

# Lease Q & A: Best Practices for Lease Contract Submissions

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Moderated by Jacklyn Roberts and Lindsay Carswell



NYS COMPTROLLER  
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# Agenda

## ❖ Required Documents:

- New leases
- Amendments (including lease modifications, holdovers, closeouts/drawdowns, and renewals)

## ❖ Funds Reservation refresh

## ❖ Cover Letter overview

## ❖ Breaking down a Cost Breakdown

## ❖ The new “Novation Agreement” (f.k.a. “Assignment Agreement”)

## ❖ Purchase Orders against a lease

## ❖ Cost and Site Justifications

## ❖ Costs included in Transaction Value

## ❖ Costs included in Intrinsic Value

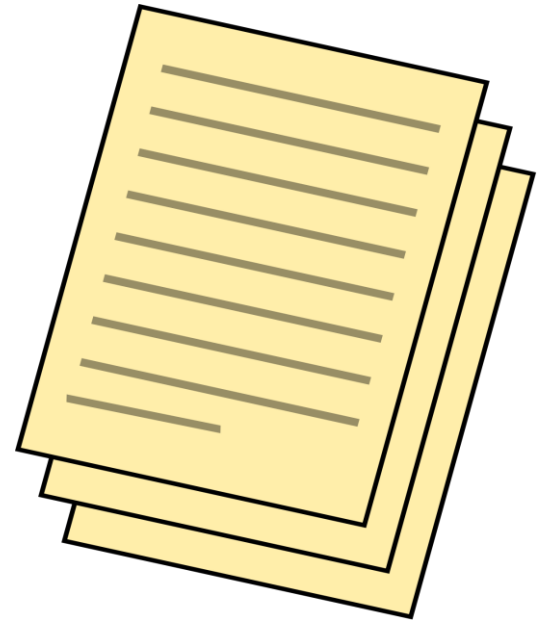
## ❖ Changes in contract value over time

## ❖ Contract close-out



# What Documents Should Be Included With a New Lease Transaction?

- ❖ Cover Letter
- ❖ STS / AC340S (for paper submissions only)
- ❖ Contract document
  - Signed by all parties
  - Evidence of AG approval
- ❖ Justifications
  - Need
  - Cost
  - Site
- ❖ Cost breakdown
- ❖ Vendor Responsibility documents
  - Profile
  - Questionnaire (if applicable)
  - Workers' Compensation Insurance Certificate
  - Disability Insurance Certificate
  - Exemption Certificates (if applicable)
- ❖ B-1184 Budget Approval



# What Lease Documents Should Be Included With Amendments?

## ❖ Lease modification

- Cover letter
- Amendment document (signed by all parties)
- Evidence of AG Approval
- Cost breakdown
- Miscellaneous supporting documents



## ❖ Holdovers

- Cover letter
- Cost breakdown
- Holdover letter (if available)

## ❖ Closeouts and Drawdowns

- Cover letter



# What Documents Should Be Included With Renewals?

## ❖ Fixed-rate renewal

- Cover letter
- Cost breakdown
- Renewal letter (signed by agency and landlord)



## ❖ To-be-determined rate renewal

- Cover letter
- Amendment document (signed by all parties)
- Evidence of AG Approval
- Cost breakdown
- Cost justification



# What Is the Funds Reservation Policy?

Funds Reservation means to set aside or reserve all or a portion of an appropriation for payment of future expenses on a contract. Appropriations are reserved to ensure their availability for payment of specified expenses. Funds reservation is required through the end of the current fiscal year.

- ❖ State fiscal year ends March 31
- ❖ SUNY/CUNY fiscal year ends June 30
- ❖ Federal fiscal year ends September 30

[Guide to Financial Operations](#)

[Chapter XI, Section 2.C - Contract Funds Reservation](#)



# How Do I Calculate Funds Reservation for a Lease?

Lease Term: 4/1/21 - 3/31/31 (10-year term)			
Contract Expenses	Monthly Cost	Total	Funds Reservation Amount Needed
Rent	\$1,500	\$180,000	\$18,000 (\$1,500 x 12 months)
Electric	\$500	\$60,000	\$6,000 (\$500 x 12 months)
Operating Expenses	\$1,000	\$120,000	\$12,000 (\$1,000 x 12 months)
<b>Total</b>	<b>\$3,000</b>	<b>\$360,000</b>	<b>\$36,000</b>



# What Should I Include in My Cover Letter to OSC?



- ❖ Lease number
- ❖ Prior lease number, if applicable
- ❖ Property address
- ❖ Description of transaction
- ❖ Agency contact information
- ❖ Unusual circumstances





# How Do I Process a Novation Agreement?

- ❖ Formerly known as Contract Assignment
- ❖ Two transactions in SFS
  - Closeout original agreement
  - Establish new agreement
- ❖ Contract novation agreement with effective date
- ❖ Vendor Responsibility documentation
- ❖ Cover letter



[Guide to Financial Operations](#)

[Chapter XI, Section 12.B - Contract Novation](#)



# What Is a Purchase Order and When Is It Appropriate to Use One?

- ❖ One-time costs considered in the lease but not part of the contract amount
  - Tenant build-out costs
- ❖ Costs not considered in original lease
  - New carpet
  - Reconfiguration



[Guide to Financial Operations](#)

[Chapter XI, Section 3.B – Electronic Submission of Purchase Orders through the Electronic Documents Submission System \(EDSS\)](#)



# For Real Property Leases, What Should Be Included With the Cost Justification and the Site Selection Process?

## ❖ Cost Justification

- Must show that the cost of the lease is fair, based on one of the following:
  - Other comparable properties, with examples
  - Fair market rental analysis
  - Rate sheet
- Must include all lease costs in the analysis, not just base rent

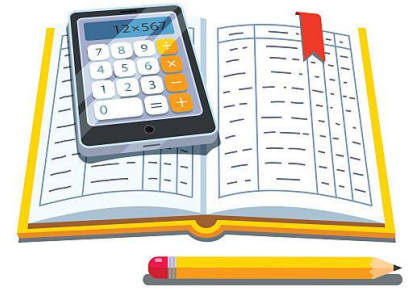
## ❖ Site Selection

- Must justify the reasons for choosing the property
- Explain why this space is the best fit for the agency's or program area's needs



# What Costs/Expenses Are Included in the Transaction Value?

- ❖ Any payments made directly to the landlord
  - New lease - for the entire original lease term
  - Renewal - for the entire renewal term
  - Holdover - for the holdover period of this transaction
- ❖ Let your lease be your guide
  - Rent
  - Tax & operating escalations (if applicable)
  - Utilities (if paid by reimbursement to landlord)



# What Is a Cost Breakdown and What Should It Include?

<b>Expense</b>	<b>Amount</b>	<b>Frequency</b>	<b>Total</b>
Rent	\$1,000	12 months	\$12,000
Electric	\$200	12 months	\$2,400
Tax escalations	\$5,000	2021	\$5,000
Operating escalations	\$2,000	2021	\$2,000
<b>Total</b>			<b>\$21,400</b>
<b>Remaining Amount</b>			<b>-\$3,750</b>
<b>Transaction Value</b>			<b>\$17,650</b>



# What Is Intrinsic Value, How Do I Calculate It, and What Does It Include?

- ❖ Intrinsic value = transaction value + any other costs associated with the lease that are not paid to the landlord
- ❖ For example, charges for:
  - Electric paid directly to utility company
  - Phone charges paid directly to phone company
  - Janitorial services paid directly to janitorial company
  - Security services paid to security company



# Intrinsic Value Examples

## New Lease Calculation

2020 rent	\$1,600,000.00
2021 rent	\$1,647,999.96
2022 rent	\$1,697,439.96
2023 rent	\$1,748,363.16
2024 rent	\$1,800,814.08
Tax escalations	\$600,000.00
<b>Transaction value</b>	<b>\$9,094,617.16</b>
Electric	\$50,000.00
<b>Intrinsic value</b>	<b>\$9,144,617.16</b>

## New Replacement Lease Calculation

Intrinsic Value		Transaction Value	
2020 rent	\$1,600,000.00	2020 rent	\$1,600,000.00
2021 rent	\$1,647,999.96	2021 rent	\$1,647,999.96
2022 rent	\$1,697,439.96	2022 rent	\$1,697,439.96
2023 rent	\$1,748,363.16	2023 rent	\$1,748,363.16
2024 rent	\$1,800,814.08	2024 rent	\$1,800,814.08
Tax escalations	\$600,000.00	Tax escalations	\$600,000.00
<i>Subtotal</i>	<i>\$9,094,617.16</i>	<i>Subtotal</i>	<i>\$9,094,617.16</i>
Electric	\$50,000.00	Paid in holdover	-\$700,000.00
<b>Intrinsic value</b>	<b>\$9,144,617.16</b>	<b>Transaction value</b>	<b>\$8,394,617.16</b>



# Holdover Calculation Example



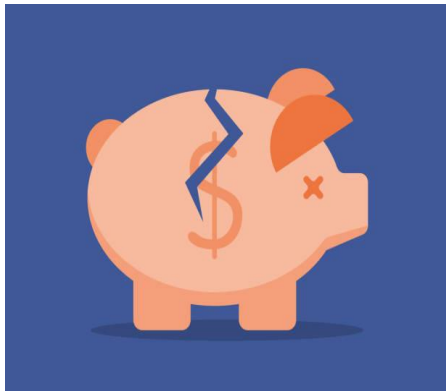
	\$9,900	monthly rent
+	\$100	telephone
=	\$10,000	monthly total
x	12	holdover months
=	\$120,000	holdover subtotal
+	\$5,000	tax escalations
+	\$4,000	operating escalations
+	\$1,000	electric
=	\$130,000	holdover total
-	\$15,000	remaining on contract
	\$115,000	transaction value





# How Do We Address Changes in Contract Amounts Over Time?

The lease is running out of money before the term is over



## ❖ Explain why

- Example: tax escalations were higher than expected

## ❖ Provide documentation

- Example: tax bills or invoices from landlord

## ❖ Cost breakdown



# Should Remaining Closed Lease Funds Be Brought Down?

- ❖ Verify that all outstanding payments have been made
- ❖ Process negative STS/AC340-S equal to remaining amount
- ❖ Once contract status is changed to closed in SFS, no payments can be made



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# Additional Questions?

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# Thank You!

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