



# OVERVIEW OF STATE ASSISTANCE FOR LOCAL SCHOOL CONSTRUCTION

Presented to the  
Senate Finance  
Subcommittee on Education

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*Information Overviewed in this Briefing*

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- Current School Division Expenditures for School Construction
  
- Literary Fund
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***School Division Capital Expenditures for Facilities,  
Debt Service and Operations and Maintenance***

<b>Fiscal Year</b>	<b>Facilities - (Capital Only) <sup>1</sup></b>	<b>Debt Service (Principal and Interest) <sup>1,2</sup></b>	<b>Operations and Maintenance (Capital Only) <sup>1</sup></b>	<b>Total Expenditures<sup>1</sup></b>	<b>% of Total Expenditures</b>
2003	698,681,600	431,106,272	25,934,987	10,875,909,636	10.63%
2004	757,569,868	635,316,262	28,395,114	11,774,101,824	12.07%
2005	759,542,010	716,445,833	32,041,193	12,822,338,783	11.76%
2006	884,166,618	663,117,533	33,136,958	13,650,107,617	11.58%
2007	1,093,156,254	590,281,258	33,609,672	14,754,543,914	11.64%

<sup>1</sup> As certified by local school divisions on the Annual School Report from all fund sources.

<sup>2</sup> Does not include debt service paid by a local government on behalf of a school division.

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## *Literary Fund - Background*

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- The Literary Fund is a permanent and perpetual school fund that began in 1810 and was later established in the Constitution of Virginia.
  
- Revenues to the Literary Fund are derived primarily from criminal fines, fees, and forfeitures, unclaimed and escheated property, and repayments of prior Literary Fund loans. The most recent addition to the sources of Literary Fund revenues has been the transfer of unclaimed lottery winnings.
  
- In fiscal year 2007, total revenues were \$220.4 million. The revenue sources were:
  - \$71.5 million from fines, fees, and forfeitures
  - \$42.8 million from Literary Fund repayments
  - \$85.0 million from unclaimed property
  - \$10.7 million from unclaimed lottery winnings
  - \$10.4 million in interest earnings
  
- The Literary Fund has typically been used to provide low-interest loans for school construction, grants under the interest rate subsidy program, debt service for technology funding, and to support the state's share of teacher retirement required by the Standards of Quality.

## *Terms of a Literary Fund Loan*

- Current Board of Education regulations and statutory provisions provide that:
  - Literary Fund loans may be offered as a source of low-interest loans for the purpose of erecting, altering, or enlarging school buildings;
  - the maximum loan amount available for a single project is \$7.5 million;
  - the minimum loan amount is \$50,000;
  - the length of the loan may run from five to 20 years, but the majority of loans are made for 20 years;
  - the interest rate is based on the school division's composite index of local ability-to-pay.
  
- The interest rates are as follows:

<u>Composite Index</u>	<u>Interest Rate on Loan</u>
0.2999 and below	2%
From 0.3000 to 0.3999	3%
From 0.4000 to 0.4999	4%
From 0.5000 to 0.5999	5%
0.6000 and above	6%

- Loan applications are placed on a Literary Fund Waiting List in priority order.

## ***Direct Literary Fund Loans Released by Fiscal Year***

- Since fiscal year 1983, a total of \$950.9 million has been provided in direct Literary Fund loans to local school divisions. The chart below reflects the release of these loans by fiscal year.

<b>Fiscal Year</b>	<b>Projects Funded</b>
1983	\$41,917,922
1984	13,090,500
1985	40,425,600
1986	32,768,391
1987	64,951,999
1988	36,212,656
1989	68,865,889
1990	22,158,479
1991	16,374,400
1992	-0-
1993	-0-
1994	-0-
1995	23,186,074
1996	48,888,628
1997	67,163,679
1998	78,254,001
1999	111,271,391
2000	99,576,079
2001	117,794,506
2002	-0-
2003	-0-
2004	-0-
2005	-0-
2006	-0-
2007	24,000,000 <sup>1</sup>
2008	44,000,000

<sup>1</sup>Reflects the total amount of direct loans released by the Board of Education minus the loans returned by school divisions once they have opted out of all or part of a loan.

## *Literary Fund Transfers*

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The Constitution provides that, “*But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.*”

- As of June 30, 2007, the principal of the Literary Fund was approximately \$467.2 million:
  - Cash and Investments - \$146.3 million
  - Outstanding Loans - \$320.9 million
- Transferring revenue from the Literary Fund for teacher retirement payments has been a standard practice at least since 1973. This action reduces the general fund appropriations needed for teacher retirement and thus makes the general fund revenues available for other purposes.
- Transfers from the Literary Fund for teacher retirement increased steadily over time with increases in Literary Fund revenue itself, reaching more than \$100 million in fiscal year 1992.
- With nearly 90% of all Literary Fund revenues transferred to teacher retirement in fiscal years 1992, 1993, and 1994, many projects waited more than two years to receive funding.
- No direct loans were made from the Literary Fund from January 1991 until April 1995.

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*Literary Fund Transfers - continued*

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- Transfers for teacher retirement diminished in the last half of the 1990s and were eliminated in fiscal years 2000 and 2001.
  
- Since fiscal year 2002, the majority of the Literary Fund revenues have been transferred to pay teacher retirement in order to reduce the pressure placed on the general fund by growing costs in public education.
  
- In fiscal year 1999, a new type of transfer began when \$9.0 million was designated in the appropriation act for transfer from the Literary Fund to the School Construction Grants Program.
  
- This transfer amount was based on the estimated revenue from the unclaimed lottery prizes.
  
- The actual transfer in fiscal year 1999 was \$8.4 million.
  
- After fiscal year 1999, the following transfers were made:
  - Fiscal year 2000 - \$10.2 million
  - Fiscal year 2001 - \$ 8.2 million
  - Fiscal year 2002 - \$ 9.2 million
  
- These transfers were discontinued in the 2002-2004 biennium.

## *Literary Fund Transfer History - Since 1981*

Since 1981, approximately \$1.8 billion (49.6%) has been transferred from Literary Fund revenues for teacher retirement or school construction.

(\$ in millions)

<b>Fiscal Year</b>	<b>Total Revenues</b>	<b>Teacher Retirement Transfer</b>	<b>School Construction Transfer</b>	<b>Total Percent Transferred</b>
1981	\$34.1	\$3.3		9.7%
1982	\$41.3	\$8.4		20.3%
1983	\$45.7	\$31.7		69.4%
1984	\$48.4	\$44.4		91.7%
1985	\$51.1	\$10.0		19.6%
1986	\$58.8	\$22.0		37.4%
1987	\$64.4	\$15.0		23.3%
1988	\$67.8	\$32.1		47.3%
1989	\$80.1	\$10.0		12.5%
1990	\$85.1	\$60.0		70.5%
1991	\$102.1	\$36.8		36.0%
1992	\$102.8	\$101.1		98.3%
1993	\$100.9	\$84.5		83.7%
1994	\$101.5	\$93.9		92.5%
1995	\$119.0	\$82.3		69.2%
1996	\$108.6	\$35.0		32.2%
1997	\$124.1	\$41.1		33.1%
1998	\$127.0	\$15.5		12.2%
1999	\$140.3	\$7.8	\$8.4	11.5%
2000	\$138.6	\$0	\$10.2	7.4%
2001	\$162.0	\$0	\$8.2	5.1%
2002	\$154.2	\$110.0	\$9.2	77.3%
2003	\$166.5	\$112.8		67.7%
2004	\$209.1	\$118.5		56.7%
2005	\$215.7	\$131.9		61.1%
2006	\$219.3	\$125.9		57.4%
2007	\$220.4	\$116.0		52.6%
2008 - estimate	\$211.5	\$124.9		59.0%
2009 - estimate	\$202.3	\$171.1		84.6%
2010 - estimate	\$197.9	\$91.1		46.0%

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## *Literary Funds Used for Technology*

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- Beginning in 1988, Literary Fund revenues were used as a mechanism to finance the purchase of computers and related technology.
  
- Technology initiatives have been funded and/or authorized through the issuance of equipment notes through the Virginia Public School Authority with the debt service paid by the Literary Fund.
  - The 1988 initiative focused on computers to assist with remediation instruction in middle schools and distance learning equipment.
  
  - The 1990 initiative continued implementation of remediation and distance learning efforts at the middle school level and provided funding for statewide administrative computing efforts.
  
  - The 1995 initiative provided a core level of computer capabilities and access to information in every elementary school (complementing efforts at the middle and high school levels funded in the prior session from the general fund) and began networking efforts.
  
  - Throughout most of the late 1990s, initiatives have focused on three main components of the Six-Year Plan for Technology: (1) retrofitting and upgrading existing school buildings to use educational technology, (2) providing network ready multimedia microcomputers for use at the classroom level, and (3) providing a 5 to 1 ratio of pupils to network-ready computers.

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*Literary Funds Used for Technology - continued*

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- The 1999 General Assembly authorized a Literary Fund notes program to replace the outdated administrative and student information software that was being used by many school divisions.
- Most recently, the bond issues since fiscal year 2001 have been dedicated to, "... a computer-based instructional and testing system for the Standards of Learning..."
- To date, approximately \$408.6 million in VPSA bonds have been issued to support this most recent initiative. During the current fiscal year (2008), approximately \$59.9 million in additional bond proceeds will be made available to school divisions for this initiative.

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## *Interest Rate Subsidy Program*

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- Given the level of transfers for teacher retirement, the General Assembly authorized a program of “interest rate subsidies” in order to provide maximum funding for school construction projects beginning in fiscal year 1989.
- The purpose of the program is to fund construction loan projects that are currently on the Literary Fund’s First Priority Waiting List through the Virginia Public School Authority.
- Funds are granted from the Literary Fund for each project to reduce the principal amount of debt financed in a manner that produces debt service payments equivalent to what the school division would have paid for a direct Literary Fund loan.
- Based on the level of market rates at the time of a subsidy sale and the rate of interest charged to localities through the Literary Fund, subsidy programs have funded an average of \$6.10 of projects for every \$1 of Literary Fund revenue paid as grants.
- The subsidy program conducted in Fall 2007 funded 25 projects on the First Priority Waiting List valued at \$149.9 million.

***Interest Rate Subsidy Program - continued***

The following is a summary of the total projects funded and costs to the Literary Fund for the interest rate subsidy program.

<b>Fall of Calendar Year</b>	<b>Value of Projects Funded</b>	<b>Total Cost to the Literary Fund</b>	<b>Ratio of Projects Funded to Literary Fund Cost</b>
1988	\$23,757,500	\$8,446,500	2.8
1990	43,405,770	11,033,560	3.9
1991	106,806,799	27,898,774	3.8
1992	42,872,037	10,611,971	4.0
1994	40,689,574	10,069,683	4.0
1995	64,733,441	12,266,988	5.3
1996	43,675,000	8,652,972	5.0
1997	59,795,100	9,963,749	6.0
1998	42,978,700	5,596,579	7.7
1999	51,811,589	9,967,509	5.2
2000	102,923,607	18,824,375	5.5
2001	104,628,220	11,324,309	9.2
2002	51,082,187	5,000,000	10.2
2003	35,253,087	2,921,438	12.1
2004	37,352,634	4,870,341	7.7
2005	133,084,594	14,889,363	8.9
2006	105,733,159	14,524,145	7.3
2007	149,896,379	16,917,957	8.9
<b>Total</b>	<b>\$1,240,479,377</b>	<b>\$203,780,213</b>	
		<b>Average Ratio</b>	<b>6.1</b>

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## *Current Status of the Literary Fund*

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- As of January 2008, the First Priority Waiting List consisted of 13 projects totaling \$75.4 million (see Attachment A).
- The project that has been on the First Priority Waiting List for the longest period of time was placed there in July 2007.
- In fiscal year 2008, revenues are estimated to be \$211.5 million. These revenues will be added to \$50.8 million of unspent revenues from fiscal year 2007.
- These funds are programmed to be used in fiscal year 2008 in the following manner pursuant to the provisions of the appropriation act:
  - \$124.9 million will be transferred for teacher retirement;
  - \$63.6 million will be used to pay debt service on the technology equipment notes;
  - \$20.0 million was allocated for the interest rate subsidy program (\$16.9 million of the \$20.0 million was used for an interest rate subsidy program in the Fall of 2007 which funded 25 projects on the waiting list); and,
  - \$50.8 million will be available to issue direct loans (\$44.0 million in direct loans were issued by the Board of Education in January 2008).
  - Total = \$259.3 million

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*Current Status of the Literary Fund - continued*

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- In fiscal year 2009, revenues are estimated to be \$202.3 million. These revenues will be added to \$84.6 million of anticipated unspent revenues from fiscal year 2008.
  
- As proposed by the Governor in HB/SB 30, as introduced, these funds are programmed to be used in fiscal year 2009 in the following manner:
  - \$171.1 million will be transferred for teacher retirement;
  
  - \$64.6 million will be used to pay debt service on the technology equipment notes; and,
  
  - \$20.0 million will be used for an interest rate subsidy program.
  
  - Total = \$255.7 million
  
  - The issuance of direct Literary Fund loans in FY 2009 will depend on the actual revenues received by the fund. Current projections indicate that planned expenditures exceed projected revenue in fiscal year 2009 by approximately \$53.4 million.

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*Current Status of the Literary Fund - continued*

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- In fiscal year 2010, revenues are estimated to be \$197.8 million. These revenues will be added to \$30.8 million of anticipated unspent revenues from fiscal year 2009.
  
- As proposed by the Governor in HB/SB 30, as introduced, these funds are programmed to be used in fiscal year 2010 in the following manner:
  - \$91.1 million will be transferred for teacher retirement;
  
  - \$65.4 million will be used to pay debt service on the technology equipment notes; and,
  
  - \$15.0 million will be used for an interest rate subsidy program.
  
  - Total = \$171.5 million
  
  - The issuance of direct Literary Fund loans in FY 2010 will depend on the actual revenues received by the fund. Current projections indicate that approximately \$25 million will be available for direct loans.

## *Additional State Funding for School Construction and Technology*

### **Estimated State Funding for School Construction and Renovation (HB/SB 30)**

	<b>FY 2009</b>	<b>FY 2010</b>
<b>Operations and Maintenance</b> <i>(Included in Basic Aid)</i>	\$21.6 million	\$21.7 million
<b>Facilities</b> <i>(Included in Basic Aid)</i>	\$23.4 million	\$ 23.6 million
<b>Lottery</b> <sup>1</sup>	\$165.7 million	\$165.7 million
<b>School Construction</b> <sup>2</sup>	\$27.5 million	\$27.5 million
<b>Grants from VPSA Educational Technology Notes</b> <sup>3</sup> <i>(Debt Service Paid From Literary Fund)</i>	\$60.2 million	\$60.5 million

<sup>1</sup> Lottery - The appropriation act states that no more than 50 percent of Lottery funds shall be used for recurring costs and at least 50 percent shall be spent on nonrecurring expenditures by school divisions. Nonrecurring costs shall include school construction, additions, infrastructure, site acquisition, renovations, technology, and other expenditures related to modernizing classroom equipment, and debt service payments on school projects completed during the last 10 years. Funds are distributed on a per pupil basis.

<sup>2</sup> School Construction Grants - The appropriation act provides \$27.5 million each year from the general fund to school divisions for nonrecurring expenditures. Nonrecurring costs include school construction, additions, infrastructure, site acquisition, renovations, technology, and other expenditures related to modernizing classroom equipment, payments to escrow accounts pursuant to Chapter 391, Acts of Assembly of 1999, school safety equipment or school safety renovations, and debt service payments on school projects completed during the last ten years.

<sup>3</sup> Grants from VPSA Educational Technology Notes - The appropriation act requires that each division use the technology funds to reach a goal, in each school, of: (1) a 5-to-1 student to computer ratio; (2) an Internet-ready local area network (LAN) capability; and (3) high speed access to the Internet. School connectivity (computers, LANs and network access) shall include sufficient download/upload capability to ensure that each student will have adequate access to Internet-based instructional, remedial and assessment programs.

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## *Qualified Zone Academy Bonds (QZABs)*

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- In 1997, Congress created the Qualified Zone Academy Bond Program (QZAB) so that schools could raise funds to: 1) renovate and repair buildings; 2) invest in equipment and current technology; 3) develop challenging curricula; and 4) train quality teachers.
- Qualified zone academies are public schools located in economically distressed areas that work with private entities to enhance curriculum, increase graduation and employment rates, and better prepare students for higher education and for the workforce.
- School divisions (through the local governments) borrow funds from financing institutions at low interest. Instead of receiving interest on the funds, a financing institution receives a federal tax credit in lieu of interest that they would have charged.
- Since calendar year 1998, Virginia has received more than \$72 million in QZAB allocations; including \$7.0 million in calendar years 2006 and 2007.
- States have the flexibility to determine how the allocations will be distributed, so long as each school benefiting from a QZAB is either located in a federal Empowerment Zone or Enterprise Community or at least 35 percent of its students are eligible for free or reduced price lunches.
- In Virginia, QZAB awards are made by the Secretary of Education based upon a ranking of division-level free lunch eligibility. Awards are made to Virginia school divisions based on a minimum allocation of \$1 million per division, until an award cap of \$5 million is reached.

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## *2008 Literary Fund Legislation*

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- **HB 566 / SB 408** - Amends § 22.1-147 of the *Code of Virginia* to raise the maximum limit for any loan from the Literary Fund from \$7.5 million to \$14 million.
- **HB 769** – Amends § 15.2-104 of the *Code of Virginia* to permit the [local court] clerk, having record of any lien held on behalf of the Literary Fund prior to July 1, 2007 and at the request of a locality, to mark the entry of such lien as satisfied, pursuant to § 22.1-151.

This bill also amends § 22.1-151 by adding that all memoranda of lien deposited with the State Treasurer on behalf of the Literary Fund prior to July 1, 2007, shall be released in accordance with the provisions of § 15.2-104.

- **HB 923 / SB 737 / SB 780** – Establishes the School Construction Revolving Fund and the School Construction Revolving Fund Advisory Board.

**VIRGINIA BOARD OF EDUCATION - LITERARY FUND FIRST PRIORITY WAITING LIST**

*The following projects have been placed or are recommended for placement on the First Priority Waiting List with the actions as indicated in the last column. Projects recommended for action at this meeting are presented in italics.*

Priority	Date Placed on Waiting List	School Division	School	Interest Rate	Amount	Cumulative Total	Action/Status
1	July, 2007	Powhatan County	New Elementary School	3%	7,500,000	7,500,000	Funding Deferred
2	July, 2007	Wise County	Coeburn Middle School	2%	3,457,500	10,957,500	Funding Deferred
3	July, 2007	Pulaski County	Riverlawn Elementary School	2%	7,500,000	18,457,500	Funding Deferred
4	October, 2007	Roanoke City	William Fleming High School	3%	7,500,000	25,957,500	Funding Deferred
5	October, 2007	Wise County	Powell Valley Primary School	2%	4,015,000	29,972,500	Funding Deferred
6	October, 2007	Manassas Park City	Cougar Upper Elementary School	3%	7,500,000	37,472,500	Funding Deferred
7	October, 2007	Covington City	Jeter Watson Intermediate School	2%	7,500,000	44,972,500	Funding Deferred
8	October, 2007	Covington City	Edgemont Primary School	2%	7,500,000	52,472,500	Funding Deferred
9	October, 2007	Prince George County	North Elementary School	2%	7,500,000	59,972,500	Funding Deferred
10	October, 2007	Town of West Point	West Point High School	2%	275,000	60,247,500	Funding Deferred
11	October, 2007	Town of West Point	West Point Middle School	2%	200,000	60,447,500	Funding Deferred
<i>New projects to be added with funding deferred until funds are approved for release by separate action of the Board of Education</i>							
12	January, 2008	Radford City	Belle Heth Elementary School	2%	7,500,000	67,947,500	<i>Funding Deferred</i>
13	January, 2008	Virginia Beach City	Virginia Beach Middle School	3%	7,500,000	75,447,500	<i>Funding Deferred</i>

**January, 2008**