

LONG RANGE FACILITIES PLANNING REPORT

Date: 28 April 2007

To: PCS Board (to be included in 2 May 2007 Board Meeting Packet)

From: Deepika Shrestha Ross (with input from Strategies Sub Committee)

Long-Range Facilities Planning has historically been treated as a standing committee with a fixed duration and charge. Though it hasn't in the past been as broad in scope as the name could imply, I believe that it could evolve into that, so I see the work we are currently doing as following this structure:

Strategies Sub Committee

Members: Dina Hoffman, John Hamstra, Charlie Eadie, Michael Bolte, Rich Hill, Deepika Shrestha Ross, David Pera, Andrew Goldenkranz

Charge: Determine and investigate all available options for PCS long-term facility needs

Deliverable: Interim and Final Report to Board on different options which can inform strategic planning process and then, once strategic plan is in place, can be used to further the mission of PCS

Timeline: Interim reports every month, with Final Report ready for Sept 2007 Board Packet

Last Meeting: Thursday, 26 April 2007, 8am

Negotiations Ad Hoc Committee

Members: John Hamstra, Michael Bolte, Deepika Shrestha Ross, Andrew Goldenkranz

Charge: In consultation with the Strategies Sub Committee, and advisors as needed (past and present board members and PCS legal counsel), this group develops the detail strategy and follows through with the negotiations that will ultimately secure an agreement, for Board Approval, with SC City Schools for PCS's physical home.

This is core group that sits down at the table at the initial meeting with the SC City Schools representatives. Membership in this group may change over time, depending on the dynamics of the negotiations and others involved from SC City Schools.

The immediate goal of this committee is to secure the 3-year extension of the current Natural Bridges site lease. This process will inform our analysis of our options for a long-term home for PCS.

As an Ad Hoc Committee without a board quorum, this group may meet more informally, more frequently, and with more confidentiality.

Deliverable: Interim Reports to the Board and ultimately, the Lease Agreement, which will be submitted for Board Approval

Timeline: The request to begin talks with SC City Schools will be sent to the attention of Superintendent Alan Pagano by May 4th. We will request a meeting date any time after May 15th.

It is our understanding is that we will probably meet monthly (prior negotiations started out with a longer gap between meetings as fact gathering was taking place, and once all parties came closer to an agreement, smaller, one-on-one meetings occurred with more frequency).

According to our Lease Agreement that is in place, formal notice of our desire to extend our lease for three additional years is due by October 2007 and we have until April 2008 (six months from that date) to come to an agreement.

This gives us a total of 11 months for negotiations and once the Agreement is in place, we have a full school year, 08-09, at Natural Bridges, before the 3-year extension begins for school years 09-10, 10-11 and 11-12.

PCS Facility Options

1.0 Negotiate 3-year lease extension

1.1 Issues / Background

- According to the April 2002 SC City Schools Facilities Advisory Committee Report, Natural Bridges Campus is 9.4 acres and building area is 47,933 sf (our assumption is that this includes the gym but not the three portables that were moved to the site).
- Our payments, averaged over the 5 years of our current lease come to \$200,000/year or \$16,667 per month. This figure acknowledges SC City School's obligations to PCS under Prop 39, (the lease follows the "spirit of Prop 39), so it is not an apples-to-apples comparison to market rate space.
- Carden School, a private school that leases the Loma Prieta campus (10,101 sf, 5.8 acres) from SC City Schools pays \$86,000 per year.
- Our existing agreement states that the determination of the new "use payment" amount, parties will acknowledge current market conditions.
- The only grounds for not granting the Extension are:
 - A 10% Increase in District K-5 enrollment as measured from the 2004-2005 school year through October 2007 CBEDS data
 - Inability to agree on price by April 2008
- Terms for extended Lease will be based on continuation of current terms, unless we specifically ask to re-negotiate (aside from rent)
- Class Size Ratio for SC City Schools 6 – 12 has changed slightly in our favor

1.2 Desired Outcomes

- Use experience we've had at the Natural Bridges Campus for the past 3 years to come to an agreement that meets our budget goals while preserving a cordial relationship with SC City Schools

1.3 Strategy / Action items

- Follow SC City School District Budgeting process, as they are required to look three years ahead just as we are, for clues as to income they are projecting from us in 2010. Budget should be available at June meeting of the School Board.

- Determine appropriate cost escalation. Andrew believes that SC City Schools uses the same index that PCS uses, which is 2.7% per year. Some cost escalation factors may not be relevant for SCCS in its role as leaseholder of the NB site.
- Create list of Facility Deficiencies to negotiate a rent reduction
 - Under Prop 39, SC City Schools is required to provide us with comparable facilities, and under the Lease Agreement, they also provide maintenance and repair for the building and care of the grounds
 - \$300k was allocated by SC City Schools to retrofit Natural Bridges for grade appropriate facilities and this money has been spent, mostly on the Portables. We have been lenient in terms of pushing them on this, so now is the time to revisit this in regard to grade appropriate facilities, and inadequate facilities for our music/ performing arts program
- Create list of Deferred Maintenance items
- Based on the above and our own data on percentage of PCS students residing within SC, changes in SC City School's average class size, COLA considerations, and changes/if any in Prop 39, calculate a proposed rent level and possibly new capital allowance
- By May 4th, draft an Agenda and send out a request a meeting (attn: Alan Pagano), to be held sometime after May 15, 2007

1.4 Variations, to be considered (but not limited to) as negotiations unfold:

- 3-year lease extension + additional 3 years
- 3-year lease extension + option to buy
- long term lease: 10 years + 5 year extension option

2.0 Alternate SC City School Property

This is unlikely option, as the only other properties owned by SC City Schools that are 40,000 sf or more, are Mission Hill, SC High, Soquel High, Harbor High and DeLaveaga. If school re-configuration ever takes place in the years ahead, this may be an option at that time.

3.0 Partnership with Cabrillo or UCSC

3.1 Issues / Background

- This needs to be program and mission driven rather than facilities driven, not just for PCS but also for Cabrillo or UCSC
- Cabrillo is embarking on a space utilization study
- Texas Instruments building has large vacant area, but most of it is windowless

3.2 Desired Outcomes

- To further our mission and enhance our program
- Possible Advantages:
 - Rich academic community
 - Mentorship opportunities for students as well as faculty and staff
 - Access to higher caliber facilities: libraries, research labs and performance/practice space
 - More favorable Use Agreement

- 3.3 Strategy / Action Items
 - Reschedule meeting (previously set up by John Leopold) with Cabrillo President Brian King to voice our interest and understand issues from his perspective
 - Research examples of School/College partnerships
 - Determine best group to approach at UCSC by understanding what benefits might be on their side – perhaps start with the Teacher Center

- 4.0 Lease Commercial/Industrial Property
 - 4.1 Issues / Background
 - Working with Doug Kaplan and Jack Schneider, investigations yielded a handful of properties over 40,000 sf: Borland (Scotts Valley), Wrigley Building, Encinal, Sentinel
 - Typical Costs: \$1.50 - \$2.00 per sf (\$75k - \$100k per mo)
 - Wrigley Building raw space: \$0.99 per sf
 - Fit out, especially for a program intensive use such as a high school can be quite high – we can probably come up with a number by taking Georgina Bruce Kirby’s fit out of their new building
 - Access to appropriate outdoor space and assembly space in a commercial /industrial setting may be a compromise.

 - 4.2 Possible Advantages
 - Independence

 - 4.3 Strategy / Action Items
 - Consider Risks
 - Look for direction from Board – especially as Strategic Planning unfolds over Fall of 2007
 - Continue keeping eye on properties as they come up
 - Develop cost model for facilities maintenance – costs which we do not currently have to shoulder
 - Investigate how SC City Schools would fulfill their Prop 39 obligation in this scenario

- 5.0 Acquisition of Existing Building
 - 5.1 Issues / Background
 - Preliminary investigations found ballpark costs to be between \$150 - \$300 per sf (\$7.5 - \$15 million for 50,000 sf)
 - For a 30 year term, 6% tax exempt issue, the approximate annual debt for a \$10 million bond = \$728,000 (\$60,667 per mo)
 - Assuming that we have \$300,000 per year to spend on a facilities, (though we currently pay an average of \$200,000/year), and use this to service the debt on 30 year 6% tax exempt bonds, these funds would generate \$4 million towards the purchase of a facility
 - Georgina Bruce Kirby School’s experience can be used as a direct example to learn from. Partnering with a local bank, they floated \$10 million in tax-free bonds, so using our financial model, they must have taken on a payment of over \$60,000 per month for 50,000 sf.
 - If PCS chose to fund an acquisition with State funds, the title for the property would be held by SC City Schools

- Again, fit out, especially for a program intensive use such as a high school can be quite high, and we can probably come up with a number by finding more information on Georgina Bruce Kirby's fit out of their new building

- 5.2 Possible Advantages
- Independence
 - Greater sense of permanence and identity for PCS community
 - Better alignment of facilities to PCS programs and culture
- 5.3 Strategy / Action Items – same as for Building Lease Option
- Look for direction from Board – especially as Strategic Planning unfolds over Fall of 2007
 - Consider Risks
 - Continue keeping eye on properties as they come up
 - Develop cost model for facilities maintenance – costs which we do not currently have to shoulder
 - Investigate how SC City Schools would fulfill their Prop 39 obligation in this scenario
 - Consider cultivating relationships with elected officials, especially in State level to be better connected to legislative process, as well as legislation that might be under consideration
- 6.0 Acquisition of Land, Design & Construction of new PCS facility
- 6.1 Issues / Background – many of the same issues as option to acquire a building and fit it out.
- Preliminary investigations found ballpark SF costs to be between quite high \$250 – \$350 per sf exclusive of cost of land (\$12.5 – \$17.5 million)
 - For a 30 year term, 6% tax exempt issue, the approximate annual debt for a \$10 million bond = \$728,000 (\$60,667 per mo)
 - Assuming \$300,000 per year (though we currently pay an average of \$200,000/year), that may go to rent is used to service the debt of 30 year 6% tax exempt bonds, these funds would generate \$4 million towards the construction of a facility
 - Acquiring land, planning and designing a campus is a huge commitment, requiring a significant investment of capital, energy and time. If PCS chose to fund this endeavor with State funds, the title for the property would be held by SC City Schools
- 6.2 Possible Advantages
- Independence
 - Greater sense of permanence and identity for PCS community
 - Probably best alignment of facilities to PCS programs and culture
- 6.3 Strategy / Action Items – many of the same items as option to acquire a building and fit it out.
- Look for direction from Board – especially as Strategic Planning unfolds over Fall of 2007
 - Consider Risks
 - Continue keeping eye on properties as they come up
 - Develop cost model for facilities maintenance – costs which we do not currently have to shoulder

- Investigate how SC City Schools would fulfill their Prop 39 obligation in this scenario
- Consider cultivating relationships with elected officials, especially in State level to be better connected to legislative process, as well as legislation that might be under consideration

7.0 Attachments

- Excerpt from **Winter 07 Currents**: *Should My Charter School Apply for State Bond Funds?*
- Internet research on School/College/Business partnerships
- NOTE: Please contact me if you are interested to reviewing the following more detailed documents:
 - The full **Winter 07 Currents** (24 pages)
 - **Charter School Guide Answer Key** (120 pages)
 - **Establishing a High School on a College Campus: A Planning Guide** (9 pages)
 - **2007 Charter School Facility Finance Landscape** (48 pages)