HB 2131 – Testimony of Carol Juang McCoog, J.D., Chair, Oregon Municipal Debt Advisory Commission

House Bill 2131 attempts to strengthen the credit of Oregon local government general obligation bonds by creating a statutory lien on the tax revenues received by a local governments from a GO bond levy

Oregon local government GO bonds are voter approved and provide for a separate property tax to be levied outside of Measure 5 and Measure 50 limits in an amount that is sufficient to pay the debt service on the GO bonds.

A GO bond has always been viewed as the strongest credit that an Oregon local government can give to a bond investor.

However, in recent years, the question of whether general obligation bonds, like Oregon local government general obligation bonds, are as fully secured in a fiscal distress context – specifically a bankruptcy context – has arisen. In the Detroit bankruptcy, for example, an initial plan proposed treating similar general obligation bond holders as unsecured creditors.

Because of the developments in the bankruptcy/fiscal distress contexts , the industry has started to examine general obligation bond credits across the country to ascertain whether they are vulnerable to the possibility of reduced returns, particularly under a Chapter 9 bankruptcy context.

It appears that the creation of a statutory lien of tax revenues may create more protection for those tax revenues under a Chapter 9 bankruptcy.

While Chapter 9 bankruptcy is not authorized for Oregon local governments (except for 1 or 2 specific types of special districts), the uncertainty placed on general obligation bond credits created by the situations across the country may place a question in the minds of potential investors and rating agencies of how secure an Oregon local government general obligation bond really is.

While the statutes currently dedicate the tax revenues raised by a GO bond levy to the payment of GO bond debt service, they do not specifically create a statutory lien. Because the statutory lien seems to be the legal treatment that mollifies any question related to GO bond security, we believe it is important to create such a statutory lien in order to continue, and strengthen, the strong credit treatment that Oregon local governments enjoy for their GO bonds. This, of course, results in lower interest rates and lower debt service paid by Oregon tax payers.