EDUCATION SUBCOMMITTEE

Senate Finance Committee

Issues Raised During the 2008 Session Related to Literary Fund Grants & Loans for School Construction

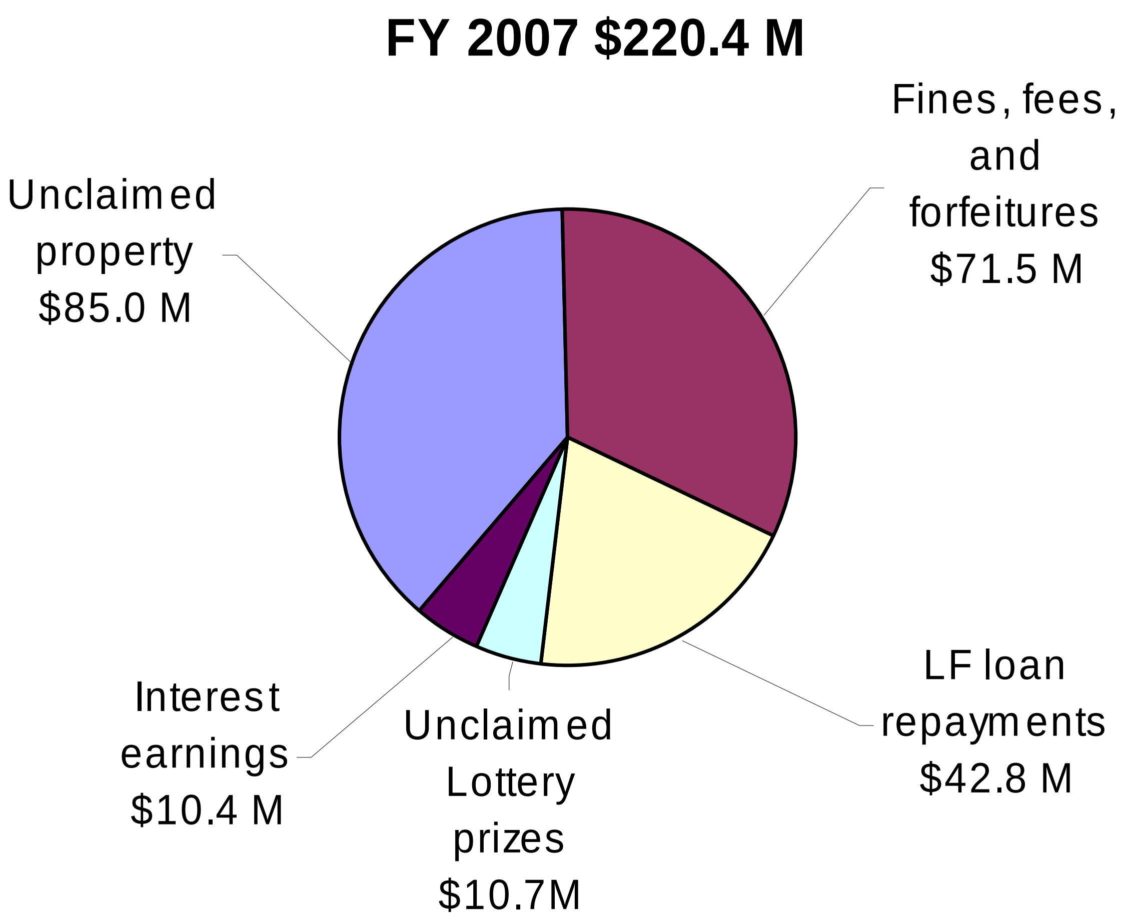
June 19, 2008

2008 Session Briefings

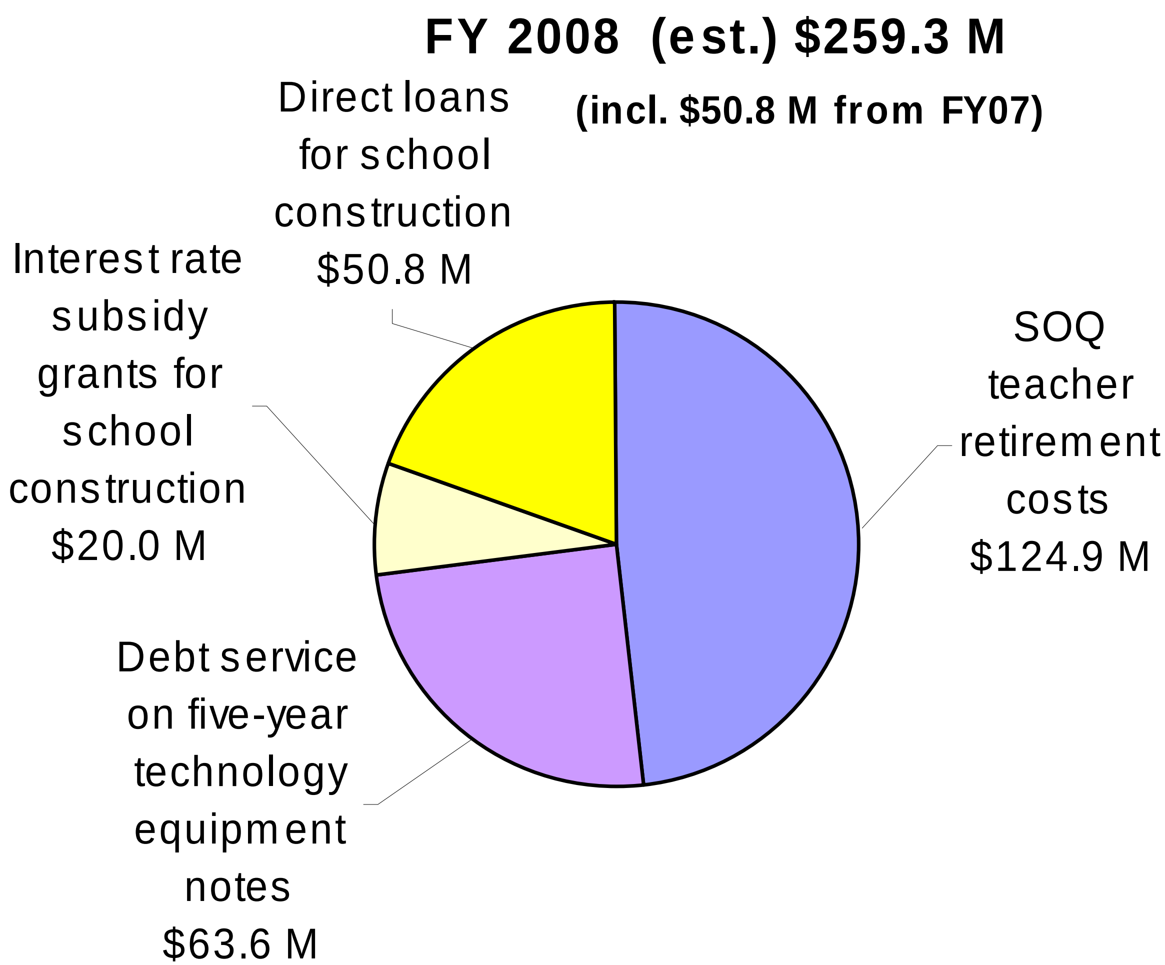
Education Subcommittee Briefings (January 31, 2008)

- Overview of State Assistance for Local School Construction
  - Virginia Department of Education
- School Construction Financing Options for Local Public School Divisions
  - Virginia Public School Authority (staffed by Department of Treasury)

Literary Fund Revenue Sources



Uses of Literary Fund



Issues Raised

- ***"LF dollars are routinely 'diverted' from school construction to other education purposes."***
- *"Interest rate subsidy grants (as opposed to direct loans) mean that the LF dollars do not revolve back to the LF."*
- *"The maximum Literary Fund (LF) loan amount of $7.5 million per project is too low."*
- *"At current market rates, not all school divisions can benefit from LF grants and loans."*

Issue: "Diversion" of LF Dollars Away from School Construction

- A <u>policy issue</u> for the G.A., the Constitution does not specify that the LF be used for school construction
- SOQ and other operating needs have been viewed as a higher state priority
- Other sources of state support for local school construction
  - Annual GF grants to all school divisions (total = $27.5 million)
  - Low cost market rate financing through VPSA's pooled bond program (AA+)
  - Part of Lottery Proceeds
- Previously cyclical, diversion has been in response to the state's revenue situation
  - However, another revenue slow down occurred before significant LF were restored
- **If school construction is a spending priority, the issue of diversion of LF should be addressed before, or at least along with, any changes that would increase demand/eligibility for the funds**

Issue: Revolving Loans vs. Grants

- Interest rate subsidy grants do move the waiting list faster, but mean that the LF dollars do not revolve.

- Beginning in FY 1989, while loans continued to be made when possible, a judgment was made to trade-off future loan repayments for greater “bang for the buck” now.

  - Example: For FY 2007, 27 projects totaling $157 million were funded with $18 million in grants

  - From FY 1989 through FY 2007, $1.2 billion worth of projects received funding equivalent to loans through the use of $204 million in grants, an average ratio of 6.1
    - During that same period, $722 million in loans were provided

Issue: Maximum Loan Amount Per Project

- In 1997, the maximum LF loan amount per project was increased from $5.0 million to $7.5 million (as set out in Code).

- According to DOE data:
  - Of the 17 new elementary schools constructed in 2006-07, the total cost ranged from $11.9 million in Portsmouth to $21.3 million in Williamsburg.
  - Of the 3 new middle and intermediate schools, total costs ranged from $28.0 million in Chesterfield and $44.9 million in Chesapeake.
  - Of the 5 new high schools, total costs ranged from $26.7 million in Page to $55.3 million in Chesterfield.

Issue: Interest Rates

- At current market rates, not all school divisions can benefit from LF grants and loans.
  - A question of the policy goal(s) of the program.

May 2007/
May 2008
VPSA Rate =
4.2%

  - Essentially, limited funds are targeted towards school divisions with lower Composite Indices.
- Parameters are set out in Code and State Board of Education regulations.

Composite Index	Interest Rate
$\geq$0.6000	6%
0.5000 to 0.5999	5%
0.4000 to 0.4999	4%
0.3000 to 0.3999	3%
$\leq$0.2999	2%

Example of a Package of Options in Response to the Issues Raised

- **Diversion:** Phase out use of LF for debt service on five-year notes for technology equipment, converting to a prevailing cost basis through SOQ instead

- **Diversion:** Link to state's revenue situation
  - Include guidelines for restoring the funds as revenues rebound

- **Grants vs. Loans:** Accept the use of interest rate subsidy grants as a means of achieving the largest "bang for the buck" until a certain trigger is met, such as 100% of LF dollars are programmed to school construction

- **Maximum Project Amount:** Phase-in an increase, with a stated goal, such as the cost of an elementary school

- **Interest Rates:** Restructure, such as linked to recent market rates, so that ALL school divisions could benefit *(see attached example)*

Interest Rates - *Option*

- Multiply a school division's Composite Index by the most recent actual VPSA rates (i.e. 4.2%) to ensure that ALL divisions are eligible for below market rates.

	Interest Rate	
Composite Index	**Current Program**	**New Program,** **Pegged to Recent Market Rate (4.2%)**
≥0.6000	6%	2.56-3.36%
0.5000 to 0.5999	5%	2.17-2.40%
0.4000 to 0.4999	4%	1.70-2.05%
0.3000 to 0.3999	3%	1.27-1.63%
≤0.2999	2%	0.65-1.25%