



Capital Loan Report

Report to the Legislature

As required by Minnesota Statutes 2021, section 126C.69, subdivision 8

For more information

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As requested by Minnesota Statutes 2021, section 3.197: This report cost approximately \$978.91 to prepare, including staff time, printing and mailing expenses.

Upon request, this material will be made available in an alternative format such as large print, braille or audio recording.

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Legislative Charge

Minnesota Statutes 2021, section 126C.69, subdivision 8, reads as follows:

Subdivision 8. Recommendations of the commissioner. The commissioner shall examine and consider applications for capital grants and loans that have been approved and promptly notify any district rejected of the decision.

The commissioner shall report each capital grant and loan that has been approved by the commissioner and that has received voter approval to the education committees of the legislature by January 1 of each even-numbered year. The commissioner must not report a capital loan that has not received voter approval. The commissioner shall also report on the money remaining in the capital loan account and, if necessary, request that another bond issue be authorized.

Executive Summary

Provisions for the school district capital loan program that provides facility funding for qualifying districts are included in the Maximum Effort School Aid Law in Minnesota Statutes 2021, sections 126C.60 to 126C.72. A school district is eligible for a capital loan if the estimated net debt service tax rate, computed after debt equalization aid and assuming a 20-year maturity schedule for new debt, is greater than 41.98% of adjusted net tax capacity (Minnesota Statutes 2021, section 126C.69, subdivision 2).

An eligible district must:

- submit a facility proposal for review and comment by July 1 of odd-numbered year;
- submit a project predesign package comparable to those required by Minnesota Statutes 2021, section 16B.335;
- receive positive review and comment from the commissioner;
- submit a formal capital loan application by September 1; and,
- receive voter approval of the approved project by January 1.

The commissioner reviews applications for projects receiving positive review and comment and may accept or reject loan applications.

No applications have been received and approved by the commissioner for consideration by the 2022 Legislature. However, significant changes to the program were enacted by the 2020 Legislature that impacts the loan repayment for the outstanding capital loans.

Introduction

The Capital Grant and Loan program provides additional state assistance for facilities improvements to school districts with very low tax bases. As there are no new Capital Loan requests to be considered by the 2022

Legislature, the Executive Summary serves the main purpose of the report. In addition, this report provides an update on the current capital loan account activity, information on outstanding maximum effort loans, and recent activity related to the program.

Capital Loan Account Balances and Recent Activity

As of December 15, 2021, there were no active capital loan construction projects and no account balance remaining. At the time of the last report, Independent School District 38, Red Lake had a pending \$14,000,000 capital loan for improvements to the Red Lake Elementary School. This capital loan was authorized by Minnesota Laws 2018, chapter 214, article 1, section 4. The disbursement of funds was delayed until the capital loan contract was finalized in November 2020. Prior to any capital loan disbursement to the district, legislation changed the capital loan program to a grant and loan program. As a result of this, Independent School District 38, Red Lake received a \$13,978,179 capital grant and a \$21,821 capital loan. The funds for their capital project were disbursed in two payments: \$12,767,155 on December 4, 2020, and the remaining \$1,232,845 on March 23, 2021.

Independent School District 333, Ogilvie cancelled its capital loan in April 2020, leaving Independent School District 38, Red Lake and Independent School District 707, Nett Lake the only two districts with outstanding capital loans. Legislation in recent years has allowed most of the districts with outstanding capital loans to have the loans forgiven by paying off the interest owed. With their low tax base, neither Red Lake nor Nett Lake were able to take advantage of this provision. The required maximum effort levy for their annual payments is so low that it didn't cover the annual interest, let alone the principle, making the loan largely uncollectable.

The Maximum Effort Loan Program was significantly changed with the enactment of Laws 2020 5th special session, chapter 3, article 5, section 37. Recognizing that these existing loans would largely cancel at the end of their 50-year terms, the outstanding balances were cancelled except for the anticipated amount the districts would levy for the remainder of the loan periods. The loan repayments on the remaining balance on the capital loan would be interest-free. For any new project authorized by the Legislature under this program, the loan portion would be limited to the amount the district would levy over the loan term based on the current tax base, and the remaining amount needed would be a grant. The Legislature also instructed that Red Lake's recent capital loan be disbursed and repaid on this basis.

Conclusion

Following are summaries of current outstanding capital grants and loans under Minnesota Statutes 2021, sections 126C.60-72, capital loans that were cancelled under the provisions of 2020 laws, capital loans cancelled after 30 or 50 years, and capital loans fully satisfied by repayment of the original loan with forgiveness of current and accrued interest under the provisions of 2011 and 2016 laws. Also attached is a summary of the Maximum Effort Loan Aid program under Minnesota Statutes 2021, section 477A.09, and a summary of the Incentive Grant Payments under 2016 Minnesota Laws, chapter 189, article 30, section 25, subdivision 5, and 2017 Minnesota Laws, 1st special session, chapter 5, article 5, section 11 for the retirement of capital loans.

Table 1 – Maximum Effort Loan Active Status as of December 15, 2021

District Number and Name	Date Granted or Last Amended	Capital Loan Cancel Date	Initial Capital Loan Outstanding	Capital Loan Balance Dec 15, 2021
District 38, Red Lake				
Capital Loan #5	July 1, 2020	April 27, 2065	228,743.00	210,871.86
Capital Loan #6	November 8, 2020	November 8, 2070	21,821.50	21,821.50
Subtotal District 38 Capital Loans			250,564.50	232,693.36
District 707, Nett Lake				
Capital Loan #2	July 1, 2020	October 24, 2056	1,261,384.00	1,208,751.74
Subtotal District 707 Capital Loans			1,261,384.00	1,208,751.74
State Total			1,511,948.50	1,441,445.10

*District 38, Red Lake, subtotal excludes the \$14 million authorized by the 2018 Legislature.

Table 2 – Capital Loan Cancellations from July 22, 2007, to July 1, 2020

Capital Loan Cancellations per Laws 2020 5th special session, chapter 3, article 5, section 37

District Number and Name	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
District 38, Red Lake						
Capital Loan #1	June 18, 1992	July 1, 2020	10,000,000.00	30,520,708.85	1,208,882.05	41,729,590.90
Capital Loan #2	January 12, 2001	July 1, 2020	11,165,999.82	12,491,900.70	547,598.30	24,205,498.82
Capital Loan #3	October 2, 2002	July 1, 2020	11,736,595.45	10,336,371.75	480,056.11	22,553,023.31
Capital Loan #4	February 15, 2006	July 1, 2020	18,391,197.79	9,601,646.21	348,536.28	28,341,380.28
Capital Loan #5 *	April 27, 2015	July 1, 2020	5,089,904.66	615,794.14	94,342.47	5,800,041.27
Subtotal District 38 Capital Loans				63,566,421.65	2,679,415.21	122,629,534.58
District 707, Nett Lake						
Capital Loan #1	July 7, 1994	July 1, 2020	7,824,669.00	20,589,199.10	825,883.21	29,239,751.31
Capital Loan #2 *	October 24, 2006	July 1, 2020	9,433,884.36	5,266,000.17	188,693.42	14,888,577.95
Subtotal District 707 Capital Loans			17,258,553.36	25,855,199.27	1,014,576.63	44,128,329.26

District Number and Name	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
Total cancelled under 2020 Laws			73,642,251.08	89,421,620.92	3,693,991.84	166,757,863.84

* For District 38, Red Lake, the portion of the original loan that does not cancel is \$228,743. For District 707, Nett Lake, the portion of the original loan that does not cancel is \$1,261,384.

Capital Loan Cancellations from July 22, 2007, to April 27, 2020

District Number and Name	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
363 South Koochiching-Rainy River (1 st portion)	July 22, 1977	July 22, 2007	7,012,075.00	14,975,223.93	627,330.77	22,614,629.70
786 Bertha-Hewitt	July 1, 1980	July 1, 2010	954,000.00	2,070,579.00	76,458.04	3,101,037.04
727 Big Lake (1 st loan)	January 9, 1981	January 9, 2011	1,685,000.00	1,434,792.88	9,957.70	3,129,750.58
2 Hill City	June 9, 1981	June 9, 2011	4,371,379.07	13,377,040.54	453,581.53	18,202,001.14
363 South Koochiching-Rainy River (2 nd portion)	December 22, 1981	August 18, 2011		153,284.22	7,666.32	160,950.54
885 St. Michael-Albertville	March 21, 1991	November 11, 2011		18,309,535.60	1,627,587.16	19,937,122.76
192 Farmington	July 11, 1991	November 15, 2011		12,669,495.42	1,132,803.17	13,802,298.59

District Number and Name	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
2897 Redwood Falls	May 30, 1990	November 17, 2011		10,737,612.68	1,047,703.12	11,785,315.80
390 Lake of the Woods	April 4, 1991	December 15, 2011		16,388,807.18		16,388,807.18
727 Big Lake (2 nd loan)	July 24, 1995	April 25, 2012		11,194,756.51	405,026.00	11,599,782.51
91 Barnum**	March 1, 1982	March 1, 2012	3,710,000.00	12,947,845.53	186,248.40	16,844,093.93
690 Warroad**	March 6, 1986	March 6, 2016	1,295,000.00	7,803,883.66	154,587.54	9,253,471.20
95 Cromwell	July 30, 1991	October 13, 2016		6,967,435.20	456,503.89	7,423,939.09
362 Littlefork	November 12, 1996	October 13, 2016		10,703,257.87	763,570.43	11,466,828.30
36 Kelliher	November 12, 1996	November 8, 2016		10,882,821.43	833,636.13	11,716,457.56
306 Laporte	November 12, 1996	October 13, 2016		708,281.41	128,694.74	836,976.15
299 Caledonia	September 20, 2001	November 14, 2016		1,823,347.73	566,242.88	2,389,590.61
2580 East Central	December 27, 2001	November 15, 2016		9,471,060.80	1,951,459.49	11,422,520.29
682 Roseau	October 29, 1991	November 17, 2016		11,885,151.24	1,006,282.41	12,891,433.65

District Number and Name	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
51 Foley**	June 27, 1989	June 27, 2019	4,852,685.00	20,287,134.33	867,003.31	26,006,822.64
333 Ogilvie	April 27, 1990	April 27, 2020	11,341,047.73	60,510,896.78	1,808,649.53	73,660,594.04
Total			35,221,186.80	255,302,243.94	14,110,992.56	304,634,423.30

**District pay-offs of the debt service loans for districts 51, 91 and 690 occurred after their capital loan cancellation.

Repayments per Laws 2011 1st special session, chapter 11, article 4, section 8

District Number and Name	Date Granted	Date Retired	Capital Loan District Pay-off	Total Capital Loan Interest Cancelled	Debt Service Loan Pay-off	Total Maximum Effort Pay-off
192 Farmington	July 11, 1991	November 15, 2011	8,826,713.00	13,802,298.59	80,821.53	8,907,534.53
363 South Koochiching-Rainy River (2 nd portion)	December 22, 1981	August 18, 2011	61,335.00	160,950.54		61,335.00
390 Lake of the Woods	April 4, 1991	December 15, 2011	8,000,000.00	16,388,807.18	80,163.07	8,080,163.07
727 Big Lake (2 nd loan)	July 24, 1995	April 25, 2012	9,770,000.00	11,599,782.51		9,770,000.00
885 St. Michael-Albertville	March 21, 1991	November 9, 2011	9,800,000.00	19,937,122.76		9,800,000.00
2897 Redwood Falls	May 30, 1990	November 17, 2011	5,837,211.00	11,785,315.80	90,979.91	5,928,190.91

District Number and Name	Date Granted	Date Retired	Capital Loan District Pay-off	Total Capital Loan Interest Cancelled	Debt Service Loan Pay-off	Total Maximum Effort Pay-off
Total under 2011 Laws			42,295,259.00	73,674,277.38	251,964.51	42,547,223.51

Repayments per Laws 2016, chapter 189, article 30, section 22

District Number and Name	Date Granted	Date Retired	Capital Loan District Pay-off	Total Capital Loan Interest Cancelled	Debt Service Loan Pay-off	Total Maximum Effort Pay-off
36 Kelliher	November 12, 1996	November 8, 2016	6,900,000.00	11,716,457.56		6,900,000.00
95 Cromwell	July 30, 1991	October 13, 2016	3,212,424.00	7,423,939.09	192,136.61	3,404,560.61
299 Caledonia	September 20, 1991	November 14, 2016	13,135,514.08	2,389,590.61		13,135,514.08
306 Laporte	June 21, 2001	November 8, 2016	2,700,633.20	836,976.15		2,700,633.20
362 Littlefork	November 12, 1996	October 13, 2016	7,000,000.00	11,466,828.30		7,000,000.00
682 Roseau	October 29, 1991	November 17, 2016	8,299,865.00	12,891,433.65	186,385.83	8,486,250.83
2580 East Central	December 27, 2001	November 15, 2016	19,000,000.00	11,422,520.29		19,000,000.00
Total under 2016 Laws			60,248,436.28	58,147,745.65	378,522.44	60,626,958.72

Table 3 – Maximum Effort Loan Aid, Minnesota Statutes 2021, section 477A.09

Aid payments started in FY 2018 and the levy impact initiated with a Payable 2018 levy limitation reduction.

Aid payments will be paid by the state for five years, finalizing in FY 2022.

District Number and Name	Capital/Debt Service Loan Current/Capitalized Interest paid to state to June 2016	Capital Loan Current/Capitalized Interest to be paid to state (July 2017-June 2021)	Total Actual Loan Current and Capitalized Interest for specified dates
38 Red Lake	114,232.49	28,385.99	142,618.48
51 Foley	1,672,584.06		1,672,584.06
95 Cromwell	129,996.05		129,996.05
299 Caledonia	6,357,575.99		6,357,575.99
306 Laporte	1,326,684.81		1,326,684.81
333 Ogilvie	879,635.78	1,110,467.30	1,990,103.08
362 Littlefork	165,787.66		165,787.66
682 Roseau	2,597,802.68		2,597,802.68
707 Nett Lake	307,551.57	129,813.79	437,365.36

District Number and Name	Capital/Debt Service Loan Current/Capitalized Interest paid to state to June 2016	Capital Loan Current/Capitalized Interest to be paid to state (July 2017-June 2021)	Total Actual Loan Current and Capitalized Interest for specified dates
2580 East Central	1,531,708.79		1,531,708.79
Total	15,083,559.88	1,268,667.08	16,352,226.96

Payable 2018-2022 actual levy limitation reductions and Maximum Effort Loan Aid balance remaining. Levy reductions will occur within 20 years.

District Number and Name	Payable 2018	Payable 2019	Payable 2020	Payable 2021	Payable 2022	Remaining Reduction
38 Red Lake	5,793.01	5,781.53	5,781.05	5,766.19	6,850.86	112,645.84
51 Foley	669,033.62	280,394.52	90,394.49	90,394.49	90,394.49	451,972.45
95 Cromwell	25,999.21	0.00	34,665.61	34,665.61	34,665.62	0.00
299 Caledonia	592,500.00	620,000.00	617,426.00	673,000.00	460,000.00	3,394,649.99
306 Laporte	110,557.07	110,557.07	110,557.07	110,557.07	110,557.07	773,899.46
333 Ogilvie	400,000.00	400,000.00	400,000.00	0.00	0.00	790,103.08

District Number and Name	Payable 2018	Payable 2019	Payable 2020	Payable 2021	Payable 2022	Remaining Reduction
362 Littlefork	33,157.53	33,157.53	33,157.53	33,157.53	33,157.54	0.00
682 Roseau	0.00	0.00	0.00	560,000.00	300,000.00	1,737,708.79
707 Nett Lake	38,997.32	37,882.80	39,936.49	44,061.01	45,241.70	231,246.04
2580 East Central	0.00	0.00	0.00	160,000.00	0.00	1,371,708.79
Total	1,876,037.76	1,487,773.45	1,331,918.24	1,711,601.90	1,080,867.28	8,864,028.33

Table 4 – Incentive Grant Payments for Retirement of Capital Loans

2016 Laws, chapter 189, article 30, section 25, subdivision 5 and 2017 Laws 1st special session, chapter 5, article 5, section 11

State appropriation language: 2017 Laws, 1st special session, chapter 5, article 5, section 14, subdivision 5

District Number and Name	FY 2017 Annual Amount	FY 2017 to FY 2021 Total Grant Amount
36 Kelliher	150,000	750,000
95 Cromwell	180,000	900,000
299 Caledonia	495,000	2,475,000
306 Laporte	220,000	1,100,000

District Number and Name	FY 2017 Annual Amount	FY 2017 to FY 2021 Total Grant Amount
362 Littlefork	150,000	750,000
682 Roseau	650,000	3,250,000
2580 East Central	505,000	2,525,000
Total	2,350,000	11,750,000