# Agenda Item: I

## Date: April 20, 2023

## Title: Final Review of Recommendation Regarding Literary Fund Loan Application Approval for Release of Loan Funds

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## 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 and Board of Education 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. In accordance with the provisions of the *Code of Virginia*, Chapter 10, Section 22.1-142, the Board of Education is responsible for the management of the Literary Fund. The State Treasurer serves as accountant of the Fund. This item aligns with Board of Education Goals Priority 1: Provide high-quality, effective learning environments for all students.

Item 137 Paragraph C.11.c. of the 2022 Appropriation Act authorizes $200 million from the Literary Fund for school construction loans in both fiscal year 2023 and 2024. Pursuant to new appropriation act provisions and Board of Education guidelines, the Department of Education conducted an open application process from December 2022 through February 2023 for school divisions to apply for construction loans from the Literary Fund. Nine school divisions/localities submitted loan applications for 19 school projects. Following the close of the open application period, Department reviewed the submitted loan applications and accompanying required documentation. To date, only one project application has met all requirements for release of a Literary Fund loan.

This item requests the Board to approve release of a Literary Fund loan requested by Rockingham County for a high school addition project at Broadway High School. Rockingham County is requesting a Literary Fund loan in the amount of $14 million payable over 20 years for the project and is eligible for a three percent annual loan interest rate. Attachment A contains the project application.

## Action Requested:

Final review: Action requested at this meeting.

## Superintendent’s Recommendation

The Superintendent of Public Instruction recommends that the Board of Education waive First Review and approve the release of the Literary Fund loan requested by Rockingham County for the Broadway High School project.

## Rationale for Action:

All requirements have been met by Rockingham County for release of the Literary Fund loan for this project, including submission of the division superintendent and architect approval letters and final project plans and specifications. Sufficient funding from the Literary Fund is authorized and available for the Board to approve the release of this loan.

## Previous Review or Action:

No previous review or action.

## Background Information and Statutory Authority:

Several key changes were made to the Literary Fund program at the 2022 Special Session I of the General Assembly through the appropriation act and amendments to the *Code of Virginia*, intended to make the Literary Fund a more competitive and accessible source of school construction financing for school divisions and localities. Item 137 Paragraph C.11.b. of the 2022 Appropriation Act and amendments to §§ 22.1-147 and 22.1-150, *Code of Virginia*: 1) establish a maximum Literary Fund loan amount per project of $25.0 million (from $7.5 million); 2) in consultation with the Department of the Treasury, establish loan interest rates that are benchmarked to a market index on an annual basis, not to exceed two percent for the tier of localities with a school division local composite index between 0.0000 and 0.2999, and with the Board using a sliding scale based on the school division's composite index to determine the interest rate on loans; 3) replace the existing First Priority and Second Priority waiting lists with an annual open application process to apply for loans, with priority for release of loans based on the local composite index; and 4) offer a loan add-on not to exceed $5.0 million per loan for projects that will result in school consolidation and the net reduction of at least one existing school. The Board adopted guidelines at its September 2022 meeting written to help implement these new provisions.

Rockingham County has met all application and documentation requirements for release of a Literary Fund loan for this project. The proceeds from the Literary Fund loan will be used by Rockingham County to pay construction costs on this school project. Literary Fund loans constitute general obligation debt of the locality evidenced by bonds or notes payable to the Commonwealth for the benefit of the Literary Fund.

The following item requires action by the Board of Education:

Approve the release of a Literary Fund loan in the amount of $14 million for the Broadway High School addition project in Rockingham County, at an interest rate of three percent.

## Timetable for Further Review/Action:

The Department will notify Rockingham County Public Schools of the Board’s approval to release the requested Literary Fund loan for the Broadway High School project. Rockingham County will proceed with local processes to close on the loan, which will be serviced by the state Department of the Treasury, at which time the loan proceeds will be available for reimbursement of construction costs incurred on the project. Funds from a Literary Fund loan are provided on a cost reimbursement basis for qualifying capital costs.

As additional Literary Fund loan applications received during the open application period are approved by staff, recommendations will be made to the Board at subsequent monthly business meetings to approve release of requested loan funds for those projects, with the Literary Fund cash balance reduced as loan releases are approved by the Board. Additional funding remains from the $200 million authorized for Literary Loans in fiscal year 2023, along with the $200 million authorized for fiscal year 2024, for the Department to conduct another open application period later this calendar year for school divisions to submit loan applications.

## Impact on Fiscal and Human Resources:

Current Board policy provides that, upon initial release of funds, Literary Fund cash is encumbered 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 for the project. Department staff will approve invoices submitted by Rockingham County for reimbursement of project costs and send vouchers to the Department of the Treasury requesting payment to Rockingham County from its Literary Fund loan.