

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H. F. 398

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Subject: Increasing School District Debt Service Aid; Exempting Ag Lands

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Overview

Minnesota's local school districts have generally financed the construction of new school buildings through the sale of bonds. The bonds are repaid with revenue raised from the local district's property tax receipts. The total amount of bonds issued by the district determines the yearly debt service that the district must pay; and the amount of bonds issued is, of course, directly related to the district's building needs.

The debt service equalization aid program provides state aid to local school districts to help repay the bonds issued to finance construction. 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 (net tax capacity) per pupil. Debt service equalization aid applies to yearly net debt service amounts in excess of 12 percent of a qualifying school district's tax capacity. For each additional percentage point of tax levy above 12 percent needed to pay the debt service, the state aid, when added to the local levy, will raise a guaranteed amount per pupil, which is \$40 per pupil unit.

H. F. 398 modifies the debt service equalization program in two ways. First it raises the equalizing factor from \$4,000 to \$8,000 per pupil which increases the state aid payments to all currently qualifying districts and provides some state aid to higher-valued districts with large amounts of building debt. Second, H. F. 398 excludes all agricultural lands (except the house, garage and one acre) from the definition of tax base used to calculate and spread debt service equalization aid (this excludes about \$270 million out of \$4.1 billion of ANTC). The estimated aid cost of these changes is roughly \$32 million.

1 Equalized debt service levy. Increases the equalizing factor for the debt service equalization aid program from \$4,000 per pupil unit to \$8,000 per pupil unit.

2 Agricultural land exemption. Exempts all agricultural lands, except the house, garage and one acre

from the definition of tax base that is used to calculate each school district's debt service levy.

3 Computation of tax rates. Directs the county auditor to deduct the net tax capacity of agricultural lands from each district's tax base before spreading the debt service levy for that school district.