



District Business & Advisory Services

Kolvira Chheng: Director- DBAS: 408-453-6599

Bulletin: 15-027

Date: February 27, 2015

To: District Chief Business Officers and Fiscal Directors

From: Kolvira Chheng, Director

Re: Deferred Maintenance Fund and Contributions to the Restricted Maintenance Account (RMA)

The repeal of EC 17584 relating to the former Deferred Maintenance Program contribution has created an unintended consequence for LEAs who choose to continue to use the Deferred Maintenance Fund, because their “contributions” to that fund no longer count toward their 3% Restricted Maintenance Account (RMA) requirement per EC 17070.75.

Background and pertinent information:

Temporarily under categorical flexibility, and now permanently under the LCFF, there is no longer a Deferred Maintenance Program entitlement or a required matching contribution. However, although the Deferred Maintenance Program is repealed, statute allowing the Deferred Maintenance Fund has not been repealed, so CDE has kept the fund open for those LEAs that prefer to continue using it.

The Deferred Maintenance Fund, Fund 14 in SACS, is classified as a special revenue fund. This was appropriate historically because the fund existed to account for funding restricted to the Deferred Maintenance program (the Deferred Maintenance entitlement, plus the LEA’s required matching contribution).

GAAP specifies that use of a special revenue fund is appropriate only if a substantial portion of the fund’s inflows are restricted or committed revenue sources and, further, only if those revenue sources are expected to continue. GAAP also specifies that the restricted or committed revenue source that justifies the use of the special revenue fund must be recognized as revenue in the special revenue fund, not as an interfund transfer.

In accordance with GAAP, CDE has advised that LEAs that wish to continue to use Fund 14 should therefore commit a portion of their LCFF revenues to the purposes of deferred maintenance and should account for the committed revenues in Fund 14 using Object 8091. (As an aside, the reason for using Object 8091 rather than some other revenue account is that it varies from LEA to LEA whether LCFF revenues derive from property taxes, state aid, or a combination of the two, so Object 8091 remains the best way to account for the receipt of LCFF revenues in the general fund and then to shift them to Fund 14.)

Mechanically, using Object 8091 to record committed revenues in Fund 14 means those committed amounts don’t get counted toward the 3% contribution to the Restricted Maintenance Account (RMA) as was allowed by EC 17070.75.

EC 17070.75 allowed that a district’s contribution to its RMA over and above 2½ percent could count toward its Deferred Maintenance contribution as required by EC 17584. Technically EC 17070.75 still does allow this, even though EC 17584 is repealed.

17070.75 ... (b) In order to ensure compliance with subdivision (a) and to encourage school districts to maintain all buildings under their control, the board shall require an applicant school district to do all of the following prior to the approval of a project:

(1) Establish a restricted account within the general fund of the school district for the exclusive purpose of providing moneys for ongoing and major maintenance of school buildings...

(b)(2)(A) ... Annual deposits to the [RMA] ... in excess of 2 1/2 percent of the school district general fund budget may count towards the amount of funds required to be contributed by a school district in order to receive apportionments from the State School Deferred Maintenance Fund pursuant to Section 17584 to the extent that those funds are used for purposes that qualify for funding under that section.

Historically, before flexibility and before LCFF, CDE advised LEAs to contribute their entire 3% to the RMA Resource 8150 in the general fund, and then make their Deferred Maintenance contribution as an interfund transfer from that resource. This kept the 3% RMA contribution intact for purposes of “scoring” it. Now that EC 17584 is repealed and there is no Deferred Maintenance program or required contribution any longer, and now that amounts that districts choose to commit to the purposes of deferred maintenance in order to justify the use of Fund 14 (which use is not required by statute or by GAAP) must be recognized as revenue in Fund 14 rather than as interfund transfers, those committed amounts aren’t captured in what gets counted toward the RMA.

LEAs’ reasons for continuing to account for deferred maintenance-type expenditures in Fund 14 rather than in the general fund are probably some combination of:

- a) Reluctance to depart from past practice.
- b) To minimize general fund expenditures in order to minimize reserve requirements.
- c) (Maybe) to keep periodic, quasi-capital outlay expenditures out of the general fund to avoid skewing general fund trends. This is a valid reason for using a capital project fund, which – arguably – the Deferred Maintenance Fund now resembles, since it no longer has a restricted special revenue source.

CDE does not anticipate changing its guidance on how to account for amounts LEAs commit to purposes of deferred maintenance in order to justify the continued use of Fund 14 because that guidance is based on GAAP. However, CDE wants to share its thinking.

CDE is not recommending a particular option at this time, but considering the following possible options:

- 1) Change statute to allow amounts that LEAs commit to the purposes of deferred maintenance, and deposit in their Deferred Maintenance fund, to count toward the RMA. Downside: This commits to statute something that might better be handled administratively. (Could it be handled administratively?)
- 2) Reclassify the Deferred Maintenance fund to be a capital projects fund rather than a special revenue fund. Capital projects funds are not subject to the requirement that a substantial portion of the fund’s inflows must be restricted or committed revenue sources, nor that the fund’s inflows must be recognized as revenues in that fund. Interfund transfers (from Resource 8150, like before) would be allowable per GAAP. CDE speculated that the existing Fund 40 capital projects fund might suffice for this purpose. Downside: Hard to justify how expenditures from a capital projects fund are “maintenance” (the purpose of the RMA).
- 3) Change statute to eliminate the “one-size fits all” RMA requirement altogether. Downside: Not likely.
- 4) LEAs can use interfund transfers for assigned amounts over and above the committed amount necessary to justify the special revenue fund. These interfund transfers could come from Resource

8150. Downside: Not likely that LEAs will assign extra amounts to deferred maintenance, over and above the amounts they commit, just to make the 3% RMA whole.

- 5) Have LEAs make deferred maintenance expenditures from the general fund, as is wholly allowable and as many LEAs do.
- 6) Change EC 17070.75 (b) (1) to eliminate “within the general fund of the school district” so amounts a district deposits in the RMA in any fund would “count” toward its 3% contribution.
- 7) Do nothing, given that it is the LEA’s decision whether to use Fund 14.

CDE’s view is that any resolution should derive from a fresh look at the world as we know it now, and not be based on holdovers from past practices for which reasons no longer exist. For example, had there never been a Deferred Maintenance Program, CDE would not be inventing a Deferred Maintenance Fund now or, if it did, it would not be a special revenue fund.

Recommendation:

Do not use the Deferred Maintenance Fund (Fund 140) for the purpose of making contribution to go towards meeting the 3% RMA requirement. CDE doesn’t intend to take action without soliciting feedback first, and may not take action at all. We will follow up with additional communication once new information becomes available.

If you have any questions, please contact your District Advisor:

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