School facilities funding – findings, recs, bill draft, and considerations

SCHOOL FUNDING INTERIM COMMISSION
PAD MCCRACKEN – JULY 2026

At your June meeting, commission staff presented **a paper** with potential findings and recommendations on school facilities funding, along with information and considerations. Kris Wilkinson and Joe Triem with Legislative Fiscal Division (LFD) also presented **a memo** updating the commission on LFD efforts to update baseline information from the 2008 Facilities Condition Inventory. Staff developed this subsequent paper and attached provisional bill draft for your July 20-21 meeting.

The provisional bill draft PD 11 does three things:

1. Removes the allowance for districts to spend building reserve fund money on counselors and school resource officers (SROs);
2. Redirects "excess oil and natural gas production taxes" above the limit allowed to be retained by a school district from the guarantee account to the school facility and technology account; and
3. Rejiggers the school major maintenance amount (aka "the box"), the amount of money available to a district on an annual basis through the program, which includes both local and state money.

It may be worth reviewing the June paper for a fuller background; this paper will retread some but not all of what was presented in June and will largely focus on the adjustment to the major maintenance aid amount.

The June paper discussed the changes made to the amount in House Bill No. 515 (2025), which increased the per-district amount significantly, from $15,000 to $40,000, and the per-ANB amount from $110 to $115. This was in an effort to make the major maintenance aid program more attractive to smaller districts.

With the LFD effort to resurface and update the 2008 Facility Condition Inventory, we have the ability to look at how the "box size" allocated to each district compares with an estimate of annual maintenance needs. This is based on district building square footage multiplied by a construction cost per square foot to generate an estimate of "current replacement value" or CRV, then applying an industry standard percentage, 2% of CRV, to yield an estimate of annual maintenance needs. Obviously, this is based on several assumptions and incomplete data sets, but two things are quickly apparent:

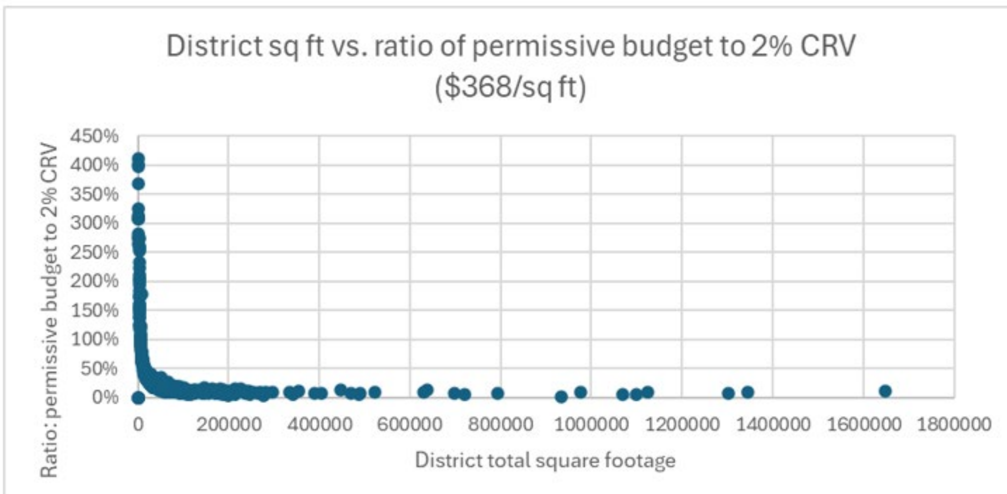
1. The major maintenance aid program only covers a fraction of the total annual maintenance needs of Montana school district. The statewide "box size" is $36 million and depending on the assumption one makes about construction costs per square foot, the annual maintenance needs of school districts is in the range of $200 to $400 million. The program was not intended to cover all these costs, but it's not clear how districts are expected to cover the shortfall.

2. The changes made in HB 515 appear to not only have swung the pendulum too far, but perhaps in the wrong direction in terms of targeting the program based on need (as estimated by square footage).

The following scatterplots are a bit fuzzy but still tell a clear story. They plot every district's box size as a percentage of the district's estimated annual maintenance needs. Don't bog down on the outliers; the trend is evident: many of the districts with the smallest square footage footprints have access to far more maintenance money than they need, while the districts with the most square footage to maintain are generally getting less than 10% of their estimated need.

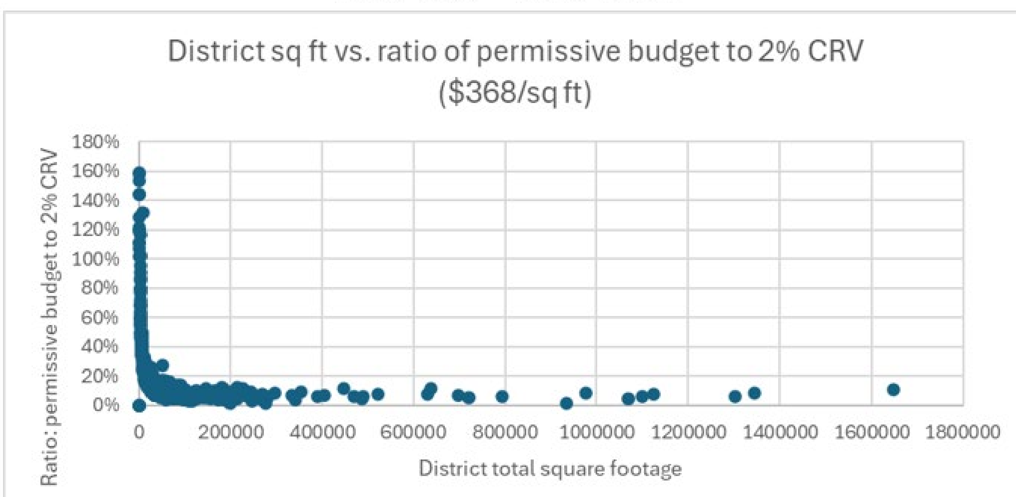
This scatterplot shows current law.

Current Law - $40K/district + $115/ANB
Total "Box" = $36 Million



This scatterplot shows that the program prior to HB 515 was already misaligned. Note the y-axis scale changes from above though.

Pre HB 515 - $15,000/district + $110/ANB
Total "Box" = $24 Million



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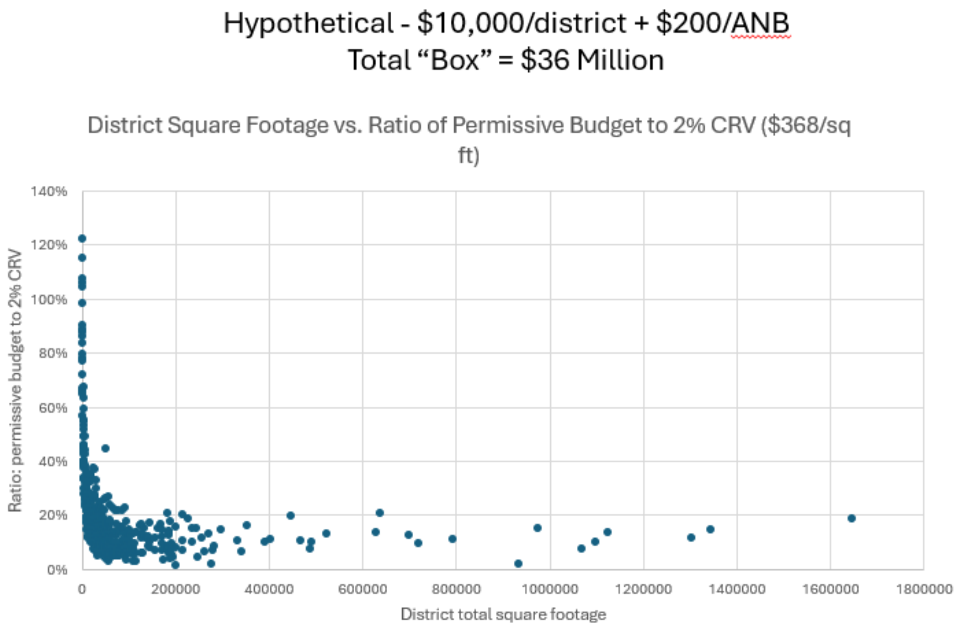
If the Commission wishes to revise the calculation of the box size, this scatterplot shows the effect of an aggressive rejiggering, which brings most districts into a much more compressed range in terms of the percentage of estimated need covered.



The above is how PD 11 is currently drafted, but the Commission and others will want to spend more time analyzing the impacts of these changes. There are other dials and levers to turn and impacts to contemplate in this complex formula. And there is the question of increasing the total box size to cover more of the estimated annual need. Just remember that the School Facility and Technology Account (SFTA), out of which major maintenance aid is funded, has a limited amount of revenue.

A legitimate question is why not just redo the major maintenance aid formula to be based on district building square footage. The simplest answer is that we do not currently collect and update that data on a regular and auditable basis. Doing so could be a recommendation of the Commission, but it is fundamentally a question of how big a role the state wants to play in managing the maintenance of local school district buildings.

Switching gears, PD 11 also redirects excess oil and gas tax revenue (revenue generated from wells within a school district but above the state-imposed limit on what the district can retain) from the guarantee account to the SFTA as a way of bolstering the account. In recent years these excess revenues have been about $5 million/year, but as with all natural resource production taxes, they can be volatile. Also remember that any reduction in revenue into the guarantee account is a dollar-for-dollar hit to the state general fund.