

# HOUSE RESEARCH

## Bill Summary

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**Subject:** Early Repayment of Maximum Effort Capital Loans

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### Overview

Some school districts find it difficult or impossible to finance school building construction projects through conventional bond sales because the district property tax base is too small. These districts may qualify for state assistance under the Maximum Effort School Aid Law. Under this program, the state borrows money via general obligation (g.o.) bond sales and lends it to qualifying school districts.

Once the Legislature approves a district's capital loan request, the district issues local g.o. bonds for its share of the project and the state issues g.o. bonds for the remainder of the project costs. To repay the loan, the district annually levies the greater of the amount needed to pay the local bonds or a tax rate of 29.39 percent of ANTC. 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 repaying local debt service is the greater amount, no payment is required on the state loan in that year but any unpaid interest is added to the loan amount. Maximum effort capital loans are forgiven if they are not repaid within 50 years of issue.

This bill authorizes capital loan school districts to fully satisfy their capital loan obligations to the state by repaying whatever original principal amounts are still outstanding. It is expected that nearly all capital loan recipients will refinance their local bonds in order to satisfy their state bond obligations. The fiscal note estimates that the state will receive a short term boost in revenue (roughly \$52 million) through the early loan repayments and that the state may forgo a greater amount of revenue over the long term. A similar provision was approved by the 2011 Legislature.

**Section**

- 1**      **Early repayment.** Authorizes a school district with an outstanding balance on its maximum effort capital loan to refinance its local bonds and repay to the state an amount equal to the remaining original principal amount that is still outstanding and forgives any accumulated interest on the state maximum effort capital loan.