



Date: October 23, 2018  
To: Board of Directors  
From: Brian Flonas, Superintendent  
Larry Mayfield, Executive Director of Business and Finance  
Re: Administrative Recommendation Regarding Alterations to Expenditures from State Financing Assistance

## INTRODUCTION

Recognizing that educational needs and conditions can change, the Washington Legislature has provided a mechanism for school districts to alter specific voter-approved expenditures from bond proceeds and State of Washington financing assistance.<sup>1</sup>

Wenatchee School District No. 246, Chelan County, Washington (the “District”) currently has excess State financing assistance received in connection with the District’s 2014 voter-approved capital improvements. For the reasons set forth below, this memorandum recommends that it is in the best interests of the District and its students and residents for the Board of Directors to exercise its discretion to alter the specific voter-approved expenditures from the State financing assistance to permit the District to: (a) make District-wide security and safety upgrades and improvements; (b) provide new classroom additions; and (c) make health, energy efficiency and infrastructure upgrades and improvements, all after complying with the requirements of RCW 28A.530.020(2).

## DISCUSSION

### 1. Authority to Alter Expenditures; Public Hearing Requirement

Washington law authorizes school districts to alter the expenditures to be funded by bond proceeds and State financing assistance. The applicable provision is commonly referred to as the alteration of expenditures statute, which provides:

If the school board subsequently determines that state or local circumstances should cause any alteration to the specific expenditures from the debt financing [i.e., bond proceeds] or of the state assistance, the board shall first conduct a

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<sup>1</sup> RCW 28A.530.020(2). The phrase “State of Washington financing assistance” (commonly known as “State match”) refers to state assistance to school districts in providing school facilities under chapter 28A.525 RCW.

public hearing to consider those circumstances and to receive public testimony. If the board then determines that any such alterations are in the best interests of the district, it may adopt a new resolution or amend the original resolution at a public meeting held subsequent to the meeting at which public testimony was received.

RCW 28A.530.020(2).

The alteration of expenditures statute provides a two-step process.

The *first step* requires the school board to hold a public hearing to consider the facts and circumstances that require the alteration of expenditures. The purpose of the hearing is to provide the public an opportunity to present information and opinions to the board regarding the proposed alterations. But the alteration of expenditures statute does not allow the school board to approve alterations at the meeting in which it held the public hearing.

The *second step* therefore requires the school board to consider approving the alterations at a second public meeting (usually at the next regularly scheduled board meeting). If the school board determines the alterations are in the best interests of the district, it will adopt a new resolution to amend the initial election resolution that placed the specific capital projects before the voters (*i.e.*, in the form of a bond measure).

## **2. Voter Approval and State Financing Assistance**

(a) Voter Approval of Bonds. On October 10, 2013, the Board adopted Resolution No. 07-13 (“Resolution No. 07-13”), providing for the submission to the District’s voters at a special election on February 11, 2014, of a ballot proposition authorizing the District to issue its general obligation bonds in the principal amount of no more than \$66,500,000 (the “Bonds”) to pay costs to “remodel and expand Lincoln Elementary School, construct and equip a new Washington Elementary School, remodel Special Education/Early Childhood Learning Center, make safety improvements and remodel gymnasium at Pioneer Middle School and make safety improvements at Mission View Elementary School” (collectively referred to herein as the “Projects”). Resolution No. 07-13, which was incorporated by reference in the ballot proposition, further defined the Projects in Section 2.

(b) Bonds Approved and Issued. At the February 11, 2014 special election, the District’s voters approved the Bonds. Pursuant to this authorization, the District issued the Bonds.

(c) Authorized Use of State Financing Assistance. Section 7 of Resolution No. 07-13 provides that the District may receive money from the State of Washington as state financing assistance under chapter 28A.525 RCW with respect to the Projects (the “State Financing Assistance”). The State Financing Assistance must be used, when and in such amounts as it may become available, to carry out and accomplish the Projects. Section 7 further provided that if the State Financing Assistance is more than sufficient to carry out and accomplish the Projects, the District may use such excess State Financing Assistance to, among other things, make other capital improvements to the District’s facilities, all as the Board may determine by resolution after holding a public hearing thereon pursuant to RCW 28A.530.020.

(d) Alteration of Expenditures from State Financing Assistance. Section 8 of Resolution No. 07-13 also provided: “If the Board shall subsequently determine that state or local circumstances, including, but not limited to, changed conditions or needs, regulatory considerations or incompatible development, should cause any alteration to the Projects, the District shall not be required to accomplish the Projects and may apply the State Financing Assistance (or any portion thereof) to: (a) other portions of the Projects; (b) acquire, construct, install, equip and make other capital improvements to the District’s facilities; or (c) retire and/or defease a portion of the Bonds or other outstanding bonds of the District, all as the Board may determine by resolution after holding a public hearing thereon pursuant to RCW 28A.530.020.”

(e) Prior Alteration of Expenditures from State Financing Assistance. Due to lower than expected construction costs, the District had State Financing Assistance available for other District capital improvements (“Excess State Financing Assistance”). On July 28, 2015, the Board adopted Resolution No. 20-15 (“Resolution No. 20-15”). Resolution No. 20-15 altered the specific expenditures from the State Financing Assistance to permit the District to use the Excess State Financing Assistance to carry out and accomplish a portion of the District’s next phase of capital projects (the “Phase II Projects”), including, but not limited to, the feasibility analysis and design of the Phase II Projects not originally included in the Projects (the “2015 Alterations”). Resolution No. 20-15 also amended the Resolution No. 07-13 to incorporate the 2015 Alterations into the Projects. References below to the Projects therefore include the 2015 Alterations.

### **3. Alteration of Expenditures**

(a) State and Local Circumstances. Since the adoption of Resolution No. 07-13, the 2014 Election, and the adoption of Resolution No. 20-15, the following state and local circumstances have occurred related to the specific expenditures from State Financing Assistance and Excess State Financing Assistance for the Projects (collectively, the “State and Local Circumstances”):

(i) The District has Excess State Financing Assistance available to pay costs of other capital improvements to the District’s facilities (“Additional Excess State Financing Assistance”); and

(ii) Due to increasing safety and security concerns and deteriorating and educationally outdated infrastructure, there is an immediate need to (a) make District-wide security and safety upgrades and improvements; (b) provide new classroom additions; and (c) make health, energy efficiency and infrastructure upgrades and improvements.

(b) Additional Alterations Warranted. In view of State and Local Circumstances, District Administration recommends that the Board, after satisfying the public hearing requirements contained in RCW 28A.530.020, take the following actions:

(i) *Alter* the specific expenditures from Excess State Financing Assistance for the Projects, all as originally authorized by Resolution No. 07-13, as amended by Resolution No. 20-15, to permit the District to use the Additional Excess State Financing Assistance to pay costs to: (A) make District-wide safety and security improvements, all as determined necessary and advisable by the Board; (B) provide new classroom additions (including, but not limited to,

purchasing, constructing, installing and renovating portable or permanent classroom additions) at schools to be determined by the Board, all as determined necessary and advisable by the Board; and (C) make District-wide health, energy efficiency and infrastructure improvements, all as determined necessary and advisable by the Board (collectively, the “Additional Alterations”); and

(ii) *Adopt a new resolution or amend* Resolution No. 07-13 and Resolution No. 20-15 to reflect the Additional Alterations; provided that, the District may still use the Additional Excess State Financing Assistance as originally authorized by Resolution No. 07-13 and Resolution No. 20-15.

(c) Additional Findings. District Administration further believes that the Additional Alterations will, among other things: (i) address urgent and necessary improvements to school facilities; (ii) improve the quality of the educational programs offered by the District; (iii) achieve efficiency in the construction, maintenance and operation of District facilities; and (iv) promote the best interest of the District and its students and residents. If the Additional Alterations are made, the District may still use Bond proceeds and the proceeds from the Additional Excess State Financing Assistance as originally authorized by Resolution No. 07-13 and Resolution No. 20-15

Thank you for your consideration.