

INTRODUCTION

1.1 Explanation of System Development Charges (SDC's)

The City of Coos Bay is experiencing growth of a steady nature. As new homes and commercial facilities in the Coos Bay Urban Growth Boundary are constructed, they place additional demands upon the existing infrastructure and require the construction of municipal infrastructure to support this development. While, this report addresses only Transportation SDC's, a general discussion of SDC's is in order.

In many communities, the citizens have contributed money through taxes and user fees to construct those elements that make living in the City possible. These elements typically include streets; water treatment, storage and distribution systems; wastewater collection, pumping and treatment systems; storm water drainage systems and parks.

In these cases it is only fair that new development reimburse the existing owners for the portions of existing infrastructure prepared in anticipation of the new arrivals. This charge is known as a reimbursement fee. New growth should also pay for the costs of new infrastructure that would not be required except for the needs of growth. This charge is known as an improvement fee.

These two elements - Reimbursement Fees and Improvement Fees, are the basis of System Development Charges (SDCs). The intention is that neither existing users nor new users subsidize the other, but rather that each pays their fair share. According to ORS 223.307 as amended by Senate Bill 939, authorized expenditure of system development charges are as follows:

"Reimbursement fees may be spent only on capital improvements associated with the systems for which the fees are assessed including expenditures relating to repayment of indebtedness" and;

"Improvement fees may be spent only on capacity increasing capital improvements, including expenditures relating to repayment of debt for such improvements. An increase in system capacity may be established if a capital improvement increases the level of performance or service provided by existing facilities or provides new facilities. The portion of the improvements funded by improvement fees must be related the need for increased capacity to provide service for future users."

1.2 Transportation SDCs in Coos Bay

In the City of Coos Bay, transportation related system infrastructure has typically not required local government funding for a large amount of infrastructure development. Rather, highways and main aerial roads have been often been constructed with funds provided by County, State or Federal sources. Subdivision streets and connecting roads were usually funded by developers and then deeded to the City as a condition of local approval. As a result of this, local taxpayers have provided only modest amounts of transportation capital improvement costs. As defined in ORS 223 and Senate Bill 939, a large portion of the existing infrastructure does not provide a basis for SDC reimbursement fees when provided by grants or “gift”. While local taxpayers have provided funding for maintenance of these facilities, these costs are not eligible for reimbursement.

However, locally levied Urban Renewal funds have been used for several projects. This funding appears to be eligible for reimbursement because, unlike LIDs, these funds do not represent an additional expense by property owners for specific improvements, but rather are derived from a portion of ordinary property taxes which are set aside for urban renewal projects. Five projects were identified by City Staff, which may be eligible, at least in part, for reimbursement. These projects will be evaluated in this report. In addition, the City should keep in mind that transportation infrastructure costs, which are proposed for future development, are eligible for collection as the improvement fee portion of the SDC in the future after they are constructed. The eligible amount is to the extent that it is paid by local rate or taxpayers and in proportion to the capacity increase for new transportation system users.

1.3 Oregon Systems Development Charges Act

Critical concepts of the Systems Development Charges (SDCs) regulations are addressed in this section. Oregon Revised Statutes (ORS) Sections 223.297 to 223.314, which establishes Oregon law regarding SDCs and 2003 Regular Session Senate Bill 939, which amends the ORS, are included as Appendix A.

As noted above, there are restrictions on the expenditure of fees collected under the Oregon Systems Development Charges Act. The purpose of the regulations is to provide a uniform framework for the imposition of system development charges by governmental units for specified purposes and to establish that the charges may be used only for capital improvements. This includes land and right-of-way necessary for the improvement.

Under current definitions, "Capital Improvement" means planning, design, inspection, administration of construction and construction or repair costs, but not operations or routine maintenance costs for the following:

- Water supply, treatment and distribution;
- Wastewater collection, transmission, treatment and disposal;
- Drainage and flood control;

- Transportation; or
- Parks and recreation.

Not included with SDCs are connection or hook-up fees, which reimburse the City for its average cost of inspecting and installing connections for water and wastewater service.

SDCs may not include any fees assessed or collected as part of a local improvement district. For businesses, SDCs may not be based on the number of employees hired without regard to actual usage.

The City must set forth a written methodology in the form of an Ordinance or Resolution for both reimbursement and/or improvement fee portions of the SDC. Support documents, such as this report, must be available for public inspection.

The reimbursement portion of the fee must not require future system users to contribute more than an equitable share to the cost of existing facilities. The method must consider the cost of the existing facilities, prior contributions by existing users, gifts or grants from federal or state government or private persons, the value of unused capacity available to future system users, rate-making principles employed to finance publicly owned capital improvements and other relevant factors identified by the local government imposing the fee.

The improvement portion of the fee must consider the cost of projected capital improvements needed to increase the capacity of the systems to which the fee is related and be calculated to obtain the cost of capital improvements for the projected need for available system capacity for future users.

The improvement fee must provide for a credit for the construction of a capital improvement that is required as a condition of development approval, identified in a Master Plan, is either not located on or contiguous to property that is the subject of development approval; or is built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related. The capital improvement must be of the same type as the SDC credited and the applicant must demonstrate that a particular improvement qualifies for credit. If the credit is greater than the SDC, then the credit may be used for the applicant's future developments up to a period of 10 years.

The City must maintain a list of persons who have made a written request for notification prior to adoption or amendment of a methodology for any system development charge and mail them information 90 days prior to the first hearing. The addition of capital improvement projects to the CIP and resulting calculated increase in SDC fee requires only a 30 day notice.

A change in the amount of a reimbursement fee or an improvement fee is not a modification of the system development charge if the change in amount is based on the

periodic application of an adopted specific cost index or on a modification to any of the factors related to rate that are incorporated in the established methodology.

System development charge revenues shall be deposited in accounts designated for such moneys. The governmental unit shall provide an annual accounting, to be completed by January 1 of each year, for system development charges showing the total amount of system development charge revenues collected for each system and the projects that were funded in the previous fiscal year. The governmental unit shall include in the annual accounting, a list of the amount spent on each project funded, in whole or in part, with system development charge revenues.

1.4 Scope of Study

This study will set forth a methodology and recommended SDC reimbursement and improvement fees for transportation only. It includes an Equivalent Dwelling Unit (EDU) assessment table, methodology development, and recommended charges for transportation EDU. The EDU assessment table will allow each type of commercial, institutional and housing development to be rated in terms of EDU's per 1000 square feet or other appropriate parameter. This study concludes with a summary and sample ordinance (Appendix C).

1.4.1 Reimbursement Fee Method

Based on an inventory of the eligible existing capital improvements, present day replacement values for infrastructure elements are determined. The age of the elements are determined or estimated. Then a depreciated value with respect to the present is calculated for that class of infrastructure, with grant funding percentages excluded.

The portion of each element available for new customers is then determined and is referred to depreciated available excess capacity. The summation of these values for eligible infrastructure elements will be divided by the anticipated number of new EDUs to arrive at the reimbursement fee portion of the SDC.

As noted above, asset values are determined by starting with the current replacement cost and an estimated life expectancy for the item under consideration. The current replacement cost may be determined by using the original construction cost updated with Engineering News Record cost index factors or estimated based on construction of the equivalent asset in current dollars. The asset current value is then depreciated on the straight-line method based on the age of the asset and estimated service life. Another method, not recommended, called the cash cost method, simply uses the original construction cost and depreciates it to determine the current asset value. The recommended replacement cost method accounts for inflation, is equitable and is the preferred method used within this study.

As an example, consider the purchase of an item such as a home that originally sold for \$30,000 with a 100-year life. After 33 years the item is in excellent condition. Based on a cash cost method, the item would be worth only \$20,100 today. Now assume that the replacement cost of a comparable home today is \$130,000. Using this figure and depreciating for 33 years would provide a value of \$87,100, which more correctly approximates the home's true market value.

1.4.2 Improvement Fee

The Capital Improvements Plan (CIP) for proposed transportation improvement projects is the basis of the improvement fee portion of the SDC. It must be determined which elements or portions of elements are strictly for replacement of existing capacity and which are for new service. The capital improvement plan for transportation and the SDC eligible portions will be determined in this study.

Information is presented in a tabular fashion for this service and each appropriate class of new customer including existing and projected EDUs.

1.5 Previous Studies and Information

The following studies, reports and other sources of information have been used in the compilation of the System Development Charge Study:

- Coos Bay Transportation System Plan, DKS Associates, Adopted January 6, 2004.
- Business License Detail Report for the City of Coos Bay.
- Engineering News Record, Construction Cost Index History, McGraw Hill Co. (www.enr.construction.com).
- Trip Generation, Institute of Transportation Engineers, 7th Edition.
- 72nd Oregon Legislative Assembly - 2003 Regular Session - Senate Bill 939
- Oregon Revised Statutes 223.297 to 223.314

1.6 Authorization

The City of Coos Bay contracted with The Dyer Partnership, Engineers & Planners, Inc. in June 2005 to prepare the System Development Charge Study.