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MEMORANDUM TO ASSISTANT REGIONAL ADMINISTRATORS, PBS
1P, 2P, 3P, 4P, 5P, 6P, 7P, 8P, 9P, 10P, WP
REGIONAL PORTFOLIO DIRECTORS,
REGIONAL REALTY SERVICES OFFICERS

FROM:

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SUBJECT: Determination of Operating Leases and Lease Scoring

1. Purpose. This policy memorandum, jointly issued by the Assistant Commissioners for Real Property Asset Management and National Customer Services Management, provides mandatory instructions for determining appropriate budget scorekeeping treatment, as either an operating cost or capital expense, for every real property lease transaction as required by Office of Management and Budget (OMB) Circular A-11. Every regional Office of Portfolio Management must perform all lease scoring calculations and conclusively determine whether a lease should be treated as an operating lease or capital lease for scorekeeping purposes.
2. Background.
 - a. The Budget Enforcement Act of 1990, as revised by the Balanced Budget Act of 1997, provides scorekeeping rules for assigning budget authority.
 - b. OMB Circular A-11, Preparation, Submission, and Execution of the Budget, is issued annually. Appendix A of the Circular, Scorekeeping Guidelines, and Appendix B of the Circular, Budgetary Treatment of Lease-Purchases and Leases of Capital Assets, provides instructions for scoring lease transactions.
 - c. OMB Circular A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs, Appendix C, updated annually with the President's budget submission to Congress, provides the discount rates to be used in all scoring analyses for the year.
 - d. On March 31, 2006, the GSA Inspector General reported that lease scoring was not being performed in accordance with prescribed policy and concluded, "it is imperative that PBS associates adhere to all scoring guidelines and appropriately test all scoring scenarios."¹

¹ Audit of PBS's Tenant Improvement Process (GSA Inspector General, Report Number A050063/P/R/R06005, March 31, 2006).

3. Effective Date/Expiration Date. These instructions are effective immediately and will expire one year from the date of issuance unless extended.
4. Cancellation. None.
5. Applicability. All real property leasing activities.
6. Instructions/Procedures.
 - a. For all lease actions, qualified associates in each regional Office of Portfolio Management must make the determination that a lease is an operating or capital lease and make all scoring calculations. For the purposes of this policy memorandum, a qualified associate is the regional director of Portfolio Management or designee. If designees are named, the regional director of Portfolio Management must identify them in writing to the regional realty services officer or other individual responsible for leasing activities as identified by the Assistant Regional Administrator (ARA).
 - b. The regional director of Portfolio Management must follow current OMB direction from Circular A-11, Appendices A and B and current OMB discount rates from Circular A-94, Appendix C in making a determination that a lease is an operating lease.
 - c. Regional Portfolio Management must provide a determination of operating or capital treatment for each proposed lease action upon request from regional realty associates as agreed upon in an implementation plan prepared by regional Portfolio Management and agreed to by the regional realty services officer or other individual responsible for leasing activities as identified by the ARA. The implementation plan must identify how and to whom requests are made and the timeliness of responses. The director of Portfolio Management and the realty services officer must sign the implementation plan and keep a copy on file for management or auditors.
 - d. The lease contracting officer or designated realty specialist must use the attached eLease Request for Determination of Lease Treatment template and sign it. The director of Portfolio Management or designee must also sign the document. The signed document, with the determination of operating or capital treatment, must be kept in the official lease file with a scanned copy uploaded into eLease by the realty contracting officer or designated realty specialist.
 - e. Among the criteria for an operating lease in Circular A-11 is that "the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term." The Portfolio Management associate must perform the calculations to determine the 90 percent threshold using the Scoring Evaluation Spreadsheet available in eLease or on the Office of Real Property Asset Management InSite Web page. Instructions for the calculation are provided by the Office of Real Property Asset Management on http://insite.pbs.gsa.gov/pv/pva/scoring_guidance.asp. Calculation results above 80 percent are sufficiently high to be cause for concern and must have the signed concurrence of the director of Portfolio Management.
 - f. Scoring calculations are required at the following points in time:
 - i. A preliminary calculation prepared during the requirements development phase of the procurement (Tab 1 of the Lease File Checklist or any successor Project File Checklist).

- ii. An interim calculation for each offer using offered rates (Tabs 5 and 6 of the Checklist).
 - iii. A preaward calculation will be based on the apparent awardee's final proposal revision.
 - iv. Proposed Supplemental Lease Agreements that modify the terms and conditions of the lease must be rescored. Additionally, the new terms and conditions must be evaluated against the criteria identified in paragraph 6.b above.
- g. For proposed leasing actions that are determined to be capital lease transactions, the following PBS officers must be notified immediately:
- i. Regional director of Portfolio Management.
 - ii. Regional realty services officer, or other individual responsible for leasing activities as identified by the ARA.
 - iii. Assistant Commissioner for Real Property Asset Management
 - iv. PBS Chief Financial Officer.
- h. Regional Portfolio Management associates must develop inputs for the scoring worksheet based on current market appraisals or by using the most current General Construction Cost Review Guide (GCCRG). If using the GCCRG, the Portfolio Management associate must enter that value into the most current Look-Up Table. The value for site cost is entered either as a value provided by the regional appraiser or developed using prevailing cost of Floor Area Ratio (FAR) per square foot or cost per acre.

Attachment: Request for Determination of Lease Treatment