

OSBM

**LEASE PURCHASE AND INSTALLMENT
PURCHASE ACTIVITY**

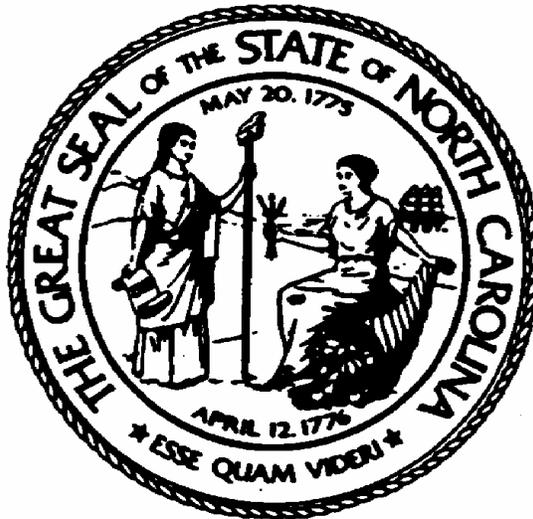
Management Study

As Directed by Session Law 2005-276, Section 6.17

February, 2006

Prepared By:

Office of State Budget and Management



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INTRODUCTION

Scope of Study

Section 6.17 of Session Law 2005-276 requires that the Office of State Budget and Management (OSBM), in consultation with the Office of State Treasurer, the Office of State Controller, and the Department of Administration develop and implement a management process for lease purchases and installment purchases and prepare a consolidated report of all lease purchase and installment purchase expenditures by State agency. The law specifically states that OSBM shall:

- 1) Develop and implement a management process that does all of the following:
 - Standardizes the criteria used by executive branch agencies to evaluate the business case for acquisitions by lease purchase and installment purchase.
 - Provides for executive branch agency budget submissions that clearly show current and proposed debt service requirements occasioned by existing and proposed lease purchase and installment purchase agreements.
 - Provides that all lease purchase and installment purchase agreements entered into by executive branch agencies (i) contain provisions to protect the interests of the State against nonperformance or insolvency and (ii) are centrally inventoried and monitored.
 - Includes debt accruing through lease purchase and installment purchase activity by executive branch agencies in the annual report of the Debt Affordability Advisory Committee required by G.S. 142-101.
 - Evaluates the advantages of a pooled or master lease or installment arrangement.

- 2) Prepare a consolidated report summarizing by State agency all lease purchase and installment purchase expenditures in the current fiscal year and all lease purchase and installment purchase expenditures planned for the upcoming fiscal year. This section does not apply to the University of North Carolina.

Methodology

In order to conduct the study, the OSBM study team performed the following tasks:

- Surveyed all executive branch agencies to identify: a) current criteria used to make lease purchases and installment purchases, b) annual cash flow from lease purchases and installment purchases for a 10-year period, and c) current and projected lease purchase and installment purchase activity for FY 2004/05 and FY 2005/06,
- Reviewed policies and procedures, administrative codes, and relevant statutes,
- Reviewed 2005-07 budget instructions,
- Researched business case models from other states,
- Met with staff of the Office of State Budget & Management, State Controller's Office, State Treasurer's Office, and the Department of Administration-Division of Purchase and Contract,
- Researched lease purchase and installment purchase activities and master lease agreements in other states, and
- Analyzed various data.

BACKGROUND

Several elements were outlined in the legislation to develop a management process for lease purchases and installment purchases. Completion of all these elements required the cooperation of several state agencies. Prior to this study, lease purchase and installment purchase activities were not identified as such in the budget or purchasing process. The only related information captured were summarized amounts of capital

leases and third party financing reported as notes payable each year by the State Controller’s Office to be included in the Comprehensive Annual Financial Report (CAFR).

To illustrate the differences between a lease purchase, an installment purchase and a lease, the definitions of each option (as outlined in the State of North Carolina Agency Purchasing Manual) are shown below.

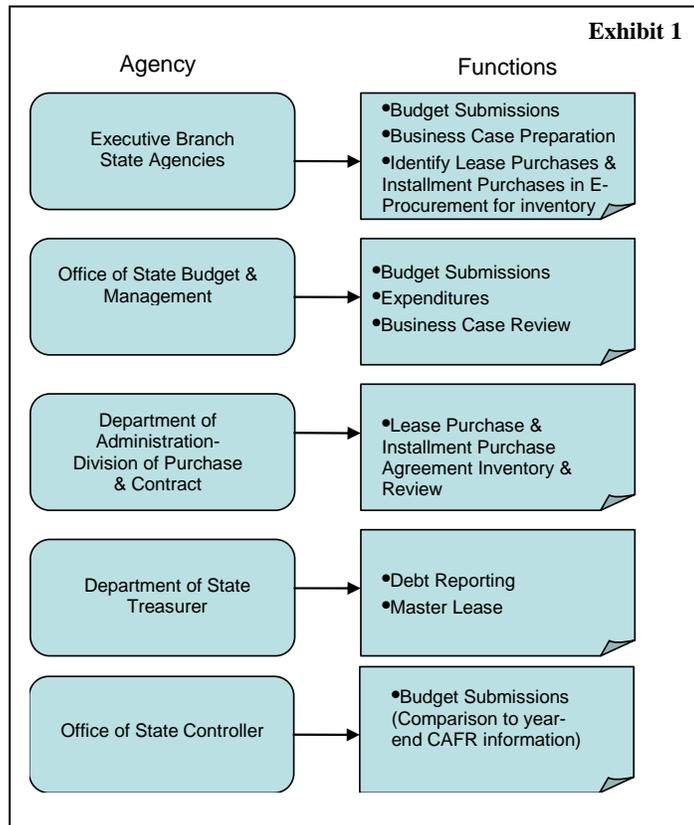
- Lease Purchase - A contract conveying from one to another use of a commodity for a designated period of time in return for established periodic payments, with an option or obligation to purchase the commodity. Used when outright ownership is uncertain or when it is the intent to delay ownership.
- Installment Purchase - A contract in which the agency's established periodic payments are applied to fulfill the payment obligations for ownership of the commodity. Used when ownership of commodity at time of possession is intended.
- Lease - A contract conveying from one to another use of a commodity for a designated period of time in return for established periodic payments. Does not contain an option nor an obligation to purchase.

According to the State of North Carolina Agency Purchasing Manual, a lease purchase agreement or contract is used when outright ownership is uncertain or when it is the intent to delay ownership. The contract must provide for an option or obligation to purchase. Third party financing is not used. Ownership transfers only if and when the time for the obligation to purchase is reached. The contract may include an option to upgrade the item during the lease period, which may be exercised without rebidding the contract. The same rules applying to outright purchases shall be applied for lease purchase contracts.

An installment purchase agreement/contract is used only when ownership of commodity at time of possession is intended. Third party financing is used in most cases and creates a security interest in the purchased commodity.

With the information collected by the Office of State Budget & Management, State Controller’s Office, State Treasurer’s Office, and the Department of Administration these elements addressed in the legislation can now be identified. Exhibit 1 lists the agencies with the functions designated to develop and implement the new management process.

The following paragraphs address each facet of the management process developed to manage lease purchase and installment purchase activity for executive branch agencies. Although a part of the executive branch, the legislation directs that the requirements of this process do not apply to the University of North Carolina.



Business Case for Lease Purchases and Installment Purchases:

The executive branch agencies were surveyed on their current decision making criteria to determine the acquisition method to use between lease purchase, installment purchase, operating lease, and straight purchase. Of the responding agencies, only 12 listed criteria they used in determining a method of acquisition. Availability of funds was the most common criterion cited. Usual life and total cost of ownership were also considered. To assist in standardizing the evaluation of purchasing methods, executive branch agencies will prepare a business case to evaluate the most beneficial method of acquiring a commodity when considering a lease purchase or installment purchase. The Business Case includes guidelines, instructions and templates, to ensure conformity for all agencies. The complete documents, which are located in Appendix A, include the following elements:

- General guidelines and instructions
- Template for a business case narrative
- Template for financial analysis
- Template for risk analysis
- Template for recommendations

A business case will accompany all budget expansion requests involving lease purchases and installment purchases. The Office of State Budget and Management will review these business cases as part of the approval process for the budget expansion. Business cases for lease purchases and installment purchases which are part of the continuation budget will be reviewed and maintained within the agency.

Budget Submissions

Budget Instructions distributed for the 2007/09 budget will include instructions on submitting current and proposed debt service requirements by lease purchase and installment purchase agreements. The information will be captured on a budget attachment form and include information such as type of agreement, debt service requirements stated in an annual cash flow schedule for 10 years, and business case for expansion requests. Once approved, these debt service requirements will be forwarded to the State Treasurer's Office for inclusion in the annual Debt Affordability Study and the State Controller's Office for comparison to the CAFR year-end information submitted by agencies.

Lease Purchase and Installment Purchase Agreements

The Department of Administration, Division of Purchase and Contract is responsible for ensuring that all lease purchase and installment purchase agreements entered into by executive branch agencies (i) contain provisions to protect the interests of the State against nonperformance or insolvency and (ii) are centrally inventoried and monitored. Below is the terminology included in contracts to protect the State:

CONTRACT TERMINATION: This Contract is effective from the date of acceptance by the State until terminated, in whole or in part, as provided below:

- a. *Termination for Non-Available Funds: The State's obligations to pay any amounts due under the Contract are contingent upon availability and continuation of funds for that purpose, and in the event of the non-availability of funds the State may terminate this Contract by giving the Contractor thirty (30) days prior written notice. All payment obligations of the State will cease upon the date of termination. Notwithstanding the foregoing, the State agrees (I) not to effect termination of the Contract under this provision if funds are available to continue the Contract for this or functionally similar equipment, and (ii) that it will use its best efforts to obtain approval of the necessary funds to continue the Contract by taking appropriate action to request adequate funds to continue the Contract in force. In the event the State returns the Equipment pursuant to the terms of this paragraph, the Contractor shall retain all sums paid hereunder by State.*
- b. *Activity Discontinuance: This Contract may be terminated with thirty (30) days written notice to the Contractor if the organizational activity within the State agency using the Equipment is discontinued or disestablished. Notwithstanding the foregoing if such organizational activity is*

transferred to another agency, department or other instrumentality of the State, then this Contract shall not be subject to termination under this Section.

- c. *Return of the Equipment: Penalty Charges:* In any case of termination, as stated in paragraphs (a) and (b) above, the State shall return the Equipment, along with all repair and other related records, in good operating condition (i.e., in a condition equal to the condition of the Equipment as when it was originally delivered to the State subject to normal wear, tear and usage) to the Contractor, at the State's sole cost and expense, at a location to be mutually agreed upon.
- d. *Prepayment:* If no event of default exists, the State will have the right, upon providing the Contractor with thirty (30) days prior written notice, to prepay its obligation for the amount set forth according to respective dates provided in the Purchase Order(s) or prorated by Contractor to another specified date.
- e. *The State's Rights on Prepayment or Payment in Full:* Upon (i) the State's exercising of its right of prepayment or (ii) the State's having satisfied all of its monetary and other obligations hereunder, Contractor will release its security interest in the Equipment.

Purchase and Contract and NC E-Procurement @ Your Service are establishing a method to centrally inventory and monitor lease purchase and installment purchase agreements through the E-Procurement system. E-procurement guidelines for 2006 will include revised instructions for agencies to use to identify lease purchases and installment purchases through the E-Procurement system.

Debt Reporting

As part of this management process, executive branch agencies are to report debt accruing through lease purchase and installment purchase activity. This debt will be submitted to the Office of State Budget and Management as discussed previously in the Budget Submissions section of this report. Once verified this information will be forwarded to the State Treasurer's Office for inclusion in the annual Debt Affordability Study. A survey of agencies was conducted to obtain the initial lease purchase and installment purchase debt for a ten-year period. The results are compiled in Table 1 below and will be included in future Debt Affordability Studies. Executive Branch agencies will report this information annually to the Office of State Budget and Management where it will be compiled and forwarded to the State Treasurer's Office.

Annual Cash Flow Schedule from Lease Purchases and Installment Purchases Table 1

Agency	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Administrative Office of Hearings	0	0	0	0	0	0	0	0	0	0
Crime Control & Public Safety	150,000	74,114	0	0	0	0	0	0	0	0
Department of Environment & Natural Resources	3,686,215	4,280,528	4,280,528	3,684,711	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Department of Administration	0	2,177,774	2,233,578	2,290,840	2,349,598	2,409,893	2,471,763	2,535,254	2,600,405	2,667,261
Department of Commerce	1,343,905	1,337,365	1,337,365	213,594	0	0	0	0	0	0
Department of Corrections	0	0	0	0	0	0	0	0	0	0
Department of Cultural Resources	0	0	0	0	0	0	0	0	0	0
Department of Insurance	0	0	0	0	0	0	0	0	0	0
Department of Justice	0	0	0	0	0	0	0	0	0	0
Department of Juvenile Justice	0	0	0	0	0	0	0	0	0	0
Department of Labor	0	0	0	0	0	0	0	0	0	0
Department of Public Instruction	0	0	0	0	0	0	0	0	0	0
Department of Revenue	320,006	215,834	215,834	0	0	0	0	0	0	0
Department of Transportation	53,532	9,682	9,682	9,682	8,062	0	0	0	0	0
DHHS-Central Management & Support	0	0	0	0	0	0	0	0	0	0
DHHS-Division of Child Development	0	0	0	0	0	0	0	0	0	0
DHHS-Division of Facility Services	0	0	0	0	0	0	0	0	0	0
DHHS-Division of Mental Health ¹	27,500	0	0	0	0	0	0	0	0	0
DHHS-DMA	0	0	0	0	0	0	0	0	0	0
DHHS-DMHDDSAS - Central Office	34,214	34,214	34,214	30,982	0	0	0	0	0	0
DHHS-DSS	0	0	0	0	0	0	0	0	0	0
DHHS-Office of Education Services	0	0	0	0	0	0	0	0	0	0
DHHS-Public Health	24,584	24,584	24,584	24,584	24,584	0	0	0	0	0
DHHS-Vocational Rehabilitation	0	0	0	0	0	0	0	0	0	0
Governor's Office	0	0	0	0	0	0	0	0	0	0
Lieutenant Governor	0	0	0	0	0	0	0	0	0	0
N.C. Auctioneer Licensing Board	0	0	0	0	0	0	0	0	0	0
NC Board of Elections	6,264	1,566	0	0	0	0	0	0	0	0
NC Community Colleges	0	0	0	0	0	0	0	0	0	0
NC Department of Agriculture	0	0	0	0	0	0	0	0	0	0
NC General Assembly	0	0	0	0	0	0	0	0	0	0
NC Housing Finance Agency	3,680	5,520	1,840	0	0	0	0	0	0	0
NC Ports	0	0	0	0	0	0	0	0	0	0
NC Psychology Board	0	0	0	0	0	0	0	0	0	0
NC State Board of Opticians	0	0	0	0	0	0	0	0	0	0
North Carolina Wildlife Resources Commiss	3,370	0	0	0	0	0	0	0	0	0
Office of the State Auditor	0	0	0	0	0	0	0	0	0	0
Secretary of State	0	0	0	0	0	0	0	0	0	0
State Health Plan	0	0	0	0	0	0	0	0	0	0
State Treasurer	80,147	80,147	26,716	0	0	0	0	0	0	0
Total Annual Cash Flow	5,733,417	8,241,328	8,164,341	6,254,393	4,282,244	4,309,893	4,371,763	4,435,254	4,500,405	4,567,261

Evaluation of the Advantages of a Pooled or Master Lease or Installment Arrangement

Any leasing/financing program provides budgetary flexibility for the agency acquiring assets. However, financing the acquisition of an asset is typically a more expensive method than an outright purchase. Also financing must be accounted for and monitored properly. Although there are different types of leasing/financing programs, the objectives for all are similar: to acquire commodities through financing and to obtain the best interest rate possible. Below are descriptions of the different leasing/financing programs evaluated followed by a summary of the advantages identified for each program.

Pooled Financing

Pooling (consolidating) equipment into one lease financing package requires agencies to identify future equipment needs. Once identified, then debt may be issued to satisfy those needs. This type of financing can lead to lower interest rates from high volume but limits agencies flexibility to acquire additional leased equipment and requires competitive bidding or negotiation of terms and conditions each time the state enters into a new lease.

Master Lease Program

A Master Lease Program is a popular method used by many states and universities to obtain the best credit terms and financing arrangements available. A master lease is a lease arrangement with a predetermined line-of-credit which allows the State to draw down funds under the same basic terms and conditions without the need to negotiate a new lease agreement each time a new acquisition is made. Separate lease schedules are created to accommodate the addition of leased equipment. Each schedule may include different end of term options and different lease lengths but all will come under one "Master Lease." The line of credit for the master lease program in other states has been funded by revenue bonds/commercial paper, certificates of participation, or third party financial institutions. Some states administer their programs through internal staff while others retain a third party vendor for these services.

Master Lease-Variation

A variation of the Master Lease Program is to negotiate agreements with multiple vendors and establish a financial marketplace on the Internet. It has elements of both the Master Lease Program and Installment Agreement, but with additional flexibility. California has won awards for establishing the GS \$Mart¹ which allows agencies to quickly obtain competitively priced financing for lease purchases and installment purchases. Lenders are pre-qualified and agree to standard contracts covering the terms and conditions. Interest rates and leasing periods are posted on the Internet by all pre-qualified financial institutions which increase competition for better rates and eases the process of selecting a financial institution that best suits an agency's needs. Financing can be conducted entirely via electronic communication. New lenders can be added at any time and approved lenders may cease doing business with the state at will. GS \$Mart is not a financing program, but acts as a financial clearinghouse providing potential state and local borrowers with vendor and loan interest rate information for financing the purchase of goods. Although lower interest rates are an attribute of all programs, having multiple pre-qualified vendors with rates posted on the Internet may lead to more competition and better rates. However, the administration of this type of program is more costly since there are multiple vendors and on-going pre-qualification.

¹ California's Department of General Services has established this program, Golden State Financial Marketplace – GS \$Mart, maintained on an Internet Website where approved financial institutions post interest rates and terms. The website can be used by any state and local government entity to obtain financing.

Installment Agreement

An installment agreement is simply a contract to repay a fixed amount with specified payments over a specific period of time. In an installment agreement each contract would be negotiated or competitively bid individually. Each agreement would require a separate contract. This option lacks the flexibility of a Master Lease Agreement and the high volume discount of Pooled Financing.

Summary

The advantages identified for the different types of leasing/financing programs are listed in Table 2.

Table 2				
	Advantages			
	Pooled Financing	Master Lease Program	Master Lease-Variation	Installment Agreement
Lower borrowing rate achieved through consolidated procurement.	✓	✓	✓	
Uniform documents and borrowing methods		✓	✓	
Financing terms can be competitively bid	✓	✓		✓
Variable lease and payment term options		✓	✓	
Centralized administration	✓	✓	✓	
Additional acquisitions without renegotiation or competitive bidding		✓	✓	

For an agency, one of the biggest benefits of a leasing/financing program relates to budget limitations. Many agencies may not have funds available in one year to purchase costly equipment so instead an alternate method is needed. By utilizing a lease consolidation program the state could reduce interest rates thereby saving funds. Current interest rates reported in the survey responses varied considerable from zero to 11 percent. The individual interest rates are shown in Table 3 on page 8.

The advantages of any program must be evaluated in terms of the costs necessary to implement and administer such a program. To a large degree, the relative trade off between costs and benefits will be volume dependant. A program consisting of multiple small lease purchases will not be attractive to a lender for financing, nor efficient in administering in a centralized manner. Based on the current small volume of lease purchases and installment purchases reported by executive branch agencies, the economies of scales cannot be achieved at this point in time. See the following section on lease purchase and installment purchase expenditures for further discussion on the current volume of these expenditures. The State should periodically monitor volume activity and dollar amounts to determine if benefits from a master lease program or other financing methods could be realized.

Lease Purchase and Installment Purchase Expenditures

The responses of a survey of all executive branch agencies show that the volume of lease purchase and installment purchase agreements is relatively small. For fiscal year 2005/06, the responding agencies reported a total of seven installment purchases and 17 lease purchase agreements. The activity for 2004/05 was similar with six installment purchases and 16 lease purchases. The lease purchases and installment purchases for fiscal years 2004/05 and 2005/06 are shown in Table 3 on the following page. There are three other transactions, that although they do not fall within the survey period, should be disclosed. The Department of Administration has entered into two installment purchases for Guaranteed Energy Savings projects for \$24 million (interest not included) for the Downtown Complex and the Museum of Art. Payments for these purchases begin in fiscal year 2007. The Department of Environment and Natural Resources has a lease purchase arrangement with North Carolina Aquarium Society for the Aquarium expansion at Pine Knoll Shores. Payments for this project will begin in fiscal year 2007 with a purchase

price of nearly \$27 million (interest not included). These three projects do affect the annual cash flow schedule and have been included in Table 1 on page 5. Detailed information on lease purchase and installment purchase expenditures is located in Appendix B.

In addition to the lease purchase and installment purchase information, the survey also asked for agencies to list current operating leases. As expected, the amount of operating leases was much higher. A list of operating leases amounts by agency is shown in Appendix C (source State Controller's Office).

Lease Purchase and Installment Purchase Expenditures – FY 2004/05 and FY 2005/06

Table 3

Agency	Commodity (Equipment/Item)	Type of Purchase/ Lease	Term (In months)	Payment Amount FY 2004/05	Payment Amount FY 2005/06	Interest Rate
Crime Control & Public Safety	Aerial Ladder / Pumper fire truck -Butner Public Safety	<i>Installment Purchase</i>	36	0	150,000	Not Listed
Department of Commerce	Aircraft	<i>Installment Purchase</i>	120	802,249	802,249	5.06%
Department of Commerce	Aircraft	<i>Installment Purchase</i>	120	509,052	509,052	5.05%
Department of Commerce	AS400	<i>Lease Purchase</i>	36	34,800	17,400	7.28%
Department of Commerce	AS400	<i>Lease Purchase</i>	36	0	15,204	6.21%
Department of Environment & Natural Resources	Trucks	<i>Installment Purchase</i>	48	15,340	15,340	5.07%
Department of Environment & Natural Resources	Two Telephone Systems, Multiple Trucks, One Motor Trailer, One Boat Motor	<i>Installment Purchase</i>	48	595,796	595,796	2.89%
Department of Environment & Natural Resources	Multiple Trucks, Tractors, Trailers, One Cessna Aircraft, One Helicopter, Diesel Transmissions, Motors, One 18 ft Boat, Riding Lawn Mowers, One Dump Truck, Spectrometer	<i>Installment Purchase</i>	48	1,290,348	1,290,348	3.85%
Department of Environment & Natural Resources	One Cessna Airplane Multiple Trucks and Accessories, One Cargo Van, Three Zoo Trams, Three Visitor Transport Buses.	<i>Installment Purchase</i>	48	1,784,736	1,784,736	3.24%
Department of Revenue	4100 High Speed Laser Printer	<i>Lease Purchase</i>	36	0	104,172	9.00%
Department of Revenue	P Series 650 and P Series 670, associated disks and peripherals	<i>Lease Purchase</i>	36	215,834	215,834	Variable
Department of Transportation	Engineering Copier	<i>Lease Purchase</i>	60	69,840	29,100	Not Listed
Department of Transportation	Mail Insertor	<i>Lease Purchase</i>	6	0	14,750	Not Listed
Department of Transportation	Digital Printer	<i>Lease Purchase</i>	60	9,682	9,682	Not Listed
Department of Transportation	Color Copier	<i>Lease Purchase</i>	60	37,500	0	Not Listed
DHHS-Division of Mental Health	Vitros 950 Chemistry Analyzer	<i>Lease Purchase</i>	60	82,500	82,500	11.00%
DHHS-DMHDDSAS - Central Office	Communication Boards	<i>Lease Purchase</i>	36	3,232	3,232	Not Listed
DHHS-DMHDDSAS - Central Office	Copier NG4-168513	<i>Lease Purchase</i>	60	5,618	6,741	Not Listed
DHHS-DMHDDSAS - Central Office	Copier CTF-021346	<i>Lease Purchase</i>	60	1,010	12,120	Not Listed
DHHS-DMHDDSAS - Central Office	Coper CTF-021288	<i>Lease Purchase</i>	60	1,010	12,120	
DHHS-Public Health	Copier/scanner	<i>Lease Purchase</i>	60	2,049	24,584	0.00%
NC Board of Elections	985-54	<i>Lease Purchase</i>	48	4698	6,264	Not Listed
NC Department of Agriculture	Optima 3300 Autosampler	<i>Lease Purchase</i>	60	19,210	0	Not Listed
NC Housing Finance Agency	Car	<i>Lease Purchase</i>	24	0	3,680	0.00%
North Carolina Wildlife Resources Commissi	office equipment	<i>Lease Purchase</i>	60	8,088	3,370	0.00%
Secretary of State	Copier	<i>Lease Purchase</i>	24	6,927	0	0.00%
State Treasurer	Mainframe	<i>Lease Purchase</i>	36	66,789	80,147	Fair Maket
Fiscal Year Total				\$5,566,308	\$5,788,422	

ACKNOWLEDGEMENTS:

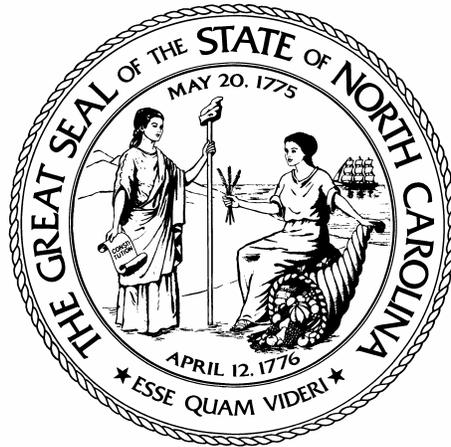
OSBM wishes to express its appreciation to the State Controller's Office, State Treasurer's Office, and Division of Purchase and Contract staff, as well as all the surveyed agencies, for their cooperation during this study.

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APPENDIX A

Business Case

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**Criteria for Evaluating the Business Case for Acquisitions
&
Guidance on Lease Purchase and Installment Purchase
Analysis**

February 2006

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Overview

To fulfill the directive of Section 6.17 of Session Law 2005-276 to standardized criteria by which to evaluate acquisitions using lease purchases or installment purchases, the executive branch agencies should utilize a business case approach to evaluate such acquisitions.

Before entering into any purchase or lease agreement, the economic soundness of the various buying options versus leasing should be analyzed. Based on the results of the Business Case, agency management can justify and select the best acquisition method for the situation.

What is a Business Case?

A business case is a document used to justify the commitment of resources to a project. For this purpose, the business case is being prepared in order to document purpose, agency needs, evaluate alternatives, assess the overall costs and benefits, justify and obtain approval to proceed and/or to secure funding for lease purchase or installment purchase acquisitions.

How to Prepare a Business Case?

Business Case Framework

For the purpose of evaluating acquisitions using either lease purchases or installment purchases, the business case framework will include the following elements:

- Narrative
- Financial Analysis
- Risk Analysis
- Recommendation

Narrative

The Narrative includes a description of the acquisition. It includes the Why, What, When, Who, and How” of the acquisition. Elements to incorporate in the narrative in determining the best acquisition method include:

- Describe acquisition
 - new or replacement,
 - construction project, service or equipment
- Explain how the acquisition will benefit the agency
- Describe any Federal, Legislative, or local mandate driving or impacting the acquisition
- Illustrate work processes that can be improved
- Determine how long the acquisition will be used, useful life and possibility of obsolesces
- Identify streamlined work processes and improved work task
- Outline potential cost savings to the agency
- Identify of funding source and availability
- Explain any related staffing changes
- Describe problem or opportunity that the acquisition will address, i.e. inability to meet current demands, increased operating costs, change in legislation
- Identify risk factors, i.e. cost risks, performance risks
- Describe alternatives considered

This information should be entered on the Narrative form. See Attachment 1 for the Narrative template.

Financial Analysis

The two most important criteria used to evaluate the business case for acquisitions are benefit-cost analysis and cost-effectiveness analysis. Both benefit-cost analysis and cost-effectiveness analysis are economic techniques that provide a systematic framework for evaluating public policy choices, including purchase decisions. Before performing any type of comparative cost analysis of purchase options, the decision to acquire an asset must be made. In making this decision, a benefit-cost analysis should be conducted and demonstrate that the anticipated benefits resulting from an acquisition justify the expected costs.

Benefit-Cost Analysis (BCA) – Benefit-cost analysis is a quantitative method of assessing the desirability of government projects or policies when it is important to take a long view of future effects and a broad view of possible side-effects. A distinctive feature of BCA is that both benefits and costs are expressed in dollars, which allows evaluation of different alternatives with a variety of attributes using a common measure.

A good analysis does not follow a strict formula. Different purchase decisions will likely require different emphases in the analysis, depending on the nature and complexity of the purchase and the sensitivity of the benefit and cost estimates to key assumptions. That said, below are some general considerations that should be taken into account when performing a BCA. These considerations are followed by Attachments 2-Cost of Ownership, 3-Benefits, and 4-Summary of Costs and Benefits, which provide a template designed to help agencies begin a benefit-cost analysis.

General Considerations

1. **Scope of Analysis** – The analysis should focus on all benefits and costs associated with the acquisition, including indirect benefits and costs. The time frame for analysis should cover a period long enough to encompass all the important benefits and costs likely to result from the acquisition. Attachments 2-Cost of Ownership, 3-Benefits, and 4-Summary of Costs and Benefits assume that 5 years is the appropriate time period for analysis. To the extent the appropriate time differs, these tables should be adjusted accordingly.
2. **Baseline** – The impacts identified should be measured against a baseline. This baseline should be the best assessment of the way the world would look absent the acquisition. In many cases, the world absent the acquisition will resemble the present. For example, if an agency is evaluating the purchase of a new computer to replace an older model, the costs and benefits associated with the newer computer should be compared to the levels achieved with the base case, or older model.
3. **Alternatives** – The BCA should identify reasonable alternatives deserving careful consideration and evaluate the impacts of each. It is often useful to go beyond simply comparing an agency’s preferred option to the baseline. When there is a “continuum” of alternatives to address a particular problem, an agency should examine a preferred option, a more expensive or stringent option, and a less expensive or stringent option. For the purpose of evaluating multiple alternatives, Attachments 2-Cost of Ownership, 3-Benefits, and 4-Summary of Costs and Benefits can be completed for each alternative. The narrative section of the business case also provides an opportunity to describe alternatives considered. Alternatives should be analyzed for every major acquisition.
4. **Benefit and Cost Estimates** – How is this acquisition expected to change the current state? What benefits or cost impacts are associated with these changes? What are the monetary values of these impacts? If the impacts cannot be monetized, an agency should try to quantify through the use of informative physical units. To organize these impacts, an agency should:
 - include separate schedules of the monetized benefits and costs;

- identify the benefits and costs that can be quantified, but not monetized; and
- describe the benefits and costs that cannot be quantified.

See Attachments 2-Cost of Ownership, 3-Benefits, and 4-Summary of Costs and Benefits for a template on how to begin organizing cost and benefit impacts.

5. **Transparency and Reproducibility** – A good analysis should be transparent and clearly set out the basic assumptions, methods, and data used. In Attachments 2-Cost of Ownership, 3-Benefits, and 4-Summary of Costs and Benefits, this information should be provided in the “description” column. Given the uncertainty of various estimates, it may also be useful to provide a sensitivity analysis to reveal whether, and to what extent, the results of the analysis are sensitive to possible changes in key assumptions.
6. **Time Value of Money** – Benefits and costs do not always take place in the same time period. When they do not, an agency should not simply add up all of the expected benefits or costs without accounting for when the impacts occur. Benefits or costs that occur sooner are generally more valuable. Given this preference, a discount factor should be used to adjust future benefits and costs. The summary table in Attachment 4-Summary of Costs and Benefits uses a 4.7% discount rate to adjust future benefits and costs.

Cost-Effectiveness Analysis – Only after the decision to make an acquisition has been made is there a need to analyze the decision whether to purchase, lease-purchase, or lease. Comparing different options (e.g., purchase, lease-purchase, or lease) that achieve the same primary outcome (e.g., acquire an asset) is cost-effectiveness analysis. After comparing the present value cost of various options, agencies should generally pursue the most cost-effective solution.

To help illustrate how to begin to compare various purchase options, OSBM has prepared a purchase example in Attachment 5-Purchase Options Example followed by a similar blank template in Attachment 6-Purchase Options Template. In this purchase scenario, which is also described at the top of Attachment 5-Purchase Options Example, an agency has determined that it needs a new copy machine (e.g., the benefits of purchasing a copy machine justify the costs). The agency believes there is a 36-month useful life cycle for the machine, so the equipment will need to be replaced at that time. The major acquisition alternatives are: purchase, lease-purchase, and leasing.

The agency has the following information about each option:

Item	Cost
Copy Machine	\$5,000
Expected Residual Value	\$575
Discount Rate	4.7%
Semi-Annual Lease-Purchase Payment	\$920
Semi-Annual Lease Payment	\$860
Ancillary Costs	\$0

The lease company is prepared to lease the copy machine to the agency for three years with semi-annual payments. At the end of the lease, the agency would be required to return the copy machine.

If the agency purchased the copy machine through either a lease-purchase or outright cash purchase, it would expect to be able to sell the copy machine at the end of the three-year term for \$575.

As illustrated in Attachment 5-Purchase Options Example, the first step in the analysis is to identify the total purchase costs. For an outright cash purchase, the total purchase costs will be the purchase price. Since that purchase typically happens at the beginning of ownership, this cost would be identified in year one and would not need to be discounted since it’s already “present value.” Lease-purchase, installment

purchase, and leases involve specified payments at given periods. In this example, the agency can lease-purchase the asset for semi-annual payments of \$920 or lease the asset for \$860 semi-annually. These annual costs are reflected in each of the three years of the asset's useful life.

Next, the agency should add any ancillary costs, such as repair and maintenance expenses. However, these costs can be excluded if they are estimated to be the same for each purchase alternative. In this particular example, ancillary costs were assumed to be zero.

The last step of the analysis is to account for the residual value of the asset and appropriately discount overall impacts. Since leasing does not involve ownership, the residual value is not accounted for under that option. This example assumes that the agency would take advantage of the purchase option under the lease-purchase terms. Therefore, the residual value of the asset (\$575) is accounted for at the end of year three under both the purchase and lease-purchase options.

Finally, the present value of the residual value is then subtracted from the present value stream of purchase and ancillary costs to arrive at total present value cost. In this example, the purchase option was the most cost-effective option, followed by lease-purchase and lease.

Risk Analysis – Projects over \$500,000

Completing the risk analysis assessment section is only required for acquisitions over \$500,000. The purpose for the Risk Assessment Section is to provide the reader with an understanding of the risks that are related to the acquisition and how these risks may vary by the viable alternatives. This section includes a risk mitigation strategy for each risk. Refer to Attachment 7 for an example of how the project risks can be documented.

A risk is a factor or event that may jeopardize the acquisition from achieving the anticipated benefits or increase the cost of the acquisition. The risk assessment should tie into the assumptions and parameters used in the Benefit-Cost Analysis section. In particular it should be used to gage the strength of the recommendation through the sensitivity analysis referred to in section 5 of General Considerations. An acquisition may look like a good decision until it becomes apparent that the benefit it was to provide has a significant risk of never arriving.

Start by identifying all risks that may relate to the acquisition. Many acquisitions have unique risks but some examples of risks are:

- Lack of Senior Management Support
- Schedule inflexibility
- Length of implementation
- Funding not completely secured
- Multiple vendors or business partners
- Unstable business requirements
- Large number of users
- Causes significant change to multiple business processes
- Legislative changes
- Insufficient training
- Inadequate communication
- Conflicting priorities
- Inability to free-up critical business resources

For each risk, identify the probability of the risk occurring and the impact it may have on each alternative, using the following guidelines.

Probability of Risk:

- High indicates that the event is high likely to occur
- Medium indicates that the event is likely to occur
- Low indicates that the event is not likely to occur

Impact of Risk:

- High indicates that the event has a significant impact to the acquisition / project
- Medium indicates that the event will impact the acquisition/project
- Low indicates that the impact is relatively minor to the acquisition/project
- None indicates that the risk will not impact the acquisition/project

Once the above has been laid out, mitigation strategies should be developed to offset the risks that you have identified.

After these analyses are completed, it is time to choose the best option and present recommendations.

Recommendations

Conclude the Business Case with recommendations including what the financial impact will be to the agency. This step is done after the narrative and financial spreadsheets have been completed and analyzed.

Based on the results of the analysis, the recommendation will be made as to what method of acquisition to use:

- purchase,
- lease,
- lease purchase, or
- installment purchase

Include other alternatives considered, if applicable and why option selected is best. This information is entered on the Recommendations form which is shown in Attachment 8.

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Narrative

Department or Agency:
Contact Person: Telephone: e-mail address:
Acquisition Description :
Date:
Narrative:

Summary of Costs and Benefits

Discount Rate = 4.7%

	Year 1	Year 2	Year 3	Year 4	Year 5
Costs of Asset	\$0	\$0	\$0	\$0	\$0
Benefits of Asset	\$0	\$0	\$0	\$0	\$0
Net Benefits	\$0	\$0	\$0	\$0	\$0
Net Present Value	\$0	\$0	\$0	\$0	\$0
Total Net Present Value	\$0				

Purchase Option Example

Lease and Installment Purchase Analysis Example

An agency has decided to purchase a new copy machine. The agency uses a 36-month life cycle for copy machines. Therefore, the equipment will need to be replaced at that time. In considering whether to purchase, lease-purchase, or lease the equipment, the agency has the following information:

Item	Cost
Copy Machine	\$5,000
Expected Residual Value	\$575
Discount Rate	4.7%
Semi-Annual Lease-Purchase Payment	\$920
Semi-Annual Lease Payment	\$860
Ancillary Costs	\$0

Discount Rate = 4.7% To determine current discount rate select link below:

[DISCOUNT RATES FOR LEASE PURCHASE ANALYSIS](http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html)
http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html

PURCHASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$5,000	X				\$5,000
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						<u>\$5,000</u>
Residual Value	\$0	\$0	\$575	\$0	\$0	\$501
			Present Value Total Cost =			<u>\$4,499</u>

LEASE PURCHASE OR INSTALLMENT PURCHASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$1,840	\$1,840	\$1,840	\$0	\$0	\$5,039
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						<u>\$5,039</u>
Residual Value	\$0	\$0	\$575	\$0	\$0	\$501
			Present Value Total Cost =			<u>\$4,538</u>

LEASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$1,720	\$1,720	\$1,720	\$0	\$0	\$4,710
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						<u>\$4,710</u>
Residual Value	\$0	\$0	\$0	\$0	\$0	\$0
			Present Value Total Cost =			<u>\$4,710</u>

*If the terms of the lease or purchase include ancillary services or costs that differ by purchase option, the costs should be included. Examples of ancillary services include: construction, installation, site, design, management, repair and improvement, and operation and maintenance costs.

Purchase Option Template

Analysis Template for Lease and Installment Purchase Decisions

Discount Rate = 4.7% To determine current discount rate: select link below:
[DISCOUNT RATES FOR LEASE PURCHASE ANALYSIS](http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html)
http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html

PURCHASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$0	X				\$0
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						\$0
Residual Value	\$0	\$0	\$0	\$0	\$0	\$0
						Present Value Total Cost = \$0

LEASE PURCHASE OR INSTALLMENT PURCHASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$0	\$0	\$0	\$0	\$0	\$0
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						\$0
Residual Value	\$0	\$0	\$0	\$0	\$0	\$0
						Present Value Total Cost = \$0

LEASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Present Value
Purchase Price or Annual Payment	\$0	\$0	\$0	\$0	\$0	\$0
Ancillary Costs*	\$0	\$0	\$0	\$0	\$0	\$0
						\$0
Residual Value	\$0	\$0	\$0	\$0	\$0	\$0
						Present Value Total Cost = \$0

*If the terms of the lease or purchase include ancillary services or costs that differ by purchase option, the costs should be included. Examples of ancillary services include: construction, installation, site, design, management, repair and improvement, and operation and maintenance costs.

Risk Assessment - (Required for projects over \$500,000)

Example of how Risks can be Documented

Risk Associated with doing the Project / Acquisition

Risk Assessment	Viable		Viable		Viable	
	Probability	Impact	Probability	Impact	Probability	Impact
Risk 1 – a description of risk 1	High	Medium	Low	Low	Medium	Low
<i>Risk 1 General Mitigation Strategy</i>	<i>Specific Strategy</i>		<i>Specific Strategy</i>		<i>Specific Strategy</i>	
...						
Risk 2 – a description of risk 2	Low	Medium	Medium	Low	Medium	Medium
<i>Risk 2 General Mitigation Strategy</i>	<i>Specific Strategy</i>		<i>Specific Strategy</i>		<i>Specific Strategy</i>	
...						

Risk of Not Proceeding with (Status Quo)

Risk Assessment	Status Quo	
	Probability	Impact
Risk 1 – a description of risk 1	High	Medium
<i>Risk 1 General Mitigation Strategy</i>	<i>Specific Strategy</i>	
...		
Risk 2 – a description of risk 2	Low	Medium
<i>Risk 2 General Mitigation Strategy</i>	<i>Specific Strategy</i>	
...		

Checklist for Risk Assessment

- .. Have all general risks been identified?
- .. Have all risks specific to each alternative been identified?
- .. For each risk has the specifics of each alternative been taken into consideration when evaluating the probability and impact?
- .. Has a risk mitigation strategy been identified for unacceptable levels of risk?
- .. Have the risks related to Status Quo been identified?

Recommendations

Department of Agency:
Contact Person: Telephone: e-mail address:
Acquisition Description:
Date:
Recommendations:

APPENDIX B

Lease Purchase and Installment Purchase Agreements

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FY 2005/06 Current and/or planned Lease Purchase and Installment Purchase Agreements

Agency	Commodity (Equipment/Item)	Type of Purchase/Lease Select from Drop Down Box	Agreement Date	Term (In_months)	Maturity Date	Interest Rate	Payment Amount	Payment Period Select from Drop Down Box	Total Cost/with ownership	Total Cost/without ownership
Crime Control & Public Safety	Aerial Ladder / Pumper fire truck - Butner Public Safety	<i>Installment Purchase</i>	9/1/2005	36	9/1/2007	not listed	150,000.00	<i>annually</i>	515,993	
Department of Commerce	Aircraft	<i>Installment Purchase</i>	7/8/1998	120	9/10/2008	5.06%	66,854.10	<i>monthly</i>	8,022,492.00	8,022,492.00
Department of Commerce	Aircraft	<i>Installment Purchase</i>	6/1/1998	120	6/10/2008	5.05%	42,421.00	<i>monthly</i>	5,090,520.00	5,090,520.00
Department of Environment & Natural Resources	Trucks	<i>Installment Purchase</i>	1/23/2002	48	2/23/2006	5.07%	15,340.00	<i>annually</i>	76,702.00	
Department of Environment & Natural Resources	Two Telephone Systems, Multiple Trucks, One Motor Trailer, One Boat Motor	<i>Installment Purchase</i>	6/9/2004	48	6/9/2008	2.89%	148,949.00	<i>quarterly</i>	2,383,185.00	
Department of Environment & Natural Resources	One Cessna Airplane Multiple Trucks and Accessories, One Cargo Van, Three Zoo Trams, Three Visitor Transport Buses.	<i>Installment Purchase</i>	6/1/2005	48	6/1/2009	3.24%	148,728.00	<i>monthly</i>	7,138,925.00	
Department of Environment & Natural Resources	Multiple Trucks, Tractors, Trailers, One Cessna Aircraft, One Helicopter, Diesel Transmissions, Motors, One 18 ft Boat, Riding Lawn Mowers, One Dump Truck, Spectrometer	<i>Installment Purchase</i>	6/17/2002	48	7/17/2006	3.85%	107,529.00	<i>monthly</i>	5,161,387.00	
Department of Commerce	AS400	<i>Lease Purchase</i>	12/1/2002	36	12/1/2005	7.28%	2,900.00	<i>monthly</i>	104,401.00	104,400.00
Department of Commerce	AS400	<i>Lease Purchase</i>	12/1/2005	36	12/1/2008	6.21%	2,172.00	<i>monthly</i>	78,193.00	78,192.00
Department of Revenue	4100 High Speed Laser Printer	<i>Lease Purchase</i>	7/1/05-6/30/0	36	6/30/2008	9.00%	8,681.00	<i>monthly</i>	312,516.00	312,516.00
Department of Revenue	P Series 650 and P Series 670, associated disks and peripherals	<i>Lease Purchase</i>	7/1/03-6/30/0	36	6/30/2006	Varies	17,986.19	<i>monthly</i>	647,502.52	647,502.52
Department of Transportation	Engineering Copier	<i>Lease Purchase</i>	11/30/2000	60	11/30/2005	na	5,820.00	<i>monthly</i>	349,200.00	na
Department of Transportation	Mail Insertor	<i>Lease Purchase</i>	6/1/2005	6	11/30/2005	na	2,950.00	<i>monthly</i>	17,700.00	
Department of Transportation	Digital Printer	<i>Lease Purchase</i>	4/1/2005	60	3/31/2010	na	806.84	<i>monthly</i>	48,410.00	
DHHS-Division of Mental Health	Vitros 950 Chemistry Analyzer	<i>Lease Purchase</i>	11/01	60	10/06	11.00%	6,875.00	<i>monthly</i>	27,500.00	n/a

FY 2005/06 Current and/or planned Lease Purchase and Installment Purchase Agreements

Agency	Commodity (Equipment/Item)	Type of Purchase/Lease Select from Drop Down Box	Agreement Date	Term (In_months)	Maturity Date	Interest Rate	Payment Amount	Payment Period Select from Drop Down Box	Total Cost/with ownership	Total Cost/without ownership
DHHS-DMHDDSAS - Central Office	Copier NG4-168513	<i>Lease Purchase</i>	09/01/04	60	09/01/09		561.75	<i>monthly</i>		6,741.00
DHHS-DMHDDSAS - Central Office	Copier CTF-021346	<i>Lease Purchase</i>	09/01/04	60	09/01/09		1,010.03	<i>monthly</i>		12,120.36
DHHS-DMHDDSAS - Central Office	Copier CTF-021288	<i>Lease Purchase</i>	09/01/04	60	09/01/09		1,010.03	<i>monthly</i>		12,120.36
DHHS-DMHDDSAS - Central Office	Communication Boards	<i>Lease Purchase</i>	05/05/05	36	05/05/08		3,232.47	<i>annually</i>	9,697.41	
DHHS-Public Health	Copier/scanner	<i>Lease Purchase</i>	5/28/2005	60	11/30/2010	0.00%	2,048.63	<i>monthly</i>	122,917.80	0.00
NC Board of Elections	985-54	<i>Lease Purchase</i>	10/1/2004	48	9/30/2007	N/A	522.00	<i>monthly</i>	25,056.00	N/A
NC Housing Finance Agency	Car	<i>Lease Purchase</i>	11/3/2005	24	11/3/2007	0.00%	460.00	<i>monthly</i>		15,240.00
North Carolina Wildlife Resources Commission	office equipment	<i>Lease Purchase</i>	7/1/2002	60	11/1/2005	0.00%	674.00	<i>monthly</i>	n/a	n/a
State Treasurer	Mainframe	<i>Lease Purchase</i>	8/24/2004	36	11/30/2007	none	6,678.89	<i>monthly</i>	*Fair Mkt Value	240,440.04
Completed Installment Purchases - payments begin fiscal year 2007										
Department of Administration	Downtown Complex - Mechanical System	<i>Installment Purchase</i>	11/21/2005	144	11/21/2017	3.64%	Varied	<i>annually</i>	23,900,521.76	N/A
Department of Administration	Museum of Art - Mechanical System	<i>Installment Purchase</i>	8/1/2005	144	7/15/2017	3.65%	Varied	<i>annually</i>	6,264,387.00	
Other - Funded by Bond Through NC Aquarium Society - payments to Foundation begin fiscal year 2007										
Department of Environment & Natural Resources	Aquarium Expansion-Pine Knoll Shores	<i>Lease Purchase</i>	7/1/2006	240	7/1/2025		*\$1,900,000	<i>annually</i>	*\$38,000,000	N/A
* Payment and total cost amounts are estimated based on information available at the time of this report. Amounts may changed when agreement is finalized.										

FY 2004/05 Current Lease Purchase and Installment Purchase Agreements

Agency	Commodity (Equipment/Item)	Type of Purchase/Lease <i>Select from Drop Down Box</i>	Agreement Date	Term (In months)	Maturity Date	Interest Rate	Payment Amount	Payment Period <i>Select from Drop Down Box</i>	Total Cost/with ownership	Total Cost/without ownership
Department of Commerce	Aircraft	<i>Installment Purchase</i>	7/8/1998	120	9/10/2008	5.06%	66,854.10	<i>monthly</i>	8,022,492.00	8,022,492.00
Department of Commerce	Aircraft	<i>Installment Purchase</i>	6/1/1998	120	6/10/2008	5.05%	42,421.00	<i>monthly</i>	5,090,520.00	5,090,520.00
Department of Environment & Natural Resources	Trucks	<i>Installment Purchase</i>	1/23/2002	48	2/23/2006	5.07%	15,340.00	<i>annually</i>	76,702.00	
Department of Environment & Natural Resources	Two Telephone Systems, Multiple Trucks, One Motor Trailer, One Boat Motor	<i>Installment Purchase</i>	6/9/2004	48	6/9/2008	2.89%	148,949.00	<i>quarterly</i>	2,383,185.00	
Department of Environment & Natural Resources	Multiple Trucks, Tractors, Trailers, One Cessna Aircraft, One Helicopter, Diesel Transmissions, Motors, One 18 ft Boat, Riding Lawn Mowers, One Dump Truck, Spectrometer	<i>Installment Purchase</i>	6/17/2002	48	7/17/2006	3.85%	107,529.00	<i>monthly</i>	5,161,387.00	
Department of Environment & Natural Resources	One Cessna Airplane Multiple Trucks and Accessories, One Cargo Van, Three Zoo Trams, Three Visitor Transport Buses.	<i>Installment Purchase</i>	6/1/2005	48	39965	3.24%	148,728.00	<i>monthly</i>	7,138,925.00	
Department of Commerce	AS 400	<i>Lease Purchase</i>	12/1/2002	36	12/1/2005	7.28%	2,900.00	<i>monthly</i>	104,401.00	104,400.00
Department of Revenue	P Series 650 and P Series 670, associated disks and peripherals	<i>Lease Purchase</i>	7/1/2003	36	6/30/2006	Varies	17,986.19	<i>monthly</i>	647,502.52	647,502.52
Department of Transportation	Engineering Copier	<i>Lease Purchase</i>	11/30/2000	60	11/30/2005	na	5,820.00	<i>monthly</i>	349,200.00	na
Department of Transportation	Digital Printer	<i>Lease Purchase</i>	4/1/2005	60	3/31/2010	na	806.84	<i>monthly</i>	48,410.00	na
Department of Transportation	Color Copier	<i>Lease Purchase</i>	4/24/2000	60	4/24/2005	na	5,750.00	<i>monthly</i>	345,000.00	na
DHHS-Division of Mental Health	Vitros 950 Chemistry Analyzer	<i>Lease Purchase</i>	11/01	60	10/06	11.00%	6,875.00	<i>monthly</i>	82,500.00	n/a
DHHS-DMHDDSAS - Central Office	Copier NG4-168513	<i>Lease Purchase</i>	09/01/04	60	09/01/09		561.75	<i>monthly</i>		6,741.00
DHHS-DMHDDSAS - Central Office	Copier CTF-021346	<i>Lease Purchase</i>	09/01/04	60	09/01/09		1,010.03	<i>monthly</i>		12,120.36
DHHS-DMHDDSAS - Central Office	Copier CTF-021288	<i>Lease Purchase</i>	09/01/04	60	09/01/09		1,010.03	<i>monthly</i>		12,120.36
DHHS-DMHDDSAS - Central Office	Communication Boards	<i>Lease Purchase</i>	05/05/05	36	05/05/08		3,232.47	<i>annually</i>	9,697.41	
DHHS-Public Health	Copier/scanner	<i>Lease Purchase</i>	5/28/2005	60	11/30/2010	none	2,048.63	<i>monthly</i>	122,917.80	0.00

FY 2004/05 Current Lease Purchase and Installment Purchase Agreements

Agency	Commodity (Equipment/Item)	Type of Purchase/Lease <i>Select from Drop Down Box</i>	Agreement Date	Term (In months)	Maturity Date	Interest Rate	Payment Amount	Payment Period <i>Select from Drop Down Box</i>	Total Cost/with ownership	Total Cost/without ownership
NC Board of Elections	985-54	<i>Lease Purchase</i>	10/1/2004	48	9/30/2007	N/A	522.00	<i>monthly</i>	25,056.00	N/A
NC Department of Agriculture	Optima 3300 Autosampler	<i>Lease Purchase</i>	3/1/2000	60	2/28/2005	n/a	2,401.28	<i>monthly</i>	144,078.80	144,077.80
North Carolina Wildlife Resources Commission	office equipment	<i>Lease Purchase</i>	7/1/2002	60	11/1/2005	0.00%	674.00	<i>monthly</i>	n/a	n/a
Secretary of State	Copier	<i>Lease Purchase</i>	Jan. 2003	24	12/2004	0.00%	1,154.42	<i>monthly</i>	27,706.08	0.00
State Treasurer	Mainframe	<i>Lease Purchase</i>	8/24/2004	36	11/30/2007	none	6,678.89	<i>monthly</i>	*Fair Mkt Value	240,440.04

APPENDIX C

Operating Leases

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**Summary of Operating Leases by Agency
FY 2005/06**

<u>Agency Name</u>	<u>Amount</u>
Department of Administration	395,050
Department of Agriculture	126,718
Department of Commerce	965,262
Department of Corrections	11,835,628
Department of Crime Control	1,014,278
Department of Cultural Resources	389,588
Department of Environment & Natural Resources	4,855,123
Department of Health and Human Services	12,434,032
Department of Insurance	1,550,637
Department of Justice	976,787
Department of Juvenile Justice	529,883
Department of Labor	374,513
Department of Revenue	1,021,234
Department of Secretary of State	344,993
Department of State Auditor	43,829
Department of Transportation	6,397,545
Employment Security Commission	3,193,240
General Assembly	6,453
NC Wildlife Resource Commission	851,650
NC Housing Finance	466,000
NC Public Instruction	604,635
NC School Science and Math	66,761
Office of Administrative Hearings	49,356
Office of State Controller	602,335
Office of the Governor	121,953
Other Accounts	1,616,379
State Board of Elections	131,684
State Treasurer	253,616
The Judicial Department - AOC	<u>1,478,584</u>
 Total	 <u><u>\$52,697,746</u></u>

Source: Agency CAFR year-end reporting to State Controller