DEVELOPMENT IMPACT FEE JUSTIFICATION

REVIEW AND UPDATE

Prepared for:

CUPERTINO UNION 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.

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	$3.79	$2.27
Commercial and Industrial Construction	$0.61	$0.37

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 with a supplemental report (also known herein as "the 2014 report"). 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 2012 report and the 2014 report, where applicable, 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. Changes in state standards for kindergarten through third grade class sizes have also affected District policies about how facilities are used. 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 both the 2012 and 2014 reports. Voters passed a bond issue and the resultant funds have enabled the District to construct significant new facilities, allowing the District to accommodate a larger number of students. We have good

construction information indicating that the costs for these facilities are significantly higher than assumed in the previous reports. 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 2012 and 2014 reports 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 2012 justification study and the 2014 supplemental report.

New Housing Development

Housing projections in both the 2012 report and 2014 supplement 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 2012 report projected a total of 1,000 units expected to be constructed in the District from 2012 to 2022 and the 2014 supplement projected 1,700 units from 2014 to 2024. Projections have increased significantly, with the most recent EPC report projecting 1,900 units over just the next five years (2017-2022)[1]. This review assumes the 1,900 units projected by EPC.

The 2012 and 2014 reports assumed 830 and 1,500 multi-family (MF) housing units (i.e., apartments and condominiums) in generally market-rate projects. The updated projection for 2018 has increased to 1,830 MF units. In contrast, while the projected number of single-family[2] (SF) units had increased from 2012 to 2014 (from 150 to 170, respectively), the current EPC report projects a significant decrease in SF units, with numbers falling to just 70 units (less than 4 percent of total units). Similarly, while EPC had projected 20 below-market rate multi-family (BMR-MF) units in a BMR project in the 2012 report and 30 BMR-MF units in a BMR project in the 2014 report, EPC now projects that no BMR-MF projects will be built in the next five years. While MF housing projects comprised a large majority of projected units in the 2012 and 2014 reports, they constitute an even larger percentage of total units (over 96%) in the current report. The impact of the increase in units on the number of students generated is discussed below.

Student Generation and Enrollment

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). Surveys of new development undertaken by EPC

[1] As previously noted, this is the second year that the EPC report has not forecast growth beyond the five-year period, reflecting the firm's uncertainties about the mid- and longer-term picture

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

have been used as the basis to project current SGRs. For market-rate MF units, the projected SGR is 0.32 students per home. This is an increase from the SGR of 0.27 students per home for MF units projected in the 2012 report, though a slight decrease from the SGR of 0.35 students per home projected in the 2014 report. In contrast, there has been a significant decrease in the SGR for single-family (SF) units, from 0.64 students per home in the 2012 report and 0.69 students per home in the 2014 report to 0.28 students per home in the current report. The small percentage of SF units as a percentage of total units, along with the increase in MF units, minimizes the impact of this decrease on the overall number of students projected to be generated from new housing.

The increase in the projected number of new homes, coupled with larger SGR in MF units, means that new development will be impacting the District significantly more than calculated in the 2012 report. The updated projected number of students from new homes is shown below in Table 3-3 (revised). This replaces the table in the 2012 report.

Table 3-3 (revised)
Enrollment from New Housing (2017-2022)

Unit Type	*Units*	*SGRs**	*Students*
Market-rate Multi-family (market-rate MF)	**1,830**	**0.32**	**586**
Single-family (SF)	**70**	**0.28**	**20**
Total	**1,900**		**606**

SGRs differ slightly from those presented in the EPC report due to an adjustment in the EPC model.
Sources: Enrollment Projection Consultants (EPC) and Schoolhouse Services.

EPC projects that about three-quarters of the students enrolled in the District over the next five years from new development will be in the elementary schools. This implies about 440 elementary students and 166 middle school students in the new homes in 2022.

Enrollment and Capacity of Cupertino Union District Schools

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. For almost fifteen years, CUSD had been a rapidly growing school district, with enrollment increasing from 15,571 in the fall of 2001 to 19,194 in the Fall of 2013. The District accommodated this increase without the addition of any new school sites, causing enrollment pressures in many schools.

A different enrollment trend for CUSD has become evident in the last four years and is projected by EPC for the next five years. CUSD has seen a decline of almost 1,200 students over the last four years, and EPC projects an additional decline of 1,257 students over the next five years, representing 400 students in District elementary schools and 857 students in District middle schools.

Changing Demographics

Two main factors appear to be responsible for this decline. One is a long-understood and long-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 five years.

This is the second year that the EPC report has not forecast growth beyond the five-year period, 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 2012 comprehensive report includes an extensive discussion of enrollment capacity. For decades, CUSD has been pushed to have available the capacity to accommodate continually increasing enrollment. However, as mentioned above, the District has started to see decreasing enrollment from existing homes. 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 classrooms usage. However, we also discuss District capacity in relation to the growing impact of availability of aging classrooms for ongoing use.

Class Size Standards

Standards, regarding class sizes for example, are educational intentions, reflecting both what is educationally appropriate and financially realistic, but are not necessarily current practice. The state funding program for many years supported a standard of 20 students per class in kindergarten through third grades; the District participated in the program and used this standard

in the 2012 report. During the recession, however, it became evident that the program could not be supported financially. Even though the financial picture is improving, the California Department of Education has now adopted 24 students per classroom as the standard. This is now the District's standard for every classroom housing kindergarten through third grade students. The earlier report assumed a standard of 32 students per classroom for the fourth and fifth grades and an average of 25 students per classroom in middle schools; though the standard of 32 students per classroom for the fourth and fifth grades seems unusually high, these standards are unchanged.

Classroom Count

In the 2012 comprehensive report, Table 4-2 showed the District to have 679 available classrooms for kindergarten through eighth grade students' educational programs, consisting of 469 elementary classrooms and 210 middle school classrooms.[3]These classrooms had an enrollment capacity of 15,133 students in the District's facilities.

The gradual but steady increase in enrollment, as well as the need to keep the facilities technologically up-to-date, led the District to put a bond measures before the voters. It was approved, and the District has been undertaking major improvements, many of which add to the District's enrollment capacity. From 2015 to 2016, sixteen modular classrooms were replaced (seven elementary and nine middle school) and eight modular classrooms were added (four elementary and four middle school). The improvements also include permanent classroom buildings. A two-story science building with 20 classrooms was completed at Lawson Middle School in 2016 and a two-story building with 20 classrooms was completed at Cupertino Middle School. These improvements have added to the enrollment capacity of the District schools.

The District currently has 851 classrooms for K-8 educational programs. However, we again exclude 57 modular classrooms over 20-years-old that likely need to be removed or replaced within the next five years.[4] Additionally, as noted in the 2012 report, some classrooms must be removed for use as support rooms. We again presume three support rooms per school. That would remove 60 elementary and 18 middle school classrooms from the available classroom totals. This leaves the District with a total of 716 available classrooms, including 482 elementary classrooms and 234 middle school classrooms.

Table 4-2 (revised) below shows the current classroom counts and the resulting enrollment capacity. Due to the increase for class size in kindergarten through third grade and the net addition of classrooms funded by the bond issue, the District's enrollment capacity has increased to a new total of 16,925 students, 11,754 students at the elementary level and 5,171 students at

[3]This count excluded 60 modular classrooms over 20 years old and 80 classrooms needed for support services (e.g., RSP, pull-out,). It also excluded classrooms used for administrative purposes only or for programs such as the Comprehensive Autism Program (CAP), student and family counseling, and pre-school.

[4] These 57 modular classrooms consist of 56 elementary classrooms and one middle school classroom. They constitute about eight percent of the total number of classrooms in the District and all modulars constitute over 25% of District classrooms, above the 20% standard in the State funding program.

the middle school level. This is an increased capacity of about 1,800 students since 2012 and 600 students since 2014. The District's enrollment at the official count in October 2017 was 11,737 elementary students and 6,264 middle school students, a total enrollment of 18,001 students. This is currently about 1,000 students above current capacity; however, the expected decline in enrollment of more than 1,200 students over the next five years would offset that.

Table 4-2 (revised)
Classroom Count and Enrollment Capacity

	Elementary	*Middle*	*Total*
Total Classrooms	*598*	*253*	*851*
Permanent	*408*	*205*	*613*
Modular	*190*	*48*	*238*
Old Modulars (20+ years)	*(56)*	*(1)*	*(57)*
Permanent and Retained Modular	***542***	***252***	***794***
Support Rooms	*60*	*18*	*78*
Available Classrooms	***482***	***234***	***716***
CAPACITY			
Non-SDC classrooms	*464*	*226*	*690*
Non-SDC classroom capacity*	***12,157***	***5,650***	***17,807***
SDC Classrooms	*18*	*8*	*26*
SDC Classrooms capacity*	***216***	***96***	***312***
Theoretical capacity	***12,373***	***5,746***	***18,119***
Practical capacity adjustment	*95%*	*90%*	
Practical Capacity	***11,754***	***5,171***	***16,925***

Classroom capacity based on loading standards of a weighted average of 26.2 students for K-5 classrooms, 25 students for 6-8 classrooms, and 12 students for SDC classrooms
Source: Cupertino Union School District and Schoolhouse Services

Replacement and Refurbishment of Existing Classrooms

At least in the near- to medium-distant future, the District will probably not be faced with the need to accommodate more students. This has allowed it 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 them, 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 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. where possible, at campuses that are already full in order that additional students from new development will not cause or increase enrollment pressures.

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. CUSD has completed projects in the last three years that provide information on the cost of this approach. However, that cost was incurred beginning in 2015. The State Allocation Board (SAB), which oversees state school grants and developer fee limits, adjusts maximum fee amounts biennially in January for changes in the cost of construction, with the most recent adjustment having occurred in January 2018. Based on the cost of construction index used by the SAB, classrooms in new permanent buildings would currently cost 11.8% more due to inflation.

A new two-story science building with 20 classrooms at Lawson Middle school provides a cost basis for the replacement of an old building with a new building of permanent construction. Classrooms are generally 960 sq. ft. We include an extra 15% to allow for larger than average floor areas within this building. This assumes approximately 22,000 square feet in floor space. The project had a total cost of $10.1 million, which is $505,000 per classroom and $459 per square foot. Adjusted for inflation, this comes to $513 per square foot. This is significantly lower than the cost per square foot of similar planned projects in the Fremont Union High School District, for which CUSD is one of the feeder districts. It is probable that the cost of new CUSD projects to renovate permanent buildings would be much higher than is reflected solely through cost of inflation adjustments.

In order to have adequate capacity in the future, CUSD will also need to replace aged modular classrooms. The District added or replaced 27 modular classrooms in 2015 and 2016. The District provided construction costs for 10 classrooms among these projects. Modular classrooms are generally 960 square feet, but one of the classrooms was 1,440 square feet. We use a

weighted average of these classroom projects to get a cost per square foot of $318. Adjusted for inflation, the current cost to replace aged modular classrooms is $348 per square foot.[5]

We do not know what percentage of projects in the District will be modular/relocatable and what percentage will be permanent construction. To have a reasonable number that can be used to compare costs of future projects, we use a simple average of the two costs. The assumed cost is therefore $431 per square foot. The assumption that enrollment capacity needs will be met through refurbishing and replacement means that no cost for land is included.

Cost Impact of New Development

The updated analysis of new homes and the number of students they generate resulted in the forecast of 606 students residing in new homes five years from now, 440 students in elementary schools and 166 students in middle schools. The California School Facility Program (SFP), which provides school construction grants to qualifying districts, uses standards of 73 square feet per elementary school student and 80 square feet per middle school student. These size standards include 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.[6] Therefore, multiplying these standards by the $431 per square foot construction cost of additional capacity results in a conservative cost estimate of $32,290 per student, as shown in Table 5-2 (revised).

The larger number of projected homes, the greater number of students generated, and the real-world cost of construction in the District have all combined to result in a higher cost of providing capacity for students from new homes over the next five years than was projected in the 2012 report for a ten-year period.

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

	Elementary	*Middle*	*Total*
Square Feet per Student	73	80	
Cost per square foot	**$431**	**$431**	
Construction Cost per Student	$31,463	$34,480	
Students from new development	440	166	606
Total Cost Impact	$13,844,000	$5,724,000	**$19,568,000**
Impact per Student			**$32,290**

Source: Schoolhouse Services and Cupertino Union School District

We can now estimate the total square footage of new residential space expected in the next five years. Based on a review of developer fee logs for the past few years, the average size of single-

[5] As some modulars projects were in 2015 and others in 2016. this adjustment actually uses 9.57%, an average of the increases from 2015 to 2018 and 2016 to 2018.
[6] In its 2007 report *Complete Schools*, the California Department of Education evaluates these standards as seriously inadequate.

family (SF) units has remained constant at 2,800 square feet. However, the average size of multi-family (MF) units has declined from approximately 1,400 square feet in the 2012 report to 1,050 square feet in the current report. The 70 SF units and the 1,830 MF units are estimated to have a total of approximately 2.118 million square feet. This calculation is shown in Table 6-1 (revised) below.

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

	Single-Family	*Multi-Family*	*Total*
Number of New Units	70	1,830	1,900
Average Square Footage	2,800	1,050	
Total Square Footage	196,000	1,921,500	2,117,500

Source: Schoolhouse Services

While the square feet of new development expected to be available to share in mitigating the cost impact has decreased slightly, 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 $19.57 million, a cost allocated to 2.118 million square feet of residential construction. As shown in Table 6-2 (revised), the resulting cost impact is $9.24 per square foot.

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

Facilities Costs	
Total Facilities Cost	$19,568,000
Total Square Footage	2,117,500
Facilities Cost per Square Foot	**$9.24**

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 declining enrollment, it's 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 in 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, subject to California law regarding fee limits. The cost impact is $9.24 per square foot of residential development. This amount is far in excess of 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 CUSD's share of this amount being $2.27 per square foot. This is only 25% of the total cost impact. CUSD 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 as the costs remaining after the collection of residential fees. When recalculated for the updated assumptions in this report, these unfunded facility costs are $24,345 per student, as shown in Table 7-2 (revised).

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

Total Residential Square Feet	2,117,500
Fee per Square Foot	$2.27
Total Residential Fee Revenue	**$4,815,000**
Total Facility Cost	$19,568,000
Total Unfunded Cost	**$14,753,000**
Number of Students	606
Unfunded Facility Cost per Student	**$24,345**

Source: Schoolhouse Services

The District's 2018 maximum commercial/industrial fee is $0.37 per square foot (60% of $0.61). The District is able to levy its $0.37 share of the maximum fee per square foot on almost all of the categories of commercial/industrial (C/I) development. However, it can only levy the amount of the fiscal impact of $0.02 for parking structures and $0.06 for self-storage space. The cost impact for all categories is shown in Table 7-3 (revised) below. The comprehensive 2012 report provides guidelines for calculating fees on C/I 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.
Parking Structures*	0.00002	0.20	0.67	0.319	$24,345	**$0.02**
Self-storage	0.00006	0.20	0.67	0.319	$24,345	**$0.06**
Lodging	0.0011	0.20	0.67	0.319	$24,345	**$1.14**
Schools	0.0011	0.20	0.67	0.319	$24,345	**$1.14**
Warehouses*	0.0013	0.20	0.67	0.319	$24,345	**$1.35**
Auto Repair	0.0013	0.20	0.67	0.319	$24,345	**$1.35**
Movie Theater	0.0015	0.20	0.67	0.319	$24,345	**$1.56**
Discount Clubs	0.0017	0.20	0.67	0.319	$24,345	**$1.77**
Regional Shopping Centers*	0.0019	0.20	0.67	0.319	$24,345	**$1.98**
Hospitals	0.0021	0.20	0.67	0.319	$24,345	**$2.19**
Community Shopping Centers*	0.0023	0.20	0.67	0.319	$24,345	**$2.39**
Neighborhood Retail*	0.0026	0.20	0.67	0.319	$24,345	**$2.71**
Banks	0.0028	0.20	0.67	0.319	$24,345	**$2.91**
Business Office (all types)	0.0034	0.20	0.67	0.319	$24,345	**$3.54**
Medical Offices	0.0043	0.20	0.67	0.319	$24,345	**$4.47**

**** 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 Cupertino Union School District fee justification report prepared in 2012 involves accounting for the much larger projected amount of development; the increased number of students that will be generated; overall larger class sizes; 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 $9.24 per square foot of new residential construction. This far exceeds the District's share of the 2018 and 2019 maximum fee of $2.27 per square foot for residential construction, thus justifying the imposition of the Education Code Section 17620 school impact fees at $2.27 per square foot, the maximum legal level.

2) Facilities cost inflation similarly results in updated facilities cost impacts from $0.02 to $4.47 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 of $0.37 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.