Lease vs. Own

September 3, 2013
State owns about 16.4 m sf of space and leases about 3.1 m sf of space (~15% of the total) … most (90%) of the leased space is general office use

- State pays about $48 million state wide for leases (not including judicial leases)
  - Albuquerque: $17 m ($18.80 / sf)
  - Santa Fe: $12 m ($22.33 / sf)
  - Rest of State: $19 m ($18.81 / sf)

Since cost of capital to the public sector is less than that available to the private sector – all things being equal, the public sector should be able to own assets at a lower total cost than leasing over the long-term
The Life Cycle Cost Analysis (LCCA) Application developed by the Capitol Buildings Planning Commission for analyzing lease-purchase submittals demonstrates the cost differences between different acquisition methods.

LCCA is a method for assessing the total cost of facility ownership, taking into account the cost of acquiring, owning, operating and disposing of a building or a system.

Total Life Cycle Costs =

Discounted (Initial investment Cost + Operations Cost + Maintenance & Repair Cost + Replacement Cost - Residual value)

Lowest LCC of given alternatives is generally favored
Sample Summary Table of Discounted Cash Flow Life-Cycle Cost of Project Alternatives

<table>
<thead>
<tr>
<th>Discounted Cash Flow LCCA</th>
<th>Alternative #1</th>
<th>Alternative #2</th>
<th>Alternative #3</th>
<th>Alternative #4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Continue Existing Lease(s)</td>
<td>Buy (construct with cash, public sector)</td>
<td>Buy (debt finance, public sector)</td>
<td>Buy (lease - purchase, private sector)</td>
</tr>
<tr>
<td>40 Year Costs (present value)</td>
<td>$206,142,576</td>
<td>$152,818,830</td>
<td>$155,834,447</td>
<td>$162,136,402</td>
</tr>
<tr>
<td>First Year Costs</td>
<td>$5,721,014</td>
<td>$71,643,379</td>
<td>$6,912,792</td>
<td>$5,252,060</td>
</tr>
<tr>
<td>Residual Value</td>
<td>$0</td>
<td>$31,909,825</td>
<td>$31,909,825</td>
<td>$31,909,825</td>
</tr>
</tbody>
</table>

Total Cost Less Residual Value

|                      | $206,142,576 | $120,909,005 | $123,924,622 | $130,226,577 |
40-Year Discounted Cash Flows of Continuing to Lease vs. Public Sector Debt Financing

Years
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40

Cost ($Dollars)
$0 $2,000,000 $4,000,000 $6,000,000 $8,000,000 $10,000,000 $12,000,000 $14,000,000 $16,000,000 $18,000,000

Debt Finance Cost  Lease Cost
**Lease vs. Own**

**40-Year Discounted Cash Flows of Alternatives**

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>40 Year Costs (Net present value)</th>
<th>First Year Costs</th>
<th>Residual Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue Existing Lease(s)</td>
<td>$206,142,576</td>
<td>$5,721,014</td>
<td>$0</td>
</tr>
<tr>
<td>Buy (construct with cash, public sector)</td>
<td>$152,655,990</td>
<td>$71,475,654</td>
<td>$33,159,825</td>
</tr>
<tr>
<td>Buy (debt finance, public sector)</td>
<td>$154,462,151</td>
<td>$6,842,778</td>
<td>$33,159,825</td>
</tr>
<tr>
<td>Buy (lease - purchase, private sector)</td>
<td>$161,959,889</td>
<td>$5,243,055</td>
<td>$33,159,825</td>
</tr>
</tbody>
</table>
When Leasing May Be a Better Choice

Provides flexibility – When the need is short-term or uncertain

When State does not own appropriate space
   ‣ Not the right kind of space
   ‣ Not in the right location
   ‣ Requires specialized space
   ‣ Not available when needed

When the lease rate is below a certain level and facilities are of acceptable quality

When State does not have (or want to) invest capital costs – frees working capital for other uses

Federal leases are reimbursed to the state (but can be capitalized if done correctly)