| **Virginia Board of Education Agenda Item** | **Seal of the Commonwealth of Virginia** |
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# Agenda Item: A

## Date: June 20, 2019

## Title: Final Review of Recommendations Concerning Literary Fund Applications Approved for Release of Funds or Placement on a Waiting List; Update to the First Priority Waiting List

#### Presenter: Mr. Kent C. Dickey, Deputy Superintendent of Budget, Finance, and Operations

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## Purpose of Presentation:

Action required by state or federal law or regulation.

## Executive Summary:

The Literary Fund provides low-interest loans for new school construction and for additions or permanent improvements to existing schools to help provide students with a safe and secure environment in which to learn. This item aligns with Board of Education Goal: Priority 1: Provide high-quality, effective learning environments for all students.

This item is presented to the Board of Education for approval of release of a Literary Fund loan for a school project in Giles County, removal of several projects from the First Priority Waiting List as requested by the respective division superintendents, and an update to the First Priority Waiting List to reflect the first two actions.

Attachment A reflects a Literary Fund application for a school project in Giles County that is recommended for release of a Literary Fund loan.

Attachment B reflects the removal of school projects in Dickenson County, Sussex County, Washington County, and Virginia Beach from the First Priority Waiting List, as requested by the respective division superintendents.

Attachment C reflects a revised Literary Fund First Priority Waiting List, updated for the release of a Literary Fund loan for a school project in Giles County and the removal of school projects in Dickenson County, Sussex County, Washington County, and Virginia Beach.

## Action Requested:

Final Review: Action requested at this meeting.

## Superintendent’s Recommendation:

The Superintendent of Public Instruction recommends that the Board of Education approve the actions reflected in Attachments A, B, and C, and as further described in the section below, “Background Information and Statutory Authority.” These actions are to approve the release of the Literary Fund loan of $7.5 million for the Eastern Elementary/Middle School project in Giles County (shown in Attachment A); remove several school projects in Dickenson, Sussex, and Washington counties and Virginia Beach from the First Priority Waiting List, as requested by the respective division superintendents, that were previously financed from alternative sources (shown in Attachment B), and approve an updated First Priority Waiting List reflecting the actions in Attachments A and B (shown in Attachment C).

**Rationale for Action:**

Item 136, Chapter 854 (2019 Appropriation Act) directs that $30.0 million in Literary Fund revenues be used to provide school construction loans for projects that are on the Board of Education's First Priority Waiting List. To date, these funds have not been issued. This allows the Board of Education to approve the release of up to $30.0 million in additional loans from the Literary Fund, and to approve updates to the First Priority Waiting List as project loans are released.

**Previous Review or Action:**

No previous review or action.

## Background Information and Statutory Authority:

In accordance with the provisions of Section 22.1-142, *Code of Virginia*, the Board of Education is responsible for the management of the Literary Fund. In addition, Section 22.1-146, *Code of Virginia*, authorizes the Board to make loans from the Literary Fund for the purpose of erecting, altering, or enlarging school buildings. 8VAC20-100-180 (Eligibility for Release of Funding) of the Virginia Administrative Code directs that Literary Fund projects become eligible for release of funding in the same relative order as having been approved by the Board as having met all conditions for a Literary Fund loan. 8VAC20-100-220 (Unencumbered Sum Available)

directs that the release of Literary Funds be approved by the Board for a project when the Literary Fund has an unencumbered sum available that is at least equal to the amount of the project application.

School divisions that have successfully completed the application process for a low-interest loan from the Literary Fund for new construction or renovation are placed on one of two waiting lists when funds are not currently available to fund the project. The Literary Fund regulations of the Board of Education establish two priorities for the Literary Fund Waiting Lists. These priorities are as follows:

Priority 1: Applications from localities having a composite index less than 0.6000 and indebtedness (including the application considered for release of funds) less than $20 million to the Literary Fund.

Priority 2: Applications from localities having a composite index of 0.6000 or above or an indebtedness (including the application considered for release of funds) of $20 million or greater to the Literary Fund.

To the extent loan funds are available, a recommendation for initial release of funds is presented for projects currently on the First Priority Waiting List or otherwise eligible for priority funding. The maximum loan amount from the Literary Fund is $7.50 million. To the extent funds are not available, new requests for the initial release of Literary Funds cannot be approved. As a result, such requests must be deferred and placed on either the First or Second Priority Waiting List in accordance with the Literary Fund regulations.

The following items require action by the Board of Education:

Approve the release of a $7.5 million Literary Fund loan for the Eastern Elementary/Middle School project in Giles County, which was placed on the First Priority Waiting List in April 2009 and is priority number three on the current First Priority Waiting List. The Eastern Elementary/Middle School project is eligible for a $7.5 million loan for qualifying costs.

This renovation project was completed using an initial local borrowing. The proceeds from the Literary Fund loan will be used by Giles County to refinance the initial local borrowing used to finance the original renovation cost at the lower Literary Fund interest rate of two percent. Under the *Code of Virginia*, Literary Fund loan proceeds may be used to refinance prior local debt used for the initial financing of Literary Fund projects. Since the Giles County project is ready to proceed with release of the Literary Fund loan, and the school divisions with projects ranked one and two on the First Priority Waiting List have confirmed that they wish to continue to defer release of their loans, the Giles County project is being presented to the Board for loan approval ahead of projects number one and two on the Waiting List.

## In addition, removal of several school projects in Dickenson, Sussex, and Washington counties and Virginia Beach from the First Priority Waiting List, as requested by the respective division superintendents, since these projects were previously financed through alternative sources of funding. Lastly, approve a revised First Priority Waiting List reflecting the first two actions.

## Timetable for Further Review/Action:

As funds become available in the Literary Fund, recommendations will be made to the Board for funding priority projects and for those projects at the top of the First Priority Waiting List, with the cash balance reduced as loan requests are approved. Based on the availability of loan funds, initial release of funds will be made or projects will be deferred and placed on the Waiting Lists.

## Impact on Fiscal and Human Resources:

Current Board policy provides that, upon initial release of loan funds, Literary Fund cash is reduced in the total amount of the approved loan to assure that cash is available as required for project completion or for refinancing of a previous local borrowing. The disbursement of funds is based on actual invoices or other evidence of bills due and payable from the Literary Fund.