



VIRGINIA BOARD OF EDUCATION

AGENDA ITEM

Agenda Item: C

Date: October 19, 2023

Title: First and Final Review of Recommendations Regarding Literary Fund Loan Applications Approval for Release of Loan Funds

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

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 § [22.1-142](#) of the Code of Virginia, the Board of Education (“Board”) is responsible for the management of the Literary Fund. The State Treasurer serves as accountant of the Fund. This item aligns with Priority 1 of the Board’s Comprehensive Plan: Provide high-quality, effective learning environments for all students.

Item [137](#), Paragraph C.11.c of the Chapter 1 state budget authorizes \$200 million from the Literary Fund for school construction loans in both fiscal year 2023 and 2024:

The Board of Education may offer up to \$200,000,000 the first year and up to \$200,000,000 the second year from the Literary Fund in school construction loans, subject to the availability of funds. Amounts designated for school construction loans that are not obligated in the first year may be obligated in the second year. In addition, the Department of Education may offer Literary Fund loans from the uncommitted balances of the Literary Fund after meeting the obligations of the interest rate subsidy sales and the amounts set aside from the Literary Fund for Debt Service Payments for Education Technology and Security Equipment in this Item.

Pursuant to new appropriation act provisions and Board guidelines, the Department of Education (VDOE) 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, VDOE staff reviewed the submitted loan applications and accompanying required documentation.

This item requests the Board to approve the release of two requested Literary Fund loans:

1. A loan requested by Giles County for roof and HVAC replacement, electrical upgrades, and associated building renovations at Macy McClaugherty Elementary/Middle School. Giles County is requesting a Literary Fund loan for the project in the amount of \$7,850,000 payable over 30 years and is eligible for a two percent annual loan interest rate. The project application is shown in Attachment 1.
2. A loan requested by Suffolk City for a new replacement school for John F. Kennedy Middle School. Suffolk City is requesting a Literary Fund loan for the project in the amount of \$25.0 million payable over 20 years and is eligible for a three percent annual loan interest rate. The project application is shown in Attachment 2.

Action Requested

Final review: Action requested at this meeting.

Superintendent's Recommendation

The Superintendent of Public Instruction recommends that the Board waive first review and approve the release of the Literary Fund loan to Giles County for the Macy McClaugherty Elementary/Middle School renovation project in the amount of \$7,850,000 at an annual interest rate of two percent and payable over 30 years. The Superintendent also recommends that the Board waive first review and approve the release of the Literary Fund loan to Suffolk City for the John F. Kennedy Middle School replacement school project in the amount of \$25.0 million at an annual interest rate of three percent and payable over 20 years.

Rationale for Action

All requirements have been met by Giles County and Suffolk City for release of the Literary Fund loans for their two projects, including submission of the division superintendent and architect approval letters and final project plans and specifications pursuant to § [22.1-140](#) of the *Code of Virginia*. 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.c of the 2022 Appropriation Act and amendments to §§ [22.1-147](#) and [22.1-150](#) of the 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 in September 2022 written to help implement these new provisions.

Giles County and Suffolk City have met all application and documentation requirements for release of the Literary Fund loans for their projects. They will use the proceeds from the loans to pay construction costs on the school projects. A Literary Fund loan constitutes general obligation debt of the locality evidenced by bonds or notes payable to the Commonwealth for the benefit of the Literary Fund.

Stakeholder Engagement

The Giles County and Suffolk City School Boards and the Giles County Board of Supervisors and Suffolk City Council all passed authorizing resolutions approving the Literary Fund applications for these projects and the repayment of the loans if approved for release. VDOE staff worked with representatives from both the school divisions and local governments in the application review and approval process.

Implementation and Communication

VDOE will notify the Giles County and Suffolk City Public Schools of the Board's approval to release the requested Literary Fund loans for the Macy McClaugherty Elementary/Middle School and John F. Kennedy Middle School projects. Giles County and Suffolk 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 qualifying 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. VDOE has also announced a second-round open application process during September 21 through November 16, 2023, for school divisions to submit loan applications requesting funding from the remaining Literary Fund loan authorization.

Impact on Fiscal and Human Resources:

Current Board policy provides that, upon initial release of loan 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. VDOE staff will approve invoices submitted by Giles County and Suffolk City for reimbursement of project costs and send vouchers to the Department of the Treasury requesting payment to Giles County and Suffolk City from their Literary Fund loans.