



White Paper:

A Guide to Equipment Lease Financing
for Charter Schools

(Updated for 2016)

Equipment Lease Financing For Charter Schools*

Charter schools face many challenges in raising capital. Capital is needed for everything including acquiring the equipment that is used by students, operating capital to run the school efficiently, leasing the school property, and eventually acquiring a school property. Unlike the financing methods involved in operations financing or real estate financing, the issues surrounding equipment lease financing (which includes everything from furniture to computers) tend to be different. And charter schools have been significantly underserved in this area.

The purpose of this whitepaper is to provide information about equipment lease financing solutions. We will discuss general lease terms, best practices, specific challenges for charter schools, how to avoid common pitfalls, and how to achieve best results.

Current Challenges for Charter Schools

The charter movement continues to grow. With 6,700 charter schools educating nearly 3 million students, and 630 new charter schools planned for 2016, charter schools are an increasingly important part of the education landscape. But charter schools differ from public schools in several important aspects that impact financing. Many public schools are large enterprises that have been operating for decades, even centuries. Charter schools are often newer schools with fewer assets, little established credit or operating history. Public schools have access to the public bonds markets. Charters generally don't.

These differences create challenges in all areas of financing. The challenges in turn have created a significant increase in the demand for alternative, and cost effective, sources of capital. 80% of schools in the United States already utilize equipment lease financing to fund certain capital expenditures and manage budgets. However, choosing the right equipment lease finance solutions and the right partner first requires an understanding of certain lease financing terms and an understanding of industry best practices.

Equipment Lease Terms

Equipment leases contain terms that must be analyzed as part of the lease for your school. The following basic terms are found in all leases:

Cost of the equipment: This is the cost of the leased equipment supplied by the equipment vendor, including fees and expenses associated with the equipment such as delivery, installation, sales and use taxes if applicable, etc.

Lease term: The lease term typically ranges from 3 to 5 years.

*We're good at this.

End-of-lease purchase option: Leases can be structured as a lease-to-own agreement with a one dollar or nominal purchase option, or a lease rental agreement with a fair market value purchase option. There are benefits to both structures. Different situations discussed below will determine which type of lease is most appropriate.

Lease payment: Lease payments will reflect the cost and type of the equipment, the term of the lease, the end-of-lease purchase option, and the creditworthiness of the school organization. It is important to fully understand the implied interest rate and other financial terms of the lease.

Payment frequency: Lease payments can be made monthly, quarterly, semi-annually or annually. Many schools elect to have lease payments made annually, to coincide with availability of budgeted funds.

Advance rentals, security deposits, down payments: These are sometimes required, but rarely, and most often with schools that are not well established.

Fees: Some lessors require payment of fees, such as documentation and equipment inspection fees.

Taxes: Many charter schools are exempt from all taxes. However, some states require schools to pay sales and use taxes on the lease payment, just as sales taxes would be paid on a charter school's purchase of equipment. Also, annual personal property taxes may be assessed by the county and required under the lease.

Best Practices

Selecting Equipment Only you can determine the best equipment for your school. With equipment lease financing from an independent lessor, you can lease any type of school equipment supplied by any manufacturer or vendor. The lessor should be willing to provide lease financing for any equipment you select. Most manufacturers will provide you with a lease proposal, but typically it is contingent on leasing that manufacturer's equipment. The manufacturer's captive lease finance company may not be willing to lease to charter schools.

Working with the Equipment Vendor Equipment vendors are, of course, concerned about getting paid for the equipment, and when they will get paid. If the charter school is not perceived as being creditworthy because it is a newer school or for some other reason, equipment vendors will tend not to provide customary equipment purchase discounts. With equipment lease financing, the equipment vendor relies on the lessor for payment, especially if the charter school is pre-approved. In effect the equipment vendor will receive cash on or before delivery, and purchase discounts offered to the charter school should reflect these favorable payment terms.

Structuring the Lease Make sure the equipment lease finance proposal contains terms that are appropriate for your school. You will be able to select the lease term, the payment frequency (monthly, quarterly, semi-annually or annually), a down payment amount, if any, and the end-of-lease purchase option. Any costs and fees should be clearly spelled out in the equipment lease finance proposal.

Selecting an Appropriate End-of-lease Purchase Option Leasing is appropriate both for assets that are likely to be refreshed on a regular basis and for assets that your school will want to own. It depends on the type of equipment and how you expect to use the equipment. For example, school furniture tends to have a longer useful life than other types of school equipment. Most schools prefer to lease school furniture under a lease with a one dollar or “nominal” purchase option at the end of the lease. Leasing IT equipment has become increasingly popular as organizations recognize the benefits of regular technology upgrades. Since IT equipment is a rapidly depreciating asset, and the costs of maintaining old equipment is high, leasing IT equipment under a lease with a fair market value purchase option may be appropriate. This lease structure enables schools to preserve additional cash since the lease payment will be lower.

Securing Credit Approval Securing credit approval will depend on the creditworthiness of the school organization, including how well the school financial information is organized. Unless the lease is for a small amount, you should expect the lessor to perform due diligence on your school and to request information. You should organize financial statements from prior years, provide a current interim financial statement through the latest month, bank statements, the current year budget and projections, and a report showing performance to budget.

Financial information is not the only information that will help you secure approval. A good description of the school, its enrollment, growth, history, plans and historical academic performance are also very important.

For newer schools, often there isn't much information available. Here, it is best to provide any and all financial information that is available, and then supplement the financial information with other information about the school as above. Has the school received any grants? Is there a good relationship with the school district? Does the school have a waiting list? Is the school well supported by the local community? There are many other non-financial factors that are important in securing credit approval.

Selecting a Lessor Like many industries, the equipment leasing industry is comprised of thousands of competitors – and no two companies are the same. The lessor’s business practices and track record are often as important to the economics as the monthly payment. Be sure to check references and talk with customers who have completed leases with the lessor you are considering.

FAQs

What is equipment lease financing? Equipment lease financing is a process by which a firm (the lessor) provides financing for new or used equipment to another party (the lessee). Leasing preserves cash flow and may offer tax advantages. Additionally, it helps schools maintain up-to-date equipment and good credit.

What kind of equipment can be leased? Schools can lease all of the capital equipment used in the school’s activities, including, but not limited to, computers, software, tablets, school furniture, modular classrooms, cameras and security equipment, copiers, athletic equipment, turf, phone and paging systems, and playground equipment.

What types of leases are available? The most common types of leases are fair market value (FMV) (also called a true lease) and dollar buyout leases (also called a capital lease). Schools that choose to work with an FMV lease often obtain and lease equipment that quickly depreciates in value. Dollar buyout leases are ideal for those who plan on keeping the equipment at the end of the lease term, and for equipment with a long useful life. The type of lease you select will often depend on the type of equipment, and how you plan to use it.

What are the most typical lease terms? Lease terms range from 12-60 months. The most typical lease term is 36 or 60 months (three or five years).

How are lease rates determined? Lease rates will depend on the school’s credit and operating history, the cost and type of equipment, lease term and the desired lease structure. Lease rates are fixed when you enter into the lease. Lease rates don’t fluctuate with interest rate changes.

How to get started with an equipment lease? We try to simplify the equipment leasing process. Supply us with a copy of the vendor’s equipment quotes so we know what you want to lease, as well as information about your school. One of our education financing specialists will contact you to help you structure the lease. We may ask you for additional financial information, such as financial statements, budgets, projections, bank statements, etc.

- How long does it take?** Credit approval can be completed within a day. If the lease structure is complex it may take longer. Funding typically occurs within 24-48 hours after delivery of the equipment and your confirmation that the equipment you received from the vendor is complete and acceptable.
- What are the differences between leasing and paying cash?** Leasing allows your school to spread payment for equipment across multiple budget periods. Leasing may also allow certain tax advantages for your school.
- How does leasing affect my cash flow?** You will find leasing has a positive impact on your cash flow and budget because you are not paying for the equipment in one lump sum. By selecting a lease schools can conserve cash for other uses. Leasing also allows you to forecast cash requirements more accurately as you know the amount and number of lease payments you will owe over the lease period. Leasing provides predictability for budgets and planning.
- What is a lease rate factor?** The lease rate factor is equal to the periodic lease payment divided by the leased equipment cost. It is not an interest rate. For example, a monthly lease rate factor of .0301 means that for every \$100.00 of leased equipment cost, the monthly lease payment will be \$3.01. Extending this example, for \$100,000.00 of leased equipment cost, the monthly lease payment will be \$3,010.00. Lease rate factors are used for ease in estimating monthly lease costs, budgeting and planning, when you are working with a quote or estimate, and the final leased equipment cost has not been determined.
- What are the differences between equipment lease financing and bank loans?** Getting approved for a bank loan can take weeks, even when you need capital right away. Plus, your school may need to provide large down payments and collateral. Most bank loans are short-term 12 month loans (unless for real estate). These should be used for operating purposes, not for 3 to 5 year term leases and loans.
- How does leasing look to the school's existing bank lender?** Most banks don't offer equipment leasing solutions. Since the lease will likely not impact bank loan covenants and credit exposure, your bank often will be glad the school was able to raise capital independently.
- How flexible is leasing?** Lessors offer flexible terms which allow you to customize your lease to a program that will fit your specific needs and requirements – cash flow, budget, transaction structure, cyclical fluctuations, school funding, etc. There are many options to choose from when determining lease financing for your equipment. While leasing is the best option for many, it is not the solution for everyone.



What happens at the end of the lease term? Dollar buyout leases allow the option of purchasing the equipment for \$1 once the lease term expires. In this case, no notice of your intent to purchase is required, since the \$1 purchase price is “nominal” and won’t actually be collected. Fair market value leases typically allow several options at the end of your term. Your first option is to return the equipment if your school has no more use for it. If you want to continue using the equipment without purchasing it, you can extend the lease agreement. Or, you can purchase the equipment for its fair market value at the end of the lease.

Why choose TEQlease Education Finance? TEQlease Education Finance has been providing equipment leasing solutions to charter schools for many years. We are regarded as one of the best education equipment lease financing companies in the United States. Our education lease finance specialists have years of experience in equipment lease financing. They will present you with the best financing options for your charter school. We offer competitive rates. Our goal is to help you get the equipment you need quickly with a payment structure you can afford.

About TEQlease Capital

TEQlease Capital is a nationwide provider of equipment lease financing solutions across all industries, including manufacturing, education, distribution, financial services, healthcare, and retail organizations. TEQlease Capital’s Education Finance group has a unique focus on providing solutions to educational institutions. Leases can include IT equipment, laptops, desktops, tablets, phone systems, school furniture, copiers, playground equipment, security equipment and more. Founded in 2000, the company is based in Calabasas, California. For more information visit <http://teqlease.com>, call 1-844-222-1006, or email info@teqlease.com.