

# Oregon System Development Charges Study

Public Review Draft Release Webinar

October 18, 2022

1:30-3pm



# 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



- 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)





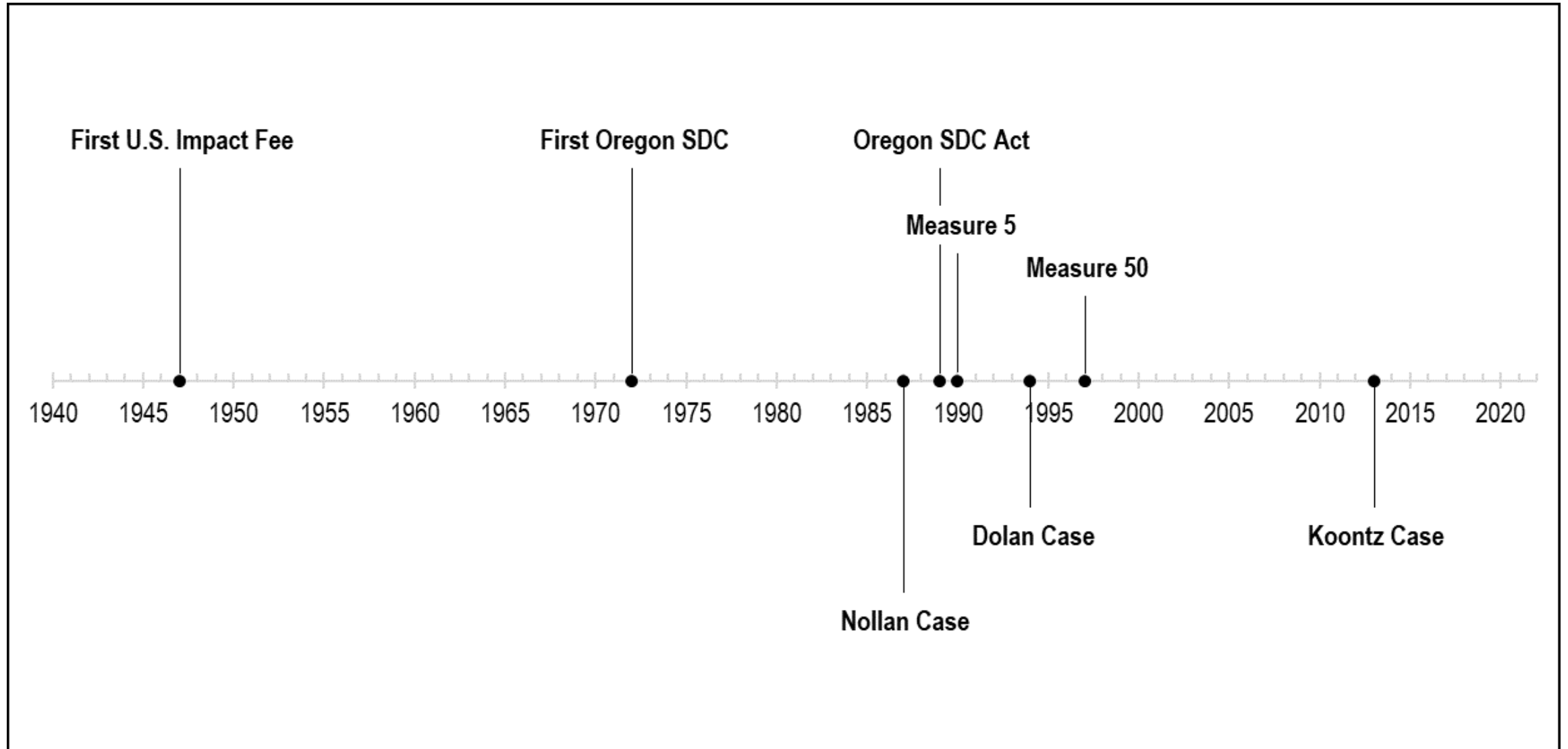




# History and Legal Context



# Key SDC / Impact Fee Milestones



# Key U.S. Supreme Court Rulings

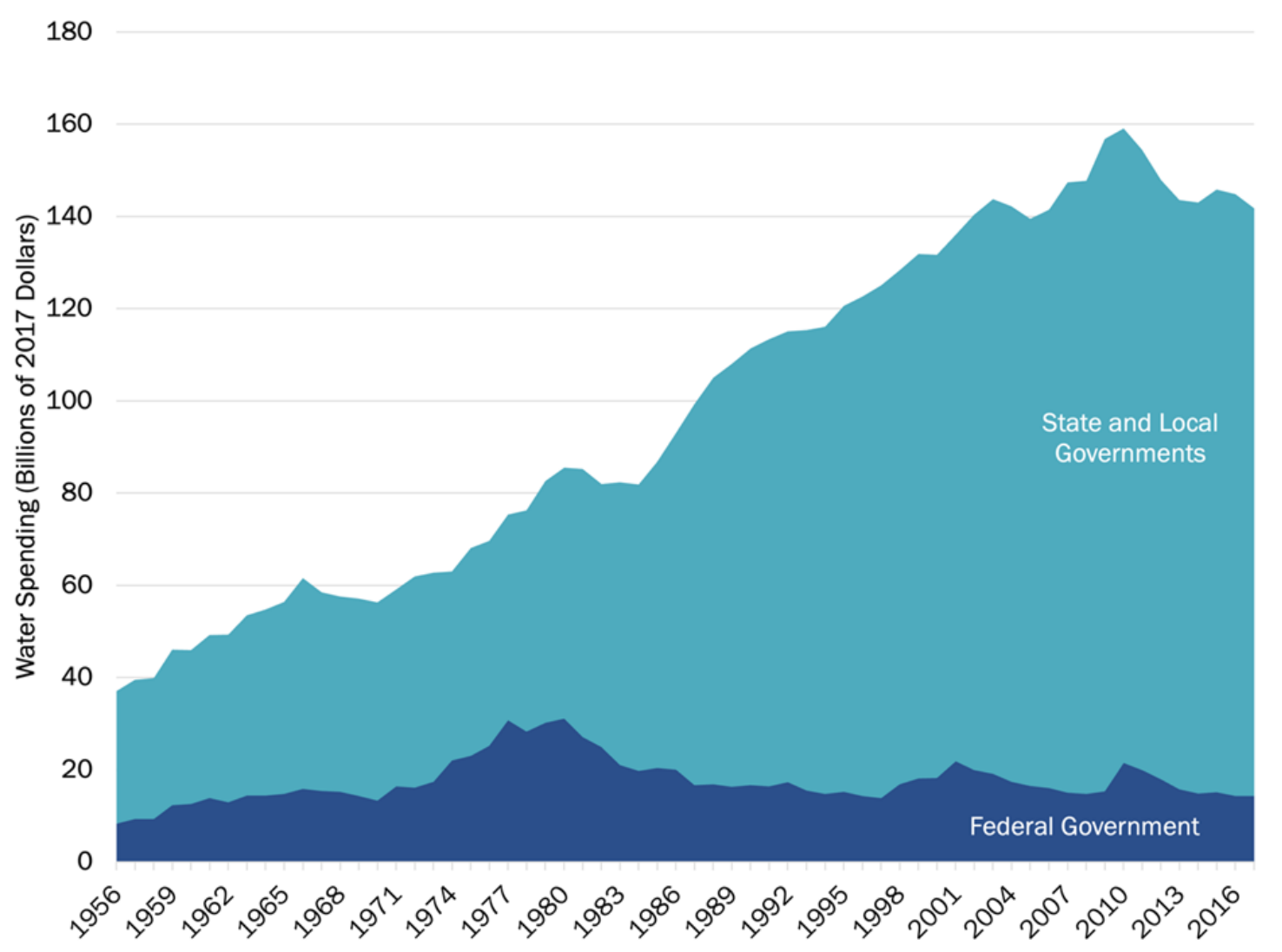
- Nollan v. California Coastal Commission (1987)
  - “Essential nexus”: Exaction (of as a condition of development approval) must be clearly and directly related to the impact of the proposed development
- Dolan v. City of Tigard (1994)
  - “Rough proportionality”: Exaction must be roughly proportional 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

- 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

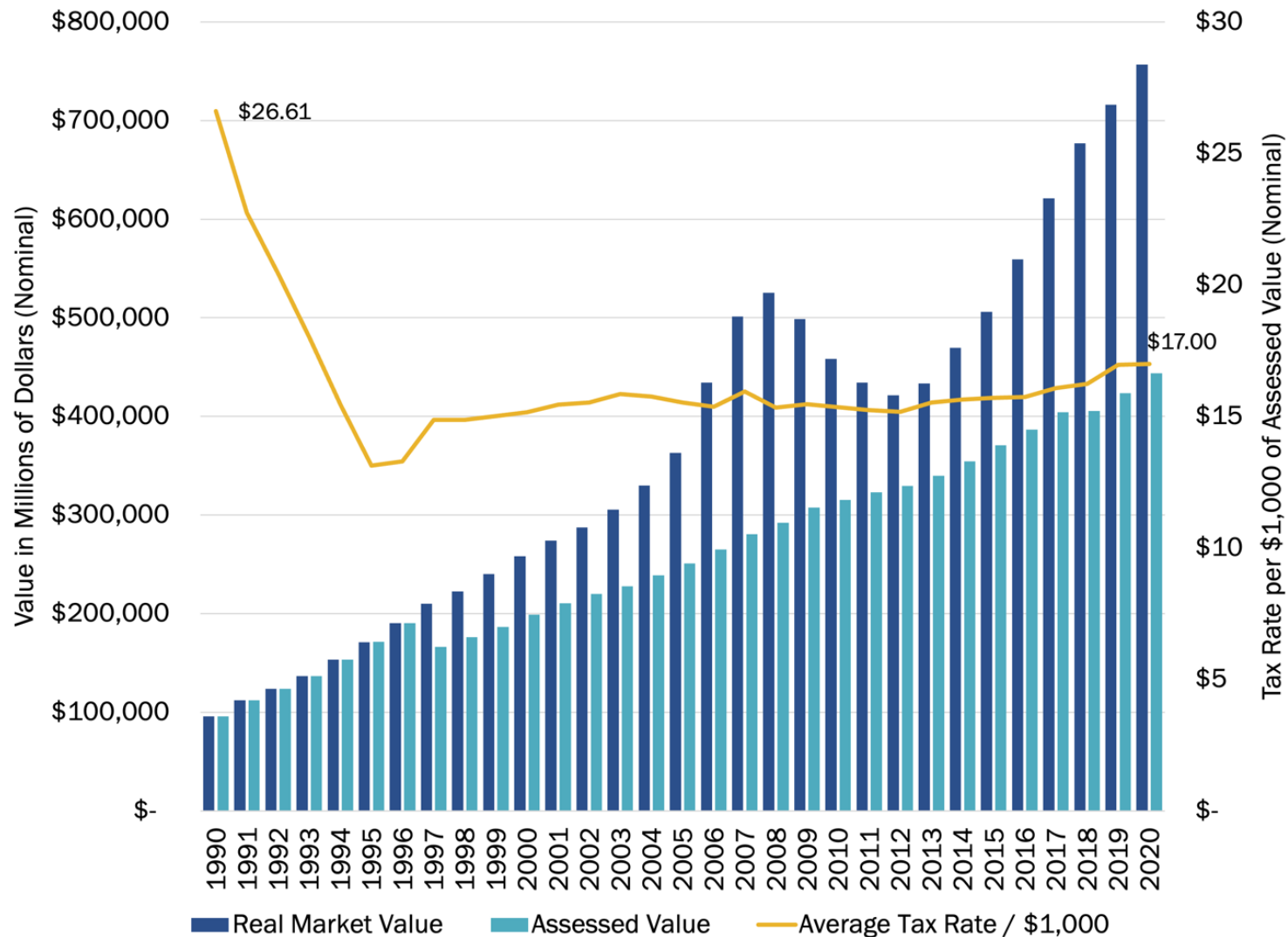
Chg.	Pct. Chg. Day	Chg.	Pct. Chg. Day
1.64	1.2%	1.98	1.6%

# 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**

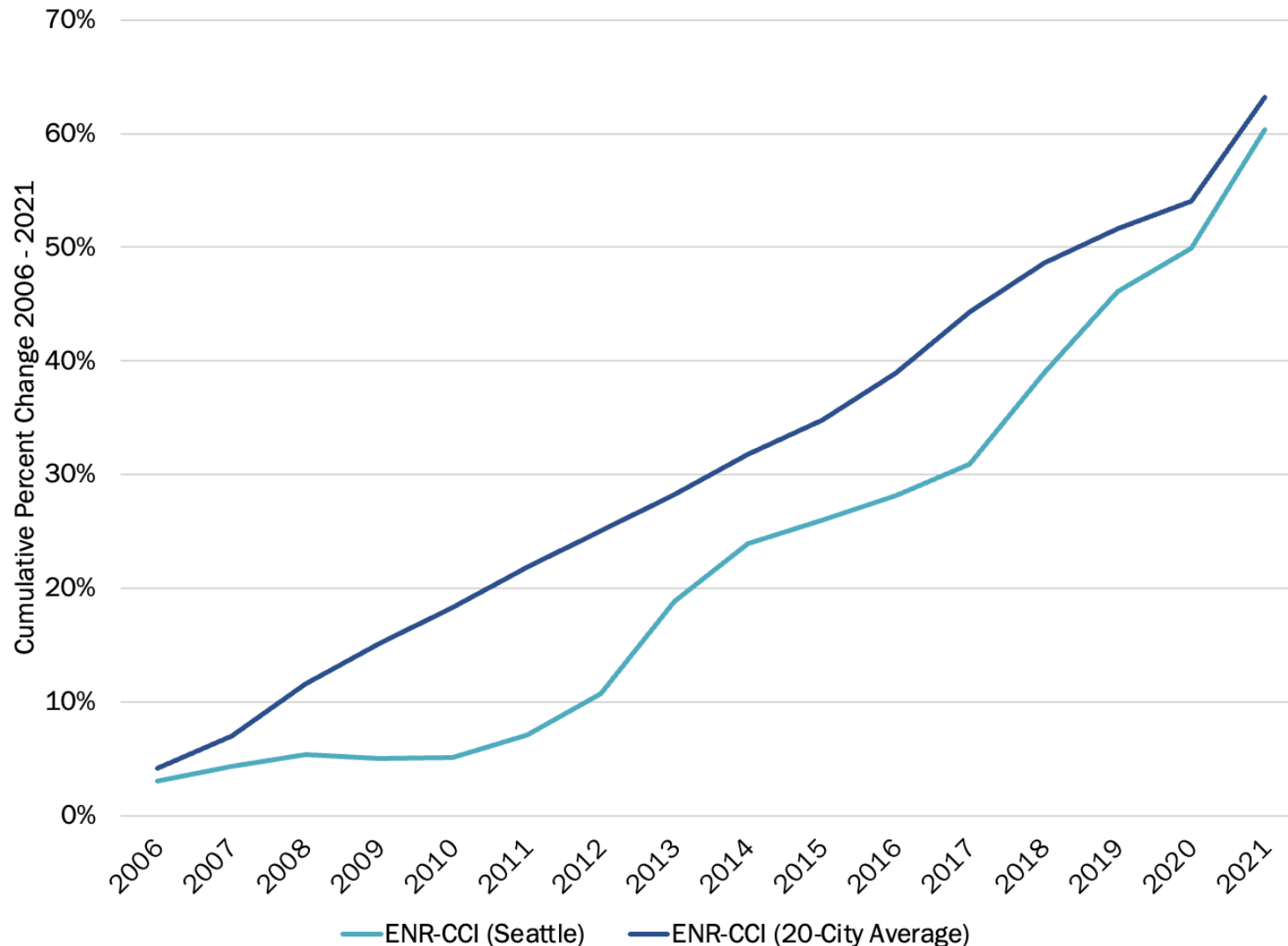


# State Transportation Resources



- Highway Fund Allocation
  - Fuel tax / weight-mile tax receipts flat to declining
- Federal timber payments
  - Declining timber harvests

# Construction Costs



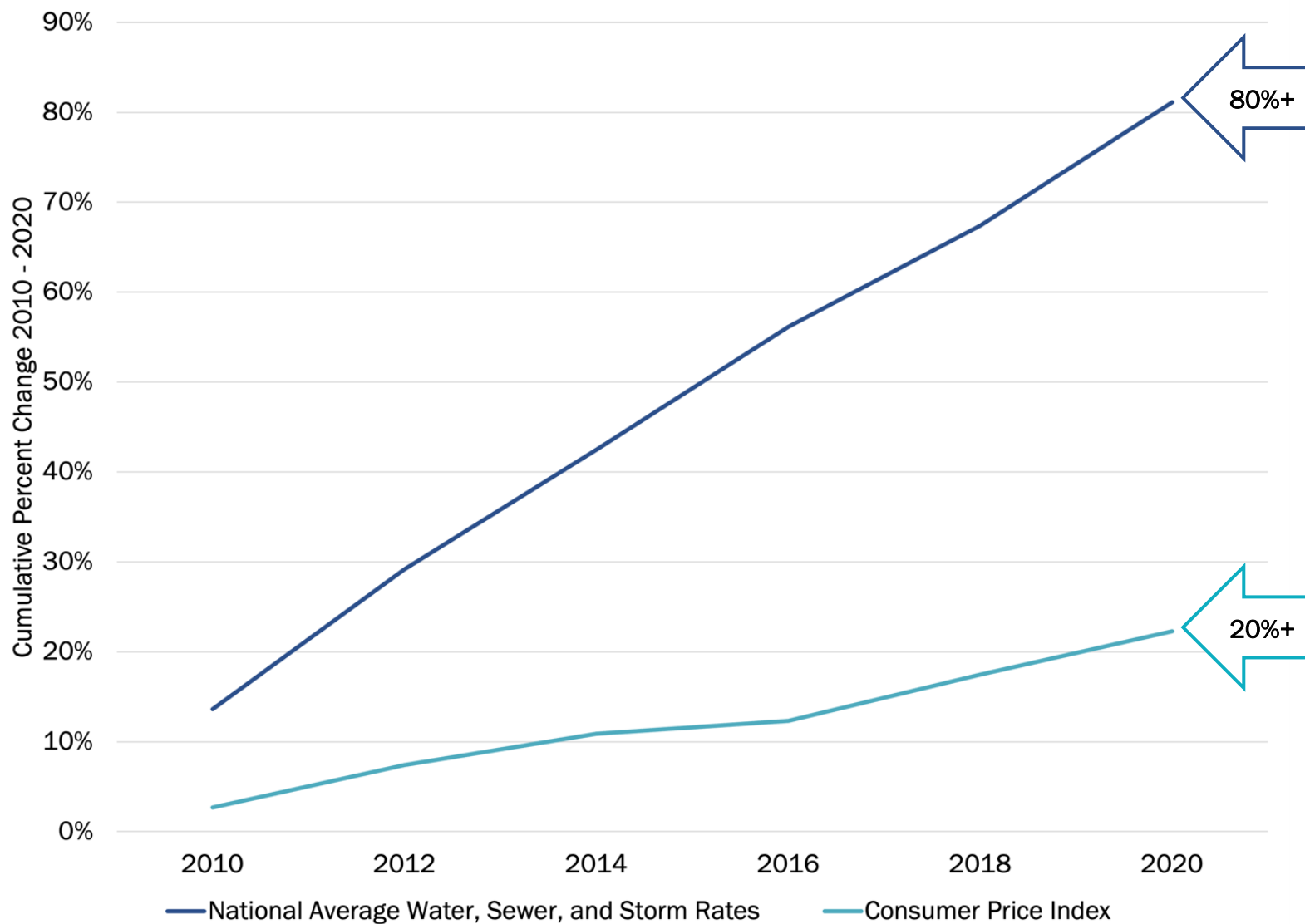
- Rising national and regional construction costs
- **3% per year** average since 2006
- **8-10% rise** in first half of 2022

# 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

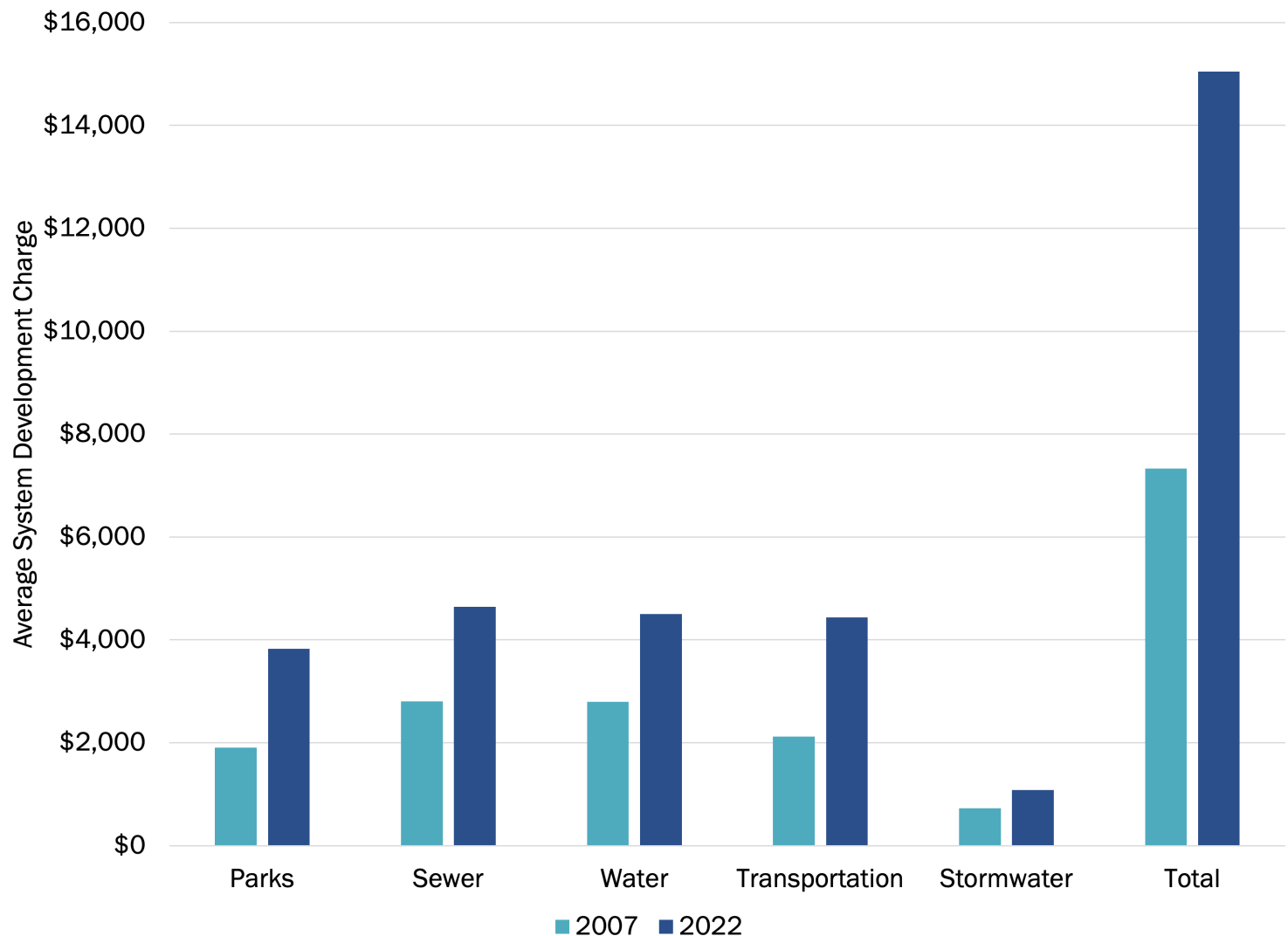
A close-up photograph of a wooden house-shaped block with a red roof and a light-colored base, resting on a black calculator. The calculator's keypad is visible, with numbers and symbols like the square root and pi keys. A semi-transparent white rectangular box is overlaid on the center of the image, containing the text 'SDC Rates'.

# SDC Rates





# 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



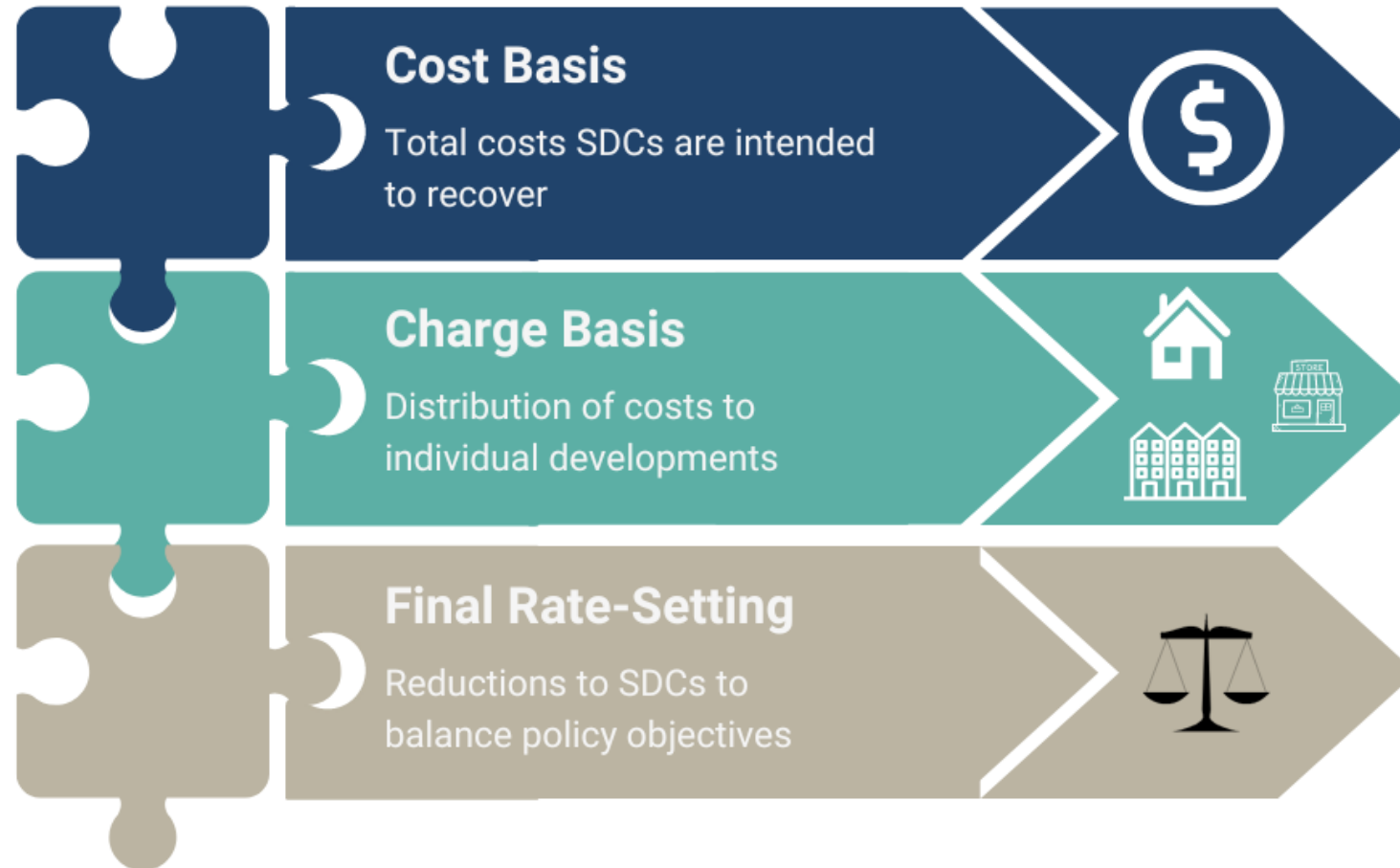
# Methodology and Implementation



# Factors Effecting SDC Rates



# SDC Methodology and Rate-Setting Decisions



# 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



## SDC RATE SCHEDULE COMPARISONS

SINGLE-FAMILY DWELLING UNIT	APARTMENT DWELLING UNIT	COMMERCIAL BUILDING
	<i>Community A</i>	
		
	<i>Community B</i>	
		

**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

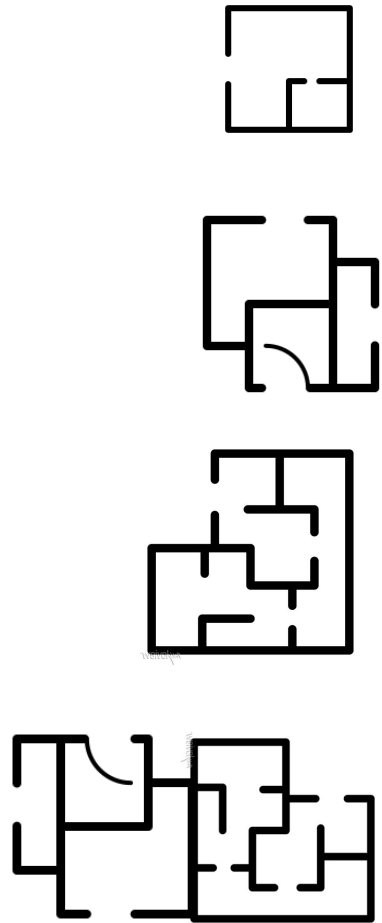


## SDC RATE SCHEDULE COMPARISONS

SINGLE-FAMILY DWELLING UNIT	APARTMENT DWELLING UNIT	COMMERCIAL BUILDING
	<i>Community C</i>	
	<i>Community D</i>	

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

# Charge Basis: Scaled SDC Rates



## Parks SDC Example

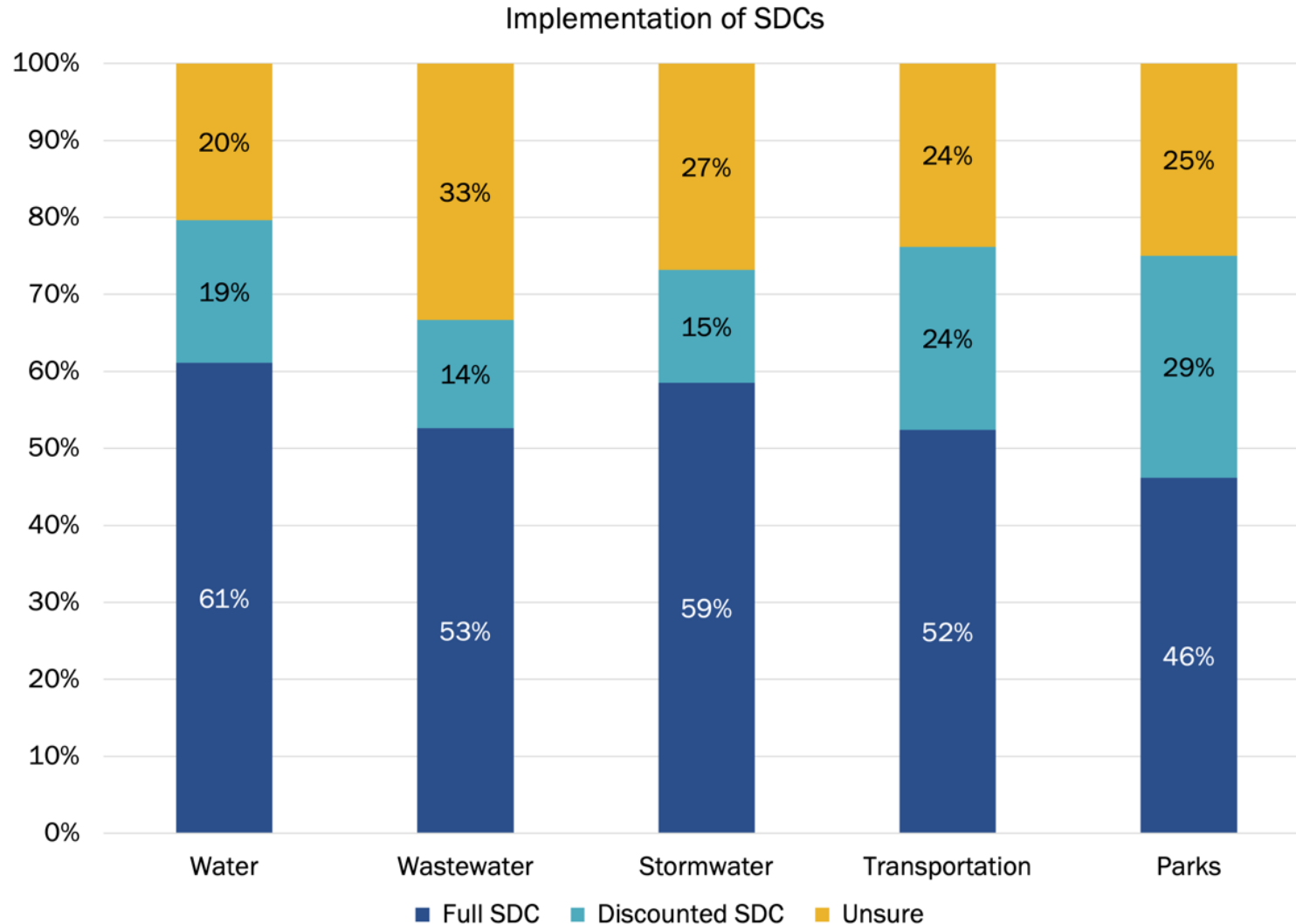
### Single Family (\$/Dwelling Unit)

- <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



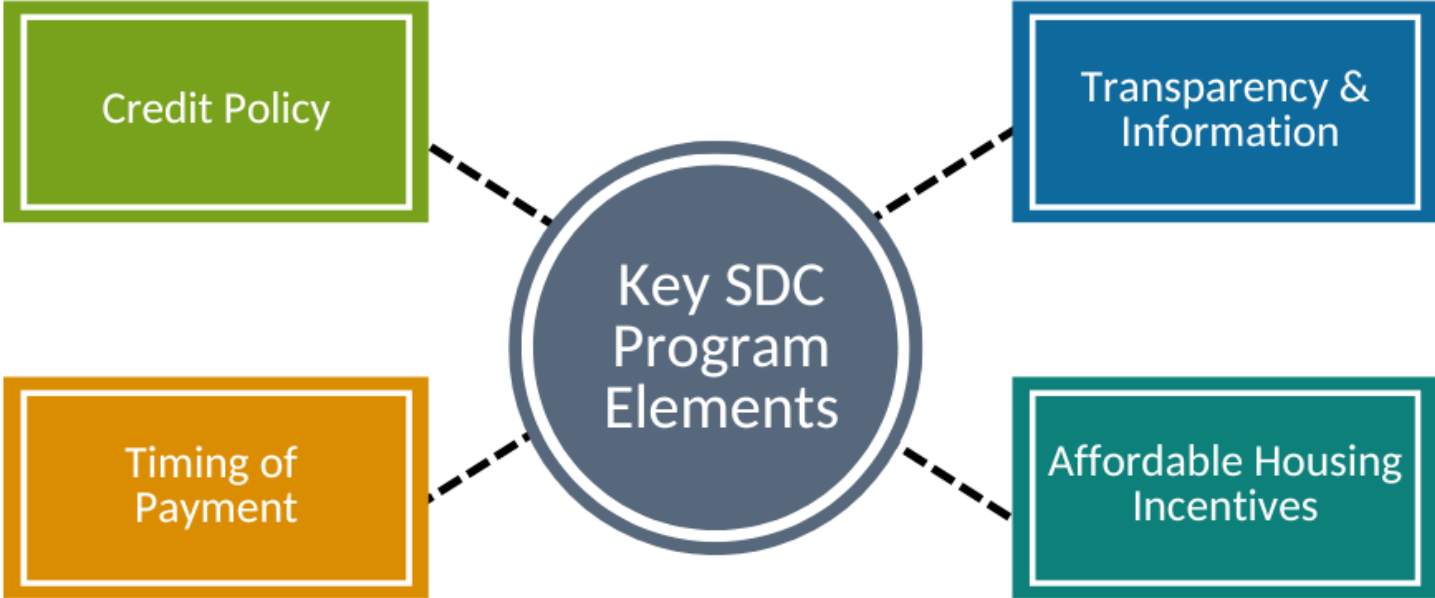
A clipboard with a document titled "Business Company". The document contains a table with columns for "Year" and "Revenue". The table data is as follows:

Year	Revenue
2015	100,000
2016	120,000
2017	150,000
2018	180,000
2019	200,000
2020	220,000

Spreadsheets and documents on a desk. One spreadsheet shows a table with columns for "Year" and "Revenue". The table data is as follows:

Year	Revenue
2015	100,000
2016	120,000
2017	150,000
2018	180,000
2019	200,000
2020	220,000

# 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

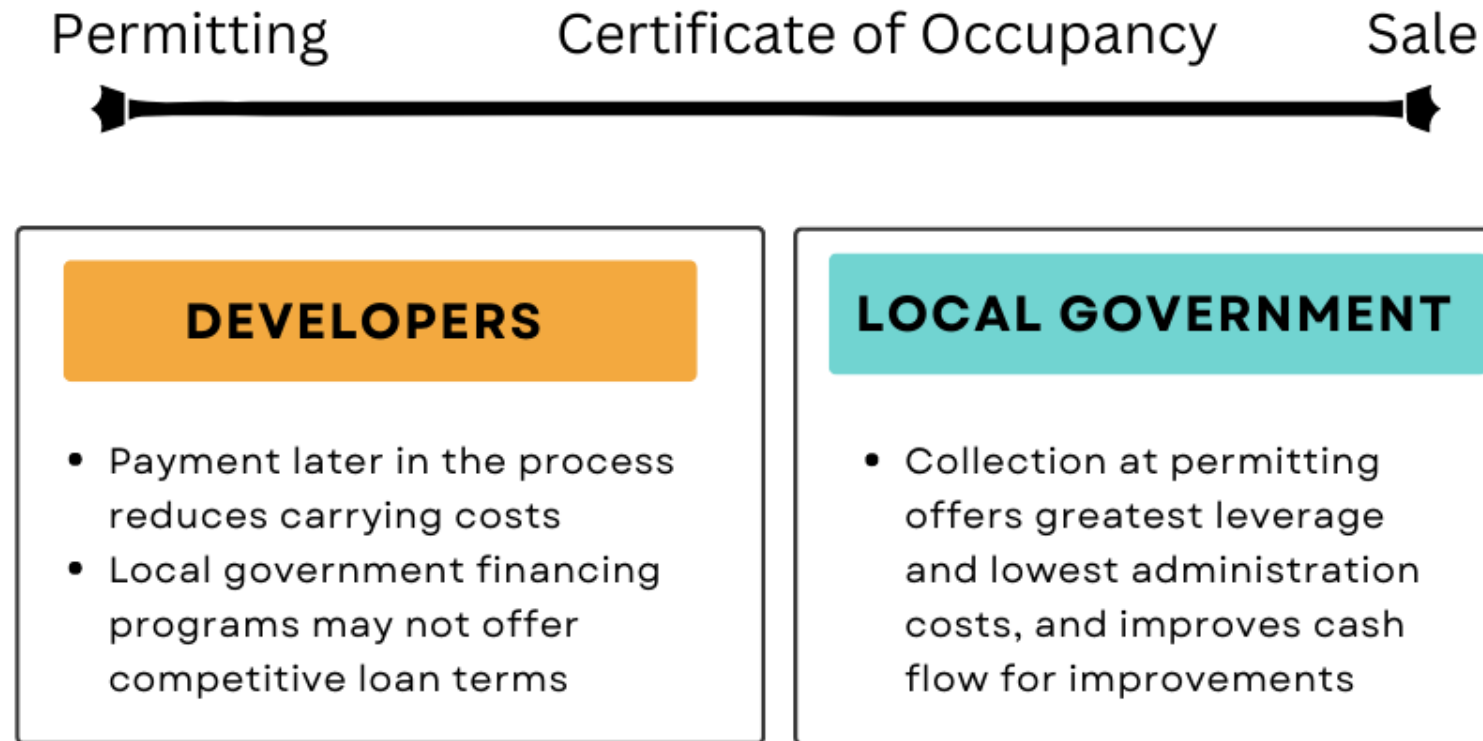
- Improvements allow development to move forward
- Minimum credit requirements may not be sufficient to recoup actual costs
- Lack of transparency makes it difficult to estimate credits upfront

## 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

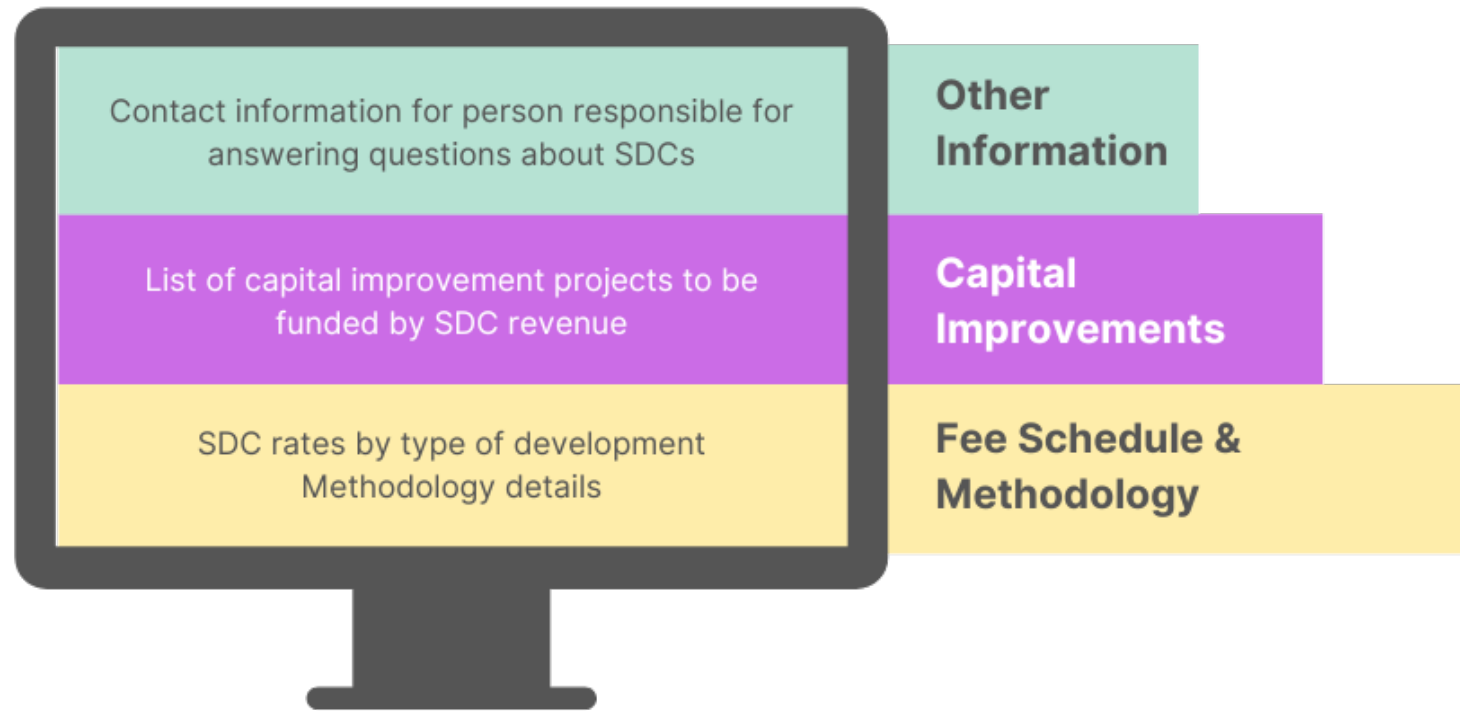
# Implementation Considerations: Timing & Deferrals

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



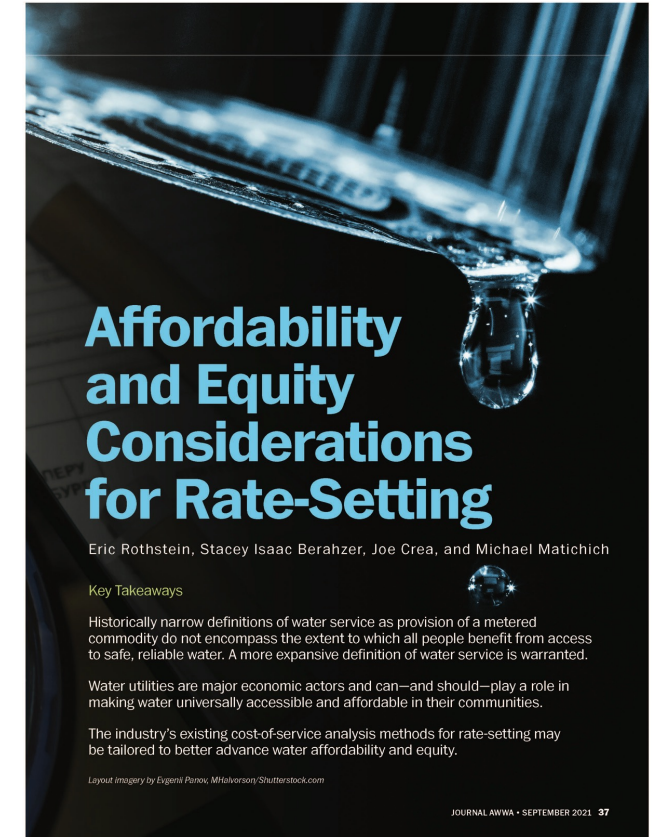
# Transparency & Information

- 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





An aerial photograph of a suburban residential neighborhood. The houses are arranged in a grid-like pattern with winding streets. The roofs are in various colors, including blue, red, orange, and grey. Some houses have solar panels installed on their roofs. The lawns are green, and there are some trees scattered throughout. The overall scene is bright and clear, suggesting a sunny day.

# SDCs and Housing Costs



# Who Bears the Costs of SDCs?



## Landowners

- Depends on availability of comparable land facing lower costs



## Developers & Investors

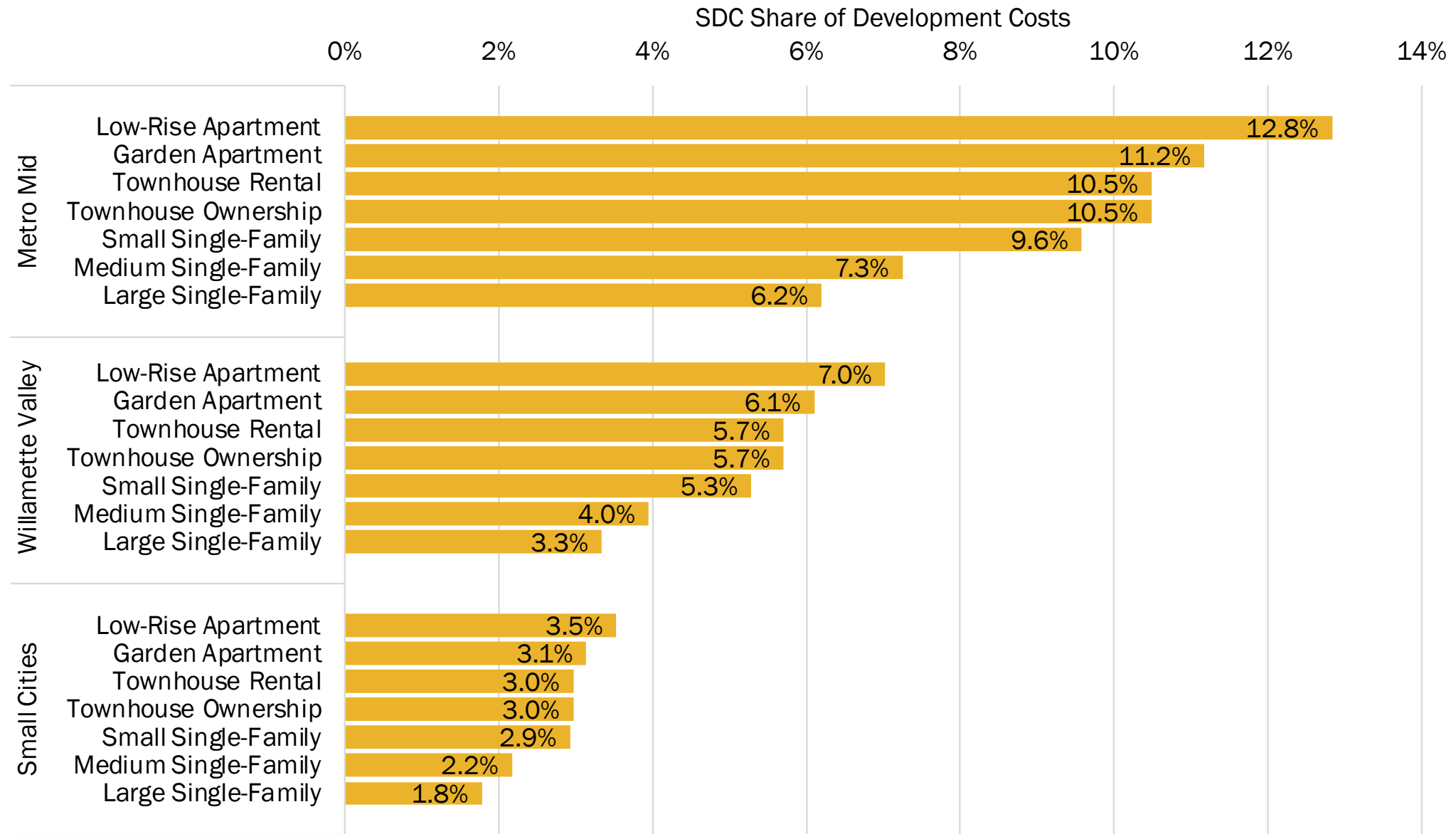
- Rarely absorb costs unless new regulations occur during development



## Homeowners & Renters

- Bear a greater share of costs in tight housing markets

# How Much of Total Development Costs Come from SDCs?

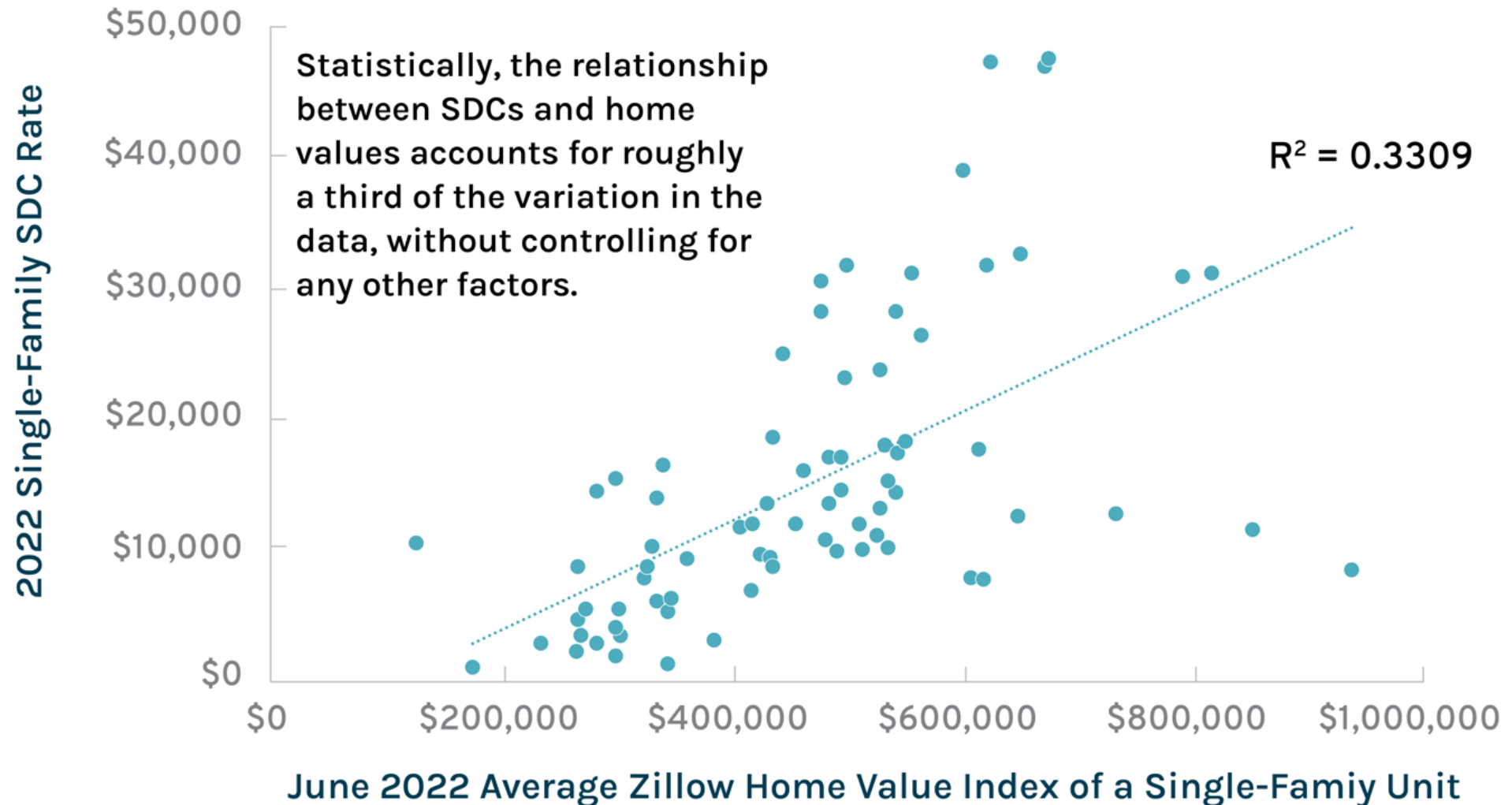


# How Do Impact Fees Relate to Housing Prices & Production?

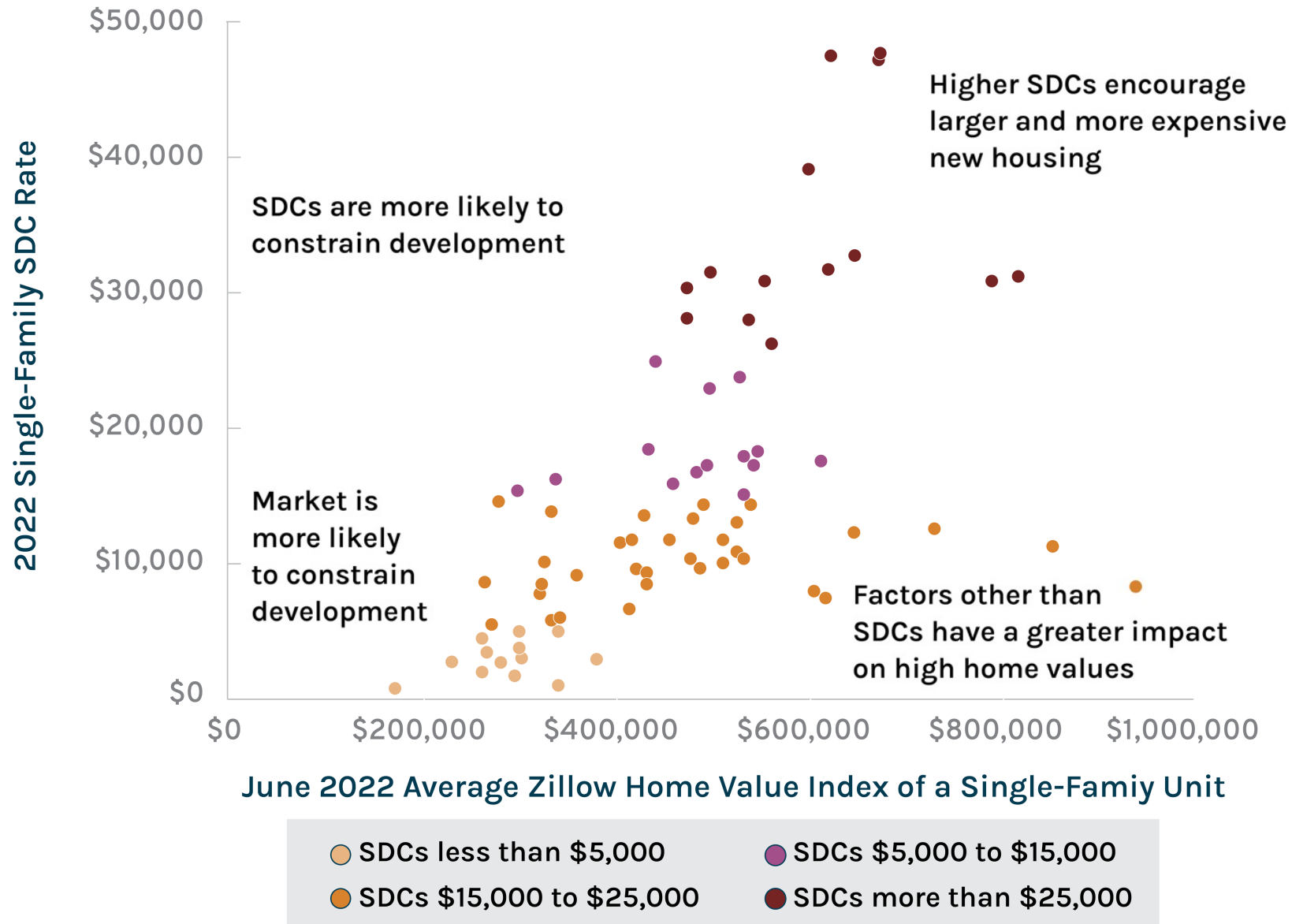
State (Year)	Observed Relationship to Housing Prices	Observed Relationship to Housing Production	Observed Relationship to Land Values
Florida (1989)	(+)	N/A	N/A
Colorado (1990)	(+)	N/A	N/A
Ontario (1992)	N/A	N/A	(+)
California (1997)	(+)	N/A	N/A
Illinois (1998)	N/A	(-)	N/A
Illinois (1999)	(+)	N/A	N/A
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?



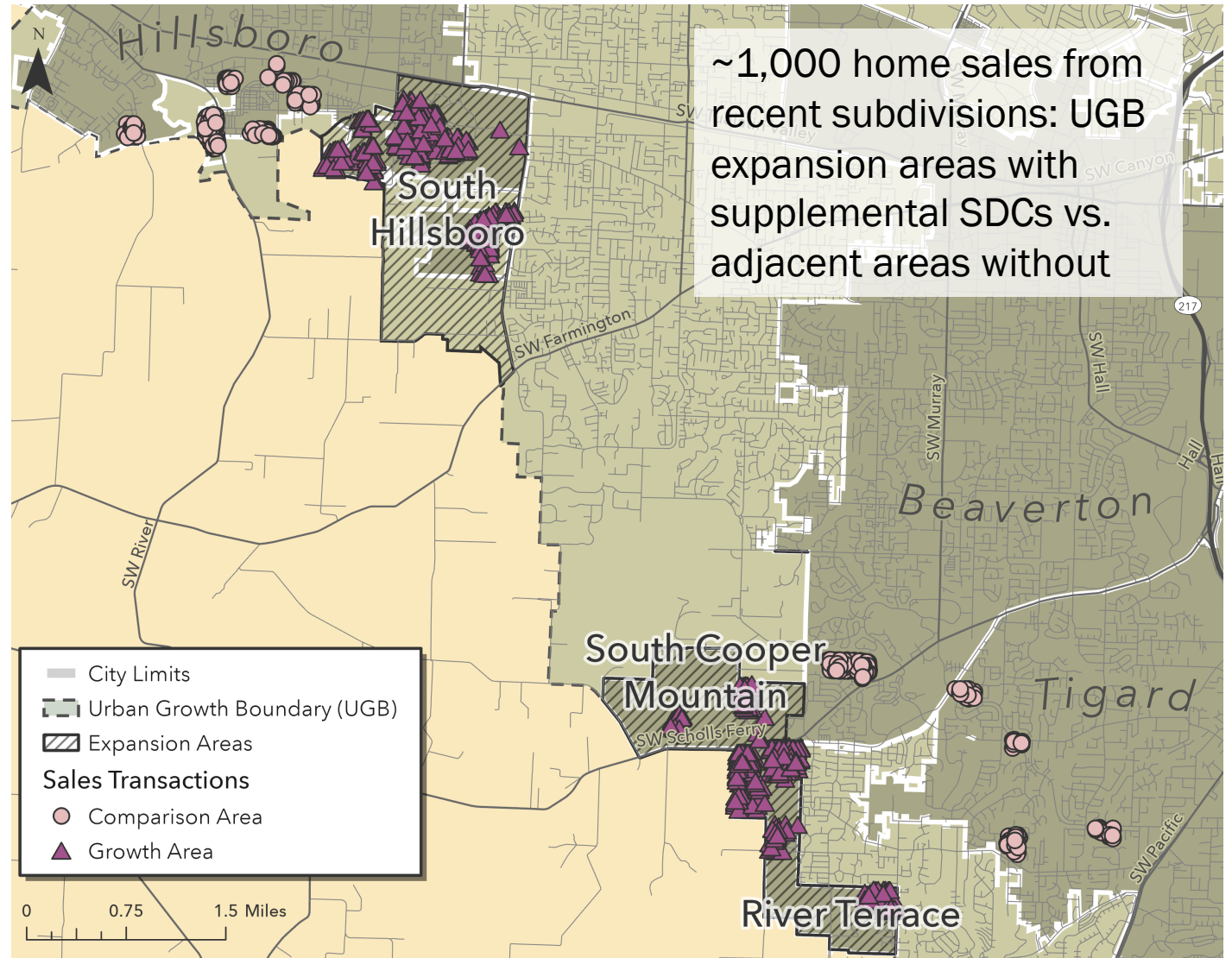
# How do SDCs Differences within a Market Affect Home Prices?

## 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

Jurisdictions face competing goals of

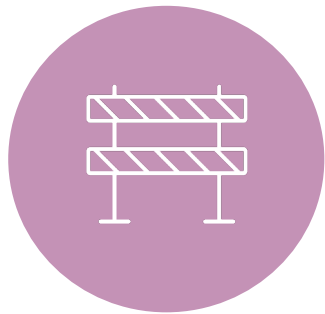
**providing infrastructure** and **supporting housing affordability**



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

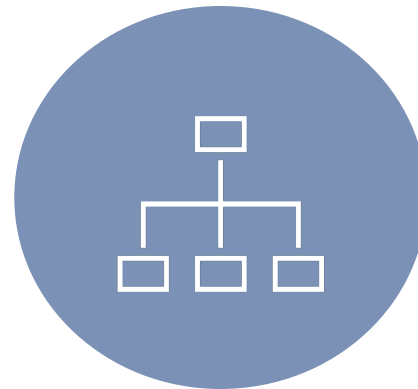


SDCs contribute to challenges with **housing production** and **affordability** for moderate- and low-income households





**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.