Fund Source Report

1163 COP Certificates of Participation

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
2001		Yes	No	Yes	Bonds / Debt Service

No Appropriations during last 10 years

Legal Authority
Appropriation measures

Source of Revenue
Appropriations by the legislature, typically from the general fund.

Restrictions on Use
Restrictions on expenditures are based on the lease agreements that the state entered into.

Description and History
Certificates of participation in rent (COP's) are similar to lease revenue bonds. The certificates represent fractional interests or shares in lease payments from lessees, in this case the State, and are sold to finance construction or purchase of leased facilities. The issuer can be a private developer, public agency, or other party acting as lessor. It can be the State itself, utilizing a trustee to hold title to the property and serve as lessor.

COP's are payable solely from the annual lease payments made by the State. These payments are subject to legislative appropriation. Therefore, COP's are not considered State debt subject to voter approval.

A certificate of participation lease is a specific type of tax-exempt lease or lease-purchase agreement. Traditionally, state and local governments have used tax-exempt lease financing to acquire equipment. The financing has been modest in amount, and the term for repayment has been relatively short, usually five or six years or less. Tax-exempt lease or lease-purchase agreements have not been widely available for major improvement projects or very expensive equipment acquisitions that require repayment over long terms, e.g., generally 10 years or more. However, the advent of the certificate of participation lease now makes long-term tax-exempt lease-purchase financing available for these "big ticket" items.

These large, long-term lease-purchase agreements are often alternatives to bond issues that require voter approval for the projects or acquisitions. The use of long-term lease-purchase financing as a means to avoid a public referendum is questionable for several reasons.
First, although future payment obligations under a lease-purchase agreement are usually subject to annual appropriation and, therefore, not ordinarily debt, such an agreement otherwise imposes an unconditional and very long-term repayment commitment on the lessee.
Second, the use of a lease-purchase agreement with a non-appropriation clause in place of a voter-approved bond issue side-steps the normal legal and political process prescribed in state constitutions and statutes for making long-term commitments for capital projects.
And third, because of non-appropriation, lease-purchase financing is likely to carry a higher interest rate than that on a bond issue of similar credit risk and with the same maturity schedule.

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Alaska Public Debt for 2000-2001 identifies the following as COP's issued and outstanding:
Seward Student Service Center
Kenai Court House
Wildwood Correctional Center Acquisition
Palmer Court House
Court Plaza Building
Anchorage Times Building
Soldotna Maintenance Facility
Fairbanks Courthouse
Palmer Airport Fire Facility
Anchorage Health Lab
Spring Creek Correctional Center (refunding)

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Despite technicalities that differentiate COPs from bonded debt, COPs are classified as debt for budgetary purposes because failure to pay COPs as agreed could affect the State's credit rating. Use of the code indicates use of COPs in the capital budget; payments on COPs appear in the operating budget, typically using general funds.