MN HOUSE RESEARCH

Bill Summary

H.F. 1396

As Introduced

Subject	School District Debt Service Equalization Aid
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Overview

Minnesota's school districts generally finance the construction of new school buildings through the sale of locally issued bonds. In nearly all cases, the bond amount must be approved by the voters at an election. The bonds are repaid with revenue raised from the local district's property tax receipts called the debt service levy. The total amount of building bonds issued by the district determines the yearly debt service that the district must pay. The tax rate that the district levies in order to make its debt service payments depends both on the amount of debt and the size of the district's property tax base. The larger the debt, and the smaller the property tax base, the greater the district's tax rate for debt service needs.

The debt service equalization aid program provides state aid to low property wealth school districts to help repay the building bonds. The amount of a school district's debt service that the state will pay depends on two factors: the district's total amount of annual debt service; and the district's taxable property tax base per pupil. Under current law, the equalized debt service revenue is divided into tiers. The first tier applies to the portion of a school district's debt that is below 15.74 percent of the district's adjusted net tax capacity (ANTC). The first tier must be provided entirely through the local levy. The second tier applies to the portion of debt revenue between 15.74 percent and 26.24 percent of ANTC. Under current law, this tier is equalized at a very low level—about half of the statewide average tax base per pupil. The third tier is for debt levies above 26.24 percent of ANTC and is equalized at the state average tax base per pupil.

H.F. 1396 proposes to combine the debt service revenue program into just two tiers: requiring a local levy of up to ten percent of ANTC for the first tier; and equalizing all amounts above that at the state average tax base per pupil for the second tier (estimated at $12,739 for fiscal year 2025). This proposal is expected to increase state aid and lower property taxes by about $41,000,000 per year.

Summary

Section	Description
1	**Debt service equalization revenue.** Combines the three current tiers of debt service equalization revenue into two tiers of revenue. Requires the first tier to be all levy—the amount raised by a local tax rate of up to ten percent of ANTC is all local levy. Defines the second tier as all debt service levy in excess of a ten percent tax rate.
2	**Debt service equalization levy.** Sets the equalizing factor for the second tier of debt service revenue at the state average ANTC tax base per pupil unit (estimated at $12,739 per pupil for fiscal year 2025).
3	**Debt service equalization aid.** Provides debt service equalization aid for the second tier of debt service equalization revenue. Sets the amount equal to the debt service revenue minus the equalized debt service levy.
4	**Appropriations.** Appropriates an unspecified amount of money for additional debt service equalization aid for fiscal year 2025.