

FINAL BILL REPORT

SHB 1431

C 192 L 11
Synopsis as Enacted

Brief Description: Addressing financial insolvency of school districts.

Sponsors: House Committee on Education (originally sponsored by Representatives Anderson and Haigh).

House Committee on Education

House Committee on Education Appropriations & Oversight

Senate Committee on Early Learning & K-12 Education

Senate Committee on Ways & Means

Background:

After experiencing severe financial problems, Vader School District No. 18 (Vader) was dissolved and annexed to Castle Rock School District No. 401 in 2007. Prior to that event, it had been almost 25 years since the last school consolidation in Washington took place.

In November of 2009, Jon Molohon, Educational Service District (ESD) 113 Assistant Superintendent for Fiscal Services, ESD Fiscal Officer, and the Administrator of Vader Binding Conditions published a report titled, *The Vader School District Closing In Retrospect* (Vader report). Primarily, the Vader report identifies and makes recommendations to address the lack of a clear legal framework and process for dissolving a school district for financial reasons, including the lack of clear legal authority for the Office of the Superintendent of Public Instruction (OSPI) or an ESD Regional Committee to determine and manage the myriad financial and practical issues that such an event presents.

School District Dissolution.

Statutory provisions emphasize voluntary and negotiated reorganization of school districts.

There are only two references to dissolution of a district in statute:

1. School district boundaries may be altered by the dissolution and annexation to an existing district of a part or all of another district.
2. A Regional Committee is required to dissolve any school district that, in the prior year:
 - has an annual enrollment of fewer than five K-8 students; or
 - has not made a reasonable effort to provide the minimum 180-day school year.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

No statutes provide for dissolution of a school district in any other fashion or for any other reason. The dissolution of Vader occurred under the second of the two laws referenced above, but only because the district agreed not to make up some days missed in the prior year due to an emergency closure in order to fall under the provisions of this statute.

Binding Conditions.

School districts must annually submit a budget to the OSPI when expected expenditures for the upcoming school year do not exceed expected revenues from all sources. If a school district cannot submit a balanced budget, it may petition the OSPI to be allowed to include revenues from a future school year (in other words, borrow against future state apportionment payments) only if the district agrees to certain binding conditions that are intended to improve the district's financial condition.

There are nine ESDs in the state. The ESD Financial Officer for the ESD in which the school district is located is assigned to be the administrator of the binding conditions. The administrator has limited authority and primarily serves as a financial consultant to the school district. According to a Joint Legislative Audit and Review Committee analysis, there have been 12 districts in binding conditions at some point over the last 10 years. Most have resolved their finances in one to two years. All but two of these districts have had fewer than 2,000 students.

Vader Report Recommendations.

The recommendations made in the Vader report can be summarized as follows:

1. The OSPI or a school district should be authorized to initiate the dissolution of a district due to financial insolvency and the Regional Committee should make the determination and oversee the dissolution.
2. Various financial and legal issues associated with dissolution should be addressed, including determining what is the appropriate length of time to permit a district to solve its own problems without outside intervention.
3. Technical amendments should be made to other laws dealing with district reorganization and dissolution.

Summary:

The Superintendent of Public Instruction (Superintendent) is tasked with convening the ESDs for the purpose of analyzing options and making recommendations for a clear legal framework and process for dissolution of a school district on the basis of financial insolvency. The analysis must include:

- a definition of financial insolvency;
- a timeframe, criteria, and process for initiating dissolution of a district;
- roles and responsibilities of various entities, including the OSPI, the ESDs, and regional committees on school district organization; and
- recommendations with respect to various issues such as terminating staff contracts, liquidation of liabilities, and dealing with bonded indebtedness.

In conducting the analysis, the ESDs must consult with individuals with legal and financial expertise. The ESDs may recommend a financial early warning system for consistent, early

identification of school districts with potential fiscal difficulties. The recommendations must address amendments to current law as well as propose new laws as necessary.

The Superintendent must submit the final report and recommendations to the Governor and the fiscal committees of the Legislature by January 5, 2012.

This act is null and void if not funded in the State Omnibus Operating Appropriations Act.

Votes on Final Passage:

House	97	0	
Senate	49	0	(Senate amended)
House	96	0	(House concurred)

Effective: July 22, 2011