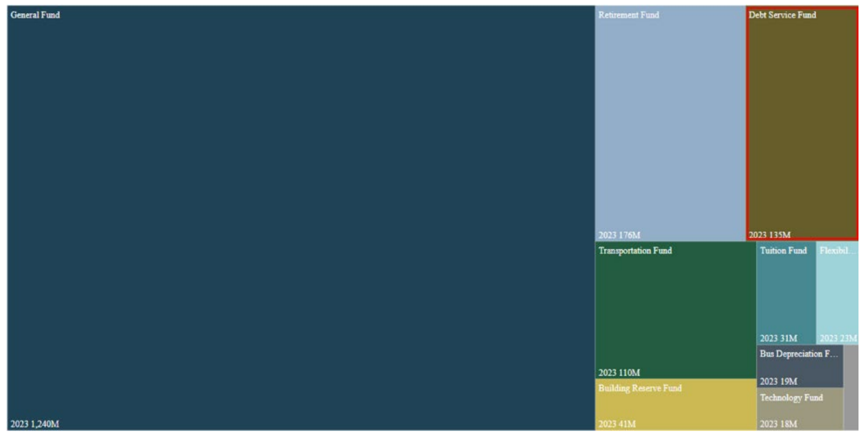
SCHOOL FUNDING BASICS: DISTRICT DEBT SERVICE FUND

EDUCATION INTERIM COMMITTEE
PAD MCCRACKEN - JANUARY 2024

OVERVIEW AND PURPOSE

Purpose - the debt service fund is used to service (pay off) the debt the district has incurred from issuing (selling) bonds, typically for construction. While the jargon is different, debt service may be easier to understand if you think of it like taking out a mortgage or construction loan on a house - you borrow the money to purchase or build and then you have to pay it back over time.

The debt service fund is the third largest budgeted school district fund.



DISTRICT DEBT SERVICE FUND BASICS

When voters approve a bond issue they are giving the district their approval to be taxed in order to service (pay back) the debt on those bonds over a period of years. Proceeds from *issuing the bonds* go into the **Building Fund** out of which the district pays construction costs.

Fun fact - With aging facilities and increased enrollment in and around Montana cities, a number of districts have undertaken large construction projects in recent years. The total bonded indebtedness statewide for school construction reached $1.3 billion in 2023 which translates to $130 million in annual debt service obligation.

Revenue the district brings in to pay the debt on the bonds is accounted for in the **Debt Service Fund**. These revenues are largely made up of local property taxes.

How is the district debt service fund funded?

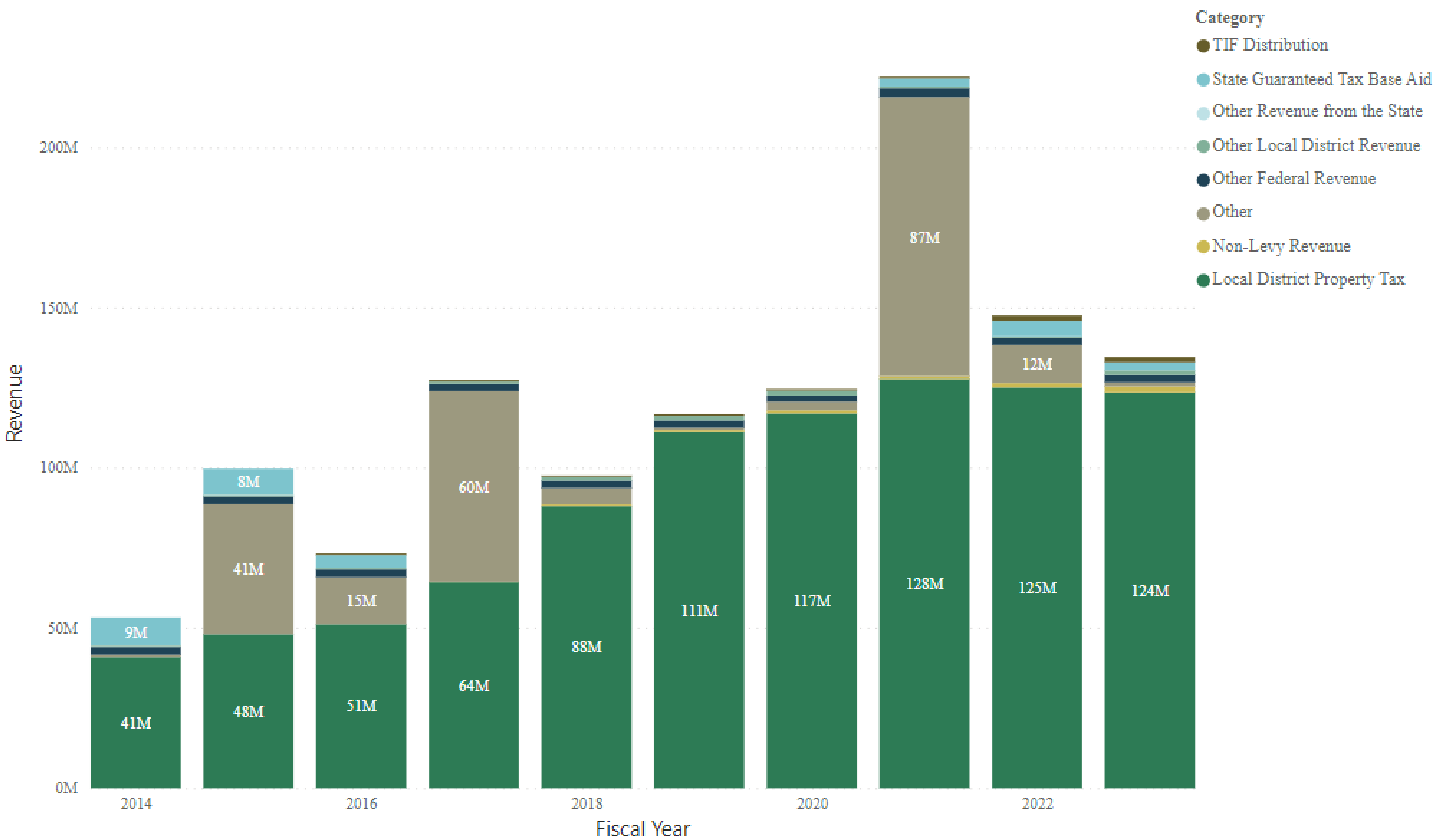
1. District nonlevy revenue (fund balance; oil and gas, TIFD remittances, etc.)
2. Debt Service Assistance (state)
3. District property taxes

DEBT SERVICE ASSISTANCE BASICS

The state has a program in place to help poorer districts with their bonded dept; it is called Debt Service Assistance (formerly known as Facility Reimbursements or Debt Service GTB). It is fairly complicated. In a nutshell the formula takes into consideration:

- property wealth (mill value)
- number of students (ANB)
- grade level
- district debt
- state funding appropriated and available

In the mid-2000s when the program was fully funded (and debt obligations were much lower) the program covered 20-25% of statewide debt obligation. In recent years, the program has covered less than 5% of the statewide debt obligation, and in FYs 2017 through 2020 the program was not funded at all. Recent legislative efforts, including the creation of a school facilities fund within the coal tax trust, should help ensure more robust funding of the program going forward.



LEGISLATIVE SERVICES DIVISION