

ANALYSIS OF COST OR COST SAVING:
 SELLING THE JOHN STANFORD CENTER FOR EDUCATIONAL EXCELLENCE
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The suggestion has been made that selling the John Stanford Center for Educational Excellence (the Stanford Center) and moving the functions housed there into buildings the School District already owns would save the District the nearly \$2 million annual cost (\$4.86/square foot) of the debt service on the bonds that financed the Stanford Center. Our analysis indicates that Selling the Stanford Center would not save money, but rather would cost the District up to \$73 million to renovate school buildings for administrative and light manufacturing purposes, which are uses that may not be permitted as the principal use in neighborhoods where our schools are located.

Background

John Stanford Center was purchased for approximately \$12 million dollars in 1998. It allowed the district to consolidate 735 employees located at 21 different sites into one site. This provided efficiencies for managing the administrative operations of the District, and saved mileage and labor costs previously incurred when staff traveled regularly from outlying locations to the old Queen Anne administration building. Building purchase, renovation and moving costs totaled \$53.6 million, distributed approximately as shown in table 1 below.

Table 1. Major Expense Categories for Purchase of JSCEE and Move-In (1998-2002)

Major Expense Categories	Cost
Purchase price	\$12,000,000
Moving Costs	\$900,000
Improvements to buildings	\$28,000,000
Construction contingency	\$4,300,000
Program management	\$4,200,000
Sales tax	\$2,800,000
Miscellaneous other expenses (insurance, permits etc)	\$1,400,000
Total Cost to purchase and renovate JSCEE	\$53,600,000

To pay for the new facility, two series of bonds were issued. Subsequently proceeds from the sale of two buildings were used to pay off one series of the bonds, (the B series, \$21.5 million). The remaining Series A bonds totaled \$33.5. The remaining principal on the Series A bonds is \$32.6 million. The annual payment on these bonds is \$1.7 million in 2006, rising thereafter by about 4 percent each year.

Costs to Relocate Stanford Center Uses

If the School District were to sell the Stanford Center and move into existing school buildings, it would need a number of buildings to accommodate the 300,000 square feet

of functions in the Stanford Center.¹ The buildings would have to be renovated to accommodate office, warehouse, commercial kitchen, mechanical shops and meeting spaces now available at the Stanford Center. Because converting a school to these uses would be a change of use, the buildings would have to be brought up to current code standards for such things as seismic, fire and life safety and energy requirements. Single-purpose office, commercial kitchen, and light manufacturing uses may not be allowed in the Single Family zones where many schools are located. Consequently, many of the cost categories listed above for the original purchase would be incurred anew, at today's higher prices. Table 2 shows the estimated costs for relocating functions now located at the Stanford Center, assuming a move-in date of 2008.

Table 2. Estimated Cost of Relocating Stanford Center Uses

Major Expense Categories	Cost
Purchase price	N/A
Moving Costs ²	\$1,100,000
Improvements to buildings ³	\$55,000,000
Program management	\$4,900,000
Sales tax	\$5,600,000
Miscellaneous other expenses	\$7,300,000
Estimated cost of relocating Stanford Center uses	\$73,900,000

Possible Revenue From Sale or Lease of the Stanford Center Site. Would the sale of the Stanford Center recoup these costs and save the District money? We consulted Washington Holdings LLC, the brokerage firm that handled the original transactions for the Stanford Center. They suggested it is a poor time to be selling a building such as the Stanford Center, as there are four million square feet of office space on the market right now in the Seattle area.

The Stanford Center is a unique facility that would not appeal to just any buyer because of its multiple floors, large floor plates, and Industrial Zone location. The District had to obtain a land use decision from the City of Seattle to permit locating more than 50,000 square feet of office space in an Industrial Zone. The agreement in place with the City allows only 189,000 square feet of office use in the building. This restriction would bind a new buyer unless they were able to obtain a different ruling from the City of Seattle. The Washington Firm LLD suggested the facility might sell for between \$20 million and \$30 million; but that to attract a buyer the District may have to offer to lease it back for a period of three to five years. The lease cost might be very close to the annual debt service payments, (see next section for a discussion of lease rates). Any revenue could only be used for capital purposes, not operating expenses.

¹ The average size of schools: elementary, 50,000 sq. ft.; middle school, 126,000 sq. ft.; high school, 223,000 sq. ft. The median size is similar: 50,000, 123,000 and 221,000 respectively.

² This is based on inflating the JSCEE moving costs by 3-1/2% per year from 2003 through 2008.

³ The School District Capital Improvements staff indicate that current bids to renovate existing school buildings are running \$165 square foot. We inflated this figure at 3 1/2% from 2005 through 2008.

Lease. A major complication to leasing space in the Stanford Center is the legal agreement between the District and the City of Seattle, signed in 2003, to settle lawsuits at the time the District sought a “special exception” land use decision from the City to locate in the Stanford Center. The city’s Land Use Code allows only 50,000 square feet of office space in an Industrial Zone. The agreement allows the District to have 189,000 square feet of office, but attaches several conditions:

- No subleasing for any purpose
- No renting or subleasing of parking except for July and August
- No increase in office space use beyond 189,000 sq. ft.

These restrictions make it impracticable for the District to look to leasing the Stanford Center as a revenue source. However, we consulted with the Washington Firm, LLC regarding potential lease rates for the building, if there were no such restrictions. They suggested that there would be a narrow range of users interested in this volume of office space in an industrial area. For comparison, there is an old Boeing facility in Renton on the market with 265,000 sq. ft. of space, asking \$9 per sq. ft. per year (with the owner paying all taxes, utilities and upkeep), or \$7 if the lessee pays those costs. The highest possible rate for the Stanford Center office space would be \$18 sq. ft. if the District paid all costs. If part or all of the commercial and industrial uses in the building were leased, the rate would be about 65 cents per square foot per month⁴. The total potential revenue for these options is indicated in Table 3 below. In the most likely scenarios – all industrial or low-range office for part – the revenue would do little more than cover the debt service. The District would still incur the expense of relocating the current functions and renovating buildings to accommodate them.

Table 3. Estimated Lease Rates for Stanford Center Office and Industrial Space

Possible Lease Rates	Per Sq Ft	time period	Sq Ft	Costs	Total
Office Space area only, low end of range	\$ 8.00	1 yr	220000	0	\$1,760,000
Office Space area only, high end of range	\$18.00	1 yr	222000	\$672,000 ⁵	\$3,324,000
Industrial, just shops/kitchen	\$.65	12 mo	100000	0	\$780,000
Industrial, all	\$.65	12 mo	320000	0	\$2,496,000

Other considerations.

- A major rationale for purchasing the Stanford Center was to co-locate all the central administrative functions of the District in one central location with ready access to all the Districts scattered school sites. It is hard to quantify the increased efficiency of having employees readily available for meetings, while

⁴ According to the person from the Washington Firm, office rates are calculated annually, whereas industrial rates are typically calculated on a square foot per month basis.

⁵ This is the cost of custodial services and utilities for fiscal year 2003-2004.

still being only a short distance from their computers, documents and support services. However, many staff report that they work much more efficiently than previously, when they had to travel an hour round trip many work days to attend meetings at one of the various sites where central administrative employees were located.

- The commercial kitchen and warehouse at the Stanford Center require loading dock space and maneuvering space to accommodate semi trucks and trailers. This would not be welcome activity in the neighborhoods where most schools are located.
- The mechanical shops and auto shop must be located in commercial zones. It is also efficient to have them located at a central location in the City with ready access to the freeway, since they go out to schools daily to respond to service calls.
- Relocating the School Board’s auditorium meeting space would require appropriate zoning (as a principal use, rather than a use accessory to an existing school) and would make the least impact on a school neighborhood if there was ample parking for members of the public who attend School Board meetings.

Conclusion

As Table 4 below shows, even if the District could renegotiate its agreement with the City so that it could be allowed to sublease the Stanford Center, the amount it could expect to clear after costs would barely cover the lease payments. Furthermore, there is no guarantee the lease rates could rise the 4% per year that the debt service payments are rising. And if the District were able to find a buyer for the building, there are two problems: 1) the expected revenue from the sale would not cover the remaining principal on the bonds, and 2) the District would have to remodel school facilities to house the uses now located at the Stanford Center, and these uses may not be allowed as principal uses in neighborhood schools under the provisions of the City’s land use code. By comparison, the per-square-foot cost of the Stanford Center (\$4.86 for the debt service) is considerably below market rate for space that closely fits the District’s needs.

Table 4. Summary of cost or cost Savings by Leasing or Selling Stanford Center

Item	Revenue	Costs Incurred
Lease income, Industrial w/ < 50k sq. ft. office	\$2 - \$2.5 million	
Sale of Stanford Center	\$20 - \$30 million	
Custodial service and utilities		\$672,000
Payments on bonds (\$4.86 per square foot)		\$1,700,000
Remaining principal on bonds		\$32,000,000
Cost to locate in schools		\$73,900,000

These facts support a recommendation to retain the Stanford Center for its current use by the Seattle School District.