

MANAGEMENT MEMO

SUBJECT:	NUMBER:
INSTALLMENT PURCHASE AGREEMENTS FOR GOODS AND SERVICES	98-06
REFERENCES:	DATE ISSUED:
Public Contract Code Sections 10300 et seq. and 12100 et seq.	04/10/98
	EXPIRES:
	UNTIL RESCINDED
	ISSUING AGENCY:
	Department of General Services

This Management Memo supersedes MM 96-26.

Effective immediately, all agencies are permitted to enter into installment purchase agreements (commonly referred to in the industry as "lease purchases") for the purpose of financing procurements. Because the lending rates negotiated under GS \$Mart tend to be the lowest obtainable and the loans arranged for under GS \$Mart are structured to comply with Internal Revenue Service regulations, agencies should use GS \$Mart for their installment purchase agreements as a matter of convenience and efficiency. In any event, the conditions for entering into installment purchase agreements are as follows:

- An agency may enter into an installment purchase agreement for a procurement valued at up to the limit of the agency's procurement authority, not including the cost of financing. In other words, if an agency's existing procurement authority permits a procurement without financing, then financing the purchase under an installment purchase agreement is permissible.
- Generally, the financed amount of the procurement should be a minimum of \$100,000, including sales tax, as applicable, and any other costs, such as the costs for training, installation and freight, in addition to the costs for the item(s) being purchased. Financing a lesser amount may not be cost-effective; therefore, the decision to do so should be weighed carefully.
- An agency may use a lender that is not a GS \$Mart lender; however, it is recommended that the agency consider the GS \$Mart lenders first. Current DGS-approved lenders and financing plans are posted in the GS \$Mart, the state's financial marketplace, on the Procurement Division's Internet home page:

<http://www.pd.dgs.ca.gov/finance/gsmart.htm>

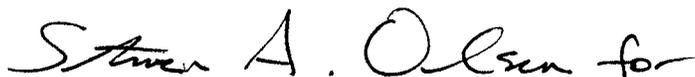
- If, after considering the GS \$Mart lenders, an agency wishes to use a lender that is not a GS \$Mart lender, the lender should contact the GS \$Mart Administrator at (916) 327-2600 *prior* to proceeding. This contact is necessary in order for the GS \$Mart Administrator to ensure that the proposed lender meets the qualifications for participating in any financing opportunities with the state.
- Obtaining at least three quotes is recommended for funding commitments.
- The above conditions also apply to the following:
 - A procurement based on a California Multiple Award Schedule (CMAS), a master agreement, a single or sole source award or a competitive bid.
 - A procurement with a nominal purchase price at the end of a lease after all lease payments have been made.

The above conditions do **NOT** apply to operating leases and rental agreements.

All state agencies subject to DGS oversight must send a copy of each installment purchase agreement to the GS \$Mart Administrator who reviews the contract to ensure compliance with Internal Revenue Service code requirements. The Administrator also files the necessary tax forms and reports on behalf of the agency and will file the forms and reports for other agencies upon request.

The GS \$Mart Program posts the latest market information, including the DGS-approved lenders and finance rates, on the Internet. State agencies are advised to review this GS \$Mart information periodically for refinancing opportunities and, if advantageous, to execute a refinancing lease purchase contract to realize the cost savings. To ensure refinancing is executed properly, agencies should contact the GS \$Mart Administrator before proceeding.

For more information regarding this memo, please contact Patrick Mullen, Department of General Services, Procurement Division.

A handwritten signature in cursive script that reads "Steven A. Olsen for". The signature is written in black ink and is positioned above the typed name of the signatory.

PETER G. STAMISON, Director
Department of General Services

PS:em:pbm