

SENATE BILL REPORT

SB 5095

As Reported by Senate Committee On:
Early Learning & K-12 Education, February 4, 2025
Ways & Means, February 28, 2025

Title: An act relating to school districts' authority to contract indebtedness for school construction.

Brief Description: Concerning school districts' authority to contract indebtedness for school construction.

Sponsors: Senators Dhingra, Wellman, Riccelli, Cleveland, Pedersen, Cortes, Krishnadasan, Nobles, Salomon, Shewmake, Slatter and Stanford.

Brief History:

Committee Activity: Early Learning & K-12 Education: 1/16/25, 2/04/25 [DPS-WM, DNP].

Ways & Means: 2/17/25, 2/28/25 [DP2S, DNP, w/oRec].

Brief Summary of Second Substitute Bill

- Authorizes school districts to contract indebtedness and issue bonds without a vote of the people, subject to the current indebtedness limit of 0.375 percent, for the purpose of erecting buildings and providing the necessary furniture, apparatus, or equipment.
- Provides that this new authority is limited to school districts that have passed a capital levy and have not been on binding conditions in the two years preceding the date of the contract.
- Provides that a school district that uses this new authority must forgo state funding assistance for the project under the School Construction Assistance Program.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

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.

Majority Report: That Substitute Senate Bill No. 5095 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Wellman, Chair; Nobles, Vice Chair, K-12; Wilson, C., Vice Chair, Early Learning; Harris, Ranking Member; Cortes, Hansen and Krishnadasan.

Minority Report: Do not pass.

Signed by Senators Dozier and McCune.

Staff: Alex Fairfortune

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5095 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Robinson, Chair; Stanford, Vice Chair, Operating; Trudeau, Vice Chair, Capital; Frame, Vice Chair, Finance; Cleveland, Conway, Dhingra, Hansen, Kauffman, Pedersen, Riccelli, Saldaña, Wellman and Wilson, C..

Minority Report: Do not pass.

Signed by Senators Schoesler, Ranking Member, Capital; Dozier, Assistant Ranking Member, Capital; Boehnke, Muzzall, Wagoner and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senators Gildon, Ranking Member, Operating; Torres, Assistant Ranking Member, Operating; Braun and Hasegawa.

Staff: Michael Bezanson

Background: Nonvoted Bonds. A school district may contract indebtedness and issue bonds, up to a total value of 0.375 percent of the taxable property in the district, without a vote of the people for the following purposes:

- the purchase of sites for all buildings, playgrounds, physical education and athletic facilities, and structures authorized by law, or necessary or proper to carry out the functions of a school district;
- improving the energy efficiency of school district buildings or installing systems and components to utilize renewable or inexhaustible energy resources;
- major and minor structural changes and structural additions to buildings, structures, facilities, and sites necessary or proper to carrying out the functions of the school district; and
- the purchase of any real property, personal property, or property rights in connection with the district's duties.

Before issuing nonvoted bonds in excess of \$250,000, a school district must publish a notice of intent to issue such bonds and hold a public hearing on the proposal. At the conclusion of

public comment, the school district board of directors may determine, by resolution, whether to issue such bonds.

Excess Levies by Voter Approval. The Washington State Constitution limits regular property tax levies to a maximum of 1 percent of the property's value. Upon majority voter approval, school districts are authorized to collect excess levies above the 1 percent constitutional property tax limit for enrichment, transportation vehicles, and capital projects.

Binding Conditions and Financial Oversight. *Binding Conditions.* School districts must annually prepare and submit a balanced budget to the Office of the Superintendent of Public Instruction (OSPI) in which expected expenditures do not exceed expected revenues. If a school district is not able to submit a balanced budget, the school board may deliver a petition to OSPI requesting permission to include receivables collectible in future years in order to balance the budget. If such permission is granted, it must contain binding conditions designed to improve the district's financial condition. Binding conditions typically take the form of benchmarks the district must achieve through actions locally determined by the school board, such as reaching a certain general fund balance by a defined date.

Financial Oversight. If a school district has been on binding conditions for two consecutive years and is unable to prepare a satisfactory financial plan, or is reasonably foreseeable and likely to have a deficit general fund balance within three years and is unable to prepare a satisfactory financial plan, the school district is considered financially insolvent. In these circumstances, a financial oversight committee must review the financial condition of the school district and recommend either enhanced financial oversight or dissolution of the district. Enhanced financial oversight may include, but is not limited to, appointing a special administrator, approving or limiting hiring and personnel actions, approving or limiting a district's authority to enter into contracts, and liquidating or disposing of fixed assets and contractual liabilities.

Summary of Bill (Second Substitute): A district may contract indebtedness and issue bonds without a vote of the people for the purpose of erecting all buildings authorized by law, including those necessary or proper to carry out the functions of a school district, and providing the necessary furniture, apparatus, or equipment. This authority is subject to the statutory indebtedness limit of 0.375 percent.

A school district that contracts indebtedness for this purpose must have received voter approval to collect a capital levy and must not have been on binding conditions in the two years preceding the date of the contract.

A school district that contracts indebtedness for this purpose must forgo state funding assistance for the project that the school district may otherwise be eligible under the School Construction Assistance Program (SCAP).

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Second Substitute):

- Provides that a school district that contracts indebtedness from the proceeds of nonvoted bonds for erecting buildings must forgo state funding assistance for the project that the school district may otherwise be eligible under the SCAP.

EFFECT OF CHANGES MADE BY EARLY LEARNING & K-12 EDUCATION COMMITTEE (First Substitute):

- Reduces the amount of time that a school district must be out of binding conditions to authorize non-voted bonds for new construction, from three years to two years.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Original Bill (Early Learning & K-12 Education): *The committee recommended a different version of the bill than what was heard.* PRO: Lake Washington grew from the 6th to 2nd largest district in the state in the last decade, which has placed an enormous pressure on the district for new schools and classrooms. Building in five years will cost more than it does today. This allows school districts to front-fund new construction in order to get students in school sooner and mitigate inflation costs. It does not require state funds or authorize new taxes. It corrects a statutory limitation and gives districts more tools in their toolbelt. It is a practical solution to address critical needs while maintaining full accountability and transparency. It is straightforward, necessary, and beneficial. It would expedite construction timelines, allow districts to take advantage of more favorable market conditions, and reduce borrowing costs which would result in savings for the school district.

OTHER: The language regarding binding conditions should be removed or it should only be applicable if a district is in binding conditions at the date of the contract, or maybe within a one-year window. Tukwila is currently in binding conditions and may want to use this tool after leaving binding conditions.

Persons Testifying (Early Learning & K-12 Education): PRO: Senator Manka Dhingra, Prime Sponsor; Barbara Posthumus, Lake Washington School District; Leah Choi, Lake Washington School District; Dr. John Parker, Central Valley School District - Spokane Valley, WA; Martin Turney, Issaquah School District; Grace Yuan, School Alliance.

OTHER: Dave Larson, Tukwila School District.

Persons Signed In To Testify But Not Testifying (Early Learning & K-12 Education):

No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): *The committee recommended a different version of the bill than what was heard.* PRO: In the state over the last decade, rapid enrollment increases place enormous pressure on the district to keep pace with demand for new schools. As you know, building something five years from now, it costs more money than it would today, even with the same design. The cost escalation problem is what this bill will help address. Under current law, districts can front-fund renovation projects, but not new transportation centers or preschools. This bill would add new construction to the permissible uses and enable districts to front-fund capital levies to build new facilities and get students in school sooner. This would mitigate inflation related costs and save taxpayers money. We are simply adding one category to all the other categories that are already there. This legislation will offer us a practical solution to address this critical need while maintaining full transparency and accountability. The school district does not need to wait for levy collections over time before construction can begin. This allows us to build on a faster timeline and avoid construction cost escalation. We think our district will be able to benefit from this strategy and passing this bill would provide a simple fix.

CON: Taxpayer public education is not a village, city, district and county obligation, it is a state responsibility. This bill shows that legislators have no intention to further the constitutional obligation to provide all students equal education opportunities or to comply with our constitution, which sets forth a sixty percent vote. How is a \$50 million project going to be paid off in six years. Are they going to fail and who will take care of them.

Persons Testifying (Ways & Means): PRO: Barbara Posthumus, Lake Washington School District; Grace Yuan, School Alliance; Martin Turney, Issaquah School District.

CON: John Axtell.

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