



Oakland Unified School District

STATE ADMINISTRATOR

Kimberly A. Statham, Ph.D.

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DATE: June 14, 2007
TO: City Administrator Deborah A. Edgerly
FROM: State Administrator Kimberly A. Statham
RE: Education Complex Report

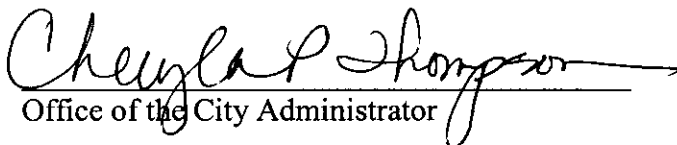
Dear Administrator Edgerly,

Attached please find a copy of Oakland Unified School District's discussion document for a downtown education complex.

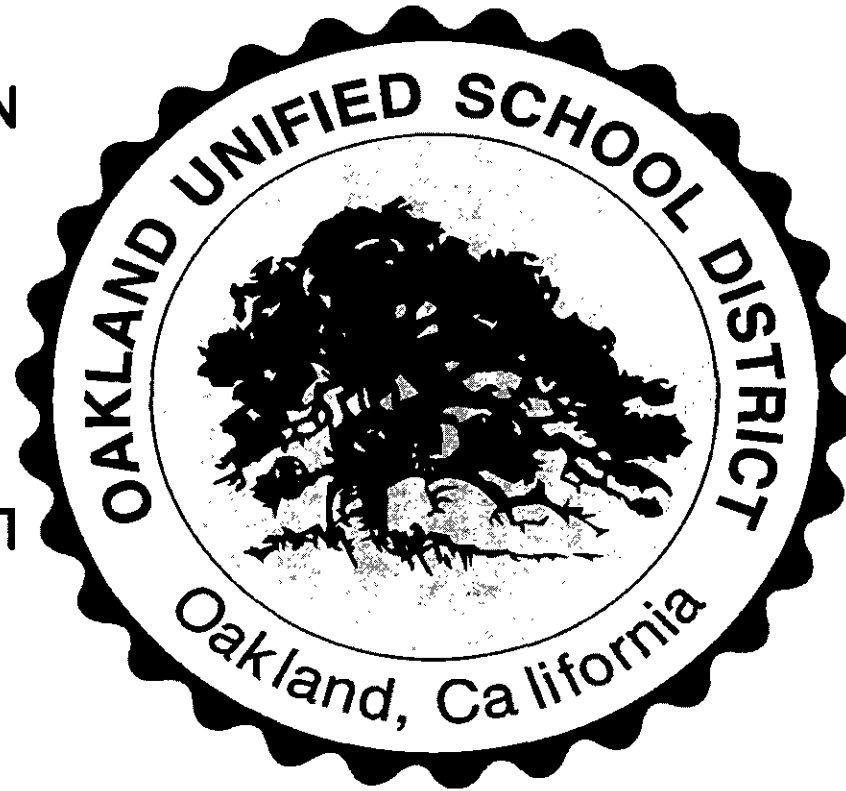
We look forward to a productive discussion between school district and city council representatives and staff.

Thank you for your consideration and we will see you on the 26th.

APPROVED AND FORWARDED TO THE
EDUCATION PARTNERSHIP COMMITTEE:


Office of the City Administrator

FINANCING PLAN
LA ESCULITA
SCHOOL CAMPUS
LOCATION OF THE
SCHOOL DISTRICT
EDUCATION COMPLEX
EDUCATION
COMPLEX



Education Partnership Committee

Proposal for Education Complex Downtown

June 26, 2007

DOWNTOWN EDUCATION COMPLEX

Process and Timeline

- What process will District employ in making decisions regarding disposition of Downtown Property?
- Potential process issues:
 - Community engagement process
 - Time line for decisions on design concepts
 - Planning and entitlement process
 - Responsibility for negotiations with City and Redevelopment Agency (RDA)
- What is District's time line for deciding how to proceed with disposition of Downtown Property?

DOWNTOWN EDUCATION COMPLEX

Objectives Of OUSD

- Support all five schools currently situated in East Lake area remaining in the downtown:
 - Centro Infantil de la Raza Child Development Center
 - Dewey Continuation High School
 - La Escuelita Elementary School
 - MetWest High School
 - Yuk Yau Child Development Center/Annex

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Potential Planning Issues

- Size and disposition of downtown property.
 - Need to vacate up to 1.22 acres of existing public streets?
 - Include all five schools on Downtown Property?
 - Include new District administration space on Downtown Property?
 - Include potential joint use administration space for Peralta Community College District (CCD)?
 - Sale/exchange or long term ground lease of portion of Downtown Property for private development/use to generate additional revenue
- Can La Escuelita Elementary School be constructed first as part of phased project?
- CA State standards for public school K-12 facilities.
- How do OUSD and other urban schools compare?

DOWNTOWN EDUCATION COMPLEX

Preliminary Cost Analysis

Overview

- Preliminary cost analysis includes cost of:
 - Rebuilding La Escuelita Elementary School as permanent campus in same area it currently occupies
 - Relocating four other schools from current locations in East Lake area to Downtown Education Complex
 - Constructing new administrative facilities (in conjunction with Peralta Community College District) to serve all schools, parents, and students throughout District.
- Preliminary financing plan shows how these costs may be funded without additional State funding, new taxes on District residents, or diverting revenues from District General Fund.

DOWNTOWN EDUCATION COMPLEX

Preliminary Cost Analysis

Possible Assumptions

- Downtown Property includes:
 - 8.255 acres on six District parcels on 2nd, 3rd, and 4th Avenues
 - 1.220 acres of public streets subject to potential closure
 - 9.475 acres total potential site area(Less)
 - 3.000 acres assumed for potential private development for income generation (see Preliminary Financing Plan)
 - 6.425 acres potentially available for District facilities
- Shared District/Peralta CCD administration space includes:
 - 96,000 SF joint administration space
 - 48,000 SF joint assembly space
- Construction costs include:
 - Average construction cost of \$340/building SF
 - Parking/playground cost of \$110/site SF
 - Playground over parking cost of \$230/site SF

DOWNTOWN EDUCATION COMPLEX

Preliminary Cost Analysis

Note: This slide assume rebuilding all five Downtown schools and an administration facility as an integrated new development.

<u>Program</u>	<u>Building SF¹</u>	<u>Est. Cost</u>
Centro Infantil/Yuk Yau CDCs	24,000	\$ 8.2 M
Dewey Continuation HS	28,800	\$ 9.8 M
La Escuelita ES	36,000	\$ 14.7 M
MetWest HS	<u>14,400</u>	<u>\$ 4.9 M</u>
Subtotal, Schools	110,400	\$ 37.6 M
Admin (OUSD/PCCD)	144,000	\$ 49.0 M
District Site Improvements²	<u>NA</u>	<u>\$ 20.0 M</u>
Total	254,400	\$106.6 M

1. Includes 20% allowance for elevators and internal circulation.
2. Includes parking and playgrounds.

DOWNTOWN EDUCATION COMPLEX

Preliminary Financing Plan

Summary

Eight potential funding sources that will NOT require additional State funding or new taxes, or divert revenues from District General Fund, including:

- Five funding Sources that do NOT depend on private development/use of portion of Downtown Property.
- Three funding sources that DO depend on private development/use of portion of Downtown Property.

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Preliminary Financing Plan

Summary

Funding Sources Not Dependent on Private Development/Use of Any Portion of Downtown Property:

1.	\$22.0 M	Measure A funds designated for La Escuelita ES
2.	\$ 8.2 M	Measure B funds in amounts designated for Centro Infantil/Yuk Yau CDCs
3.	\$15.0 M	Estimated funding from Peralta Community College District
4.	\$ TBD ¹	PLACEHOLDER estimate for residual new COPs proceeds repaid from future AB 1290 and other pass-through payments by Oakland Redevelopment Agency (RDA) from nine RDA Project Areas
5.	<u>\$ TBD²</u>	PLACEHOLDER estimate for value of net subsidy from New Markets Tax Credits financing of portion of Downtown Education Complex
	\$ TBD	Subtotal
<p>1. Estimate forthcoming. Residual new proceeds (after existing COPs) expected to be \$10 M or more.</p> <p>2. Depends on (i) access to allocation of NMTC investment authority from one or more community development entities (CDEs), possibly including CDE formed by District, and (ii) structure of NMTC financing. Value of net subsidy from NMTC financing of \$40 M of improvements expected to be \$20 M or more.</p>		

DOWNTOWN EDUCATION COMPLEX

Preliminary Financing Plan

Summary Cont'd

Dependent on Private Development/Use of Portion of Downtown Site:

6.	\$ TBD ¹	Capitalized value of ground lease or other consideration (including price participation) from private development/use of Downtown Site
7.	\$ TBD ¹	Additional AB 1290 pass-through payments from RDA created by private development/use of Downtown Site
8.	\$ TBD ^{1,2}	Portion of net tax increment from RDA created by private development/use of Downtown Site
	<u>\$ TBD</u>	Subtotal
	\$ TBD	Grand Total
<p>1. Depends on number of acres available for private development/use, as well as proposed land use (e.g., mixed use, residential, commercial), density, and building height, and market feasibility of private development, as well as terms of ground lease or other consideration. In general, more private development/use will generate more value to District from developer and RDA.</p> <p>2. Per facilities agreement to be negotiated with RDA..</p>		

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Preliminary Financing Plan

Measures A and B Bond Funds & Peralta Community College

- \$22 M in Measure A bond funds already designated for construction of La Escuelita Elementary School.
- \$8.2 M in Measure B bond funds already designated for CDC facilities, including CDC facilities at the Downtown Site.
- Note: Measure A and B bond funds may NOT be used for District operations or for construction of District administrative facilities.
- Initial Discussions with Peralta Community College District have revealed the possibility of sharing administrative space and related costs with OUSD. Including receiving up to \$15M of funding from CCD from proceeds of their General Obligation Bonds.

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Preliminary Financing Plan

RDA Tax Increment and Pass-Throughs

- RDA powers typically limited to boundaries of redevelopment project areas (Projects), except for affordable housing and some public improvements.
- RDA has 12 Projects (or Project annexes), including Central City East Project which contains Downtown Site.
- RDA may form new Projects and amend old Projects to add area or change financial or time limits.

Purpose of Redevelopment:

- Eliminate blight which cannot reasonably be reversed by market forces acting alone, resulting from any number of physical or economic blighting factors inside Projects.
- Provide or benefit low-and-moderate-income housing inside or outside Projects.

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Preliminary Financing Plan

RDA Tax Increment and Pass-Throughs

Among many RDA powers are:

- Tax increment (TI) financing and statutory requirement to “pass-through” designated portions of TI to District.
- Discretionary authority to fund and construct facilities for school and college districts and to subsidize private development/use on District-owned property.

TI financing:

- TI revenues defined as increased property tax revenues in Project above Project base year. These revenues are diverted to RDA from “affected taxing entities,” including District.
- RDA may leverage future TI revenues in Project to finance current “redevelopment projects” and subsidize new development.
- TI revenues typically increase annually, depending on growth rate of assessed value within Project, and may continue for 45 to 46 years for Projects adopted after 1-1-94, and for 50 to 53 years for pre-1994 Projects.

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Preliminary Financing Plan

RDA Tax Increment and Pass-Throughs

- District's portion of TI revenues diverted to RDA are backfilled by State, resulting in no net revenue loss for District operations. AB 1290, however, requires RDA to pass-through designated portion of TI revenues to District for educational facilities
- Any discretionary RDA funding of District facilities or private development / use on District property is limited to non-AB 1290 portion of TI revenues.
- AB 1290 pass-throughs are required from Projects adopted or added after 1-1-94, and from pre-1994 Projects subsequently amended to increase certain time or dollar limitations/
- AB 1290 payments to District must be used:
 - 56.7 percent “for educational facilities,” including “land acquisition, facility construction, reconstruction, or remodeling [modernization], or deferred maintenance”
 - 43.3 percent for revenue limit offset (for benefit of State)
- AB 1290 payments increase with TI revenues, and continue for as long as RDA receives TI, though they involve complicated three tiered formulas subject to misinterpretation or faulty implementation.

DOWNTOWN EDUCATION COMPLEX
Preliminary Financing Plan
RDA Tax Increment and Pass-Throughs

- District has AB 1290 and other pass-through entitlements in nine of 12 RDA Projects
- District currently using portion of pass-throughs to pay part of annual payment on existing COPs
- District must correctly report 43.3 percent of AB 1290 pass-throughs for revenue limit offset
- Remaining 56.7 percent of AB 1290 pass-throughs (and other pass-throughs) net of existing COPs may be used to repay new COPs for Downtown Education Complex

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Preliminary Financing Plan

New Markets Tax Credits

- New Markets Tax Credits (NMTC) program provides private investors with federal income tax credits to stimulate investment in designated low income communities (census tracts)
- To receive NMTCs, investors must make:
 - Qualified equity investment in community development entity (CDE) which has received allocation of NMTC investment authority from US Treasury Department (Feds)
 - CDE must make qualified low income community investments in qualified active low income community business (QALICB)
- District can benefit from NMTC investment in Downtown Education Complex

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Preliminary Financing Plan

New Markets Tax Credits

- Downtown Property is located in designated low income census tract 4060.00, making it eligible for NMTC investment in QALICB from one or more CDEs
- QALICB may take form of real estate holding company controlled by District, with long term lease from District for purpose of NMTC-financing of portion of Downtown Education Complex
- With optimal financing structure, District may derive substantial value (subsidy) from NMTCs, repaying as little as 50 percent of NMTC-financed improvements (with remainder paid by Feds in form of income tax credits and related tax benefits to investor)

DOWNTOWN EDUCATION COMPLEX

Preliminary Financing Plan

New Markets Tax Credits

Tracks to access NMTC investment authority:

- District may access NMTC investment authority of existing CDEs that received allocations from Feds for previous allocation rounds, current 2007 allocation round, or future allocation rounds; or OUSD may form its own CDE for federal certification, to prepare and submit its own application for NMTC investment authority as part of 2008 or future allocation rounds.

Accessing NMTCs through existing CDEs requires:

- One or more CDEs willing to (i) provide sufficient allocation (up to \$50M) to fund substantial portion of Downtown Education Complex, and (ii) allow utilizing optimal financing structure to max subsidy to District.
- NMTC-financed portion of Downtown Education Complex designed and ready to implement within 12 months of NMTC investment. Would need to share portion of value of NMTC subsidy (e.g., 5 to 20 percent of NMTC investment) with CDE.
- Keeping entire value of NMTC subsidy for benefit of District
- Potential access to larger NMTC allocation (e.g., average allocation to CDEs in 2005 round was \$120 M)
- Risk -- NMTC application will not be successful or will result in smaller allocation than requested amount (Note: in 2006 round, average allocation was \$65 million, compared to average application in 2007 round of \$120 million)

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Preliminary Financing Plan

New Markets Tax Credits

NMTCs will have to be used in combination with other funding sources:

- Given limitations on probable amount of NMTC allocation available for Downtown Education Complex
- To fund portion of NMTC investment that will NOT be repaid by federal income credits and other tax benefits (e.g., 50 percent of \$40 M of cost of NMTC-financed portion of project)
- Since portion of value of NMTC allocation will have to be shared with existing CDEs, and/or used to fund extensive NMTC-related transactions costs (e.g., \$40 M of NMTC-financed improvements may require \$50 M or more of actual NMTC allocation)

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Preliminary Financing Plan

Private Development / Reuse

- Initial conceptual site plan has assumed 3.0 acres of District Property available for private development / use as either residential condos or apartments and/or commercial office encompassing the following various development modules: low rise, mid-rise, towers.
- Potential planning issues:
 - Building height, Density/floor area ratio, Parking/traffic, affordable housing requirement for residential, Responsibility for preparing specific plan/general plan amendment and development agreement with City.
- Potential disposition for private development/reuse:
 - Land sale vs. exchange
 - Land sale requires declaration of surplus property and formation of 7-11 committee, and triggers Naylor Act
 - Land exchange is exempt from these requirements, but typically requires acquisition of new property for exchange purposes
 - Sale/exchange vs. ground lease
 - Sale/exchange typically involves one time payment, but may also include (price) participation on back end. While ground lease may involve recurring annual payments, which may also include (price) participation on back end, both of which can be capitalized through lease-purchase financing by District

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Preliminary Financing Plan

Private Development/Reuse

District revenues from private development/reuse may be:

- Maximized by District assuming responsibility for negotiating/preparing:
 - Specific plan/general plan amendment (if required)
 - Development agreement with City, for ultimate assignment to private developer
 - Owner participation agreement with RDA, for ultimate assignment to private developer
 - All of which minimize risk for private developer and increase amount private developer is willing to pay
- Supplemented by:
 - Additional AB 1290 pass-through payments from additional new tax increment to RDA
 - District negotiating/preparing facilities agreement with RDA for portion of tax increment created by private development/use (after additional pass-throughs to District and other affected taxing entities)

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Preliminary Financing Plan

Private Development/Reuse

Sales/exchange/lease values and additional RDA tax increment and pass-throughs depend on:

- Need for additional funding to finance Downtown Education Complex
- Portion of Downtown Property ultimately made available for private development/use
- Total development value

Private development/use vs. District use

Net benefit to District depends on potential trade-off between:

- Increased District revenues from private development/use on part (or more) of Downtown Site vs.
- Increased District costs from more vertical construction on only part (or less) of Downtown Site

Net benefit to District requires coordination between District's facilities staff and real estate consultant, to determine optimal mix of private development/use vs. District use

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Preliminary Financing Plan

Private Development/Reuse

Examples of potential trade-offs between private development/use vs. District use

1. Construction of Downtown Education Complex on small portion of Downtown Site requires more vertical construction at higher cost
 - \$100 M District construction costs
 - (\$ 30 M) Capitalized value of District revenues from private development/use
 - \$ 70 M Net construction costs
2. Construction of Downtown Education Complex on larger portion of Downtown Site requires less vertical construction at lower cost
 - \$ 60 M District construction costs
 - (\$ 10 M) Capitalized value of District revenues from private development/use
 - \$ 50 M Net construction costs
3. Construction of Downtown Education Complex on “optimum” portion of Downtown Site
 - \$ 65 M District construction costs
 - (\$ 20 M) Capitalized value of District revenues from private development/use
 - \$ 45 M Net construction costs