What type of trade-in value does this have?

Equipment Replacement: Choosing a Path of "Leased" Resistance

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FOR A GOLF COURSE to reach its potential, everyone knows that good agronomic and cultural practices must be employed. Although these practices vary from course to course and from one part of the country to another, there is at least one factor that remains constant: Turf quality is greatly enhanced through the use of modern equipment.

There have been tremendous changes in the machinery used on courses over the years. Some are technological advances such as lightweight mowers for fairways or water injection aerifiers, while others represent a return to practices of the past, such as the use of walk-behind greens mowers.

By virtue of their experience with thousands of golf courses across the country, USGA agronomists have developed a rule of thumb for funding the replacement of maintenance equipment. Assuming the equipment inventory has been kept current, 10 to 15 percent of the total replacement value should be spent toward the purchase of new machinery each season. For an average course, this would equate to $35,000 to $50,000 per year. Unfortunately, many courses have found it difficult, if not impossible, to make vital capital equipment purchases for the past several years. As a result, much of their machinery is long overdue for replacement. This has a domino effect on other aspects of course mainte-


Leasing can be advantageous when you need a piece of equipment for a special project.

nance. The cost of equipment maintenance skyrockets and, due to the need for frequent repair, the machinery suffers unnecessary "down time." While waiting for parts, the golf course staff's efficiency is reduced, resulting in a less well kept facility. Ultimately, players begin to notice the drop in quality, and criticism is directed at the golf course superintendent.

Remember, the rule of thumb mentioned previously is appropriate when the equipment inventory has been kept current. Unfortunately, far too many clubs fail to purchase equipment on such a timely basis, and before long much of the inventory is due for replacement. When this situation occurs, what options does a golf facility have? While attempting to "catch up" in a single season has its merits, it is the rare board of directors that has the strength or desire to assess a membership for so much new equipment, even when it is badly needed.

Fortunately, there is a good alternative that can provide relief for many courses. Rather than purchasing various big-ticket items in a single season, courses instead are choosing to lease their entire inventory for approximately four to five years. At the end of the lease, the equipment can be purchased or turned back to the lessor and the process begins all over again.

As mentioned earlier, the new equipment used on courses today is much different than it was just five to ten years ago. Fairways, tees, and greens are all being mowed with lighter-weight, less-expensive equipment. However, because of these two factors, their life expectancy is not nearly as long. For example, consider the options on fairway mowing equipment. A lightweight mower provides a higher-quality cut, produces less compaction and wear damage, and gives a more distinct mowing pattern than its predecessor, the large and heavy tractor unit. But instead of 10 to 15 years of useful service, the lighter unit provides just six to seven years of service. After this period the mower probably will wind up in that old equipment graveyard so familiar to most courses.

That brings up another point. How many courses actually trade in equipment? What is the value after six or seven years of service? Unfortunately, it probably is worth very little. With these thoughts in mind, why would a golf course facility want to own its equipment? The benefit truly lies in the use of the machinery and not in its ownership, and therefore the concept of leasing demands consideration.

Leasing Basics

Although most golf course superintendents are unfamiliar with leasing, other major industries are no strangers to the concept. Everything from heavy equipment, including forklifts, cranes, and barges, to such items as small computers is being leased today. More than 70 percent of major U.S. companies use leasing as a financial tool, according to the American Association of Equipment Lessors in Arlington, Virginia. To emphasize the popularity of leasing, one need only look to its remarkable expansion from 1980 to 1992. In 1980, $43 billion of equipment was leased. By 1992, that figure had risen to a staggering $120 billion. Perhaps these facts will help dispel some of the falsehoods about leasing and help decision-makers in the golf industry to become more comfortable with its application.

There are many variables involved when considering a lease for golf course equipment needs. Without question, leasing is a bona fide financial alternative, but because of its complexities, the entire process must be examined closely before making any commitments. Though leases vary from company to company, there are some general statements and recommendations that will pertain to all leases.

How Does Leasing Work?

Leasing is an extremely simple process. The leadership of the course (lessee) specifies the equipment desired, including both the manufacturer's name and model number along with any special options desired. The machinery could range from a small "flymo" for bunker bank maintenance to a large rotary unit and new tractor for mowing roughs. After negotiating with the vendor for the best price, a leasing company (lessor) should be selected.

Several leasing companies should be interviewed to ensure that the rates and terms of the lease are competitive. After the selection process is complete, serious negotiations can begin, including the type of lease, length, and payment schedule. After these issues have been resolved, a lease is signed and the leasing company purchases the equipment specified in the contract. When the machinery is delivered, it is checked out and, assuming everything is as specified, the lessor pays for the equipment. The lease is then considered to be in effect.

The most common type of lease a golf course facility will enter into is a net lease. Under these guidelines, insurance, taxes, and maintenance all are paid for by the lessee. Following a specified amount of time (usually three to five years), the lease ends. At that time the leadership may decide among three different courses of action. They may return the equipment to the lessor, pay the fair market value for the equipment, or upgrade to brand-new machinery.

As mentioned earlier, all lease companies and their rates are not the same. Another way to get started is to send a standard bid request form to various leasing firms. In this manner, decision-makers can be assured that they are comparing "apples to apples" in the lessor selection phase of the project. A sample bid form and a list of possible leasing companies can be obtained by calling the Equipment Leasing Association of America in Arlington, Virginia, at (703) 527-8655.

Benefits of Leasing

1. Tax Benefits

The leasing of equipment by golf courses benefits both the lessor and the lessee. The lessor is able to claim the tax benefits of owning the machinery and can pass some of these savings to the golf course by lowering the scheduled payments. The leasing company also claims equipment depreciation, and the course can deduct the lease payment as an operating expense. Thus, one of the principal benefits to golf courses financing their equipment acquisition by this method is the realization of tax benefits that would otherwise be lost. To determine whether or not your golf course can qualify for this benefit, a qualified tax accountant must be consulted.

2. Preservation of Working Capital

This is a primary reason golf courses should give leasing strong consideration. Utilizing the lease format, a golf course can finance virtually 100 percent of the cost of the equipment. Compare this to a conventional bank loan that demands a down payment of 10 to 20 percent. Obviously, the amount of the down payment depends on the credit worthiness of the buyer, the equipment being purchased, and current economic conditions. In any event, for a $250,000 loan, a club would need to raise $25,000 to $50,000. Many courses would not have this amount of cash readily available or even be able to secure a loan for the down payment.

In some cases, it is wise to combine both traditional financing and the leasing alternative. For example, if the maintenance shop is in need of renovation, the course might borrow the money from a bank for the restoration work, but choose leasing for acquiring the equipment they need badly. In other words, leasing can help preserve a course's borrowing power for times when it is really needed.

3. Restricted Use Needs

When a specialized piece of machinery is required only for a short period of time, leasing can be used effectively. This solves the dilemma of selling the equipment when

Leasing may allow you to take advantage of recent improvements in aerification and core processing.

the work is completed and often can be more cost effective than renting. For example, a golf course in the process of renovating bunkers or attempting to correct major drainage problems would be wise to invest in a backhoe. However, once the job is completed, the equipment may no longer be of use to the course. At that time it would be wise to sell the machine to another user. If it is unlikely that the backhoe will sell quickly and with relative ease, then leasing clearly would be superior to purchasing.

Perhaps most important, leasing commits the golf course to a sound equipment investment program. Once initiated, the club is committed to monthly payments for the duration of the lease, regardless of frequent changes in golf committees and the boards of directors. That is truly what leasing equipment for golf courses is all about — promoting timely equipment acquisition and replacement.

4. Custom Lease Payments

The payment schedule with many leases can be tailored to meet the needs of the facility. If the busy times of the year are March through October, payments can be arranged over those eight months. Negotiations also can structure higher payments early in the lease and lower payments later on (or vice versa, depending on the needs of the course).

5. Financing Considerations

Usually, leases for smaller pieces of equipment can be arranged more quickly than through other financing sources. Documentation also is less cumbersome for closing the deal.

Finally, many lessors will write master leases. These function in a fashion similar to a line of credit at a bank. A predetermined dollar figure is set, as is the time period (usually for one year or less). This allows the course to select different pieces of equipment from different vendors throughout a given year. The lease is structured such that the financing costs and other lease conditions are known well in advance of the acquisition. After the original master lease has been designed, the documentation for new equipment becomes very simple.

Disadvantages of Leasing

We have touched on several positive aspects of leasing. Predictably, there is a downside as well. If a club has been keeping up with equipment replacement on a timely basis through the years and can afford to pay cash for new equipment, this is the least expensive option. However, even the club that has the ability to purchase equipment outright may find that leasing would free up those funds for other investments.

Perhaps the disadvantage mentioned most often concerning this method of financing is that the lessee gives up the chance to realize any monetary gain if the equipment used appreciates in value. Obviously, this is a rare occurrence in terms of course maintenance, as the wear and tear on machinery depreciates its value very rapidly. However, it definitely has application in the golf course construction industry, where large pieces of equipment such as bulldozers and scrapers can appreciate in value over time.

Finally, a leased piece of equipment should not be substantially modified. When a tractor or mower is leased, in essence it is only borrowed and should not be changed without permission from the lessor.

Where to Lease

In addition to contacting the Equipment Leasing Association of America, a search can be made for lessors located closer to home. These include individuals, banks, lease brokers, independent leasing companies, and captive lessors. Independents and captive lessors provide the majority of funding for golf courses.

Independent Leasing Companies

These companies are the major source of lease financing for all types of equipment in the country. They operate in a fashion similar to banks that lend money for equipment purchases. Instead of maintaining an equipment inventory, they purchase the machinery specified by the golf course.

Master leases make it possible to obtain a tractor from one vendor and rotary mower attachments from another.

When the equipment is delivered, the leasing company pays for it, receives the title, and the lease is put into effect.

Captive Leasing Companies

A rapidly growing segment of the leasing industry is captive leasing companies. These types of lessors are directly associated with individual equipment manufacturers. Captive lessors' primary purpose is to offer "captivating" lease packages to help make their machinery and prices more attractive than the competition's. This allows the manufacturer and distributors to move more machinery and increase their profits, resulting in the company being able to pass along a lower finance rate to the golf course.

Case Studies

1. Leasing Equipment

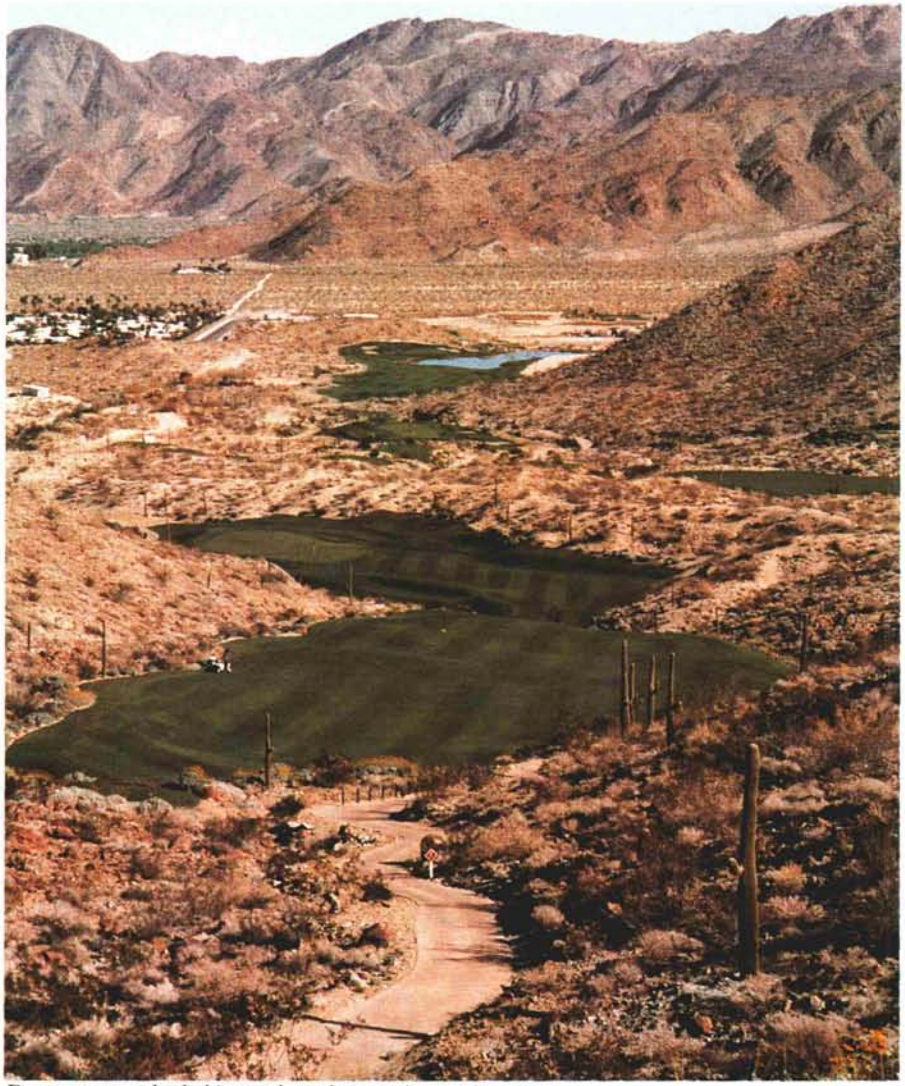
A municipal golf course in western Nebraska recently decided to commit to leasing for their equipment needs. They leased approximately $225,000 worth of new equipment, and because the order was so large, the distributor agreed to $20,000 worth of the most commonly used parts at his cost.

The course had been spending approximately $38,000 on equipment repair each year. This figure by itself is a good indicator that their equipment was long overdue for replacement. During the first year of the lease, there was very little repair expense for the club simply due to the newness of the equipment and the fact that it was still under warranty. As stated earlier, the club also purchased $20,000 worth of parts. This will help them get through at least another year with very little routine maintenance expense. Finally, while years three through five will see an increase in the repair expenses, that figure probably will be less than half of the $38,000 that had been spent in previous years.

The superintendent noticed an increase in the efficiency and morale of his entire staff. Less down time for repairs to the old equipment meant more time spent conditioning the course. And just like buying a new car, the workers were proud of their equipment and looked forward to coming to work each day. This culminated in an increase in the crew's productivity and an improvement in their quality of work, and they took much better care of the machinery.

2. A Twist on Assessments

A country club in central Oklahoma financed the purchase of new equipment using another alternative. They assessed each member $300 to raise approximately $180,000. Though there is nothing new about assessing the membership, the club has promised to pay back the money whenever a member leaves for whatever reason. Not only has the new equipment made a difference on the course and to the staff, each member is proud to play a small part in improving the playing conditions on the course.



For a course to look this good, modern equipment is a must.

Not to be overlooked is the fact that both golf courses received a sizable discount for buying in volume. Not only did they end up getting the best deal on the equipment, but they received excellent service after the sale as well. Vendors realize the importance of keeping these clients satisfied.

Conclusion

There are many alternatives to consider when acquiring new equipment. Leasing is becoming more popular for country clubs and municipalities because of its inherent benefits. To more fully understand the complexities and advantages of leasing, two books on the subject are highly recommended:

The Handbook of Equipment Leasing
Richard M. Contino
Amacon Publishing
New York, New York

Equipment Leasing
Pete K. Newitt and Frank J. Fabozzi
Dow Jones - Irwin Publishing
Homewood, Illinois

Without question, part of the long-term financial health of a golf facility involves timely equipment replacement programs. If these programs are neglected, the conditioning of the course suffers and the maintenance of the older equipment becomes inefficient and expensive. Conversely, if the equipment inventory is kept current, the course, the turf, and the golfers will all benefit.