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Post Platte Default: Sell All Your Appropriation-Backed Municipal Bonds?

The failure of Platte County, Missouri to appropriate funds to pay debt service on the Zona Rosa Retail Project raised questions as to the enforceability of the security pledge of appropriation bonds in general in the municipal bond market.

Appropriate Appropriation

Municipal borrowers' issue annual appropriation-secured debt to fund various projects for numerous reasons. The central reason is that annual appropriation debt is not general obligation debt. It doesn't count against the general obligation debt caps, constitutional, or statutory limits most municipalities have. Not being directly secured by property taxes, there is no immediate economic consequence to residents.

Equally, there may be other revenues pledged to pay debt service. In Platte County, it was expected the sales taxes from the Zona Rosa shopping area would cover debt service. The appropriation was viewed as a back-stop security.

Continue reading.

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by Barnet Sherman

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