

Legislative Analysis



STATUTORY FIRST LIEN FOR UNLIMITED TAX PLEDGE

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House Bill 5650

Sponsor: Rep. Mike Shirkey

Committee: Financial Liability Reform

Complete to 11-12-14

A SUMMARY OF HOUSE BILL 5650 AS INTRODUCED 6-11-14

The bill would amend Section 701 of the Revised Municipal Finance Act to provide for a statutory first lien on all taxes subject to an unlimited tax pledge for a municipal security authorized or issued before December 23, 1978, or approved by the electors of a municipality. This would apply to an unlimited tax pledge made prior to or after the date of enactment of the bill.

Additionally, current law requires that the taxes be set aside as collected for the payment of the principal and interest on the municipal securities divided pro rata among the various sinking funds and debt retirement funds in accordance with the amount levied. Upon collection and prior to dividing the funds pro rata, House Bill 5650 would require the funds set aside to be held in trust for the owners of the municipal security.

FISCAL IMPACT:

Placing taxes set aside for municipal securities into trust and providing a statutory first lien on all taxes subject to an unlimited tax pledge would provide enhanced creditworthiness for local government municipal securities receiving an unlimited tax pledge. These changes would have the practical effect of making municipal securities with an unlimited tax pledge secured debt. The precise implications for how the provisions of the bill would affect bondholders of municipal securities with an unlimited tax pledge in municipal bankruptcy proceedings cannot be predicted.

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