HOUSE RESEARCH

Bill Summary

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Subject: Certificates of Indebtedness of cities, counties, and towns

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Overview

This bill provides authority for cities, counties, and towns to issue emergency debt certificates to finance unexpected revenue shortfalls that occur during the fiscal year, such as state aid cuts, unexpected tax delinquencies, reductions in receipts from fees, and so forth. The governmental units would repay the certificates with increased property tax levies in the following year or years. Issuance of the certificates is exempt from referendum approval and net debt limits.

Section

1 **Truth-in-taxation levy.** Allows a city or county to increase its truth-in-taxation levy by the amount of its levy for the emergency debt certificates, if certificates were issued after the proposed truth-in-taxation levy had already been certified. This would, for example, allow levying to pay the certificates in the next year, when they are issued in October, November, or December (i.e., after the proposed truth-in-taxation levy has already been set).

2 **Election requirement.** Allows emergency debt certificates to be issued without voter approval.

3 **Emergency debt certificates.** Authorizes a city, county, or town to issue emergency debt certificates if both of the following occur in a fiscal year:

- The governmental unit’s current year revenues are expected to be reduced below their budgeted amounts (i.e., the amount set in the budget used to set the property tax levy)

- The reduction is so large that current year expenses will exceed current year receipts.

This authority, for example, would be triggered by a mid-year reduction in state payments of Local Government Aid, County Program Aid, or reimbursements of market value credits, such as the 2008 unallotments or the proposed cuts in FY2010 state aid in the Governor's budget recommendations. Or it could be triggered by an unexpectedly high level of property tax delinquencies or a drop in receipts from fees for issuing building permits and similar.

The maximum amount of certificates that may be issued is limited to the expected reduction in receipts, plus the costs of issuance. The certificates must mature (be paid off) within two years of the end of the fiscal year in which they were issued. The certificates are excluded from net debt limits.

Under the A1 amendment, the levy limit of a governmental unit issuing emergency debt certificates is adjusted to prohibit it from exercising special levy authority (outside levy limits) for amounts funded with the certificates. Since levies to repay bonded debt (including the emergency debt certificates) are special levies, this prevents a city or county from both receiving an additional direct levy for the same aid reduction.