



ADMINISTRATIVE DIRECTIVE

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		November 1, 2016

I. PURPOSE

To set policy and prescribe administrative procedures for obtaining the most favorable financing terms available for the leasing of personal property.

II. SCOPE

This directive provides guidance for the acquisition of personal property either through a vendor or third party financing, typically for a term of three to seven years. This directive does not apply to equipment or property acquired through the use of bond funds or Certificates of Participation (COPs).

III. DEFINITIONS

- A. **Lease Agreement** – A contract between the City as lessee and a vendor or third party as lessor, where the City obtains personal property by making a series of lease payments to the lessor.
- B. **Personal Property** – Property, other than real property, consisting of temporary or movable assets. This includes equipment and vehicles.
- C. **Real Property** – Property consisting of land, buildings, or improvements on or to the land.
- D. **Capital Lease** – A lease agreement is classified as a capital lease when substantially all risks and benefits of ownership are assumed by the City of Tucson. A capital lease is recorded as an asset of the City, with a corresponding liability for the full amount of the lease obligation. A lease is considered a capital lease if it meets one of the following criteria:
1. The lease transfers ownership of the property to the City at the end of the lease term.
 2. The lease contains a bargain purchase option. A provision to purchase the property anytime during the lease term at a price less than the fair value.
 3. The lease term is equal to or more than 75% of the estimated economic life of the leased property.
 4. The present value of the minimum lease payments at the inception of the lease equals at least 90% of the fair value of the leased property.
- E. **Operating Leases** – A lease agreement where there is no transfer of ownership with the asset being returned to lessor/vendor at the end of the agreement. An operating lease is treated like a series of rental payments.



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IV. **POLICY**

A. **Purchasing Process** - As with any purchase, departments will follow the standard procurement process to acquire the personal property to be leased.

B. **Lease Information Form and Lease Purchase Analysis Required** - The primary reason for leasing rather than outright purchase should be because the direct purchase is not possible and other financing mechanisms are not available or are more expensive than leasing. The attached Lease Information Form must be completed by the department requesting the lease and submitted to the Finance Department Treasury Administrator and Procurement Department prior to embarking upon a lease. With the assistance of the Treasury Administrator, a lease purchase analysis should be completed by the department prior to entering into a lease agreement to demonstrate leasing is the most advantageous option for the City. The analysis must take into consideration the following criteria:

- Technical and operational useful life of the asset(s)
- Likelihood of continued use beyond the lease term
- Budgeting/cash flow concerns
- Financing terms (term, cost of borrowing)
- Type of lease (Operating vs. Capital)

Advantages of leasing:

- Preserves capital and avoids large cash outlays
- Matches the cost with the useful life of the asset

C. **Budget Approval** – During the annual budget process, the Finance Director and the City Manager’s Office will determine if leasing demonstrates to be the most sound business decision for the use of available financial resources. Departments must have budget approval prior to requesting a lease option from the Finance and Procurement Departments. Budget approval is established upon completion of the form under IV. B.

D. **Authorization and Mayor and Council Approval**

1. **Authority to Enter into Lease Agreement on Behalf of the City** - The Procurement Director shall establish, through the standard procurement process, the purchase cost and the Finance Director shall determine the best financing options available. The Finance Director shall approve a proposed lease prior to the Procurement Director executing the lease agreement. Department directors and City employees are not authorized to purchase or enter into vendor or third party leasing agreements.



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2. **Mayor and Council Approval** - Leases are legally binding agreements that financially obligate the City; therefore, all leases greater than or equal to \$200,000 must have Mayor and Council Authorization. If a lease option is determined and included in the annual budget that is subsequently adopted by Mayor and Council, the lease is considered approved. If the lease was not included in the adopted budget and it is greater than \$200,000, the Treasury Division will seek Mayor and Council approval prior to entering into a lease agreement.
3. **Capital Leases** - Negotiation, review and processing of all capital leases will be the responsibility of the Treasury Division and will require final approval of the Finance Director.
4. **Operating Leases** - Negotiation, review and processing of operating leases greater than or equal to \$200,000 will be the responsibility of the Treasury Division and will require final approval of the Finance Director. Operating leases less than \$200,000 will be the responsibility of the Procurement Director.
5. All vehicle and equipment leases whether capital or operating shall be worked in collaboration and with final approval of the Fleet Services Administrator in the General Services Department.



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V. PROCEDURES

Step	Action	Responsible Party		
		Capital Lease	Operating Lease >= \$200,000	Operating Lease < \$200,000
1	The attached Lease Information Form must be submitted to the Treasury Administrator with the appropriate approvals. Lease purchase analysis must be completed.	Requesting Department and Budget	Requesting Department and Budget	N/A
2	A requisition must be submitted in OPIS; include Treasury Administrator and Budget Analyst in the approval path; upload the attached completed Lease Information Form to requisition. The standard purchasing process will be followed to acquire the equipment.	Requesting Department, Procurement, Budget, and Treasury	Requesting Department, Procurement, Budget, and Treasury	Requesting Department, Procurement, and Budget
3	Leases >= \$200,000 require Mayor and Council approval. If budget capacity was included and approved by Mayor and Council during the budget process, the lease is considered approved. If not, the lease must be taken before Mayor and Council for approval prior to executing the lease agreement. This step can be accomplished concurrently with step two above.	Treasury	Treasury	N/A
4	Lease proposals will be obtained and reviewed to secure the most favorable financing terms for the City.	Treasury	Treasury	Procurement
5	If a third-party provider is financing the lease: When the property has been delivered and installed in good order, payment in full using available City funds shall be made by the requesting department directly to the vendor. The third-party provider will reimburse the City for the full price price of the equipment (see #7 below). If the vendor is financing the property, payment shall be made in accordance with the terms/conditions of the lease.	Requesting Department	Requesting Department	Requesting Department
6	Send executed lease documents to Requesting Department, Procurement, Accounting, and Budget.	Treasury	Treasury	Procurement
7	Request reimbursement from lessor to make the City whole and deposit proceeds in the appropriate general ledger account as provided by Accounting.	Treasury	Treasury	Procurement
8	Make rental or lease payments utilizing appropriate account codes for operating leases and capital leases as approved by the Accounting Division.	Treasury (Semi-annual)	Requesting Dept. (monthly) Treasury (Semi-annual)	Requesting Department



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VI. GENERAL

Questions related to this policy and procedures shall be referred to the Finance or Procurement Director, as appropriate.

Attachment Lease Information Form

References None

Review Responsibility and Frequency The Director of Finance will review this directive as necessary.
Last review date: August 6, 1999.

Authorized



City Manager

11/22/16
Date

Michael Ortega

**CITY OF TUCSON
LEASE INFORMATION FORM**

A.D.3.02-5

DEPARTMENT: _____

DATE: _____

REQUESTED BY: _____

PHONE: _____

DESCRIPTION AND ESSENTIAL USE OF EQUIPMENT:

ESTIMATED AMOUNT: _____

DESIRED TERM: _____

USEFUL LIFE OF EQUIPMENT: _____

DESIRED INTENTION AT THE END OF LEASE (CHOOSE ONE):

_____ KEEP EQUIPMENT _____ RETURN EQUIPMENT

EQUIPMENT LOCATION: _____

By signing you agree to the following statements:

I agree to comply with the City's policies and procedures for leasing of personal property.

The equipment to be financed will be used by the City for governmental purposes only.

I understand that the lease agreement is creating a financial obligation for the City which cannot be terminated until all lease payments have been made.

I understand that operating lease payments will be an expenditure within my budget.

SIGNED: _____

DATE: _____

Requesting Department's Director

NAME: _____

TITLE: _____

Budget Approval:

FUNDING SOURCE(S) FOR ESTABLISHED BUDGET CAPACITY: (NAME, AMOUNT, GL ACCOUNT NUMBER)

Budget Capacity Included in Adopted Budget? Yes ___ No ___

BUDGET APPROVAL

DATE

NAME: _____

TITLE: _____