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# Capital Finance Report



Washington Research Council

January 24, 2001

## Tacoma School District \$450 Million Bond Issue

### Synopsis

February 6, 2001, voters in the Tacoma Public School (TPS) district will be asked to approve a \$450 million construction and remodeling plan. The district intends to issue bonds for new construction (\$283 million), renovation and remodeling (\$160 million) and small capital projects (\$60 million). State matching funds of about \$50 million are expected to supplement the \$450 million bond issue.

More than half of the funds will be spent on high school construction and renovation. All five of the district's high schools will be affected, including a new Mt. Tahoma High School and extensive modernization of Stadium and Lincoln high schools.

The facilities plan also calls for construction of a new middle school, major renovation of two others, and an addition to be built on a fourth.

Two new elementary schools will be built, three others are scheduled for major improvements, and a sixth will receive an addition.

With \$60 million targeted for "small capital projects" (e.g., replacing chalk boards with white boards, playfield improvements, ventilation upgrades), every school in the district will be affected by the bond issue.

### Background

In 1983, the TPS prepared a long-range District Facilities Master Plan, often called the "30-Year Plan." The district continues to use the plan, albeit with periodic changes, according to Superintendent James Shoemake. The proposal on next month's ballot will be the most extensive, and expensive, phase of the plan.

The plan developed in 1983 led to approval of a 1984 bond issue, according to a memorandum from Sam Bell, executive director of general support services for the TPS. Since then, Bell reports, district voters have approved a series of six-year capital levies, in 1988, 1992 and 1997. The combination of bonds and capital levies paid for \$299 million of capital improvements, including recent work on Jason Lee and Mason middle schools and Rogers and Jefferson elementary schools.

In preparation for the upcoming bond election, the planning process included sixteen Facilities Advisory Committee meetings between January 1999 and May 2000. The planning incorporated a needs assessment. The facilities were assessed according to a matrix incorporating both physical condition (e.g., roof, exterior, interior, HVAC) and educational factors (e.g., programs, demography, safety). A weighted score was used to rank projects for consideration in the bond issue.

Bell points out that the needs assessment matrix did not make the final determination. It was, rather, “one of several planning tools.” Other considerations also influenced the final selection of projects to be included in the February 6 proposal, including the high cost of the high school projects (which made them particularly suited to debt financing) and demographic shifts within the district.

On December 14, 2000, the Tacoma School Board approved Resolution No. 1608, which repealed Resolution No. 1596, approved by the board July 27. The earlier resolution called for a \$425 million bond issue. The lower amount had been agreed to because the City of Tacoma was considering its own bond issue for the February ballot. When the city withdrew its plan, the School Board chose to seek the \$450 million originally proposed.

According to Superintendent Shoemake, the additional \$25 million provides contingency funding should the state fail to provide the \$50 million currently anticipated. As well, he believes the district may be in a position to realize \$50 million in investment earnings.

Earlier capital improvements had concentrated on the elementary and middle schools. The February 6 proposal emphasizes improvements in the high schools, the most expensive facilities for renovation and expansion. Kurt Miller, co-chair of the Citizens Committee for School Support, explains that “overall, the high schools haven’t been touched for years.”

As shown in Figure 1, more than half the money will be spent on high school renovation and construction.

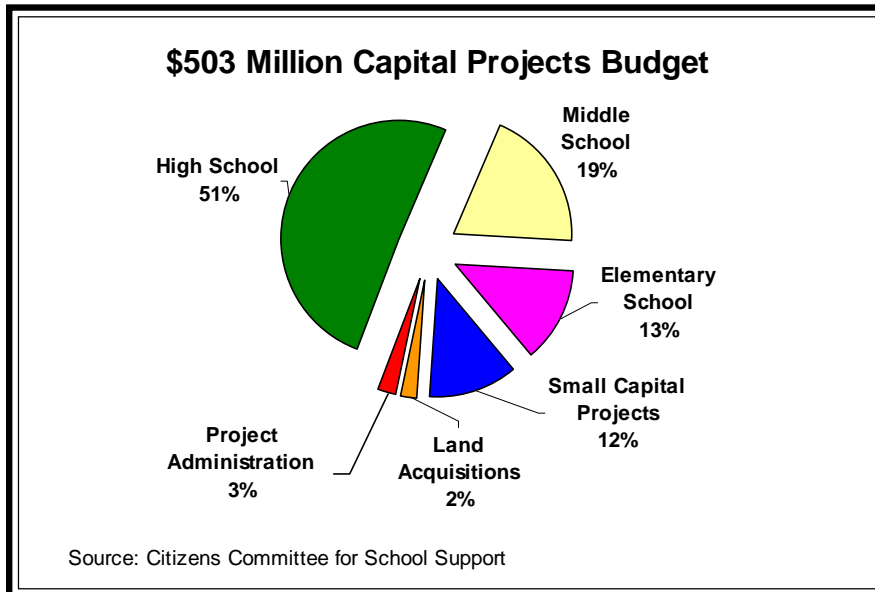


FIGURE 1

## Overview of Capital Projects

**High School.** Within ten years, passage of the bond issue will result in major improvements affecting each of the district’s five high schools.

First, a new Mt. Tahoma High School will be constructed on district-owned property. With construction scheduled to begin in 2001, the new building is expected to open in time for the 2003-2004 school year. The new high school is expected to cost about \$78 million.

Next, beginning in 2004, Stadium High School, a one hundred year old facility originally built as a hotel, will undergo extensive renovation, requiring students to be educated at the current Mt. Tahoma site. The plan calls for two years of remodeling and expansion. At \$85 million, the building renovation will cost more than the new Mt. Tahoma High School. The

building is considered historically significant, and preserving the exterior character of the building while radically altering the interior is a district and community priority.

When improvements at Stadium are completed and students return to the renovated building in 2006, Lincoln High School students and staff will be the next to use the Mt. Tahoma site. The Lincoln modernization and expansion is also expected to take an additional two years, with students returning to Lincoln in 2008.

Foss High School will also experience substantial remodeling and expansion. Currently twenty-three portable classrooms are on site, according to Dr. Shoemaker. All will be retired with the addition of a new classroom wing.

A new classroom wing will also replace an old wing at Wilson High School.

**Middle School.** The previous capital levy included improvements for several middle schools, including Jason Lee and Mason. The February 6 proposal continues middle school construction and renovation.

In 2002 a new middle school, the district's eleventh, will be constructed on the site of the current Seward Elementary School. The middle school will relieve crowding at Baker, Gray and Stewart middle schools. Students in the Seward attendance area will be sent to Mann and Whitman elementary schools.

As well, a new Gray Middle School will be constructed at the current Mt. Tahoma site, using some existing structures. This work is expected to begin in 2008, after renovations to Lincoln High School are complete.

Gault and Meeker middle schools are also scheduled for major modernization and expansion. Meeker will receive a building addition that has been planned since the school's original construction.

**Elementary School.** Two new elementary schools will be constructed. One will go up at 92<sup>nd</sup> and Alaska. The other, at Cirque and Alameda, will serve the growing population in the area, and relieve overcrowding at Manitou Park and Edison elementary schools, according to the

<b>Cost of High School Projects</b>	
(\$ in millions)	
Lincoln High School	\$50.9
Mt. Tahoma High School	\$77.7
Stadium High School	\$85.1
Wilson High School	\$23.5
Foss High School	\$20.3
<u>TOTAL High School</u>	<u>\$257.5</u>
Source: Tacoma Public Schools	

FIGURE 2

<b>Cost of Middle School Improvements</b>	
(\$ in millions)	
Gault Middle School	\$31.3
Gray Middle School	\$29.7
New Middle School (Seward site)	\$30.0
Meeker Middle School	\$5.9
<u>TOTAL Middle School</u>	<u>\$97.0</u>
Source: Tacoma Public Schools	

FIGURE 3

<b>Cost of Elementary Schools</b> (\$ in Millions)	
Fern Hill Elementary School	\$13.3
Mann Elementary School	\$4.5
Whitman Elementary School	\$6.9
New Elementary School (92nd & Alaska)	\$14.4
New Elementary School (Cirque & Alameda)	\$18.4
Geiger Elementary School	\$6.9
<b>TOTAL Elementary</b>	<b>\$64.5</b>

Source: Tacoma Public Schools

FIGURE 4

December 2000 *Spotlight on Building & Construction*, published by the school district.

A replacement wing will be built at Fern Hill, along with facility modernization. The school has been experiencing enrollment growth, adding 40 students this year alone, and is well over desired capacity.

Mann and Whitman are scheduled for remodeling and additions intended to accommodate students who would have attended

Seward, which will be razed for the construction of the new middle school.

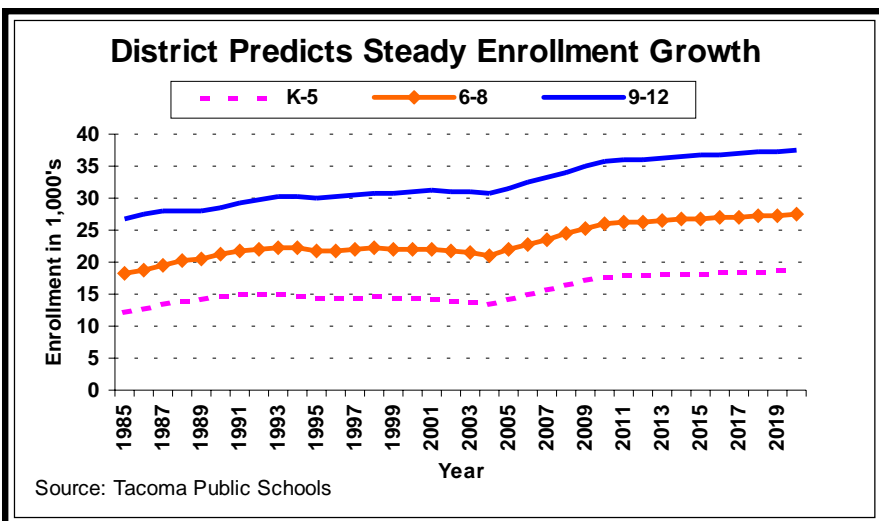
Geiger elementary will also be remodeled and see the addition of a new wing.

**Small Capital Projects.** The district has set aside \$60 million from the bond issue for a host of capital improvements. The district has published a representative list of such improvements. Included for most schools are electrical upgrades, increased computer access, playground and safety upgrades, and seismic, code and handicap access upgrades. As well, there are a number of specific projects scheduled for individual elementary and middle schools and the Oakland alternative high school.

## District Enrollment

Although most of the capital plan will be directed toward renovation and modernization, it's worth noting that the Tacoma schools continue to experience slight enrollment growth. Figure 5 is drawn from data provided by the TPS research department. Full-time equivalent enrollment figures for the years 1985 – 2000 are actual data. The district also provided projections for the years 2001 – 2004, 2010, and 2020. To maintain visual perspective in the graph, the FTE data for years not projected by the district have been interpolated.

FIGURE 5



The district estimates growth over the next decade at a faster rate than has been experienced in the recent years. While that may appear optimistic, a number of analysts have commented on Tacoma's economic revitalization, complemented by relatively low housing prices. Furthermore, justification for the bond issue does not hinge on

significant enrollment growth district-wide. For example, the two new elementary schools can be justified on enrollment growth in specific neighborhoods, even in the face of declining K-5 enrollment throughout the district over the past three years.

As Sam Bell observes, three demographic factors influence capital projects: 1) overall enrollment growth, 2) population shifts within the district, and 3) efforts to reduce class size. Class size reduction creates pressure for additional classrooms, even in buildings in which enrollment remains stable.

## Tax Levy Information

State law provides school districts with recourse to four special property-tax levies: excess general fund (maintenance and operations), transportation vehicle, capital project and debt service. For major facilities improvements, districts rely primarily on the capital project and debt service levies.

According to Superintendent Shoemake, the district had in the past relied more heavily on capital levies to fund the long-range facilities plan. Capital levies are limited to a maximum of six years. Bond issues are longer term. The typical life of a bond is 30 years; the TPS bond issue will be for twenty years.

Figure 6 shows the district's recent levy history. Two items should be noted. First, bonded indebtedness has decreased steadily. Second, for the past three years the district has been compelled to collect a court-ordered levy to refund taxes improperly collected in past years. In 2000, the required levy added

Year	Taxable Assessed Property Values	School M & O Levy	School Bond	School Capital Proj.	Court Order Refund	Total School
1989	5,310,333,998	5.1279	1.7791	0.0188	-	6.9258
1990	5,675,791,850	4.7746	0.7047	1.5293	-	7.0086
1991	6,033,484,852	4.9677	0.6630	1.4386	-	7.0693
1992	6,753,463,421	4.7231	1.0365	1.3978	-	7.1574
1993	7,286,369,604	4.8906	0.8578	1.2997	-	7.0481
1994	7,634,652,468	5.0454	0.3929	1.8650	-	7.3033
1995	8,103,863,838	5.2680	0.9255	1.4067	-	7.6002
1996	8,384,190,182	5.2654	0.3578	1.8224	-	7.4456
1997	8,821,967,776	5.1217	0.2970	1.9213	-	7.3400
1998	9,274,433,748	4.6041	0.2599	2.7962	0.1201	7.7803
1999	9,632,065,972	4.8583	0.1785	2.7481	0.0015	7.7864
2000	10,286,717,152	4.8110	0.1215	2.8075	0.1710	7.9110

Source: Tacoma Public Schools

FIGURE 6

FIGURE 7

Levy Year	Projected Tax Rates					
	Prior Debt	New Bonds	Total Bonds	Capital Projects	M&O Levy	Combined Tax Rates
2000	0.12	0.00	0.12	2.81	4.98	7.91
2001	0.13	0.00	0.13	2.83	4.53	7.49
2002	0.09	0.48	0.57	2.37	4.55	7.49
2003	0.00	1.30	1.30	1.66	4.53	7.49
2004	0.00	2.93	2.93	0.00	4.56	7.49
2005	0.00	2.90	2.90	0.00	4.59	7.49
2006	0.00	2.90	2.90	0.00	4.59	7.49
2007	0.00	2.31	2.31	0.00	4.59	6.90
2008	0.00	2.31	2.31	0.00	4.59	6.90
2009	0.00	2.31	2.31	0.00	4.59	6.90
2010	0.00	2.31	2.31	0.00	4.59	6.90
2011	0.00	2.31	2.31	0.00	4.59	6.90
2012	0.00	2.31	2.31	0.00	4.59	6.90
2013	0.00	2.31	2.31	0.00	4.59	6.90
2014	0.00	1.71	1.71	0.00	4.59	6.30
2015	0.00	1.71	1.71	0.00	4.59	6.30
2016	0.00	1.71	1.71	0.00	4.59	6.30
2017	0.00	1.71	1.71	0.00	4.59	6.30
2018	0.00	1.71	1.71	0.00	4.59	6.30
2019	0.00	1.71	1.71	0.00	4.59	6.30
2020	0.00	1.71	1.71	0.00	4.59	6.30
2021	0.00	1.71	1.71	0.00	4.59	6.30
2022	0.00	1.71	1.71	0.00	4.59	6.30
2023	0.00	1.71	1.71	0.00	4.59	6.30
2024	0.00	1.71	1.71	0.00	4.59	6.30
2025	0.00	1.71	1.71	0.00	4.59	6.30
2026	0.00	0.00	0.00	0.00	4.59	4.59
2027	0.00	0.00	0.00	0.00	4.59	4.59
2028	0.00	0.00	0.00	0.00	4.59	4.59

Source: Seattle-Northwest Securities, December 14, 2000

eighteen cents to the tax rate. The additional levy will not be required in the future.

A combination of factors, therefore, contributes to what Superintendent Shoemake calls a “unique opportunity” for the district. The district will be debt-free in 2002. The court-ordered refund has been satisfied. And, most important, the capital levy expires in 2003, dropping the levy rate by more than \$2.00.

Seattle-Northwest Securities (SNS) prepared a tax rate analysis in December, showing the effect of the proposed bond authorization on the district’s levy rate. As demonstrated by at SNS, the addition of a debt

service levy of about \$2.90 will not boost the combined levy rate above the 2001 rate of \$7.49. To accomplish this, according to SNS, the district will manage the timing of the bond sales and, in the very early years, dip into reserves and an interfund loan. (Note: In Figures 7 & 8, the \$4.98 rate cited for the 2000 M&O levy includes the court-ordered refund.)

Ron Hack, executive director of business support services for TPS, says the SNS analysis corresponds with the district’s internal calculations.

Seattle-Northwest Securities assumed that assessed valuation in the district would increase at an annual rate of 3 percent from 2004 to 2028, a conservative assumption. The preliminary 2001 AV increase is estimated to be 8.25 percent; for 2002-2003, Seattle-Northwest Securities has included an estimate of 4.00 percent. More rapid growth in assessed value for the district would allow TPS to restructure debt retirement and reduce the levy rate more rapidly, according to Hack.

As presented in Figure 7, absent passage of additional local levies, the tax rate begins to drop in 2007. The analysis assumes the district continues to collect the M&O levy at about the current rate, a reasonable assumption. Such levies support ongoing school operations and are routinely col-

FIGURE 8

### Rate Impact with Additional Bond Issues

(3-Sale \$450 Million Authorization with additional sales in 2006 and 2013)

Projected Tax Rates						
Levy Year	Prior Debt	New Bonds	Total Bonds	Capital Projects	M&O Levy	Combined Tax Rates
2000	0.12	0.00	0.12	2.81	4.98	7.91
2001	0.13	0.00	0.13	2.83	4.53	7.49
2002	0.09	0.48	0.57	2.37	4.55	7.49
2003	0.00	1.30	1.30	1.66	4.53	7.49
2004	0.00	2.93	2.93	0.00	4.56	7.49
2005	0.00	2.90	2.90	0.00	4.59	7.49
2006	0.00	2.90	2.90	0.00	4.59	7.49
2007	0.00	2.90	2.90	0.00	4.59	7.49
2008	0.00	2.90	2.90	0.00	4.59	7.49
2009	0.00	2.90	2.90	0.00	4.59	7.49
2010	0.00	2.90	2.90	0.00	4.59	7.49
2011	0.00	2.90	2.90	0.00	4.59	7.49
2012	0.00	2.90	2.90	0.00	4.59	7.49
2013	0.00	2.90	2.90	0.00	4.59	7.49
2014	0.00	2.90	2.90	0.00	4.59	7.49
2015	0.00	2.90	2.90	0.00	4.59	7.49
2016	0.00	2.90	2.90	0.00	4.59	7.49
2017	0.00	2.90	2.90	0.00	4.59	7.49
2018	0.00	2.90	2.90	0.00	4.59	7.49
2019	0.00	2.90	2.90	0.00	4.59	7.49
2020	0.00	2.90	2.90	0.00	4.59	7.49
2021	0.00	2.90	2.90	0.00	4.59	7.49
2022	0.00	2.90	2.90	0.00	4.59	7.49
2023	0.00	2.90	2.90	0.00	4.59	7.49
2024	0.00	2.90	2.90	0.00	4.59	7.49
2025	0.00	2.90	2.90	0.00	4.59	7.49
2026	0.00	2.90	2.90	0.00	4.59	7.49
2027	0.00	2.90	2.90	0.00	4.59	7.49
2028	0.00	2.90	2.90	0.00	4.59	7.49
2029	0.00	0.73	0.73	0.00	4.59	5.32
2030	0.00	0.00	0.00	0.00	4.59	4.59
2031	0.00	0.00	0.00	0.00	4.59	4.59
2032	0.00	0.00	0.00	0.00	4.59	4.59
2033	0.00	0.00	0.00	0.00	4.59	4.59
2034	0.00	0.00	0.00	0.00	4.59	4.59

Source: Seattle-Northwest Securities, December 14, 2000

lected by most districts in the state. Tacoma was one of the first to pass the four-year M&O levy recently authorized by the state legislature.

The district expects to issue the \$450 million in bonds in three sales of \$150 million. The first sale would be in December, 2001; the next, December, 2003; and the third, December, 2005.

It would be possible for the district to take on additional debt without increasing the levy rate by issuing bonds in December, 2006 and December, 2013. Seattle-Northwest Securities demonstrates this in Figure 8, which incorporates a \$134 million bond sale in 2006 and another sale of \$180 million in 2013.

While the district has not declared an intent to seek voter approval of additional bond sales, it remains likely that a future school board will want to consider so doing.

## Comparison with Surrounding Districts

The combined levy rate for TPS ranks highest in the three-county region. Figure 9 shows the combined school levies for the school districts in Pierce, King, and Thurston counties, and where they rank on a statewide basis. Tacoma's levy of \$7.91 ranks third statewide and is the highest in the region. Of course, the court-ordered refund adds eighteen cents to the levy rate. Nonetheless, even if the rate were reduced to \$7.73, the district would still rank among the highest in the state and continue to top the region.

Levy rates are a function of the district's capital plans, voter support of district projects, and, importantly, the district's assessed valuation.

Data published by the Office of the Superintendent of Public Instruction show that Tacoma's levy valuation per student is quite low, just \$335,686 compared to a

FIGURE 9

		Statewide Rank	Total	General Fund	Debt Service	Transp.	Capital Project
King	Seattle	197	2.9645	1.5567			1.4078
King	Federal Way	122	4.4213	3.0051	1.4161		
King	Enumclaw	57	5.3023	3.2544	2.0479		
King	Mercer Island	218	2.6776	1.5471	1.1304		
King	Highline	168	3.6335	2.9722	0.6613		
King	Vashon Island	207	2.7877	1.5391	1.2486		
King	Renton	166	3.6540	1.8529	1.8011		
King	Skykomish						
King	Bellevue	213	2.7159	1.2594	0.1835	0.0723	1.2007
King	Tukwila	28	5.9172	2.8928	3.0244		
King	Riverview	132	4.1861	2.4508	1.7353		
King	Auburn	36	5.8080	3.0571	2.3786		0.3723
King	Tahoma	92	4.8013	2.7569	2.0444		
King	Snoqualmie Valley	148	3.9564	2.0472	1.9092		
King	Issaquah	111	4.5439	1.8757	2.3216		0.3466
King	Shoreline	30	5.8782	3.0066	2.8716		
King	Lake Washington	140	4.0176	1.6856	1.6405		0.6914
King	Kent	48	5.4672	3.1487	2.3185		
King	Northshore	49	5.4642	2.5818	2.6768		0.2057
Pierce	Steilacoom Hist.	125	4.3332	2.5516	1.7816		
Pierce	Puyallup	14	6.4341	3.5508	2.8833		
<b>Pierce</b>	<b>Tacoma</b>	<b>3</b>	<b>7.9110</b>	<b>4.9820</b>	<b>0.1215</b>		
Pierce	Carbonado	79	4.9388	3.9722	0.8657		
Pierce	University Place	4	7.4003	4.2427	2.5789		
Pierce	Sumner	6	7.0693	3.7084	3.3609		
Pierce	Dieringer	10	6.7990	3.3462	3.1091	0.3437	
Pierce	Orting	38	5.7474	3.8836	1.8638		
Pierce	Clover Park	155	3.8684	3.2460	0.6224		
Pierce	Peninsula	127	4.2752	2.5302	1.7450		
Pierce	Franklin Pierce	20	6.0917	4.0586	2.0331		
Pierce	Bethel	84	4.9191	3.4427	1.4764		
Pierce	Eatonville	163	3.6748	3.3830	0.2918		
Pierce	White River	64	5.1300	3.5716	1.5584		
Pierce	Fife	93	4.7962	2.3716	2.4246		
Thurston	Yelm	116	4.4827	3.2128	1.2699		
Thurston	North Thurston	32	5.8603	3.6217	2.2386		
Thurston	Tumwater	23	6.0204	3.5934	2.4269		
Thurston	Olympia	31	5.8750	2.9313	2.9437		
Thurston	Rainier	33	5.8414	4.0923	1.7490		
Thurston	Griffin	206	2.7962	2.1809	0.6153		
Thurston	Rochester	142	4.0071	3.5086	0.4986		
Thurston	Tenino	154	3.8714	3.0643	0.8071		

Source: OSPI Report 2010

statewide average of \$424,677. In contrast, Seattle, Bellevue, and Mercer Island all have per-student levy valuations exceeding \$1 million. Districts with low assessed valuation must levy higher rates if they are to realize the same revenues higher valuation districts can obtain with lower rates.

For example, the per-student levy valuation in Seattle is \$1,256,662. To equal Seattle's return on a \$1.00 levy rate, TPS would require a levy rate of \$3.74.

## Impact on Residential Property

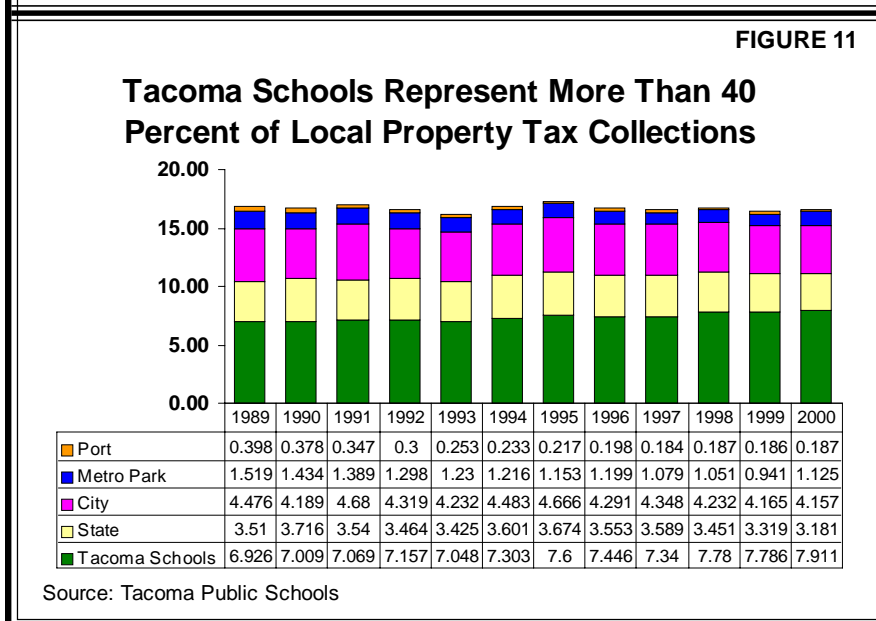
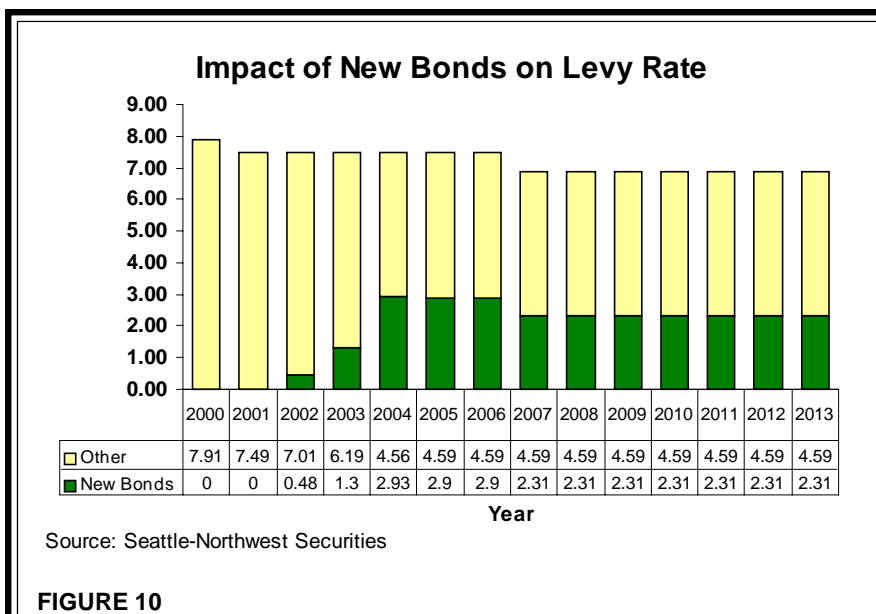
As has been shown above, even with passage of the February 6 bond issue the school district's total levy will drop in the next few years. So the immediate effect of the bond issue will be simply to postpone the anticipated property tax reduction.

Homeowners in the district will not see their tax rate increase if they approve the bond issue. With rising property valuations, a constant tax rate represents an increasing tax obligation.

Figure 10 shows the effect of the bond issue on the district's property tax levy, using the data presented by Seattle-Northwest Securities and shown previously in Figure 7. Here the bond issue is separated from the balance of the district tax rate.

In 2002, the impact of the levy on a \$100,000 home is just \$48. By 2004, the tax rate for the bond issue of \$2.93 adds \$293 to the homeowner's tax bill. Because the capital levy and other bonded indebtedness will have been exhausted, however, the combined 2004 school levy of \$7.49 per \$1,000 of assessed valuation costs the owner of a \$100,000 home \$749, the same tax obligation incurred in 2002.

According to the Washington Center for Real Estate Research, the median priced home in Pierce County in the 3<sup>rd</sup> quarter of 2000





was \$154,900. For that homeowner, a \$2.93 levy rate would result in a tax payment of \$453.86.

Of course, the school district is just one of several jurisdictions levying property taxes on Tacoma property owners. With respect to property taxes, the district has been the major taxing jurisdiction in recent years. Other local governments, however, may collect revenues from a variety of revenue streams, including sales and business taxes, licenses and fees.

Figure 11 shows the property tax levy rates of the major jurisdictions collecting taxes from property owners in the Tacoma School District.

## Conclusion

The \$450 million bond issue to be voted on February 6, 2001 will be the largest in the history of the Tacoma Public Schools. As the capstone of the long-range facilities plan developed by the district, it has as its major component the renovation, modernization and construction of district high schools.

Previously the district relied heavily on the six-year capital levy. In order to generate quickly the substantial revenue required to accomplish the high school construction and renovation, the board and administration determined to issue bonds rather than rely on the “pay-as-you-go” levy. The timing seemed propitious, with retirement of the previous bond issue and expiration of the current capital levy providing substantial rate capacity.

There is no credible, organized opposition to the capital campaign. Few will question the need for the planned capital improvements. Further, the budget appears to be appropriate and the revenues adequate, including a reasonable contingency allowance.

While the school district’s tax rate is high relative to others in the state, much of the explanation can be found in the relatively low assessed valuation. As well, the age of many of the district’s school buildings has made substantial capital spending a routine part of the district budget.

