AUDITOR OF STATE BULLETIN 97-017
November 21, 1997

TO: ALL SCHOOL DISTRICT TREASURERS
ALL JOINT VOCATIONAL SCHOOL DISTRICT TREASURERS
ALL SCHOOL DISTRICT SUPERINTENDENTS
ALL JOINT VOCATIONAL SCHOOL DISTRICT SUPERINTENDENTS
ALL COUNTY AUDITORS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: SUBSTITUTE HOUSE BILL 412

Substitute House Bill 412, effective November 21, 1997, requires school districts to set aside money for (1) the purchase of instructional materials, software and textbooks, (2) the acquisition, repair or maintenance of permanent improvements and (3) unanticipated deficiencies in revenue or other emergencies.

Section 3315.17, R.C. as adopted in H. B. 412 requires each city, exempted village, local and joint vocational school district to set aside funds to be used exclusively for the purchase of textbooks, instructional software, and instructional materials, supplies, and equipment. The amount to be set aside annually (regardless of the amount carried forward from the previous year) is four percent of all revenues received by the district for operating expenses. Money not used for the purpose in one fiscal year is carried forward to the next fiscal year. The State Superintendent of Public Instruction and the Auditor of State must jointly adopt administrative rules defining what constitutes textbooks, instructional software, and instructional materials, supplies, and equipment. The Auditor of State may adopt rules authorizing up to a three-year phase in period for districts to meet the four percent requirement of the statute.

Section 3315.18, R.C. as adopted in H.B. 412 requires each city, exempted village, local and joint vocational school district to set aside annually (regardless of the amount carried forward from the previous year) four percent of all revenues deposited in the general fund. This money is to be used solely for acquisition, enhancement, maintenance, or repair of permanent improvements. Permanent improvements are defined to mean any property, asset, or improvement with an estimated life or usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having an estimated life or usefulness of five years or more. Again, money not used for the purpose in one fiscal year is carried forward to the next fiscal year and the Auditor of State may adopt rules authorizing up to a three-year phase in period for districts to meet the four percent requirement of the statute.

Rules for the adoption of H.B. 412 are currently being drafted. In order for districts to plan for the implementation of these requirements and to anticipate the need for the set aside in the budget process, we wanted to provide you with an indication of what we will propose in the rules.

It is the intention of the Auditor of State to exercise his authority under the bill and phase in the set aside requirements of both of these statutes. Nothing will be required to be set aside in fiscal year 1998. A two percent set aside will be required in fiscal year 1999. A four percent set aside will be required in fiscal year 2000 and each year thereafter.

Money will not be required to be set aside in a separate fund. Rather the money may be retained in the general fund. The amount of the set aside would either be budgeted and appropriated for use in the current fiscal year or carried forward to following years. Amounts set aside in the general fund each year may be reduced for amounts spent for the appropriate purpose from other funds. At the end of each fiscal year, a reserve of fund balance will be reported within the general fund for each purpose. The amount of each reserve will represent the cumulative amount of the set aside not yet used.

We recognize that additional issues regarding the implementation of these code sections remain, including the calculation of the exact amount of each required set aside. These issues are being discussed, and we will keep you informed of our progress.

Section 5705.29, R.C. as amended by H.B. 412 requires each board of education to include in its budget for 1999 a budget reserve and, if the growth in a district's total revenues received for current expenses from fiscal year 1997 to fiscal year 1998 is three percent or more, to credit to the budget reserve an amount not less than one percent of the revenue received for current expenses for fiscal year 1999. The annual allocation is to continue until the balance in the reserve equals five percent of the district's revenues received for current expenses for the preceding fiscal year. The money may be spent for unanticipated deficiencies in revenue or other emergencies as those terms are defined in rules to be jointly adopted by the Auditor of State and the Superintendent of Public Instruction.

The Auditor of State and the Superintendent of Public Instruction anticipate allowing this reserve to be created and maintained within the general fund rather than requiring the creation of a separate fund. This balance would be reported as a reserve of fund balance.

School districts will be informed when the proposed rules become available and given the opportunity to review and comment on the rules before they are finalized.