

# HOUSE RESEARCH

## Bill Summary

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### Overview

H.F. 2037 contains public finance provisions, the contents of H.F. 2506 (Bond Allocation Funds), and other miscellaneous local finance provisions.

Makes a variety of changes in the powers of local governments to issue bonds or incur other forms of debt.

Extends the sunset on Capital Improvement Program (CIP) bonds to July 1, 2008.

Makes changes to county hospital borrowing authority and board membership.

Permits Hennepin County to include multi-jurisdictional program activities in its CIP and issue bonds for improvements related to activities.

Grants Scott and Carver County HRA's the statutory powers of an economic development authority (EDA).

Authorizes the Chisago Lakes joint sewage treatment commission to issue and sell general obligation bonds for the wastewater treatment facility.

Authorizes Hassan township to establish an EDA (with same powers as a city EDA).

Updates and amends the statute governing allocation of the state's tax-exempt bonding authority. Under the 2000 federal law change, Minnesota will have \$368,961,000 in tax-exempt bonding authority in 2002, compared to \$238,775,000 in 2000. The chart below compares distribution of the tax-exempt bond volume cap among various uses in 2000 with the distribution proposed in the bill.

	<b>Percentage of total volume cap in 2000</b>	<b>Proposed percentage of total volume cap in 2002</b>
Small issue pool	27.0%	20.2%
Reservation for student loans within the small issue pool		2.7%

Housing pool	25.3%	33.0%
Reservation for homeownership within the housing pool	15.5%	10.0%
Public facilities pool	4.5%	3.5%
MHFA	22.9%	23.0%
Minneapolis	9.0%	9.0%
St. Paul	6.8%	6.8%
Dakota	4.5%	4.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Minnesota Housing Finance Agency, April 2001

- 1 **Lake improvement districts, financing powers.** Authorizes lake improvement districts to act as cities under the special assessment and waterworks financing laws. This will enable the districts to assess benefitted properties, levy charges for water and sewer services, issue special assessment bonds or other bonds. The district's exercise of this power would require specific county board approval.
- 2 **County road and bridge bonds.** Requires county road and bridge bonds to be general obligations of the county. (The law likely intended that these bonds could be general obligations, since it exempts the bonds from the referendum requirement. If the bonds were revenue bonds, they would not be subject to the referendum requirement and an exemption would be unnecessary.)
- 3 **Ballot question.** Permits local government bond issuers to provide information on the revenues pledged to the bonds in ballot questions for referendum approval of the bonds.
- 4 **Capital improvement; definition.** Clarifies that capital improvement does not include commuter rail or busway.
- 5 **County CIP bonds.** Extends the sunset on county capital improvement program bonds from July 1, 2003, to July 1, 2008. CIP bonds are not subject to the referendum approval.
- 6 **State guaranty of county bonds.** Clarifies that the state guaranty of county bonds (enacted in 2000) is not state general obligation debt. The law contains an open and standing appropriation to pay amounts under the guaranty. The constitution requires spending to be made pursuant to an appropriation by law. Under judicial interpretations of this requirement, a future legislature could repeal or limit this open and standing appropriation.
- 7 **Procedure, powers, pay, election.** Modifies requirements for membership on a hospital board of a county hospital, by striking a requirement that board members must be county residents and landowners and instead (1) requiring 80% of the board to be county residents; (2) requiring all board members to be residents of the hospital's service area; and (3) allowing county commissioners to serve on the board, except as otherwise provided. Permits the county board to lease hospital grounds and buildings to a nonprofit or governmental organization. Eliminates a requirement that prohibits county boards from buying and constructing hospital buildings without approval from a majority of the people.
- 8 **Addition to county hospital.** Strikes language requiring a vote of county residents or a petition from county residents to authorize a county board to spend money to complete a hospital addition or to make changes or add equipment to a hospital as part of a previously authorized hospital improvement, and authorizing a county board to proceed with a project after authority to do so is granted by the voters. Instead, permits the county board to authorize projects and provides that financing for projects is governed by other laws, which in part permit county boards to proceed with these projects without authorization from voters.

- 9 **Appropriation (cross reference).** Adds a cross reference to the new subdivision added by section 12. This clarifies that the \$65,000 annual appropriation limit does not apply to the bonds authorized by section 12. Allows a county to appropriate general fund money of the county for hospitals in the county, including public or nonprofit hospitals.
- 10 **Remodeling or additions.** Provides that if a county hospital has been leased to another entity, the board of directors of the leasing entity is the body that may vote to add onto the facility, remodel it, or acquire equipment for it without complying with certain dollar limitations (\$65,000) or referendum requirements. Also specifies that this subdivision applies to projects funded through revenue bonds issued to finance the acquisition or improvement of a hospital.
- 11 **Limitation on hospital capacity (cross reference).** Adds a cross reference to the new subdivision added by section 12. This clarifies that the bonding authority under section 12 does provide an exemption from the restriction on hospital capacity (e.g., requirements to obtain a certificate of need).
- 12 **Hospital bonds, referendum exemption.** Allows a county board to authorize a hospital project without a referendum, if one of the following is done:
  - A referendum is held under the bond code (chapter 475).475).
  - The bonds are issued under the capital improvement program (CIP) law. The CIPCIP law allows bonds to be issued without a referendum.
  - The bonds are revenue bonds issued under the municipal housing district law. Issuance of revenue bonds is generally not subject to voter approval.
- 13 **Aid to hospitals in counties having no county hospital.** Allows a county board to appropriate money from the county's general fund for the maintenance and operation of a nonprofit or public hospital in the county, in counties where a county hospital is leased to a nonprofit or governmental hospital organization.
- 14 **Hennepin county; financing multijurisdictional programs.** Permits Hennepin county to include multijurisdictional program activities in its capital improvement program (CIP) and issue bonds for improvements related to the activities, whether or not the improvements would be owned by Hennepin county or another governmental entity. Issuance of the bonds would be subject to the same terms and conditions as other bonds issued for CIP purposes under section 373.40, which requires a two-thirds vote of the county board and public notice, and is subject to a reverse referendum.

Prohibits the county from using this authority to finance LRT, commuter rail, or any activity related to either of those, or to finance a sports facility building designed or used primarily for professional sports. Also provides that the funds appropriated may not be used to pay any operating expenses.
- 15 **Metro transit bonds.** Allows the council to issue certificates of indebtedness, bonds, or other obligations up to \$44,000,000 for capital expenditures for the council's regional transit master plan and transit capital improvement plan. Specifically excludes any cost for construction, maintenance, or operation of light rail transit, commuter rail, or busways.
- 16 **Federal tax law.** Updates references to IRS code.
- 17 **Small issue pool.** Authorizes student loan bonds as an eligible use in the small issue pool.
- 18 **Public facilities pool.** Deletes authorization for student loan bonds out of the public facilities pool.
- 19 **Public facilities project.** Adds nonprofit district heating and cooling organizations to the definition of public facilities pool.
- 20 **Qualified bonds.** Clarifies that qualified loan bonds are those issued by Higher Education Services Office (HESO).
- 21 **Under federal tax law; allocations.** Changes the allocation amount the small issue, housing, and public facilities pools based on the amount available for calendar year 2002. Also delays the date for the reserved dollars in the single-family housing programs from the first Monday in February to the

last Monday in July.

- 22 **Entitlement issuer allocation.** Updates the dollar amounts for the allocations amount the entitlement issues. The proportionate shares do not change. This section also requires entitlement issuers to provide to the MHFA demographic data on the households served. Submission of this data is already required of cities participating in the housing pool. (Minn. Stat. § 474A.061, subd. 2a(b)(3).)
- 23 **Application fee.** Requires application fees to be paid no later than when the first notice of issuance is submitted.
- 24 **Entitlement reservations; carryforward; deduction.** Extends the period of time in which entitlement issuers must use their carryforward from July 15 to last business day in December. Penalty reductions will be reallocated to the pools and the other entitlement issuers on a pro-rata basis.
- 25 **Notice of entitlement allocation.** Authorizes notices of entitlement allocations to be posted on the department of finance's web site and eliminates the written notice.
- 26 **Scoring system for enterprise zone facility projects and manufacturing projects.** Revises the scoring system of small issue and enterprise zone facility projects. The revised scoring system takes into account land use efficiency, brownfields, and environmental compliance record.
- 27 **Eligibility (residential rental bonds).** Eliminates the state-imposed restrictions on the use of tax exempt bonds for rental projects. Rental projects will need to meet the income restrictions under federal law and 20 percent of the units must have rents at or below the HUD-established fair market rents.
- 28 **15-year agreement (residential rental bonds).** Clarifies the scope of the 15-year agreement required on rental projects (on the rent restricted units).
- 29 **Application.** Clarifies the information that must be in a bond allocation application.
- 30 **Housing pool allocation.** Makes several changes to the housing pool:
  - extends the period of time in which rental projects may access the housing pool from January 1 through the first Monday in February to the second Tuesday in January and then each Monday through July 15;
  - provides no allocation shall be made to rental projects which are restricted to persons 55 years or older to until after May 15;
  - moves forward the single-family (homeownership) portion of the housing pool from February to January;
  - allows homeownership a second access to the housing pool after July 15;
  - allows entitlement issuers access to the housing pool for rental projects; and
  - provides that cities whose allocation was \$100,000 and who failed to use at least 50 percent of the allocation in the previous year, are ineligible for an allocation in the immediate succeed calendar year.
- 31 **Small issue pool allocation.** Reserves \$10 million in the small issue pool for standard loan bonds beginning in 2002. Also makes the date changes to the small issue pool and allows enterprise zone facility projects to access the small issue pool.
- 32 **Public facilities pool allocation.** Amends the public facilities pool and reduces Western Lake Superior Sanitary District's set aside from \$5 million to \$3 million.
- 33 **Return of allocation; deposit refund.** Makes the return of allocated and deposit refund provisions apply to MHFA and RFA (Rural Finance Authority).
- 34 **HESO 120-day issuance exemption.** Exempts HESO from the 120-day issuance requirement and allows HESO to carry forward up to \$25 million into three successive calendar years.

- 35 **Application.** Amends the unified pool provisions to clarify the bond counsel statements needed in an application for rental projects. Changes the restriction on MHFA's access to the unified pool from after September 1 to after the first Monday in October.
- 36 **Allocation procedure.** Changes the priorities in the unified pool:
- rental projects and small issue projects have first and second priority between August 1 and October 1;
  - student loans and mortgage bonds have first and second priority October 1 to the end of November;
  - provides that the scoring system in the small issue pool applies where there are insufficient funds to allocate to all enterprise zone applicants;
  - provides that the preferences in the housing pool apply when there are insufficient funds to allocate to rental project applicants;
  - sets a \$10 million per year ceiling for HESO out of the unified pool.
- 37 **Unified pool allocation for single family housing bonds.** Provides for allocations of the unused authority in the unified pool on October 1<sup>st</sup> to mortgage bonds for single family housing programs. MHFA receives this allocation, less the amounts for self-issuing cities and counties. Cities must apply in January to have access to this money. Allocations to self-issuing local units will be made under the formula in the housing pool. Allocations through MHFA will be made weekly through the end of November on a first-come-first-served basis to applicants. Entitlement issuers would not be allowed to access the unified pool for mortgage bonds.
- 38 **Remaining bond authority.** Changes a title from "mortgage bonds" to "remaining bonding authority."
- 39 **Return of allocation; deposit refund.** Makes the return of allocation and refund deposit provisions of the unified pool apply to MHFA and RFA.
- 40 **Final allocation; carryforward.** Allows MHFA to carry forward unissued bonding authority on the last business day of December, without notice to the department of finance.
- 41 **Notice of issue.** Requires entitlement issuers to notify the department of finance whether a bond issue is of current authority or carry forward authority.
- 42 **Deadline for issuance of qualified bonus.** Sets a deadline for notifying the department of finance about bond issuances. Provides that failure to notify the department by the last business day of December cancels the bond allocation and that authority is transferred to the MHFA for carryforward.
- 43 **Carryforward notice.** Sets a 4:30 p.m. deadline (last business day in December) for notice of carryforward.
- 44 **Notice of available authority.** Requires the department of finance to post at its web site notify of available authority (rather than publishing in the State Register).
- 45 **In installments; exception; annual limit (minimal principal payments).** Provides a more flexible rule governing the minimum amount of principal of a bond issue that must be paid in each year for longer maturity bond issues. Under present law, a "5 times rule" applies. This rule prohibits payment of more principal in any year than 5 times the small amount of principal paid in a year (other one of the first three years). The section allows substituting a "6 times rule" for issues with maturities of 25 years or more.
- 46 **Approval by electors; exceptions.** Provides that whenever a law authorizes a municipality to issue obligations without an election, the issue is subject to the reverse referendum requirements in section 48.
- 47 **Resubmission limitation.** Provides that reverse referendum on a bond issue that fails may not be

submitted to the voters again within 180 days.

48 **Reverse referendum requirement.** Provides that authority in general or special law for a city, county or town to issue general obligation bonds without an election under section 475.58, subdivision 1, clause (6), is subject to reverse referendum.

49 Amending Laws 1974, chapter 473 (all sections).

**Sec. 1. Scott county housing and redevelopment authority.** Updates statutory references relating to the statutory powers of a housing and redevelopment authority (HRA). Provides that the Scott county HRA may exercise the powers of an economic development authority (EDA) to the extent the county board grants the HRA those powers.

**Sec. 2. Application.**

**Subd. 1.** Repeals provision prohibiting the county from exercising its jurisdiction in a municipality with a municipal HRA.

**Subd. 2.** Updates statutory references relating to the statutory powers of an HRA.

**Sec. 3. Municipal Approval.** Unchanged.

**Sec. 4. Economic development authority powers.** Authorizes the Scott county HRA to exercise any powers of an EDA that are granted to it by resolution of the county board, except for the authority contained in statute for a local jurisdiction to levy a tax of up to 0.01813 percent of taxable market value on behalf of an EDA. Changes the maximum amount the county may levy as a special tax on behalf of the HRA from 0.0144 percent of taxable market value to 0.01813 percent of taxable market value.

**Sec. 5. Effective date; local approval.** Updates the effective date and local approval section. Effective the day after local approval.

50 Amending Laws 1980, chapter 482 (all sections).

**Sec. 1. Carver county housing and redevelopment authority.**

**Subd. 1.** Updates statutory references relating to the statutory powers of a housing and redevelopment authority (HRA). Provides that the Carver county HRA may exercise the powers of an economic development authority (EDA) to the extent the county board grants the HRA those powers.

**Subd. 2.** Repeals provision prohibiting the county from exercising its jurisdiction in a municipality with a municipal HRA.

**Sec. 2. Economic development authority powers.** Authorizes the Carver county HRA to exercise any powers of an EDA that are granted to it by resolution of the county board, except for the authority contained in statute for a local jurisdiction to levy a tax of up to 0.01813 percent of taxable market value on behalf of an EDA. Changes the maximum amount the county may levy as a special tax on behalf of the HRA from 0.0144 percent of taxable market value to 0.01813 percent of taxable market value.

**Sec. 3. Municipal Approval.** Unchanged.

**Sec. 4. Effective date; local approval.** Updates the effective date and local approval section. Effective the day after local approval.

51 **Chisago Lakes joint sewage treatment commission; bonding authority.**

**Subd. 1. Authority.** Permits the Chisago Lakes Joint Sewage Treatment Commission, a joint powers board created by Chisago county, and the cities of Lindstrom, Chisago City and Center City to own and operate a wastewater treatment facility, to issue and sell general obligation bonds to acquire land for, construct, expand, furnish, equip and modify its facilities. The bonds would be backed by the taxing authority of the governmental units that are members of the joint powers board.

Requires each member governmental unit of the joint powers board to adopt a resolution

authorizing the joint powers board to issue and sell the bonds.

**Subd. 2. Effective date.** Effective the day after final enactment, without local approval.

**52 Hassan township; economic development authority; establishment and powers.**

**Subd. 1. Establishment.** Authorizes Hassan township to establish an economic development authority (EDA). Under general law, only cities may establish EDAs. The Hassan township EDA would have all the powers available to EDAs established by a city under general law. In addition, the Hassan county EDA would have broader authority to establish economic development districts. City EDAs are limited to establishing these districts in contiguous areas that meet the "blight test" for redevelopment districts under tax increment financing law. The township EDA could establish noncontiguous districts anywhere in the township, except that if a district is to be established within a city, the city council must approve the project.

**Subd. 2. Powers.** Grants the township EDA all the powers relating to a city EDA, including the authority to levy up to 0.01813% of taxable market value.

**Subd. 3. Local approval.** Effective upon local approval by the town board.

**53 Repealer.** Repeals provision relating to the deadline for notifying the department of finance of bond issuances.

**54 Effective date.** Sections 16 to 44 are effective the day after final enactment, except that the part of section 22 requiring an entitlement issuer to submit demographic data to the MHFA is effective for submissions due annually beginning December 3, 2002.