A More Enterprising Approach:
How Public Trusts Can Help Address School Facility Challenges

The Challenge

In school systems across America, enrollment is declining, shifting from one part of a metropolitan area to another, or growing so quickly that districts are struggling to afford construction that can keep up.

In these places, the cost of maintaining existing facilities that house existing schools, financing new schools in high-growth areas, and paying down long-term bonds that may have financed school construction decades earlier poses a substantial fiscal challenge.

These problems are even more complicated in dynamic systems of schools, where school system leaders close low-performing schools or replace their operators, and new schools open in their place.

Many charter schools only open one grade level at a time, which means they need more space as their schools mature. But they could find they are paying for space they don't need in the schools' early stages of development. Some charter schools, or novel institutional configurations such as microschools, may benefit from colocation with other public schools, either on a temporary basis while they grow, or in a long-term symbiotic relationship.

Other organizations adjacent to the K–12 system also face facilities challenges, but collaboration among all groups could be mutually beneficial. Many neighborhoods are underresourced. The lack of affordable housing in many communities may exacerbate teacher shortages. The lack of available facilities presents a significant obstacle to expanding high-quality preschool opportunities. Half of the estimated 7.7 million children in the United States with treatable mental health disorders don't receive professional treatment. A coordinated strategy to locate mental health and other medical services close to students who need them can help address these challenges while making productive use of unoccupied school space.[1]

1 Melissa K. Holt and Amie E. Grills, *Critical Issues in School-Based Mental Health: Evidence-Based Research, Practice, and Interventions* (New York, NY: Routledge, 2016).

Figure 1. Existing Facilities Solutions Fall Short

High-choice cities	Most cities, even if not high choice
• Duplicative school planning efforts • High market rents • Underutilized spaces • Less-than-ideal learning environments	• Underserved neighborhoods • Deferred maintenance • Lack of affordable housing • Lack of public green spaces • Desirable, affordable housing for teachers is far away from school • Limited public financing options • Unmet need for neighborhood revitalization • Declining school-age population (excess spaces)

Efforts to make existing school buildings more readily available to other providers have historically faced obstacles. School districts often appear reluctant to identify "surplus" buildings that can be sold or rented to other organizations. Districts may not have the resources to determine how best to utilize their existing square footage when enrollment declines or as school models evolve, or the ability to forge connections with partners that might make use of that square footage.

School facilities—particularly as they are currently designed—are often difficult to sell on the commercial real estate market. This might be true even if buyers only care about the land underneath them.

But that need not remain the case forever. The very definition of "school" is starting to change as educators and parents aim to personalize learning for their students. New approaches to school may require different kinds of spaces than traditional "egg crate" school buildings.

Dynamic school systems may require solutions that allow schools to add space as they grow, share space with other organizations that serve the same families they do, make the highest and best possible use of scarce facilities revenue, occupy only the facilities they need to deliver their instructional program, and ensure that revenue pays for buildings that can remain community assets and serve public purposes.

In Washington, D.C., nonprofit groups and city leaders have developed a partial solution to these interlocking challenges, at least for new and growing charter schools in the city: a facilities incubator known as Building Pathways.

The incubator studies new and anticipated charter schools in the city, forecasts their need for space, purchases or leases facilities to meet those needs, and offers those facilities to schools. Multiple schools may share a space, which helps small schools achieve economies of scale.

Facilities incubators eliminate a major source of headache for school leaders. They also eliminate a major barrier to charter school expansion.

They also offer a model that could help address a challenge that has arisen with charter school governance in some jurisdictions. Some charter management organizations have come under fire for entering improper relationships with affiliated real estate companies, leading to related-party transactions that have come under public scrutiny and stranding investment in facilities when schools close due to mismanagement, underenrollment, or poor performance, but their buildings remain in private hands.

The D.C. charter school incubator shows how a third-party real estate manager can help schools fulfill their promise while safeguarding the public interest. In this proposal, we argue local governments should extend similar principles to all public school buildings within their jurisdiction by creating independent real estate trusts charged with managing all education-related facilities in a school district or metropolitan area.

These facilities authorities would:

- Ensure existing and future school buildings funded by taxpayer dollars are put to their most effective use by maximizing the occupancy of available space, facilitating renovation, and ensuring facilities are controlled by a single transparent, publicly accountable organization.
- Eliminate barriers to new school creation by offering space to startups on a temporary basis, or to public microschools (which may need their own buildings given their smaller size), or to test their educational model in locations with other providers who can share food, transportation, and recreation facilities.
- Identify other opportunities for productive colocation, sharing of space, or pooling of resources between public schools and other, related community providers: preschools, childcare centers, mental health and other social service providers, recreation and out-of-school learning organizations, and more.
- Coordinate with planning, zoning, and housing officials to leverage school construction projects to enable broader community redevelopment and affordable housing efforts.
- Simplify the process of planning for, securing, and maintaining facilities for leaders of both charter and district-run schools.

Policymakers looking to achieve these benefits must determine:

- How would the real estate trust be constituted?
- How would it be funded?
- What level of independence would it have from other government entities, such as school boards?
- Would it gain control of all school buildings in an area, or a subset—such as those that leverage private capital or just those that are underoccupied?

These considerations are formidable; however, creating flexible, unified, independent oversight of school facilities could supply a crucial missing ingredient to cities hoping to create innovative and adaptable systems of schools. It could help large urban school districts confront challenges like declining enrollment effectively while helping to forge productive new collaborations between school systems and the communities they serve.

The Solution in Brief

A city, a state, or a school district could charter a facilities authority. The structure of that authority would vary depending on particular state and local governing arrangements. It might be constituted as an independent or dependent special governing district, a subsidiary of a municipal government, or an independent nonprofit, like the D.C. facilities incubator, with local government representation on its board.

The facilities authority would assume control of existing public revenue streams that fund K–12 school facilities within its jurisdiction, as well as ownership of existing publicly owned school buildings. Its charge would be to make the highest and best use of that revenue and those assets.

To meet that charge, it would:

- Manage and maintain existing buildings with an eye toward maximizing utilization, cost-effectiveness, revenue, health and safety, and equal educational opportunity.
- Fulfill a strategic mandate to develop an innovative plan for school facilities that would accommodate startups, innovative school models, and new partnerships between schools and other community organizations—including mental health providers, housing authorities, afterschool providers, preschools, and colleges.
- Maintain a publicly accessible inventory of educational facilities and their levels of occupancy and utilization.
- Coordinate with other government and nongovernmental providers to identify opportunities for productive collaboration, including but not limited to housing authorities, early learning providers, and social service agencies.
- Make unused space in existing buildings available to other entities, such as nonprofit organizations that serve families.
- Coordinate the sale of high-value properties that are not being used, or for which full occupancy cannot be achieved for educational purposes. The proceeds could then fund improvements at other facilities.

The facilities authority would look to maximize the value of existing real estate holdings by selling or leasing underused or vacant property, and leasing parts of occupied school buildings to other community providers. It would also issue requests for proposals to develop new facilities tailored to community needs, and fill current buildings with new district-operated or charter schools, or other community providers that might help meet the educational needs of its community.

This proposal is flexible and can be easily adapted for local contexts: local policymakers would have choices about the authority's level of independence from the school district, its taxing and bond-issuing authority, the composition of its board, the mandatory or optional nature of participation by existing schools, and whether all schools would pay rent or if funding would flow directly to the authority.

Figure 2. Anticipated Outcomes for Full Model Implementation

Benefit	Why
● More students will be served in appropriate learning environments. ● Better geographic spread of school options.	● Schools will not have to make do with less-than-ideal spaces like malls or office buildings. ● Deferred maintenance will be reduced, and school campuses will be refurbished to meet modern needs. ● New school options will be able to open in underserved or high-need neighborhoods. ● Schools that make novel or less-intensive use of space will not be saddled with inappropriate facilities.
● Reduced overall costs for facilities.	● Schools will not have to pay above-market rents or make costly modifications. ● School systems will have less upkeep for underutilized spaces. ● All schools—but especially smaller schools, startups, and schools that seek to integrate other social service providers and community organizations—will be better positioned to benefit from economies of scale and pooled expertise. ● A single vehicle for public and private investment in school facilities reduces actions that may bid up the price of real estate. ● The sale, lease, or increased occupancy of existing school facilities will allow schools to maximize their current capital project revenue. ● Government entities will be able to secure lower interest rates than individual charter school operators.
● Increased student learning.	● Learning conditions and community wellbeing is improved. ● Operational (instructional) dollars and school leader attention currently diverted to facilities can be redeployed to teaching and learning and serving more students. ● Schools can better coordinate with other service providers that share their locations, and colocations between district and charter public schools have been shown to improve student achievement.

• Reduced political friction. • Community buy-in for financing or tax measures.	• Increased voter confidence that tax proceeds would benefit all students, regardless of which schools they attend, and the community as a whole. • Tax proceeds are more equitably distributed among schools and other uses.
• Improved facilities access for startups and small community providers that serve students.	• Allows more flexibility to lease/occupy space shared with existing schools or other entities.
• Revitalization of economically challenged neighborhoods.	• School officials have enhanced ability to position schools as anchors of broader community development projects.
• School facilities that are more modern and versatile.	• Concentrates facilities management talent and expertise. • Allows a broad mandate to meet community needs and plan for the future, rather than narrow one to provide existing.
• Protection of taxpayers' investments.	• Ensures public ownership of all public school facilities. • Educators can focus on student learning and spend less time on an area outside their expertise.

Signs of Promise on a Small Scale

While the trust we envision has not been tried at full scale, promising smaller-scale initiatives support the development and implementation of the model:

Building Pathways: This collaboration between Washington, D.C., and a local nonprofit finance incubator helps improve charter schools' access to facilities, protect the public interest, and maximize the money investors, philanthropists, charter school organizations, and taxpayers invest in local schools. It leverages private investment and operational flexibility in ways a traditional governmental entity could not.

Harlem Children's Zone: This "whole child" initiative drew significant attention and federal funding to replicate its model in other cities, but has not contributed to student academic outcomes—at least not beyond the positive impact of the charter schools within the zone. This does not mean wraparound services or other student supports are not worth providing; it does suggest that these services should be decoupled from school operations. Allowing them to colocate with schools in buildings managed by an authority dedicated to building management would allow service providers to reach students while minimizing the administrative burden for school leaders.

Maslow Development: Inspired by Gestalt Community Schools, which brought together local churches, the city of Memphis, Habitat for Humanity, and Power Center Community Development Corp. to make a planned charter school facility the anchor of a community redevelopment project. A performing arts center, affordable housing, a wellness center, a playground, athletic fields, and retail space surround the school. The company now seeks to spread this model to other locations.

Implementation Plan

Vision for Impact

Under ideal conditions, local governments would form an entity to serve as the new facilities authority, hire an executive director, and appoint a board.

The staff would then begin conducting a facilities audit. It would work to develop one or more pools of “starter” investment capital:

- Revenue transferred from the school district’s existing facilities program
- Federal charter school program funds
- Philanthropic grants
- Private investment aimed at neighborhoods that qualify as Opportunity Zones

Starter capital would allow the authority to begin financing affordable projects in targeted areas.

Ideal Conditions

The facilities trust is likely to be a solution for cities where the following conditions are present:

- A mix of local facilities owners and school operators.
- A mismatch between existing facilities and community needs due to growing or declining enrollment—and consensus that collaboration is needed to move forward.
- A history of district-charter collaboration—or indicated willingness to collaborate.
- A state policy that enables the creation of independent school facilities authorities, such as joint powers authorities, interlocal agreements, dependent or independent special districts.
- A local consensus on school performance/accountability frameworks, such as Chicago’s SQRP, to align the facilities trust’s efforts with school quality.
- The presence of quarterback/harbormaster groups, such as Great Public Schools Now.
- A charter market share of 10 percent or greater.
- The use of student-based budgeting:
    - comparability between district and charter schools
    - per-pupil facilities funding
- A strong charter school authorizing climate that gives investors confidence that an approved charter school is likely to succeed and remain open over the long run.

Additionally, the trust would benefit from supportive federal policy, such as explicit authorization under Charter Schools Program rules and funding. The facilities trust could be included as part of a legislative package for states without charter schools looking to establish them or as part of school finance reform.

Regional Focus / Other Partners

Jefferson County, Florida

This rural North Florida community has recently become an all-charter school system. State lawmakers say the district is not disclosing all of its real estate assets, and this one-of-a-kind approach to school governance requires a long-term plan to safeguard those assets in the public interest.

New Orleans

The city's school system consists entirely of charter schools. Most, but not all, are housed in district-owned buildings, many of which are behind on maintenance. The city needs a long-term plan for managing a dynamic system of schools with high turnover and need for new providers.

Detroit

Declining enrollment and poor coordination between charter and district school facilities planners leads to duplicative spending on school facilities. In addition, some high-profile disputes have flared between the district and local charter schools over facilities.

San Francisco Bay Area

Real estate is becoming increasingly expensive—driving up the cost of housing, as well as the cost of acquiring and maintaining school facilities. This creates a significant barrier to teacher recruitment, which school districts are attempting to address through dedicated housing initiatives, as well as a barrier to charter schools and other educational service providers that might want to operate in the city.

Milwaukee

The school district is complemented by charter schools and the nation's oldest voucher program. It is a true "three-sector" school system grappling with declining enrollment.

Denver

The district has high charter market share but suffers from declining enrollment and a severe shortage of affordable housing.

San Antonio

San Antonio Independent School District has adopted a portfolio approach and has productive partnerships with charter school and third-party operators. However, the city of San Antonio is much larger and served by more than a dozen school districts. San Antonio ISD is at a disadvantage when it comes to property wealth and has a needier population than surrounding school districts. A facilities trust could help improve equity while maintaining the role of smaller districts as school operators.

Engagement and Communications Strategy

Reorienting a city's approach to school facilities management is a big task that will face many questions from the public; asking existing staff or public entities to give up control of big assets is likely to drive opposition. A local champion, such as an advocacy organization, quarterback, or mayor's office, will be key to making the case for change and coordinating communications and implementation. Additionally, a national advocacy partner could help develop federal policy and major philanthropic support. Together, they would likely want to develop relationships and an engagement strategy with stakeholders as identified in figure 3.

Figure 3. Local and National Champions Should Engage Key Stakeholders

Stakeholder	Message *The facilities trust will:*
School district leadership, authorizers	Allow educators to focus on student learning and encourage collaboration that can benefit all students.
Charter school leaders	Open doors to new operators, ensuring equitable use of all publicly owned facilities.
State-level policymakers	Encourage educational innovation and reinvestment in urban areas that drive a state's economy.
Federal policymakers	Allow charter schools to open and grow while preventing them from profiting off their real estate.
Wraparound/social services providers	Help more social services and afterschool and enrichment providers reach children.
Community stakeholders concerned about district financial sustainability and unmet needs (e.g., deferred maintenance on district facilities)	End the current policy of kicking the can down the road by building a sustainable investment for a community's future.
School finance professionals	Identify best practices and allow better accounting of real facilities costs.
Community developers and housing authorities	Reduce duplicative efforts and allow for coordinated development efforts.

Timeline, Key Action Steps, and Milestones

There are two potential paths to implementing this proposal. The first would create unified control of all public school facilities:

1. School districts or municipal governments form a 501c3 organization, public corporation, or special district to manage all school facilities within their jurisdiction.
2. That organization takes control of those facilities.
3. The governing body of that organization performs an analysis/audit of all school buildings, their current usage and occupancy, their value and potential uses, and their need for future upkeep, and makes the results of the audit publicly available.
4. The organization then develops a plan to 1) solicit community input on a five-year master facilities plan for the entire locality, 2) solicit proposals for tenants who would make use of underoccupied, unused, or underused space and to meet future building needs, and 3) solicit community input on plans to improve, sell, close, or consolidate existing occupied buildings.
5. The trust would then assume responsibility for maintenance, management, and construction of the city's educational physical plant, and maintaining full, up-to-date accounting of facilities space.

A second, more modest approach, would not transfer all facilities to the control of the trust, but would focus on turning around surplus or underutilized buildings:

1. School districts or a municipal government would charter a 501c3 organization, public corporation, or special district to manage school facilities.
2. The school districts would perform audits of all school buildings, their current usage and occupancy, their value and potential uses, and their need for future upkeep, and makes the results of the audit publicly available.
3. Buildings marked as significantly underused or underoccupied would be designated as surplus, and made available to the public via an open auction.
4. The facilities trust would submit bids and assume control of facilities for which it submitted the winning bid.
5. The facilities trust would repurpose those facilities to house charter schools, other learning providers, preschools, or social service organizations.
6. The process of auditing buildings and submitting designated surplus facilities for public bidding would repeat periodically—perhaps every five years.

<u>State</u>

Depending on the legal structure of the real estate trust, state legal action may or may not be required. States could, however, provide convening power to coordinate the actions of multiple local governments, startup funding, or, in some cases, the legal authority necessary to inform the trust, if it were to take the form of a special taxing district.

Research-Policy Partnership

Because we are calling for a new entity and new type of approach, we believe this a good project to implement in coordination with a responsive research organization. This research organization could develop an evaluation plan that meets the organizational learning needs of the new facilities trust, while furthering the evidence base for school facilities nationally.

Questions the research partner could pursue include:

1. How well does the trust build consensus on community preferences? How well does the trust manage difficult conversations about school closures and sale of publicly owned assets?
2. What barriers emerge to collaboration with districts, charter operators, and other city entities, and how does the trust overcome them?
3. What types of school models and operators emerge that may be more innovative compared to cities of similar size or student needs?
4. What is the satisfaction of students, parents, school leaders, and teachers in using facilities that have been managed by the trust?
5. How equitable is the distribution of trust/community resources? How well does the trust help improve outcomes in underserved neighborhoods or populations?
6. Does the trust help achieve greater coordination of services and what impacts does this have on community well-being?
7. What efficiencies does the trust realize in terms of reducing facilities costs and taxpayer liabilities, or providing access to better equipped facilities (e.g., playgrounds, etc.)?

Budget

Advocacy and Policy Change

Political or legislative campaigns are likely to vary by locality and must be determined by the advocacy partner. We would anticipate a minimum of $1 to 2 million in annual costs for an advocacy partner to run campaigns of this nature.

Implementation

Actual capital costs are likely to vary widely by locality and must be determined by the trust. Staffing the trust will cost money. This may require a transfer of school district facilities department resources.

The facilities authority can generally categorize its funding needs into four categories:

- Startup funding. The authority will require an initial investment to hire staff, conduct its initial analysis of school facilities, raise initial capital, and make the results publicly available.
- Funding for ongoing operations. The authority must pay for staff, ongoing building maintenance, and property management activities. These costs may be covered, in part, by transferred district revenues and lease payments on district buildings. For example, the Orleans Parish School Board budget for FY2019 includes $792,841 in general fund (non-capital) revenues for "Facilities Planning and Preservation." Initial staffing for the trust is likely to exceed that amount each year. However, after a brief transition, some of this funding can be redirected from existing school district facilities department resources.
- Funding for capital investments. Some portion of the authority's financing arrangement may resemble school district capital project financing. However, to succeed, the authority must also leverage additional funding sources to support its ongoing activities. Those might include:
    - Philanthropic donations designed to support its initiatives.
    - Dedicated credit enhancement grants and appropriations.[2]
    - Revolving loan funds that support specific projects to attract investors through community redevelopment initiatives, Opportunity Zones, and other arrangements that enhance certain kinds of investments.
    - Revenue from the sale of surplus assets or long-term leasing of facilities owned by the authority.

2 The D.C. charter facilities incubator was seeded with $9 million in federal funding through two sources: a onetime appropriation passed through the federal SOAR Act, and a $5 million grant through the federal Credit Enhancement for Charter School Facilities Program.

Appendix A

Model Legislative Language

01. Structure of Trust
    a. 503(c) nonprofit/public benefit corporation/joint powers authority/special service district (could be subordinate to city or county).
    b. Board of Directors, ideally 7 voting members, appointed by mayor (or governor).
        i. One with experience as classroom educator
        ii. One with experience as district administrator or school board member
        iii. One with experience as charter school leader
        iv. Two with experience in public finance or public construction projects (broadly defined: university facilities manager, housing authority, etc.)
        v. Two with experience in community (broadly defined: parents, residents, etc.)
        vi. School superintendent or designee (ex-officio)
        vii. Mayor's (or Governor's) budget director or designee (ex-officio)
        viii. High school student (advisory, appointed by vote of other board members)
    c. Board has a mandate to focus on developing solutions to the long-term strategic goals of maximizing financial efficiency and meeting the diverse educational facilities needs of its community now and into the future, while accounting for the evolution of public education, the community's needs, and potential synergistic collaboration with other public entities.
        i. Approves long-term strategic plan
        ii. Approves master facilities plan and financing, including bonding authority
        iii. Approves annual budget
            1. Option for approval by city council or other government entity
        iv. Approves major contracts: leases, construction agreements, sale or purchase of real estate
        v. Hires executive director and general counsel
    d. Executive director.
        i. Hires staff
        ii. Recommends long-term facilities plans for board approval
        iii. With counsel, negotiates agreements for facility usage with individual operators
    e. Funding for trust.
        i. Startup funding from state/CSP grant
        ii. Absorbs existing revenue for public school facilities
            1. State capital funding
            2. Property tax revenue
            3. Proceeds from bond issues
        iii. Revenue from sale, lease, or joint-use agreements

f. Ownership and/or Pledge.
    i. Within the established boundaries of the trust, school districts and/or other municipal governments shall transfer title of existing K–12 properties to the trust. In lieu of full ownership, to the extent permitted by existing law, municipal governments shall transfer necessary legal control of the facilities to the trust such that the trust may pledge the facilities as assets on its annual financial statements.

g. Taxing Authority and Accountability.
    i. Trust can petition school board/city council or go directly to voters for taxes
    ii. The trust will certify completion of key deliverables, such as:
        1. Within six months, facilities trust has executive director and key staff hired
        2. Within two years, facilities trust has long-term lease agreements, etc., with existing school operators
        3. Within two years, facilities trust has master facilities plan approved by board
        4. Within five years, 50 percent of charter operators are in public facilities
        5. Within five years, 50 percent of campuses have seen some capital improvements and/or co-location with community services, housing, etc.