

SENATE BILL REPORT

ESB 5344

As Passed Senate, February 13, 2024

Title: An act relating to a public school revolving fund.

Brief Description: Establishing a school modernization loan program.

Sponsors: Senators Schoesler, Dozier, Braun, Wagoner, Warnick, MacEwen and Torres.

Brief History:

Committee Activity: Early Learning & K-12 Education: 1/30/23, 2/02/23 [DP-WM].
Ways & Means: 2/22/23, 2/24/23 [DP].

Floor Activity: Passed Senate: 2/13/24, 49-0.

Brief Summary of Engrossed Bill

- Directs the Office of the Superintendent of Public Instruction (OSPI) to administer a modernization loan program for school districts and state-tribal education compact schools with significant building system deficiencies.
- Establishes an advisory committee to design the loan application process, develop prioritization criteria, and evaluate grant recipients.
- Directs OSPI to submit a list of modernization projects to the Governor and Legislature on an annual basis and directs the State Treasurer to administer loans approved by the Legislature.
- Establishes loan criteria including a maximum 1 percent interest rate and a 20-year loan period.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Wellman, Chair; Nobles, Vice Chair; Wilson, C., Vice Chair;

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

Hawkins, Ranking Member; Dozier, Hunt, McCune, Mullet and Pedersen.

Staff: Alex Fairfortune (786-7416)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Robinson, Vice Chair, Operating & Revenue; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Dhingra, Hasegawa, Hunt, Keiser, Muzzall, Nguyen, Pedersen, Saldaña, Torres, Van De Wege, Wagoner and Wellman.

Staff: Michael Bezanson (786-7449)

Background: School Construction Assistance Program. The School Construction Assistance Program (SCAP), administered by the Office of the Superintendent of Public Instruction (OSPI), provides school districts with financial assistance to construct new schools and modernize existing facilities. Through SCAP, the state contributes funding, as well as technical assistance, for facility planning, construction, and contracting. State funding assistance is determined using a funding formula based on three main factors—eligible area, construction cost allocation, and the funding assistance percentage.

Local Capital Funding. To receive state funding assistance, school districts must raise local revenue to demonstrate local support for the proposed project. Districts may obtain local funds to finance capital improvements through a variety of methods, including bonds, levies, investment proceeds, and mitigation and impact fees. The most common method used to finance the local portion of large capital projects is through the sale of Unlimited Tax General Obligation (UTGO) bonds. School districts may issue UTGO bonds for capital purposes if the bonds are approved by at least 60 percent of qualified voters and they do not exceed the district's constitutional and statutory debt limits.

Small School District Modernization Grant Program. In 2020, the Legislature passed 2SSB 5572, establishing the Small School District Modernization Grant Program (grant program) for school districts and state-tribal compact schools with 1000 or fewer enrolled students. Applicants may seek planning grants or construction grants to update school facilities that have significant system deficiencies but do not require full replacement. To be eligible, small districts must have such low property value that replacing or modernizing the school facility through SCAP would present an extraordinary tax burden on property owners or exceed allowable debt.

The grant program is administered by OSPI and an appointed advisory committee that evaluates applications and develops a prioritized list of grant recipients. When prioritizing

applications, the advisory committee must seek to achieve the greatest improvement of school facilities in small districts and state-tribal compact schools with the most limited financial capacity for projects that are likely to improve student health, safety, and academic performance for the largest number of students. District and state-tribal education compact school resources may be considered in prioritizing grants, but local funding assistance percentage and replacement value percentage requirements applicable under the SCAP do not apply.

The final prioritized list must describe the project, the proposed state funding level, and the estimated total project cost including other funding and in-kind resources. The list must also indicate student achievement measures that will be used to evaluate the benefits of the project. The Governor and OSPI may determine the level of funding for small district modernization grants in their capital budget requests, but must follow the prioritized list developed by the advisory committee.

Summary of Engrossed Bill: Modernization Loan Program. OSPI, in coordination with the Office of the State Treasurer (Treasurer) must administer a modernization loan program for school districts and state-tribal education compact schools (compact schools) with significant building system deficiencies, subject to appropriated amounts.

Planning Grants. OSPI must assist districts and compact schools interested in seeking modernization loans by providing technical assistance and planning grants of up to \$75,000 per applicant. OSPI may prioritize planning grants for school districts and compact schools with the most serious building deficiencies and the most limited financial capacity.

Advisory Committee. An advisory committee must assist OSPI in designing the loan application process, developing the prioritization criteria, and evaluating grant recipients. The advisory committee must be composed of the following members:

- four members of the Legislature, one of whom is appointed by the chairperson of each of the two largest political caucuses in the Senate and House of Representatives; and
- three members who have experience in financing and managing school facilities, as appointed by the Superintendent of Public Instruction.

Advisory committee members may not be involved in developing projects or applying for modernization loans. OSPI must provide administrative and staff support to the advisory committee.

Prioritized List. OSPI must submit a list of modernization projects, as prioritized by the advisory committee, to the Governor and Legislature by January 8, 2025 and every November 1st thereafter. The list must include:

- a description of the project;
- the proposed state funding level, not to exceed \$6 million or 10 percent of the appropriated amount;

- estimated total project costs; and
- local funding resources used as repayment.

Loans may only be awarded after the Legislature approves the list of projects.

Loan Administration. The Treasurer must administer the loans approved by the Legislature. Modernization loans may not exceed a 1 percent interest rate or a period of 20 years. Funds collected as repayment of loans must be deposited in the Common School Construction Fund.

Streamlining Project Funding. If a project is also eligible for funding through the SCAP, OSPI must expedite and streamline the administrative requirements, timelines, and matching requirements for the loan funds to be used promptly. Loan funds and SCAP funds may not, when combined, exceed the total project costs less available local resources.

Appropriation: The bill contains a section or sections to limit implementation to the availability of amounts appropriated for that specific purpose.

Fiscal Note: Available. New fiscal note requested on February 13, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: Yes.

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

Staff Summary of Public Testimony (Early Learning & K-12 Education): PRO: This bill puts the revolving fund in the Constitution so that it cannot be swept. The State Treasurer's Office has the necessary expertise. The bill requires that 3 out of 4 caucuses must approve any loan so there would never be partisan or urban/rural control over these loans made at low interest rates. Any amount that Ways and Means wants to put into the fund to get the program started would be acceptable, and the source for that funding is a Ways and Means question.

Persons Testifying (Early Learning & K-12 Education): PRO: Senator Mark Schoesler, Prime Sponsor.

Persons Signed In To Testify But Not Testifying (Early Learning & K-12 Education): No one.

Staff Summary of Public Testimony (Ways & Means): PRO: This bill is an effort to make school construction more affordable. The Treasurer's Office has the expertise with bonds and other debt. The bill is non-partisan and will help schools.

Persons Testifying (Ways & Means): PRO: Senator Mark Schoesler, Prime Sponsor.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.