

State of Minnesota

H. F. No. 116

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The bill was read for the first time and referred to the Committee on Education Finance

1.1 A bill for an act

1.2 relating to education finance; broadening the natural disaster debt service

1.3 equalization aid program to assist school districts with a high percentage of property

1.4 excluded from the tax rolls; amending Minnesota Statutes 2024, sections 123B.535;

1.5 127A.49.

1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7 Section 1. Minnesota Statutes 2024, section 123B.535, is amended to read:

1.8 **123B.535 ~~NATURAL DISASTER~~ ENHANCED DEBT SERVICE**

1.9 EQUALIZATION.

1.10 Subdivision 1. **Definitions.** (a) For purposes of this section, the eligible natural disaster

1.11 enhanced debt service revenue of a district is defined as the amount needed to produce

1.12 between five and six percent in excess of the amount needed to meet when due the principal

1.13 and interest payments on the obligations of the district that would otherwise qualify under

1.14 section 123B.53 under the following conditions: specified in paragraphs (b) and (c).

1.15 (b) A school district qualifies for enhanced debt service equalization aid if:

1.16 (1) the district was impacted by a natural disaster event or area occurring January 1,

1.17 2005, or later, as declared by the President of the United States of America, which is eligible

1.18 for Federal Emergency Management Agency payments;

1.19 (2) the natural disaster caused \$500,000 or more in damages to school district buildings;

1.20 and

1.21 (3) the repair and replacement costs are not covered by insurance payments or Federal

1.22 Emergency Management Agency payments.

2.1 (c) A school district also qualifies for enhanced debt service equalization aid if at least
2.2 30 percent of a district's property value is excluded from the district's taxable value.

2.3 ~~(b)~~ (d) For purposes of this section, the adjusted net tax capacity equalizing factor equals
2.4 the quotient derived by dividing the total adjusted net tax capacity of all school districts in
2.5 the state for the year before the year the levy is certified by the total number of adjusted
2.6 pupil units in the state for the year prior to the year the levy is certified.

2.7 ~~(e)~~ (e) For purposes of this section, the adjusted net tax capacity determined according
2.8 to sections 127A.48 and 273.1325 shall be adjusted to include the tax capacity of property
2.9 generally exempted from ad valorem taxes under section 272.02, subdivision 64.

2.10 Subd. 2. **Notification.** A district eligible for ~~natural-disaster~~ enhanced debt service
2.11 equalization revenue under subdivision 1 must notify the commissioner of the amount of
2.12 its intended ~~natural-disaster~~ enhanced debt service revenue calculated under subdivision 1
2.13 for all bonds sold prior to the notification by July 1 of the calendar year the levy is certified.

2.14 Subd. 3. **~~Natural-disaster~~ Enhanced debt service equalization revenue.** The debt
2.15 service equalization revenue of a district equals the greater of zero or the eligible debt service
2.16 revenue, minus the greater of zero or the difference between:

2.17 (1) the amount raised by a levy of ten percent times the adjusted net tax capacity of the
2.18 district; and

2.19 (2) the district's eligible debt service revenue under section 123B.53.

2.20 Subd. 4. **Equalized ~~natural-disaster~~ enhanced debt service levy.** A district's equalized
2.21 ~~natural-disaster~~ enhanced debt service levy equals the district's ~~natural-disaster~~ enhanced
2.22 debt service equalization revenue times the lesser of one or the ratio of:

2.23 (1) the quotient derived by dividing the adjusted net tax capacity of the district for the
2.24 year before the year the levy is certified by the adjusted pupil units in the district for the
2.25 school year ending in the year prior to the year the levy is certified; to

2.26 (2) 300 percent of the statewide adjusted net tax capacity equalizing factor.

2.27 Subd. 5. **~~Natural-disaster~~ Enhanced debt service equalization aid.** A district's ~~natural~~
2.28 ~~disaster~~ enhanced debt service equalization aid equals the difference between the district's
2.29 ~~natural-disaster~~ enhanced debt service equalization revenue and the district's equalized
2.30 ~~natural-disaster~~ enhanced debt service levy.

Subd. 6. ~~Natural-disaster~~ Enhanced debt service equalization aid payment
schedule. Debt service equalization aid must be paid according to section 127A.45,
subdivision 10.

EFFECTIVE DATE. This section is effective for bond issues approved on or after July
1, 2025.

Sec. 2. Minnesota Statutes 2024, section 127A.49, is amended to read:

127A.49 AID ADJUSTMENTS.

Subdivision 1. **Omissions.** No adjustments to any aid payments made pursuant to this
chapter or chapters 120B, 122A, 123A, 123B, 124D, 124E, 125A, and 126C resulting from
omissions in district reports, except those adjustments determined by the legislative auditor,
shall be made for any school year after December 15 of the next school year, unless otherwise
specifically provided by law.

Subd. 2. **Abatements.** Whenever by virtue of chapter 278, sections 270C.86, 375.192,
or otherwise, the net tax capacity or referendum market value of any district for any taxable
year is changed after the taxes for that year have been spread by the county auditor and the
local tax rate as determined by the county auditor based upon the original net tax capacity
is applied upon the changed net tax capacities, the county auditor must, prior to February
1 of each year, certify to the commissioner of education the amount of any resulting net
revenue loss that accrued to the district during the preceding year. Each year, the
commissioner must pay an abatement adjustment to the district in an amount calculated
according to the provisions of this subdivision. This amount must be deducted from the
amount of the levy authorized by section 126C.46. The amount of the abatement adjustment
must be the product of:

(1) the net revenue loss as certified by the county auditor, times

(2) the ratio of:

(i) the sum of the amounts of the district's certified levy in the third preceding year
according to the following:

(A) section 123B.595, if the district received long-term facilities maintenance aid
according to that section for the second preceding year;

(B) section 124D.20, if the district received aid for community education programs
according to that section for the second preceding year;

(C) section 142D.11, subdivision 3, if the district received early childhood family education aid according to section 142D.11 for the second preceding year;

(D) section 126C.17, subdivision 6, if the district received referendum equalization aid according to that section for the second preceding year;

(E) section 126C.10, subdivision 13a, if the district received operating capital aid according to section 126C.10, subdivision 13b, in the second preceding year;

(F) section 126C.10, subdivision 29, if the district received equity aid according to section 126C.10, subdivision 30, in the second preceding year;

(G) section 126C.10, subdivision 32, if the district received transition aid according to section 126C.10, subdivision 33, in the second preceding year;

(H) section 123B.53, subdivision 5, if the district received debt service equalization aid according to section 123B.53, subdivision 6, in the second preceding year;

(I) section 123B.535, subdivision 4, if the district received ~~natural-disaster~~ enhanced debt service equalization aid according to section 123B.535, subdivision 5, in the second preceding year;

(J) section 124D.22, subdivision 3, if the district received school-age care aid according to section 124D.22, subdivision 4, in the second preceding year;

(K) section 126C.10, subdivision 2e, paragraph (b), if the district received local optional aid according to section 126C.10, subdivision 2e, paragraph (c), in the second preceding year; and

(L) section 122A.415, subdivision 5, if the district received alternative teacher compensation equalization aid according to section 122A.415, subdivision 6, paragraph (a), in the second preceding year; to

(ii) the total amount of the district's certified levy in the third preceding December, plus or minus auditor's adjustments.

Subd. 3. **Excess tax increment.** (a) If a return of excess tax increment is made to a district pursuant to sections 469.176, subdivision 2, and 469.177, subdivision 9, or upon decertification of a tax increment district, the school district's aid and levy limitations must be adjusted for the fiscal year in which the excess tax increment is paid under the provisions of this subdivision.

(b) An amount must be subtracted from the district's aid for the current fiscal year equal to the product of:

5.1 (1) the amount of the payment of excess tax increment to the district in the preceding
5.2 year, times

5.3 (2) the ratio of:

5.4 (i) the sum of the amounts of the district's certified levy in the third preceding year
5.5 according to the following:

5.6 ~~(A) section 123B.57, if the district received health and safety aid according to that section~~
5.7 ~~for the second preceding year;~~

5.8 ~~(B)~~ (A) section 124D.20, if the district received aid for community education programs
5.9 according to that section for the second preceding year;

5.10 ~~(C)~~ (B) section 142D.11, subdivision 3, if the district received early childhood family
5.11 education aid according to section 142D.11 for the second preceding year;

5.12 ~~(D)~~ (C) section 126C.17, subdivision 6, if the district received referendum equalization
5.13 aid according to that section for the second preceding year;

5.14 ~~(E)~~ (D) section 126C.10, subdivision 13a, if the district received operating capital aid
5.15 according to section 126C.10, subdivision 13b, in the second preceding year;

5.16 ~~(F)~~ (E) section 126C.10, subdivision 29, if the district received equity aid according to
5.17 section 126C.10, subdivision 30, in the second preceding year;

5.18 ~~(G)~~ (F) section 126C.10, subdivision 32, if the district received transition aid according
5.19 to section 126C.10, subdivision 33, in the second preceding year;

5.20 ~~(H)~~ (G) section 123B.53, subdivision 5, if the district received debt service equalization
5.21 aid according to section 123B.53, subdivision 6, in the second preceding year;

5.22 ~~(I)~~ (H) section 123B.535, subdivision 4, if the district received ~~natural disaster~~ enhanced
5.23 debt service equalization aid according to section 123B.535, subdivision 5, in the second
5.24 preceding year;

5.25 ~~(J)~~ (I) section 124D.22, subdivision 3, if the district received school-age care aid
5.26 according to section 124D.22, subdivision 4, in the second preceding year; and

5.27 ~~(K)~~ (J) section 122A.415, subdivision 5, if the district received alternative teacher
5.28 compensation equalization aid according to section 122A.415, subdivision 6, paragraph (a),
5.29 in the second preceding year; to

5.30 (ii) the total amount of the district's certified levy in the third preceding year, plus or
5.31 minus auditor's adjustments.

- 6.1 (c) An amount must be subtracted from the school district's levy limitation for the next
6.2 levy certified equal to the difference between:
- 6.3 (1) the amount of the distribution of excess increment; and
- 6.4 (2) the amount subtracted from aid pursuant to clause (a).

6.5 If the aid and levy reductions required by this subdivision cannot be made to the aid for
6.6 the fiscal year specified or to the levy specified, the reductions must be made from aid for
6.7 subsequent fiscal years, and from subsequent levies. The school district must use the payment
6.8 of excess tax increment to replace the aid and levy revenue reduced under this subdivision.

- 6.9 (d) This subdivision applies only to the total amount of excess increments received by
6.10 a district for a calendar year that exceeds \$25,000.

6.11 **EFFECTIVE DATE.** This section is effective for adjustments for fiscal year 2026 and
6.12 later.