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School Debt: Testing Wake's Future

Alternative finance stretches dollars

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RALEIGH - Explosive growth in coastal Lee County, Fla., is expected to double the number of students in public schools there in the next 10 years. As many as 40 new schools will be needed, but not one is expected to require a tax increase.

Lee County, like many growing Florida counties, pays for all of its school construction through property tax revenue, an occasional bond referendum and impact fees - a charge developers pay on a per-unit basis for new construction.

In Lee County, impact fees generate as much as $160 million a year.

"The impact fee is on the new construction - on the front side," says James Browder, superintendent of the Lee County Public Schools. "It's a way of making growth pay for growth."

The pace of growth in Wake County is equally dramatic, with an anticipated 72,000 more students expected to enroll over the next 10 years. But school and county officials here are talking about a 10-year building program that could cost taxpayers as much as $5.6 billion and result in a doubling of the property tax rate by 2016.

With the county's sights set on what size bond package to bring to voters in November - most likely in the $1 billion to $1.5 billion range - there's been little public discussion about financing options other than debt.

Most county officials agree that not one single funding source can do the trick. But if the county had the authority to raise the sales tax, negotiate public-private partnerships or impose impact fees and/or land-transfer taxes it could help ease the burden on property owners.

Other ideas are decidedly out of the box.

State Rep. Russell Capps says he'd like to see the county explore the idea of selling naming rights on schools and allowing in-school advertising to create revenue.

The problem most options face is that they require legislative approval. And the only legislation in play right now is a bill, which has already passed the House, that would allow counties to raise the sales tax another half cent to help finance new schools. Lawmakers will revisit the bill when they reconvene this spring.

Another bill, which was introduced and promptly killed in committee last session, would have enabled school systems to enter into partnerships with private developers to build and lease schools.

The Virginia legislature passed just such a public-private partnership law in 2002, making it the first state in the country to explicitly authorize governments across the state to build education infrastructure through ventures with private concerns.

Other states, Texas among them, have since passed similar legislation, while others have taken advantage of public-private arrangements that were already allowed under their existing statutes.

Working much like an automobile lease, tax-exempt leases allow public agencies to avoid loading their balance sheets with debt while still getting the benefit of new schools. Generally, schools have the option of buying the structures at the end of their lease terms.

"You've got to educate people that the lowest interest cost may be through the issuance of a general obligation bond, but is that the best use of that borrowing power?" asks Greg Eden, an Austin, Texas, investment banker and attorney and a nationally recognized expert in public infrastructure financing. He helped author the Virginia legislation.

Eden says only a handful of schools have been built in Virginia under the 2002 legislation, but he says it will catch on. "Anytime you introduce something new, it takes awhile for people to feel comfortable with it," he says.

Another form of public-private partnership is one in which locales barter with private developers to donate land for schools as part of big residential projects. "They have a self-interest," argues John Dornan, executive director of the Public School Forum of North Carolina. "If there's a school in their backyard, they can sell more houses."

Paving the way in Wake

Wake County school officials say they're working on drafting public-private legislation for the 2007 session.

"I don't know if it would always be the answer, but it ought to be an option," says David Cooke, the Wake County manager. "We may find there's different ways to build schools. And we may find that even though our financing is the cheapest in the market, there may be other benefits the private sector could bring to the table."

Ray DeBruhl, the former construction manager for the state of North Carolina and a former professor of construction management at North Carolina State University, suggested in a March 2000 report to a Wake County citizens advisory committee that it consider setting up a public-private partnership and endowment to help finance schools.

Surely, DeBruhl reasoned, the Research Triangle's plethora of "talented and successful business organizations" could both contribute to and help manage a fund that could raise capital for new schools.

The idea went nowhere.

Since then, Greenville, S.C., has seen huge success in using the public-private model to build 70 new schools over five years. In 2000, the school board established an independent nonprofit to take on the debt, which the school system will finance through yearly payments over the next 25 to 30 years. The nonprofit, in turn, hired a private construction manager to manage the building program.

"Even with the interest we're paying, we're still saving hundreds of millions of dollars because we're not having to deal with future inflation of material and labor," says Chuck Saylors, chairman of the Greenville County School Board.

"Time is money," adds Eden. "To do a bond issue, you plan six months to a year, and then you're looking at a 10 percent escalation on the cost of construction."

Staying ahead of rising costs

Wake County will be facing the same issues of time and inflation as it tries to squeeze its own building program into the next 10 years. Not only do materials and the cost of hiring contractors rise, but as the county becomes more crowded, so does the price of land.

School board Chairwoman Patti Head says she would like to purchase land now and build over time. "The question is, where do you get the money?" she asks.

Mike Burriss, the school system's assistant superintendent for facilities, says he, too, wants to be able to buy land five years before a school is built; currently he's only allowed to buy two years out. One problem with buying ahead is that land that's producing property tax revenue goes on the tax-exempt list once it's shifted to county ownership.

Still, there's potentially huge cost savings in buying ahead, as long as the purchase makes sense demographically.

The school system, with help from researchers at North Carolina State University, is in the process of developing a growth model to pinpoint what parcels of land in Wake County are most likely to be developed through 2025. With that, school planners can decide where it makes the most sense to buy land for future schools.

Perhaps the most controversial proposals school officials say they'd like to consider are impact fees and land-transfer taxes. A land-transfer tax essentially would work like a sales tax on each home sale.

Supporters of both impact fees and land transfer taxes say they help pay for growth. Detractors say they unfairly target one segment of the population and fail to spread the tax burden. They also point out that land-transfer taxes don't raise as much money as other forms of taxation (sales tax, meals tax, hotel occupancy tax), and they get built into the price of a new home.

"They end up paying interest on that fee for 30 years," says Keyvan Izadi, a land-use planner at the National Association of Home Builders. Unlike in Florida, where counties faced opposition from home builders and residential real estate agents but ultimately won the right to impose the fees, North Carolina has a state income tax, making additional tax-like fees less palatable.

The debate is playing out in Durham County, which is embroiled in its own legal battle over imposing what its opponents say are illegal impact fees.

"When you start going after certain segments of the economy to pay, it starts to raise questions," says Tim Minton, executive officer for the Home Builders Association of Raleigh-Wake County.

Besides, he says, there are other ways to raise more money, such as through the sales tax. "I wish we'd put all our energy into getting that through," he says.

Jim Blackburn, general counsel for the North Carolina Association of County Commissioners, says he thinks the mood in the state toward impact fees is changing, more so now with the explosive growth and emotionally charged pressures on school systems.

"I think we're going to get there," he says. "I think the recognition is growing that if you put this all on the backs of the people currently paying the property tax, not only is it an unbelievable burden, but it's a misplaced burden."

Regardless of how the capital for schools is raised, there's one truth that's inescapable, says Mike Walden, an economist at NCSU who is serving on a county committee investigating how it will pay for future infrastructure needs, including schools.

"Ultimately, the taxpayer pays," he says. "I mean, who else is there to pay? There's no free lunch out there."