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State of Minnesota
HOUSE OF REPRESENTATIVES

**EIGHTY-SIXTH
SESSION**

HOUSE FILE No. 2077

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The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to local governments; providing mechanisms for cities to respond to state
1.3 aid reductions and other revenue shortfalls; increasing flexibility to spend and
1.4 raise revenue; authorizing cities to establish street improvement districts and to
1.5 apportion street improvement fees within districts; requiring adoption of street
1.6 improvement plans; authorizing cities to issue emergency debt certificates for
1.7 unexpected revenue shortfalls; amending Minnesota Statutes 2008, sections
1.8 275.065, subdivision 6; 469.176, by adding a subdivision; 475.58, subdivision 1;
1.9 proposing coding for new law in Minnesota Statutes, chapters 435; 471; 475.

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

1.11 Section 1. Minnesota Statutes 2008, section 275.065, subdivision 6, is amended to read:

1.12 Subd. 6. **Public hearing; adoption of budget and levy.** (a) For purposes of this
1.13 section, the following terms shall have the meanings given:

1.14 (1) "Initial hearing" means the first and primary hearing held to discuss the taxing
1.15 authority's proposed budget and proposed property tax levy for taxes payable in the
1.16 following year, or, for school districts, the current budget and the proposed property tax
1.17 levy for taxes payable in the following year.

1.18 (2) "Continuation hearing" means a hearing held to complete the initial hearing, if
1.19 the initial hearing is not completed on its scheduled date.

1.20 (3) "Subsequent hearing" means the hearing held to adopt the taxing authority's final
1.21 property tax levy, and, in the case of taxing authorities other than school districts, the final
1.22 budget, for taxes payable in the following year.

1.23 (b) Between November 29 and December 20, the governing bodies of a city that has a
1.24 population over 500, county, metropolitan special taxing districts as defined in subdivision
1.25 3, paragraph (i), and regional library districts shall each hold an initial public hearing
1.26 to discuss and seek public comment on its final budget and property tax levy for taxes

2.1 payable in the following year, and the governing body of the school district shall hold an
2.2 initial public hearing to review its current budget and proposed property tax levy for taxes
2.3 payable in the following year. The metropolitan special taxing districts shall be required to
2.4 hold only a single joint initial public hearing, the location of which will be determined by
2.5 the affected metropolitan agencies. A city, county, metropolitan special taxing district as
2.6 defined in subdivision 3, paragraph (i), regional library district established under section
2.7 134.201, or school district is not required to hold a public hearing under this subdivision
2.8 unless its proposed property tax levy for taxes payable in the following year, as certified
2.9 under subdivision 1, has increased over its final property tax levy for taxes payable in the
2.10 current year by a percentage that is greater than the percentage increase in the implicit
2.11 price deflator for government consumption expenditures and gross investment for state
2.12 and local governments prepared by the Bureau of Economic Analysts of the United States
2.13 Department of Commerce for the 12-month period ending March 31 of the current year.

2.14 (c) The initial hearing must be held after 5:00 p.m. if scheduled on a day other than
2.15 Saturday. No initial hearing may be held on a Sunday.

2.16 (d) At the initial hearing under this subdivision, the percentage increase in property
2.17 taxes proposed by the taxing authority, if any, and the specific purposes for which property
2.18 tax revenues are being increased must be discussed. During the discussion, the governing
2.19 body shall hear comments regarding a proposed increase and explain the reasons for the
2.20 proposed increase. The public shall be allowed to speak and to ask questions. At the public
2.21 hearing, the school district must also provide and discuss information on the distribution
2.22 of its revenues by revenue source, and the distribution of its spending by program area.

2.23 (e) If the initial hearing is not completed on its scheduled date, the taxing authority
2.24 must announce, prior to adjournment of the hearing, the date, time, and place for the
2.25 continuation of the hearing. The continuation hearing must be held at least five business
2.26 days but no more than 14 business days after the initial hearing. A continuation hearing
2.27 may not be held later than December 20 except as provided in paragraphs (f) and (g).
2.28 A continuation hearing must be held after 5:00 p.m. if scheduled on a day other than
2.29 Saturday. No continuation hearing may be held on a Sunday.

2.30 (f) The governing body of a county shall hold its initial hearing on the first Thursday
2.31 in December each year, and may hold additional initial hearings on other dates before
2.32 December 20 if necessary for the convenience of county residents. If the county needs a
2.33 continuation of its hearing, the continuation hearing shall be held on the third Tuesday
2.34 in December. If the third Tuesday in December falls on December 21, the county's
2.35 continuation hearing shall be held on Monday, December 20.

3.1 (g) The metropolitan special taxing districts shall hold a joint initial public hearing
3.2 on the first Wednesday of December. A continuation hearing, if necessary, shall be held on
3.3 the second Wednesday of December even if that second Wednesday is after December 10.

3.4 (h) The county auditor shall provide for the coordination of initial and continuation
3.5 hearing dates for all school districts and cities within the county to prevent conflicts under
3.6 clauses (i) and (j).

3.7 (i) By August 10, each school board and the board of the regional library district
3.8 shall certify to the county auditors of the counties in which the school district or regional
3.9 library district is located the dates on which it elects to hold its initial hearing and any
3.10 continuation hearing. If a school board or regional library district does not certify these
3.11 dates by August 10, the auditor will assign the initial and continuation hearing dates. The
3.12 dates elected or assigned must not conflict with the initial and continuation hearing dates
3.13 of the county or the metropolitan special taxing districts.

3.14 (j) By August 20, the county auditor shall notify the clerks of the cities within the
3.15 county of the dates on which school districts and regional library districts have elected to
3.16 hold their initial and continuation hearings. At the time a city certifies its proposed levy
3.17 under subdivision 1 it shall certify the dates on which it elects to hold its initial hearing and
3.18 any continuation hearing. Until September 15, the first and second Mondays of December
3.19 are reserved for the use of the cities. If a city does not certify its hearing dates by
3.20 September 15, the auditor shall assign the initial and continuation hearing dates. The dates
3.21 elected or assigned for the initial hearing must not conflict with the initial hearing dates
3.22 of the county, metropolitan special taxing districts, regional library districts, or school
3.23 districts within which the city is located. To the extent possible, the dates of the city's
3.24 continuation hearing should not conflict with the continuation hearing dates of the county,
3.25 metropolitan special taxing districts, regional library districts, or school districts within
3.26 which the city is located. This paragraph does not apply to cities of 500 population or less.

3.27 (k) The county initial hearing date and the city, metropolitan special taxing district,
3.28 regional library district, and school district initial hearing dates must be designated on
3.29 the notices required under subdivision 3. The continuation hearing dates need not be
3.30 stated on the notices.

3.31 (l) At a subsequent hearing, each county, school district, city over 500 population,
3.32 and metropolitan special taxing district may amend its proposed property tax levy
3.33 and must adopt a final property tax levy. Each county, city over 500 population, and
3.34 metropolitan special taxing district may also amend its proposed budget and must adopt a
3.35 final budget at the subsequent hearing. The final property tax levy must be adopted prior
3.36 to adopting the final budget. A school district is not required to adopt its final budget at the

4.1 subsequent hearing. The subsequent hearing of a taxing authority must be held on a date
4.2 subsequent to the date of the taxing authority's initial public hearing. If a continuation
4.3 hearing is held, the subsequent hearing must be held either immediately following the
4.4 continuation hearing or on a date subsequent to the continuation hearing. The subsequent
4.5 hearing may be held at a regularly scheduled board or council meeting or at a special
4.6 meeting scheduled for the purposes of the subsequent hearing. The subsequent hearing
4.7 of a taxing authority does not have to be coordinated by the county auditor to prevent a
4.8 conflict with an initial hearing, a continuation hearing, or a subsequent hearing of any
4.9 other taxing authority. All subsequent hearings must be held prior to five working days
4.10 after December 20 of the levy year. The date, time, and place of the subsequent hearing
4.11 must be announced at the initial public hearing or at the continuation hearing.

4.12 (m) The property tax levy certified under section 275.07 by a city of any population,
4.13 county, metropolitan special taxing district, regional library district, or school district
4.14 must not exceed the proposed levy determined under subdivision 1, except by an amount
4.15 up to the sum of the following amounts:

4.16 (1) the amount of a school district levy whose voters approved a referendum to
4.17 increase taxes under section 123B.63, subdivision 3, or 126C.17, subdivision 9, after
4.18 the proposed levy was certified;

4.19 (2) the amount of a city or county levy approved by the voters after the proposed
4.20 levy was certified;

4.21 (3) the amount of a levy to pay principal and interest on bonds approved by the
4.22 voters under section 475.58 after the proposed levy was certified;

4.23 (4) the amount of a levy to pay costs due to a natural disaster occurring after the
4.24 proposed levy was certified, if that amount is approved by the commissioner of revenue
4.25 under subdivision 6a;

4.26 (5) the amount of a levy to pay tort judgments against a taxing authority that become
4.27 final after the proposed levy was certified, if the amount is approved by the commissioner
4.28 of revenue under subdivision 6a;

4.29 (6) the amount of an increase in levy limits certified to the taxing authority by the
4.30 commissioner of education or the commissioner of revenue after the proposed levy was
4.31 certified; ~~and~~

4.32 (7) the amount required under section 126C.55; and

4.33 (8) the levy to pay emergency debt certificates under section 475.755 authorized and
4.34 issued after the proposed levy was certified.

4.35 (n) This subdivision does not apply to towns and special taxing districts other than
4.36 regional library districts and metropolitan special taxing districts.

5.1 (o) Notwithstanding the requirements of this section, the employer is required to
 5.2 meet and negotiate over employee compensation as provided for in chapter 179A.

5.3 **EFFECTIVE DATE.** This section is effective the day following final enactment.

5.4 Sec. 2. **[435.39] MUNICIPAL STREET IMPROVEMENT DISTRICTS.**

5.5 **Subdivision 1. Definitions.** (a) For the purposes of this section, the following terms
 5.6 have the meanings given them.

5.7 (b) "Governing body" means the city council of a municipality.

5.8 (c) "Improvements" means construction, reconstruction, and facility upgrades
 5.9 involving: right-of-way acquisition; paving; curbs and gutters; bridges and culverts and
 5.10 their repair; milling; overlaying; drainage and storm sewers; excavation; base work;
 5.11 subgrade corrections; street lighting; traffic signals; signage; sidewalks; pavement
 5.12 markings; boulevard and easement restoration; impact mitigation; connection and
 5.13 reconnection of utilities; turn lanes; medians; street and alley returns; retaining walls;
 5.14 fences; lane additions; and fixed transit infrastructure, trails, or pathways. "Fixed transit
 5.15 infrastructure" does not include commuter rail rolling stock, light rail vehicles, or
 5.16 transit way buses; capital costs for park-and-ride facilities; feasibility studies, planning,
 5.17 alternative analyses, environmental studies, engineering, or construction of transit ways;
 5.18 or operating assistance for transit ways.

5.19 (d) "Maintenance" means striping, seal coating, crack sealing, pavement repair,
 5.20 sidewalk maintenance, signal maintenance, street light maintenance, and signage.

5.21 (e) "Municipal street" means a street, alley, or public way in which the municipality
 5.22 is the road authority with powers conferred by section 429.021.

5.23 (f) "Municipality" means a home rule charter or statutory city.

5.24 (g) "Street improvement district" means a geographic area designated by a
 5.25 municipality within which street improvements and maintenance may be undertaken and
 5.26 financed according to this section.

5.27 **Subd. 2. Authorization.** A municipality may establish by ordinance municipal
 5.28 street improvement districts and may defray all or part of the total costs of municipal
 5.29 street improvements and maintenance by apportioning street improvement fees to all of
 5.30 the parcels located in the district.

5.31 **Subd. 3. Uniformity.** The total costs of municipal street improvements and
 5.32 maintenance must be apportioned to all parcels or tracts of land located in the established
 5.33 street improvement district on a uniform basis within each classification of real estate.

6.1 Subd. 4. **Adoption of plan.** (a) Before establishing a municipal street improvement
6.2 district or authorizing a street improvement fee, a municipality must propose and adopt
6.3 a street improvement plan that:

6.4 (1) identifies and estimates the costs of proposed improvements and maintenance for
6.5 the following five years;

6.6 (2) identifies the location of the municipal street improvement district, which must
6.7 be limited to parcels that are served by the improvements to be constructed or maintained
6.8 by the street improvement district; and

6.9 (3) specifies the manner in which costs will be apportioned among the parcels in
6.10 the district under subdivision 3.

6.11 (b) Notice of a public hearing on the proposed plan must be given by mail to all
6.12 affected landowners at least ten days before the hearing and posted for at least ten days
6.13 before the hearing. At the public hearing, the governing body must present the plan and
6.14 all affected landowners in attendance must have the opportunity to comment before the
6.15 governing body considers adoption of the plan.

6.16 Subd. 5. **Use of fees.** Revenues collected from property in a district from the
6.17 fee authorized in this section must be placed in a separate account and be used only
6.18 for projects located within that same district and identified in the municipal street
6.19 improvement district plan.

6.20 Subd. 6. **Collection; up to 20 years.** (a) The ordinance adopted under this section
6.21 must provide for the billing and payment of the fee on a monthly, quarterly, or other basis
6.22 as directed by the governing body. The governing body may collect municipal street
6.23 improvement fees within a street improvement district for up to a maximum of 20 years.

6.24 (b) Fees that, as of October 15 of each calendar year, have remained unpaid for at
6.25 least 30 days may be certified to the county auditor for collection as property taxes payable
6.26 in the following calendar year on the affected property.

6.27 Subd. 7. **Notice; hearings.** (a) A municipality may impose a municipal street
6.28 improvement fee provided in this section by ordinance. The ordinance must not be voted
6.29 on or adopted until after a public hearing has been held on the question. The effective date
6.30 of an ordinance must be at least 45 days after it is adopted.

6.31 (b) Within five days after adoption of the ordinance, a summary of the ordinance
6.32 must be mailed to the owner of each parcel included in the street improvement district.
6.33 The mailing must include a notice that owners subject to a fee under the ordinance have a
6.34 right to petition for a referendum vote on the ordinance by filing the required number of
6.35 objections with the city clerk before the effective date of the ordinance and that a copy of
6.36 the ordinance is on file with the city clerk for public inspection.

7.1 Subd. 8. **Reverse referendum.** (a) If owners of 35 percent or more of the net tax
7.2 capacity in the district subject to the fees under the ordinance file an objection to the
7.3 ordinance with the city clerk before the effective date of the ordinance, the ordinance does
7.4 not become effective unless it is approved as provided in paragraph (b).

7.5 (b) If an ordinance does not become effective as a result of the filing of objections
7.6 under paragraph (a), the city may submit the ordinance to the property owners in the
7.7 street improvement district that would be subject to the fee imposed by the ordinance for
7.8 approval. The election must be conducted by mail. Notice of the election and the mail
7.9 procedure must be given at least six weeks prior to the election. No earlier than 20 days or
7.10 later than 14 days before the date set for the election, the city clerk shall mail ballots by
7.11 nonforwardable mail to the owners, as recorded on the property tax records, of each parcel
7.12 of property subject to the fee under the ordinance. Each parcel of property is entitled to
7.13 one vote. Ballots may be returned to the city clerk by mail or in person by the date set for
7.14 the election. If a majority of the owners voting in the election approve the ordinance, it
7.15 becomes effective 30 days after the date of the election.

7.16 Subd. 9. **Not exclusive means of financing improvements.** The use of the
7.17 municipal street improvement fee by a municipality does not restrict the municipality from
7.18 imposing other measures to pay the costs of local street improvements or maintenance,
7.19 except that a municipality must not impose special assessments for projects funded with
7.20 street improvement fees.

7.21 Sec. 3. Minnesota Statutes 2008, section 469.176, is amended by adding a subdivision
7.22 to read:

7.23 Subd. 4m. **Use to offset state aid reductions.** (a) Notwithstanding any other
7.24 provision of this section, section 469.1763, or a special law, upon the request of the
7.25 municipality, the authority may elect, by resolution, to transfer increments from a district
7.26 to the municipality for deposit in its general fund. The permitted transfer for a calendar
7.27 year is limited to the amount allowed under paragraph (b). Following the election,
7.28 expenditure of increments from the district are limited by the conditions in paragraph (c).
7.29 The transferred increments may be expended for any purpose the municipality's general
7.30 fund permits.

7.31 (b) For each calendar year for which transfers are permitted under this section,
7.32 the maximum transfer equals the lesser of:

7.33 (1) the excess of the district's available increment over the sum of:

8.1 (i) required payments of obligations that will come due during the calendar year or
8.2 the first six months of the following calendar year on outstanding bonds and binding
8.3 contracts to which the district's increments are pledged; plus

8.4 (ii) transfers of increments from the district to offset deficits in other districts to be
8.5 made during the calendar year under section 469.1763, subdivision 6; or

8.6 (2) the sum of the following amounts (limited to the relevant amounts that are
8.7 effective through the calendar year in which the transfer is to be made):

8.8 (i) unallotment of aid payments previously certified by the state to be paid to the
8.9 municipality during calendar years 2008 through 2012;

8.10 (ii) reductions in state reimbursement payments for property tax credits to be paid to
8.11 the municipality in calendar years 2008 through 2012; and

8.12 (iii) reductions in local government aids to be paid to the municipality resulting from
8.13 reductions in the appropriation or changes in the formula, enacted by the legislature,
8.14 for calendar years 2009 through 2012; less

8.15 (iv) any special levy made by the municipality under section 275.70, subdivision
8.16 5, clause (22).

8.17 (c) Following an election under this subdivision, an authority may expend
8.18 increments from the district for only the following purposes:

8.19 (1) payment of bonds and binding contracts with an entity not under the control of
8.20 the municipality or authority to which the district's increments were pledged that were
8.21 outstanding when the election was made;

8.22 (2) transfers to offset deficits in other districts as permitted under section 469.1763,
8.23 subdivision 6;

8.24 (3) administrative expenses of the district; and

8.25 (4) transfers permitted under this subdivision.

8.26 (d) The commissioner of revenue shall calculate and certify the amount, if any, of
8.27 the reduction under paragraph (b), clause (2), item (iii), for a city, upon request of the city.

8.28 (e) The authority to transfer increments under this section expires on December
8.29 31, 2012.

8.30 **EFFECTIVE DATE.** This section is effective the day following final enactment
8.31 and applies to increments from any district, regardless of when the request for certification
8.32 was made.

8.33 **Sec. 4. [471.691] TEMPORARY AUTHORITY TO USE LODGING TAX**
8.34 **REVENUES.**

9.1 (a) A city, county, or town may use or spend the proceeds or revenues of a tax
 9.2 or fee on lodging for any permitted municipal purpose. For purposes of this section,
 9.3 "lodging" means the furnishing for consideration of lodging at a hotel, motel, rooming
 9.4 house, tourist court, or resort, other than the renting or leasing of lodging for a continuous
 9.5 period of 30 days or more.

9.6 (b) This section preempts the provisions of section 469.190, subdivision 3, or any
 9.7 other law, including special laws, ordinances, and charter provisions, that dedicate or limit
 9.8 the purposes for which the proceeds or revenues derived from a tax or fee imposed on
 9.9 lodging may be used or spent. It does not apply to:

9.10 (1) lodging tax proceeds that are pledged to pay bonds or other debt; or

9.11 (2) any of the proceeds of a general sales or use tax.

9.12 (c) This section expires on December 31, 2012.

9.13 **EFFECTIVE DATE.** This section is effective the day following final enactment.

9.14 Sec. 5. Minnesota Statutes 2008, section 475.58, subdivision 1, is amended to read:

9.15 Subdivision 1. **Approval by electors; exceptions.** Obligations authorized by law or
 9.16 charter may be issued by any municipality upon obtaining the approval of a majority of
 9.17 the electors voting on the question of issuing the obligations, but an election shall not be
 9.18 required to authorize obligations issued:

9.19 (1) to pay any unpaid judgment against the municipality;

9.20 (2) for refunding obligations;

9.21 (3) for an improvement or improvement program, which obligation is payable wholly
 9.22 or partly from the proceeds of special assessments levied upon property specially benefited
 9.23 by the improvement or by an improvement within the improvement program, or from tax
 9.24 increments, as defined in section 469.174, subdivision 25, including obligations which are
 9.25 the general obligations of the municipality, if the municipality is entitled to reimbursement
 9.26 in whole or in part from the proceeds of such special assessments or tax increments and
 9.27 not less than 20 percent of the cost of the improvement or the improvement program is to
 9.28 be assessed against benefited property or is to be paid from the proceeds of federal grant
 9.29 funds or a combination thereof, or is estimated to be received from tax increments;

9.30 (4) payable wholly from the income of revenue producing conveniences;

9.31 (5) under the provisions of a home rule charter which permits the issuance of
 9.32 obligations of the municipality without election;

9.33 (6) under the provisions of a law which permits the issuance of obligations of a
 9.34 municipality without an election;

10.1 (7) to fund pension or retirement fund or postemployment benefit liabilities pursuant
 10.2 to section 475.52, subdivision 6;

10.3 (8) under a capital improvement plan under section 373.40; ~~and~~

10.4 (9) under sections 469.1813 to 469.1815 (property tax abatement authority bonds), if
 10.5 the proceeds of the bonds are not used for a purpose prohibited under section 469.176,
 10.6 subdivision 4g, paragraph (b); and

10.7 (10) under section 475.755.

10.8 **EFFECTIVE DATE.** This section is effective the day following final enactment.

10.9 **Sec. 6. [475.755] EMERGENCY DEBT CERTIFICATES.**

10.10 (a) If at any time during a fiscal year the receipts of a local government are
 10.11 reasonably expected to be reduced below the amount provided in the local government's
 10.12 budget when the final property tax levy to be collected during the fiscal year was certified
 10.13 and the receipts are insufficient to meet the expenses incurred or to be incurred during the
 10.14 fiscal year, the governing body of the local government may authorize and sell certificates
 10.15 of indebtedness to mature within two years or less from the end of the fiscal year in which
 10.16 the certificates are issued. The maximum principal amount of the certificates that it may
 10.17 issue in a fiscal year is limited to the expected reduction in receipts plus the cost of
 10.18 issuance. The certificates may be issued in the manner and on the terms the governing
 10.19 body determines by resolution.

10.20 (b) The governing body of the local government shall levy taxes for the payment of
 10.21 principal and interest on the certificates in accordance with section 475.61.

10.22 (c) The certificates are not to be included in the net debt of the issuing local
 10.23 government.

10.24 (d) For purposes of this section, the following terms have the meanings given.

10.25 (1) "Local government" means a statutory or home rule charter city, a town, or
 10.26 a county.

10.27 (2) "Receipts" includes the following amounts scheduled to be received by the
 10.28 local government for the fiscal year from:

10.29 (i) taxes;

10.30 (ii) aid payments previously certified by the state to be paid to the local government;

10.31 (iii) state reimbursement payments for property tax credits; and

10.32 (iv) any other source.

10.33 **EFFECTIVE DATE.** This section is effective the day following final enactment.