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 **Authors:** Drazkowski and others

 **Subject:** School Tax Fairness Act; Altering School District Property Tax Bases

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#### Overview

When a school district undertakes a major building project, the district seeks voter approval for the sale of bonds. If the bond sale is approved, the bond proceeds are paid to the contractor for the construction costs, and the district annually levies an amount (the debt service levy) to repay the building bonds. The debt service levy is based on net tax capacity (NTC) and a portion of the levy is equalized through the debt service equalization aid program. For taxes payable in 2018, the total debt service levy is about $920 million and the equalization aid is about $20 million.

Because the debt service levy is computed on a NTC basis, all property classes, including agricultural lands, pay a portion of the levy. The 2017 Legislature reduced the levy’s impact on agricultural lands by enacting the School Building Bond Agricultural Credit which reduces the debt service levy paid by agricultural lands by 40 percent.

H.F. 2495 provides that school district (and other local government) debt service levies beginning with projects approved after June 30, 2021 will be spread on a tax base that excludes all agricultural lands (except for the house, garage and one acre—HGA). This is done by redefining the existing referendum market value (RMV) tax base (the one used for school district operating referendum levies) to include seasonal recreational property at 25 percent of its market value (seasonal rec is currently excluded from RMV) and commercial/industrial property over $150,000 in value at 125 percent of its value (currently included at 100 percent of its value). The four school levies currently calculated on RMV (operating referendum, local option, equity, and transition revenue) convert to the new RMV tax base, while all other levies, except the debt service levy, remain on NTC.

Because the new RMV tax base removes agricultural lands, some small school districts may not have sufficient resources to build a new school building. A grant program is created to help make school buildings affordable for these school districts.

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|  | Citation. Renames the Cooperative School Building Program the “Small Schools and Cooperative Facilities Grant Act.” |
|  | Policy and purpose. States that the purposes of the Small Schools and Cooperative Facilities Grant Act is to encourage and reward efficient use of school facilities. |
|  | Approval authority. Allows grants to be awarded to isolated small school districts. Defines an isolated small school as a district that qualifies for operating sparsity revenue, serves fewer than 500 pupils per year, and has a tax base that is more than 50 percent agricultural.  |
|  | Grant application process. Adds isolated small school districts to the list of districts that can apply for a state grant. |
|  | Small schools and cooperative facilities grant; account created. Establishes a special revenue fund to provide money for the small school and cooperative facilities. Beginning in FY 2020, annually appropriates $2 million from the state general fund to the special account. Authorizes the commissioner of education to make awards out of the fund to qualifying school districts. |
|  | Debt service definitions. Divides the debt service equalization calculations into two parts. The debt service necessary to repay bonds for projects approved prior to June 30, 2021, remain on NTC and continues to apply the school building bond ag credit to this part of the debt service levy. Requires debt service levies for projects approved after June 30, 2021, to be calculated and spread on the revised definition of RMV. |
|  | Net tax capacity debt service equalization revenue. Keeps debt service amounts for projects approved prior to July 1, 2021, calculated on net tax capacity. |
|  | Equalized net tax capacity debt service levy. Keeps the existing debt service equalization aid system in place for projects approved prior to July 1, 2021. |
|  | Net tax capacity debt service equalization aid. Keeps the existing debt service equalization aid system in place for projects approved prior to July 1, 2021. |
|  | Initial referendum market value debt service equalization revenue. Calculates the initial equalized portion of debt service revenue as the total amount of debt service revenue exceeding a rate of 15.74 percent of the newly defined referendum market value. |
|  | Equalized initial referendum market value debt service levy. Sets the initial debt service equalization levy to the product of the initial referendum market value debt service equalization revenue and the lesser of one or the ratio of the district’s new RMV tax base per pupil unit to the statutory equalizing factor of $1,131,246. |
|  | Initial referendum market value debt service equalization aid. Establishes each district’s initial referendum market value debt service equalization aid as the difference between its initial referendum market value equalization revenue and its initial referendum market value equalization levy. |
|  | Actual referendum market value aid. Provides that the district’s actual referendum market value aid is equal to its initial referendum market value aid minus its NTC debt service aid. |
|  | Debt service levy. Requires the debt service levy for projects approved prior to July 1, 2021, to be spread on NTC and the debt service levy for projects approved after June 30, 2021, to be spread on the new RMV tax base. |
|  | Referendum market value. For taxes payable in 2022 and later, redefines the existing referendum market value tax base to include seasonal recreational property at 25 percent of its total market value and commercial/industrial property over $150,000 in value at 125 percent of its total market value. Applies this definition to all RMV-based levies, including non-school RMV-based levies. |
|  | Voter-approved levy; market value. Provides that county and city referendum levies for bonded debt projects approved after June 30, 2021, are to be levied against the newly-defined RMV. |