FUNDING FOR CAPITAL IMPROVEMENTS

Capital Improvements, also known as fixed assets, are defined for the purposes of this chart as:

- (1) Tangible property items,
- (2) that have an initial useful life extending beyond a single reporting period,
- (3) of significant value (trustees determine capitalization level, usually items that cost \$5,000 or more), and
- (4) used in conducting the school district's activities.

Capital improvements include land and improvements, buildings, machinery, furniture, vehicles, and other equipment the district intends to hold or continue to use over a long period of time. "Fixed" indicates the intent for long-term use, not the immobility of an asset. Fixed assets are reported on the financial statements as "capital assets."

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
		for activity	references	
Bond proceeds 20-9-408, MCA - general obligation bonds -oil and natural gas revenue bonds - impact aid revenue bonds	- Building, altering, repairing, buying, furnishing, equipping, purchasing lands for, or obtaining a water supply for a school, teacherage, dormitory, gymnasium, other building or combination of buildings for school purpose -Buying a school bus or buses - Providing the necessary money to redeem matured bonds - Providing the necessary money to redeem optional or redeemable bonds - Funding a judgment against the district, including repaying of tax protests - Funding a debt service reserve account that maybe required for oil and natural gas or impact aid revenue bonds	Building Fund - deposit bond proceeds - pay for project expenditures Debt Service Fund - collect revenue from local property tax levies and, if the district is eligible, state reimbursement for school facilities (20-9-367, MCA and 20-9-371, MCA) - pay annual principal and interest on bonds	Title 20, Chapter 9, Part 4, MCA	Voter approval required to issue bonds and levy to repay principal and interest, for up to 20 years. Amount of bond issue is limited as provided in 20-9-406, MCA. State equalization aid (known as state reimbursement for school facilities) is available to school districts that have a district mill value per ANB that is less than the corresponding statewide mill value per ANB.

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
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Qualified Zone Academy Bonds (QZAB)	Rehabilitating or repairing school facilities, purchasing equipment, developing curricula and training school personnel. Cannot be used for new construction.	Building Fund - deposit bond proceeds - pay for project expenditures Debt Service Fund - collect revenue from local property tax levies and, if the district is eligible, state reimbursement for school facilities (20-9-367, MCA) - pay annual principal on bonds	- Section 1397E of the Internal Revenue Code (IRC) provides rules for the issuance and use of QZABs issued on or before October 3, 2008. - Sections 54A and 54E provide rules for the issuance and use of QZABs issued after October 3, 2008.	The Federal Government subsidizes QZABs by allowing bondholders to receive tax credits that are approximately equal to the interest that would typically be paid to the holder of taxable bonds. As a result, a district that issues a QZAB is generally responsible for repayment of just the principal only. Currently, the Montana Office of Public Instruction (OPI) has \$1,410,972 in QZAB authority to allocate to Montana school districts. An approved QZAB request does not result in a payment from the OPI to an applicant school district. An approved allocation request allows a school district to designate a future bond issuance as a QZAB, which allows the school district to benefit from the reduced interest costs.
Building Reserve Levy	To raise money for: - the future construction, equipping, enlarging of school buildings or for purchasing land needed for school purposes; or - transitional costs of opening/closing schools, replace a school building or consolidation or annexation with another district.	Building Reserve Fund - collect revenue from local property tax levies - pay for project expenditures	20-9-502, MCA 20-9-503, MCA	Voter approval required Limits on duration of levy: - 20 years for construction, equipping, etc 6 years for transitional costs Trustees may pledge the revenue from a voter approved building reserve levy to repay an Intercap loan for up to 5 years. Loan proceeds must be used for authorized projects (20-9-502, MCA)

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
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Loans – Intercap (through Montana Board of Investments)	Use of loan funds has significant flexibility, e.g. new and used equipment and vehicles, real property improvements, cash flow, preliminary engineering costs, grant writing.	If the loan will be repaid using a voter-approved building Reserve Fund - deposit loan proceeds - pay for project expenditures General Fund - pay principal and interest on loan If the loan will be repaid using a voter-approved building reserve levy: Building Reserve Fund - deposit loan proceeds - pay for project expenditures - collect revenue from tax levies - pay principal and interest due on Intercap loan	20-9-471, MCA 20-9-503, MCA	- The INTERCAP is a variable rate loan program for eligible government units (see 17-5-1604, MCA). - 100% financing is available with no up-front cost, equity, or matching funds required. - Maximum loan limit is established by eligible government unit's legal debt limit. - Interest rates are adjusted on February 16th of each year. - Current interest rate through February 15, 2016 is 1.25% - Loan requests in excess of \$1,000,000 must receive Loan Committee approval. - Loan requests in excess of \$5,000,000 must receive Board approval. - Maximum term of the loan is 15 years or useful life of the project, whichever is less. Trustees may pledge the revenue from a voter approved building reserve levy to repay a loan for up to 5 years. Loan proceeds must be for authorized projects (20-9-502, MCA).

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
		for activity	references	
Energy Performance Contracts (EPC) - Guaranteed Energy Cost Savings combined with other funding sources	Objective is to reduce costs for energy or water consumption, operation and maintenance costs or utility and commodity costs.	General Fund - money available as a result of energy cost savings may be used to pay for project expenditures Misc. Programs Fund - deposit grant proceeds - pay for contract work Building Fund - deposit bond proceeds - pay for project expenditures	Title 90, Chapter 4, Part 11, MCA 90-4-1114, MCA	EPC projects are funded by: - one-time payment of cash, grant proceeds, utility incentive or bond proceeds, and - guaranteed energy cost savings over the financing term (not to exceed 20 years). Energy performance contracting laws were revised in SB249 (2015), including criteria for the MT Dept. of Environmental Quality to use in the administration of an Energy Performance Contract Program.
Impact Aid 8007b Discretionary Construction Grants	Competitive grants for emergency repairs and modernization of school facilities to certain eligible local educational agencies (LEAs) that receive Impact Aid. Emergency repair grants must be used to repair, renovate, or alter a public elementary or secondary school facility to ensure the health, safety, and well-being of students and school personnel.	Impact Aid Fund - deposit grant proceeds - pay for project expenditures Use a project reporter code to keep accounting separate from other Impact Aid fund expenditures.	Title VIII of the Elementary and Secondary Education Act of 1965, Sec. 8007. [20 U.S.C. 7707] Construction	The federal Impact Aid program supports local school districts with concentrations of children who reside on Indian lands, military bases, low-rent housing properties, and other Federal properties, or who have parents in the uniformed services or employed on eligible Federal properties. An LEA is eligible to receive an emergency grant under section 8007(b) of the Act if it has a school facility emergency that the Secretary has determined poses a health or safety hazard to students and school personnel.

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
		for activity	references	
Quality Schools Facility Grant Program	Competitive grant program for : (1) school facility and technology grants; (2) matching planning grants, and (3) emergency grants	Miscellaneous Programs Fund - deposit grant proceeds - pay project expenditures	Title 90, Chapter 6, Part 8	Administered through the MT Department of Commerce (DOC). The DOC reviews and ranks applications received by the application due date and submits its funding recommendations to the Governor. The Governor will then review the Department's recommendations and submit the recommendations to the Legislature as part of the Governor's budget for the upcoming Biennium. The Legislature makes the final decision about which applications are funded and makes the necessary funding appropriations.
Oil and natural gas production tax proceeds (distributed to eligible schools per 15-36-332, MCA)	Capital improvements as determined by the trustees. May be used to repay oil and gas revenue bonds (see "Bond proceeds" section above) May use the Flexibility Fund for: - technological equipment enhancements and expansions considered to support enhanced education programs in the classroom - facility expansion and remodeling considered to support the delivery of educational programs or the removal and replacement of obsolete facilities	General, Bus Reserve Depreciation or Technology Funds, as applicable Debt Service Fund, if repaying on oil and gas revenue bonds Flexibility Fund - deposit oil and natural gas revenue - pay for project expenditures	20-9-310, MCA 20-9-543, MCA	After meeting statutory requirements for deposit of oil and natural gas revenue in the district's General Fund, the trustees may deposit any remaining oil and natural gas revenue in any budgeted fund.

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
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Multidistrict Cooperative	The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement. These agreements could potentially be used for capital improvements.	Interlocal Agreement Fund Funding sources: transfers from other funds - General Fund - other budgeted funds, except Retirement Fund and Debt Service Fund - non-budgeted funds, except Compensated Absences Fund Expenditures - pay for agreed upon project expenditures	20-3-363, MCA (multidistrict agreements) Title 20, Ch 9, Part 7, MCA (interlocal cooperative agreements)	A multidistrict cooperative is created by the execution of a multidistrict agreement between two or more school districts, or by an interlocal cooperative agreement between any school district and other public entity.
Tax Increment Financing Distributions (TIFD) [prior to passage of HB114 in the 2015 Legislative session]	For purposes subject to an agreement between a local government and other affected taxing bodies (e.g., school districts). Some school districts (Bozeman, Anaconda and Whitefish) used their TIFD distributions to fund school facility projects.	Miscellaneous Programs Fund or Building Fund - deposit TIFD distribution - pay for project expenditures	7-15-4282, MCA through 7-15-4292, MCA	- HB114, passed by the 2015 Legislature, revised the tax increment finance remittance laws for schools by requiring a school district that receives a TIFD to use the remittance to reduce property taxes or to fund the general fund operating reserve. - HB114 applies to tax increment financing district created after December 31, 1979. However, a school district that has executed an agreement with a local government before the effective date of HB114 must prepare a transition plan, which is limited to paying contractual obligations that were incurred prior to the bill's effective date. (for more information, see OPI's Summary of Legislation Related to K-12 Education, pg. 23)

Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
		for activity	references	
Budget Amendments using fund reserves or other revenue sources	To fund emergency projects using operating reserves, excess reserves or unanticipated revenue (protested taxes, tax audit or delinquent taxes) received after a budget is adopted by the trustees.	General Fund - operating reserves are limited to 10% of the ensuing year's budget - excess reserves resulting from release of taxes held in protest and delinquent taxes received in the current year - unanticipated revenue received in the current year	Budget amendments 20-9-161, MCA and 20-9-162, MCA General Fund reserves 20-9-104, MCA	- School districts are allowed to set aside, or reserve, some or all of their fund balance (cash on hand at June 30, the end of the previous fiscal year) in order to continue operation of the school district until funding is received from the state and property taxes. - Reserves, tax audit receipts, protested taxes and delinquent taxes received are sometimes used to fund an unforeseen emergency, destruction or impairment of school property or deferred projects that occur after the final budget is adopted. The trustees adopt a resolution to amend the current year budget for a particular purpose and designates the source of funding for that purpose. (See also OPI's Budget Amendment Procedures.)
Private Donations	If available, donations from local sources may be used for capital improvements.	Miscellaneous Programs Fund, if both principal and interest may be spent. Endowment Fund, if principal is to remain intact (can spend only interest earnings).	20-9-507, MCA 20-9-604, MCA	

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Funding Method	Purpose	Fund(s) used to account	Statutory	Notes
		for activity	references	
Bus Depreciation Reserve Fund Levy	To accumulate funds to replace buses, cameras, communication equipment, GPS systems	Bus Depreciation Reserve Fund - collect revenue from local property tax levies - deposit revenue from other sources - pay for buses, cameras, etc.	20-10-147, MCA	Permissive (non-voted) levy Bus "Depreciation" local levy is limited to 20% of the cost of each asset (bus, radio, etc.), not to exceed 150% over time. Example: Bus cost \$ 100,000 Annual limit (20%) \$ 20,000 Maximum allowed \$ 150,000
Technology Levy	To finance technology acquisition, including technological equipment	Technology Acquisition and Depreciation Fund - collect revenue from local property tax levies - deposit revenue from other sources (state combined block grant, state technology payment, oil and natural gas production taxes,) - pay for technology acquisition project expenditures	20-9-533, MCA	Levy must be approved by voters.