

## LEASE FINANCING ADMINISTRATIVE PROCEDURE – ATTACHMENT I – LEASE CONSIDERATIONS

Factors in lease vs. buy decisions	Considerations
<b>Significant factors:</b>	
1. Business Case (cost/benefit analysis)	<ul style="list-style-type: none"> <li>• Includes both financial and non-financial considerations</li> <li>• Based on achieving best value for the City</li> </ul>
2. Lease vs. buy financial analysis	<ul style="list-style-type: none"> <li>• Based on Total Cost of Ownership (TCO) calculation over solution’s life cycle</li> <li>• Must include ALL related direct costs</li> <li>• Lowest TCO normally selected unless other non-financial considerations outweigh the financial benefits achieved from the lower-cost option</li> </ul>
3. Budget considerations	<ul style="list-style-type: none"> <li>• Does sufficient budget (operating or capital) exist to finance these requirements?</li> </ul>
4. Accounting treatment of lease transaction (see definition of capital and operating leases)	<ul style="list-style-type: none"> <li>• Capital leases must be <u>fully expensed</u> in the accounting period in which they are initiated</li> <li>• Operating leases are expensed as costs are incurred</li> </ul>
5. Economic Life of the asset	<ul style="list-style-type: none"> <li>• The economic life of the asset should be considered when comparing lease/buy options. Assets with long economic life may be more appropriately be purchased</li> <li>• Borrowing bylaw is required for any borrowing (including all capital leases) in excess of five years</li> <li>• Residual value of the asset at end of lease term will affect lease payments. Depending on term of the lease, it may cost the City less to lease an asset than to purchase it depending on the need for technology upgrades, etc.</li> </ul>
6. Obsolescence	<ul style="list-style-type: none"> <li>• Rapid technology obsolescence may justify leasing (e.g. COE desktop pc’s) where City does not want to retain title to equipment at end of lease term but rather refreshes the technology through a new lease</li> </ul>

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7. Disposal	<ul style="list-style-type: none"> <li>• There may be considerable cost or environmental requirements associated with the disposal of certain equipment</li> <li>• Leases may transfer responsibility and liability associated with disposal</li> </ul>
8. Pilot projects	<ul style="list-style-type: none"> <li>• Where the City wishes to test more than one equipment type for a longer period of time (i.e. 1 year or more) before confirming the optimal choice</li> <li>• Leasing allows the flexibility to acquire the equipment and to return those that are not selected at considerably less cost than to purchase and surplus the unsuccessful pilot equipment</li> </ul>
9. Risk of ownership	<ul style="list-style-type: none"> <li>• In certain cases, transferring risk of ownership through leasing from to third parties may be desirable</li> </ul>
<b>Other factors:</b>	
10. Inflation	<ul style="list-style-type: none"> <li>• Leasing option may provide protection from uncertainty over future prices</li> </ul>
11. Administrative overhead	<ul style="list-style-type: none"> <li>• Administration of lease agreements can add considerable time and effort compared with straight purchase of assets</li> <li>• Capital Leases that are deemed a borrowing will require a borrowing bylaw (the borrowing bylaw process takes approximately 6-8 weeks to complete)</li> </ul>
12. Standardization	<ul style="list-style-type: none"> <li>• Leasing may facilitate the establishment and sustainment of standardization initiatives (e.g. COE desktop PC lease/standardization)</li> </ul>
13. Lease Inducements	<ul style="list-style-type: none"> <li>• A variety of lease inducements may be included in lease arrangements which are considered valuable to the City. These could include deferred payments, bargain purchase options and other items of benefit</li> </ul>
14. Maintenance Services	<ul style="list-style-type: none"> <li>• Leases may include maintenance coverage for assets under lease that benefits City</li> <li>• Leases generally require that leased assets contain separate maintenance coverage</li> </ul>
15. Insurance	<ul style="list-style-type: none"> <li>• Leases generally require that insurance is in place with lessor as loss payee (which may not be a cost borne by City when purchasing assets)</li> </ul>