Lease Purchase Agreements

I. Purpose

The purpose of the regulation is to define the conditions under which a budget holder may request a lease purchase agreement.

II. General Information

Lease purchase is an option for the purchase of goods where payment of the purchase price is deferred through installment payments which include the payment of interest; i.e., purchases financed by the seller, lessor, or third party. A lease purchase provides the budget holder with immediate use of an item(s) while paying for it over a period of several years. An agreement is entered into for the total cost including principal and interest, and the budget holder encumbers and makes payment only for the amount due each fiscal year. The budget holder does not own the item until the final payment on the agreement is made. Under a lease purchase agreement, the budget holder is obligated to fulfill the conditions of the contract unless the Board of County Supervisors fails to appropriate sufficient funds to the School Division as a whole. A decision to terminate a lease purchase before completing the term, which in some cases may be beneficial, may also result in penalties including a buy-out of the lease, removal of the equipment, and/or other penalties as described in the agreement.

III. Responsibilities

Budget holders may enter into lease purchase agreements as a means of obtaining equipment and/or software for immediate use while paying for the item over several years. Lease purchase agreements for real property are not authorized. Lease purchase agreements require the prior approval of the Director of Financial Services and the appropriate associate superintendent. The roles of each office are as follows:

A. Budget holder: Identify material requirements, ensure adequate funds are available for the period of the agreement, ensure agreement is included in school plan, assess appropriateness of prospective lease purchase agreement, initiate and receive approval of an Authorization to Enter into a Lease Purchase Agreement (see attached), and initiate requisition (RQS) document.
B. Associate Superintendent: Review the appropriateness of expenditure, ensure procurement is in compliance with appropriate plans/objectives, and assess the impact of the continuing lease payments on the budget holder's fiscal condition.

C. Purchasing: Upon receipt of the RQS and the Authorization to Enter into a Lease Purchase Agreement, determine the most competitive means of procuring the item. Obtain approval on the terms and conditions of the solicitation from the Director of Financial Services. Review and negotiate lease purchase agreement, ensure agreement is contractually in the best interest of the School Division, have completed agreement reviewed and approved by the Director of Financial Services, and issue appropriate purchase order.

D. Financial Services: Advise budget holder and level associate concerning the fiscal implications of the agreement. Review lease purchase agreement for budgetary and tax compliance. Review and approve the proposed terms and conditions of the lease purchase agreement prior to the issuing of a solicitation for competition by the Purchasing Office. Ensure submission of applicable tax information and documents. Ensure accounting liability for lease purchase agreement is properly recorded.

IV. Assessment

The budget holder shall review and assess the following items when considering a lease purchase agreement:

A. The period of the lease purchase agreement may not exceed the useful life of the equipment/materials being purchased. Commercial depreciation tables may be used to identify the life expectancy of most types of equipment.

B. The term of the agreement must be appropriate considering the item being leased, the fiscal resources of the budget holder, and the life expectancy of the item. Lease purchase agreements shall be limited to not more than three (3) fiscal years without the approval of the Director of Financial Services.

C. The budget holder’s budget must be sufficient to continue funding the item over the term of the agreement. The lease purchase agreement should not require a disproportionate amount of the agency budget. The budget holder will be responsible to pay for the total cost of the lease purchase including principal, interest, and/or any penalties which may incur.
1. Schools

a. Maximum obligation. The annual amount of all lease purchase payments shall not exceed one-half (1/2) the amount of the school's replacement equipment allocation. For example, in a middle school with a replacement equipment allocation of $60,000, the sum of all outstanding lease purchase payments to be made in that fiscal year may not exceed $30,000.

b. Minimum obligation. The annual payment for an individual lease purchase agreement shall not be less than one-third (1/3) of the amount of the school's replacement equipment allocation. For the school with a replacement equipment allocation of $60,000, the minimum is $20,000.

2. Central Office Departments: requests shall be reviewed on a case-by-case basis.

D. The budget holder shall detail the financial cost of the lease purchase agreement including:

1. Identify the estimated cost of making an outright purchase. The budget holder should weigh the costs of contracting under a lease purchase agreement against other means of procurement such as outright purchase and leasing/renting.

2. Determine the estimated cost of financing the lease including the interest rate. Is the interest rate charged under the agreement acceptable compared to the interest rate charged commercial users and to the current interest rate for municipal bonds? Interest rate questions may be referred to the Director of Financial Services.

E. The budget holder shall identify the terms/conditions under which the lease may be terminated.

1. What are the budgetary conditions under which the lease purchase may be terminated or bought out?

2. Are there other circumstances under which the School Division may terminate the contract? What are the penalties for such a termination?
The Associate Superintendent for Finance and Support Services, or designee, is responsible for implementing and monitoring this regulation.

The Associate Superintendent for Finance and Support Services, or designee, is responsible for reviewing this regulation in 2017.
MEMORANDUM

DATE:

TO: Applicable Associate Superintendent

THRU: Director of Financial Services

FROM: Budget Holder
      School or Office

SUBJECT: Authorization to Enter into a Lease Purchase Agreement

Request authorization to enter into a lease purchase agreement for:

The following information is provided:

1. (Describe the estimated financial costs of the item detailing supplies, materials, equipment, licenses, etc. Show the estimated cost of making an outright purchase, the cost of financing the lease, identifying who will be holding the lease, and the interest rate to be used.)

2. (Define the life expectancy of the item to be leased including component parts, the commercial depreciation schedule for such an item, and your assessment as to the value of the item at the completion of the lease purchase agreement.)

3. (Describe the financial resources of the budget holder which are available to meet the cost of the contract. Include the impact on the budget holder of being committed to the lease for its full term. Identify the amount of the school's replacement equipment allocation for the current fiscal year and how it relates to the annual cost of the lease purchase.)

4. (Describe the methodology used in determining the term or length of the agreement.)

5. (Describe the terms and conditions under which the lease may be broken and the benefits or penalties for such an action.)

(An approved copy of this Memorandum must be forwarded to the Purchasing Office at the time the Requisition (RQS) is initiated.)