



Debt Service Equalization for School Facilities

Update to 2019 Evaluation Report

February 2020

Problems Identified

- **Decline in Aid.** The state provides aid from the Debt Service Equalization program to help school districts repay debt used to construct or renovate school buildings and other facilities. The aid paid for just 3 percent of all eligible school debt service (principal and interest) in Fiscal Year 2019, compared with 11 percent in fiscal year 1997 (in dollars adjusted for inflation). This was a period when eligible debt service increased 18 percent.
- **Reduction in School Districts Receiving Aid.** Over time, fewer school districts received Debt Service Equalization aid. The number declined from 131 school districts in Fiscal Year 1997 to 34 in 2019. School districts are eligible for the aid if they have low tax-base wealth per student and relatively high debt for capital projects.
- **Lack of Timely Review in Some Cases.** School districts must submit their proposed capital projects to the Minnesota Department of Education (MDE) for review; MDE must return comments on the proposals within 60 days. MDE met the deadline for most proposals (91 percent) from a sample of 98 cases. We concluded that MDE might avert missed deadlines in the future if it provided additional information on the proposals' required content.

Changes Implemented

- **Added Information on Content of Building Proposals.** MDE added information to its "Review and Comment Checklist," an online document intended to help school districts understand the statutory requirements for the content of the building proposals they submit for review. It added details on information needed for project costs and operating costs, and it clarified differences in requirements for projects financed with a particular funding mechanism known as "lease levies."
- **Altered the Time-Tracking Process.** MDE began a new process to track the number of days that elapse after a school district submits its proposed project to MDE for review and comment. The department now puts the 60-day limit on hold when it cannot complete its review without additional information from the school district. When the district supplies the information, the 60-day countdown resumes.

Action Needed

- **Expand Aid to More School Districts.** The Legislature should consider changing Debt Service Equalization to help pay for school buildings in more school districts. Several options are available, but they would require additional state revenue. One is to redefine eligibility for the revenue, such as by factoring in the age of school district facilities.