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**SENATE BILL 5412**

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**State of Washington**

**69th Legislature**

**2025 Regular Session**

**By** Senators Robinson, Chapman, Nobles, and Saldaña

Read first time 01/22/25. Referred to Committee on Early Learning & K-12 Education.

1 AN ACT Relating to temporary interfund loans for school districts  
2 in binding conditions or under enhanced financial oversight; amending  
3 RCW 28A.505.130 and 28A.315.221; reenacting and amending RCW  
4 28A.320.330; and adding a new section to chapter 28A.320 RCW.

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

6 NEW SECTION. **Sec. 1.** A new section is added to chapter 28A.320  
7 RCW under the subchapter heading "deposit, investment, and use of  
8 proceeds" to read as follows:

9 (1) A school district that is in binding conditions pursuant to  
10 RCW 28A.505.110 or under enhanced financial oversight pursuant to RCW  
11 28A.315.221 may take a temporary interfund loan from its capital  
12 projects fund, subject to the following conditions:

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

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

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

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

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

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

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

13 **Sec. 2.** RCW 28A.320.330 and 2023 c 474 s 8022 and 2023 c 402 s 1  
14 are each reenacted and amended to read as follows:

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

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

20 (b) By the 2018-19 school year, a local revenue subfund of its  
21 general fund to account for the financial operations of a school  
22 district that are paid from local revenues. The local revenues that  
23 must be deposited in the local revenue subfund are enrichment levies  
24 and transportation vehicle levies collected under RCW 84.52.053,  
25 local effort assistance funding received under chapter 28A.500 RCW,  
26 and other school district local revenues including, but not limited  
27 to, grants, donations, and state and federal payments in lieu of  
28 taxes, but do not include other federal revenues, or local revenues  
29 that operate as an offset to the district's basic education  
30 allocation under RCW 28A.150.250. School districts must track  
31 expenditures from this subfund separately to account for the  
32 expenditure of each of these streams of revenue by source, and must  
33 provide the supplemental expenditure schedule under (c) of this  
34 subsection, and any other supplemental expenditure schedules required  
35 by the superintendent of public instruction or state auditor, for  
36 purposes of RCW 43.09.2856.

37 (c) Beginning in the 2019-20 school year, the superintendent of  
38 public instruction must require school districts to provide a  
39 supplemental expenditure schedule by revenue source that identifies

1 the amount expended by object for each of the following supplementary  
2 enrichment activities beyond the state funded amount:

3 (i) Minimum instructional offerings under RCW 28A.150.220 or  
4 28A.150.260 not otherwise included on other lines;

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

10 (iii) Program components under RCW 28A.150.200, 28A.150.220, or  
11 28A.150.260, not otherwise included on other lines;

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

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

16 (vi) Extracurricular activities;

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

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

21 (ix) Activities associated with early learning programs;

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

24 (xi) Any additional salary costs attributable to the provision or  
25 administration of the enrichment activities allowed under RCW  
26 28A.150.276;

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

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

33 (d) For any salary and related benefit costs identified in  
34 (c)(xi), (xii), and (xiii) of this subsection, the school district  
35 shall maintain a record describing how these expenditures are  
36 documented and demonstrated enrichment of the state's statutory  
37 program of basic education. School districts shall maintain these  
38 records until the state auditor has completed the audit under RCW  
39 43.09.2856.

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

19 (2) A capital projects fund shall be established for major  
20 capital purposes. All statutory references to a "building fund" shall  
21 mean the capital projects fund so established. Money to be deposited  
22 into the capital projects fund shall include, but not be limited to,  
23 bond proceeds, proceeds from excess levies authorized by RCW  
24 84.52.053, state apportionment proceeds as authorized by RCW  
25 28A.150.270, earnings from capital projects fund investments as  
26 authorized by RCW 28A.320.310 and 28A.320.320, and state forest  
27 revenues transferred pursuant to subsection (3) of this section.

28 Money derived from the sale of bonds, including interest earnings  
29 thereof, may only be used for those purposes described in RCW  
30 28A.530.010, except that accrued interest paid for bonds shall be  
31 deposited in the debt service fund.

32 Money to be deposited into the capital projects fund shall  
33 include but not be limited to rental and lease proceeds as authorized  
34 by RCW 28A.335.060, and proceeds from the sale of real property as  
35 authorized by RCW 28A.335.130.

36 Money legally deposited into the capital projects fund from other  
37 sources may be used for the purposes described in RCW 28A.530.010,  
38 and for the purposes of:

39 (a) Major renovation and replacement of facilities and systems  
40 where periodical repairs are no longer economical or extend the

1 useful life of the facility or system beyond its original planned  
2 useful life. Such renovation and replacement shall include, but shall  
3 not be limited to, major repairs, exterior painting of facilities,  
4 replacement and refurbishment of roofing, exterior walls, windows,  
5 heating and ventilating systems, floor covering in classrooms and  
6 public or common areas, and electrical and plumbing systems.

7 (b) Renovation and rehabilitation of playfields, athletic fields,  
8 and other district real property.

9 (c) The conduct of preliminary energy audits and energy audits of  
10 school district buildings. For the purpose of this section:

11 (i) "Preliminary energy audits" means a determination of the  
12 energy consumption characteristics of a building, including the size,  
13 type, rate of energy consumption, and major energy using systems of  
14 the building.

15 (ii) "Energy audit" means a survey of a building or complex which  
16 identifies the type, size, energy use level, and major energy using  
17 systems; which determines appropriate energy conservation maintenance  
18 or operating procedures and assesses any need for the acquisition and  
19 installation of energy conservation measures, including solar energy  
20 and renewable resource measures.

21 (iii) "Energy capital improvement" means the installation, or  
22 modification of the installation, of energy conservation measures in  
23 a building which measures are primarily intended to reduce energy  
24 consumption or allow the use of an alternative energy source.

25 (d) Those energy capital improvements which are identified as  
26 being cost-effective in the audits authorized by this section.

27 (e) Purchase or installation of additional major items of  
28 equipment and furniture: PROVIDED, That vehicles shall not be  
29 purchased with capital projects fund money.

30 (f)(i) Costs associated with implementing technology systems,  
31 facilities, and projects, including acquiring hardware, licensing  
32 software, and online applications and training related to the  
33 installation of the foregoing. However, the software or applications  
34 must be an integral part of the district's technology systems,  
35 facilities, or projects.

36 (ii) Costs associated with the application and modernization of  
37 technology systems for operations and instruction including, but not  
38 limited to, the ongoing fees for online applications, subscriptions,  
39 or software licenses, including upgrades and incidental services, and  
40 ongoing training related to the installation and integration of these

1 products and services. However, to the extent the funds are used for  
2 the purpose under this subsection (2)(f)(ii), the school district  
3 shall transfer to the district's general fund the portion of the  
4 capital projects fund used for this purpose. The office of the  
5 superintendent of public instruction shall develop accounting  
6 guidelines for these transfers in accordance with internal revenue  
7 service regulations.

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

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

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

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

39 (4) An associated student body fund as authorized by RCW  
40 28A.325.030.

1 (5) Advance refunding bond funds and refunded bond funds to  
2 provide for the proceeds and disbursements as authorized in chapter  
3 39.53 RCW.

4 **Sec. 3.** RCW 28A.505.130 and 2023 c 435 s 11 are each amended to  
5 read as follows:

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

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

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

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

22 **Sec. 4.** RCW 28A.315.221 and 2012 c 186 s 8 are each amended to  
23 read as follows:

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

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

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

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

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

1 nonvoting representative from the educational service district where  
2 the financially insolvent school district is located.

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

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

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

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

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

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

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

38 (6) Any new, amended, or renewed contract entered into by a  
39 school district that is subject to enhanced financial monitoring that  
40 has not been approved by the educational service district or special

1 administrator, or that is inconsistent with conditions imposed on the  
2 district pursuant to this section, is null and void.

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

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

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