

City of Newport



System Development Charge Overview & Issues

TAC Meeting #1

January 2017



Agenda

- ◆ **SDC Background/Overview**
- ◆ **SDC Calculation**
 - Growth
 - Reimbursement fee cost basis
 - Improvement fee cost basis
 - Adjustments
- ◆ **Use of SDCs**
- ◆ **Credits**
- ◆ **SDC Alternatives**
- ◆ **Issues Discussion**



SIGNIFICANT SDC FUNDED PROJECTS

Year	Fund	Project	Value
FY 09/10	Sewer	Elizabeth/Park Street Sewer Projects	\$189,260
FY 09/10	Streets	Match for Naterlin Drive Sidewalk (\$520,000 Federal)	\$35,775
FY10/11	Water	NE 36 th to 40 th Street Transmission Line	\$144,390
FY 10/11	Park	Coast Park	\$141,000
FY 11/12	Streets	NW 3 rd Street Sidewalks	\$81,500
FY 11/12	Water	Agate Beach Lower Storage Tank	\$180,000
FY 12/13	Water	SE 40 th to 50 th Street Water Line	\$334,395
FY 12/13	Park	Acquisition of Guin Property (Wetland)	\$23,132
FY 12/13	Sewer	Big Creek Force Main and Lift Station	\$170,000
FY 13/14	Street/Storm	Match for Agate Beach Wayside (\$826,886 Federal)	\$159,424
FY 13/14	Street	NW 6 th Street Right-of-Way Acquisition	\$37,048

SOME OF THESE PROJECTS WERE PARTIALLY FUNDED OVER MULTIPLE YEARS.



Key Characteristics of SDCs

- SDCs are one-time charges, not ongoing rates.
- Properties which are already developed do not pay SDCs unless they redevelop.
- SDCs are for capital only, in both their calculation and in their use.
- SDCs include both future and existing cost components.
- SDCs are for general facilities, not 'local' facilities.



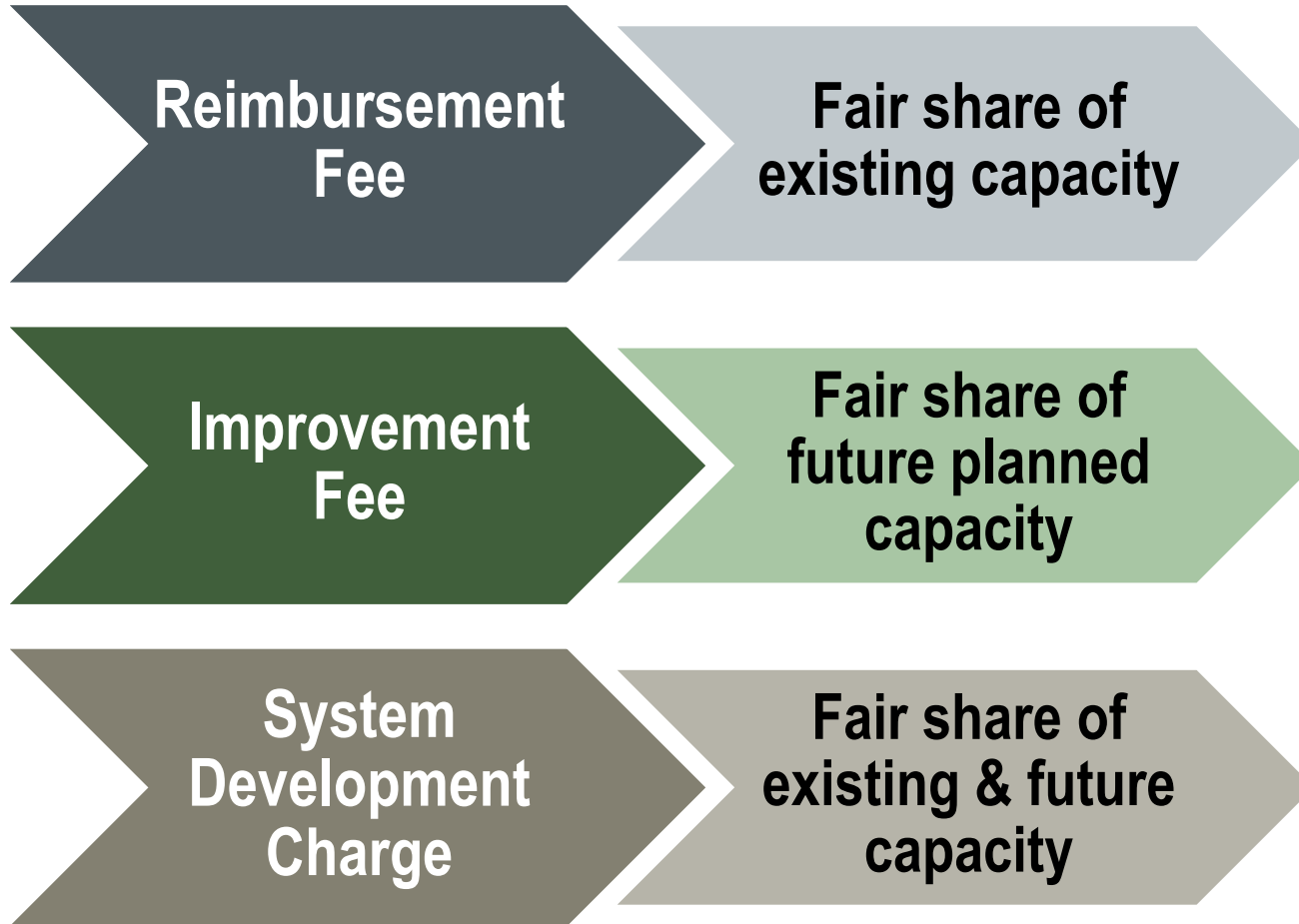
Legal Framework for SDCs

ORS 223.297 - 314, known as *the SDC Act*, provides “a uniform framework for the imposition of system development charges by governmental units” and establishes “that the charges may be used only for capital improvements.”



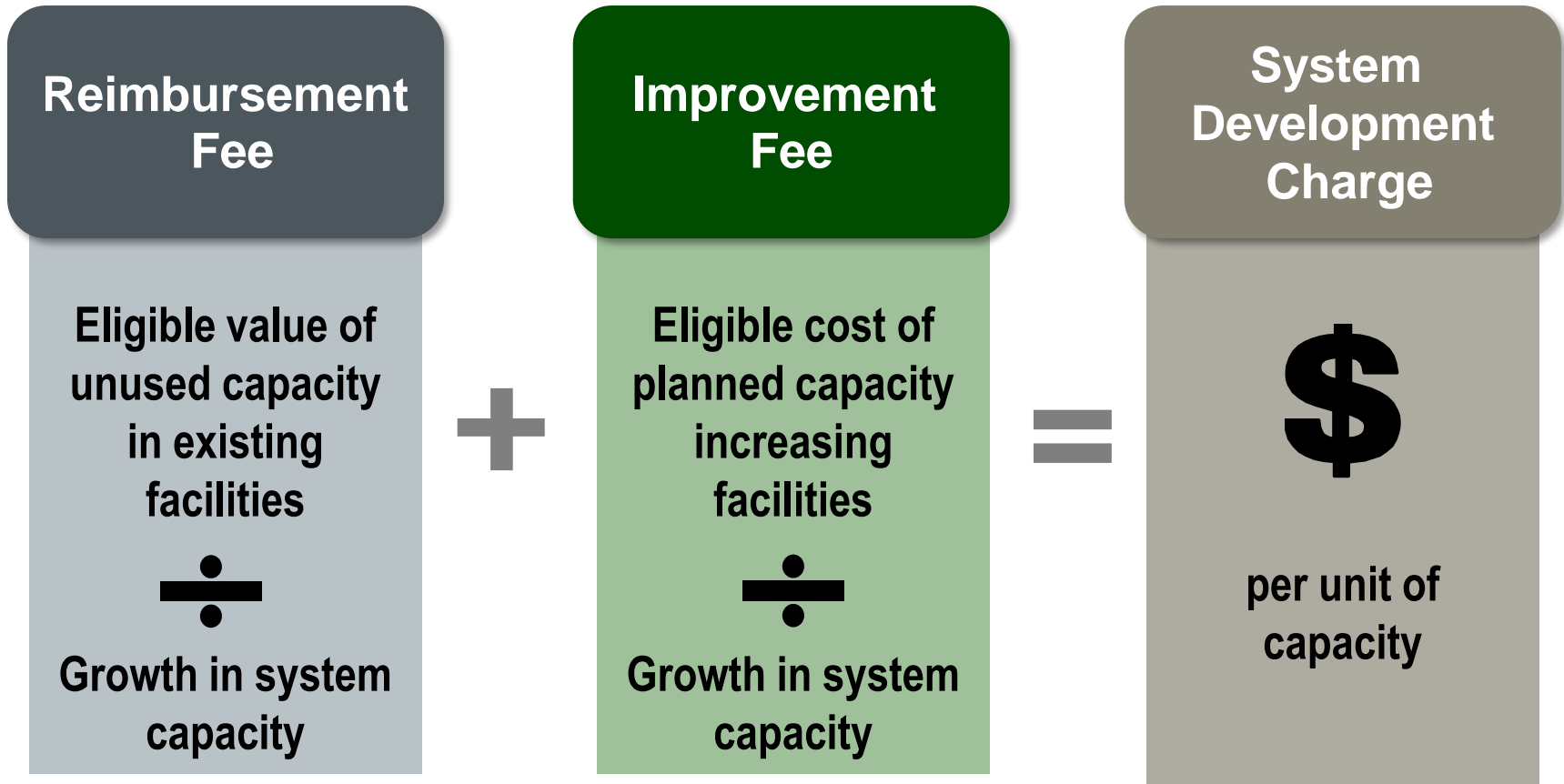


SDC Components



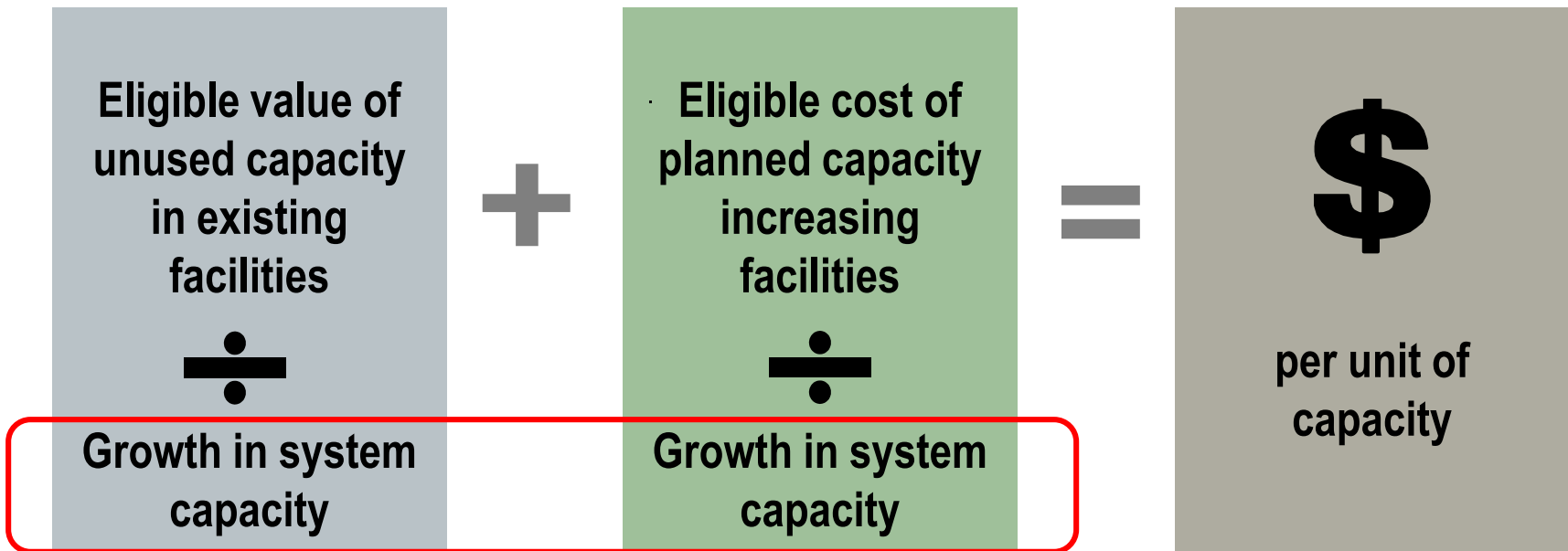


The SDC Calculation



Growth

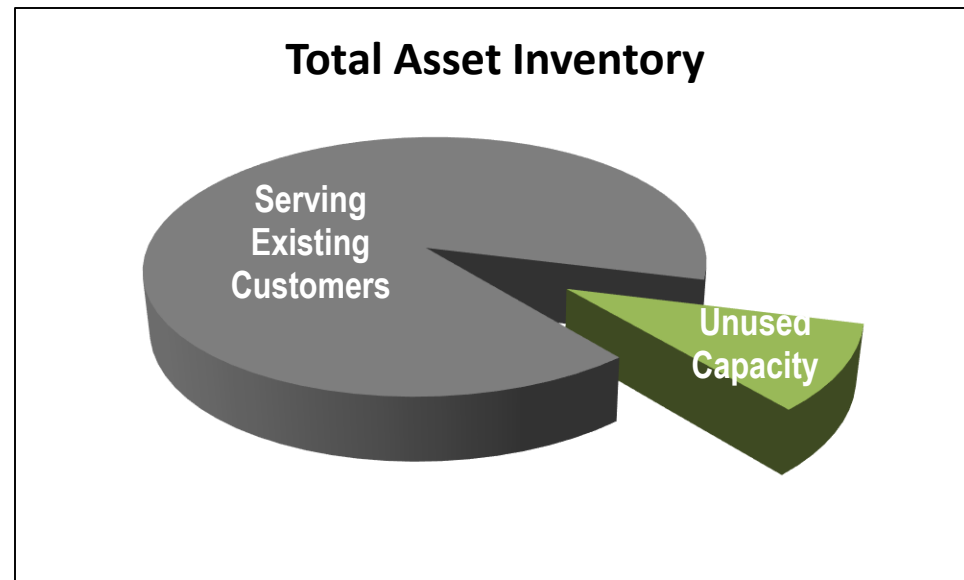
- ◆ **Determine units.**
 - Units determined based on infrastructure type.
- ◆ **Determine current customer base.**
 - Current estimates based on available data.
- ◆ **Project customer base at planning horizon.**
 - Master plan or other forecast.
 - Consistency with project list.
- ◆ **Future – Current = Growth in System Capacity**





Reimbursement Fee Cost Basis

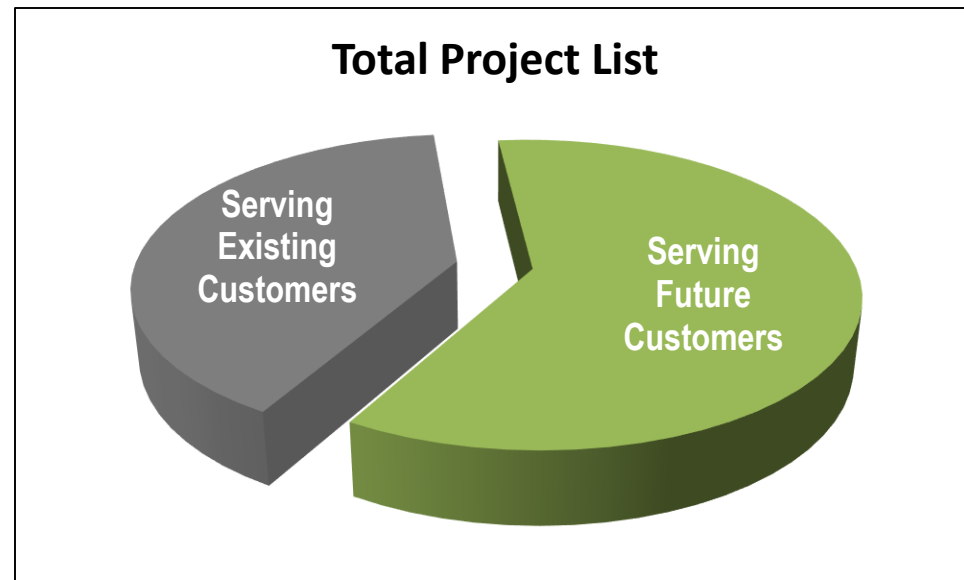
- ◆ **Eligibility: Available capacity in existing assets**
- ◆ **Identify the cost of available capacity available to serve future users.**
 - Original cost of assets represents investment into system by current users.
 - Current inventory includes construction in process.
- ◆ **Determine original cost of facilities (or portion of facilities) that exceed standard.**
- ◆ **Adjust cost basis to avoid over-reimbursement.**
 - Principal of outstanding debt.
 - Grant-funded assets.
- ◆ **The payoff: flexibility in spending reimbursement fees.**





Improvement Fee Cost Basis

- ◆ **Eligibility: Projects that serve future growth.**
- ◆ **Determine total project costs to your City.**
 - Do not include costs borne by another jurisdiction (e.g. grants, outside funding).
 - Project list must maintain consistency with growth.
- ◆ **Determine improvement fee eligibility.**
 - Portion of project's capacity that will be used by new users during the planning period.
 - SDC eligibility share is lowered if project address existing deficiency.
 - Depending on methodology, eligibility by project or by category.



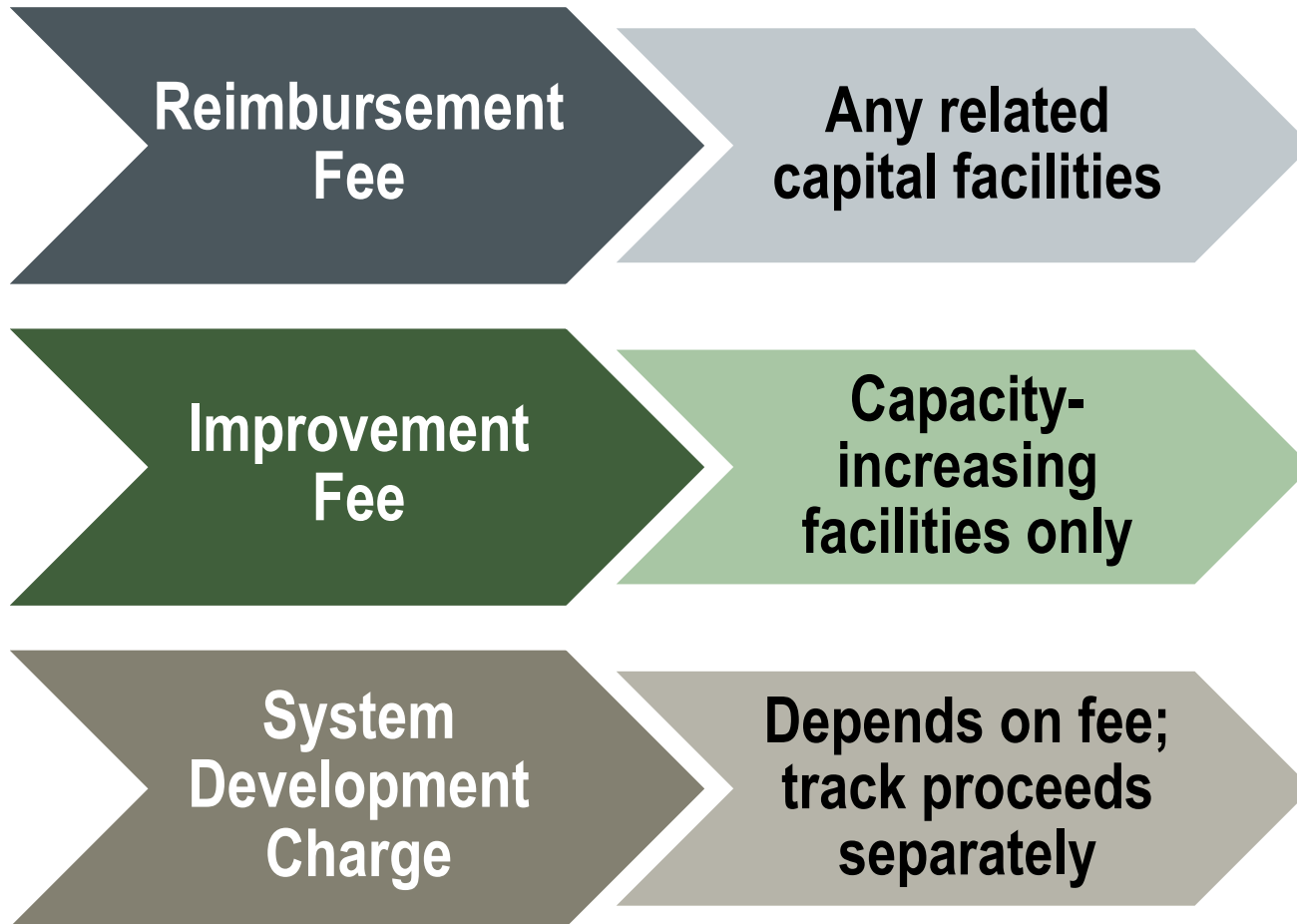


Adjustments

- ◆ **ORS also authorizes the expenditure of SDCs for “the costs of complying with the provisions of ORS 223.297 to 223.314...”**
 - Add “soft costs” and administrative costs into SDC basis.
 - Personnel costs of administering SDC program.
 - Cost of consultants performing SDC studies.
- ◆ **Deduct outstanding loan principle (as applicable)**
- ◆ **Deduct available fund balance**
 - If possible, deduct reimbursement and improvement balances separately from their respective cost bases.
 - Avoids double-charging for projects that could be constructed with available monies.



Uses of SDC Receipts



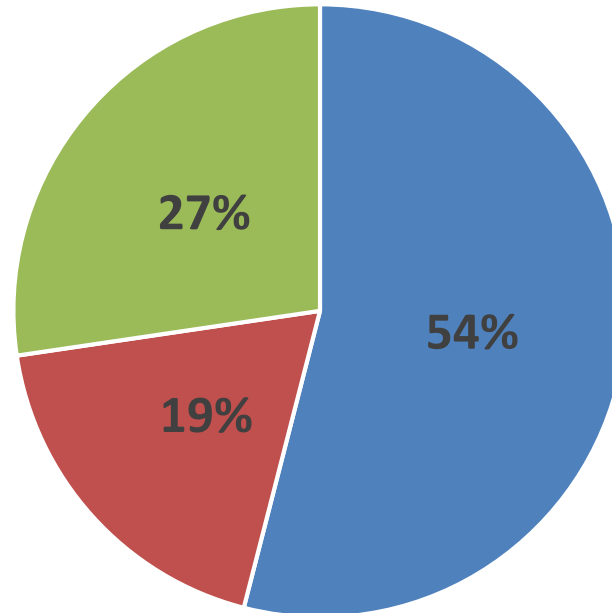
SDC Credits

- ◆ **Credits against the improvement fee must be provided for the construction of a capital improvement, which is:**
 - required as a condition of development,
 - identified in an adopted capital facilities plan, and
 - is either off-site or, if on-site, is required to provide more capacity than needed by the development in question.
- ◆ **Examples**
 - Over-sized portion of pipe
 - Road improvement above local standard
 - Construction of community park





% OF SDC ELIGIBLE PROJECTS RECEIVING CREDITS



- Fees Paid (No Credit)
- Credit Due By State Law
- Credit By City Ordinance



Growth Policy Considerations

- ◆ The denominator in the SDC equation serves as the unit basis for the charge.
- ◆ Planning period for the denominator must match project list planning period.
- ◆ Several potential customer bases by infrastructure type.
 - Existing customers, growth only, total future.

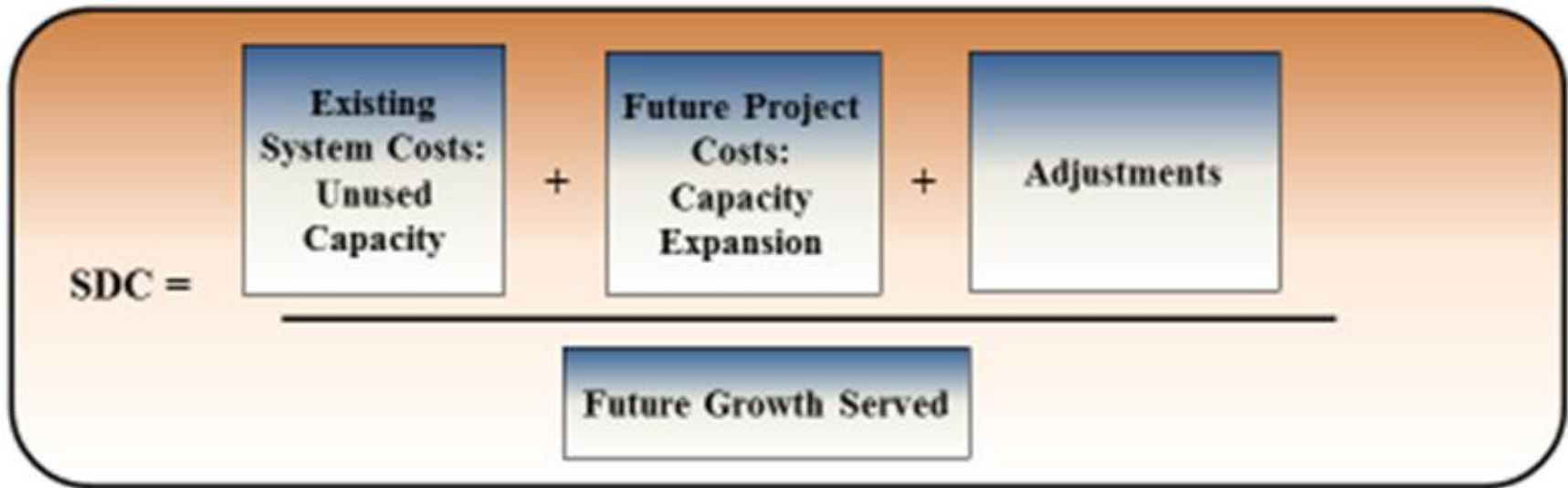
Potential Charge Bases by Infrastructure Type

- ◆ **Water/Wastewater**
 - Meter equivalents
 - Usage-based ERUs
 - Fixture units
- ◆ **Stormwater**
 - Impervious surface area
- ◆ **Transportation**
 - P.M. peak-hour trips
 - Average daily vehicle trips
 - Average daily person trips
- ◆ **Parks**
 - Dwelling units & Lodging units or per capita
 - Employees (DU equivalents)



Fee Calculation Considerations

- ◆ **Reimbursement fee cost basis**
 - Original cost less depreciation
 - Replacement cost less depreciation
 - Replacement cost
 - Replacement cost less depreciation
- ◆ **Improvement fee cost basis**
 - Causation
 - Capacity
 - Incremental cost
 - Level of service factors



SDC Equation



Common SDC Misconceptions

SDCs can be spent on growth-related capital only

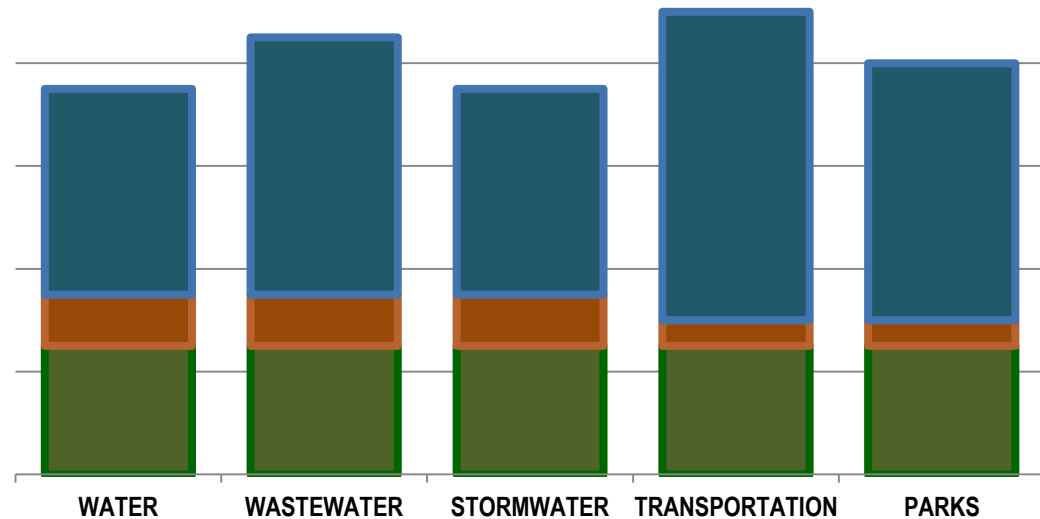
SDCs will solve all our capital funding problems

Total Capital Funding Needs (example)

Other Funding Sources
(utility fees, GF monies,
grants, LIDs, etc.)

Reimbursement Fee

Improvement Fee





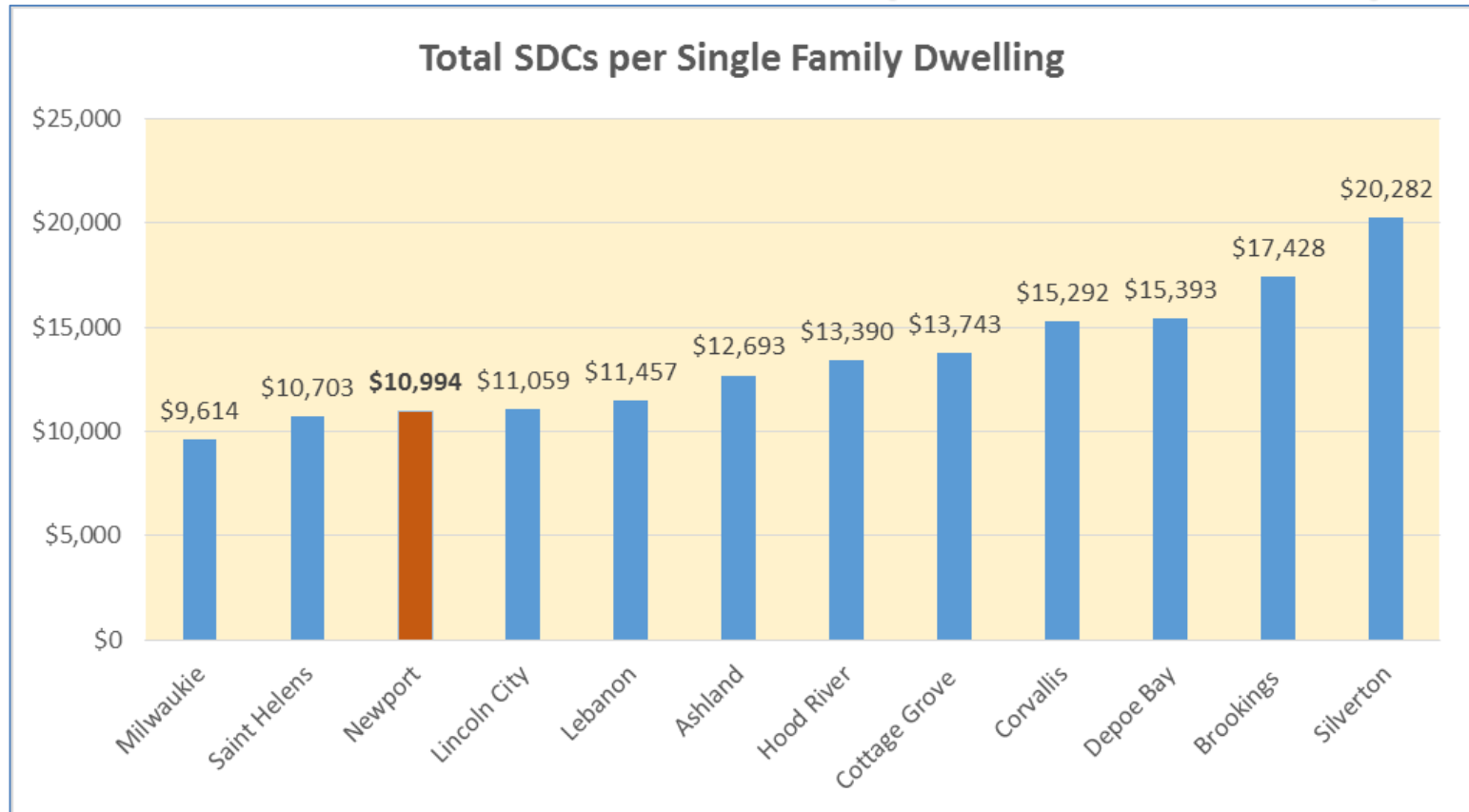
AMENDING SDC FEES

- Adjustments to account for indexed changes in annual construction costs may be accomplished by Council resolution without notice or a hearing.
- Changes to the methodology or the addition of a project to a Capital Improvement Plan that results in an increase to a SDC fee requires a public hearing with at least 30 day notice to individuals who have requested written notice. Additional notice is required in certain circumstances.

ORS 223.304 & 223.309



COMPARISON OF FEES FOR NEW SINGLE FAMILY CONSTRUCTION (EFFECTIVE 2017)*



SOURCE: FCS SURVEY, JANUARY 2017

* EXCLUDES ADMINISTRATIVE CHARGES AND CONSTRUCTION EXCISE TAXES (IF ANY).



EXAMPLE: CHARGES & FEES PER NEW SINGLE FAMILY HOME IN NEWPORT*

Sample of current fees and charges equates to **\$15,573 per SFD**

With construction value of **\$229,656**

Fees equate to **+/-6.78%** of construction cost

Invoice Number: 552

	Qty.	Unit	Account Code	
SDC - Parks system development, per EDU	1.00	Qty	253-3640-46408	\$2,643.00
SDC - Admin fee	10,994.00	Amount	253-3660-46408	\$459.55
Residential wiring	2,328.00	SqFt	240-4410-46430	\$230.00
CET - Lincoln County SD - Res Use - Non Hab	242.00	SqFt	240-4410-46424	\$232.32
CET - Lincoln County SD - Res Use	1,748.00	SqFt	240-4410-46424	\$1,678.08
CET - Lincoln County SD - Admin Fee - Res Use	1,990.00	Automatic	240-4410-46426	\$79.60
Water service - (New Res) Total linear feet	26.00	LnFt	240-4410-46440	\$-
Structural plan review fee	956.15	Ea	240-4410-46421	\$621.50
Structural building permit fee	1.00	Ea	240-4410-46420	\$956.15
State of Oregon Surcharge -Plumb (12% of applicable fees)	160.00	Ea	240-4410-46442	\$19.20
State of Oregon Surcharge - Elec (12% of applicable fees)	230.00	Ea	240-4410-46432	\$27.60
State of Oregon Surcharge - Bldg (12% of applicable fees)	956.15	Ea	240-4410-46422	\$114.74
Single Family Residence - Baths	2.00	Qty	240-4410-46440	\$160.00
Sanitary sewer - (New Res) Total linear feet	26.00	LnFt	240-4410-46440	\$-
SDC - Water system development, per EDU	1.00	Qty	253-3620-46408	\$2,413.00
SDC - Wastewater system development, per EDU	1.00	Qty	253-3630-46408	\$3,969.00
SDC - Transportation system development, per EDU	1.00	Qty	253-3610-46408	\$1,112.00
SDC - Stormwater system development, per EDU	1.00	Qty	253-3650-46408	\$857.00
				\$15,572.74

SOURCE: CITY OF NEWPORT

* EXCLUDES OTHER POTENTIAL COSTS (SIDEWALKS, PAVEMENT CUTS, UTILITY CONNECTIONS, ETC.)



Newport SDC Method Background

- ◆ **1981 to 2008**: Fixture based assessment for water and sewer impacts, off-street parking demand based assessment for streets, dwelling unit based assessment for parks. No SDCs collected for storm drainage.
- ◆ **2008 to current**: Equivalent Dwelling Unit (EDU) based assessment for water, sewer, parks and streets. Storm drainage assessment based upon new impervious surface being added to a parcel or lot.



SDC Methodology Alternatives

◆ **Transportation**

- SDCs by subarea (i.e., lower SDCs for transit served areas)
- SDCs based on person trips vs. vehicle trips
- SDCs may be adjusted based on average trip length
- SDCs may be reduced for mixed-use developments

◆ **Parks**

- May include cost share for non-City owned facilities (e.g., school ball fields)
- SDCs on non-residential uses (beyond lodging)

◆ **Stormwater**

- SDCs on any use that adds impervious surfaces (i.e., parking lots)

◆ **Water & Wastewater**

- SDCs may take into account demand peaks or average daily demand
- SDCs may take into account sewage treatment requirements (not just flow)
- Charges may be based on actual plumbing fixture count



CREDIT POLICY ALTERNATIVES

- Required by law: Credits given for share of developer constructed qualified public improvements required as condition of approval above what is required to serve new development. Credits expire within 10 years.
- Commonly Offered: Prior “vesting” of SDC payments and/or land use in place at time of new development application.
- Less Common: Credits for developer contribution over and above the estimated SDC eligible project cost in CIP; and full credit transferability between parties.
- Unique to Newport*: Prior use on a property within the last 30 years where no SDCs have been paid; limited credit transferability allowed.

**NMC 12.15.065*



SDC Issues for Discussion

- ◆ **Is 30-year lookback on SDC credit valuations too generous?**
- ◆ **Perceived Inequality of EDU approach to single family dwellings and impact on affordability (small SFDs pay same as large SFDs)**
- ◆ **EDU equivalency for restaurants (4 EDU/1,000 SF) has prevented new restaurant development.**
 - Assessments should be proportional to system demand impacts
 - Consider meter size equivalency and/or sewer strength equivalency
 - Similar issue with schools
- ◆ **Methodology refinements for restaurants needed for seasonal use impacts**
 - Outdoor seating areas add to demand
- ◆ **EDU equivalency for multifamily may price out large projects**
- ◆ **Storm drainage SDC refinements needed**
 - Current process flawed since it allows pavement to be added w/o SDC or permits then SDC credits given based on pre-existing pavement
 - SDC credits needed for projects that include on-site stormwater management

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Principal

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