Lease-Purchase Agreement Review Process Guidance

Capitol Buildings Planning Commission

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Guidance Material
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Section 15-10-1 NMSA 1978 gives responsibility to the Capitol Buildings Planning Commission (CBPC) “... to study and plan for long-range facilities needs of state government in metropolitan areas of Las Cruces, Santa Fe and Albuquerque, and after developing an initial master plan for the state facilities in those areas, conduct a review of state properties throughout the state for the development of an overall master plan.”

In the 2006 general election, the citizens of New Mexico passed Constitutional Amendment Number 2, which provides for lease-purchase agreements for the acquisition of state buildings and public schools. The enabling legislation for lease-purchase of state buildings is compiled in Section 15-3-35 NMSA 1978.

Additionally, Section 15-10-1 NMSA 1978 gives the CBPC responsibility “... to review proposed lease-purchase agreements pursuant to Section 15-10-2 NMSA 1978” and “... utilizing life cycle costing, work with the general services department in developing recommendations regarding whether the state should lease, lease-purchase or purchase needed additional facilities.”

The intent of this document is to provide guidance to agencies that propose lease-purchase agreements and to clearly communicate:

• Which agencies need to appear before the commission for lease-purchase agreement review,
• Which lease-purchase agreements require review,
• The lease-purchase agreement review process the commission has adopted, and
• What information needs to be submitted by the state agencies submitting lease-purchase agreements.

This document and contacts for clarification and assistance are available at: http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx.
Which Agencies Must Submit Lease-Purchase Agreements to the Capitol Buildings Planning Commission for Review?

Section 15-3-35 NMSA 1978, which enables lease-purchase agreements, defines “state agency” to mean “the state or any of its branches, agencies, departments, boards, instrumentalities or institutions, but ‘state agency’ does not include state educational institutions or state-chartered charter schools.”

Section 15-10-2 NMSA 1978 further excludes the state armory board, the commissioner of public lands, Public School Facilities Authority (when the authority is acquiring property pursuant to the Public School Capital Outlay Act) and the Economic Development Department (when acquiring property pursuant to the Statewide Economic Development Finance Act).

Section 15-10-2 NMSA 1978 states that all lease-purchase agreements, in which total lease revenue including potential extensions or renewals exceeds $5 million, require review by the CBPC (about a 10,000-gsf facility based on 2010 costs), and allows the commission to adopt criteria for other lease-purchase agreements to review.

For the next five years (FY 2011 - 2015), the commission has chosen to review all lease-purchase agreements in order to fine-tune guidance material and to monitor compliance with the Capitol Buildings Master Plan.

Exhibit 1
State Agencies Required to Comply with CBPC Lease-Purchase Agreement Review Process

<table>
<thead>
<tr>
<th>State Agencies that Must Submit Proposed Lease-Purchase Agreements to the CBPC for Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>All state agencies, agency branches, departments, boards, instrumentalities or institutions</td>
</tr>
<tr>
<td>Note: Executive agencies under the jurisdiction of GSD / PCD must also follow GSD / PCD lease-purchase process requirements.</td>
</tr>
</tbody>
</table>

- Lease–Purchase Agreement Review is not required for:
  - State educational institutions (State institutions of higher learning, the New Mexico School for the Deaf, the New Mexico School for the Blind and Visually Impaired), public schools, or state-chartered charter schools
  - Public School Facilities Authority (when the authority is acquiring property pursuant to the Public School Capital Outlay Act)
  - State Armory Board
  - Commissioner of Public Lands
  - Economic Development Department (when acquiring property pursuant to Statewide Economic Development Finance Act)
The CBPC has adopted a three-step lease-purchase agreement review process as illustrated in Exhibit 2.

**STEP A. AGENCY SUBMITTAL**

Subject agencies submit information to the Capitol Buildings Planning Commission for review following the guidance in this document. Agencies may also contact CBPC staff for aid and clarification at any time during the process. The agency submittal requirements are described in the next section.

Agencies that are under GSD / PCD jurisdiction will first follow GSD / PCD process requirements for lease-purchase agreements (see Appendix b.5) prior to CBPC submission. While not mandated by statute, the CBPC encourages all other state agencies to follow GSD / PCD process requirements prior to submission to the commission.
**STEP B. STAFF REVIEW AND RECOMMENDATION**

CBPC staff will review the state agency submittal for completeness. CBPC staff may ask the submitting state agency questions to clarify its submittal or CBPC staff may choose to perform more detailed financial analysis. CBPC staff will review their draft findings with the submitting agency and may make modifications based on that review. CBPC staff will present their findings and recommendations to the CBPC.

**STEP C. CAPITOL BUILDINGS PLANNING COMMISSION SUBMITS ITS FINDINGS TO THE LEGISLATURE**

The Capitol Buildings Planning Commission will consider staff recommendations. The submitting agency will have the opportunity to address the commission in support of its proposal. The CBPC will determine its findings and submit them to the legislature.
Agencies are required to submit information that completely addresses the following three items:

1. **DESCRIBE HOW THE LEASE-PURCHASE AGREEMENT MEETS THE NEEDS OF THE AGENCY**

   The agency should provide information that demonstrates how the proposed lease-purchase agreement meets the needs of the agency. The following specific information is required:

   - **Identify current space use**, including the location(s), amount of space currently occupied (leasable square feet, if in a current lease, or net assignable square feet if in a state-owned building), and current number of full-time employees (FTE), including vacancies.

   - **Identify any issues with current space assignment or location.** Examples of space issues might be multiple locations, poor quality of space, space inefficiencies, high cost, etc.

   - **Identify how much space is needed**
     - Provide the amount of space that is needed (gross square feet and net assignable square feet).
     - Document space needs based on a facility program using state space standards (state space standards are at: http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx).

   - **Submit any other studies that have been completed in support of the project.**

   - **Demonstrate why needs cannot be accommodated within existing state facilities.** The agency should document that it has reviewed space available in existing state buildings near its proposed location area and the reason(s) the space is not adequate for its purposes.

   - **Determine whether the proposed lease-purchase proposal complies with the planning principles of the Capitol Buildings Master Plan (CBMP).** The CBMP planning principles are found in Appendix b-4.
2. ASSURANCE OR DOCUMENTATION REGARDING TECHNICAL REQUIREMENTS OF THE LEASE-PURCHASE AGREEMENT

The proposer agency needs to assure and document that the proposed lease-purchase complies with these requirements of Section 15-3-35 NMSA 1978:

- The payment of all lease revenues due pursuant to a lease-purchase agreement will be sufficient at the end of the term of the lease-purchase agreement to acquire ownership of the leasehold property;
- The lease-purchase agreement provides that there is no legal obligation for the state or state agency to continue the lease-purchase agreement from year to year or to purchase the leasehold property; and
- The lease-purchase agreement shall be terminated if sufficient appropriations are not available to meet the current lease payments.

3. DOCUMENTATION THAT THE PROPOSED LEASE-PURCHASE AGREEMENT IS THE MOST COST-EFFECTIVE ALTERNATIVE

The proposing agency needs to demonstrate that the proposed lease-purchase agreement is the most cost-effective alternative, based on Life-Cycle Cost Analysis (LCCA). The CBPC has adopted LCCA for initial analysis, since it:

- Is a common, tested approach used by the public sector at the national and state levels;
- Aligns with statutory language;
- Lends itself to simplification;
- Provides easy-to-understand results; and
- Can be validated with more detailed analysis, as needed.

To ensure consistent and comparable results, the CBPC has standardized key LCCA baseline study parameters. A Web-based application providing a simple LCCA and a baseline analysis compatible with CBPC requirements are available for agency use. The tool is found at: http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx.

CBPC staff will use the simplified LCCA results as a first screening of alternatives. Based on the LCCA results, the staff may choose to perform a more detailed analysis.
In addition to the baseline LCCA analysis, agencies may submit alternative LCCA analyses, but should identify and justify any deviations from baseline assumptions and parameters.

The CBPC also encourages agencies to identify other mitigating costs and benefits justifying the proposed lease-purchase agreement.

The next section provides guidance regarding LCCA.
LCCA is a method for assessing the total cost of facility ownership, taking into account all costs of acquiring, owning, operating, and disposing of a building or building system.

Since the costs are incurred over various time periods, they are discounted to present values.

The life-cycle costs for a number of comparable alternatives are examined and generally, the alternative with the lowest life-cycle cost is favored.

LCCA can be very detailed. The CBPC provides a Web-based LCCA tool for agency use at [http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx](http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx). The CBPC has chosen to control many of the key financial and cost parameters to both simplify the analysis and manage for comparable results.

The user can consult a number of resources referenced in Appendix b.2 for a more in-depth discussion about LCCA concepts and topics.

Total life-cycle costs (LCC) are simply the total dollar cost of owning, operating, maintaining, and disposing of a building or a building system over a period of time.

Exhibit 3
Formula for Total Life-Cycle Costs

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
The LCCA required by the CBPC follows:

1. **A FINANCIAL COMPARISON OF AT LEAST FOUR ALTERNATIVE ACQUISITION METHODS:**

   - **Alternative 1:** Lease (or continue to lease) at prevailing local lease rates.
   - **Alternative 2:** State constructs or purchases a new facility using cash resources.
   - **Alternative 3:** State constructs or purchases a new facility assuming tax exempt bond financing (with some possible initial cash investment). Financing may include bonds backed by various revenue sources including gross receipts tax (GRT Bonds), severance taxes (STB), a general obligation pledge (GO Bonds), or tax-exempt lease-purchase financing through NMFA (NMFA Lease-Purchase Bonds).
   - **Alternative 4:** State lease-purchases facility from the private sector, assuming debt financing at private sector rate.

The CBPC’s LCCA Web-based application will also allow the proposer to create an alternative based on the actual terms of a lease-purchase agreement proposal that may be under consideration by the agency.

2. **IDENTIFY COSTS FOR ALL ALTERNATIVES.**

There are three types of costs to consider:

- **Cost of acquiring the building** - Cost associated with constructing, purchasing or leasing a facility.
- **Operations cost** - Cost to operate, maintain, and do minor repairs for each facility alternative.
- **Replacement Cost** - Cost to periodically renew a typical building over its assumed life (40 to 50 years).
- **Residual value** - The net worth of the facility at the end of the LCCA study period. This value is the only cost category in a LCCA where a negative value, one that reduces cost, is acceptable.

Any considered costs should be in current (today’s) dollars, not adjusted for any future inflation.

To ensure that alternatives are as comparable as possible, the quality standards of the building, and key cost and financial parameters, are controlled.

The specific information required by the proposer and the controlled study parameters are shown in Exhibit 4.
## Exhibit 4 – Life-Cycle Cost Analysis Submittal Requirements

<table>
<thead>
<tr>
<th>Data Required by Proposer (as applicable)</th>
<th>Controlled Parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>• Project name and location</td>
<td>No controlled inputs</td>
</tr>
<tr>
<td>• Occupancy date</td>
<td></td>
</tr>
<tr>
<td><strong>Initial Capital Costs</strong></td>
<td></td>
</tr>
<tr>
<td>• Gross square footage of the proposed new facility</td>
<td>Construction cost for building type by location (provided by GSD / PCD)</td>
</tr>
<tr>
<td>• Purchase price and gross square footage of an existing facility</td>
<td>Multiplier to determine total project costs including allowances for professional fees, furnishings, contingency and administrative costs</td>
</tr>
<tr>
<td>• Any other specialized costs associated with the project proposal, possibly including:</td>
<td>The performance standards for new construction and renovation as provided by GSD / PCD</td>
</tr>
<tr>
<td>– Purchase price of land</td>
<td>Initial up-front state investment</td>
</tr>
<tr>
<td>– Any unusual site development cost such as environmental remediation, abnormal soil condition, or grading and drainage</td>
<td></td>
</tr>
<tr>
<td>– Temporarily housing personnel</td>
<td></td>
</tr>
<tr>
<td>– Renovation of space that is being vacated (amount of gross square feet to be renovated).</td>
<td></td>
</tr>
<tr>
<td>– Addition of space (gross square feet) to a purchased facility</td>
<td></td>
</tr>
<tr>
<td>– Moving or relocation costs not applicable to all alternatives</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Costs</strong></td>
<td></td>
</tr>
<tr>
<td>• Current lease information</td>
<td>Operations cost / gross square feet to include typical costs for utilities, janitorial, maintenance, and minor repair (provided by GSD / PCD)</td>
</tr>
<tr>
<td>– Leaseable square feet (total and by location)</td>
<td></td>
</tr>
<tr>
<td>– Lease rate per square foot and any escalation provisions</td>
<td></td>
</tr>
<tr>
<td>– Any other operational cost if not included in the lease (e.g., utility costs, janitorial costs, parking cost, etc.)</td>
<td></td>
</tr>
<tr>
<td>• Proposed lease-purchase cost</td>
<td></td>
</tr>
<tr>
<td>– Leaseable square feet</td>
<td></td>
</tr>
<tr>
<td>– Lease rate per square foot and any escalation provisions</td>
<td></td>
</tr>
<tr>
<td>– Any other operational cost if not included in the lease-purchase agreement (e.g., utility costs, janitorial costs, parking cost, etc.)</td>
<td></td>
</tr>
</tbody>
</table>
## Exhibit 4 – Life-Cycle Cost Analysis Submittal Requirements

<table>
<thead>
<tr>
<th>Data Required by Proposer (as applicable)</th>
<th>Controlled Parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Replacement Cost</strong></td>
<td></td>
</tr>
<tr>
<td>No required proposer inputs</td>
<td>• 1.5-2% of original construction cost invested each year over the life span of the building (recommended by the Society for College and University Planning [SCUP], 1.5-2.5%)</td>
</tr>
<tr>
<td><strong>Residual Value</strong></td>
<td></td>
</tr>
<tr>
<td>No required proposer inputs</td>
<td>• 100% on any land purchase</td>
</tr>
<tr>
<td></td>
<td>• Building based on value in place (75% office building, 50% of specialized building) assuming 2% annual reinvestment of the original construction cost</td>
</tr>
<tr>
<td><strong>General Financial Variables and Guidance</strong></td>
<td></td>
</tr>
<tr>
<td>• Use constant dollars for all costs adjusted as much as possible for the year when the lease-purchase agreement is initially proposed. Dollars can be adjusted to current dollars by applying the Consumer Price Index (CPI) or other suitable cost deflator. See <a href="http://data.bls.gov/cgi-bin/cpicalc.pl">http://data.bls.gov/cgi-bin/cpicalc.pl</a> for an easy-to-use calculator that converts price values from one year to another.</td>
<td>• Discount rate: 3% (DOE Energy Price Indices and Discount Factors for Life-Cycle Cost Analysis <a href="http://www1.eere.energy.gov/femp/program/lifecycle.html">http://www1.eere.energy.gov/femp/program/lifecycle.html</a>)</td>
</tr>
<tr>
<td></td>
<td>• Private sector cost of capital: 10-30 year, A-rated, taxable bond rates, or commercial loan rates</td>
</tr>
<tr>
<td></td>
<td>• Study term of 40-50 years (to coincide with the typical life cycle of a public sector building)</td>
</tr>
</tbody>
</table>
3. IDENTIFY THE DISCOUNTED LIFE-CYCLE COST FOR EACH ALTERNATIVE OVER THE TERM OF THE STUDY PERIOD.

Compute and compare life-cycle costs for project alternatives over the term of the study period. Since there are both initial costs and recurring costs over a period of time, a discount factor is used to bring all costs to present value.

The CBPC Web-based application analyzes life-cycle costs by two methods.

- **Constant Dollar LCCA**

  The constant dollar approach avoids the challenge of projecting future rates of inflation or deflation. Prices stated in constant dollars are not affected by the rate of general inflation. Consequently, public- and private-sector borrowing rates are stated in “real,” net of inflation, terms. The lowest life-cycle cost is generally the preferred alternative.

  A sample summary table of Constant Dollar Life-Cycle Cost of Project Alternatives using the CBPC Web-based application is shown in Exhibit 5.

### Exhibit 5

Sample Summary Table of Constant Dollar Life-Cycle Costs of Project Alternatives

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Initial Capital Cost</th>
<th>Capital Finance Cost</th>
<th>Lease Cost</th>
<th>Lease - Purchase Cost</th>
<th>Other Operations Cost</th>
<th>Residual Value</th>
<th>Total Life Cycle Cost</th>
<th>Project Size</th>
<th>Initial Cost/GSF</th>
<th>LCC/GSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1 Continue Existing Lease(s)</td>
<td>$0</td>
<td>$77,803,326</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$132,239,929</td>
<td>232,184 GSF</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>#2 Buy (construct with cash, public sector)</td>
<td>$70,158,275</td>
<td>$77,803,326</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$95,822,918</td>
<td>216,764 GSF</td>
<td>$323.66</td>
<td>$442.06</td>
</tr>
<tr>
<td>#3 Buy (debt finance, public sector)</td>
<td>$0</td>
<td>$77,803,326</td>
<td>$77,803,326</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$123,924,622</td>
<td>216,764 GSF</td>
<td>$0</td>
<td>$460.81</td>
</tr>
<tr>
<td>#4 Buy (lease - purchase, private sector)</td>
<td>$0</td>
<td>$77,803,326</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$123,924,622</td>
<td>216,764 GSF</td>
<td>$0</td>
<td>$503.57</td>
</tr>
<tr>
<td>#4b Buy (lease - purchase, private sector, user input)</td>
<td>$0</td>
<td>$77,803,326</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$138,576,235</td>
<td>216,764 GSF</td>
<td>$0</td>
<td>$639.30</td>
</tr>
</tbody>
</table>

Note: Exhibits 5 - 8 are illustrative and are based on the following assumptions:

- **Existing lease of 232,184 LSF at a rate of $24.64 / LSF (full service)**
- **New construction of 216,764 GSF at a maximum allowable construction cost of $230 / GSF. 15 acres acquired at $50,000 / acre. Backfill renovation of 36,709 GSF at maximum allowable construction cost of $100 / GSF**
- **Yearly operations cost of $6.75 / GSF**
- **Discount rate at 3%; public sector cost of capital (real) at 2.75%; private sector cost of capital (real), 3.40%**
- **Rate of inflation, year 1-5 at 1.5%, year 6-10 at 2.5%, year 10+ at 3.0%**
- **40-year study term. 1.5% of building replacement value reinvested each year**
• **Discounted Cash Flow LCCA**
  This analysis identifies discounted cash flows of each alternative over the study term. The analysis uses nominal discount and interest rates (that include inflation). Assumptions are made about future inflation rates. This analysis also provides total life-cycle costs, but also provides information about cash flow that may influence decisions about which alternative is the most advantageous to the state.

A sample output of a Discounted Cash Flow LCCA summary total using the CBPC Web-based application is shown in Exhibit 6.

Exhibit 7 shows a sample graphic comparison of the cash flows of continuing to lease versus constructing a new building through public sector debt financing.

Exhibit 8 shows the net present value of each alternative, as well as initial costs and residual costs of each alternative.

**Exhibit 6**
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>
<th>Alternative #4b</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>
<td>Buy (lease - purchase, private sector, user input)</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>
<td>$234,316,633</td>
</tr>
<tr>
<td>Total Cost Less Residual Value</td>
<td>$206,142,576</td>
<td>$128,909,005</td>
<td>$123,324,822</td>
<td>$130,226,577</td>
<td>$202,408,808</td>
</tr>
</tbody>
</table>

**Exhibit 7**
40-Year Discounted Cash Flows of Continuing to Lease vs. Public Sector Debt Financing

**Exhibit 8**
40-Year Discounted Cash Flows of Alternatives
4. **IDENTIFY ANY OTHER BENEFITS OR COSTS OF THE PROPOSED LEASE-PURCHASE AGREEMENT**

Proposers should identify any benefits associated with the lease-purchase agreement proposal and costs associated with other alternatives, which they believe are not captured in the financial analysis.

For example, if the financial analysis indicates that continuing to lease is a better alternative, other benefits may be:

- Housing all personnel in one location (if now in several locations);
- Providing better access to the public; and
- Providing a higher quality space than is provided in the lease (cite specifics).
General LCCA Observations Regarding Alternatives

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. However, things are not necessarily equal. Some variables that may impact the choice of the most cost-effective alternative are:

- Cost of construction or operation may be higher in the public sector than the private sector.
- The public sector may not be able to finance and construct a facility as quickly as the private sector can.
- The cost of a private sector lease readily qualifies for full reimbursement from the federal government. Federal reimbursement is also available for the lease of a state-owned building, provided an accurate accounting is kept of interest expense in financing the building and the building’s annual depreciation, and the necessary renovations are made to maintain the value of the building.
- It may be better to lease when the lease rate is below the amount for which the state could construct or acquire a comparable facility.
- It may be better to purchase an existing asset and renovate rather than build new.
- There may be broad external costs and benefits that are difficult to quantify.

All things being equal, each alternative has inherent financial characteristics.

- Leasing a facility generally has lower short-term costs than owning, but due to inflation and escalation, a lease can often have the highest long-term costs. A lease uses operational dollars, so the state has no large initial capital expense. However, the state has no ownership benefits or accrued residual value after the lease expires. Also, a lease provides agencies flexibility to address their space needs sooner.
- A state-constructed or purchased facility using cash resources generally has the lowest long-term life-cycle cost, simply because there is no financing cost associated with the capital construction, although there may be in some cases foregone investment income. A state-owned building has the advantages of ownership and accrued residual value. There is, however, a large initial capital cost obligation. Since many projects are usually competing for limited capital dollars, large cash expenditures may not be readily available for financing.
- A state-constructed or purchased facility using debt financing at public sector borrowing rates has the advantage of decreasing initial capital investment, but has higher overall cost due to interest charges. There are usually other public sector projects competing for debt-financing capacity. This alternative has the advantages of ownership and accrued residual value.
- The state can use operational sources to acquire a facility through a private-sector lease-purchase agreement. The state avoids large initial capital expenditures while still providing the opportunity of ownership and accrued residual value at the end of the lease term. This alternative has added costs, due to the higher cost of private sector financing.
Appendix
GENERAL

CBPC – Capitol Buildings Planning Commission

CBMP – Capitol Buildings Master Plan

FTE – Full-Time Employee

GSD – General Services Department

PCD – Property Control Division

REAL ESTATE

GSF – Gross Square Feet

The total area occupied by a building when measured from exterior to exterior.

Lease-purchase agreement – A financing agreement for the leasing of facilities by the state or a state agency from a public or private entity with an option to purchase the leasehold property for a price that is reduced according to the payments made pursuant to the financing agreement.

LSF – Leasable Area or Leasable Square Feet, sometimes called Rentable Square Feet.

The usable area, plus interior office circulation, plus prorated common space, if applicable, on which the overall lease payments are based and which defines the lease boundaries.

NASF / (NSF) – Net Assignable Square Feet, sometimes called Net Square Feet

The sum of all areas that can serve an occupant or specific use (the “usable” space). Generally, does not include areas such as hallways, mechanical areas, restrooms, and the area of interior and exterior walls.

FINANCIAL

TVM – Time Value of Money

The idea that money available at the present time is worth more than the same amount in the future, due to its potential earning capacity.

This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.

Also referred to as “present discounted value.”
**Constant dollars**

Dollars that have been adjusted for the impact of inflation (using the CPI), as opposed to current dollars, which are actual dollars paid or received.

**Discount Rate**

The interest rate used in determining the present value of future cash flows.

A special type of interest rate that makes the investor indifferent between cash amounts received at different points in time … the investor would just as soon have an amount received earlier as the other amount received later.

In the private sector, the investor’s discount rate is generally determined by the investor’s minimum acceptable rate of return for investments of equivalent risk and duration.

A real rate (net of general inflation) is used with constant-dollar amounts.

A nominal rate (inclusive of general inflation) is used with current-dollar amounts.

**DCF – Discounted Cash Flow Analysis**

A valuation method used to estimate the attractiveness of an investment opportunity.

Discounted cash flow (DCF) analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment.

If the value arrived at through DCF analysis is higher than the current cost of the investment, the opportunity may be a good one.

**LCC – Life-Cycle Cost** (see LCCA)

**LCCA – Life-Cycle Cost Analysis**

Life-cycle cost analysis (LCCA) is a method for assessing the total cost of facility ownership, taking into account all costs of acquiring, owning, and disposing of a building or building system.

LCCA is especially useful when project alternatives that fulfill the same performance requirements, but differ with respect to initial costs and operating costs, must be compared in order to select the alternative that maximizes net savings.

After identifying all costs by year and amount, and discounting them to present value, they are added to arrive at total life-cycle costs for each alternative.

**NPV – Net Present Value**

The net present value (NPV) or net present worth (NPW) of a time series of cash flows, both incoming and outgoing, is defined as the sum of the present values (PVs) of the individual cash flow.
PV – Present Value

The current worth of a future sum of money or stream of cash flows given a specified rate of return.

Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.
These publications provide additional information on Life-Cycle Costing:


Section 15-3-35 NMSA 1978. Lease-purchase agreements; approval of legislature.

A. A financing agreement under which a state agency is to occupy a building or other real property and that contains an option to purchase for a price that is reduced according to the lease payments made is subject to the following criteria:

(1) the agreement shall not become effective until it has been ratified and approved by the legislature; and

(2) if the state agency is subject to the jurisdiction of the property control division of the general services department pursuant to the Property Control Act [15-3B-1 NMSA 1978], the agreement shall provide that, if the real property is purchased, title to the real property shall be issued in the name of the property control division.

B. Legislative ratification and approval of an agreement pursuant to Subsection A of this section shall not create a legal obligation for the state agency to continue the lease from year to year or to purchase the real property.

C. As used in this section, “state agency” means the state or any of its branches, agencies, departments, boards, instrumentalities or institutions, but “state agency” does not include state educational institutions or state-chartered charter schools.
Section 15-10-1 NMSA 1978. Capitol buildings planning commission created.

A. The “capitol buildings planning commission” is created. The commission shall be composed of four members of the legislature, two from each house, appointed by the New Mexico legislative council, the secretary of general services or the secretary’s designee, the state treasurer or the state treasurer’s designee, the secretary of transportation or the secretary’s designee, the secretary of cultural affairs or the secretary’s designee, the secretary of finance and administration or the secretary’s designee, the commissioner of public lands or the commissioner’s designee and the chair of the supreme court building commission or the chair’s designee.

B. The commission shall

(1) study and plan for the long-range facilities needs of state government in the greater metropolitan areas of Las Cruces, Santa Fe and Albuquerque and, after developing an initial master plan for the state facilities in those areas, conduct a review of state properties throughout the state for the development of an overall master plan;

(2) review proposed lease-purchase agreements pursuant to Section 15-10-2 NMSA 1978;

(3) work with the general services department and other state agencies in developing recommendations for addressing deferred maintenance on state facilities and disposal strategies for aging facilities no longer able to serve their mission; and

(4) utilizing life cycle costing, work with the general services department in developing recommendations regarding whether the state should lease, lease-purchase or purchase needed additional facilities.

C. The legislative council service shall provide staff for the commission in coordination with the staff architect and other staff of the property control division of the general services department.

D. The commission shall meet regularly and shall report annually to the legislature on an annual update of the master plan for the long-range facilities needs of state government in the greater metropolitan areas of Las Cruces, Santa Fe and Albuquerque and throughout the state.
Section [15-10-2 NMSA 1978. Capitol buildings planning commission; review of lease-purchase agreements]

A. Before submitting a proposed lease-purchase agreement to the legislature for ratification and approval pursuant to Section [15-3-35 NMSA 1978], the proposed lessee shall notify the commission. The commission shall review a proposed lease-purchase agreement if:

(1) the total lease revenues to be generated during the term of the lease-purchase agreement, including any possible extensions or renewals, exceed five million dollars ($5,000,000); or

(2) pursuant to criteria adopted by the commission, the commission selects the lease-purchase agreement for review.

B. A review conducted pursuant to this section shall include findings by the commission as to whether:

(1) the leasehold property and the term of the lease-purchase agreement are sufficient to meet the identified needs of the state agency that will occupy the leasehold property;

(2) the payment of all lease revenues due pursuant to a lease-purchase agreement will be sufficient, at the end of the term of the lease-purchase agreement, to acquire ownership of the leasehold property;

(3) the lease-purchase agreement provides that there is no legal obligation for the state or state agency to continue the lease-purchase agreement from year to year or to purchase the leasehold property, and that the lease-purchase agreement shall be terminated if sufficient appropriations are not available to meet the current lease payments; and

(4) the lease-purchase agreement is the most cost-effective alternative for acquiring the leasehold property, taking into account currently available alternative lease arrangements, lease-purchase agreements or other financing arrangements permitted by law.

C. After a review pursuant to this section, the commission shall submit its findings and recommendations to the legislature.

D. As used in this section:

(1) “commission” means the capitol buildings planning commission;

(2) “facilities” means buildings and the appurtenances and improvements associated therewith, including the real estate upon which a building is constructed; suitable parking for use of the building; utilities, access roads and other infrastructure; and related real estate. “Facilities” can also mean undeveloped or developed real estate that is transferred or leased with the intent that a new building or improvement be constructed thereon;

(3) “lease-purchase agreement” means a financing agreement for the leasing of facilities by the state or a state agency from a public or private entity with an option to purchase the leasehold property for a price that is reduced according to the payments made pursuant to the financing agreement;
(4) “leasehold property” means facilities that are subject to a lease-purchase agreement;

(5) “lease revenues” means the amounts payable pursuant to a lease-purchase agreement; and

(6) “state agency” means any department, branch, institution, board, officer, bureau, instrumentality, commission, district or committee of government of the state of New Mexico except:

(a) the state armory board;
(b) the commissioner of public lands;
(c) state institutions under the jurisdiction of the higher education department;
(d) the economic development department when the department is acquiring property pursuant to the Statewide Economic Development Finance Act [6-25-1 NMSA 1978];
(e) the public school facilities authority when the authority is acquiring property pursuant to the Public School Capital Outlay Act [22-24-1 NMSA 1978]; and
(f) a state-chartered charter school.
The CBMP has identified general development principles, campus planning principles and location principles that provide guidance for sound future development planning and decision making for all state-owned campuses and facilities. As indicated in Section a.4 of this document, all lease-purchase proposals must demonstrate compliance with CBMP planning principles. These planning principles can be found at http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx.
The GSD Property Control Division has developed an internal lease-purchase process for all executive branch agencies except the state land office. As stated in Section a.3 of this document, the CBPC encourages all state agencies to follow the GSD/PCD process requirements prior to submission to the commission. The GSD/PCD process can be found at http://www.nmlegis.gov/lcs/cbpc_cbmp.aspx.
Lease-purchase agreement proposer has submitted the following information to the CBPC:

1. **DESCRIBE HOW THE LEASE-PURCHASE AGREEMENT MEETS THE NEEDS OF THE AGENCY**
   - **Current space use**
     - Location(s)
     - Amount of space currently occupied (leasable square feet if in a current lease, or net assignable square feet if in a state-owned building)
     - Current number of staff including vacancies (FTEs)
   - **Any issues with current space assignment or location.**
   - **How much space is needed**
     - Amount of space that is needed (gross square feet and net assignable square feet)
       » Attach facility program with space need based on state space guidelines
     - Document compliance with agency master plan
       » Attach agency master plan

2. **ASSURANCE OR DOCUMENTATION REGARDING TECHNICAL REQUIREMENTS OF THE LEASE-PURCHASE AGREEMENT**
   - Other studies that have been completed in support of the project
   - Document why needs cannot be accommodated within existing state facilities.
     The agency has:
     - Reviewed space available in existing state buildings near its proposed location area
     - Identified the reason(s) the space is not adequate for its purposes
   - Identify whether the proposed lease-purchase proposal complies with the Capitol Buildings Master Plan (CBMP) principles.

   The payment of all lease revenues due pursuant to a lease-purchase agreement will be sufficient at the end of the term of the lease-purchase agreement to acquire ownership of the leasehold property.
- There is no legal obligation for the state or state agency to continue the lease-purchase agreement from year to year or to purchase the leasehold property

- The lease-purchase agreement shall be terminated if sufficient appropriations are not available to meet the current lease payments

3. DOCUMENTATION THAT THE PROPOSED LEASE-PURCHASE AGREEMENT IS THE MOST COST-EFFECTIVE ALTERNATIVE

- Baseline Life-Cycle Cost Analysis (LCCA) that includes
  - A financial comparison of at least four alternative acquisition methods:
    » Alternative 1: Lease (or continue to lease) at prevailing local lease rates
    » Alternative 2: State constructs or purchases a new facility using cash resources
    » Alternative 3: State constructs or purchases a new facility assuming tax exempt bond financing (with some possible initial cash investment). Financing may include bonds backed by various revenue sources including gross receipts tax (GRT Bonds), severance taxes (STB), a general obligation pledge (GO Bonds), or tax-exempt lease-purchase financing through NMFA (NMFA Lease-Purchase Bonds)
    » Alternative 4: State lease-purchases facility from the private sector, assuming debt financing at private sector rates

- Identification of costs for all alternatives
  » Cost of acquiring the building
  » Operations cost
  » Replacement cost
  » Residual value

- Other mitigating costs and benefits that justify the proposed lease-purchase agreement

- Alternative LCCA based on proposer’s clearly described assumptions