement with new equipment, trade-in value, if any, and the depreciation value of the present equipment. One standard rule of thumb often used is to replace the machine when the total repair cost, including parts and labor, equals 50 percent of the initial purchase price. Another says to do so when the cost of all repairs since the purchase date exceeds 30-40 percent of the new purchase price.

One method of acquiring these more permanent types of equipment is through leasing. Leasing is most appealing to municipalities or to those clubs that are profit-oriented organizations. Private clubs generally have a better cash flow, or at least it can be created through assessments. However, leasing could be important to them as well, if the budget is tight and the cost of borrowing money is high.

Leasing offers many advantages, not the least of which is flexibility. The terms and conditions of many lease agreements can be set to specific terms for each piece of equipment. They may also be tailored to coincide with the peaks and valleys of club income by setting payment schedules to match the income-producing months and allowing non-payment during the few months when income is negligible.

The most obvious advantage is that few leases require any cash down payment. The monthly payments are paid with today's dollars, which allows use of the machinery during payment and eliminates cash disposal before use. This conserves working capital and creates a situation where monies can be invested in interest-bearing accounts, or used to finance other needed projects. Then, too, established credit lines will remain open and enhanced, enabling the club to increase its borrowing base.

Leasing may also act as a hedge against inflation. Most of the payments made will be with tomorrow's dollars and in an inflationary period those future dollars' value would be deflated.

From a tax perspective, since rental payments may be charged directly as business operating expense, leasing may offer another advantage. However, most leases are established based on the economic life of the machine as opposed to the tax-depreciable life. Confusing this issue further will be the Tax Reform Act of 1986. Leasing companies will lose the advantage of investment tax credits and will incur longer depreciation schedules. This still does not diminish most of the arguments for leasing, such as conserving credit, shifting unusable depreciation, and easing cash flow requirements. A thorough check with an accountant would be in order, however.

The continuation of lease programs protects against obsolescence. This ensures that new and more sophisticated equipment will always be at the club's disposal. Downtime and costly repairs can be nearly eliminated while the club enjoys the benefit of the latest technology used in the creation of superior playing conditions.

Like any piece of tape, leasing too has its sticky side. Where there is plenty of cash available, leasing would be an uneconomical choice. Any club would be better off employing its working capital to the fullest extent. Leasing will invariably cost more than purchasing the equipment (the lessor needs to make a living, too). Just as if the machine was purchased, the maintenance, unwarranted repairs and insurance will be the lessee's responsibility.

There are different opportunities available when the lease expires. Some lease agreements offer no trade-in value at the expiration of the term, resulting in a loss. Others offer a residual value for the equipment, and you have the option of buying it for that price or turning it back to the lessor. And still other contracts may require you to purchase the equipment at a predetermined price, leaving you responsible for selling it. This can lead to an awkward situation, especially if the pre-set residual value was overstated to create lower, more convenient lease payments. Situations that set residual value at the end of the lease force you to pay that price for the option to keep or sell the machine. This scenario may work out well, or it may not. Obviously there are some risks to leasing.

The third and perhaps most popular method of adding to or replacing equipment inventory is that of direct purchase. The most compelling reason is simply that buying generally results in lower overall costs. But how do most clubs go about making such purchases? Unfortunately the majority wait until they have to and this places an unexpected (and equally unpleasant) strain on the club's cash flow or forces the club into borrowing the needed capital. Either way, a bruised and battered budget is the precipitated result of poor planning when it is announced that "We need a $40,000 machine . . . NOW!"

Fast-learning memberships will endure this unnerving situation only once, after which they embark on some sort of a planned equipment replacement program.

One popular way of financing such a program is to develop a capital equipment purchasing fund. This typically amounts to allocating a dollar amount equivalent to 10 percent of the current year's operating budget. This practice can work quite effectively when applied to those pieces of equipment that may cost less than $10,000 to $15,000. However, even if a club has an operating budget of $350,000, 10 percent would equal only $35,000. It quickly becomes evident that it is difficult to replace a fleet of triplexes or a pair of hydraulic five-gangs used to mow fairways. The 10 percent concept is better than nothing, but it can have serious limitations.

Many of the country's more exclusive clubs and certain government facilities

(Above) Cooperative efforts produce positive results. Green Chairman Tom Craighead and Superintendent Alton Moore shown with recently purchased tractor.

(Left) Moving into the modern world.

operate on equipment replacement programs, which take into consideration depreciation schedules and anticipated equipment replacement dates. Accountants and equipment distributors can help set up depreciation schedules that are based upon the tax-depreciable life of the equipment and correlate it to the useful life of the machine.

The club can then pay itself the monthly depreciation earnings and deposit them in an interest-bearing escrow account, the funds of which are reserved for capital equipment purchasing. Then, as a particular piece of equipment comes due for replacement, sufficient funds will be readily available. The new machine is purchased, a new depreciation schedule developed, a replacement date is set and the scheduled payments to the escrow account start all over again.

Club leadership needs to realize that operating a golf course is a business proposition, and with it comes the responsibility of handling the club's financial resources intelligently. Assuming a well-conceived equipment replacement program, utilizing depreciation schedules and replacement dates can eliminate sharp peaks in the club's operating budget and stave off financially troubling times without sacrificing turf quality or playing conditions.

The Waccabuc Country Club, in Waccabuc, New York, where Alton Moore and Tom Craighead are Superintendent and Green Committee Chairman, respectively, recently adopted this type of equipment purchasing program. As it is at many clubs, Al and his crew did an excellent job of maintaining their equipment. In fact, too good of a job, since many pieces of equipment had been in daily use since the 1940s. With the mechanic retiring, and many parts no longer available, it became apparent the club had to replace the old with new.

An inventory was taken, and a wish list was compiled when it became time to catch up with modern technology. With facts and figures in hand and lots of persuasive conversation, the chairman and the club agreed to a five-year program. During this time the most pressing equipment needs were addressed first, and by the end of five years nearly all of the old equipment will be replaced. Beginning in year six, those machines purchased during the first year that have a five-year service life will be replaced with funds derived from the depreciation payments made to the escrow account.

As Al and Tom will admit, this five-year transition into modern times represents a sizable piece of change to the membership. This was justified by comparing initiation fees, member dues and budgeted capital equipment expenses with comparable clubs in the area. All were found to be low. Initiation fees were raised $3,000 and member dues a modest $300. These increased funds were the source used for the initial purchases being made. The plan calls for spending a little more than $50,000 for each of the five years, for a total of more than $250,000. However, remember that the machines are being depreciated out 100 percent and the club is also making these payments to the escrow account. Even though they are experiencing certain tax advantages, the five-year program is costing in excess of $500,000.

The good part is that the light is on at the end of the five-year tunnel. At that time, all the equipment will be replaced, and a sufficient cash reserve in the escrow account will have accumulated, so that all future equipment replacement can be done on time with the comforting knowledge that the money is available. The situation at the Waccabuc Country Club was quite immense, but the solution to the problem is one that could easily be mimicked by any other club currently without an effective equipment replacement program.

While there are no clear-cut ways to solve the equipment replacement problem, it is good to know we have choices available. The keys are to match the right equipment for the job, prepare a replacement schedule, develop a financially responsible attitude to the problem, and remember, it *doesn't* last forever.