

## SAM – LEASE/PURCHASE EQUIPMENT

### LEASE/PURCHASE ANALYSIS—EQUIPMENT

3710

(Reviewed 11/2014)

Prepare a lease/purchase analysis in accordance with SAM Section 1276 and Management Memos regarding acquisition of equipment. The analysis must be completed on the "Lease Versus Purchase Analysis—Equipment" form shown in the Appendix at the end of this chapter. Any assumptions which are peculiar to a given acquisition should be noted on the back of the form. If this format will not fit the particular situation, use some other logical analytical sequence. Use present value techniques when doing a lease/purchase analysis. Submit one copy. If you have questions or need help working on the analysis, call the Research and Analysis Unit of the DGS Office of Procurement. A completed sample form is provided in the Appendix. See SAM Section 3740 for instructions on completing the sample form.

Do a lease/purchase analysis when arranging to rent certain equipment. In this case, submit the analysis with the contract to the DGS [Office of Legal Services](#). This analysis must be in the same format.

The lease/purchase cost comparison views the purchase of equipment as an investment. Therefore, the basic issue is if the rental and other costs that are saved by investing in (purchasing) the equipment will provide an adequate return on investment. This approach compares the purchase price with the present value of the series of payments and other costs that are saved when the equipment is purchased. The present value (discounted cash flow) concept is based on the time value of money. It considers the fact that the dollar today is worth more than a dollar tomorrow because of its earnings potential. If the value of money is 9.479 percent annually, then \$100 a year from now is worth \$91.34 today; i.e.,  $\$91.34 \times 1.09479 = \$100$ .

Even when your lease/purchase analysis indicates that purchasing is more desirable, the best alternative for the State may be to lease or lease with an option to buy. This is most often true if any of the following conditions exist:

1. Trying out the system for a while before buying it.
2. The system's design is new and untried.
3. Decisions are pending that might change how the system is defined.
4. Data needed to complete the analysis is still uncertain.