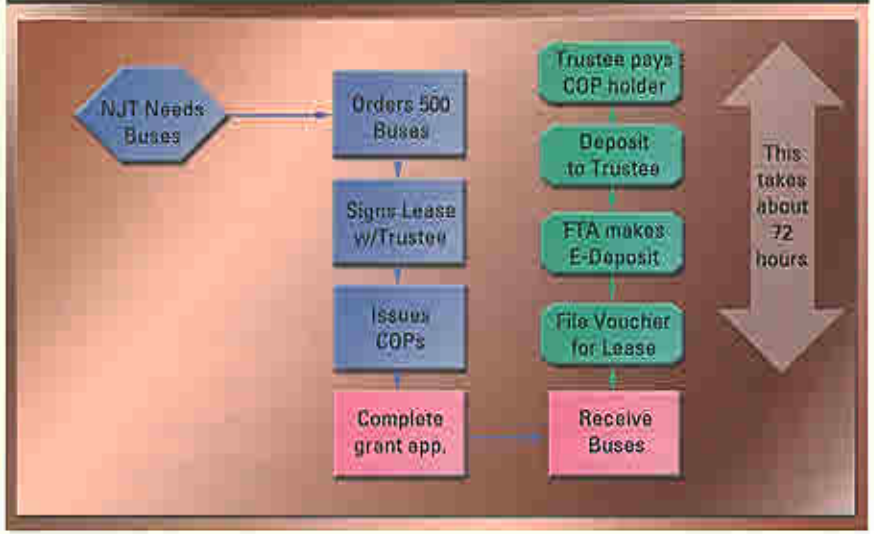
GRANT ANTICIPATION

TEA-21 represents a significant departure from prior surface transportation authorizations. Rather than providing a maximum authorization, which appropriations committees may or may not meet with each year's appropriations Act, TEA-21 provided a floor, known as the 'Guaranteed Funding Level.' This funding level is not guaranteed, as such, but its use is limited to transportation. Thus, there is very little incentive for the appropriations committees to appropriate less than the guaranteed level.

This guaranteed funding level had two effects - it provided greater predictability of grant funds for transit providers and State Departments of Transportation; and it gave rating agencies on Wall Street the added security needed to consider grant funds when rating a credit issue. Boston and New Mexico were the first to test this mechanism, using Highway funds to secure medium-term debt. New Jersey Transit was the first transit provider to use the mechanism for a transit acquisition.

NJT IS USING GRANT ANTICIPATION FOR ITS RAIL FLEET AS WELL.

NEW JERSEY TRANSIT EXAMPLE



New Jersey Transit faced a common difficulty. Significant portions of its urban and commuter bus fleets were being operated beyond their useful lives. To replace 500 of these buses with cash would require several years of formula grant funds, and would allow no other projects to proceed. Discussions with the New Jersey Treasurer's office yielded a possible solution - buy the vehicles with debt.

However, NJT could not issue debt without a specific authorization of the State legislature. So, it was decided to proceed with a Certificate of Participation (COP). This is a security, issued to the public, providing participation in a stream of lease revenues. Usually, COPs are secured by a lien on the assets, and the pledge of a revenue stream to service the lease. Since Federal funds may not be pledged, NJT promised to use its formula grant funds to make the required lease payments.

Rating agencies rated the $151 million COPs issue A-1 and A+. As a result, NJT sold its COPs in the marketplace at an average interest rate of just 4.2 percent. The COPs will mature over the next 8.5 years, at which time NJT will own the buses outright.