

SAM – LEASE/PURCHASE EQUIPMENT

ITEMS TO BE CONSIDERED

3720

(Reviewed 11/2014)

Consider the following items when making your lease/purchase analysis:

Maintenance Costs. Is the cost of keeping the equipment in good working condition the same for each alternative? If not, include the maintenance costs in the present value calculations. Deduct the maintenance costs from lease costs, or add them to the purchase price for proper analysis.

Purchase Options. If the lease gives an option to buy the equipment, how will using this option affect the total cost? Also, when is it least costly to use the purchase option, and when will using the option cost more than the cash purchase price?

Useful Life of the Equipment. There are two ways to look at how long equipment will be useful. One way is, how long will the equipment be needed for the program it will support? The second way is, how long will the equipment last before it wears out? Check with the equipment vendor to see if the equipment can last as long as needed. The DGS has set the useful life of office copiers at five to seven years depending on workload categories and word processing equipment at seven years.

Salvage Value. When the equipment will last longer than the need for it, include an estimate of the equipment's salvage value in your cost analysis.

Opportunity Cost. Figure out how much money would be earned over the same period of time if the money was invested in something else other than the purchase. Use the interest rate of 9.479 percent to compute present value.

Other Items. Be sure to consider other items that are unique to the proposal when making the lease/purchase analysis.