

Response Requested by July 31, 2016

To: School District Superintendents
Business Managers
Charter School Directors

From: Tom Melcher, School Finance Director

Date: June 17, 2016

Subject: Long Term Facilities Maintenance Revenue

Overview

Minnesota Statutes, section 123B.595, establishes the Long-Term Facilities Maintenance (LTFM) Revenue Program for school districts, intermediate districts, other cooperatives and charter schools. The program replaces Health and Safety (H&S) Revenue, Deferred Maintenance Revenue and Alternative Facilities Bonding and Levy programs, beginning in Fiscal Year (FY) 2017. Revenue is phased-in over three years, from FY 2017 to FY 2019.

The 2016 Minnesota Legislature amended Minnesota Statutes, section 123B.595, Subdivision 4(b), regarding the ten-year facility plan to read: **The district must annually update the plan, submit the plan to the commissioner for approval by July 31, and indicate whether the district will issue bonds to finance the plan or levy for the costs.** The ten-year facility plan consists of all documentation that must be submitted to the commissioner for approval, as outlined in this memorandum.

This memorandum summarizes the program, including:

- Allowed uses of revenue.
- Overview of process and timelines for ten-year facilities plan.
- Procedure for completing the ten-year expenditure spreadsheet to be submitted to the Minnesota Department of Education (MDE) as part of the ten-year facilities plan.
- Procedure for completing the ten-year revenue spreadsheet to be submitted to MDE as part of the ten-year facilities plan.
- Procedure for updating FY 2017 and entering FY 2018 expenditure data on the health and safety data base.

Supporting documentation can be found on the [Long-Term Facilities Maintenance website](#) at School Support > School Finance > Facilities and Technology > Long-Term Facilities Maintenance.

Allowed Uses of Revenue

Long-term facilities maintenance revenue may be used for the following purposes:

1. Deferred capital expenditures and maintenance projects necessary to prevent further erosion of facilities.
2. Increasing accessibility of school facilities.
3. H&S projects under Minnesota Statutes, section 123B.57, including health, safety and environmental management costs associated with implementing the district's health and safety program.
4. By board resolution, to transfer money from the general fund reserve for long-term facilities maintenance to the debt redemption fund to pay the amounts needed to meet, when due, principal and interest on general obligation bonds issued under Minnesota Statutes, section 123B.595, Subdivision 5.

Note: School districts with an approved voluntary pre-kindergarten program under section 124D.151 are eligible to increase LTFM revenue for the cost approved by the commissioner for remodeling existing instructional space to accommodate pre-kindergarten instruction.

A charter school may use revenue for any purpose related to the school.

For more detailed information, see the documentation located on the [Long-Term Facilities Maintenance website](#).

Long-term facility maintenance revenue may **NOT** be used:

1. For construction of new facilities, remodeling of existing facilities or the purchase of portable classrooms.
2. To finance a lease purchase agreement, installment purchase agreement or other deferred payments agreement.
3. For energy-efficiency projects under Minnesota Statutes, section 123B.65, for a building or property or part of a building or property used for postsecondary instruction or administration or for a purpose unrelated to elementary and secondary education.
4. For violence prevention and facility security, ergonomics, or emergency communication devices.

Process and Timelines

Ten-Year Plan

To qualify for LTFM Revenue, school districts, cooperatives and intermediate districts must have a ten-year plan adopted by the school board and approved by the commissioner. For a 2016 payable 2017 property tax levy, the plan must be approved before the proposed levy is certified in September 2016. **To have the revenue, aid and levy included on the preliminary levy limitation and certification reports to be issued by MDE on September 8, plans must be received by the submission deadline of July 31, 2016.** Plans received later in August and

in September will be included as soon as possible, after review and approval by the commissioner.

The plan must include provisions for implementing a health and safety program that complies with health, safety and environmental regulations and best practice, including indoor air quality management. The plan must be updated and submitted to the commissioner annually by July 31 for approval. The plan must indicate whether the district will issue bonds to finance the plan, levy on a pay-as-you-go basis, or a combination of the two. If bonds are issued to finance the plan, the plan must include a bond schedule demonstrating that the debt service revenue required to pay the principal and interest on the bonds each year will not exceed the projected long-term facilities revenue for that year. All documentation required by MDE is part of the ten-year plan to be approved by the school board and submitted to the commissioner.

The plan submitted to MDE must include the following components:

- A spreadsheet summarizing the total planned expenditures by category for each of the next ten years. A template has been developed for the required expenditure summary and is posted on the LTFM website. Districts should update the spreadsheet and submit it as part of the ten-year plan. The spreadsheet is described in more detail in a separate section below.
- For districts with indoor air quality, fire alarm and suppression and asbestos abatement projects costing \$100,000 or more per site for FY 2018 or FY 2019, a narrative describing each project in greater detail. Individual project approval is required as these projects generate additional revenue.
 - For *indoor air quality projects*, describe which American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) indoor air quality standards are not being met and indicate how the project will result in meeting ASHRAE standards and include an estimate of cost from the project engineer.
 - For *asbestos abatement projects*, give a description of the type and amount of asbestos and the scope of the project including an engineer or contractor estimate of the cost.
 - For *fire alarm and suppression projects*, include an order from the state fire marshal, schools division, a project description and an estimate of cost from the project engineer.
- For districts with deferred maintenance projects for FY 2017 or FY 2018 costing \$2,000,000 or more per site, a narrative describing each project in greater detail. In the narrative, discuss the deferred capital and maintenance criteria that make the project eligible for long-term facilities maintenance revenue and the work necessary to prevent further erosion of facilities. Describe the scope of work in sufficient detail to indicate the change in condition of the facility and provide an indication of the improvement to useful life. Indicate the level of deferred maintenance work needed for the facility before and after the project will be completed. Include an architect or consultant cost estimate detailing categories of work and associated cost including an estimate of fees.

- For districts with an approved voluntary pre-kindergarten program under section 124D.151, a narrative describing the project to remodel existing instructional space to accommodate kindergarten instruction. In the narrative, describe the square footage and use of the existing instructional space, changes to be made to the facility, and the final square footage and features of the pre-kindergarten instructional space, for example, bathroom space, play area, and small group instruction space. This narrative may be the same narrative submitted to MDE as part of the application to obtain approval for the voluntary pre-kindergarten program under section 124D.151.
- A spreadsheet showing how the district plans to fund its proposed expenditures with LTFM Revenue over the next ten years. A template has been developed to project the LTFM Revenue, and has been posted on the LTFM website. Districts should update the spreadsheet and submit it as part of the ten-year plan. The spreadsheet is described in more detail in a separate section below.
- If bonds are issued:
 - A table must be provided showing which projects are being funded with the bond issue.
 - A bond schedule must be included showing the interest and principal payments.
 - The annual principal and interest payments must be included in the revenue spreadsheet, documenting that the revenues are sufficient each year to fund the principal and interest payments.
 - If a bond issue includes a mix of projects eligible and not eligible for LTFM revenue, a breakdown must be provided showing the amounts attributable to LTFM projects and other projects. A separate breakdown is required for bonds issued for H&S projects costing \$100,000 or more generating additional LTFM revenue and bonds funded by LTFM formula revenue.
 - Districts are encouraged to issue bonds before levy certification if feasible, but may make a debt service levy based on a preliminary bond schedule before bonds have been issued.
- A statement of assurances that the district has reviewed the allowable uses of LTFM revenue as outlined in law and in MDE guidelines, and that all expenditures included in the ten-year plan are eligible for revenue under Minnesota Statutes, section 123B.595, Long-Term Facilities Maintenance Revenue. A template of the statement of assurances can be found on the [Long-Term Facilities Maintenance website](#).

Intermediate School Districts and Other Cooperative Units

Upon approval through the adoption of a resolution by each member district school board of an intermediate district or other cooperative units under Minnesota Statutes, section 123A.24, Subdivision 2, and the approval of the commissioner of education, a school district may include in its authority under this section a proportionate share of the long-term maintenance costs of the intermediate district or cooperative unit. The cooperative unit may issue bonds to finance the

project costs or levy for the costs, using long-term maintenance revenue transferred from member districts to make debt service payments or pay project costs. Authority under this subdivision is in addition to the authority for individual district projects.

Under Minnesota Statutes, section 123A.24, Subdivision 2, the following types of cooperatives are eligible:

- (1) an education district organized under sections [123A.15](#) to [123A.19](#);
- (2) a cooperative vocational center organized under section [123A.22](#);
- (3) an intermediate district organized under chapter [136D](#);
- (4) a service cooperative organized under section [123A.21](#);
- (5) a regional management information center organized under section [123A.23](#) or as a joint powers district according to section [471.59](#); or
- (6) a special education cooperative organized under section [471.59](#)

To qualify for revenue, an eligible cooperative must submit the following to MDE:

- A copy of the resolution adopted by each member school board.
- A ten-year plan with the same information required for school districts.
- A spreadsheet showing the amount of debt service revenue and pay-as-you-go general fund revenue to be added to the long-term facilities maintenance revenue of each member school district. A spreadsheet template for reporting allocated revenues is posted to the [Long-Term Facilities Maintenance website](#).

Charter Schools

Charter schools are not required to complete and submit a ten-year plan, and may use the revenue for any purpose related to the charter school. MDE will automatically calculate the aid entitlement for all charter schools and make payments through Integrated Department of Education Aids System (IDEAS).

Ten-Year Plan Expenditure Spreadsheet

The expenditure spreadsheet described in the Ten-Year Plan section above summarizes the district's planned expenditures eligible for LTFM revenue for FY 2017 – FY 2026 by Uniform Financial and Accounting Reporting Standards (UFARS) finance code. Districts should focus primarily on revising expenditures for FY 2017 and planned expenditures for FY 2018 and FY 2019; planned expenditures for later years may be preliminary rough estimates. Each district should download the spreadsheet from the MDE website, make appropriate edits, and submit the completed spreadsheet to MDE as part of its board-approved ten-year plan. Expenditure categories used in the template are as follows:

- a) Health and safety expenditures by UFARS finance code, excluding projects with expenditures for indoor air quality, fire alarm and suppression and asbestos abatement of \$100,000 or more per site.

- b) Health and safety expenditures by UFARS finance code for indoor air quality, fire alarm and suppression and asbestos abatement projects costing \$100,000 or more per site.
- c) Expenditures for districts with an approved voluntary pre-kindergarten program under section 124D.151 with costs approved by the commissioner to remodel existing instructional space to accommodate pre-kindergarten instruction.
- d) Americans with Disabilities Act (ADA) accessibility projects.
- e) Deferred maintenance projects by new UFARS finance code for FY 2017 and later (see Descriptions for New LTFM UFARS Codes posted on the [Long-Term Facilities Maintenance website](#)).

Ten-Year Plan Revenue Spreadsheet

The revenue spreadsheet described in item five of the ten-year plan section above outlines the steps used to calculate estimated LTFM revenue, aids, and levies for FY 2017 – FY 2026. Each district should download the spreadsheet from the MDE website, make appropriate edits, and submit the completed spreadsheet to MDE as part of its board-approved ten-year plan.

- MDE has seeded the template with the districts' current estimates of Adjusted Pupil Units (APU), average building age, estimated 2015 ANTC's, and pre-existing debt service levies as of May 20, 2016. For the initial seeding, MDE has assumed that Adjusted Pupil Units (APU) will remain constant at the estimated FY 2018 level for FY 2019 – FY 2026. The initial seeding also assumes that both the state total and each district's Adjusted Net Tax Capacity (ANTC), excluding 50 percent of class 2a agricultural land ("Ag Modified ANTC"), will grow annually by 4 percent. Finally, the initial seeding assumes that each district's average building age will increase by one year each year from FY 2017 – FY 2026. Districts can substitute updated estimates and the template will recalculate the projected revenues accordingly.
- The first section of the spreadsheet, lines 5 - 10, shows the calculation of initial formula revenue for each district. The initial formula revenue equals the product of the current year APU times the LTFM formula allowance for that year times the building age factor for the district (lesser of 1 or uncapped average building age for the current fiscal year / 35 years). The LTFM formula allowance is \$193 for FY 2017, \$292 for FY 2018, and \$380 for FY 2019 and later.
- The second section of the spreadsheet, lines 11 - 19, shows the added revenue for eligible health and safety projects for indoor air quality, fire alarm and suppression and asbestos abatement costing \$100,000 or more per site.
- Debt service costs for existing alternative facilities bonds for health and safety projects costing \$500,000 or more per site have been seeded based on data submitted earlier for districts.

- Space is also available in this section for pay-as-you-go levies for health and safety projects costing \$500,000 or more per site approved for FY 2016 and earlier for which the district has not yet levied the full amount.
 - In addition, districts should enter their pay-as-you-go and debt service costs for health and safety projects for indoor air quality, fire alarm and suppression and asbestos abatement costing \$100,000 or more per site in this section.
 - Finally, districts should enter into this portion of the spreadsheet the amount of revenue needed to pay their share of approved costs for intermediate school districts and other cooperatives of which they are members.
- Lines 6a, 20a, and 20b allow entry of approved voluntary Pre-K pupil units and revenue data into the spreadsheet.
 - The next section of the spreadsheet, lines 21 - 28, shows the amounts the district would have qualified for each year under the old formulas in effect for FY 2016, including alternative facilities debt service and pay as you go revenue for large districts (Minn. Stat. 2014 § 123B.59, Subd. 1(a)), alternative facilities debt service and pay as you go revenue for health and safety projects of \$500,000 or more per site for other districts (Minn. Stat. 2014 § 123B.59, Subd. 1(b)), health and safety (Minn. Stat. 2014 § 123B.57), and deferred maintenance (Minn. Stat. 2014 § 123B.591), based on the expenditure estimates included in the district's ten-year plan expenditure spreadsheet.
 - This section of the spreadsheet is used to determine whether the district qualifies for more revenue under the old law formulas or the new law formulas, based on estimated data. Under the "hold harmless" provision in the new law, districts are guaranteed to receive the greater of the old formula revenue or the new formula revenue. Calculations under both the old and new formulas will be revised periodically as data is updated. Final determination of which formula generates more revenue for each district will be based on actual year-end data.
 - MDE has seeded the old law deferred maintenance revenues for each year based on the pupil units and building ages used in section one above.
 - Districts should enter their old formula health and safety revenue for each year consistent with their ten-year expenditure plan. Since all adjustments for FY 2016 and earlier will be included in FY 2016 calculations, old law health and safety revenue for FY 2017 and later will equal the estimated health and safety expenditures for current year, excluding projects with a cost per site of \$500,000, which are included under alternative facilities and not under Health and Safety.
 - Districts should also enter their alternative facilities revenues by category for each year based on their ten-year expenditure plan and anticipated financing method (e.g., pay as you go, bonding).
 - The fourth section of the spreadsheet, lines 30 -34, show the total projected LTFM revenue by fiscal year for individual district projects and the district's share of eligible cooperative / intermediate project costs.

- The fifth section of the spreadsheet, lines 35 – 47, shows the breakdown of total proposed revenues into aids and levies. The spreadsheet will calculate this breakdown based on the information provided in the earlier sections of the spreadsheet.
- The sixth section of the spreadsheet, lines 48 – 62, shows the breakdown of total aids and levies between the general fund and the debt service fund.

Updating the Health and Safety Database

MDE will continue to use the existing health and safety database to drive levy processing for fall levies. Districts enter summary data by finance code, consistent with the summary data for FY 2017 and FY 2018 included on their ten-year plan expenditure spreadsheet. Detailed information by project will still be required for indoor air quality, fire alarm and suppression and asbestos abatement projects costing \$100,000 or more per site, since those generate additional revenue over and above the LTFM formula allowance. Do not enter information for deferred maintenance or accessibility finance codes. The Health and Safety amounts provide an accurate calculation of the hold harmless revenue estimate on the levy and either add to revenue or show complete information for persons who seek levy information.

FY 16 Health and Safety Closeout

FY 2016 is the last year of the old health and safety revenue formula. Revenue equals cumulative cost through FY 2016 less cumulative revenue through FY 2016. Costs for projects added during FY 2016 that have not been levied for will generate a levy revenue adjustment. Some districts also have elected to levy less than the maximum and spread the levy authority over more than one year. Some districts are currently carrying negative H&S balances, which may be caused by (1) district underlevies in past years, (2) the lag in revenue for costs not included in initial levy estimate that were adjusted for in subsequent revenue, (3) districts recording some costs in H&S on UFARS which were not approved by MDE and therefore did not generate H&S revenue, or (4) districts had H&S costs approved by MDE but did not properly record the expenditures on UFARS and therefore did not generate H&S revenue. Negative balances caused by the first two items will be adjusted over the next two years. MDE provided a window of time to appeal the third and fourth issues that ended December 15, 2015. A health and safety balance that is not zero on June 30, 2019, must be transferred to the unassigned fund balance in the general fund.

Questions

Questions concerning this memorandum should be directed as follows:

- Allowed uses of revenue, process and timelines, expenditure projection spreadsheet, health and safety database, health and safety FY 2016 closeout: contact Dale Sundstrom at dale.sundstrom@state.mn.us or 651-582-8605.
- Revenue projection spreadsheet, FY 2017 LTFM levy adjustments, payable 2017 LTFM levy limitation and certification: contact Lonn Moe at lonn.moe@state.mn.us or 651-582-8569.