SENATE BILL REPORT
SB 5978

As of January 22, 2024

Title: An act relating to the authority of the office of the superintendent of public instruction to act as a guarantor for a county when the county provides a loan to a school district.

Brief Description: Authorizing the office of the superintendent of public instruction to act as a guarantor for a county when the county provides a loan to a school district.

Sponsors: Senators Robinson and Nobles.

Brief History:
Committee Activity: Early Learning & K-12 Education: 1/22/24.

Brief Summary of Bill

- Authorizes the Office of the Superintendent of Public Instruction (OSPI) to serve as guarantor for a county that has agreed to provide a loan to a school district that is on binding conditions.
- Directs OSPI to adopt specific rules regarding this new authority, including a process for enhanced financial oversight of defaulting school districts.
- Appropriates $10 million, or as much as is necessary, from the general fund to OSPI for the purpose of providing contingent guarantor funding, and establishes requirements to access this funding.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Staff: Alex Fairfortune (786-7416)

Background: Binding Conditions and Financial Oversight. *Binding Conditions.* School districts must annually prepare and submit a balanced budget to the Office of the Superintendent of Public Instruction (OSPI) in which expected expenditures do not exceed

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expected revenues. If a school district is not able to submit a balanced budget, the school board may deliver a petition to OSPI requesting permission to include receivables collectible in future years in order to balance the budget. If such permission is granted, it must contain binding conditions designed to improve the district's financial condition. Binding conditions typically take the form of benchmarks the district must achieve through actions that are locally determined by the school board, such as reaching a certain general fund balance by a defined date.

Financial Oversight. If a school district has been on binding conditions for two consecutive years and is unable to prepare a satisfactory financial plan, or is reasonably foreseeable and likely to have a deficit general fund balance within three years and is unable to prepare a satisfactory financial plan, the school district is considered financially insolvent. In these circumstances, a financial oversight committee must review the financial condition of the school district and recommend either enhanced financial oversight or dissolution of the district. Enhanced financial oversight may include, but is not limited to, appointing a special administrator, approving or limiting hiring and personnel actions, approving or limiting a district's authority to enter into contracts, and liquidating or disposing of fixed assets and contractual liabilities.

Summary of Bill: The Office of the Superintendent of Public Instruction as Guarantor. OSPI is authorized to act as a guarantor for a county that has agreed to provide a loan to a school district that is on binding conditions and facing long-term financial distress.

OSPI must adopt rules to implement this new authority, including a process for how OSPI will determine whether it will act as a guarantor for a county and a process for enhanced financial oversight if a school district defaults on its loan with a county. This enhanced financial oversight must be in place for at least one year and must require the school district to submit a viable two-year financial plan to OSPI within 45 days of a default. The financial plan must include estimates of revenue, expenditures, enrollment, staffing, and cash flow projections.

Enhanced financial oversight may include, but is not limited to, the following:

- limiting the approval of new contracts, or changes and renewals to existing contracts, without obtaining prior written approval from OSPI;
- OSPI appointing a special administrator to oversee and carry out financial conditions set by OSPI;
- OSPI assuming final approval authority regarding whether administrators should be retained, released, or reassigned duties, as allowed by existing legal agreements; and
- OSPI approving or changing the school district's two-year financial plan to ensure it is viable and sustainable, such as liquidating or disposing of the district's fixed assets and contractual liabilities.

Guarantor Funding. Ten million dollars, or as much as is necessary, is appropriated from the general fund to OSPI for the 2025 fiscal year for the purpose of providing contingent guarantor funding for circumstances when OSPI acts as a guarantor for a county and a school district defaults on its loan.

To be eligible for these funds, a county must sign and submit a request letter for contingent guarantor funding to the Office of Financial Management (OFM) and the appropriate legislative fiscal and education committees. If the emergency occurs during a legislative session, the county must notify the appropriate legislative committees prior to submitting a request to OFM. Requests must include a statement describing the school district's default and long-term financial distress.

OFM must notify the Legislative Evaluation and Accountability Program Committee and the legislative fiscal and education committees if contingent guarantor funding is approved, and include what funded level was approved.

Appropriation: The bill contains an appropriation totaling $10,000,000, or as much therof as may be necessary, from the general fund.

Fiscal Note: Requested on January 15, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This bill is timely and necessary as more districts have increasing costs, decreasing enrollments, and sunsetting COVID funding. Marysville School District is in binding conditions now. The district first tried to seek a loan from a private lender, but the rates were staggering. The district then approached the Snohomish County Treasurer about the possibility of getting a loan to meet their financial obligations while sorting through their financial plan. The district had an approved levy with revenue set to begin in April 2024, but the County Treasurer felt it was too risky and denied the request.

CON: Voters in Marysville have said no twice to helping the school district. The Superintendent should not bail out school districts.

OTHER: The Treasurers Association is concerned and doesn't feel that this is the best solution. If this bill is passed there is an implication that the county will carry districts but counties aren't in a position to do this.

Persons Testifying: PRO: Senator June Robinson, Prime Sponsor; Zac Robbins, Marysville School District.

CON: Preston Dwoskin .

OTHER: Jackie Brunson, Washington State Association of County Treasurers.

Persons Signed In To Testify But Not Testifying: No one.