Overview

This bill makes a number of changes in the authority of local governments to issue bonds and incur debt. Conduit type bonds are exempted from the business subsidy reporting law. A state guarantee program for county bonds is provided. Cities are authorized to issue capital improvement bonds without voter approval, similar to the county authority. The sunsets of the special service districts and housing improvement districts are extended by three years.

1 **Business subsidy disclosure.** Exempts from the law requiring reporting on business subsidies bonds that are issued to refund outstanding bonds and bonds that are issued for the benefit of a 501(c)(3) organization.

2 **Airport bonds, referendum exemption.** Authorizes municipalities to issue bonds for the construction or improvement of an airport without an election if 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. Under present law, these bonds may be issued without voter approval if 60 percent of the governing body of joint board approves, as well as 60 percent of the members of each municipality that is a party to the joint powers agreement.

3 **State payment of county debt upon default.** Authorizes the state to assume responsibility for 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 commissioner of revenue, in consultation with 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 obligation bonds that are issued for 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 the commissioner of revenue. After the commissioner of revenue investigates the information provided by that county, the commissioner notifies the commissioner of finance of the potential default. The commissioner of finance would, then, authorize the commissioner of revenue to make the debt service payment that is due. An open and standing appropriation is made to fund these payments. The departments of revenue and finance must develop procedures to be used in this process. These procedures are not subject to the administrative procedure act.

**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 will reduce the homestead and agricultural credit aid, disparity reduction aid, county criminal justice aid, and family preservation aid payable to the county by the amount of the payment of the county's debt under this provision. If the commissioner of revenue reviews the financial situation of the county and determines that a total reduction of the aids would cause an undue hardship on the county, the commissioner of revenue 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 commissioner of revenue 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 commissioner of revenue 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.

**Pre-approval of county debt.** A county, before issuing debt obligations, may obligate itself to use the procedures in this section. It would include in its covenant an agreement to follow this process if there is a potential default in the payment of debt service. 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.

**Capital improvement bonds, cities.** Authorizes cities to enter into a capital improvement bonding program similar to CIP bonding program for counties.

**Referendum exemption.** Bonds that are issued under this provision would not be subject to the referendum requirements but must be approved by at least three-fifths of the members of the city council. Before a city issues bonds under this provision, it must publish a notice of its intention to issue the bonds and hold a hearing on the issue. Issuance of the bonds would be subject to a reverse referendum if a petition requesting a vote is signed by voters equal to five percent of the votes cast in the city in the last general election.

**Qualifying purposes.** The capital improvements bonds could be used to acquire or improve public lands, conservation easements, buildings, or other improvements within the city that are used for the purpose of an administrative or public safety building, library, parks, storm sewer, water, sanitary sewer, telecommunications facility, and roads and bridges. The improvement must have an expected useful life of five years or more. A capital improvement would not
include light rail transit or any activity related to it or a recreation or sports facility building, such as a gymnasium, ice arena, racquet sports facility, swimming pool, exercise room, or health spa unless the building is part of an outdoor park facility and is incidental to the primary purpose of outdoor recreation.

**Plan requirements.** To use this authority, the city must adopt a capital improvement plan covering a period of at least five years. The governing body must consider for each project and for the overall plan the condition of the city’s existing infrastructure and its projected needs for repair or replacement, the likely demand for and cost of the improvement, available public resources, the level of overlapping debt in the city, the relative benefits and cost of alternative uses of the funds, operating costs of the proposed improvements, and alternatives for providing services more efficiently through shared facilities with other local government units.

**Plan approval.** The city must submit its plan to the department of trade and economic development. The plan would not be effective if the commissioner disapproved the plan within 90 days after it was submitted. The commissioner may disapprove a capital improvement plan only if the commissioner determines that the planned improvements cannot be financed within the limits of the law, the city did not consider the factors required to be considered, the proposed improvements will result in unnecessary duplication of public facilities, or there is insufficient demand for the facility. If the plan is disapproved by the commissioner, but the governing body does not withdraw the plan, it must be submitted to the voters for approval. If a majority of the voters approve, the plan will take effect. The maximum amount of bonds that may be issued under this section is limited to the amount for which the principal and interest due in any year on all the outstanding bonds issued under this provision, together with the maximum amount of taxes payable in any year for debt service on all outstanding obligations of the city, will exceed 0.1 percent of the taxable market value of property in the city.

**Expiration.** The section expires for bonds issued after June 30, 2004.

5 **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.

6 **Housing improvement districts.** Extends the sunset for the self-executing provision in the housing improvement area law 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.

7 **Special assessment bonds, Internet access.** Permits the issuance of assessment bonds for Internet access and other communications purposes.

8 **Variable interest rate bonds.** Allows cities with populations under 7,500 to issue variable rate revenue bonds. These cities would continue to be prohibited from issuing general obligation variable rate bonds. This section also eliminates obsolete references to the repealed limit on bond interest rates.

9 **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.