HOUSE RESEARCH
Bill Summary

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Subject: School District Debt Service Equalization Revenue; Natural Disasters

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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 building bonds issued by the district determines the yearly debt service that the district must pay; and the amount of bonds issued is directly related to the district's building needs. The tax rate that the district levies in order to make its debt service payments depends both on the amount of debt and the size of the district's property tax base. The larger the debt, and the smaller the property tax base, the greater the district's tax rate for debt service 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. Over the last two decades, the benefits of the debt service equalization aid program have declined significantly as property values have grown and the equalizing factors have stayed fixed.

This bill creates a new debt service equalization aid program for districts that need to rebuild a facility because of a natural disaster. This program provides substantially greater amounts of debt service equalization aid for qualifying districts than the regular debt service equalization aid program.

Section

1 **Definitions.** Includes in the definition of eligible debt service revenue obligations issued

Section

under the natural disaster debt service equalization aid program.

2 **Natural disaster debt service equalization.**

Subd. 1. Definitions. Defines "eligible natural disaster debt service revenue" as the amount necessary to raise between 105 and 106 percent of the annual repayment of debt for repair of facilities that (1) have been impacted by a natural disaster occurring since January 1, 2005; (2) were damaged by more than $500,000; and (3) have repair and replacement costs that are not covered by FEMA or insurance. Defines the adjusted net tax capacity (ANTC) equalizing factor as the statewide ratio of ANTC to pupil units. Defined the ANTC tax base in a manner that includes properties otherwise excluded by Job Z program.

Subd. 2. Notification. Requires a district qualifying for natural disaster debt service revenue to annually notify the commissioner of the qualifying bonds outstanding under this program.

Subd. 3. Natural disaster debt service equalization revenue. Sets the natural disaster debt service equalization revenue at the amount exceeding the lesser of 10 percent of the district's ANTC or the amount of the district's outstanding debt service not attributable to a natural disaster project.

Subd. 5. Natural disaster debt service equalization levy. Sets the levy share of natural disaster debt service revenue at the lesser of one or the ratio of the district's ANTC per pupil to three times the state average ANTC per pupil (currently the statewide average ANTC per pupil is about $7,000).

Subd. 5. Natural disaster debt service equalization aid. Sets natural disaster debt service aid equal to the difference between the revenue and the levy.

Subd. 6. Natural disaster debt service equalization aid payment schedule. Requires natural disaster debt service equalization aid to be paid in the same manner as other debt service equalization aid.

3 **Debt service appropriation.** Includes the natural disaster debt service equalization aid in the open and standing appropriation for debt service equalization aid.

4 **Abatements.** Includes the natural disaster debt service equalization aid in the aid programs available for abatement aid.

5 **Excess tax increment.** Includes the natural disaster debt service equalization aid in the list of aid programs adjusted when excess tax increment payments are received.