OREGON HOUSING AND COMMUNITY SERVICES

System Development Charges

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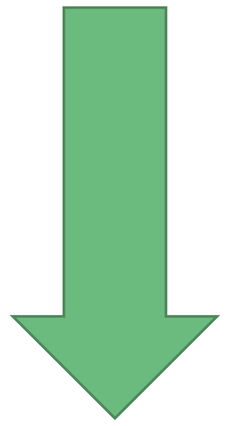
Oregon Housing and Community Services

System Development Charges Report

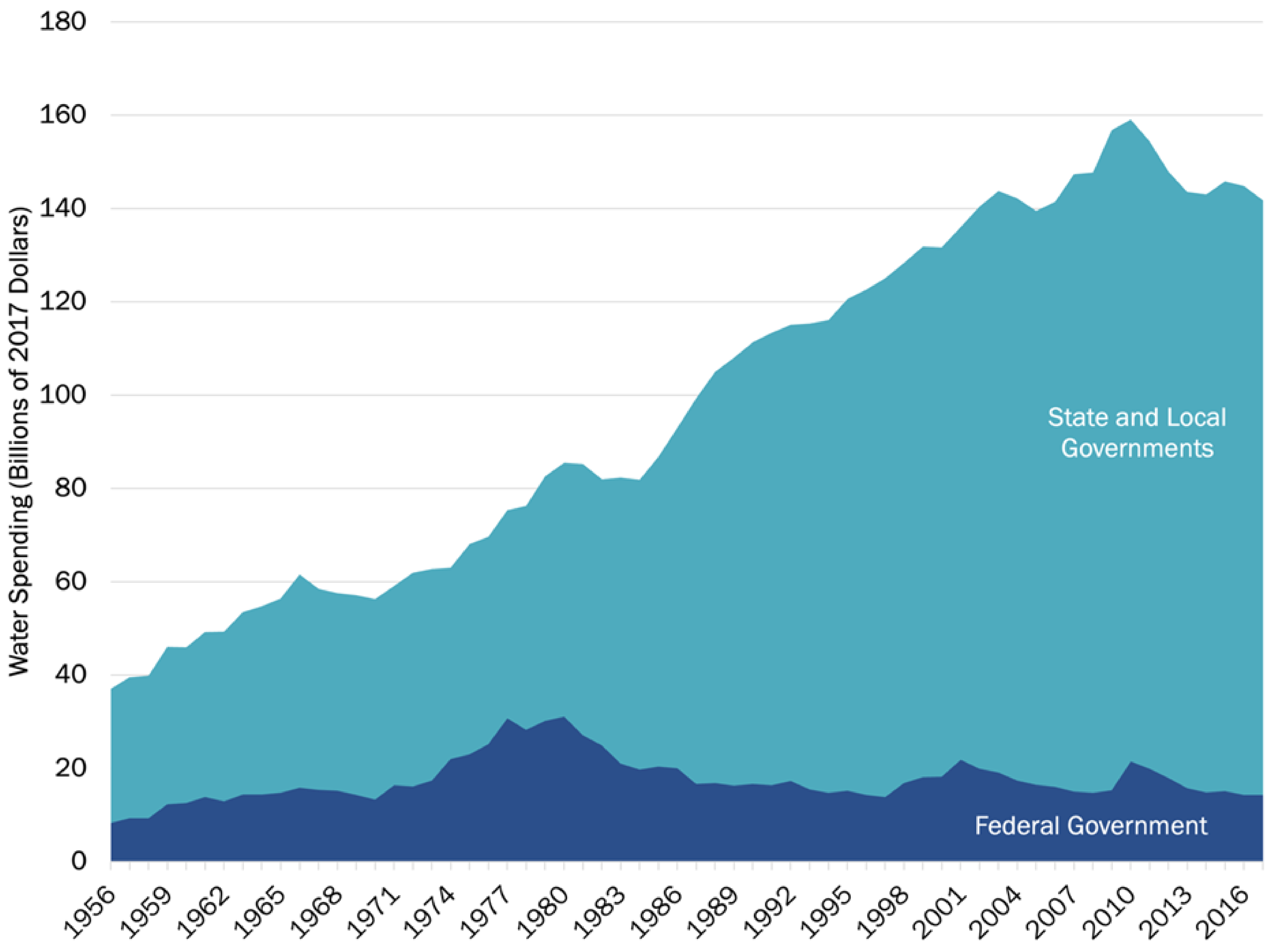
- Legal framework and history
- Role in funding infrastructure
- Methodology
- Housing costs

Why do we need SDCs?

- Historic disinvestment in infrastructure by federal government
- Rising cost of system operations, repair, replacement
- Want to keep affordability for ratepayers
- Property tax limitations



<5% tax revenue growth per year



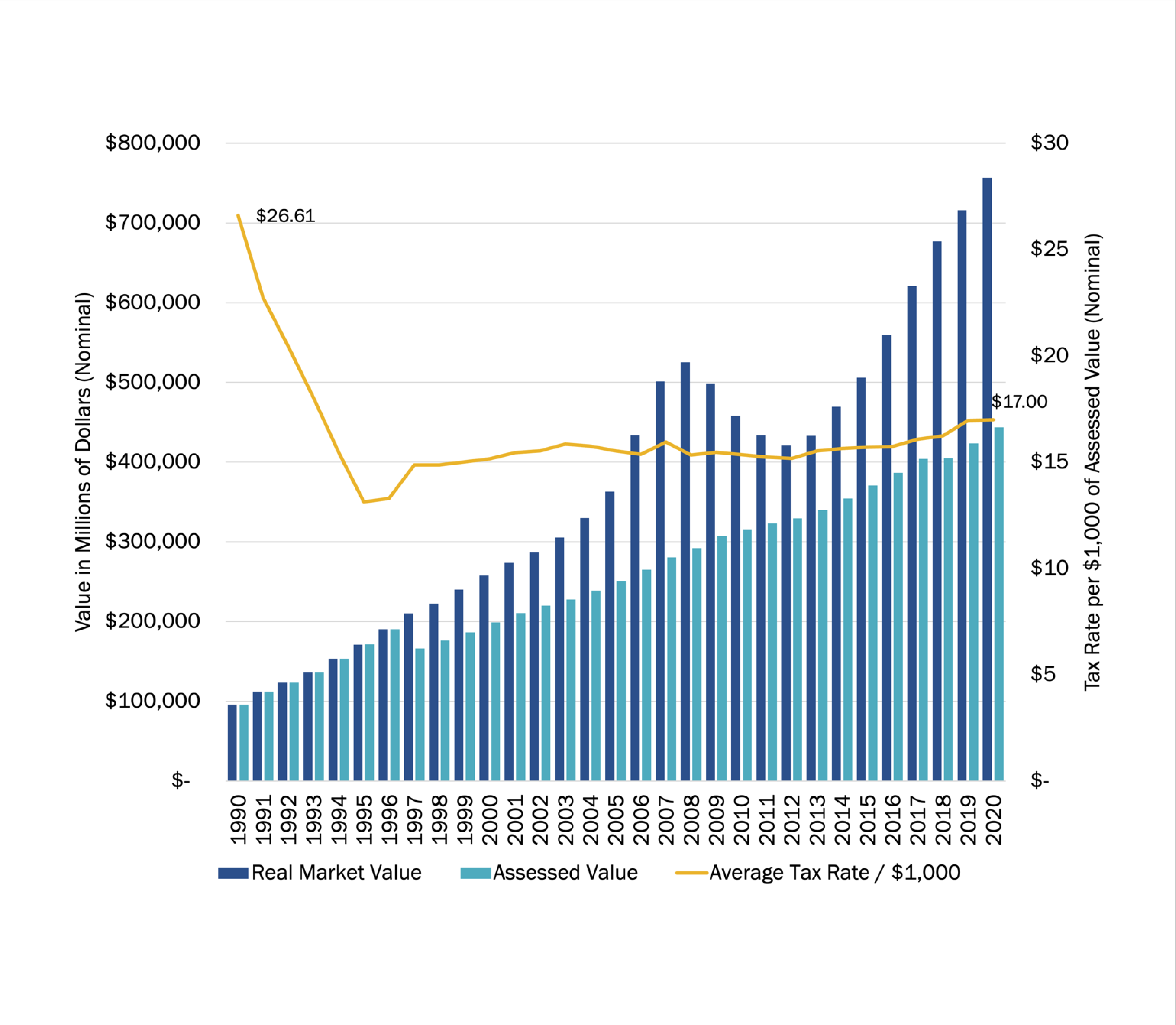
Property Tax History

Measure 5

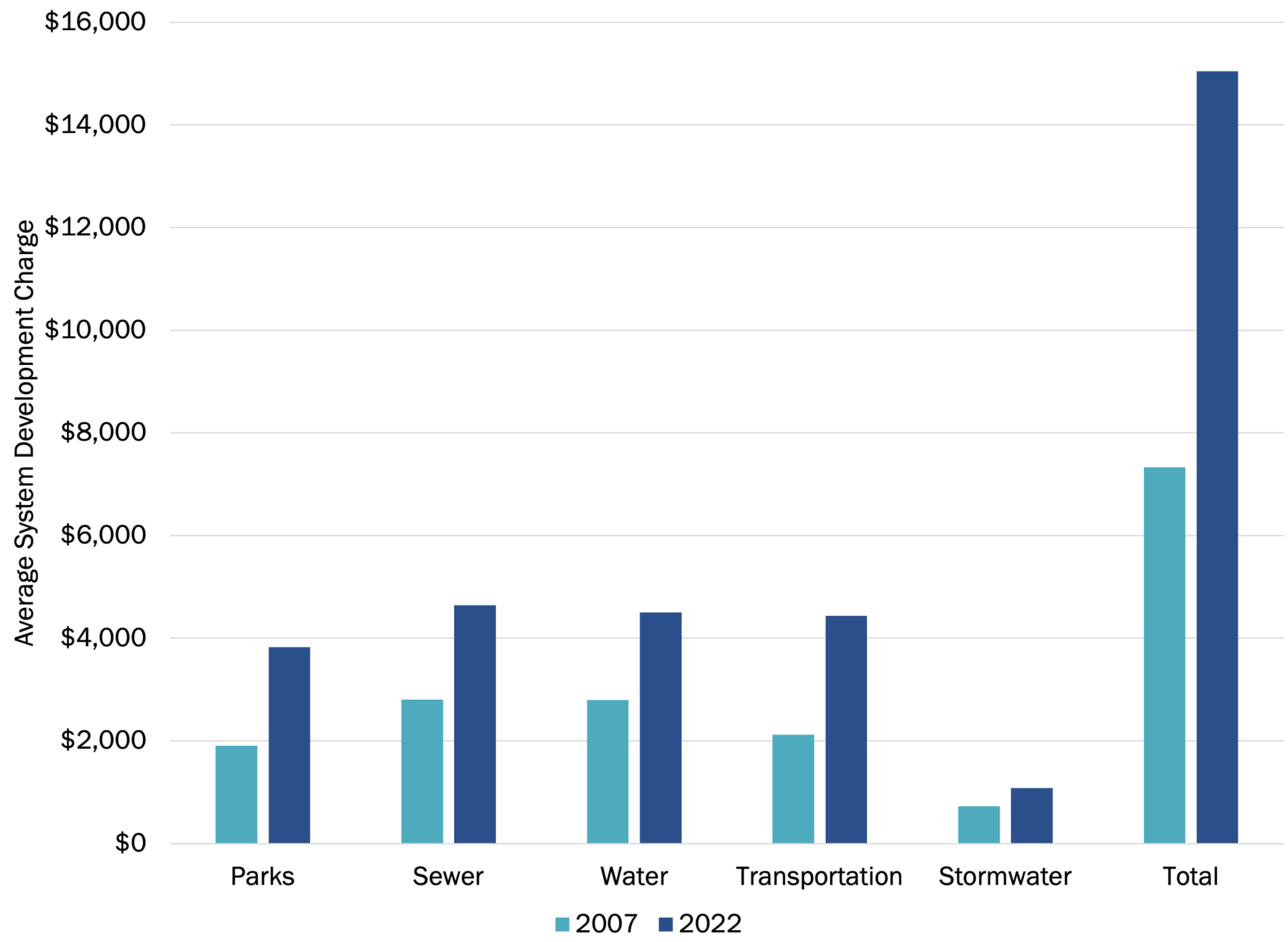
- limited tax rate to $5/$10 for every $1,000 market value
- Cut gov't revenue by 51% avg.

Measure 50

- reduce property taxes
- Limit growth to 3%
- Cuts rates by additional 11%



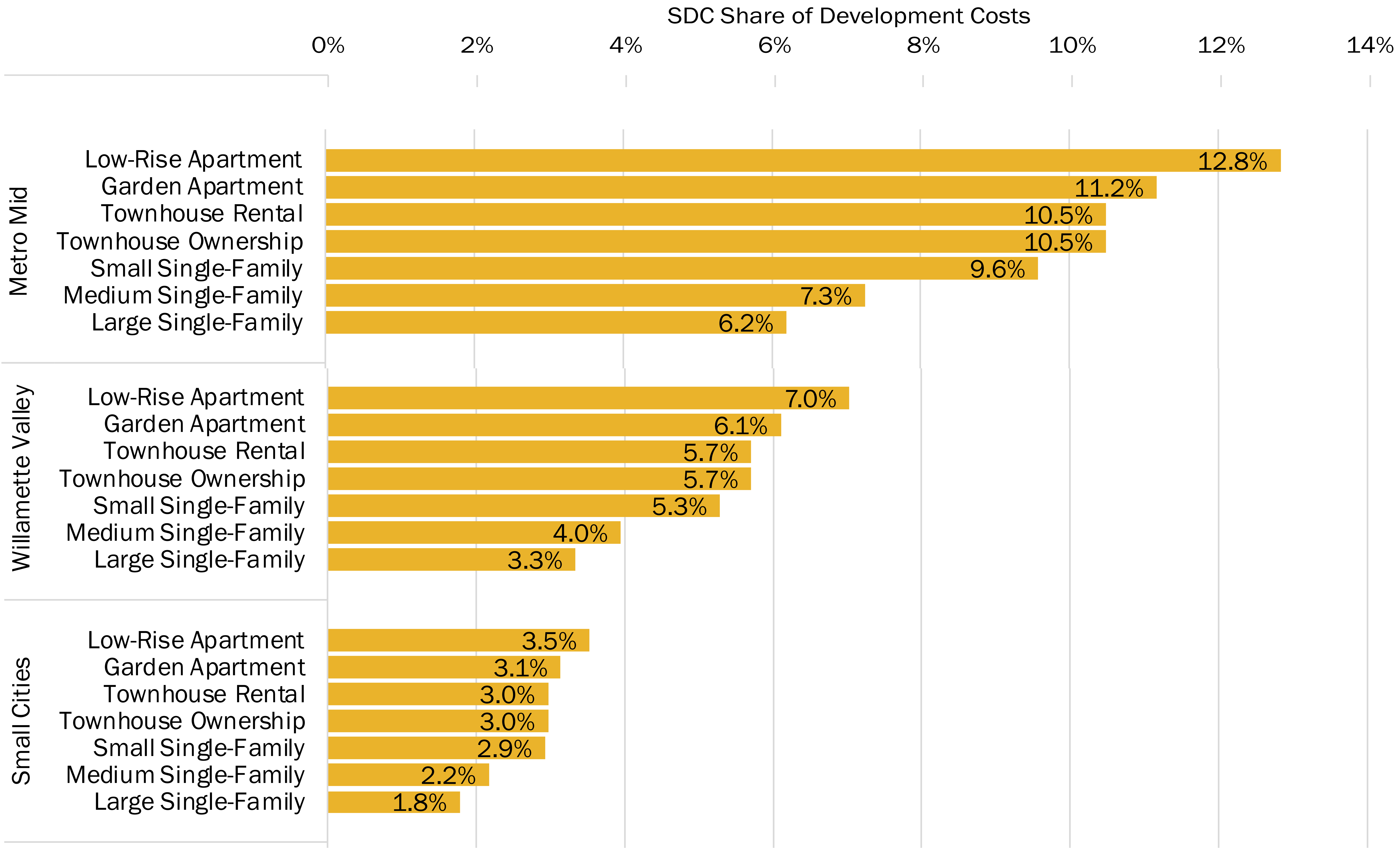
How and why have costs changed?



- Construction cost increased by 60% since 2007
- SDCs increased at a rate of between 60-105% since 2007
- Local governments set their own methodology – changes over time
- Many jurisdictions set rates below their methodology
- Avg. SDC for Single Family = $15,000 in 2022

SDCs and their share in development costs

- Single family home ranges between 1.8-6%
- Multifamily between 4-13%
- More pronounced affect on lower-cost housing types
- Affordable housing, while an $8k avg, is still impacted by SDCs



Key Takeaways

General Takeaways

- SDCs affect some types of housing more than others
- Communities with lower homes and rent prices are more sensitive to SDCs and other development costs
- SDCs are an **essential funding mechanism** in Oregon for majority of communities of all sized
- Timing of SDC payments, affordable waivers, and SDC credits for developers play a major role in how SDCs affect developers and jurisdictions

Affordable Housing Takeaways

- Affordable housing exemptions for SDCs make a difference
- **A reduction in SDC does NOT correlate to a reduction in price/rent for market-rate housing**
- Targeted exemptions/reductions for specific housing types can support production
- Some jurisdictions support affordability with exemptions, but broad adoption is hindered

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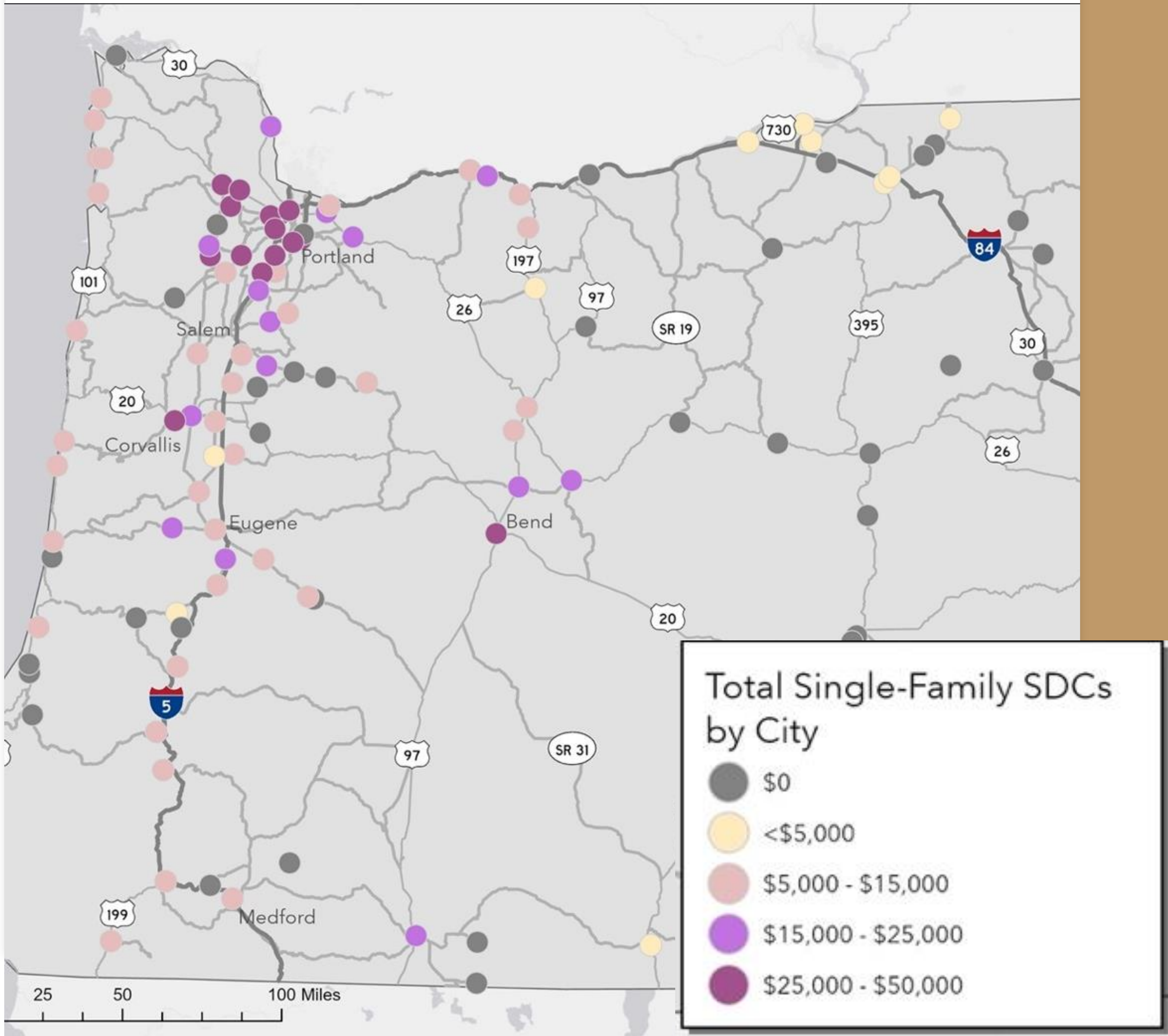
Who pays the SDCs and how that impacts development

Local Jurisdictions	• 66% of cities surveyed charge an SDC
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



ethos
DEVELOPMENT

March 03, 2023
Systems Development Charges Presentation

Prior SDC Analysis

Year	SDC / Unit	Percentage of Total Cost	Notes
2016	$12,415	4.8%	72% Studio, Average 651 SF, Prior use 4 SF homes
2018	$12,610	5.8%	55% Studio, Balance 1BR, Average 450 SF, Prior use 1 SF home
2019	$16,056	5.5%	74% 2BR, No Studios, Average 883 SF, Prior use warehouse / storage
2019	$13,992	6.3%	55% Studio, Average 551 SF, Prior use 3 SF home
2020	$18,332	9.4%	62% Studio, Average 470 SF, Prior use empty lot Includes Transportation Demand Management fee
2021	$19,652	7.7%	53% Studio, Average 531 SF, Prior use office / industrial / 2 SF Includes Transportation Demand Management fee
2021	$15,924	7.0%	74% Studio, Average 443 SF, Prior use 2 SF home
2022	$13,881	4.6%	79% Studio, Average 509 SF, Prior use office / industrial

*Prior use provides a credit to offset SDCs, a non-residential use provides large credits

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Prior SDC Analysis

- Though obscured by variability in SDCs by unit type and credits from prior uses, there is an upward trend.

- Per the ECONorthwest/OHCS study, the 2007 rates for Portland were $11,012 and $31,719 in 2020, this represents an 8.5% annualized increase.

- During this time period all costs escalated, so SDCs as a percentage of total cost escalated less than the absolute $/unit, however SDCs escalated faster than other costs.

Prior SDC Analysis

- Development projects in recent times have yielded between 5.25% and 6.5% of cost, this is called a Yield on Cost or YoC. Removing SDCs entirely increased YOC be 25 basis points, or 0.25%. This is incredibly meaningful and can be the difference in a go/no go decision on a project.

- New developments are burdened with infrastructure outside of its property lines with regularity, these are un-acknowledged SDCs that often stall or kill projects. These costs should be considered in the greater context of what a project must contribute.

- SDCs creates a newcomer tax with existing buildings reaping the benefit of lower operating costs and high cost comparable in the market. Existing buildings also reap the benefits of the infrastructure provided by new buildings. This unnecessarily burdens new construction, contributing to keeping housing costs high.

Prior SDC Analysis

- Annual property taxes for a new property equals the SDC amount in 6-7 years and continues in perpetuity, why is this not sufficient funding?

- SDCs are typically paid up-front as a condition of a building permit, even when the burden on infrastructure doesn’t occur until years later. In addition to the expense, the cost of financing is significant.

- The financing structure used for LIDs (Local Improvement District) might function better.

- Some agencies can’t even afford to maintain current assets, no less new ones.

1:20 pm – 2:30 pm – *Serve it Up: Paying for Infrastructure, Impact Fees, and Effects on Housing*

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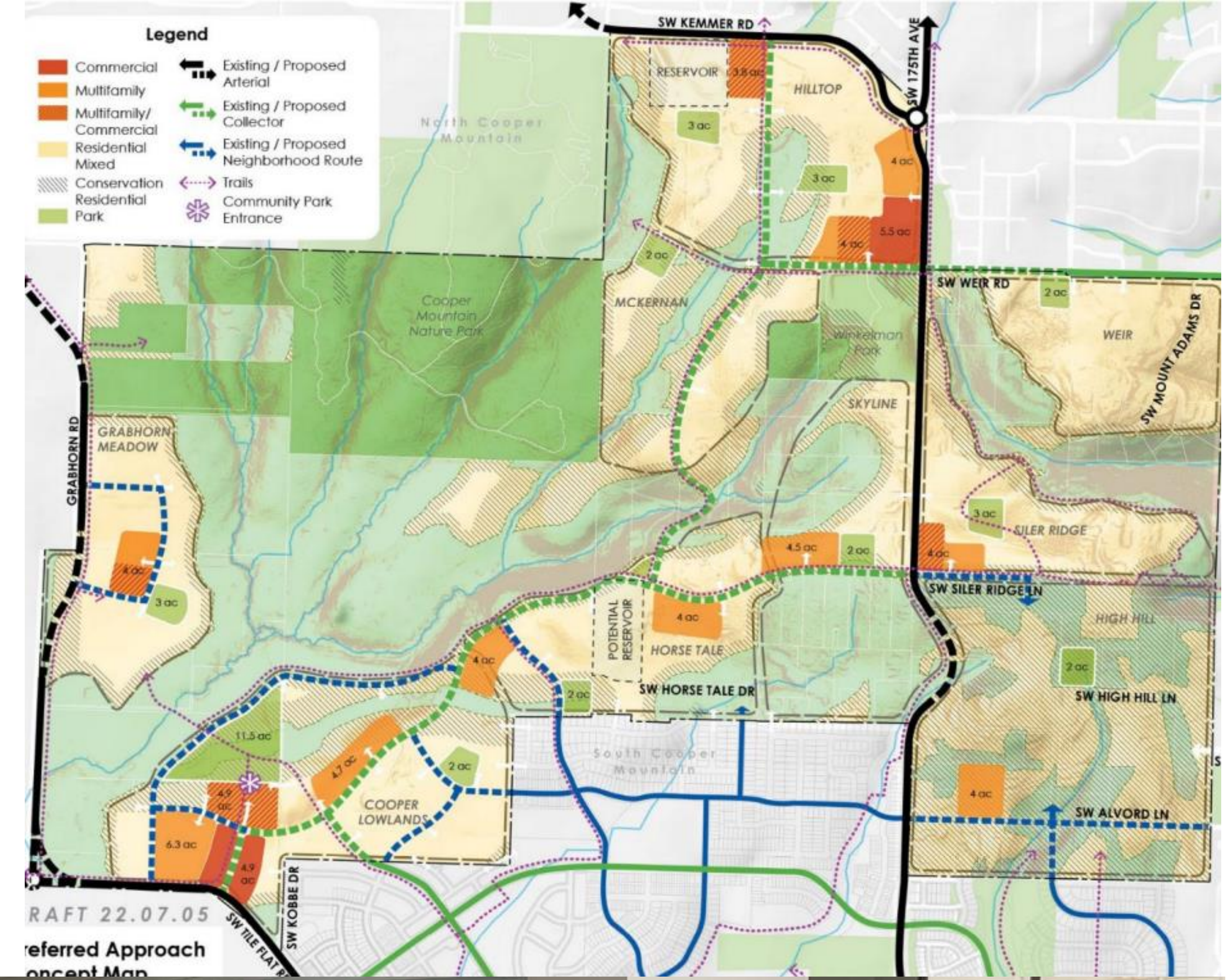


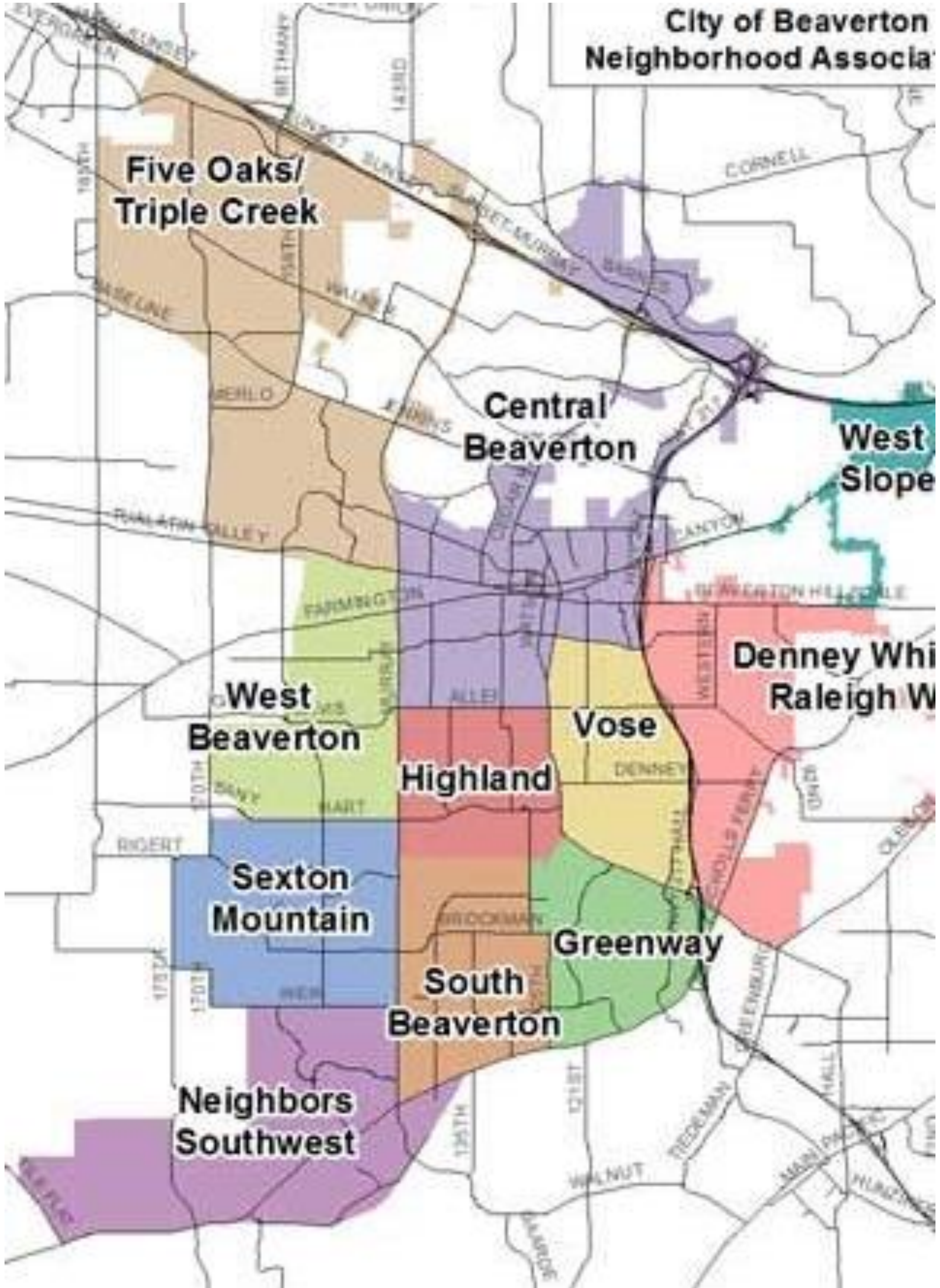
What do Cities do?

Cities provide services and governance to a specific area, for example:

- Public Safety
- Utility Services
- Transportation
- Library
- Planning
- Permitting
- Social Services

What funds city activity?

- Property taxes
    - Can include fancy stuff like URAs – tax increment districts
- Utility Rates and fees
- Other local taxes (e.g hotel tax)
- State revenues
    - Income tax, gas tax, lottery, etc.
- Grants from Federal and State level
- System Development Charges
- Debt such as bonds and loans (backed by other revenue)



Beaverton context

- Complicated boundaries
- Multiple service providers that levy SDCs
  - 4 water districts
  - Separate park, schools, and fire districts
  - County-wide sewer and stormwater district (Clean Water Services)
  - Washington County transportation development tax
- Suburb evolving into an urban community
- *Almost* 100,000 population

FIVE-YEAR HOUSING ACTION PLAN

DIVERSITY EQUITY AND INCLUSION PLAN

CLIMATE ACTION PLAN

What are SDCs used for?

- Capacity improvements to serve growth in new urban areas:
  - new pipes, parks and streets some very long term
- Growth in existing urbanized areas
  - adding ped and bike infrastructure,
  - adding vehicle capacity on existing roads
  - upsizing pipes or storm water facilities to serve denser pattern of development
- SDC revenue can be used to pay back indebtedness – bonds or loans that financed capacity improvements
- Cannot be used for Operations or Maintenance
- SDC amounts are based on planned projects “the list”

How are SDCs determined?

- State Law governs how each SDC methodology is set up
- Requires long term infrastructure planning and list of specific projects with estimated costs
- That cost is allocated across different development scenarios based on the demand/impact of that development
- Some flexibility but basic relationship between impact and fees is fundamental to SDCs in Oregon

Beaverton Water SDC Update 2020

- Timeframe 2020-2038
- $279 Million in project needs identified
- SDC portion of that project list is $164 Million
  - Credits or direct payments
- Balance has to come from rate payers

Sample Year Revenue for Beaverton Water

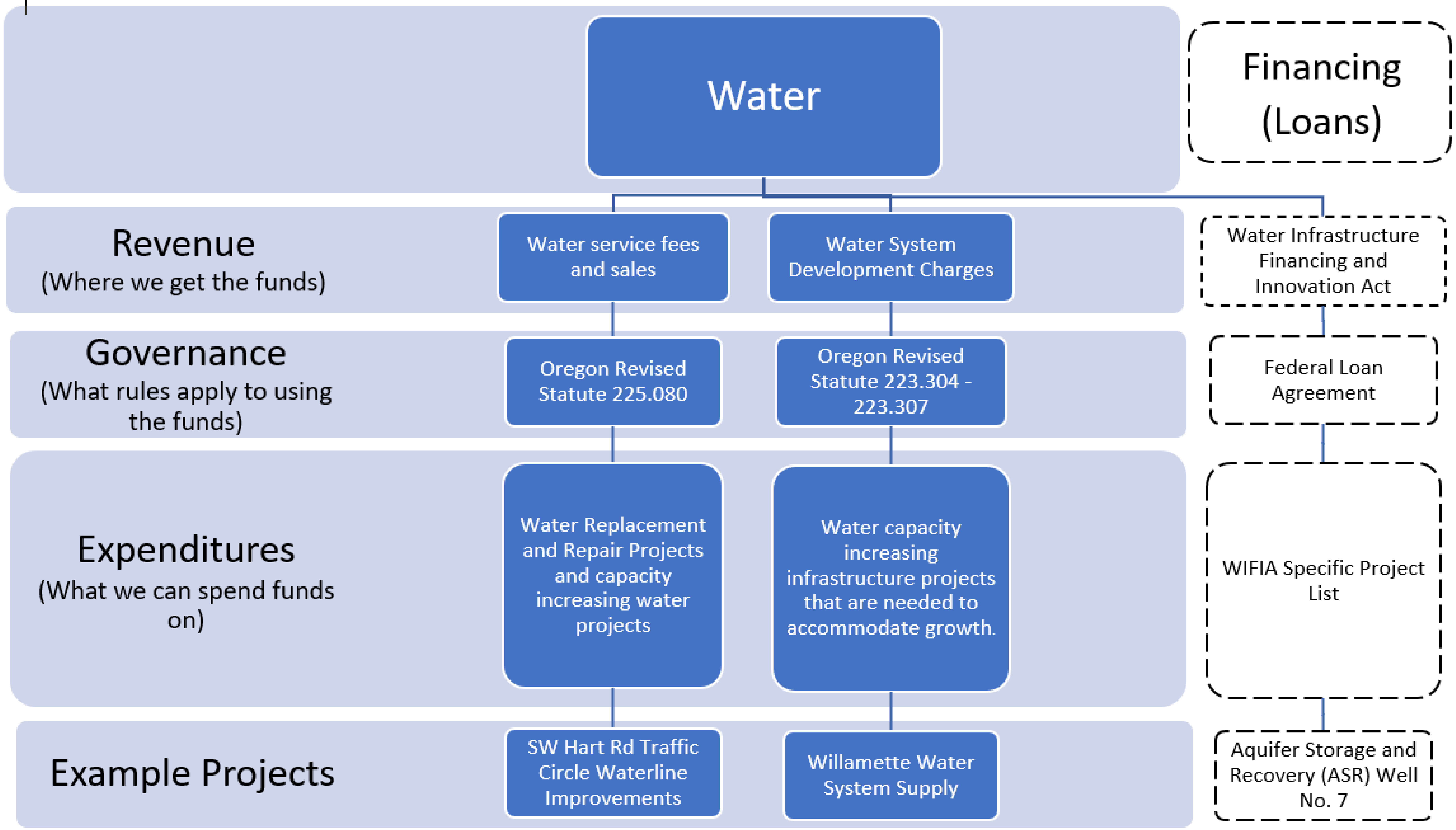
In 2021 the City collected:

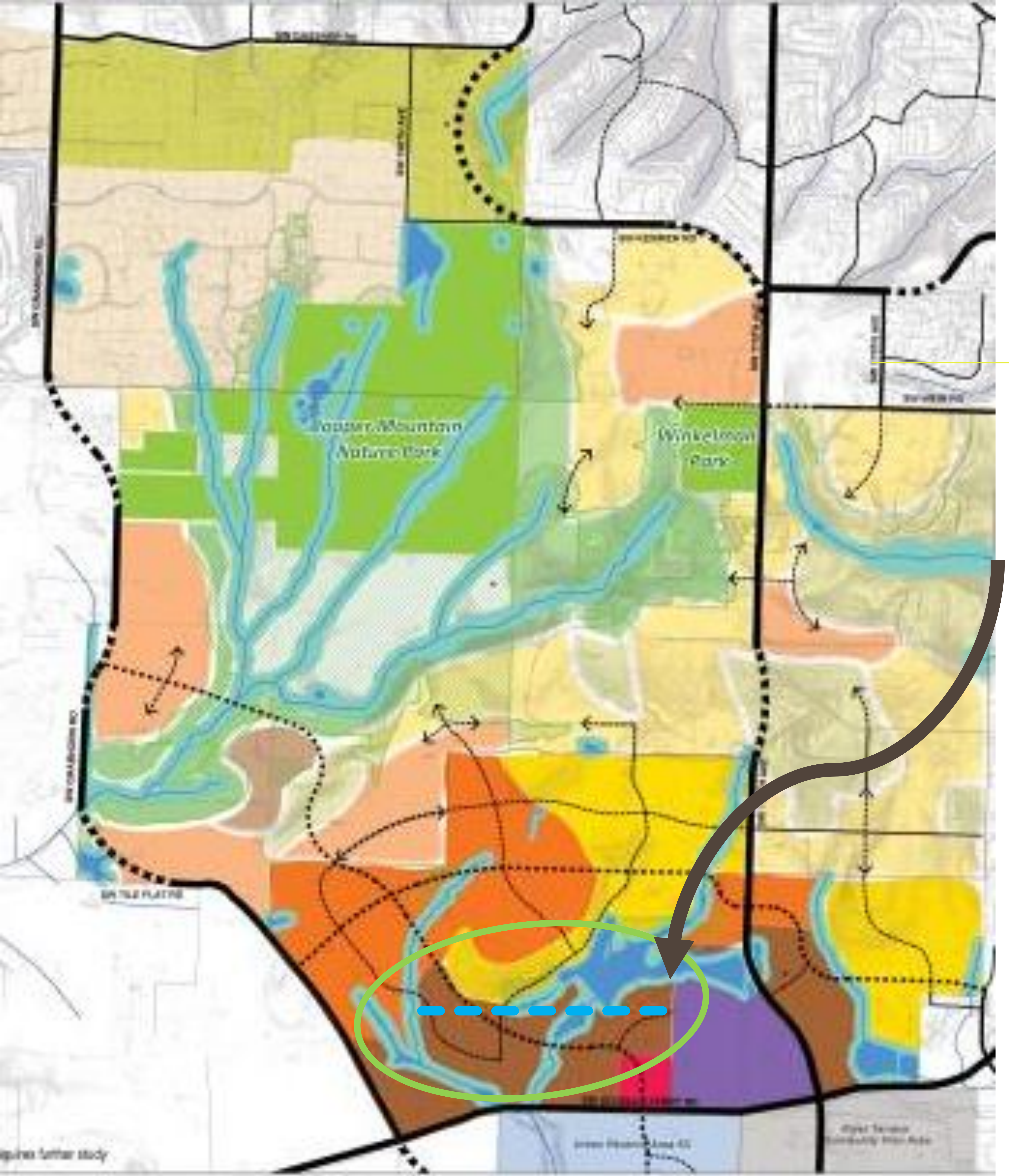
- $1.5 million in SDCs
- $21.5 million in revenue from rate payers

In 2021 the City spent:

- $30 million on water projects – not including maintenance and repair

Funding Water Infrastructure





Project example: new water line to unlock development in South Cooper Mountain

- New 24” public water line needed – aligned with future street that was still on private property.
- Critical path for land use entitlement for thousands of homes.

Two Projects: One Public, One Private

- City acquired property for the part of the line not owned by developer and completed construction with a Capital Improvement Plan Project.
  - The City spent approximately \$5.3 million total of which approximately \$910,000 was directly from SDC fund and \$4.5 million from bonds backed by future SDC and water rate revenue.
- Developer constructed portion of line on property they controlled.
  - Developer received approximately \$504,000 in SDC credits for the portion of the project above and beyond the project impacts of the approximately \$1.1 million total project cost.

SDC fees in Beaverton: Single Detached Dwelling

SDC Type	Amount
Water (City)	$9,800
Sewer (Clean Water Services/City)	$6,660
Stormwater (Clean Water Services/City)	$1,250
TDT (County Transportation Tax)	$9,800
Transportation SDC for South Cooper Mountain (City)	$9520
Parks (THPRD)	$11,480
Total	$48,512

$48,512
per unit

SDC fees in Beaverton:
75 Unit Multi-family Building

SDC Type	Amount
Water (City)	$274,470
Sewer (Clean Water Services)	$494,760
Stormwater (Clean Water Services)	$80,570
TDT (County Transportation Tax)	$472,200
Transportation SDC for South Cooper Mountain (City)	$472,800
Parks (THPRD)	$267,100
Total	$2,061,900

$27,492
per unit

Beaverton Mitigation Approaches

- Deferral of payment to occupancy on commercial and multi-family, but not detached single-unit.
- Setting SDC levels at less than 100% of project costs: e.g. SCM supplemental transportation SDC was set to cover 75% of estimated costs.
- SDC credits – very useful, but room for improvement
- City policy to backfill of SDCs for development of regulated low-income housing for SDCs levied by the city – doesn't include SDCs collected for other entities
- THPRD SDC methodology update in 2019, and SDC credit policy

Concluding Thoughts

- OHCS SDC report is a solid analysis and discussion of topic
- Funding for infrastructure is limited and often insufficient, and infrastructure of all kinds in needed to create more housing
- Policy goals for sustainability, climate resiliency, equity, and public transparency often compete for priority status and resources
- Ad-hoc changes at the State Level may cause inadvertent impacts