

House Research Act Summary

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TOPIC: Public Finance Bill

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Analyst: Joel Michael, 651-296-5057

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Overview

This Act makes a number of changes related to financing of local and state government facilities. It:

Authorizes the Metropolitan Council to issue an additional \$19.4 million of transit bonds.

Provides a state guarantee program for general obligation bonds of counties.

Extends the sunsets of the special service district authority by three years.

Authorizes cities to establish programs to replace heating equipment for property owners whose district heating service is discontinued.

Permits the cities of Minnetonka and Shorewood to opt-out of the metropolitan transit system and establish replacement transit systems.

Regulates competitive bidding for the 800 MHz radio contract.

Appropriates \$354,000 to the Commissioner of Revenue to administer provisions of the 2000 omnibus tax bill.

- 1 **Investment powers, joint powers trusts.** Expands the permissible investments of a Minnesota joint powers investment trust to be the same as those permitted for other government entities.
- 2 **Airport bonds, referendum exemption.** Authorizes municipalities to issue airport bonds without an election if three requirements are met.
 - The governing body of the municipality estimates that the airport revenues pledged to the bonds will equal at least 20 percent of the debt service per year.
 - The project receives a federal grant.
 - The principal amount of the bonds are 25% or less of the amount of the federal. grant.
- 3 **State payment of county debt upon default.** Authorizes the state to guarantee payment of county debt obligations upon potential default. This provision was largely modeled on a law that applies to school districts. The program is administered by the public facilities authority (PFA) and the commissioner of finance. (The school district program is administered by the

commissioner of children, families and learning.)

Eligible debt. To be eligible debt obligations must be:

General obligations issued after June 30, 2000;

Covered by an agreement between the county and PFA meeting requirements established by PFA; and

Used to finance jails, correctional facilities, law enforcement facilities, social services or human services facilities, and solid waste facilities.

APA exemption. PFA and the commissioner of finance's procedures and requirements law are not subject to the administrative procedure act.

Required agreement. The agreement must provide for deposit of debt service payments with the paying agent 3 days before the payment is due and for the county to notify PFA if the county will be unable to timely make the full payment. In addition, the agreement or the bond resolution must provide for the paying agent to notify the commissioner if it becomes aware of a default or potential default. The agreement remains binding as long as the bonds are outstanding.

Act a contract. The act pledges that it is a binding contract as long as the bonds are outstanding.

Procedures on default. If the PFA receives notice of a default or potential default, it will notify the commissioner of finance. The commissioner would, then, authorize PFA to make the debt service payment. An open and standing appropriation funds these payments.

County repayment obligation; interest rate. If the state makes payments under the guarantee, the county must repay these amounts with interest. The county's obligation is backed by its full faith and credit. Interest is calculated at the state's rate for invested treasurer's cash. This is the rate at which the state earns interest on its cash investment and, thus, is a taxable rate.

Repayment of state through aid reduction. If the state pays principal or interest on a county's debt obligation, it may reduce any of the following aids paid to the state to recover the amount of the payment:

the homestead and agricultural credit aid

disparity reduction aid

county criminal justice aid

family preservation aid

If PFA reviews the financial situation of the county and determines that a total reduction of the aids would cause an undue hardship on the county, it may, with the approval of the commissioner, establish a different schedule for the aid reductions to repay the state.

Repayment of state through levy. If the PFA approves, the county may levy an amount necessary to repay the state with interest. The proceeds of this levy will be used to repay the amount paid by the state, rather than having the county's aids reduced. If the state is not repaid in full by November 30 of the calendar year after the year in which it made the payment, the PFA will require the county to certify a property tax levy to make repayment. To avoid undue hardship, the commissioner may allow the county to spread this levy over five years. The levy increases the levy limit of the county for the purposes of the truth-in-taxation process and must be explained as a specific increase at the truth-in-taxation meeting.

Mandatory plan. If the state makes payments on behalf of a county, the county must submit a plan to the commissioner for approval, specifying how it will resolve the issues that lead to its inability to make the payments and to avoid future default. If the commissioner determines the plan is inadequate, the state will make no future payments under this section for new debt obligations.

4 **Special service districts.** Extends the general law authority to establish special service districts

from June 30, 2001, to June 30, 2005. Under prior law, after June 30, 2001, a special authorizing law would be require to establish a special service district.

5 **Special assessment bonds, Internet access.** Permits the issuance of assessment bonds for Internet access and other communications purposes, but only if the city council finds that the services provided through these facilities would not be available through the private market or other providers.

6 **District heating system.** Provides authority to finance replacement heating systems for cities that are discontinuing all or part of a steam district heating system. This authority supercedes any contrary provisions in charter or law and supplement any other city powers.

7 **Policy; purpose.** Finds it is in the public interest for cities to provide replacement heating and install energy conservation equipment for owners of property whose district heating service is discontinued.

8 **Definitions.** Defines:

City. Includes any city, however organized, acting either through its city council or public utility commission.

Replacement heating system improvement. Includes furnaces, boilers, and similar equipment, and related equipment, duct work, and control mechanisms for providing heating, ventilation, and air conditioning.

Energy conservation improvement. Means improvements increasing energy efficiency up to a cost of \$20,000 if recommended by an energy audit. This specifically includes, but is not limited to, insulation, storm windows and doors, thermal windows, caulking and weatherstripping, and thermostats or lighting controls. The term does not include creation or conversion of energy from renewable resources.

Program. Means a statement of goals, procedures, eligibility standards, and financing for installing improvements.

Improvement. Includes both replacement heating system and energy conservation improvements.

9 **Program.**

Subd. 1. After notice and hearing. Requires reasonable notice and hearing before the city may adopt a program.

Subd. 2. Elements. Requires the program to contain at least:

kinds of properties eligible for assistance;
procedures for accomplishing improvements;
methods of financing improvements; and
city agency responsible for program.

Subd. 3. Delegation. Allows the city council to delegate responsibility for the program to public utilities commission or board.

10 **Installing the improvements.**

Subd. 1. Methods. Authorizes the city or property owner, subject to city approval, to contract for work and materials. The city may contract with the owner to install an improvement, but it may not pay an owner for the owner's labor.

Subd. 2. Inspection and certification. Program may provide for city inspection of improvements made.

Subd. 3. Competitive bids. City must comply with competitive bidding laws when contracting for work and materials.

- 11 **Payments; financing.** Provides financing may include one or more of these methods:
- Cash.** The city may allow the owner to pay cash after installation of the improvement. Under this option the owner must deposit 90 percent of improvement price with the city or secure a written commitment from a financial institution to lend the full amount of price.
 - Promissary note.** City may accept a promissary note from a property owner at the interest rate specified by the program, payable within ten years.
 - Lien as security.** Unpaid amounts are liens on the real property on which improvements are made. The city may certify the entire amount due to the county auditor for collection as unpaid property taxes, if payment not made according to the terms of the agreement.
 - Special assessments.** At the request of the property owner, the unpaid cost of installing an improvement may be assessed against the property. An ordinance allowing special assessment under this subdivision is not required, and cost must be paid within ten years.
- 12 **Financing; obligations.** Authorizes the city to issue revenue or general obligation bonds to finance the cost of the improvements. General obligations may be issued only if pledged revenues equal at least 105 percent of the amount necessary to pay principal and interest when due.
- 13 **City of Virginia.** Authorizes the city of Virginia to discontinue its steam heating system with approval of the city council. Prior law explicitly prohibited Virginia (and two other cities) from discontinuing its steam district heating system.
- 14 **Transit bonds.** Increases the Metropolitan Council's bonding authority for transit capital expenditures by \$19.4 million (from \$36 million to \$55.4 million). The authority to issue \$36 million was provided in the 1999 session. These bonds may not be used for light rail transit purposes. The bonds are backed by metropolitan area property taxes.
- 15 **Residential rental bonds.** Allows use of the proceeds of residential rental bonds for rehabilitation of all types of existing buildings. Prior law limited this use to rehabilitation of existing multifamily buildings.
- 16 **Variable interest rate bonds.** Expands the authority to issue variable revenue bonds in two ways:
- Cities with populations under 7,500 could issue them. These cities would continue to be prohibited from issuing general obligation variable rate bonds.
 - Bonds rated lower than A could be issued. The prohibition on issuing general obligation variable rate bonds would continue in effect.
- This section also eliminates obsolete references to the repealed limit on bond interest rates and clarifies that the levy is based on an estimate of the interest, rather than the maximum rate. This is present practice, since the maximum rate was repealed over 15 years ago.
- 17 **UCC exemption.** Provides that Article 9 of the Uniform Commercial Code does not apply to security interests created by a municipality or the state, other than to security interests in equipment and fixtures.
- 18 **County EDA.** Makes a correction to the county EDA law enacted by the 2000 legislature to provide that distance is measured from the boundary, rather than the "radius of the extraterritorial parcel."
- 19 **County EDA, clarification.** Makes a corresponding change, to be consistent with the change in section 18.
- 20 **Appropriation.** Extends through June 30, 2001, the appropriation of oil overcharge moneys for development of a trail in St. Louis and Lake county. Any unspent amount of this \$150,000

appropriation had expired on December 31, 1999.

- 21 **Transit opt-out; Minnetonka and Shorewood.** Authorizes the cities of Shorewood and Minnetonka to establish replacement service programs (opt-out transit service) if they apply for assistance or exercise the local levy option before June 30, 2003.
- 22 **800 MHz radio contract.** Requires contracts on the 800 megahertz trunked radio network to be let on a competitive basis. The network and radios on the system must meet open interoperability standards. Enhanced features that would affect interoperability may not be accepted.
- 23 **Effective date, district heating.** Provides the district heating provisions, including those relating to the city of Virginia, are effective without local approval.
- 24 **Application.** Provides that the transit bond provision applies in the seven county Twin Cities metropolitan area.
- 25 **Repealer.** Repeals the limitation on Metropolitan Council planning assistance grants to not more than 75% of the cost of a project.
- 26 **Appropriation.** Appropriates \$354,000 to the commissioner of revenue for the purpose of administering the income tax, property tax, and special taxes article of the 2000 omnibus tax bill.