

# Developing Institutional Master Leases for IT

Galen Work

Office of Information Technology

## A synopsis:

- Master Lease Agreements catering to terms best suited to IT management

# What kind of lease are we talking about?

- An operational, or true lease
  - End of term options of buyout, return, or renewal
- A finance, or capital lease
  - “Rent-to-own”

# Strategies for Operational Leases

- Distinguishes selection of technology from financing
  - Financing becomes a pre-defined model, largely independent of the selection of technology, and not tied to manufacturer or supplier of technology

# Strategies for Operational Leases

- A means to synchronize investments with life-cycle management of specific technology
  - A move away from making capital investments in ongoing technology
  - Lessen reliance on having the total funds available when technology needs replacing
  - Works best when life-cycle and lease terms match

# Strategies for Operational Leases

- A means to synchronize investments with life-cycle management of specific technology
  - A move away from making capital investments in ongoing technology
  - Lessen reliance on having the total funds available when technology needs replacing
  - Works best when life-cycle and lease terms match

So...

# Benefits of Operational Leases

- Technology funding becomes an anticipated *operational* investment
- Funding can be budgeted over time as the payments are contractually bound

# Benefits of Operational Leases

- Potential financial savings based on the calculated residual value of the technology at the end of the lease term

# Benefits of Operational Leases

- Market risk or product viability are borne in large part by the lessor, who retains ownership of the technology throughout the lease term

# Benefits of Operational Leases

- Facilitates management philosophy that access to relevant technology is more important than ownership
- Helps manage cash-flow problems through disciplined budgeting

# Benefits of Operational Leases

- Multiple options at conclusion of term (buyout, return, or renew)
- Upgrades and replacement strategies may evolve more rapidly than lease term

# Cautions

- Management must recognize ongoing need to replace IT
- Asset management practices must be firmly committed to
- Life-cycle management must be defined per technology
- Contractual terms can affect success

# Questions?

- What concerns should be factored in?

# Questions?

- What concerns should be factored in?
  - Upgrade rights
  - Warranties
  - Returns
  - Early termination
  - Itemized control
  - Flexible schedules
  - Mid-term refresh
  - Fair Market Value
  - Renewals
  - Asset Substitution

# To learn more...

- [gartner.rutgers.edu](http://gartner.rutgers.edu)
  - *“How to Analyze Equipment Lease Proposals”*, O’Brien, 2004.
  - *“PC Leasing: Preparing a Lease vs. Purchase Analysis”*, O’Brien, 2004.
  - *“PC Leasing: A Strategy for Managing the Desktop”*, Pucciarelli, O’Brien, and Andren, 1997.