SECTION VII
LEASING

As an alternative to the outright purchase of equipment, many vendors offer various types of lease agreements. Caution and legal review of monetary, term and reporting requirements are recommended prior to entering into any lease agreement.

A. DEFINITION

By definition, a lease is an agreement whereby one pazrty pays a fee for the use of another party's property without immediately becoming the owner of the property.

B. TYPES OF AGREEMENTS

1. Rental

An agreement whereby the lessor (owner / provider) retains the responsibilities of ownership, (i.e., payment of taxes, maintenance of equipment, liability, etc.). Usually no portion of the rental payments accrues toward purchase.

2. Lease

An agreement stipulating that one or more of the responsibilities of ownership (payment of taxes, maintenance of equipment) becomes the responsibility of the lessee/user.

In accordance with Section 10-23.4a of the Illinois School Code, Districts may enter into a lease for a period not to exceed 5 years for such equipment and machinery as may be required for corporate purposes when authorized by the affirmative vote of two thirds of the members of the board of education

3. Lease/Purchase

An agreement where the lessee intends to own the item, but simply needs to spread the payments out over a period of time on an annual, quarterly, or monthly basis. A lease/purchase agreement allows the title to pass to the lessee after the final payment.

4. Lease with Option to Purchase

An agreement where the lease provides that any substantial portion of the lease payment may accrue towards purchase and the lessee may exercise that option either during or at the end of the lease term.

C. ADVANTAGES AND DISADVANTAGES

1. Advantages

a) Avoids capital expenditure for property which may only be needed for a short time due to a change in needs (i.e., enrollment, location, technology, curriculum, etc.)

b) Allows for acquisition when funds for purchase are unavailable.

c) Eliminates the need for property disposal when equipment is no longer needed.

d) Permits the usage on a "trial basis" prior to purchase.

e) Satisfies short term needs while awaiting delivery of property or appropriation of funds for future purchase.

2. Disdvantages

a) If equipment is no longer needed, early termination of an agreement may be extremely costly.

b) Lease agreements may be complicated to arrange and administer.

c) No assurance of the continued use of the equipment beyond the end of the agreement.

d) No equity is built up toward equipment ownership.

e) No service or maintenance guarantee beyond the end of the agreement.

f) As a party other than the institution has ownership of the equipment, sales and use taxes may apply.