HANDOUT #1

Agenda #1

February 2005

Minnesota
Department of Finance

February Forecast

Highlights

FY2005 Outlook Improves, Forecast Balance is $175 Million

The forecast for FY2005 revenues has increased by $157 million from November's estimate. When combined with changes in projected current law spending, a $175 million budget balance is projected for 2005. As in November, this balance is allocated by current law. The forecast balance first must replace $25 million taken from the budget reserve for FY2005 spending enacted in the current legislative session. The remaining $150 million must be used to further reduce school aid payment shifts.

Projected FY2006-07 Budget Gap Was $700 Million – Now $466 Million

General fund revenues for the 2006-07 biennium are now forecast to total $29.711 billion, $234 million (0.8 percent) more than November's estimate. Projected current law spending remains unchanged. The improved revenue outlook reduces the projected FY2006-07 budget shortfall from $700 million to $466 million.

Little Change in U.S. Economic Outlook

There were only small changes in Global Insight's baseline forecast for the U.S. economy. Real GDP growth rates for calendar 2005 through calendar 2007 remain just above 3 percent, the same as in November. There was no major change in the inflation outlook. The CPI is expected to increase at a 1.5 percent rate in FY2006 and a 1.8 percent rate in FY2007.

FY2008-09 Planning Estimates Improve Slightly

The small increase in revenues forecast for FY2006-07 carries forward into planning estimates for the following biennium. FY2008-09 biennial revenues are now projected to be $277 million more than November's estimate, while expenditures are expected to be $63 million higher. Revenues now are projected to exceed current law expenditures in FY2008 by $134 million and by $570 million in FY2009. The planning estimates do not include general inflation in FY2008-09 spending.

Budget Update and Outlook

Current Law Allocates $175 Million FY2005 Forecast Balance to Reserve and Shift Buy-Back

A balance of $175 million is now forecast for the end of FY2005. The revenue forecast is up $150 million. Net savings from forecast expenditure changes and action by the 2005 legislature add another $25 million.

FY2004-05 Forecast (Before Allocation)
($ in millions)

	November Forecast	Legislative Action	Forecast Changes	Revised Forecast
Beginning Balance	$ 369			$ 369
Revenues	28,673	6	150	28,829
Expenditures	28,039	31	(25)	28,045
Cash Flow Acct	350			350
Budget Reserve	653	(25)	---	628
Balance	**$ 0**	**---**	**---**	**$ 175**

The projected $175 million estimated balance is, as in November, allocated by current law to restore state reserves and buy back K-12 school payments shifts.

The $175 million projected balance is automatically distributed as follows:

- $25 million to restore the budget reserve to $653 million, replacing money used to fund FY2005 supplemental appropriations.
- $150 million to increase FY2005 education aid payments, changing the K-12 payment percentages to 84.3 and 15.7 percent.

After allocation, as in November, the ending balance now forecast for June 30, 2005 is zero.

FY2006-07 Budget Gap Reduced from $700 Million to $466 Million

The projected budget shortfall for FY2006-07 is now $466 million, down $234 million from November's estimate. Higher forecast revenues account for all of the change. Increases in current law spending resulting from legislative action in 2005 are almost completely offset by a corresponding decrease in forecast spending for FY2006-07.

FY2006-07 Forecast
Change from November 2004 Estimates
($ in millions)

	November	February	Difference
Revenues	$29,477	$29,711	$234
Expenditures	30,177	30,177	0
Projected Shortfall	**($700)**	**($466)**	**$234**

FY2006-07 forecast revenues are $234 million more than November's estimates. Modest increases in projected receipts from the individual income tax, the corporate income tax, and the sales tax account for all of the additional revenue.

Expenditure estimates for the next biennium are nearly identical to those forecast in November. The impacts of additional spending enacted for FY2005, along with a slight increase in the forecast for K-12, are largely offset by savings in health and human services programs and other spending reductions.

FY2006-07 spending includes provisions currently in law and is adjusted only for enrollment and caseload in K-12 education, higher education, human services and corrections. Expenditures do not include general inflation increases beyond those that are integrated in the health care components of the forecast.

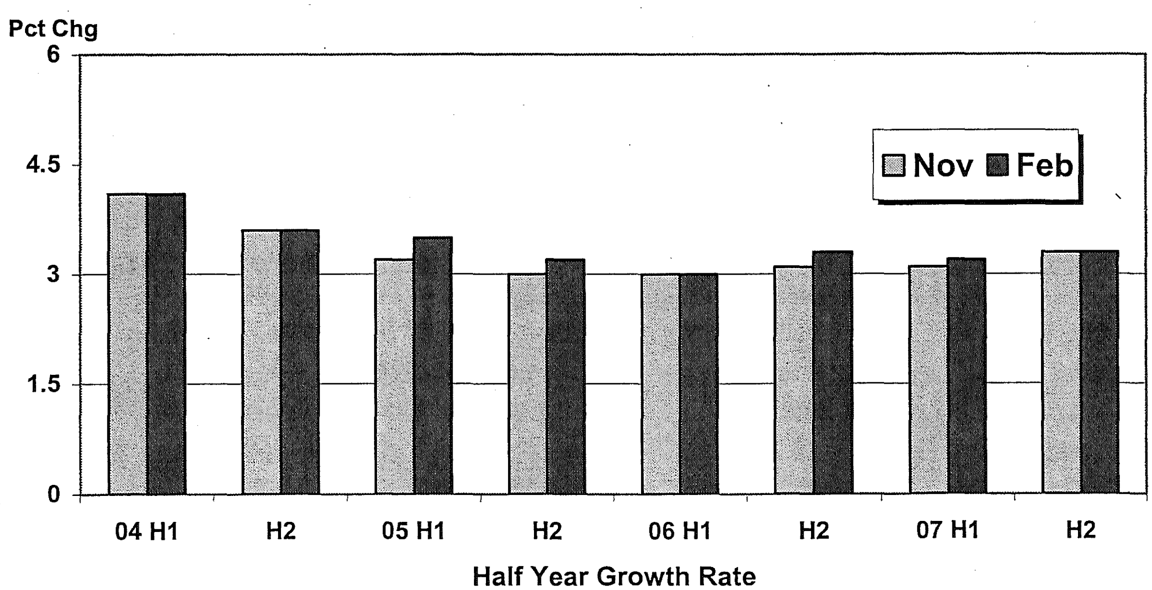
General inflation is expected to average just under 1.7 percent per year in FY2006-07. Adjusting spending for that level of inflation would add approximately $700 million to spending.

More of the Same in Forecast for 2005, 2006, and 2007

There has been little change in the consensus outlook for the U.S. economy. And, the economic growth rates currently projected for 2005, 2006, and 2007 continue to look remarkably similar to those observed in 2004. Real GDP is projected to continue growing at roughly the 2004 rates through the first half of 2005. Then, the gradual interest rate increases engineered by the Fed beginning late last spring start to slow the economy. The slowdown is brief and scarcely noticeable though, since the increased demand for U.S. exports brought on by a declining dollar replaces much of the domestic consumer and business spending lost to higher interest rates. Even with a weaker dollar, inflation remains under control as lower energy costs offset modest increases in the prices of other goods and services.

Forecasters agree on the most likely sources of potential problems, and the trade deficit and the federal budget deficit appear at the top of every list. Those problems are, if anything even more worrisome than in November. Everyone hopes for an orderly decline in the value of the dollar, but currency markets can be very volatile. The U.S. job market also continues to be lethargic adding an average of just over 150,000 jobs per month since May. That is sufficient to cover normal labor force growth, but it will not provide the income growth needed to support a strong, consumer-driven economic expansion.

Steady Real GDP Growth Expected Through End of 2007

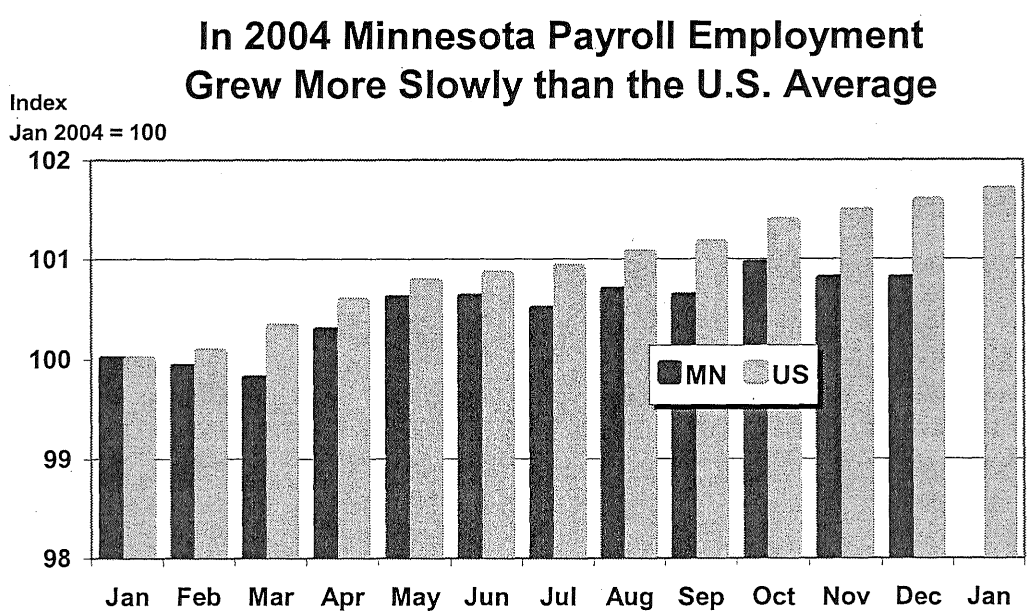


The February baseline forecast from Global Insight Inc. (GII), Minnesota's national economic consultant, remains very similar to the consensus forecasts for 2005, 2006 and 2007. Real GDP growth of 3.5 percent is expected in 2005, followed by 3.1 percent growth in 2006, and 3.2 percent in 2007. November's forecast anticipated slightly weaker real growth, but higher inflation. When nominal growth rates are compared, differences between the forecast almost disappear. GII currently believes the CPI will increase by 2.0 percent in calendar 2005, then by 1.6 percent in 2006 as oil prices begin to decline. In 2007 the CPI is projected to increase by 2.0 percent.

As in November GII assigns a 60 percent probability to their baseline forecast. A slightly more optimistic scenario in which oil prices are lower and productivity higher continues to be assigned a probability of 20 percent. A more pessimistic scenario, which includes an extended slowdown but no recession, is also assigned a probability of 20 percent.

Minnesota's Economy Softened in Late 2004

After closely tracking the national economy in 2001 and 2002, and outperforming it in 2003 Minnesota's economy added jobs more slowly than the national average during 2004. Payroll employment in 2004 grew by 23,000 jobs, but just 5000 of those jobs were added in the last 8 months of the year. Between May and December payroll employment in Minnesota grew by just 0.2 percent, while nationally employment grew by 0.8 percent. If Minnesota had grown as rapidly as the national average the state would have 20,000 more jobs at the start of 2005 than it does. During November and December employment actually declined in Minnesota. Nationally, it grew by 0.1 percent.



It is not clear what is holding back job growth in Minnesota, or where the weaknesses in the economy are. Manufacturing employment in the U.S. and in Minnesota has fallen since mid 2000, but when viewed on a percentage basis the decline was less in Minnesota than nationally. Minnesota added just over 3,000 manufacturing jobs in 2004 a growth rate of 0.9 percent. U.S. manufacturing employment grew by just 0.2 percent.

Strong employment growth is expected in Minnesota during 2005. More than 44,000 jobs are expected to be added between fourth quarter 2004 and fourth quarter 2005, an average of 11,000 new jobs per quarter. Manufacturing employment is expected to grow by 6,600 by the end of 2005 and 15,700 by the end of 2007. By the end of 2007 total employment in Minnesota is projected to reach 2.778 million, 103,000 more than at the end of 2004.

Revenue Outlook Up $157 Million in Current Biennium

Revenues for 2004-05 are now forecast to total $28.829 billion, up $157 million (0.5 percent) from November's estimates. The forecast for non-dedicated revenues increased $155 million (0.6 percent). The individual income tax, the corporate income tax, and the sales tax were the sources of almost all of the addition to the FY2005 revenue forecast.

2004-05 Revenue Forecast
($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Revenues				
Income tax	$11,819	$11,885	$66	0.6
Sales Tax	8,300	8,327	27	0.3
Corporate Income	1,393	1,457	64	4.6
Motor Vehicle	540	537	(3)	(0.6)
Statewide Property	1,217	1,217	0	0.0
Major Taxes	23,269	23,423	154	0.6
Other Non-Dedicated	3,824	3,825	1	0.0
Non-Dedicated Revenues	**27,093**	**27,248**	**155**	**0.6**
Transfers, Other	1,579	1,581	2	0.0
Total	**$28,672**	**$28,829**	**$157**	**0.5**

Changes in most major taxes were small. The forecast for corporate income tax receipts increased more on a percentage basis, but even that increase was well within normal forecast variation for that highly volatile revenue source. The forecast for sales tax refunds in FY2005 was reduced by $33 million. In the absence of that change in projected refunds the sales tax forecast would have been below November's estimate.

Small Increase in Projected FY2006-07 Revenues

State revenues for the 2006-07 biennium are expected to reach $29.711 billion, $234 million (0.8 percent) more than forecast in November. Receipts from the five major taxes are now forecast to be $25.623 billion, $259 million more than November's estimate. A slight decline is projected for other tax and non-tax receipts.

2006-07 Revenue Forecast
($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Revenues				
Income tax	$13,412	$13,483	$71	0.5
Sales Tax	8,733	8,849	115	1.3
Corporate Income	1,380	1,469	89	6.4
Motor Vehicle	550	531	(19)	(3.5)
Statewide Property	1,289	1,291	2	0.2
Major Taxes	25,364	25,623	259	1.0
Other Non-Dedicated	3,700	3,674	(26)	(0.7)
Non-Dedicated Revenues	**29,064**	**29,297**	**233**	**0.8**
Transfers, Other	413	414	1	0.0
Total	**$29,477**	**$29,711**	**$234**	**0.8**

There were only small changes in the economic outlook, so the changes in both the individual income and sales taxes for FY2006-07 were also small. The sales tax showed the largest increase, up $115 million. Lower projected sales tax refunds accounted for $51 million of that change. The corporate income tax showed the largest percentage increase as much of the FY2005 increase in revenues is projected to carry forward to the next biennium.

Little Change in Forecast Spending for FY2004-05 and FY2006-07

Forecast spending for FY2004-05 was $6 million above November's estimates. FY2005 deficiency appropriations increased spending $31 million primarily in human services and public safety areas. This increase, however, was largely offset by savings elsewhere including lower K-12 estimates, a reduction in tax refund interest payments, and an expected increase in year-end cancellations. The additional school shift buy-back triggered by the forecast will add $150 million to K-12 spending in fiscal 2005, increasing total spending by $150 million to $28.195 billion.

FY2004-05 Spending
($ in millions)

	Nov	Feb	Change
K-12 Education	$11,903	$11,898	$(5)
Health and Human Services	7,245	7,262	17
All Other Spending	8,891	8,885	(6)
*K-12 Shift Buy-Back	0	150	150
Total	**$28,039**	**$28,195**	**$156**

Estimates for FY2006-07 spending remain largely unchanged at $30.177 billion. Interim legislative action in 2005 increased estimated spending $42 million, the continuing impact of supplemental appropriations made for fiscal year 2005.

This increase and slightly higher spending for K-12 education were largely offset by other forecast changes. Savings in health and human services spending, tax refund interest payments, and debt service account for almost all of the forecast reductions.

FY2006-07 Spending
($ in millions)

	Nov	Feb	Change
K-12 Education	$11,969	$12,013	$44
Health and Human Services	8,684	8,632	(52)
All Other Spending	9,524	9,533	9
Total	**$30,177**	**$30,177**	**$0**

FY2008-09 Planning Outlook Improves Slightly

The budget outlook in FY2008 and FY2009 has also improved since November. General fund revenues for FY2008-09 are $277 million higher than November's projections, while projected spending is $63 million higher than previous estimates. The structural balance between ongoing revenues and spending has increased to $134 million for FY2008 and to $570 million for FY2009.

FY2008-09 Planning Estimates / Structural Balance

($ in millions)

	FY2008	FY2009
Projected Revenues	**$15,680**	**16,413**
Projected Spending	**15,546**	**15,843**
Difference	**$134**	**$570**

These planning estimates of current law revenues and expenditures are presented to identify longer term impacts of budget actions. Revenue planning estimates are based on an assumed long-term real GDP growth rate. Expenditure estimates assume current laws and policies adjusted for caseload, enrollment and other forecast variables in major program areas.

Since the impact of inflation is not generally reflected in the expenditure projections, it is important to recognize that increases in state spending could be significantly greater than that shown. Inflation for 2008-09 is expected to average 2.1 percent. Uniformly adjusting spending for inflation would add about $2 billion to the expenditure projections for FY2008-09.

The inflation estimate, however, could overstate FY2008-09 spending pressures since it compounds inflationary costs over four years. Nor does it make allowance for the fact that a budget will be set this year for 2006-07. Planning estimates become more meaningful when specific budget proposals for FY2006-07 are being considered and a starting point for the following biennium is being established.

Finally, the forecast is based on current law; the planning estimates do not reflect the Governor's budget recommendations, nor do they anticipate any future legislative changes. The impact of the February forecast may vary depending on the specific components of the Governor's budget or legislative proposals.

A complete version of the February 2005 forecast can be found at the Department of Finance's World Wide Web site at – www.finance.state.mn.us. This document is available in alternate format.

FY 2004-05 Biennium Forecast Comparison
February 2005 vs November 2004 (Before Statutory Allocations)
($ in thousands)

	11-04 Fcst FY 2004-05	2-05 Fcst FY 2004-05	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	368,922	368,922	0
Current Resources:			
Tax Revenues	25,627,138	25,769,493	142,355
Non-Tax Revenues	1,465,776	1,478,357	12,581
Dedicated Revenue	58,506	58,314	(192)
Transfers In	1,456,362	1,458,164	1,802
Prior Year Adjustments	64,897	64,897	0
Subtotal-Current Resources	28,672,679	28,829,225	156,546
Total Resources Available	**29,041,601**	**29,198,147**	**156,546**
Actual & Estimated Spending			
K-12 Education	12,231,855	12,224,059	(7,796)
Property Tax Recog/Payment Change	(329,538)	(326,303)	3,235
Subtotal K-12 Education	11,902,317	11,897,756	(4,561)
Property Tax Aids & Credits	2,809,593	2,803,818	(5,775)
Higher Education	2,541,702	2,541,702	0
Health & Human Services	7,245,112	7,261,559	16,447
Environment, Agriculture & Economic Dev	739,306	739,301	(5)
Transportation	158,721	158,721	0
Public Safety	1,436,740	1,449,676	12,936
State Government	580,229	584,802	4,573
Debt Service	589,027	589,052	25
Deficiencies/Other	5,491	5,491	0
Estimated Cancellations	(44,000)	(61,000)	(17,000)
Subtotal Expenditures & Transfers	**27,964,238**	**27,970,878**	**6,640**
Dedicated Expenditures	74,363	74,171	(192)
Total Expenditures & Transfers	**28,038,601**	**28,045,049**	**6,448**
Balance Before Reserves	**1,003,000**	**1,153,098**	**150,098**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	628,300	(24,700)
Budgetary Balance	**0**	**174,798**	**174,798**

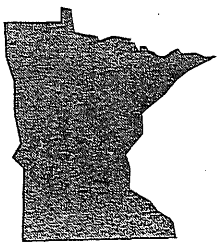
FY 2006-07 Biennial Comparison
February 2005 Forecast vs November 2004 Forecast
($ in thousands)

	11-04 Fcst FY 2006-07	2-05 Fcst FY 2006-07	Feb vs Nov FY 2006-07
Actual & Estimated Resources			
Balance Forward From Prior Year	1,003,000	1,003,000	0
Current Resources:			
Tax Revenues	27,658,161	27,887,739	229,578
Non-Tax Revenues	1,405,540	1,409,018	3,478
Dedicated Revenue	74,685	74,065	(620)
Transfers In	289,151	290,394	1,243
Prior Year Adjustments	50,000	50,000	0
Subtotal-Current Resources	29,477,537	29,711,216	233,679
Total Resources Available	**30,480,537**	**30,714,216**	**233,679**
Actual & Estimated Spending			
K-12 Education	12,045,122	12,098,541	53,419
Property Tax Recog/Payment Change	(76,041)	(85,699)	(9,658)
Subtotal K-12 Education	11,969,081	12,012,842	43,761
Property Tax Aids & Credits	2,966,359	2,961,484	(4,875)
Higher Education	2,752,758	2,752,758	0
Health & Human Services	8,683,916	8,631,752	(52,164)
Environment, Agriculture & Economic Dev	735,014	736,784	1,770
Transportation	162,735	162,735	0
Public Safety	1,568,535	1,586,889	18,354
State Government	563,243	561,426	(1,817)
Debt Service	721,055	716,562	(4,493)
Deficiencies/Other	0	0	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**30,102,696**	**30,103,232**	**536**
Dedicated Expenditures	74,685	74,065	(620)
Total Expenditures & Transfers	**30,177,381**	**30,177,297**	**(84)**
Balance Before Reserves	**303,156**	**536,919**	**233,763**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Budgetary Balance	**(699,844)**	**(466,081)**	**233,763**

HANDOUT #2

Minnesota Budget Forecast

February 2005



Minnesota Department of Finance

February 28, 2005

$175 Million Balance Now Forecast for FY 2004-05

($ in millions)	Feb Fcst	Change
Beginning Balance	$369	$0
Revenues	28,829	157
Spending	28,045	6
Cash Flow Acct	350	0
Budget Reserve	628	(25)
Forecast Balance	*$ 175*	*$ 175*

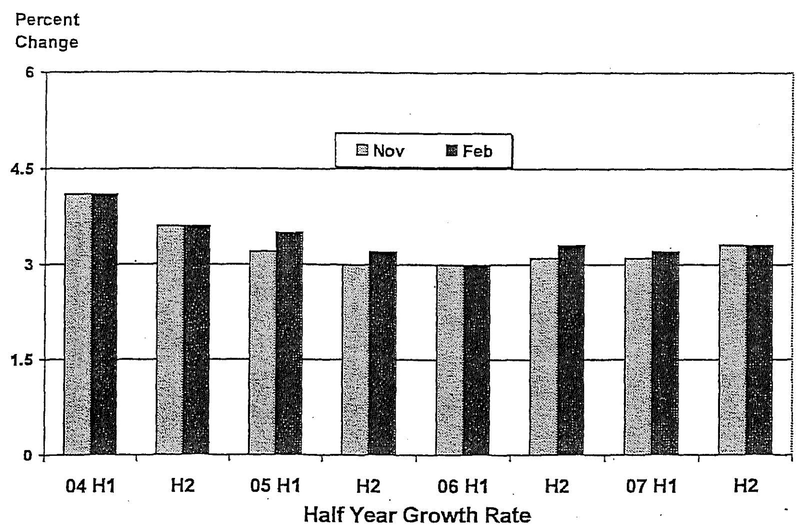
Current Law Allocates Entire $175 Million Forecast Balance for FY 2004-05

- ***$ 25 Million*** – Restores budget reserve money used for FY 2005 deficiencies.
- ***$150 Million*** – Additional school shift buy-back. Payments now at 84.3 / 15.7 percent.

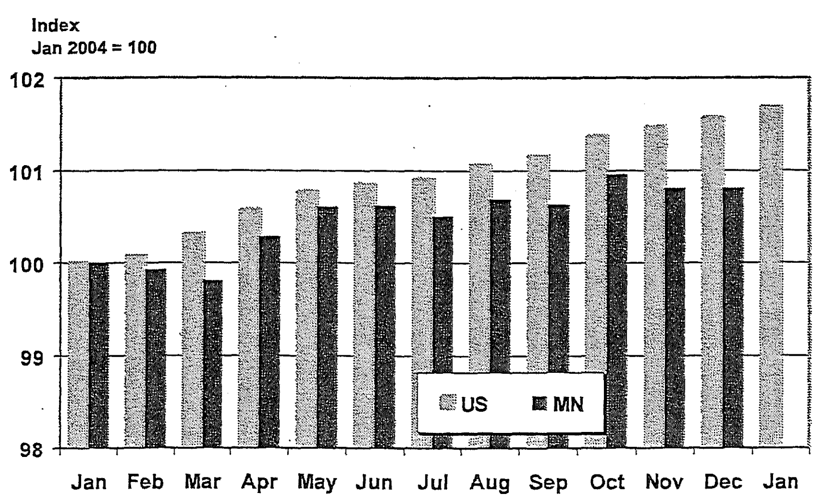
FY 2006-07 Budget Shortfall Reduced to $466 Million

General Fund ($ in millions)	Nov Fcst	Feb Fcst	Chg.
Revenues	$29,477	$29,711	$234
Spending	30,177	30,177	0
Balance	*$ (700)*	*$ (466)*	*$ 234*

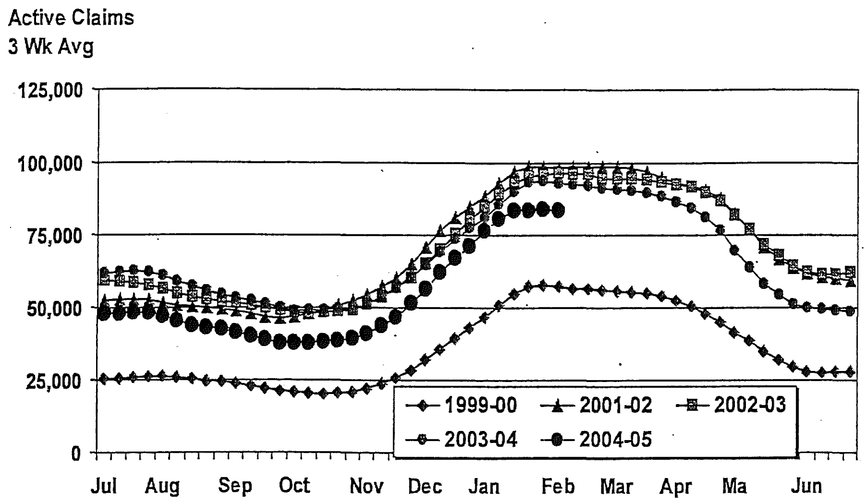
Steady Real GDP Growth Expected Through the End of 2007



In 2004 Minnesota Payroll Employment Grew More Slowly Than U.S. Average



Active Unemployment Claims Have Improved in Recent Weeks



Forecast Changes by Major Tax Source

($ in millions)	FY2005	FY2006-07
Income Tax	66	71
Sales Tax	27	115
Corporate Income Tax	64	89
Motor Vehicle Sales Tax	(3)	(19)
Other Revenues, Transfers	3	(22)
Total Revenue Change	*$157*	*$234*

Little Change in Forecast Spending

- FY 2004-05 Spending, *Up $6 million*
  - 2005 Deficiency bill increased current year spending $31 million
  - Human services savings, other changes offset most of the increase
- FY 2006-07 Spending, *No Net Change*
  - K-12 spending $44 million higher
  - Deficiency bill "tails" added $43 million
  - Increases were offset by savings in human services and reductions in other areas

Longer Term Outlook Improved From November

	November		*February*	
($ in millions)	FY 08	FY 09	FY 08	FY 09
Revenues	15,564	16,252	15,680	16,413
Spending*	15,524	15,802	15,546	15,843
Difference	*40*	*450*	*134*	*570*

*Spending not generally adjusted for inflation.

Agenda #2

Senator Pogemiller introduced--

S.F. No. 971: Referred to Taxes

A bill for an act

relating to public finance; modifying requirements relating to financial statements; authorizing purchases of certain guaranteed investment contracts; authorizing a special levy; modifying the authority of cities and counties to finance purchases of computers and related items; extending the term of certain notes; clarifying the financing of conservation easements; extending sunsets on establishment of special service districts and housing improvement areas; providing for financing of certain improvements; extending the maximum maturity of certain bonds; revising time for certain notices of issues; exempting obligations issued to pay judgments from net debt limits; modifying the authority to finance street reconstruction; modifying limits on city capital improvement bonds and enabling certain towns to issue bonds under a capital improvement plan; amending Minnesota Statutes 2004, sections 80A.25, subdivision 3; 118A.05, subdivision 5; 275.70, subdivision 5; 373.01, subdivision 3; 373.40, subdivision 1; 410.32; 412.301; 428A.101; 428A.21; 429.031, by adding a subdivision; 429.051; 469.034, subdivision 2; 469.158; 474A.131, subdivision 1; 475.51, subdivision 4; 475.52, subdivisions 1, 3, 4; 475.521, subdivisions 1, 2, 3, 4; 475.58, subdivision 3b.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 80A.25, subdivision 3, is amended to read:

Subd. 3. [FINANCIAL STATEMENTS.] The commissioner may by rule or order prescribe (a) the form and content of financial statements required under sections 80A.01 to 80A.31, (b) the circumstances under which consolidated financial statements shall be filed, and (c) whether any required financial statements shall be certified by independent or certified public accountants. All financial statements shall be prepared in accordance with generally accepted accounting principles unless otherwise permitted by rule or order. <u>The commissioner may not require, as a condition of registration, the consent of the independent or certified public accountants to the use of financial statements in the offering documents.</u>

Sec. 2. Minnesota Statutes 2004, section 118A.05, subdivision 5, is amended to read:

Subd. 5. [GUARANTEED INVESTMENT CONTRACTS.] Agreements or contracts for guaranteed investment contracts may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries<u>, or the domestic affiliates of any of the foregoing</u>. The credit quality of the issuer's or guarantor's short- and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.

Sec. 3. Minnesota Statutes 2004, section 275.70, subdivision 5, is amended to read:

Subd. 5. [SPECIAL LEVIES.] "Special levies" means those portions of ad valorem taxes levied by a local governmental unit for the following purposes or in the following manner:

(1) to pay the costs of the principal and interest on bonded indebtedness or to reimburse for the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds in the year preceding the year for which the levy limit is calculated;

(2) to pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except for the following:

(i) tax anticipation or aid anticipation certificates of indebtedness;

(ii) certificates of indebtedness issued under sections 298.28 and 298.282;

(iii) certificates of indebtedness used to fund current expenses or to pay the costs of extraordinary expenditures that result from a public emergency; or

(iv) certificates of indebtedness used to fund an insufficiency in tax receipts or an insufficiency in other revenue sources;

(3) to provide for the bonded indebtedness portion of payments made to another political subdivision of the state of Minnesota;

(4) to fund payments made to the Minnesota State Armory Building Commission under section 193.145, subdivision 2, to retire the principal and interest on armory construction bonds;

(5) property taxes approved by voters which are levied against the referendum market value as provided under section 275.61;

(6) to fund matching requirements needed to qualify for federal or state grants or programs to the extent that either (i) the matching requirement exceeds the matching requirement in calendar year 2001, or (ii) it is a new matching requirement that did not exist prior to 2002;

(7) to pay the expenses reasonably and necessarily incurred in preparing for or repairing the effects of natural disaster including the occurrence or threat of widespread or severe damage, injury, or loss of life or property resulting from natural causes, in accordance with standards formulated by the Emergency Services Division of the state Department of Public Safety, as allowed by the commissioner of revenue under section 275.74, subdivision 2;

(8) pay amounts required to correct an error in the levy certified to the county auditor by a city or county in a levy year, but only to the extent that when added to the preceding year's levy it is not in excess of an applicable statutory, special law or charter limitation, or the limitation imposed on the governmental subdivision by sections 275.70 to 275.74 in the preceding levy year;

(9) to pay an abatement under section 469.1815;

(10) to pay any costs attributable to increases in the employer contribution rates under chapter 353 that are effective after June 30, 2001;

(11) to pay the operating or maintenance costs of a county jail as authorized in section 641.01 or 641.262, or of a correctional facility as defined in section 241.021, subdivision 1, paragraph (f), to the extent that the county can demonstrate to the commissioner of revenue that the amount has been included in the county budget as a direct result of a rule, minimum requirement, minimum standard, or directive of the Department of Corrections, or to pay the operating or maintenance costs of a regional jail as authorized in section 641.262. For purposes of this clause, a district court order is not a rule, minimum requirement, minimum standard, or directive of the Department of Corrections. If the county utilizes this special levy, except to pay operating or maintenance costs of a new regional jail facility under sections 641.262 to 641.264 which will not replace an existing jail facility, any amount levied by the county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71, shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(12) to pay for operation of a lake improvement district, as authorized under section 103B.555. If the county utilizes this special levy, any amount levied by the county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71 shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(13) to repay a state or federal loan used to fund the

direct or indirect required spending by the local government due to a state or federal transportation project or other state or federal capital project. This authority may only be used if the project is not a local government initiative;

(14) to pay for court administration costs as required under section 273.1398, subdivision 4b, less the (i) county's share of transferred fines and fees collected by the district courts in the county for calendar year 2001 and (ii) the aid amount certified to be paid to the county in 2004 under section 273.1398, subdivision 4c; however, for taxes levied to pay for these costs in the year in which the court financing is transferred to the state, the amount under this clause is limited to the amount of aid the county is certified to receive under section 273.1398, subdivision 4a; ~~and~~

(15) to fund a police or firefighters relief association as required under section 69.77 to the extent that the required amount exceeds the amount levied for this purpose in 2001; and

(16) for purposes of a storm sewer improvement district, pursuant to section 444.20.

Sec. 4. Minnesota Statutes 2004, section 373.01, subdivision 3, is amended to read:

Subd. 3. [CAPITAL NOTES.] (a) A county board may, by resolution and without referendum, issue capital notes subject to the county debt limit to purchase capital equipment useful for county purposes that has an expected useful life at least equal to the term of the notes. The notes shall be payable in not more than ~~five~~ ten years and shall be issued on terms and in a manner the board determines. A tax levy shall be made for payment of the principal and interest on the notes, in accordance with section 475.61, as in the case of bonds.

(b) For purposes of this subdivision, "capital equipment" means:

(1) public safety, ambulance, road construction or maintenance, and medical equipment~~,~~; and

(2) computer hardware and ~~original operating system~~ software, whether bundled with machinery or equipment or

unbundled, together with application development services and training related to the use of the computer or software. ~~The authority-to-issue-capital-notes-for-original-operating-systems software-expires-on-July-1,-2005.~~

Sec. 5. Minnesota Statutes 2004, section 373.40, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] For purposes of this section, the following terms have the meanings given.

(a) "Bonds" means an obligation as defined under section 475.51.

(b) "Capital improvement" means acquisition or betterment of public lands, ~~development-rights-in-the-form-of-conservation easements-under-chapter-84C,~~ buildings, or other improvements within the county for the purpose of a county courthouse, administrative building, health or social service facility, correctional facility, jail, law enforcement center, hospital, morgue, library, park, qualified indoor ice arena, ~~and~~ roads and bridges, and the acquisition of development rights in the form of conservation easements under chapter 84C. An improvement must have an expected useful life of five years or more to qualify. "Capital improvement" does not include light rail transit or any activity related to it or a recreation or sports facility building (such as, but not limited to, 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.

(c) "Commissioner" means the commissioner of employment and economic development.

(d) "Metropolitan county" means a county located in the seven-county metropolitan area as defined in section 473.121 or a county with a population of 90,000 or more.

(e) "Population" means the population established by the most recent of the following (determined as of the date the resolution authorizing the bonds was adopted):

(1) the federal decennial census,

(2) a special census conducted under contract by the United States Bureau of the Census, or

(3) a population estimate made either by the Metropolitan Council or by the state demographer under section 4A.02.

(f) "Qualified indoor ice arena" means a facility that meets the requirements of section 373.43.

(g) "Tax capacity" means total taxable market value, but does not include captured market value.

Sec. 6. Minnesota Statutes 2004, section 410.32, is amended to read:

410.32 [CITIES MAY ISSUE CAPITAL NOTES FOR CAPITAL EQUIPMENT.]

(a) Notwithstanding any contrary provision of other law or charter, a home rule charter city may, by resolution and without public referendum, issue capital notes subject to the city debt limit to purchase capital equipment.

(b) For purposes of this section, "capital equipment" means:

(1) public safety equipment, ambulance and other medical equipment, road construction and maintenance equipment, and other capital equipment; and

(2) computer hardware and ~~original-operating-system~~ software, ~~provided~~ whether bundled with machinery or equipment or unbundled, together with application development services and training related to the use of the computer or software.

(c) The equipment or software ~~has~~ must have an expected useful life at least as long as the term of the notes. ~~The authority-to-issue-capital-notes-for-original-operating-system software-expires-on-July-1,-2005.~~

(d) The notes shall be payable in not more than ~~five~~ ten years and be issued on terms and in the manner the city determines. The total principal amount of the capital notes issued in a fiscal year shall not exceed 0.03 percent of the market value of taxable property in the city for that year.

(e) A tax levy shall be made for the payment of the principal and interest on the notes, in accordance with section 475.61, as in the case of bonds.

(f) Notes issued under this section shall require an affirmative vote of two-thirds of the governing body of the city.

(g) Notwithstanding a contrary provision of other law or charter, a home rule charter city may also issue capital notes subject to its debt limit in the manner and subject to the limitations applicable to statutory cities pursuant to section 412.301.

Sec. 7. Minnesota Statutes 2004, section 412.301, is amended to read:

412.301 [FINANCING PURCHASE OF CERTAIN EQUIPMENT.]

(a) The council may issue certificates of indebtedness or capital notes subject to the city debt limits to purchase capital equipment.

(b) For purposes of this section, "capital equipment" means:

(1) public safety equipment, ambulance and other medical equipment, road construction ~~or~~ and maintenance equipment, and other capital equipment; and

(2) computer hardware and ~~original-operating-system~~ software, ~~provided~~ whether bundled with machinery or equipment or unbundled, together with application development services and training related to the use of the computer or software.

(c) The equipment or software ~~has~~ must have an expected useful life at least as long as the terms of the certificates or notes. ~~The-authority-to-issue-capital-notes-for-original operating-system-software-expires-on-July-1,-2005.~~

(d) Such certificates or notes shall be payable in not more than ~~five~~ ten years and shall be issued on such terms and in such manner as the council may determine.

(e) If the amount of the certificates or notes to be issued to finance any such purchase exceeds 0.25 percent of the market value of taxable property in the city, they shall not be issued for at least ten days after publication in the official newspaper of a council resolution determining to issue them; and if before the end of that time, a petition asking for an election on the proposition signed by voters equal to ten percent of the number of voters at the last regular municipal election is filed with the clerk, such certificates or notes shall not be issued until the proposition of their issuance has been approved by a majority of the votes cast on the question at a regular or special election.

(f) A tax levy shall be made for the payment of the principal and interest on such certificates or notes, in accordance with section 475.61, as in the case of bonds.

Sec. 8. Minnesota Statutes 2004, section 428A.101, is amended to read:

428A.101 [DEADLINE FOR SPECIAL SERVICE DISTRICT UNDER GENERAL LAW.]

The establishment of a new special service district after June 30, ~~2005~~ 2009, requires enactment of a special law authorizing the establishment.

Sec. 9. Minnesota Statutes 2004, section 428A.21, is amended to read:

428A.21 [SUNSET.]

No new housing improvement areas may be established under sections 428A.11 to 428A.20 after June 30, ~~2005~~ 2009. After June 30, ~~2005~~ 2009, a city may establish a housing improvement area, provided that it receives enabling legislation authorizing the establishment of the area.

Sec. 10. Minnesota Statutes 2004, section 429.031, is amended by adding a subdivision to read:

Subd. 4. [IMPROVEMENTS; ORDERLY ANNEXATION.] An improvement may be made by a municipality in an area that is the subject of an orderly annexation agreement under section 414.0325 to which the municipality is a party. The municipality may subsequently reimburse itself for all or any part of the cost of such an improvement by levying assessments on the property subject to the orderly annexation agreement, when annexed, in the manner provided in section 429.051.

Sec. 11. Minnesota Statutes 2004, section 429.051, is amended to read:

429.051 [APPORTIONMENT OF COST.]

The cost of any improvement, or any part thereof, may be assessed upon property benefited by the improvement, based upon the benefits received, whether or not the property abuts on the improvement and whether or not any part of the cost of the improvement is paid from the county state-aid highway fund, the municipal state-aid street fund, or the trunk highway fund. The area assessed may be less than but may not exceed the area proposed to be assessed as stated in the notice of hearing on the improvement, except as provided below. The municipality may pay such portion of the cost of the improvement as the council may determine from general ad valorem tax levies or from other revenues or funds of the municipality available for the purpose. The municipality may subsequently reimburse itself for all or any of the portion of the cost of ~~a water, storm sewer, or sanitary sewer~~ an improvement so paid by levying additional assessments upon any properties abutting on but not previously assessed for the improvement, on notice and hearing as provided for the assessments initially made. To the extent that such an improvement benefits nonabutting properties which may be served by the improvement when one or more later extensions or improvements are made but which are not initially assessed therefor, the municipality may also reimburse itself by adding all or any of the portion of the cost so paid to the assessments levied for any of such later extensions or improvements, provided that notice that such additional amount will be assessed is included in the notice of hearing on the making of such extensions or improvements. The additional assessments herein authorized may be made whether or not the properties assessed were included in the area described in the notice of hearing on the making of the original improvement.

In any city of the fourth class electing to proceed under a home rule charter as provided in this chapter, which charter provides for a board of water commissioners and authorizes such board to assess a water frontage tax to defray the cost of construction of water mains, such board may assess the tax based upon the benefits received and without regard to any charter limitation on the amount that may be assessed for each lineal foot of property abutting on the water main. The water frontage tax shall be imposed according to the procedure and, except as herein provided, subject to the limitations of the charter of the city.

Sec. 12. Minnesota Statutes 2004, section 469.034, subdivision 2, is amended to read:

Subd. 2. [GENERAL OBLIGATION REVENUE BONDS.] (a) An authority may pledge the general obligation of the general jurisdiction governmental unit as additional security for bonds payable from income or revenues of the project or the authority. The authority must find that the pledged revenues will equal or exceed 110 percent of the principal and interest due on the bonds for each year. The proceeds of the bonds must be used for a qualified housing development project or projects. The obligations must be issued and sold in the manner and following the procedures provided by chapter 475, except the obligations are not subject to approval by the electors, and the maturities may extend to not more than ~~30~~ 35 years ~~from-the estimated-date-of-completion-of-the-project~~ for obligations sold to finance housing for the elderly and 40 years for other obligations issued under this subdivision. The authority is the municipality for purposes of chapter 475.

(b) The principal amount of the issue must be approved by the governing body of the general jurisdiction governmental unit whose general obligation is pledged. Public hearings must be held on issuance of the obligations by both the authority and the general jurisdiction governmental unit. The hearings must be held at least 15 days, but not more than 120 days, before the sale of the obligations.

(c) The maximum amount of general obligation bonds that may be issued and outstanding under this section equals the greater of (1) one-half of one percent of the taxable market value of the general jurisdiction governmental unit whose general obligation ~~which-includes-a-tax-on-property~~ is pledged, or (2) $3,000,000. In the case of county or multicounty general obligation bonds, the outstanding general obligation bonds of all cities in the county or counties issued under this subdivision must be added in calculating the limit under clause (1).

(d) "General jurisdiction governmental unit" means the city in which the housing development project is located. In the case of a county or multicounty authority, the county or counties may act as the general jurisdiction governmental unit. In the case of a multicounty authority, the pledge of the general obligation is a pledge of a tax on the taxable property in each of the counties.

(e) "Qualified housing development project" means a housing development project providing housing either for the elderly or for individuals and families with incomes not greater than 80 percent of the median family income as estimated by the United States Department of Housing and Urban Development for the standard metropolitan statistical area or the nonmetropolitan county in which the project is located, and will be owned by the authority for the term of the bonds. A qualified housing development project may admit nonelderly individuals and families with higher incomes if:

(1) three years have passed since initial occupancy;

(2) the authority finds the project is experiencing unanticipated vacancies resulting in insufficient revenues, because of changes in population or other unforeseen circumstances that occurred after the initial finding of adequate revenues; and

(3) the authority finds a tax levy or payment from general assets of the general jurisdiction governmental unit will be necessary to pay debt service on the bonds if higher income individuals or families are not admitted.

Sec. 13. Minnesota Statutes 2004, section 469.158, is amended to read:

469.158 [MANNER OF ISSUANCE OF BONDS; INTEREST RATE.]

Bonds authorized under sections 469.152 to 469.165 must be issued in accordance with the provisions of chapter 475 relating to bonds payable from income of revenue producing conveniences, except that public sale is not required, the provisions of sections 475.62 and 475.63 do not apply, and the bonds may mature at the time or times, in the amount or amounts, within ~~30~~ 40 years from date of issue, and may be sold at a price equal to the percentage of the par value thereof, plus accrued interest, and bearing interest at the rate or rates agreed by the contracting party, the purchaser, and the municipality or redevelopment agency, notwithstanding any limitation of interest rate or cost or of the amounts of annual maturities contained in any other law. Bonds issued to refund bonds previously issued pursuant to sections 469.152 to 469.165 may be issued in amounts determined by the municipality or redevelopment agency notwithstanding the provisions of section 475.67, subdivision 3.

Sec. 14. Minnesota Statutes 2004, section 474A.131, subdivision 1, is amended to read:

Subdivision 1. [NOTICE OF ISSUE.] Each issuer that issues bonds with an allocation received under this chapter shall provide a notice of issue to the department on forms provided by the department stating:

(1) the date of issuance of the bonds;

(2) the title of the issue;

(3) the principal amount of the bonds;

(4) the type of qualified bonds under federal tax law;

(5) the dollar amount of the bonds issued that were subject to the annual volume cap; and

(6) for entitlement issuers, whether the allocation is from current year entitlement authority or is from carryforward authority.

For obligations that are issued as a part of a series of obligations, a notice must be provided for each series. A penalty of one-half of the amount of the application deposit not to exceed $5,000 shall apply to any issue of obligations for which a notice of issue is not provided to the department within five business days after issuance or before ~~the last Monday~~ 4:30 p.m. on the last business day in December, whichever occurs first. Within 30 days after receipt of a notice of issue the department shall refund a portion of the application deposit equal to one percent of the amount of the bonding authority actually issued if a one percent application deposit was made, or equal to two percent of the amount of the bonding authority actually issued if a two percent application deposit was made, less any penalty amount.

Sec. 15. Minnesota Statutes 2004, section 475.51, subdivision 4, is amended to read:

Subd. 4. [NET DEBT.] "Net debt" means the amount remaining after deducting from its gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate of the principal of the following:

(1) Obligations issued for improvements which are payable wholly or partly from the proceeds of special assessments levied upon property specially benefited thereby, including those which are general obligations of the municipality issuing them, if the municipality is entitled to reimbursement in whole or in part from the proceeds of the special assessments.

(2) Warrants or orders having no definite or fixed maturity.

(3) Obligations payable wholly from the income from revenue producing conveniences.

(4) Obligations issued to create or maintain a permanent improvement revolving fund.

(5) Obligations issued for the acquisition, and betterment of public waterworks systems, and public lighting, heating or power systems, and of any combination thereof or for any other public convenience from which a revenue is or may be derived.

(6) Debt service loans and capital loans made to a school district under the provisions of sections 126C.68 and 126C.69.

(7) Amount of all money and the face value of all securities held as a debt service fund for the extinguishment of obligations other than those deductible under this subdivision.

(8) Obligations to repay loans made under section 216C.37.

(9) Obligations to repay loans made from money received from litigation or settlement of alleged violations of federal

petroleum pricing regulations.

(10) Obligations issued to pay pension fund liabilities under section 475.52, subdivision 6, or any charter authority.

(11) Obligations issued to pay judgments against the municipality under section 475.52, subdivision 6, or any charter authority.

(12) All other obligations which under the provisions of law authorizing their issuance are not to be included in computing the net debt of the municipality.

Sec. 16. Minnesota Statutes 2004, section 475.52, subdivision 1, is amended to read:

Subdivision 1. [STATUTORY CITIES.] Any statutory city may issue bonds or other obligations for the acquisition or betterment of public buildings, means of garbage disposal, hospitals, nursing homes, homes for the aged, schools, libraries, museums, art galleries, parks, playgrounds, stadia, sewers, sewage disposal plants, subways, streets, sidewalks, warning systems; for any utility or other public convenience from which a revenue is or may be derived; for a permanent improvement revolving fund; for changing, controlling or bridging streams and other waterways; for the acquisition and betterment of bridges and roads within two miles of the corporate limits; for the acquisition of development rights in the form of conservation easements under chapter 84C; and for acquisition of equipment for snow removal, street construction and maintenance, or fire fighting. Without limitation by the foregoing the city may issue bonds to provide money for any authorized corporate purpose except current expenses.

Sec. 17. Minnesota Statutes 2004, section 475.52, subdivision 3, is amended to read:

Subd. 3. [COUNTIES.] Any county may issue bonds for the acquisition or betterment of courthouses, county administrative buildings, health or social service facilities, correctional facilities, law enforcement centers, jails, morgues, libraries, parks, and hospitals, for roads and bridges within the county or bordering thereon and for road equipment and machinery and for ambulances and related equipment; for the acquisition of development rights in the form of conservation easements under chapter 84C, and for capital equipment for the administration and conduct of elections providing the equipment is uniform countywide, except that the power of counties to issue bonds in connection with a library shall not exist in Hennepin County.

Sec. 18. Minnesota Statutes 2004, section 475.52, subdivision 4, is amended to read:

Subd. 4. [TOWNS.] Any town may issue bonds for the acquisition and betterment of town halls, town roads and bridges, nursing homes and homes for the aged, and for acquisition of equipment for snow removal, road construction or maintenance, and fire fighting; for the acquisition of development rights in the form of conservation easements under chapter 84C; and for the acquisition and betterment of any buildings to house and maintain town equipment.

Sec. 19. Minnesota Statutes 2004, section 475.521, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] For purposes of this section, the following terms have the meanings given.

(a) "Bonds" mean an obligation defined under section 475.51.

(b) "Capital improvement" means acquisition or betterment of public lands, buildings or other improvements for the purpose of a city hall, town hall, library, public safety facility, and public works facility. An improvement must have an expected useful life of five years or more to qualify. Capital improvement does not include light rail transit or any activity related to it, or a park, ~~library,~~ road, bridge, administrative building other than a city or town hall, or land for any of those facilities.

(c) ~~"City"~~ "Municipality" means a home rule charter or statutory city or a town described in section 368.01, subdivision 1 or 1a.

Sec. 20. Minnesota Statutes 2004, section 475.521, subdivision 2, is amended to read:

Subd. 2. [ELECTION REQUIREMENT.] (a) Bonds issued by a

~~city~~ <u>municipality</u> to finance capital improvements under an approved capital improvements plan are not subject to the election requirements of section 475.58. ~~The-bonds-are-subject to-the-net-debt-limits-under-section-475.53.~~ The bonds must be approved by an affirmative vote of three-fifths of the members of a five-member ~~city-council~~ <u>governing body</u>. In the case of a ~~city-council~~ <u>governing body</u> having more <u>or less</u> than five members, the bonds must be approved by a vote of at least two-thirds of the ~~city-council~~ <u>members of the governing body</u>.

(b) Before the issuance of bonds qualifying under this section, the ~~city~~ <u>municipality</u> must publish a notice of its intention to issue the bonds and the date and time of the hearing to obtain public comment on the matter. The notice must be published in the official newspaper of the ~~city~~ <u>municipality</u> or in a newspaper of general circulation in the ~~city~~ <u>municipality</u>. Additionally, the notice may be posted on the official Web site, if any, of the ~~city~~ <u>municipality</u>. The notice must be published at least 14 but not more than 28 days before the date of the hearing.

(c) A ~~city~~ <u>municipality</u> may issue the bonds only after obtaining the approval of a majority of the voters voting on the question of issuing the obligations, if a petition requesting a vote on the issuance is signed by voters equal to five percent of the votes cast in the ~~city~~ <u>municipality</u> in the last general election and is filed with the ~~city~~ clerk within 30 days after the public hearing. The commissioner of revenue shall prepare a suggested form of the question to be presented at the election.

Sec. 21. Minnesota Statutes 2004, section 475.521, subdivision 3, is amended to read:

Subd. 3. [CAPITAL IMPROVEMENT PLAN.] (a) A ~~city~~ <u>municipality</u> may adopt a capital improvement plan. The plan must cover at least a five-year period beginning with the date of its adoption. The plan must set forth the estimated schedule, timing, and details of specific capital improvements by year, together with the estimated cost, the need for the improvement, and sources of revenue to pay for the improvement.

In preparing the capital improvement plan, the ~~city-council~~ governing body must consider for each project and for the overall plan:

(1) the condition of the ~~city's~~ municipality's existing infrastructure, including the projected need for repair or replacement;

(2) the likely demand for the improvement;

(3) the estimated cost of the improvement;

(4) the available public resources;

(5) the level of overlapping debt in the ~~city~~ municipality;

(6) the relative benefits and costs of alternative uses of the funds;

(7) operating costs of the proposed improvements; and

(8) alternatives for providing services most efficiently through shared facilities with other ~~cities~~ municipalities or local government units.

(b) The capital improvement plan and annual amendments to it must be approved by the ~~city-council~~ governing body after public hearing.

Sec. 22. Minnesota Statutes 2004, section 475.521, subdivision 4, is amended to read:

Subd. 4. [LIMITATIONS ON AMOUNT.] A ~~city~~ municipality may not issue bonds under this section if the maximum amount of principal and interest to become due in any year on all the outstanding bonds issued under this section, including the bonds to be issued, will equal or exceed ~~0.05367~~ 0.16 percent of the taxable market value of property in the ~~county~~ municipality. Calculation of the limit must be made using the taxable market value for the taxes payable year in which the obligations are issued and sold. In the case of a municipality with a population of 2,500 or more, the bonds are subject to the net debt limits under section 475.53. In the case of a shared facility in which more than one municipality participates, upon compliance by each participating municipality with the requirements of subdivision 2, the limitations in this subdivision and the net debt represented by the bonds shall be allocated to each participating municipality in proportion to its required financial contribution to the financing of the shared facility, as set forth in the joint powers agreement relating to the shared facility. This section does not limit the authority to issue bonds under any other special or general law.

Sec. 23. Minnesota Statutes 2004, section 475.58, subdivision 3b, is amended to read:

Subd. 3b. [STREET RECONSTRUCTION.] (a) A municipality may, without regard to the election requirement under subdivision 1, issue and sell obligations for street reconstruction, if the following conditions are met:

(1) the streets are reconstructed under a street reconstruction plan that describes the streets to be reconstructed, the estimated costs, and any planned reconstruction of other streets in the municipality over the next five years, and the plan and issuance of the obligations has been approved by a vote of all of the members of the governing body following a public hearing for which notice has been published in the official newspaper at least ten days but not more than 28 days prior to the hearing; and

(2) if a petition requesting a vote on the issuance is signed by voters equal to five percent of the votes cast in the last municipal general election and is filed with the municipal clerk within 30 days of the public hearing, the municipality may issue the bonds only after obtaining the approval of a majority of the voters voting on the question of the issuance of the obligations.

(b) Obligations issued under this subdivision are subject to the debt limit of the municipality and are not excluded from net debt under section 475.51, subdivision 4.

(c) For purposes of this subdivision, street reconstruction includes utility replacement and relocation and other activities incidental to the street reconstruction, ~~but~~ turn lanes and other improvements having a substantial public safety function, realignments, other modifications to intersect with state and county roads, and the local share of state and county road projects.

(d) Except in the case of turn lanes, safety improvements, realignments, intersection modifications, and the local share of state and county road projects, street reconstruction does not include the portion of project cost allocable to widening a street or adding curbs and gutters where none previously existed.

Sec. 24. [EFFECTIVE DATE.]

This act is effective the day following final enactment.

Senate Counsel, Research, and Fiscal Analysis
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Director

Senate

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803)

DATE: February 28, 2005

RE: S. F. No. 971 (Pogemiller)

This is the annual public finance bill.

Section 1 prohibits the Commissioner of Commerce from requiring the consent of independent or certified public accountants to the use of financial statements in documents used in the offering of securities as a condition of registration of the securities.

Section 2 authorizes local governments to make investments of public funds in guaranteed investment contracts that are issued or guaranteed by the domestic affiliates of any of the entities with which guaranteed investment contracts are currently authorized as investments for local governments.

Section 3 provides that levies for the purposes of storm sewer improvement districts established by a municipality are treated as special levies which would be exempt from levy limitations. Levy limits are currently not in effect, but the intention of this provision is that if they were to be reimposed, the list of special levies would continue in effect.

Section 4 increases the maximum term of capital notes issued by a county from five to ten years. The requirement that the term not extend beyond the expected useful life of the item that is purchased with the proceeds of the notes remains in effect. This section also clarifies the provision which allowed the use of county notes for purchases of computer software that was enacted in 2003. This description of eligible purchases extends to software, whether bundled with machinery or equipment, or unbundled, together with application developments, services, and training related to the use of the computer or the software. The July 1, 2005, sunset on the use of this funding for computer software purchases is eliminated.

Sections 6 and 7 make the same changes for cities.

Sections 5 and 16-18 modify punctuation in several provisions in order to provide a technical clarification of the availability of financing for the acquisition of development rights in the form of conservation easements.

Section 8 extends the deadline for creation of special service districts without special laws from June 30, 2005, to June 30, 2009.

Section 9 extends the sunset date for the establishment of housing improvement areas without special legislation from June 30, 2005, to June 30, 2009.

Section 10 enables municipalities to make improvements in areas that are the subject of an orderly annexation agreement to which the municipality is a party. The municipality may then reimburse itself for the cost of the improvement by levying assessments on the property that has been annexed.

Section 11 expands the ability of a municipality to impose assessments upon properties that abut, but had not previously been assessed for, improvements. Under current law, this ability is limited to water, storm sewer, and sanitary sewer improvements. This provision would expand the authority to all of the local improvements for which assessments are currently authorized. The usual notice and hearing requirements that apply to assessments would apply to these later imposed assessments.

Section 12 extends the maximum maturity date of general obligation revenue bonds issued by Housing and Redevelopment Authorities. Under current law, the maximum maturity is 30 years from the estimated date of completion of the project. This provision would extend the maturities to 35 years from the date of issuance for obligations sold to finance housing for the elderly, which is typically not subject to income limitations, and 40 years for other obligations issued by an HRA.

Section 13 extends the maximum term for bonds issued for municipal industrial development from 30 to 40 years from the date of issue.

Section 14 changes the time when a penalty applies for a lack of a notice for the issuance of bonds that are part of a series of obligations. Under current law, the penalty applies if the notice is not issued within five days after issuance, or before the last Monday in December, whichever occurs first. Under this revision, the penalty would apply with five business days after issuance, or before 4:30 p.m. on the last business day in December, whichever occurs first.

Section 15 exempts obligations that are issued to pay judgments against a municipality from the net debt limits.

Sections 19-22 modify provisions in the section that enables cities to enter into a capital improvement bond program. The authority that is provided under current law to cities is extended to towns. The definition of capital improvement that would qualify for this financing is extended to include town halls and libraries. The requirement that the bonds issued under this program are subject to the net debt limits is limited to municipalities with populations of 2,500 or more. The limitation on the amount of debt that may be issued under this program is changed. When the law was enacted in 2003, the limit was erroneously set at 0.05367 percent of taxable market value of property in the county; it had been intended to refer to that proportion of the taxable market value property in the city issuing the bonds. This provision changes the limitation to 0.16 percent of the taxable market value of property in the municipality. If municipalities join together to build a shared facility, the limitations on the amount of bonds that may be issued, and the net debt that is considered to be attributable to the bonds will be allocated to each participating municipality in proportion to its financial contribution to the facility.

Section 20 modifies the provision that authorizes issuance of obligations without an election for street reconstruction. It provides that turn lanes and other improvements that have a substantial public safety function, realignments, modifications to intersect with state and county roads, and the local share of state and county road projects, are included within the definition of street reconstruction. Financing for those types of projects may also include the portion of the project costs that is allocable to widening a street, or adding curbs and gutters where none previously existed.

Section 24 is the effective date, which is the day following final enactment for all provisions of the bill.

JZS:dv

PROPERTY TAX
Public Finance Authority

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

February 25, 2005

Department of Revenue
Analysis of S.F. 971 (Pogemiller)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund	$0	(Negligible)	(Negligible)	(Negligible)

Effective the day following final enactment.

EXPLANATION OF THE BILL

The bill makes a number of changes to laws relating to state and local public finance.

- For financial statements required in the regulation of securities, the Commissioner of Commerce may not require, as a condition of registration, consent of independent or certified public accountants to the use of financial statements in the offering documents.
- Guaranteed investment contracts are permitted with domestic affiliates of the listed financial institutions.
- Special levies are allowed for storm sewer improvement districts.
- County and city authority to issue capital notes for the purchase of computer systems would be expanded by broadening the definition of software and by allowing application development and training services to qualify. The proposal would increase the maximum term of the note from five to ten years.
- The sunset date for establishment of new special service districts and new housing improvement areas without a special law is changed from June 30, 2005, to June 30, 2009.
- Improvements may be made by a municipality in an area that is the subject of an annexation agreement, and the municipality may levy assessments to reimburse itself for such costs. The definition of improvements is expanded beyond water, storm, and sanitary sewers.
- The maximum duration for general obligation bonds issued by a Housing and Redevelopment Authority is increased from 30 to 35 years for obligations sold to finance housing for the elderly and from 30 to 40 years for other obligations.
- The maximum duration for bonds issued for municipal industrial development is increased from 30 to 40 years.

February 25, 2005

EXPLANATION OF THE BILL (continued)

- The deadline to provide a notice of bond issue to the Department of Finance is changed from the last Monday in December (or within five days after issuance, whichever occurs first) to 4:30 p.m. on the last business day in December (or within five days after issuance, whichever occurs first).
- The definition of net debt for municipalities is expanded to include obligations issued to pay judgments against the municipality.
- For capital improvement bonds, the term "city" is changed to "municipality" to include certain townships. The definition of capital improvement is expanded to include town halls and libraries. The bonding limit factor is changed from 0.05367% of the county taxable market value to 0.16% of the municipal taxable market value.
- The definition of street reconstruction for issuing obligations is modified to include turn lanes and other street improvements having a substantial public safety function, realignments, other modifications to intersect with state and county roads, and the local share of state and county road projects.

REVENUE ANALYSIS DETAIL

- No information is available on possible additional certificates of indebtedness due to the provisions of this bill, but the amount is assumed to be relatively small.
- Additional debt obligations will require additional service of interest and principal. Where property tax levies are used to service new debt, taxes on homesteads will rise. Therefore there would be a negligible increase in property tax refunds for homeowners.

Number of Taxpayers Affected: All taxpayers in jurisdictions issuing new debt.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

Senator ..... moves to amend S.F. No. 971 as follows:

Page 6, lines 2 and 3, reinstate the stricken language

Page 6, line 4, reinstate "software expires on July 1," and after the stricken "2005" insert "2007"

Page 7, lines 26 and 27, reinstate the stricken language

Page 7, line 28, reinstate the stricken "software expires on July 1," and after the stricken "2005" insert "2007"

Page 8, line 24, reinstate the stricken language

Page 8, line 25, reinstate the stricken "operating system software expires on July 1," and after the stricken "2005" insert "2007"

Page 9, line 14, after "establishment" insert "of the area"

Page 9, line 17, strike "SUNSET" and insert "DEADLINE FOR HOUSING IMPROVEMENT DISTRICTS UNDER GENERAL LAW"

Page 9, line 18, strike "No" and insert "The establishment of a" and strike "areas may be established under" and insert "area"

Page 9, line 19, strike "sections 428A.11 to 428A.20" and strike the period and "After"

Page 9, line 20, strike "June 30," and delete "2009" and strike ", a city may establish a housing improvement"

Page 9, line 21, strike everything before "authorizing" and insert " requires enactment of a special law"

SF 971

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Sec. 13. Minnesota Statutes 2004, section 469.158, is amended to read:

Section 469.158 [MANNER OF ISSUANCE OF BONDS; INTEREST RATE]. Bonds authorized under sections 469.152 to 469.165 must be issued in accordance with the provisions of chapter 475 relating to bonds payable from income of revenue producing conveniences, except that public sale is not required, the provisions of sections 475.62 and 475.63 do not apply, and the bonds may mature at the time or times, in the amount or amounts, within 30 years <u>(or, in the case or bonds issued to finance dormitories or other types of student housing, 40 years)</u> from date of issue, and may be sold at a price equal to the percentage of the par value thereof, plus accrued interest, and bearing interest at the rate or rates agreed by the contracting party, the purchaser, and the municipality or redevelopment agency, notwithstanding any limitation of interest rate or cost or of the amounts of annual maturities contained in any other law. Bonds issued to refund bonds previously issued pursuant to sections 469.152 to 469.165 may be issued in amounts determined by the municipality or redevelopment agency notwithstanding the provisions of section 475.67, subdivision 3.