

HB 923 / SB 737 / SB 780:

VIRGINIA SCHOOL CONSTRUCTION REVOLVING FUND

The Challenge: Cost-effective School Construction Financing for Local Governments

- State resources for funding primary and secondary education infrastructure – primarily the Literary Fund – are shrinking in terms of both real and inflated dollars while the demand and expense for new schools and renovation of existing facilities increases.
- Other educational needs at the state level have historically siphoned off monies from the Literary Fund that could have been used for school projects:
 - Only \$15.0 M of the Literary Fund’s \$218.5 M in available resources for FY 2008 is going toward direct school construction loans – just 7% of total funds.
 - The waiting list for Literary Fund loans can be as long as three years.
- The Virginia Public School Authority makes subsidized loans using only another \$20.0 M of Literary Fund monies. Yet these loans are limited to just \$7.5 million per project – a fraction of the actual cost to build a new school. And, the subsidies are never repaid into the Literary Fund.
- The uncertainty and limited funding from the state leaves localities searching for their own sources of financing for some or all of their project budgets, typically at greater cost to the taxpayers.

A Forward-Looking Commitment from the Commonwealth

- **HB 923 / SB 737 / SB 780** create a permanent, perpetual **Virginia School Construction Revolving Fund** to assist local school districts in financing school building construction and renovation.
- The Revolving Fund will be continually replenished as loans are repaid, creating a growing funding source for critical school construction projects. This is what the Literary Fund was intended to accomplish but has never achieved after many decades of operation.
- The Fund will be administered outside of State government, preserving all appropriated dollars – now and in the future – for critical school projects and removing the opportunity for future General Assembly action to raid the Fund.
- This legislation embodies a renewed commitment by the General Assembly to help alleviate pressure on local governments to raise property taxes. It accomplishes this by offering new sources of state support to meet our shared commitment to providing high-quality academic settings for Virginia students.

An Innovative Partnership with Local Governments

- The legislation creates an unprecedented partnership between the Commonwealth and local governments to prioritize and address the need for school construction and renovation. Central to this partnership is the creation of a Revolving Fund Advisory Board comprised of General Assembly representatives and local government officials nominated by the Virginia Municipal League (VML) and Virginia Association of Counties (VACo).

- The Advisory Board will be charged with 1) establishing criteria for prioritizing local school projects to receive below-market school construction loans; and 2) determining the rate of subsidy for the revolving loans, given the availability of resources to fund this initiative.
- Administration of the Revolving Fund is assigned to the finance program established by VML and VACo, now in its fifth year of financing major capital projects for local governments. VML/VACo Finance has a proven track record and is demonstrated to be one of the most cost-effective local financing alternatives.
- All state appropriations, loans, grants, loan repayments, interest and expenses will be received and disbursed through an industrial development authority (i.e., IDA of Stafford County and the City of Staunton) specifically established to serve local governments throughout the Commonwealth in the VML/VACo Finance Program. The Authority is subject to the same public oversight and accountability as is required of all Virginia political subdivisions and will designate a trustee bank to hold all public funds.

Stretching Limited Tax Dollars

- The Revolving Fund will be modeled after the highly successful Clean Water Revolving Fund which resides at the Department of Environmental Quality. This fund, in existence 1987, has received funding of some \$20-25 million each year.
- In spite of its relatively modest funding level, the Clean Water Revolving Fund is today the largest financing source for wastewater projects in Virginia, providing \$227M in low-interest loans in FY 2007 alone. Three factors are key to its successful growth:
 1. Loan repayments always return to the Fund;
 2. The Fund cannot be “raided,” in this case, because it receives approximately 80% of its funding from federal sources that are protected;
 3. The Fund has been “leveraged” as needs arise through the issuance of municipal bonds. Leveraging increases the volume of loans that may be made by a factor of up to three-to-one.
- The Clean Water Revolving Fund has demonstrated how a revolving fund structure can benefit all localities, large and small. Although the fund gives priority to less affluent localities, its largest borrowers to date have included: Alexandria Sanitation Authority, Hampton Roads Sanitary District, Fairfax County, and Arlington County.
- By establishing the School Construction Revolving Fund outside of state government to ensure that all loan repayments and appropriations are immune from being diverted to other purposes, similar success may be achieved. Moreover, the Revolving Fund may be “leveraged” with municipal bonds to further expand the pool of available funds.

An Ongoing Commitment

- Growth of the School Construction Revolving Fund, over time, will provide a meaningful state-sponsored / local government-managed pool of resources for the sole purpose of funding public school construction. Virginia’s school children deserve no less.