

Financial Administration
LEASE VERSUS PURCHASE ANALYSIS FOR ACQUIRING EQUIPMENT

History. This supersedes III Corps and Fort Hood Regulation 37-1, dated 1 December 1997.

Summary. This regulation covers the requirements and procedures for leasing equipment, except for items specified in AR 71-13.

Applicability. This regulation applies to Forces Command (FORSCOM) units, activities, and organizations located at Fort Hood that currently lease or plan to acquire equipment through lease .

Supplementation. Subordinate commands may not supplement this regulation without prior approval by the Assistant Chief of Staff, Resource Management (ACofS, RM).

Suggested Improvements. The proponent of this regulation is the ACofS, RM. Send comments and suggested improvements to: Commander, III Corps and Fort Hood, ATTN: AFZF-RM-AC, Fort Hood, Texas 76544-5015.

FOR THE COMMANDER:

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Contents

Overview • 1, page 2

Purpose • 1a, page 2

References • 1b, page 2

Abbreviations and Terms • 1c, page 2

Responsibilities • 2, page 2

Resource Management (RM) • 2a, page 2

Contracting Command (CCMD) • 2b, page 3

Technical Support Activities • 2c, page 3

Property Book Officer (PBO) • 2d, page 3

Program Directors • 2e, page 4

Requesters • 2f, page 4

General • 3, page 4

Purchase • 3a, page 4

Authorization • 3b, page 5

One-time Use • 3c, page 5

Property Accountability • 3d, page 5

Lease Versus Purchase Analysis • 4, page 5

Requirement Analysis • 4a, page 5

Preparation Responsibility • 4b, page 6

Lease Versus Purchase Abbreviated Format •
4c, page 6

Approval • 4d, page 6

Funding Considerations • 4e, page 7

List of Figures

A-1. RM Lease Versus Purchase Format • page 8

Figure 4-1, Lease Versus Purchase Abbreviated
Format • 4c, page 6

List of Tables

2-1, Activities and Equipment • 2c, page 3

Appendixes

A. RM Lease Versus Purchase Format • page 8

Glossary • page 10

OVERVIEW

1

Purpose

This regulation:

- Assigns responsibilities for acquiring equipment through lease agreements.
- Does not apply to equipment used by service and construction contractors.
 - Fort Hood activities may require contractors to prepare lease versus purchase analyses when requesting equipment to support contractor performance.
 - There is no requirement to submit these analyses to the ACofS, Resource Management (RM) for approval.

1a

References

Section I. Required Publications

DOD Instruction 7041.3, Economic Analysis for Decision Making (cited in paragraph 4b.)

Section II. Related Publications

AR 25-1, The Army Information Resources Management Program

OMB Circular A76, Supplement – Performance of Commercial Activities

Section III. Referenced Forms

DA Form 3953, Purchase Request and Commitment

1b

Abbreviations and Terms

The glossary explains abbreviations and terms.

1c

RESPONSIBILITIES

2

Resource Management (RM)

RM:

- Is the proponent for leasing authority and publication of leasing guidelines at Fort Hood.
- If requested, prepares or assists in preparing required lease versus purchase analysis.
- Provides guidance or assists activities with:
 - Lease authority (Table of Distribution and Allowances [TDA]).
 - Planning and budgeting for appropriate funding.
 - Determining and certifying availability of funds.
 - Getting Other Procurement Army (OPA) funding when necessary.

2a

Contracting Command (CCMD)

The CCMD:

- Maintains signature cards for certifying officers and verifies signatures on DA Form 3953, Purchase Request and Commitment.
- Verifies that a lease versus purchase analysis is attached to the DA Form 3953 from the requesting activity.
- Reviews and verifies that the lease request is complete.
- Uses appropriate contracting authority and procedures to lease equipment.
- Provides the appropriate Property Book Officer (PBO) and program director a copy of the contract or purchase order.
- Consults RM if actual bids exceed the estimate on the DA Form 3953 by 15 percent to determine if the lease versus purchase analysis requires revision.

2b

Technical Support Activities

Table 2-1 provides technical assistance to requesters in directorate-specific areas of responsibility and expertise.

Table 2-1. Activities and Equipment

Activities	Equipment Type
Director of Public Works	Engineer equipment, real property, intrusion detection systems, and maintenance service vehicles.
Directorate of Health Services	Medical.
Directorate of Information Management	Information mission area systems and services (automation, communications, printing, publications, and records management).
Director of Logistics	Materials handling, transportation vehicles, installation property.
Director, Community Activities	Nonappropriated funds and morale, welfare, and recreation.
Director, Programs, Training, and Mobilization	Training and audiovisual support.

2c

Property Book Officer (PBO)

PBOs:

- Approve requests to lease equipment.
- Account for leased equipment.

2d

Program Directors

Program directors:

- Justify leasing requirements in budget justification documents submitted to RM.
- Review and verify information contained on DA Form 3953.
- Monitor leasing contracts to ensure economic and proper use of funds.

2e

Requesters

Activities plan, budget, prepare, and coordinate documents for delivery to CCMD for each lease or purchase action by:

- Including the item on an authorization document as appropriate (see paragraph 3b).
- Coordinating requests for vehicle leases through the transportation motor pool.
- Coordinating equipment requirements through appropriate approval levels.
- Ensuring proper accountability of equipment with appropriate hand receipt holder.

Note: Activities may lease equipment with IMPAC credit cards. Activities must prepare and maintain lease versus purchase analysis abbreviated format (Figure 4-1) analyses with credit card billing documents.

2f

GENERAL

3

Purchase

Purchase nonexpendable equipment except:

- For an emergency, short-term, or one-time mission requiring equipment.
- When a lease versus purchase analysis reveals that leasing is more cost effective then purchasing the item.
- When equipment is acquired only by leasing.

3a

Authorization

Put on an equipment authorization document for equipment needed for more than one year.

- Equipment authorization documents include:
 - TDAs.
 - Modified tables of organization and equipment (MTOE).
 - Common table of allowances.
 - III Corps and Fort Hood IMA plan.
 - Installation IMA standards.

(continued on next page)

**Authorization
(continued)**

- IMA resources (hardware and software) must have a capability requirement approval.
- Letters of authority from higher headquarters.

Forward request for equipment authorization to RM, Program Budget Division, Manpower Team, for approval.

- The equipment authorization process is separate and distinct from lease versus purchase analysis process.

Note: Take action to purchase when approved for inclusion in next update of authorization document.

3b

One-time Use

Lease equipment

- One-time use.
- Short-term requirements.
- Emergencies of less than 180 days.
- IMA, as in AR 25-1, paragraph 2-8, The Army Information Resources Management Program.

Forward DA Form 3953 through the program director to the Fort Hood PBO for approval.

3c

**Property
Accountability**

On the activity property book, account for:

- Equipment rented or leased for more than 180 days.
- Automatic data processing equipment and word processing equipment regardless of the lease period.

3d

LEASE VERSUS PURCHASE ANALYSIS

4

**Requirement
Analysis**

New leases require a lease versus purchase analysis.

Lease renewals require a lease versus purchase analysis only when original analysis did not include option years.

4a

**Preparation
Responsibility**

The requester:

- Prepares an abbreviated analysis for leases not exceeding one year, showing the difference between the cost to lease and the purchase price in hours, days, weeks, or months as in Figure 4-1.
- Provides specific requirements, justification, cost figures, and technical information to RM to assist with lease versus purchase.

(continued on next page)

**Preparation
Responsibility
(continued)**

RM, Accounting and Cost Analysis Division, or the requester:

- Prepares a formal lease versus purchase analysis for leases exceeding one year using the format at Appendix A.
- Use other automated formats if the format follows regulatory guidance using present value-cost comparisons outlined in DOD Instruction 7041.3, Economic Analysis for Decision Making.
- Use discount factors as prescribed by the U.S. Army Cost and Economic Analysis Center, available from the Accounting and Cost Analysis Division.

Prepare an analysis:

- With a new lease requirement.
- At least 30 days prior to lease renewal.

Submit copies of analyses to CCMD with a DA Form 3953.

- There is no requirement for RM to approve analyses.

Computer software is available from the RM for calculating the lease versus purchase analysis.

4b

**Lease Versus
Purchase
Abbreviated
Format**

Figure 4-1 illustrates information required for an abbreviated lease versus purchase analysis.

The example shows the cost advantage of leasing (the difference between the estimated purchase price and the estimated lease cost).

Figure 4-1. Lease Versus Purchase Abbreviated Format

Item	Months Required	Purchase Price	Lease Price	Cost Advantage
One reefer van		\$70,000	\$5,000	\$65,000

4c

Approval

The PBO

- Is the approval authority for leasing equipment.
- Enters a document number on the DA Form 3953 to indicate the documentation is complete and the equipment is authorized.
- Establishes a lease equipment file with lease authorizations, lease agreements with amendments, receipts, and turn-in documents.

4d

**Funding
Considerations**

Current budget guidelines preclude purchasing items over \$100,000 with OMA funds.

Notify activities if the OMA threshold changes.

For equipment or property exceeding the OMA limit:

- Identify the purchase as a budget requirement for the year of proposed purchase.
- Lease equipment costing over the OMA limit with special funds provided by higher headquarters.
- Request and include OPA funds in the command operating budget submission.

4e

**Appendix A
RM Lease Versus Purchase Format**

Figure A-1. RM Lease Versus Purchase Format

		ALTERNATIVE #1 COST					
1. SUBMITTING COMPONENT:		DRM					<i>Note: Comments in italics</i>
2. DATE OF SUBMISSION:		21 OCT 93					<i>are not required; they are offered as</i>
3. PROJECT TITLE:		Vehicle acquisition					<i>guidance to the analyst.</i>
4. PROJECT OBJECTIVE:		Provide vehicle support (one sedan) to Phantom Sabre (1994-2000)					
5. ALTERNATIVE: #1		Purchase vehicle					
6. ECON LIFE (YRS):		6	Interest rate=	0.077			
		<i>Enter the equipment life. Use published guidelines where possible. Example comes</i>					
		<i>from OMB Circular</i>					
		<i>A76.</i>					
7.	8. Project Costs					9. Remarks	
PROJECT	a. Nonrecur	b. Recurring	c.	d.	e.		
YEAR	Investment	Operations	Annual Cost	Discount Factor	Discounted Annual Cost	<i>In this example, Nonrecurring cost is</i>	
			a+b		c*d	<i>purchase price. It occurs in Year 0</i>	
						<i>as it must be paid before using the vehicle.</i>	
						<i>Recurring costs include maintenance.</i>	
0	10,000.00		10,000.00	1.000	10,000.00	<i>If costs are identical for lease or purchase</i>	
1		2,520.00	2,520.00	0.964	2,428.25	<i>(like operator cost and fuel), they can</i>	
2		2,520.00	2,520.00	0.895	2,254.64	<i>be</i>	
3		2,520.00	2,520.00	0.831	2,093.44	<i>omitted.</i>	
4		2,520.00	2,520.00	0.771	1,943.77	<i>The spreadsheet calculates discount rates</i>	
5		2,520.00	2,520.00	0.716	1,804.80	<i>using interest rates from CEAC. Rates</i>	
6		2,520.00	2,520.00	0.665	1,675.77	<i>depend on economic life of the project.</i>	
7			0.00	0.617	0.00	<i>CEAC publishes revised interest</i>	
8			0.00	0.573	0.00	<i>rates annually in February. CEAC can</i>	
9			0.00	0.532	0.00	<i>be</i>	
10			0.00	0.494	0.00	<i>reached by phone at DSN 761-9170.</i>	
11			0.00	0.459	0.00	<i>FORSCOM (DSN 367-6049) can also</i>	
12			0.00	0.426	0.00	<i>provide updated discount rates.</i>	
13			0.00	0.396	0.00		
14			0.00	0.367	0.00		
15			0.00	0.341	0.00		
16			0.00	0.317	0.00		
17			0.00	0.294	0.00		
18			0.00	0.273	0.00		
19			0.00	0.254	0.00		
20			0.00	0.235	0.00		
21			0.00	0.219	0.00		
22			0.00	0.203	0.00		
23			0.00	0.188	0.00		
24			0.00	0.175	0.00		
25			0.00	0.162	0.00		
TOTALS	10,000.00	15,120.00	25,120.00		22,200.67		
10a. Total Project Cost (discounted).....					22,200.67		
10b. Uniform Annual Cost (Without Terminal Value).....					3,700.11	<i>=(value on line 10a)/economic life</i>	
11. Less Terminal Value (Discounted).....					1,130.48	<i>SEE BELOW</i>	
12a. Net Total Project Cost (Discounted).....					21,070.19	<i>=(value in 10a)-(value in line 11).</i>	
12b. Uniform Annual Cost (With Terminal Value).....					3,511.70	<i>=(value on line 12a)/economic life</i>	

*Terminal value is expected value of purchased item at the end of its economic life, less any adjustments for dismantling and disposing. For the example, terminal value is 17% of purchase price. Percent is from OMB A76. The terminal value must be discounted to reflect present dollars. To get this we multiply the terminal value by the discount factor for the last year of the economic life. For the example, the discount factor for the sixth year is 0.665 (0.665*1700=1006.40).*

Figure A-1. RM Lease Versus Purchase Format (continued)

ALTERNATIVE #2 COST						
1. SUBMITTING COMPONENT:		DRM				
2. DATE OF SUBMISSION:		21 OCT 93				
3. PROJECT TITLE:		Vehicle acquisition				
4. PROJECT OBJECTIVE:		Provide vehicle support (one sedan) to Phantom Sabre				
5. ALTERNATIVE: #2		Lease vehicle				
6. ECON LIFE (YRS):		6	Interest rate=			0.077
- Economic life is the same whether the equipment is leased or purchased.						
7. PROJECT		8. Project Costs				9. Remarks
YEAR	a. Nonrecur Investment	b. Recurring Operations	c. Annual Cost	d. Discount Factor	e. Discounted Annual Cost	
			a+b		c*d	
0			0.00	1.000	0.00	Recurring costs for a lease are the annual lease payments, plus any other repeating costs.
1		2,892.00	2,892.00	0.964	2,786.70	
2		2,892.00	2,892.00	0.895	2,587.47	
3		2,892.00	2,892.00	0.831	2,402.48	
4		2,892.00	2,892.00	0.771	2,230.71	
5		2,892.00	2,892.00	0.716	2,071.23	
6		2,892.00	2,892.00	0.665	1,923.14	
7			0.00	0.617	0.00	
8			0.00	0.573	0.00	
9			0.00	0.532	0.00	
10			0.00	0.494	0.00	
11			0.00	0.459	0.00	
12			0.00	0.426	0.00	
13			0.00	0.396	0.00	
14			0.00	0.367	0.00	
15			0.00	0.341	0.00	
16			0.00	0.317	0.00	
17			0.00	0.294	0.00	
18			0.00	0.273	0.00	
19			0.00	0.254	0.00	
20			0.00	0.235	0.00	
21			0.00	0.219	0.00	
22			0.00	0.203	0.00	
23			0.00	0.188	0.00	
24			0.00	0.175	0.00	
25			0.00	0.162	0.00	
TOTALS	0.00	17,352.00	17,352.00		14,001.73	
10a. Total Project Cost (discounted).....						14,001.73
10b. Uniform Annual Cost (Without Terminal Value).....						2,333.62 =(value on line 10a)/economic life
11. Less Terminal Value (Discounted).....						0.00 SEE BELOW
12a. Net Total Project Cost (Discounted).....						14,001.73 =(value in 10a)-(value in line 11).
12b. Uniform Annual Cost (With Terminal Value).....						2,333.62 =(value on line 12a)/economic life

There is no terminal value on leased equipment.

13. Source/Derivation of Costs State where costs came from; use as much space as required.
- a. Nonrecurring costs:
 - b. Recurring costs:
 - c. Net terminal value:
 - d. Other considerations: (such as availability of funds, safety, and readiness)

14. Name & Title of Principal Action Officer Date

For lease versus purchase analyses, the better alternative is the one with the lower Net Total Project Cost. It should be noted that other considerations may require selection of other than the lowest cost alternative.

Glossary

ACofS

Assistant Chief of Staff

CCMD

Contracting Command

DA

Department of the Army

DOD

Department of Defense

DOIM

Directorate of Information Management

DSN

Defense Switched Network

FORSCOM

United States Army Forces Command

FH

Fort Hood

IMA

Information Management Area

IAW

in accordance with

LTC

Lieutenant Colonel

MTOE

Modification Table of Equipment

OMA

Operation and Maintenance Army

OPA

Other Procurement Army

PBO

Property Book Officer

RM

Assistant Chief of Staff, Resource Management

SC

Signal Corps

1 SEPTEMBER 2000

III CORPS & FORT HOOD REG 37-1

TDA
Table of Distribution and Allowances

U.S.
United States