BUDGET LETTER

SUBJECT: GS $MART AND OTHER MUNICIPAL LEASE FINANCING	**NUMBER:** 06-27
	DATE ISSUED: September 8, 2006
REFERENCES: DGS MANAGEMENT MEMO 06-14	**SUPERSEDES:**

TO: Agency Secretaries
Departmental Directors
Departmental Budget Officers
Departmental Accounting Officers
Departmental Chief Information Officers
Department of Finance Budget Staff
Department of Finance Accounting Staff

FROM: DEPARTMENT OF FINANCE

The purpose of this Budget Letter is to update departments on the availability of, and conditions for using, the Department of General Services' (DGS) Golden State Financial ($) Marketplace program (GS $Mart – pronounced "G S Smart").

The GS $Mart program enables state departments to finance essential items of equipment and other goods. The program is designed to meet the standard requirements of municipal lease financing, which ensure that the loans are not considered state debt and satisfy tax-exemption, securities disclosure, and contract validity concerns. While the GS $Mart program has been available for several years, it has recently undergone procedural modifications to further enhance the efficiency and fiscal oversight of the program.

GS $Mart contains a centralized listing of financing service providers for use by state and local governmental entities wishing to acquire tangible assets through the use of municipal lease arrangements. The providers on the list have been pre-approved by the DGS to reduce the time spent by acquiring entities in locating sound financing services. In addition, GS $Mart also standardizes the process for soliciting bids and arranging contracts to further reduce the time and expense needed to secure prudent financing assistance. The following discusses the **budgetary** process to be followed if a department desires to use GS $Mart. For further details about the GS $Mart program, please refer to Management Memo 06-14 and the GS $Mart website: http://www.pd.dgs.ca.gov/gsmart/default.htm.

Baseline Budget:

<u>Approval of GS $Mart Financing Agreements</u>. Departments may use their existing baseline operating expense budget allotments to make payments on GS $Mart financing arrangements. Departments do not need to secure Department of Finance (Finance) approval prior to committing to a GS $Mart contract for approved items (excluding software development and integration which would require support unit approval), however, approval by the DGS is required (see Management Memo 06-14). Departments are strongly advised to use great caution in considering financing to avoid over extending their operating expense budgets. Be advised that requests **will not** be entertained for budget augmentations to fund financed contracts previously entered into with baseline funding or to fund other operating expense items that were precluded by the financing costs.

<u>Use of Financing Arrangements Other than GS $Mart</u>. Use of any financing arrangement other than GS $Mart, even utilizing baseline budget resources, is prohibited without prior approval from Finance. A department proposing such financing must request approval in writing and must provide an analysis to support the basis for selection of the financing to Finance support unit. A proposed financing arrangement other than GS $Mart will be subjected to a rigorous evaluation that must demonstrate that it will provide

the state with better terms than GS $Mart and will provide comparable financial security regarding such issues as tax exempt qualifications, financial health of the lender, and the financing's effects on the state's credit rating.

Reporting Requirements. In addition to any reporting requirements of the DGS, all GS $Mart financing payments must be identified in relevant supplementary budget schedules (e.g. DF 300, DF 301, and DF 302) on an annual basis as part of the Governor's Budget. An addendum to the supplementary schedule shall also be submitted with the schedule that identifies each financed agreement, the lender, the asset being acquired through the financed agreement, the principal amount of the financing, and a summary of the financial terms of the agreement.

Budget Change Proposals (BCPs):

Financing Proposed as Part of a BCP. Departments must indicate if any purchase proposed in a BCP will be financed. If it will be financed, the BCP must indicate whether the financing is proposed through GS $Mart, the contractor, or some other means. The financing fiscal detail must be included on the BCP fiscal detail sheet. If the financing will be other than through GS $Mart, the department must also include an analysis to support the basis for selection of the financing. A proposed financing using an arrangement other than GS $Mart will be subjected to a rigorous evaluation as noted above in "Baseline Budget."

An Augmentation for the Purchase of a Specific Asset. If a BCP (or legislatively provided budget increase that is not part of a BCP) is approved which provides a funding augmentation to pay cash for a specific asset, that asset may not subsequently be financed. If any such asset is acquired through financing, any augmentation provided to pay cash for the asset will be reduced from the department's budget.

Feasibility Study Reports (FSR), Special Project Reports (SPR), and Economic Analysis Worksheets (EAW):

For information technology projects reportable to Finance, departments must indicate if any purchase proposed in an FSR or SPR will be financed and by what means. Again, financing other than GS $Mart will be subjected to rigorous evaluation. The financing fiscal detail must be included in the EAW.

Energy Efficiency and Sustainability Project Financing:

GS $Mart financing may also be used for energy efficiency and sustainability projects. However, the approval of these projects will be based on a cost-benefit analysis to substantiate that there is enough energy savings derived to repay all associated project costs including financing. A Life Cycle Cost (LCC) analysis model is available from the DGS to conduct this evaluation. The LCC model **must** be used for this analysis, and the DGS will not approve any GS $Mart financing for such projects unless the applicant department certifies that the model has been applied and the results justify the asset acquisition on a cost-benefit basis. Any savings generated—including those necessary to pay for financing the project and any savings continuing after completion of the project—will be retained by the department and not subjected to a budgetary savings reduction by Finance, if the project was financed within the baseline budget.

If you have any questions regarding this process, please contact your Finance Budget Analyst.

/s/ Fred Klass

Fred Klass
Program Budget Manager

/s/ Todd Jerue

Todd Jerue
Program Budget Manager