A PROPOSAL TO CREATE ADDITIONAL CONSTRUCTION FUND

SBA CAPITAL PROJECT LOAN GRANTS

West Virginia Code 18-9D-4c provides **" The School Building Authority may by resolution, in accordance with the provisions of this article, temporarily finance the cost of projects and other expenditures permitted under this article for public schools, including, but not limited to, comprehensive high schools and comprehensive middle schools as defined in this article, in this state through the issuance of loans, notes or other evidences of indebtedness: Provided, that the principal amount of loans, notes or other evidence of indebtedness outstanding at any one time shall not exceed $16 million: Provided, however, That the principal of, interest and premium, if any, on and fees associated with any such temporary financing shall be payable solely from the sources from which the principal of, interest and premium, if any, on bonds is payable under this article or from the proceeds of bonds.** The ability to provide capital improvement loans has been available to the Authority since 2011. However, this funding option has never been explored.

I would recommend making this option available to all counties and agencies that Qualify for SBA funding assistants. Given that maximum aggregate amount of all outstanding loans cannot exceed $16,000,000 we would be limited to $3,400,000 annually per grant if the requests are compounded each year or/and the outstanding balance payment is 10 years. These loan amount can vary in any increment provided we never have an outstanding balance greater than $16,000,000. The terms and duration of the loan would be based on the Authorities desire to charge a low interest rate to offset our cost to borrow these funds through the sale of bonds or pay-go funds. The duration of the loan would be dictated by the county's ability to repay the loan from annual savings, levy funds or dedicated carryover dollars.

We realize this would not increase our funds available for distribution if the project loan grants are taken from the Construction Fund Account. However, we do have an additional source of funding that could increase our construction funding through a loan program. Annually we place 2% of our Construction Funding into the Emergency Grant Program. These funds are setting in this account idle until an emergency occurs in a county and if one occurs the county may request emergency assistance from the SBA. Since the last floods occurred in 2002 county boards have been required to carry flood insurance on all schools in the flood plain. Also, county's carry insurance for other damages not considered with their flood insurance. The Emergency Funding is restricted to natural disasters (floods, fire, acts of God). If we limit the emergency grants to true emergencies this fund will grow each year. To increase our Construction Fund available I would recommend capping this fund at $4,000,000. Understanding that the SBA is not the first line of defense with regards to making emergency repairs. Additionally, the maximum amount of SBA Emergency Funding that each county can qualify for is $2,000,000 per event. The likelihood of having a catastrophic event in more than two (2) counties would be rare and given the prerequisites to qualify for Emergency Grant Funds we would recommend capturing all funds in excess of $4,000,000 and begin using these funds for construction or Construction Loans. This would provide a new revenue stream for school construction projects.

We feel either of these loan program could be a viable alternative for County Boards similar to the QZAB Program. We also feel that this grant would be more secure if the State Board of Education would serve as an intervener of the annual loan payment via the State Aid Funding. We are discussing this arrangement with the State Department of Education Office of School Finance but we have not been given a definitive answer that this repayment solution can be accomplished.

If the Authority has interest in this funding arrangement we will bring back formal policy and procedures language that would allow the Authority to provide up front funding to counties that qualify for this funding option. The prerequisite for the application of these funds would require counties to identify a revenue stream for repayment of the loan and have the ability to repay these funds at a very low or perhaps no interests on the principal amount barrowed.

CAPITAL PROJECTS
Via
LEASEBACK FUNDING PROGRAM

West Virginia Code 18-9D-3 (11) also provides for the Authority **"To charge rent for the use of all or any part of a project or buildings at any time financed, constructed, acquired or improved, in whole or in part, with the revenue of the authority".** Should the Authority desire to fund projects via a leaseback program we would be required to fund these projects up front and the county boards would enter into an agreement with the Authority for the repayment of the loan via a leaseback arrangement. This will not provide a direct new revenue stream for the Authority but will turn over the construction revenue we currently have several times as these funds are paid back annually to the construction fund. It will be important to have in place a mechanism for the prompt repayment of the leaseback funding. Should the Authority have interest in this school improvement funding mechanism we will work with the State Attorney General's Office and a financial advisor to create new policy and procedures that would establish a Capital Projects Leaseback Funding Grant Program.

CAPITAL IMPROVEMENTS
Via
LEASE PURCHASE OF EQUIPMENT AND FACILITIES

The Authority also has the ability to consider local funding for capital projects via lease purchase agreements. Additionally, WV Code 18 9D-3 (12) provides for the Authority **"to assist any county board of education that chooses to acquire land, buildings and capital improvements to existing school buildings and property for use as public facilities, by lease from a private or public lessor for a term not to exceed twenty-five years with an option to purchase pursuant to an investment contract with a lessor on such term and conditions as may be determined to be in the best interest of the authority, the State Board of Education and the county board of education, consistent with the purposes of this article, by transferring to the State Board of Education as provided in this subsection (d), section fifteen 18-9D-15 of this article for the use of the county board of education;** This program would also require counties to secure a dedicated annual revenue stream that complies with current WV Code. Counties would secure a third party lender working with a financial advisor (i.e. Fayette County 2016 Needs project) to secure funds upfront for building component purchases by the county that would qualify. We have discussed the matter with Financial Advisor and this could be a funding mechanism that counties will use where a revenue stream can be identified for repayment of the lease. This option could create additional construction funding from a direct local source. County Boards already have this option available to them and we will review current policy and recommend new language that encourages County Boards that qualify to consider this funding option should the Authority desire. If policy revisions are required we will bring our recommendations back to the Authority for your review and approval.