

HOUSE RESEARCH

Bill Summary

FILE NUMBER: S.F. 3730
Version: Conference Committee Report
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Subject: Public Finance Bill
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DATE: May 17, 2000

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Overview

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

Authorizes the Metropolitan Council to issue an additional \$19.4 million of transit bonds.
Authorizes cities to establish programs to replace heating equipment for property owners whose district heating service is discontinued.
Provides a state guarantee program for general obligation bonds of counties.
Extends the sunsets of the special service district authority by three years.
Permits 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 bonds for the construction or improvement of an airport without an election if three requirements are met.
 - the governing body of the municipality estimates that passenger facility charges and other revenues pledged to the debt service will be equal to at least 20 percent of the debt service on the bonds in any year; and
 - the project receives a federal grant; and
 - the principal amount of the bonds are 25% or less of the amount of the federal grant.Under present law, these bonds may be issued without voter approval if 60 percent of the governing body of a joint board approves, as well as 60 percent of the members of each

municipality that is a party to the joint powers agreement. There is no exemption for airports operated by a single municipality.

- 3 **State payment of county debt upon default.** Authorizes the state to guarantee payment of county debt obligations upon potential default. This provision is modeled on a law that is currently in effect for 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 correctional facilities, law enforcement facilities, social services or human services facilities, solid waste facilities, courthouses, administrative buildings, roads, and bridges.

Procedures on default. If a county determines that it cannot pay the debt service on an outstanding debt obligation, it would notify PFA. After the PFA investigates the information provided by that county, it notifies the commissioner of finance of the potential default. The commissioner of finance would, then, authorize PFA to make the debt service payment that is due. An open and standing appropriation is made to fund these payments PFA and the commissioner of finance's procedures and requirements law are not subject to the administrative procedure act. The act pledges that it is a binding contract as long as the bonds are outstanding.

Repayment of state through aid reduction. If the state pays principal or interest on a county's debt obligation at the request of the county, the pledge of the full faith and credit and taxing powers of the county to repay the principal and interest due on those debt obligations will become a pledge to repay the state with interest. If the state has made such a payment, it may reduce the homestead and agricultural credit aid, disparity reduction aid, county criminal justice aid, and family preservation aid payments to the county by the amount of the payment of the county's debt under this provision. 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 of finance, establish a different schedule for the aid reductions to repay the state.

Repayment of state through levy. If the PFA approves, a county may levy an amount necessary to repay the state with interest. The proceeds of this levy may be used to repay the state the amount advanced, rather than having the county's aids reduced. If the state is not repaid in full by November 30 of the calendar year following the year in which the state makes the payment, the PFA will require the county to certify a property tax levy in the amount necessary to provide funds for 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 under this provision, the county must submit a plan to the commissioner for approval, specifying the measures it intends to implement to resolve the issues that lead to its inability to make the payments and to avoid future default. If the commissioner determines that a county's plan is inadequate, the state will make no future payments under this section for new debt obligations. If the commissioner of finance determines that the credit rating of the state would be adversely affected by this process,

the state would not obligate itself to be bound by it.

4 **Special service districts.** Extends the general law authority to establish special service districts from June 30, 2001, to June 30, 2005. Under present 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 the new statutory provisions:

Apply to cities owning and operating a district heating system either directly or by a utility commission, which are discontinuing the district heating system in whole or in part.

Supersede any contrary provisions in charter or law.

Are supplemental to other powers in charter or law.

7 **Policy; purpose.** Makes finding that it is in public interest to authorize cities to provide replacement heating and install energy conservation equipment for owners of property whose district heating service is discontinued. Funds spent are for a public purpose.

8 **Definitions.** Defines the following terms:

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. Includes, but not limited to, insulation, storm windows and doors, thermal windows, caulking and weatherstripping, and thermostats or lighting controls, up to a cost of \$20,000 if recommended by an energy audit. 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 described in subdivisions 3 and 4.

Improvement. Includes improvements under both subdivisions 3 and 4.

9 **Program.**

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

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

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

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

10 **Installing the improvements.**

Subd. 1. Methods. Authorizes city or property owner, subject to city approval, to contract for work and materials. Authorizes city to contract with an owner for 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.**

Subd. 1. Financing. Financing may include one or more of the methods below.

Subd. 2. Cash. City may contract for property owner to pay cash after installation of improvements, if owner deposits 90 percent of improvement price with the city or secures written commitment from a financial institution to lend full amount of price.

Subd. 3. Promissary note. City may accept promissary note from a property owner at the interest rate specified by the program, payable within ten years.

Subd. 4. Lien as security. Lien on the real property on which improvements are made secures payments under subdivisions 2 and 3. City may certify entire amount due to the county auditor for collection if payment not made according to terms.

Subd. 5. Special assessments. At the request of the property owner, unpaid cost of installing an improvement may be special 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 installing the improvements. General obligations may not be issued, unless pledged revenues equal at least 105 percent of the amount necessary to pay principal and interest when due.

13 **City of Virginia.** Provides that city of Virginia is considered compliant with statutory provisions for discontinuing steam heat.

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 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; current law limits 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 to provide that distance is measured from the boundary, rather than the "radius of the extraterritorial parcel."

19 **County EDA, clarifying.** Makes a corresponding change, to be consistent with the change in section 19.

- 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 a 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 and enhanced features that would affect interoperability may not be accepted.
- 23 **Application.** Provides that the transit bond provision applies in the seven county Twin Cities metropolitan area.
- 24 **Effective date, district heating.** Provides the district heating provisions, including those relating to the city of Virginia, are effective without local approval.
- 25 **Repealer.** Repeals the limitation that Metropolitan Council planning assistance grants to no 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.
- 27 **Effective date, radio contract.** Provides sections 1 (joint powers board's investment powers) and 23 (800 MHz radio contract rules) are effective the day following final enactment.