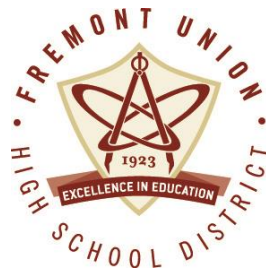


DEVELOPMENT IMPACT FEE JUSTIFICATION

REVIEW AND UPDATE

Prepared for:

FREMONT UNION HIGH SCHOOL DISTRICT



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INTRODUCTION

In accordance with the legislative guidelines, the State Allocation Board (SAB) has reviewed the maximum level of school facilities impact fees. The new maximum fee levels in dollars per square foot for calendar years 2018 and 2019 were adopted by the State Allocation Board at its meeting January 24, 2018. Per Sections 17620 and 17621 of the Education Code, these are the maximum fee levels that can be charged to developers.

Per existing fee sharing agreements with its feeder school districts, Fremont Union High School District (FUHSD) can levy up to 38% or 40% of the maximum fees, with 60% going to Cupertino Union School District (CUSD) or 62% going to Sunnyvale School District (SSD), depending on the boundaries within which the development will occur. (The terms of the fee agreements vary slightly.) The new maximum fee levels, as well as the CUSD and SSD share levels, are shown below:

	Total	Fremont Union High School District Share (with CUSD)	Fremont Union High School District Share (with SSD)
Residential Construction	\$3.79	\$1.52	\$1.44
Commercial and Industrial Construction	\$0.61	\$0.24	\$0.23

Schoolhouse Services prepared a comprehensive Fee Justification Report for the FUHSD in March 2016. Also known herein as “the previous report,” it documented the District’s justification for residential and commercial/industrial (i.e., non-residential buildings) development impact fees. Schoolhouse is to review the description of the impacts of new development in the existing report to determine in general the significant changes that have occurred, incorporate information about the recently constructed facilities in the District, and adjust the calculations for changes (including inflation). This report supplements the previous report and provides updated information for the Board as it considers raising the fees to the 2018 and 2019 maximum levels.

Housing development in the city has been increasing. New laws have been passed, and others are being considered, that require cities to approve projects that would not have been otherwise approved. California Senate Bill 35 (SB35) has requirements for Cupertino to achieve State-mandated new housing levels. The District’s most recent enrollment projections consider these changes, while also accounting for changing demographics that may affect the student generation rates in both new and existing housing.

Changes in available classrooms have also occurred since the previous report. Voters passed a bond issue and the resultant funds have enabled the District to construct new facilities, allowing the District to accommodate a larger number of students. Construction information indicates that that the costs for these facilities are about the same as those assumed in the previous report. Finally,

many existing modular and permanent buildings are aging and their availability for continued use in the coming years is discussed. This report focuses on these changes. Many of the findings from the previous report remain unchanged. Therefore, the results can be efficiently communicated as a supplement to that report and the Board can act based on the information in both reports.

REVIEW AND UPDATE

This section reviews the major elements in the chain of relationships underlying the justification of development impact fees and addresses significant changes since the preparation of the 2016 justification study.

New Housing Development

Housing projections in the previous report were based on a report by Enrollment Projections Consultants (EPC), the demographic consultants to the District. The current report uses updated projections from EPC. The previous report projected a total of 3,350 units expected to be constructed in the District from 2015 to 2020. Projections have increased significantly, with the most recent EPC report projecting 5,680 units over the next six years (2018-2024). This review assumes the 5,680 units projected by EPC.

As FUHSD has sharing agreements with both the CUSD and SSD elementary districts, EPC distinguishes units both by type and by elementary-school boundaries. The majority of projected units continue to be in multi-family (generally market-rate MF) units (i.e. apartments and condominiums). However, while the previous report showed most of the MF units to be within the SSD boundaries (2,280 MF units) and a much smaller number to be within the CUSD boundaries (820 MF units), the units are now more evenly distributed. EPC projects 3,095 MF units within the SSD boundaries (2,570 units in the Columbia Middle School (CMS) boundaries and 525 within the Sunnyvale Middle School (SMS) boundaries)¹ and 2,320 MF units projected within the CUSD boundaries, for a total of 5,415 market-rate MF units. In contrast, single-family² (SF) units projected in the CUSD boundaries have stayed constant at 80 units projected in both this and the previous report, while SF units projected in the SSD boundaries have declined from 50 units to 20 units. Therefore, the total projected SF units have declined from 130 SF units in the previous report to 100 SF units in the current report. Finally, the number of units in below-market-rate multi-family (BMR-MF) projects expected has increased from 120 units in the previous report to 165 units in the current report. All of these BMR-MF units are within the SSD boundaries. The impact of the increase in units on students projected to be generated from new development is discussed below.

Student Generation and Enrollment

¹ The CMS and SMS MF unit distinctions are included as they have different student generation rates. This will be discussed in the next section.

² EPC considers single-family (SF) units to include both single-family detached (SFD) units and large SF attached units that are equivalent to SFD units (i.e., those with attached garages and enclosed outdoor space).

Student generation rates (SGRs) are the number of students residing in a group of homes divided by the number of homes in the group. (For example, 100 homes with 20 students residing in them have a student generation rate of 0.2). The most recent surveys of new development, undertaken by EPC, project current SGRs for market-rate MF units to be about the same as those projected in the previous report at 0.08 students per home within the CUSD boundaries, 0.01 students per home within the CMS boundaries of SSD, and 0.03 students per home within the SMS boundaries of SSD. For SF units, EPC projects 0.03 students per home for those units within SSD boundaries and 0.14 students per home for those within CUSD boundaries. This is a decrease from the 0.10 and 0.21 students per home (respectively) projected for SF units in the previous report. The SGRs for BMR-MF units have also decreased. For units within SSD boundaries, the rates have changed from 0.28 students per unit in the previous report to 0.17 students per unit in the current report.³

The increase in the projected number of new MF units means that new development will be impacting the District significantly more than calculated in the previous report. The expected number of students from new homes has increased from 169 in the previous report to 268 students in the current report. The updated projected number of students from new homes is shown in Table 3-3 (revised) below. This revised table replaces the table in the previous report.

Table 3-3 (revised)
Enrollment from New Housing (2018-2024)

<i>Unit Type</i>	<i>Units</i>	<i>SGRs*</i>	<i>Students</i>
<i>Sunnyvale School District (SSD) boundaries</i>			
<i>Single-Family (SF)</i>	20	0.03	1
<i>Market-rate multi-family (market-rate MF) in CMS</i>	2,570	0.01	26
<i>Market-rate multi-family (market-rate MF) in SMS</i>	525	0.03	16
<i>Below-market multi-family</i>	165	0.17	28
<i>Cupertino Union School District (CUSD) boundaries</i>			
<i>Single-Family (SF)</i>	80	0.14	11
<i>Market-rate multi-family (market-rate MF)</i>	2,320	0.08	186
<i>FUHSD Total</i>	5,680		268

*SGRs differ slightly from those presented in the EPC due to varying calculation methods.

Sources: Enrollment Projection Consultants (EPC) and Schoolhouse Services.

Enrollment and Capacity of Fremont Union High School District Schools

³ EPC also calculates SGRs for CUSD below-market rate units and SSD below-market-rate SRO units. However, since there are no current units of these types projected, these SGRs have not been included here.

A discussion of the capacity of schools needs to start with a consideration of the pattern of capacity versus enrollment of the district as a whole. In the previous report, it was noted that FUHSD had been experiencing steady growth, with enrollment having increased by 18% over the previous 15 years. Enrollment was projected to grow another six percent over the following five years. However, the situation has changed. EPC expects enrollment in FUHSD to remain essentially constant for the next two years but then begin to decline, with decrease of approximately 900 students over the next six years. This is largely based on declining enrollments currently seen in FUHSD's feeder elementary districts.

Changing Demographics

Two main factors appear to be responsible for this decline. One is a long-understood and -anticipated maturation of households whose students are graduating and moving on. This process has been ongoing over the last decade, particularly in the southern half of the District, but the resulting loss of students was in the past more than compensated for by the growth in young families in the northern portion of the District.

Rising Housing Prices

The other factor causing a loss of students is relatively new and accounts for the majority of the decline. Rapidly rising rents are resulting in young families being priced out of the District. Rising home prices are also making it much more difficult for young families to move into the District, though they do not price out existing homeowners and thus have a smaller effect. Many of the households with the financial resources to move into the District are young tech employees, many not yet married and relatively few with school-age children. EPC sees this factor continuing to reduce enrollment over the next six years.

EPC has begun to forecast growth for shorter periods than ten years, reflecting the firm's uncertainties about the mid- and long-term picture. In the long-term, the young tech workers will be older; a decade from now, many will be married and have children in the household. Additionally, rising values could lead to more home sales by older households in the district, with the buyers being tech employee households, including workers who currently choose to live in San Francisco because of its more urban life style, but who will likely come to prefer a more suburban environment with good schools when they have school-age children.

Changing Capacity Considerations

In previous reports, the increased enrollment from both new and existing housing were the main considerations regarding District capacity. The 2016 comprehensive report includes an extensive discussion of enrollment capacity. For many years, FUHSD has been pushed to have available the capacity to accommodate continually increasing enrollment. However, as mentioned above, the District can look ahead and see that enrollment is projected to begin decreasing in a few years. In this report, we continue to review capacity based on issues presented in prior reports, including average class size (classroom loading), the number of classrooms available, and classroom usage.

However, we also discuss District capacity in relation to the growing impact of availability of aging classrooms for ongoing use.

Enrollment Capacity

As the District has been faced with increasing enrollment for many years, it is not surprising that District staff prepare detailed information about the capacity of the schools, based on factors such as current teacher/pupil ratios, whether teachers can stay in their rooms during their teacher preparation periods, and minimal availability of rooms for meetings that are not regularly scheduled. Though these are not the determination of the District's educational standards, they are the appropriate basis to begin consideration of the District's current enrollment capacity.

The District has added more than 100 classrooms over the last decade. The District's recent classroom count for the space available for the 2017-18 school year shows 457 classrooms in the five high schools (Cupertino, Fremont, Homestead, Lynbrook, and Monta Vista) that can be used for instruction.⁴ While this is the same total count found in the previous report, the distribution of SDC and non-SDC has shifted a bit to 411 general education (non-SDC) classrooms and 46 SDC classrooms in the current report.

As in the previous report, the District's target is to schedule non-SDC classrooms for an average of 5.33 periods out of the seven periods of the day, and the District estimates the needed capacity per student at 6.10 classes per day. This results in a practical capacity of 87% of the needs of the students in an average class. The maximum number of students for each type of class is set by the District's contract with teachers. This often means that the number of students in a given classroom will differ for different periods of the day. As in the previous report, the average loading of all non-SDC classes is defined at 30.1 students per class. The sizes of Special Day Classes are set by the state standards. The District averages 12 students per SDC class. Room usage for SDC classes is targeted for 4.33 periods per day (slightly lower than the 4.5 periods estimated in the previous report. SDC students are also assumed to take an average of about 6.10 classes per day, meaning each room provides about 71% of the needs of an average SDC class. More details about classroom usage can be found in the 2016 report.

Using these data, the capacity of the 411 non-SDC rooms is 10,810 students and the capacity of the 46 SDC rooms is 392 students, for a total capacity of 11,201 students. This capacity is just above the 2017-18 District enrollment of approximately 11,000 students. This is shown in Table 4-1 below.⁵

⁴ The count of classrooms does not include rooms used full-time for academic support (e.g. libraries, computer labs) or administration.

⁵ This is not a revised table as there are no tables in Chapter 4 in the 2016 report.

Table 4-1
Classroom Count and Enrollment Capacity*

	<i>General Education (non-SDC)</i>	<i>SDC</i>	<i>Total</i>
<i>Classrooms</i>	411	46	
<i>Loading Standards (avg class size)</i>	30.1	12	
<i>Theoretical Capacity</i>	12,371	552	12,923
<i>Avg Room use</i>	5.33	4.33	
<i>Avg Take</i>	6.1	6.1	
<i>Practical capacity adjustment</i>	87%	71%	
<i>Practical Capacity</i>	10,810	392	11,201

* Totals may appear slightly different than summed numbers from columns due to unrounded numbers in calculations
 Source: Fremont Union High School District Capacity Analysis (2018-19)

Replacement and Refurbishment of Existing Classrooms

As described in the information about enrollment above, the District can look ahead and see that enrollment from existing homes is projected to begin decreasing in a few years. The District probably will not, at least in the near- to medium-distant future, be faced with the need to accommodate more students. This has allowed the District to focus on the need to replace and refurbish old and/or obsolete facilities.

California Government Code Section 66008 and 66006(f) requires that “at the time the local agency imposes fees for public improvements on a specific development project, it shall identify the public improvements that the fee will be used to finance.” The District’s developer fee fund will be used to fund classrooms and educational support facilities needed to house students from new development. Consistent with California law, fee revenues will not be expended for regular maintenance or routine repair, for addressing asbestos problems, for deferred maintenance, or to correct existing deficiencies, except to replace or refurbish facilities, as necessary, to meet educational standards in the future.

The above analysis has made it clear that the primary task is replacing, refurbishing, and enlarging existing facilities that will otherwise become deteriorated or obsolete and unavailable to house students from new or existing homes. Government Code Section 66001 (g) was amended specifically to recognize the inclusion of costs “in order to (1) refurbish existing facilities to maintain the existing level of service” in the determination and expenditure of fees to mitigate development impacts. A possible need is the addition of a small amount of capacity, where possible, at campuses that are already full or to enlarge support facilities (e.g. cafeterias) to match the capacity of the classrooms so that additional students from new development will not cause or increase enrollment pressures.

Facilities Cost

Capital projects within the Fremont Union High School District (FUHSD) provide information about the cost of refurbishing or replacing educational space to maintain enrollment capacity in the future. This information is in the form of costs for projects to be undertaken in 2018 and 2019. A list of planned projects includes the construction of four classroom buildings, of which only one does not involve demolition of an older building. A number of other planned projects involve renovation or replacement of space in buildings such as gym/field houses and cafeterias, some of which have a minority of the space devoted to classrooms. The per-square-foot cost of the three classroom buildings requiring demolish are very similar and average \$726 per square foot.⁶ That amount is used here as a conservative basis for determining the capital cost impact of students from new development.

Cost Impact of New Development

The California School Facility Program (SFP) program, which provides school construction grants to qualifying districts, uses standards of 95 square feet per high school student. This size standard includes space for academic support activities, such as libraries, assembly space (often general purpose), administrative offices, and cafeteria kitchen space. The SFP space standards are considered minimal.⁷ Multiplying this standard by the \$726 per foot square construction cost above results in a conservative cost estimate of \$68,970 per high school student to add capacity to District schools.

The updated analysis of new homes and the number of students they generate resulted in the forecast of 268 students residing in new homes six years from now. The cost of additional capacity is multiplied by the number of students to project the total cost impact of new development, as shown in Table 5-2 (revised). The larger number of students projected from new homes and the real-world cost of construction in the District have combined to result in a higher cost of providing capacity for students from new homes over the next six years, rising from 11.76 million in the previous report to 18.48 million in the current report.

Table 5-2 (revised)
Cost Impact of New Development

<i>Square Feet per Student</i>	95
<i>Cost per square foot</i>	\$726
<i>Construction Cost per Student</i>	\$68,970
<i>Students from new development</i>	268
<i>Total Cost Impact</i>	\$18,484,000

Source: Schoolhouse Services and Fremont Union High School District

⁶ The fourth classroom project, a four-room building, has a much higher cost per square foot and is not included.

⁷ In its 2007 report *Complete Schools*, the California Department of Education evaluates this standard as seriously inadequate.

We can now estimate the total square footage of new residential space expected in the next six years. Based on a review of developer fee logs over the previous few years, the previous report estimated single-family units to have an average of 3,000 square feet per unit and multi-family (MF) units and below-market-rate MF (BMR-MF) units to have an average of 1,200 square feet per unit. There was a total of 4.254 million square feet of new residential space.

We use that same review, along with EPC’s review of housing samples in both the Fremont Union High School District boundaries and nearby Districts., to estimate square footage for the current report. While the number of projects with all types of MF units have been projected to increase, projects now consist of a larger portion of smaller units (e.g. studios or one-bedroom apartments). Some larger units still are found in the Sunnyvale Middle School area, but they constitute only about 12% of all projected MF units in the District. Therefore, the 5,415 MF units and 165 BMR-MF units are now estimated to average 1,100 square foot per unit. SF units are also projected to be slightly smaller with 2,900 square feet per unit. The 5,680 project units have approximately 6.428 million square feet. This calculation is shown in Table 6-1 (revised) below.

Table 6-1 (revised)
Square Feet of Residential Development

	<i>Single-Family</i>	<i>Multi-Family*</i>	<i>Total</i>
<i>Number of New Units</i>	100	5,580	5,680
<i>Average Square Footage</i>	2,900	1,100	
<i>Total Square Footage</i>	290,000	6,138,000	6,428,000

* Includes 5,415 market-rate units and 165 below-market-rate units
 Source: Schoolhouse Services

Both the square feet of new development expected to be available to share in mitigating the cost impact and the cost of housing students from new development has increased substantially. The total cost impact of new development was determined in Table 5-2 (revised) to be \$18.48 million, a cost allocated to 6.428 million square feet of residential construction. As shown in Table 6-2 (revised), the resulting cost impact is \$2.88 per square foot.

Table 6-2 (revised)
Cost Per Square Foot Cost of Residential Development

<i>Facilities Costs</i>	
<i>Total Facilities Cost</i>	\$18,484,000
<i>Total Square Footage</i>	6,428,000
<i>Facilities Cost per Square Foot</i>	\$2.88

Source: Schoolhouse Services

Additional Revenue Sources

The Districts seeks revenue in many places, and the voters have been very supportive of bond issues and parcel taxes; the District does not know of any new sources. To the extent these sources are available in the future, they will presumably be devoted to renovation and replacement of existing facilities.

Conclusion: Residential Fees

While the District may have lower enrollment in the near future, its capacity will continue to be impacted by the need to refurbish or renovate classrooms to support enrollment. Without refurbishment and replacement as needed, the District's schools will not have the capacity to house students from new homes; therefore, the cost of renovation and replacement of the space required to house these students, but only that space, is eligible to be mitigated. The cost impact is \$2.88 per square foot of residential development. This amount is above the legal limit on the Level 1 fees the District is allowed to levy. The current limit on Level 1 residential fees, set by the SAB on January 24, 2018 is \$3.79 per square foot, with FUHSD's share of this amount being \$1.44 or \$1.52 per square foot. This is an average of only 51% of the total cost impact. FUHSD is thus justified in levying that amount on residential development.

Fees on Commercial and Industrial Development

Unfunded Cost of School Facilities per Student

The District's existing justification study traces the impacts of commercial/industrial (C/I) development for varying categories. The factors that affect the impacts are the density of employment by type, the formation of workers' households, student generation from these households, the cost of facilities to house these students and how much of that cost is left unfunded after receipt of residential fees. We reviewed these factors in light of present-day information, similar to our review of the factors affecting school cost impacts from new homes. The costs on which the fees on C/I development are determined represent the costs remaining after the collection of residential fees. The costs, recalculated for the updated assumptions in this report, are \$32,608 per student, as shown in Table 7-2 (revised).

Table 7-2 (revised)
Unfunded Facility Cost per Student

<i>Total Residential Square Feet</i>	6,428,000
<i>Fee per Square Foot</i>	\$1.52
<i>Total Residential Fee Revenue</i>	\$9,745,000
<i>Total Facility Cost</i>	\$18,484,000
<i>Total Unfunded Cost</i>	\$8,739,000
<i>Number of Students</i>	268
<i>Unfunded Facility Cost per Student</i>	\$32,608

Source: Schoolhouse Services

Cost Per Square Foot with Residential Offset

The District’s 2018 maximum commercial/industrial fee is \$0.23 per square foot (we conservatively use the lower of the two rates here). The District’s cost of accommodating the students from C/I development is as large as the maximum fee the District is allowed to levy for all categories of development for which calculations are made. This justifies the District’s levying of \$0.23 per square foot for all categories, except the two categories with the least average employee density – parking structures and self-storage. Table 7-3 (revised) below shows the cost impact for all categories. The comprehensive 2016 report provides guidelines for calculating fees on commercial/industrial development that is not in one of the categories shown.

Table 7-3 (revised)
Cost per Square Foot with Residential Offset

Building Type	Employees per Sq. ft.	Employees in District	Homes per Employee	Students per Home	Cost per Student	Cost per Sq. ft.
<i>Parking Structures*</i>	0.00002	0.35	0.67	0.047	\$32,608	\$0.01
<i>Self-storage</i>	0.00006	0.35	0.67	0.047	\$32,608	\$0.02
<i>Lodging</i>	0.0011	0.35	0.67	0.047	\$32,608	\$0.40
<i>Schools</i>	0.0011	0.35	0.67	0.047	\$32,608	\$0.40
<i>Warehouses**</i>	0.0013	0.35	0.67	0.047	\$32,608	\$0.47
<i>Auto Repair</i>	0.0013	0.35	0.67	0.047	\$32,608	\$0.47
<i>Movie Theater</i>	0.0015	0.35	0.67	0.047	\$32,608	\$0.54
<i>Discount Clubs</i>	0.0017	0.35	0.67	0.047	\$32,608	\$0.61
<i>Regional Shopping Centers***</i>	0.0019	0.35	0.67	0.047	\$32,608	\$0.68
<i>Hospitals</i>	0.0021	0.35	0.67	0.047	\$32,608	\$0.75
<i>Community Shopping Centers***</i>	0.0023	0.35	0.67	0.047	\$32,608	\$0.83
<i>Neighborhood Retail***</i>	0.0026	0.35	0.67	0.047	\$32,608	\$0.93
<i>Banks</i>	0.0028	0.35	0.67	0.047	\$32,608	\$1.01
<i>Business Office (all types)</i>	0.0034	0.35	0.67	0.047	\$32,608	\$1.22
<i>Medical Offices</i>	0.0043	0.35	0.67	0.047	\$32,608	\$1.55

* With attendants

** Source: Institute of Traffic Engineering (ITE) Trip Generation, 5th ed.

*** Regional is greater than about 35,000 sq. ft., community 10,000 to about 35,000 sq. ft., and neighborhood less than 10,000 sq. ft.

Source: Schoolhouse Services

Summary of Findings

The District's response to changes since the Fremont Union High School District fee justification report prepared in 2016 involves accounting for the much larger projected amount of development; the increased number of students that will be generated; increased enrollment capacity; changes in the cost of school construction; the need to refurbish and renovate aging classroom buildings; and the change in maximum fee amounts. Incorporating these considerations into the analysis leads to the following conclusions:

- 1) Facilities cost inflation since the time of the earlier Schoolhouse report results in an updated facilities cost impact of \$2.88 per square foot of new residential construction. This far exceeds the District's share of the 2018 and 2019 maximum fee, \$1.44 or \$1.52 per square foot, for residential construction, thus justifying the imposition of the Education Code Section 17620 school impact fees at the \$1.44 or \$1.52 per square foot maximum legal level.

- 2) Facilities cost inflation similarly results in updated facilities cost impacts from \$0.01 to \$1.55 per square foot of new commercial/industrial construction, depending on the category of development. All except two of the categories exceed the District's share of the 2018 and 2019 maximum fee, \$0.23 or \$0.24 per square foot, thus justifying the imposition of the Education Code Section 17621 school impact fees at this maximum legal level. However, parking structures and self-storage-category buildings can only be assessed at the levels cited in the table.