

Joint Subcommittee Studying Public School Construction

House Joint Resolution 108 (1988 Session)

Delegate Thomas V. Forehand, Jr., *Chairman*
Senator Elliot S. Schewel, *Vice Chairman*

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The subcommittee was created by House Joint Resolution 108, passed by the 1988 Session of the General Assembly. The resolution was sponsored by Delegate Thomas V. Forehand, Jr. The joint subcommittee conducted its study during 1988 and 1989 during which time they studied financing and options for public school construction in Virginia.

The specifics of the joint subcommittee's study were to "study the feasibility of developing a state program to fund construction of public school facilities. In its deliberations, the joint subcommittee shall consider:

1. the statewide level of unmet need and capital outlay;
2. the establishment and structure of a grant program;
3. the focus of any grant, *e.g.*, need, growth, or both;
4. the possibility of factoring capital needs and the basic school aid formula;
5. sources of money for any method of funding capital expenditures."

During 1988 the joint subcommittee held four meetings and three public hearings throughout the Commonwealth to study how to make available more construction money for local public schools. The joint subcommittee studied the Virginia Literary Fund and found:

- ❖ very helpful for a number of localities and financing school construction needs;
- ❖ relatively modest when compared to the Virginia Public School Authority (VPSA) and other local education debt;
- ❖ total principal of Literary Fund was \$352 million as of June 30, 1988.
- ❖ in fiscal year 1986-87, the Literary Fund lent only \$31.8 million to localities for school construction. The majority of construction funds were derived from the Virginia Public School Authority, local bonds, or other local sources; and
- ❖ the Literary Fund was not an available option to many localities and there were a number of very strict limitations on the amount that could be borrowed for those localities which did qualify for Literary loan funds.

The joint subcommittee also examined the current Virginia Public School Authority and found the following:

- ◇ The Virginia Public School Authority is a valuable financial tool for some localities which uses Literary Fund assets as security to package a debt issue.
- ◇ There are no restrictions on the amount of borrowing through this mechanism and it is available to all localities.
- ◇ The joint subcommittee heard testimony that because it uses the Literary Fund assets as security the Virginia Public School Authority is fast approaching its borrowing limitation.

In its study of alternatives, the joint subcommittee examined a number of financing options which other states are using, but in the end, determined the Literary Fund and the Virginia Public School Authority are excellent mechanisms to allow the state to help localities fund public school construction; they simply need to be utilized more intensively.

As a result of the public hearings, the joint subcommittee found the following:

- ◇ The problems of financing large educational capital costs are experienced not only by high-growth areas, but also by low-growth and stable areas where schools must be consolidated or old schools replaced to keep up with current standards.
- ◇ The standards of quality do not take into account capital outlay costs.
- ◇ There will be significant costs imposed by mandated class sizes as well as possible pre-kindergarten programs.
- ◇ The joint subcommittee heard a number of speakers state that the diversions from the Literary Fund should be stopped.
- ◇ Many speakers urged that additional revenue be used to add new dollars into the Literary Fund.
- ◇ Change the eligibility for who may qualify from the Literary Fund to allow high-growth localities to borrow from the Literary Fund as well as to eliminate or modify the per-school and per-locality limitations on the current Literary Fund loan program.

After examining various options the joint subcommittee believed that the most reasonable alternative to help public school construction is to provide additional revenues for the Literary Fund so that the current Literary Fund loan restrictions and conditions can be changed to allow localities to make greater use of such fund. Because of the tight fiscal situation of the Commonwealth, the joint subcommittee did not make a formal recommendation to the General Assembly because it was simply unable to determine ways of generating large dollars of revenue to add to the Literary Fund, although clearly, this is what the joint subcommittee believed needed to be done. The joint subcommittee did consider a few alternatives which they believe should have been adopted.

POSSIBLE ALTERNATIVES

Eliminate diversions from the Literary Fund used for non-Literary loan fund purposes. The following shows in the period of the 1980s there was a significant amount of Literary Fund money which could have been lent to localities for public school construction, but which was transferred to the teacher retirement plan. Literary Fund transfers during the 1980s were as follows:

1980 - 82	\$ 11.7 million
1982 - 84	\$ 76.1 million
1984 - 86	\$ 32.0 million
1986 - 88	\$ 47.0 million
1988 - 90	\$ 70.0 million

If these diversions from the Literary Fund could be terminated and additional revenue provided to the Literary Fund, the joint subcommittee would have directed the Board of Education to restructure the current Literary Fund loan program to make the following changes while still maintaining the one-year waiting period.

- ◆ Increase maximum per school borrowing from its current \$2.5 million to a more realistic figure. Testimony received by the joint subcommittee indicates that a high school can cost greater than \$20 million.
- ◆ Increase the maximum per-locality borrowing from the current \$15 million.
- ◆ Increase the current composite index level (.6) which serves as the effective cut-off for eligibility for Literary Fund loans.
- ◆ Allows those localities which have the highest growth rates of average daily membership to receive preferential treatment under the Literary Fund (example: reduction of the composite index by .1 for Literary Fund loan purposes).

The joint subcommittee believes that by increasing the amount of Literary Fund revenue which is available for local school construction purposes will not only allow those localities with the greatest need to borrow greater amounts of money at lower rates of interest, but by increasing the Literary Fund it will also increase the borrowing capacity of the Virginia Public School Authority.

SUMMARY

The joint subcommittee found that Virginia has two excellent tools which can easily be used to increase aid to localities for public school construction. An infusion of revenue into the Literary Fund would not only increase Literary loan fund borrowings, but would also serve to increase the borrowing capacity of the Virginia Public School Authority. If the Commonwealth can find the revenue to add to the Literary Fund it will be an excellent investment in the future of the Commonwealth's children.

TABLE A

Literary Fund Debt

		<u>MILLIONS</u>
1.	Chesterfield	\$ 31.8
2.	Albemarle	\$ 7.7
3.	Washington	\$ 7.5
4.	Hanover	\$ 7.4
5.	Wise	\$ 6.0

VPSA Debt

1.	Henrico	\$ 43.0
2.	Spotsylvania	\$ 34.7
3.	Chesterfield	\$ 25.4
4.	Stafford	\$ 24.3
5.	Prince William	\$ 24.2

Gross Education Debt

1.	Fairfax	\$219.7
2.	Chesterfield	\$114.2
3.	Virginia Beach	\$113.5
4.	Prince William	\$ 55.7
5.	Richmond	\$ 48.9
6.	Henrico	\$ 31.5
7.	Arlington	\$ 20.0
8.	Norfolk	\$ 29.0
9.	Chesapeake	\$ 32.7
10.	Spotsylvania	\$ 27.3

**As of 06/30/88*