



# Debt Service Equalization for School Facilities

2019  
EVALUATION REPORT

Program Evaluation Division

**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

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March 2019

Members of the Legislative Audit Commission:

The state's Debt Service Equalization program was designed to financially assist certain school districts with constructing or renovating their school facilities. School districts with low amounts of tax base per student and relatively high amounts of capital debt are eligible for the program.

We found that, relative to the program's earlier years, the Debt Service Equalization program provides a small amount of aid, and only few school districts receive the aid. We present several options to change the program so more school districts can obtain state help.

Our evaluation was conducted by Jody Hauer (project manager) and Will Harrison. The Minnesota Department of Education cooperated fully with our evaluation, and we thank them for their assistance.

Sincerely,

James Nobles  
Legislative Auditor

Judy Randall  
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# Debt Service Equalization for School Facilities

## Key Facts and Findings:

- The Debt Service Equalization program, first operated in 1993, offers state aid to certain school districts to help them repay debt used to construct or renovate school buildings and other facilities. Program aid is intended to help offset or “equalize” variation in school district property taxes due to districts’ varying levels of property wealth. (p. 3)
- To be eligible for aid, school districts must have low tax-base wealth per student and relatively high debt for capital projects. (p. 5)
- To finance facilities, school districts issue bonds that allow districts to borrow money for capital projects. District voters must first approve the bonds. Districts repay the principal and interest, known as “debt service,” typically over a 20-year period. (p. 3)
- For Fiscal Year (FY) 2019, 34 of 329 school districts (10 percent) received Debt Service Equalization aid. All but six of them were outside the metropolitan area. Aid amounts ranged from \$500 to \$6 million. (p. 8)
- The Debt Service Equalization program has had limited impact in recent years. The number of school districts receiving aid declined from 131 in FY 1997 to 34 in 2019. The program’s aid (inflation adjusted) declined 64 percent from FY 1997 through 2018. The aid paid for 11 percent of all eligible debt service statewide in FY 1997 but just 3 percent by 2019, meaning that districts have increasingly paid their eligible debt service mostly with their local property tax revenue. (pp. 27-29)
- Minnesota has several programs to help school districts pay for school facilities. The ones we examined are not substitutes for the Debt Service Equalization program. (pp. 43-49)
- To be eligible for the Debt Service Equalization program, projects of at least \$2 million must receive a positive “review and comment” from the Minnesota Department of Education (MDE), which administers the program. (p. 7)
- MDE completed its review and comment within the required 60-day limit for 91 percent of a sample of 98 school district proposals. It may have exceeded the limit for the remaining 9 percent, but these cases involved circumstances that current statutes do not address. (p. 61)
- School district officials we interviewed said the program is inconsistent and complex, which some believe contributes to unsuccessful bond referenda. (p. 33)

## Key Recommendations:

- The Legislature should consider changing the Debt Service Equalization program to help pay for school facilities in more of the districts that have low amounts of tax base per student and high capital debt. (p. 51)
- The Legislature should clarify in law the start and end points for the 60-day limit on MDE’s review and comment of districts’ facility proposals. (p. 63)
- MDE should provide additional information regarding the required content of districts’ facility proposals. (p. 65)

State aid from the Debt Service Equalization program represents a small amount of funding, and few school districts receive it.

**Between Fiscal Year 1997 and 2019, the percentage of school districts receiving Debt Service Equalization aid declined by 71 percent.**

## Report Summary

The Debt Service Equalization program provides state aid to certain school districts to help pay for bonds that school districts use to borrow money for financing the construction or renovation of school facilities. School districts may not issue bonds for certain facility projects until they obtain voter approval through a bond referendum.

School districts pay back the borrowed money—both principal and interest, known as “debt service”—over a number of years, most commonly a 20-year period. They typically raise the money by levying annual property taxes on property owners in the district.

Some school districts have large tax bases (the value of taxable property within a school district on which property taxes are levied), but others do not. For example, in 2016, the tax base per student ranged from about \$3,700 per student at the 5<sup>th</sup> percentile of districts to more than \$24,000 per student at the 95<sup>th</sup> percentile. The Debt Service Equalization program offers state aid to help offset such variation in school district property taxes due to varying levels of property wealth.

Not all debt service is eligible for the Debt Service Equalization program. Eligible debt service must meet certain statutory requirements, such as its use for facilities with a primary purpose of serving students in kindergarten through 12<sup>th</sup> grade. To be eligible for the aid, school districts must have low tax-base wealth per student and relatively high debt service for capital projects.

In Fiscal Year 2019, 34 of 329 school districts (10 percent) received Debt Service Equalization aid. All but six were located outside the seven-county metropolitan area. On average, school districts receiving aid had smaller tax bases, served more students, and had higher debt service than other districts.

The largest amount of aid for Fiscal Year 2019 (\$6 million) went to St. Michael-Albertville Schools, and the smallest (\$500) to Rush City Schools.

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### The Debt Service Equalization program has had limited impact in recent years.

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Compared with earlier years, Debt Service Equalization aid represents a small amount of funding and helps a relatively small number of school districts. Aid peaked in Fiscal Year 1997 at \$61.3 million (adjusted for inflation). Although aid amounts had periods of growth and decline, over time, aid dropped to \$22.3 million in Fiscal Year 2018, a 64 percent decline from its 1997 peak.

Debt Service Equalization aid pays for a smaller proportion than it once did of eligible debt service for school districts statewide. The aid paid for 11 percent of all school districts’ eligible debt service in Fiscal Year 1997, but this decreased to 3 percent in Fiscal Year 2019. This decline means that school districts use a greater proportion of their local property-tax revenue to pay debt service than they did in the past.

Looking at individual school districts that receive Debt Service Equalization aid, fewer districts over time have received the aid. In Fiscal Year 1997, 51 percent of school districts with eligible debt service (131 districts) received aid. By contrast, 15 percent (34 districts) received aid in Fiscal Year 2019, a 71 percent decrease.

For those school districts that have received Debt Service Equalization aid, the aid has covered a decreasing percentage of a district’s eligible debt service on average. In Fiscal Year 1997, aid paid an average 26 percent of a school district’s eligible debt service, but this decreased to an average 13 percent in Fiscal Year 2019.



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**Certain other programs for school district facilities have limitations and are not a substitute for the Debt Service Equalization program.**

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Minnesota has several programs to help school districts pay for school facilities. As one example, the Operating Capital Revenue program offers state aid for certain expenditures, such as school building repairs and Fire Code compliance. The program is part of the general education revenue program; as such, almost all school districts receive aid through it. Operating Capital Revenue provides greater equalization than the Debt Service Equalization program, and it has provided greater amounts of state aid since Fiscal Year 2005.

However, the Operating Capital Revenue program does not generate enough revenue to pay for large projects, such as adding classrooms or building a new gymnasium. Some school district officials we interviewed said they use their Operating Capital Revenue for smaller projects, such as safety equipment and technology needs; they do not have enough of this revenue left over for larger expenses.

The Legislature should consider changing the Debt Service Equalization program to help pay for facilities in more of the school districts that have low tax base per student and relatively high capital debt. Keeping the program as it is means it will likely remain focused on a relatively small number of districts, leaving without aid other districts that also have relatively low tax base per student and high capital debt.

Depending on what legislators hope to achieve, they can consider options to expand the number of school districts that would receive aid. For instance, the Legislature could change elements in the current formula to potentially increase the aid or number of recipients.

A second option is that the Legislature could redefine which school districts are eligible for Debt Service Equalization aid. One way to redefine eligibility is to consider the age of districts' facilities and focus eligibility on districts that have older buildings as well as high capital debt and low tax base per student. Another is to consider not only districts' tax base per student but also homeowner income. The Legislature could focus Debt Service Equalization aid on districts where tax base per student is low *and* a significant proportion of taxpayer incomes is also relatively low.

The Legislature could also consider modifying the Debt Service Equalization program by stabilizing the year-to-year differences in aid for a given school district. The Minnesota Department of Education (MDE) calculates annually the program's revenue, levy, and aid, taking into account changes in each district's tax base, enrollment levels, and amount of debt service, among other factors. Amounts of aid can change from one year to the next, and reductions in aid mean a school district likely has to increase property taxes to have sufficient local revenue to pay the debt service.

Guaranteeing a stable amount of aid for some number of years will help maintain the local tax impact at an even level. Some school district superintendents we interviewed said if they could assure residents that the tax impact would not increase, voters might be more likely to approve bond referenda.

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**It is unclear whether the Minnesota Department of Education fully met a requirement to review school district facility proposals and issue a comment within 60 days.**

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State law requires MDE to review and

**Without legislative changes, the Debt Service Equalization program will likely continue to help a relatively small number of school districts.**

**State law requires MDE to review school districts' proposed facility projects; all but one project in a sample of recent projects received a positive review.**

comment on certain facility proposals.<sup>1</sup> This includes proposals that involve referenda for bonding and projects with at least \$2 million in expenditures per school site. The requirement applies to virtually all proposals for which school districts might plan to receive Debt Service Equalization aid.

By law, MDE is to review facility proposals to assess each project's "educational and economic advisability."<sup>2</sup> Statutes also specify the information, such as a list of existing facilities by age and use, that school districts are to include in their proposals.<sup>3</sup> Beyond that, statutes require a school district to provide any other information the department determines is necessary.<sup>4</sup>

To qualify for Debt Service Equalization aid, a school district's project must receive a "positive" rating from MDE's review.<sup>5</sup> Projects that receive "unfavorable" or "negative" ratings are ineligible for the program aid. All but 1 project in a sample of 98 projects we reviewed from Fiscal Year 2016 through 2018 received a positive rating.

State law requires MDE to provide its review and comment to school districts within 60 days of receiving the proposal to issue bonds.<sup>6</sup> MDE completed its review and comment within the 60-day limit for 89 of the 98 projects (91 percent) in our sample.

At the same time, MDE may have exceeded the 60-day limit in up to nine of the remaining cases, but the statute does not address these cases' circumstances. That is, MDE had deemed six of the cases as incomplete, stating that the districts had failed to

provide statutorily required information. Five of these six cases were school districts that had no recent experience with the review and comment process. The remaining three cases involved two department letters: an original that arrived within the 60-day limit and a second, corrected letter that MDE sent after the deadline.

The Legislature should clarify in law the start and end points for the 60-day limit on MDE's review and comment process. Timeliness of the department's comment is important to school districts as they follow the many steps required in preparation for their bond referenda. One possible change is to "stop the clock" during the time between when MDE requests additional information and when MDE actually receives it from the school district.

MDE should also provide additional information on the content required in school districts' facility proposals. The department already has a "review and comment checklist" with general descriptions of the required information and a guide for planning school construction projects.

However, to help school districts unfamiliar with the particulars of information required for the review and comment process, MDE could add more specific information, such as a template. Districts lacking recent experience in collecting the needed data could follow the template to ensure they provide sufficient information. This may help reduce the frequency of MDE requests for additional information from school districts. It could also potentially aid the timeliness of department reviews.

<sup>1</sup> *Minnesota Statutes* 2018, 123B.71, subd. 8.

<sup>2</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>3</sup> *Minnesota Statutes* 2018, 123B.71, subd. 9.

<sup>4</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>5</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

<sup>6</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.



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# Introduction

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In Minnesota, both the state and local school districts fund public education, including constructing and maintaining classrooms, gymnasiums, and other facilities on school district grounds. This report evaluates one significant component of Minnesota's funding for school facilities: the Debt Service Equalization program.

In 2018, the Legislative Audit Commission directed the Office of the Legislative Auditor to evaluate the Debt Service Equalization program. Some legislators had concerns that homeowners who lived in homes of similar value within neighboring school districts paid very different property taxes for school buildings. They also voiced concerns over the difficulty some school districts have had in passing referenda to pay for school facilities. Our evaluation addresses the following questions:

- **What is the Debt Service Equalization program, how do the program's formulas work, and how have the state and local shares of revenue varied over time?**
- **To what degree does Debt Service Equalization reduce the differences between property-wealthy and property-poor school districts, and what have been the trends?**
- **How does the Debt Service Equalization program compare with certain other programs for funding facilities?**
- **What is the Minnesota Department of Education's role in Debt Service Equalization?**

To answer these questions, we reviewed state statutes on the Debt Service Equalization program, other school-facility programs, and relevant parts of school funding formulas. Going back to the program's inception in 1991, we conducted a legal history of Debt Service Equalization. We also reviewed documents on Minnesota's education finance system.

We interviewed Minnesota Department of Education (MDE) staff members involved with the Debt Service Equalization program. To learn about the local school district perspective, we interviewed superintendents and business officials from school districts in both metropolitan and rural parts of the state. We visited four districts to learn more about their experiences with Debt Service Equalization and to observe their building projects, where possible.

We interviewed representatives of education associations that have concerns about Debt Service Equalization: the Association of Metropolitan School Districts, the Minnesota Rural Education Association, and Schools for Equity in Education. We interviewed a representative from Ehlers, Inc., a company of public finance consultants that works with school districts on their building projects. In addition, we interviewed representatives from organizations, such as the Minnesota Farm Bureau, the Minnesota Corn Growers Association, and Minnesota Business Partnership, to understand their concerns about school buildings and property taxes.

We analyzed Debt Service Equalization data from MDE. This included trend data on revenue, local levies, aid, and pupil units. We also analyzed data for two other Minnesota programs for school facilities (the Operating Capital Revenue program and Capital Project Referendum program). From the Minnesota Department of Revenue, we received data on school districts' tax bases and the different classifications of property by district.

We reviewed some of the work that MDE is required to do when school districts have building proposals. To finance school construction projects, districts generally sell bonds, which a majority of their citizens must approve via referenda. In advance of the referenda, school districts typically must submit their building proposals to MDE for the department's review and comment. As part of this evaluation, we analyzed a sample of 98 cases from Fiscal Year 2016 through 2018 to better understand MDE's process for reviewing and commenting on school districts' facility proposals.

Chapter 1 provides background information on the Debt Service Equalization program. In Chapter 2, we discuss how effectively the program meets its objective. Chapter 3 compares the Debt Service Equalization program with two other Minnesota programs for funding school facility construction or maintenance. Chapter 4 presents options for possible changes to the program. Chapter 5 evaluates the review and comment process that MDE oversees. Following the chapters is a glossary of terms used frequently in the report. Appendix A includes data about each school district's Debt Service Equalization revenue, levies, and aid, as well as other relevant measures, such as tax base and counts of students. Finally, Appendix B describes key changes made to the program over time.



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# Chapter 1: Background

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School districts typically pay for their facilities with locally raised property taxes. However, Minnesota’s Debt Service Equalization program offers state aid to certain school districts to help repay debt used to construct or renovate their school buildings and other facilities. Statewide, Debt Service Equalization aid totaled \$19.9 million in Fiscal Year 2019.

In this chapter, we define the Debt Service Equalization program, describe eligibility for it, and present information on school districts that recently benefited from it. We also explain the program’s calculations. Finally, we describe the role of the Minnesota Department of Education, which administers the program.

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## Defining Debt Service Equalization

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Established in 1991, the Debt Service Equalization program provides state aid to certain school districts to help pay for bonds, which are a financial tool (further defined in the box at right) that school districts use to borrow money for financing school facilities. Before school districts can issue bonds for certain facility projects, they must hold referenda to obtain voter approval.<sup>1</sup>

School districts pay back the borrowed money—both principal and interest, known as “debt service”—over a number of years. They typically raise the money by levying annual property taxes on property owners in the district.



### Terms Defined

**Bonds** are a financial instrument that school districts can use to borrow money to pay for capital projects, such as constructing new classroom space. School districts that issue “general obligation” bonds are pledging all of their revenues, including tax proceeds, to pay in a timely way the principal and interest on the bonds.

**Debt service** is the principal and interest needed to pay back the borrowed money that bonds provide.

A **levy** is the amount a school district plans to collect from property taxes in a given year.

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**For school-facility construction, the Debt Service Equalization program offers state aid to help offset variation in school district property taxes due to districts’ varying levels of property wealth.**

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<sup>1</sup> *Minnesota Statutes* 2018, 475.58, subd. 1.

Amounts of taxes paid by property owners to repay the bonds will vary in part by each property's taxable value, which is determined in two main steps. First, local assessors estimate the *market value* of a property, typically based on recent sales of similar properties and other factors.<sup>2</sup> Second, property classification rates, set in law and applied to each of many property types, determine the *net tax capacity* of property in school districts. An example of how a property's net tax capacity is calculated is in the box at right. A property's resulting net tax capacity is the value against which the local tax rate is applied, resulting in an amount of tax the property owner must pay.<sup>3</sup>

#### Applying a Classification Rate to Homestead Property for Taxes Payable in 2019\*

Property Type	Estimated Market Value	X	Multiply by Classification Rate	=	Net Tax Capacity
Residential homestead, up to \$500,000	\$275,000	X	1.0%	=	\$2,750
Residential homestead, \$500,000 or more	\$567,000	X	1.25%	=	\$7,088

\*A homestead refers to a property owner's principal residence. For the purpose of this example, we do not account for other factors that might affect the net tax capacity, such as laws that exclude some of the market value from property taxation.

The sum of net tax capacity for all properties within a school district represents that district's *tax base*, as indicated in the box below. The types of property and the shares they represent of a district's tax base affect the taxes that individual property owners will pay for repaying the bonds, as Chapter 2 explains in more detail.



#### Terms Defined

**Net tax capacity** is the value of properties against which school districts levy local property taxes. It is the product of an assessor's estimate of a property's market value multiplied by a statutory classification rate set for each type of property.

**Tax base** is, at its simplest, the value for taxation purposes of all taxable property within a school district.

**Equalization** is the use of state dollars to offset disparities in educational opportunities and school district property taxes due to varying levels of property wealth from district to district.

Through the Debt Service Equalization program, the state guarantees a certain amount of tax base per student.<sup>4</sup> The program is said to "equalize" uneven amounts of tax base among school districts by offering state aid to help those districts that have relatively low amounts of tax base per student and high amounts of debt service. Minnesota has equalized levies for debt service since Fiscal Year 1993.

<sup>2</sup> For some types of property, including residential property that is the owner's principal place of residence (known as a homestead), a portion of the estimated market value is excluded from taxation.

<sup>3</sup> This is a simplified description that does not account for tax credits, exclusions, or other tax programs that could affect a property owner's tax bill.

<sup>4</sup> The amount of tax base per student for which the state pays aid to a school district is defined in statute, as explained in a later section. *Minnesota Statutes* 2018, 123B.53, subds. 5(b)-(d) and 6.

## Likely Purpose

State law requires school districts to “furnish school facilities” for every child living in the district.<sup>5</sup> Districts have statutory authority to issue bonds to acquire or improve their school facilities, given a successful referendum by local voters.<sup>6</sup> As one example, Byron Public

### Examples of Capital Improvements for which Districts May Issue Bonds

- Athletic fields
- Facilities for administration, academic instruction, physical education, and vocational education
- Garages
- Gymnasiums
- Stadiums

Schools received voter approval in a 2016 referendum to sell \$10.4 million in bonds to install a fire-protection system at its middle school and upgrade heating pipes, install digital controls, and replace air-handling units.

By law, school facilities for which bonds may be sold include structures such as those listed at left.<sup>7</sup> However, only certain types of debt service are eligible for the Debt Service Equalization program, as explained later in this chapter.

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**Statutes suggest that the Debt Service Equalization program’s intent is to reduce property owners’ costs of financing school facilities in school districts that have a low tax base per student and a high amount of capital debt.**

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Statutes do not explicitly specify the program’s purpose. According to state law, however, school districts eligible for Debt Service Equalization have two characteristics:

1. Low tax-base wealth per student relative to other school districts (technically, this is a district’s “adjusted” net tax capacity per “adjusted pupil unit,” as defined at right)
2. A relatively high amount of debt service<sup>8</sup>

These characteristics are part of the formulas for calculating Debt Service Equalization revenue, levies, and state aid. Later in this chapter, we detail the calculations. Even though the Legislature has changed the formulas over time, the amounts of districts’ tax-base wealth and debt



### Terms Defined

**Adjusted net tax capacity (ANTC)** is a measure of a school district’s property wealth and is used in calculations for the Debt Service Equalization program. It is similar to “net tax capacity” (defined earlier in this chapter as the value of all taxable property in a school district), except that the Minnesota Department of Revenue has increased or decreased the value of taxable property to compensate for differences in assessment practices around the state.

**Adjusted pupil units** are a count of students used in school funding formulas. The count weights students by grade level, with full-time kindergarten and elementary-grade students weighted at 1 and secondary students at 1.2.

<sup>5</sup> *Minnesota Statutes* 2018, 123B.02, subd. 2.

<sup>6</sup> *Minnesota Statutes* 2018, 475.52, subd. 5; and 475.58, subd. 1.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Minnesota Statutes* 2018, 123B.53, subds. 4(b) and 5(b)–(d).

service have remained central to the calculation of Debt Service Equalization levies and aid.<sup>9</sup>

## Eligibility

Independent school districts and special school districts with eligible debt service may be eligible to receive Debt Service Equalization aid.<sup>10</sup> In this section, we discuss “eligible debt service,” which is debt service that meets certain requirements set in statute and is used to determine whether and to what extent school districts receive aid. Not all districts with eligible debt service receive Debt Service Equalization aid.

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### To be eligible for the Debt Service Equalization program, debt service must meet multiple requirements.

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By law, eligible debt service includes mostly debt service for bonds used to fund projects that meet certain requirements.<sup>11</sup> One of the requirements is that bonds issued after July 1, 1997, must be for facilities with the primary purpose of serving students in kindergarten through grade 12.<sup>12</sup> In addition, state law requires that debt service for bonds refinanced or issued after July 1, 1992, have a bond schedule approved by the Minnesota Department of Education (MDE).<sup>13</sup> Eligible debt service also includes debt issued through the Maximum Effort School Aid Law (defined in the box at right).<sup>14</sup>



#### Terms Defined

**Eligible Debt Service:** Debt service that meets certain requirements laid out in the Debt Service Equalization statute. For example, debt service for bonds issued after July 1, 1997, must be for facilities primarily for students in kindergarten through grade 12. It is used to determine whether, and to what extent, school districts receive state aid through the program. Given this, not all school districts with eligible debt service receive aid.

**Maximum Effort School Aid Law:** This law allows districts with very small tax bases to borrow money from the state to fund construction projects or to make debt service payments on completed construction projects.

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<sup>9</sup> A summary of key statutory changes to the Debt Service Equalization program is in Appendix B to this report.

<sup>10</sup> “Independent” school districts are public school districts that are required to provide school facilities to every school-aged child living within their area of service. In Fiscal Year 2019, there were 327 independent school districts. “Special” school districts have the same powers and responsibilities of independent school districts except in situations where special laws or charters governing those districts are different. In Fiscal Year 2019, Minneapolis and South Saint Paul were the only two special school districts. Other education organizations, such as charter schools, are not eligible for the Debt Service Equalization program.

<sup>11</sup> *Minnesota Statutes* 2018, 123B.53, subd. 1(a). Note that lease purchase payments, where part of the money paid to lease a building goes toward the cost of purchasing it, are eligible if they are from before July 1990. However, MDE staff indicated it is unlikely that any districts have such payments any longer. Furthermore, eligible debt service includes an additional amount equal to 5 or 6 percent of the school district’s debt service for eligible construction projects; this amount is to protect districts from insufficient revenue to repay bonds due to delinquent tax payments. Additionally, it includes a reduction based on excess debt service revenue, if any, from previous years.

<sup>12</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(d).

<sup>13</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(2)–(3). School districts must adjust these bonds to meet a 20-year bond-maturity “schedule,” if needed. A bond schedule presents amounts of principal and interest to be paid, and the dates by which they are to be paid, for each year during the term of repaying the bonds.

<sup>14</sup> *Minnesota Statutes* 2018, 123B.53, subd. 1(a)(1).

Projects funded by the bonds must also have received a positive “review and comment” from the MDE commissioner and exceeded a cost threshold.<sup>15</sup> That threshold is \$2 million per school site (or \$500,000 per school site if the school district has a capital loan outstanding). We discuss the review and comment process in greater detail in Chapter 5.

Certain types of debt do not qualify for equalization through the Debt Service Equalization program. For example, debt service for bonds issued through the Long-Term Facilities Maintenance program does not qualify.<sup>16</sup> Exhibit 1.1 lists types of debt that do not qualify for the Debt Service Equalization program.

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### Exhibit 1.1: Certain types of debt are expressly ineligible for Debt Service Equalization.

- Debt issued under *Minnesota Statutes* 2018, 123B.61, for purchase of certain equipment, such as vehicles, computer hardware and software, communication systems, and office equipment
- Certain portions of debt service paid with funding from the taconite environmental protection fund or Douglas J. Johnson economic protection trust fund<sup>a</sup>
- Debt issued through authority granted to five school districts for capital improvements, including equipping school buildings, improving building accessibility for persons with disabilities, and bringing buildings into compliance with fire codes<sup>b</sup>
- Bonds issued for certain capital improvements without voter approval under *Minnesota Statutes* 2018, 123B.62<sup>c</sup>
- Debt service equalized through the Natural Disaster Debt Service Equalization program
- Bonds issued through the Long-Term Facilities Maintenance program that are paid for with levies for that program<sup>d</sup>

<sup>a</sup> This applies solely to school districts in the Iron Range in northeastern Minnesota.

<sup>b</sup> This authority is granted through *Laws of Minnesota* 1991, chapter 265, art. 5, sec. 18, as amended by *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 24. The five school districts are: Henderson, Lake Crystal-Wellcome Memorial, Le Center, Le Sueur, and St. Peter.

<sup>c</sup> *Minnesota Statutes* 2018, 123B.62, requires a district to hold a referendum to issue these bonds only if its residents submit a petition for a referendum.

<sup>d</sup> Note that the Long-Term Facilities Maintenance program is equalized, meaning that school districts may receive state aid through it, even though district bonding for the program is ineligible for Debt Service Equalization aid.

SOURCES: *Minnesota Statutes* 2018, 123B.53, subd. 1(a)(1) and (b)(1)-(5); 123B.535; 123B.595, subds. 9 and 10(4); 123B.61; 123B.62; 273.1341; 298.223, subd. 1; 298.292, subd. 2(b); *Laws of Minnesota* 1991, chapter 265, art. 5, sec. 18; and *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 24.

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<sup>15</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

<sup>16</sup> *Minnesota Statutes* 2018, 123B.53, subd. 1(a)(1). The Long-Term Facilities Maintenance program provides money to school districts, charter schools, and other education organizations for deferred maintenance, accessibility projects, and health and safety purposes. Note that the program is equalized and districts may receive state aid through it, even though district bonding for the program is ineligible for Debt Service Equalization aid.

## Recent Recipients of State Aid

In Fiscal Year 2019, 34 of the 329 independent and special school districts (10 percent) received Debt Service Equalization aid. All but six of these districts were located outside the seven-county metropolitan area.<sup>17</sup> On average, districts receiving aid served more students, had smaller tax bases, and had greater debt service than districts that did not receive Debt Service Equalization aid. The annual amount of aid a school district received for Fiscal Year 2019 ranged from less than \$500 for Rush City Schools to

**10%**

**of all school districts  
received Debt Service  
Equalization aid in  
Fiscal Year 2019.**

almost \$6 million for St. Michael-Albertville Schools, with an average of about \$587,000. Appendix A presents data for all 329 districts.



### How One District Has Used Debt Service Equalization Aid

The St. Michael-Albertville School District has used its Debt Service Equalization aid to help pay for debt service on several projects. In 2005, it passed a \$110 million bond referendum, which allowed it to build a new high school and a new elementary school. Since then, student enrollment in the district has increased. In 2017, it passed a \$36.1 million bond referendum to cover multiple building improvements, including a 12-classroom addition to its high school and an 8-classroom addition to its elementary school. It also included construction of an “all-purpose” facility for physical education classes during the day, high school sports after school, and rent by community groups in the evenings and on weekends.

Over the last five years, St. Michael-Albertville Schools and Farmington Area Public Schools have received the greatest benefit from the Debt Service Equalization program, as measured by total aid received. From Fiscal Year 2015 through 2019, St. Michael-Albertville Schools received between \$5.3 million and \$7.1 million in annual Debt Service Equalization aid. Farmington Area Public Schools received between \$3.7 million and \$5.7 million in annual Debt Service Equalization aid during that five-year period. In Chapter 2, we discuss Debt Service Equalization aid trends in greater depth.

### In Fiscal Year 2019, statewide Debt Service Equalization aid made up a relatively small portion of the revenue that pays for statewide eligible debt service.

Statewide, Debt Service Equalization aid totaled \$19.9 million in Fiscal Year 2019. This represents 3 percent of statewide revenue to pay for eligible debt service. As we explain later in the report, not all school districts with eligible debt service receive Debt Service Equalization aid—in Fiscal Year 2019, 85 percent did not. For districts that received aid, the percentage of eligible debt service funded by aid ranged from less than 1 percent in four school districts to 53 percent in Red Lake School District, while the average was 13 percent.<sup>18</sup>

<sup>17</sup> The seven-county metropolitan area is made up of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

<sup>18</sup> Districts with Debt Service Equalization aid that was less than 1 percent of their eligible debt service in Fiscal Year 2019 were Rush City Public Schools, Princeton Public Schools, Jordan Public Schools, and Elk River Public Schools.



## Calculation of Revenue, Levy, and Aid

Three variables determine whether a school district receives aid, and the amount of aid, through the Debt Service Equalization program:

(1) the amount of the district's eligible debt service, (2) the district's tax base (adjusted net tax capacity or ANTC), and (3) the number of students served (adjusted pupil units), as listed at right. In general, the larger a district's

eligible debt service and the smaller its tax base per student, the more likely the district will receive Debt Service Equalization aid and the larger the amount of any such aid. In this section, we first discuss Debt Service Equalization revenue. We then discuss Debt Service Equalization levies followed by a discussion of Debt Service Equalization aid.

### Key Variables for Calculating Debt Service Equalization Revenue and Aid

1. Eligible Debt Service
2. Adjusted Net Tax Capacity
3. Adjusted Pupil Units

## Debt Service Equalization Revenue

A school district's eligible debt service can be split into three parts, although not all school districts will have each part. As illustrated in Exhibit 1.2, **Part 1** is unequalized eligible debt service, which is paid entirely by districts' local tax levies.<sup>19</sup> **Part 2** is first-tier Debt Service Equalization revenue, while

**Part 3** is second-tier Debt Service Equalization revenue. Only Parts 2 and 3 of eligible debt service are considered "Debt Service Equalization revenue," which always includes local levies and may include state aid. As described in the next two sections, first-tier Debt Service Equalization revenue is equalized at a lower rate than second-tier Debt Service Equalization revenue.

School districts' eligible debt service may fall entirely into Part 1 of these three parts of eligible debt service, or it may fall partially into each of Part 1 and Part 2; alternately, it could be split into portions in each of the three parts.

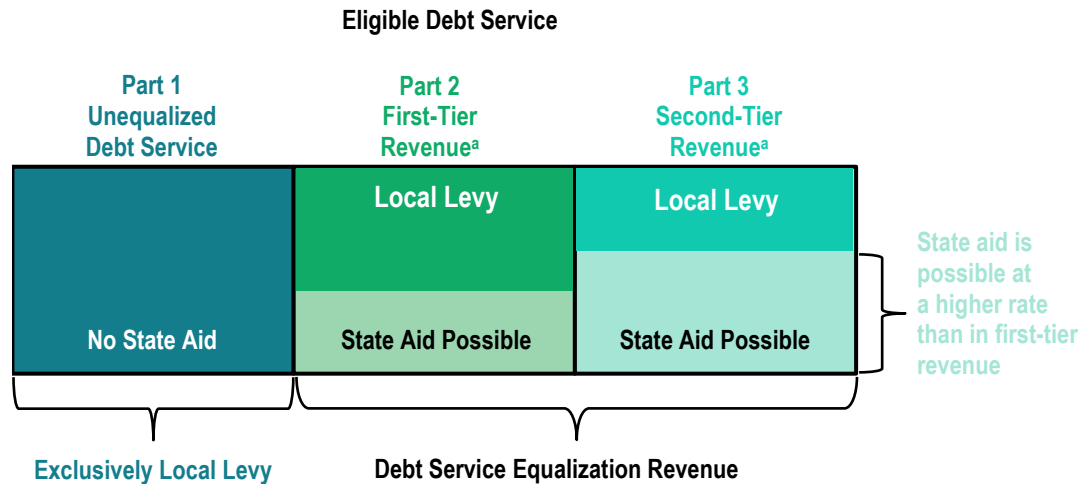


### A District that Formerly Paid its Debt Service Entirely with Local Levies but Now Receives Aid

Mora Public Schools is an example of a school district that paid for eligible debt service over a period of years entirely with local levies. The district has had eligible debt service since the mid-1990s, but it did not receive Debt Service Equalization aid in fiscal years 2003 through 2016. In 2017, district residents approved a \$3.4 million bond referendum to complete an addition to the district's elementary school. The project included constructing a "wellness center" containing gymnasium space for students and an elevated walking track for community members who purchased memberships. For Fiscal Year 2017, Mora Public Schools received \$33,670 in aid.

<sup>19</sup> In some school districts, the levy portions of eligible debt service may be paid in part with funding from another source, such as a tax credit.

### Exhibit 1.2: Eligible debt service has three parts, and only the second and third parts might generate state aid.

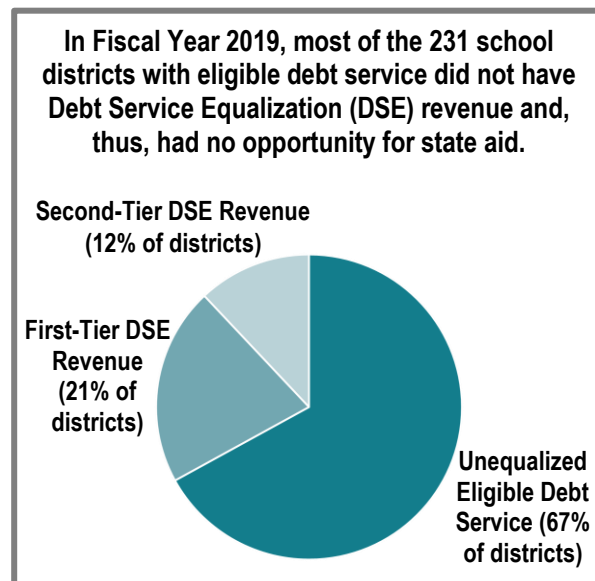


NOTE: School districts are solely responsible to pay for the first part of their eligible debt service with local levies; amounts of local levy and state aid are calculated differently for each of the second and third parts.

<sup>a</sup> Not all school districts with revenue in the first or second tier receive state aid. The first tier and second tier have at least some local levy and could consist entirely of local levy.

SOURCE: Office of the Legislative Auditor, from *Minnesota Statutes* 2018, 123B.53, subd. 4(a)-(c).

The first possibility is that districts have all eligible debt service in Part 1 (unequalized eligible debt service); such districts receive no state aid and pay all debt service with local tax levies. In Fiscal Year 2019, 155 out of 231 districts with eligible debt service (67 percent) had only unequalized eligible debt service, meaning they had no Debt Service Equalization revenue, and thus, no opportunity for aid.



The second possibility is that school districts have some combination of Part 1 (unequalized eligible debt service) and Part 2 (first-tier Debt Service Equalization revenue). Such districts would have a portion (Part 1) of their debt service that is not equalized and a portion (Part 2) that is equalized (although this does not necessarily mean they would receive aid, as we discuss later in this section). In Fiscal Year 2019, 48 districts with eligible debt service (21 percent) had unequalized eligible debt service and first-tier Debt Service Equalization revenue, but they did not have second-tier Debt Service Equalization revenue.

The third possibility is that school districts have some combination of Part 1 (unequalized eligible debt service), Part 2 (first-tier Debt Service Equalization revenue), and Part 3 (second-tier Debt Service Equalization revenue). This means they would have a portion of eligible debt service that is not equalized, a second portion that is equalized at a relatively low rate, and a third portion that is equalized at a relatively high rate. In Fiscal Year 2019, 28 school districts with eligible debt service (12 percent) had second-tier Debt Service Equalization revenue.

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**School districts must pay at least some and possibly all of their eligible debt service entirely with local tax levies.**

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A school district's unequalized eligible debt service (that receives no state aid) is equivalent to the portion of its eligible debt service that falls at or below 15.74 percent of its ANTC. If all of the district's eligible debt service is less than or equal to this value, then it has no Debt Service Equalization revenue, which is the only revenue that may include state aid. For example, Minneapolis Public Schools had more eligible debt service (\$34.5 million) than any other district in Fiscal Year 2019. However, given its large ANTC (\$550 million), its threshold (defined at right) for having first-tier Debt Service Equalization revenue (15.74 percent  $\times$  \$550 million = \$86.6 million) was much higher than its eligible debt service, so it had only unequalized eligible debt service. The box below shows the three parts of eligible debt service with information on how each is determined.



**Term Defined**

Each tier of Debt Service Equalization revenue has a **threshold**. These thresholds are cut-off points that separate eligible debt service into either unequalized debt service, first-tier revenue, or second-tier revenue. For instance, the threshold for first-tier Debt Service Equalization revenue is 15.74 percent of a school district's ANTC. This means that a district's eligible debt service must be greater than 15.74 percent of its ANTC for the district to have first-tier revenue. The threshold for second-tier revenue is 26.24 percent of a district's ANTC. This means that a district's eligible debt service must be greater than 26.24 percent of its ANTC for it to have second-tier revenue.

**Determining the Three Parts of Eligible Debt Service**

Part 1: ***Unequalized Eligible Debt Service***  $\leq 15.74\% \times \text{ANTC}$

Part 2:  $15.74\% \times \text{ANTC} < \textbf{First-Tier Debt Service Equalization Revenue} \leq 26.24\% \times \text{ANTC}$

Part 3: ***Second-Tier Debt Service Equalization Revenue***  $> 26.24\% \times \text{ANTC}$

NOTE: ANTC is adjusted net tax capacity.

A school district's first-tier Debt Service Equalization revenue is equal to the portion of its eligible debt service that is greater than 15.74 percent, but less than or equal to 26.24 percent, of its ANTC. For example, South Washington County Schools had \$25.2 million in eligible debt service for Fiscal Year 2019. Given its ANTC of \$114 million, its threshold for first-tier Debt Service Equalization revenue was \$17.9 million (i.e., 15.74 percent  $\times$  \$114 million). This meant that some (\$7.3 million) of its eligible debt service was first-tier Debt Service Equalization revenue (i.e., \$25.2 million – \$17.9 million). The box below shows the

calculation of the first two parts of eligible debt service for South Washington County School District.

### Calculating Part 1 and Part 2 of Eligible Debt Service for South Washington County School District

Part	Formula, Including <b>First-Tier DSE Revenue Threshold<sup>a</sup></b>	Value of Part
1. Unequalized Eligible Debt Service ( $x_1$ )	$x_1 = y - [y - (15.74\% \times ANTC)]^b$ $x_1 = \$25,234,900.85 - [\$25,234,900.85 - (15.74\% \times \$114,004,440.00)]^b$ $x_1 = \$25,234,900.85 - [(\$25,234,900.85 - (\$17,944,298.86))]^b$	\$17,944,298.86
2. First-Tier Debt Service Equalization Revenue ( $x_2$ ) <sup>c</sup>	$x_2 = [y - (x_1)]^b$ $x_2 = [\$25,234,900.85 - (\$17,944,298.86)]^b$	\$7,290,601.99

<sup>a</sup> Where  $y$  is total eligible debt service, and  $ANTC$  is the district's adjusted net tax capacity.

<sup>b</sup> If this value is less than zero, then it is replaced with zero.

<sup>c</sup> We know that this district does not have second-tier Debt Service Equalization revenue. For districts that have second-tier Debt Service Equalization revenue, calculating first-tier revenue includes subtracting second-tier revenue from eligible debt service. We show this step in the next section.

A school district's second-tier Debt Service Equalization revenue consists of all eligible debt service greater than 26.24 percent of its ANTC. Red Lake School District is an example of a district that had each part of eligible debt service in Fiscal Year 2019. It had relatively small ANTC (\$14,793), meaning that its eligible debt service (\$4,969) was greater than its threshold for first-tier Debt Service Equalization revenue (\$2,328; i.e., 15.74 percent  $\times$  \$14,793). In addition, its eligible debt service was greater than its threshold for second-tier Debt Service Equalization revenue (\$3,882; i.e., 26.24 percent  $\times$  \$14,793). The box below shows the calculation of each of the three parts of eligible debt service for Red Lake School District in Fiscal Year 2019.

### Calculating the Three Parts of Eligible Debt Service for Red Lake School District

Part	Formula, Including <b>Thresholds<sup>a</sup></b>	Value of Part
1. Unequalized Eligible Debt Service ( $x_1$ )	$x_1 = y - [y - (15.74\% \times ANTC)]^b$ $x_1 = \$4,968.97 - [(\$4,968.97 - (15.74\% \times \$14,793.00))]^b$ $x_1 = \$4,968.97 - [(\$4,968.97 - (\$2,328.42))]^b$	\$2,328.42
2. First-Tier Debt Service Equalization Revenue ( $x_2$ )	$x_2 = [y - (x_1 + x_3)]^b$ $x_2 = [\$4,968.97 - (\$2,328.42 + \$1,087.28)]^b$	\$1,553.27
3. Second-Tier Debt Service Equalization Revenue ( $x_3$ )	$x_3 = [y - (26.24\% \times ANTC)]^b$ $x_3 = [\$4,968.97 - (26.24\% \times \$14,793.00)]^b$ $x_3 = [\$4,968.97 - \$3,881.68]^b$	\$1,087.29

<sup>a</sup> Where  $y$  is total eligible debt service, and  $ANTC$  is the district's adjusted net tax capacity.

<sup>b</sup> If this value is less than zero, then it is replaced with zero.

A school district's total Debt Service Equalization revenue is equal to the sum of its first-tier Debt Service Equalization revenue plus its second-tier Debt Service Equalization revenue. It does not include any of the unequalized portion of eligible debt service. In the Red Lake School District example above, total Debt Service Equalization revenue is \$2,640.56 (\$1,553.27 + \$1,087.29).

## Debt Service Equalization Levies

A school district's Debt Service Equalization revenue consists of its (1) levy and (2) state aid, as shown at right.<sup>20</sup> In this section, we discuss the Debt Service Equalization levy.

### Components of Debt Service Equalization (DSE) Revenue

$$DSE\ Revenue = (DSE\ Levy) + (DSE\ Aid)$$

### School districts can potentially have two tiers to their Debt Service Equalization levy.

Each of the two tiers of a school district's Debt Service Equalization levy is calculated with a different formula. Because aid equals revenue minus levy, the formulas for the two tiers of a district's Debt Service Equalization levy also determine the amount of aid the district will receive.

### First-Tier Levy

The first tier of a school district's Debt Service Equalization levy is equal to its first-tier Debt Service Equalization revenue multiplied by a ratio. As shown in the box below, the ratio is the district's ANTC per adjusted pupil unit to an "equalizing factor" (defined at right) set in statute. That equalizing factor is one of two possible values. It is the greater of either \$4,430 or 55.33 percent of the combined ANTC per adjusted pupil unit for all districts.



#### Term Defined

An **equalizing factor** is a value in statute that determines the amount of state aid (or the extent of equalization) that a program offers. Larger equalizing factors produce larger amounts of state aid.

### Formula for First-Tier Debt Service Equalization (DSE) Levy, Including the First-Tier Equalizing Factor

$$First-Tier\ Levy = (First-Tier\ DSE\ Revenue) \times \left( \frac{\frac{ANTC}{APU}}{\left[ 55.33\% \times \left( \frac{ANTC_{All\ Districts}}{APU_{All\ Districts}} \right) \right]^a} \right)^b$$

NOTES: ANTC is adjusted net tax capacity, and APU is adjusted pupil units.

<sup>a</sup> If the value of the denominator is less than \$4,430, then it is replaced by \$4,430.

<sup>b</sup> If this ratio is greater than 1, then it is replaced by 1.

The formula means that the smaller the school district's ANTC per adjusted pupil unit is relative to \$4,430 or the statewide ANTC per adjusted pupil unit, the smaller the levy portion is of first-tier revenue, and the more aid the district receives as part of this first-tier revenue. If the ratio is less than 1, then some of the district's first-tier Debt Service Equalization revenue will be aid. On the other hand, if the ratio is greater than or equal to 1, then all of its first-tier Debt Service Equalization revenue is levy, and none is aid.

<sup>20</sup> *Minnesota Statutes* 2018, 123B.53, subds. 4-6.

In Fiscal Year 2019, St. Michael-Albertville School District had a first-tier Debt Service Equalization levy of about \$1.6 million. The ratio of its ANTC per pupil unit (\$3,299.25) to the equalizing factor (\$4,598.50) was 0.72.<sup>21</sup> Multiplying the district's first-tier Debt Service Equalization revenue (\$2,287,635.11) by this ratio (0.72) resulted in a first-tier levy of \$1,641,291.76. The box below shows the calculation of St. Michael-Albertville School District's first-tier Debt Service Equalization levy.

**Calculating First-Tier Debt Service Equalization (DSE) Levy (x) for  
St. Michael-Albertville School District**

$$x = (\text{First-Tier DSE Revenue}) \times \left( \frac{(\text{ANTC per APU})}{[55.33\% \times (\text{Statewide ANTC per APU})]^a} \right)^b$$

$$x = \$2,287,635.11 \times \left( \frac{\$3,299.25}{[55.33\% \times \$8,311.05]^a} \right)^b$$

$$x = \$2,287,635.11 \times \left( \frac{\$3,299.25}{[\$4,598.50]^a} \right)^b$$

$$x = \$2,287,635.11 \times (0.71746222)$$

$$x = \$1,641,291.76$$

NOTES: ANTC is adjusted net tax capacity, and APU is adjusted pupil units.

<sup>a</sup> If the value of the denominator is less than \$4,430, then it is replaced by \$4,430.

<sup>b</sup> If this ratio is greater than 1, then it is replaced by 1.

## Second-Tier Levy

Similarly, a school district's second-tier Debt Service Equalization levy is equal to its second-tier Debt Service Equalization revenue times a ratio. This ratio differs from the one used to calculate the first-tier levy in that it produces more equalization (a greater proportion of second-tier Debt Service Equalization revenue is aid). The ratio is a district's ANTC per adjusted pupil unit to an equalizing factor set in statute, as shown in the box below. The equalizing factor is one of two possible values. It is the greater of \$8,000 or 100 percent of the combined ANTC per adjusted pupil unit for all districts.

If the ratio is less than 1, then a portion of the district's second-tier Debt Service Equalization revenue will be aid. However, if the ratio is greater than or equal to 1, then all of the district's second-tier Debt Service Equalization revenue is levy, and none of it is aid.

**Formula for Second-Tier Debt Service Equalization (DSE) Levy, Including the  
Second-Tier Equalizing Factor**

$$\text{Second-Tier Levy} = (\text{Second-Tier DSE Revenue}) \times \left( \frac{\frac{\text{ANTC}}{\text{APU}}}{\left[ 100\% \times \left( \frac{\text{ANTC}_{\text{All Districts}}}{\text{APU}_{\text{All Districts}}} \right) \right]^a} \right)^b$$

NOTES: ANTC is adjusted net tax capacity, and APU is adjusted pupil units.

<sup>a</sup> If the value in this denominator is less than \$8,000, then it is replaced by \$8,000.

<sup>b</sup> If this ratio is greater than 1, then it is replaced by 1.

<sup>21</sup> The equalizing factor is \$4,598.50 (55.33 percent of the statewide ANTC per adjusted pupil unit) because this value is greater than \$4,430.



In Fiscal Year 2019, St. Michael-Albertville School District had a second-tier Debt Service Equalization levy of about \$3.4 million. The ratio of its ANTC per pupil unit (\$3,299.25) to the equalizing factor (\$8,311.05) was nearly 0.40.<sup>22</sup> Multiplying the district's second-tier Debt Service Equalization revenue (\$8,662,624.71) by this ratio (0.40) resulted in a second-tier levy of \$3,438,815.13. The box below shows the calculation of St. Michael-Albertville School District's second-tier Debt Service Equalization levy.

**Calculating Second-Tier Debt Service Equalization (DSE) Levy (x) for  
St. Michael-Albertville School District**

$$x = (\text{Second-Tier DSE Revenue}) \times \left( \frac{(\text{ANTC per APU})}{[55.33\% \times (\text{Statewide ANTC per APU})]^a} \right)^b$$

$$x = \$8,662,624.71 \times \left( \frac{\$3,299.25}{[100\% \times \$8,311.05]^a} \right)^b$$

$$x = \$8,662,624.71 \times \left( \frac{\$3,299.25}{[\$8,311.05]^a} \right)^b$$

$$x = \$8,662,624.71 \times (0.396971502)$$

$$x = \$3,438,815.14$$

NOTES: ANTC is adjusted net tax capacity, while APU is adjusted pupil units.

<sup>a</sup> If the value of the denominator is less than \$8,000, then it is replaced by \$8,000.

<sup>b</sup> If this ratio is greater than 1, then it is replaced by 1.

## Debt Service Equalization Aid

Debt Service Equalization aid also has two tiers.<sup>23</sup> The first tier of aid is equal to a school district's first-tier Debt Service Equalization *revenue* minus its first-tier Debt Service Equalization *levy*. Similarly, a district's second tier of aid (if it has any) is equal to its second-tier revenue minus its second-tier levy. The box below shows the formulas for calculating both tiers of Debt Service Equalization aid.

**Formulas for Debt Service Equalization (DSE) Aid**

$$\text{First-Tier DSE Aid} = (\text{First-Tier DSE Revenue}) - (\text{First-Tier DSE Levy})$$

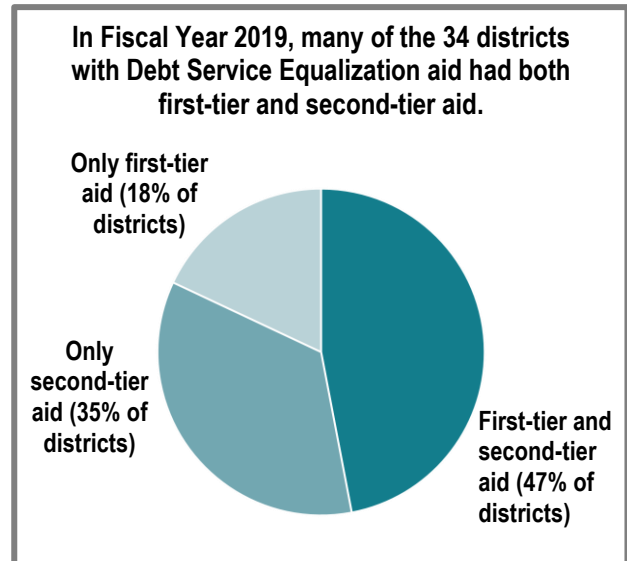
$$\text{Second-Tier DSE Aid} = (\text{Second-Tier DSE Revenue}) - (\text{Second-Tier DSE Levy})$$

<sup>22</sup> The equalizing factor is \$8,311.05 because this is 100 percent of the statewide ANTC per adjusted pupil unit, which is greater than \$8,000.

<sup>23</sup> *Minnesota Statutes* 2018, 123B.53, subd. 6.

It is possible for school districts to receive Debt Service Equalization aid through only one tier of Debt Service Equalization revenue. This can occur when a district has only first-tier Debt Service Equalization revenue. It can also occur when a district has two tiers of revenue and the first tier consists solely of levy. For example, Shakopee Public Schools had two tiers of Debt Service Equalization revenue in Fiscal Year 2019. Its first-tier levy made up its entire first-tier revenue (\$6.2 million), while levy (\$4.8 million) and aid (\$1.2 million) each made up part of its second-tier revenue (\$6 million).<sup>24</sup>

Of all school districts that received Debt Service Equalization aid in Fiscal Year 2019, 6 districts (18 percent) received only first-tier Debt Service Equalization aid, 12 districts (35 percent) received only second-tier Debt Service Equalization aid, and 16 districts (47 percent) received both, as shown at right.



### **Not all school districts with Debt Service Equalization revenue receive aid.**

If a school district's first-tier levy is equal to its first-tier revenue and if it either (1) has no second-tier revenue or (2) has a second-tier levy equal to its second-tier revenue, it will not receive Debt Service Equalization aid. This occurs for districts with relatively high ANTC per adjusted pupil unit. In Fiscal Year 2019, 42 of the 76 districts (55 percent) with Debt Service Equalization revenue did not receive aid through the program, and all but one of these did not have second-tier revenue. For example, South Washington County Schools had first-tier revenue (\$7.3 million) in Fiscal Year 2019 but did not have second-tier revenue. Because the ratio determining the levy portion of its first-tier revenue was greater than 1, its first-tier revenue was exclusively local levy.<sup>25</sup>

Because the second tier of aid is equalized at a higher rate than the first, it is less common for school districts that have two tiers of Debt Service Equalization revenue to not receive aid. In Fiscal Year 2019, only one district—Rothsay School District—had both tiers of revenue but received no aid. All of this district's first-tier revenue (about \$344,000) was paid with its first-tier levy because the ratio determining the levy portion of its first-tier revenue was greater than 1.<sup>26</sup> Similarly, all of this district's second-tier revenue

<sup>24</sup> The district's first-tier revenue was funded entirely through first-tier levy because the ratio used to determine the levy portion of its first-tier revenue was greater than 1.

<sup>25</sup> The 1.28 ratio for South Washington County School's first-tier levy comes from dividing its \$5,866 in ANTC per adjusted pupil unit by 55.33 percent of the statewide \$8,311.05 in ANTC per adjusted pupil unit.

<sup>26</sup> This 2.3 ratio for Rothsay Public School's first-tier levy comes from dividing its \$10,595 in ANTC per adjusted pupil unit by 55.33 percent of the statewide \$8,311.05 in ANTC per adjusted pupil unit.

(about \$305,000) was made up of its second-tier levy because the ratio determining the levy portion was also greater than 1.<sup>27</sup>

As described in this section, a number of different calculations determine whether and to what extent a school district receives Debt Service Equalization aid. Exhibit 1.3 shows these calculations for a hypothetical school district.

## Minnesota Department of Education

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The Minnesota Department of Education (MDE) oversees and administers the Debt Service Equalization program. The department estimated that, in a typical year, the cumulative hours for activities related to the Debt Service Equalization program approximated 2,296 hours across about ten employees.<sup>28</sup>

In the following sections, we briefly describe MDE's "review and comment" process for districts' facility proposals and summarize MDE's other work in administering the Debt Service Equalization program.

### Review and Comment

State law requires school districts to obtain MDE's review and comment on certain facility proposals.<sup>29</sup> Specifically, facility proposals must undergo the department's review if they involve (1) referenda for bonding projects of at least \$2 million per school site or (2) new construction or remodeling of facilities with expenditures of at least \$2 million per site.<sup>30</sup> MDE estimated that its administration of the review and comment process accounts for about three-quarters of a 1.1 full-time-equivalent employee in a typical year.

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**The purpose of the required Minnesota Department of Education review of districts' facility proposals is to assess each project's "educational and economic advisability."<sup>31</sup>**

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State law specifies the information that school districts must include in their facility proposals for MDE's review.<sup>32</sup> As examples, proposals must contain (1) a list of existing facilities with their ages, deficiencies, and how well the proposal will address the deficiencies; (2) student enrollment trends and projections; and (3) a description of the

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<sup>27</sup> This 1.27 ratio for Rothsay Public School's second-tier levy comes from dividing its \$10,595 in ANTC per adjusted pupil unit by 100 percent of the statewide \$8,311.05 in ANTC per adjusted pupil unit.

<sup>28</sup> Based on a full-time employee working 2,080 hours annually, this equates to a 1.1 full-time-equivalent staff person. MDE staff said they do not record staff time in a way that tracks how much time each employee spends on specific activities. They explained that certain staff activities apply to multiple programs and cannot be isolated to just the Debt Service Equalization program.

<sup>29</sup> *Minnesota Statutes* 2018, 123B.71, subd. 8.

<sup>30</sup> *Ibid.* The \$2 million threshold applies if the district has no capital loan outstanding. If the district has a capital loan, the threshold lowers to \$500,000.

<sup>31</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>32</sup> *Minnesota Statutes* 2018, 123B.71, subd. 9.

### Exhibit 1.3: Calculating Debt Service Equalization (DSE) aid for a hypothetical school district involves four main steps.

Step 1	Variable		Value
Identify values for variables in the Debt Service Equalization formula	Eligible Debt Service ( $y$ )		\$5,000,000.00
	Adjusted Net Tax Capacity (ANTC)		\$10,000,000.00
	Adjusted Pupil Units (APU)		2,500.00
	ANTC per APU		\$4,000.00
	Statewide ANTC per APU		\$8,311.05
Step 2	Part	Formula	Value
Calculate parts of eligible debt service ( $y$ )	Threshold for First-Tier DSE Revenue ( $x_1$ )	$x_1 = 15.74\% \times ANTC$ $x_1 = 15.74\% \times \$10,000,000.00$	\$1,574,000.00
	Threshold for Second-Tier DSE Revenue ( $x_2$ )	$x_2 = 26.24\% \times ANTC$ $x_2 = 26.24\% \times \$10,000,000.00$	\$2,624,000.00
	Part 1: Unequalized Eligible Debt Service ( $x_3$ )	$x_3 = y - [y - (x_1)]^a$ $x_3 = \$5,000,000.00 - [\$5,000,000.00 - \$1,574,000.00]$	\$1,574,000.00
	Part 2: First-Tier DSE Revenue ( $x_4$ )	$x_4 = [y - (x_3 + x_5)]^a$ $x_4 = \$5,000,000.00 - (\$1,574,000.00 + \$2,376,000.00)$	\$1,050,000.00
	Part 3: Second-Tier DSE Revenue ( $x_5$ )	$x_5 = [y - (x_2)]^a$ $x_5 = \$5,000,000.00 - \$2,624,000.00$	\$2,376,000.00
Step 3	Portion	Formula	Value
Determine aid and levy portions of first-tier and second-tier DSE revenue	First-Tier DSE Levy ( $x_6$ )	$x_6 = x_4 \times \left( \frac{(ANTC \text{ per APU})}{[55.33\% \times (Statewide ANTC \text{ per APU})]^b} \right)^c$ $x_6 = \$1,050,000.00 \times \left( \frac{\$4,000.00}{[55.33\% \times \$8,311.05]} \right)$	\$ 913,340.52
	First-Tier DSE Aid ( $x_7$ )	$x_7 = x_4 - x_6$ $x_7 = \$1,050,000.00 - \$913,340.52$	\$ 136,659.48
	Second-Tier DSE Levy ( $x_8$ )	$x_8 = x_5 \times \left( \frac{(ANTC \text{ per APU})}{[100\% \times (Statewide ANTC \text{ per APU})]^d} \right)^c$ $x_8 = \$2,376,000.00 \times \frac{\$4,000.00}{[100\% \times \$8,311.05]}$	\$1,143,537.82
	Second-Tier DSE Aid ( $x_9$ )	$x_9 = x_5 - x_8$ $x_9 = \$2,376,000.00 - \$1,143,537.82$	\$1,232,462.18
Step 4	Revenue Type	Formula	Value
Determine total DSE revenue, total DSE levy, total DSE aid, and total levy for eligible debt service	Total DSE Revenue ( $x_{10}$ )	$x_{10} = x_4 + x_5$ $x_{10} = \$1,050,000.00 + \$2,376,000.00$	\$3,426,000.00
	Total DSE Levy ( $x_{11}$ )	$x_{11} = x_6 + x_8$ $x_{11} = \$913,340.52 + \$1,143,537.82$	\$2,056,878.34
	Total DSE Aid ( $x_{12}$ )	$x_{12} = x_7 + x_9$ $x_{12} = \$136,659.48 + \$1,232,462.18$	\$1,369,121.66
	Total Levy for Eligible Debt Service ( $x_{13}$ )	$x_{13} = x_3 + x_{11}$ $x_{13} = \$1,574,000.00 + \$2,056,878.34$	\$3,630,878.34

NOTES: Adjusted net tax capacity (ANTC) is the value of taxable property against which school districts levy property taxes, except it has been adjusted to compensate for differences around the state in assessing property value. Adjusted pupil units (APU) is the number of students a school district serves, with students weighted by grade level.

<sup>a</sup> If this value is less than zero, then it is replaced with zero.

<sup>b</sup> If the resulting denominator is less than \$4,430, then the denominator is replaced with \$4,430.

<sup>c</sup> If the resulting number is greater than 1, then it is replaced with 1.

<sup>d</sup> If the resulting denominator is less than \$8,000, then the denominator is replaced with \$8,000.

SOURCE: Office of the Legislative Auditor, based on *Minnesota Statutes* 2018, 123B.53, subds. 4-6.

proposed project and how it will be financed.<sup>33</sup> Statutes also state that the department shall base its comments on the information submitted by the school district, as well as on other information that MDE deems necessary.<sup>34</sup>

School district proposals must receive a positive review from the department if they want to qualify for the Debt Service Equalization program.<sup>35</sup> Chapter 5 presents more detail on the review and comment process.

## Other Administrative Responsibilities

In addition to the review and comment process, MDE performs a number of administrative tasks for the Debt Service Equalization program.

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### **The Minnesota Department of Education recalculates Debt Service Equalization revenue, levies, and aid each year until school districts fully repay their bonds.**

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For successful bond referenda, MDE collects debt service data from school districts in the early fall and maintains a database of all bonds issued. Such data include bond schedules that list the amounts of principal and interest due semi-annually for upcoming years.

Annually, MDE enters relevant bond-schedule data along with other information into a database that MDE uses to calculate Debt Service Equalization levies and aid. It then produces for each school district a “Levy Limitation and Certification report” (levy report), which shows the calculations for this levy and aid, among other programs. The department calculates Debt Service Equalization for all school districts with eligible debt service in a given year. MDE allows districts to review entries in the levy report to help identify and correct possible mistakes. Eventually, MDE sends results of its levy and aid calculations to the Department of Management and Budget, which is responsible for distributing aid to school districts.<sup>36</sup>

Certain other MDE duties for the Debt Service Equalization program involve fiscal and policy analyses. For example, one duty is to forecast the program’s budget as part of the overall state budget forecasts issued in November and February. Exhibit 1.4 summarizes MDE’s other major duties related to the Debt Service Equalization program.

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<sup>33</sup> *Minnesota Statutes* 2018, 123B.71, subd. 9 (1), (2), (4), and (5). For projects funded through a program called “Maximum Effort School Aid—Capital Loans” (for school districts with very high tax rates for their debt), districts must provide additional information for the review and comment process. See *Minnesota Statutes* 2018, 126C.69, subd. 3; and 16B.355, subd. 4(c)(6).

<sup>34</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>35</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

<sup>36</sup> The state distributes Debt Service Equalization aid in the first half of the year to allow districts to make their bond payments on time.

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**Exhibit 1.4: The Minnesota Department of Education (MDE) carries out multiple duties related to the Debt Service Equalization program throughout the year.**

The Minnesota Department of Education:

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- Reviews school districts' facility proposals and submits comments to districts within 60 days
- Collects and enters data from school districts' (1) bond schedules and (2) referendum canvassing results
- Collects debt service data from districts (early August)
- Collects (1) pupil unit data from districts and (2) adjusted net tax capacity data from Department of Revenue
- Calculates levies and aid for Debt Service Equalization in its levy database and shows relevant calculations in its Levy Limitation and Certification Report for each district
- Works with districts on certifying proposed levies (early September)
- Certifies to county auditors the school districts' levy limitations (late September)
- Conducts workshops and training on school finance, including the Debt Service Equalization program, for school districts
- Prepares Debt Service Equalization aid projections for the November and February state budget forecasts
- Prepares policy information for consideration by MDE commissioner and Governor's Office as possible legislation and budget bills
- Prepares fiscal notes and runs computer simulations for legislative proposals
- After legislative sessions, reviews new laws to identify changes to the program; revises computer programs, as needed, to calculate levies and aid

SOURCES: *Minnesota Statutes* 2018, 123B.71, subd. 11; and Minnesota Department of Education, *School District Levy Limitation and Certification Calendar, 2018 Payable 2019 Levy* (St. Paul), 2-3.

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# Chapter 2: Effectiveness

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The effectiveness of the Debt Service Equalization program can be measured in terms of how well the program equalizes the variation in school districts' property tax bases—variation that would otherwise produce high taxes for districts with low tax base per student. This is important because districts with low tax base per student may have more difficulty than other districts in raising the property tax revenue needed to pay for new or upgraded facilities. In this chapter, we analyze how well the program meets its objective. We also examine the program's effects on school districts.

As Chapter 1 stated, state statutes suggest that the intent of the Debt Service Equalization program is to assist school districts with relatively high capital debt and low property wealth per student to fund facilities by reducing property taxes for property owners in those districts. We examined how well the program has met this likely purpose.

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**Overall, the Debt Service Equalization program has had a limited impact.**

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The following sections describe the program's limited effect. In evaluating effectiveness, we first analyze variations in school districts' tax bases.<sup>1</sup> Second, we examine the scope of the effects of Debt Service Equalization aid on school districts.

Note that statutes do not specify a level of equalization that is appropriate or sufficient. Nothing in law sets a threshold that would allow us to measure how well the existing equalization accomplishes the program's purpose. Consequently, we base our conclusions on how effects of the Debt Service Equalization program have changed over time.

## Variation in Tax Base

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A property's value—its net tax capacity—for purposes of repaying bond debt is generally based on its estimated market value and a property classification rate assigned to its property type, as Chapter 1 explained. A school district's tax base comprises the net tax capacities of all properties within district boundaries. School districts with relatively high amounts of tax base per student are said to be property wealthy; districts with low amounts of tax base per student are property poor.

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**There is wide variation in school districts' property wealth per student.**

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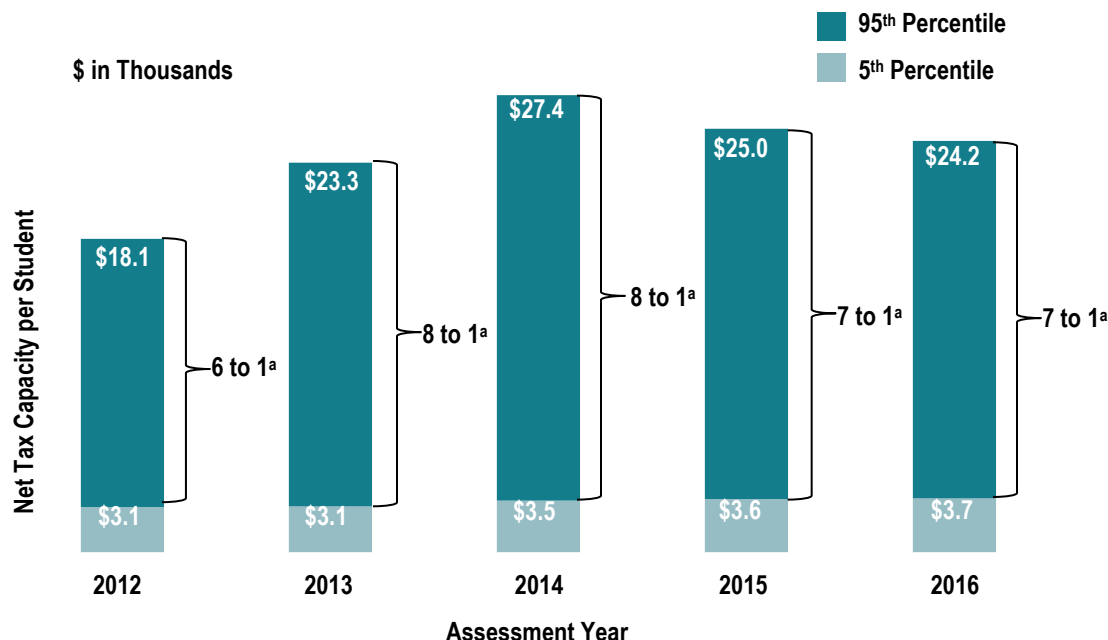
In Assessment Year 2016, the net tax capacity (NTC) per adjusted pupil unit ranged from nearly \$3,700 per student at the 5<sup>th</sup> percentile of school districts to more than \$24,000 at the

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<sup>1</sup> Chapter 1 described that the formulas for Debt Service Equalization calculate the amounts of levy and aid using *adjusted* net tax capacity, which accounts for differences in assessment practices around the state. However, in this section of the report, we analyze *net tax capacity* of school districts because it is the variable used to determine the portion of a levy that taxpayers pay.

95<sup>th</sup> percentile.<sup>2</sup> This means the NTC per adjusted pupil unit in the property-wealthy district was almost seven times greater than in the property-poor district. As a point of comparison, the median NTC per adjusted pupil unit was \$7,919 in Assessment Year 2016. The disparity was large each year for the five-year period from Assessment Year 2012 through 2016, as Exhibit 2.1 shows.

### Exhibit 2.1: The range in tax base per student varied among school districts statewide from 2012 through 2016.



NOTE: Data reflect school districts' tax bases, technically called the net tax capacity, as determined by multiplying each property's estimated market value in the school district by the classification rate for the property type. Counts of students are in adjusted pupil units, which weights students by grade level; they are used in school funding formulas. Data exclude three districts that were outliers each of the five years. Assessment years reflect when assessors estimated properties' market values.

<sup>a</sup> Ratios express the differences between the 5<sup>th</sup> and 95<sup>th</sup> percentiles of property wealth (net tax capacity) per student each year. The 5<sup>th</sup> percentile means that 5 percent of the school districts fell at or below this value; the 95<sup>th</sup> percentile means that 95 percent of the districts fell at or below this value.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Revenue and the Minnesota Department of Education.

<sup>2</sup> For these calculations, we removed as outliers two school districts that had extremely low numbers of pupils or extremely low net tax capacity. If we had included the outliers, the range would be far greater: a low of \$10.12 net tax capacity per student to a high of \$604,885. Further, in contrast with other analyses of tax base in this chapter, here we use Assessment Year 2016 data to analyze tax base per "adjusted pupil unit," using the most recently available counts of students (for the 2016-2017 school year). Adjusted pupil units are a count of students used in school funding formulas; it weights students by grade level. The 5<sup>th</sup> percentile means that 5 percent of the school districts fell at or below this value; the 95<sup>th</sup> percentile means that 95 percent of the districts fell at or below this value.

### School districts' property wealth varies widely in part because types and amounts of property differ from one district to another.

Variation in classification rates for different types of property contributes to differences in property wealth among school districts. Commercial-industrial-public utility property of \$150,000 or more estimated market value carries the highest classification rate of all property types, as the box at right shows for a sample of property types. This means that, in comparison with other property types, a higher percentage of commercial-industrial-public utility estimated value is taxable.

#### Classification Rates for Sample Property Types, for Taxes Payable in 2019

Property Type	Rate
Agricultural homesteaded land, up to \$1.9 million	0.5%
Agricultural homesteaded land, \$1.9 million or more	1.0%
Agricultural nonhomestead	1.0%
Residential homestead, up to \$500,000*	1.0%
Residential homestead, \$500,000 or more*	1.25%
Apartments (4 or more units)	1.25%
Commercial-Industrial-Public Utility, up to \$150,000	1.5%
Commercial-Industrial-Public Utility, \$150,000 or more	2.0%

\*The same rates apply to (1) agricultural homesteads (including the house, garage, and one acre); (2) noncommercial, seasonal residential-recreational property (cabins); and (3) owners' residences of homesteaded resorts.

As an example, because of their classification rates, a residential homestead and a business property each estimated to be worth \$200,000 in market value have very different net tax capacities; the box below shows the difference.<sup>3</sup> Applying the same tax rate against the two properties' net tax capacities would result in higher property taxes for the business than for the homestead.

#### Different classification rates result in a business having twice the taxable value as a residential homestead.

Estimated Market Value	–	Subtract Market Value Exclusion*	=	Taxable Market Value	X	Multiply by Class Rate	=	Net Tax Capacity (NTC)
\$200,000 Homestead	–	\$19,200	=	\$180,800	X	1%	=	\$1,808 NTC
\$200,000 Business	–	\$0	=	\$200,000	X	2%	=	\$4,000 NTC

\*Homesteads below \$413,800 in estimated market value have a portion of their value excluded from taxation. The portion excluded decreases as market value increases.

The NTC attributable to a particular type of property varies widely across Minnesota. For example, the percentage of property that was residential-homesteads accounted for less than two-tenths of 1 percent of NTC in 2017 for 123 school districts and ranged to 70 percent or more of NTC in five school districts. On average statewide, residential-homesteaded property accounted for the largest share of school districts' NTC in Assessment Years 2003 through 2017. Exhibit 2.2 shows the variation by different property types.

<sup>3</sup> As this example demonstrates, certain properties have a portion of their estimated market value excluded from taxation. This includes all homesteads with estimated market values less than \$413,800. *Minnesota Statutes* 2018, 273.13, subd. 35.

**Exhibit 2.2: Of the property making up school district tax bases in 2017, wide variation among districts is especially apparent in four main property types.**

Property Type and Description	Percentage of School District Tax Base		
	Average	Minimum	Maximum
<b>Residential Homesteaded:</b> owner-occupied, primary residence of a Minnesota resident	29%	0.2%	77%
<b>Agricultural Homesteaded-Remaining Land:</b> homesteaded agricultural lands, such as croplands, but excluding the agricultural homestead (house, garage, and one acre)	19	<0.01	51
<b>Agricultural Nonhomesteaded:</b> agricultural property that has not been homesteaded	16	<0.01	65
<b>Commercial-Industrial-Public Utility:</b> land and buildings used for commercial, industrial, or utility purposes, including electrical and nonelectrical generating machinery	12	0.2	61
<b>Residential Seasonal Recreational:</b> cabin owned by a Minnesota resident	7	<0.01	59
<b>Agricultural Homesteaded:</b> agricultural property consisting of owner-occupied house, garage, and one surrounding acre	4	<0.01	17

NOTES: Data are for Assessment Year 2017, which is when assessors estimated properties' market values. Property types not shown here are residential-nonhomesteaded property, apartments, commercial-seasonal recreational, and other miscellaneous types, which make up much smaller shares of school districts' tax bases on average.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Revenue.

Similar variation exists in the share of total tax base accounted for by commercial-industrial-public utility property, as Exhibit 2.2 shows. Looking at individual school districts in Assessment Year 2017, 120 of 330 districts (36 percent) had above-average shares of commercial-industrial-public utility property. All other things being equal, residential-homestead property owners in these school districts will pay a lower share of property taxes than homeowners in districts with smaller proportions of commercial-industrial-public utility property. This is because when commercial-industrial-public utility property owners make up a large proportion of the tax base, they pay a large proportion of the tax.



**Mora Public Schools District had far more residential homestead property than business property in Assessment Year 2017.**

In 2017, voters in the Mora Public Schools District rejected a \$52 million ballot question to build a new high school. The district tax base has an above-average share of residential homesteads (41 percent compared with the average 29 percent) and below-average share of commercial-industrial-public utility property (11 percent compared with the average 12 percent).

The Mora Public Schools school board had advocated building a new high school because the current high school was built in 1936 and had many problems, including asbestos hazards, safety concerns, a need to replace the heating and ventilation system, lack of a complete fire-suppression sprinkler system, and a leaking boiler system.

Residential-homestead owners generally pay a large share of property tax in school districts that have small shares of other property types. In Assessment Year 2017, 52 of 330 school districts (16 percent) had higher-than-average proportions of residential-homesteaded property combined with lower-than-average proportions of three other main property types (commercial-industrial-public utility property; agricultural homesteaded-remaining land (excluding house, garage, and one acre); and agricultural nonhomesteaded property). Two of the school districts, Kasson-Mantorville and Carlton, had higher-than-average proportions of residential-homesteaded property combined with lower-than-average proportions of nearly all other property types.

In 2017,

52

of 330 school districts had above-average proportions of residential-homesteaded property and relatively small shares of three other main property types.

**The composition of a school district’s tax base may affect the success or failure of its debt referendum and, in turn, the adequacy of its school facilities.**

We analyzed the debt referenda held in fiscal years 2016 through 2018 for school districts with higher-than-average proportions of certain types of property. School districts with higher-than-average proportions of agricultural property tended to have a somewhat greater referendum failure rate than school districts with higher-than-average proportions of residential homesteads, cabins, or commercial-industrial-public utility property.<sup>4</sup> Exhibit 2.3 shows the results.

As part of our evaluation, we interviewed representatives from 15 school districts and 7 interest groups, as listed in the box below. Some of the people we interviewed said that farm communities rely heavily on one class of property—agricultural—to pay a large share of the property taxes for debt levies. They said this placed those school districts at a disadvantage when it came to passing referenda, because many farmland owners have considered it unfair to pay the brunt of the resulting property tax increase.

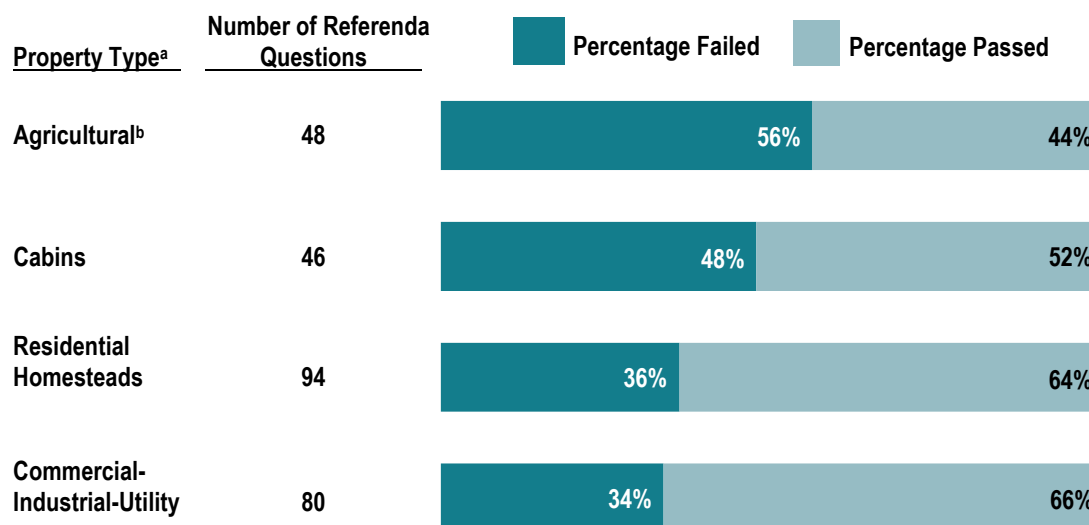
In Assessment Year 2017, 113 school districts (34 percent) had above-average shares of cropland, which is defined in this analysis as (1) agricultural homesteaded property excluding the home, garage, and one acre; and (2) agricultural nonhomesteaded property.

School Districts and Interest Groups Interviewed	
Districts	Interest Groups
Albert Lea	Association of Metropolitan School Districts
Byron	Ehlers, Inc.
Belle Plaine	Minnesota Business Partnership
Detroit Lakes	Minnesota Corn Growers Association
Forest Lake	Minnesota Farm Bureau
Fridley	Minnesota Rural Education Association
Mora	Schools for Equity in Education
Jordan	
Kasson-Mantorville	
Rochester*	
Sartell-St. Stephen	
South St. Paul	
South Washington County	
Southland	
St. Michael-Albertville	

\*A Rochester Public Schools official was unable to attend a scheduled interview and instead submitted written responses to our questions.

<sup>4</sup> This analysis defined agricultural property to include agricultural homesteads (which comprise the owner-occupied house, garage, and one acre); agricultural homesteaded cropland and other lands; and agricultural nonhomesteaded property.

**Exhibit 2.3: School districts with higher-than-average proportions of agricultural property experienced somewhat greater referendum failure rates than districts with higher-than-average proportions of certain other property types in fiscal years 2016 through 2018.**



NOTES: Some referenda had more than one question on the ballot; this analysis treats each ballot question separately. Some school districts in this analysis have higher-than-average proportions of more than one property type and are represented in more than one row.

<sup>a</sup> Represents school districts that had greater-than-average proportions of the property type in their taxable tax bases.

<sup>b</sup> For this analysis, agricultural property includes agricultural nonhomesteaded property; agricultural homesteaded croplands and other lands; and agricultural homesteaded property (which includes the house, garage, and one acre).

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education and Minnesota Department of Revenue.

Some school district officials and advocates for farmers fear that, if referenda do not succeed, students in districts with heavy concentrations of cropland will not have adequate school facilities. At the same time, they described as beneficial the tax relief of a 2017 law providing a 40 percent property tax credit to farm property owners for districts' debt levies.<sup>5</sup>

## Effect of Debt Service Equalization Aid

In this section, we examine the effect of Debt Service Equalization aid. We look at changes in the amount of aid and the number of school districts receiving aid over time. We also review school district officials' perspectives on the program and examine some characteristics of districts that receive aid.

<sup>5</sup> *Laws of Minnesota* 2017, First Special Session, chapter 1, art. 4, sec. 2, as codified in *Minnesota Statutes* 2018, 273.1387.

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**Overall, Debt Service Equalization aid has a small effect because, compared with earlier years, it represents a small amount of funding, and few school districts receive it.**

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We discuss our evidence for this finding throughout this section, but it is in large part based on changes in the amount of aid and the number of school districts receiving aid over time. Such changes may indicate that the program's effect does not fulfill its original intent.

## Changes in Aid and Numbers of School Districts Receiving Aid

Examining changes in the annual amount of statewide Debt Service Equalization aid and the number of school districts that have received aid provides perspective on the program's current impact relative to its previous impact.

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### Annual Debt Service Equalization aid has decreased since Fiscal Year 1997.

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Statewide annual Debt Service Equalization aid experienced periods of growth and decline from Fiscal Year 1997 through 2018, but the overall change was a decrease. Aid went from a high of \$61.3 million (after adjusting for inflation) in Fiscal Year 1997 to a low of \$9.4 million in Fiscal Year 2010, before increasing to \$22.3 million in Fiscal Year 2018.<sup>6</sup> The overall change from Fiscal Year 1997 through 2018 represents a decrease of 64 percent. The first figure in Exhibit 2.4 shows this decrease.

In contrast, statewide eligible debt service increased 18 percent during these same years, going from \$565.3 million in Fiscal Year 1997 to \$668.4 million in Fiscal Year 2018 (in dollars adjusted for inflation).<sup>7</sup> This increase indicates that school districts continued to rely on bonds eligible for the Debt Service Equalization program to fund their construction projects, even though the amount of aid available through the program generally decreased. The second figure in Exhibit 2.4 shows the change in eligible debt service.

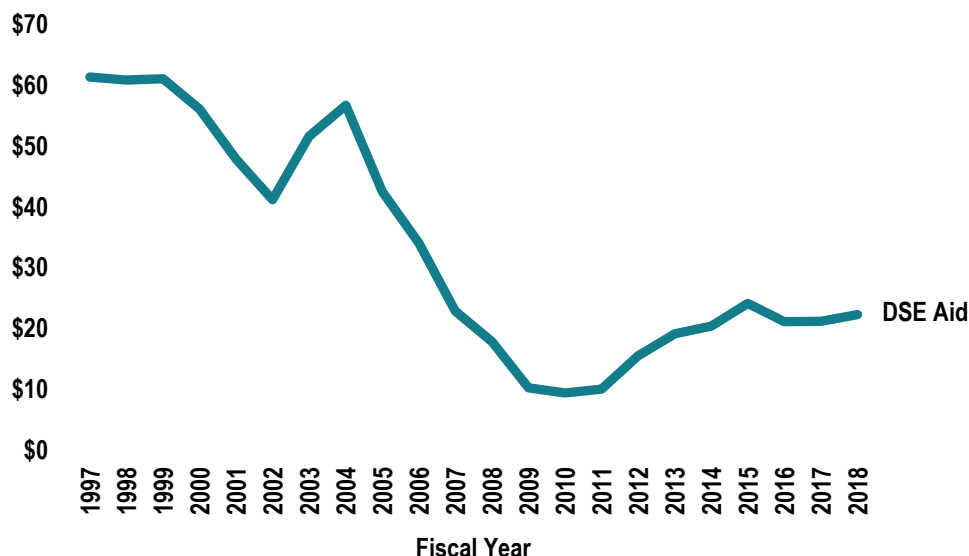
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<sup>6</sup> Dollar amounts are adjusted for inflation and presented in Fiscal Year 2018 dollars. In nominal dollars, the annual amount of Debt Service Equalization aid was \$32.5 million in Fiscal Year 1997 and \$22.3 million in Fiscal Year 2018. In Fiscal Year 2019, nominal aid was \$19.9 million. Note that aid for fiscal years 1997 and 1998 does not include some Debt Service Equalization aid that was appropriated for these years but was paid in subsequent years, after MDE's approach for prorating aid for these years had been finalized. While the Debt Service Equalization program has operated since Fiscal Year 1993, we focused our analysis on fiscal years 1997 through 2018 for two primary reasons. First, data on eligible debt service for all school districts are unavailable before Fiscal Year 1997. Second, the law establishing the Debt Service Equalization program set the amount of Debt Service Equalization revenue for fiscal years 1993 and 1994 at one-third and two-thirds, respectively, of the amount districts would have had using the formula set for Fiscal Years 1995 and later. This indicates that the Legislature did not intend state aid to reach "full strength" until Fiscal Year 1995 and later. *Laws of Minnesota* 1991, chapter 265, art. 5, sec. 8.

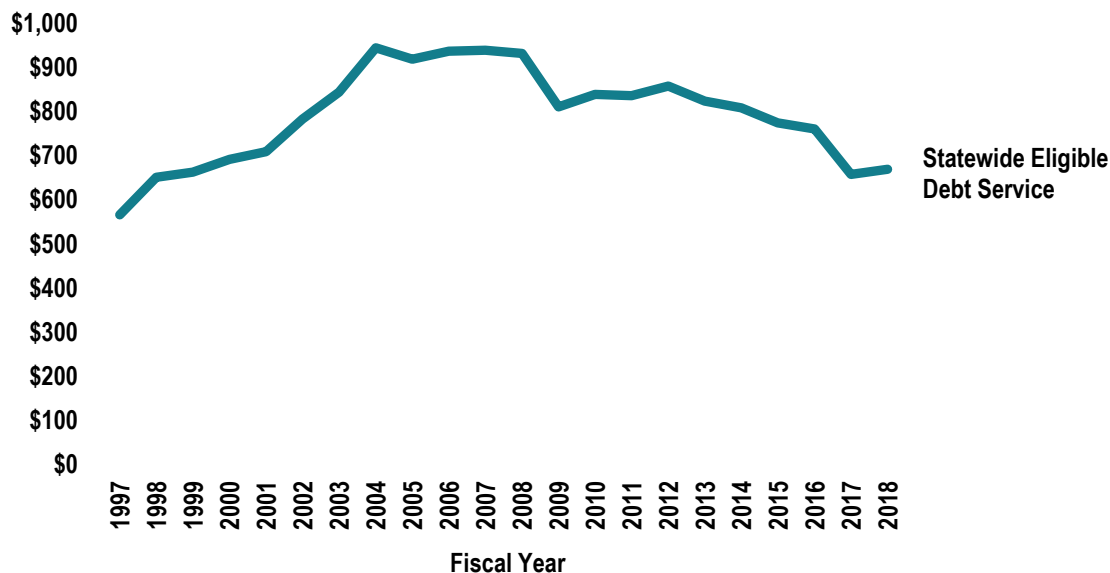
<sup>7</sup> As we discuss in Chapter 1, eligible debt service is debt service that meets certain requirements set in the Debt Service Equalization statute. The definition of eligible debt service has changed over time; changes to annual eligible debt service may be due in part to these changes. A district's annual eligible debt service may include principle and interest for bonds issued recently and bonds issued years ago, given that bond repayments generally follow a 20-year schedule. Dollar amounts are adjusted for inflation and are in Fiscal Year 2018 dollars. In nominal dollars, eligible debt service has increased from \$299.4 million in Fiscal Year 1997 to \$668.4 million in Fiscal Year 2018. In Fiscal Year 2019, nominal eligible debt service was \$677.1 million.

**Exhibit 2.4: Total Debt Service Equalization (DSE) aid has decreased, even as total eligible debt service has increased slightly.**

In Millions



In Millions



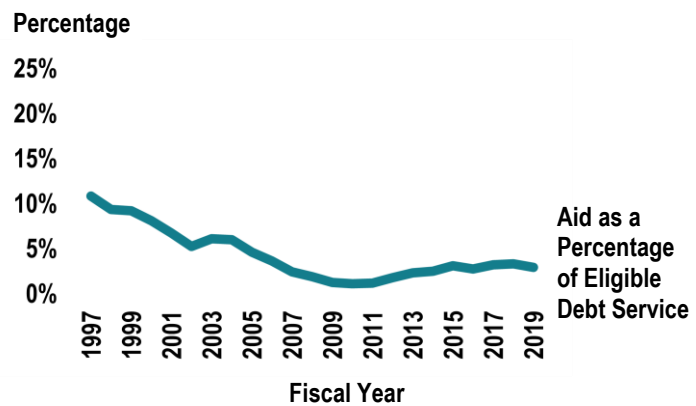
NOTES: Dollar amounts are in Fiscal Year 2018 dollars to control for inflation. Beyond the timeline presented in this exhibit, in Fiscal Year 2019, aid was \$19.9 million in nominal dollars, while nominal eligible debt service was \$677.1 million. Note that aid for fiscal years 1997 and 1998 does not include some Debt Service Equalization aid that had been appropriated for these years but was paid in subsequent years, once the Minnesota Department of Education's approach for prorating aid for these years was finalized.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education and Bureau of Economic Analysis.



Debt Service Equalization aid as a percentage of eligible debt service for all school districts statewide decreased during these years, going from 11 percent in Fiscal Year 1997 to 3 percent in Fiscal Year 2019, as shown at right. This is a decrease of 73 percent.<sup>8</sup> It means that school districts now pay a higher percentage of eligible debt service with revenue raised through local levies. The levy portion of revenue to pay for eligible debt service increased from 89 percent in Fiscal Year 1997 to 97 percent in Fiscal Year 2019.

**State aid makes up a small percentage of statewide eligible debt service for all school districts.**

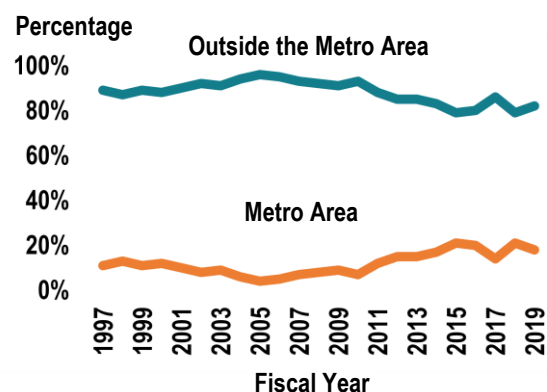


**The percentage of school districts with eligible debt service that received Debt Service Equalization aid decreased considerably.**

In Fiscal Year 1997, 51 percent of school districts (131 districts) with eligible debt service received aid. By 2019, this had decreased to 15 percent (34 districts). This represents a decrease of 71 percent. Exhibit 2.5 shows the decline.

Most school districts that receive aid are located outside the seven-county metropolitan area, as shown at right.<sup>9</sup> From Fiscal Year 1997 through 2019, the percentage of school districts receiving aid that were located outside the metropolitan area ranged from a low of 79 percent in fiscal years 2015 and 2018 (41 districts and 26 districts, respectively) to a high of 96 percent (101 districts) in Fiscal Year 2005.

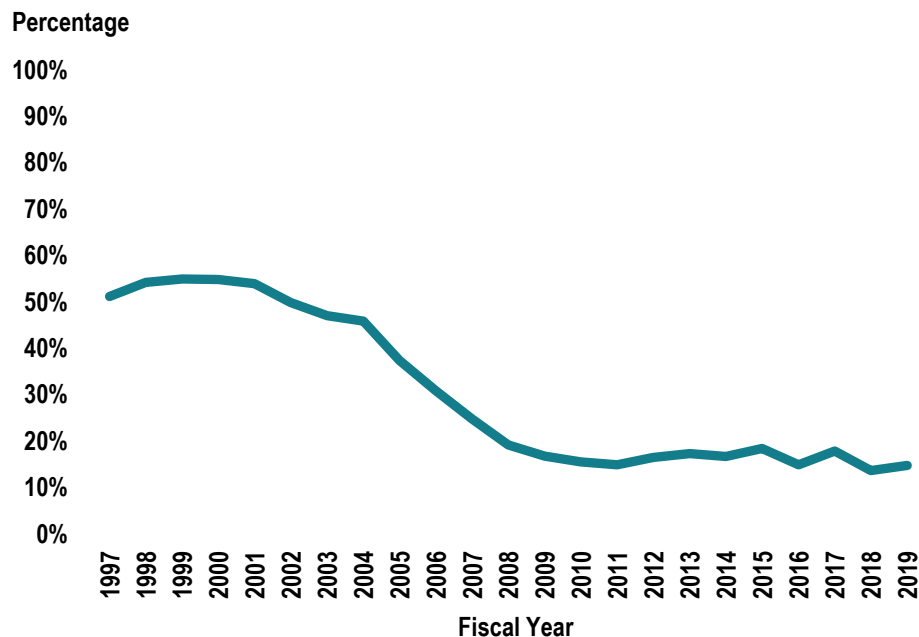
**Most school districts that received Debt Service Equalization aid from Fiscal Year 1997 through 2019 were located outside the metropolitan area.**



<sup>8</sup> This analysis includes eligible debt service for all school districts, including districts that did not receive Debt Service Equalization aid.

<sup>9</sup> The seven-county metropolitan area comprises Anoka, Carver, Ramsey, and Washington counties as well as most of Dakota, Hennepin, and Scott counties. Note that one might expect most school districts that received aid to be outside the metropolitan area because most districts in general are located there. For example, in Fiscal Year 2019, 85 percent (281 school districts) of all 329 school districts were located outside the metropolitan area while 15 percent (48 districts) were located within it.

### Exhibit 2.5: The percentage of school districts with eligible debt service that received aid has decreased.



SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education.

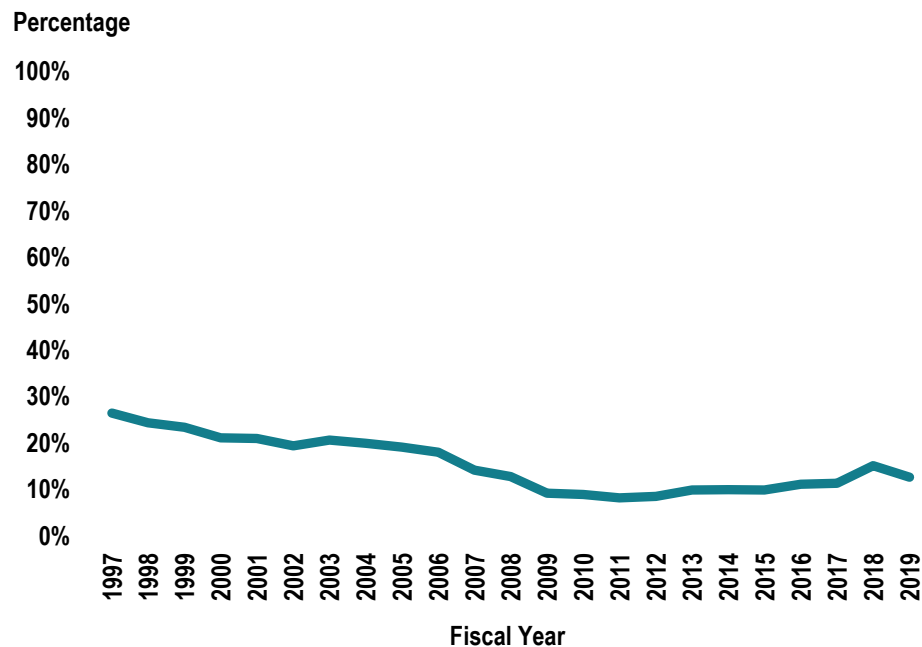
### For school districts that received state aid, the average percentage of eligible debt service that districts paid with aid has decreased.

An analysis of individual school districts' Debt Service Equalization aid as a portion of their eligible debt service shows a declining trend. This analysis includes only districts that received aid. In Fiscal Year 1997, aid paid for an average 26 percent of a school district's eligible debt service. The aid portion decreased to an average 13 percent of a district's eligible debt service in Fiscal Year 2019. This means that on average, an individual district receiving state aid paid a greater portion of its eligible debt service with local levies in Fiscal Year 2019 (87 percent) than in Fiscal Year 1997 (74 percent). Exhibit 2.6 shows how the portion of aid decreased.

### While its overall effect is small, Debt Service Equalization aid can have an important impact on individual school districts that receive it.

Comparing the amount of Debt Service Equalization aid school districts received over time shows that some school districts received substantially more than the average amount of state aid. In Fiscal Year 2018, the school district with the highest Debt Service Equalization aid received \$5.7 million. The school district with the second-highest amount of aid

## Exhibit 2.6: The average percentage of eligible debt service that individual school districts have paid with Debt Service Equalization aid has decreased.



NOTE: This analysis included only school districts that received Debt Service Equalization aid.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education.

received \$4.5 million.<sup>10</sup> The second-highest amount of aid was more than six times larger than the average amount of state aid (\$675,000).

Exhibit 2.7 shows the average, maximum, and second-highest through fifth-highest amounts of aid over the 22-year period from Fiscal Year 1997 through 2018.

Similarly, Debt Service Equalization aid paid for a considerably greater-than-average portion of eligible debt service for some school districts. At the maximum in Fiscal Year 2019, one school district's aid paid for 53 percent of its eligible debt service. The second-highest portion was 43 percent



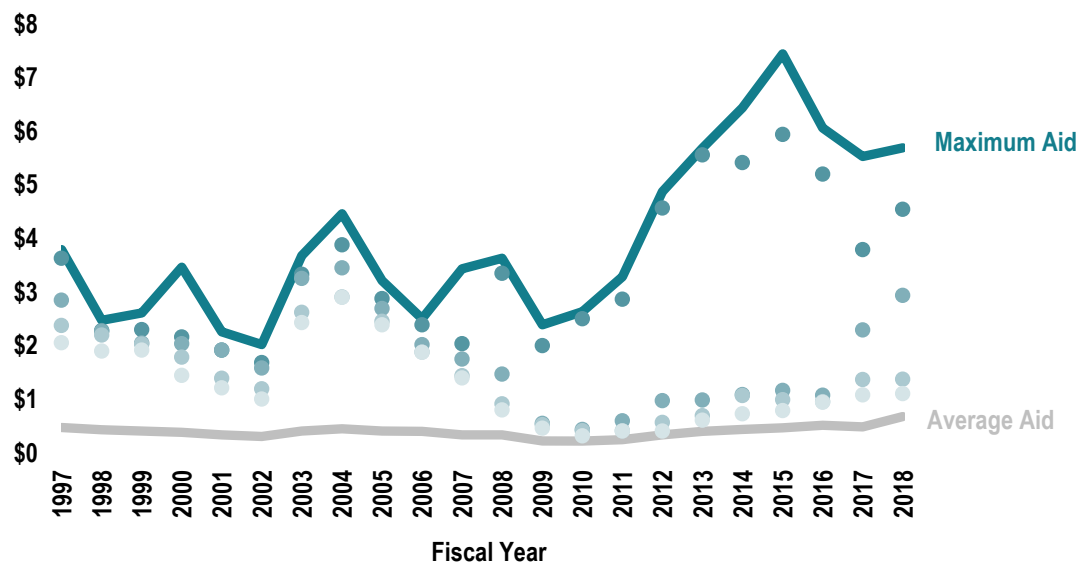
### A District Benefiting from Debt Service Equalization Aid

Farmington Area Public Schools is an example of a district that has benefited from Debt Service Equalization aid. In Fiscal Year 2019, the school district received \$4.2 million in Debt Service Equalization aid. This aid paid for 23 percent of the district's eligible debt service that year. Although the amount of aid has changed from one year to the next, the \$4.2 million in Fiscal Year 2019 represents more than a doubling of aid since 2010, when the district received \$2.1 million (not adjusted for inflation). Recently, this aid has helped pay for security upgrades and deferred maintenance projects (for example, replacing a roof that is beyond its life expectancy) for nine of the district's schools. It has also paid for the addition of kindergarten classrooms at five of the district's schools.

<sup>10</sup> The average amount of Debt Service Equalization aid an individual district received in Fiscal Year 2019 was about \$587,000, while the maximum was \$5.9 million and the second-highest amount was \$4.2 million.

## Exhibit 2.7: Some districts received considerably more than the average amount of Debt Service Equalization aid.

In Millions



NOTES: The dots between the average and maximum amount of Debt Service Equalization aid represent school districts with the second, third, fourth, and fifth largest amounts of state aid. Dollar amounts are in Fiscal Year 2018 dollars to control for inflation. Beyond the timeline presented in this exhibit, the average amount of Debt Service Equalization aid an individual district received in Fiscal Year 2019 was about \$587,000 in nominal dollars, while the maximum was \$5.9 million, the second largest was \$4.2 million, the third largest was \$2.4 million, the fourth largest was \$1.2 million, and the fifth largest was \$1.0 million.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education and Bureau of Economic Analysis.

of eligible debt service. This was more than three times greater than the average 13 percent. This means that, while the overall effect of Debt Service Equalization aid may have decreased since Fiscal Year 1997—based on general decreases in total annual aid, percentage of districts receiving aid, and the percentage of eligible debt service paid for with aid—aid still has a relatively large impact for some districts.

## Views on Debt Service Equalization Aid

As mentioned earlier, we interviewed representatives of several school districts and interest groups. Participants described their views on how well the Debt Service Equalization program works as well as the program's limitations. Although the views may not represent school districts statewide, they offer a useful local perspective.

**According to school district representatives we interviewed, some districts with significant building needs do not receive aid through the Debt Service Equalization program.**

Some school district representatives we interviewed stated that the Debt Service Equalization program does not ensure equivalent facilities across districts. For instance, one school district official said he sees school districts with “decrepit” facilities that have not received state aid, while other districts with “college-caliber athletic facilities” have received aid. Another school official described a high school that is one of the oldest in the state. He said the building has many needs, including deferred maintenance projects and the lack of a secured entrance, but the district has to pay for facilities exclusively with local levies and has not been able to pass referenda for anything except minor renovations.

Some school district representatives said that too few districts receive aid even though many districts that are not property wealthy need new or upgraded facilities. Some we interviewed said fewer school districts qualify for aid than in the past, despite their school buildings’ needs. They explained that this occurs in part because the equalizing factors are too low to provide sufficient aid. They said another reason is that the statutory threshold for the share of debt paid by local levy has not increased, even though property values have increased over time. (That is, state aid is not possible until districts use local levies to pay debt service equivalent to 15.74 percent of their adjusted net tax capacity (ANTC), as Chapter 1 explained; 15.74 percent of a larger tax base equates to a larger amount of local taxes paying for debt service.)

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**School district representatives we interviewed said the Debt Service Equalization program is inconsistent, complex, and can contribute to unsuccessful bond referenda.**

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While many we interviewed were grateful that the Debt Service Equalization program offers aid, they also described downsides to the program. For instance, representatives of some school districts and interest groups said it is a problem that aid amounts are not consistent from one year to the next.<sup>11</sup> They see this as detrimental to taxpayers who were informed at the time of the referendum about expected tax impacts, only to experience different tax impacts in subsequent years. As a result, some fear that voters may be reluctant to approve future referenda.

One superintendent explained that the school district’s net tax capacity had increased over the last four years, which resulted in decreases of Debt Service Equalization aid.<sup>12</sup> He said this is an issue because, even though the amount of debt service has not changed, the district has to turn to local taxpayers to pay increasing amounts of it. He added that the school district has a significant number of families with incomes low enough to qualify for free lunches or reduced-price lunches, and it is difficult for them to afford additional property taxes that were not expected when the referendum passed.

Some of those we interviewed said that, because the formula affects shares of aid and local tax levy, circumstances largely beyond school districts’ control may produce unintended

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<sup>11</sup> As Chapter 1 described, MDE calculates Debt Service Equalization revenue, levies, and aid for school districts each year. A school district that receives aid one year may receive a different amount (or even none at all) the next year, due to changes in net tax capacity, the number of students, debt amounts, or refinanced debt.

<sup>12</sup> As stated earlier, net tax capacity is reflected in the adjusted net tax capacity, which is the measure of tax-base wealth used to calculate Debt Service Equalization levies and aid.

consequences. As an example, a district could experience a loss of pupils while its tax base stays about the same; the district's revised ANTC per student could make the district appear to be more property wealthy than it is. As a result, the district could receive less aid, forcing property owners to pay a higher share of the debt service.

Several school district representatives described Debt Service Equalization as very complex. The complexity requires them to hire financial consultants with expertise in the



I am often troubled by the degree of complexity and intense amount of explanation needed to explain the program. The complexity is “frustrating” when it gets to tax season, and it is difficult to be able to explain the program to voters and people in the community.

— School District Business Director

program. It also makes it difficult for district officials to explain the Debt Service Equalization program fully to voters. Lack of understanding could lead to voting against a proposal.

Others we interviewed said that the program would be more helpful if it accounted for difficulties that some property owners have in paying higher

property taxes. They said that the Debt Service Equalization program fails to recognize whether homeowners with low incomes have the capacity to pay tax increases for school buildings.<sup>13</sup> Some said this contributes to failed referenda. Some school district representatives added that the program's state aid has provided insufficient equalization even for districts that qualify for the aid. One stated that the lack of higher amounts of aid means districts have to rely more on property taxes, which could discourage some voters from approving bond referenda.



A property tax increase can be “a real burden” for certain people, such as “residents living on Social Security.” These people “have no choice but to vote ‘no’” on debt referenda.

— School District Finance Director

Other school district officials we interviewed said it is unfair when one school district has significantly less tax base than a neighboring school district. They said this creates differing tax impacts between the districts and makes it difficult for the district with lower-wealth per student to pass bond referenda.<sup>14</sup>

## Characteristics of School Districts Receiving Aid

As explained earlier, the likely intent of the Debt Service Equalization program is to assist school districts with low tax base per student and high capital debt to fund facilities by reducing their property owners' property taxes. We compared the tax base per student of school districts that received aid with districts that did not.

<sup>13</sup> Note that Minnesota's Homestead Credit Refund program reduces property taxes for homeowners with high property taxes relative to their income, up to a limit. Taxpayers must apply to receive the tax credit.

<sup>14</sup> School districts with a low tax base per student would have to impose a higher tax rate on property owners to raise the same amount of dollars as a district with a high tax base per student.

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### Debt Service Equalization aid has helped certain school districts with relatively low amounts of tax base per student.

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The average and median tax base per student (as measured by adjusted net tax capacity, or ANTC, per adjusted pupil unit) for school districts that received aid in Fiscal Year 2019 are less than half the amounts in districts that did *not* receive aid that year. This means the Debt Service Equalization aid went to districts with relatively low-tax bases per student. The average ANTC per adjusted pupil unit among districts receiving aid was about \$4,600 in Fiscal Year 2019, compared with more than \$11,200 in districts that did not receive aid.

The average tax base per student in school districts receiving Debt Service Equalization aid was

**less  
than half**

the average in districts that did not receive aid.

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**Some school districts did not receive Debt Service Equalization state aid, even though their eligible debt service and tax base per student were somewhat similar to districts that *did* receive aid.**

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Among 154 school districts with (1) eligible debt service for Fiscal Year 2019 and (2) below-average ANTC per adjusted pupil unit, 120 school districts (78 percent) received no aid and 34 (22 percent) did.<sup>15</sup> The same disparity was evident in each fiscal year back through 2010, as the table at right shows. One reason that districts with low ANTC per student would not receive Debt Service Equalization aid is that they could have relatively small amounts of eligible debt service. Of the 120 districts without aid in Fiscal Year 2019, 83 districts (69 percent) fit this definition: each had relatively small eligible debt service (defined as less than the threshold 15.74 percent of the district's ANTC). This means that their eligible debt service would not be equalized, and district levies would pay the entire amount.

#### Of School Districts with Eligible Debt Service and Below-Average Tax Base per Student, More Did Not Receive Aid than Did

Fiscal Year	Number of Districts	Percentage with No Aid	Percentage with Aid
2010	172	77%	23%
2011	180	79	21
2012	182	75	25
2013	180	74	26
2014	177	74	26
2015	179	71	29
2016	178	77	23
2017	158	72	28
2018	155	79	21
2019	154	78	22

Another reason that school districts with below-average ANTC per student might not receive aid is that they could have had relatively large amounts of ANTC. Multiplying a large ANTC by the threshold 15.74 percent would render most or all of a district's eligible debt service as unequalized revenue. This would mean that district levies would be the sole source of revenue to repay the debt. Of the 120 districts that had below-average ANTC per student and did not receive aid in Fiscal Year 2019, 4 school districts (3 percent) had relatively large amounts of ANTC (defined as having more than the median ANTC among school districts that did receive aid).

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<sup>15</sup> In the remainder of this section, we use "ANTC per student" as shorthand for "ANTC per adjusted pupil unit."



Studying this more closely, we looked at school districts that had (1) below-average amounts of eligible debt service and (2) relatively low ANTC per student. The average amount of eligible debt service among school districts with eligible debt service in Fiscal Year 2019 was \$2.9 million. To receive aid, a district with this amount of eligible debt service would have to have less than \$4,599 in ANTC per student. Nine districts that met these two criteria (less than \$4,599 ANTC per student and less than the average \$2.9 million in eligible debt service) received no aid for Fiscal year 2019—while 13 others (meeting the same two criteria) *did* receive aid for that year.



#### Example of a School District with Relatively Small Amounts of Debt Service

Southland Public Schools, in Mower County, is a school district that has not qualified for Debt Service Equalization aid, even when it had eligible debt service. The superintendent said that if Southland ever were to qualify for the program, the district would be under such a “crushing load of debt” that local taxpayers would “not be able to handle the tax impact.”

— Superintendent, Southland Public Schools

Of the 9 districts that met the two criteria on eligible debt service and ANTC per student but did not receive aid, 4 had eligible debt service that *exceeded* the median \$695,000 for the

13 districts that did receive aid.

The districts are listed in the box at left. Another three of those districts had substantial amounts of eligible debt service, at more than a half million dollars each, but these amounts were less than the median \$695,000 for districts with aid.

**Among school districts with low tax base per student and below-average amounts of eligible debt service, some districts did not receive state aid for Fiscal Year 2019, despite having more eligible debt than half of those districts that received aid.**

School Districts with Less than \$4,599 ANTC per Student and Less than \$2.9 Million Eligible Debt Service*	Eligible Debt Service
<u>13 Districts that Received Aid</u>	
Median Eligible Debt Service	\$ 695,000
<u>9 Districts Not Receiving Aid</u>	
<b>Fridley</b>	<b>\$2,062,797</b>
<b>Austin</b>	<b>1,694,358</b>
<b>Dassel-Cokato</b>	<b>900,921</b>
<b>Milaca</b>	<b>859,331</b>
Esko	531,869
New York Mills	520,480
Wadena-Deer Creek	503,094
Pierz	312,082
Chisholm	237,186

\*ANTC per Student is adjusted net tax capacity per adjusted pupil unit.

The four school districts that did not receive aid, despite having higher eligible debt service than the median for districts that did receive aid, had relatively high amounts of ANTC. Their amounts of ANTC averaged \$12.6 million, which was \$8.3 million (192 percent) higher than the average \$4.3 million for the 13 school districts that did receive aid. Their relatively high amounts of ANTC, when multiplied by the threshold 15.74 percent, meant that their eligible debt service was entirely unequalized.

For example, multiplying the

Milaca School District’s \$7,587,156 of ANTC by 15.74 percent equals \$1,194,218. This means that, to have any eligible debt service that might possibly qualify for Debt Service Equalization aid, Milaca would need more than \$1,194,218 in debt service—far more than the \$859,331 it actually had for Fiscal Year 2019.



One indication of how little the current Debt Service Equalization formula equalizes school districts' tax bases (among districts with eligible debt service) is the amount of ANTC per student needed to receive aid compared with the actual statewide average. At \$4,599, the amount of ANTC per student necessary to receive aid is half the actual average \$9,255 ANTC per student statewide in Fiscal Year 2019 (among districts with eligible debt service). A formula with greater equalization would provide aid at some amount closer to the actual average ANTC per student.



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# Chapter 3: Comparisons Among Facility Programs

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Minnesota has a number of programs to help school districts pay for school facilities. In this chapter, we provide a brief overview of some of the key programs. We then compare the Debt Service Equalization program in more depth with two of the other programs in particular: Operating Capital Revenue and Capital Project Referendum.

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## Other State Programs for School District Facilities

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In this section, we discuss basic information about eight programs for school facilities in comparison with the Debt Service Equalization program.

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**Eight Minnesota programs for school district facilities differ from the Debt Service Equalization program in structure and purpose.**

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Programs available to school districts for school facilities differ based on the types of expenditures they allow. They also differ based on whether they offer state aid, require voter approval, or require a review and comment from the Minnesota Department of Education (MDE).<sup>1</sup>

One difference is that state law limits the use of some programs to specific types of expenditures. Unlike the Debt Service Equalization program, some programs cannot be used to construct new buildings. For example, school districts can use the **Long-Term Facilities Maintenance Revenue** program for only certain building maintenance; they cannot use it to construct or renovate buildings.<sup>2</sup> Similarly, school districts use the **Building Lease Levy** only to rent or lease land or buildings; they cannot use it to lease a newly constructed building that is used primarily for kindergarten through 12<sup>th</sup> grade instruction.<sup>3</sup> Exhibit 3.1 explains how these programs compare.

A second difference is whether voters must approve facility projects through a referendum. Similar to the Debt Service Equalization program, the law requires referenda for all projects that are to be funded by three other programs. For example, voters must approve construction projects funded with a capital loan through the **Maximum Effort School Aid** law.<sup>4</sup> For another program, known as **Bonds for Certain Capital Projects**, state law

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<sup>1</sup> We discuss MDE's review and comment process in greater detail in Chapter 5.

<sup>2</sup> *Minnesota Statutes* 2018, 123B.595, subd. 10, limits use of Long-Term Facilities Maintenance Revenue to deferred capital projects and maintenance needed to prevent further facility erosion; increasing accessibility in facilities; and health and safety capital projects, such as asbestos cleanup. Subdivision 11 of the statute prohibits using the revenue for constructing new facilities and remodeling existing facilities, among other prohibited uses.

<sup>3</sup> *Minnesota Statutes* 2018, 126C.40, subd. 1. Note that certain school districts (including Minneapolis, St. Paul, Duluth, and Rochester) may use this program to purchase property or buildings through a lease purchase agreement in accordance with *Minnesota Statutes* 2018, 126C.40, subd. 6.

<sup>4</sup> *Minnesota Statutes* 2018, 126C.69, subd. 11.

### Exhibit 3.1: Minnesota has many facility programs, but they differ from Debt Service Equalization.

- Required or available
- Required or available only under specific circumstances
- Not required or unavailable

Program	Description	Referendum	State Aid	Review and Comment	Expenditure Limitations
Bonds for Certain Capital Projects	Bonding authority to make certain capital improvements	● <sup>a</sup>	●	●	Use for energy modifications, code compliance, building security, repairs, disability access, attached fixtures; must repay bonds within 15 years
Building Lease Levy Authority	Levy to rent or lease building or land for any instructional purposes, school storage, or furniture repair	●	●	●	May not lease newly constructed building used for regular K-12 instruction; levy may not exceed \$212 per adjusted pupil unit; requires MDE approval
Capital Project Referendum	Bonding for building construction and specific repairs, purchases, and maintenance	●	●	● <sup>b</sup>	Construction bonds limited to ten years; maintenance and repairs limited to those for Operating Capital Revenue
Debt Service Equalization	Aid to help repay bonds to finance construction; based on amount of annual debt service and taxable property-tax base per pupil	●	●	●	Use for capital construction projects or to repay loans through Maximum Effort School Aid program, or to make certain pre-July 1990 lease-purchase payments
Disabled Access and Fire Safety Levy Authority	Levy authority up to \$300,000 spread over up to eight years for removing access barriers or making fire-safety changes	●	●	●	Use only for disability access projects or fire-inspector required fire-safety modifications; requires MDE commissioner approval
Long-Term Facilities Maintenance Revenue	Revenue from per pupil formula to support facility maintenance needs	●	●	●	Use only for deferred maintenance, accessibility, or health and safety projects; requires ten-year plan and MDE approval
Maximum Effort School Aid—Capital Loans	State loans to extremely low-wealth districts with very high tax rates for debt	●	●	●	Not for pools, ice arenas, athletic facilities, or auditoriums, among others; requires MDE approval
Natural Disaster Debt Service Equalization	State aid for districts hit by natural disasters with damages of at least \$500,000 and not covered by FEMA payments	●	●	●	For damaged facilities: capital construction projects and other purposes allowed for Debt Service Equalization
Operating Capital Revenue	Equalized general education revenue for equipment and facility needs, based on district's pupil units, square footage, and average building age	●	●	●	Acquire land or buildings for school purposes; improve and repair school sites; conduct energy audits; and purchase or lease computers or copiers, among other purposes

NOTE: The exhibit excludes programs intended exclusively for school districts in a limited geographic area, such as the Iron Range; the Cooperative Facilities Grants program, which has not been funded in more than 20 years; and financing tools, such as capital notes or abatement bonds.

<sup>a</sup> A referendum for this program is required only when voters petition for one.

<sup>b</sup> Review and comment is not required if a project addresses only technology and a school board resolution states funds will be used only as authorized.

SOURCES: *Minnesota Statutes* 2018, 123B.53, subds. 1(a)(1), 2(a)(3), and 6; 123B.535, subds. 1(a)(1)-(3) and 5; 123B.58, subds. 1-3; 123B.595, subds. 1(a)-(c), 4, and 9; 123B.62(a), (c), and (d); 123B.63, subds. 1-2, 3(a), and 3(c); 123B.65, subd. 3(a); 123B.71, subd. 8; 126C.10, subds. 13, 13b, and 14; 126C.29, subds. 12-13; 126C.40, subd. 1(a)-(c); 126C.59, subd. 1; 126C.69, subds. 2, 3, and 11; and 475.58, subd. 1.

requires a referendum only when voters petition for one. In contrast, voters do not need to approve projects funded by the **Long-Term Facility Maintenance** program.<sup>5</sup>

Another key difference among facility programs is whether they offer state aid to help school districts fund projects. Five of the nine programs we examined offer state aid. Like the Debt Service Equalization program, the Long-Term Facilities Maintenance program offers state aid to districts. In contrast, the Building Lease Levy program does not offer state aid.

An additional difference among the available programs is whether state law requires projects to undergo MDE's review and comment process. Of the nine programs we examined, all projects in three programs must undergo a review and comment, while only certain projects funded by one other program must. That is, all types of projects funded by Debt Service Equalization, capital loans through the Maximum Effort School Aid law, or **Natural Disaster Debt Service Equalization** must undergo the review and comment process. **Capital Project Referendum** projects that exclusively address technology needs do not need to go through the review and comment process, however, all other projects funded by this program must.

MDE staff described another difference between the Debt Service Equalization program and the Maximum Effort School Aid law. They said the former program was designed as an alternative to the Maximum Effort School Aid law, which passed in 1959 and was intended for school districts that had building needs but also extremely low property values. These districts had far too little property value to finance school facilities through conventional bond sales. The Maximum Effort School Aid law has provided loans to those districts where the costs of building facilities would exceed the maximum that "taxpayers can be reasonably expected to bear."<sup>6</sup>

MDE staff reported a decrease in capital loans through the Maximum Effort School Aid law program and attributed it to the Debt Service Equalization program. They reported that 20 districts had outstanding capital loans through the Maximum Effort School Aid law at the time the Debt Service Equalization program went into effect in 1993. Since then, only eight districts have received new capital loans, and only four districts currently have a capital loan outstanding. MDE staff said the decrease in these capital loans is beneficial because the Maximum Effort School Aid law is less efficient than the Debt Service Equalization program. They explained that this is in part because districts have to apply to the department for a capital loan, and the full Legislature must approve each loan.

Another program related to school facilities is the **School Building Bond Agricultural Credit**.<sup>7</sup> Unlike other programs that allow school districts to generate revenue for school facilities, this program provides to certain agricultural property owners a tax credit that covers 40 percent of the taxes they would otherwise pay as part of debt service levies.<sup>8</sup> The state provides aid to cover the cost of this tax reduction for agricultural landowners. The Legislature created this credit in 2017, which first went into effect for taxes paid in 2018. (Because this program consists of a tax credit and is not a program that school districts use

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<sup>5</sup> *Minnesota Statutes* 2018, 123B.595.

<sup>6</sup> *Minnesota Statutes* 2018, 126C.62.

<sup>7</sup> *Minnesota Statutes* 2018, 273.1387.

<sup>8</sup> The tax credit is available for all agricultural property except for the house, garage, and surrounding one acre of an agricultural homestead.

to generate revenue for facilities, it does not involve referenda, a review and comment process, or expenditure limitations; consequently, we did not include it in Exhibit 3.1.)

## Comparison with Two Other Programs

We compared the Debt Service Equalization program in more depth with two programs: the Operating Capital Revenue program and the Capital Project Referendum program. We considered four criteria when selecting these programs for comparison:

1. Whether funding can be used to pay for construction of new buildings
2. Whether the program's funding was ineligible for Debt Service Equalization
3. Whether the program was generally available to all school districts
4. Whether the program provides state aid

We selected the Operating Capital Revenue program as a comparison program because it met all of our criteria. While the Capital Project Referendum program does not provide state aid, we included it because it satisfied the other criteria.

### Operating Capital Revenue Program

The Operating Capital Revenue program has some similarities to the Debt Service Equalization program. Both programs provide state aid to school districts, and the law allows program revenue for both programs to fund construction of new buildings.

We also identified differences between the two programs, including three differences in legal requirements. First, projects funded by the Debt Service Equalization program must undergo MDE's review and comment process. In contrast, projects funded by the Operating Capital Revenue program are not required to undergo the review and comment process. Second, school districts' voters must approve projects funded by the Debt Service Equalization program through referenda, but projects funded by the Operating Capital Revenue program do not require voter approval. Third, the Debt Service Equalization program cannot be used for some purposes for which the Operating Capital Revenue program can be used, such as to rent or lease buildings, to lease or purchase vehicles, or for personnel costs for operating computer networks and related equipment.<sup>9</sup>



#### Operating Capital Revenue Program

School districts may use the Operating Capital Revenue program for repairing school buildings, bringing buildings into compliance with the Fire Code, or purchasing telecommunications equipment, among other equipment and facility needs. Districts can also use this program's revenue to acquire or construct buildings for school purposes.

School districts might find Operating Capital Revenue appealing because it does not require a referendum, and projects do not undergo MDE's review and comment process. Operating Capital Revenue is equalized, and almost all districts receive revenue through it; however, the amount of revenue is limited.

<sup>9</sup> *Minnesota Statutes* 2018, 123B.53, subds. 1-2; 126C.10, subd. 14; and 475.52, subd. 5.

The two programs also differ in terms of the number of school districts they serve. Because revenue from the Operating Capital Revenue program is calculated as part of the general education revenue program, almost all school districts receive revenue through it. In contrast, whether a district obtains revenue through bonds issued for projects eligible for the Debt Service Equalization program depends on whether the district's voters approve those projects. In Fiscal Year 2017, all 330 school districts received Operating Capital Revenue, while 247 school districts (75 percent) had eligible debt service.<sup>10</sup>

The amounts of revenue the two programs generate for school districts also differ. In Fiscal Year 2017, statewide revenue (including local levy and state aid) to pay for eligible debt service totaled \$656.8 million (as adjusted for inflation).<sup>11</sup> This was more than three times greater than statewide inflation-adjusted Operating Capital Revenue (including local levy and state aid), which totaled \$205.2 million. The average amount of district revenue used to pay for eligible debt service was \$2.7 million in Fiscal Year 2017. This was more than four times greater than the average revenue that school districts had from the Operating Capital Revenue program in Fiscal Year 2017 (almost \$622,000).

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**Limitations to the Operating Capital Revenue program mean that it is not a substitute for the Debt Service Equalization program.**

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A formula set in statute limits the annual amount of Operating Capital Revenue that a school district generates.<sup>12</sup> That formula uses a district's adjusted pupil units, as well as the age and square footage of the district's buildings, to determine the amount of revenue, as shown at right.<sup>13</sup> Some school districts do not receive enough Operating Capital Revenue to pay for larger projects.

**Operating Capital Revenue Formula**

$$\text{Revenue} = [\$79 + (MCI \times \$109)] \times APU$$

NOTES: MCI is a district's Maintenance Cost Index, which is based on the square footage and age of a district's buildings. APU is the district's adjusted pupil units.

In contrast, the Debt Service Equalization program's formula does not limit how much revenue is available to school districts to pay for eligible debt service. Such revenue is limited by the scope of the projects a district's voters approve and statutory limits on debt.<sup>14</sup>

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<sup>10</sup> Not all revenue that school districts use to pay for eligible debt service is considered Debt Service Equalization revenue. However, we analyze that revenue here for two reasons. First, examining Debt Service Equalization revenue for only those districts that receive aid would ignore the fact that the program's purpose includes providing equalization to help address disparities in districts' ability to pay for constructing school facilities. Eligible debt service represents the total amount of revenue that the Debt Service Equalization program considers for equalization. Second, school districts do not have the option of choosing to participate in the Debt Service Equalization program. Instead, MDE applies the Debt Service Equalization formula annually to each district's eligible debt service to determine whether a district qualifies for the program that year. Consequently, we analyze eligible debt service in all school districts statewide.

<sup>11</sup> To compare revenue for eligible debt service with Operating Capital Revenue, we report data for Fiscal Year 2017 because that is the most recent year for which Operating Capital Revenue program data were available.

<sup>12</sup> *Minnesota Statutes* 2018, 126C.10, subds. 13-13b.

<sup>13</sup> Adjusted pupil units is a measure of the number of students a school district serves. It weights students by grade level.

<sup>14</sup> *Minnesota Statutes* 2018, 475.52, subd. 5; 475.53, subd. 4; and 475.58, subd. 1.

This means that, as long as school districts obtain approval from their voters, districts can use the revenue to fund large projects.

Several school district representatives we interviewed described how the Operating Capital Revenue program does not address their districts' needs for constructing new buildings because it does not provide enough revenue.<sup>15</sup> They explained that they use their districts' Operating Capital Revenue funding to address other, smaller needs, such as building maintenance, technology, and curriculum needs. After these expenses, they said there is not enough revenue left over for larger expenses. For example, one district official said his district uses Operating Capital Revenue for basic maintenance items, such as carpet and paint. After these expenses, he said, insufficient revenue remains for larger projects, such as adding classrooms. Another school official said that some districts use Operating Capital Revenue almost entirely on technology expenses, and they do not have enough program revenue left to spend on facilities.



Our district uses Operating Capital Revenue to purchase items such as textbooks, online subscriptions, safety equipment, arts equipment, marching band uniforms, and lawnmowers. There is never money in our Operating Capital Revenue fund for building projects.

— School District Superintendent

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### **The structure of the Operating Capital Revenue program's funding formula provides greater equalization than the Debt Service Equalization formula.**

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All of a school district's Operating Capital Revenue is equalized, and all of this revenue is equalized at the same rate, as Exhibit 3.2 shows.<sup>16</sup> In contrast, the Debt Service Equalization program divides eligible debt service revenue into three parts; the first part has no state aid, and the second part is equalized at a lower rate than the third.<sup>17</sup>

The Operating Capital Revenue program's equalizing factor is larger than either of the two Debt Service Equalization Revenue program's equalizing factors. This means that state aid makes up a greater percentage of a school district's Operating Capital Revenue than it does of eligible debt service, because the larger the equalizing factor, the smaller the levy portion and the larger the aid portion. This is true for both programs because, in each, state aid is equal to program revenue minus the local levy. For Fiscal Year 2019, the equalizing factor for first-tier Debt Service Equalization revenue was \$4,598.50, and the second-tier equalizing factor was \$8,311. In contrast, the Operating Capital Revenue program's equalizing factor was \$24,241, which was almost three times larger than the equalizing factor for second-tier Debt Service Equalization revenue.

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<sup>15</sup> We spoke with representatives of 15 school districts as part of our evaluation. While their views cannot be considered representative of all school districts, they can provide helpful insights on how some districts view the Debt Service Equalization program, Operating Capital Revenue program, and the Capital Project Referendum program.

<sup>16</sup> *Minnesota Statutes* 2018, 126C.10, subds. 13-13b.

<sup>17</sup> As discussed in Chapter 1, not all school districts have each part of eligible debt service. Some districts have only unequalized eligible debt service, while others have both unequalized eligible debt service and first-tier Debt Service Equalization revenue.



### Exhibit 3.2: The Operating Capital Revenue program's funding structure offers greater equalization than the Debt Service Equalization program.

Funding Structure Characteristic	Debt Service Equalization	Operating Capital Revenue
Includes state aid and local levy	Yes	Yes
All eligible revenue is equalized	No	Yes
All equalized revenue is equalized at the same rate	No	Yes
FY 2019 equalizing factor <sup>a</sup>	\$8,311 <sup>b</sup>	\$24,241

NOTE: This exhibit does not include all similarities and differences between the two programs' funding structures.

<sup>a</sup> The equalizing factor determines whether, and to what extent, school districts receive aid through the program. The larger the factor, the greater the portion of a district's revenue that is aid, all other variables being equal.

<sup>b</sup> This is the equalizing factor in Fiscal Year 2019 for the second tier of Debt Service Equalization revenue, which statutes define as 100 percent of the statewide adjusted net tax capacity per adjusted pupil unit. In Fiscal Year 2019, the equalizing factor for first-tier revenue was \$4,598.50.

SOURCES: *Minnesota Statutes* 2018, 123B.53, subds.4-6; and 126C.10, subds. 13-13b.

### Despite having lower revenue statewide than the Debt Service Equalization program, the Operating Capital Program has provided more state aid.

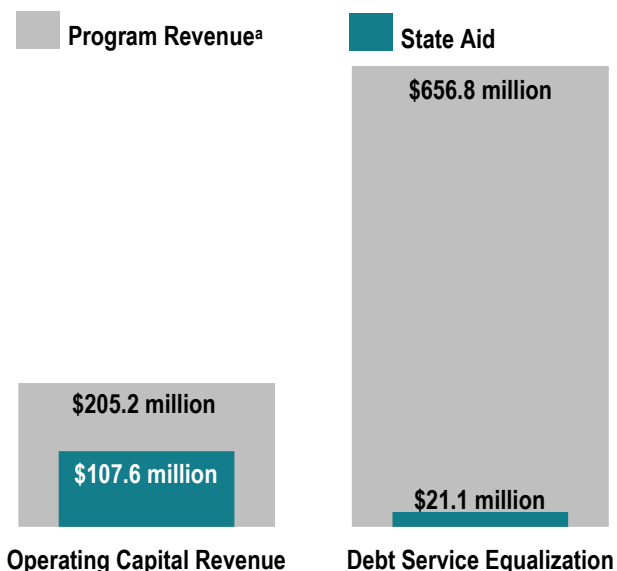
The Operating Capital Revenue program has provided more state aid (in dollars adjusted for inflation) to school districts than the Debt Service Equalization program for each year from Fiscal Year 2005 through 2017.<sup>18</sup> This is true despite the fact that annual Operating Capital Revenue was smaller than total revenue used to pay for eligible debt service. For example, the Operating Capital Revenue program provided school districts with \$107.6 million (adjusted for inflation) in state aid in Fiscal Year 2017. This amount of state aid was more than five times greater than the \$21.1 million in inflation-adjusted aid that the Debt Service Equalization program provided to school districts that year. During this same year, total Operating Capital Revenue was \$205.2 million (adjusted for inflation), while total revenue to pay for eligible debt service was \$656.8 million. Exhibit 3.3 shows these differences for Fiscal Year 2017.

**Operating Capital Revenue aid was more than**  
**5 times**  
**greater than Debt Service Equalization aid in Fiscal Year 2017.**

State aid made up a greater share of revenue from the Operating Capital Revenue program than it did of revenue to pay for eligible debt service. For example, state aid made up 52 percent of total statewide revenue from the Operating Capital Revenue program in Fiscal Year 2017, while it made up 3 percent of total statewide revenue to pay for eligible debt service.

<sup>18</sup> We focused our analysis on Fiscal Year 2005 to 2017 because (1) Fiscal Year 2017 is the most recent year for which final data are available and (2) the Operating Capital Revenue program's funding consisted of both a local levy and state aid for only Fiscal Year 2005 and later. Prior to that, the program consisted exclusively of state aid. Values are adjusted for inflation and presented in Fiscal Year 2018 dollars.

**Exhibit 3.3: In Fiscal Year 2017, the Operating Capital Revenue program provided more state aid than the Debt Service Equalization program, even though its total revenue was less than eligible debt service revenue.**



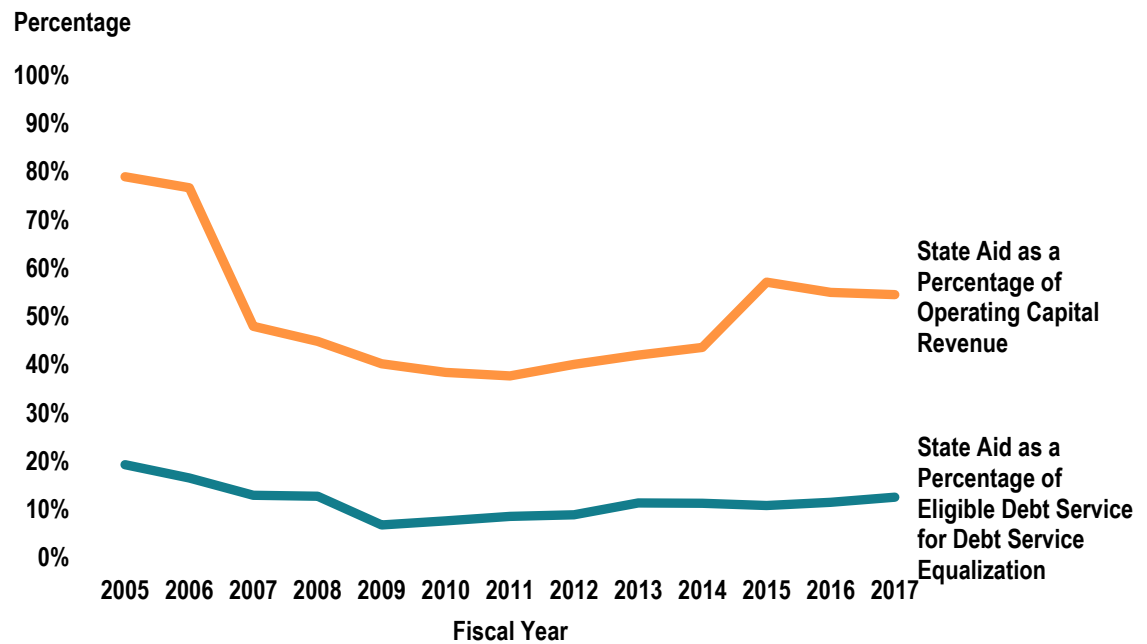
NOTE: Dollar amounts are expressed in Fiscal Year 2018 dollars because they are part of multiple years of data that were adjusted to account for inflation. Program revenue is made up of state aid and local levy.

<sup>a</sup> For the Debt Service Equalization program, this is total statewide revenue to pay for eligible debt service.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education and Bureau of Economic Analysis.

When considering only school districts that received aid through each program, state aid made up a greater portion of revenue from the Operating Capital Revenue program than it did of revenue to pay for eligible debt service. As an example, in Fiscal Year 2017, about 55 percent of revenue from the Operating Capital Revenue program was state aid, while about 12 percent of revenue to pay for eligible debt service was aid. Exhibit 3.4 shows these percentages for Fiscal Year 2005 through 2017.

### Exhibit 3.4: State aid made up a greater proportion of Operating Capital Revenue than it did of eligible debt service revenue.



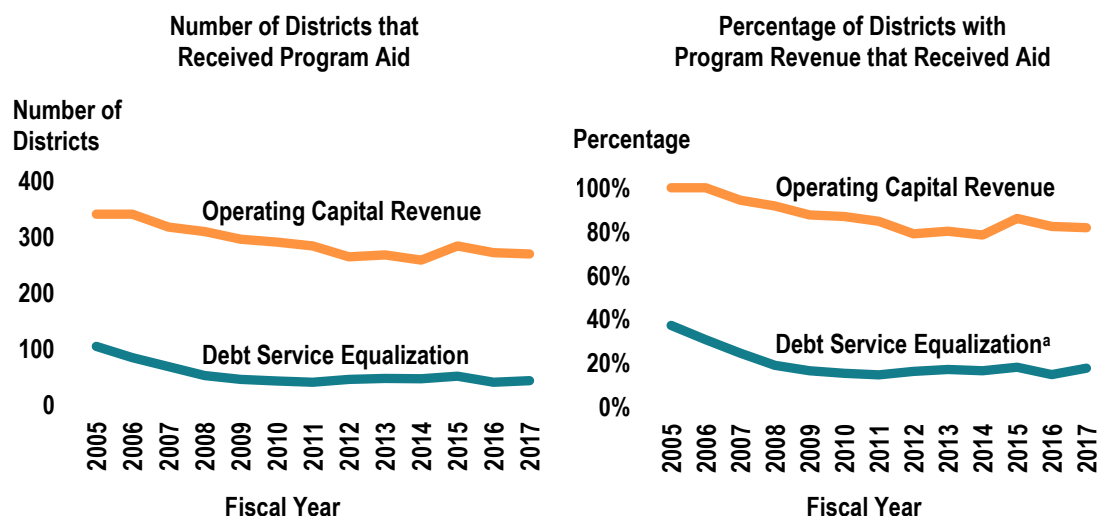
NOTE: For this analysis, we analyzed only school districts that received aid through each program.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education.

### More school districts received state aid through the Operating Capital Revenue program than through the Debt Service Equalization program.

From Fiscal Year 2005 through 2017, the number of school districts that received state aid through the Operating Capital Revenue program was greater than the number of districts that received aid through the Debt Service Equalization program. For example, in Fiscal Year 2017, 270 districts (82 percent of districts with Operating Capital Revenue) received aid through the Operating Capital Revenue program. This was far more than the 44 districts that received Debt Service Equalization aid (18 percent of districts with eligible debt service), as Exhibit 3.5 shows.

### Exhibit 3.5: More school districts received aid from the Operating Capital Revenue program than from the Debt Service Equalization program.



<sup>a</sup> For the Debt Service Equalization program, program revenue includes all revenue to pay for eligible debt service.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education.

## Capital Project Referendum

As mentioned earlier in this chapter, the Capital Project Referendum program has some similarities with the Debt Service Equalization program. State law requires for both programs that a majority of a school district's voters approve proposed projects. Both programs also require projects to undergo MDE's review and comment, although this requirement does not apply to Capital Project Referendum projects that are exclusively for technology. Additionally, funding from both programs can be used to construct new school facilities.

However, the programs also have some important differences. First, the Debt Service Equalization program provides state aid to some school districts, while the Capital Project Referendum program does not—it consists entirely of revenue raised through local levies. Second, the Debt Service Equalization program cannot be used for some purposes for which the Capital Project Referendum program can, including purchasing vehicles and paying certain personnel costs.



### Capital Project Referendum Program

School districts might use the Capital Project Referendum program if they need to improve or repair school buildings or increase accessibility in their buildings. Districts can also use the program to raise money for purchasing computers, copying machines, textbooks, and vehicles. They could also use the program's revenue to acquire or construct buildings.

School districts may be less likely to use the Capital Project Referendum Program than other programs because it requires a referendum, and it does not offer state aid. However, if a district is in need of equipment or a facility, and revenue from other programs is insufficient, it might turn to the Capital Project Referendum program.

The two programs also differ in size, both in terms of the number of school districts they serve and the amount of revenue available to districts. In Fiscal Year 2019, 231 of all 329 school districts (70 percent) had revenue (state aid and/or local levy) to pay for eligible debt service. This was more than four times greater than the 51 districts with Capital Project Referendum revenue (16 percent of all school districts).

The Debt Service Equalization program is also larger than the Capital Project Referendum program in terms of program revenue. In Fiscal Year 2019, total revenue to pay for eligible debt service was \$677.1 million. This was more than six times greater than the statewide \$99 million in Capital Project Referendum revenue.<sup>19</sup> The average amount of revenue available to a school district to pay for eligible debt service was \$2.9 million in Fiscal Year 2019, while the average Capital Project Referendum revenue available to a school district was \$1.9 million.

Revenue to pay for eligible debt service was more than

**6 times**

greater than Capital Project Referendum revenue in Fiscal Year 2019.

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**Limitations with the Capital Project Referendum program mean that it is not a substitute for the Debt Service Equalization program.**

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As mentioned earlier in the chapter, a key difference between the two programs is that the Capital Project Referendum program does not offer state aid to school districts. Because of this, some districts may choose to instead fund projects using bonds eligible for Debt Service Equalization. This is because the potential for state aid offers the possibility of reducing the portion of the project costs that local tax payers have to pay through levies. In addition, because projects for both programs must be approved by a majority of a district's property owners, voters may be more likely to approve a project that costs them less.

Another reason why school districts may be more likely to use bonds eligible for Debt Service Equalization instead of Capital Project Referendum funding is the term of the repayment. Bonds issued through the Capital Project Referendum program must follow bond schedules not greater than ten years.<sup>20</sup> In contrast, bonds eligible for the Debt Service Equalization program generally follow a 20-year repayment schedule.<sup>21</sup> This means that a project with the same cost and interest rate would result in higher annual debt service payments through the Capital Project Referendum program than it would through the Debt Service Equalization program. Given that taxpayers are responsible for the full amount of debt service payments through the Capital Project Referendum program, voters may be less likely to approve larger projects funded through that program.

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<sup>19</sup> Note that eligible debt service revenue includes both levies and Debt Service Equalization aid. Capital Project Referendum revenue (\$99.1 million), which is generated entirely through local levies, was also smaller than the \$657.2 million levy portion of eligible debt service revenue in Fiscal Year 2019.

<sup>20</sup> *Minnesota Statutes* 2018, 123B.63, subd. 3(c).

<sup>21</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

Some school district officials we interviewed described how they use the Capital Project Referendum program and explained some of its limitations. One said the Capital Project Referendum program has no benefits over the Debt Service Equalization program since it does not offer state aid. Another described how his district has used Capital Project

Referendum bonds to cover technology costs, which has allowed his district to use more of its Operating Capital Revenue for building maintenance. A third district representative described the Capital Project Referendum Program as a “good funding source” for districts with larger tax bases. However, he said it is tough for districts with smaller tax bases to pass referenda for the program.



Our district does not use Capital Project Referendum funding because it requires voter approval, and it does not offer state aid; other funding mechanisms are better because they offer state aid. Referendums are always going to be difficult to pass in our district.

— School District Superintendent

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# Chapter 4: Discussion and Recommendation on the Debt Service Equalization Program

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**B**ased on our earlier findings, this chapter lays out possible options for revising Minnesota's Debt Service Equalization program. If the Legislature is interested in expanding or retargeting the program's state aid, the options here offer a starting point for that discussion.

In Chapter 2, we explained that the Debt Service Equalization program has helped some districts as was likely intended, but the scope of its effect has decreased over time. The need for school facilities is ongoing, while disparities in property wealth continue to vary greatly among school districts. Chapter 3 explained that the Legislature has developed other programs, such as Operating Capital Revenue, with state equalization to help school districts with equipment and facilities needs. However, we concluded these programs are not a substitute for the funding needed to construct new school buildings or for major renovations.

Depending on what the Legislature wants to achieve, the Legislature may decide to maintain the Debt Service Equalization program as it is now. Alternatively, legislators may decide to modify the program or replace it with an entirely new one.

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## RECOMMENDATION

**The Legislature should consider changing the Debt Service Equalization program to help pay for school district facilities in more of the districts that have both low tax base per student and relatively high capital debt.**

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We concluded in Chapter 1 that the likely purpose of the Debt Service Equalization program is to reduce property owners' costs of financing school facilities in school districts that have high amounts of capital debt and low amounts of property wealth per student. Should the Legislature determine this objective remains worthwhile, it will have to decide whether to modify the program or leave it focused on a relatively small number of districts. If it opts for the former, we provide several options here for consideration. Changes could reduce inequities in educational opportunities for districts that have low tax bases per student and a need to replace or overhaul aging facilities.

During the course of our evaluation, we learned of numerous possible changes to the Debt Service Equalization program. We list the main options here and describe their likely effects; we do not recommend one option over another. We explain how the options differ depending upon the end purpose that the Legislature may hope to achieve. The options may require additional analyses to determine tax impacts by school district; such analyses are beyond the scope of this evaluation. Any proposal to increase Debt Service Equalization aid would likely require additional state appropriations.

## Options to Expand Number of School Districts Receiving Aid

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A possible change is to increase the number of school districts with low tax base per student that would receive state aid through the Debt Service Equalization program. A variety of methods could accomplish this.

**Lower the Portion of Eligible Debt Service that is Not Equalized**—One way to expand the number of school districts receiving Debt Service Equalization aid is to lower the percentage of adjusted net tax capacity (ANTC, or tax base) that districts must pay solely with local levies. The percentage is currently 15.74 percent. The lower this percentage, the greater the number of districts with eligible debt service that would potentially be equalized with Debt Service Equalization aid.

Lowering the 15.74 threshold percentage could also help districts currently receiving aid to potentially receive higher amounts of aid, thereby reducing reliance on local levies. The amount of the reduction in the percentage would determine how many additional state dollars would be needed. Small changes to the rate, such as reducing the percentage from 15.74 to 15.0, would require fewer resources than would larger rate reductions, such as a reduction to 10 percent.<sup>1</sup> However, small rate reductions would also help fewer school districts.

**Change Factors in the Calculation of Aid**—The Legislature could expand the number of school districts that receive aid by changing the calculation in the first tier (and possibly the second tier) of eligible debt service. Currently, as Chapter 1 described, the calculation in the first tier uses a ratio with an equalizing factor equal to the greater of \$4,300 or 55.33 percent of the statewide ANTC per adjusted pupil unit (student). In the second tier, the calculation uses a ratio of the greater of \$8,000 or 100 percent of the statewide ANTC per student. Instead, the state could increase the equalizing factor in either or both of the tiers; this could raise the number of districts receiving aid and potentially the amount of aid that qualifying districts would receive.

An alternative would in effect eliminate the second-tier revenue and have a single tier of revenue equalized at the rate currently used to calculate the second-tier levy and aid. This would have the additional benefit of simplifying the calculation of aid, thereby reducing some of the complexity of the Debt Service Equalization program.<sup>2</sup>

## Redefine Eligibility

Changes in how statutes define which school districts are eligible for the Debt Service Equalization program could also expand the number of districts that receive aid. We present several options below.

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<sup>1</sup> The percentage of eligible debt service to be paid with local levies was 10 percent from 1993 through Fiscal Year 1999. The Legislature raised it to 12 percent effective in Fiscal Year 2000 and 15 percent in Fiscal Year 2003. The change to the current 15.74 percent became effective for taxes paid in 2012.

<sup>2</sup> This is similar to a recommendation made in 2014 by the School Facilities Financing Work Group. The group recommended a single tier based on 125 percent of the statewide adjusted net tax capacity per student. See School Facilities Financing Working Group, *Report and Recommendations* (Roseville, February 1, 2014), 9.



**Identify School Districts with Very Old Facilities**—The Legislature could redefine eligibility for the program by factoring in the age of school districts' facilities. This could help property-poor school districts with high capital debt that also own the oldest buildings in the state. The initiative could be designed as a supplemental program focusing aid to only districts with buildings past a certain age. Alternatively, the Legislature could alter the formula now in use by adding a factor that reflects building age. The concept is to help districts that (1) have a low tax base per student and (2) have identified needs to improve or replace old facilities but (3) have been unsuccessful in passing bond referenda.

**Identify School Districts with Relatively High Property Tax Rates**—The Legislature could expand the number of school districts receiving aid by broadening eligibility to include school districts with relatively high property tax rates. That is, eligibility could depend in part on amounts of property tax revenue generated by homes of similar values. For instance, if to generate a hypothetical \$1 million, a low-property wealth district's tax rate on a \$200,000 home greatly exceeds other school districts' tax rates on a home of that value, the higher-rate district would meet this new component of eligibility for Debt Service Equalization aid. Legislators would have to determine an appropriate benchmark by which to reduce the extent of the tax rate disparity.

**Allow Small Bond Amounts to Qualify**—Another method is to offer Debt Service Equalization aid to school districts regardless of the amount of their eligible debt service. Under this proposal, school districts with low tax base per student would receive state aid even if they had small bond amounts that do not currently qualify.

Currently, a school district does not qualify for the program's aid if the amount of the district's eligible debt service is lower than thresholds set in law.<sup>3</sup> One example is the formula that multiplies a district's ANTC by the statutory 15.74 percent threshold to determine one part of unequalized debt service that the district must pay exclusively with local levy. In the existing formula, school districts with low amounts of eligible debt service never reach the point where the aid portion of Debt Service Equalization revenue takes effect.

Under the proposed change, the state would identify a new threshold of ANTC per adjusted pupil unit (student), below which school districts would receive some amount of aid—regardless of their amount of eligible debt service. As an example, the state could determine that any district qualifies for aid if its ANTC per student falls below the statewide average. By this measure, the number of school districts qualifying for aid would increase considerably. Instead of the 34 districts qualifying for aid in Fiscal Year 2019, we estimate that 172 districts (those with eligible debt service and below-average ANTC per student) could qualify.<sup>4</sup> The state would be able to control the amount of resources needed for aid by setting the new threshold for eligibility at some increment of the statewide average. For example, if the threshold were set at half the statewide average of ANTC per student, we estimate that 47 districts would qualify for aid in Fiscal Year 2019.

**Consider Income Levels in the School District**—The Legislature could change eligibility by combining the concepts of property wealth and homeowner income. This could mean, instead of considering high capital debt and ANTC per student, the Legislature would focus

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<sup>3</sup> *Minnesota Statutes* 2018, 123B.53, subd. 4(b).

<sup>4</sup> Our estimate of average ANTC per adjusted pupil unit excludes an outlier school district that would otherwise skew the result. Note that the state has already calculated Debt Service Equalization aid for Fiscal Year 2019, and our estimates would change if other variables change.

Debt Service Equalization aid where school districts also had relatively low taxpayer incomes. As an example, districts that had high debt and up to average ANTC per student could be eligible for state aid if a certain proportion of their residential property owners also met a low-income threshold. Doing this would refocus eligibility on school districts that meet the criteria for high debt and low ANTC per student but also have large proportions of low-income homeowners.

If equalizing taxes for low-income property owners becomes one of the Legislature's objectives for the program, one way to implement it would be to pattern tax relief after the state's "Homestead Credit Refund Program,"—which offers to homeowners of certain incomes partial refunds of their property taxes. Commonly called the "circuit breaker," this tax relief goes to homeowners whose property taxes are high relative to their income. When a homeowner's property tax exceeds a certain percentage of income, a refund is available in an amount equaling a set percentage of the tax, up to a maximum. As income levels rise, the amount of the refund declines. The state could follow the same principle and offer additional relief specifically for low-income property owners paying property taxes for schools' eligible debt service in school districts with low ANTC per student.

Adopting a change patterned after the Homestead Credit Refund Program would, for certain homeowners, reduce taxes paid for debt service. At the same time, it would add a layer of complexity to a program that is already quite complex. In addition, the scope of this change's effect on school district debt referenda is unclear. The refund is not automatic; residential-homestead taxpayers would have to apply for a tax refund, just as they do in the current refund program. To the extent that taxpayers do not understand the program or fail to apply for the refund each year, the proposed change would be less beneficial to low-income homeowners.

## Option to Increase Stability of State Aid

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The Legislature could also consider modifying the Debt Service Equalization program by stabilizing the year-to-year differences in aid for any given school district. The objective of minimizing variation in aid is to reduce fluctuations in amounts of local levy needed to pay the debt service, thereby potentially lessening the amount of tax impact.

This method would bypass results from parts of the current formula, which require recalculating aid annually. It would guarantee the same amount of aid to a school district for some period, whether that is three years, five years, or some other increment of years following a referendum. The longer the aid amount remains stable over the years, the greater potential to avoid changes in local levies for debt service. As with other proposals, this may increase costs to the state above current levels.

Stable amounts of aid over time could reduce a barrier to successful bond referenda. Some school district superintendents told us that, if they could assure voters that the tax impact would not increase for a certain number of years following bond issuance, hesitant voters might be more likely to approve bond referenda.

A potential downside to stabilizing state aid for a time is that it could decrease the equalization that the Debt Service Equalization program now offers. For example, during the period that aid amounts are stabilized, a school district's ANTC per student could increase. This means that it would receive a greater share of (the stabilized) aid than districts having lower ANTC per student. Alternatively, a school district that experiences

decreasing amounts of ANTC per student could receive less aid than it would if the amount of aid were not “locked in” at the stabilized level. Preventing this would require adjusting the calculation of aid to preclude lowering aid in circumstances when ANTC per student decreases.

Note that the 2016 Legislature changed the program’s equalization formula in a way that adds stability to the amount of Debt Service Equalization aid as of Fiscal Year 2018.<sup>5</sup> The change essentially indexes the calculation of levy and aid to a ratio of the average statewide ANTC per adjusted pupil units. As a result, eligible school districts experiencing the same rate of inflation as the statewide average tax base per student will receive the same rate of aid from one year to the next, assuming other factors remain constant.

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<sup>5</sup> *Laws of Minnesota* 2016, chapter 189, art. 30, sec. 3, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 5.



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# Chapter 5: Review and Comment on Facility Proposals

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One of the most substantial Minnesota Department of Education (MDE) duties related to the Debt Service Equalization program is conducting a review and comment on school districts' proposals for facilities. In this chapter, we describe the review and comment process and evaluate its effectiveness. We also make two recommendations for clarifying the process.

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## Review and Comment Process

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School districts must obtain MDE's review and comment on certain facility proposals, as Chapter 1 described.<sup>1</sup> Facility proposals must undergo the process if they involve (1) referenda for bonding projects of at least \$2 million per school site or (2) new construction or remodeling of facilities with at least \$2 million in expenditures per site.<sup>2</sup> This includes virtually all projects for the Debt Service Equalization program.

Facilities that school districts intend to fund exclusively with certain funding sources need not undergo review and comment. For example, the 2016 Legislature exempted from review and comment those projects funded exclusively with "Long-Term Facilities Maintenance" revenue.<sup>3</sup> The first box on the page after next lists funding sources for projects that are exempt from the review and comment process. MDE staff explained that recent exemptions from the process removed what had been duplicative reviews of facility projects.

School districts must take certain steps both before and after the review and comment process. For example, districts must notify MDE at least 74 days prior to holding a referendum to approve bonds for a facility. A summary of the main steps related to the review and comment process is in Exhibit 5.1.



### Change in Requirement to Undergo Review and Comment Process

The 2014 Legislature increased from \$1.4 million to \$2 million the threshold for requiring review and comment on districts' facility proposals. A working group on school facilities financing, established by the 2013 Legislature, recommended this change as a way to streamline the review and comment process. The working group said smaller projects do not justify the administrative burden associated with the review and comment process.

— School Facilities Financing Working Group,  
*Report and Recommendations*  
(Roseville, February 1, 2014), 13.

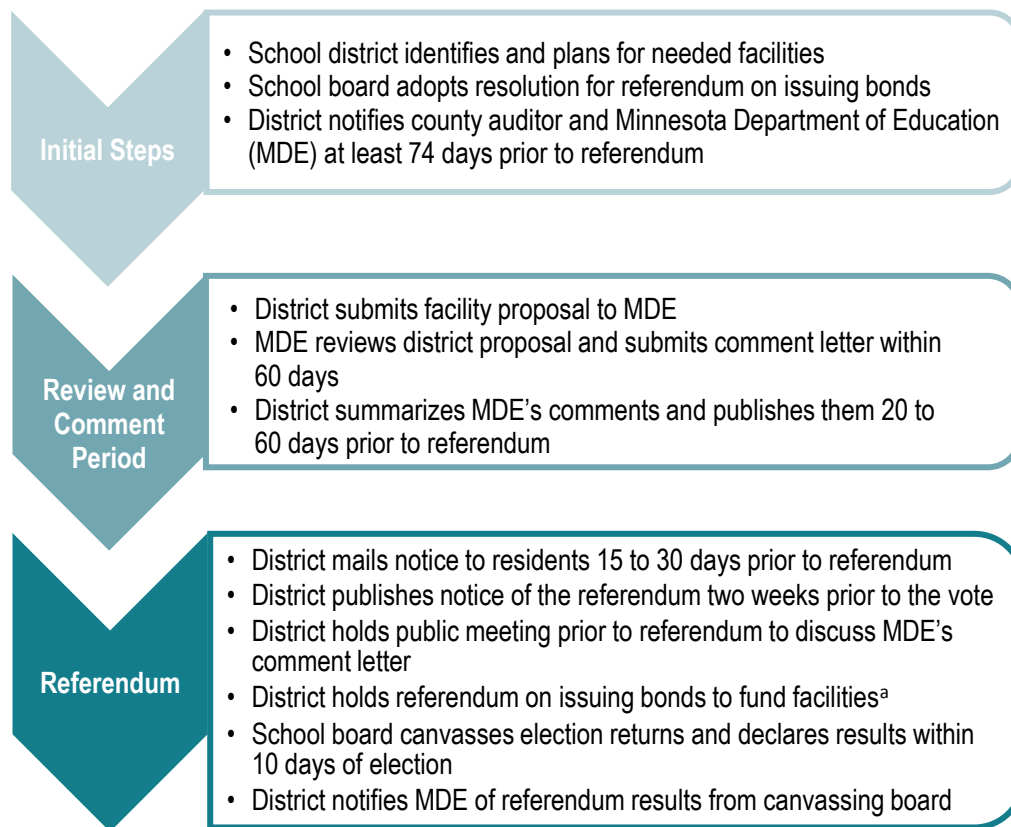
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<sup>1</sup> *Minnesota Statutes* 2018, 123B.71, subd. 8.

<sup>2</sup> *Ibid.* The \$2 million threshold applies if a district has no capital loan outstanding. If a district has such a loan, the threshold is \$500,000. A review and comment is not required for projects funded with the Capital Project Referendum program, if the referenda are for projects that are only technology related.

<sup>3</sup> *Laws of Minnesota* 2016, chapter 189, art. 30, sec. 15, as codified in *Minnesota Statutes* 2018, 123B.71, subd. 8. This reflects a separate legislative change that consolidated three revenue streams (deferred maintenance revenue, alternative facilities revenue, and health and safety revenue) into the Long-Term Facilities Maintenance program.

### Exhibit 5.1: Certain activities take place before and after the Minnesota Department of Education's process of reviewing and commenting on school districts' facility proposals.



NOTE: These activities apply specifically to bonds that require a referendum, which is the case for all bonds issued for the Debt Service Equalization program.

<sup>a</sup> School districts must hold bond referenda on one of five possible dates: the second Tuesday in February, April, May, or August; or the first Tuesday following the first Monday in November.

SOURCES: *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3); 123B.71, subds. 11 and 12(a); 205A.05, subd. 1; 205A.07, subds. 1, 3, and 3a; 205A.10, subd. 3; 475.57; and 475.58, subd. 1.

MDE must review districts' facility proposals to assess each project's "educational and economic advisability."<sup>4</sup> The department is to base its comments on information that statutes require school districts to submit, including the geographic area and population to be served, outdoor space acreage, and square footage of classrooms and other spaces.<sup>5</sup> Other required information includes financing sources, a schedule of the bond payments, and the impact of the bonds on local property taxes.<sup>6</sup> A summary of requirements is in the box below. In addition, MDE may require a school district to provide any other information the department determines is necessary.<sup>7</sup>



**Project proposals do not have to undergo MDE's review and comment under certain circumstances.**

Review and comment by the commissioner is not required when school districts use any of the following to exclusively fund projects for additions, maintenance, or remodeling:

- general education revenue
- lease levy proceeds
- capital facilities bond proceeds
- long-term facilities maintenance revenue

In addition, capital projects for technology are exempt when funded with a Capital Projects Levy Referendum (described in *Minnesota Statutes* 2018, 123B.63; and 126C.10, subd. 14).

— *Minnesota Statutes* 2018, 123B.71, subd. 8



**Information Required in School District Proposals Undergoing MDE's Review and Comment**

- Area and student enrollment to be served
- List of existing facilities by age, use, and extent of alternate facilities within district boundaries
- Demonstration of need for new or renovated facility
- A project description, including acreage and square footage, estimated expenditures, and dates for starting and completing the project
- Applicable statutory citations for the source of financing
- Scheduled date for a bond issue, the schedule of payments, and the impact on property taxes
- Documents for district and contractor compliance on:
  - Sustainable design
  - Requirements on municipal contracting
  - Certification of meeting code requirements on plans and design for heating, ventilation, air conditioning, and air filtration
  - Standards on maximum background noise levels
  - State Fire Code
  - Building codes
  - Consultation over the project's impact on roads, utilities, other infrastructure, traffic, and safe access for pedestrians and bikers

— *Minnesota Statutes* 2018, 123B.71, subd. 9

Statutes prohibit the department from basing its comments solely on too little acreage of the district's proposed site or solely on analyzing renovation costs versus replacement costs.<sup>8</sup> Other than those restrictions, the department has broad discretion for reaching its conclusion on a facility proposal.

<sup>4</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>5</sup> *Minnesota Statutes* 2018, 123B.71, subs. 9(1), (4), and 11.

<sup>6</sup> *Minnesota Statutes* 2018, 123B.71, subd. 9(5).

<sup>7</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>8</sup> *Minnesota Statutes* 2018, 123B.70, subd. 1(b) and (c).

MDE must include in its review and comment all comments coming from residents of the school district.<sup>9</sup> MDE staff said that they include copies of residents' views along with the department's comment letter, but the statute does not require the department to base its comments on district residents' views.

## Department Ratings on Proposed Facility Projects

In its comments on a project, MDE assigns one of three ratings: "positive," "unfavorable," or "negative." A positive review is necessary if school districts intend their projects to qualify for Debt Service Equalization.<sup>10</sup> On the other hand, an unfavorable or negative rating from MDE means the school district's debt service is not eligible for Debt Service Equalization aid.

After receiving a positive review, a school board must hold a public meeting to discuss MDE's review and comment and obtain approval from more than 50 percent of its voters before it can proceed with its facility project. After an unfavorable rating, the district may continue pursuing its project but under additional restrictions. That is, the school board must reconsider the construction project; if the board decides to proceed, the project must receive approval from *60 percent* of the participating voters. With a negative rating, statutes prescribe steps that MDE and the district must take.<sup>11</sup> If those steps result in upholding MDE's negative ruling, and the school board does not appeal, the district cannot proceed with the project.

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**The Minnesota Department of Education issued a positive rating to nearly all project proposals we reviewed that had undergone the department's review and comment process.**

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Only 1 in a sample of 98 projects we reviewed from Fiscal Year 2016 through 2018 received an unfavorable rating.<sup>12</sup> Department staff said they could not remember any proposal ever receiving a negative rating. Further, they said that MDE issues many positive rulings because, when department staff have questions on district proposals, they work with districts to modify proposals to make them acceptable.

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<sup>9</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11. The law also requires that school boards hold, prior to their referenda, public meetings to discuss the commissioner's review and comment. *Minnesota Statutes* 2018, 123B.71, subd. 12(a).

<sup>10</sup> *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

<sup>11</sup> *Minnesota Statutes* 2018, 123B.70, subd. 3.

<sup>12</sup> MDE provided reviews and comments on 135 facility proposals that were potentially eligible for the Debt Service Equalization program from Fiscal Year 2016 through 2018. Of those 135 proposals, we reviewed a sample of 98. School district voters approved 56 percent of the 135 proposals and turned down 44 percent. MDE provided reviews and comments for another 39 proposals during that time period, but the projects were not part of the Debt Service Equalization program.



## Effectiveness of Review and Comment Process

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One measure of the effectiveness of MDE’s review and comment process is timeliness. A second measure is to what degree the school districts whose proposals MDE reviewed felt the process offered them value. We discuss each below.

### Timeliness

State statutes require MDE to provide its review and comment to a school district within 60 days of receiving its proposal to issue bonds.<sup>13</sup> If the department does not provide its comment in a timely manner, school districts may have difficulty meeting a legal requirement to hold a public meeting on the review and comment at least 20 days, but not more than 60 days, before the referendum.<sup>14</sup>

For most of the 98 school district facility proposals that we reviewed, MDE met the statutorily required timeline for completing its review and comment. The department clearly met the 60-day limit for 89 of the 98 proposals we reviewed (91 percent). For these 89 projects, MDE took an average of 40 days to return a comment letter to school districts.

The department completed its review and comment within the required 60 days for

**91%**

of the 98 district proposals we reviewed.

In our interviews with officials from 15 school districts, we asked district representatives about the timeliness of the review and comment process. Most who had been involved with the review and comment process said it went smoothly and the department had returned its response on time.

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**For a small number of cases, it is unclear whether the Minnesota Department of Education met the 60-day limit for completing its comment letter.**

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We concluded that, for up to 9 of the 98 cases, MDE may have exceeded the 60-day limit; for these cases, the average number of days to return a comment letter was 69 days. The time beyond the 60-day limit ranged from 1 to 30 extra days. However, some of the nine cases involved circumstances that the statute does not address. These circumstances are when MDE either deemed the proposals incomplete or sent corrected follow-up letters.

For six of the nine cases exceeding the limit, MDE staff attributed the delay to school districts’ proposals that the department considered incomplete and lacking certain statutorily required information. The remaining three cases involved two department letters: an original arriving within the 60-day limit and a second, revised letter that MDE sent after the deadline. We describe our conclusions below.

### Cases Deemed Incomplete

Statutes specify that the department is to submit its comments within 60 days of “receiving the proposal,” but MDE staff said their practice is to begin counting the days only after a

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<sup>13</sup> *Minnesota Statutes* 2018, 123B.71, subd. 11.

<sup>14</sup> *Minnesota Statutes* 2018, 123B.71, subd. 12.

school district submits all statutorily required components of its facility proposal.<sup>15</sup> While this is a reasonable practice, statutes do not make exceptions for special cases.

Because statutes say MDE shall base its comments on information submitted with the proposal and “other information the commissioner determines necessary,” MDE has wide latitude in determining which proposals are incomplete.<sup>16</sup> Among the six cases that MDE staff had deemed incomplete, we concluded that two involved delays attributable to both the department and the school district, as shown in the box at right.<sup>17</sup> In one of these two cases, the delay was due to the district’s missing information that required the department to make several requests for additional data; it was also due to the time lag between department requests. In the second, the lack of a timely response by the school district resulted in delay, but the department also made requests for information that came quite late in the process.

**Among six proposals the Minnesota Department of Education (MDE) deemed incomplete, three involved school district delays in providing data to MDE.**

Outcome	Number of Cases
District made timely response to MDE	2
Both MDE and district contributed to delay	2
District response caused delay	1
Inconclusive	1

In two other cases deemed incomplete, however, we concluded the school districts did not delay their responses to MDE’s information requests. The districts had responded within a day.

In the remaining case deemed incomplete, MDE exceeded the 60-day limit by one day. However, the file lacked sufficient information to draw a conclusion on the cause of delay.

### Cases with Revised Comment Letters

In the three cases where MDE had sent an original letter and, later, a revised letter, the original letters met the 60-day limit, but the revised letters exceeded it. It is unclear whether the date of the original letter or the revised letter should mark the time that MDE spent on the review and comment. The extent of the revisions varied. In one case, the only correction was to the date of the referendum. In another, MDE’s revised letter corrected several descriptions it had made of the district’s intended renovations for all seven of the school buildings in the proposal; the department also added language on planned improvements that it had left out of the original letter. In none of the three cases did MDE change its overall rating of a project.

### School District Perspectives

We interviewed officials from two of the school districts that received comment letters after the 60-day limit. One was a district whose proposal MDE had deemed incomplete due to numerous requests the department had to make to obtain necessary information. From the

<sup>15</sup> *Minnesota Statutes* 2018, 123B.71, subds. 9 and 11.

<sup>16</sup> *Ibid.*

<sup>17</sup> Of the six school districts with proposals that MDE had deemed incomplete, five had no recent previous experience with the review and comment process back through at least Fiscal Year 2010. The other district had fairly recent experience with the review and comment process, having submitted a facility proposal in Fiscal Year 2014.

district's perspective, MDE's late comment letter created problems. The superintendent said that the district had scheduled its final public meeting on a certain date that would allow it to proceed with a referendum the following month. He explained that the department returned its review and comment on the morning of that public meeting, giving district officials too little time to read it and explain it to citizens. This superintendent also said the timing of the department's response meant that the district was past the date when it could have recalled the election.

The superintendent of a second school district that received MDE's response past the 60-day limit also said MDE's late comment letter caused difficulties. The district was trying to meet a deadline for publishing a summary of the department's comments in the local newspaper, as required by law. The superintendent said he did not know the reason for the delay. The department had made two requests for information in a chain of e-mails, which the district provided that same day.

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## RECOMMENDATION

**The Legislature should clarify in law the start and end points for the 60-day limit on the Minnesota Department of Education's review and comment.**

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Both the department and school districts should have a common understanding of when the clock starts and stops ticking in the countdown to 60 days. Timeliness of the department's review and comment is important to school districts as they prepare for their bond referenda. Districts plan on receiving MDE's comment letter within the 60-day limit and set their schedules of subsequent activities accordingly.

A possible change is to retain the starting point as the day that MDE receives a district's proposal but allow leeway for circumstances when MDE determines that a proposal as originally sent is incomplete. One way to do this is to stop the clock for the interval of time between when MDE requests additional information and when it receives the requested information from the district. School districts would have to plan for sufficient time to accommodate the possibility of additional requests from the department.

If the Legislature determines that MDE's *final* letter should be sent within 60 days, it could change statutes to specify that the period ends on the day that MDE sends its final comment letter. With this change, MDE would have to allow for time to accommodate the possibility of revisions to its comment letters. It would also be necessary to set a limit on the number of days that could elapse before districts notify MDE of errors in the comment letter. It would not be reasonable to request a revised letter several weeks after the original one; by that time, the referendum may have already taken place. One way to avoid late revisions would be to have school districts review the letter and attest to the accuracy of its descriptions of a district's project, among other details. To avoid a slowdown in the school district's process leading up to a referendum, this would have to occur within a few days, such as no more than a week after the district receives the comment letter.

## Value of the Process

A second way to measure the effectiveness of MDE's review and comment process is to assess to what degree the process offered value to the school districts whose proposals the

department reviewed. During our interviews with school district officials, we heard perspectives on the pros and cons of the review and comment process.<sup>18</sup>

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**Many representatives of school districts we interviewed commended the Minnesota Department of Education’s process of review and comment, but some also raised questions about it.**

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Most school district representatives we interviewed said the review and comment had benefits for them. They said the process is good for transparency and oversight. Some said a positive review from MDE is a plus when they are explaining the project to voters in the community. Additionally, some saw as an advantage having all information in one document for communicating with taxpayers. Some said that, even though the proposal was a lot of work, it was information that districts would have had to collect anyway while planning their projects.



The department’s review and comment provides a third-party review of the school district’s facility proposal, which provides the public a level of comfort about the process.

— School District Superintendent

At the same time, some school district representatives spoke of disadvantages to the review and comment process. Some asked why MDE’s review is even necessary; they questioned the department’s involvement, and one pointed out that local voters ultimately decide whether to proceed. Some complained about the opportunity cost involved with developing



the proposal for MDE’s review. As an example, one superintendent said the process took “a tremendous amount of time” away from other work. Others said a template to guide and standardize the data needed for the review and comment application would be helpful, especially for school districts unfamiliar with the process.

There is a financial cost to the district of going through the process. The district has to involve financial advisors and architects and others to fulfill the requirements.

— School District Finance Manager

In only 1 of the 98 cases we reviewed—Belle Plaine Area Schools—did MDE provide an “unfavorable” review and comment. When we interviewed the superintendent there, he described an additional downside to the process of review and comment. He said that, in its comments, the department appeared to base its decision on opinion and not on an objective standard supported by construction professionals. He stated that the school district had based its expected revenues and fiscal impacts on comparisons with other school districts and reviewed its operational cost estimates in consultations with experts in the construction industry and swimming pool management. In the superintendent’s opinion, MDE’s comment letter lacked a standard based on professional expertise for determining whether the proposed project was “economically viable.”<sup>19</sup> (Note that the superintendent had communicated some of his concerns to MDE after receiving the unfavorable rating and

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<sup>18</sup> In this section, we rely on comments from 13 of the 15 school districts we interviewed. Representatives of two school districts declined to comment, in part because they had not been directly involved with the review and comment process.

<sup>19</sup> As stated previously, *Minnesota Statutes* 2018, 123B.71, subd. 11, says the department shall comment on the “educational and economic advisability of the project.”

requested that the department reconsider its rating. MDE responded to the concerns in a follow-up letter but reaffirmed its original rating.)

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## RECOMMENDATION

**The Minnesota Department of Education should provide additional information on the content required in school districts' facility proposals.**

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To help ensure the timeliness of the review and comment process, the department could supplement the information it already provides for districts' use in preparing their proposals. The department has a review and comment checklist with a general list of the information required. Staff said MDE intends the list for school districts as a user-friendly version of the statutes. MDE also has a guide to help school districts in planning school construction projects; the guide summarizes basic legal responsibilities of the state and school districts concerning school facilities, among other information.<sup>20</sup> MDE could add more specific information aimed at assisting school districts unfamiliar with the particulars of information required for the review and comment process. As stated earlier, five of the six school districts that MDE had deemed to have incomplete proposals lacked recent experience with the review and comment process.

Supplementary explanatory materials could help minimize cases where the department requires large amounts of additional information from school districts after they have submitted their proposals. One possibility is for MDE to develop a template as a guide for school districts that lack experience in collecting the needed data. The template could include examples of specific data that MDE is certain to need for its review. The department could base the template in part on information it found lacking in recent proposals that required MDE to request additional data. While developing a template with guidelines would require resources on the part of the department, it might result in more complete school district proposals. This may not eliminate the need for MDE to request additional information to complete its review, but it could reduce the frequency.

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<sup>20</sup> Minnesota Department of Education, *Guide for Planning School Construction Projects in Minnesota* (Roseville, 2018), <https://education.mn.gov/MDE/dse/schfin/fac/cons/>, accessed January 14, 2019.



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# List of Recommendations

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- The Legislature should consider changing the Debt Service Equalization program to help pay for school district facilities in more of the districts that have both low tax base per student and relatively high capital debt. (p. 51)
- The Legislature should clarify in law the start and end points for the 60-day limit on the Minnesota Department of Education's review and comment. (p. 63)
- The Minnesota Department of Education should provide additional information on the content required in school districts' facility proposals. (p. 65)





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# Glossary of Terms

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This glossary contains definitions for terms used throughout this report. Terms are listed in alphabetical order.

**Adjusted net tax capacity (ANTC)** – A measure of a school district’s property wealth. It is similar to “net tax capacity” (defined below) except that the Minnesota Department of Revenue has increased or decreased the value of taxable property to compensate for differences in assessment practices around the state. The ANTC is used in calculations for the Debt Service Equalization program.

**Adjusted pupil units** – A count of students used in school funding formulas. The count weights students by grade level, with full-time kindergarten students and elementary-grade students weighted at 1 and secondary students at 1.2.

**Bonds** – A financial instrument that school districts can use to borrow money to pay for capital projects, such as constructing new classroom space. School districts that issue “general obligation” bonds are pledging all of their revenues, including tax proceeds, to pay in a timely way the principal and interest on the bonds.

**Debt service** – The principal and interest that school districts must pay back for the borrowed money that bonds provide.

**Debt Service Equalization levy** – There are two tiers of Debt Service Equalization levies, with the second tier providing a greater opportunity for equalization than the first tier. Statutes define how the tiers are calculated. The calculations are similar for the two tiers with the exception of the amount of equalization, which is greater in the second tier due to a higher equalizing factor. (See below for definitions of “equalizing factor” and the calculations for each of “first-tier levy” and “second-tier levy.”)

**Debt Service Equalization program** – A Minnesota program, established in 1991, that offers state financial aid to certain school districts for help in repaying debt used to construct or renovate school buildings and other facilities.

**Debt Service Equalization revenue** – Debt Service Equalization revenue has two tiers of revenue, each of which is defined differently in statute. First-tier revenue is the portion of eligible debt service that is greater than 15.74 percent, but less than or equal to 26.24 percent, of a school district’s adjusted net tax capacity (ANTC). Second-tier revenue is the amount of eligible debt service greater than 26.24 percent times the district’s ANTC. The tiers of revenue may, or may not, include state aid. For both tiers, the revenue may comprise either (1) exclusively local tax levy dollars or (2) a combination of local levy and state aid.

**Eligible Debt Service** – This is a school district’s debt service that meets certain statutory requirements necessary to potentially qualify for aid through the Debt Service Equalization program. For instance, the debt service is eligible if the bonds were refinanced after July 1, 1992, and the commissioner of the Minnesota Department of Education has approved the bond schedule. Eligible debt service is the basis for determining whether, and to what extent, school districts receive state aid through the program. Not all school districts with eligible debt service receive aid.

**Equalization** – Use of state dollars to offset disparities in educational opportunities and school district property taxes due to varying levels of property wealth from district to district.

**Equalizing factor** – The factor is a value set in law that determines the extent of state aid a formula will offer. The Debt Service Equalization program has *two* equalizing factors, one for each of the first-tier levy and second-tier levy. In the first-tier levy, the equalizing factor is the greater of \$4,430 or 55.33 percent of the statewide average tax base per student. In the second-tier levy, the equalizing factor is the greater of \$8,000 or 100 percent of the statewide average tax base per student.

**First-tier levy** – Based on a calculation set in law, this is an amount a school district will pay with local property taxes for some (or all) of its first-tier revenue (defined below). The calculation multiplies first-tier revenue by a ratio. The ratio is (1) the district's ANTC per adjusted pupil unit to (2) an equalizing factor. As described under "equalizing factor," the equalizing factor for calculating the first-tier levy is the greater of \$4,430 or 55.33 percent of the statewide average tax base per student. The resulting value from this calculation is the first-tier levy; this value is subtracted from first-tier revenue to produce the amount of state aid, if any, in first-tier revenue.

**First-tier revenue** – Debt Service Equalization revenue has two components: first-tier revenue and second-tier revenue. First-tier revenue is the portion of eligible debt service that is greater than 15.74 percent, but less than or equal to 26.24 percent, of a school district's adjusted net tax capacity (ANTC). First-tier revenue may, or may not, include state aid. Depending on the school district, it is made up of either (1) exclusively local tax levy dollars or (2) a combination of local levy and state aid.

**Levy** – The amount a school district plans to collect from property taxes in any given year. In this report, the levy most often refers to the local property tax dollars that school districts raise specifically to pay for bond debt.

**Maximum Effort School Aid law** – The law allows districts with very small tax bases to borrow money from the state to fund construction projects or to make debt service payments on completed construction projects.

**Net tax capacity** – The value of properties against which school districts levy local property taxes. Net tax capacity is the product of an assessor's estimate of a property's market value multiplied by a statutory classification rate set for each property type.

**Second-tier levy** – Based on a calculation set in law, this is an amount a school district will pay with local property taxes for some (or all) of its second-tier revenue (defined below). The calculation multiplies second-tier revenue by a ratio. The ratio is (1) the district's ANTC per adjusted pupil unit to (2) an equalizing factor. As described under "equalizing factor," the equalizing factor for calculating the second-tier levy is the greater of \$8,000 or 100 percent of the statewide average tax base per student. The resulting value from this calculation is the second-tier levy; this value is subtracted from second-tier revenue to produce the amount of state aid, if any, in second-tier revenue.

**Second-tier revenue** – Debt Service Equalization revenue has two components: first-tier revenue and second-tier revenue. Second-tier revenue is the amount of eligible debt service greater than the product of 26.24 percent times the district's adjusted net tax capacity (ANTC). Second-tier revenue may, or may not, include state aid. Depending on the school

district, it is made up of either (1) exclusively local tax levy dollars or (2) a combination of local levy and state aid.

**Tax base** – The value for taxation purposes of all taxable property within a school district.

**Threshold** – Each of the two tiers of Debt Service Equalization revenue has a threshold. These thresholds are cut-off points that separate eligible debt service into unequalized debt service, first-tier revenue, or second-tier revenue. For instance, the threshold for first-tier Debt Service Equalization revenue is 15.74 percent of a school district's ANTC. This means that a district's eligible debt service must be greater than 15.74 percent of its ANTC for the district to have first-tier revenue. The threshold for second-tier revenue is 26.24 percent of a district's ANTC. This means that a district's eligible debt service must be greater than 26.24 percent of its ANTC for it to have second-tier revenue.



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# Data by School District

## APPENDIX A

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This appendix contains information relevant to Debt Service Equalization for each school district in Fiscal Year 2019, the most recent year for which data were available. Information by school district is:

- District name and number
- County where the district is located
- Adjusted pupil units
- Adjusted net tax capacity
- Adjusted net tax capacity per adjusted pupil unit
- Eligible debt service revenue
- Levy portion of eligible debt service
- Debt Service Equalization aid
- Aid as percentage of eligible debt service

Note that the annual calculation of Debt Service Equalization levies and revenue involves data from prior years, and data in this appendix reflect those years. For instance, the count of adjusted pupil units is from three fiscal years prior to the year for which the Debt Service Equalization aid is calculated. This means that, for aid in Fiscal Year 2019, data on adjusted pupil units are from Fiscal Year 2016. Similarly, the adjusted net tax capacity (ANTC) is for the assessment year three years prior to the fiscal year for which aid is calculated. Consequently, ANTC data in this appendix are for assessment year 2016.

## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Atwater-Cosmos-Grove City	2396	Meeker	877.1	\$ 13,493,419	\$15,383	\$ 0	\$ 0	\$ 0	N/A
Ada-Borup	2854	Norman	558.6	6,730,642	12,048	328,650	328,650	0	0.0%
Adrian	511	Nobles	612.0	8,292,690	13,551	563,789	563,789	0	0.0%
Aitkin	1	Aitkin	1,304.4	16,894,843	12,952	0	0	0	N/A
Albany	745	Stearns	1,888.7	9,585,967	5,075	2,040,165	2,040,165	0	0.0%
Albert Lea	241	Freeborn	3,612.2	19,447,175	5,384	0	0	0	N/A
Alden-Conger	242	Freeborn	527.8	3,413,978	6,468	0	0	0	N/A
Alexandria	206	Douglas	4,399.4	46,164,356	10,493	5,621,311	5,621,311	0	0.0%
Annandale	876	Wright	1,929.0	17,072,649	8,851	2,271,047	2,271,047	0	0.0%
Anoka-Hennepin	11	Anoka	40,826.8	240,476,456	5,890	8,023,776	8,023,776	0	0.0%
Ashby	261	Grant	270.1	2,417,067	8,949	527,148	527,148	0	0.0%
Austin	492	Mower	5,169.6	17,343,701	3,355	1,694,358	1,694,358	0	0.0%
Badger	676	Roseau	281.7	945,331	3,356	0	0	0	N/A
Bagley	162	Clearwater	1,078.7	5,232,060	4,850	0	0	0	N/A
Barnesville	146	Clay	935.2	8,489,745	9,078	0	0	0	N/A
Barnum	91	Carlton	860.2	3,205,766	3,727	0	0	0	N/A
Battle Lake	542	Otter Tail	517.7	12,984,535	25,084	0	0	0	N/A
Becker	726	Sherburne	3,068.6	24,354,195	7,937	3,391,093	3,391,093	0	0.0%
Belgrade-Broten-Elrosa	2364	Stearns	669.5	7,218,753	10,782	150,842	150,842	0	0.0%
Belle Plaine	716	Scott	1,759.2	11,490,495	6,532	2,922,175	2,922,175	0	0.0%
Bemidji	31	Beltrami	5,547.0	35,451,134	6,391	3,208,297	3,208,297	0	0.0%
Benson	777	Swift	922.0	15,092,172	16,370	0	0	0	N/A
Bertha-Hewitt	786	Todd	462.4	2,338,343	5,057	503,187	503,187	0	0.0%
Big Lake	727	Sherburne	3,446.1	14,261,412	4,138	4,698,076	4,068,344	629,732	13.4%
Bird Island-Olivia-Lake Lillian	2534	Renville	708.8	12,991,910	18,329	411,251	411,251	0	0%

Continued next page.

## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Blackduck	32	Beltrami	667.5	\$ 3,210,093	\$ 4,809	\$ 146,022	\$ 146,022	\$ 0	0.0%
Blooming Prairie	756	Steele	777.6	7,507,947	9,656	1,047,084	1,047,084	0	0.0%
Bloomington	271	Hennepin	11,290.3	144,735,385	12,819	7,150,343	7,150,343	0	0.0%
Blue Earth Area	2860	Faribault	1,295.7	16,739,986	12,920	0	0	0	N/A
Braham	314	Isanti	855.6	4,263,461	4,983	568,949	568,949	0	0.0%
Brainerd	181	Crow Wing	7,020.4	58,184,106	8,288	6,004,939	6,004,939	0	0.0%
Brandon-Evensville	2908	Douglas	496.4	6,054,505	12,196	0	0	0	N/A
Breckenridge	846	Wilkin	708.1	9,559,611	13,501	0	0	0	N/A
Brooklyn Center	286	Hennepin	2,643.8	7,832,216	2,963	1,757,185	1,570,623	186,562	10.6%
Browerville	787	Todd	431.7	2,721,381	6,303	181,771	181,771	0	0.0%
Browns Valley	801	Traverse	108.0	1,437,995	13,321	0	0	0	N/A
Buffalo	877	Wright	6,321.5	34,316,797	5,429	5,194,702	5,194,702	0	0.0%
Buffalo-Hanover-Montrose	2159	Renville	593.4	12,891,200	21,726	0	0	0	N/A
Burnsville-Eagan-Savage	191	Dakota	9,932.6	77,589,288	7,812	3,369,290	3,369,290	0	0.0%
Butterfield-Odin	836	Watonwan	250.2	3,328,024	13,300	0	0	0	N/A
Byron	531	Olmsted	2,144.0	9,464,197	4,414	4,062,064	3,282,078	779,986	19.2%
Caledonia Area	299	Houston	721.8	5,904,643	8,180	1,434,736	1,434,736	0	0.0%
Cambridge-Isanti	911	Isanti	5,385.9	22,948,301	4,261	4,621,146	4,547,042	74,104	1.6%
Campbell-Tintah	852	Wilkin	156.0	6,908,182	44,278	0	0	0	N/A
Canby	891	Yellow Medicine	569.4	7,915,711	13,902	304,043	304,043	0	0.0%
Cannon Falls	252	Goodhue	1,230.0	11,135,072	9,053	1,517,340	1,517,340	0	0.0%
Carlton	93	Carlton	527.1	4,892,851	9,282	0	0	0	N/A
Cass Lake-Bena	115	Cass	1,261.3	8,530,352	6,763	1,910,237	1,910,237	0	0.0%
Cedar Mountain	2754	Redwood	529.7	8,694,374	16,415	570,168	570,168	0	0.0%
Centennial	12	Anoka	6,995.4	35,646,033	5,096	5,421,812	5,421,812	0	0.0%

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Central	108	Carver	1,106.9	\$10,541,402	\$ 9,523	\$ 938,093	\$ 938,093	\$ 0	0.0%
Chatfield	227	Olmsted	993.9	7,135,553	7,179	1,504,609	1,504,609	0	0.0%
Chisago Lakes	2144	Chisago	3,671.4	22,323,083	6,080	1,176,324	1,176,324	0	0.0%
Chisholm	695	Saint Louis	803.0	2,810,231	3,500	237,186	237,186	0	0.0%
Chokio-Alberta	771	Stevens	178.4	6,607,355	37,041	0	0	0	N/A
Clearbrook-Gonvick	2311	Clearwater	465.0	8,797,231	18,920	774,359	774,359	0	0.0%
Cleveland	391	Le Sueur	505.6	5,014,927	9,919	0	0	0	N/A
Climax-Shelly	592	Polk	217.0	3,249,617	14,976	62,620	62,620	0	0.0%
Clinton-Graceville-Beardsley	2888	Big Stone	349.2	12,067,535	34,560	0	0	0	N/A
Cloquet	94	Carlton	2,918.4	10,878,319	3,728	3,310,603	2,842,713	467,890	14.1%
Columbia Heights	13	Anoka	3,552.4	23,165,956	6,521	2,131,160	2,131,160	0	0.0%
Comfrey	81	Brown	169.7	4,463,278	26,301	0	0	0	N/A
Cook County	166	Cook	498.3	16,487,979	33,090	252,495	252,495	0	0.0%
Cromwell-Wright	95	Carlton	353.7	2,051,081	5,799	394,872	394,872	0	0.0%
Crookston	593	Polk	1,357.2	11,506,162	8,478	375,137	375,137	0	0.0%
Crosby-Ironton	182	Crow Wing	1,164.1	20,560,151	17,662	1,616,657	1,616,657	0	0.0%
Dassel-Cokato	466	Wright	2,449.8	10,542,610	4,304	900,921	900,921	0	0.0%
Dawson-Boyd	378	Lac Qui Parle	581.7	7,117,749	12,235	317,521	317,521	0	0.0%
Deer River	317	Itasca	956.2	8,407,361	8,792	790,067	790,067	0	0.0%
Delano	879	Wright	2,654.1	15,805,060	5,955	4,943,082	4,717,468	225,614	4.6%
Detroit Lakes	22	Becker	3,248.5	25,748,274	7,926	0	0	0	N/A
Dilworth-Glyndon-Felton	2164	Clay	1,759.5	9,260,402	5,263	640,718	640,718	0	0.0%
Dover-Eyota	533	Olmsted	1,307.9	5,734,317	4,384	1,504,198	1,476,167	28,031	1.9%
Duluth	709	Saint Louis	8,858.6	82,332,629	9,294	0	0	0	N/A
East Central	2580	Pine	793.5	5,432,110	6,846	1,533,736	1,514,630	19,106	1.2%

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**Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)**

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
East Grand Forks	595	Polk	2,014.0	\$ 13,066,444	\$ 6,488	\$ 1,176,586	\$ 1,176,586	\$ 0	0.0%
Eastern Carver County	112	Carver	10,193.7	81,721,964	8,017	16,251,340	16,251,340	0	0.0%
Eden Prairie	272	Hennepin	9,825.4	107,237,481	10,914	2,279,234	2,279,234	0	0.0%
Eden Valley-Watkins	463	Meeker	1,040.2	5,576,949	5,362	1,185,889	1,185,889	0	0.0%
Edgerton	581	Pipestone	435.8	5,072,917	11,640	0	0	0	N/A
Edina	273	Hennepin	9,238.5	106,484,284	11,526	13,801,253	13,801,253	0	0.0%
Elk River	728	Sherburne	14,041.5	79,266,665	5,645	20,943,032	20,897,016	46,016	0.2%
Ellsworth	514	Nobles	164.0	3,740,366	22,810	0	0	0	N/A
Ely	696	Saint Louis	612.8	6,842,847	11,167	270,626	270,626	0	0.0%
Esko	99	Carlton	1,332.0	5,510,760	4,137	531,869	531,869	0	0.0%
Eveleth-Gilbert	2154	Saint Louis	1,078.0	5,605,065	5,200	0	0	0	N/A
Fairmont Area Schools	2752	Martin	1,907.1	14,163,484	7,427	1,902,934	1,902,934	0	0.0%
Faribault	656	Rice	4,224.6	28,154,153	6,664	1,696,905	1,696,905	0	0.0%
Farmington	192	Dakota	7,758.8	35,318,102	4,552	18,565,580	14,322,607	4,242,973	22.9%
Fergus Falls	544	Otter Tail	2,963.3	21,780,877	7,350	2,712,382	2,712,382	0	0.0%
Fertile-Beltrami	599	Polk	512.4	5,791,735	11,302	0	0	0	N/A
Fillmore Central	2198	Fillmore	683.3	8,127,012	11,893	0	0	0	N/A
Fisher	600	Polk	277.3	4,504,739	16,248	237,787	237,787	0	0.0%
Floodwood	698	Saint Louis	252.2	5,108,099	20,253	513,153	513,153	0	0.0%
Foley	51	Benton	2,028.8	7,331,104	3,614	2,154,611	1,859,216	295,396	13.7%
Forest Lake	831	Washington	7,087.0	56,256,643	7,938	9,001,322	9,001,322	0	0.0%
Fosston	601	Polk	699.8	4,121,288	5,889	0	0	0	N/A
Frazee-Vergas	23	Becker	979.9	8,273,541	8,443	0	0	0	N/A
Fridley	14	Anoka	3,300.7	15,004,083	4,546	2,062,797	2,062,797	0	0.0%
Fulda	505	Murray	359.2	8,184,630	22,788	0	0	0	N/A

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Gibbon-Fairfax-Winthrop	2365	Sibley	844.7	\$16,556,993	\$19,602	\$ 313,503	\$ 313,503	\$0	0.0%
Glencoe-Silver Lake	2859	McLeod	1,710.3	13,853,320	8,100	1,403,522	1,403,522	0	0.0%
Glenville-Emmons	2886	Freeborn	359.8	5,283,346	14,685	0	0	0	N/A
Goodhue	253	Goodhue	697.0	5,123,471	7,351	424,046	424,046	0	0.0%
Goodridge	561	Pennington	216.6	2,299,699	10,617	0	0	0	N/A
Granada Huntley East Chain	2536	Martin	247.0	7,737,140	31,322	376,490	376,490	0	0.0%
Grand Meadow	495	Mower	459.3	4,556,376	9,921	968,130	968,130	0	0.0%
Grand Rapids	318	Itasca	4,371.8	44,034,919	10,072	0	0	0	N/A
Greenbush-Middle River	2683	Roseau	452.7	2,967,622	6,556	0	0	0	N/A
Greenway	316	Itasca	1,138.5	7,185,780	6,311	34,608	34,608	0	0.0%
Grygla	447	Marshall	176.8	1,783,241	10,086	0	0	0	N/A
Hancock	768	Stevens	362.0	3,242,172	8,956	399,393	399,393	0	0.0%
Hastings	200	Dakota	4,896.6	37,636,674	7,686	4,330,458	4,330,458	0	0.0%
Hawley	150	Clay	1,041.1	5,480,027	5,264	801,345	801,345	0	0.0%
Hayfield	203	Dodge	777.3	9,478,145	12,194	0	0	0	N/A
Hendricks	402	Lincoln	100.4	2,866,886	28,546	0	0	0	N/A
Henning	545	Otter Tail	435.0	4,857,739	11,167	0	0	0	N/A
Herman-Norcross	264	Grant	121.0	4,906,203	40,564	0	0	0	N/A
Hermantown	700	Saint Louis	2,301.8	16,256,578	7,063	3,350,984	3,350,984	0	0.0%
Heron Lake-Okabena	330	Jackson	303.7	6,575,191	21,653	0	0	0	N/A
Hibbing	701	Saint Louis	2,644.3	11,145,862	4,215	0	0	0	N/A
Hill City	2	Aitkin	285.6	1,589,739	5,567	213,912	213,912	0	0.0%
Hills-Beaver Creek	671	Rock	396.6	7,363,644	18,569	719,606	719,606	0	0.0%
Hinckley-Finlayson	2165	Pine	1,047.2	7,487,259	7,150	0	0	0	N/A
Holdingford	738	Stearns	1,150.4	4,461,551	3,878	0	0	0	N/A

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Hopkins	270	Hennepin	7,586.2	\$121,989,365	\$16,080	\$4,832,795	\$4,832,795	\$ 0	0.0%
Houston	294	Houston	2,248.1	3,301,143	1,468	0	0	0	N/A
Howard Lake-Waverly-Winsted	2687	Wright	1,223.2	9,221,295	7,539	2,971,552	2,920,279	51,273	1.7%
Hutchinson	423	McLeod	3,121.9	16,639,343	5,330	2,707,821	2,707,821	0	0.0%
International Falls	361	Koochiching	1,191.5	7,865,370	6,601	0	0	0	N/A
Inver Grove Heights	199	Dakota	4,164.7	31,722,011	7,617	3,937,504	3,937,504	0	0.0%
Isle	473	Mille Lacs	507.2	5,177,628	10,208	0	0	0	N/A
Ivanhoe	403	Lincoln	131.4	4,364,305	33,209	593,407	593,407	0	0.0%
Jackson County Central	2895	Jackson	1,305.5	21,585,540	16,534	1,398,581	1,398,581	0	0.0%
Janesville-Waldorf-Pemberton	2835	Waseca	676.9	9,547,312	14,105	0	0	0	N/A
Jordan	717	Scott	1,980.3	12,586,407	6,356	3,394,672	3,373,029	21,642	0.6%
Kasson-Mantorville	204	Dodge	2,291.8	9,101,351	3,971	4,047,061	3,050,531	996,530	24.6%
Kelliher	36	Beltrami	275.2	1,262,626	4,588	442,155	392,208	49,947	11.3%
Kenyon-Wanamingo	2172	Goodhue	890.5	10,296,114	11,562	971,702	971,702	0	0.0%
Kerkhoven-Murdock-Sunburg	775	Swift	720.9	8,605,946	11,938	736,496	736,496	0	0.0%
Kimball	739	Stearns	761.9	5,599,828	7,350	747,645	747,645	0	0.0%
Kingsland	2137	Fillmore	650.7	6,589,484	10,127	980,433	980,433	0	0.0%
Kittson Central	2171	Kittson	290.8	10,079,594	34,659	404,810	404,810	0	0.0%
La Crescent-Hokah	300	Houston	1,260.2	7,692,888	6,105	685,140	685,140	0	0.0%
Lac Qui Parle Valley	2853	Lac Qui Parle	826.8	16,658,282	20,147	0	0	0	N/A
Lake Benton	404	Lincoln	201.8	5,085,199	25,195	200,084	200,084	0	0.0%
Lake City	813	Wabasha	1,355.5	11,857,323	8,748	361,964	361,964	0	0.0%
Lake Crystal-Wellcome Memorial	2071	Blue Earth	965.3	12,199,315	12,637	1,504,902	1,504,902	0	0.0%
Lake of the Woods	390	Lake of the Woods	499.0	4,999,730	10,019	1,065,633	1,065,633	0	0.0%
Lake Park Audubon	2889	Becker	752.8	12,267,530	16,297	1,288,120	1,288,120	0	0.0%

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Lake Superior	381	Lake	1,527.2	\$23,182,863	\$15,180	\$ 2,356,282	\$ 2,356,282	\$ 0	0.0%
Lakeview	2167	Lyon	741.6	7,841,943	10,574	1,303,629	1,303,629	0	0.0%
Lakeville	194	Dakota	11,861.9	78,524,773	6,620	15,379,114	15,379,114	0	0.0%
Lancaster	356	Kittson	170.5	1,407,037	8,252	0	0	0	N/A
Lanesboro	229	Fillmore	362.2	2,665,430	7,359	123,904	123,904	0	0.0%
Laporte	306	Hubbard	314.6	2,429,086	7,721	597,713	597,713	0	0.0%
Le Sueur-Henderson	2397	Le Sueur	1,121.5	9,786,980	8,727	1,243,271	1,243,271	0	0.0%
Leroy-Ostrander	499	Mower	305.8	4,977,681	16,275	0	0	0	N/A
Lester Prairie	424	McLeod	444.1	2,847,111	6,411	0	0	0	N/A
Lewiston-Altura	857	Winona	807.5	5,850,736	7,246	0	0	0	N/A
Litchfield	465	Meeker	1,731.7	12,634,061	7,296	1,376,462	1,376,462	0	0.0%
Little Falls	482	Morrison	2,688.5	13,628,180	5,069	890,453	890,453	0	0.0%
Littlefork-Big Falls	362	Koochiching	389.5	1,429,608	3,671	438,583	372,870	65,713	15.0%
Long Prairie-Grey Eagle	2753	Todd	998.7	7,060,169	7,069	635,263	635,263	0	0.0%
Luverne	2184	Rock	1,309.1	16,847,854	12,870	0	0	0	N/A
Lyle	497	Mower	288.3	2,274,720	7,891	457,739	457,739	0	0.0%
Lynd	415	Lyon	193.4	2,649,274	13,698	0	0	0	N/A
MACCRAY	2180	Chippewa	720.6	13,605,333	18,880	0	0	0	N/A
Mabel-Canton	238	Fillmore	266.8	3,146,519	11,794	0	0	0	N/A
Madelia	837	Watonwan	587.8	6,028,127	10,255	474,601	474,601	0	0.0%
Mahnomen	432	Mahnomen	651.0	3,113,806	4,783	0	0	0	N/A
Mahtomedi	832	Washington	3,631.2	24,019,843	6,615	3,980,600	3,980,600	0	0.0%
Mankato	77	Blue Earth	8,846.6	71,144,427	8,042	8,601,149	8,601,149	0	0.0%
Maple Lake	881	Wright	966.7	6,077,075	6,287	819,108	819,108	0	0.0%
Maple River	2135	Blue Earth	1,044.5	13,382,282	12,812	0	0	0	N/A

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**Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)**

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Marshall	413	Lyon	2,672.7	\$ 19,046,010	\$ 7,126	\$ 2,676,445	\$ 2,676,445	\$ 0	0.0%
Marshall County Central	441	Marshall	426.8	4,623,507	10,833	0	0	0	N/A
Martin County West	2448	Martin	828.9	14,555,798	17,561	0	0	0	N/A
McGregor	4	Aitkin	477.1	8,887,712	18,629	644,451	644,451	0	0.0%
Medford	763	Steele	960.0	4,640,121	4,833	921,310	921,310	0	0.0%
Melrose	740	Stearns	1,524.6	10,027,601	6,577	0	0	0	N/A
Menahga	821	Wadena	1,058.9	3,317,291	3,133	0	0	0	N/A
Mesabi East	2711	Saint Louis	1,020.8	6,892,742	6,753	1,226,186	1,226,186	0	0.0%
Milaca	912	Mille Lacs	1,992.6	7,587,156	3,808	859,331	859,331	0	0.0%
Milroy	635	Redwood	54.0	3,259,817	60,423	0	0	0	N/A
Minneapolis	1	Hennepin	38,247.9	550,123,865	14,383	34,461,264	34,461,264	0	0.0%
Minneota	414	Lyon	511.4	6,227,100	12,177	194,900	194,900	0	0.0%
Minnetonka	276	Hennepin	11,051.2	95,853,447	8,674	1,420,223	1,420,223	0	0.0%
Minnewaska	2149	Pope	1,231.3	16,245,562	13,194	703,161	703,161	0	0.0%
Montevideo	129	Chippewa	1,573.7	8,414,283	5,347	0	0	0	N/A
Monticello	882	Wright	4,483.9	37,376,210	8,336	2,374,531	2,374,531	0	0.0%
Moorhead	152	Clay	6,755.6	41,891,202	6,201	6,897,219	6,897,219	0	0.0%
Moose Lake	97	Carlton	711.6	4,532,827	6,370	0	0	0	N/A
Mora	332	Kanabec	1,805.4	7,277,475	4,031	1,350,419	1,325,125	25,294	1.9%
Morris Area Schools	2769	Stevens	1,124.5	11,370,053	10,111	1,841,257	1,841,257	0	0.0%
Mounds View	621	Ramsey	12,189.6	103,829,785	8,518	6,631,080	6,631,080	0	0.0%
Mountain Iron-Buhl	712	Saint Louis	543.2	4,068,155	7,490	992,660	992,660	0	0.0%
Mountain Lake	173	Cottonwood	536.5	7,118,020	13,269	0	0	0	N/A
Murray County Central	2169	Murray	793.9	12,653,506	15,939	0	0	0	N/A
NRHEG	2168	Waseca	990.6	10,850,919	10,954	0	0	0	N/A

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Nashwauk-Keewatin	319	Itasca	670.3	\$ 3,834,050	\$ 5,720	\$ 0	\$ 0	\$ 0	N/A
Nett Lake	707	Saint Louis	111.1	116,098	1,045	38,997	22,116	16,881	43.3%
Nevis	308	Hubbard	654.6	6,111,045	9,335	272,481	272,481	0	0.0%
New London-Spicer	345	Kandiyohi	1,562.4	14,461,104	9,256	1,244,228	1,244,228	0	0.0%
New Prague	721	Scott	4,458.4	23,925,062	5,366	7,783,241	7,249,883	533,357	6.9%
New Ulm	88	Brown	2,255.1	22,313,423	9,895	2,328,975	2,328,975	0	0.0%
New York Mills	553	Otter Tail	813.1	3,473,061	4,271	520,480	520,480	0	0.0%
Nicollet	507	Nicollet	394.0	6,320,237	16,043	545,535	545,535	0	0.0%
Norman County East	2215	Norman	322.1	3,651,621	11,338	0	0	0	N/A
Norman County West	2527	Norman	251.4	4,527,188	18,007	0	0	0	N/A
North Branch	138	Chisago	3,287.2	18,062,038	5,495	3,017,504	3,017,504	0	0.0%
North St. Paul-Maplewood-Oakdale	622	Ramsey	11,726.7	90,704,951	7,735	3,879,642	3,879,642	0	0.0%
Northfield	659	Rice	4,308.8	28,953,776	6,720	4,435,764	4,435,764	0	0.0%
Northland Community	118	Cass	348.7	15,820,749	45,377	1,720,572	1,720,572	0	0.0%
Ogilvie	333	Kanabec	510.0	2,229,842	4,372	655,351	610,537	44,814	6.8%
Onamia	480	Mille Lacs	662.0	7,115,156	10,748	899,850	899,850	0	0.0%
Orono	278	Hennepin	3,095.1	40,583,317	13,112	5,290,777	5,290,777	0	0.0%
Ortonville	2903	Big Stone	521.8	6,803,773	13,040	0	0	0	N/A
Osakis	213	Douglas	899.4	4,700,529	5,227	1,076,714	1,076,714	0	0.0%
Osseo	279	Hennepin	22,154.7	176,880,524	7,984	13,630,780	13,630,780	0	0.0%
Owatonna	761	Steele	5,299.0	29,468,675	5,561	5,919,869	5,919,869	0	0.0%
Park Rapids	309	Hubbard	1,674.4	21,817,670	13,030	2,193,748	2,193,748	0	0.0%
Parkers Prairie	547	Otter Tail	603.0	4,088,498	6,781	296,784	296,784	0	0.0%
Paynesville	741	Stearns	1,017.2	8,286,747	8,147	856,683	856,683	0	0.0%
Pelican Rapids	548	Otter Tail	975.1	17,568,732	18,017	1,333,802	1,333,802	0	0.0%

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**Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)**

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Pequot Lakes	186	Crow Wing	1,783.7	\$ 33,321,591	\$18,681	\$ 2,940,823	\$ 2,940,823	\$ 0	0.0%
Perham-Dent	549	Otter Tail	1,582.0	21,037,714	13,299	3,118,920	3,118,920	0	0.0%
Pierz	484	Morrison	1,237.7	4,957,414	4,005	312,082	312,082	0	0.0%
Pillager	116	Cass	1,080.7	10,757,288	9,954	1,055,485	1,055,485	0	0.0%
Pine City	578	Pine	1,757.6	8,895,190	5,061	678,899	678,899	0	0.0%
Pine Island	255	Goodhue	1,378.5	7,969,619	5,781	2,506,196	2,379,892	126,304	5.0%
Pine Point	25	Becker	65.0	0	0	0	0	0	N/A
Pine River-Backus	2174	Cass	978.1	14,836,095	15,169	299,237	299,237	0	0.0%
Pipestone Area	2689	Pipestone	1,240.9	17,921,009	14,442	1,532,122	1,532,122	0	0.0%
Plainview-Elgin-Millville	2899	Wabasha	1,587.8	11,320,016	7,130	259,146	259,146	0	0.0%
Princeton	477	Mille Lacs	3,512.2	16,045,259	4,568	2,844,956	2,842,869	2,087	0.1%
Prior Lake-Savage Area	719	Scott	8,750.8	56,941,549	6,507	11,353,202	11,353,202	0	0.0%
Proctor	704	Saint Louis	1,954.7	12,050,368	6,165	1,486,946	1,486,946	0	0.0%
Randolph	195	Dakota	707.4	5,434,874	7,683	553,480	553,480	0	0.0%
Red Lake	38	Beltrami	1,485.1	14,793	10	4,969	2,333	2,636	53.0%
Red Lake County Central	2906	Red Lake	405.2	6,207,022	15,319	0	0	0	N/A
Red Lake Falls	630	Red Lake	388.7	2,236,946	5,755	0	0	0	N/A
Red Rock Central	2884	Cottonwood	450.1	13,055,681	29,006	0	0	0	N/A
Red Wing	256	Goodhue	2,977.4	37,379,111	12,554	1,538,238	1,538,238	0	0.0%
Redwood Area	2897	Redwood	1,209.7	12,539,823	10,366	1,710,582	1,710,582	0	0.0%
Renville County West	2890	Renville	541.0	13,069,400	24,158	309,677	309,677	0	0.0%
Richfield	280	Hennepin	4,726.5	49,682,490	10,511	0	0	0	N/A
Robbinsdale	281	Hennepin	13,784.0	106,846,859	7,752	2,233,795	2,233,795	0	0.0%
Rochester	535	Olmsted	18,437.5	154,059,771	8,356	4,102,917	4,102,917	0	0.0%
Rockford	883	Wright	1,827.2	11,740,601	6,425	4,369,332	4,076,967	292,365	6.7%

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Rocori	750	Stearns	2,296.5	\$ 14,432,725	\$ 6,285	\$ 1,871,409	\$ 1,871,409	\$ 0	0.0%
Roseau	682	Roseau	1,264.5	6,266,500	4,956	1,276,552	1,276,552	0	0.0%
Rosemount-Apple Valley-Eagan	196	Dakota	30,099.1	188,141,318	6,251	6,754,607	6,754,607	0	0.0%
Roseville	623	Ramsey	8,221.8	68,133,778	8,287	3,043,005	3,043,005	0	0.0%
Rothsay	850	Wilkin	309.2	3,276,487	10,595	1,165,002	1,165,002	0	0.0%
Round Lake-Brewster	2907	Nobles	294.7	6,379,190	21,643	0	0	0	N/A
Royalton	485	Morrison	1,037.0	3,629,526	3,500	1,921,750	1,269,605	652,145	33.9%
Russell Tyler Ruthton	2902	Lincoln	620.6	8,739,092	14,082	0	0	0	N/A
Rush City	139	Chisago	935.6	5,025,168	5,371	1,319,968	1,319,486	483	<0.1%
Rushford-Peterson	239	Fillmore	731.3	5,919,781	8,095	0	0	0	N/A
Sartell-St. Joseph	748	Stearns	4,155.4	16,375,834	3,941	8,378,249	5,986,291	2,391,958	28.5%
Sauk Centre	743	Stearns	1,132.8	10,164,854	8,973	687,527	687,527	0	0.0%
Sauk Rapids-Rice	47	Benton	4,684.5	18,346,566	3,916	4,855,796	4,548,055	307,741	6.3%
Sebeka	820	Wadena	541.5	2,765,292	5,107	0	0	0	N/A
Shakopee	720	Scott	8,796.8	58,927,097	6,699	21,456,811	20,293,904	1,162,907	5.4%
Sibley East	2310	Sibley	1,307.0	11,864,444	9,078	2,759,571	2,759,571	0	0.0%
Sleepy Eye	84	Brown	602.0	10,027,649	16,656	0	0	0	N/A
South Koochiching	363	Koochiching	295.0	1,855,602	6,290	199,933	199,933	0	0.0%
South St. Paul	6	Dakota	3,813.2	18,780,623	4,925	2,253,156	2,253,156	0	0.0%
South Washington County	833	Washington	19,434.9	114,004,440	5,866	25,234,901	25,234,901	0	0.0%
Southland	500	Mower	479.4	9,196,660	19,186	0	0	0	N/A
Spring Grove	297	Houston	375.6	2,469,547	6,575	0	0	0	N/A
Spring Lake Park	16	Anoka	6,084.5	43,515,478	7,152	9,376,042	9,376,042	0	0.0%
Springfield	85	Brown	637.0	6,754,664	10,604	0	0	0	N/A
St. Anthony-New Brighton	282	Hennepin	1,997.2	11,529,789	5,773	762,610	762,610	0	0.0%

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
St. Charles	858	Winona	1,080.5	\$ 6,595,467	\$ 6,104	\$ 664,812	\$ 664,812	\$ 0	0.0%
St. Clair	75	Blue Earth	742.1	4,588,409	6,183	736,544	736,544	0	0.0%
St. Cloud	742	Stearns	10,924.2	81,996,406	7,506	9,187,110	9,187,110	0	0.0%
St. Francis	15	Anoka	4,974.7	31,927,197	6,418	1,333,499	1,333,499	0	0.0%
St. James	840	Watonwan	1,064.2	9,029,577	8,485	1,173,133	1,173,133	0	0.0%
St. Louis County	2142	Saint Louis	2,038.5	32,900,489	16,140	4,906,242	4,906,242	0	0.0%
St. Louis Park	283	Hennepin	5,072.6	66,809,332	13,171	6,152,970	6,152,970	0	0.0%
St. Michael-Albertville	885	Wright	6,603.6	21,787,001	3,299	14,379,534	8,509,381	5,870,153	40.8%
St. Paul	625	Ramsey	40,177.4	290,730,806	7,236	32,811,965	32,811,965	0	0.0%
St. Peter	508	Nicollet	2,242.0	12,527,558	5,588	2,923,161	2,923,161	0	0.0%
Staples-Motley	2170	Todd	1,284.5	9,906,815	7,712	0	0	0	N/A
Stephen-Argyle Central	2856	Marshall	338.7	9,095,857	26,854	0	0	0	N/A
Stewartville	534	Olmsted	2,218.4	11,043,190	4,978	1,737,079	1,737,079	0	0.0%
Stillwater	834	Washington	9,166.1	100,361,445	10,949	4,066,047	4,066,047	0	0.0%
Swanville	486	Morrison	327.4	2,128,534	6,501	424,851	424,851	0	0.0%
Thief River Falls	564	Pennington	2,206.7	14,093,646	6,387	3,264,654	3,264,654	0	0.0%
Tracy	2904	Lyon	814.5	13,621,617	16,723	230,672	230,672	0	0.0%
Tri-City United	2905	Le Sueur	2,061.7	13,705,575	6,648	3,221,081	3,166,778	54,303	1.7%
Tri-County	2358	Kittson	206.7	2,949,377	14,268	55,220	55,220	0	0.0%
Triton	2125	Dodge	1,258.4	11,528,445	9,161	798,060	798,060	0	0.0%
Truman	458	Martin	220.7	7,094,442	32,144	0	0	0	N/A
Ulen-Hitterdal	914	Clay	346.4	3,964,655	11,444	578,180	578,180	0	0.0%
Underwood	550	Otter Tail	648.9	3,542,431	5,459	596,900	596,900	0	0.0%
United South Central	2134	Faribault	749.7	14,341,357	19,129	1,943,021	1,943,021	0	0.0%
Upsala	487	Morrison	384.9	1,763,947	4,583	695,453	590,528	104,926	15.1%

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## Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Verndale	818	Wadena	578.4	\$ 1,512,622	\$ 2,615	\$ 354,793	\$ 304,457	\$ 50,336	14.2%
Virginia	706	Saint Louis	1,833.8	6,328,515	3,451	0	0	0	N/A
Wabasha-Kellogg	811	Wabasha	619.2	6,763,983	10,925	324,306	324,306	0	0.0%
Wabasso	640	Redwood	426.4	7,764,412	18,211	595,157	595,157	0	0.0%
Waconia	110	Carver	4,217.4	27,640,491	6,554	6,358,965	6,358,965	0	0.0%
Wadena-Deer Creek	2155	Wadena	1,093.1	4,745,636	4,342	503,094	503,094	0	0.0%
Walker-Hackensack-Akeley	113	Cass	786.5	20,003,204	25,434	968,253	968,253	0	0.0%
Warren-Alvarado-Oslo	2176	Marshall	469.8	10,164,176	21,637	0	0	0	N/A
Warroad	690	Roseau	1,097.9	5,069,934	4,618	909,090	909,090	0	0.0%
Waseca	829	Waseca	2,029.8	11,702,279	5,765	2,312,105	2,312,105	0	0.0%
Watertown-Mayer	111	Carver	1,707.6	12,737,218	7,459	4,599,594	4,470,744	128,851	2.8%
Waterville-Elysian-Morristown	2143	Le Sueur	872.9	9,213,025	10,555	0	0	0	N/A
Waubun-Ogema-White Earth	435	Mahnomen	605.0	5,513,125	9,112	624,640	624,640	0	0.0%
Wayzata	284	Hennepin	11,862.9	147,833,595	12,462	5,458,376	5,458,376	0	0.0%
West Central Area	2342	Grant	789.6	12,008,648	15,209	0	0	0	N/A
West St. Paul-Mendota Hts-Eagan	197	Dakota	5,332.7	68,886,160	12,918	3,545,518	3,545,518	0	0.0%
Westbrook-Walnut Grove	2898	Cottonwood	424.0	9,243,604	21,801	0	0	0	N/A
Westonka	277	Hennepin	2,498.3	41,165,574	16,478	3,444,537	3,444,537	0	0.0%
Wheaton	803	Traverse	435.6	8,469,730	19,442	0	0	0	N/A
White Bear Lake	624	Ramsey	8,948.6	81,434,916	9,100	3,092,259	3,092,259	0	0.0%
Willmar	347	Kandiyohi	4,438.6	24,302,844	5,475	3,631,730	3,631,730	0	0.0%
Willow River	577	Pine	471.3	3,687,434	7,824	174,993	174,993	0	0.0%
Win-E-Mac	2609	Polk	473.6	4,948,804	10,449	770,192	770,192	0	0.0%
Windom	177	Cottonwood	1,135.6	10,487,777	9,236	999,243	999,243	0	0.0%
Winona	861	Winona	3,366.9	31,757,575	9,432	1,646,936	1,646,936	0	0.0%

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**Exhibit A.1: Minnesota School Districts and Debt Service Equalization, Fiscal Year 2019 (continued)**

District Name	District Number	County	Adjusted Pupil Units (APUs) from Fiscal Year 2016 <sup>a</sup>	Adjusted Net Tax Capacity (ANTC) from Assessment Year 2016 <sup>b</sup>	ANTC per APU	Eligible Debt Service	Levy Portion of Eligible Debt Service	Debt Service Equalization Aid	Aid as a Percentage of Eligible Debt Service
Worthington	518	Nobles	3,379.7	\$20,878,765	\$ 6,178	\$1,354,226	\$1,354,226	\$0	0.0%
Wrenshall	100	Carlton	353.7	3,419,832	9,669	326,285	326,285	0	0.0%
Yellow Medicine East	2190	Yellow Medicine	822.8	15,614,222	18,977	0	0	0	N/A
Zumbrota-Mazeppa	2805	Wabasha	1,266.0	9,116,402	7,201	0	0	0	N/A

<sup>a</sup> We include the adjusted pupil units used to calculate Debt Service Equalization aid in Fiscal Year 2019. The Debt Service Equalization formula uses adjusted pupil units for the fiscal year that is three years prior to the fiscal year in which aid is to be awarded. Note that adjusted pupil units from Fiscal Year 2016 represent adjusted pupil units for the 2015-2016 school year.

<sup>b</sup> We include the adjusted net tax capacity for the assessment year used to calculate Debt Service Equalization aid in Fiscal Year 2019. The Debt Service Equalization formula uses adjusted net tax capacity for the assessment year that is three years prior to the fiscal year in which aid is to be awarded.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota Department of Education.



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# Key Statutory Changes

## APPENDIX B

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Statutes on the Debt Service Equalization program have evolved since the Legislature created it in 1991. In this appendix, we discuss major changes the Legislature has made to the program. We focus on two groups of changes: (1) changes to the formula for calculating program revenue and (2) changes to the types of debt eligible for the program.

### Changes to the Formula

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The Legislature has made a number of changes to the formula for calculating Debt Service Equalization revenue, levies, and aid. Some changes increased the amount of program aid, and others decreased it. As Exhibit B.1 shows, these changes occurred in the ten years immediately following the program's 1991 creation and within the years from 2012 through 2016; in the ten-year period from 2002 through 2011, the Legislature made no major changes to the formula.

Some changes affected the threshold for determining the portion of a school district's eligible debt service that is Debt Service Equalization revenue, which may include some state aid.<sup>1</sup> For instance, the 1992 Legislature redefined Debt Service Equalization revenue to include eligible debt service above 10 percent—as opposed to 12 percent in 1991—of a district's adjusted net tax capacity (ANTC).<sup>2</sup> This change likely increased some districts' Debt Service Equalization revenue, which may have increased the amount of state aid they received. The Legislature made further changes to the thresholds in 1999, 2001, and 2012, all of which likely decreased state aid to some school districts.

Other changes affected the equalizing factor used to determine the state aid portion of Debt Service Equalization revenue. In 1995, the Legislature redefined the equalizing factor by making the factor a fixed value—\$4,707.50—instead of a statutorily defined variable, as it had previously been.<sup>3</sup> In 1999, the Legislature decreased the equalizing factor from \$4,707.50 to \$4,000.<sup>4</sup> This change would have decreased the aid portion of school districts' Debt Service Equalization revenue, all other things being equal.

In 2001, the Legislature made a major change to the structure of the Debt Service Equalization formula by adding a second tier of equalized revenue.<sup>5</sup> This created a higher equalization rate for school districts with greater amounts of debt service, that is, more than 25 percent of their ANTC. This meant that once school districts met a second threshold of eligible debt service, additional eligible debt service was equalized at a higher rate.

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<sup>1</sup> In Chapter 1, we discuss the different parts of eligible debt service. We also discuss the current formula for determining a school district's Debt Service Equalization revenue, levy, and aid.

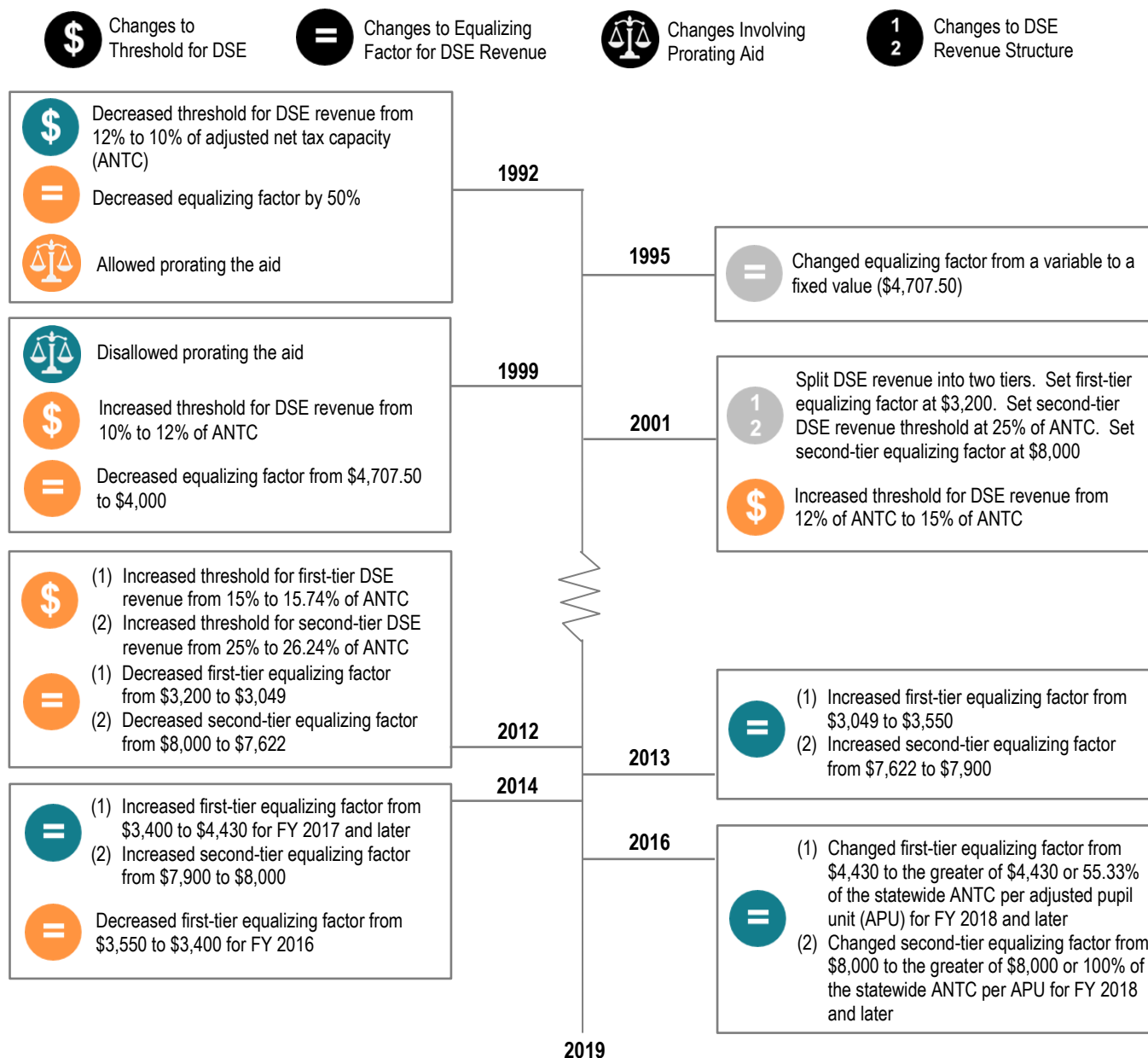
<sup>2</sup> *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 17.

<sup>3</sup> *Laws of Minnesota* 1995, First Special Session, chapter 3, art. 5, sec. 11.

<sup>4</sup> *Laws of Minnesota* 1999, chapter 241, art. 4, sec. 3.

<sup>5</sup> *Laws of Minnesota* 2001, First Special Session, chapter 5, art. 2, secs. 3-4, as codified in *Minnesota Statutes* 2018, 123B.53, subds. 4-5.

**Exhibit B.1: The Legislature changed the Debt Service Equalization (DSE) program formula multiple times since the program was created in 1991. These changes increased, decreased, or had mixed effects on program aid.**



NOTES: This exhibit depicts only major changes to the Debt Service Equalization program's formula. The Legislature made many other changes to the program, including changes related to eligibility of debt. Adjusted net tax capacity (ANTC) is the tax base made up of all taxable property in a school district; it has been adjusted to compensate for differences around the state in assessing property value. Adjusted pupil units (APU) is a measure of the number of students a school district serves; it weights students by grade level.

SOURCES: *Laws of Minnesota* 1991, chapter 265, art. 5, sec. 8; *Laws of Minnesota* 1992, chapter 499, art. 5, secs. 17-19; *Laws of Minnesota* 1995, First Special Session, chapter 3, art. 5, sec. 11; *Laws of Minnesota* 1999, chapter 241, art. 4, secs. 2-4; *Laws of Minnesota* 2001, chapter 5, art. 2, secs. 2-3; *Laws of Minnesota* 2012, chapter 292, art. 1, secs. 1-2; *Laws of Minnesota* 2013, chapter 116, art. 6, sec. 1; *Laws of Minnesota* 2014, chapter 312, art. 18, sec. 4, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 5; and *Laws of Minnesota* 2016, chapter 189, art. 30, sec. 3, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 5.

Other changes related to prorating Debt Service Equalization aid. In 1992, the Legislature allowed the Minnesota Department of Education (MDE) to prorate Debt Service Equalization aid among school districts if the state appropriation was insufficient to cover the amount of calculated aid.<sup>6</sup> The Legislature removed this provision in 1999.<sup>7</sup>

## Changes to Types of Debt Eligible for the Program

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Changes affecting the types of debt eligible for the Debt Service Equalization program generally fall into two groups. The first group includes changes to the types of funding streams eligible for the program. By adding eligible funding streams, the Legislature increased the amount of eligible debt service that certain school districts had, with the possible effect of increasing aid to these districts. Removing funding streams from eligibility would have the opposite effect.

For example, the 1992 Legislature made eligible for the program school district payments toward certain energy loans.<sup>8</sup> These loan payments remained eligible for 24 years, but the 2016 Legislature removed their eligibility altogether.<sup>9</sup> Similarly, the 1995 Legislature made eligible for the Debt Service Equalization program all revenue from the Alternative Facilities Revenue program—which allowed certain school districts to levy for funding to pay for maintenance, accessibility, and health and safety projects without voter approval.<sup>10</sup> After twice reducing how much revenue from the Alternative Facilities Revenue program was considered eligible debt service, the 2015 Legislature removed the program’s eligibility altogether.<sup>11</sup>

The second group of changes related to eligibility include changes to requirements that projects must meet if their debt is to be eligible for the program. For example, the 1992 Legislature required that bonds for certain projects receive positive review and comments from MDE. The new requirement applied to bonds issued after July 1, 1992.<sup>12</sup> Prior to this change, the requirement applied to bonds issued after July 1, 1990. Similarly, the 1997 Legislature required that bonds issued after July 1, 1997, be for facilities with the primary purpose of serving students in kindergarten through grade 12.<sup>13</sup>

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<sup>6</sup> *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 19.

<sup>7</sup> *Laws of Minnesota* 1999, chapter 241, art. 4, sec. 4, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 6.

<sup>8</sup> *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 14. Note that certain other energy loans were already eligible for the program prior to this change.

<sup>9</sup> *Laws of Minnesota* 2016, chapter 189, art. 30, sec. 2, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 1. These energy loans include those through the Douglas J. Johnson Economic Protection Trust Fund, as defined by *Minnesota Statutes* 2018, 298.292 through 298.298. They also include energy conservation investment loans as defined by *Minnesota Statutes* 2018, 216C.37.

<sup>10</sup> *Laws of Minnesota* 1996, chapter 412, art. 5, sec. 7.

<sup>11</sup> *Laws of Minnesota* 2003, First Special Session, chapter 9, art. 4, sec. 4; *Laws of Minnesota* 2007, chapter 146, art. 4, sec. 5; and *Laws of Minnesota* 2015, First Special Session, chapter 3, art. 6, sec. 1, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 1. Note that the 2015 Legislature replaced the Alternative Facilities Revenue program with the Long-Term Facilities Maintenance Revenue program starting in Fiscal Year 2017. This replacement did not affect the Debt Service Equalization program.

<sup>12</sup> *Laws of Minnesota* 1992, chapter 499, art. 5, sec. 15, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 2(a)(3).

<sup>13</sup> *Laws of Minnesota* 1997, First Special Session, chapter 4, art. 4, sec. 20, as codified in *Minnesota Statutes* 2018, 123B.53, subd. 2(d).







February 25, 2019

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Room 140 Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review the findings and recommendations from the Office of the Legislative Auditor's (OLA) program evaluation of Minnesota's Debt Service Equalization for School Facilities program. We appreciate the diligent and professional work of your staff on this important issue.

The Minnesota Department of Education (MDE) appreciates your auditor's evaluation of the different funding mechanisms for school facilities with an in-depth look at the Debt Service Equalization program. I have reviewed and considered the recommendations and information contained in this report. Please find our comments below.

## Recommendation #1

*The Legislature should consider changing the Debt Service Equalization program to help pay for school facilities in more of the districts that have low amounts of tax base per student and high capital debt.*

MDE agrees with this recommendation. The effectiveness of the debt service equalization program has eroded significantly since 1997, with the state share falling from 11 percent of eligible revenue in 1997 to 3 percent in 2019. Only 10 percent of school districts now receive debt service equalization aid. To reduce disparities in debt service tax rates between school districts with low property tax base per student and high debt service costs and other school districts, the state share of eligible revenue should be increased gradually until the fiscal year 1997 level of 11 percent is restored. This can best be accomplished by reducing the threshold for districts to qualify for tier one equalization and increasing the tier one equalizing factor. When the tier one equalizing factor reaches 100 percent of the state average Adjusted Net Tax Capacity (ANTC) per pupil unit, the formula can be simplified by combining tiers one and two into a single tier.

## Recommendation #2

*The Legislature should clarify in law the start and end points for the 60-day limit on MDE's review and comment of districts' facility proposals.*

MDE generally agrees with this recommendation. Because of the variety and complexity of school construction projects, there will inevitably be times when district proposals are incomplete and MDE needs to request additional information. The auditor's recommendation to "stop the clock" for the interval of time between when MDE requests and receives additional information from the district is a reasonable one that should be implemented. MDE makes every effort to provide a thorough and accurate review and comment within the 60-day limit for every review and comment request received. In the event that an inadvertent error is made in a review and comment, a corrected review and comment is issued as quickly as possible. The number of days needed to correct a review and comment determined to be in error may vary, depending on the nature of the changes needed. Therefore, general direction calling for corrections to be completed in a timely manner is preferable to a specific requirement for corrections to be completed within a fixed number of days. MDE occasionally receives review and comment requests less than 60 days before the deadline for publication, making it difficult for MDE to do a thorough review and comment in time for publication. Consideration should also be given to requiring school districts to submit review and comment requests to MDE at least 60 days before publication deadlines to help ensure that the process is completed in a thorough manner in time for publication.

## Recommendation #3

*MDE should provide additional information regarding the required content of districts' facility proposals.*

MDE generally agrees with this recommendation. Additional explanatory materials that would minimize cases where MDE requires large amounts of additional information from school districts after they have submitted their proposals would be beneficial for both MDE and school districts, and especially for districts that do not have recent experience with the review and comment process. To address this issue, MDE will review recent cases where additional information was required from school districts after they submitted their proposals to identify common patterns, and assess where changes are needed in current guidance or training to minimize these issues in the future. After the review process is completed, a determination will be made regarding whether a template or other changes would be most effective in minimizing cases where large amounts of additional information are required from school districts after they have submitted their proposals.

Responsible Person: Chris Kubesh  
Estimated Completion Date: June 30, 2019

MDE appreciates the OLA's program evaluation of the state's Debt Service Equalization for School Facilities program. I look forward to working with policymakers to address the issues outlined in this report in order to ensure that all schools have access to funding for school facility projects.

If you have further questions, please contact Tom Melcher, School Finance Director, at (651) 582-8828.

Sincerely,



Mary Cathryn Ricker, NCBT  
Commissioner

Cc: Denise Anderson, Chief Financial Officer  
Tom Melcher, School Finance Director  
Chris Kubesh, Education Finance Specialist



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February 2015  
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