



VIRGINIA BOARD OF EDUCATION

AGENDA ITEM

Agenda Item: H

Date: October 24, 2024

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

Presenter: Christina Berta, Chief Operations Officer

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 authorized \$200 million from the Literary Fund for school construction loans in both fiscal years 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.

The Department of Education (VDOE) conducted two loan application periods during fiscal year 2024 for school divisions to apply for construction loans from the Literary Fund. Franklin City Public Schools applied for two loans during the first open application period in fiscal year 2024 and has now submitted all the required documentation needed for its requested loans to be released by the Board.

This item requests the Board to approve the release of the two Literary Fund loans requested by Franklin City Public Schools as follows:

1. A loan requested by Franklin City to complete phase II of a roof replacement project at Franklin High School. Franklin City is requesting a Literary Fund loan for the project in the amount of \$1,000,000 payable over 20 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 Franklin City to complete phase II of a roof replacement project at S.P. Morton Elementary School. Franklin City is requesting a Literary Fund loan for the project in the amount of \$1,000,000 payable over 20 years and is eligible for a two 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 two Literary Fund loans requested by Franklin City Public Schools based on the loan amounts, terms, and eligible annual interest rate requested in its loan applications, as indicated above in the Executive Summary section.

Rationale for Action

All application and documentation requirements have been met by Franklin City Public Schools for release of the Literary Fund loans it requested for its two school 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 two loans.

Previous Review or Action

No previous review or action.

Background Information and Statutory Authority

The Literary Fund is governed by [§§ 22.1-142 through 22.1-161](#) of the Code of Virginia and [Item 137](#), Paragraph C.11.a. through c. of Chapter 1 (for loan applications received during the 2022-2024 biennium). These provisions include (1) a maximum Literary Fund loan amount per project of \$25.0 million; (2) in consultation with the Department of the Treasury, establishing 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) replacing 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) offering 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 the appropriation act and statutory provisions.

Franklin City Public Schools has met all application and documentation requirements for release of the Literary Fund loans it requested for its two school projects. Franklin City will use the proceeds from the loans to complete roof replacements at the two schools. As these loan applications were submitted during the first application period conducted in fiscal year 2024, the amounts of the requested loans were encumbered against the \$400 million in Literary Fund loans authorized in the Chapter 1 budget for the 2022-2024 biennium. 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 Franklin City School Board and the Franklin City Council adopted authorizing resolutions approving the Literary Fund applications for these two projects and the repayment of the loans if approved for release. VDOE staff worked with representatives from both the school division and the city government in the application review and approval process.

Implementation and Communication

VDOE will notify the division superintendent in Franklin City of the Board's approval to release the division's two requested Literary Fund loans. 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 qualifying costs incurred on the roof replacement projects at the two schools. Literary Fund loan proceeds are provided on a cost reimbursement basis for qualifying capital costs on funded projects.

As additional Literary Fund loan applications received during previous application periods are

approved by staff, recommendations will be made to the Board at subsequent monthly business meetings to approve the release of requested loan funds for those projects, with the Literary Fund cash balance reduced as loan releases are approved by the Board.

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 requisitions submitted by Franklin City Public Schools for reimbursement of project costs and send vouchers to the Department of the Treasury requesting payment to Franklin City from its Literary Fund loan proceeds.