

Capital Equipment Lease Process

Overview

A Lease is a secured financial agreement or contract between the University and a Lessor. Leases are legally **binding, non-cancelable contracts** that financially obligate the University. The Lessor (the financing body, e.g. bank) owns the equipment throughout the contracted lease period and maintains a security interest or lien on the equipment. Each lease requires the University to pay the Lessor a specific amount at regular intervals for the contracted period for the use of the equipment, this includes both the cost of the item and the interest associated with financing the purchase. **A Lease may not be canceled for any reason prior to the end of the term without incurring severe financial repercussions.** To review the university's capital lease policy, please visit <http://policylibrary.columbia.edu/capital-equipment-leasing-policy>

Leased goods are subject to the same policies and procedures that would apply to the acquisition of any piece of capital equipment such as computers, medical or scientific equipment, business related equipment, etc. For the university's Procurement Mechanism Policy, please visit <http://policylibrary.columbia.edu/procurement-mechanisms-policy> and for the Competitive Procurement Policy, please visit <http://policylibrary.columbia.edu/competitive-procurement>.

Motor Vehicle Leases, Department / School must **also** adhere to the University's policy for Vehicle Acquisition, Operation and Disposal Policy found at <http://policylibrary.columbia.edu/vehicle-acquisition-operation-and-disposal-policy>

Leased equipment cannot be relocated, replaced, exchanged, swapped-out, upgraded, returned or sold while there is an active lease. Central purchasing must communicate any such request to the Lessor and Lessor's permission must be granted prior to any of the above action being taken.

Central Purchasing is responsible for managing the capital leasing process at the University.

Lease Exceptions:

Copier / Printers / Scanners (Multifunction Devices)

This category is currently managed by Print Services. For requirements and instructions, please visit <http://printservices.columbia.edu/copier-program>

Postage Meter

Each department / School manages its own postage meter lease. Due to postal regulations, postage meter may only be leased from regulated vendors. For a list of approved vendors, please visit the

purchasing website at <http://finance.columbia.edu/procurement/purchasing>. Postage Meter Lease includes maintenance and software upgrades. When requesting postage meter lease quotes, department should request lease term of no more than three (3) years and payments terms must be annual. For instructions on the current postage meter program with Pitney Bowes, the category code and natural account#, please visit the Pitney Bowes page on the purchasing website <http://finance.columbia.edu/content/pitney-bowes>.

It is important to note, department must create the receiving in ARC prior to processing any lease payment

Capital Equipment Leases – The Process:

Lease Documentation

The University only enters into lease agreements with Lessor(s) with whom there is a vetted and approved Master Lease Agreement (MLA) on file in the Central Purchasing office. The following documents are some of the typical leasing documentation required by the Lessor:

- Master Lease Agreement (MLA)
- Lease Proposal
- Lease Schedule
- Delivery & Acceptance
- Third Party Assignment

Additionally Central Purchasing currently requires the following documents with each lease (these documents are required in the following order in the lease process):

- Lease Checklist, this form is requested and completed by department and **must be approved by the administrator and Central Purchasing.**
- An approved Requisition
- Payment Authorization Schedule renamed Lease Initiation Payment Authorization (LIPA), **this form is initiated by Purchasing upon approval of lease checklist, and lease pricing by department, executed by the department (P&S or CUMC business office if applicable) and uploaded in the requisition upon completion.**
- Purchase order
- Leased Equipment Receipt Notification (LERN), **this form is initiated by Purchasing upon Department's confirmation of receipt, inspection and installation of equipment where applicable and executed by department.**
- Vehicle Acquisition Form (where applicable)

- Vehicle Disposition Form (where applicable)

Definitions are listed at the end of this document.

Lease Signing Authority

The authority to enter into and sign a capital lease agreement on behalf of the University is specific to University officers who have been duly authorized and or delegated by the University's Board of Trustees to enter into lease agreements. Currently only the Vice President for Central Purchasing is authorized to sign capital lease documents on behalf of the University. **NO Department Administrator, School Administrator, Physician, Manager, Chair or Administrative Personnel are authorized to sign any lease documents (such as a quote, proposal, schedule, lease agreement, etc. provided by a Lessor or Vendor).**

Types of Lease

There are two types of leases; Operating Lease also known as Fair Market Value (FMV) or Finance Lease also known as Capital Lease

1. An Operating / Fair Market Value Lease may be thought of as a long term rental or payment for the use of equipment.
2. A Finance / Capital Lease is structured like a regular loan under which the university acquires title to the capital equipment upon completion of all scheduled payments.

Lease Process

Due to the complexity of the lease process it is **very important** for Department / School to engage the Contract Officer in the Central Purchasing Office responsible for leasing once the option to lease is being considered. This is important since it may **take several months** to complete the review and documentation process before the equipment may be ordered.

To be considered for leasing, the items must be valued at a minimum of **\$50,000** with the exception of Motor Vehicles, Copiers / Printers / Scanners (Multi-Functions Devices) and Postage Meters. The cost should not include freight, extended warranties and or service agreements. **All items leased under the same schedule must be housed in the same location and procured from the same vendor.** All leased equipment is required to have a valid service agreement throughout the term of the lease. **A separate requisition must be created for the service agreement after the lease has commenced and the service dates should coincide with the lease dates as indicated on the Leased Equipment Receipt Notification Document (LERN).**

The lease process includes three main process areas, each with its own set of roles and responsibilities:

1. Lease Analysis
2. Lease Requisition
3. Lease Management

To streamline the Lease Process and to minimize errors and delays, it is important for all parties within a school / department involved in the lease process to fully understand their role and responsibilities as well as the roles and responsibilities of Central Purchasing. In addition, a Lease Life cycle workflow has been created to provide an overview of the Capital Lease Process. To review a copy of the Leasing Lifecycle, please visit

<http://finance.columbia.edu/files/gateway/content/purchasing/Leasing%20Life%20Cycle.pdf>

Step 1: Lease Analysis Process

Once the decision is made to acquire the use of equipment, Department / School should consider whether to purchase or finance the use of the equipment over time. Once the decision to finance has been made, the next step is to determine whether the equipment should be **“rented”** or **“owned”**. Examples of **“rent”** or **“own”** considerations are as follows:

- What is the life cycle of the equipment? For example, if equipment is Information Technology based, department should consider how often the technology changes? Or if the items have high wear and tear such as gym equipment, a FMV lease should be considered since FMV leases are most effective for quick changing technology products and high usage equipment. The selection of a FMV lease will facilitate the ability to rotate out of the items in a timely manner and reduce the risk to the Department / School of being stuck with obsolete and/or worn out equipment.
- Fair market value leases tend to have lower payments than finance leases, however, if the department decides to purchase equipment at the end of the term, the total cost to own the equipment **may be considerable higher** than if the department had selected a Finance lease at the outset.
- For equipment with long useful life or equipment that requires extensive de-installation, it may be more cost effective to procure these items with a Finance Lease.

It is important to note, that there may be cases where based upon usage or technological changes, a FMV lease may seem to be the right option however considering additional factors such as low interest rates, cost of returning the equipment at end of term, the potential need to extend the lease at end of term, etc., a Finance Lease may offer the best overall value to the university. This consideration will be provided in the financing recommendation by Central Purchasing.

Roles and Responsibilities:

Department / Schools:

- Review Department / School's needs;
- Solicit equipment quotes while adhering to the University's Procurement Mechanism Policy, (<http://policylibrary.columbia.edu/procurement-mechanisms-policy>) and the Competitive Procurement Policy, (<http://policylibrary.columbia.edu/competitive-procurement>);
- Analyze equipment quotes and make final equipment and vendor selection;
 - Equipment quotes **MUST** be valid and detailed, i.e. list all items to be procured, if applicable their corresponding cost and payment terms.
 - Maintenance cost, service agreement cost and freight should not be included since these costs will not be included in the lease. Department will need to issue separate requisition for any maintenance or service cost and must process freight charges via a direct voucher.
- Contact Contract Officer in the Central Purchasing office to discuss lease options
- Complete lease checklist forwarded by Purchasing. This form gathers information useful to Central Purchasing to complete a comprehensive review and approval of department request to lease. Information includes but not limited to:
 - Is the equipment a loaner or demo unit? If yes, how long has it been housed in your lab
 - What is the delivery schedule (lengthy lead-time)
 - Coordination of installation with other items not incorporated in the lease
 - Exact physical address equipment will be housed – note all equipment must be house in the same location
 - Renovation - Will the space and required facilities be available and ready for delivery and acceptance of the equipment (for example: electrical outlets, space requirement, etc.,)

Purchasing Department:

- Work with Department / School to clarify equipment cost, payment terms, quote or proposal terms and conditions, **service cost, support fee, shipping and handling, if applicable, however these fees are not included in the lease** and any other requirement;
- Analyze Department / School's request to lease equipment to determine whether the goods should be leased or purchased from an overall business perspective, i.e. is this in the best interest of the university;
 - Forwards Lease Checklist and directs user(s) to the purchasing website to review the Capital Lease Process documentation.
 - Review lease checklist to determine whether the lease request adheres to university's Capital Lease Policy and Process guidelines.

- **If lease request qualifies based on the university's Capital Lease Policy and Process**, solicit lease bids with the objective of obtaining financing at the lowest overall cost available, negotiate terms and conditions; propose modifications and additions to current terms and conditions as needed. **It is important to note, any request for FMV lease pricing may take up to 5 business days once Central Purchasing receives the valid and detailed quote / proposal and there are no outstanding issues.**
- Forwards best lease finance option to Department / School along with approved Lease checklist

Step 2: Lease Requisition Process

The Lease requisition process begins once the Department / School confirms acceptance of the lease financing option and the lease policy / process to the Central Purchasing Department.

Due to the complex nature of lease transactions which include at least three entities: **the University, the Lessor** and **the Supplier**, it is important for the initiating Department / School to be aware that Central Purchasing must receive the approved requisition with all required supporting documents at a **minimum, three (3) weeks** prior to any required purchase order to the supplier, taking into consideration shipping, quote validity and/or installation deadline.

Due to the complex nature of lease transactions which include at least three entities: **the University, the Lessor** and **the Supplier**, it is important for Central Purchasing to receive the approved requisition with all supporting documentation at **minimum, three (3) weeks** prior to any required deadline such as but not limited to:

- Purchase order to Supplier (the University issues a PO to Lessor, who then issues a PO to the Supplier)
- Quote validity / Discount
- Equipment lead-time
- Shipping / Installation deadline

Roles and Responsibilities:

Department / Schools:

- Department / School confirms acceptance of lease pricing;
- **Department confirms their understanding and acceptance of the Capital Lease Process;**
- For the purchase of the equipment, adhere to university policy with regards to Competitive Sourcing <http://policylibrary.columbia.edu/competitive-procurement>

- Issue requisition based on job aid provided on the purchasing website at <http://finance.columbia.edu/files/gateway/content/purchasing/Job%20aid%20-%20%20Capital%20Lease%20requisition.pdf>
- Request and receive all required approvals for the requisition; including but limited to prior approval, budgetary, departmental and business unit approvals;
- Execute and upload the Lease Initiation Payment Authorization (LIPA) form as well as the fully executed Lease Checklist into the purchasing EDM. The LIPA is required to ensure the timely payment to Lessor and to mitigate the University's risk for default. These documents must be signed by the Department / School Administrator and the respective authorized officer at the Department / School with the appropriate security profile (DAF) covering the total cumulative value of the lease payments;
- Must guarantee the funding accounts for the full term of the lease;
- Upload all supporting documents separately into the purchasing EDM;
- **Once the PO is issued, department MAY NOT change the original equipment order without contacting and receiving prior approval from Central Purchasing for any such change;**
- **For Motor vehicles ONLY**
 - Department must complete a Vehicle Acquisition request form found on the Risk Management website at <http://finance.columbia.edu/files/gateway/forms/rmVehicleAcquisitionFormt%20bb.pdf>

Purchasing Department:

- Issue Lease Initiation Payment Authorization Schedule (LIPA). **It is important to note that the lease financing cost listed on the LIPA schedule is subject to change based on any potential difference in interest rate between the date of the original lease quote and the lease commencement (the date Central Purchasing returns the lease documents to Lessor) as well as any change(s) to equipment cost;**
- Review and ensure completeness, accuracy and compliance of supporting documentation;
- Review, approve requisition and issue Purchase Order;
- Execute any required lease documents;
- Coordinate with Lessor on the issuance of Lessor's order to supplier;
- Liaison between Department / School, Lessor and Supplier.

Step 3: Lease Management Process

Although the Lease management process is listed last, it actually begins once a lease bid is requested and continues throughout the entire life cycle of the lease. It has many active tasks such as:

The execution of lease documents:

- Master lease Agreement
- Lease proposal
- Lease schedule
- Lease Delivery and Acceptance
- Third Party documentation
- Lease Initiation Payment Authorization (LIPA)
- Leased Equipment Receipt Notification (LERN)
- Lease Checklist

Additional required tasks:

- Lease Payment scheduling & processing
- Issuance of insurance certificates to Lessors
- Issuance of end of term notices to both department and Lessor
- Negotiation of buy-out cost and lease extensions
- Communication with both internal customers and external parties.

It is the responsibility of the Central Purchasing Office to manage this process; however, Departments / Schools still have time sensitive obligations:

Roles and Responsibilities:

Department / School:

- Upon receipt of equipment, promptly inspect and install (where applicable), and confirm to Central Purchasing the equipment has been received and meets requirement. This confirmation must be promptly delivered;
- Criteria for inspection and installation are based on the following:
 - Equipment readiness for use, (plug-in and use equipment) such as audio visual equipment, computers, some ultrasound machines, gym equipment, etc., Department / School must confirm receipt, inspect items and execute the Leased Equipment Receipt Notification (LERN) within 5 business days of receipt of items;
 - For items such as computer hardware, software, etc., that require internal installation (installed by Department / School), Department must confirm receipt, promptly install items and execute the LERN within 10 business days of receipt of items;
 - For items such as MRI machines, CT scanner, some ultrasound machines; spectrometer, some research equipment, etc., that require OEM installation,

Department must confirm receipt, have items installed and execute the LERN form within 20 business days of receipt of item;

Failure to promptly execute the LERN within the timeframe mentioned above will result in Central Purchasing commencement of the lease and initiation of lease payments to Lessor.

- Execute the Leased Equipment Receipt Notification (LERN) document. This document must include the equipment serial no(s), exact physical street address where equipment is located with any floor and suite number. This form must be executed by the Department / School Administrator.
- If a Change Order is required to modify the lease for any reason, request all required approvals. **Department / School shall not initiate any change orders on any capital lease managed by Central Purchasing. All change orders must be initiated by Central Purchasing;**
- Provide FedEx or UPS account number for sending lease documents to Lessor where applicable;
- No later than ninety (90) days prior to end of warranty period, solicit equipment service agreement to cover the full term of the lease and issue requisition for service contract concurrent with the lease term;
- It is the Department's / School's fiduciary responsibility to safeguard the leased equipment and must promptly notify the Central Purchasing Office and Risk Management in the event of any lost, stolen, missing, or damaged items;
- Once directed by Central Purchasing and or Risk Management replace or repair any damaged or missing items within thirty (30) days;
- Promptly notify Central Purchasing of any desire to relocate equipment prior to the actual relocation of the equipment. Lessor's permission must be granted for any such move prior to the effective move;
- Promptly notify Central Purchasing of any desire to replace, exchange, return, upgrade or make any changes to the leased equipment. Lessor's permission must be granted prior to any actions being taken.

❖ **FMV Lease(s) Only:**

- Advise Central Purchasing of Department's / School's end of term decision at least 180 days **but not later than 100 days** (notice period) prior to the end of term date to either:

1. Return equipment
2. Extend the lease
3. Purchase equipment

Failure to provide timely notice may result in additional lease payments assessed which department / school will be liable for.

For Equipment being returned to the Lessor and no more than 14 days prior to the termination of the lease and the return of the equipment, Departments / Schools must complete the following:

➤ **For all items with the exception of Motor Vehicles**

- Have equipment de-installed, sanitized and certified by OEM service technician where applicable. The certificate should state that equipment has passed performance tests with the OEM's specifications and has been recertified for continued OEM maintenance contracts eligibility. A copy of certificate must be provided to Central Purchasing;
- Comply with all HIPPA requirements which include the removal of all protected health information (PHI)
- Inventory equipment;
- Package and ship equipment to the address provided by Central Purchasing. Note all shipments must include transit insurance, Central Purchasing will advise exact cost for insurance. **Cost incurred to return equipment is the responsibility of the Department / School;**
- Provide copy of the return receipt or bill of lading to Central Purchasing;

➤ **For Motor Vehicle only**

- Have vehicle inspected as per Lessor instructions to be provided by purchasing;
- Photograph vehicle;
- Complete Risk management's Vehicle Disposal Report at <http://finance.columbia.edu/content/disposal-transfer-and-lease-termination>
- Return vehicle to Dealership and obtain receipt;
- Forward copies of all of the above to Central Purchasing;

It is important to note all leased equipment and or motor vehicle must be received by Lessor at their designated site prior to or on the end of term date to minimize any additional rental charges due from department.

➤ **For Lease Extension Only:**

- Review the option to extend the lease with Central Purchasing (**note it may be more advantageous to purchase the equipment**);
- Confirm extension cost and term;
- If a Change Order is required to modify the Purchase order:
 1. Obtain LIPA from Central Purchasing; complete, execute and return to Central Purchasing.
 2. Request all required departmental approvals. **Please be reminded Departments/Schools shall not initiate any change orders on any capital leases managed by Central Purchasing. All change orders must be initiated by Central Purchasing;**
- If a new PO is required, the department must complete the following:
 1. Execute a new Lease Initiation & Payment Authorization (LIPA) for the lease extension payments; the LIPA must be obtained from Central Purchasing and the requisition should not be initiated without this document.
 2. Issue a new requisition based on instructions from Central Purchasing
 3. Upload the fully executed LIPA into the new requisition
- At the end of the extended term, repeat steps listed above under FMV termination (**Note Notice Period**);

➤ **For lease buy-out**, the following should be completed by the department prior to the end of term date:

- Confirm lease buy-out figures provided by the Central Purchasing Office;
- If a Change Order is required to modify the Purchase order, request all required approvals. **Please be reminded Departments / Schools shall not initiate any change orders on any capital leases managed by Central Purchasing. All change orders must be initiated by Central Purchasing.** If a new PO is required, the department must issue a new requisition
- Execute a new Lease Initiation & Payment Authorization (LIPA) for the lease buy-out payment;

It is important to note that any lease buy-out transactions should be completed prior to end of term date to minimize any additional rental charges due from department to Lessor.

Central Purchasing:

- Manages entire lease process which includes but is not limited to:
 - Review, modify and approve all lease documentation;
 - Liaison between Department / School, Risk Management, Lessor and Equipment vendor;
 - Notify department of any adjustment in lease payments due to changes in interest rate at lease commencement; lease adjustments made post commencement; increase or decreases to capitalized amount;

- Execute all Lessor's documentation including but not limited to Lease Proposal, Lease Schedule, Master Agreement, Third Party document, etc.;
- Initiate all Change orders;
- Process lease payments;
- Request and issue Insurance certificates to Lessor;
- Manage End of term notices to Departments / School and Lessor;
- Manage all communications to Lessor
- Negotiate lease terms and cost; end of term extensions and rent; lease buy-out;
- Forward Bill of sale to Department (where applicable)

Lease Definitions and additional meaning or terms:

Bill of Sale: A formal written instrument for the conveyance or transfer of title to goods or property.

Delivery and Acceptance Certificate: Document issued by Lessor and executed by Lessee in order to verify the delivery, installation and acceptance of the equipment to the satisfaction of the Lessee.

Finance or Capital lease: A Finance / Capital Lease is structured like a regular loan under which the Department / School makes periodic payments during the lease term and owns the equipment at the end of the payment period.

Lease: A lease is a **legal, binding and irrevocable** contract between the University and the Lessor, a third party who finances the purchase of the equipment. The Lessor owns the equipment throughout the contracted period or maintains a security interest or lien on the equipment.

Lease Checklist: Is initiated by Central Purchasing and completed by department during the Lease Analysis Process. This document gathers information about the equipment to be leased, must be executed by the end user, department / division administrator (based on DAF limits), must be approved by Central Purchasing, and if applicable P&S or CUMC business office based on dollar threshold.

Lease Equipment Receipt Notification (LERN): A LERN is initiated by Central Purchasing and confirms Department / School receipt and acceptance of the items been leased.

- It summarize the final details of the lease which includes the following:
 - The lease period
 - The type of lease,
 - The payment amount per interval and total payment
 - List equipment(s) serial number(s) – multiple serial numbers an exhibit must be included with this detail
 - List physical location of equipment which must include any floor / suite / room #. **Note all equipment leased under one schedule must be housed in the same location.**
- It is completed by the Department user and executed by Department / School Administrator.

Lease Initiation Payment Authorization (LIPA): A LIPA is initiated by Central Purchasing once the department confirms acceptance of any or all of the following:

1. The initial lease pricing – new lease
2. Lease extension at end of term
3. Lease buy-out at end of term

The LIPA is necessary for the following reasons:

- It authorizes Central Purchasing to manage the lease payments and initiate Change orders (where applicable) on behalf of the department.
- It is required to ensure the timely payment to Lessor; mitigate the University's risk for default and late payment penalties;
- It summarizes the initial details of the lease such as type of lease, terms of the lease, chart field, lease payment amount, number of payments, etc.;
- This document must be signed by the respective Department / School administrator and the authorized officer at the Department / School with the appropriate security profile (DAF);
- It is required when beginning a new lease, extending an existing lease, and buying out equipment at the end of term

Lease Proposal: An offer issued by a Lessor to finance specified equipment.

Lease Schedule: Is a formal attachment or annex to a master lease that lists and describes the leased item, lease payments, and other terms applicable to the specific lease. A new schedule is executed whenever an item is added to the master lease. It is binding on both the lessor and the lessee and spells out the rights and obligation of both parties.

Lessee: A person or entity who leases an asset from its owner and makes periodic payment to the Lessor in return for the use of the asset.

Lessor: The owner of an asset that is leased under an agreement to the Lessee.

Master lease Agreement: Is analogous to an umbrella agreement, it outlines the terms and conditions that govern each new lease and allows continuing lease arrangements under which additional equipment may be leased by executing a new lease schedule instead of negotiating a new lease contract for every transaction.

Operating or Fair Market Value Lease: An Operating / Fair Market Lease may be thought of as long term rental of equipment or payment for the use of the equipment. At the end of term, the Lessee of the equipment must either:

1. Return the equipment to the Lessor; or
2. Extend the lease term; or
3. Purchase equipment leased for the then Fair Market Value

Third Party Document: Documents required by other parties (such as the supplier) to be executed by the Lessor and Columbia.

Helpful links:

- Capital Lease Policy: <http://policylibrary.columbia.edu/capital-equipment-leasing-policy>
- Competitive Procurement Policy: <http://policylibrary.columbia.edu/competitive-procurement>.
- Copier / Printer /Scanner (Multifunction Devices): <http://printservices.columbia.edu/copier-program>
- Leasing Lifecycle:
<http://finance.columbia.edu/files/gateway/content/purchasing/Leasing%20Life%20Cycle.pdf>
- Creating a Capital Lease requisition job aid:
<http://finance.columbia.edu/files/gateway/content/purchasing/Job%20aid%20-%20%20Capital%20Lease%20requisition.pdf>
- Postage meter lease: <http://finance.columbia.edu/content/pitney-bowes>
- Procurement website: <http://finance.columbia.edu/procurement/purchasing>
- Procurement Mechanism Policy: <http://policylibrary.columbia.edu/procurement-mechanisms-policy>
- Vehicle Acquisition, Operation and Disposal Policy: <http://policylibrary.columbia.edu/vehicle-acquisition-operation-and-disposal-policy>
- Vehicle Disposal Report: <http://finance.columbia.edu/content/disposal-transfer-and-lease-termination>