SCHOOL CONSTRUCTION

When it comes to building a better mousetrap, inventors aren't so much concerned about how it looks, but about how it works and how much it costs. The same principle should apply to the buildings where children receive their education.

"As thousands of students return to school for the 2002-2003 academic year, administrators . . . are whipping out their calculators and studying where to put reams of students now and in the future," writes the *Tacoma News Tribune.*[1] In various pockets around Washington, there is a growing need to increase the number of classrooms and school buildings to accommodate an expanding student population.

Fortunately for school administrators, placement for pupils now and in the future may not be as arduous a task as they expected. Fortunately for taxpayers, the exorbitant bill they would normally foot for the construction of a new school may be significantly reduced. In fact, a number of options are available for the acquisition of new, more

efficient classroom space. In a report card on the state of school facilities, the American Society of Civil Engineers awarded a D-minus to the nation's schools.[2] According to the National Clearinghouse for Educational Facilities, 2,400 new schools will need to be built by 2003 in order to meet the demands of a growing student population,[3] and of the 86,000 public schools in the United States, 59,400 need renovation or modernization.[4] The price-tag may be as high as $268 billion, if financed through traditional bonds.[5]

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In a traditional bond finance plan, the school district must purchase land and pay the costs of lobbying voters for a bond referendum. If the referendum passes, the revenue from property taxes is earmarked for the construction of new schools or the renovation of existing buildings.

Washington state's challenge with school construction has become more pressing than most other states. In Washington, it is estimated that 89 percent of schools need to renovate their building or construct a new one.[6] The size of the median high school is nearly 1,600 students.[7] Nine high schools in Washington have enrollment exceeding 2,000 students;[8] Marysville-Pilchuck High School wins the largest school award with 2,691 students.

For years, there has been statewide demand to reform the way schools are built. This is due, in part, to our reliance on using timber harvest revenue off state school trust lands to pay for the state's portion of school construction. The Washington state Constitution establishes the Common School Construction Fund that continued to be a sufficient source of funding through the 1980s.[9] Revenue from this source has fallen from 61 percent in 1985 to around 30 percent today,[10] due in great part to the Endangered Species Act and the ban on the export of raw logs.[11] Although lumber prices have risen over the past decade, the ability of sales to keep pace with demand has diminished. As a result, the local property tax burden has been driven up to pay for expensive school construction bonds.

In 1995, many of Washington's leaders in business, education, and construction—including the American Institute of Architects, Associated General Contractors, Washington Association of Maintenance and Operations Administrators, Council of Education Facilities Planners, Washington Association of School Business Officials, and Washington State School Directors Association—signed a resolution to the legislature to "establish or facilitate innovative funding methods."[12] In 1998, King County Executive Ron Sims appointed a panel to give recommendations to the legislature for "speeding up and streamlining the way we now finance local school construction." The Executive's Task Force on School Construction Financing Alternatives recommended "long-term lease purchase agreements [that] would provide an option to the traditional construction process by enabling districts to quickly respond to explosive enrollment growth and changing student demographics with fewer up-front costs."[13]

Innovative solutions used elsewhere around the country are public-private partnerships for school construction. In a report for the Virginia-based Thomas Jefferson Institute, David Guhse writes, "Based on the experiences of school districts around the country, it is increasingly clear that no school district with unmet school construction, expansion, and renovation needs can afford to ignore the option of public/private arrangements to address all or part of their comprehensive infrastructure plan."[14] With hundreds of successful public-private partnerships in schools around the country, there is plenty of proof with which to assess its potential for prospective school district projects in Washington state.

School board members may not be aware that there is a provision in the Economic Growth and Tax Relief Act of 2001 allowing the creation of tax-exempt, private activity bonds to be used in the construction of public school facilities.[15] Because of this new tax code policy, school districts can create agreements with private sector investors to finance the construction of school buildings. Once the construction of facilities is completed, the school district may lease them from the investors at rates far below typical costs of full public ownership.

A Pennsylvania firm specializing in these partnerships, Stainback Public-Private Real Estate, says, "One of the great qualities of the public/private partnership approach to real estate is the ability to customize deal structures to meet the constraints and opportunities of both the public and private partner."[16] There are

several forms of alternative construction financing that can be tailored to fit the needs of school districts.

Municipal/Capital Lease

One alternative construction method is a "municipal/capital lease" plan, where a private party agrees to construct a new building and own it for a typical period of 25 years. When the lease term ends, school districts may pay a token amount for the purchase of the facilities. A similar plan may be used for the renovation and upgrading of deteriorating or inadequate facilities. The school district will sell its property to a developer who completes the renovation efforts. Then, the developer will lease it to a foundation established by the district. In the long run, a school district can look forward to savings of anywhere from 5 to 10 percent.[17]

When the Niagara City School District in upstate New York became interested in public-private partnerships, it was blocked by New York law. The district convinced legislators that such partnerships were a worthy investment, and an exception was made for the district. In only 18 months, a developer had completed construction saving nearly $12 million. Today, the school district leases its building, including funding for facility maintenance, for $5 million per year. In 2030, the district will plan to purchase the building for one dollar. Nearby school districts, envious of the results in Niagara, have begun to make appeals to the legislature for additional exceptions to the state law.[18]

Another state that changed its laws in order to allow public-private partnership is Texas. In 1996, the Independent School District of Houston was in need of two new high schools, but its bond referendum failed at the polls. Superintendent Rod Paige, now U.S. Secretary of Education, pushed for new private financing solutions. The school district made a municipal/capital lease agreement with Gilbane Building Company that resulted in the construction of Cesar Chavez High School and Westside High School one year sooner than originally planned, with savings of $20 million.[19]

The Canadian province of Nova Scotia implemented several municipal/capital lease plans in response to its declining economy in 1997. Nova Scotia negotiated with its investors to pay only 85 percent of the lease, but to allow the developer to retain ownership of the building to rent it out to child-care services, higher education night classes, tutoring, community events, and religious groups. According to Nova Scotia's Ministry of Finance:

> The key objective is to enable Nova Scotia taxpayers to get better value for their tax dollars by shifting the responsibility for the operation and/or financing of non-core activities to the private sector. In the process, the potential exists for service to improve within the same public expenditure framework, or for the same level of public service to be provided at a lesser cost to the taxpayers.[20]

Within four years, 22 new schools had been opened in Nova Scotia, and 11 more are in the works.[21]

Operating Lease

A second model of public-private school construction partnerships is an "operating lease" plan. In this case, as in the municipal/capital lease plan, the developer constructs and owns the facility for a 25-year period; however, using this plan, the lease is classified as a security to the developer. The school district may be without the option to purchase the property for a token amount at a later time. Instead, the district's ownership payment for the school building will accumulate as the lease is paid. Because lease payments contribute to eventual ownership, the interest remains taxable. Even so, the school district stands to save 10 percent to 15 percent in the long run.[22]

District of Columbia Public Schools did not experience the opening of a new school from 1981 until 2001. In 1995, the district was planning to shut down James F. Oyster Bilingual Public Elementary School because the costs of renovation were too severe.[23] Then, some innovative parents initiated a bold new public/private partnership that turned a negative into a long-lasting positive. The parents commissioned a developer to finance, design, and construct a new school building on the same property as the old one. Since the district was unable to underwrite the costs of construction, the developer agreed to exchange the construction of Oyster Elementary for district-owned property adjacent to the school. The developer built a 211-unit residential apartment building, the property taxes for which are fully designated for payment of the $11 million construction bond.[24]

District of Columbia Superintendent Paul Vance reflected,

> The bottom line is that we in the D.C. Public Schools see [public-private partnerships] as an opportunity and valuable tool in the arsenal of school facility improvements and accommodation of educational program needs.[25]

Service Contract

A third way school districts have renovated school facilities is through a "service contract" structure. Should the school district wish to conduct the upgrade without selling its property, it may contract out to a private contractor who agrees to operate and maintain the school during renovation, for a set period of time. The contractor funds the renovations using private, tax-exempt debt, and is reimbursed for capital costs and interest and compensated for services.[26]

The school board in Greenville County, South Carolina had once planned to spend $1.8 billion constructing or remodeling 72 schools over a 24-year period. When it decided to contract its entire operation to Institutional Resources in 2000, it was able to count on savings of $500 million and twenty years. In fact, the developer agreed to complete all 72 projects within only four years for only $780 million![27]

Using a lease model may be a solution for the Tacoma School District as it faces a nearly $90 million dollar renovation of the historic Stadium High School. Developers could quickly buy the property for a significant amount, making it an excellent investment for both the private sector developers and the Tacoma Schools.[28]

Satellite

A fourth model for school facilities is the "satellite" plan in which non-profit charitable foundations and malls, airports, or other existing buildings form a cooperative effort to begin a school. The satellite concept was pioneered by the Miami-Dade County Public Schools in 1987 when American Bankers Insurance Group agreed to be the test case. ABIG employees were encouraged to enroll their children in the satellite school located at the company headquarters.

Today, Miami-Dade operates four successful Satellite Learning Centers (SLC). The largest Miami-Dade SLC is Spring Valley Elementary, a school serving children Miami International Airport Employees. Forty-five satellite schools operate in the United States.[29]

Amazing results have been achieved with inner city, at-risk youth in satellite learning centers operated by the Simon Youth Foundation at fifteen Simon Corporation shopping malls around the country. Simon's Educational Resource Center program works with local school districts to focus on planting alternative education programs in shopping centers for disadvantaged and at-risk students. One of Simon's most successful resource centers is Mall Academy which opened in fall of 2001 at Northgate Mall in Seattle.[30] Located on the second floor of the mall near the management and security offices, Mall Academy allows Seattle School District students to fulfill all necessary graduation requirements while attending elective classes at the University of Washington and Seattle Community College. Eddie Reed, director of the Seattle Mall Academy, advises, "Education funding should be reshaped to allow a team effort of both public and private sectors, acting in unison, in order to provide a truly more equitable and equal education experience for all public school children."[31]

The National Council for Public-Private Partnerships gave a project award to Hillsborough County School District in Tampa, Florida for its satellite partnership with First Presbyterian Church of Tampa. In this case, the school district entered into a lease agreement and agreed to renovate parts of the church for $350,000. Computers and school uniforms were donated by private contributors in the community. Besides resolving overcrowding, the Downtown Partnership Elementary School raised parental involvement, eliminated the costs and hassle of constructing a new school building, and enhanced the overall environment in downtown Tampa.[32]

A similar model was developed in Iowa by the Des Moines Business Education Alliance and the Des Moines School District. In 1993, the Alliance made its case for establishing a school in downtown Des Moines that was convenient for working parents. That year, a small facility was donated by Principal Financial Group. Enrollment demands at Des Moines Downtown School led to the establishment of a second campus on land owned by the City of Des Moines in 1996.[33]

Conclusion

It is clear that public-private partnerships for the construction of schools can have amazing results. The opportunities for innovation and efficiency should not be overlooked by school district administrators in Washington. Whether a small elementary school in Eastern Washington is in need of an upgrade, or the Marysville School District decides to find a solution to overcrowding in Marysville-Pilchuck High School, there can be benefits for everyone in the community.

- Public-private partnerships save taxpayers precious money.
- Public-private projects are typically built in far less time than other projects.
- Public-private partnerships allow parents the opportunity to be more involved in their child's education, especially if the school is a partnership with the parent's place of employment.
- Public-private projects can serve as both a school and a community center.
- Public-private partnerships are a good solution to failed methods of traditional construction financing.
- Public-private partnerships are an efficient way to reduce class size.
- Public-private partnerships enhance the local economy.

The list could go on. The examples presented in this report only touch the surface of the potential that public-private partnerships can have for schools around Washington. Consider the possibilities:

- Seattle-Tacoma International Airport could establish a school for children of Sea-Tac employees.
- A church in downtown Seattle could lease out its unused weekday space for educational purposes.
- Tacoma Schools could save millions of dollars on the renovation of Stadium High School.

Recommendations

- ***Provide state tax incentives in addition to those provided by the federal government to encourage the use of public-private partnerships.*** Tax incentives can be designed to accommodate a variety of potential investors. Many businesses in Washington view the state's tax structure as unfavorable to small business and big business alike. The state can offer an exemption on business and occupation taxes or property taxes to businesses that engage in public-private partnerships. The state should view such incentives as tradeoffs for the educational results and savings yielded by public-private partnerships.
- ***Remove any unnecessary regulations that impede the ability of school districts to innovate and find solutions to construction finance.*** The state of Florida has been the nation's leader in public-private partnerships because it took away such regulations. As the governor and the legislature consider meaningful regulatory reform, school construction finance should be another area for a WAC-reduction exercise.
- ***Enact a law allowing workplace schools that limit enrollment to the children of employees.*** Allowing this option for school establishment not only provides new schools in a cost effective manner, it provides businesses another bargaining chip to attract workers. As Washington faces the highest unemployment in the nation, opening the door to workplace schools can provide a much-needed boost for businesses.
- ***Enact a law authorizing public-private partnerships.*** The state should leave no doubts about the full legality of alternative school construction. A possible model for legislation would be the 2002 Virginia law called the Public-Private Education Facilities and Infrastructure Act of 2002 that authorizes private entities to acquire, design, construct, improve, renovate, expand, equip, maintain or operate qualifying projects after obtaining approval of a public entity that has the power to take such actions with respect to such projects.[34]

As school districts search in vain for a better traditional funding route, they may overlook key alternatives

that will likely become the future of public school construction financing in the United States. Joint efforts by the public sector and private parties are an extraordinary investment for everyone involved.

Endnotes

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