

UC Davis Policy and Procedure Manual

Chapter 350, Supplies and Equipment

Section 30, Lease, Rental, and Lease-Purchase of Equipment

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Responsible Department: Accounting and Financial Services

Source Document: Business and Finance Bulletin BUS-43, Materiel Management

I. Purpose

This section describes policy regarding the acquisition of equipment by lease or rental or by lease with a purchase option, and provides procedures for lease or lease-purchase of equipment.

II. Definitions

- A. Lease or rental--a rental contract executed by the University (lessee) and another party (lessor) containing terms and conditions under which the use and possession of equipment is to be furnished to the University in exchange for payment of rent during the term of the contract. At the end of the contract term, the equipment must be returned to the lessor.
- B. Lease-purchase--the terms are those of a straight lease or rental (contains an express agreement by the lessee to pay a specified rental for the use of the equipment during the term of the contract) and in addition gives the lessee the option to purchase it either during the term of the lease or at its expiration. This definition also applies to any lease in which all or a portion of the payments may be applied to the purchase of the item under lease.
- C. External financial loan--funds borrowed from external sources such as banks and lending companies for the purpose of financing a purchase.

III. Policy

Purchase is the preferred method of equipment acquisition. However, lease, rental, or lease with purchase option agreements may be appropriate when rapid technological change in equipment design may make purchase a risky venture; when it is desirable that equipment reliability be tested prior to purchase; when a short-term rather than continuing need for certain items exists; or when financial resources cannot meet equipment needs.

Note: Rental and lease agreements impose specific time commitments that the University must adhere to under contract. For this reason, it is recommended that a cost analysis be performed to compare the total cost of a lease or rental versus the total cost of a lease-purchase.

IV. Procedures

- A. The department head:
 - 1. Determines the need for lease or lease-purchase of equipment, giving consideration to the following:
 - a. other equipment needs
 - b. availability of resources to meet all estimated annual debts, including other leases.
 - 2. Prepares the Requisition (PR) in DaFIS, indicating reasons why lease or lease-purchase is requested, and routes the Requisition to the dean, vice chancellor, or vice provost for approval.
- B. The Purchasing Department
 - 1. Reviews the method of financing and prepares a cost analysis to compare total cost of rental or lease with that of lease purchase and verifies whether it represents the most reasonable means of acquisition, based upon current marketing trends and product

development.

2. Secures competitive quotations for both product and interest rate, and obtains approval from the Treasurer of The Regents for the interest rate.
3. Executes the purchase order and lease agreement.

V. References and Related Policies

- A. Business & Finance Bulletin BUS-43, Materiel Management, 2/5/04 (<http://www.ucop.edu/ucophome/policies/bfb/bus43.html>).
- B. Policy & Procedure Manual (<http://manuals.ucdavis.edu/PPM/about.htm>):
 1. Section 350-10, Procurement Authority.
 2. Section 350-25, Procurement through the Purchasing Department.