Bidding the Purchasing Power of Dollars: Aggregation Works

- *Lease Purchase: planning can save tax dollars*
- *Different types of equipment can be included in a lease purchase, and it can be a benefit*
- *Different repayment terms and schedules for financing of separate classes of equipment can be included in the same lease purchase*

Aggregation works when it comes to planning your financing needs. When bidding a lease purchase financing what are you actually bidding for? Simply, the bid will be for the interest rate you will pay for the purchase power of money borrowed.

Although we use the term lease purchase in actuality think of this as a “loan”. A “loan” to purchase essential use equipment. The term of the “loan” will be determined by the type of equipment you are purchasing. The equipment is the collateral for the “loan”. As a government entity you are not pledging the full faith and credit to make the payments for the lease. The lessor, “lender” relies on the equipment being financed as the source of security for the “loan”.

When considering a lease purchase take into consideration the useful life of the equipment you will be including in the financing package. How long do you think a Chromebook or copier will last? What is the useful life of a truck or bus? These are questions that a lender takes into consideration in determining whether to bid and what interest rates should be bid given the term of a lease repayment.

A lender may feel comfortable with a repayment term of three years for Chromebooks, copiers or police cars, five years for a truck or technology infrastructure, five or six years for a bus and ten years for a fire truck. They know that these types of equipment will hold certain values for the term of the lease purchase. This is the collateral that they will rely on should there be an event of default. In that event the will rely on the value of the equipment and the ability to remarket it to mitigate a portion of their loss. A default on a municipal lease purchase is very rare, but a lessor will only “lend” if they know, first, that the underlying credit is sound and second, with very high degree of certainty, that they will get a good portion of their principal back if a default occurs.

Understanding this will help you budget and design a lease purchase that will optimize the interest rates you receive when bidding. There is nothing that prohibits you from including different terms and separate repayment schedules in the same bid for lease purchase financing. For the governmental entity this gives you the ability to separate amortization schedules into differing budget categories.

As an example a school district may only want to pay for Chromebooks for three years while budgeting school bus repayments for five years. A lender will look at the overall size of the transaction knowing that they will only have to one set of documents for the transaction with optimal collateral coverage in the repayment schedules requested for the three and five year property categories.

The resulting bids will reflect the overall size of the transaction meriting separate aggressive interest rates for the three and the five year schedules.

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