Equipment Lease Guideline - 5.15.G (07/02/03)

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This revision:

- specifies procedures and considerations for true lease contracts;
- discusses considerations in the financial analysis of lease contracts;
- specifies cautions in the use of leases; and
- specifies documentation requirements for leases.

Definitions

An item is **purchased** when it is bought outright.

An item is **leased** when use of the item is conveyed by a contract usually for a specified period of time and usually requiring periodic payment.

True Lease is a contract by which a supplier owning an item grants to Sandia the right to possess and use the item for a specific period of time in exchange for a periodic payment of a stipulated price, referred to as rent. Sandia would have no intent to acquire title to the item.

Lease to Ownership (LTO) contracts involving only the supplier or manufacturer other than Federal Supply Schedule orders are normally limited to equipment over $50,000 and a lease term of at least 24 months.

Lease to Ownership Third Party Financed (LTO/TPF) contracts are contracts, which involve a third party and are normally limited to equipment over $100,000 and a lease term of at least 24 months.

Lease with Option to Purchase (LWOP) contracts are contracts in which SNL's intent to take title is uncertain at the time of contract placement. **This type of contract should rarely be used due to tax liability implications.**

Prospective lessors are identified as manufacturers, suppliers, leasing companies, and financial institutions.

The **present value** of a lease is the value of each future payment discounted to the present time. The present value method recognizes the time value of money - that a dollar now is worth more than a dollar paid at some future time. The present value is one of the factors considered in the Lease vs. Purchase Analysis. A simple expression of an amount to be received in the future is:

Example:

Algorithm to be used:

- Present value = a/(1+i)n, where:
    - a = amount to be received
    - i = interest rate per period
    - n = number of time periods

For instance, the present value of a dollar that will be paid in one year from now at an interest rate of 10% per year is:

- $1/(1+10)1 = $0.9091

This algorithm is used to develop the table of factors. The interest rate used for internal analysis is a like term treasury rate, which is the T-bill rate of the same term as the lease on the date of the analysis.

Lease vs. Purchase Analysis - 5.15.G.1

A Lease vs. Purchase analysis includes all factors necessary to arrive at complete, comparative, total costs to SNL for the planned period of use of the required item. Factors to be considered are:

- purchase price,
- monthly lease payments,
- estimated length of the period the equipment is to be used and the extent of use within that period,
- lease credit against purchase,
- buyout price,
- end of lease costs,
- property and use taxes that Sandia may have to pay for,
- dollars vs. percentages - Contractors may quote different percentages for finance charges, but the SCR must be careful to compare the proposals in terms of actual dollars,
- pre-lease revenue enhancements, proposed by the Contractor that will add to the negotiated price,
- indexed lease payments - Contractors may quote indexed lease payments that are tied to some financial rate (T-Bill Rates, etc) . If the SCR accepts an indexed lease payment, they must also incorporate a rate cap,
- volume purchase discounts,
- installation and maintenance costs,
- potential obsolescence of the equipment because of imminent technological improvements (in some cases a lease may be better than a purchase if equipment becomes obsolete and Sandia wishes to retain the ability to obtain the newest equipment. However, be aware of provisions allowing Sandia to upgrade leased equipment. In some cases the upgrade will have the effect of extending the lease agreement.),

and

- acquisition vehicle (LTO, LWOP, true lease),
- relevant cash flows – cash flow analysis,

- termination value, and
- taxes.

These factors, along with any other relevant factors, are compared with the cost of leasing with or without purchase option for the length of time and extent of usage anticipated. It would be expected that the cost of acquisition of an item using a lease, LTO or LWOP contract would be higher than that obtained in a straight purchase contract. However, the purpose of this analysis is to allow the requester to make a fully informed decision on whether or not to proceed with a lease, LTO, or LWOP arrangement.

Lease Decision - 5.15.G.2

The decision to purchase or lease is based on a variety of considerations. These include:

- line organization requirements,
- cost of the lease as related to the cost of an outright purchases,
- Capital Equipment Subcommittee recommendations (where appropriate),
- Price/Cost Analyst consultation,
- SCR consultations, and
- other management directives.

Other considerations prior to acquisition of equipment include:

- financial and other advantages of all types and makes available,
- imminent technological improvements,
- special uses planned for the equipment (such as trial or evaluation),
- design status or stability of the system/program in which the equipment is to be used,
- available means of acquisition (e.g., lease only available),
- criticality of programs supported by the acquisition of the equipment,
- necessity of acquisition of the equipment at the current time,
- availability of funding for future acquisition of the equipment, and
- potential tax liability of lease and lease with option to purchase contracts.

If the total cost differential between straight purchase and a True Lease, LWOP or LTO is greater than $100,000, the SCR shall obtain a memorandum from the line organization that documents why the benefits received through acquisition via a lease vehicle are worth the added costs due to finance and other possible costs. This memorandum must be approved by the cognizant line director.

True Lease - 5.15.G.3

If a true lease is required, the SCR will process appropriate documents to lease the equipment. If the manufacturer or supplier offers an option to purchase (without cost) as part of their standard leasing arrangements, the SCR will allow the option in the lease documentation. There is no dollar limitation on transactions of this type. A true lease in an absolute unconditional obligation. If the equipment malfunctions, or Sandia elects to use alternative equipment, Sandia would still be obligated to pay for the cost of the lease.

In structuring a lease, the SCR should consider the following issues:

Residual Values: Contractors may charge a lower rent if they believe the residual value of the equipment is higher. If the contractor has a low residual value and a low rent, the SCR should carefully scrutinize a contractor’s proposal to find any hidden costs or revenue enhancements.

Family of Lease Documents: During the lease process, several documents will need to be executed other than the contract. Such documents will include the acceptance certificate, lease schedule, lease proposal, master lease, supplements/addendums, and purchase order/assignment document.

Types of Leasing Contractors: Lease suppliers may be affiliated with a manufacturer, may be captive to a manufacturer or may be totally independent of a manufacturer. Suppliers affiliated with the manufacturer may be in a better position to dispose of the equipment should the contract require termination or a descope. The SCR should not ask an independent firm to acquire the equipment, as they may not have the motivation to control the cost. Firms that are captive to a contractor may be able to offer more competitive pricing because of support from their parent corporation. Some banks have leasing components, but the SCR should carefully examine any contract with a bank involving a lease.

True Lease Clauses: The SCR should use specific clauses for the period of performance SC 015-PPL Period of Performance, Lease; for price, SC 026-TPL Total Price, Lease; in the Solicitation and Contract and Quotation Instruction 980-D15 Taxes on Leased Equipment in the solicitation for all lease procurements.

Lease contracts placed with foreign contractors must incorporate the appropriate export control clauses.

Lease Commencement - 5.15.G.3.a

Lease Start Date: The Lease start date should specify that the lease commence on the date of technical acceptance by Sandia and not before.

Acceptance: The SCR must specify an acceptance process that states that does not allow for interim rent, or allow the lease to commence prior to acceptance. The acceptance process should not allow acceptance to occur through the mere passage of time or the acceptance of the shipment at Sandia. Typically Sandia would execute an acceptance certificate that indicates that the equipment has been found to be acceptable.

Interim Rent: Sandia contracts should not allow a contractor to charge interim rent, which is a rental charge that a contractor may wish to charge for the period from the date of acceptance to the commencement of the first rental period. An agreement to pay interim rent means that Sandia is agreeing to pay an additional amount of the cost of the equipment.

Payment to the Equipment Manufacturer: The SCR should require the leasing contractor to pay the equipment supplier on a timely basis. If this is not done, and the lease contractor fails to pay the equipment supplier, the equipment supplier may be able to recover the equipment. The SCR may want to require that the equipment supplier or the lessor to produce evidence of payment before the lease commences.

Use, Maintenance, and Upgrades - 5.15.G.3.b

Warranties: The rights to all warranties should be assigned to Sandia. The contact document should state that the lessor will assist Sandia in enforcing all warranties.

Insurance Obligations: The SCR should consider if the lessor contractor should hold liability and environmental liability insurance. Sandia is self insured, so in general, Sandia would not want to incur insurance costs.

Relocation: The SCR should write into the contract provisions that allow Sandia to relocate the equipment without the consent of the contractor. Sandia will allow a provision for notification to the contractor.

Rights upon Equipment Failure: Each lease document should be read against the vendor purchase agreement before either is finalized. It should be clear that in the event that the equipment ceases to function, Sandia will have the following rights.

- **Demand Performance**. Sandia will be able to demand performance from the equipment supplier without involving the lease vendor.

- **Require that the equipment supplier make all rent payments** under the lease until such time as the matter is resolved.

- **Acceptance of Replacement Equipment** Require the lessor to accept replacement equipment, if the remedy is provided by the equipment supplier and to relinquish title to the old equipment to the equipment supplier immediately upon replacement.

- **Specify that the malfunction is a "casualty loss" under the lease** allowing Sandia to terminate the lease upon payment of the "Casualty value" or stipulated loss value. The equipment supplier would be required to pay the full amount due to the lease contractor to terminate the lease and release Sandia from its obligations.

- **Determination of Reparability**. It should be Sandia and not anyone else who determines if the equipment can be repaired or it is a total loss.

Modifications: The SCR should not accept a lease that prohibits any alterations or modifications of the leased equipment even if the modification is readily removable. The lease should always be permitted to make "readily removable" modifications to the equipment, i.e. Sandia should be able to add additional items of equipment or make alterations that can be reversed with any damage paid by Sandia. However, in some cases, such as if modifications were made to hundreds of units, Sandia may want to have the option of leaving in the upgrades. If this is to be done, the SCR needs to consider Sandia Property requirements and Export Control restrictions. The agreement should avoid any language that requires the contractor's consent.

Upgrades: Leases may include provisions on the upgrade of equipment. The Requester will have to determine what upgrades are desirable, and how much they are willing to pay for the upgrade. The SCR should consider if the term for the lease of the upgrade is to be coterminous with the overall lease. For example, it may not be wise to have a lease that is to expire in 6 months and the lease of the upgrade expires in two years. The SCR may wish to consider having extension provisions in the underlying lease according to a predetermined formula or agreement as part of the original lease. The SCR should also separate out the cost of the upgrades to establish cost and price reasonableness.

Maintenance of Equipment: The SCR should consider incorporating provisions into the contract that allows Sandia to self maintain the equipment at the manufacturers standards. The SCR should avoid incorporating language that allows the lessor to approve of the maintenance supplier.

Lease Taxes - 5.15.G.3.c

The government takes title up front on everything purchased by Sandia. If Sandia purchases an item, Sandia is tax exempt. Leases are not tax exempt. Therefore, from a taxation standpoint, true leases are a less preferred option to acquire goods. If Sandia elects to use a lease purchase contract, it is viewed as a purchase if Sandia takes title up front. Sandia would issue a Type 15 NTTC exemption. If Sandia pays a tax that we did not have to pay, that amount of tax is an unallowable charge against the Prime Contract.

In the state of Nevada, Sandia pays a tax for goods purchased or used in the State of Nevada.

The SCR must be assured that the final total lease price is inclusive of any and all taxes if applicable. In order to provide this assurance, the SCR must ask the contractor if all taxes have been included. All contract pricing should be inclusive of all taxes.

End of Lease - 5.15.G.3.d

End of lease procedures should be spelled out in the contract.

Return of Equipment: The SCR may want to consider who should pay the cost of redelivery of the equipment, especially if the lessor is requesting delivery to a third party. Lessor contractors may also require recertification of the equipment by the manufacturer. The SCR should consider the necessity of the recertification to determine its feasibility and practicality. The SCR should also consider the length of time it will take to de-install, re-certify if necessary and re-crate the equipment. Some lessor suppliers expect this process to take place during the lease term, which has the net effect of reducing the term of the lease. The SCR should try to incorporate language that the procedures begin at the end of the lease term, that Sandia has a reasonable period of time to complete the process, and that Sandia will not be paying for this period. The contract should allow for return of the equipment after the period of performance has expired at no additional charge to Sandia. The contract should also state Sandia need not return all items at once. This may be important, as it may be difficult to locate some items of equipment. The SCR may want to incorporate provisions allowing Sandia to purchase missing equipment or to substitute like kind equipment for missing equipment.

Returns: At the end of a lease, a lease inventory should be performed. The SCR may want to consider the use of a third party, agreeable to Sandia to perform the inventory. Only items in dispute should merit a further investigation. Once agreement is reached, the contractor should be paid the fair market value of repair or replacement if needed. These provisions should be written into the contract. No rent should be incurred between the end of the lease and the inspection.

Export control issues – Once used by Sandia, some items may not be returnable to the contractor without approval by the export control office.

Packaging requirements – The SCR must consider if the supplier has unique packaging requirements for return of the item. For example, some contractors require the item to be returned in the original container. Such a provision may be impractical for Sandia to accept. Prices should include the price of shipping and packaging.

Condition of the item upon return to the supplier - The SCR needs to consider what is meant by “normal wear and tear.” Suppliers may request excessive penalty charges for minor damages. This issue may be very subjective. The SCR should clarify the definition of “normal wear and tear” prior to entering into a contract.

Penalties for failure to return the equipment by a prescribed date or failure to notify the contractor of Sandia’s intent with regards to returning items - Suppliers may attempt to impose severe penalty charges if leased items are not returned by a certain date or if the contractor is not notified of Sandia’s intent to return or extend the period of the lease. The contractor may wish to use a notification clause. The contract should state that the signed contract constitutes the notification.

Extension of the period of the lease - Suppliers may attempt to impose provisions automatically extending the period of a lease unless Sandia explicitly advises otherwise. Suppliers may impose terms requiring an extension for a full period of the lease (for example 1 year) versus incremental increases (for example one month). Also, the SCR should consider negotiating a reduction in the price of any lease extension as the equipment has been depreciated. The new lease rate should be based on the residual value of the equipment and not on the basis of the value of new equipment or the value of the equipment when it was purchased.

Returns at the end of the lease - Return provisions should be written into the contract. Among the provisions for returns is how the value for repairs or replacement of missing equipment will be derived. Fair Market Value should be determined prior to the placement of the contract. No rent should be incurred between the end of the lease and the inspection.

Costs to return the equipment. In addition to the above, leased equipment may have to be demobilized for return to a contractor. For example, if computers are leased, hard drives will have to be cleansed, and software will have to be removed before the equipment can be returned to the supplier. This could, in effect, reduce the period of usage of the equipment by several weeks.

Reasonable Wear and Tear - The SCR may want to use language other than the terms normal wear and tear. The SCR may want to distinguish or define what constitutes cosmetic damage and what constitutes functional damage.

Equipment Casualty - Equipment Casualty refers to Sandia obligations should an item of leased equipment be damaged beyond repair or be lost. The SCR should be very careful of how the casualty value is derived, taking into account the fair market value of the equipment.

Early Termination and Early Buyout - 5.15.G.3.e

Early Termination is an option where the lease is terminated prior to the end of the contracted period of the lease for a pre-agreed termination amount. In this situation, Sandia would require the lessor contractor to sell the equipment to a third party. The SCR should carefully analyze the early termination price and take into account the probable resale value of the equipment by the lessor, the discounted value of future payments, and the greater residual value of the equipment due to the equipment being available earlier for potential resale.

The most favorable ETO would work as follows: the contract incorporates a termination schedule, indicating the dollar payout by Sandia for terminating at any month in the lease. The equipment is then appraised according to a highly defined process. A deduction is then made from the appraised value for the lessor contractor’s administrative burden and loss of anticipated investment timing, which is determined through negotiation. The difference between the appraised value and the deduction is the net appraised value. Sandia would be liable for the difference between the termination value and the net appraised value.

Early Buyout is an alternative to the early termination option.   Sandia would have the right to terminate the lease, and purchase the equipment at an agreed early buyout value.   Lessor contractors may have a higher buyout value than an early termination value due to a loss of the lessor’s anticipated profit on resale of the equipment on an ETO.

Unacceptable Leasing Provisions - 5.15.G.3.f

The SCR must not accept any provisions in a lease as noted below:

Automatic Renewal: The SCR should not accept any provision that requires Sandia to provide notice that a contract will be extended. Instead, the contractor should be required to provide notice to Sandia that a lease period is set to expire. The SCR should also not accept any renewal provisions that fail to take into account the depreciated value of the equipment or any provisions that extend the period of performance for unreasonable periods of time.

Deemed Acceptance: The term deemed means to assume something has occurred whether it has or not. Use of the term “deemed” could prevent Sandia from adequately testing the equipment.

Perfect Returns: This provision means that Sandia at the lease end would have to produce all leased units. Some leases would go on to say that the lease will remain in full force and effect until all leased units are returned. The contract should ensure that Sandia can return less than all units and that we have the right to purchase those units that cannot be found or are not in the required condition at a fair market value.

Casualty Value Calculation: The contractor may want to use a casualty value of lost or irreparable equipment that excessive for the fair market value of the equipment.

In Default: Limiting Sandia rights or options to circumstances where it is not “in default” as opposed to situations where an “event of default has occurred and all grace periods expired, is a common means of eliminating Sandia rights and preventing its exercise of its options.

Vendor Issues: Sandia cannot accept provisions where we are required to continue to make payments for non-performing equipment, or top indemnify the lessor against patent, copyright, or trademark issues without recourse to the lessor.

Contest Rights: Contractor lease provisions may not allow Sandia to contest or challenge the imposition of taxes, the imposition of liens or to control the general indemnity litigation. Lessors would have no economic incentive to limit, lower, or challenge tax payments.

Blanket Tax Indemnities: Many lease forms have a provision that indicates that Sandia will owe the lessor for all taxes on the property. Much of this problem can be overcome with use of clauses, SC 026-TPL Total Price, Lease; in the Solicitation and Contract and Quotation Instruction 980-D15 Taxes on Leased Equipment in the solicitation for all lease procurements.

Commencement: The SCR should not accept any provisions that allow for commencement of the lease prior to execution of an acceptance certificate

Interim Rent: The SCR should not agree to pay for any amount of interim rent. This is where Sandia would pay a per diem rental from the time the equipment is initially accepted to the first.

Automatic Payment Schedules: The SCR should not agree to an automatic payment schedule, as it is possible that the contractor could be paid twice for the same invoice either by an error of omission or commission. The contractor should submit invoices for each payment.

Financing Leases - 5.15.G.4

Financing leases are generally used to acquire equipment on the basis of the use of time payments . The Requester must be made aware that if they lose, damage, or decide that they no longer want the equipment, that they be obligated to fulfill all of the terms of the contract.

When it is determined that a lease is not appropriate for equipment, sufficient funds are not available for an outright purchase and acquisition of the equipment is required, the following procedures shall be used.

Lease to Ownership/Lease with Option to Purchase - 5.15.G.4.a

Upon receipt of a certified PR for capital equipment indicating a requirement for an LTO or LWOP, the lease period, and possibly monthly payment restrictions, the SCR will issue a solicitation to the equipment manufacturer(s) and/or supplier(s) for the purchase price with Purchase Option (Assignable) Clause. The LWOP contract should rarely be used due to the potential tax liability to Sandia. If an LWOP is used, the SCR must be assured that the final price of the contract is inclusive of any or all taxes. After receipt of the manufacturer's/supplier's proposal(s), the SCR will award an order/contract (which provides that SNL has an assignable option to purchase the equipment covered by the proposal) to the winning Contractor. The SCR will issue solicitations to prospective lessors (i.e., manufacturer, suppliers, leasing companies, and financial institutions), which will include a copy of the option to purchase order/contract. They will quote prices on any or all of the following:

- LTO with nearly equal payments (which is similar to installment purchase), or
- lease price per month with option to purchase price (i.e., credit available from lease payments with buyout price).

- Solicitation must state that "low net cost to SNL" will be the basis for award. Low net cost is based on an evaluation of the factors known at the time of contract placement.
- It may be to Sandia's advantage if the solicitation and the subsequent contract stipulates that the title to the equipment will pass to Sandia upon execution of the contract. If title passes to Sandia, on either a LWOP or LTO, Sandia may be able to avoid certain property taxes. The SCR should be aware that this must be balanced against the possibility that the contractor may increase their finance charge for this time of agreement.
- When all proposals are received, the SCR will forward an abstract or price summary of the proposals to the Procurement Price/Cost Analyst (PCA) for accomplishment of a Lease vs. Purchase analysis.
- The PCA will provide the SCR with a copy of their analysis, which will indicate the most cost effective method of acquisition and the respective offeror.
- Upon receipt of the analysis, the SCR will issue a contract. (If offers are based only on LTO, the SCR may proceed with processing the award of the contract to the lowest offeror concurrent with the PCA's analysis.)

Step	Who	Action
1	SCR	• Receives PR to lease equipment, either

		LTO, LWOP, or both. • Prepares lease solicitation. The lease solicitation should reflect options for LTO and/or both. If LWOP is option, the maximum buyout must be calculated and indicated on the solicitation. • Reviews proposals. Sends the quoted numbers to Price/Cost Analyst for the lease analysis which will include the following: • Determination on what lease vehicle should be used. • The actual rate of interest. • The cost difference between LTO, LWOP, and straight purchase, and straight lease if applicable.
2	Price/Cost Analyst	Performs a lease analysis and sends the results to SCR indicating: • The most economical method of procurement between LTO and LWOP. • The actual rate of interest. • The cost difference between LTO, LWOP, and straight lease (if applicable), and straight purchase. The analysis of LWOP contracts must include an analysis of the taxes that will be paid by Sandia due to the use of an LWOP.
3	SCR	• Performs and documents an analysis of the cost benefit relationship between the benefits obtained by acquiring the equipment via a lease vehicle and the finance charges incurred as a result of acquiring the equipment by this method. If the total cost differential between straight purchase and a lease, LWOP or LTO is greater than $100,000, the SCR shall obtain a memorandum from the line organization that documents why the

		benefits received through acquisition via a lease vehicle are worth the added costs due to finance and other possible costs. This memo must be approved by the line Director. This memo may be obtained at any time prior to the placement of the contract Awards contract and sends to selected lessor. • Sends Acceptance Certificate to the Requester with memo requesting that the certificate be completed and returned after leased item(s) are delivered.
4	Requester	• Prepares and signs Acceptance Certificate indicating date the item(s) are accepted. Handcarries certificate to the SCR.
5	SCR	• Prepares, signs, sends letter to Contractor advising of acceptance date and start date of LTO or LWOP. • Provides a copy of Acceptance Certificate to Contractor. • Issues "Buyer-Made" revision to contract to reflect the acceptance date and end dates for each month of the LTO or LWOP term.

Alternative Process for Executing Lease to Ownership Contracts - 5.15.G.4.b

This approach takes the monthly lease payment out of the Assignment for Payment process.

Step	Who	Action
1	SCR	Prepares solicitation directly to the equipment vendor, and attaches a cover letter stating that award would be made directly to the financial institution. The letter must make certain stipulations, namely that equipment vendor would agree to its Small and Disadvantaged Business Plan being inserted into the financing company's contract, and the equipment vendor and the financing company must agree that all warranties would flow directly to Sandia without going through the financing company.

2	Equipment Vendor	• Agrees to the stipulations (mandatory). • Furnishes proposal to SCR.
3	SCR	• Performs cost and price analysis to determine reasonableness of price. • Sends the original solicitation to the selected financial institutions, and a cover letter to each finance company along with the solicitation making the same stipulations stated in Step 1 above, including the purchase price of the equipment. The letter stipulates the term of the lease; the type of contract; and that the company must furnish a buyout schedule for the term of the contract. • Receives and reviews proposals from the financing companies. The quoted numbers are sent to Price/Cost Analyst for the lease analysis.
4	PCA	Performs a lease analysis and sends the results to SCR indicating: • The actual rate of interest. • The cost difference between LTO, LWOP, and straight lease (if applicable), and straight purchase.
5	SCR	• Performs and documents an analysis of the cost benefit relationship between the benefits obtained by acquiring the equipment by via a lease vehicle and the finance charges incurred as a result of acquiring the equipment by this method. If the total cost differential between straight purchase and a lease, LWOP, or LTO is greater than $100,000, the SCR must obtain a memorandum from the line organization that documents why the benefits received through acquisition via a lease vehicle are worth the added costs due to finance charges and other costs. This memo must be approved by the line Director. This memo may be obtained at any time prior to the placement of the contract. • Awards contract and sends to selected lessor. • Sends Acceptance Certificate to the Requester with memo requesting that the certificate be completed and returned after leased item(s) are delivered.
6	Requester	• Prepares and signs Acceptance Certificate indicating date the item(s) are accepted. Handcarries certificate to the SCR.

7 SCR

- Prepares, signs and sends letter to Contractor advising of acceptance date and start date of LTO or LWOP.
- Provides a copy of Acceptance Certificate to Contractor.
- Issues "Buyer-Made" revision to contract to reflect the acceptance date and end dates for each month of the LTO or LWOP term.

Buyout Procedure - 5.15.G.4.c

1 SCR

- Upon verbal request of the Requester, notifies Contractor (verbally) that SNL has elected to exercise the option to buyout effective on a certain date.

  Note: The Option to Purchase clause of the contract normally requires written advance notice of at least 15 days. If earlier buyout is desired, Contractor must agree to waive the 15-day advance notice requirement.

  Unless an earlier buyout date is considered necessary, the specified buyout date should be the end-of-month date specified in the contract.

  Note: A buyout at a specified end-of-month date can be accomplished easily since the full monthly lease payment and buyout amounts have already been agreed to and included in the contract. A buyout at other than the end-of-month date will complicate the computation of the last monthly lease payment (part of a month) and the buyout amount. If buyout date will be other than an end-of-month date specified in the contract, the amount of last lease payment and buyout amount must be agreed upon by the SCR and the Contractor.

- Confirms verbal notice to Contractor by letter.
- Issues revision to contract to show the buyout by obtaining requisition from the Requester indicating the desire to buyout on a particular date and adjustment of the contract amount to reflect final lease payment and buyout amount.
- Ensures that Contractor is reminded to provide the required bill of sale/title transfer documentation by referring to the contract requirement in the revision to contract.
- Places in suspense file for document receipt.

		• Sends follow-up requests until the documentation is received. • Delivers originals of title documents (if applicable) to Fleet Services.
2	Contract Administrator	Processes the contract for closeout in accordance with normal procedure.

Acquiring the Title up front in a Financing Lease - 5.15.G.4.d

Obtaining title up front is a preferred practice for Sandia. However, the SCR may need to consider other alternatives should a Contractor elect to charge higher interest fees if title is conferred to Sandia up front.

Documentation - 5.15.G.5

The documentation for a lease is expected to include in the PAS a discussion of:

Price Reasonableness. The SCR is expected to justify the price reasonableness as per guideline 3.2.G - Contract Cost /Price Considerations. In addition, the documentation is expected to address the actual dollars to be committed, the pre-period and post-period cost implications of the lease agreement and discuss how the analysis of how the finance charge costs and other lease costs were analyzed to determine price reasonableness.

Analysis of Lease Cost vs. Purchase. The SCR must provide a comparative analysis of the cost of a lease, either Financial Lease or True Lease, with the cost of a straight purchase. All costs, including those due tofinance charges as well as lease commencement, charges due to maintenance, use and upgrades, taxes and end of lease charges should be considered.

Analysis of Terms and Conditions Issues. The terms and conditions of a lease contract are at least as important as the cost of the lease itself. The SCR is expected to document any term and condition proposed by the contractor and accepted by Sandia and any revisions or additions to existing Sandia clauses. The SCR is to document the rationale for acceptance, Sandia Legal approval, and Requester concurrence to the terms and conditions.

Approval of Line Director, if applicable. The contract documentation is expected to contain the approval of the Line Director as required.

Applicable Clauses - 5.15.G.6

- SC 115-KFS - Order Against ADP or Federal Supply Schedule Total
- SC 801-KOA - Order Against Ordering Agreement
- SC 015-PPL - Period of Performance, Lease
- SC 026-TPL - Total Price, Lease
- Quotation Instruction 980-D15 - Taxes on Leased Equipment

References - 5.15.G.7

Policy and Guideline 3.1 - Best-Value Source Selection/Commercial-Like Practice

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Credits: Technology Leasing: Power Tools for Lessees, James Johnson, Ph.D., Barry Marks Esq., Leasing Power Tools Press 2002

Send feedback on ideas and information on this page to the Process Expert, Randy Shibata.

Randy Shibata

Karen Archibeque