DEVELOPMENT IMPACT FEE JUSTIFICATION

REVIEW AND UPDATE

Prepared for:

CUPERTINO UNION SCHOOL DISTRICT

Prepared by:

Schoolhouse Services
(650) 373-7373

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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, essentially for calendar years 2020 and 2021, 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.

The Cupertino Union School District (CUSD), by contract with the Fremont Union High School District, is entitled to collect up to 60% of the maximum fee amounts. Both the new maximum fee levels and the CUSD share are shown below:

	Total	Cupertino Union District Share
Residential Construction	$4.08	$2.45
Commercial and Industrial Construction	$0.66	$0.40

Schoolhouse Services prepared a comprehensive Fee Justification Report for the Cupertino Union School District in March 2012. Also known herein as “the 2012 report,”, it documented the District’s justification for residential and commercial/industrial (most non-residential buildings) development impact fees. In the interest of continuing to keep the information up-to-date and the District current with the fee levels, the District contracted with Schoolhouse Services to update its justification in 2014 and 2018 with supplemental reports. Schoolhouse’s review of the situation this year concluded that there has been little change since the 2018 report and therefore that report together with the comprehensive 2012 report appropriately describe the CUSD situation. This report more briefly describes this year’s review for the Board as it considers raising the fees to the 2020 and 2021 maximum levels.

Issues Affecting Fee Justification

<u>New Development</u>

Economic activity in Silicon Valley is occurring at a feverish pace. Housing development in the District has been increasing, partly due to new laws, and others being considered, that require cities to approve projects that would not have been otherwise approved. The new homes, however, are smaller.

<u>Enrollment</u>

The number of students per home, in both existing and new homes, has been trending downward. 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. This is offering some relief to the District, after almost two decades of pressure from rapid enrollment growth. Some of the schools in the northern portion of the District, however, are still under pressure and that is the area where the largest amount of new development is likely to occur.

Rising Housing Prices

The other factor causing a loss of students is relatively new and accounts for the majority of the enrollment decline. Rapidly rising rents are resulting in young families being priced out of the District. 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.

The situation is less clear in the longer-term. Then the young tech workers will be older and many will be married and with 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.

Replacement and Refurbishment of Existing Classrooms

In previous reports, the increased enrollment from both new and existing housing were the main considerations regarding District capacity. The 2012 comprehensive report includes an extensive discussion of enrollment capacity. In the 2018 report, enrollment capacity is reviewed and updated.

For decades, CUSD has been pushed to have available the capacity to accommodate continually increasing enrollment. However, as mentioned above, the District is now seeing decreasing enrollment.

The above information 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 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, either in classrooms or in support facilities such as general-purpose rooms and cafeterias.

Facilities Cost

In the 2012 report, the cost to add capacity to house the 368 additional students was estimated to be $7,361 million, a cost of $20,003 per student in 2012 dollars. (This cost was relatively low compared to many districts because it assumes no costs for land.) The cost was based on the amounts used in the state grant program. The grant amounts are known to be modest in order to stretch the limited funds as far as possible.

The discussion above described that the primary approach that will be taken by CUSD to house these students will be to refurbish and replace aging and/or obsolete existing buildings, an approach specifically set forth as acceptable in California law. The 2018 report estimates the cost of new school facilities based on actual District projects, referencing both permanent construction and relocatable examples.

Residential Fee Justification

The fiscal impact of residential development determined in the 2018 report was $12.52 per square foot. The index tracked by the SAB has increased by 7.64% in the last two years, indicating that the current fiscal impact is about $13.50. This amount is far in excess of the legal limit on the Level 1 fees, $4.08 per square foot, with CUSD's share of this amount being $2.45 per square foot.

Commercial/Industrial Fee Justification

The District's studies trace the impacts of commercial/industrial (C/I) development or 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. The analysis in the 2018 report determined that its cost of accommodating the students from C/I development is as large as the maximum fee it is allowed to levy, $0.40 per square foot, for all categories of development for which calculations are made, except the two categories with the smallest average employee density – parking structures ($0.03) and self-storage ($0.09) per square foot. Only these amounts can be levied for these two categories.