SECTION 7: ACQUISITION PROCEDURES

SUBJECT: LEASE VERSUS BUY POLICY Procedure #7.3.2

POLICY

This policy establishes the guidelines, authority and general requirements necessary to make lease versus buy decisions. Basically, all purchasing procedures governing purchases of equipment are applicable to leasing of equipment, plus such additional requirements provided herein.

AUTHORITY

Before considering a lease arrangement the Buyer must solicit the approval of the Assistant Director of Purchasing. Likewise, it is the Buyer's responsibility to prepare the appropriate contractual document and to secure written approval from the Assistant Director of Purchasing to proceed.

PROCEDURE

1. The circumstances which might justify entering into a lease arrangement are:
   a) Sufficient funds are not available to purchase outright.
   b) A rapidly evolving technology makes the risk of premature obsolescence an important factor.
   c) Short term usage compared to the useful life expectancy of a given piece of equipment would make an outright purchase a poor investment.

2. Generally, two categories of leases are entered into by the University of Washington. It should be noted that these
categories are arbitrary and do not take into account hybrid configurations and special provisions which are commonly encountered: The proper interpretation of these varieties requires the judgment and experience of Buyers and Administrators alike.

a) Pure Lease (Operating Lease) - Title remains with the Lessor. Upon termination of a pure lease there is a purchase option - generally at fair market value. The University avoids this type of lease arrangement whenever possible, due to the unfavorable taxation incurred when title is not held.

b) Full Pay-Out Lease (Capital Lease) - Effectively a Full Pay-Out Lease is equivalent to a Conditional Sales Contract or financed purchase. Financing plans are available through the State Treasurer and for certain type of financing, the university has authority to contract for financing outside of the State Treasurer Program, both of these types of financing contracts must be requested through the Assistant Director of Purchasing.

3. Special consideration must be given to federally funded acquisitions:

a) Leasing should not be contemplated if the cost to the government over the term of the lease exceeds the outright purchase price.
b) Only the principal can be charged against a federal contract: interest charges must be diverted to non-federal budget accounts.

c) The lease term must be consistent with the useful life of the equipment to be leased. Should it not be, a rental agreement might be preferable (e.g., a full payment lease against a federal grant or contract for a microscope which will be utilized for only six months, but has a useful life expectancy of five to seven years would not be acceptable).