



# Building Reserve Subfunds

## Including the State Major Maintenance Aid

Updated September 2023

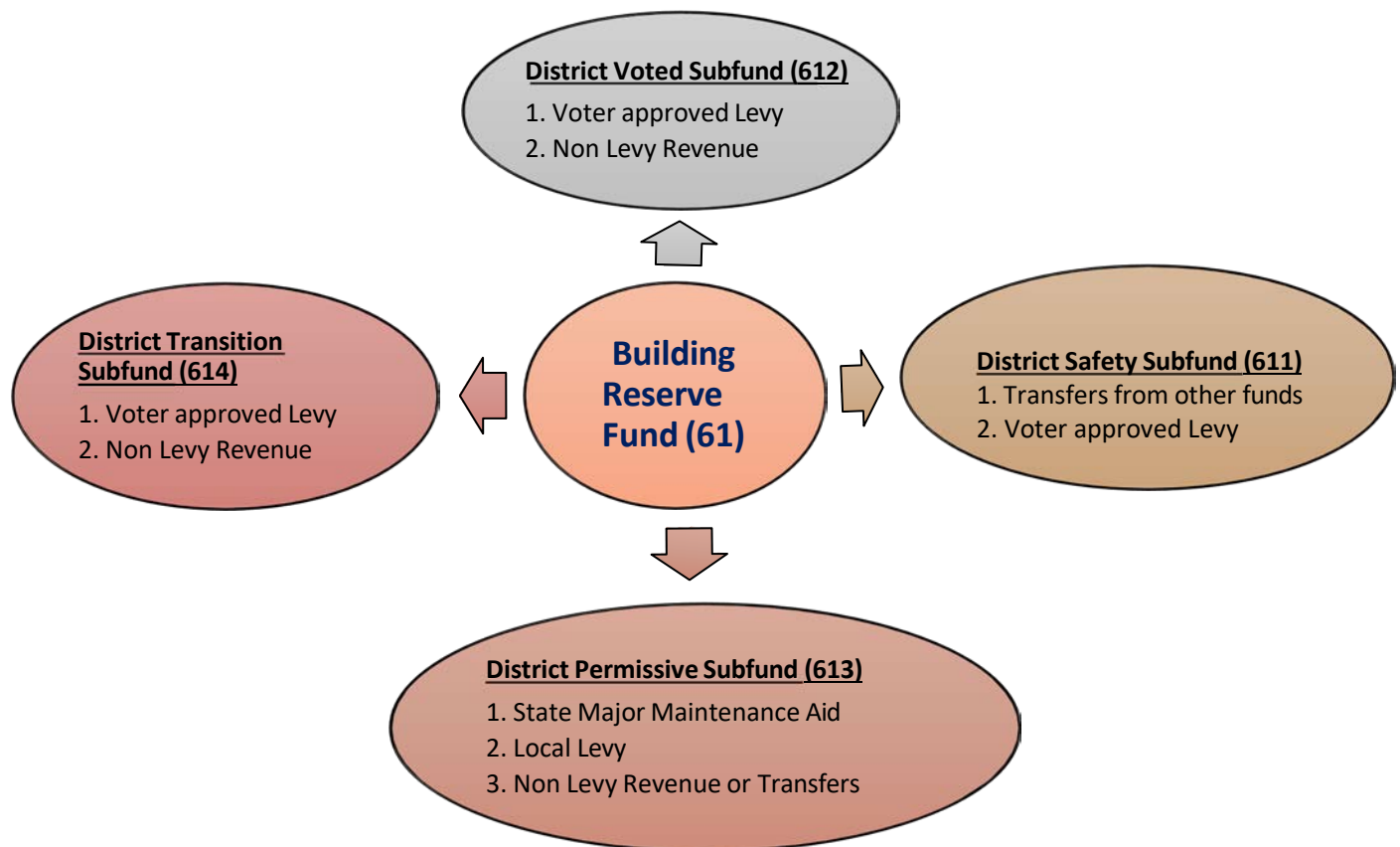
## Background

This guidance is intended to provide districts and business officials with detail of 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. The building reserve fund is made up of four separate Subfunds. The state's major maintenance aid account includes state aid funding captured through the general fund (when appropriated) and interest from coal trust funds. In addition, districts can permissively levy for the purposes of major maintenance.

## Overview

Highlights of this account include:

- A new mechanism for funding major maintenance and building improvement expenditures for public schools.
- See the diagram below for a brief description.



- [20-9-502, MCA](#), defines the calculation used to determine the annual amount a district can budget for their school's major maintenance amount. This calculation is the sum of \$15,000 per district (\$30,000 for a K-12 district) plus the product of \$110 multiplied by the district's budgeted ANB for the prior fiscal year. This is referred to as the SMMA (State Major Maintenance Amount) "box size".

- Local effort revenues for the school major maintenance may consist of permissive levies, not to exceed 10 mills (or 20 mills for K-12 district), deposits, and transfers from lawfully available revenue sources.
- Schools are obligated to notice their electorate by March 31<sup>st</sup> of each year 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. This notice also must include increases to levies in all other permissively levied funds.
- [20-9-502, MCA](#), created Subfunds within the building reserve fund for the following purposes:
  - a. [Building Reserve Voted Subfund \(612\)](#) - 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.
  - b. [Building Reserve Transition Subfund \(614\)](#) – Voted transition levies.
  - c. [Building Reserve Safety Subfund \(611\)](#) – Transfer of funds to the building reserve fund for school safety and security, and voter approved levies.
  - d. [Building Reserve Permissive Subfund \(613\)](#) – Permissive levy not to exceed 10 mills (or 20 mills for K-12 district) in a fiscal year for school facility maintenance and repair. Also allows for deposits and transfers to the sub-fund, and limit these to the defined school facility maintenance amount per [20-9-525, MCA](#).
- [20-9-525, MCA](#), provides information and examples of work that can be done with funds in the Building Reserve Permissive Subfund, include but not limited to:
  - a. Improvements to school and student safety and security as described in 20-9-236(1), MCA.
  - b. Projects designed to produce operational efficiencies such as utility savings, reduced future maintenance costs, improved utilization of staff, and enhanced learning environments for students, including but not limited to projects addressing:
    - Roofing systems
    - Heating, air conditioning, and ventilation systems
    - Energy-efficient window and door systems and insulation
    - Plumbing systems
    - Electrical systems and lighting systems
    - Information technology infrastructure, including internet connectivity both within and to the school facility
    - Other critical repairs to an existing school facility or facilities

## MAEFAIRS Information

### District Safety Subfund 611

- **Project Reporter Codes:** Use of an appropriate PRC for this sub-fund is especially important. Under [20-9-236 \(2\), MCA](#), funds 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 an identical PRC code in order to comply with this section of law.
- **Revenues:** No additional restrictions. Use only **revenue source code 5301 School Safety Security Transfers** to report transfers from other funds. Requires the use of an appropriate PRC code (transfers from another fund *without* a budget amendment), or OPI assigned PRC for a budget amendment (transfers from another fund *with* a budget amendment). '*With* a budget amendment' refers to the district requesting a formal budget amendment to expend the transferred funds in the Building Reserve Safety Subfund. This code is necessary when entering year-end TFS data.
- **Expenditures:** The same fund restrictions apply as they have in past years regarding the building reserve fund. Additional restrictions are as follows: Requires the use of program code 190 and an appropriate PRC (transfers from another fund *without* a budget amendment), or OPI assigned PRC code for a budget amendment (transfers from another fund *with* a budget amendment). '*With* a budget amendment' refers

to the district formally requesting a formal budget amendment to expend the transferred funds in the building reserve. This code is necessary when entering year-end TFS data.

- It is required that all four Subfunds use appropriate project reporter codes. Failure to enter an appropriate project reporter code will result in safety transfers incorrectly capturing safety transfer expenditures which result in the transferred amount not being fully expended and requiring the remaining unspent transferred amount to be returned to the originating fund after the time allowance has expired as required per law.

### **Voted Subfund 612**

- **Revenues:** The same fund restrictions apply as they have in past years regarding the building reserve fund revenues.
- **Expenditures:** The same fund restrictions apply as they have in past years regarding the building reserve fund. Additional restrictions are as follows: Restricted to the voted use of the levy and may require the use of a PRC for certain circumstances.

### **District Permissive Subfund 613**

- **Project Reporter Codes:** Use of an appropriate PRC for this sub-fund is especially important. 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. District Permissive Subfund (613): Accurate reporting of expenditures using the Permissive Levy Subfund (613) ensures that OPI collects and provides accurate information to the legislature to justify state aid for the local levies.
- **Revenues:** New Fund in 2018. Districts that are unable to generate the formula total (\$15,000 plus \$110 per ANB) through imposition of mills are required to budget district levy revenues (revenue accounts 1110 - 1119) of at least 10 mills (or 20 mills for K-12) before any other non-levy revenue can be budgeted in this Subfund. May require the use of a PRC for certain circumstances.
- **Expenditures:** The same fund restrictions apply as they have in past years regarding the building reserve fund. Additional restrictions are as follows: [20-9-525, MCA](#), provides information and examples of work that can be performed with funds in the Building Reserve Permissive Subfund, include but not limited to:
  - a. Improvements to school and student safety and security as described in 20-9-236(1), MCA.
  - b. Projects designed to produce operational efficiencies such as utility savings, reduced future maintenance costs, improved utilization of staff, and enhanced learning environments for students, including but not limited to projects addressing:
    - i. Roofing systems
    - ii. Heating, air conditioning, and ventilation systems
    - iii. Energy-efficient window and door systems and insulation
    - iv. Plumbing systems
    - v. Electrical systems and lighting systems
    - vi. Information technology infrastructure, including internet connectivity both within and to the school facility
    - vii. Other critical repairs to an existing school facility or facilities
- It is required that the Permissive Subfund use appropriate project reporter codes. Failure to enter an appropriate project reporter code will result in issues monitoring the reported expenditures for reporting information to the legislature to justify the state aid portion and report expenditures in future years.

### **Transition Subfund 614**

- **Revenues:** The same fund restrictions apply as they have in past years regarding the building reserve fund revenues.
- **Expenditures:** The same fund restrictions apply as they have in past years regarding the building reserve fund. Additional restrictions are as follows: Restricted to the transition expenditures associated with

opening, closing, replacing schools or consolidation or expansion of a district and may require the use of a PRC for certain circumstances.

## 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 OPI.

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

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

✓ *How much will the state pay?*

The maximum amount the state will cover is 80% of the allowable SMMA "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 below.

✓ *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 Data Sheets. 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, which will be paid according to the payment schedule approved by the Board of Public Education. The payment is contingent upon available revenue and state appropriation.

✓ *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 SMMA.

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

1. 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 or Transition 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 in 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](#). 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 Subfund transfer?

The district can transfer budgeted-to-budgeted funds as allowed in [20-9-208, MCA](#), if the funds are spent relative to their original purpose when 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 “big box” and/or to qualify for matching state aid.

Examples of allowable transfers could include:

- Transfers of any balance from a closed fund (20-9-201, MCA)
- Transfers from the Lease or Rental Agreement Fund (20-9-509, MCA, because the purpose of expenditures would be 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.

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

- a. The district can request the electors of a district to authorize the building reserve fund to levy 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 (612)** or **transition (614)** Building Reserve Subfund only.
- b. Questions related to INTERCAP loans funded with the **permissive (613)** building reserve fund should be directed to the Board of Investments, Louise Welsh at 444-0891.

✓ Can the district budget non-levy revenue to the Permissive 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 can budget non-levy revenues up to the allowable amount of the SMMA “box size”.

✓ What revenues can be used in the Permissive 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.

[20-9-116, MCA](#) - Resolution of intent to increase nonvoted levy – notice.

[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