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

FROM:

for WILLIAM B. JENKINS *Darryl Roberts*
NATIONAL REALTY SERVICES OFFICER
OFFICE OF REALTY SERVICES – PE

SUBJECT: Adjusting Discount Rates and Inflation Rates For Lease Offer Analysis

1. Purpose. This real property letter introduces the procedure of reviewing PBS discount and inflation rates annually to ensure their agreement with Office of Management and Budget (OMB) and Consumer Price Index (CPI) rates.
2. Background.
 - a. PBS converts all lease payments to present value to facilitate a comparison of the cost of each lease offer. In order to complete this present value calculation, both discount and inflation rates are utilized.
 - b. PBS has used the same rates (discount = 8 percent, inflation = 4 percent), for at least the past 15 years. While these rates may have matched OMB discount and inflation rates at that time, they now vary significantly from current OMB and CPI rates. To ensure accurate financial analysis, the rates must be updated to be in agreement with current OMB and CPI rates. All lease offers are subject to the same discount and inflation rates; however; in order to more accurately compare offers, rates utilized must reflect current Federal discount and inflation rates.
3. Effective Date/Expiration Date. These instructions are effective immediately for all new SFOs and will expire one year from the date of issuance unless otherwise extended.
4. Cancellation. None.
5. Applicability. All real property leasing activities.
6. Instructions/Procedures. Business guidance is attached.

Attachment

Adjusting Discount and Inflation Rates Business Guidance

1. The purpose of discounting lease offers is to calculate the present value for price evaluation; therefore it is necessary to ensure the accuracy of our rates. While we are not aware of any erroneous evaluation of offers resulting from use of the existing rates, significant variation between PBS discount and inflation rates and OMB/CPI rates could, under the right circumstances, lead to an erroneous evaluation of lease offers. The Office of Portfolio Management, in consultation with the Office of Realty Services, will review PBS discount and inflation rates in March of each year to ensure rate accuracy.
2. Discount Rate. Although GSA lease terms can vary widely, the reference discount rate should be the 10-year rate. Also, whole numbers, not fractions, are to be used for lease offer evaluations. Because these rates are the lowest they have been in a decade, it seems more reasonable to round up from 4.2 percent (OMB 10-year discount rate) to 5 percent, rather than down to 4 percent. Therefore, the adjusted discount rate for 2003 is 5 percent.
3. Inflation Rate. An appropriate inflation factor is determined by analyzing CPI behavior for the past decade (average 2.2 percent to 2.5 percent), in addition to published OMB inflation factors (average 1.5 percent to 2.0 percent). With this in mind, it has been determined that a reasonable inflation factor is 2.5 percent.
4. These updated rates shall be used for all new lease solicitations. The realty specialist may determine which rates to employ for lease procurements already in progress.

Reminder: For lease actions in progress that are not amended to incorporate the new rates, realty specialists must evaluate offers based upon the old rates.

5. Regions shall revise their regional SFO templates and offer evaluation programs to include these new rates. National Office will revise the SFO on the NORS website in the near future as part of a larger SFO update project.