HOUSE BILL REPORT
SSB 5412

As Reported by House Committee On:
Education

Title: An act relating to temporary interfund loans for school districts in binding conditions or under enhanced financial oversight.

Brief Description: Providing temporary interfund loans for school districts.

Sponsors: Senate Committee on Early Learning & K-12 Education (originally sponsored by Senators Robinson, Chapman, Nobles and Saldaña).

Brief History:
Committee Activity:
Education: 3/24/25, 3/31/25 [DPA].

Brief Summary of Substitute Bill
(As Amended by Committee)

- Allows school districts in binding conditions or under enhanced financial oversight to take a temporary, interest free interfund loan from its capital projects fund, subject to certain conditions.
- Allows boards of directors of school districts in binding conditions to request from the Superintendent of Public Instruction (SPI) authorization to sell real property of the district for purposes of maintaining financial solvency.
- Modifies provisions governing the sale of school district real property when directed by a financial oversight committee convened by the SPI.

HOUSE COMMITTEE ON EDUCATION

Majority Report: Do pass as amended. Signed by 10 members: Representatives Santos, Chair; Shavers, Vice Chair; Bergquist, Callan, Donaghy, Ortiz-Self, Pollet, Reeves, Scott

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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.

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Minority Report: Do not pass. Signed by 9 members: Representatives Rude, Ranking Minority Member; Keaton, Assistant Ranking Minority Member; Chase, Couture, Eslick, Marshall, McEntire, Rule and Steele.

Staff: Ethan Moreno (786-7386).

Background:

School District Finances: Binding Conditions.
If a school district's board of directors is unable to prepare a budget or budget extension for additional appropriations in which the estimated revenues for the budgeted fiscal year, inclusive of fund balance considerations, do not at least equal the estimated expenditures, the board of directors may request permission from the Superintendent of Public Instruction (SPI) to include receivables collected in future years to balance the budget. If the SPI grants the request, the written approval must include binding conditions on the school district designed to improve the district's financial condition.

Financial Oversight Committee and Enhanced Financial Oversight and Monitoring.
If the SPI determines that a school district is financially insolvent, or if requested by a financially insolvent school district, the SPI must convene a financial oversight committee (oversight committee). The SPI must also convene an oversight committee when a school district has been in binding conditions for two consecutive years and does not have a satisfactory financial plan.

The financial oversight committee is comprised of two representatives from the Office of the Superintendent of Public Instruction (OSPI), one representative from an educational service district (ESD) where the financially insolvent school district is not located, and one nonvoting representative from the ESD where the financially insolvent school district is located.

The oversight committee is charged with reviewing the financial condition of the financially insolvent school district, satisfying public hearing requirements, and making a recommendation to the SPI to either dissolve the school district or to place the district under enhanced financial monitoring to reduce the risk of dissolution due to insolvency.

The SPI must implement the oversight committee's recommendations regarding enhanced financial oversight and the associated financial monitoring is conducted by the applicable ESD.

Enhanced financial oversight may include various actions that the SPI is authorized to implement and enforce, with examples including:

- appointing a special administrator to oversee and carry out financial conditions

imposed on the school district as recommended by the oversight committee;
- reviewing, approving, and limiting a school district's authority to enter into contracts and hire employees; and
- liquidating or disposing of fixed assets and contractual liabilities by any reasonable and documented method, subject to certain requirements.

School District Funds and Interfund Loans.
School districts are required by law to establish and maintain various funds and subfunds within their budgets for the receipt, deposit, and authorized use of district moneys. Examples include:
- a general fund to account for all financial operations of the school district except those required to be accounted for in a different fund;
- a local revenue subfund of its general fund for the financial operations of a school district that are paid from local revenues, including revenues from enrichment and transportation vehicle levies; and
- a capital projects fund for major capital purposes, including major renovations and replacements of school district facilities and systems.

As defined in administrative rules of the OSPI, an "interfund loan" is considered to be a temporary loan of moneys between one school district fund and another. Interfund loans, which are subject to various requirements prescribed in rule and statute, must be approved by resolution of the school district's board of directors. Examples of requirements governing interfund loans are as follows:
- interest must be charged by the loaning fund to be paid by the borrowing fund;
- loans may not be made to the detriment of any function or project for which the fund was established; and
- the proceeds of any interfund loan generally may not be used to balance the budget of any borrowing fund.

School District Property: Control and Sale Proceeds.
School district boards of directors have exclusive control of all property, both real and personal, belonging to the district. Boards of directors, subject to applicable provisions, may purchase, lease, receive, and hold property in the name of the school district, and rent, lease, or sell district property. With limited exceptions, the proceeds from any sale of school district property must be deposited to the debt service fund, the capital projects fund, or both.

Summary of Amended Bill:

Interfund Loans.
A school district that is in binding conditions or under enhanced financial oversight may take a temporary interfund loan from its capital projects fund, subject to specified conditions, including that:

- the borrowing fund must repay the full loan amount to the loaning fund within one calendar year;
- the loaning fund may not charge interest on the amounts loaned; and
- the loan may not be made to the detriment of any function or project for which the loaning fund was established.

The board of directors of a school district proposing the interfund loan must adopt a resolution to approve the 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. The proceeds of the interfund loan may be used to balance the budget of the borrowing fund.

If a school district is under enhanced financial oversight at the time of proposing the interfund loan, the loan transaction must also be approved by the special administrator appointed by the applicable financial oversight committee.

The Office of the Superintendent of Public Instruction (OSPI) must adopt rules as necessary to implement the interfund loan provisions of the bill.

Financial Oversight Committees: Appointed Special Administrators.
In addition to approving interfund loans in certain circumstances, special administrators appointed by financial oversight committees are authorized, for school districts under enhanced financial oversight, to direct the sale the district's real property or assets and direct the deposit of the proceeds into a fund selected by the financial oversight committee.

School district boards of directors are expressly authorized to sell real property of the school district that has been authorized for sale by a financial oversight committee.

Authorization to Sell Real Property for Districts in Binding Conditions.
To provide an additional tool for maintaining financial solvency, the board of directors of a school district that is in binding conditions may request from the Superintendent of Public Instruction (SPI) authorization to sell real property of the district. The SPI, subject to the following conditions, may only grant the authorization if the school district demonstrates that:

- the sale is necessary to restore financial stability and prevent adverse impacts to student learning; and
- the proceeds from the sale will be used only for:
    - alleviating or concluding the financial burdens that caused or significantly contributed to the imposition of binding conditions on the school district; or
    - a temporary interfund loan authorized under the bill.

The OSPI must adopt rules to implement the real estate sale authorization provisions. The rules must include requirements to ensure transparency and accountability, and to verify that the school district's use of the proceeds from an authorized sale aligns with the terms of

the authorization. The rules must also prohibit a school district from receiving a real estate sale authorization from the SPI more than once during a 10-year period.

Amended Bill Compared to Substitute Bill:

As compared to the original bill, the amended bill:

- allows boards of directors of school districts in binding conditions to request from the Superintendent of Public Instruction (SPI) authorization to sell real property of the district for purposes of maintaining financial solvency;
- establishes conditions under which the SPI may grant the authorizations;
- directs the Office of the Superintendent of Public Instruction to adopt rules to implement the authorization provisions and delineates certain requirements for the rules; and
- makes corresponding changes to requirements governing the sale of school district real property and deposits of the resulting funds.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is on behalf of Marysville school district, which is under enhanced oversight and working to write a balanced budget. The bill would give the school district two new financial tools. First, if the school district takes an interfund loan, it would not have to pay interest on the loan. Second, if the school district sells property, it would be able to put the proceeds in the district's general fund. A special administrator working between the OSPI, the school district, and the educational service district would be involved in these decisions.

The bill should be amended to support school districts in or approaching binding conditions. The ability to sell real property when in binding conditions would provide school districts with a powerful tool to stabilize their fund balances and operating budgets. Doing so would also help school districts protect previously made post-pandemic investments in instructional and counseling services.

(Opposed) None.

Persons Testifying: Senator June Robinson, prime sponsor; and Dr. Kelly Aramaki, Superintendent, Bellevue School District .

Persons Signed In To Testify But Not Testifying: None.