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Overview

Some school districts find it difficult or impossible to finance 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. Under the maximum effort capital loan law, the district's interest owed on the state bond proceeds carries the interest in place at the time the bonds were sold.

Each year, a district with a maximum effort capital loan levies a "maximum effort" (currently 29.39 percent of net tax capacity) and applies the proceeds to its local bonds. Any remaining funds are then used to repay the state assistance. After either 30 or 50 years, depending on when the capital loan was granted by the state to the district, the loan and any outstanding principal and interest are forgiven.

In 2016, the legislature authorized an early repayment option to school districts with outstanding maximum effort capital loan balances for loans issued prior to January 1, 2007. Seven of the remaining 11 districts holding capital loans refinanced their bonds. Because the legislation also eliminated the authority for all maximum effort school districts to issue one-day bonds, the legislation authorized a replacement aid of \$2.2 million per year for five years to compensate a portion of the expected foregone revenue from one-day bond sales.

Section

H.F. 786 provides property tax relief, paid over five years, for the school districts that repaid some or all of the outstanding interest on their capital loans to the state prior to the loan's forgiveness.

- 1** **Maximum effort loan aid.** Makes payments over a five-year period to school districts that took advantage of the 2016 law allowing the districts to repay the outstanding principal on their maximum effort capital loans to compensate for the interest payments these districts had previously paid to the state.