THE UNIVERSITY OF UTAH

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TO: Campus Business Officers

FROM: Jeffrey J. West, Associate Vice President for Financial & Business Services JWest

SUBJECT: Equipment Leasing – New Administrative Rule associated with Policy 3-110

In order to clarify the intent of language contained in Policy 3-110 III.B., *Leases of Equipment or Other Types of Property*; and to ensure that funds used in acquiring equipment for use in offices, labs and other areas are procured in a prudent and cost effective manner, this new Administrative Rule is issued.

BACKGROUND: The option to lease rather than buy equipment is sometimes offered by vendors. Leasing can appear to be an attractive option; but care should be exercised in any such analysis, inasmuch as the specifics of a leasing agreement can be complex and difficult to evaluate. In some cases, such as procurement of very expensive equipment likely to quickly become obsolete, or when capital funds are not available, a lease may, in fact, be the best choice. In other cases, such as federally sponsored research grants where the authorized budget allows for leasing of equipment, but not purchasing – then of course the federal rules apply. But in general, the use of equipment leases at the University is not encouraged nor supported. The University Hospital & Clinics take this a step further by severely restricting the use of leases. While there may be certain situations in which leasing is still desirable, it should be understood that the costs associated with leasing are generally substantially more than with an outright purchase. Leasing presents problematic issues for the University in the following areas:

- Finance charges
- Contract terms that favor the supplier
- Timely legal review required of all contracts
- Difficulty in termination of leases
- Commitment of funds beyond current fiscal year

Additionally, leasing arrangements have often been entered into by campus departments prior to review by the Purchasing Department and/or the Office of General Counsel. These arrangements often put the University at a legal and financial disadvantage/risk.

RULE: Because of the impact on overall costs from these contracts, the University will continue to discourage equipment leases, and requires the following for ALL such contracts entered into:

1. Approval of Cognizant Vice President
2. Letter of justification explaining why a lease is the best option for acquiring equipment
3. Cost analysis comparing lease vs. purchase
4. Agreement by the leasing company to use a “preapproved” lease contract provided by the University, instead of their own contract

You are encouraged to seek assistance from the Purchasing Department if you are considering a lease arrangement. They are trained to help you make the best decision for your particular circumstances.