Facilities Financing

New models for Districts that are Creating Schools New

The latest in a series of reports on the changing face of public education

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ABOUT THE CONCEPT OF AN 'OPEN SECTOR' IN EDUCATION

Much of the work being done by Education|Evolving is to help create and sustain an "Open Sector" in public education – in Minnesota and elsewhere in the country. By "Open Sector," we mean a "space" in public education that is open to new entrants – new schools that are started from scratch by teachers, parents, community organizations and multi-school networks. The "Open Sector" is also open to new authorizers or sponsors – entities other than school districts that oversee schools. The "Open Sector" is open to new learning programs and to new ways of governing and managing schools. And, as part of a broadening definition of public education, the "Open Sector" is open to all students who choose to attend schools in that sector.

The "Open Sector" is based on the premise that we cannot get the degree of change and improvement we need in education by relying only on fixing the schools we now have. And, to get enough new schools that are fundamentally different, we need a combination of public policies and private actions that will allow new schools to emerge and that will create an environment in which they can succeed. This kind of positive environment for creating and sustaining new schools can be established on a state-level through actions led by state policy makers. It can also be done – and is certainly needed – in major urban communities all across America.

Though chartered schools may be the most visible part of the "Open Sector" today, this concept of a positive environment for creating and sustaining successful new schools is not limited to charters. The "Open Sector" can also include schools operating within a district or state on some kind of contract other than a charter – as long as they are truly autonomous, accountable and open to all students who chose them.

There is also no prescribed or uniform learning program presumed by this vision for creating many more schools new. In fact, there's an urgent need to better understand, respect and address the individual differences in students. It's likely, however, that successful new schools in the "Open Sector" will be smaller and that they will make it possible for all students to take a more active role in their learning and to develop more direct and nurturing relationships with adults.

ABOUT THIS REPORT AND ITS AUTHORS

This report is one of a series funded with support from the **Annie E. Casey Foundation** to encourage and assist urban and other communities in starting and sustaining high quality new schools. This report outlines a number of innovative ways school districts and chartered schools have addressed the challenge of creating affordable facilities to provide better services for children and families, including public-private partnerships, leveraging philanthropic credit enhancement, multiple-use buildings, and new learning technologies.

The research and writing for this report was done by **Bryan Hassel**, president of North Carolina-based Public Impact, and his associate, **Katie Walter Esser**. Bryan Hassel has supervised a number of similar projects over the last six years for the Center for Policy Studies and its Charter Friends National Network (CFNN) -- and now Education|Evolving – initiatives. Final editing and production supervision was provided by **Jon Schroeder**, Education| Evolving's coordinator and, from 1996 to 2003, CFNN's co-founder and director.

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NON-TRADITIONAL MEANS NEEDED TO FINANCE SCHOOLS NEW

Many of the dramatic reforms school districts are undertaking involve a significant facilities component. As districts pursue strategies such as opening new schools, breaking up large schools, and renovating buildings to provide safe and effective learning environments, they often incur substantial bricks-and-mortar expenses.

Since these expenses may well outstrip funds available through traditional sources of facilities financing, districts and individual charter schools have increasingly sought innovative ways to meet their facilities needs. This report outlines some of the most promising emerging solutions under three headings:

Funding solutions: Tapping non-traditional sources of funds for school financing. How have districts and charter schools found the dollars to carry out their facilities projects without access to traditional bonds? Innovative strategies include:

* Private development of public school buildings
* Partnerships with “satellite” or employer-based schools
* Direct borrowing on the private market (bank loans or revenue bonds)
* Sale or lease of existing school facilities

Cost-saving solutions: Finding ways to economize on and rethink the use of bricks and mortar. Even as they look for new revenues, districts and schools have looked for ways to reduce costs. Interestingly, many of the approaches they have devised have also opened up new doors of collaboration and flexibility that have great potential benefits for students. Examples include:

* Space-sharing with community agencies
* Space-sharing with higher education
* Educating outside the school building – through new uses of community resources
* Educating outside the school building – through the use of new technologies for distance learning

Institutional solutions: Establishing real estate trusts and intermediaries. New approaches to facilities development and financing demand new forms of expertise and different legal and organizational arrangements. New institutional structures are under development in some places to handle these new roles.

The report provides more detail on each of these strategies, including specific examples of how districts and schools have implemented them, and a list of additional readings on these topics.

Introduction

School districts everywhere, especially large urban districts, are undertaking dramatic reforms to improve student achievement. Many of the changes involve a significant **facilities component.** For example:

* School districts are increasingly seeking to open **new schools** within their boundaries to try new approaches, reach students that have traditionally struggled, and create new options for children and families. Unless the district has a significant inventory of vacant space, new schools require the acquisition or construction of new facilities. Even where districts have vacant buildings that could house new schools, substantial renovations are often necessary.

* Districts are also working to **break up large high schools** into multiple smaller schools. While these schools do not require entirely new facilities, the break-up process often entails reconfiguring the existing high school to make it possible for multiple institutions to have their own space and conveniently share common facilities.

* Most big school districts have a large backlog of **substantial renovation projects** for their existing schools. Wide-scale studies by agencies such as the General Accounting Office have demonstrated that aging school buildings are often not very suitable for learning. With increasing pressures to boost outcomes, system leaders are eager to create learning environments that are safe and effective for students.

These facilities projects, of course, cost money. But even as the need for funding for such work increases, many districts are finding that traditional sources of financing for school construction and renovation have run dry. The vast majority of public school facilities financing comes from the issuance of general obligation bonds by school districts or other governmental agencies. Because these bonds are backed by the full faith and credit of the public purse, they represent a very safe investment for bondholders. They are also attractive because interest paid on them is exempt from taxation.

However, issuing general obligation bonds typically requires a public referendum authorizing the debt. A majority, and sometimes a supermajority, of voters must approve of the issuance before it can go forward. In many places, the population has grown tax-weary and is increasingly comprised of families without school-aged children, trends that show no signs of abating.

Consequently, districts find themselves in a bind: their need for facility financing is as great as or greater than ever, but the prospects for traditional funding are bleak. In this context, district leaders need to envision creative new approaches if they are to pursue their ambitious reforms successfully.

The good news is that there is a great deal of ferment in the world of school facilities financing. Pioneering districts, here and in Canada, have forged new paths in financing their facilities via non-traditional vehicles.

The charter school movement, in which nearly 3,000 new public schools have had to solve the facilities problem, has spawned a number of innovative solutions to the challenge of financing bricks and mortar without access to general obligation bonds. Community schools and schools linked to community-based organizations have also worked out creative ways to integrate school-buildings with other community facilities, saving money and creating value for students and families.

Publications such as *The Future of School Facilities*, published by the Center on Reinventing Public Education with the Casey Foundation's support, have pointed the way to new ways of thinking about these challenges.

This report seeks to summarize the ideas that have emerged from this still-brewing mix of concepts and experiences. It does so under three broad headings:

* **Funding solutions**: Tapping non-traditional sources of funds for school financing. When faced with a funding shortfall, this is the most natural first step to

consider. How have districts and charter schools found the dollars to carry out their facilities projects without access to traditional bonds?

* **Cost-saving solutions**: Finding ways to economize on and rethink the use of bricks and mortar. Even as they look for new revenues, districts and schools have looked for ways to reduce costs. Interestingly, many of the approaches they have devised have also opened up new doors of collaboration and flexibility that have great potential benefits for students.

* **Institutional solutions**: Establishing real estate trusts and intermediaries. New approaches to facilities development and financing demand new forms of expertise and different legal and organizational arrangements. New institutional structures are under development in some places to handle these new roles.

Funding solutions: tapping non-traditional sources of financing

Districts and charter schools have had to be creative and look outside of traditional school bonds to fund their facilities projects. This section outlines and provides examples of four non-traditional funding sources: private development of school buildings; "satellite" or employer-based schools; direct borrowing on the private market; and the sale or lease of existing school facilities.

Private development of schools

The use of "public-private partnerships" to develop school facilities is still rare, but has become more common in recent years (see Evergreen Freedom Foundation, 2003; Utt, 2001; DeArmond, Taggart, and Hill, 2002). There are a variety of different ways these partnerships can be structured (see box on page 4), but the basic idea is this: a private developer constructs or renovates a facility and leases it to the school district over a long period of time.

Using a private developer avoids the need to issue bonds; the developer, in effect, provides the financing in the hope of a steady stream of lease payments over 20-30 years. Private development can also greatly accelerate construction or renovation schedules relative to conventional district-led development. It is possible for districts to save 5% - 20% using these methods.

Federal tax legislation has recently made this kind of partnership more attractive to private developers by enabling them to issue tax-exempt private activity bonds to finance these projects.

The federal tax code generally allows privately-owned public purpose projects to take advantage of tax-exempt financing through private activity bonds. Section 422 of the Economic Growth and Tax Relief Reconciliation Act of 2001 extends this privilege to qualified education facilities, which are defined in the legislation as any public elementary or secondary school facility owned by a private, for-profit corporation pursuant to a public-private partnership agreement with a State or local educational agency.

In this arrangement, a district can contract with a private developer to finance, build, and own the public school, which will in turn be leased back to the district. At the end of the specified lease term, the building becomes the property of the school district.

The law also includes other provisions: the lease term must coincide with the term of the tax-exempt bonds issued to pay for the building and states are limited to the amount of these bonds issued to $10 multi-plied by the state's population (Utt, 2001; *Economic Growth and Economic Tax Relief Reconciliation Act* of 2001).

Here are some examples of how districts have used private development to construct or refurbish facilities:

* **Niagara City, NY**. The school district issued an RFP to develop a public-private partnership that would call on the developer to manage and direct school construction, hire the construction and design companies, and arrange financing. Five companies responded. Sev-

eral of these were grouped into a team with Honeywell, Inc. leading the project. Under this arrangement, the construction was completed in 18 months, saving $12 million. The district leases the building, including funding for facility maintenance, for $5 million per year and will buy the building in 2030 for $1. The district has been able to make its lease payments by requesting and receiving the maximum amount of state reimbursement available to it, selling off surplus assets, consolidating two high schools into the one new high school, and retiring some previous debt (DeArmond, Taggart, and Hill, 2002; Evergreen Freedom Foundation, 2003).

* **Washington, DC**. At the James F. Oyster Bilingual Public Elementary School, parents commissioned a developer to finance, design, and construct a new building in exchange for district-owned property adjacent to the school property. The developer built an apartment building at the location—property taxes there are fully designated to pay the $11 million construction bond (Evergreen Freedom Foundation, 2003; 21st Century School Fund).

Structures of Public-Private Partnerships in School Facilities Financing*

Municipal / Capital Lease

In constructing a new building, a municipal / capital lease can be used in which a private developer - encouraged by the benefits of tax-exempt private activity bonds and guaranteed long-term income - agrees to construct and own a school and then lease it to the district over a defined period of time, often 25 years. After the lease ends, the district pays a token amount to purchase the structure. If a district owns a school that it wants renovated, it can still take advantage of a municipal / capital lease by selling the property to a private developer, which will in turn lease it to a foundation established by the district. Some experts estimate that municipal / capital leases can save the district 5-10% over typical construction costs over the long-term.

Operating Lease

Operating leases are similar to municipal / capital leases in that a private organization will own the school building, which it leases to the district. In this case the lease is classified as a security to the developer and the district accumulates ownership in the building as its lease payments accrue. Because lease payments contribute to ownership, they are taxable. However, it is estimated that operating leases can still save districts 10-15% over the long-term.

Service Contract

Service contracts allow districts to renovate a school without selling the property. In this scenario, the district works with a contractor who agrees to operate and maintain the building during a set period of time of renovation. The contractor funds the renovations using private, tax-exempt debt and is reimbursed for capital costs and interest, in addition to being paid for its services.

**Descriptions taken from "School Construction: Building a Better Schoolhouse." (See full citation in References.)*

* **Greenville, South Carolina**. The district needed to build or renovate 86 schools, for a projected cost of $784 million. However, the board was bound in practical terms to borrowing about $60 million a year for construction. Given inflation and interest costs, this would mean that the buildings would ultimately cost about $1.5 billion and wouldn't be complete until 2023. The district got around this hold-up and expense—and around the state's provisions against district's holding more than 8% debt or using a lease-purchase—by contracting with Institutional Resources for the entire operation and establishing a legally separate nonprofit organization that issued bonds to pay for construction. Thus, the nonprofit, not the district held the debt, and it

wasn't a lease because the district is purchasing the buildings from the nonprofit in 25 annual installments of $60 million. Using this method, the board estimates it will take 20 fewer years and $500 million less to renovate / build the schools (Herlong, 2002).

* **Nova Scotia, Canada.** Pressed by a declining economy, this province has arranged several mutual capital lease agreements since 1997. It was able to negotiate with investors to pay only 85% of the lease, but in return it allowed the developer to retain ownership and rent out space to organizations providing various services, including tutoring, higher education night classes, and child care services. The building was also made available for community events and religious groups. With this approach, Nova Scotia was able to build 22 schools (with 11 more in the works) within a four year period (Evergreen Freedom Foundation, 2003).

Satellite/employer-based schools

An increasing number of employers and other institutions (such as zoos and museums) see the value of having a public school located on their property. In the case of employers, such "satellite" or employer-based schools can be a valuable "benefit" to provide workers (Center on Education and Work website). In the case of cultural institutions like zoos and museums, satellite schools can serve as a compelling extension of their educational missions. And if employers or other organizations provide or develop the school facility, they are in effect creating an alternate source of financing for the district or school in question.

Florida is the real hotbed of activity with satellite schools, but such institutions exist in many states. Here are some examples:

* **Simon's Educational Resource Center**. SERC works with districts to plan alternative education programs in shopping centers for at-risk students. Fifteen such programs exist. One of these is Mall Academy in Seattle in which students can fulfill graduation requirements but also take elective classes at the University of Washington and Seattle Community College (Evergreen Freedom Foundation, 2003).

* **Hillsborough County School District, FL**. The district partnered with First Presbyterian Church of Tampa to lease and renovate part of the church for $350,000. Community members donated computers and uniforms. The partnership resolved overcrowding, "raised parent involvement, eliminated costs and hassle of constructing a new school building, and enhanced the overall environment of downtown Tampa" (Evergreen Freedom Foundation, 2003).

* **Wayne County, MI**. Opened in 1997 and located on the campus of Henry Ford Museum & Greenfield Village, the Henry Ford Academy is a charter high school developed in partnership between the school district, Ford Motor Company, and the Henry Ford Museum & Greenfield Village. The private partners continue to interact regularly in the school, serving as project mentors for students, curriculum consultants to teachers, school board members, and so forth (Center on Education and Work, website).

* **Des Moines School District**. In 1993 the Des Moines Business Alliance initiated a partnership with the school district to open a downtown campus convenient for working parents; facilities were donated by an area business, and the demand for the school was so high that a second campus was opened on land owned by the city a few years later (Evergreen Freedom Foundation, 2003.)

Direct borrowing on the private market

Since charter schools almost universally lack access to funding from general obligation bonds, they have typically been forced to borrow from other sources when undertaking major capital projects. While many schools have relied on standard taxable financing from conventional banks, some have begun to tap other sources that offer more favorable terms. Here are some of the major alternate types of funding that charter schools have managed to tap:

* **Community development financial institutions**. Most cities have one or more CDFIs that exist to provide financing for projects that enhance community development and are otherwise not bankable. Some CDFIs have begun financing charter schools as part of this broader mission. Several leading institutions have received grants from the U.S. Department of Education, including the Center for Community Self-Help, Local Initiatives Support Corporation, Low Income Investment Fund, National Cooperative Bank Development Corporation, and the Raza Development Fund. Some CDFIs are also poised to receive funds under the federal New Markets Tax Credit (NMTC), under which investors can receive a tax credit equal to 39% of their investment over six years for investing in organizations like CDFIs. Charter schools in low- and moderate-income neighborhoods are ideal uses for NMTC funds.

* **Tax exempt revenue bonds**. Many states allow nonprofit corporations to issue tax-exempt bonds through conduit bond issuers, such as the Colorado Educational and Cultural Facilities Fund. So charter schools themselves (if they are nonprofits) or affiliated nonprofit corporations can take advantage of this type of financing. Revenue bonds are typically priced higher than general obligation bonds, because they are not backed by the full faith and credit of any governmental entity. Instead, they are backed by the expected revenue to be generated by the charter school. Since this revenue stream is uncertain (the school's enrollment could fall short or its charter could be revoked), investors demand a higher rate of return. But because the bonds are tax-exempt, their pricing is better than that of taxable bank financing. Tax-exempt bonds are not viable for every charter school. First, they are expensive to issue. Unless the school needs $2 million or more, the up-front costs of issuance may outweigh interest rate savings. Second, only the most credit-worthy schools are able to tap this source. Start-up schools, schools without deep-pocket backers, and schools serving at risk populations may have trouble convincing investors of their ability to repay.

* **Qualified Zone Academy Bonds**. With this federal program, school districts or charter schools in empowerment zones or enterprise communities, or districts or charter schools with 35%+ students quailfying for free and reduced price lunch, may issue bonds to pay for renovation (not new construction). The federal government pays for the interest on the debt by issuing tax credits to bond holders. This subsidy effectively reduces the cost of financing by 50%. The school or district must also raise at least 10% of the bond funds they receive from other sources. Each state has a certain allocation of QZABs, so funds may be limited in a particular state. It is also uncertain as of this writing whether Congress will extend this program (Mead, 2002; US Department of Education, QZAB website).

* **Credit-enhanced financing**. Because of the risks associated with investing in charter schools, many charter groups find it difficult to obtain affordable financing from any source. Several initiatives are underway around the country to provide "credit enhancement" – additional security that makes lenders and investors more comfortable. In a typical credit enhancement program, funds from some philanthropic or public source are set aside, to be used to satisfy lenders or investors in the event that a charter school is unable to repay its debts. Because such defaults are likely to be rare, a relatively small amount of credit enhancement funds can leverage a much larger amount of private lending, perhaps 5 to 10 times. Several credit enhancement programs have been seeded with $50 million in federal credit enhancement funds, mentioned in the CDFI bullet above. Congress has now approved an additional $35.0 million for this program for the fiscal year ending September 30, 2004.

Private philanthropy has also played a role. The Rodel Foundation of Delaware, for example, has established such a pool via the Innovative Schools

Development Corporation, which will provide partial guarantees for charter facility loans. The Casey Foundation is exploring similar investments in Indiana and California. The Walton Family Foundation invested funds in Local Initiative Support Corporation for this purpose as well. In the Casey and Walton examples, the philanthropic support takes the form of "program-related investments," or PRIs. These investments are not grants; the foundations expect to be repaid. But the PRI puts a portion of the foundation's endowment at risk to further programmatic objectives.

Sale or lease of existing school facilities

Some school districts have found that they own certain facilities that, while not suitable for educational use, have market value: they can be sold or leased, and the proceeds can be used to finance facilities projects that meet educational needs. This approach is central to Portland, Oregon's long-term facilities use plan (DeArmond, Taggart, and Hill, 2002). One author even suggests that school districts could lease or sell the "air rights" above school-buildings for commercial or residential development as a way to generate funds (Lawrence, 2003).

Cost-saving solutions: Finding ways to economize on and rethink the use of bricks and mortar

In addition to seeking out new forms of facilities financing, districts and schools have also addressed the facilities challenge by finding ways to lower their facilities *costs* (DeArmond, Taggart, and Hill, 2002; Lawrence, 2003). Old fashioned "penny-pinching" measures are part of this story (e.g. aggressive energy conservation, use of standard design templates to reduce architectural fees, building space so that it is easily convertible to commercial use), but we focus here on some of the more creative steps districts and schools have taken – steps that have the potential to generate educational and social benefits as well as cost-savings.

These steps challenge the notions that 1) school buildings must be stand-alone operations, or that 2) students can only learn in a school building. The discussion focuses on four categories of activity: partnering with community agencies to share space and resources, partnering with higher education to share space and resources, allowing students to spend part of their educational day outside the building in internships or community service work, and allowing students to receive some or all of their education through "distance education" methods.

Space-sharing with other agencies

Over the last two decades, many facilities have been created that house schools but also a range of other community facilities and services. These arrangements can reduce overall facilities costs by spreading certain common expenses across the multiple agencies that share the space. They also offer potential non-financial benefits, such as providing families with easier access to services and making the interactions between families and multiple service providers less fragmented. For a fuller discussion of the benefits of these arrangements, see Joe Nathan's and Karey Febey's *Smaller, Saner, Safer, Successful Schools* and Stephen Spector's "Creating Schools and Strengthening Communities through Adaptive Reuse."

Here are some examples of space-sharing with community services:

* **<u>The Village @ Indian Hill</u>** (Pomona, California). This center is located in a renovated mall and provides education facilities for the community as well as leases space to businesses and nonprofits. Tenants include an elementary school, a high school, a training facility for

district educators and staff, a regional adult education program, a number of commercial businesses and non-profit organizations (all in a separate non-educational wing) to support Village programs and provide community services (e.g., health clinic), and a nonprofit foundation that oversees the Village's retail component and develops new educational programs. The total cost is expected to be about $50 million. The district used California's Joint Powers Authority provision to purchase the building for $5.5 million, and established the Pomona Valley Education Foundation to, among other things, raise grant money and lease and manage non-school property. (The lease income pays for security and upkeep of common areas and helps fund the Foundation's endowment.) Most of the Village's funding has come from the state and district facility bonds. The center has also benefited from federal Qualified Zone Academy Bonds and E-rate funds, and California class-size reduction incentives and technology grants (Spector, 2003).

* **Julia Richman Education Center** (New York, NY). This chronically low-achieving 2000+ student high school was closed and then re-opened by the Coalition of Essential Schools as six distinct schools of choice: a PreK-8 school, a junior high for autistic students, and four high schools with different focus areas. The Center also houses the Mt. Sinai Student Health Center, the Teen Parent Resource Center, the Center for Inquiry in Teaching and Learning, and First Steps, a daycare program for children of students attending any of the four high schools. Graduation rates today are significantly higher that of the city average (Toppo, 2003; Nathan and Febey, 2001).

* **Medina School District** (Ohio). The school district has partnered with the local hospital and a local performing arts foundation to create a community center co-located with the school. The hospital will lease part of the space and provide staff, equipment, and other resources, while the arts foundation will help fund construction and operate a 1,200-seat auditorium with an orchestra pit (Nathan and Febey, 2001).

* **Stanley Elementary School**. *(*Wichita, KS). Designed as a "Communities in Schools" site, Stanley houses branches of the city's departments of Health, Human Resources, Parks and Recreation. Almost two dozen employees from these departments work at the school to provide services, funded by the federal Supplemental Nutrition Program for Women, Infants, and Children, to Stanley families. There is also an on-site senior center and city-school district library. Other groups and organizations that provide support at the school include local and VISTA volunteers, Washburn University, Yamaha Corporation, and Big Brothers / Big Sisters (Community Schools: Partnerships for Excellence).

*__El Puente Academy for Peace and Justice__ (Brooklyn, NY). El Puente enrolls 146 students in grades 9-12 and is housed in a renovated church that also serves as "community headquarters." Included at the building are a health and wellness clinic, career and guidance services, and a program to help community members learn English. The school was created as a "New Vision" school within NYC Public Schools by a community organization that focuses on improving low-income areas of North Brooklyn. The graduation rate is 90% --compared to 30% at the large area high school before it was shut down -- and student outcomes on the statewide Regents exam are at the highest achievement standards for all schools (Nathan and Febey, 2001).

These joint-use scenarios are not without their challenges, as one would expect with any attempt to bring a diverse set of organizations together under one roof. For a discussion of these challenges see Spector's "Creating Schools and Strengthening Communities through Adaptive Reuse."

Space-sharing with higher education

Co-locating K-12 schools, particularly high schools, on college campuses has numerous potential benefits. It can help forge a stronger link between secondary and post-secondary education, creating a more coherent K-16 system and increasing the rigor and relevance of college preparation. It may help high school students become more comfortable with the idea of going on to college. And it can make available greater space and resources for both the high school and the higher education institution. A few examples of K-12 schools sharing space with colleges / universities follow:

* **Arizona Agribusiness and Equine Center** (Phoenix, AZ.) Students at this charter high school use all the facilities at South Mountain Community College, including labs, libraries, classrooms, computers, and a fitness center. The community college in turn uses the high school building's classrooms (located in a separate building on campus) during the evenings and weekends. Many of the Center's students take college classes and some have received an associate's degree prior to high school graduation (Nathan and Febey, 2001).

* **San Mateo Middle College High School** (San Mateo, CA). This school for juniors and seniors is located at the San Mateo College campus and provides a program in which high school students take both high school and college classes, with access to the faculty, clubs, labs, counseling, and other services and facilities provided to the community college students (San Mateo Middle College High School website).

* **New York City School District**. NYC Public Schools has collaborated with City University of New York (CUNY) to open three new specialized high schools, each with fewer than 100 students, at various CUNY campuses. These schools include the High School for Math, Science, and Engineering and City College, the High School of American Studies at Lehman College, and Queens High School for the Sciences at York College (Lawrence, 2003).

Educating outside the school building; new uses of community resources

Educational innovators challenge us to rethink the idea that student learning must all take place in a particular building. "Indeed, some students in the future may spend only two or three days a week at a dedicated school building. The rest of the week they may be engaged in off-campus internships, service learning projects, or field research.

As more off-campus learning opportuneities are demanded and developed, one can imagine some high schools looking less like a comprehensive center for all student learning and activity, and more like a home base from which students launch their individually tailored learning plans" (DeArmond, Taggart, Hill, 2002).

Far-fetched? Not really. Many school districts already offer weekly off-campus service learning for students (e.g., Central Park East Secondary School in New York), or evening classes and school-to-work programs for older students who want or need to work during the school day (e.g., Chicago Public Schools). Making use of local businesses to provide on-the-job training and experience; outside educational resources such as museums, libraries, and theaters to provide project-based experiences; and community nonprofits and local governments to provide service learning and internship experiences all represent options for expanding student learning beyond the school building. Using these options could not only increase the number of students able to take classes in a particular school building, but also provide potential learning and social benefits as well.

For example, students can learn content and skills in a real-world context, something particularly important for adolescent learners. They can also experience the self-empowerment and social value of contributing to the community.

Students who need alternative settings such as youth at risk for dropping out, teen parents who need to work during the day, and others for whom the traditional school day simply doesn't work well, are more likely to remain in and gain value from a school that engages them in the "real world" with structured support and a flexible schedule.

Educating outside the school building; uses of new technologies for distance learning

Technology is taking an increasingly important role as a tool for educational instruction. For the last several years, K-12 schools have utilized electronic distance learning to provide education to targeted populations of students, such as high ability students in small or rural schools who wouldn't otherwise have access to advanced courses, or disabled students who needed some or all of their education to be provided at home.

More recently, the broader student population has been given the opportunity to attend "cyber schools," online education with a variety of curricula and philosophies from which to choose. As of the 2002-2003 school year, there were over 40 such schools in 13 states. In Pennsylvania alone, 5000 students were enrolled in the state's nine virtual schools[1] (Gartner, 2002). In addition to the benefits of personalized instruction for every student, cyber schools also offer the advantage of reducing facilities costs and reducing school overcrowding.

Districts could achieve these goals either by offering full-time virtual schools in which students rarely or never met all together in one space, or by creating schools in which some courses were provided on-line, effectively increasing the number of students who could attend a single school.

Virtual schools are a new approach to education and have not as yet proven how successful they can be in educating students at the K-12 level. They are also not without their implementation challenges or vocal opposition. However, well-designed, well-implemented, and strictly accountable cyber schools offer one potential, more radical method to providing a quality education with lower facilities costs.

Institutional solutions: Establishing real estate trusts and intermediaries

All of the ideas discussed above have the potential to help districts address their facilities challenges. But all of them also require expertise, creative thinking, and elbow-grease. Some commentators, most notably Paul T. Hill, have proposed that the best way to mobilize these resources is to create new institutions to take on the roles of facilities development, financing, management, and ownership within a school district (DeArmond, Taggart, Hill, 2002).

Such an institution could help make a city's school facilities job easier in several ways:

* A real estate organization could amass the expertise needed to operate in the increasingly complex environment of facilities financing and development.

* An organization exclusively focused on facilities matters could develop a clear mission – to develop top-notch, safe, educationally appropriate facilities at the lowest possible cost for the city.

* As a large, professionally managed institution, the organization would be more credit-worthy in the financial markets than individual schools can be.

Hill's full-blown idea of a real estate trust envisions an organization that operates literally all of a city's educational real estate. Since this approach would be such a dramatic departure from the status quo, a more incremental step would be to establish a real estate intermediary of some kind to handle some facilities

[1] The Pennsylvania Supreme Court recently declined to hear an appeal from the state school boards association claiming the unconstitutionality of cyber schools, thus potentially paving the way for greater growth in this type of schooling in Pennsylvania. Center for Education Reform. *Newswire*. December 2, 2003.

related tasks, but not to own and operate all of a district's facilities.

This is the path Portland, Oregon is taking (DeArmond, Taggart, and Hill, 2002). The Portland Schools Real Estate Trust, developed in the creation of the district's 2002 Long-Range Plan, is designed in the short-term to help negotiate leases, sales, and property purchases. In the long-run, this independent nonprofit may actually manage and own the district's properties.

This idea has also been proposed as a way to manage new schools' and chartered schools' real estate functions. This could take the form of a nonprofit organization that manages the whole facilities process: identifying property, building or renovating facilities, managing financing, and then leasing the building to a district or a chartered school group. Much attention, for example, has recently been paid to Civic Builders, a new organization providing these kinds of services in New York City.

Conclusion

The silver lining of many vexing challenges is often the fresh thinking and creativity they stimulate. The facilities struggle in K-12 education is no exception. Innovative school districts and chartered schools have addressed their need for affordable bricks and mortar by engaging the range of new approaches highlighted in this paper. By taking these ideas, adapting them to local context, and generating new ones, districts everywhere can lay the foundation for the facilities they need to meet the educational demands of the 21st Century.

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About Education|Evolving

Millions of America's students head off to school each morning sporting brightly colored backpacks and determined to make this their "best school year yet." At the same time, federal and state policymakers are making tough new demands that our schools change and improve – so that "All students learn at high levels." New standards, tests, timelines and consequences are all being put in place to make sure that "No child is left behind."

Yet, all across the country, many policymakers, journalists, teachers, parents and students themselves are troubled by a haunting feeling that all this effort may not really produce the degree of change and improvement that we need. At a minimum, we are now taking a series of risks that are neither wise nor necessary to be making with other people's children. These are, after all, demands and results well-beyond what we've ever expected of American public education – all at a time of severe budgetary pressures on states, districts and individual public schools.

That, at least is the serious concern of a small group of Minnesota-based public policy veterans who have come together as Education|Evolving… a joint venture of the Center for Policy Studies and Hamline University. The individuals behind this initiative believe…

… it's an unwise and unnecessary risk for the state and nation to be trying to get the results we need solely by changing the schools we now have…

… the issues about teachers and teaching should not be debated only in the old employer/worker framework…

… the solution to maintaining financially viable public education in rural areas may not lie in the three old 'solutions' of excess levies, consolidation and state aid…

… today's schools should not go on largely failing to take advantage of new electronic technologies and other substantially different ways of teaching and learning…

… and the critical discussion about the future of K-12 education in Minnesota and nationally must not proceed solely as a discussion among adults, with students largely left on the outside looking in.

Education|Evolving is undertaking a number of initiatives over the coming year. They include a national initiative to convince policy makers, education reform leaders, journalists and others that *creating new schools* should be an essential element in achieving needed changes and improvements in teaching and learning – at least equal in importance to *changing the schools we now have*.

One focus of this initiative is to introduce the concept of an "*Open Sector*" – to help create the kind of legal and political environments in which new schools can be created and succeed. Another is designed to challenge the fundamental premise that teachers in schools must always be "employees." Another initiative is looking at the premises used in asking the critical question, "How are chartered schools doing?" Other ongoing Education|Evolving projects focus on strengthening and enhancing the role of the agencies and organizations that sponsor chartered schools – and on how policymakers, journalists and others can more routinely and substantively tap into the experiences and perspectives of students and of young people not now attending school.

Education|Evolving's leadership is provided by two Minnesota public policy veterans: **Ted Kolderie**, senior associate at the Center for Policy Studies, and **Joe Graba**, a senior policy fellow at Hamline University. Its coordinator is **Jon Schroeder**, former director of Charter Friends National Network.

Education|Evolving's activities are regularly updated on the initiative's new and unique web site – www.educationevolving.org. To receive print and electronic updates of Education|Evolving initiatives, contact info@educationevolving.org.

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