

**School Construction Financing Options**  
For  
Local Public School Divisions

January 2008

# Introduction

- Local school divisions have the responsibility for controlling, erecting, furnishing, equipping and maintaining necessary school buildings.
- School divisions in Virginia do not have taxing power or the ability to issue debt.
- There are three principal financing approaches available:
  - **Cash** - Use current local revenues (cash) to fund all or a portion of the capital projects;
  - **Bonds** - Borrow funds directly in the debt market or with a Literary Fund direct loan, through the VPSA or through an IDA; or
  - **Bank Loan** - Borrow funds via a direct bank loan.
- Cost, funding availability and timing considerations will influence the approach followed.

# Financing Options

## I. General Obligation Debt (GO) – Secured by the full faith and credit of an issuer with taxing power.

- 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: For qualified projects borrow at below market interest rates from the fund, administered by the Department of Education.
  - Projects up to \$7.5 million; \$20 million cap by locality
  - Interest rates are derived from the local composite index of ability to pay, and
  - Subject to availability of funds.
- Virginia Public School Authority (VPSA): Borrow indirectly through the pooled bond or subsidy programs of the VPSA.

# Financing Options (cont'd)

**II. Subject to Appropriation Bonds** - The credit quality will depend on the reliability of the borrowing entity, usually at least one notch lower than a General Obligation rating. It can result in a higher cost of financing.

- Secured by the annual appropriations of the borrowing entity instead of a pledge of taxing power.
- Typically issued through local industrial development authorities (IDA) or economic development authorities (EDA).
- The IDA borrows the funds to construct the school and leases it to the school division.
- There are added expenses with this borrowing source.
  - 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

- 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 -
    - Pooled bond program;
    - Interest rate subsidy program for projects on the Board of Education’s First Priority Waiting list (the “List”);
    - Stand alone bond program; and,
    - Educational Technology Notes.

# **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 provides very attractive 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.

# **Pooled Bond Program**

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

- VPSA provides 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.
- VPSA has initiated refunding activity when market conditions have been favorable for debt service saving. Since 2003 over \$34.6 million in savings has been returned to local participants.
- VPSA charges a fee of 10 basis points to cover the Authority's cost of issuance and administrative expenses. They include: Financial Advisor; Bond Counsel; Rating Agency fees; printing costs; etc.
- Any excess fee revenues revert back to the Literary Fund or the General Fund as directed by the Appropriation Act.

# **Interest Rate Subsidy Program**

## **Combination of VPSA and Literary Fund Loan**

- Developed in 1997 as a way to leverage amounts available in the Literary Fund to address backlog of school construction projects.
- The subsidy program is available for localities with projects on 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.
- 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.
- Local participant debt service is structured to be equivalent to what they would have paid for a direct Literary Fund Loan.
- The subsidy provides the difference between the market rate of interest and the composite interest rate.
- Subsidy transactions are held in conjunction with VPSA pooled transactions annually.

# 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 typically 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 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 List.
  - \$15.0 million available in fiscal year 2007 - \$105.7 million of projects funded on the List; and
  - \$20.0 million available in fiscal year 2008 - \$149.9 million of projects funded on the List.

# Interest Rate Subsidy Program

## Combination of VPSA and Literary Fund Loan (cont'd)

- From November 1996 - November 2007, the VPSA funded a total of \$915,239,767 of projects on the Literary Fund Waiting List. The historical multiplier over the period was 7.4 times.

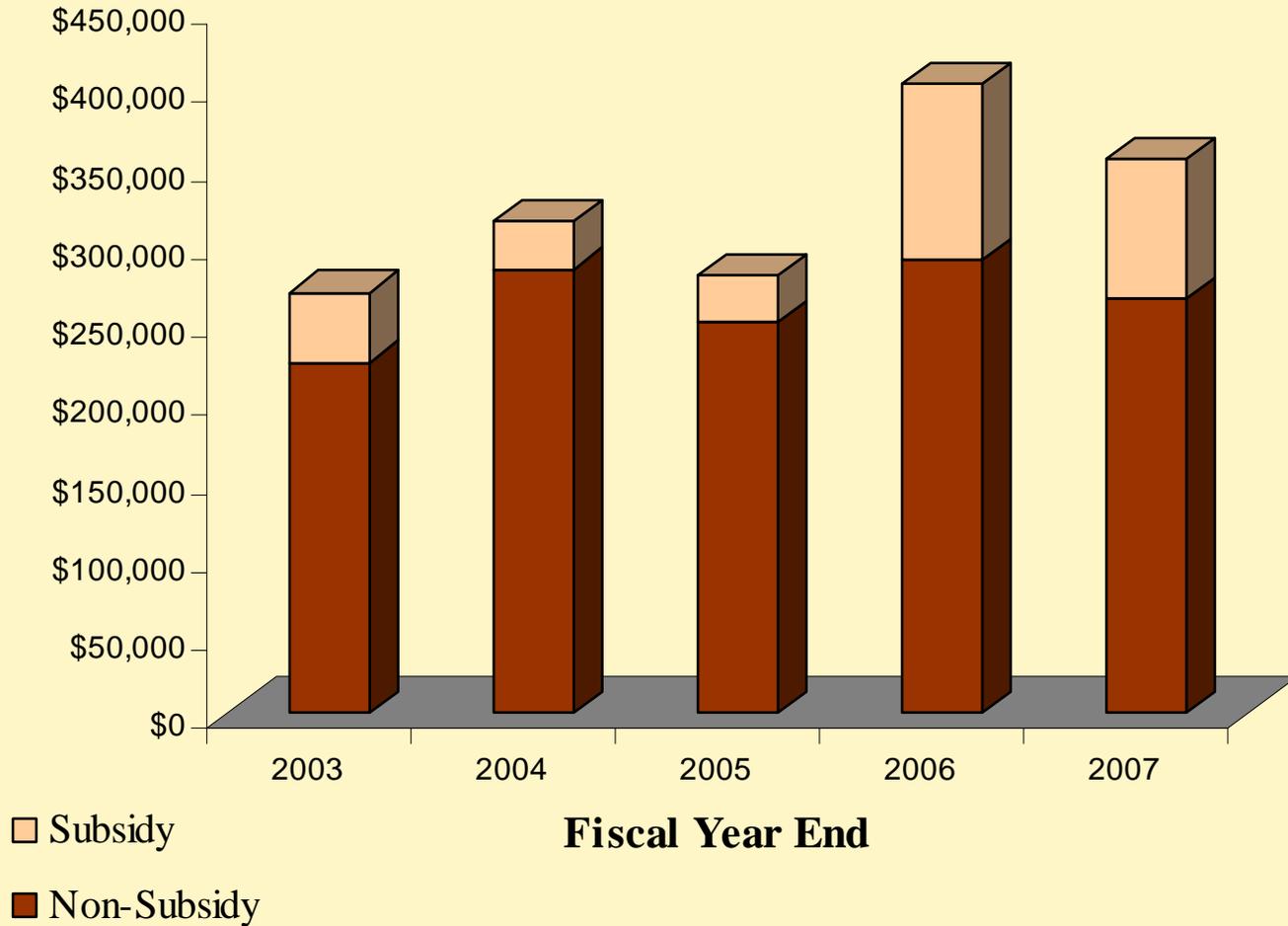
<u>Fiscal Year</u>	<u>Number of Localities</u>	<u>Subsidy Appropriations</u>	<u>Subsidy Used</u>	<u>Projects Funded</u>
1997	9	\$ 10,000,000	\$ 8,652,972	\$ 43,675,000
1998	10	\$ 10,000,000	\$ 9,963,749	\$ 59,795,100
1999	8	\$ 10,000,000	\$ 5,596,579	\$ 42,978,700
2000	8	\$ 10,000,000	\$ 9,967,509	\$ 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
2008	25	\$ 20,000,000	\$ 16,917,957	\$149,896,579
Total			\$123,452,734	\$915,239,767

Historical  
leverage factor

7.4 times

# VPSA Bond Issuance

Dollars in Thousands



# Virginia Localities Participating in VPSA Programs

- VPSA held over \$2.8 billion in local school bonds 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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