Equipment:

Leasing is a contract granting use of property during a specified period in exchange for a specified fee. Leasing offers you the opportunity to select the equipment you want for

A lease or buy decision can be based on the estimated life of the equipment, the availability of cash flow and the advice of an accountant on the tax ramifications of the decision. You may want to just take the depreciation.

By STEVE & SUZ TRUSTY

the time period you want without tying up financial resources for the total price of the unit.

In buying equipment you commit to the total price of the equipment which impacts your line of credit with the lender and usually with other sources that request bank information on your credit applications.

"I base my lease or buy decisions on the estimated life of the equipment, the availability of cash flow and the advice of my accountant on the tax ramifications of the decision," says Nick Stipanovich, owner of Nick's Lawn Service, Merritt Island, FL. "There may be times when there's a greater tax advantage for our company in making a capital purchase and reducing retained profits by that amount than there is in leasing and depreciating the lease value.

"The number one aspect of leasing is I don't have to put up a lot of my money to get into the equipment I want. The initial payment on equipment is generally in the range of the regular payment on that unit.

"Leasing also allows me greater control over my cash flow. When it comes to a $40,000 or $50,000 machine, I can sign the lease agreement and make the initial payment at the end of March. The machine is mine to use from the date the agreement is signed. The first regular payment would then come due at the end of April. That control is really important when you're leasing equipment for a job you're just beginning and won't receive payment on until later."

Stipanovich adds, "most of our equipment lease agreements are set up similar to a bank loan, but with a dollar buy out at the end of the lease period. Because technology is moving so fast in this industry, I like the flexibility leasing gives me to move up to a faster, better unit at any point in the life of the lease without making a major impact on my cash position."

Dave Herman, superintendent of Heritage Highlands Golf and Country Club, Tucson, AZ, says, "we lease so we can get the best equipment for the least amount of money upfront. With traditional purchasing on a golf course you have equipment on three- to five-year cycles. When those machines need replacement, you're facing a huge capital expense. With leasing, we have equipment on three-, four- and five-year leasing programs: the smaller mowers on three-year leases, the Gators on four-year, and the larger tractors and other units on five year.

"At the end of the lease period we have the option to extend the lease for an additional year, buy it out at the pre-determined price point, or tell the company to take it away. We can start another lease on a new machine at that point, with a minimal initial payment."

Gary Tungate, vice president and regional manager for the Southeastern US offices of Environmental Services/Environmental Golf/Valley Crest says, "our company has found it a good basic business decision to go with outright purchases and take the depreciation. With our national buying power, strong cash position, and consistent growth, we keep coming to that decision. Leasing does have a place when other assets are needed and purchasing makes a detrimental effect on buying power."

Do your homework. Make sure you're working with a good leasing agent and that there are no hidden charges.

Tungate adds, "we determine the life cycle of our machines using the manufacturer's projections and our own estimates of our own usage of that piece of equipment. Each machine is analyzed with replacement based on those factors, along with the performance of the machine and its maintenance and repair records."

The same kind of analysis and performance tracking is followed by those leasing equipment. Because Stipanovich keeps newer machines in his lineup, maintenance generally is confined to regular servicing; the company handles it in-house.

"We get a one year, bumper-to-bumper warranty on new turf equipment and opt for two more years of warranty on all the major parts through our distributor (Arizona Machinery) so all the major repair issues are covered," says Herman. "We handle general, scheduled maintenance."

Stipanovich cautions that "all leases are not created equal. Do your homework and make sure you're working with a good leasing agent and that there are no hidden charges."

Cleve Cleveland, CGCS, is superintendent and owner of Newark Valley Golf Course, Newark Valley, NY. He holds two degrees in accounting, and speaks on financial issues at turf conferences.

Cleveland: Know the built-in interest rate factor.

"Ask your sales rep to put you in touch with a leasing specialist, who will be more than happy to explain the types and details of various leases," says Cleveland.

"Have the salesman provide you with a detail of a lease arrangement. Talk to your CPA or the golf course's CPA and have them analyze it and try to estimate the built-in interest rate factor"

"Do pick a leasing company that understands your business, offers flexibility and is willing to work with you," adds Herman.

Some leasing companies offer a "bundling" option with used equipment from the associated manufacturer and allied products, in the same package with your new equipment lease.

Herman says, "We're using John Deere Leasing and not just for John Deere machines. Things that we'll have for a long time, such as our storage towers, are leased through them with a one dollar buyout."

Flexibility is a key component of leasing. Herman notes, "One of the greatest advantages to leasing is the opportunity to make the move to more advanced equipment, a machine that performs better or more closely matches our needs.

With leasing, we can do this when that equipment becomes available, even before we reach the end of the lease cycle on our current unit. We switched from our leased Gators to leasing the new Turf Gators when they came out with a minimal increase in our lease payments and no penalty for making the change.

"The previously leased machines are a great buy for courses that don't have the resources to lease or purchase new equipment. Our Gators had been serviced regularly and were in great shape, but we wanted the advantages of the new machines."

See leasing financial tips on page 22

Lease or buy?

Cutting costs a key

For many contractors and superintendents, signing a lease could be like signing away a headache or two. Contractors and superintendents find leasing a way to defray the amount of their capital investments.

It also answers a maintenance question: who will fix it, and for how much?

Other advantages include trade-in options, tax advantages and convenience.

Lance Schelhammer, president of Grass Roots, Inc., Lenexa, KS., knows first hand how vital leasing is due to equipment depreciation.

"We feel that since some of the trucks are used in snow removal, their value decreases a lot faster than a truck that wouldn't be used in snow removal. Therefore, it's not a sound investment. We feel we should lease the snow trucks rather than purchase them. Since we need to turn over the trucks every three to four years, it makes sense for us to lease those trucks. You're not absorbing the same amount of loss as you would on a purchase."

Schelhammer doesn't equivocate on the dollars he saves.

"A lease is normally cheaper than buying," says Schelhammer. "There might be as much as $100 per month difference per vehicle."

Grass Roots leases 15 vehicles, for a savings of $1500.

A leased vehicle, however, can't be listed on the Assets column of a financial statement.

"It's just a cost," reminds Schelhammer.

Sam Burke, owner of Hebron, Ky.-based Landscape One, has leased mid-range mowers and trucks.

"That's the main part of your workforce. Those are the items that are used daily. Those are the higher dollar pieces of equipment and the types of equipment that you want to try to keep updated without stretching yourself cost-wise to purchase."

Burke says that over a five-year period, you may save 20-25 percent, considering downtime, or possibilities of downtime.

Tom Tuttle, golf course superintendent of Trenton CC, Trenton, NJ, leases a reel grinder.

"In the long run we pay a little less money. We incorporate the payments for it into our operating budget. I didn't have to ask for any more capital money to purchase it. From that standpoint, I just continue to use my operating budget to get the piece of equipment.

Tuttle may lease more in the future, including fairway mowers, spray tanks and tractors.

"Those are the kinds of equipment you want to replace on a regular basis, especially the mowing machinery. They have an estimated lifespan, and you set up the lease for the estimated life of the equipment. As opposed to just buying it and keeping it years on end; then, when you want to get rid of it, it doesn't have its trade value.

"It's a way of keeping the average age of your primary pieces of equipment at a young age, with less breakdowns and more productivity," says Tuttle.

"There is a benefit as far as capital output," adds **Dennis Smith,** fleet manager for an Irving, Texas-based landscape company. "You don't have to come up with initial capital to get the vehicle. We lease the bulk of our equipment primarily for capital purposes."

That retention of capital was a key advantage for **Ed May,** superintendent of the new Blue Bell CC, Blue Bell, Pa.

"This is a new golf course, so we had to purchase the entire maintenance fleet, which is about $500,000 worth of equipment. The lease/purchase option was good because we didn't have that initial large amount of money going out."

In some cases, leasing is just plain easier.

"It's easy to get a lease. It's convenient. The payments are nice," lists **Melissa Shrader,** president of Greenshades, Inc., North Liberty, Iowa.

"If you're careful, the payments can be equal to buying it, without all the paperwork."

Greenshades leases mowers, trucks and radios, "for the convenience and the tax savings. You can deduct that completely off your taxes rather than having to go through a depreciation schedule.

"My feeling isn't that you necessarily save money. It's more for your tax dollars."

Maintenance advantages

"My biggest advantage in a leasing agreement would be that at least the agreement I have includes maintenance. The pieces of equipment that I lease can be a big maintenance item," says **Myron Groat,** owner of ABC Lawncare, Fort Dodge, Iowa. "Then, in turn, they never get old under a lease agreement," says Groat, who leases walk-behind mowers.

Shrader enjoys the warranty advantages offered by leases.

"If you have a leased truck and you get into an accident, you trade it in and get a new one, and it doesn't affect your lease at all. You're guaranteed that. For smaller equipment, like radios, it's the same thing. If it's not working, instead of having to deal with repairs and sending it in, and waiting, you have a new one right away."

"If a piece of equipment goes down while it's on the lease, most rental dealers have a repair shop where they can take care of the repairs for you, which is included in the lease," says **W. Paul Stacey, Jr.,** president of Landscape Services, Inc., Fairview, TN, who likes long-term leases.

Schelhammer: Lease the snow trucks.

"The best way to lease is over a three-year period; that way, you have the warranty on the truck for the whole duration of the lease. We do it for four years, because we maintain our own trucks," says Schelhammer.

And, don't forget the intangibles, like just how good a new truck or mower can make you feel.

"It's nice to have a new piece of equipment every three years," admits **Dave Spotts,** superintendent of Indian Hills Golf & Tennis Club, Paxinos, PA.

—Sharon Conners