# Agenda Item: B

## Date: May 11, 2023

## Title: Final Review of Recommendation Regarding Literary Fund Loan Applications 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 construction or renovation projects. Following the close of the open application period, Department reviewed the submitted loan applications and accompanying required documentation.

This item requests the Board to approve release of Literary Fund loans requested by Franklin City for roof replacement projects at Franklin High School and S.P. Morton Elementary School. Franklin City is requesting Literary Fund loans in the amount of $1.0 million for each project payable over 20 years and is eligible for a two percent annual loan interest rate. The project applications are shown in Attachments A and B.

## 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 loans requested by Franklin City for the Franklin High School and S.P. Morton Elementary School roof replacement projects.

## Rationale for Action:

All requirements have been met by Franklin City for release of the Literary Fund loans for these projects, 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 these loans.

## 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.

Franklin City has met all application and documentation requirements for release of Literary Fund loans for these projects. The proceeds from the Literary Fund loans will be used by Franklin City to pay construction costs on these school projects. 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 action is required by the Board of Education:

***Approve the release of Literary Fund loans to Franklin City in the amount of $1.0 million each for the Franklin High School and S.P. Morton Elementary School roof replacement projects, at an annual interest rate of two percent and payable over 20 years.***

## Timetable for Further Review/Action:

The Department will notify Franklin City Public Schools of the Board’s approval to release the requested Literary Fund loans for the Franklin High School and S.P. Morton Elementary School roof replacement projects. Franklin City will proceed with the local processes to close on the loans, 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 projects. 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 Franklin City for reimbursement of project costs and send vouchers to the Department of the Treasury requesting payment to Franklin City from its Literary Fund loans.