

Comparison of Purchase vs. Lease vs. Lease Purchase for Parking & Transit Maintenance Facility RFP 87147

Land, Building, Expansion, Bus Wash and Fueling Station

RFP #87147 included a request for the purchase, lease, or the lease/purchase of a new shared transit and maintenance facility. The request also included options for an expansion, bus wash, fueling station and canopies for the buses. Since the costs for the canopies ranged from \$750,000 to over \$1.1M, the University decided not to pursue this option. Unless otherwise noted, the following numbers do not include sales tax.

Purchase

Advanco, Inc.'s bid of \$ 4.6M for the base building, the expansion, bus wash, and fueling station was the lowest bid. This was approximately \$1.3M less than the next to the lowest bid submitted by Southwind/Fairfield Investors @\$5.9M and \$3.1 M less than the highest bid of \$7.8M submitted by J&J Developers, Inc.

Lease

15 year Lease Option

Advanco, Inc. and Southwind/Fairfield Investors, LLC did not bid the 15 year option. Zaroco, Inc. and J&J Development, Inc. submitted the 2 lowest bids for the Lease Option.

Zaroco, Inc.'s proposal did not include a lease for the bus wash or the fueling station. Their proposal included providing bus washes on an adjacent property beginning at a cost of \$6.00 to \$12.00 per bus wash with annual CPI adjustments. The proposal also included providing a fueling station constructed by the vendor adjacent to the site with the option to purchase fuel at a negotiated price per gallon, the PNC made the assumption that the negotiated price per gallon would be equal to any KU Negotiated contract pricing.

J&J Development Inc.'s proposal included a fueling station, and no bus wash alternate. To make a valid comparison for this proposal to the purchase option, the proposed bus wash fees from Zaroco, Inc. can be added to the J&J Development Inc. proposal. The J&J proposal included sales tax. Based upon all other proposals submitted the sales tax amount was calculated at approximately \$100,000.

If the cost of the bus wash and the fueling station from other vendors is added to the total lease, Zaroco, Inc.'s proposal is the lowest Lease Option.

In order to compare a purchase price to the lowest lease proposals we looked at the Net Present Value technique for assessing the worth of future payments by looking at the net present value of future cash

flows discounted at today's cost of capital. For today's cost of capital we used the Applicable Federal Long Term Rate for October 2009 and the following cash flows:

- a. Purchase: purchase price, maintenance costs during the lease period, and the sale of the building at the end of the lease at the book value
- b. Lease: lease payments for the term of the lease

The following summarizes the comparison at **Net Present Value** of cash flows for the 15 year Lease Option assuming no sales tax unless otherwise noted:

Advanco, Inc.	Purchase	\$ 3,383,528.
Advanco, Inc.	Lease	0.00
J&J Development Lease (includes sales tax and no bus wash fees)		\$ 9,587,996.

Additional costs:

Bus Wash Fees 2,640/ yr @ \$6.00/bus wash

(No CPI adjustments) \$ 174,890.

Bus Wash Fees 2,640/yr @ \$9.00/bus wash

(No CPI adjustments) \$ 262,335.

Zaroco, Inc.	Lease (with no bus wash fees & the cost of fuel the same as currently being paid through the KU Contract)	\$ 8,287,433.
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Additional costs:

Bus Wash Fees 2,640/ yr @ \$6.00/bus wash

(No CPI adjustments) \$ 174,890.

Bus Wash Fees 2,640/yr @ \$9.00/bus wash

(No CPI adjustments) \$ 262,335.

20 Year Lease Option

Zaroco, Inc. and J&J Development, Inc. submitted the 2 lowest bids. Advanco, Inc.'s proposal was the third lowest. Zaroco's proposal did not include a bus wash or a fueling station. J&J Development, Inc.'s proposal did not include a bus wash and included sales tax. See the notes under the 15 year option.

The following summarizes the **comparison at Net Present Value** of cash flows for the 20 year Lease Option assuming no sales tax unless otherwise noted:

Advanco, Inc.	Purchase	\$ 4,001,670.
Advanco, Inc.	Lease	\$10,661,563.
J&J Development	Lease (includes sales tax and no bus wash fees)	\$12,670,050.

Additional costs:

Bus Wash Fees 2,640/ yr@ \$6.00/bus wash

(No CPI adjustments) \$ 213,377.

Bus Wash Fees 2,640/ yr

@ \$9.00/bus wash (No CPI adjustments) \$ 320,066.

Zaroco, Inc.	Lease (with no bus wash fees & the cost of fuel the same as currently being paid through a negotiated KU Contract)	\$ 9,686,040
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Additional costs:

Bus Wash Fees 2,640/ yr@ \$6.00/bus wash

(No CPI adjustments) \$ 213,377.

Bus Wash Fees 2,640/ yr

@ \$9.00/bus wash (No CPI adjustments) \$ 320,066.

Lease/Purchase

The lease purchase options included the lease payments plus a final purchase price at the end of the lease which ranged from \$3.5M to more than \$9M . Lease options calculated to be higher than the purchase options, the lease purchase option would also be higher than the purchase option.

Conclusion

RFP # 87147, page 2 indicates that the Purchase Option is the preferred option, if financially feasible. The above comparisons of net present value of cash flows indicates that purchase of the base building, the expansion, bus wash & fueling station would cost less than leasing or leasing and then purchasing.