

Department of Planning and Budget 2022 Fiscal Impact Statement

1. Bill Number: HB253

House of Origin	<input checked="" type="checkbox"/>	Introduced	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Engrossed
Second House	<input type="checkbox"/>	In Committee	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Enrolled

2. Patron: Simonds

3. Committee: Education

4. Title: Literary Fund; loans; application process; maximum loan amounts; rates of interest; closing costs.

5. Summary: Makes several changes to the provisions relating to loans from the Literary Fund to finance the construction and renovation of public elementary and secondary school buildings in the Commonwealth. The bill requires the Board of Education (the Board) to establish an annual open application process for Literary Fund loans to occur during the period that the Board deems most suitable. The bill increases from \$7.5 million to \$25 million the maximum Literary Fund loan amount and permits the Board to increase such maximum to up to \$35 million for loans for any school construction or renovation project that facilitates the consolidation of schools. The bill requires the Board to fix the interest rate on all loans made from the Literary Fund at not less than one percent per year, not more than three percent per year, and at increments of one half of one percent per year between such minimum and maximum rates, payable annually, and to utilize a sliding scale based on the local school division's composite index of local ability to pay to determine the interest rate on each such loan. Under current law, such rates are required to be set between two and six percent per year. The bill requires the Board to establish a competitive program for the award of up to \$25,000 to a school division that receives a Literary Fund loan for the purpose of subsidizing all or a portion of the closing costs for such loan. The bill also permits the Board to remove any project that has been inactive for at least five years from any Literary Fund loan project waiting list that it maintains. This bill is a recommendation of the Commission on School Construction and Modernization.

6. Budget Amendment Necessary: Yes, language amendment to Item 137 of HB/SB 30.

7. Fiscal Impact Estimates: Indeterminate, see Item 8.

8. Fiscal Implications: There is no anticipated state general fund impact as a result of this bill. This bill will result in an indeterminate state fiscal impact to the Literary Fund. Item 137.C.11. of HB/SB 30, 2022 General Assembly Session, authorizes the Board of Education (BOE) to issue Literary Fund construction loans and subsidy grants from the designated and uncommitted balances of the Literary Fund and designates up to \$200.0 million in FY 2023 and up to \$200.0 million in FY 2024 for such loans or grants, subject to the availability of

funds. Therefore, any cost to the state would be from the designated and uncommitted balances of the Literary Fund. Additionally, any revenue impact resulting from changes to Literary Fund loan interest rates would impact future receipts to the Literary Fund and available cash for future construction loans and subsidy grants; however, such amount also is indeterminate.

Item 137.C.11. of HB/SB 30, 2022 General Assembly Session, implements recommendations of the Virginia Department of Education and the Virginia Department of the Treasury to make Literary Fund construction loans more competitive and attractive to school divisions as a viable source of funding school construction projects, as reported by these agencies pursuant to the requirements in Item 145.C.11.e. of Chapter 552, 2021 Acts of Assembly, Special Session I. The budget language in Item 137.C.11. of HB/SB 30 would supersede the provisions of this bill. Specifically, the following provisions in HB253 differ from the language in Item 137.C.11. of HB/SB30:

1. Interest rates: HB/SB 30 requires the BOE, in consultation with the Department of the Treasury, to establish loan interest rates that are benchmarked to a market index on an annual basis, not to exceed 2.0 percent for the tier of localities with a school division local composite index of ability-to-pay (LCI) between 0.0 and 0.2999. HB253 requires the BOE to fix the interest rate on loans between 1.0 percent and 3.0 percent with increments of 0.5 percent and a sliding scale based on the local school division's LCI.
2. School consolidation add-on: HB/SB 30 authorizes the BOE to offer a loan add-on not to exceed \$5.0 million per loan for projects that will result in school consolidation and the net reduction of at least one existing school. This amount is in addition to the \$25.0 million maximum loan amount per project authorized by HB/SB 30. HB253 proposes a maximum loan amount of \$25.0 million, or \$35.0 million for projects that result in school consolidation; however, the bill does not speak to a specific loan add-on amount for school consolidation. In the instance that a loan is less than \$25.0 million but the project will result in school consolidation, it is not clear if the bill intends to offer a \$10.0 million add-on, and the bill does not specifically authorize such add on in this instance.
3. Closing cost incentives: HB/SB 30 authorizes the BOE to offer incentive grants for loan closing costs from the available cash balance of the Literary Fund, not to exceed \$25,000 per loan and not to exceed \$250,000 total statewide each year. SB253 proposes a competitive grant program for loan closing cost subsidies up to \$25,000 per school division that receives a loan, with the aggregate amount not to exceed the allocation specified in the appropriation act.
4. Application process: HB/SB 30 requires the BOE to replace the existing First Priority and Second Priority waiting lists with an annual open enrollment process for loans, with priority based on the LCI. SB253 also proposes that the BOE establish an annual open application process but does not require LCI prioritization.

For the provisions of this bill to become effective, a language budget amendment is necessary.

9. Specific Agency or Political Subdivisions Affected: Department of Education, Board of Education, local school divisions, Department of the Treasury

10. Technical Amendment Necessary: No

11. Other Comments: None