
Schoolhouse Services

Economists & Planners

[May 22, 2020](#)

TO:

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RE:

Review of Fee Justification Documentation

Situation

The Menlo Park City School District levies fees on new development under Sections 17620 and 17621 of the California Education Code. In accordance with legislative guidelines, the State Allocation Board (SAB) earlier this year considered information about the increase in construction costs over the last two years and, consistent with California law, made its biennial inflation adjustment to the maximum development fee amounts. For the last two years the maximum fee amount a district could levy under Section 17620 of the California Education Code was \$3.79 per square foot on residential construction and \$0.61 per square foot on commercial/industrial (non-residential) construction. The Board's action increased the maximum fees to \$4.08 and \$0.66 per square foot for residential and commercial/industrial construction respectively. This is an increase of 7.64% percent over the two-year period.

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. Per the existing fee sharing agreement between the districts, Menlo Park City School District (referred to here as "the District") can levy up to 60% of the maximum fees and the remainder is available to Sequoia Union High School District.

The maximum fees previously allocated to Menlo Park City School District were \$2.274 per square foot on residential development and \$0.336 per square foot on commercial/industrial development. (Sequoia Union and the elementary districts feeding into it carry the allocation between them to one-tenth of a cent.) The SAB's action increases the District's share of the maximums to \$2.448 per square foot for residential construction and \$0.396 per square foot for commercial/industrial construction.

Enrollment Capacity

The district was previously undergoing a significant increase in enrollment, increasing in enrollment by over one-third; more recently, enrollment has stabilized, about the same as it was five years ago. The enrollment growth created pressure on the available space. The analysis in the 2012 report indicated a capacity for 2,733 students; enrollment as of the fall 2019 official state reporting date was 2,922 students. The need for greater enrollment capacity led the District to terminate the lease on the former O'Connor School site and, after evaluating modernization costs versus the cost of new construction, to build an essentially new school. The district has some of the largest elementary schools by enrollment in the county because of the lack of facilities to accommodate the growth over the last 20 years. In addition, the district is one of the few districts in the state that is not experiencing declining enrollment while all other surrounding districts are experiencing significant declines.

The reconstructed Laurel School - Upper Campus accommodates third- through fifth-grade students as part of the now two-campus Laurel School. It includes 19 teaching classrooms, together with associated support rooms, including a gym, library, and administrative offices. The school provides capacity for 340-380 students, based on need. The majority of the space freed up at the Laurel School – Lower Campus, which serves students in the lower grades, will be utilized by a five-classroom preschool program. The net addition of 14 classrooms for kindergarten through fifth grade students adds capacity for 250-280 students, about the gap between enrollment and capacity prior to the addition of the new school.

Enrollment is forecast to remain relatively constant over the next five years, perhaps increasing moderately after the large number of new units currently in the pipeline are built and occupied and preschoolers in young families move into the younger grades. The most recent report by Enrollment Projection Consultants projects that approximately 100 students from new development will be added to enrollment from existing homes over six years. It may be that they can be accommodated in the existing facilities, including the new school, or it may be that some additional space will be required if standards are not to be negatively impacted. If the existing space is adequate, it will be because of the reconstruction of the Laurel School – Upper Campus. The District's levy of development fees is therefore justified as the means by which new development contributes towards its

share of the cost of the new school.

Justification of the Increased Fee Amounts

The increased fee amounts can only be put in place by resolution of the District Board at a public hearing. Since Section 17620 fees are impact mitigations, rather than taxes, a district must also demonstrate that the amounts being levied are justified due to the financial impacts on the district. It is appropriate for districts to review periodically the accuracy of its documentation and this is commonly done at the same time the fee amount is adjusted. The Menlo Park City School District therefore contracted with Schoolhouse Services to review the existing justification document and to make recommendations regarding any changes necessary to bring the documentation up-to-date. This memo describes the results of the review.

Schoolhouse Services prepared a comprehensive justification document for the District in May of 2012. The analysis of the average size (in square feet) of new homes, the average number of students residing in them, and the cost of school facilities to accommodate them resulted in an average cost impact of \$4.23 per square foot of residential construction. The index used by the SAB indicates that costs have increased by twenty-eight percent since 2012, increasing the cost in the comprehensive report to \$6.40 per square foot.

The 2012 new development cost impact analysis was based on recent projects funded by Measure U; it determined that the cost of facilities to provide increased enrollment capacity was above \$500 per square foot of school space and used that figure in projecting the cost impact of new housing.

Updated Cost Impacts

The District's construction of a new school provides relevant up-to-date information about the cost of construction, suggesting a review of the cost basis used in the document. The new school totals 58,000 square feet of space. It was built on budget, with a hard construction cost of \$26.0 million; associated costs added \$5.0 million, bringing the total to \$31.0 million. The cost of the new school was thus \$534 per square foot; adjusting that figure for inflation per the SAB's index of 12% in the three years since construction began results in a cost figure of \$598 per square foot, close to 20% above the earlier cost assumption. (As with the earlier calculations, no cost for the purchase of land is included.)

The Sequoia Union High School District has also had a document prepared this year justifying its fees. The analysis in that document happened to determine an appropriate cost of \$598 per square foot (also not including any cost for land), identical to the adjusted Laurel School per square foot reconstruction cost. Its analysis thus supports the use of \$598 per square foot cost figure in the determination of the cost impact of providing capacity to accommodate students from new development.

The 19.4% increase in the cost of school construction increases proportionally the cost impact per square foot of residential construction, from \$4.23 to \$5.05 per square foot. This amount is well above the District’s \$2.448 per square foot share of the maximum fee amount in 2020.

The impact of commercial/industrial (C/I) development is calculated based on the portion of the cost impact of additional students not funded by the revenue from fees on residential development. The appropriate share of the impact depends on the average employment density of the type of development. The 2012 document included Table 7-3 showing the cost impacts of each category of development. That table is repeated below, revised to show costs adjusted for inflation, but more conservatively than in the 2018 review report; the cost impact of students from new development adjusted for inflation is \$24,381 per student. The revised table shows that, as with the majority of California school districts, the cost impact of all except two of the C/I categories remain above the new \$0.396 per square foot maximum. The fiscal impacts in these three categories are \$0.02 per square foot for Parking Structures and \$0.06 per square foot for Self-storage structures. Fees on development in these categories are limited to these actual impact amounts.

Table 7-3 Revised
Cost per Square Foot with Residential Offset

<i>Category of Building</i>	<i>Employees per Sq. ft.</i>	<i>Employees in District</i>	<i>Homes per /Employee</i>	<i>Students per Home</i>	<i>Cost per Student</i>	<i>Cost per Sq. ft.</i>
<i>Parking Structures</i>	0.00002	0.25	0.67	0.229	\$24,381	\$0.02
<i>Self-storage</i>	0.00006	0.25	0.67	0.229	\$24,381	\$0.06
<i>Lodging</i>	0.0011	0.25	0.67	0.229	\$24,381	\$1.03
<i>Schools</i>	0.0011	0.25	0.67	0.229	\$24,381	\$1.03
<i>Warehouses</i>	0.0013	0.25	0.67	0.229	\$24,381	\$1.22
<i>Auto Repair</i>	0.0013	0.25	0.67	0.229	\$24,381	\$1.22
<i>Movie Theater</i>	0.0015	0.25	0.67	0.229	\$24,381	\$1.40
<i>Discount Clubs</i>	0.0017	0.25	0.67	0.229	\$24,381	\$1.59
<i>Regional Shopping Centers**</i>	0.0019	0.25	0.67	0.229	\$24,381	\$1.78
<i>Hospital</i>	0.0021	0.25	0.67	0.229	\$24,381	\$1.96
<i>Community Shopping Ctrs**</i>	0.0023	0.25	0.67	0.229	\$24,381	\$2.15
<i>Neighborhood Retail**</i>	0.0026	0.25	0.67	0.229	\$24,381	\$2.43
<i>Banks</i>	0.0028	0.25	0.67	0.229	\$24,381	\$2.62
<i>Business Offices</i>	0.0034	0.25	0.67	0.229	\$24,381	\$3.18
<i>Medical Offices</i>	0.0043	0.25	0.67	0.229	\$24,381	\$4.02

* 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

Anticipated Expenditures of Fee Revenues

Fees revenues will be used to increase capacity, either by construction of new or enlarged space, or by refurbishment of existing facilities to maintain the existing level of service.

Adequacy of the Existing Documentation

There is no number of years at which a justification report needs to be updated, contrary to the case with SFNA reports justifying Level 2 fees. The legal criterion is whether the report still describes the situation in the district.

The reliance on the analysis of financial impacts in the 2012 report for much of the information about the impacts of development depends on there not having been significant changes in the district, i.e. that the 2012 report still describes the situation except as indicated in the above discussion. I have reviewed the analysis and findings in the report looking for specific areas that may have changed. The rate of new housing construction continues in a heated market, though with limited opportunities. The strong regional employment need for workers in the high-tech industries keeps increasing the number of young families seeking housing, though this is balanced by rising housing costs. In summary, except for the updated cost figures and the completion of the new school, both of which are considered above, the picture is that the same factors are continuing to impact the district generally in the same manner.

Conclusions

Our judgment is that the District's existing 2012 report, with information about the new Laurel School Upper Campus and acknowledgement of the modest increase in maximum fees, remains an accurate description of the impact of new development and we see no need for the district to have a new document prepared. The Board is justified in increasing the fees based on its information as follows:

Menlo Park City School District is justified in increasing the fee it levies on residential construction to the share of the new maximum fee as set forth in its agreements with the Sequoia Union High School District, from \$2.274 to \$2.448 per square foot. And it is justified in increasing the commercial/industrial fees per square foot to the new maximum fee of \$0.396 per square foot on construction in all categories for which the cost impacts in Table 7-3 Revised are above that amount. Fee amounts for the other two categories, Parking Structures and Self-storage Structures still can only be equal to \$0.02 and \$0.06 respectively.