Oregon System Development Charges Study

Public Review Draft Release Webinar

October 18, 2022

1:30-3pm

OREGON HOUSING and COMMUNITY SERVICES

ECONorthwest
ECONOMICS · FINANCE · PLANNING

FCS GROUP
Solutions-Oriented Consulting

GALARDI ROTHSTEIN GROUP

Welcome, Project Overview

- OHCS is the state's housing finance agency
- HB 3040 directed OHCS to study System Development Charges and their role as a cost-driver for housing
- Contracted with ECONorthwest, Galardi Rothstein and FCS GROUP in February 2022 to lead the study
- Final report is due to the legislature Dec 2022

OREGON HOUSING *and* COMMUNITY SERVICES

Webinar Agenda

- Consulting Team Presentation: Key Findings of Draft Report
  - History and Legal Context
  - Fiscal Context
  - SDC Rates
  - SDC Methodology and Rate-Setting
  - SDC Administration
  - SDCs and Housing Costs
  - Conclusions
- Facilitated Q&A

How to Submit Questions & Comments

- During the webinar:
  - Moderator will review and select questions for presenters – submit questions at any time
- Following the webinar:
  - Submit written comments on the draft report through Qualtrics feedback form
  - Link to feedback form provided in email and on website
  - Deadline for written comments: November 1, 2022 (COB)

Consultant Team Introductions

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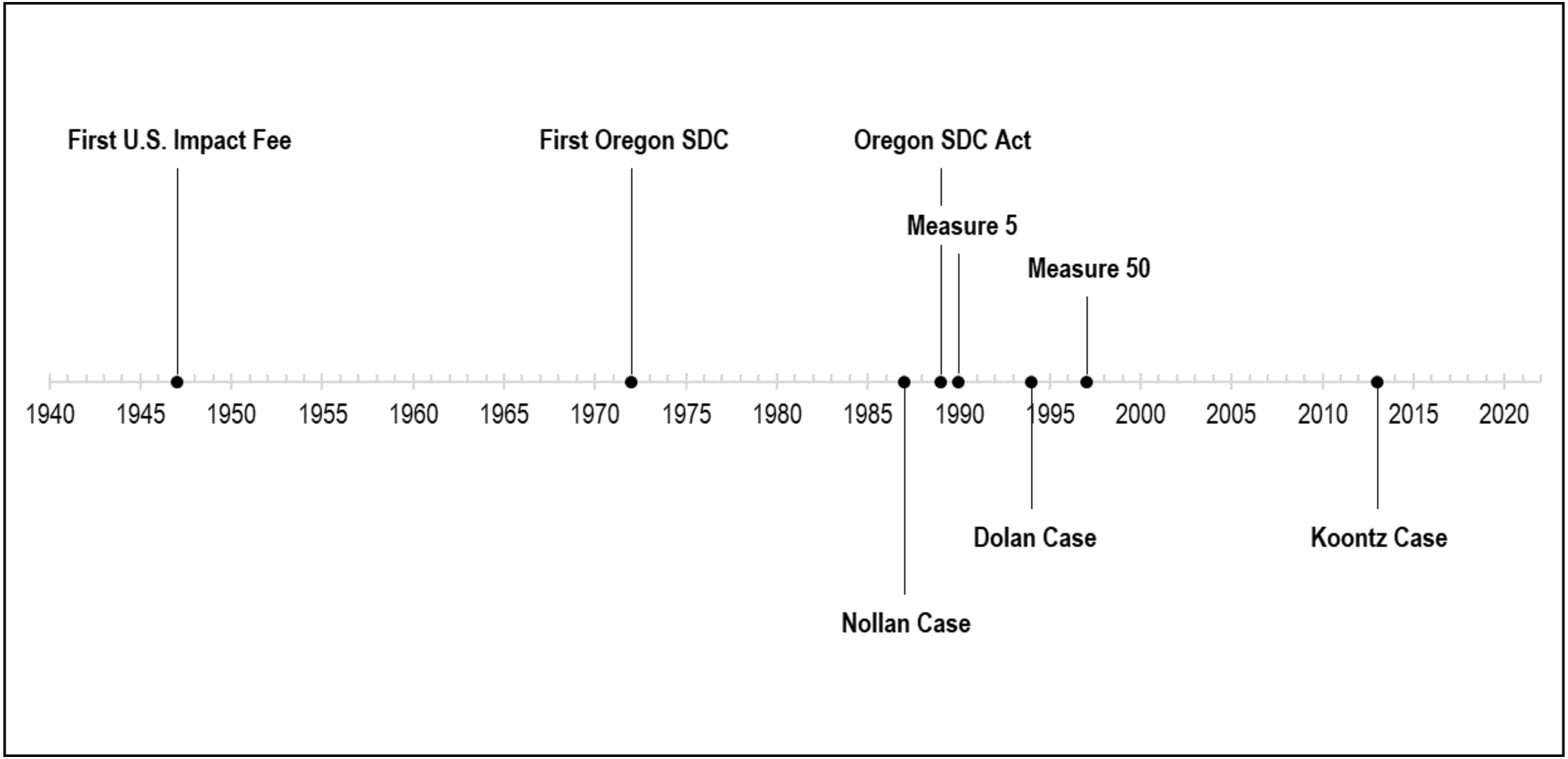
History and Legal Context

Key SDC / Impact Fee Milestones



Key U.S. Supreme Court Rulings

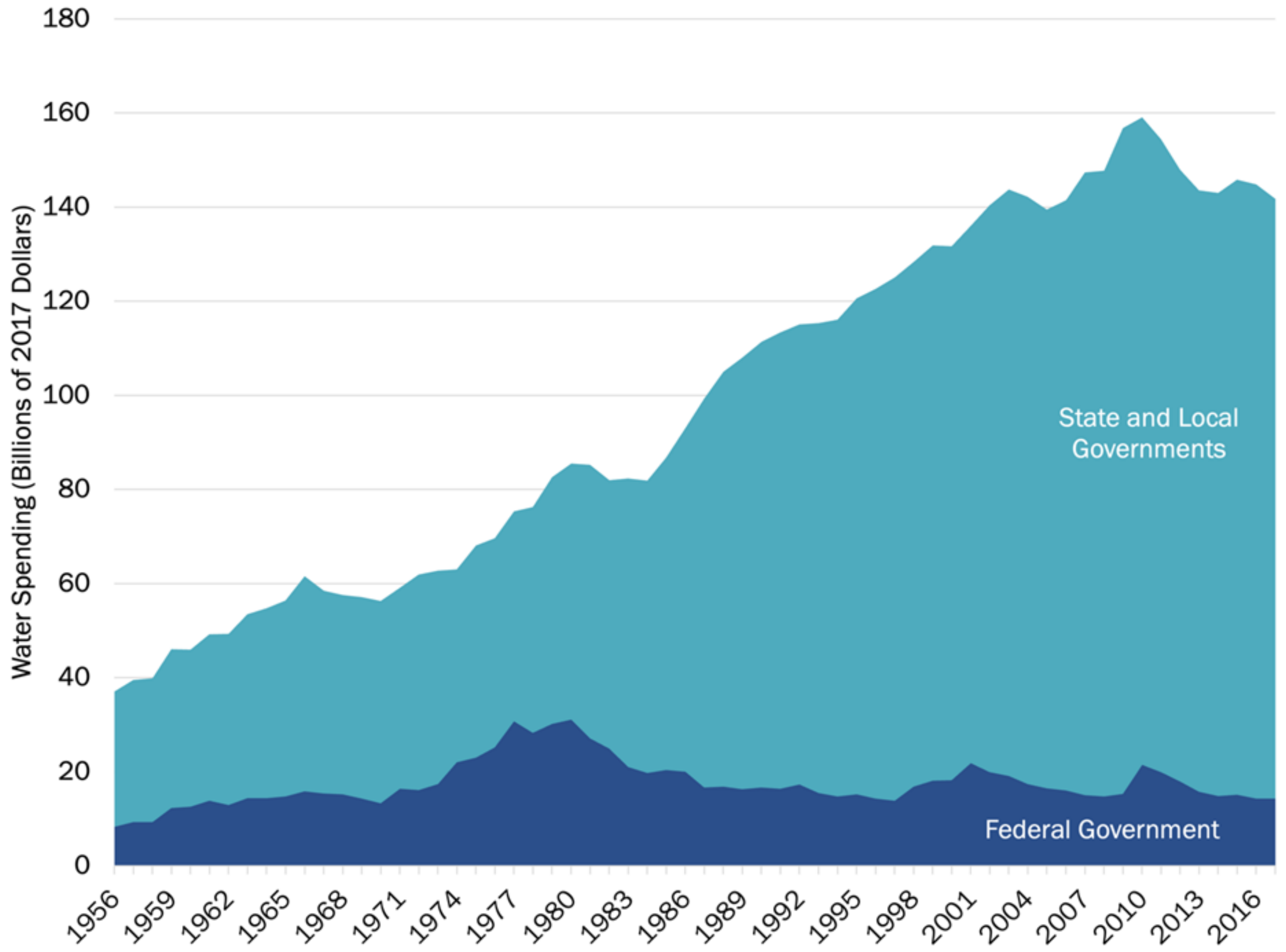
- Nollan v. California Coastal Commission (1987)
  - "Essential nexus": Exaction (of as a condition of development approval) must be clearly and directly related to the impact of the proposed development
- Dolan v. City of Tigard (1994)
  - "Rough proportionality": Exaction must be roughly proportional to the impact of the proposed development
- Koontz v. St. Johns River Water Management District (2013)
  - Nollan and Dolan tests also apply to monetary exactions

Oregon SDC Law (1989)

- Uniform framework
- Equitable funding
- Capital improvements only
- Five services
  - Water supply, treatment and distribution
  - Waste water collection, transmission, treatment and disposal
  - Drainage and flood control
  - Transportation
  - Parks and recreation
- Two components
  - Reimbursement fee
  - Improvement fee

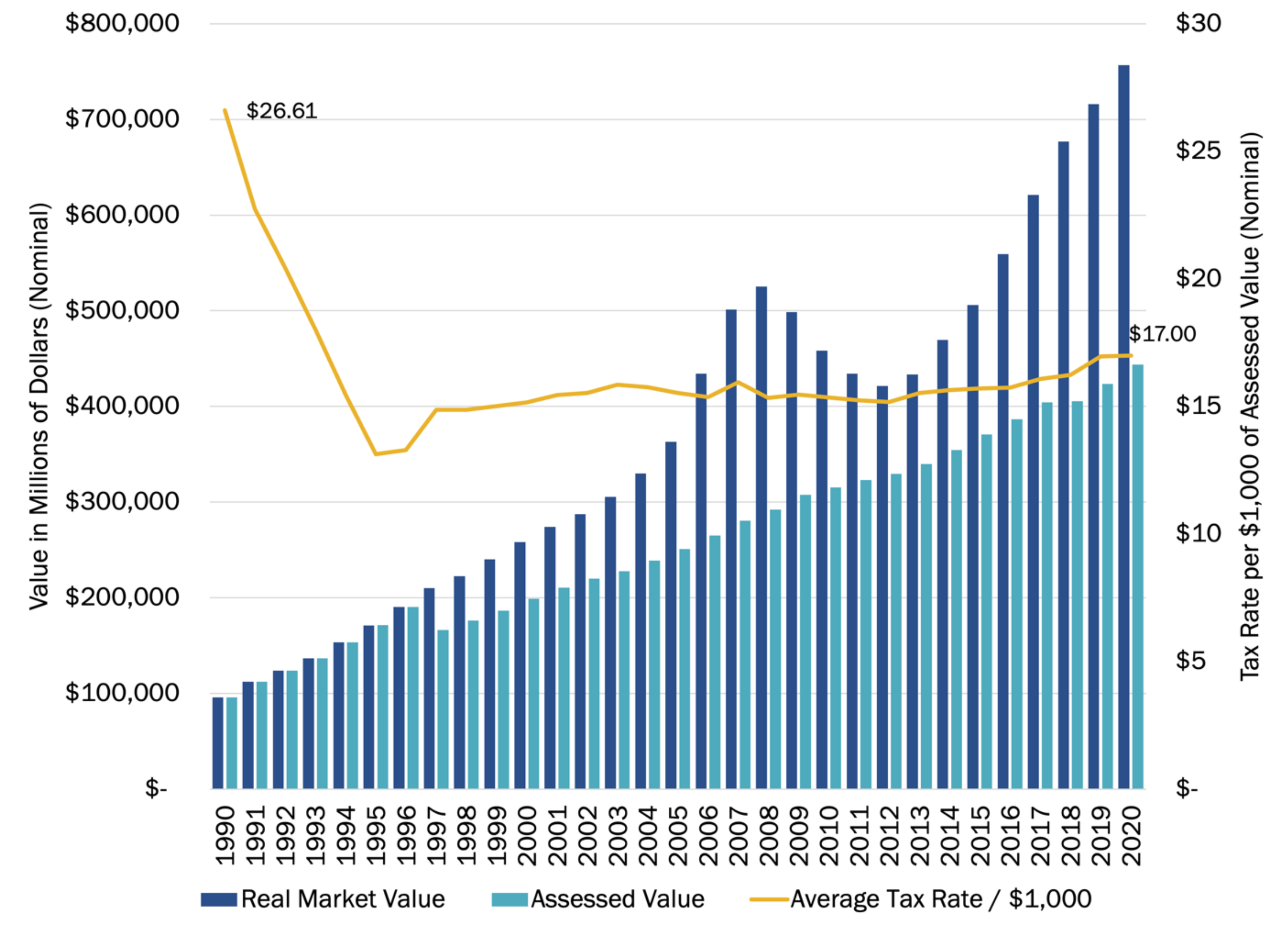
Fiscal Context

Federal Infrastructure Spending



- Flat to declining federal spending
- Increasing state and local government spending
- Changes promised with 2021 Bipartisan Infrastructure Law

Property Tax Limitations



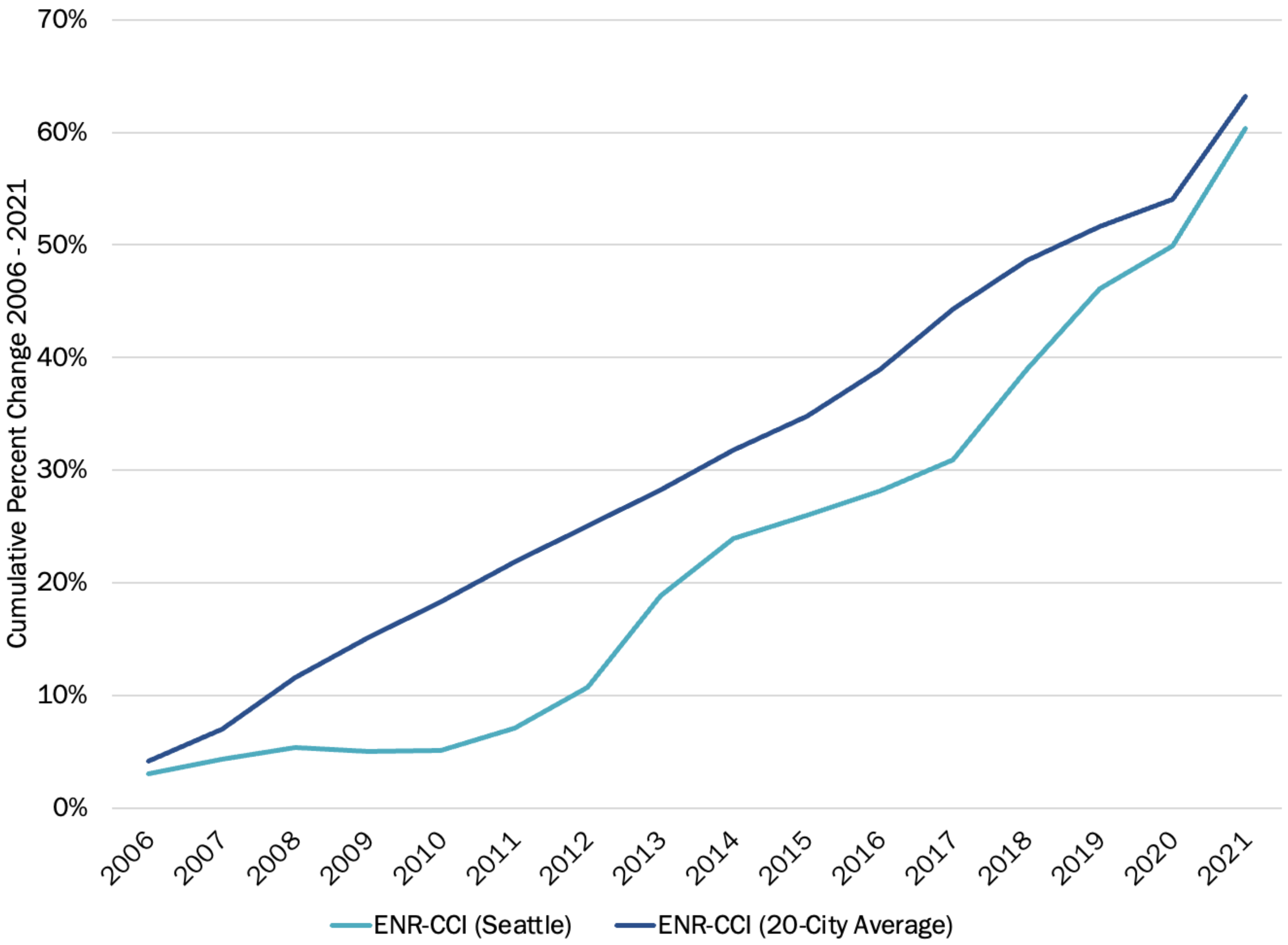
- Tax revenue impacts from Measures 5 and 50 since the 1990's
- Voter approval and total tax rate limits
- Tax revenue has grown at **less than 5% per year**

State Transportation Resources

- Highway Fund Allocation
  - Fuel tax / weight-mile tax receipts flat to declining

- Federal timber payments
  - Declining timber harvests

Construction Costs

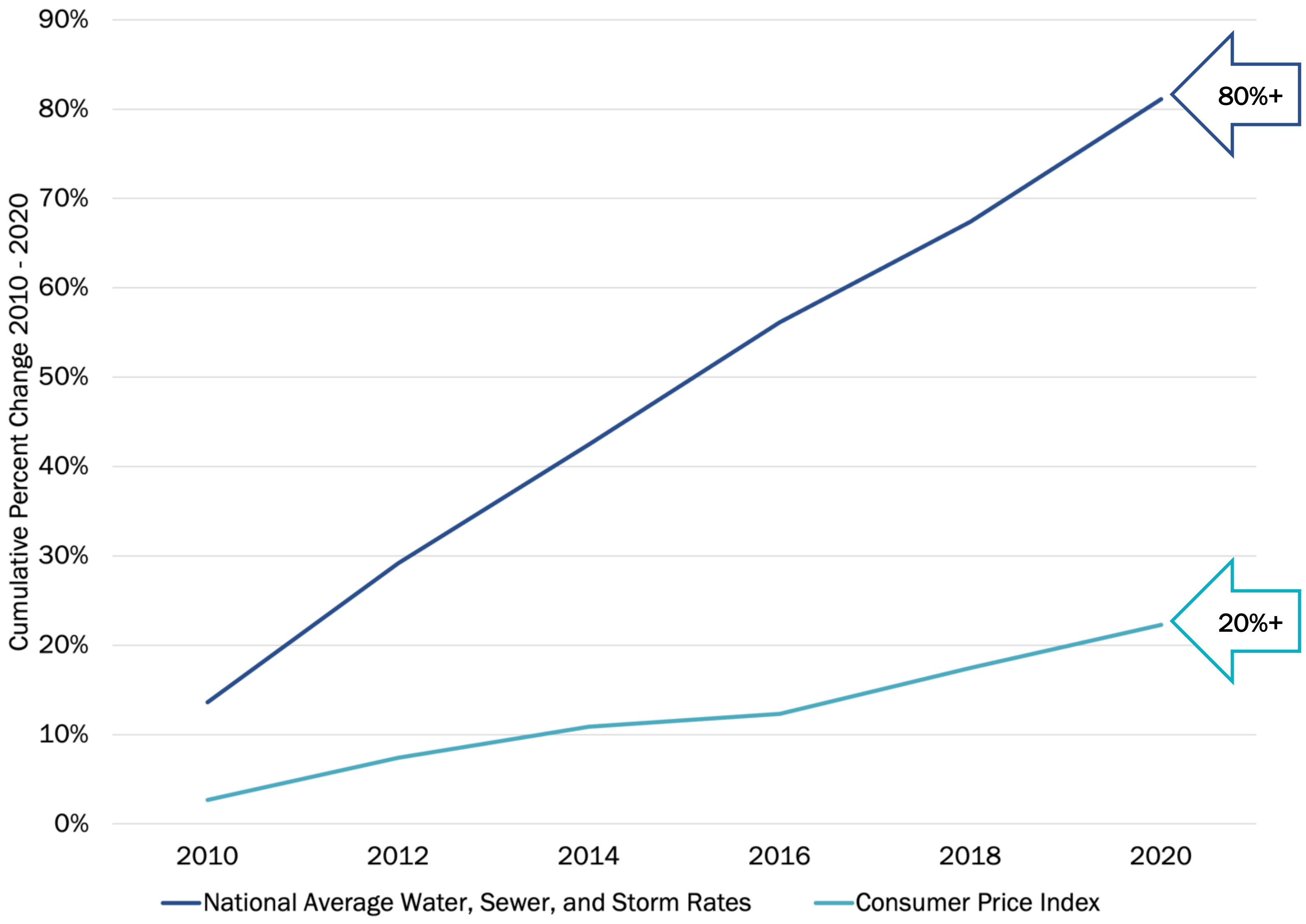


- Rising national and regional construction costs
- **3% per year** average since 2006
- **8-10% rise** in first half of 2022

Regulatory Requirements

These policies have led to major improvements in environmental protection and human health, but not without cost.

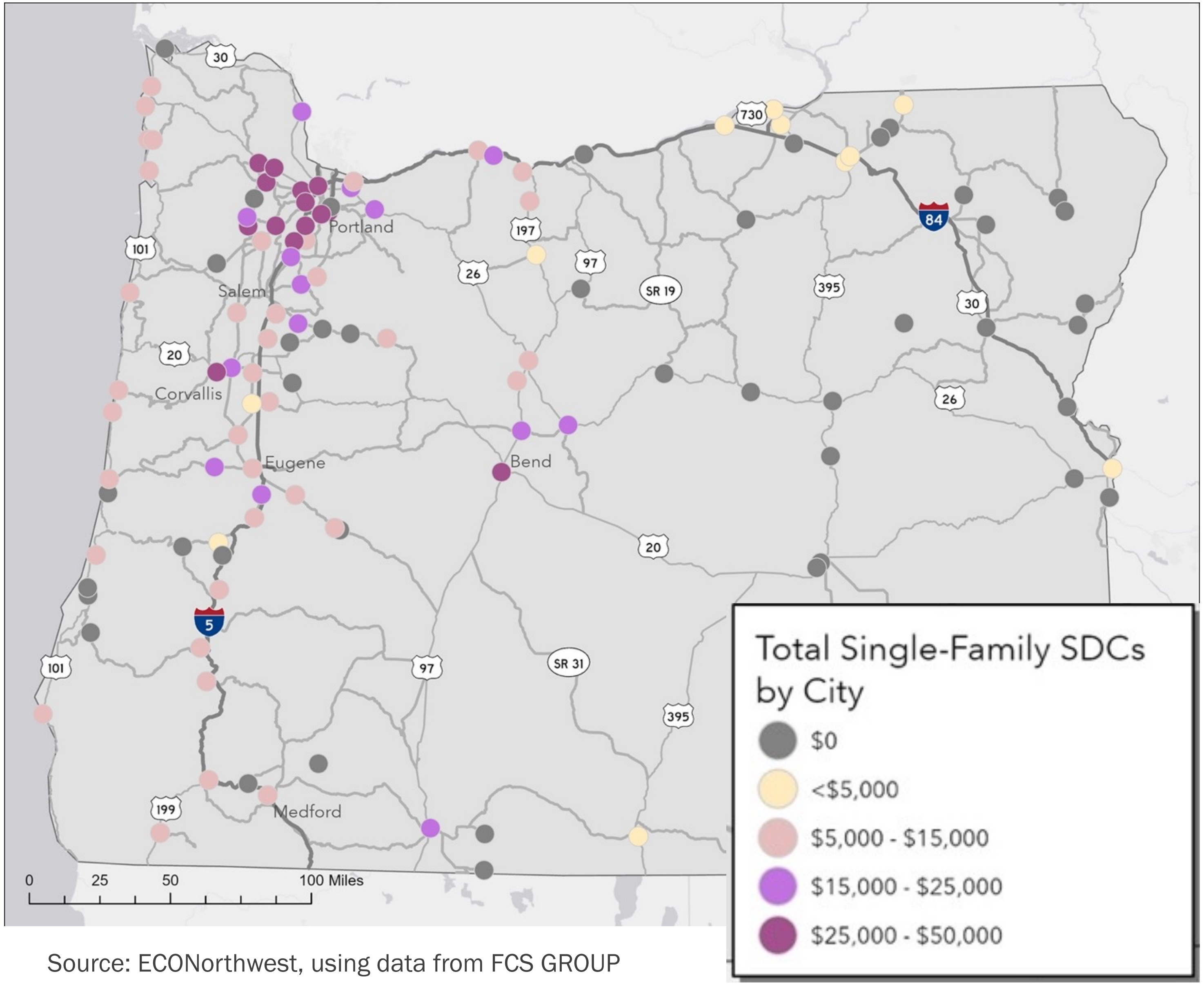
Increased Reliance on Rates and Charges



- Water, sewer, stormwater rate increases over time
- Introduction of new operating / user fees

SDC Rates

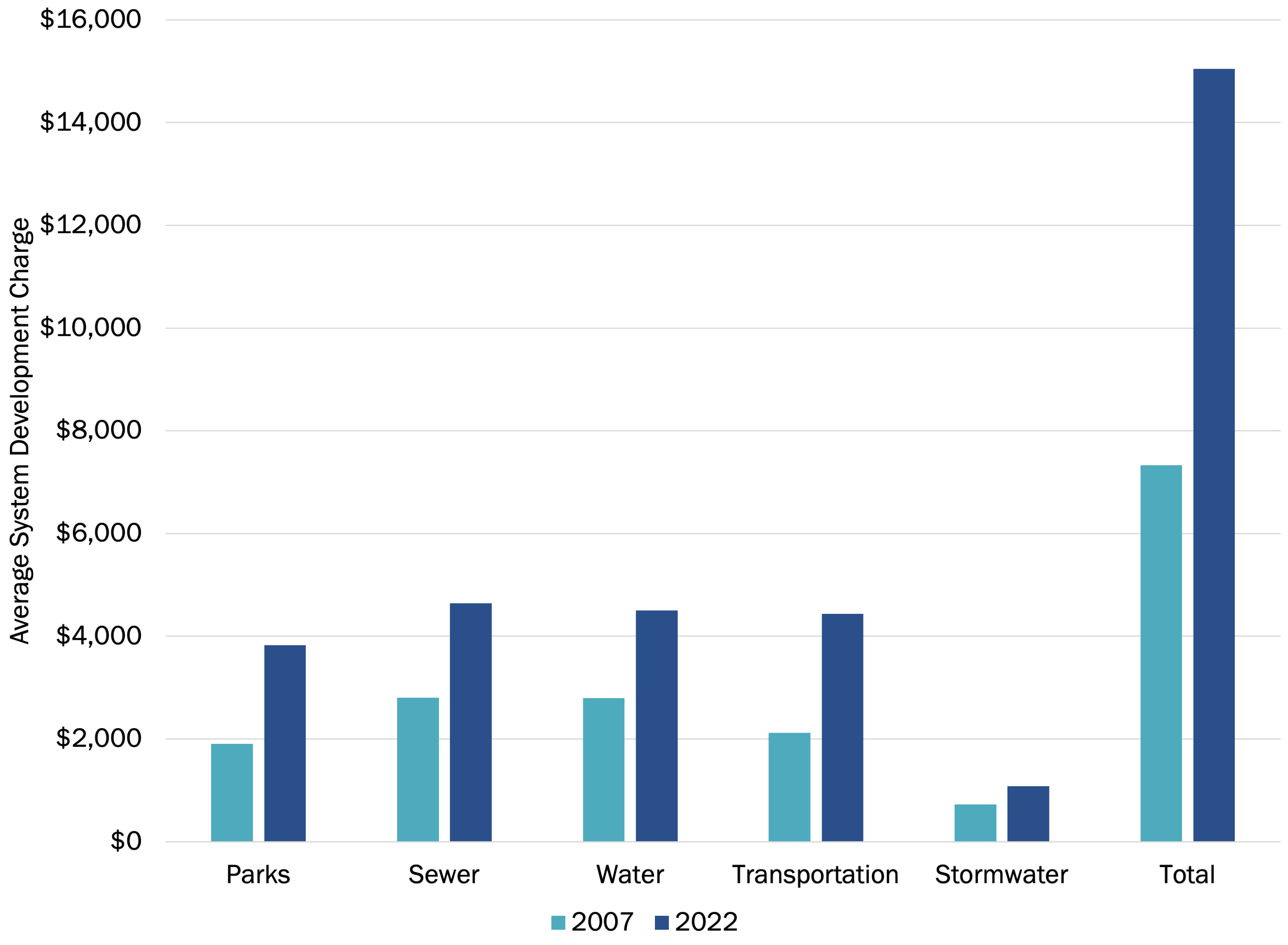
Geographic Variation in SDC Rates



Source: ECONorthwest, using data from FCS GROUP

- Most (66%) surveyed cities charge at least one SDC
- 2022 sample range from $0 - $50,000
- Regional variations

Trends in SDC Levels Over Time



- 105% increase on average total (15 years)
- Highest % increases for transportation (110%) and parks (101%)
- Construction cost escalation ~60% for same period

* 2007 data may not include all special district SDCs

Methodology and Implementation

Factors Effecting SDC Rates

SDC Methodology and Rate-Setting Decisions

Cost Basis

Total costs SDCs are intended to recover

Charge Basis

Distribution of costs to individual developments

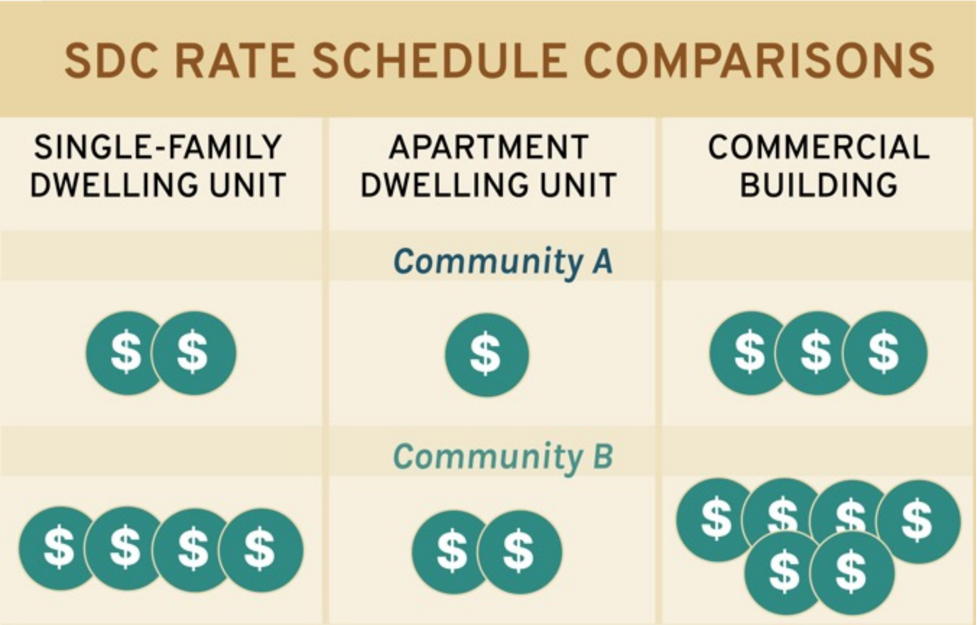
Final Rate-Setting

Reductions to SDCs to balance policy objectives

SDC Methodology Decisions: Cost Basis

COST BASIS

- Inclusion of past and/or future investments
- Capital planning period
- Infrastructure valuation method
- Growth cost allocation basis
- Future funding assumptions
- Compliance costs

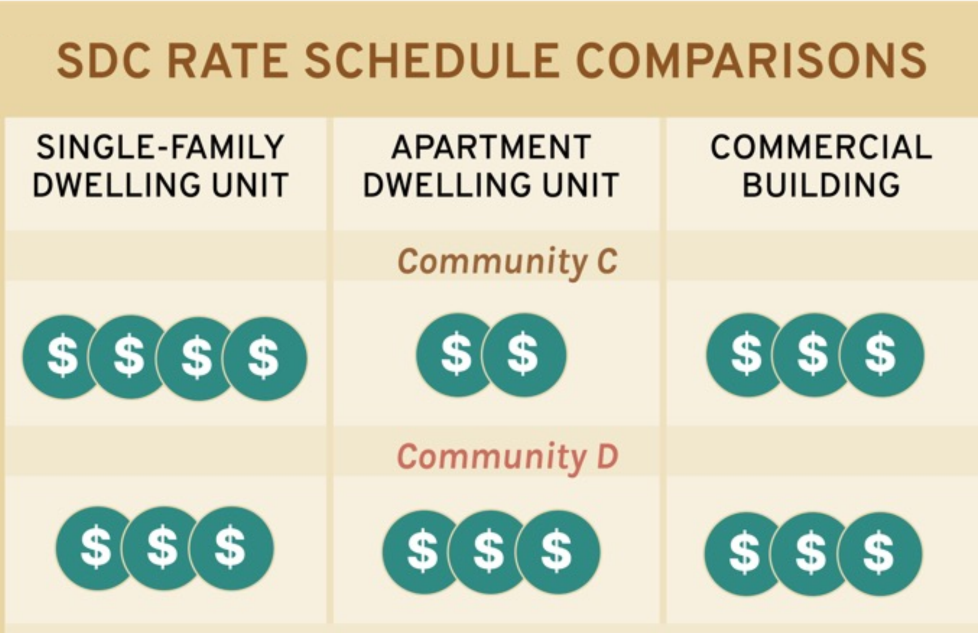


Total costs vary by community, but distribution between different land uses is similar

SDC Methodology Decisions: Charge Basis

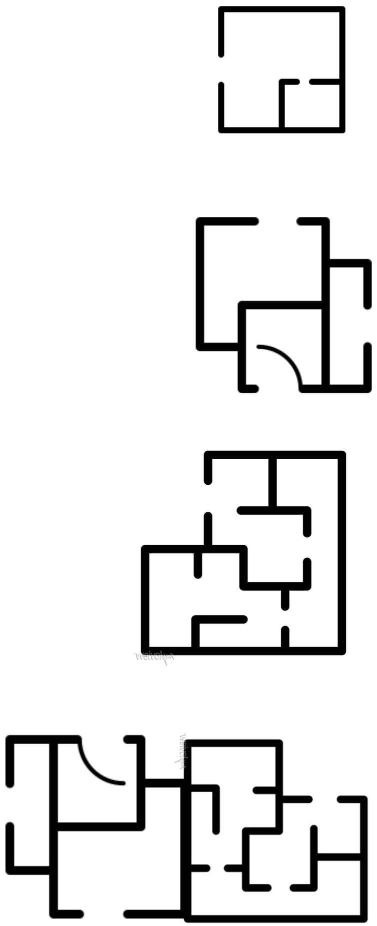
CHARGE BASIS

- Development characteristics used to scale SDCs based on size
- Inclusion of intensity of use factors that vary by land use types
- SDC differentials based on development location or context



Total costs are similar between communities, but **distribution between different land uses varies**

Charge Basis: Scaled SDC Rates



Parks SDC Example

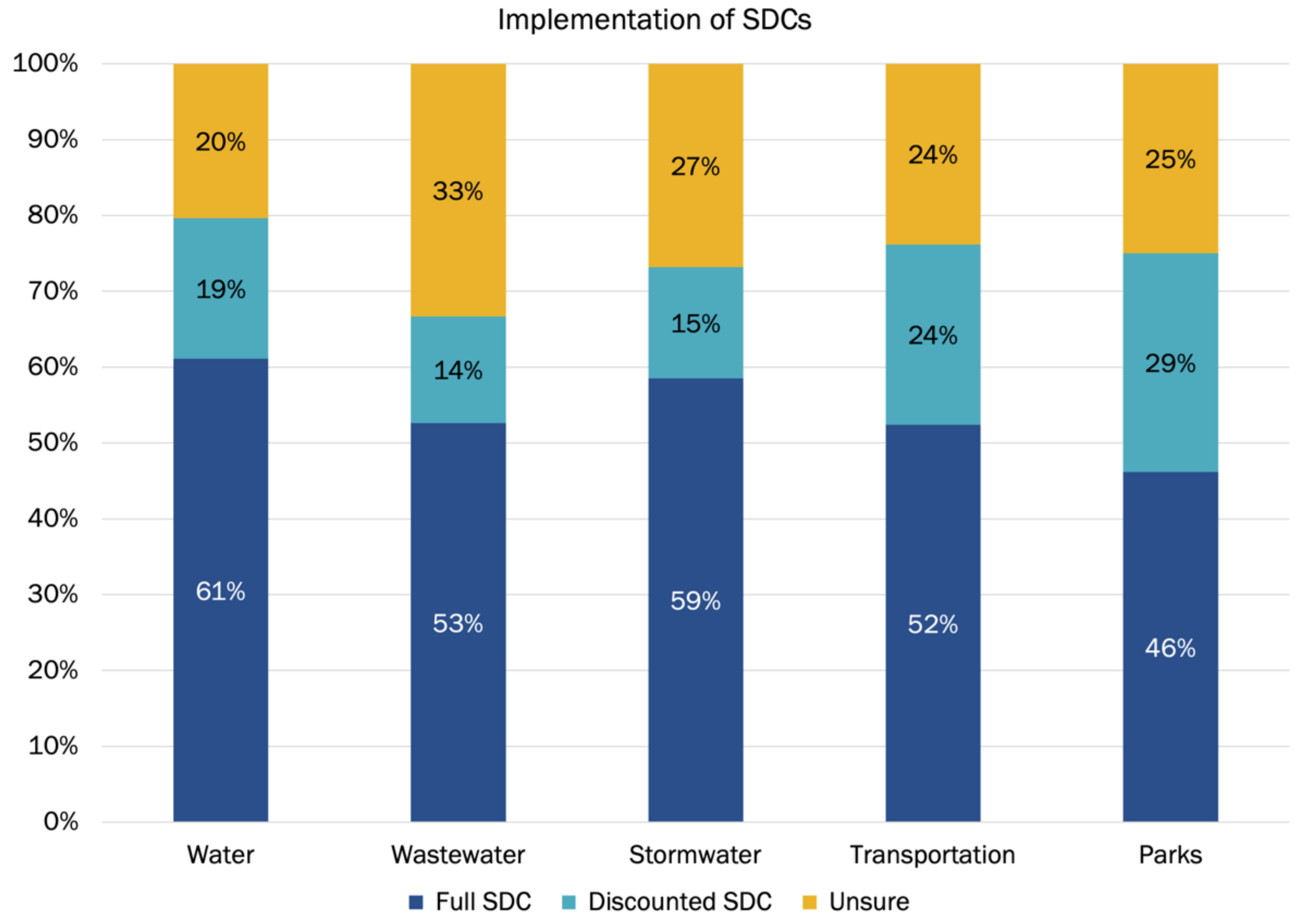
Single Family ($/Dwelling Unit)

- <500 SQ FT - $6,067
- 501-1,000 SQ FT - $6,597
- 1,001-1,600 SQ FT - $7,661
- 1,601-3,000 SQ FT - $8,690
- >3,000 SQ FT - $9,719

Multifamily ($/Dwelling Unit)

- 0 bedroom - $3,831
- 1 bedroom - $4,221
- 2 bedrooms - $6,845
- 3+ bedrooms - $8,867

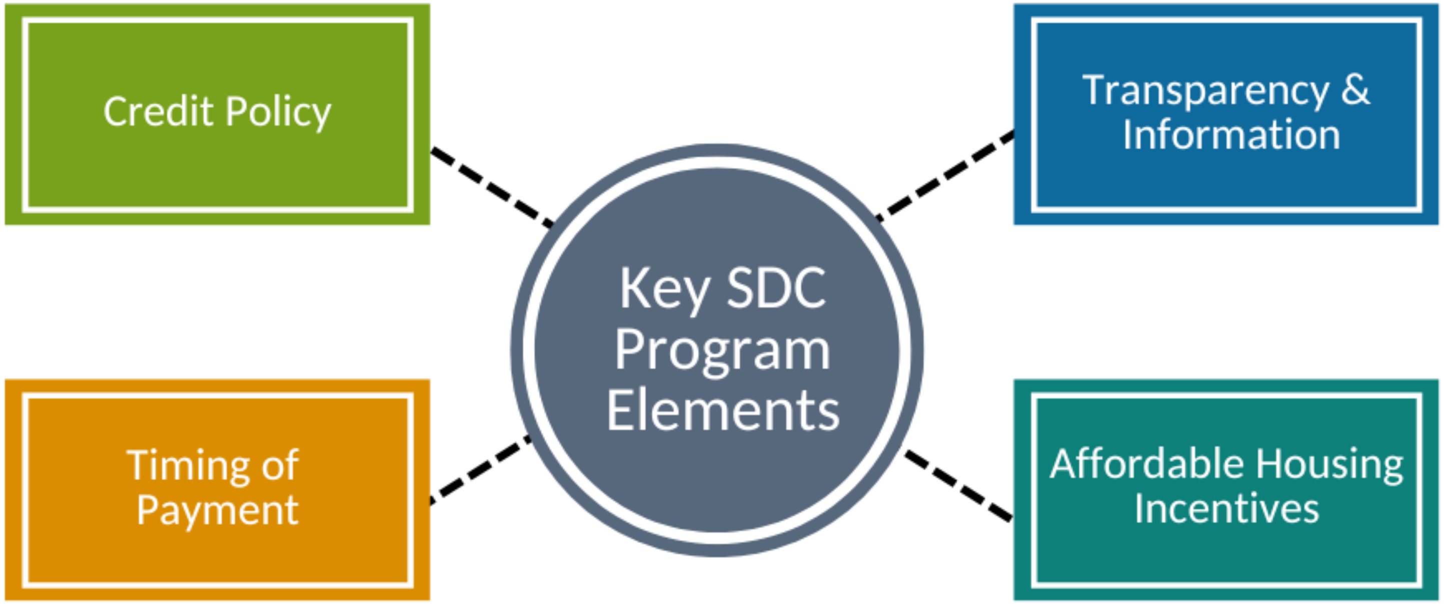
Rate-Setting Decisions



- 14% of districts discounted wastewater
- 29% offer discount for parks
- Elected officials' concern about local competitiveness

Administration

Implementation & Administration Considerations



Implementation Considerations: SDC Credits

- Credits for construction of public improvements required by Oregon law under certain conditions
- Statutes provide framework for determination of minimum credit amount, but local government may provide greater credits

DEVELOPERS

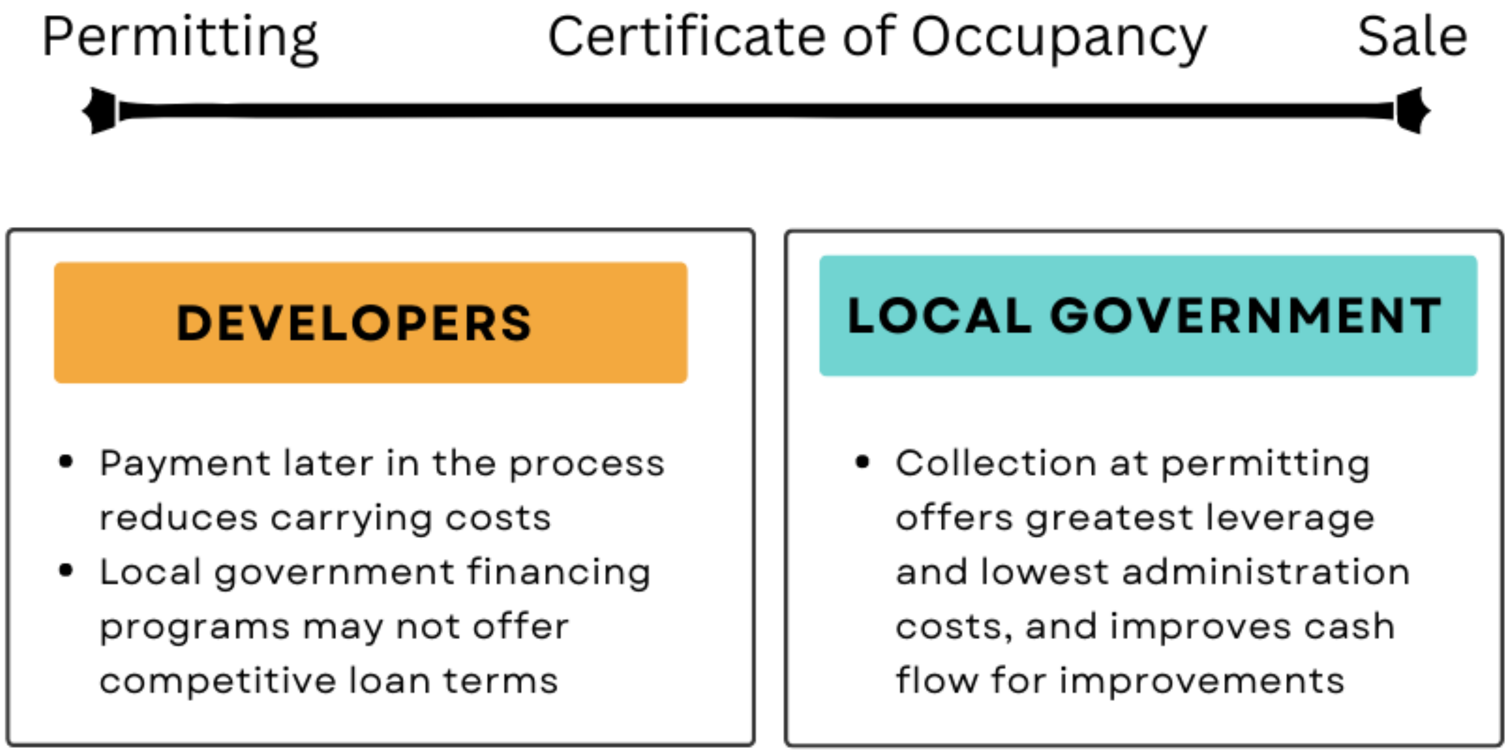
- Improvements allow development to move forward
- Minimum credit requirements may not be sufficient to recoup actual costs
- Lack of transparency makes it difficult to estimate credits upfront

LOCAL GOVERNMENT

- Improvements may be constructed at lower cost
- Expansion of eligible projects may reduce local control
- Enhanced transferability of credits require additional administrative costs

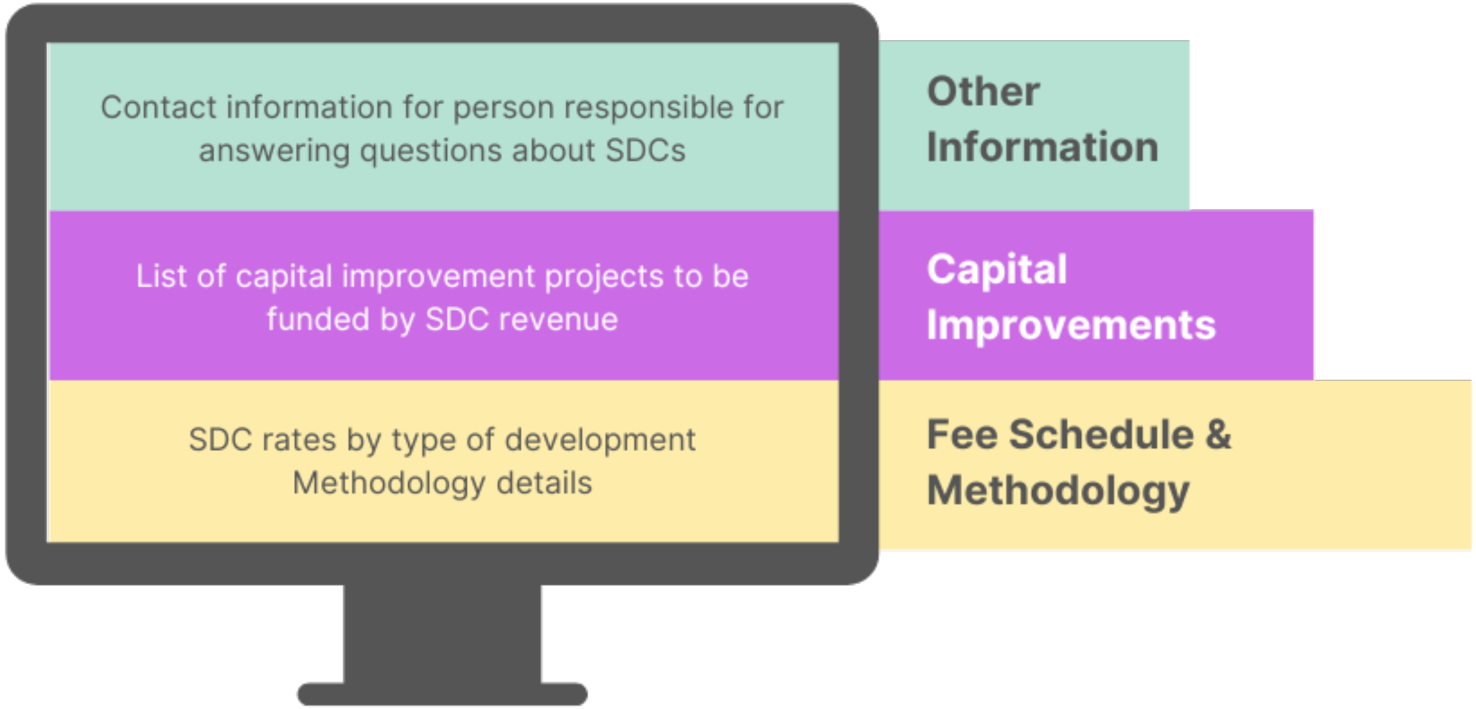
Implementation Considerations: Timing & Deferrals

- SDC statutes provide flexibility on timing of SDC payment and deferrals



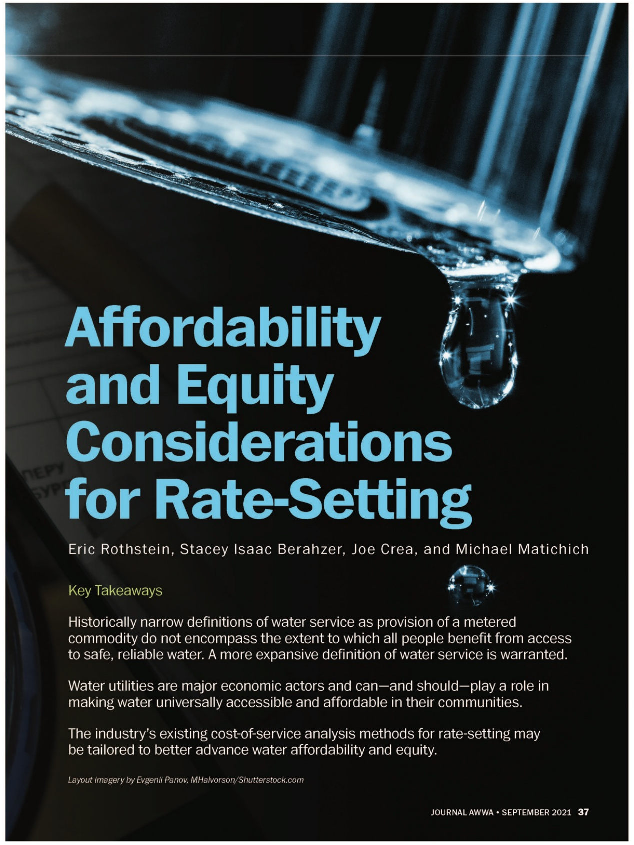
Transparency & Information

- Recent addition to statutes (ORS 223.316) broaden SDC information to be included on local government website.
- Developers value clear information about SDC costs for a particular project.



Exemptions/Waivers for Affordable Housing

- Rate-making practices continue to evolve locally and nationally.
- Concerns over reduction in revenue and fairness unless ‘backfilled’ by other revenue sources.
- Specific program considerations
  - Eligibility criteria
  - Program “Cap” over a specific period
  - Balancing monitoring and administration costs



Affordability and Equity Considerations for Rate-Setting

Eric Rothstein, Stacey Isaac Berahzer, Joe Crea, and Michael Matichich

Key Takeaways

Historically narrow definitions of water service as provision of a metered commodity do not encompass the extent to which all people benefit from access to safe, reliable water. A more expansive definition of water service is warranted.

Water utilities are major economic actors and can—and should—play a role in making water universally accessible and affordable in their communities.

The industry’s existing cost-of-service analysis methods for rate-setting may be tailored to better advance water affordability and equity.

Layout imagery by Evgenii Panov, MHalvorson/Shutterstock.com

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SDCs and Housing Costs

Who Bears the Costs of SDCs?

Landowners

- Depends on availability of comparable land facing lower costs

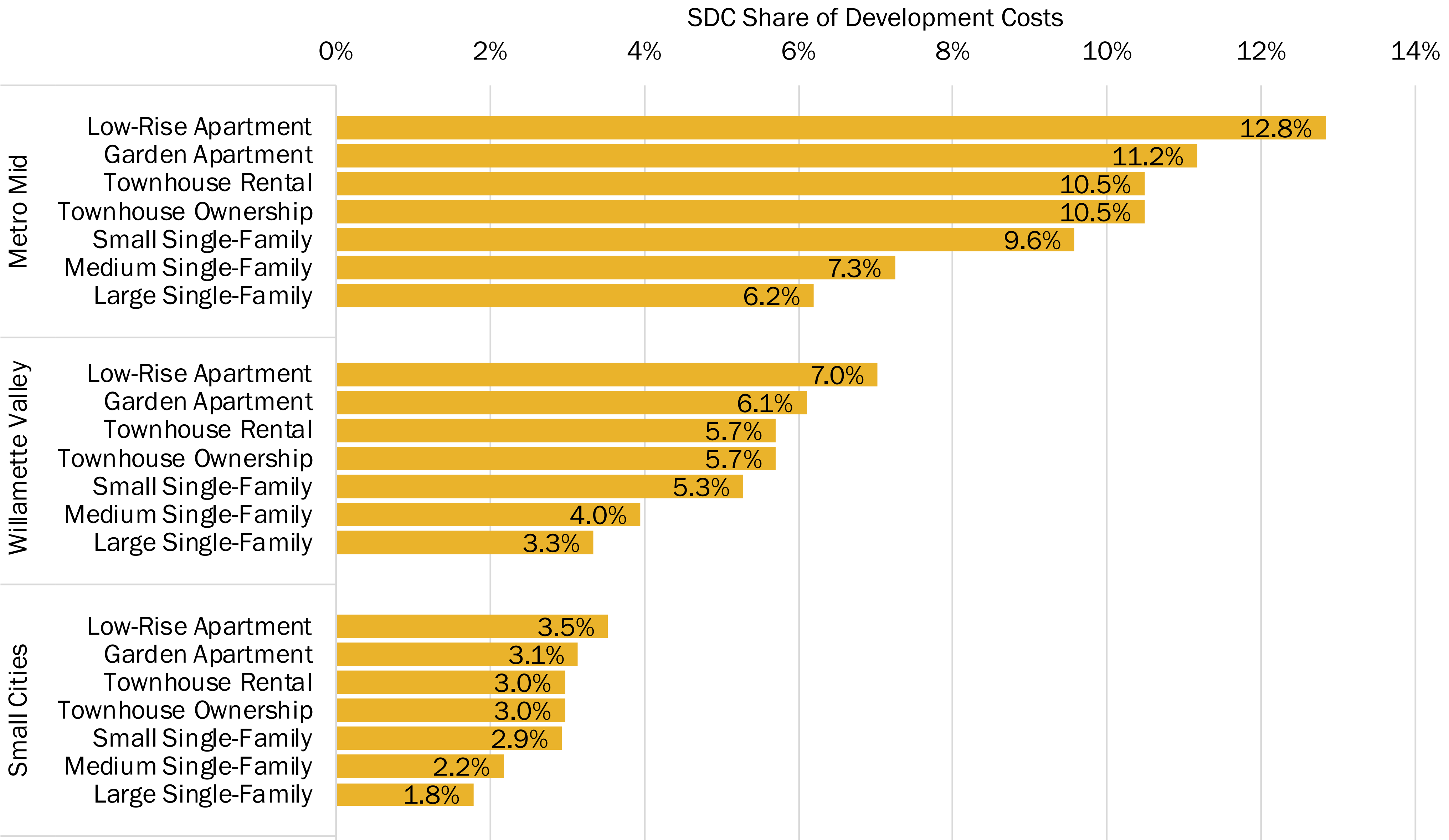
Developers & Investors

- Rarely absorb costs unless new regulations occur during development

Homeowners & Renters

- Bear a greater share of costs in tight housing markets

How Much of Total Development Costs Come from SDCs?

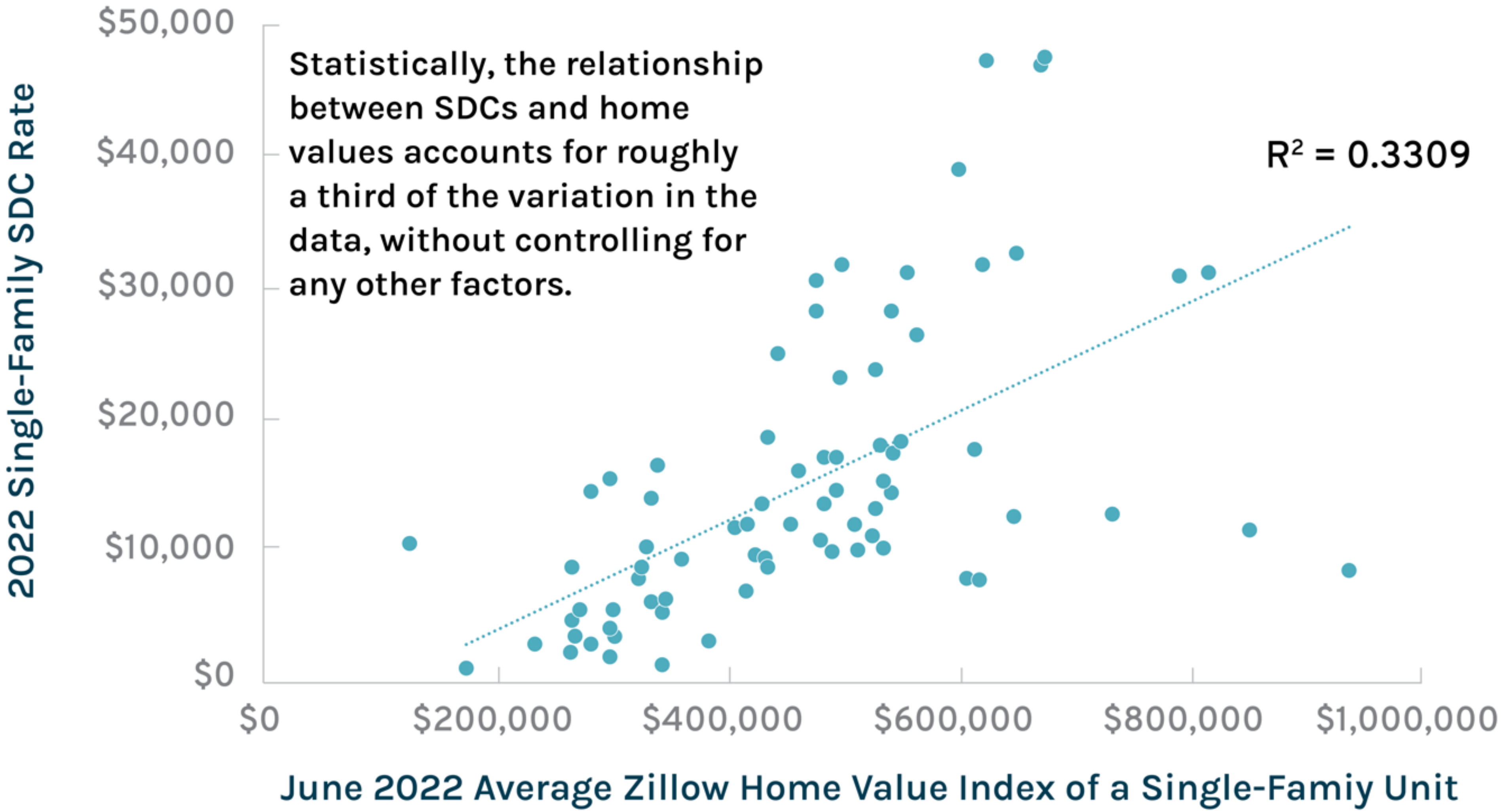


ECONorthwest estimates based on illustrative prototypical developments and estimated average SDC costs by region for jurisdictions with SDCs

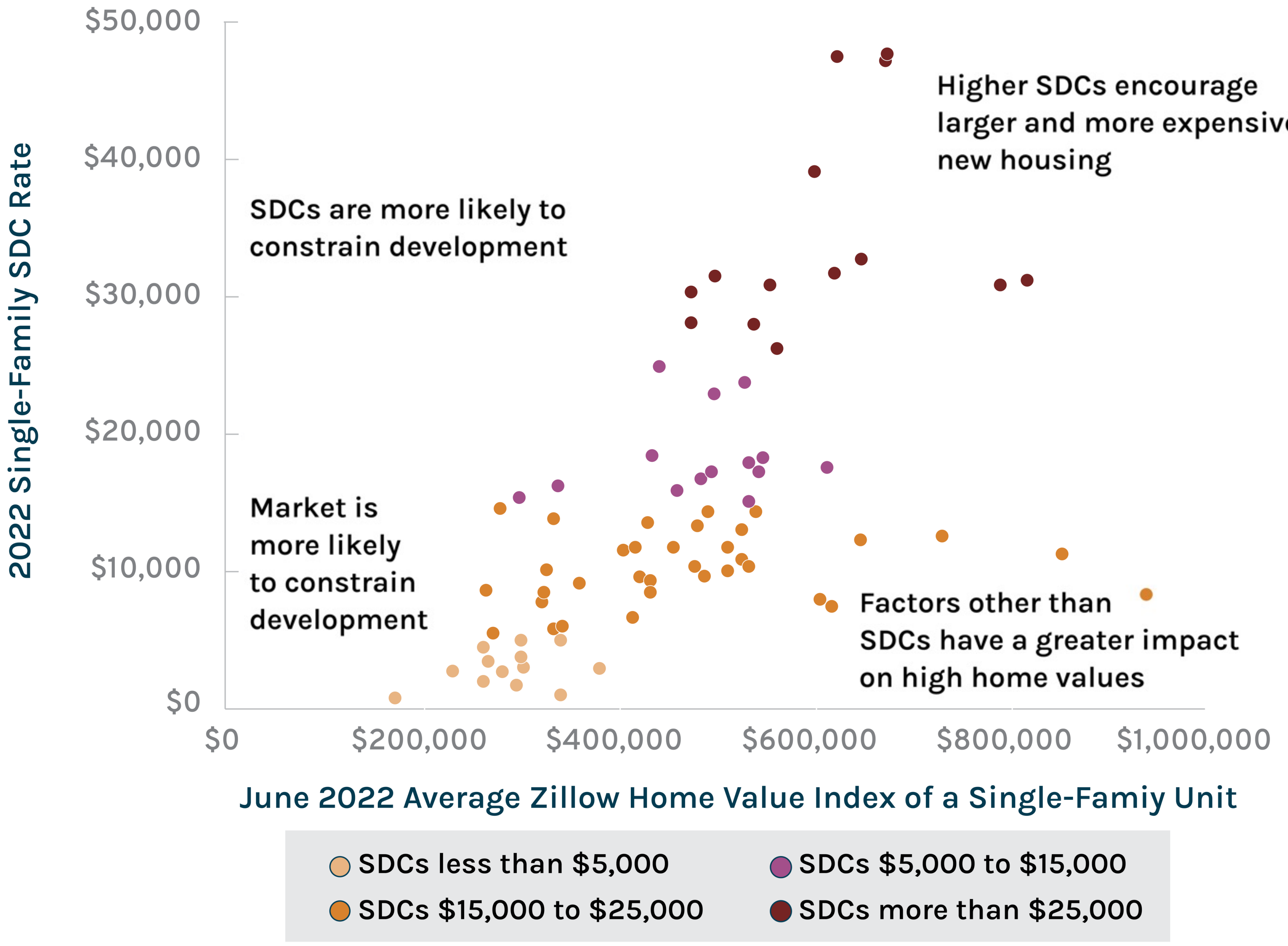
How Do Impact Fees Relate to Housing Prices & Production?

State (Year)	Observed Relationship to Housing Prices	Observed Relationship to Housing Production	Observed Relationship to Land Values
Florida (1989)	(+)	N/A	N/A
Colorado (1990)	(+)	N/A	N/A
Ontario (1992)	N/A	N/A	(+)
California (1997)	(+)	N/A	N/A
Illinois (1998)	N/A	(–)	N/A
Illinois (1999)	(+)	N/A	N/A
Nationwide (2000)	N/A	(–)	N/A
Florida (2004)	(+)	N/A	(–)
Washington (2004)	(+)	N/A	N/A
Texas (2005)	N/A	N/A	(+)
Florida (2006)	N/A	(+)	N/A
Washington (2013)	(+)	N/A	N/A
Florida (2014)	N/A	N/A	(–)
Florida (2015)	N/A	N/A	(+)

How Do SDCs Relate to Home Values in Oregon?



How Do SDCs Relate to Market Conditions in Oregon?



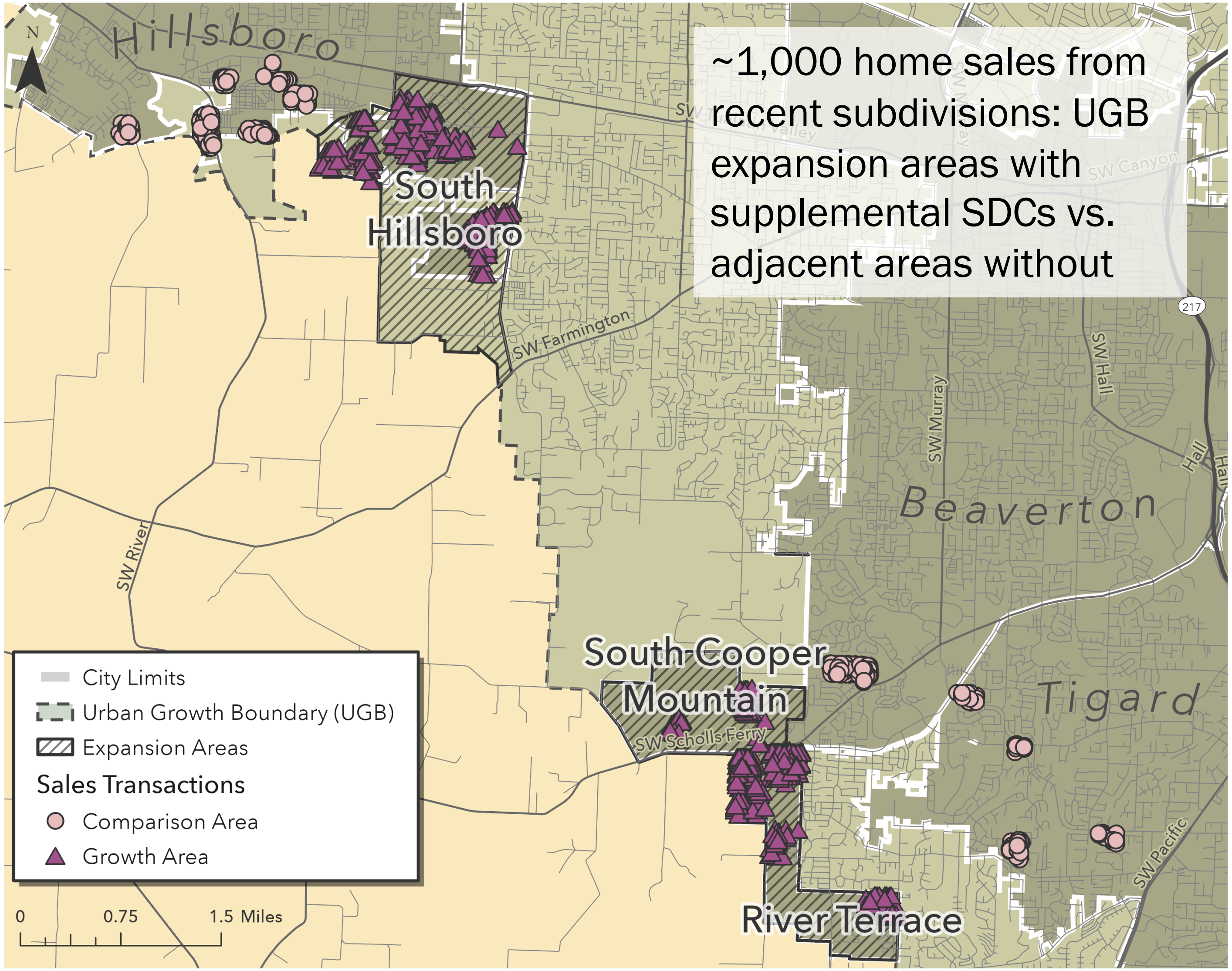
How do SDCs Differences within a Market Affect Home Prices?

Controlled for:

- Home & lot size, year built & sold, jurisdiction

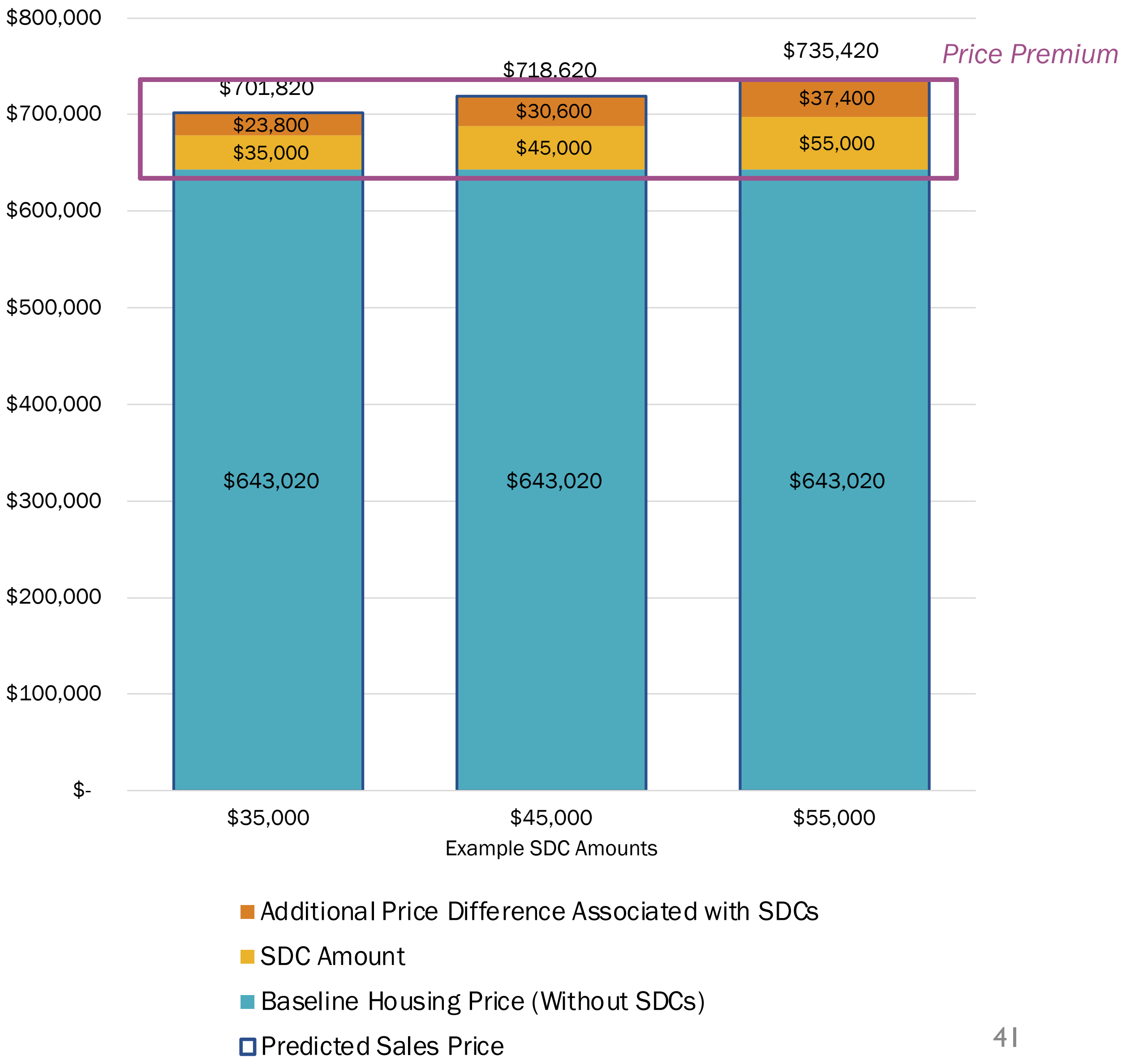
Did NOT control for:

- Amenities, infrastructure quality, other infrastructure costs



How do SDCs Differences within a Market Affect Home Prices?

- Regression model shows:
  - **Higher housing prices in places with higher SDCs**
  - **Difference in price > difference in SDCs**
- **Possible explanations:**
  - Higher SDCs + financing costs
  - Higher amenity levels in expansion areas
  - Higher direct infrastructure & land development costs in expansion areas (beyond SDCs)
  - Unknown unknowns

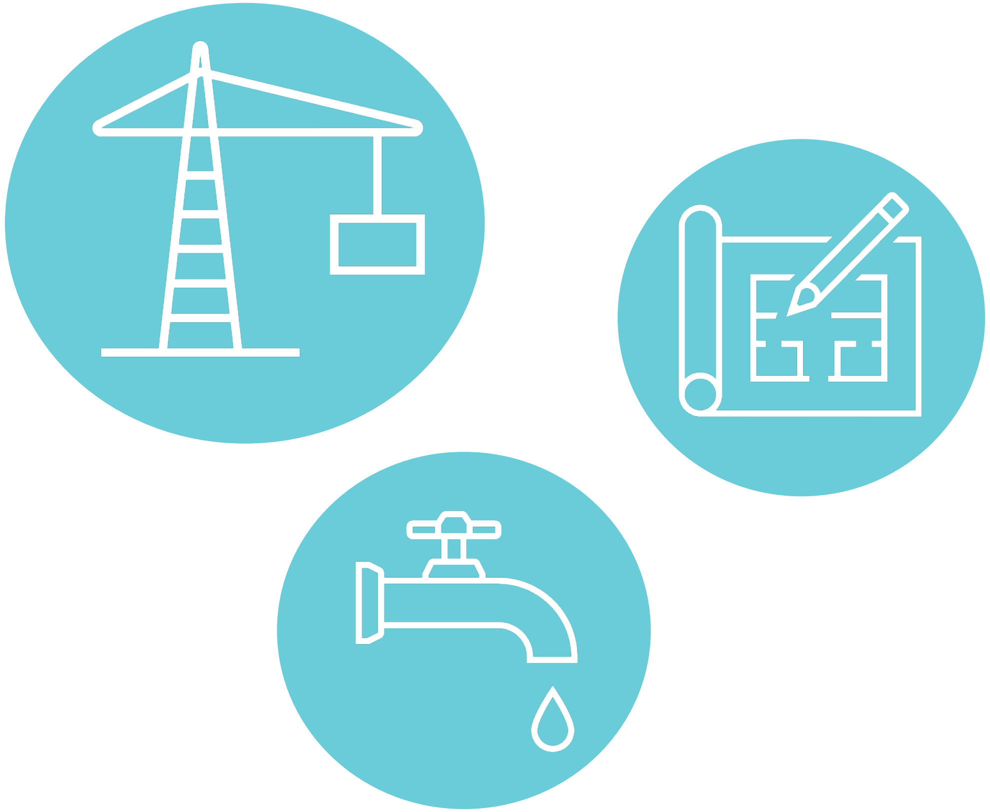


Conclusions

Conclusions

Jurisdictions face competing goals of

providing infrastructure and **supporting housing affordability**



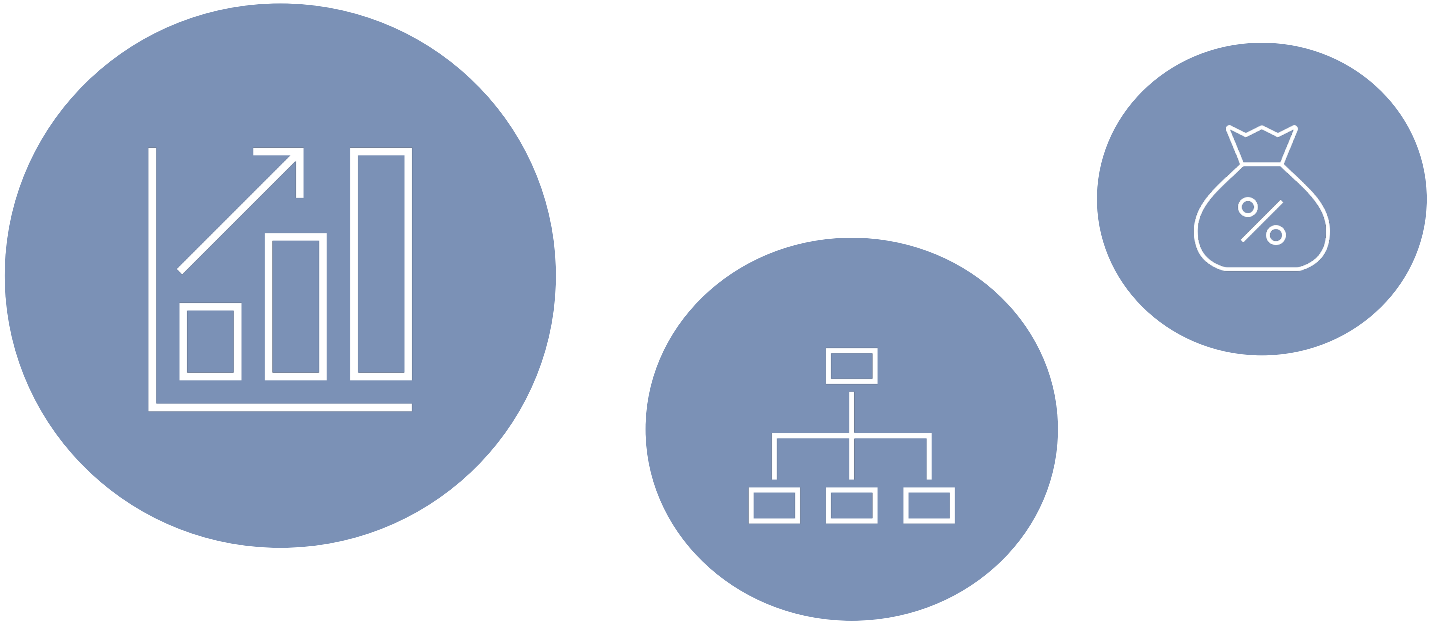
Conclusions

SDCs are likely to remain **central to local funding for infrastructure**, and most agree **development should contribute to growth-related infrastructure costs.**

SDCs contribute to challenges with **housing production** and **affordability** for moderate- and low-income households

Conclusions

Changes to SDC rate structures, policies, and administrative practices can lead to improvements at the margins that could, collectively, yield a meaningful change.



Questions?

Thank You!

To submit additional comments please look for a link to the feedback form provided in email and on the project website.