

HOUSE RESEARCH

Bill Summary

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Subject: Debt Service Equalization Aid

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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 \$40.00 per pupil unit. Since the equalizing factor is a fixed amount, and since school district tax bases have grown substantially since the program's inception, the amount of debt service equalization aid received by school districts has been decreasing over time. For FY 03, debt service equalization aid is expected to total approximately \$19.2 million.

H. F. 731 proposes to increase the debt service equalization aid by about \$35 million per year. This is accomplished by lowering the initial local levy from 12% to 10% of ANTC and by increasing the equalizing factor from \$4,000 per pupil unit to \$6,000 per pupil unit.

1 Debt service equalization revenue. Lowers the initial local levy that a school district must make to qualify for debt service equalization revenue from 12% of adjusted net tax capacity (ANTC) to 10% of ANTC.

- 2 **Equalized debt service levy.** Increases and indexes the equalizing factor for debt service equalization aid by changing the equalization factor from \$4,000 per pupil unit to \$6,000 per pupil unit.
- 3 **Debt service appropriation.** Increases the fixed, standing appropriation for debt service equalization aid to \$57,000,000 per year.