SENATE BILL REPORT
SSB 5412

As Amended by House, April 14, 2025

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: Early Learning & K-12 Education: 2/05/25, 2/12/25 [DPS, DNP].

Floor Activity: Passed Senate: 3/11/25, 30-19.
Passed House: 4/14/25, 60-36.

Brief Summary of First Substitute Bill

- Allows a school district 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 a school board to sell real property when authorized by a financial oversight committee and deposit the sale proceeds into a fund selected by the committee.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: That Substitute Senate Bill No. 5412 be substituted therefor, and the substitute bill do pass.

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

Minority Report: Do not pass.

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.

Signed by Senators Harris, Ranking Member; Dozier and McCune.

Staff: Alex Fairfortune (786-7416)

Background: Binding Conditions and Enhanced 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 that are locally determined by the school board, such as reaching a certain general fund balance by a defined date.

Enhanced 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.

Interfund Loans. State rule allows temporary interfund loans between school district funds, with the requirement that the loan be completely liquidated in less than one year. Interfund loans are allowable from a district's general fund and capital projects fund, and may be received by a district's general fund, capital projects fund, transportation vehicle fund, or debt service fund. Interest must be paid by the borrowing fund to the loaning fund at a rate that is not less than the current warrant interest rate in the county in which the school district is located. Loans may not be made to the detriment of any function or project for which a fund was established.

The board of directors of a school district must adopt a resolution before any interfund loan may take place. The resolution must contain the amount of the loan, the funds involved, the specific source of funds for repayment, the schedule for repayment, and the interest rate. School district financial reports must specify all outstanding interfund loans and all interest charges involved with those loans.

Under state law, the proceeds of an interfund loan may not be used to balance the budget of the borrowing fund, except in fiscal year 2024 when loans could be used to address budget destabilization in the aftermath of the COVID-19 pandemic.

Summary of First Substitute 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 the following conditions:

- the borrowing fund must repay the full loan amount within one calendar year;
- the loaning fund may not charge interest on the loan;
- the loan may not be made to the detriment of any function or project for which the loaning fund was established; and
- the school district's financial reports must specify all outstanding interfund loan balances.

The board of directors of a qualifying school district must adopt a resolution to approve a temporary interfund loan transaction. The resolution must specify the amount of the loan, the funds involved, the source of funds for repayment, and the schedule for repayment. If a school district is under enhanced financial oversight then the transaction must additionally be approved by the appointed special administrator.

Proceeds from these interfund loans may be used to balance the budget of the borrowing funds, and an exception is added to state law to allow loans for this purpose.

OSPI is directed to adopt rules as necessary to implement this new authority.

Financial Oversight Committee. Enhanced financial oversight may include directing the sale of real property or assets of the school district and the deposit of sale proceeds into a fund selected by the financial oversight committee.

The board of directors of a school district may sell district real property when authorized by a financial oversight committee, and the proceeds may be deposited into a fund selected by the financial oversight committee.

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: *The committee recommended a different version of the bill than what was heard.* PRO: This bill provides an additional tool to school districts. Current law allows a one-time transfer from a district's capital fund to its operating fund. This bill says that you can take that loan without interest if you are in enhanced financial oversight or binding conditions.

Persons Testifying: PRO: Senator June Robinson, Prime Sponsor.

Persons Signed In To Testify But Not Testifying: No one.

EFFECT OF HOUSE AMENDMENT(S):

- Permits the board of directors of a school district in binding conditions to request, from OSPI, authorization to sell district real property for the purpose of maintaining financial solvency.
- Directs OSPI to adopt rules to implement the authorization, which may not be granted to a district more than once during a ten-year period.
- Specifies that nothing in the bill language exempts school districts from meeting certain legal requirements when selling real property that was acquired through condemnation.