

# **\$250M Statewide School Construction Bond Guidance**



**School Building Authority  
May 2019**

## Pay-As-You-Go Guidance

### Bond Distribution:

The \$250M provided through the Statewide School Construction bond will be offered up front to LEAs to support the state share of foundational housing aid awarded (Necessity of School Construction Approvals) on a pay-as-you go basis. In other words, LEAs will be able to submit invoices for immediate payment on eligible expenses, as opposed to waiting until a project is complete to receive any state funds.

In order to provide LEAs ample time to conduct Educational Facility Master Plans and to provide a transparent and consistent method for offering upfront resources, funding is based on a set percentage of foundational housing aid awarded, pursuant to Rhode Island General Law 45-38.2-4(e)(2). Based on data from existing applications, information from the Statewide Facilities Assessment, local bonding capacities, and direct LEA communication, the State will offer LEAs fifteen percent (15%) of the state share of each Necessity of School Construction approvals.

### Eligibility:

In order to receive an offering of upfront front funding, an LEA must have a Necessity of School Construction approval (starting from May 1, 2015) with projects that have not completed, and for projects that have not issued permanent financing (bonds) through RIHEBC by the offering date of the funding.

LEAs with eligible projects approved between May 1, 2015 and January 1, 2018 will be offered upfront funding on a pay as you go bases in May 2019. LEAs with eligible projects approved beginning in May 2019 will be offered funding as part of the Necessity of School Construction approval until the \$250M is fully awarded (likely by November 2020). State Share Calculation: In order to calculate the full state commitment, an interest factor (for bond-funded projects issued through RIHEBC only) will be included in each LEA's state share calculation. Because coupon rates range from 3% to 5%, depending on the community, a 4% interest rate will be used for all bond-funded projects.

### What types of projects are eligible:

Approved projects, including new school construction, major renovations, security projects, site purchases, swing space, soft costs, and general capital improvements funded by bonds or local capital reserve accounts.

### Pay-As-You-Go Offerings:

LEAs approved between May 1, 2015, and January 1, 2018, as well as May 2019 Necessity of School Construction applicants, will be offered funding on May 14, 2019. Moving forward, the Council on Elementary and Secondary Education will approve pay-as-you-go offerings at the same time as Necessity of School Construction Approvals.

LEAs will then have 60 days from Council approval to accept pay-as-you-go funding and provide documentation needed to process the funding. Failure to respond or provide all requested documentation by that date will result in a decline of offering. LEAs that decline pay-as-you-go funding are still eligible for Housing Aid reimbursement for approved projects.

How Pay-As-You-Go works:

LEAs with eligible Necessity of School Construction Approvals will be offered 15% of the State Share of their total approval on a pay-as-you-go basis. Upon acceptance of the offer, LEAs will then enter into a Memorandum of Agreement with RIDE/SBA for their approval. LEAs will have two years to spend their upfront funding on a pay-as-you-go basis.

Similar to the SBA Capital Fund, pay-as-you-go funding will be provided on approved invoices sent to RIDE/SBA. An LEA will submit an invoice and (pay-as-you-go) form signed by the superintendent and architect to RIDE/SBA requesting the state's share of an invoice. Upon receipt of the request, RIDE/SBA's Statewide Bond Project Manager will coordinate a site visit to substantiate the work and requested invoice.

Once work is verified and recommended for processing, RIDE/SBA will then review and approve the submission before authorizing RIHEBC to release the funding directly to the municipality.

**Pay-As-You-Go Example:**

A district receives a \$100M bond-funded approval with the base state share of fifty percent (50%) (e.g. the state will contribute half of the cost of that project with the district). Once the project is complete, the district is anticipated to qualify for twenty percent (20%) bonus incentives for a total state share rate of seventy 70% (50% base share + 20% bonuses).

**Pay-As-You-Go Calculation:**

In this example, the state share of the project will be 50% of a \$100M project (plus interest if financed through RIHEBC) for a total of \$71M. The district would receive 15% of the state share of foundational housing aid (\$71M) for a total of \$10,650,000 in up front progress payments.

$$(\$100\text{M project cost} + \$42\text{M interest} \times 50\% \times 15\% = \$10,650,000)$$

**Pay-As-You-Go Application:**

The \$10,650,000 must be used to support the state share of foundational housing aid on a pay-as-you-go basis, and not as a reimbursement of debt service for previously completed projects, pursuant to RIGL 45-38.2-4(e)(1). Similar to the distribution mechanism of projects funded through the SBA Capital Fund, the district would receive 50% (state share) of each invoice submitted to the School Building Authority as progress payments, after work has been verified by a Statewide Bond Project Manager and the School Building Authority authorizes RIHEBC to release payment.

**Pay-As-You-Go Bonus Adjustment:**

Because bonuses cannot be substantiated until project completion, only the base state share shall be used in pay-as-you-go payments. Any projects that receive progress payments up front and qualify for bonuses in excess of the base share, shall have the difference added to the district's Housing Aid reimbursement once the project is completed. This ensures that LEAs that have met bonus eligibility receive the additional state support for those projects, while also ensuring that state funds are only allocated when eligible bonuses are substantiated.

## Frequently Asked Questions

### **How is pay-as-you-go-funding different from Housing Aid payments?**

Housing Aid is a reimbursement-based program, meaning state aid is paid upon project completion. Housing Aid for bond-funded projects is tied to debt service, and is reimbursed annually over the life of the bond. Reimbursement for capital reserve funded projects is paid over a one- to 10-year period, depending on the project size. Pay-as-you-go funding, on the other hand, provides LEAs with the state's share of a project *as expenses are incurred*, and allows LEAs to receive their funding up front and reduce or avoid bonding.

### **Is pay-as-you-go funding determined and available before local voter approval?**

The amount of pay-as-you-go offering is determined at the time that the Council on Elementary and Secondary Education approves of Necessity of School Construction projects. For bond-funded projects, offerings will be made following Council approval, but funding will only be available once voter approval is obtained. Any pay-as-you-go funding offered to LEAs that have local bonds rejected by voters, will have their funding redirected to the SBA Capital Fund.

### **How long are pay-as-you-go funds available, and how much will each LEA receive?**

LEAs with a Necessity of School Construction approval by the Fiscal Year 2020 application cycle, including May 2020 approvals (and potentially for November 2020 approvals, dependent on the level of remaining available funds), will be offered 15% of the state share for projects that have not completed and have not issued permanent financing (bonds) through RIHEBC. Following the FY20 application cycle, and dependent on available bond funds, LEAs will be offered a percentage of their state share to be determined later, pursuant to RIGL 45-38.4(e)(2).

### **Is interest for bond-funded projects included in the calculation?**

Yes, in order to capture the full state's commitment, LEAs that issue bonds through RIHEBC will have interest included as part of the pay-as-you-go calculation. A factor of 1.42 will be added in the calculation of the approval.

### **Can funds be applied to projects that have already completed?**

No, pay-as-you-go funding cannot be applied to projects that have completed and already submitted for Housing Aid reimbursement.

### **Can funds be applied to bonds that have already been issued?**

No. Financing agreements do not allow permanent financing to be refinanced or reduced in the first 10 years, thus pay-as-you-go funding cannot be applied to bonds that have already issued. LEAs approved between May 1, 2015 and January 1, 2018 that have issued 100% of their bonds will not be offered pay-as-you-go on the bond-funded portion of their approval.

### **Can funds be applied to projects that are currently under construction, but not completed?**

Yes, projects currently under construction are eligible to receive pay-as-you-go funding.

### **Can these funds be used to pay for soft costs?**

Yes, pay-as-you-go funding can be used to support the state share of all approved Necessity of

School Construction expenses. RIDE School Construction Regulations establish a cap on soft costs at 20%. Invoices for soft costs will only be processed after LEAs receive RIDE/SBA design reviews and approvals for Schematic Design, Design Development and/or 60% Construction Document.

**What documentation is needed to request funding?**

LEAs will send approved invoices, along with executed progress payment request forms, to the RIDE/SBA. Once the work has been verified by the Statewide Bond Project Manager, the RIDE/SBA will authorize RIHEBC to release the state share of payment to municipalities.

**Can portions of a project be funded by both Housing Aid and pay-as-you-go?**

Yes. In these cases the LEA must note on their Housing Aid form what portion of the project has already received state aid.

**How long do LEAs have to spend their pay-as-you-go funding?**

LEAs have two years to spend their pay-as-you-go offering.

**Who receives the pay-as-you-go funding: the municipality, the district, or the contractor?**

Similar to Housing Aid and the SBA Capital Fund, funding will be sent directly to the municipality. LEAs are responsible for all local contracts and payments to their vendors.

**Do LEAs have to accept Pay-As-You-Go offerings?**

No. LEAs do not have to accept the pay-as-you-go offering. Approved projects are still eligible for Housing Aid reimbursement or the SBA Capital Fund. LEAs that do not intend to accept pay-as-you-go amounts should notify the RIDE/SBA within the 60 days of Council Approval.

**Will there be another bond?**

The Rhode Island School Building Task Force and the Governor recommended a second \$250M bond in 2022. A second bond will be subject to General Assembly and voter approval. The rules and procedures for the allocation of funding from the second bond, if approved, has yet to be determined.