

HOUSE RESEARCH

Bill Summary

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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 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. Two types of loans are available: capital loans (for new construction projects) and debt service loans (to reduce the amount that districts must levy for debt service on completed projects). Qualifying districts can obtain either or both types of loans. 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 32 percent of ANTC.

If the Legislature approves a district's capital loan request, the district must issue bonds up to the amount of the district's net debt limit, or 607 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. For districts obtaining capital loans after January 1, 1990, the district annually must levy the greater of: 28 percent of ANTC; or the amount needed to pay the annual principal and interest on the local bond issue. In any year, if 28 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 and debt service 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.

This bill authorizes school districts to fully satisfy their capital loan obligations to the state by repaying the original principal amount of the loan.

- 1** **Loan forgiveness.** Authorizes a school district to repay the full outstanding original principal on its capital loan on July 1 of any year to satisfy and discharge its maximum effort capital loan obligation to the state of Minnesota.