Certificates of Participation are a financing tool that allows a school district to utilize a lease structure and borrow money for capital projects. A school district will utilize the Certificate of Participation (COPS) when there is a specific revenue stream that can be tied to the capital project. In the case, of Hillsdale it is the revenue the district will receive from the Rover pipeline. Although COPS are different than a bond issue, the mechanics of a COPs issue are very similar to bonds. Payments for a COPs issue can be made from any available revenue stream and do not require a vote of residents to be issued. A COPs issue is subject to annual appropriation by the Board of Education and therefore typically carries a credit rating one notch below the District's issuer rating.

A COPS should only be purchased after consultation with your investment and tax advisor.

What Is a Certificate of Participation (COP)?

A certificate of participation (COP) is a type of financing where an investor purchases a share of the lease revenues of a program rather than the bond being secured by those revenues. Certificates of participation are secured by lease revenues.

A certificate of participation (COP) can also be referred to as a participation certificate.

KEY TAKEAWAYS

- A certificate of participation (COP) allows investors to participate in a pro-rata share of a lease-financing agreement.
- As opposed to bond participation, COPs pay investors via lease revenues as opposed to bond interest.
- COPs are a commonly found in municipal financing as an alternative to muni bonds.

Understanding the Certificate of Participation

A lease-financing agreement is used by a municipality or local government to acquire real property. Under the agreement, the local government makes regular payments over the annually renewable contract for the acquisition and use of the property. A lease-financing contract is typically made available in the form of a certificate of participation.

A municipal government will typically issue muni bonds from which the proceeds from the bond investors will be used to undergo a project. The certificate of participation is an alternative to municipal bonds in which an investor buys a share in the improvements or infrastructure the government entity intends to fund. The authority usually uses the proceeds from a COP to construct a facility that is leased to the municipality, releasing the municipality from restrictions on the amount of debt that they can incur. The COP contrasts with a bond, in which the investor loans the government or municipality money in order to make these improvements.

COPs and Taxation

A certificate of participation is a tax-exempt lease-financing agreement that is sold to investors as securities resembling bonds. In a COP program, a trustee is typically appointed to issue the securities that represent a percentage interest in the right to receive payments from the local government under the lease-purchase contract. Investors that participate in the program are given a certificate that entitles each investor to a share, or participation, in the revenue generated from the lease-purchase of the property or equipment to which the COP is tied. The lease and lease payments are passed through the lessor to the trustee, who oversees the distribution of the payment to the certificate holders on a pro-rata basis.

Special Considerations

Certificates of participation do not require voter approval and also can be issued more quickly than referendum bonds. In addition, COP financing is more complex and generally resembles bond financing. An underwriter of the COPs will be required, as will various fiscal agents. An official statement providing disclosure to investors must be approved by the municipal government and, in most cases, the government must contract to make continuing disclosures to SEC Rule 15c2-12 under the Securities Exchange Act of 1934.

Source: Investopedia.com