

Frequently Asked Questions: SCCS/PCS Lease Negotiations May 2008

What is the Pacific Collegiate School (PCS) lease issue all about?

Under a lease entered into 5 years ago, PCS leases the former Natural Bridges Elementary site from Santa Cruz City Schools (SCCS). The lease was established at a below-market rate, with graduated terms. The current lease ends June 2009. Negotiations for lease renewal began in October 2007. Negotiations took place with the advice and guidance of legal counsel for both parties. Per the terms of the lease, the negotiations period ended March 31, 2008, without resolution.

Why were the parties unable to reach agreement?

Out of fiduciary responsibility to local and state taxpayers, SCCS sought a fair-market education facility valuation for the property, administered by a professional appraiser with statewide expertise. It was determined that the terms of the current lease provide PCS with a lease rate substantially below appraised market-rate value. The only offers received from PCS for a three year extension of the agreement were significantly below appraised market-rate value and did not reflect any upward adjustment from the current fee structure.

In light of the severe budget cuts at the state level, as well as the economic downturn, SCCS must exercise fiscal prudence and maximize revenue in order to ensure classroom funding. By providing PCS a facility at well-below market rates, SCCS—and the taxpayers who fund the district—subsidizes PCS, including those students who reside outside SCCS district, at the expense of programming and resources that should be directed to SCCS students.

Is SCCS obligated to provide the Natural Bridges site to PCS at a below-market rate?

No. Five years ago PCS and SCCS negotiated a market-rate lease, rather than a Proposition 39 facilities agreement in order to house 100% of its student body in a single facility—including students residing outside SCCS's attendance area. Under Prop 39 law, SCCS must offer PCS facilities that are "reasonably equivalent" to facilities (e.g. age- and grade-appropriate) offered to SCCS students. Under Prop 39, SCCS must offer PCS space proportional to the number of its students who live in SCCS's attendance area. Again, since PCS and SCCS negotiated a market-rate lease at a facility to house both in-district and out-of-district students; therefore the Prop 39 terms were superceded. SCCS has consistently stated its commitment to providing appropriate housing for the PCS students that would otherwise attend SCCS schools.

Why would SCCS let the PCS lease expire without a replacement tenant identified?

SCCS operates properties in three categories: district-owned & operated, lessee and lessor. SCCS is undergoing a district-wide facilities review in order to maximize efficient use of facilities and balance revenue with expenses. SCCS facilities needs are

currently impacted by a number of factors, some of which include increasing enrollment in the elementary schools, smaller class sizes/teacher-student ratios, pre-K/preschool programming, and demand for programs such as Two-Way (Dual Language) Immersion and Adult Education.

In the coming year, SCCS will evaluate the above demands as well as demand from other potential tenants who have shown interest in the site.

Why didn't SCCS accept PCS's offers to have Santa Cruz County Schools Superintendent Michael Watkins and Santa Cruz County Treasurer Fred Keeley assist with the negotiation process?

Because SCCS is led by a seven-member, publicly elected board of trustees accountable to the community and voters, SCCS chose to be represented by counsel in order to protect the public interest and maintain good governance.

Representation by legal counsel in lease negotiations is standard practice. Like SCCS, PCS was represented by counsel during negotiations. In the interest of ensuring fiscal prudence and taxpayer confidence, SCCS chose to rely on legal counsel throughout the negotiations. Although SCCS was open to meaningful discussions during the negotiation period, mediation contemplates a neutral third party facilitator. Michael Watkins represents PCS's chartering agency, the County Office of Education. Fred Keeley has been paid as a member of PCS's faculty and is listed as a faculty member on the PCS Website. While both are respected members of the community, they both have direct relationships with PCS.

Is the SCCS lease negotiation posture motivated by competitive issues related to PCS and its programming?

SCCS salutes the accomplishments of the PCS student body. The lease matter is a property negotiation, not a referendum on the value of the PCS education program. Thanks in part to PCS's emphasis on student achievement, the community has a growing awareness and appreciation of the accomplishments of SCCS students—as evidenced by test scores, AP scores, college admissions, and scholarships awarded. SCCS is immensely proud of its students and they deserve the full support of Santa Cruz City Schools and its leadership.