



Building Reserve Subfunds Including the State Major Maintenance Aid

Updated as of May 3rd, 2018

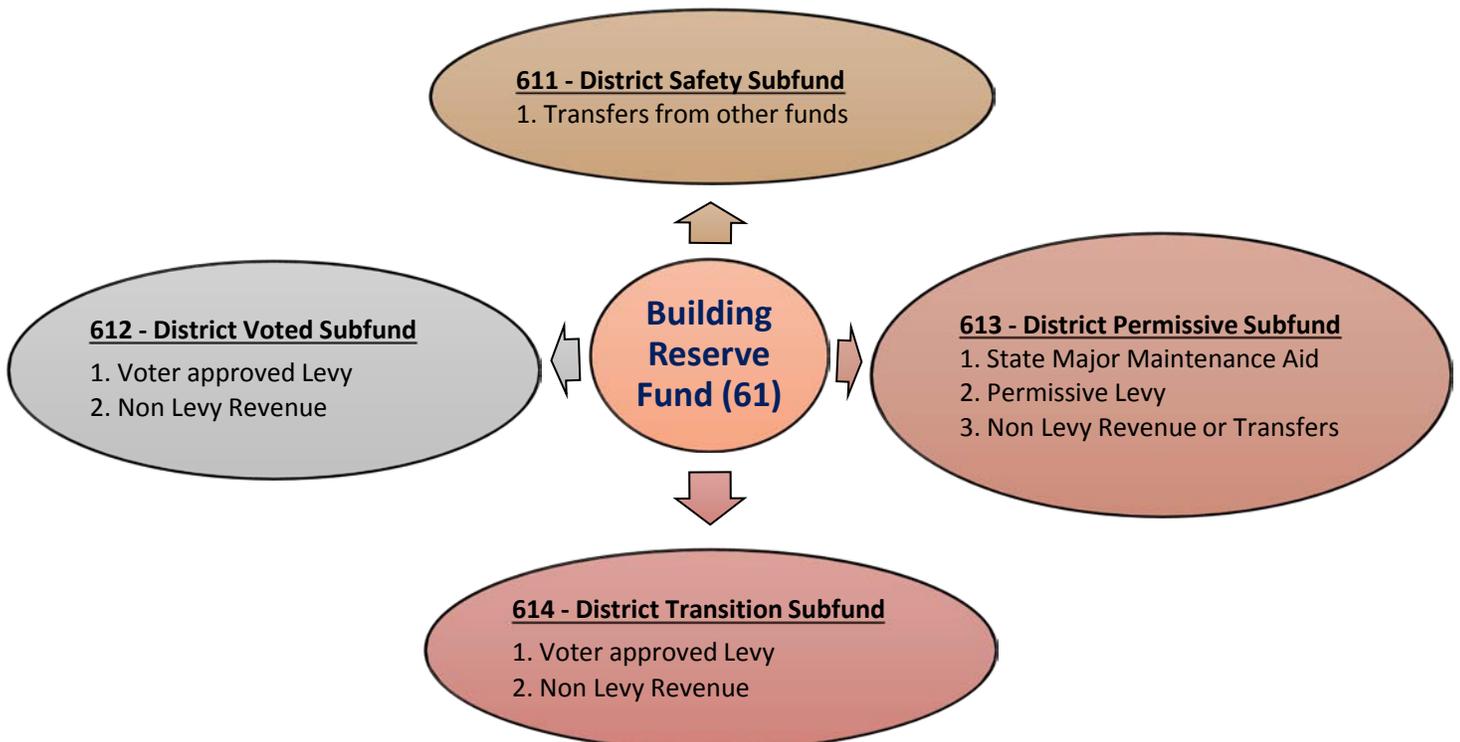
Background

This guidance is intended to provide districts and business officials with the background on the changes to the building reserve fund, including the addition of the state major maintenance aid, an overview of the fund as defined in law, and accounting guidance for districts. These changes are a result of [SB 307 of the 2017 Regular Session](#). This bill also splits the building reserve fund (Fund 61) into four subfunds. The state major maintenance aid account includes state aid funding captured through general fund (when appropriated) and interest from coal trust funds. In addition, districts may permissively levy for the purposes of major maintenance.

Overview

Highlights of this account include:

- Creates a new mechanism for funding major maintenance and building improvement expenditures for public schools.
- 20-9-502, MCA, creates subfunds within the building reserve fund for the following purposes:
 1. Safety Subfund – Transfer of funds to the building reserve fund for school safety and security.
 2. Voted Levy Subfund - Voted building reserve levies to raise money for future construction, equipping, or enlarging of school buildings or for the purchase of land needed for school purposes.
 3. Transition Levy Subfund – Voted transition levies.
 4. Permissive Levy Subfund – Permissive levy not to exceed 10.00 mills (or 20.00 mills for a K-12 district) per fiscal year for school facility maintenance and repair. Also allows for deposits and transfers to the sub-fund, and limits as defined in statute.
- See the diagram below for a description.



- [20-9-502\(3\)\(a\), MCA](#), defines a calculation to determine the maximum annual amount a district may budget as the school major maintenance amount. This calculation is the sum of \$15,000 per district (\$30,000 for a K-12 district) plus the product of \$100 multiplied by the district's budgeted ANB for the prior fiscal year. The OPI refers to this as the SMMA (State Major Maintenance Amount) Box size.
- Local effort revenues for the school major maintenance amount may consist of a permissive levy, not to exceed 10 mills (or 20 mills for a K-12 district), deposits, and transfers from lawfully available revenue sources.
- Schools are obligated to notice their electorate of this permissive levy and the purpose for which the levy is established, including the anticipated school major maintenance projects for which the proceeds of the levy, the deposits and transfers will be committed, as well as notice increases to levies in certain other permissively levied funds no later than March 31st of each year.
- The priority of allowable repairs in the Permissive Levy Subfund is expressly listed in the statute:
 1. Facility condition inventory report created in 2008, as updated/revised and addressed by the district -must repair or address "safety, damage/wear out, codes and standards" items first. Please visit the reports on the OPI website located [here](#).
 2. After districts have addressed the inventory report repairs, schools can:
 - Further update the Facilities Condition Inventory which also has a requirement that the first update must be made by 7/1/2019 (FY 2020) with certification of completion to the OPI by 10/31/2019, then once every 5 years.
 - School districts may also concurrently begin working on operational efficiency and other major maintenance projects, provided that the projects meet the specifications of [20-9-525\(2\)\(b\)\(ii\), MCA](#).
 3. After the updated inventory report is complete, the district may begin repairs deemed necessary on the updated facility condition inventory report.

MAEFAIRS Information

Project Reporter Codes

Initially, the OPI was planning to use project reporter codes (PRC) to track the subfunds in the building reserve fund. However, the MAEFAIRS system infrastructure would not support this. Therefore, the OPI has now established a true subfund structure in the MAEFAIRS system. Please see the next section for more information. District may use the PRCs to track individual projects, as they see fit.

MAEFAIRS Screen Example

MAEFAIRS will not allow any revenue or expenditure data reporting in the building reserve fund unless the proper subfund is selected.

Subfund Structure

The required subfunds for the building reserve subfunds are shown below.

1. **Subfund Code 611** – Safety Transfers
2. **Subfund Code 612** – Voted Levy
3. **Subfund Code 613** – Permissive Levy
4. **Subfund Code 614** – Transition Levy

The screens will look like below (example only):



Revenues

Fiscal Year: 2018
 LE: Alberton K-12 Schools - 0577
 Fund Code: 61 - Building Reserve Fund
 SubFund Code: 611 - Building Reserve Safety Subfund
 612 - Building Reserve Voted Subfund
 613 - Building Reserve Permissive Subfund
 614 - Building Reserve Transition Subfund

Print Revenue Report Print Validation Report Go To Project Reporter Page

Revenues Import File: Browse... Click Browse to select the file to import your revenues.

Import Revenues

SubFund Code	Revenue Code	PRC	Amount	Calculated	
612	1110 - District Tax Levy		100.00	No	Select
612	1117 - District Levy - Distn of Pr Yr's Prot/Dlq Taxes		10.00	No	Select
613	1117 - District Levy - Distn of Pr Yr's Prot/Dlq Taxes		100.00	No	Select
613	1900 - Other Revenue from Local Sources		100.00	No	Select
614	1110 - District Tax Levy		100.00	No	Select
614	1117 - District Levy - Distn of Pr Yr's Prot/Dlq Taxes		10.00	No	Select
			420.00		

If you have any questions about Revenues, contact Kara Sperle at (406) 444-3249 or ksperle2@mt.gov.

Use of the sub-funds is especially important for the following reasons:

1. Safety transfers under [20-9-236 \(2\), MCA](#), must be spent within two fiscal years after the funds are transferred. Any remaining money must be transferred back to the originating fund from which the revenue was transferred. It is imperative that both revenue and expenditures are reported using the proper subfund code (611) to comply with this section of law.
2. Budgeted revenues for the Permissive Levy Subfund (613) must be accurate and in compliance with [20-9-525, MCA](#) to ensure that a district receives the maximum amount of state major maintenance aid when available.
3. Accurate reporting of expenditures using the Permissive Levy subfund (613) ensures that the OPI collects and provides accurate information to the legislature to justify state aid for the local levies.

Allowances for Revenues in the Building Reserve Subfunds

The same fund restrictions apply as they have in past years regarding the building reserve fund revenues. Below are any additional restrictions due to changes in law.

1. Safety subfund – No additional restrictions. Use only **revenue source code 5301 School Safety Security Transfers** to report transfers from other funds. Requires the use of subfund 611.
2. Voted Levy subfund – No additional restrictions and requires the use of subfund 612.
3. Permissive Levy subfund – New Fund. Districts that are unable to generate the formula total (\$15,000 plus \$100 per ANB) through imposition of mills are required to budget district levy revenues (revenue accounts 1110 - 1119) of at least 10.00 mills (or 20.00 mills for K-12) before any other non-levy revenue can be budgeted in this subfund. Requires the use of subfund 613.

4. Transition Levy subfund – No additional restrictions and requires the use of subfund 614.

Allowances for Expenditures in the Building Reserve Subfunds

The same fund restrictions apply as they have in past years regarding the building reserve fund. Below are any additional restrictions due to changes in law.

1. Safety subfund – Requires the use of program code 190 and subfund 611.
2. Voted Levy subfund – Restricted to the voted use of the levy and requires the use of subfund 612.
3. Permissive Levy subfund – Restricted to the priority list in the overview section of this document (and below) and requires the use of the subfund 613. The priority order of this fund is:
 - a. Facility condition inventory report created in 2008, as updated/revised and addressed by the district -must repair or address "safety, damage/wear out, codes and standards" items first. As noted previously, the report is intended to be regularly updated and the most recent updated version of the 2008 report controls the prioritization and spending on category 1-3 deficiencies. Please visit the reports on the OPI website located [here](#).
 - b. After districts have addressed the inventory report repairs, schools can:
 - i. Further update the Facilities Condition Inventory which also has a requirement that the first update must be made by 7/1/2019 (FY 2020) with certification of completion to the OPI 10/31/2019, then every 5 years.
 - ii. School districts can also concurrently begin working on operational efficiency and other major maintenance projects, provided that the projects meet the specifications of [20-9-525\(2\)\(b\)\(ii\), MCA](#).
 - c. After the updated inventory report is complete, the district may begin repairs deemed necessary on the updated facility condition inventory report.
4. Transition Levy subfund – Restricted to the transition expenditures associated with opening, closing, replacing schools or consolidation or expansion of a district and requires the use of subfund 614.

The reasons for using subfunds in the building reserve fund:

1. It is required by law and the district will be unable to submit the MAEFAIRS reports.
2. Safety transfers-incorrectly capturing safety transfer expenditures would result in the transferred amount not being fully expended requiring the remaining unspent transferred amount to be returned to the originating fund after the time allowance has expired as required per law.
3. Permissive Levy subfund will require continued monitoring to report expenditures to the legislature to justify the state aid portion and report expenditures in future years.

Frequently Asked Questions (FAQ)

Below are answers to questions and recommended solutions to help districts comply with the requirements in law. Ultimately the decisions of the treatment of the districts building reserve fund is at the discretion of the trustees of the district, and the information below are recommendations from the OPI.

✓ Where do I find my Facility Condition Inventory (FCI) Report?

The facility inventory report is now located on the OPI website, please click [here](#).

There is a schoolwide Excel listing of the deficiencies for the state, as they existed during the one time “snapshot” as referenced within the report, located [here](#). Please note that the report itself recommends that the 2008 version be regularly updated by districts on a 2-4-year cycle using the FCI process. As such, the most current version of your district’s report should be used to identify and resolve category 1-3 deficiencies in the 2008 report.

There is also a schoolwide Excel listing of all buildings from the 2008 FCI review located [here](#).

✓ What if I don't have a Facility Condition Inventory Report?

It is recommended to first verify with the OPI that the district does not have a report, which may be verified by reviewing the statewide deficiency report located [here](#). Once the district verifies the report does not exist from 2008, move to the next step of the process, which is to create a facility condition inventory report.

✓ How and when will I know what my district can permissively levy?

The preliminary budget data sheets released on March 1st each year will show the maximum amount the district may permissively levy and the maximum amount of state aid per local dollar of effort if the state is fully funded. At no point can the state fund more than 80% of the district's SMMA value.

✓ How do I update my Facility Condition Inventory Report?

How the district maintains an inventory report is up to the discretion of the board of trustees. A recommended format is to use the same as the current listing is in the Excel format [here](#). There is no uniform reporting requirement, nor will the OPI be requesting copies of the updated FCI report.

✓ What Project Reporter Codes do I use?

The district may use any PRC code (0-899), unless a budget amendment or transfer was required. In the case of a budget amendment or transfer (except for the safety and security transfer) the budget code PRC assigned by OPI should be used.

✓ May I use the major maintenance aid money for emergency projects not listed on the FCI Report?

First level 1, 2, and 3 deficiencies listed in the 2008 facility condition inventory report must be **addressed** first, which may occur through an update to the report that reprioritizes critical repairs at the discretion of the district, the report must be updated for the district. Once those steps are completed, the district can prioritize repairs as deemed necessary by the board of trustees.

✓ Does my district have to hire an expert to update the FCI report?

The statute states, "updating the facility condition inventory as recommended in the final report referenced in subsection (2)(a) with the scope and methods of the review to be determined by the trustees, employing experts as the trustees determine necessary". There is not a requirement to have an expert, unless the board of trustees determine it is necessary.

✓ May I use the permissive levy subfund to update the FCI report?

Yes, this would be an allowable expenditure.

✓ When will the state start distributing the state aid?

The state payment is contingent upon an allocation from the state general fund appropriation, which would be appropriated in HB 2, or state special coal trust interest fund as allowed by [20-9-380, MCA](#). During the 2017 special session, the funds anticipated for this purpose were transferred to help balance the state budget. If a state distribution is available, the district will be notified of the final amount by July 31st per statute.

✓ How much will the state pay?

The maximum amount the state will cover is 80% of the allowable State Major Maintenance Aid box size. If the revenues and appropriation are not sufficient to cover the maximum allowed state payment, the state payment will be prorated proportionally across all eligible school districts based on the calculation described in statute.

✓ How is the amount calculated?

The district can find the calculated SMMA allowable amount and the state aid amount per dollar of local

effort on the Preliminary Budget Data Sheets for FY 2019. However, in no case will the state fund more than 80% of the maximum allowed amount.

✓ When will the state payment be issued?

By statute, the OPI will distribute funds by the last working day of May, according to the payment schedule approved by the Board of Public Education. The payment is contingent upon available revenue and state appropriation. There is no funding appropriated or revenue available in FY 2019.

✓ How do I fund the permissively levied subfund?

Districts must first levy up to 10.00 mills (or 20.00 mills if a K-12), then the district can budget non-levy revenues or legal transfers up to the amount of the SMMA box size. No district can levy in excess of the amount necessary to fill the SMMA box size.

✓ What if I don't permissively levy?

The district is not eligible for the state payment if there are no local mills levied or a budget established for the permissive subfund.

✓ How do districts allocate the voted building reserve levy and permissive building reserve levy amounts collected by the county?

Depending on the need of each district there are two possible recommendations:

1. One recommendation is to prorate the amounts collected by the equal amounts milled. For example: *District A has a voted levy of 3.50 mills and a permissive levy of 4.50 mills for a total mill amount of 8.00. Proportionally 3.50/8.00 or 43.75% is coded to the Voted Levy subfund and 4.50/8.00 or 56.25% is coded to the Permissive Levy subfund.*

The district will want to ensure the prior year amounts collected are prorated based on the year the taxes were milled not all on the current year allocation amounts.

2. The other recommendation is if the district has an existing committed financial obligation that takes precedence over the permissively levied needs, the district could first allocate the levied dollars to the Voted Levy subfund or the Transition Levy subfund to ensure that obligation is fulfilled.

✓ Who will verify compliance with these requirements?

The OPI will request auditors review compliance with the subfunds when the audits are conducted for each district.

✓ Are districts required to notify the OPI of transfers to the Building Reserve Fund for safety subfund transfers or permissive levy subfund transfers?

The district is required to notify the OPI of all transfers within 30 days of approving the transfer, per [ARM 10.10.320\(10\)](#). In addition, the district is required to comply with the transfer coding when completing the year end trustees financial statement. Additional guidance related to safety transfers is located [here](#).

✓ What are the allowable transfers for Safety subfund transfers?

[20-9-236, MCA](#) allows school districts to transfer state or local revenue from any budgeted or non-budgeted fund, other than the Debt Service Fund or Retirement Fund, to the Building Reserve Fund for the purposes of school safety and security. Additional guidance related to safety transfers is located [here](#).

✓ What are allowable transfers for the Permissive Levy subfund transfer?

The district may transfer budgeted-to-budgeted funds as allowed in [20-9-208, MCA](#), if the funds are spent relative to their original purpose with a hearing or an election is held to approve the funds for another purpose. However, the district must first levy 10.00 mills (20.00 mills for a K-12) before transfers can be used to fill the SMMA box and/or to qualify for matching state aid.

Examples of allowable transfers could include:

- Transfers of a balance from a closed fund (20-9-201, MCA)
- Transfers from the Lease or Rental Agreement Fund (20-9-509, MCA, if the purpose of expenditures is the same as the source fund, pursuant to 20-9-208, MCA)
- Fund to fund transfers under 20-9-208, MCA.
- Any voter approved transfers pursuant to 20-9-208, MCA.

✓ May districts fund a Board of Investments INTERCAP loan from the building reserve fund?

- a. The district may request the electors of a district authorize the trustees to levy in the building reserve fund for repayment of an INTERCAP loan for up to 15 years, per [20-9-503, MCA](#). Since this requires a vote, the loans specifically authorized by this section of law would apply to the **Voted Levy** or **Transition Levy** subfunds only.
- b. Questions related to INTERCAP loans funded with the **Permissive Levy** subfund should be directed to the Board of Investments, Louise Welsh at 444-0891. School districts may now submit INTERCAP loan applications requesting BOI's consideration of the building reserve permissive levy as a source of loan repayment. Each loan will be reviewed a list of guidelines and additional loan terms and conditions.

✓ May the district budget non-levy revenue to the Permissive Levy subfund?

If the district has milled the maximum levy amount of 10.00 mills (or 20.00 mills for a K-12), then the district may budget non-levy revenues up to the allowable amount of the SMMA box size.

✓ What revenues may be deposited in the Permissive Levy subfund?

Examples of allowable revenues include:

- Metal Mines taxes received by a district (see 20-9-231(2), MCA).
- Rental income from employee housing (20-9-509, MCA).
- Rental income from the lease of school district property (20-9-607, MCA).
- Oil and gas impact fund revenues (20-9-518, MCA).
- Proceeds from the sale of obsolete property (see 20-6-604(6), MCA).
- Proceeds from insurance settlements on real or personal property (see 20-6-608, MCA).
- If a school district receives TIF money under 7-15-4291, MCA, law specifically authorizes deposit of those revenues into the building reserve fund (among others) to reduce property taxes.

✓ What statutes apply to this fund?

[7-15-4291, MCA](#) - Agreements to remit unused portion of tax increments

[17-5-703, MCA](#) - Coal severance tax trust funds.

[20-6-608, MCA](#) - Authority and duty of trustees to insure district property

[20-9-201, MCA](#) - Definitions and application

[20-9-208, MCA](#) - Transfers among appropriation items of fund -- transfers from fund to fund.

[20-9-231, MCA](#) - Metal mines tax reserve fund

[20-9-236, MCA](#) - Transfer of funds -- improvements to school safety and security

[20-9-380, MCA](#) - School facilities fund -- school major maintenance aid special revenue account.

[20-9-471, MCA](#) - Issuance of obligations -- authorization -- conditions

[20-9-502, MCA](#) - Purpose and authorization of building reserve fund -- levy for school transition costs.

[20-9-503, MCA](#) - Budgeting, tax levy, and use of building reserve fund.

[20-9-509, MCA](#) - Lease or rental agreement fund

[20-9-518, MCA](#) - County school oil and natural gas impact fund

[20-9-525, MCA](#) - School major maintenance aid account -- formula.

[20-9-604, MCA](#) - Gifts, legacies, devises, and administration of endowment fund

[ARM 10.10.320](#) - CASH AND BUDGET TRANSFERS BETWEEN SCHOOL DISTRICT FUNDS