

**DEVELOPMENT IMPACT FEE JUSTIFICATION
REVIEW AND UPDATE (2022)**

SUNNYVALE SCHOOL DISTRICT

Prepared by:

Schoolhouse Services

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Introduction

Sunnyvale School District (SSD or the District) levies development fees under Sections 17620 and 17621 of the California Education Code. The law requires that the maximum amounts to be assessed on development be adjusted every two years by the change in the Class B construction cost index, as determined by the State Allocation Board. The Board's review on February 23, 2022 found that, after years of less than typical inflation, costs escalated significantly, 17.45% in the last two years. Most of this escalation, 15.8%, occurred in 2021. Based on this index, the Board adjusted the maximums for the fees that can be charged to developers at the following amounts:

<u>K-12 Maximum Fee Amounts</u>	<u>Total</u>	<u>SSD</u>	
Residential Construction	\$4.79	\$2.96	per square foot
Commercial and Industrial Construction	\$0.78	\$0.48	per square foot

Where an elementary district and a high school district both serve an area, the districts must agree on an appropriate sharing of the maximum fee amounts. Sunnyvale School District (District) can levy up to 61.8% of the maximum fees and the remainder is available to Fremont Union High School District, all per the existing fee sharing agreement between the districts.

The maximum fees previously allocated to Sunnyvale School District were \$2.52 per square foot on residential development and \$0.41 per square foot on commercial/industrial development. The SAB's action increases the District's share of the maximums to \$2.96 per square foot for residential construction and \$0.48 per square foot for commercial/industrial construction.

District Enrollment

Enrollment Projections Consultants (EPC) has for many years made enrollment forecasts for SSD. In the most recent report from EPC titled, Actual October Enrollments from 2015 to 2021 and Potential October 2022 Enrollments, enrollment wavered by 105 students per year between 2015 to 2018. Then in 2019 enrollment decreased 231 and by 957 since then, as shown in Table 1. The EPC study notes that an overwhelming portion of the decrease was presumably due to the pandemic situation and that the extent to which enrollment totals will recover is unknown. It also points out that some new enrollment will result from the option for pre-kindergarten being phased in over the next few years, EPC's report estimates we would have 50% - 66% of TK eligible students enroll in the program.

Table I

Table 1: Actual and Estimated Students by Grade and Grade Level, October of 2015 to 2022

Early Oct. of	Actual and Estimated Total Enrollment by Grade (incl. SDC and excl. NPS)										Actual and Estimated Total Enrollment by Grade Group		
	TK	K	1	2	3	4	5	6	7	8	TK-5	6-8	Total
2015*	150	737	754	822	746	826	720	626	628	632	4,755	1,886	6,641
2016*	126	781	725	719	773	713	768	704	594	634	4,605	1,932	6,537
2017*	142	785	776	717	709	755	691	722	686	582	4,575	1,990	6,565
2018*	154	772	809	764	710	699	754	635	698	675	4,662	2,008	6,670
2019*	148	771	736	765	726	684	648	649	624	688	4,478	1,961	6,439
Actual Change, October 2015 to October 2019											-277	75	-202
2020*	123	645	725	696	705	696	627	530	603	607	4,217	1,740	5,957
2021*	85	620	635	655	621	638	642	500	504	582	3,896	1,586	5,482
Actual Change, October 2019 to October 2021											-582	-375	-957
2022**	155	645	610	617	631	598	606	574	479	495	3,862	1,548	5,410
Total Estimated Grade-Level Enrollment Change in One Year, to October 2022											-34	-38	-72
Real Potential Lower Total in 2022 (essentially -2%, especially due to potential deviation in TK and K***)											5,300		
Real Potential Higher Total in 2022 (essentially +2%, especially due to potential deviation in TK and K***)											5,520		

* Actual early October enrollments are from student files provided to EPC by the SSD.

** TK estimate includes 116 from traditional September-to-November birthdates and 39 from December-to-January birthdates.

*** Transitional kindergarten (TK) and kindergarten fluctuations from the forecast in any one year can be more significant than are likely on an ongoing basis. Whenever a forecast is generated prior to spring, the District should review the subsequent TK and kindergarten preregistration counts and adjust the next year's staffing accordingly.

Students from New Development

The District's levying of fees on new development must be based on the impacts of students from these developments. Student generation rates (SGRs), the average number of students per home, are thus a key aspect of enrollment projection. It is difficult to project with any precision how many new homes will be constructed within the District's boundaries however recent data has an estimated 6,000 units being developed over the next five years. This is shown in Table 2. The historical SGR, can be seen for sampled units in each type of housing development in Table 3. The demand for housing is very strong and state law is increasingly supporting housing development.

Table II

Table 7: Summary of Projected New Housing Units

Housing Type (Developments of)	Projected Additional Units in Twelve Months to Oct. 1 of*					Five-Year Total
	2022	2023	2024	2025**	2026**	
Mainly Market-Rate	712	629	616	1,717	1,726	5,400
BMR Non-SRO***	0	90	176	142	192	600
All	712	719	792	1,859	1,918	6,000

* These figures are from site-specific projections based on EPC fieldwork and info from the City of Sunnyvale Community Development Dept. Totals are for occupancy dates rather than permit dates. Units restricted to seniors are excluded.

** Mainly Market-Rate totals in each of 2025 and 2026 include 1,000 units in Moffett Park Specific Plan area north of Hwy. 237. Anywhere between zero and 2,000 units are possible in this area in each of those years.

*** This total includes a 90-unit BMR development with 44 studio and one-bedroom units, of which 22 are for special needs adults. These 22 units are not expected to have any students, so the student forecast has been revised accordingly.

The amount of fee justified depends on the average number of students from homes and, as described below, on the average number of square feet across which the fee is spread. (For example, 30 students in a sample of 100 homes constitutes an SGR of 0.3.) Enrollment Projection Consultants examined enrollment from a sample of 2,618 recently developed market rate and below market rate non-SRO units. Based on the counted enrollment, it projected an average SGR of only 0.09 students per new home, or nine students in 100 homes. The low number reflects the fact that the overwhelming share of new units are small studio or one-bedroom units marketed to young tenants and buyers without children.

Table III

Housing Type (developments of)	Sampled Units	Current District-Enrolled Students by Grade										Total in TK-8	TK-8 SGR
		TK	K	1	2	3	4	5	6	7	8		
Mainly Market-Rate**	2,492	4	22	21	11	20	12	8	13	5	12	128	0.05
BMR SRO	63	0	1	0	0	0	0	0	0	0	0	1	0.02
BMR Non-SRO	126	2	4	7	4	8	12	9	4	3	3	56	0.44

* These samples cover completed Mainly Market-Rate developments with no occupancies before 2016 and BMR developments with no occupancies before 2015. Too few SFD homes were completed recently to determine a separate SGR calculation.

** Developments of mainly market-rate dwellings can include small percentages of BMR (below market rate) units.

School Facilities Planning

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 policy is that its developer fee fund will be used to fund new or refurbishment of 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.

For many years, facility planning at the Sunnyvale School District focused on expanding enrollment capacity. The District plans now focus not on accommodating an overall enrollment increase, but on two other challenges. The most immediate is to provide the school facilities needed to accommodate a larger number of pre-kindergarten students. The classrooms (and outdoor areas) for these students must meet state standards to be eligible for state support of the educational expenses and to be large enough to accommodate a teacher and an aide (or two teachers) and 20 students. Staff anticipate that this need will require the majority of fee revenues in the next couple of years. It should be noted that the alternative, building new classrooms for students from new homes with fee revenues and retrofitting existing classrooms or building new classrooms for pre-kindergarten students using non-fee funding would be a much less economic approach to accommodating students from new homes without decreasing District standards.

The other, and primary, concern is the longer-term need to refurbish and replace existing facilities that are or 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. These projects will be the construction or reconstruction of our facilities and classrooms, indoor and outdoor refurbishment of physical activity spaces, and the purchase or lease of temporary school facilities in order to accommodate student capacity needs.

Recently, the District conducted a long-range facilities plan and on April 28, 2022, adopted a Facility Master Plan (“Facility Master Plan”), which identified the facilities needs of the District, and focuses on improvements that are necessary to provide adequate housing and the continued use of the District’s existing facilities for its students. The Facility Master Plan also provided an estimate of the costs to fund the proposed improvement projects. The costs identified in the Facility Master Plan show that capital improvement projects are necessary for the long-term use and adequate housing of student enrollment at the District’s existing facilities. The facilities needs exist regardless of the availability of capacity to house student enrollment, inclusive of student enrollment generated from any new development. Revenues from the District’s levied fees are intended to help bridge the funding gap between (a) monies available from general sources and potential State funding, and (b) the remaining estimated costs of the capital improvement projects

outlined in the Facility Master Plan and other capital facilities project costs not specified in the Facility Master Plan.

Cost of Planned Improvements

The ideal approach to estimating the cost of likely improvements funded fully or partially with fee revenues is analyzing the cost of recent/current projects. The District has recently undertaken two campus-wide refurbishment projects. The refurbishment of Bishop Elementary has been completed and that of Ellis Elementary is now underway. Together they offer a good variety of the improvements often necessary to bring aging school facilities to district standards. The per student cost of the refurbishment of the two schools was \$63,532 per student. The mid-point of the dates of contracting for the projects was in 2019. Increasing this cost by the SAB determined cost of construction inflation rate of 17.45% for the 2020-21 period indicates a cost of \$74,620 per student for projects begun in the near future.

The reasonableness of this cost can be confirmed by comparison with the estimated costs of improvements in two adjacent school districts. For its planning, the Mountain View-Whisman Elementary School District estimated the cost impact of new homes at \$89,900 per student. The Palo Alto Unified School District is estimating the cost impact based on a complete refurbishment/replacement of Hoover Elementary School at \$182,500 per student. These costs reflect the substantial increase in school construction costs in the San Francisco Bay Area, especially in the last couple of years.

Residential Fees

Multiplying the \$74,620 per student cost times the 0.09 students projected from each home yields a cost impact of \$6,716 per home. California law expresses the allowable residential fee amount in terms of per square foot of livable space. The \$6,716 cost impact thus is spread across the average livable square feet in new homes to determine the per square foot cost impact.

The average size of new residential units has decreased dramatically over the last half-dozen years, with development consisting overwhelmingly of studio and one-bedroom units, accompanied by the dramatic decrease in the number of students residing in them, as discussed above. Discussion with City of Sunnyvale planners suggested that an average size of 800 square feet per unit would be appropriate for projects in the approval process. Assuming 800 square feet per home among which to spread the home's cost impact of \$6,716 results in an average cost impact of \$8.39 per square foot of home. This is summarized in the table below.

Table IV

**Cost of Residential Development
per New Home and per Square Foot**

<i>Facilities Costs</i>	
<i>Average Cost per Student</i>	\$74,620
<i>Students per Home Average</i>	0.09
<i>School Facilities Cost per Home</i>	\$6,716
<i>Average Square Footage of Homes</i>	800
<i>Facilities Cost per Square Foot</i>	\$8.39

Source: Schoolhouse Services

The maximum limits for Section 17620 fees are adjusted biannually by the State Allocation Board (SAB) to ensure that fee revenues keep pace with construction cost inflation. As noted earlier, the share of the new fee limits adopted by the SAB in February of this year allocated to SSD are \$2.96 per square foot and \$0.48 per square foot for residential and commercial/industrial, respectively. These will be the limits until the SAB again adjusts the fees in January of 2024. With a facilities cost impact of \$8.39 per square foot of residential construction, the District is justified in levying \$2.96 per square foot on that construction.

The levying of fees on alternative types of residential development, namely “Redevelopment Construction,” additions to homes, and housing dedicated to senior occupancy, were also reviewed. The District continues to give a credit for demolition undertaken in conjunction with new construction (assuming the building demolished was occupied prior to demolition). The information in this report can be used to determine the reduction in cost impact due to the demolition and the net impact of the new development calculated by subtracting the reduction from the calculated impact of the new development.

Finally, senior housing continues to be justified by Section 65995.1 at the rate of fees on commercial/industrial development which is \$0.48 sqft. We will continue to require proof from the developer that these units are restricted to only senior citizens.

Commercial/Industrial Fees

All Schoolhouse justification studies for the Sunnyvale School District have traced the impacts of non-residential development for varying types of non-residential development. Consistent with the law, the analysis is based on the characteristics of the type of development/building, rather than on the anticipated first user, as tenants often change over the life of the building. The factors that

affect the impacts are the density of employment by type, the percentage of employees who also reside in the District, the formation of workers' households, student generation from these households, the cost of facilities to house these students, and the share of the cost not funded by residential fees. The effect is to include only the impact from employees at buildings developed in the District that also reside in the District.

Table V**Cost Impact per Square Foot with Residential Offset**

Category of Building	Employees per Sq. ft.	Employees in District	Homes per /Employee	Students per Home	Cost per Student	Cost per Sq. ft.
Parking Structures	0.00002	0.27	0.67	0.09	\$48,500	\$0.02
Self-storage	0.00006	0.27	0.67	0.09	\$48,500	\$0.05
Heavy Industrial	0.0004	0.27	0.67	0.09	\$48,500	\$0.32
Schools	0.0011	0.27	0.67	0.09	\$48,500	\$0.87
Lodging	0.0011	0.27	0.67	0.09	\$48,500	\$0.87
Warehouses	0.0013	0.27	0.67	0.09	\$48,500	\$1.03
Auto Repair	0.0013	0.27	0.67	0.09	\$48,500	\$1.03
Movie Theater	0.0015	0.27	0.67	0.09	\$48,500	\$1.18
Discount Clubs	0.0017	0.27	0.67	0.09	\$48,500	\$1.34
Major Shopping Centers	0.0019	0.27	0.67	0.09	\$48,500	\$1.50
Supermarket	0.0026	0.27	0.67	0.09	\$48,500	\$2.05
Neighborhood Retail	0.0026	0.27	0.67	0.09	\$48,500	\$2.05
Banks	0.0028	0.27	0.67	0.09	\$48,500	\$1.78
Business Office (all types)	0.0034	0.27	0.67	0.09	\$48,500	\$2.21
R & D/Ind./ Bus. Parks	0.0034	0.27	0.67	0.09	\$48,500	\$2.68
Medical Offices	0.0043	0.27	0.67	0.09	\$48,500	\$3.40

Source: SanDAG and Schoolhouse Services

California law specifies that the cost impact of commercial/industrial development can be calculated either based on development categories and their employees per square foot average per the San Diego Regional Planning Agency (SanDAG), as specified in the law, or on a case-by-case basis. Districts, including SSD, usually use the former option and therefore the impacts by categories are calculated in the table above.

The table shows the calculation of the justified maximum fee for the various categories. The only types of buildings among those listed in the SanDAG report referred to in the law that do not have a facilities cost impact above the \$0.48 maximum for SSD are parking structures (with attendants), heavy industrial, and self-storage. The cost impact, and thus the maximum fee for parking structures, is \$0.02 per square foot, the maximum fee for heavy industrial buildings is \$0.32, and the maximum fee for self-storage is \$0.05 per square foot.

Summary of Findings

This report has reviewed the information in the previous SSD justification reports, identified items needing to be brought up-to-date, and, using the same framework as in the earlier reports, determined the fees the District is justified in levying at this time. This analysis has led to the following conclusions:

- 1) The analysis in this report results in an updated facilities cost impact of \$8.39 per square foot of new residential construction. This exceeds the maximum fee allocated to the Sunnyvale District, \$2.96 per square foot, for residential construction, thus justifying levying the Education Code Section 17620 school impact fees at \$2.96 per square foot of residential construction.
- 2) The situation is different for the fees on commercial and industrial development. The maximum fee for parking structures, is \$0.02 cents per square foot, the maximum fee for heavy industrial buildings is \$0.32, and the maximum fee for self-storage is \$0.05 per square foot.
- 3) The significant gap between the impact cost in a district such as SSD and the maximum fee determined by the SAB indicates that the maximum fee would still be justified if one or more of the estimates involved is or becomes moderately low or high as the determining factors are changing. In particular, it means that, absent significant changes, this report shows that the District's share of the maximum fee determined by the SAB in the future will be justified on development in the District as long as it remains significantly less than the \$8.39 per square foot determined here. As long as the situation in the District does not change dramatically and the SAB's maximum fees are significantly less than the amounts determined in this justification report, the report can be used as the basis for increasing fees to the SAB's maximum fees.