

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 225
Version: As Introduced

DATE: February 21, 2013

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Subject: Red Lake School District; Maximum Effort Capital Loan

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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).

A school district must submit the project proposal to the commissioner of education for approval and follow the timelines in statute. 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.

Each capital loan must be approved in law. 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 district is eligible for a maximum effort capital loan equal to the difference between the total approved cost of the project and the amount of the local bond issue.

Section

In order to repay the capital loan, a school district must levy the greater of 33.59 percent of ANTC, or the amount needed to pay principal and interest on the local bond issue. In any year, if 33.59 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. Special legislation passed in 2011 allowed districts with outstanding capital loan balances to satisfy their loans by repaying the principal and having the outstanding interest owed forgiven.

Capital loans are funded by the sale of state bonds. The state has sold approximately \$300 million worth of maximum effort state bonds since the program's inception in 1959.

Red Lake is an independent public school district governed in the same manner as all other Minnesota school districts. The district serves approximately 1,350 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 \$33 million to address the district's building needs.

Section

- 1 Appropriation.** Appropriates \$33 million from the state bond fund to the commissioner of education for a maximum effort capital loan to Independent School District No. 38, Red Lake.