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**SUBSTITUTE SENATE BILL 5412**

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**State of Washington 69th Legislature 2025 Regular Session**

**By** Senate Early Learning & K-12 Education (originally sponsored by Senators Robinson, Chapman, Nobles, and Saldaña)

AN ACT Relating to temporary interfund loans for school districts in binding conditions or under enhanced financial oversight; amending RCW 28A.505.130, 28A.315.221, 28A.335.130, and 28A.335.120; reenacting and amending RCW 28A.320.330; and adding a new section to chapter 28A.320 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  A new section is added to chapter 28A.320 RCW under the subchapter heading "deposit, investment, and use of proceeds" to read as follows:

(1) A school district that is in binding conditions pursuant to RCW 28A.505.110 or under enhanced financial oversight pursuant to RCW 28A.315.221 may take a temporary interfund loan from its capital projects fund, subject to the following conditions:

(a) The borrowing fund must repay the full loan amount to the loaning capital projects fund within one calendar year;

(b) The loaning capital projects fund may not charge interest on the amounts loaned;

(c) The loan may not be made to the detriment of any function or project for which the loaning capital projects fund was established;

(d) The school district's financial reports, including monthly financial reports provided to the board of directors of the district, must specify all outstanding interfund loan balances.

(2)(a) The board of directors of a qualifying school district must adopt a resolution to approve a temporary interfund loan transaction. The resolution must contain the exact amount of the loan, the funds involved, the specific source of funds for repayment, and the schedule for repayment.

(b) If a school district is under enhanced financial oversight pursuant to RCW 28A.315.221, the temporary interfund loan transaction must additionally be approved by the special administrator appointed to oversee and carry out financial conditions imposed on the district as recommended by the financial oversight committee.

(3) The office of the superintendent of public instruction shall adopt rules as necessary to implement this section.

**Sec.**  RCW 28A.320.330 and 2023 c 474 s 8022 and 2023 c 402 s 1 are each reenacted and amended to read as follows:

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 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 the supplemental expenditure schedule under (c) of this subsection, and any other supplemental expenditure schedules required by the superintendent of public instruction or state auditor, for purposes of RCW 43.09.2856.

(c) Beginning in the 2019-20 school year, the superintendent of public instruction must require school districts to provide a supplemental expenditure schedule by revenue source that identifies the amount expended by object for each of the following supplementary enrichment activities beyond the state funded amount:

(i) Minimum instructional offerings under RCW 28A.150.220 or 28A.150.260 not otherwise included on other lines;

(ii) Staffing ratios or program components under RCW 28A.150.260, including providing additional staff for class size reduction beyond class sizes allocated in the prototypical school model and additional staff beyond the staffing ratios allocated in the prototypical school formula;

(iii) Program components under RCW 28A.150.200, 28A.150.220, or 28A.150.260, not otherwise included on other lines;

(iv) Program components to support students in the program of special education;

(v) Program components of professional learning, as defined by RCW 28A.415.430, beyond that allocated under RCW 28A.150.415;

(vi) Extracurricular activities;

(vii) Extended school days or an extended school year;

(viii) Additional course offerings beyond the minimum instructional program established in the state's statutory program of basic education;

(ix) Activities associated with early learning programs;

(x) Activities associated with providing the student transportation program;

(xi) Any additional salary costs attributable to the provision or administration of the enrichment activities allowed under RCW 28A.150.276;

(xii) Additional activities or enhancements that the office of the superintendent of public instruction determines to be a documented and demonstrated enrichment of the state's statutory program of basic education under RCW 28A.150.276; and

(xiii) All other costs not otherwise identified in other line items.

(d) For any salary and related benefit costs identified in (c)(xi), (xii), and (xiii) of this subsection, the school district shall maintain a record describing how these expenditures are documented and demonstrated enrichment of the state's statutory program of basic education. School districts shall maintain these records until the state auditor has completed the audit under RCW 43.09.2856.

(e) For school districts of the second class as defined ((~~by [in]~~)) in RCW 28A.300.065, a depreciation subfund for the school district to reserve funds for future facility and equipment needs. Up to two percent of a second class school district's general fund may be deposited each fiscal year into the depreciation subfund for the purpose of preventative maintenance or emergency facility needs. The preventative maintenance must be necessary to realize the originally anticipated useful life of a building or facility and include: Exterior painting of facilities; replacement or renovation of roofing, exterior walls, windows, heating, air conditioning and ventilation systems, floor coverings in classrooms and common areas, and electrical and plumbing systems; and renovation of playfields, athletic facilities, and other district real property. School districts of the second class, subject to applicable public works bid limits, may use school district employees to perform preventative maintenance with moneys from the depreciation subfund, but moneys from the depreciation subfund may not be used for employee compensation that is unrelated to this subsection (1)(e).

(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 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.

(h) ((~~During the 2021-2023 fiscal biennium, renovation and replacement of facilities and systems, purchase or installation of items of equipment and furniture, including maintenance vehicles and machinery, and other preventative maintenance or infrastructure improvement purposes.~~)) Temporary interfund loans as authorized under section 1 of this act.

(i) During the 2023-2025 fiscal biennium, for moneys in the capital projects fund not attributable to capital levies, moving of equipment and furniture between buildings and warehouses for storage, moving of the content of teachers' classrooms between buildings, and furniture purchases, when these costs are due to the following activities: Construction, remodeling, replacement, temporary placement, consolidation, or directed transfer.

(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.

**Sec.**  RCW 28A.505.130 and 2023 c 435 s 11 are each amended to read as follows:

(1) For each fund contained in the school district budget the estimated expenditures for the budgeted fiscal year must not be greater than the total of the estimated revenues for the budgeted fiscal year, the estimated fund balance at the beginning of the budgeted fiscal year less the estimated reserve fund balance at the end of the budgeted fiscal year, and the projected revenue from receivables collectible on future years as approved by the superintendent of public instruction for inclusion in the budget.

(2) The proceeds of any interfund loan must not be used to balance the budget of the borrowing fund, except in the following circumstances:

(a) In fiscal year 2024 when such loans may be used to address budget destabilization in the aftermath of the COVID-19 pandemic. Interfund loans in fiscal year 2024 may be for a duration of two years; and

(b) As authorized under section 1 of this act.

**Sec.**  RCW 28A.315.221 and 2012 c 186 s 8 are each amended to read as follows:

(1) The superintendent of public instruction shall convene a financial oversight committee:

(a) At the request of the board of directors of a financially insolvent district;

(b) When the superintendent of public instruction determines a district is financially insolvent, after first consulting with the educational service district where the district is located and notifying the district the committee will be convened; or

(c) When a district has been on binding conditions pursuant to RCW 28A.505.110 for two consecutive years and does not have a satisfactory financial plan.

(2) The financial oversight committee comprises two representatives from the office of the superintendent of public instruction, one representative from an educational service district where a financially insolvent school district is not located, and one nonvoting representative from the educational service district where the financially insolvent school district is located.

(3) The financial oversight committee shall review the financial condition of a financially insolvent school district. In conducting its review, the committee shall hold a public hearing in the financially insolvent school district or educational service district in order to receive public comment on any proposed financial plans. If the financial oversight committee feels that dissolution of the financially insolvent school district is a valid option, it shall receive input at the public hearing on options for dissolving said school district.

(4) After holding a public hearing as provided in subsection (3) of this section, the financial oversight committee must make a recommendation to the superintendent of public instruction to either dissolve a financially insolvent school district or to place a district under enhanced financial monitoring to reduce the risk of dissolution due to insolvency. The superintendent of public instruction must implement financial oversight committee recommendations via enhanced financial oversight, which will be monitored by the educational service district.

(5) Enhanced financial oversight may include, but is not limited to, the following types of actions, which the superintendent of public instruction is expressly authorized to implement and enforce:

(a) Appointment of a special administrator to ((~~oversee~~)): Oversee and carry out financial conditions imposed on the district as recommended by the financial oversight committee; and approve temporary interfund loan transactions authorized under section 1 of this act as appropriate;

(b) Review, approval, and limitations on a school district's authority to enter into contracts;

(c) Review, approval, and limitations on hiring and personnel actions; ((~~and~~))

(d) Liquidation or disposition of fixed assets and contractual liabilities by any reasonable and documented method provided the liquidation or disposition of fixed assets and contractual liabilities is reasonably necessary before filing a dissolution petition; and

(e) Directing the sale of real property or assets of the school district and directing the deposit of proceeds from such sale into a fund as selected by the committee.

(6) Any new, amended, or renewed contract entered into by a school district that is subject to enhanced financial monitoring that has not been approved by the educational service district or special administrator, or that is inconsistent with conditions imposed on the district pursuant to this section, is null and void.

(7) Any action taken by a school district subject to enhanced financial monitoring that is likely to affect the district's finances is null and void if the action was not approved by the educational service district or special administrator or if the action is inconsistent with conditions imposed on the district pursuant to this section.

(8) The superintendent of public instruction shall adopt rules to carry out the provisions in this section, which may include, but are not limited to, identifying the responsibilities and authority of the financial oversight committee, the educational service district, the special administrator, and the school district and the implementation of enhanced financial oversight.

**Sec.**  RCW 28A.335.130 and 2004 c 6 s 2 are each amended to read as follows:

((~~Except as provided in RCW 28A.335.240(1), the~~)) The proceeds from any sale of school district real property by a board of directors shall be deposited to the debt service fund and/or the capital projects fund, except for ((~~amounts~~)):

(1) Amounts required to be expended for the costs associated with the sale of such property, which moneys may be deposited into the fund from which the expenditure was incurred;

(2) Amounts authorized by a financial oversight committee established under RCW 28A.315.221 to be deposited into a different fund; or

(3) As provided in RCW 28A.335.240(1).

**Sec.**  RCW 28A.335.120 and 2006 c 263 s 913 are each amended to read as follows:

(1) The board of directors of any school district of this state may:

(a) Sell for cash, at public or private sale, and convey by deed all interest of the district in or to any of the real property of the district which is no longer required for school purposes or which has been authorized for sale by a financial oversight committee established under RCW 28A.315.221; and

(b) Purchase real property for the purpose of locating thereon and affixing thereto any house or houses and appurtenant buildings removed from school sites owned by the district and sell for cash, at public or private sale, and convey by deed all interest of the district in or to such acquired and improved real property.

(2) When the board of directors of any school district proposes a sale of school district real property pursuant to this section and the value of the property exceeds seventy thousand dollars, the board shall publish a notice of its intention to sell the property. The notice shall be published at least once each week during two consecutive weeks in a legal newspaper with a general circulation in the area in which the school district is located. The notice shall describe the property to be sold and designate the place where and the day and hour when a hearing will be held. The board shall hold a public hearing upon the proposal to dispose of the school district property at the place and the day and hour fixed in the notice and admit evidence offered for and against the propriety and advisability of the proposed sale.

(3) The board of directors of any school district desiring to sell surplus real property shall publish a notice in a newspaper of general circulation in the school district. School districts shall not sell the property for at least forty-five days following the publication of the newspaper notice.

(4) Private schools shall have the same rights as any other person or entity to submit bids for the purchase of surplus real property and to have such bids considered along with all other bids.

(5) Any sale of school district real property authorized pursuant to this section shall be preceded by a market value appraisal by a professionally designated real estate appraiser ((~~as defined in RCW 74.46.020~~)) or a general real estate appraiser certified under chapter 18.140 RCW selected by the board of directors and no sale shall take place if the sale price would be less than ninety percent of the appraisal made by the real estate appraiser: PROVIDED, That if the property has been on the market for one year or more the property may be reappraised and sold for not less than seventy-five percent of the reappraised value with the unanimous consent of the board.

(6) If in the judgment of the board of directors of any district the sale of real property of the district not needed for school purposes would be facilitated and greater value realized through use of the services of licensed real estate brokers, a contract for such services may be negotiated and concluded: PROVIDED, That the use of a licensed real estate broker will not eliminate the obligation of the board of directors to provide the notice described in this section: PROVIDED FURTHER, That the fee or commissions charged for any broker services shall not exceed seven percent of the resulting sale value for a single parcel: PROVIDED FURTHER, That any professionally designated real estate appraiser ((~~as defined in RCW 74.46.020~~)) or a general real estate appraiser certified under chapter 18.140 RCW selected by the board to appraise the market value of a parcel of property to be sold may not be a party to any contract with the school district to sell such parcel of property for a period of three years after the appraisal.

(7) If in the judgment of the board of directors of any district the sale of real property of the district not needed for school purposes would be facilitated and greater value realized through sale on contract terms, a real estate sales contract may be executed between the district and buyer.

**--- END ---**