

HOUSE RESEARCH

Bill Summary

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Subject: Red Lake School District; Maximum Effort Capital Grant for School Facilities

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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 41.98 percent of adjusted net tax capacity (ANTC).

The statutes require a school district that intends to apply for a capital loan to submit the project proposal to the commissioner of education for review and comment by July 1. Capital loans may not be used to pay for swimming pools, ice arenas, athletic facilities, auditoriums, 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; 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 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) 637 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 29.39 percent of ANTC; or the amount needed to pay principal and interest on the local bond issue. In any year, if 29.39 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 \$300 million worth of state bonds since 1959 to fund this program.

Red Lake is an independent public school district governed in the same manner as all other Minnesota school districts. The district serves approximately 1,400 students in kindergarten through grade 12. The district has virtually no tax base, so it has no ability to issue any significant amount of local bonds for school building projects. Since 1992, the district has received four capital loans from the state for school construction projects. This bill requests an unspecified amount of money to complete the district's building plans.

1 Independent School District No. 38, Red Lake.

Subd. 1. Appropriation. Appropriates \$5,780,000 from the state bond fund to the commissioner of education for a facilities grant to Independent School District No. 38, Red Lake.

Subd. 2. Bond sale. Authorizes the commissioner of finance to issue and sell bonds to fund a maximum effort school loan to Independent School District No. 38, Red Lake.