

# EUGENE CITY COUNCIL

## AGENDA ITEM SUMMARY



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### Work Session: Systems Development Charges Overview

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Meeting Date: April 29, 2015  
Department: Public Works  
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Agenda Item Number: A  
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#### **ISSUE STATEMENT**

The purpose of the work session is to provide the City Council information on Systems Development Charges (SDCs) in Eugene with respect to policy framework, purpose, use of funds, and opportunities for SDC investments related to Envision Eugene.

#### **BACKGROUND**

##### Council Action History

The last major update to Eugene SDCs was in May, 2007, when the council adopted the SDC Methodologies by Resolution No. 4900, updating the parks SDC methodology and rates. Resolution No. 4900 has subsequently been amended by Resolution Nos. 4929 (inflationary adjustment to parks system rates effective April 3, 2008), 4943 (inflationary adjustment to regional wastewater rates effective July 1, 2008), 4977 (administrative fee adjustments effective January 1, 2010), 4991 (amendment of regional wastewater SDC methodology effective January 1, 2010), 4998 (inflationary adjustments to all local system rates effective April 1, 2010), 5031 (inflationary adjustment to parks system rates effective June 1, 2011), 5092 (inflationary adjustments to all local system rates effective July 1, 2013), and 5100 (amendment of stormwater SDC methodology effective March 1, 2014).

In addition, inflationary adjustments of system rates were adopted by Administrative Order Nos. 58-07-08-F (regional wastewater system effective August 20, 2007), 58-08-02-F (transportation, local wastewater and stormwater systems effective April 3, 2008), 58-09-08-F (regional wastewater system effective July 1, 2009), 58-11-01-F (transportation, local wastewater and stormwater systems effective June 1, 2011), 58-11-12-F (regional wastewater system effective January 1, 2012), 58-13-08-F (regional wastewater system effective July 1, 2013), and 58-14-08-F (all local and regional system rates effective July 1, 2014).

##### Purpose and Uses of SDCs

SDCs are intended to provide an equitable means of funding capital improvements that provide capacity in infrastructure systems needed to serve growth. SDCs collected in Eugene fund capital projects in five primary infrastructure systems: wastewater, stormwater, parks, transportation

and water. The wastewater SDC consists of both local collection system and regional treatment system SDCs; the regional wastewater SDC is collected by the City with all revenues passed through to Metropolitan Wastewater Management Commission (MWMC). The water system SDC is collected directly and administered by Eugene Water & Electric Board (EWEB). Similar to SDCs, a construction excise tax is imposed by the Bethel School District to help fund capital improvements for school facilities.

Two forms of SDCs, reimbursement and improvement fees, recognize that capacity to meet the needs of growth is provided in two forms – new capacity-increasing capital improvements, and reimbursement for extra capacity built in the past in systems and paid for by the general community. SDCs must be expended on capital projects related to the system for which they are collected. Improvement fee SDCs may be spent only on capacity-increasing projects. Reimbursement fees may also be spent on rehabilitation projects. The City has a combination of both reimbursement and improvement fee elements in each system's SDC.

Examples of the types of projects funded in part by SDCs include: pavement preservation on arterial and collector streets; traffic signals and other intersection improvements; off-street bicycle paths; parks land acquisition and development; wastewater facilities rehabilitation; and, stormwater facilities construction.

The amount of SDC revenue varies considerably from year-to-year, depending on the volume and nature of development, which are tied to local economic conditions. Over the past five fiscal years annual revenues have ranged from \$2.2 million to \$7.5 million. Expenditures also vary in relation to the types and SDC-eligible costs of capital projects funded as well as the amount of available funding. Over the past five fiscal years annual expenditures have ranged from \$1.1 million to \$3.5 million.

#### Financial implications for development projects

SDCs are one-time charges, often of a sizeable dollar amount, and can represent a significant percentage of a development project's total cost, ranging from a few percent to twenty percent or more. The amount of SDCs for a development is variable depending on several factors including size and type of development and available SDC exemptions or credits. SDCs are proportionate to a development's claim on system capacity and thus vary by development type and size. For example, a restaurant may have a relatively large impact on wastewater system capacity as compared to an office building of the same size. Attachment A provides a comparison of SDCs to project construction value for several example development types, prior to any credits.

SDCs are paid, or an agreement to pay is executed, at the time of issuance of a building permit as provided in Eugene Code section 7.720. City financing of SDCs allows for semi-annual payments over a 10-year period, with the first payment due approximately six months after permit issuance. Contracted payments are typically secured by a lien on the property being developed, with other forms of security allowable.

SDC credits and exemptions provide some potential incentives for low-income housing, mixed-use, infill and redevelopment as well as development in the downtown core. In 1997, the council adopted an exemption of local SDCs to qualified projects providing housing to low-income

persons. This exemption has provided approximately \$1.7 million in assistance to 24 housing projects over the past 17 years. SDC credits account for reduced impacts of certain development projects as well as credits for improvements built by a developer that would otherwise have been funded by the City with SDC revenues. For redevelopment of existing sites, SDC credits are provided for prior uses at the site, reducing and sometimes eliminating SDCs for a project. Additionally, development in nodal or mixed-use development centers receives a 10 percent reduction in the street-related transportation SDC. For development in the downtown, redevelopment involving intensification of use of pre-existing spaces is not charged a transportation SDC.

### Financial Considerations

SDCs provide a funding mechanism to account for the costs and value of infrastructure system capacity required by new development. The SDC Methodologies adopted by the council provide for periodic adjustments to SDCs to further account for changes in construction and land costs. Periodic adjustments allow SDCs to more closely reflect current costs of providing system capacity to new development. Staff is regularly monitoring the health of the SDC capital and administrative funds in order to prepare and administer budgets with balanced revenues and expenditures.

### Envision Eugene SDC Investment Strategies

SDC investments, by themselves, are not likely to meet the development objectives of Envision Eugene. However, SDC investments considered as part of a package of investment programs may help meet the objectives of Envision Eugene to: stimulate targeted development that otherwise wouldn't happen on its own, promote/support desired development happening sooner that it might otherwise, and/or influence the character of development. The following paragraphs describe several strategies and provide recent examples of when the strategies were used.

Alternative Funding – This strategy involves paying the SDCs for a particular development from an alternative funding source. The SDCs for the development of the Oregon Community Credit Union were paid with Riverfront Urban Renewal District funds. The SDCs for the development of the Veterans Administration Clinic were financed through the City and will be paid back over time by the increase in property taxes resulting from the development of the property. The first payment will be made after the project is complete and on the Lane County tax rolls.

Alternative Financing Security – Normally, when the payment of SDCs are financed through the City, a lien is placed on the property as security for the unpaid balance. In the development of the Ninkasi Brewery an alternative form of security was accepted which provided the developer and its lenders the needed flexibility in financing the project.

Waiver of SDCs –The City Council may elect to waive the payment of SDCs to encourage a specific type of development. In 1997, the council adopted an exemption of local SDCs to qualified projects providing housing to low-income persons. Bascom Village is a recent low-income housing project that was exempted from local SDCs. The downside to exempting SDCs for certain types of development is the under collection of revenue to fully fund the project list on which the SDC methodology is based.

## **RELATED POLICIES**

Oregon has established statutory provisions for a uniform framework for the imposition of system development charges by local governments, to provide equitable funding for orderly growth and development in Oregon's communities. Chapter 223 of the Oregon Revised Statutes prescribes the rights and responsibilities of local governments in developing and assessing SDCs, and for expenditure of SDC revenues.

The Eugene Code, Chapter 7, sets forth local policy and the process for development, adoption and administration of SDCs, providing for adoption of methodologies related to SDCs consistent with statutory requirements. The council has adopted by resolution the SDC Methodologies which include detailed methods for establishing SDC rates and provide for periodic adjustment of Eugene's SDCs based on adopted cost indices.

Growth Management Policy 14, adopted by Resolution No. 4554, is directly related to implementation and modification of SDCs. The policy provides: *Development shall be required to pay the full cost of extending infrastructure and services, except that the City will examine ways to subsidize the costs of providing infrastructure or offer other incentives that support higher-density, in-fill, mixed-use, and redevelopment.*

The council has also established policy for expenditure of transportation SDC reimbursement fee revenues through Resolution No. 4717, which provides: *In preparing the proposed budget, the City Manager shall allocate transportation SDC reimbursement fee revenue to SDC-eligible capital improvement costs associated with preservation and maintenance of Eugene's arterial and collector streets.*

## **COUNCIL OPTIONS**

None; this is an information item only.

## **CITY MANAGER'S RECOMMENDATION**

None; this is an information item only.

## **SUGGESTED MOTION**

None; this is an information item only.

## **ATTACHMENTS**

A. SDCs for Example Development Types

## **FOR MORE INFORMATION**

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