

Public Private Partnership Information February 14, 2006

The term public/private partnership (PPP) is used widely in discussions about school construction and may describe a variety of agreements between a private business and a government entity to provide some type of public service.

History: The United Kingdom has the most comprehensive program. It began in 1997 and in seven years renovations and new construction have been completed on 256 school buildings. In a study the government found cost overruns before PPP occurred almost 73% of the time while projects instituted under PPP only resulted in cost overruns 22% of the time. The savings factor and the time factor are the key benefits to these innovative partnerships.

1) Types of partnerships and examples:

- a) ***Sale of asset:*** Excess property is sold to raise funds for new school.

Example: **District of Columbia Public Schools, Oyster Project;** The district exchanged excess property for a private entity to finance, design and construct a new building. The developer used the property to build an apartment complex and the property taxes from the apartment complex are being used to pay the \$11 million construction bond required to build the schools.

- b) ***Sale/lease back:*** System sells excess land, developer builds school and leases back.

Examples: **Nova Scotia Canada** The province arranged several capital leases with investors, while allowing the developer to retain ownership and rent out space for other educational programs as well as community events. They built 22 schools within a four-year period.

Nations Bank in Jacksonville, Florida provides elementary school space, while the Miami International Airport established a K-2 school for its employees' children. These company schools are believed to improve parent school relationships and student attendance.

Niagara City Schools, New York The school district issued a request for proposals to oversee school construction, hire the construction and design companies and arrange financing. The purpose was to construct a new high schoolboy consolidating two old schools into one. Under this arrangement the school construction was completed in 18 months at an estimated savings of \$12 million. The school district leases the building including maintenance

costs for \$5 million per year and will purchase the building in 2030 from the private vendor at the end of lease agreement for \$1.00.

- c) ***Non-profit participation:*** Non-profit owns land and builds schools and leases to system.

Example: **Greenville, South Carolina** The school district established a legally non-profit organization to issue bonds for construction and renovation of 86 schools with an estimated cost of \$784 million. This was not a lease because the district is simply purchasing the buildings from the non-profit in 25 annual installments. The board estimates it will save \$500 million and it will take fewer than twenty years to complete all the projects.

- d) ***Satellite schools:*** Corporation provides site, district runs school.

Examples:

WCPS: New Wake Med/Tech High School, possible Rex Hospital School.

Minneapolis Public School System: The Target Corporation and Northern States Power provided space in downtown office buildings to open small, 100-150 student elementary schools.

- e) ***Public-Private Partnership:*** City, school system, private university, corporation.

Example: Minneapolis Public School System: Minneapolis schools and other districts partnered with the city, a private university, the State and a corporation to develop a K-12 school adjacent to the university and atop a parking facility.

- f) ***QZAB:***

Example: Broughton High School renovation project.

- g) ***Operating Lease:***

Example: Winn Dixie being leased for use as a ninth grade center

2) North Carolina Law: What does it Allow?

- 115C-521(d): **Local boards of education shall make no contract for the erection of any school building unless the site upon which it is located is owned in fee simple by the board.**
- 143-128(a) [entitled Bidding Required] **No construction or repair work requiring the estimated expenditure of public money in an amount equal to or more than three hundred thousand dollars (\$300,000) or purchase of apparatus, supplies, materials, or equipment requiring an estimated expenditure of public money in an amount equal to or more than ninety thousand dollars (\$90,000) may be performed, nor may any contract be awarded therefore, by any board or governing body of the State, or of any institution of the State government, or of any political subdivision of the State, unless the provisions of this section are implemented.**

- **115C-528(a) Local boards of education may purchase or finance the purchase of automobiles; school buses; mobile classroom units; photocopiers; and computers, computer hardware, computer software, and related support services by lease purchase contracts and installment purchase contracts as provided in this section.**
- **115C-530: Local boards of education may enter into operational leases of real or personal property for use as school buildings or school facilities. Leases less than three years do not require approval of county commissioners. Operational leases for terms of three years or longer, including periods that may be added to the original term through the exercise of options to renew or extend, are permitted if conditions are met (four conditions in law).**

Pros:

- Time; less time is required to complete project and open school;
- Private firm has a shortened contractor selection process;
- Private firms are not required to publicly bid projects;
- Revenue from non-school use can offset cost to district;
- Contractors are selected based on best value;
- Contractors share risk with district;
- Facilities expenses may be shifted from capital to operating budget;
- Private entities may have access to different sources of funding; less need to rely on bonds;
- Community involvement in process may be greater due to joint use of property;
- Flexibility in current and future use of facility;
- Higher finance cost may be offset by faster construction and value of out-lease

Cons:

- Cost may be higher depending on type of financing;
- Facilities expenses may be shifted from capital to operating budget;
- Project budget must include cost of professional advisor to market, plan and assemble project;
- Possible community perception against using private money in public education;
- Possible community bias against privatization;
- Partnership projects are generally not cost effective unless school district has asset that can be put to private/public use;
- After-hours use of schools may impact schools' use of the buildings; WCPSS' present school hours might have to be redefined;
- "Excess" school property that might be available for development might be perceived as a community asset that would be lost.

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National Example:

Houston Independent School District, Texas A non-profit corporation was formed to partner with a private company. The private company was then to construct under a lease/purchase arrangement two high schools. The private company reports the schools were completed one year earlier than would have with a public sector approach and the cost was \$20 million below the original school system estimates.

Employer-Based Schools:

1) **Hillsborough County School District, Florida** The school system partnered with a local church to lease and renovate part of the church for \$350,000. This provided much needed space for children and reduced the need for a new school building.

2) **Des Moines School District, Iowa** The Des Moines Business Alliance developed a partnership with the school district to open a downtown school convenient to working families. The facilities were donated by a local business. They have since opened a second school in the downtown area due to high demand.

Space Sharing Schools:

1) **Medina School District, Ohio** The school district has partnered with a local hospital and arts foundation to construct a community center and school. The school is located in space provided by the hospital.

2) **The Village at Indian Hill, California** The school district renovated a mall and provides educational facilities as well as space for businesses and other non-profits. They created a foundation to raise money and lease and manage the non-school property.

3) **New York City School District** The school district has worked with City University of New York (CUNY) to open three special high schools on the various school campuses.

4) **Mesa, Arizona** An elementary school was opened in a former grocery store.

5) **Patterson, New Jersey** The school district leased space in an empty shopping mall to develop two magnet schools.

National Innovations in Providing School Facilities:

1) Federal and State Legislation Federal legislation in 2001 enabled private developers to receive tax exempt borrowing privileges to build public schools, however the dollar volume of \$3 billion nationally has limited the use of this new tool. Virginia has the most notable state law in allowing PPP. In Stafford County Virginia Haskell/Hess earned the contract for three new schools. The building of the three schools would cost several million dollars less than if the county built them. In receiving the bid Haskell/ Hess planned to provide dual use of the facilities with other community interests on the three new school campuses. In addition Maryland has enacted a similar state law to the one Virginia has adopted.

2) Developer-Proffered Schools in Exchange for Zoning Variances California allows homebuilders to provide a school as part of their development in lieu of required impact fees. In Denver a homebuilder who built a school in one of his developments received permission to build additional homes in the community in exchange for the school(s). Finally, in Maryland a developer was allowed to build a housing development in exchange for constructing an \$8 million addition to a local high school.

3) A Not-for-Profit Corporation to Bridge the Partnership The new law allowing for tax exempt private activity bonds lead to the development of a not-for-profit corporation “63-20” (IRS code) in Houston. This example was mentioned earlier where the corporation issued the tax exempt bonds, managed the construction project and took title to the facilities upon completion. In turn Houston makes annual lease payment to the not-for-profit which uses the fund to pay off the debt. The project in Greenville, South Carolina was another example of this financing tool.

4) Value-Creating Partnerships The Washington D.C. Oyster Project, mentioned earlier in this document, allowed the developer to receive land in exchange for rebuilding an old school. This is an example of value creating partnerships.

5) Community Development Districts (CDD) Some state have laws that allow the private sector a Community Development Authority (CDA) to be created that will allow the private sector to develop infrastructure including schools. The CDA then is capable of issuing tax exempt bonds to fund the infrastructure they plan to develop and build. The debt service on the bond is then handled by a tax surcharge and other fees. Two examples occur in Virginia and Maryland. Under the Virginia law the CDA must be approved and any tax exempt debt it incurs is the obligation of the CDA not the municipality. In Maryland the municipality is obligated for the debt service on the bonds and uses an *ad valorem* tax assessed on property owners in the district to fund the infrastructure development.

Local Innovations in Providing School Facilities:

- 1) Lufkin Road Middle School was built in a former corporate facility.
- 2) River Oaks Middle School was built in a former office building
- 3) Cedar Fork Elementary School, Brier Creek Elementary School, Middle Creek High School and Athens Drive High School are sites of shared public school community construction. The facilities received changes to allow for shared public school-community use, well planned partnerships.
- 3) Cary Park Elementary School partially funded by a developer and the Town of Cary to provide a school within a large community of homes and apartments.
- 4) Finally the Wake County Public School system has benefited in the sale of property by private owners in order to build several of its schools in the last five years.

Assessment of National Examples:

Public private partnerships are contractual arrangements that provide public entities challenged to do more with less and to accelerate delivery time. The private sector partner assumes the risk of its capital and resources to build the school(s).

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