



# **School Construction Financing Options**

For  
Local Public School Divisions

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# Introduction

- State law gives the local school divisions the responsibility for controlling, erecting, furnishing, equipping and maintaining necessary school buildings and appurtenances.
- School divisions in Virginia do not have taxing power or the ability to issue debt, so it is the related local government that must provide for public school construction financing.
- There are three principal financing approaches available:
  - Use current local revenues (cash) to fund all or a portion of the capital projects;
  - Borrow funds (debt) either directly in the debt market or indirectly as with an IDA or VPSA; or
  - Borrow funds via a direct bank loan (may or may not be bank qualified).
- Cost, funding availability and schedule consideration associated with most school construction and major renovation projects will ultimately determine the preferred financing solution.

## Financing Options

I. **General Obligation Debt (GO)** – Secured by the full faith and credit of an issuer with taxing power. General obligation debt backed by a pledge of taxing power provides a relatively high credit quality debt and relatively low interest rates for any issuer. There are generally three methods by which Virginia localities can issue general obligation debt for public school construction purposes:

- **Direct Local Government Borrowing**: Issue and sell GO bonds directly in either the public or private markets (may require voter approval to secure GO pledge);
- **Literary Fund Direct Loan**: Borrow at below market interest rates from the fund, administered by the Department of Education. For qualified projects up to \$7.5 million interest rates from 2% to 6% are available depending upon the local composite index of ability to pay and subject to availability of funds; or
- **Virginia Public School Authority (VPSA)**: Borrow indirectly through the pooled bond or subsidy programs of the VPSA. *Neither requires voter approval for the issuance of a GO bond.*

## Financing Options (cont'd)

II. **Subject to Appropriation Bonds** – Typically issued through local industrial development authorities (IDA) or economic development authorities (EDA) and are secured by the annual appropriations of the borrowing entity instead of a pledge of taxing power. The credit quality will depend on the reliability of the borrowing entity. It can result in a higher cost of financing.

- Lease Revenue bonds or “subject to appropriation” bonds: The IDA borrows the funds to construct the school and leases it to the school division.
- The issuance of debt for school purposes through an IDA does not, generally, require local referendum.
- There are added expenses with this borrowing source making it a relatively expensive method of borrowing for school construction.
  - Additional fees include IDA fees, trustee fees and possibly bond insurance premiums in addition to the usual costs of issuance.
  - Additional debt may be required to provide capitalized interest during the period of construction before lease payments start.
  - Market interest rates are generally less favorable than with general obligation debt of the same issuer.

# Virginia Public School Authority

## Introduction

- Board of Commissioners – State Treasurer, State Comptroller, Superintendent of Public Instruction and five citizen members appointed by the Governor. A citizen member is appointed as chairman by the Governor.
- The Virginia Public School Authority (“VPSA”), established in 1962, is a bond bank which provides low-cost financing of capital projects for primary and secondary public schools in Virginia localities.
  - Provides financing to localities through the sale of bonds. With the proceeds of its bonds, the VPSA purchases general obligation bonds from localities.
  - Assists localities through its pooled bond program; an interest rate subsidy program for projects on the DOE First Priority Waiting list; and, its stand alone bond program.
  - Participation in pool and stand-alone transactions are initiated by localities and there is no waiting list. For interest rate subsidy transactions, participation is based on the Department of Education’s Literary Fund First Priority Waiting list.
  - VPSA bond ratings are “double-A plus” from all three rating major agencies.

## **Pooled Bond Program Key Features For Local Participants**

- VPSA can finance all types of real and personal property for public schools including land, buildings and equipment.
- Under the State Constitution, local issuers of general obligation school bonds are not required to obtain voter approval for bonds sold to the VPSA.
- VPSA’s “double-A plus” bond rating by the three major rating agencies provides favorable interest rates for participating localities.
- Semi-Annual Spring/Fall bond issues have scheduled debt service in the subsequent fiscal year to conform to local budgetary cycles.
  - Fall sale – first interest payment in the following July.
  - Spring sale – first interest payment in the following January.
- Structuring flexibility to respond to local financing needs.
  - Maturity options, such as:
    - Standard 20 year maturity.
    - Intermediate range less than 20 years, as requested.
    - Extended 20+ year maturity to meet unique needs.
  - Level debt service or level principal.
  - Delayed principal repayment to meet unique needs.

## **Pooled Bond Program**

### **Key Features For Local Participants (cont'd)**

- VPSA applies a 10 basis point surcharge (0.10%) to cover:
  - Cost of issuance associated with its bond counsel, financial advisor, printing costs and rating expenses; and,
  - The ongoing expenses for rebate calculation and compliance.
  - Accordingly, there are no upfront fees for participants.
  
- The Department of the Treasury web site ([www.trs.virginia.gov](http://www.trs.virginia.gov)) provides application documents. The use of standard bond documents throughout the transaction minimizes the administrative burden for participants.

## **Interest Rate Subsidy Program Combination of VPSA and Literary Fund Loan**

- The subsidy program is voluntary and available for localities with projects on the Board of Education's First Priority Waiting list (the "List") for direct Literary Fund Loans.
- The purpose of the subsidy program is to fund Literary Fund Loan requests with a combination of bond proceeds and a subsidy grant from the Literary Fund. The sum of the two components will add to the total amount of the approved project. Local participant debt service is structured to be equivalent to what they would have paid had a direct Literary Fund Loan been available.
- The subsidy is the difference between the market rate of interest and the interest rate for the project on the List.
- Proceeds from subsidy transactions are comprised of VPSA bond proceeds and a subsidy grant from the Literary Fund adding to the total amount of the approved project.
- VPSA Bond proceeds (principal and investment earnings) must be utilized prior to the use of Literary Fund subsidy grant funds.
- Subsidy transactions are held in conjunction with VPSA pooled transactions annually in the fall with applications sent to all school divisions with projects on the List.



## **Interest Rate Subsidy Program Combination of VPSA and Literary Fund Loan (cont'd)**

- Advantages:
  - Borrow for school construction at below market interest rates, i.e. Literary Fund loan rates of 2% – 4%.
  - A subsidy loan does not count toward the \$20 million outstanding Literary Fund cap per locality.
  - Funds can be expended in accordance with the more flexible VPSA guidelines for good school capital expenditures.
- Item 135 of the 2007 Appropriation Act for the 2006-2008 biennium authorized the VPSA to provide interest rate subsidies to localities on the Literary Fund first priority waiting list. The cost of the subsidy shall not exceed:
  - \$15.0 million in fiscal year 2007; and
  - \$20.0 million in fiscal year 2008.

## Interest Rate Subsidy Program Combination of VPSA and Literary Fund Loan (cont'd)

- From November 1996 - November 2006, as directed, the VPSA funded a total of \$765,342,888 of projects for 141 localities, respectively, on the Literary Fund waiting list.

<u>Fiscal Year</u>	<u>Number of Localities</u>	<u>Subsidy Appropriations</u>	<u>Subsidy Used</u>	<u>Projects Funded</u>
1997	9	\$ 10,000,000	\$ 8,652,972	\$ 43,675,000
1998	10	\$ 10,000,000	\$ 9,963,749	\$ 59,795,100
1999	8	\$ 10,000,000	\$ 5,596,579	\$ 42,978,700
2000	8	\$ 10,000,000	\$ 9,967,509	\$ 51,811,600
2001	15	\$ 30,000,000	\$ 18,824,375	\$ 99,948,607
2002	14	\$ 20,000,000	\$ 11,324,309	\$104,628,220
2003	15	\$ 5,000,000	\$ 5,000,000	\$ 51,082,187
2004	15	\$ 5,000,000	\$ 2,921,437	\$ 35,253,087
2005	15	\$ 5,000,000	\$ 4,870,341	\$ 37,352,634
2006	19	\$ 25,000,000	\$ 14,889,363	\$133,084,594
2007	13	\$ 15,000,000	\$ 14,524,143	\$105,733,159

## Virginia Localities/Local Issuer Bonds held by VPSA

- Total VPSA indebtedness on behalf of local school construction was over \$2.8 billion as of June 30, 2007.

Accomack County	Danville, City	Loudoun County	Richmond, City
Albermarle County	Dinwiddie County	Louisa County	Richmond County
Allegheny County	Essex County	Lunenburg County	Roanoke, City
Amelia County	Fauquier County	City of Lynchburg	Roanoke, County
Amherst County	Floyd County	Madison County	Rockbridge County
Appomattox County	Fluvanna County	Martinsville, City	Rockingham County
Augusta County	Franklin, City	Mathews County	Russell County
Bedford County	Franklin County	Montgomery County	Shenandoah County
Bland County	Frederick County	New Kent County	Smyth County
Botetourt County	Giles County	Newport News, City	Southampton County
Brunswick County	Goochland County	Northampton County	Spotsylvania County
Buchanan County	Greene County	Orange County	Stafford County
Buckingham County	Greensville County	Page County	Staunton, City
Campbell County	Halifax County	Patrick County	Suffolk, City
Caroline County	Hanover County	Pittsylvania County	Surry County
Carroll County	Harrisonburg, City	Poquoson, City	Sussex County
Charles City County	Henrico County	Portsmouth, City	Tazewell County
Charlotte County	Highland County	Powhatan County	Virginia Beach, City
Chesapeake, City	Hopewell, City	Prince Edward County	Warren County
Chesterfield County	James City County	Prince George County	Washington County
Clarke County	King & Queen	Prince William County	Waynesboro, City
Craig County	King George County	Pulaski County	Wythe County
Culpeper County	King William County	Rappahannock County	York County

# Virginia Public School Authority Contact Information

- VPSA is staffed and operated through the Department of Treasury.
- Program description and pooled bond application information available on Treasury web site ([www.trsvirginia.gov](http://www.trsvirginia.gov)).
- Contacts:

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