

## *Virginia Board of Education*

### ***Guidelines for Providing Loan Interest Rate Subsidy Grant Payments for the Virginia Public School Authority Pooled Bond Program (Revised - September 2019)***

#### **Legislative Authority/Purpose**

Senate Bill 1093, effective July 1, 2019, adds Section 22.1-146.1 to the *Code of Virginia* requiring the Board of Education to establish a program to subsidize interest payments on certain loans made by the Virginia Public School Authority (VPSA) to local governing bodies and school boards for the design and construction of new school buildings and facilities or the modernization and maintenance of existing school buildings and facilities.

Further, Item 136, Paragraph C.11.b. of the 2019 Appropriation Act (Chapter 854), requires the Virginia Public School Authority to provide an interest rate subsidy program in fiscal year 2020 for projects that are on the Board of Education's First Priority Waiting List, and which shall only use the subsidy funding and associated VPSA borrowing by localities as original financing for the projects and not to refinance any prior debt on the projects. Up to \$5.0 million from the Literary Fund is authorized to pay the cost of the interest rate subsidy program in fiscal year 2020 for subsidy grant payments and related issuance costs, with the program subject to the provisions of Section 22.1-146.1.

Under this program, eligible Literary Fund projects are financed with a loan through the VPSA Pooled Bond Program at a market rate of interest but also receive an interest rate subsidy grant from the Literary Fund (at a 50 or 100 percent rate) applied to a portion of the market interest rate and the project cost, reducing the principal amount borrowed. Depending on the market interest rate, the combination of the VPSA loan and subsidy grant may result in a debt service cost lower than that paid on a direct Literary Fund loan. The program is targeted to school divisions with lower composite indices that may have less ability to pay for school construction and renovation. This financing approach is in lieu of the project receiving a direct construction loan from the Literary Fund.

#### **Definitions**

*"Loan"* - A loan provided to a Virginia locality by the Virginia Public School Authority (VPSA) under its Pooled Bond Program typically offered in the spring and fall of each year, by which VPSA issues tax-exempt bonds and uses the proceeds to purchase general obligation local school bonds issued by Virginia localities for the purpose of financing capital projects for public schools. With the proceeds of its bonds, VPSA purchases a predetermined "pool" of general obligation bonds from localities to finance public school capital projects, which localities pay back to VPSA with principal and interest. The VPSA financing is combined with an interest rate subsidy grant payment and is in lieu of a locality receiving a direct school construction loan from

the Literary Fund for school projects that are on the Literary Fund First or Second Priority Waiting Lists.

*“Interest Rate Subsidy Payments”* - A cash grant paid to a school division from the Literary Fund based on a percentage of the interest rate, subject to the parameters indicated in the Eligibility Criteria/Process section below, on loans made to localities by the Virginia Public School Authority through the VPSA Pooled Bond Program for eligible school projects on the Literary Fund First Priority Waiting List. Eligible projects on the Literary Fund Second Priority Waiting List may receive an interest rate subsidy if unused subsidy authorization remains after approval of First Priority projects. The subsidy grant is used to reduce the principal amount borrowed for the project so that the debt service cost on the VPSA loan is lower than at market interest rates and may be lower than what would be paid on a direct Literary Fund loan. The grant funds are provided to school divisions on a reimbursement basis for qualifying costs of the school project.

#### **Eligibility Criteria/Procedures**

A. Pursuant to Section 22.1-146.1, and subject to funding authorized in the general appropriation act for each fiscal year, the interest rate subsidy grant payments on loans made by the Virginia Public School Authority to local governing bodies and school boards under this program shall be provided as follows:

1. The subsidy grant payment under this program and associated VPSA borrowing shall only be used as original financing for the eligible project and not to refinance any prior debt on the project.
2. For school divisions with a composite index of local ability-to-pay that is greater than 0.2500 but less than 0.4000 at the time an application to the program is made, an interest rate subsidy grant of 50 percent of the market interest rate on such loan but subject to the limits in Section B; or
3. For school divisions with a composite index of local ability-to-pay that is 0.2500 or less at the time an application to the program is made, an interest rate subsidy grant of 100 percent of the market interest rate on such loan but subject to the limits in Section B.
4. A school division’s composite index of local ability-to-pay at the time an application to the program is made shall mean the composite index in effect when the project was placed on the Literary Fund First or Second Priority Waiting List.

B. Notwithstanding the provisions of Section A., for each loan under the program, the subsidy grant amount provided shall be limited to:

1. The approved principal loan amount of the Literary Fund project, not to exceed \$7.5 million in loan value; and

2. The portion of the market interest rate on the loan from the Pooled Bond issuance that is the rate that the school division would have obtained on a Literary Fund loan under the provisions of Board of Education regulation 8VAC20-100-140, specifically:
  - a. for school divisions with a composite index of local ability-to-pay between 0.2000 and 0.2999 at the time the Literary Fund application is made, a 2.0 percent interest rate;
  - b. for school divisions with a composite index of local ability-to-pay between 0.3000 and 0.3999 at the time the Literary Fund application is made, a 3.0 percent interest rate.

C. The total amount of interest rate subsidy grants provided under the program shall not exceed the total amount authorized for each fiscal year as specified in the general appropriation act.

D. Requests for interest rate subsidy grants will be considered and awarded each fiscal year subject to available authorization in the general appropriation act and in the order of eligible projects on the Literary Fund waiting lists.

E. If the available interest rate subsidy grant authorization for a fiscal year will fund only a portion of the cost of a subsidy grant request, partial funding of a subsidy grant may be accepted by the locality. However, such partial funding shall represent the final subsidy funding provided for the project, with no additional funding to be provided from subsidy grant authorizations in subsequent fiscal years or through a separate Literary Fund loan and the project shall be removed from the Literary Fund waiting list.

F. School divisions may apply for an interest rate subsidy grant for eligible projects under this program upon announcement from, and by application submitted to, the Department of Education.

G. Subject to the amount of funding authorized in the general appropriation act each fiscal year for this program, the Superintendent of Public Instruction shall consider approval of interest rate subsidy grant requests pursuant to these guidelines. Upon approval of the interest rate subsidy grant requests each fiscal year, Department of Education staff shall work with Virginia Public School Authority staff to execute the interest rate subsidy grant payments in conjunction with a Pooled Bond Program issuance occurring each fiscal year.

H. For an eligible project on the Literary Fund First or Second Priority Waiting List that is financed through the VPSA Pooled Bond Program and receives an interest rate subsidy grant payment under this program, such financing is in lieu of a locality receiving a direct school construction loan from the Literary Fund for the project and such project shall be removed from the Literary Fund First or Second Priority Waiting List.

**Legislative References:**

- 1) Chapter 807 (SB 1093, 2019 Session)
- 2) Item 136, Paragraph C.11.b., 2019 Appropriation Act (Chapter 854)

**1) VIRGINIA ACTS OF ASSEMBLY -- 2019 SESSION**

**CHAPTER 807**

*An Act to amend the Code of Virginia by adding a section numbered 22.1-146.1, relating to the Literary Fund; school modernization.*

[S 1093]

Approved March 25, 2019

**Be it enacted by the General Assembly of Virginia:**

**1. That the Code of Virginia is amended by adding a section numbered 22.1-146.1 as follows:**

**§ 22.1-146.1. School modernization loan interest rate subsidy payments.**

*A. The Board of Education shall establish a program to subsidize interest payments on certain loans made by the Virginia Public School Authority to local governing bodies and school boards for the design and construction of new school buildings and facilities or the modernization and maintenance of existing school buildings and facilities as follows:*

*1. For school divisions with a composite index of local ability-to-pay that is greater than 0.2500 but less than 0.4000 at the time an application to the program is made, the Board may subsidize up to 50 percent of the interest due on such loan; or*

*2. For school divisions with a composite index of local ability-to-pay that is 0.2500 or less at the time an application to the program is made, the Board may subsidize up to 100 percent of the interest rate on such loan.*

*B. The aggregate amount of subsidies provided pursuant to this section shall not exceed the allocation specified in the general appropriation act for each fiscal year.*

*C. For each loan, the annual subsidy amount shall not include both:*

*1. Interest or other loan-related costs related to any part of the loan that exceed \$7.5 million in loan value; and*

*2. Interest on any part of the loan that exceeds the rate that the local governing body or school board would have obtained for such loan under the provisions of §§ 22.1-146 and 22.1-150.*

**2) Item 136, Paragraph C.11.b., 2019 Appropriation Act (Chapter 854)**

*b. The Virginia Public School Authority shall provide an interest rate subsidy program in fiscal year 2020 for projects that are on the Board of Education's First Priority Waiting List, and which shall only use the subsidy funding and associated VPSA borrowing as original financing for the project and not to refinance any prior debt on the project. Projects on the Literary Fund Second Priority Waiting List may participate in the Interest Rate Subsidy Program if unused subsidy appropriation remains once the participation of projects on the First Priority Waiting List is confirmed and subject to the same restrictions. However, the total cost of the subsidy program shall not exceed \$5.0 million in the second year including the subsidy payments and related issuance costs based on the parameters in Senate Bill 1093, as passed during 2019 Session. In addition, \$30.0 million in Literary Fund revenues shall be used to provide school construction loans for projects that are on the Board of Education's First Priority Waiting List.*