



Building Reserve Subfunds Including the State Major Maintenance Aid

Updated as of March 13, 2018

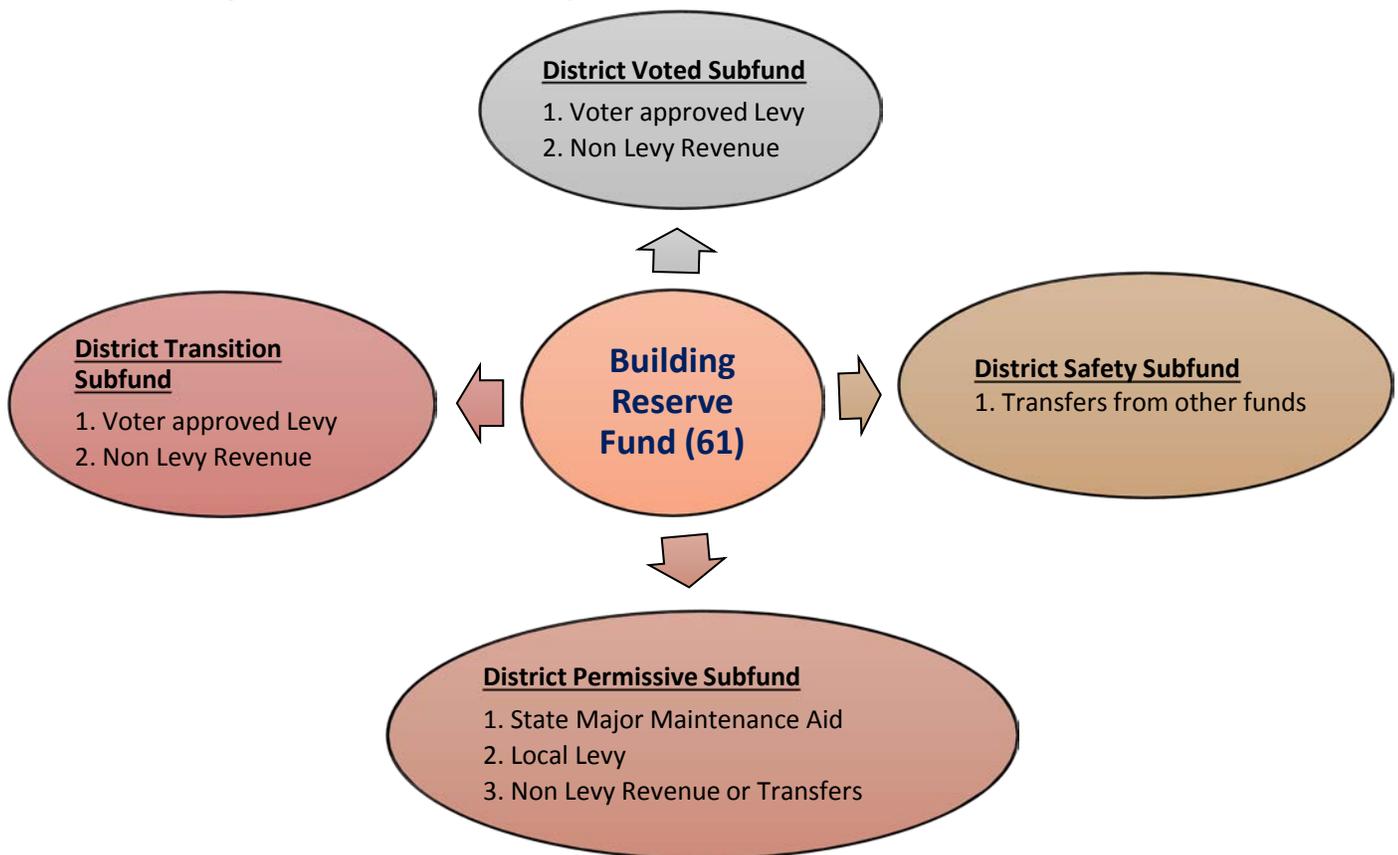
Background

This guidance is intended to provide districts and business officials with the background 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. These changes resulted from [SB 307 of the 2017 Regular Session](#). This bill also split 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 can permissively levy for the purposes of major maintenance.

Overview

Highlights of this account include:

- Created 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 a calculation to determine the annual amount a district can 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. This is referred to as the SMMA (State Major Maintenance Amount) Box size.

- Local effort revenues for the school major maintenance amount 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 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 all other permissively levied funds by March 31st of each year.
- [20-9-502, MCA](#), created subfunds within the building reserve fund for the following purposes:
 1. Building Reserve Voted 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.
 2. Building Reserve Transition Subfund – Voted transition levies.
 3. Building Reserve Safety Subfund – Transfer of funds to the building reserve fund for school safety and security.
 4. Building Reserve Permissive Subfund – 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 SB 307.
- The priority of allowable repairs in the Building Reserve Permissive 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 10/31/2019, then every 5 years.
 - 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\(2\), MCA](#).
 3. After the updated inventory report is complete, the district can begin repairs as deemed necessary on the updated facility condition inventory report.

MAEFAIRS Information

Project Reporter Codes

The required PRCs for the building reserve subfunds are shown below. Note: the appropriate PRC code must be used when coding revenues and expenditures.

1. **PRC 905** – Transition Levy subfund
2. **PRC 906** – Voted Levy subfund
3. **PRC 907** – Permissive Levy subfund
4. **PRC 908 or OPI Assigned PRC for Budget Amendment** – Safety Transfers subfund

Use of the designated PRCs for these 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 PRC 908 in order to comply with this section of law.
2. Budgeted revenues for the permissive levy subfund (PRC 907) 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 (PRC 907) ensures that OPI collects and provides accurate information to the legislature to justify state aid for the local levies.

Revenues

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. Transition subfund – No additional restrictions and requires the use of PRC 905.
2. Voted subfund – No additional restrictions and requires the use of PRC 906.
3. Permissive 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 mills (or 20.00 mills for K-12) before any other non-levy revenue can be budgeted in this subfund. Requires the use of PRC 907.
4. 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 PRC 908 (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. Below are any additional restrictions due to changes in law.

1. Transition subfund – Restricted to the transition expenditures associated with opening, closing, replacing schools or consolidation or expansion of a district and requires the use of PRC 905.
2. Voted subfund – Restricted to the voted use of the levy and requires the use of PRC 906.
3. Permissive subfund – Restricted to the priority list in the overview section of this document (and below) and requires the use of the PRC 907. 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\(2\), MCA](#).
 - c. After the updated inventory report is complete, the district can begin repairs as deemed necessary on the updated facility condition inventory report.
4. Safety subfund – Requires the use of program code 190 and PRC 908 (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 have the project reporter codes as listed above. Failure to enter a correct project reporter code will result in:

1. 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.
2. Permissive 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 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 controls for purposes of identifying and resolving 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 could 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 data sheets released on March 1st each year will 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 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 may be 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 project reporter codes are

1. Transition subfund – PRC 905 is required
2. Voted subfund – PRC 906 is required
3. Permissive subfund – PRC 907 is required
4. Safety subfund – PRC 908 (transfers from another fund without a budget amendment) or OPI assigned PRC for a budget amendment (transfers from another fund with a budget amendment) are required

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

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

district can ensure the priority of repairs includes the projects 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.

✓ Can 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 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 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 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, 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. 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 state major maintenance aid.

✓ 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 collected, 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 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 at 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 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 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 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** or **transition** building reserve subfund only.
- b. Questions related to INTERCAP loans funded with the **permissive** 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

[20-9-201, 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