

# Technology Leasing for Florida School Districts



Insight  
Financial Services



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***Ford & Associates, Inc.***

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- Municipal Advisor, Fiduciary
  - Capital Planning
  - Short- and long-term debt issuance
  - Capital and operating leases
  - Investment of Debt Proceeds
  - Evaluation of Financial/Business Terms
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- IT Leasing Specialist
  - Experience with manufacturer leasing and independent leasing strategies
  - Life cycle cost analysis
  - Asset management
  - End-of-term solutions and refresh
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# Education Technology Overview

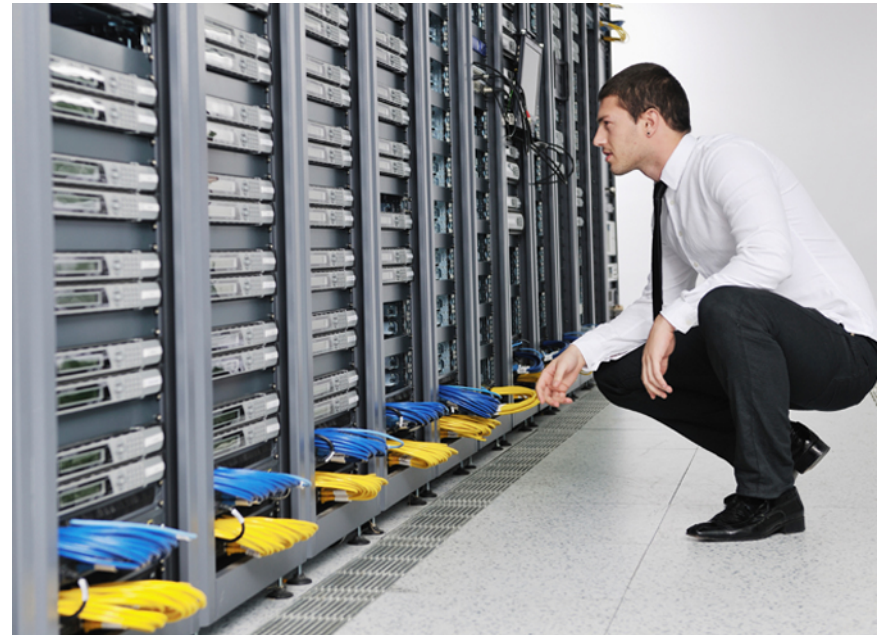
- **School districts require a myriad of technology resources**
- **Technology infrastructure is critical to achieving educational goals and operational efficiency**
- **Machines vary greatly in terms of life expectancy and cost**
- **Cash purchases, capital leases (lease-purchase), and operating leases (true lease)**
- **Capital and operating leases have numerous similarities, but there are important differences between them**
  - **Capital Lease – Full cost amortization, lessee owns equipment at end of lease (tax-exempt)**
  - **Operating Lease – Partial cost amortization, lessor owns equipment at end of lease (taxable)**

# Real Time Costs of Aging IT Equipment

## *Costs a financial analysis can't predict...*

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- Delayed IT initiatives
  - Increased security incidents
  - Expensive out of warranty costs
  - IT staff becomes reactive vs. proactive
  - Increase in down-time & break-fix events
  - IT staff forced to support multiple platforms
  - ***Interference with educational mission***
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# Perspective on Tech Life Cycles

The total cost of ownership (TCO) of desktops & laptops increase dramatically as they age due to higher maintenance & support costs.

- Gartner Group

The TCO of storage and networking equipment increases dramatically in years 4 and 5 as maintenance costs can equate to 40 - 60% of the original acquisition cost.

- Wipro

When acquisition & support costs are factored in the Equivalent Annual Cost for both laptops & desktops, EAC is at its cheapest at a 3 year refresh interval when compared to refresh's at 1, 2, 4, and 5 years.

- Wipro

22% failure rate on laptop computers in year four of useful life, 12% on PCs.

- Gartner Group

IT equipment has a 53% increase in security incidents after three years of useful life.

- Gartner Group

The number of IT issues including updates, maintenance, service, and security incidents significantly increase as IT hardware ages.

- Wipro

# Potential Benefits of an Operating Lease

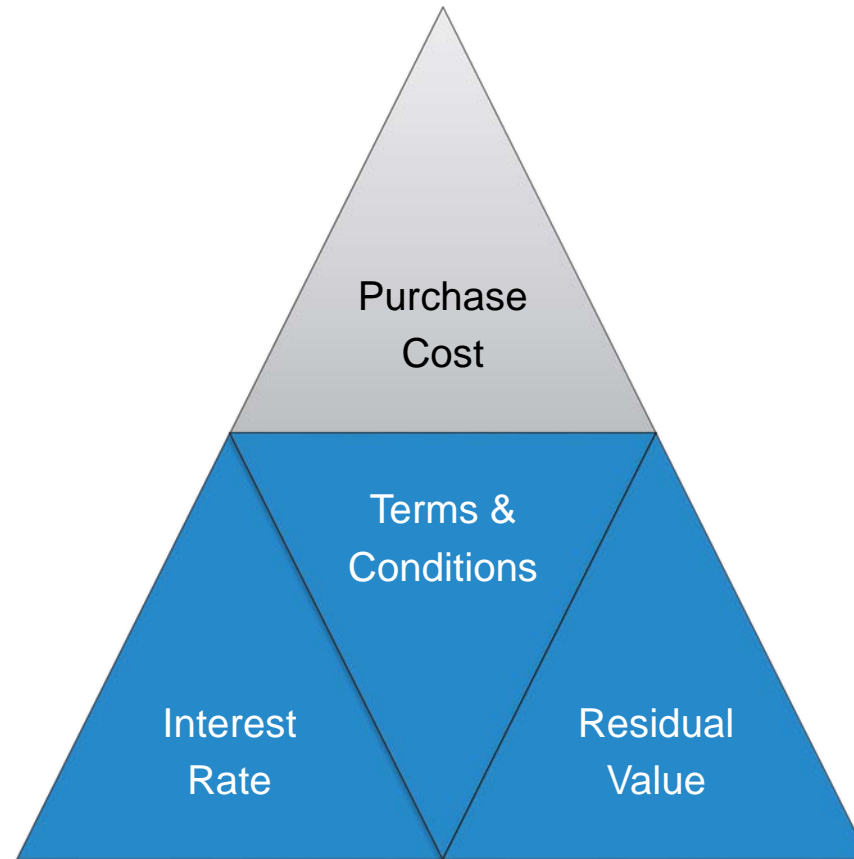
## *Transfer risk and avoid certain costs of ownership...*

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- A more level, predictable IT budget
- Reduce security incidents
- Reduce downtime & break-fix expenses
- Lower out of warranty costs
- Transfer disposal liability to the lessor
- Transfer residual risk to lessor
- Build a sustainable technology refresh model



# Operating Leases Have More Cost Variables



# Common Leasing Terms & Conditions

## What You Need to Know



### *Installation Period Rent*

Payments during the equipment installation period differ substantially from one company (and lease) to another. Zero is the best, full rent is the costliest.



### *Expiration Dates*

Be aware of early notice requirements and automatic lengthy renewal clauses.

### *Buy-Out Options*

All-or-none language eliminates much of the benefit of end-of-lease purchase options.

### *Partial Schedule Return*

Make sure your lease payments decrease in the event some of the equipment is returned.



### *Equipment Substitution*

Limitations on substituting like-kind equipment at the end of a lease can result in substantial end-of-lease penalties.

### *Damage Charges*

Like leasing a car, you are on the hook for damages, but companies vary greatly in their definition of “wear and tear.”

### *Asset Management*

Some leasing companies offer asset management software, but the benefits can vary greatly in terms of customization, accounting, and detail.



### *Data Security & Sanitization*

Find out what level of sanitization, if any, is included with your lease. Even the cost of basic data wiping is not always included in the lease payments.

### *Equipment Remarketing*

One of the greatest benefits of leasing – let someone else do it.



## Pitfalls and Warnings

- Equipment leases, whether capital or operating, are debt
- Operating leases are easier to manipulate than capital leases, but both can be misleading
- Know the numbers (unit cost, residual, interest rate) and the cost-impacting terms
- Get your Financial Advisor and Bond Counsel involved (earlier is better than later)
- There is little or no value to including software and small accessories (mice, keyboards) in an operating lease

# Contact Us

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