Potential Findings and Recommendations on School Facilities Funding

SCHOOL FUNDING INTERIM COMMISSION
PAD MCCRACKEN – JUNE 2026

At your April meeting, commission staff presented a memo with potential findings and recommendations, including findings and recommendations on school facilities funding. Based on Commission discussion/direction, staff developed this paper for your June 17-18 meeting.

POTENTIAL FINDINGS AND RECOMMENDATIONS

Here is how the potential finding was phrased in your April memo:

School facilities – with the "supervision and control of schools in each district" being constitutionally vested in local trustees, Montana has a de-centralized approach to school facilities with responsibility for construction and upkeep largely falling on local communities. That said, other provisions of the Montana Constitution (equality of educational opportunity, equitable distribution of "state share"), the definition of "a basic quality system" under 20-9-309, and court decisions requiring some degree of state support for facilities necessitate some state involvement. Inconsistent state support for facilities programs and overall budget pressures at the local level have contributed to a backlog of deferred maintenance in many districts. (Figure 1 on the following page shows the variability in state support over the past two decades.)

The potential recommendations from the April memo were:

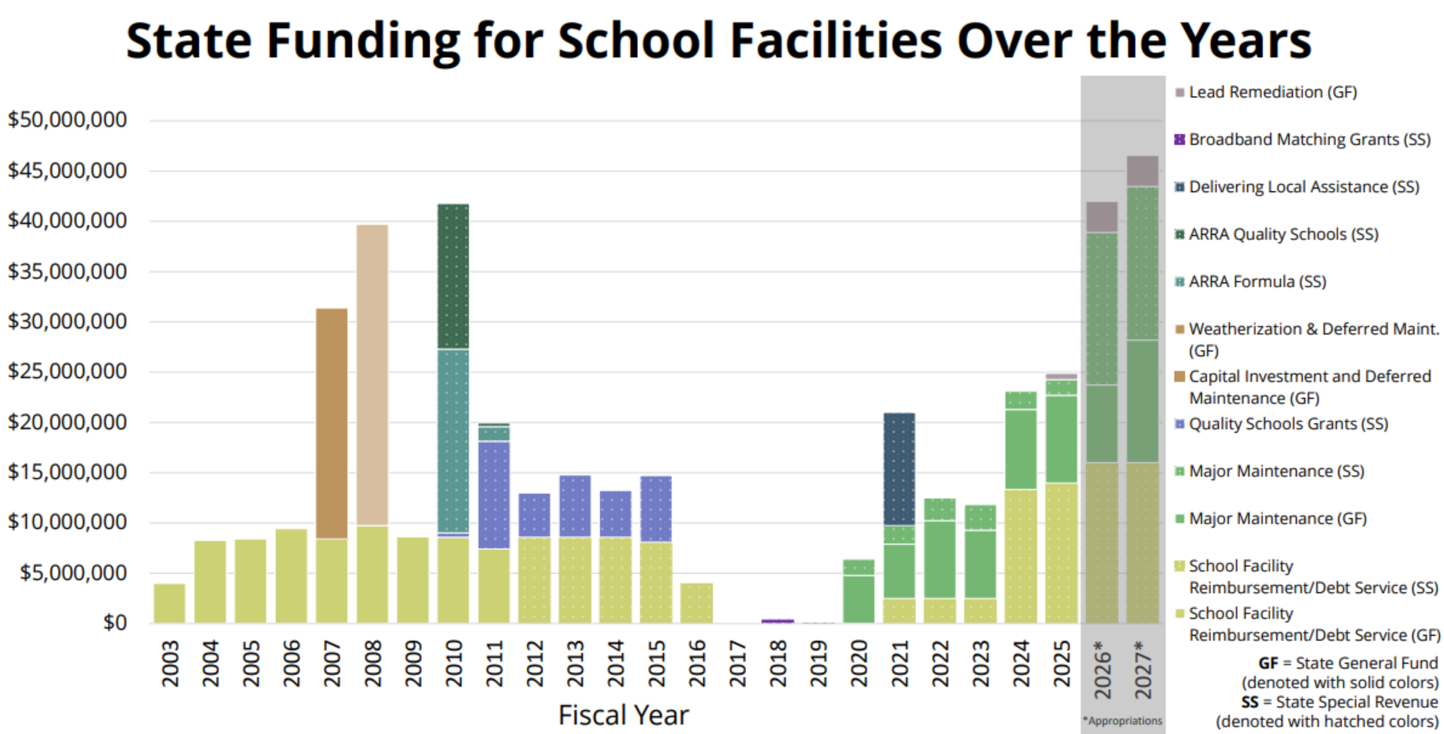
- Fund an updated statewide School Facility Condition Inventory to provide all districts an expert-informed list of maintenance priorities and ensure that districts maintain and update this inventory in the future
- Attend to revenue streams that support state facility programs to ensure stable funding and consider providing inflationary adjustments for state facility programs so that the purchasing power of the programs does not erode over time
- Add a requirement that the School Funding Dashboard (20-9-384) include data on state distributions of facility assistance through the Major Maintenance Aid and Debt Service Assistance programs

The Commission discussed this topic at length in April but did not provide direction on whether the above finding or recommendations should be included in its final report. However, the discussion did indicate a desire for more investigation of the topic, including:

- Estimates of O&M (operations and maintenance) and facility investment needs based on updated information on school building square footage and standard metrics. This dovetails with the work being conducted by the Legislative Finance and MARA Committees and while that work is still underway, an update and some preliminary analysis will be provided in June by LFD staff separate from this paper.

- An explanation of how the state major maintenance aid program could be adjusted to provide districts with more funding for facility upkeep.

Figure 1. This is a screenshot of slide #6 from a staff presentation at your November 13-14, 2025, meeting. It provides an inventory of the various state school facility programs over the years and displays how these programs have been inconsistently funded, though the trend seems to be improving.



MAKING ADJUSTMENTS TO THE STATE MAJOR MAINTENANCE PROGRAM (PD 11)

Attached to this paper is provisional bill draft PD 11, containing one section of existing law, 20-9-525, MCA, which contains the formula for the major maintenance aid program. The draft simply highlights the various "dials and levers" within the formula for reference.

Slides 9 and 10 of the November staff presentation provide details of this complex formula, but for the purposes of this paper, remember that each district is allocated a total amount of money available (known as "the box") that can be filled by a blend of local dollars that are then matched by state dollars with the match varying based on local tax wealth, ranging from about 17¢ of state money per $1 of local effort to a cap of $4 of state money per $1 of local effort. Districts decide whether and how much to "fill the box" each year. The local permissive levy is capped at 10 mills, and once 10 mills are levied, districts can transfer other sources of revenue for local effort.

Possible adjustments to the MMA formula include:

1. Modify the box size. Technically, the box is the "school major maintenance amount" and its calculation is contained in subsection (6) at the end of 20-9-525. Currently it is a fixed amount of $40,000 per district plus $115 per ANB. These amounts were just increased in HB 515 (2025) from $15,000 and $110 respectively in an effort to increase the amount of money available to all districts and especially to smaller districts with fewer ANB. The result of this increase is shown in the shaded area of Figure 1 for FYs 26 and 27.

2. Change the ratio of state match per dollar of local effort. This is done by adjusting the multiplier within the formula itself. In order to grow the box without impacting local property taxes, HB 515 increased this multiplier from 187% to 355%. This also increased the number of districts receiving the maximum $4 state match per $1 of local effort.

3. Allowing for a higher or lower state match. Unlike traditional GTB formulas, MMA was designed to provide a state match for ALL districts, no matter how property tax wealthy (the 17¢ minimum), and to cap the amount of state match, no matter how property tax poor (the $4 maximum). Either or both of these could be modified or eliminated.

4. Increasing the 10-mill cap. The 10-mill cap (and transfer allowance) was intended to prevent extremely high mill levies in extremely low property wealth districts, especially those with the ability to utilize Impact Aid for a local effort transfer.

The LFC/MARA work mentioned above is not complete, but some preliminary analysis indicates that the major maintenance aid "box" size does not correlate well with estimates of annual major maintenance costs based on 2% of current replacement value (one possible metric for major maintenance needs). The major maintenance program was not intended to cover the entirety of these costs, but it appears the shift in the box calculation has resulted in larger districts having a much smaller percentage of annual maintenance costs (based on 2% CRV) available to them through the program than smaller districts. Again, this analysis is VERY preliminary, but it appears to warrant more commission attention in July.

ADDITIONAL CONSIDERATIONS – REVENUE TO SUPPORT MAJOR MAINTENANCE AID

While increasing major maintenance aid appears to be a straightforward way of providing more funding to school districts, the amount of money distributed currently depends both on the appropriation authority provided in HB 2 and on the available revenue in the state special revenue School Facility and Technology Account. This account receives dedicated revenues from a variety of sources, chiefly:

- Timber harvests from school trust lands exceeding 18 million board feet (≈ $3M/year)
- Riverbed rents from dams located on school trust lands (≈ $3M/year)
- Interest earnings from school facility sub-trust of coal tax trust fund (≈ $12M/year)
- Excess interest and income from public school fund and state lands (varies; (≈ $5-6 M/year in recent years)

The School Facility and Technology Account is responsible for funding three programs in the following priority order: the state technology payment, $1 million/year; major maintenance aid, about $20-22 million/year; and debt service assistance, about $16-18 million/year. You can see that the funding demands exceed the dedicated revenue. The Natural Resource Development K-12 School Facilities Payment (NRD) is a state general fund appropriation in HB 2 of about $11 million/year that is an additional source of revenue for major maintenance aid and debt service assistance, but even with the NRD, the three programs may not be fully funded in a given fiscal year. Because debt service assistance is last in line, it will likely be the program that experiences a prorated reduction. Any reduction in this program results in a dollar-for-dollar increase in local property taxes for districts eligible for and benefiting from the program's support for repaying bonds.

Takeaway: increasing major maintenance aid without providing increased revenue into the School Facility and Technology Account or through the NRD will not necessarily result in more state funding to support school facility needs.

ADDITIONAL CONSIDERATIONS – BUILDING RESERVE FUND BEING INCREASINGLY USED FOR PERSONAL SERVICES

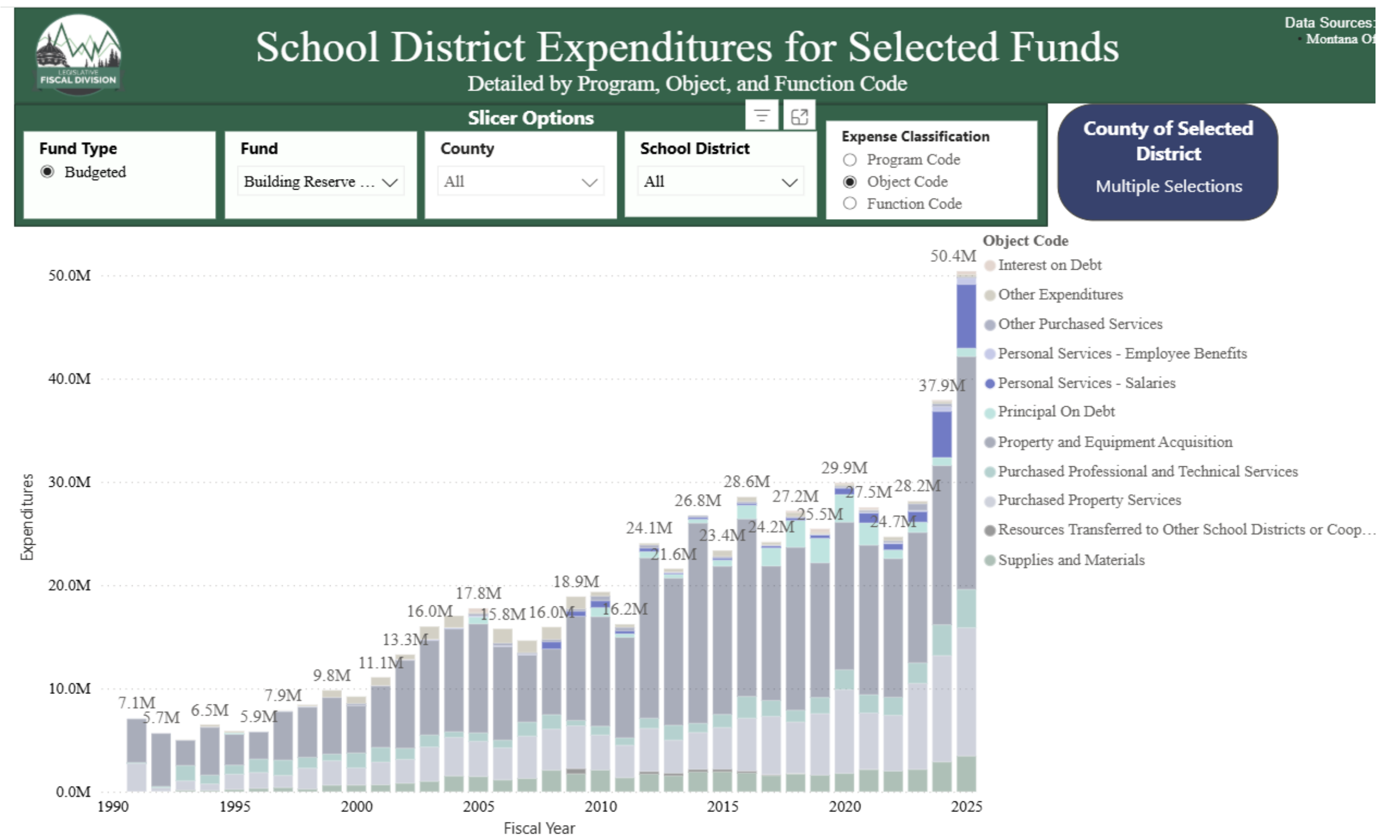
This was mentioned in your April meeting and seems worth unpacking more. Over the last decade or so, the Legislature has provided increased flexibility for districts in spending money on student safety and security improvements, this includes:

- the ability to transfer money from other district funds to a safety subfund of the building reserve fund for school and student safety and security improvements and the ability to seek a voted safety levy for this same subfund and purpose;
- the ability to use the money in the safety subfund to pay for school safety officers, counselors, and other staff contributing to school and student safety; and

- the ability to use state and local money in the major maintenance subfund of the building reserve fund for the same school safety purposes.

This is an understandable response to increased concerns about school and student safety and security, but it means that some money intended to address maintenance needs may be utilized instead for personal services – staff salaries and benefits. See Figure 2 below.

Figure 2. Screenshot taken from LFD's School Funding Tool, School Expenditures. The blue columns for salaries equal $4.5M and $6.2M in FYs 2024 and 2025 respectively.



ADDITIONAL POSSIBILITIES

At your April 7, 2026, meeting Board of Investments Executive Director Dan Villa presented information on the INTERCAP loan program, and following a question from Commissioner Waterman offered some additional ideas regarding state support for school facilities. Chairman Bedey then directed staff to follow-up with Director Villa on those ideas. Here is a barebones summary of that follow-up:

Idea #1. Provide state backing of school district general obligation construction bonds to increase district bond rating and lower bond interest rates. Use coal tax bond fund as state funding source. Establish district payback mechanism in case of default. Washington state estimates that their guarantee program saves taxpayers over $50 million/year. See Utah and Washington examples.

Idea #2. This concept is school facilities adjacent and gets at another issue the commission has discussed: high employee housing costs. Explore a housing program from school employees similar to the state program for employee housing in Deer Lodge. Support/build district housing in high-need areas (could use eligibility for MAX housing adjustment under STARS Act to determine high-need) for eligible employees. After 5 years, the bulk of rent paid by employees is available to use as down payment for market housing. Could be modeled on Section 15 of HB 819 (2023) “workforce housing appropriations.” Set up as revolving fund.

Working draft for discussion purposes at SFIC June 17-18 meeting

**** BILL NO. ****

INTRODUCED BY ****

BY REQUEST OF THE ****

A BILL FOR AN ACT ENTITLED: “AN ACT ***; AMENDING SECTION 20-9-525, MCA.”

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 20-9-525, MCA, is amended to read:

"**20-9-525. School major maintenance aid -- formula -- filing.** (1) The purpose of school major maintenance aid as provided in this section is to support school facility projects, including the payment of principal and interest on obligations issued pursuant to 20-9-471 for school facility projects, that support a basic system of free quality public elementary and secondary schools under 20-9-309, including but not limited to:

(a) improvements to school and student safety and security as described in 20-9-236(1); and

(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; and

(vii) other critical repairs to an existing school facility or facilities.

(2) (a) In any year in which the legislature has appropriated funds for school major maintenance aid, the superintendent of public instruction shall administer the distribution of school major maintenance aid for deposit in the subfund of the building reserve fund provided for in 20-9-502(3)(e). Subject to proration under

subsection (4) of this section, aid must be annually distributed no later than the last working day of May to a school district imposing a levy pursuant to 20-9-502(3) in the current school fiscal year, with the amount of state support per dollar of local effort of the applicable elementary and high school program of each district determined as follows:

(i) using the taxable valuation most recently determined by the department of revenue under 20-9-369:

(A) divide the total statewide taxable valuation by the statewide total of school major maintenance amounts and multiply the result by 355%;

(B) multiply the result determined under subsection (2)(a)(i)(A) by the district's school major maintenance amount;

(C) subtract the district's taxable valuation from the amount determined under subsection (2)(a)(i)(B); and

(D) divide the amount determined under subsection (2)(a)(i)(C) by 1,000;

(ii) determine the greater of the amount determined in subsection (2)(a)(i) or 18% of the district's mill value;

(iii) multiply the result determined under subsection (2)(a)(ii) by the district's school major maintenance amount, then divide the product by the sum of the result determined under subsection (2)(a)(ii) and the district's mill value; and

(iv) divide the result determined under subsection (2)(a)(iii) by the difference resulting from subtracting the result determined under subsection (2)(a)(iii) from the district's school major maintenance amount.

(b) For a district with an adopted general fund budget in the prior year greater than or equal to 97% of the district's general fund maximum budget in the prior year, the amount determined in subsection (2)(a)(iv) rounded to the nearest cent is the amount of school major maintenance aid per dollar of local effort, not to exceed an amount that would result in the state aid composing more than 80% of the district's school major maintenance amount.

(c) For a district with an adopted general fund budget in the prior year less than 97% of the district's maximum budget in the prior year, multiply the amount determined in subsection (2)(a)(iv) by the ratio of the district's adopted general fund budget in the prior year to the district's maximum general fund budget in the prior year. The result, rounded to the nearest cent, is the amount of state school major maintenance aid per dollar of local effort, not to exceed an amount that would result in the state aid composing more than 80% of the district's school major maintenance amount.

(3) Using the taxable valuation most recently determined by the department of revenue under 20-9-369, the superintendent shall provide school districts with a preliminary estimated amount of state school major maintenance aid per dollar of local effort for the ensuing school year no later than March 1 and a final amount for the current school year no later than July 31.

(4) If the appropriation for school major maintenance aid or the available funds in any school fiscal year are less than the amount of school major maintenance aid for which school districts would otherwise qualify, the superintendent of public instruction shall proportionally prorate the aid distributed to ensure that the distributions do not exceed the appropriated or available funds.

(5) A school district that receives school major maintenance aid shall, within 30 days of receiving the funds, file with the office of the superintendent of public instruction a document acknowledging it has received funds from the coal severance tax trust fund.

(6) For the purposes of this section, the following definitions apply:

(a) "Local effort" means an amount of money raised by levying no more than 10 mills pursuant to 20-9-502(3) and, provided that 10 mills have been levied, any additional amount of money deposited or transferred by trustees to the subfund pursuant to 20-9-502(3).

(b) "School major maintenance amount" means the sum of $40,000 and the product of $115 multiplied by the district's budgeted ANB for the prior fiscal year."

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