

HOUSE RESEARCH

Bill Summary

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Overview

Some school districts find it difficult or impossible to finance construction projects through conventional 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 general obligation bond sales and lends it to qualifying school districts through capital loans. School districts annually levy the maximum effort tax rate and any amounts not needed to repay local building bonds are returned to the state as partial or full repayment of the capital loan. For recent capital loans, any outstanding balance is forgiven after 50 years. Older capital loans are forgiven after 30 years.

In 2001, the Legislature significantly altered the property tax base, primarily by lowering legal class rates on certain types of property. These changes reduced the statewide tax base by about one-third. The Legislature correspondingly increased tax rates in school finance formulas proportionately. For districts with maximum effort capital loans, the maximum effort tax rate went from 24 percent to 32 percent of adjusted net tax capacity. However, because of the mix of properties in the tax bases of school districts with maximum effort capital loans, their tax bases were only reduced by about 15 percent by the 2001 changes. H.F. 27 reduces the maximum effort tax rate to 28 percent, which would be proportionate to the tax base reduction for these districts.

Section

- 1** **Maximum effort debt service levy.** Lowers the maximum effort debt service tax rate from 32 percent to 28 percent of adjusted net tax capacity beginning with taxes payable in 2006.

