HOUSE RESEARCH

Bill Summary

FILE NUMBER: H. F. 449 **DATE:** March 27, 2001

Version: As Introduced

Authors: Hilty

Subject: Maximum Effort Capital Loan; East Central School District

Analyst: Tim Strom, 651-296-1886

Overview

Some school districts find it difficult or impossible to finance construction projects through conventional locally-issued bond sales because the district property tax base is too small. These districts can qualify for state assistance under the Maximum Effort School Aid Law. Under this program, the state borrows money via bond sales and lends it to qualifying school districts. A district is eligible for a capital loan only if its net debt tax rate, after any state-paid debt service equalization aid, is more than 24 percent of ANTC.

The statutes require a school district that intends to apply for a capital loan to submit the project proposal to the Commissioner of Children, Families, and Learning for review and comment by July 1. Capital loans may not be used to pay for swimming pools, ice arenas,

athletic facilities, day care centers, bus garages, or heating system improvements. In order to grant a positive review and comment, the commissioner must determine that all of the following conditions have been met: no adequate facilities currently exist; the district will serve at least 80 pupils per grade; no form of cooperation with other districts would provide the needed facilities; the facilities are comparable to facilities recently constructed in other districts of similar enrollment; the facilities are comparable to facilities recently constructed in other districts that are financed without a capital loan; the district's enrollment is expected to grow over the next five years or the district qualifies for sparsity revenue; the current facility poses a health and safety threat and cannot be brought into compliance with code; the district has made an effort to adequately maintain the existing facility; and the district has shared its plans and received comments from neighboring school districts.

The school board of a district that wants a capital loan must adopt a resolution that describes the project and submit an application for a capital loan to the commissioner by November 1. The commissioner reviews the application and makes a recommendation on the project to the legislature.

Each capital loan must be approved in law. A district must approve the project by referendum before February 1. If the capital loan is approved by the Legislature, the district must issue bonds up to the amount of: (1) the district's net debt limit, as defined

in Minnesota Statutes, section 475.53, or (2) 363 percent of ANTC, whichever is less. The amount of the capital loan the district is eligible for is the difference between the total cost of the project and the amount of the local bond issue.

In order to repay the capital loan, a school district must levy the greater of 24 percent of ANTC; or the amount needed to pay principal and interest on the local bond issue. In any year, if 24 percent of ANTC is the greater amount, the difference is applied to repayment of the state loan. If the amount needed for local debt service is the greater amount, no payment is required on the state loan in that year. Maximum effort capital loans are forgiven if they are not paid within 50 years of issue.

Capital loans are initially funded by the sale of state bonds. In addition to the bond proceeds, supplemental appropriations by the legislature are necessary to make principal and interest payments because repayments of loans by districts are occurring at a

slower rate than that required to meet the state's obligations. The state has sold approximately $210 million worth of state bonds since 1965 to fund this program. The annual appropriation in FY 01 to pay the state's debt service on these capital loans

was $17.2 million.

The 2000 Legislature approved capital loans for five school districts totaling $44 million and also imposed a one-year moratorium on the approval of new capital loans by the commissioner of children, families, and learning.

Section

1 **Maximum effort capital loan; East Central.** Authorizes a maximum effort capital loan of $19,000,000 to independent school district No. 2580, East Central, notwithstanding either the statutory timelines in place for the commissioner to approve a capital loan or the one-year moratorium on capital loans contained in the 2000 bonding bill.