

## CAPITAL PROJECTS FUND \$3.2 MILLION TRANSFER SUMMARY DECEMBER 6, 2018

Ben Rarick provided the following summary on the \$3.2 million transfer that was discussed at the November 14, 2018, regular board meeting.

The \$3.2 million transfer shown on the August financial report represents the charging of a series of individual expenses to the capital projects fund. The net effect is individual reimbursements to the general fund for each expenditure. This work in identifying these expenses started in about March/April and culminated at year end.

**28A.320.330** specifies the authority for school districts to use capital project funds to pay for a series of expenses, including major building repairs, energy audit activities, and technology-related expenses, including the purchase and ongoing maintenance of software licenses. The intent section of this law deems them “major capital expenses.” They are listed in 2(a)-(f) of that law.

It further specifies in the law that, when it comes to coding these expenses, initial costs are charged to capital projects directly – those do not show as a transfer. By contrast, ongoing costs (year to year) are paid out of the general fund, and the revenue from capital is transferred to reimburse – those do show as individual reimbursement transfers. The approach is dictated on a case-by-case analysis of each expense. This is done – I am told – so that all ongoing software licenses and related costs are in one place, and this creates a uniform system for districts with and without technology levies, etc.

The intent section of the law is represented below. The full text of the law is included below.

**Intent—2007 c 129:** "The legislature recognizes that technology has become an integral part of the facilities and educational delivery systems in our schools. In order to prepare our state's students to participate fully in our state's economy, school districts are making substantial capital investments in their technology systems, facilities, and projects. Districts are implementing, applying, and modernizing their technology systems. Software companies are shifting from selling software as a one-time package to a license or an extended contractual relationship requiring a subscription and ongoing payments. School districts must be empowered to respond to the changing business models in the software industry and be given flexibility and authority to use capital projects funds to pay for licenses or online application fees. It is the intent of the legislature that these investments be deemed major capital purpose and are also permitted uses of the district's two to six-year levies authorized by RCW 84.52.053." [ 2007 c 129 § 1.]

### **RCW [28A.320.330](#)**

#### **School funds enumerated—Local revenue subfunds—Deposits—Uses.**

School districts shall establish the following funds in addition to those provided elsewhere by law:

(1)(a) A general fund for the school district to account for all financial operations of the school district except those required to be accounted for in another fund.

(b) By the 2018-19 school year, a local revenue subfund of its general fund to account for the financial operations of a school district that are paid from local revenues. The local revenues that must be deposited in the local revenue subfund are enrichment levies and transportation vehicle levies collected under RCW [84.52.053](#), local effort assistance funding received under chapter [28A.500](#) RCW, and other school district local revenues including, but not limited to, grants, donations, and state and federal payments in lieu of taxes, but do not include other federal revenues, or local revenues that operate as

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an offset to the district's basic education allocation under RCW [28A.150.250](#). School districts must track expenditures from this subfund separately to account for the expenditure of each of these streams of revenue by source, and must provide any supplemental expenditure schedules required by the superintendent of public instruction or state auditor for purposes of RCW [43.09.2856](#).

(2) A capital projects fund shall be established for major capital purposes. All statutory references to a "building fund" shall mean the capital projects fund so established. Money to be deposited into the capital projects fund shall include, but not be limited to, bond proceeds, proceeds from excess levies authorized by RCW [84.52.053](#), state apportionment proceeds as authorized by RCW [28A.150.270](#), earnings from capital projects fund investments as authorized by RCW [28A.320.310](#) and [28A.320.320](#), and state forest revenues transferred pursuant to subsection (3) of this section.

Money derived from the sale of bonds, including interest earnings thereof, may only be used for those purposes described in RCW [28A.530.010](#), except that accrued interest paid for bonds shall be deposited in the debt service fund.

Money to be deposited into the capital projects fund shall include but not be limited to rental and lease proceeds as authorized by RCW [28A.335.060](#), and proceeds from the sale of real property as authorized by RCW [28A.335.130](#).

Money legally deposited into the capital projects fund from other sources may be used for the purposes described in RCW [28A.530.010](#), and for the purposes of:

- (a) Major renovation and replacement of facilities and systems where periodical repairs are no longer economical or extend the useful life of the facility or system beyond its original planned useful life. Such renovation and replacement shall include, but shall not be limited to, major repairs, exterior painting of facilities, replacement and refurbishment of roofing, exterior walls, windows, heating and ventilating systems, floor covering in classrooms and public or common areas, and electrical and plumbing systems.
- (b) Renovation and rehabilitation of playfields, athletic fields, and other district real property.
- (c) The conduct of preliminary energy audits and energy audits of school district buildings. For the purpose of this section:
  - (i) "Preliminary energy audits" means a determination of the energy consumption characteristics of a building, including the size, type, rate of energy consumption, and major energy using systems of the building.
  - (ii) "Energy audit" means a survey of a building or complex which identifies the type, size, energy use level, and major energy using systems; which determines appropriate energy conservation maintenance or operating procedures and assesses any need for the acquisition and installation of energy conservation measures, including solar energy and renewable resource measures.
  - (iii) "Energy capital improvement" means the installation, or modification of the installation, of energy conservation measures in a building which measures are primarily intended to reduce energy consumption or allow the use of an alternative energy source.
- (d) Those energy capital improvements which are identified as being cost-effective in the audits authorized by this section.
- (e) Purchase or installation of additional major items of equipment and furniture: PROVIDED, That vehicles shall not be purchased with capital projects fund money.
- (f)(i) Costs associated with implementing technology systems, facilities, and projects, including acquiring hardware, licensing software, and online applications and training related to the installation of the

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foregoing. However, the software or applications must be an integral part of the district's technology systems, facilities, or projects.

(ii) Costs associated with the application and modernization of technology systems for operations and instruction including, but not limited to, the ongoing fees for online applications, subscriptions, or software licenses, including upgrades and incidental services, and ongoing training related to the installation and integration of these products and services. However, to the extent the funds are used for the purpose under this subsection (2)(f)(ii), the school district shall transfer to the district's general fund the portion of the capital projects fund used for this purpose. The office of the superintendent of public instruction shall develop accounting guidelines for these transfers in accordance with internal revenue service regulations.

(g) Major equipment repair, painting of facilities, and other major preventative maintenance purposes. However, to the extent the funds are used for the purpose under this subsection (2)(g), the school district shall transfer to the district's general fund the portion of the capital projects fund used for this purpose. The office of the superintendent of public instruction shall develop accounting guidelines for these transfers in accordance with internal revenue service regulations. Based on the district's most recent two-year history of general fund maintenance expenditures, funds used for this purpose may not replace routine annual preventive maintenance expenditures made from the district's general fund.

(3) A debt service fund to provide for tax proceeds, other revenues, and disbursements as authorized in chapter [39.44](#) RCW. State forestland revenues that are deposited in a school district's debt service fund pursuant to RCW [79.64.110](#) and to the extent not necessary for payment of debt service on school district bonds may be transferred by the school district into the district's capital projects fund.

(4) An associated student body fund as authorized by RCW [28A.325.030](#).

(5) Advance refunding bond funds and refunded bond funds to provide for the proceeds and disbursements as authorized in chapter [39.53](#) RCW.

[ [2018 c 266 § 302](#); [2017 3rd sp.s. c 13 § 601](#); [2009 c 460 § 1](#). Prior: [2007 c 503 § 2](#); [2007 c 129 § 2](#); [2002 c 275 § 2](#); [1990 c 33 § 337](#); [1983 c 59 § 13](#); [1982 c 191 § 6](#); [1981 c 250 § 2](#). Formerly RCW [28A.58.441](#).]

**NOTES:**

**Intent—2017 3rd sp.s. c 13:** See note following RCW [28A.150.410](#).

**Intent—2007 c 129:** "The legislature recognizes that technology has become an integral part of the facilities and educational delivery systems in our schools. In order to prepare our state's students to participate fully in our state's economy, school districts are making substantial capital investments in their technology systems, facilities, and projects. Districts are implementing, applying, and modernizing their technology systems. Software companies are shifting from selling software as a one-time package to a license or an extended contractual relationship requiring a subscription and ongoing payments. School districts must be empowered to respond to the changing business models in the software industry and be given flexibility and authority to use capital projects funds to pay for licenses or online application fees. It is the intent of the legislature that these investments be deemed major capital purpose and are also permitted uses of the district's two to six-year levies authorized by RCW [84.52.053](#)." [ [2007 c 129 § 1](#).]

**Declaration—2002 c 275:** "The legislature recognizes and acknowledges that technology has become an integral part of the facilities and educational delivery systems in our schools. In order to prepare our state's students to participate fully in our state's economy, substantial capital investments must

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continue to be made in our schools' comprehensive technology systems, facilities, and projects. These investments are declared to be a major capital purpose." [ [2002 c 275 § 1.](#)]

**Application—Effective date—Severability—1983 c 59:** See notes following RCW [28A.505.010](#).

**Severability—1982 c 191:** See note following RCW [28A.335.210](#).

**Effective date—1981 c 250:** See note following RCW [28A.335.060](#).

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During the course of my first months on the job, starting in early spring, I did a fair amount of research involving peer districts. I sought to understand how they structure their budgets, and how our budget differs. In my research, I learned that many peer districts utilize the additional authority provided under this law. Kent, however, has utilized that authority in a limited fashion – very few if any software licenses were charged to capital. Over a period of time, I spoke to colleagues in other districts who walked me through the range of expenses that they charge to capital (initial and ongoing). I also paid for some time with an expert to understand the full range of possibilities with this law, many of which we did not ultimately pursue.

Because these technology software expenditures are/were authorized under the district's tech levy resolution (Resolution 1429), which is in force through the end of CY 2018, and because the district was not exceeding its expenditure authority under the adopted budget, I do not believe a separate authorization was required. The district has not previously done such a resolution when it has done this on a limited basis in the past, nor does the district with whom I spoke do such resolutions.

Our reason for asking to speak to the Board in October at the work session (October 17, 2018) was to prepare them for the possibility of being negative, to make clear my intentions about implementing now and in the future a policy of "general fund/basic ed protectionism" and to talk about the implications of that, and to be clear about shifting strategy on software licenses in particular. I didn't think a formal act was required, but I did think it prudent for the Board to be apprised and "brought along." I left the meeting feeling understood on this matter.

In the end, I know that many districts routinely pay for all of their technology licenses out of their capital budget; I have sought a lot of my advice from the Seattle School District, for example. This approach merely is trying to emulate that practice as a way of getting the general fund in a much better place.

I am attaching a two-page overview of the journal entries associated with the \$3.2 million total, the vast majority of which is technology licenses coming out of Cost Center 0202 ("Technology Licensing").



