

# INTERNET AUGMENTED LEASE PURCHASE BIDDING



## NEW TOOL TO DO IT BETTER AND MORE EFFICIENTLY

By Dennis R. Balodis  
President, The Apris Group, Ltd.

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The tools of education cost money. That money is tax dollars. Tax dollars are limited. These are irrefutable facts. Business managers and administrators of school districts are mandated to work within the bidding laws to acquire the goods and services for their districts.

The tools, technology, transportation, renovations, or anything else essential to the operation of the district, are more often than not financed. This financing can be labeled lease purchase, conditional sales contract, installment sales agreement or lease with option agreement. Whatever name you call it, it is a tax-exempt financing instrument that funds billions of dollars a year in school equipment. For the purpose of this article, we will refer to this financing as lease purchase.

### Doing it Better

Bringing efficiency to the district's business office is always a goal of an administrator. The planning and bidding of a lease purchase for school equipment or projects should also fall into this goal for efficiency. The efficiency is realized in the purchasing power of the tax dollars that are released as payments over the term of the lease.

There have been papers and articles presented and written about the benefits of aggregating the lease purchase needs of a district and bidding that as one stand-alone bid a year. The benefits are the savings generated. Our objective is to demonstrate how the use of a common bidding site on the Internet can further optimize the tax dollars in connection with the lease purchase.



### *Bidders' Need for Information*

When a district issues a publicly traded bond to finance a building project there is an official statement prepared and released by the hired financial professionals that disclose the financial information, the description of the project to be financed, the rating by an independent rating agency, and the pledge of repayment for the bond issue. Previously, bidding for a lease purchase never involved any form of financial disclosure. In a lease purchase your district is asking for a form of a loan. How can lenders make a responsible offer to loan money as a lease purchase, without first seeing the credit of the potential district borrower?

***“The Internet is an effective tool to distribute information to a pool of potential bidders.”***

What does a lender know about your district? What does your district need the money for? A lease purchase is a non-rated, tax-exempt issue that a single investor “lender” will be acquiring. What does the lender know about the equipment or project this lease purchase will be paying for and how will it be

used? The potential lenders have a need to know about the financial condition of a district. In the traditional bid this information was given to the lowest bidder after the bid was conducted.

Information is a necessity to make an informed decision about a lease purchase “loan”. Without disclosure prior to a bid, a bidder will naturally bid a higher rate. The rate reflects the need to insulate that lender from perceived potential problems with the credit and the collateral for the “loan”. To get this information to the potential bidders is a starting point to doing your job better and bringing efficiency to your district.

The Internet is an effective tool to distribute information to a pool of potential bidders. What information is released, where the information is accessed and how your bid is structured are key to success. To make an informed credit decision, lenders will need the last three year's audited financial statements of a district. They will require a description of the equipment or projects to be financed. What specifically will the equipment be used for? What repayment term does the district desire?

This information should be scanned into a digital format and posted to a web site for potential bidders to access prior to a bid. This allows potential bidders to review the credit and possibly make a

credit decision prior to bidding. This eliminates their unknowns and the need to include the requisite higher interest rate for that contingency.

The Internet is simply the vehicle to get the right information to the lender/bidders to help them make a sound business decision, while showcasing a school district's financial picture to obtain the most competitive interest rate. The bid that is posted to the Internet should include all the documentation for a formal bid opening required by individual state laws. The formal bid opening should be held at the school district's offices, the same as any other bid. This is simply, the utilization of the Internet to augment your bidding. This can be done with the equipment and software currently in any school district.

*Potential Bidders: Direct Lenders*

Historically, lease purchase financing is offered as a vendor program to accommodate an equipment manufacturer's sale. Unfortunately this path to lease purchase financing precluded the local banks and financial

institutions, which are the direct lenders of money and have a vested interest in maintaining a relationship (read: they want the rest of your banking business), from participating in the bidding process. Bankers seldom, if ever scan the local papers for bid notices but, these bankers all have their e-mail addresses on their business cards. The bankers who want to do business with a district should all receive an e-mail about a bid for lease purchase by that district.

Reviewing the results of over 200 Internet-augmented lease purchase bids on behalf of school districts, we can make the following observation: bankers, who count the overall profitability of account relationships, have never lost a bid when competing with the vendor sponsored financing for a school district's lease purchase bid.

Who wants to do business with a district? Your bankers do. By making the pertinent information available to make an informed credit decision before the bid to them and the rest of the pool of potential bidders has yielded dramatic results. It has saved taxpayers dollars.

## More Efficiently

Traditionally, lease purchase interest rates have been predicated upon the size of the transaction, the collateral (equipment type), and how much competition was encountered in obtaining the transaction by the lessor (lender).

*Hyper-competitive Bidding Site Creates New Pricing Model*

Using the Internet-augmented bidding procedure for a lease purchase as laid out so far, by itself, may help an average school district to obtain lower interest rates in lease purchase bidding. However, the establishment of a web portal that is a consistent host for these lease purchase bids is essential in creating a hyper-competitive bidding environment. The two-way information traffic of this portal has developed a new "self-pricing" model where bidders constantly monitor results of recent bids before submitting new bids.

The one problem with the Internet is that there is too much information. The need is to get the right information into the hands of those who can best use it to best benefit

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school districts. The Internet is a locus for information exchange. It is a two way street. The bidders for these lease purchases are looking for information as well.

*“The true winners are the school districts who are optimizing the purchasing power of their lease purchase dollars.”*

The posting of the results for a lease purchase bid are crucial. This is, after all, public information. By having one site where bidders can download current bids and access bid results from recent bids, the playing field is leveled. No one bidder can rely on isolating any one transaction, bid high and take a large profit.

The local banker, who wants to bid and win a district's business, is unfamiliar with this market. That banker needs some guidance as to how to price this type of transaction that is normally bid at lower rates than the bank gives out in a taxable equivalent commercial loan. Bank management needs documented proof to authorize a lender to bid lower than pre-established target yields.

Large financial institutions want to know what other large financial institutions are bidding on like-type lease purchase transactions. The local bankers want to know what the large institutions are bidding and the large institutions want to know what the smaller banks are bidding.

The competitive bidding Internet portal dedicated to this information exchange creates its own pricing model. It becomes “self-pricing”. Bidders have departed from their traditional pricing and have relied on the recent bid results as a guide to pricing levels. They do this to insure that they will win. The results are interest rates obtained using this format have been consistently lower than average interest rates obtained through solo attempts at bidding and vendor offered lease purchase financing. The true winners are the school districts that are optimizing the purchasing power of their lease purchase dollars.

**Future Applications**

The establishment of a collective bidding portal has proven to create a more competitive pricing model for lease purchase bidding. The power of one

website to target a specific set of bidders and disseminate pertinent information about many districts' bids and the posting of the historical results of these bids has created its own hyper-competitive environment to the benefit of those participating districts. The Internet augmented bidding of lease purchase financing serves as an example of what can be done when you make the Internet work for you rather than you working for the Internet.

This application can be applied to other goods, services, equipment acquisitions, and projects that are bid by districts. It takes vision, cooperation and time to establish a functioning bidding portal. The effort will pay off in savings for those who participate in doing it better and more efficiently.

*Dennis Balodis, president of The Apris Group, Ltd., Parsippany, founded the company in 1992. He has twenty-two years experience in financing with the last thirteen years focused in tax-exempt single investor lease purchase transactions. dbalodis@aprisgroup.com*

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