
SUBSTITUTE SENATE BILL 5412

State of Washington

69th Legislature

2025 Regular Session

By Senate Early Learning & K-12 Education (originally sponsored by Senators Robinson, Chapman, Nobles, and Saldaña)

READ FIRST TIME 02/13/25.

1 AN ACT Relating to temporary interfund loans for school districts
2 in binding conditions or under enhanced financial oversight; amending
3 RCW 28A.505.130, 28A.315.221, 28A.335.130, and 28A.335.120;
4 reenacting and amending RCW 28A.320.330; and adding a new section to
5 chapter 28A.320 RCW.

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

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 28A.320
8 RCW under the subchapter heading "deposit, investment, and use of
9 proceeds" to read as follows:

10 (1) A school district that is in binding conditions pursuant to
11 RCW 28A.505.110 or under enhanced financial oversight pursuant to RCW
12 28A.315.221 may take a temporary interfund loan from its capital
13 projects fund, subject to the following conditions:

14 (a) The borrowing fund must repay the full loan amount to the
15 loaning capital projects fund within one calendar year;

16 (b) The loaning capital projects fund may not charge interest on
17 the amounts loaned;

18 (c) The loan may not be made to the detriment of any function or
19 project for which the loaning capital projects fund was established;

1 (d) The school district's financial reports, including monthly
2 financial reports provided to the board of directors of the district,
3 must specify all outstanding interfund loan balances.

4 (2)(a) The board of directors of a qualifying school district
5 must adopt a resolution to approve a temporary interfund loan
6 transaction. The resolution must contain the exact amount of the
7 loan, the funds involved, the specific source of funds for repayment,
8 and the schedule for repayment.

9 (b) If a school district is under enhanced financial oversight
10 pursuant to RCW 28A.315.221, the temporary interfund loan transaction
11 must additionally be approved by the special administrator appointed
12 to oversee and carry out financial conditions imposed on the district
13 as recommended by the financial oversight committee.

14 (3) The office of the superintendent of public instruction shall
15 adopt rules as necessary to implement this section.

16 **Sec. 2.** RCW 28A.320.330 and 2023 c 474 s 8022 and 2023 c 402 s 1
17 are each reenacted and amended to read as follows:

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

20 (1)(a) A general fund for the school district to account for all
21 financial operations of the school district except those required to
22 be accounted for in another fund.

23 (b) By the 2018-19 school year, a local revenue subfund of its
24 general fund to account for the financial operations of a school
25 district that are paid from local revenues. The local revenues that
26 must be deposited in the local revenue subfund are enrichment levies
27 and transportation vehicle levies collected under RCW 84.52.053,
28 local effort assistance funding received under chapter 28A.500 RCW,
29 and other school district local revenues including, but not limited
30 to, grants, donations, and state and federal payments in lieu of
31 taxes, but do not include other federal revenues, or local revenues
32 that operate as an offset to the district's basic education
33 allocation under RCW 28A.150.250. School districts must track
34 expenditures from this subfund separately to account for the
35 expenditure of each of these streams of revenue by source, and must
36 provide the supplemental expenditure schedule under (c) of this
37 subsection, and any other supplemental expenditure schedules required
38 by the superintendent of public instruction or state auditor, for
39 purposes of RCW 43.09.2856.

1 (c) Beginning in the 2019-20 school year, the superintendent of
2 public instruction must require school districts to provide a
3 supplemental expenditure schedule by revenue source that identifies
4 the amount expended by object for each of the following supplementary
5 enrichment activities beyond the state funded amount:

6 (i) Minimum instructional offerings under RCW 28A.150.220 or
7 28A.150.260 not otherwise included on other lines;

8 (ii) Staffing ratios or program components under RCW 28A.150.260,
9 including providing additional staff for class size reduction beyond
10 class sizes allocated in the prototypical school model and additional
11 staff beyond the staffing ratios allocated in the prototypical school
12 formula;

13 (iii) Program components under RCW 28A.150.200, 28A.150.220, or
14 28A.150.260, not otherwise included on other lines;

15 (iv) Program components to support students in the program of
16 special education;

17 (v) Program components of professional learning, as defined by
18 RCW 28A.415.430, beyond that allocated under RCW 28A.150.415;

19 (vi) Extracurricular activities;

20 (vii) Extended school days or an extended school year;

21 (viii) Additional course offerings beyond the minimum
22 instructional program established in the state's statutory program of
23 basic education;

24 (ix) Activities associated with early learning programs;

25 (x) Activities associated with providing the student
26 transportation program;

27 (xi) Any additional salary costs attributable to the provision or
28 administration of the enrichment activities allowed under RCW
29 28A.150.276;

30 (xii) Additional activities or enhancements that the office of
31 the superintendent of public instruction determines to be a
32 documented and demonstrated enrichment of the state's statutory
33 program of basic education under RCW 28A.150.276; and

34 (xiii) All other costs not otherwise identified in other line
35 items.

36 (d) For any salary and related benefit costs identified in
37 (c)(xi), (xii), and (xiii) of this subsection, the school district
38 shall maintain a record describing how these expenditures are
39 documented and demonstrated enrichment of the state's statutory
40 program of basic education. School districts shall maintain these

1 records until the state auditor has completed the audit under RCW
2 43.09.2856.

3 (e) For school districts of the second class as defined (~~by~~
4 ~~in~~) in RCW 28A.300.065, a depreciation subfund for the school
5 district to reserve funds for future facility and equipment needs. Up
6 to two percent of a second class school district's general fund may
7 be deposited each fiscal year into the depreciation subfund for the
8 purpose of preventative maintenance or emergency facility needs. The
9 preventative maintenance must be necessary to realize the originally
10 anticipated useful life of a building or facility and include:
11 Exterior painting of facilities; replacement or renovation of
12 roofing, exterior walls, windows, heating, air conditioning and
13 ventilation systems, floor coverings in classrooms and common areas,
14 and electrical and plumbing systems; and renovation of playfields,
15 athletic facilities, and other district real property. School
16 districts of the second class, subject to applicable public works bid
17 limits, may use school district employees to perform preventative
18 maintenance with moneys from the depreciation subfund, but moneys
19 from the depreciation subfund may not be used for employee
20 compensation that is unrelated to this subsection (1)(e).

21 (2) A capital projects fund shall be established for major
22 capital purposes. All statutory references to a "building fund" shall
23 mean the capital projects fund so established. Money to be deposited
24 into the capital projects fund shall include, but not be limited to,
25 bond proceeds, proceeds from excess levies authorized by RCW
26 84.52.053, state apportionment proceeds as authorized by RCW
27 28A.150.270, earnings from capital projects fund investments as
28 authorized by RCW 28A.320.310 and 28A.320.320, and state forest
29 revenues transferred pursuant to subsection (3) of this section.

30 Money derived from the sale of bonds, including interest earnings
31 thereof, may only be used for those purposes described in RCW
32 28A.530.010, except that accrued interest paid for bonds shall be
33 deposited in the debt service fund.

34 Money to be deposited into the capital projects fund shall
35 include but not be limited to rental and lease proceeds as authorized
36 by RCW 28A.335.060, and proceeds from the sale of real property as
37 authorized by RCW 28A.335.130.

38 Money legally deposited into the capital projects fund from other
39 sources may be used for the purposes described in RCW 28A.530.010,
40 and for the purposes of:

1 (a) Major renovation and replacement of facilities and systems
2 where periodical repairs are no longer economical or extend the
3 useful life of the facility or system beyond its original planned
4 useful life. Such renovation and replacement shall include, but shall
5 not be limited to, major repairs, exterior painting of facilities,
6 replacement and refurbishment of roofing, exterior walls, windows,
7 heating and ventilating systems, floor covering in classrooms and
8 public or common areas, and electrical and plumbing systems.

9 (b) Renovation and rehabilitation of playfields, athletic fields,
10 and other district real property.

11 (c) The conduct of preliminary energy audits and energy audits of
12 school district buildings. For the purpose of this section:

13 (i) "Preliminary energy audits" means a determination of the
14 energy consumption characteristics of a building, including the size,
15 type, rate of energy consumption, and major energy using systems of
16 the building.

17 (ii) "Energy audit" means a survey of a building or complex which
18 identifies the type, size, energy use level, and major energy using
19 systems; which determines appropriate energy conservation maintenance
20 or operating procedures and assesses any need for the acquisition and
21 installation of energy conservation measures, including solar energy
22 and renewable resource measures.

23 (iii) "Energy capital improvement" means the installation, or
24 modification of the installation, of energy conservation measures in
25 a building which measures are primarily intended to reduce energy
26 consumption or allow the use of an alternative energy source.

27 (d) Those energy capital improvements which are identified as
28 being cost-effective in the audits authorized by this section.

29 (e) Purchase or installation of additional major items of
30 equipment and furniture: PROVIDED, That vehicles shall not be
31 purchased with capital projects fund money.

32 (f)(i) Costs associated with implementing technology systems,
33 facilities, and projects, including acquiring hardware, licensing
34 software, and online applications and training related to the
35 installation of the foregoing. However, the software or applications
36 must be an integral part of the district's technology systems,
37 facilities, or projects.

38 (ii) Costs associated with the application and modernization of
39 technology systems for operations and instruction including, but not
40 limited to, the ongoing fees for online applications, subscriptions,

1 or software licenses, including upgrades and incidental services, and
2 ongoing training related to the installation and integration of these
3 products and services. However, to the extent the funds are used for
4 the purpose under this subsection (2)(f)(ii), the school district
5 shall transfer to the district's general fund the portion of the
6 capital projects fund used for this purpose. The office of the
7 superintendent of public instruction shall develop accounting
8 guidelines for these transfers in accordance with internal revenue
9 service regulations.

10 (g) Major equipment repair, painting of facilities, and other
11 major preventative maintenance purposes. However, to the extent the
12 funds are used for the purpose under this subsection (2)(g), the
13 school district shall transfer to the district's general fund the
14 portion of the capital projects fund used for this purpose. The
15 office of the superintendent of public instruction shall develop
16 accounting guidelines for these transfers in accordance with internal
17 revenue service regulations. Based on the district's most recent two-
18 year history of general fund maintenance expenditures, funds used for
19 this purpose may not replace routine annual preventive maintenance
20 expenditures made from the district's general fund.

21 (h) ~~((During the 2021-2023 fiscal biennium, renovation and
22 replacement of facilities and systems, purchase or installation of
23 items of equipment and furniture, including maintenance vehicles and
24 machinery, and other preventative maintenance or infrastructure
25 improvement purposes.))~~ Temporary interfund loans as authorized under
26 section 1 of this act.

27 (i) During the 2023-2025 fiscal biennium, for moneys in the
28 capital projects fund not attributable to capital levies, moving of
29 equipment and furniture between buildings and warehouses for storage,
30 moving of the content of teachers' classrooms between buildings, and
31 furniture purchases, when these costs are due to the following
32 activities: Construction, remodeling, replacement, temporary
33 placement, consolidation, or directed transfer.

34 (3) A debt service fund to provide for tax proceeds, other
35 revenues, and disbursements as authorized in chapter 39.44 RCW. State
36 forestland revenues that are deposited in a school district's debt
37 service fund pursuant to RCW 79.64.110 and to the extent not
38 necessary for payment of debt service on school district bonds may be
39 transferred by the school district into the district's capital
40 projects fund.

1 (4) An associated student body fund as authorized by RCW
2 28A.325.030.

3 (5) Advance refunding bond funds and refunded bond funds to
4 provide for the proceeds and disbursements as authorized in chapter
5 39.53 RCW.

6 **Sec. 3.** RCW 28A.505.130 and 2023 c 435 s 11 are each amended to
7 read as follows:

8 (1) For each fund contained in the school district budget the
9 estimated expenditures for the budgeted fiscal year must not be
10 greater than the total of the estimated revenues for the budgeted
11 fiscal year, the estimated fund balance at the beginning of the
12 budgeted fiscal year less the estimated reserve fund balance at the
13 end of the budgeted fiscal year, and the projected revenue from
14 receivables collectible on future years as approved by the
15 superintendent of public instruction for inclusion in the budget.

16 (2) The proceeds of any interfund loan must not be used to
17 balance the budget of the borrowing fund, except in the following
18 circumstances:

19 (a) In fiscal year 2024 when such loans may be used to address
20 budget destabilization in the aftermath of the COVID-19 pandemic.
21 Interfund loans in fiscal year 2024 may be for a duration of two
22 years; and

23 (b) As authorized under section 1 of this act.

24 **Sec. 4.** RCW 28A.315.221 and 2012 c 186 s 8 are each amended to
25 read as follows:

26 (1) The superintendent of public instruction shall convene a
27 financial oversight committee:

28 (a) At the request of the board of directors of a financially
29 insolvent district;

30 (b) When the superintendent of public instruction determines a
31 district is financially insolvent, after first consulting with the
32 educational service district where the district is located and
33 notifying the district the committee will be convened; or

34 (c) When a district has been on binding conditions pursuant to
35 RCW 28A.505.110 for two consecutive years and does not have a
36 satisfactory financial plan.

37 (2) The financial oversight committee comprises two
38 representatives from the office of the superintendent of public

1 instruction, one representative from an educational service district
2 where a financially insolvent school district is not located, and one
3 nonvoting representative from the educational service district where
4 the financially insolvent school district is located.

5 (3) The financial oversight committee shall review the financial
6 condition of a financially insolvent school district. In conducting
7 its review, the committee shall hold a public hearing in the
8 financially insolvent school district or educational service district
9 in order to receive public comment on any proposed financial plans.
10 If the financial oversight committee feels that dissolution of the
11 financially insolvent school district is a valid option, it shall
12 receive input at the public hearing on options for dissolving said
13 school district.

14 (4) After holding a public hearing as provided in subsection (3)
15 of this section, the financial oversight committee must make a
16 recommendation to the superintendent of public instruction to either
17 dissolve a financially insolvent school district or to place a
18 district under enhanced financial monitoring to reduce the risk of
19 dissolution due to insolvency. The superintendent of public
20 instruction must implement financial oversight committee
21 recommendations via enhanced financial oversight, which will be
22 monitored by the educational service district.

23 (5) Enhanced financial oversight may include, but is not limited
24 to, the following types of actions, which the superintendent of
25 public instruction is expressly authorized to implement and enforce:

26 (a) Appointment of a special administrator to ~~((oversee))~~;
27 Oversee and carry out financial conditions imposed on the district as
28 recommended by the financial oversight committee; and approve
29 temporary interfund loan transactions authorized under section 1 of
30 this act as appropriate;

31 (b) Review, approval, and limitations on a school district's
32 authority to enter into contracts;

33 (c) Review, approval, and limitations on hiring and personnel
34 actions; ~~((and))~~

35 (d) Liquidation or disposition of fixed assets and contractual
36 liabilities by any reasonable and documented method provided the
37 liquidation or disposition of fixed assets and contractual
38 liabilities is reasonably necessary before filing a dissolution
39 petition; and

1 (e) Directing the sale of real property or assets of the school
2 district and directing the deposit of proceeds from such sale into a
3 fund as selected by the committee.

4 (6) Any new, amended, or renewed contract entered into by a
5 school district that is subject to enhanced financial monitoring that
6 has not been approved by the educational service district or special
7 administrator, or that is inconsistent with conditions imposed on the
8 district pursuant to this section, is null and void.

9 (7) Any action taken by a school district subject to enhanced
10 financial monitoring that is likely to affect the district's finances
11 is null and void if the action was not approved by the educational
12 service district or special administrator or if the action is
13 inconsistent with conditions imposed on the district pursuant to this
14 section.

15 (8) The superintendent of public instruction shall adopt rules to
16 carry out the provisions in this section, which may include, but are
17 not limited to, identifying the responsibilities and authority of the
18 financial oversight committee, the educational service district, the
19 special administrator, and the school district and the implementation
20 of enhanced financial oversight.

21 **Sec. 5.** RCW 28A.335.130 and 2004 c 6 s 2 are each amended to
22 read as follows:

23 (~~Except as provided in RCW 28A.335.240(1), the~~) The proceeds
24 from any sale of school district real property by a board of
25 directors shall be deposited to the debt service fund and/or the
26 capital projects fund, except for ~~((amounts))~~:

27 (1) Amounts required to be expended for the costs associated with
28 the sale of such property, which moneys may be deposited into the
29 fund from which the expenditure was incurred;

30 (2) Amounts authorized by a financial oversight committee
31 established under RCW 28A.315.221 to be deposited into a different
32 fund; or

33 (3) As provided in RCW 28A.335.240(1).

34 **Sec. 6.** RCW 28A.335.120 and 2006 c 263 s 913 are each amended to
35 read as follows:

36 (1) The board of directors of any school district of this state
37 may:

1 (a) Sell for cash, at public or private sale, and convey by deed
2 all interest of the district in or to any of the real property of the
3 district which is no longer required for school purposes or which has
4 been authorized for sale by a financial oversight committee
5 established under RCW 28A.315.221; and

6 (b) Purchase real property for the purpose of locating thereon
7 and affixing thereto any house or houses and appurtenant buildings
8 removed from school sites owned by the district and sell for cash, at
9 public or private sale, and convey by deed all interest of the
10 district in or to such acquired and improved real property.

11 (2) When the board of directors of any school district proposes a
12 sale of school district real property pursuant to this section and
13 the value of the property exceeds seventy thousand dollars, the board
14 shall publish a notice of its intention to sell the property. The
15 notice shall be published at least once each week during two
16 consecutive weeks in a legal newspaper with a general circulation in
17 the area in which the school district is located. The notice shall
18 describe the property to be sold and designate the place where and
19 the day and hour when a hearing will be held. The board shall hold a
20 public hearing upon the proposal to dispose of the school district
21 property at the place and the day and hour fixed in the notice and
22 admit evidence offered for and against the propriety and advisability
23 of the proposed sale.

24 (3) The board of directors of any school district desiring to
25 sell surplus real property shall publish a notice in a newspaper of
26 general circulation in the school district. School districts shall
27 not sell the property for at least forty-five days following the
28 publication of the newspaper notice.

29 (4) Private schools shall have the same rights as any other
30 person or entity to submit bids for the purchase of surplus real
31 property and to have such bids considered along with all other bids.

32 (5) Any sale of school district real property authorized pursuant
33 to this section shall be preceded by a market value appraisal by a
34 professionally designated real estate appraiser (~~as defined in RCW~~
35 ~~74.46.020~~) or a general real estate appraiser certified under
36 chapter 18.140 RCW selected by the board of directors and no sale
37 shall take place if the sale price would be less than ninety percent
38 of the appraisal made by the real estate appraiser: PROVIDED, That if
39 the property has been on the market for one year or more the property

1 may be reappraised and sold for not less than seventy-five percent of
2 the reappraised value with the unanimous consent of the board.

3 (6) If in the judgment of the board of directors of any district
4 the sale of real property of the district not needed for school
5 purposes would be facilitated and greater value realized through use
6 of the services of licensed real estate brokers, a contract for such
7 services may be negotiated and concluded: PROVIDED, That the use of a
8 licensed real estate broker will not eliminate the obligation of the
9 board of directors to provide the notice described in this section:
10 PROVIDED FURTHER, That the fee or commissions charged for any broker
11 services shall not exceed seven percent of the resulting sale value
12 for a single parcel: PROVIDED FURTHER, That any professionally
13 designated real estate appraiser (~~as defined in RCW 74.46.020~~) or a
14 general real estate appraiser certified under chapter 18.140 RCW
15 selected by the board to appraise the market value of a parcel of
16 property to be sold may not be a party to any contract with the
17 school district to sell such parcel of property for a period of three
18 years after the appraisal.

19 (7) If in the judgment of the board of directors of any district
20 the sale of real property of the district not needed for school
21 purposes would be facilitated and greater value realized through sale
22 on contract terms, a real estate sales contract may be executed
23 between the district and buyer.

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