H-3900.2

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**HOUSE BILL 2965**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**State of Washington 64th Legislature 2016 Regular Session**

**By** Representatives Magendanz, Young, Muri, Rodne, Stokesbary, and Hargrove

AN ACT Relating to accountability and transparency in school district expenditures for the state's program of basic education and for local purposes; amending RCW 28A.300.173, 28A.320.330, 28A.505.140, 28A.505.040, 28A.505.050, 28A.505.060, 28A.505.100, 28A.400.200, and 43.09.265; adding a new section to chapter 28A.320 RCW; adding a new section to chapter 43.09 RCW; and providing an effective date.

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

**Sec.**  RCW 28A.300.173 and 2010 c 236 s 12 are each amended to read as follows:

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION PORTAL.

(1) The office of the superintendent of public instruction shall implement and maintain an internet-based portal that provides ready public access to the state's prototypical school funding model for basic education under RCW 28A.150.260.

(2) The portal must provide ((~~citizens~~)) the opportunity to view, for each local school building, the following:

(a) Staffing levels and other prototypical school funding elements that are assumed under the state funding formula((~~. The portal must also provide~~));

(b) A matrix displaying how individual school districts are deploying those same state resources through their allocation of staff and other resources to school buildings, so that citizens are able to compare the state assumptions to district allocation decisions for each local school building; and

(c) Beginning with the 2018-19 school year financial data, how levy and other local revenues are expended to enhance the state-provided staffing levels and other prototypical school funding elements in RCW 28A.150.260.

**Sec.**  RCW 28A.320.330 and 2009 c 460 s 1 are each amended to read as follows:

REQUIRED SCHOOL DISTRICT FUNDS.

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

(1) A general fund for maintenance and operation of the school district to account for all financial operations of the school district except those required to be accounted for in another fund.

(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.

(3) A debt service fund to provide for tax proceeds, other revenues, and disbursements as authorized in chapter 39.44 RCW. State forest land 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.

(6) By the 2018-19 school year, each school district must establish a local revenue fund for the purpose of accounting for the financial operations of a school district that are paid from levies or other local revenue. Money that districts must deposit into the local revenue fund include, but are not limited to, proceeds from maintenance and operations levies as authorized by RCW 84.52.053, and local effort assistance payments from the state as authorized by RCW 84.52.0531. Districts must track expenditures from this fund separately to account for the usage of levies and other local revenues.

**Sec.**  RCW 28A.505.140 and 2006 c 263 s 202 are each amended to read as follows:

SCHOOL DISTRICT ACCOUNTING.

(1) Notwithstanding any other provision of law, the superintendent of public instruction shall adopt such rules as will ensure proper budgetary procedures and practices, including monthly financial statements consistent with the provisions of RCW 43.09.200, and this chapter. By the 2018-19 school year, the rules shall require school districts to provide separate accounting of state, federal, and local revenues and expenditures, and also separate accounting of basic education and nonbasic education expenditures.

(2) If the superintendent of public instruction determines upon a review of the budget of any district that said budget does not comply with the budget procedures established by this chapter or by rules adopted by the superintendent of public instruction, or the provisions of RCW 43.09.200, the superintendent shall give written notice of this determination to the board of directors of the local school district.

(3) The local school district, notwithstanding any other provision of law, shall, within thirty days from the date the superintendent of public instruction issues a notice pursuant to subsection (2) of this section, submit a revised budget which meets the requirements of RCW 43.09.200, this chapter, and the rules of the superintendent of public instruction.

**Sec.**  RCW 28A.505.040 and 1995 c 121 s 1 are each amended to read as follows:

SCHOOL DISTRICT BUDGET DEVELOPMENT AND PUBLICATION.

On or before the tenth day of July in each year, all school districts shall prepare their budget for the ensuing fiscal year. The budget shall set forth the complete financial plan of the district for the ensuing fiscal year.

Beginning with the budget for the 2018-19 school year, a school district budget must include the development and update of a four-year budget projection that includes a four-year enrollment projection, and the completed budget must contain a summary of these projections.

Upon completion of their budgets, every school district shall electronically publish a notice stating that the district has completed the budget, posted it electronically, placed it on file in the school district administration office, and that a copy thereof will be furnished to any person who calls upon the district for it. The district shall provide a sufficient number of copies of the budget to meet the reasonable demands of the public. School districts shall submit one copy of their budget to their educational service districts and the superintendent of public instruction for review and comment by July 10th. The superintendent of public instruction may delay the date in this section if the state's operating budget is not finally approved by the legislature until after June 1st.

**Sec.**  RCW 28A.505.050 and 1995 c 121 s 2 are each amended to read as follows:

NOTIFICATION OF SCHOOL DISTRICT BUDGET MEETINGS.

(1) Upon completion of their budgets as provided in RCW 28A.505.040, every school district shall publish a notice stating that the board of directors will meet for the purpose of fixing and adopting the budget of the district for the ensuing fiscal year.

(2) Such notice shall designate the date, time, and place of said meeting which shall occur no later than the thirty-first day of August for first-class school districts, and the first day of August for second-class school districts.

(3) The notice shall also state that any person may appear ((~~thereat~~)) at the meeting and be heard for or against any part of such budget or, beginning with the 2018-19 school year, the four-year budget projection summary and the four-year enrollment projection. ((~~Said~~)) The notice shall be electronically published and published at least once each week for two consecutive weeks in a newspaper of general circulation in the district, or, if there be none, in a newspaper of general circulation in the county or counties in which such district is a part. The last notice shall be published no later than seven days immediately prior to the hearing.

**Sec.**  RCW 28A.505.060 and 1990 c 33 s 418 are each amended to read as follows:

SCHOOL DISTRICT BUDGET MEETINGS.

(1) On the date given in said notice as provided in RCW 28A.505.050 the school district board of directors shall meet at the time and place designated. Any person may appear ((~~thereat~~)) at the meeting and be heard for or against any part of such budget or, beginning with the 2018-19 school year, the four-year budget projection summary and the four-year enrollment projection.

(2) Such hearing may be continued not to exceed a total of two days: PROVIDED, That the budget must be adopted no later than August 31st in first-class school districts, and not later than August 1st in second-class school districts.

(3) Upon conclusion of the hearing, the board of directors shall fix and determine the appropriation from each fund contained in the budget separately, and shall by resolution adopt the budget and the appropriations as so finally determined, and, beginning with the 2018-19 school year, enter the same in the official minutes of the board: PROVIDED, That first-class school districts shall file copies of their adopted budget with their educational service district no later than September 3rd, and second-class school districts shall forward copies of their adopted budget to their educational service district no later than August 3rd for review, alteration, and approval as provided for in RCW 28A.505.070 by the budget review committee.

**Sec.**  RCW 28A.505.100 and 1990 c 33 s 420 are each amended to read as follows:

SCHOOL DISTRICT BUDGET FORMAT.

(1) The budget shall set forth the estimated revenues for the ensuing fiscal year, the estimated revenues for the fiscal year current at the time of budget preparation, the actual revenues for the last completed fiscal year, and the reserved and unreserved fund balances for each year. Beginning September 1, 2018, the budget must set forth revenues separately by source. The estimated revenues from all sources for the ensuing fiscal year shall not include any revenue not anticipated to be available during that fiscal year: PROVIDED, That school districts, pursuant to RCW 28A.505.110 can be granted permission by the superintendent of public instruction to include as revenues in their budgets, receivables collectible in future fiscal years.

(2) Through the 2017-18 school year, the budget shall set forth by detailed items or classes the estimated expenditures for the ensuing fiscal year, the estimated expenditures for the fiscal year current at the time of budget preparation, and the actual expenditures for the last completed fiscal year. Total salary amounts, full-time equivalents, and the high, low, and average annual salaries, shall be displayed by job classification within each budget classification. If individual salaries within each job classification are not displayed, districts shall provide the individual salaries together with the title or position of the recipient and the total amounts of salary under each budget class upon request. Salary schedules shall be displayed.

(3) Beginning with the 2018-19 school year, a school district's budget must set forth:

(a) By detailed items or classes and revenue source, the estimated expenditures for the ensuing fiscal year, the estimated expenditures for the fiscal year current at the time of budget preparation, and the actual expenditures for the last completed fiscal year;

(b) For each individual employee, the title or position, the salary amount paid as compensation for the state's program of basic education, any additional salary amount that is funded with local revenues or other sources, and total salary;

(c) The number of full-time equivalent employees by job classification within each budget classification;

(d) For each job classification, the high, low, and average salary amount paid as compensation for the state's program of basic education, and the high, low, and average salary amount paid as additional salary that is funded with local revenues or other sources; and

(e) The district's salary schedule.

(4) In districts where negotiations have not been completed, the district may budget the salaries at the current year's rate and restrict fund balance for the amount of anticipated increase in salaries, so long as an explanation shall be attached to the budget on such restriction of fund balance.

NEW SECTION. **Sec.**  A new section is added to chapter 28A.320 RCW to read as follows:

FOUR-YEAR BUDGET PROJECTIONS.

Beginning with the 2018-19 school year, each school district is encouraged to annually use the four-year budget projection and the four-year enrollment projection developed under RCW 28A.505.040 to inform the school district's decisions regarding the district's instructional priorities and program offerings and to communicate this information to the local community.

**Sec.**  RCW 28A.400.200 and 2010 c 235 s 401 are each amended to read as follows:

COMPENSATION FOR STATE PROGRAM DEFINED—SUPPLEMENTAL CONTRACTS MAY NOT BE USED FOR SUCH COMPENSATION.

(1) Every school district board of directors shall fix, alter, allow, and order paid salaries and compensation for all district employees in conformance with this section.

(2)(a) Salaries for certificated instructional staff shall not be less than the salary provided in the appropriations act in the statewide salary allocation schedule for an employee with a baccalaureate degree and zero years of service; and

(b) Salaries for certificated instructional staff with a master's degree shall not be less than the salary provided in the appropriations act in the statewide salary allocation schedule for an employee with a master's degree and zero years of service.

(3)(a) The actual average salary paid to certificated instructional staff shall not exceed the district's average certificated instructional staff salary used for the state basic education allocations for that school year as determined pursuant to RCW 28A.150.410.

(b) Fringe benefit contributions for certificated instructional staff shall be included as salary under (a) of this subsection only to the extent that the district's actual average benefit contribution exceeds the amount of the insurance benefits allocation provided per certificated instructional staff unit in the state operating appropriations act in effect at the time the compensation is payable. For purposes of this section, fringe benefits shall not include payment for unused leave for illness or injury under RCW 28A.400.210; employer contributions for old age survivors insurance, workers' compensation, unemployment compensation, and retirement benefits under the Washington state retirement system; or employer contributions for health benefits in excess of the insurance benefits allocation provided per certificated instructional staff unit in the state operating appropriations act in effect at the time the compensation is payable. A school district may not use state funds to provide employer contributions for such excess health benefits.

(c) Salary and benefits for certificated instructional staff in programs other than basic education shall be consistent with the salary and benefits paid to certificated instructional staff in the basic education program.

(4) Salaries and benefits for certificated instructional staff may exceed the limitations in subsection (3) of this section only by separate contract for additional time, for additional responsibilities, for incentives, or for implementing specific measurable innovative activities, including professional development, specified by the school district to: (a) Close one or more achievement gaps, (b) focus on development of science, technology, engineering, and mathematics (STEM) learning opportunities, or (c) provide arts education. Beginning September 1, 2011, school districts shall annually provide a brief description of the innovative activities included in any supplemental contract to the office of the superintendent of public instruction. The office of the superintendent of public instruction shall summarize the district information and submit an annual report to the education committees of the house of representatives and the senate. Supplemental contracts shall not cause the state to incur any present or future funding obligation. Supplemental contracts shall be subject to the collective bargaining provisions of chapter 41.59 RCW and the provisions of RCW 28A.405.240, shall not exceed one year, and if not renewed shall not constitute adverse change in accordance with RCW 28A.405.300 through 28A.405.380. ((~~No district may enter into a supplemental contract under this subsection for the provision of services which are a part of the basic education program required by Article IX, section 3 of the state Constitution.~~))

(5) A district may not enter into a supplemental contract under subsection (4) of this section as compensation for the state's program of basic education. Compensation for the state's program of basic education is the salary and benefits necessary to hire and retain qualified staff to deliver the state's program of basic education as defined in the minimum instructional offering requirements of RCW 28A.150.220 and the staffing ratios in the prototypical school formula of RCW 28A.150.260. Compensation for the state's program of basic education excludes locally determined activities that exceed or enrich the minimum instructional offering requirements of RCW 28A.150.220 and the staffing ratios of RCW 28A.150.260. Examples of such exclusions include, but are not limited to, extended school days, additional staff for class size reduction beyond class sizes allocated under the prototypical school model, course offerings beyond the minimum instructional program, and extracurricular activities. The superintendent of public instruction is authorized to adopt rules to further define locally determined activities that are excluded from the state's program of basic education.

(6) Employee benefit plans offered by any district shall comply with RCW 28A.400.350 ((~~and~~)), 28A.400.275, and 28A.400.280.

NEW SECTION. **Sec.**  A new section is added to chapter 43.09 RCW to read as follows:

AUDITOR REVIEWS OF EXPENDITURE OF LOCAL REVENUES.

Beginning with the 2018-19 school year, to ensure that school district levy and other local revenues are not being expended as compensation for the state's program of basic education, the state auditor's regular financial audits of school districts must include a review of the expenditure of levy and other local revenues, including any supplemental contracts entered into under RCW 28A.400.200.

**Sec.**  RCW 43.09.265 and 1995 c 301 s 16 are each amended to read as follows:

AUDITOR REPORTING ON SCHOOL DISTRICT NONCOMPLIANCE.

(1) The state auditor shall review the tax levies of all local governments in the regular examinations under RCW 43.09.260.

(2) Beginning with the 2018-19 school year, the state auditor, with the assistance of the department of revenue, shall report within ninety days to the office of the superintendent of public instruction and the education and finance committees of the legislature any findings of local school district noncompliance with statutory restrictions on the use of school district levies.

NEW SECTION. **Sec.**  EFFECTIVE DATE. Section 9 of this act takes effect September 1, 2018.

**--- END ---**