Bonds and COPs

"Certificates of Participation (COPs) are a type of leasing arrangement in which bonds are issued to finance the purchase of transit assets."

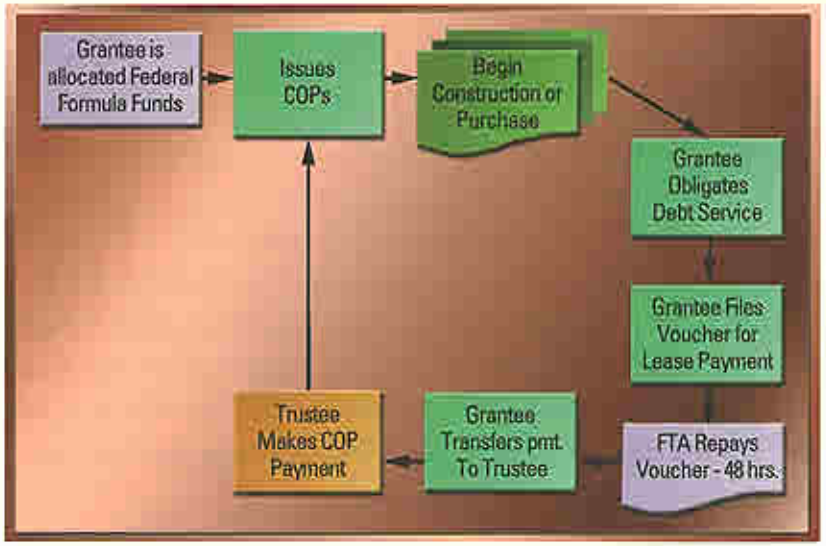
(Federal Register, Vol. 60 No. 89, May 9, 1995)

COPs are tax-exempt bonds, issued by State entities, that are usually secured with a specified revenue source such as an equipment or facilities lease. A purpose-formed State entity issues tax exempt bonds with maturities that match the lease term of assets that are purchased by the State entity with the proceeds from the bond issue. The State entity then leases the equipment to one or more transit systems. The resulting lease payments, most often made with a combination of formula grant funds and local matching share, are then "passed through" to the bondholders by the State entity. The combination of larger vehicle order size, COPs with varying maturities, and lease arrangements, reduce and stabilize current capital costs significantly.

Several examples are provided by the California Transit Finance Corporation (CTFC), which provided funding for the bus purchases of several California grantees, including the Sunline Transit Commission, which replaced its entire fleet of diesel fuel buses with buses that operate on Compressed Natural Gas (CNG). The CTFC issued COPs, secured by a lease on the buses that were purchased. Because the transaction involved 40 buses, the local gas utility provided a high-speed

fueling facility with a favorable capital lease arrangement. The following diagram illustrates the transaction.

CERTIFICATE OF PARTICIPATION (COP) STRUCTURE (SIMPLIFIED)



Not all communities need the COPs structure, because they have the ability to issue bonds which may be just as marketable. However, in the CTFC example, local matching funds were used to establish a reserve fund for the transaction, which reduced the actual interest cost significantly, while providing a way for the transit operators to make ongoing matching payments for the Federal grant expenditures. Each lease payment included 80 percent Federal grant funds and 20 percent local funds. Since the local funds were deposited at interest, this reduced the cash burden on the various transit districts.