

Oregon System Development Charges Study

Senate Housing Committee Briefing
January 23, 2023



- **HB 3040** (2021) directed OHCS to study System Development Charges (SDCs) and their role as a cost-driver for housing and funding source for needed infrastructure
- OHCS contracted with ECONorthwest, Galardi Rothstein Group, and FCS GROUP in February 2022 to lead the study
- **HB 4014** (2022) extended timeline for more robust stakeholder engagement and analysis
- Final report submitted to legislature Dec 2022



Stakeholder Engagement

- Monthly email updates to stakeholders
- June-July 2022: engagement with cities, special districts, developers
 - Over **160 representatives** from cities, special districts, service providers, and developers
 - **6 focus group** sessions with cities, special districts, providers, and developers
- October-November 2022: webinar on draft findings, 3-week feedback period on final draft
- Incorporated feedback into final draft



- **HB 3040** directed study to include:
 - History and role of SDCs in funding infrastructure and impact of decrease in other funding sources
 - Methodologies and other factors that influence SDC rates
 - Trends in SDC fee levels
 - How the SDCs relate to other development costs
 - How SDCs affect the cost and production of housing, and who bears the costs
 - Costs and benefits related to deferring SDCs
 - Transparency and availability of information about SDCs
- **Did not direct recommendations**

SDCs Fund Infrastructure Needed for Growth

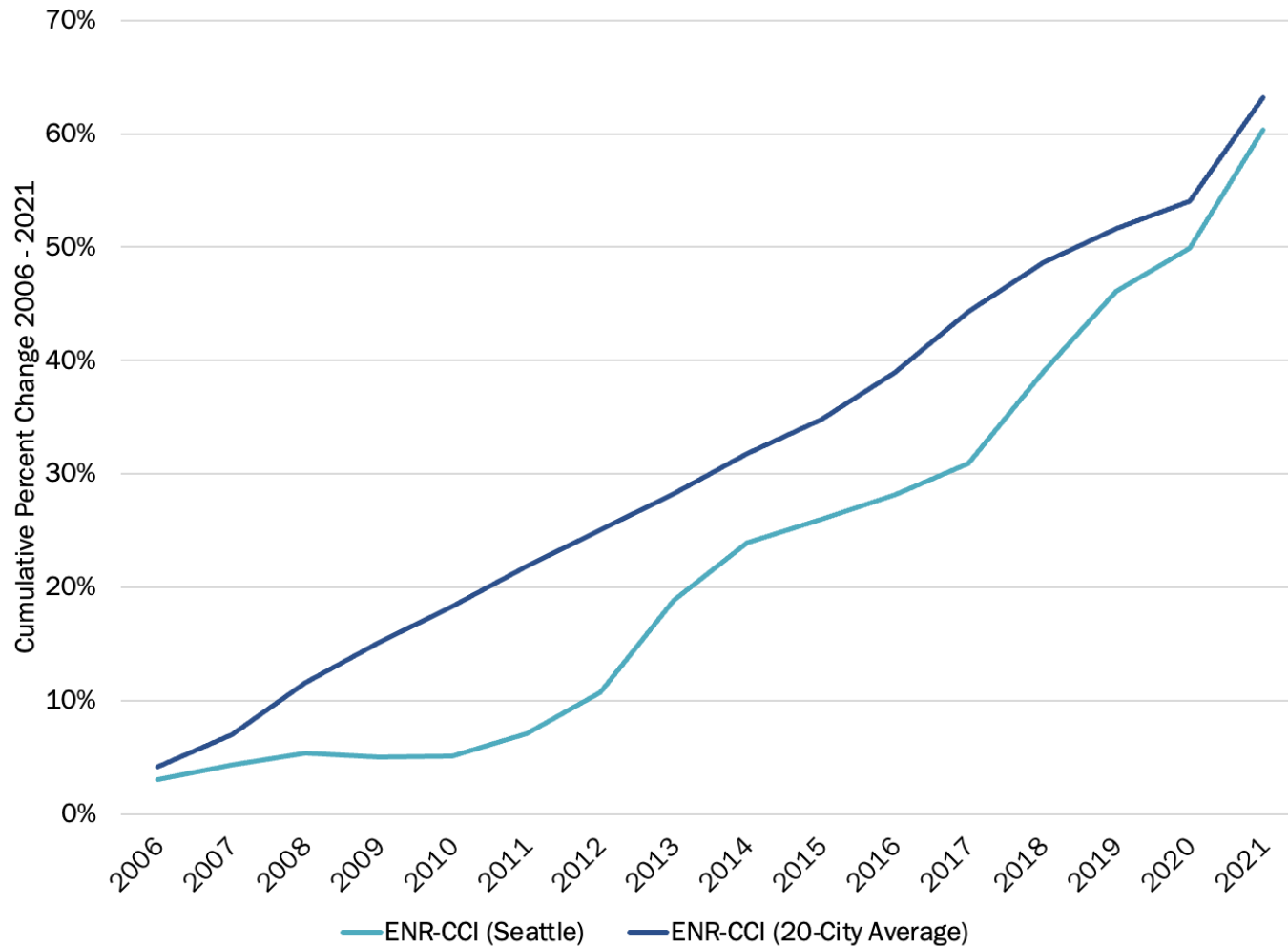


- One-time charges on development to pay for capital projects to increase system capacity
 - Water
 - Waste water
 - Stormwater
 - Transportation
 - Parks and recreation
- Distribute infrastructure costs among developers
- Subject to state law* and U.S. Constitution

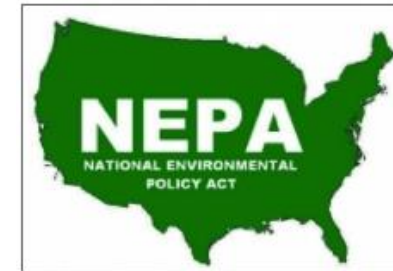
*Oregon SDC Act: ORS 223.297-223.316

Fiscal Context: Costs are Increasing

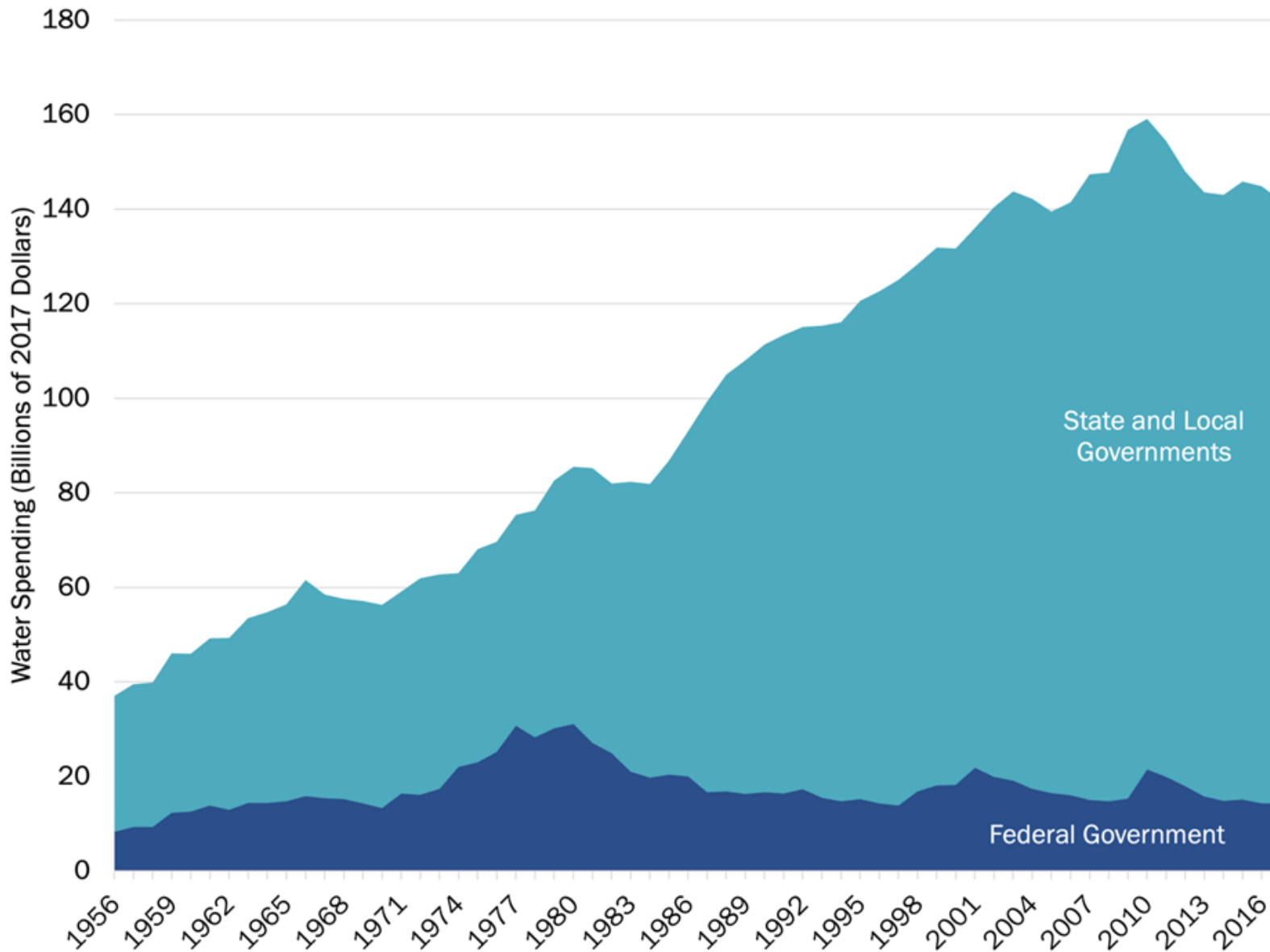
Construction cost escalation nationally and regionally



Higher regulatory and design standards to protect environment & human health & safety



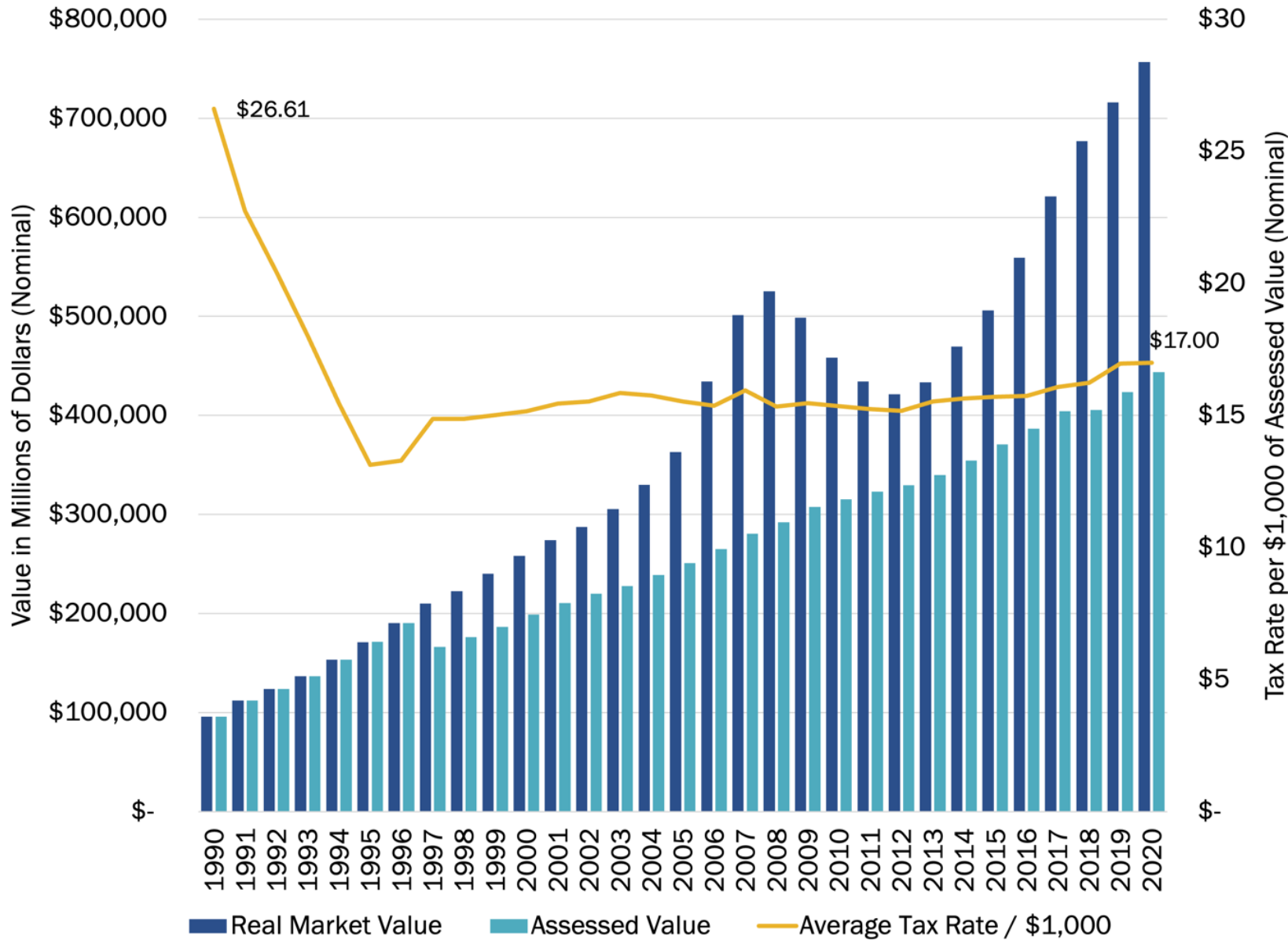
Fiscal Context: State & Federal Funding is Limited



Flat to declining federal spending historically

- 2021 Bipartisan Infrastructure Law likely to mitigate, not solve, gaps
- Reductions in state gas tax revenue & timber receipts

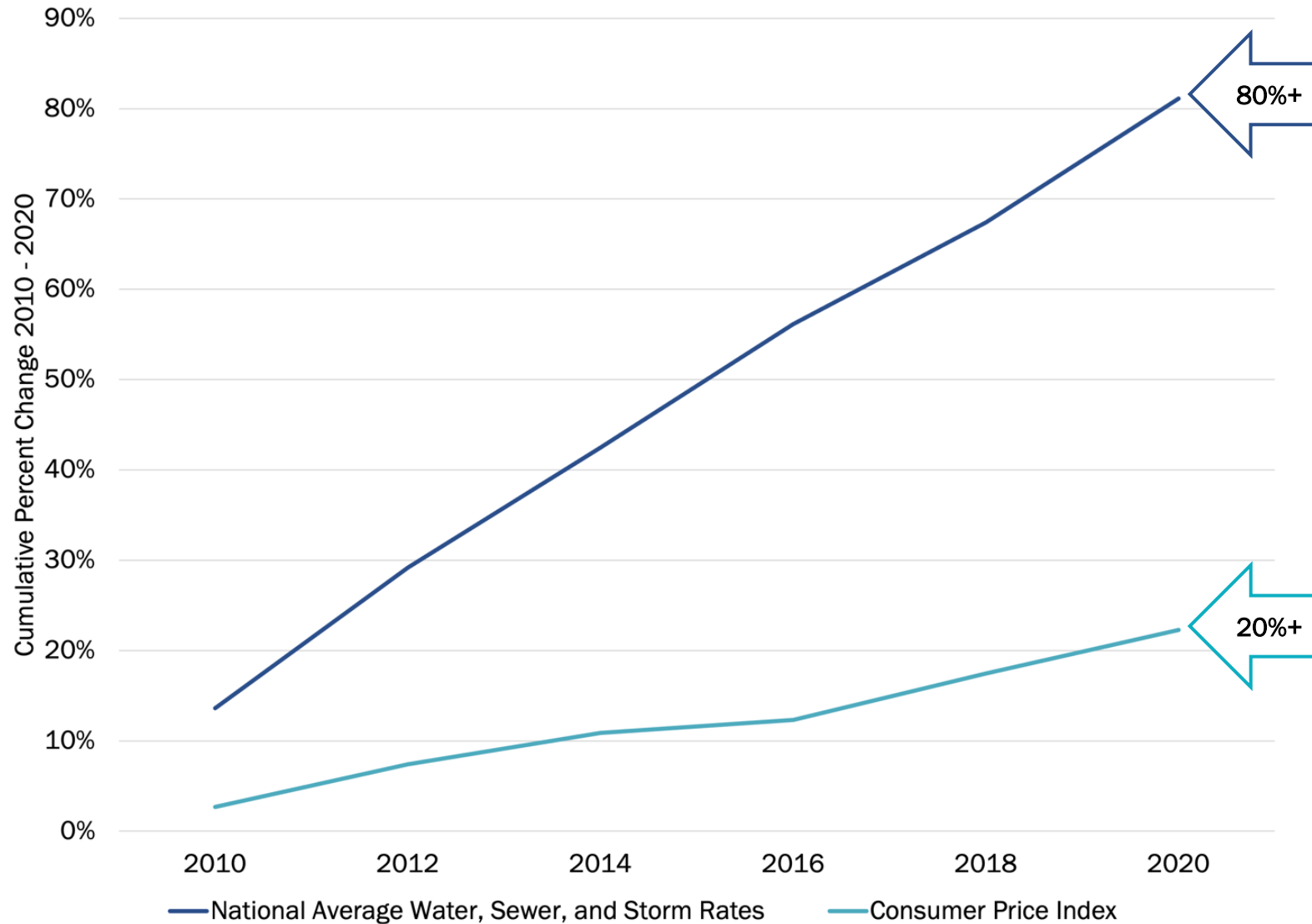
Fiscal Context: Local General Fund Options are Limited



Measures 5 and 50 have constrained property tax revenue since the 1990s

Voter approval needed for bonds & levies

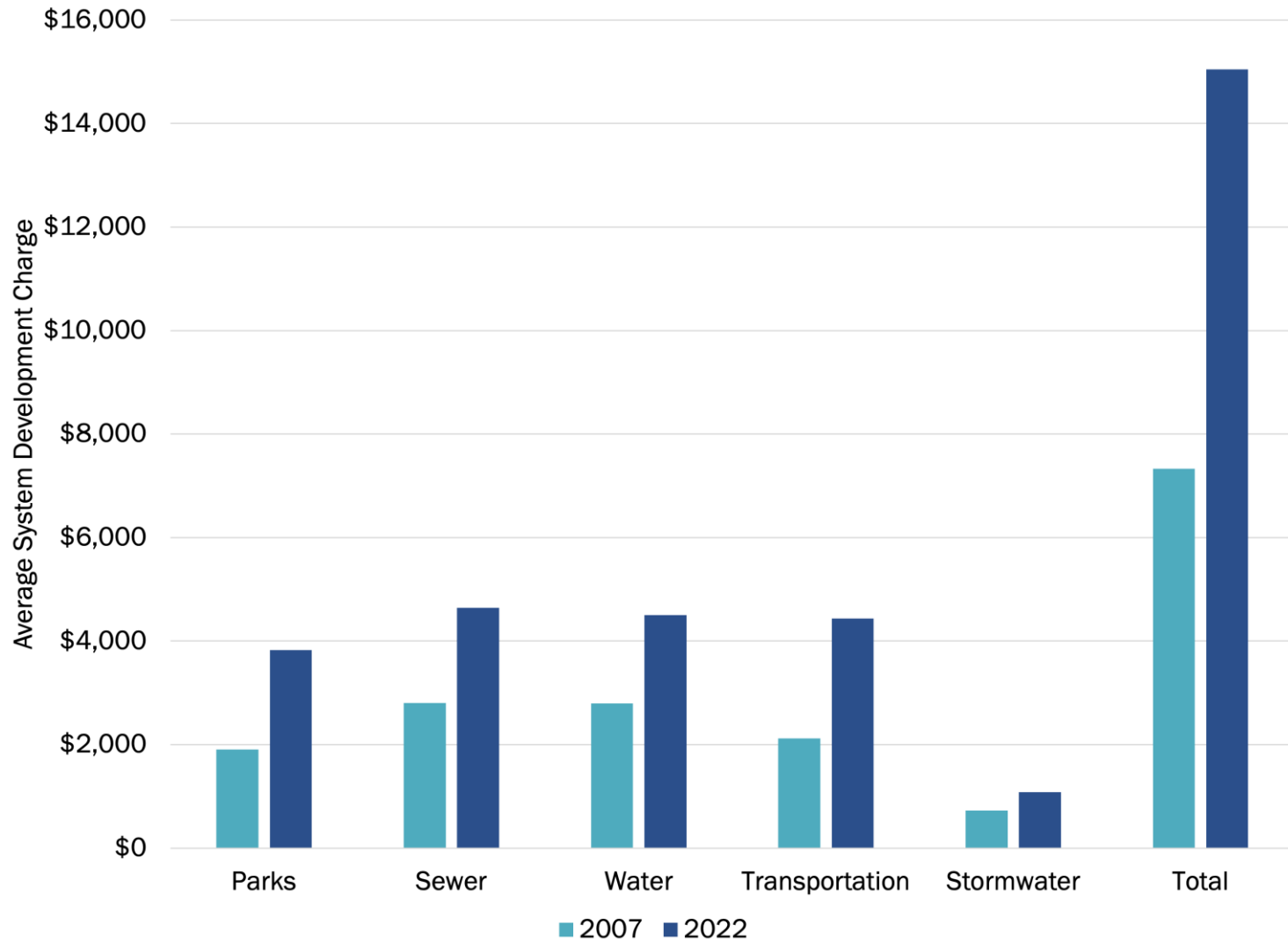
Fiscal Context: Local User Fees are Increasing



Water, sewer, stormwater utility rates increasing faster than inflation

- Combined with new fees for transportation and parks, impact residents' cost of living on an on-going basis
- Affordability challenges for low-income households

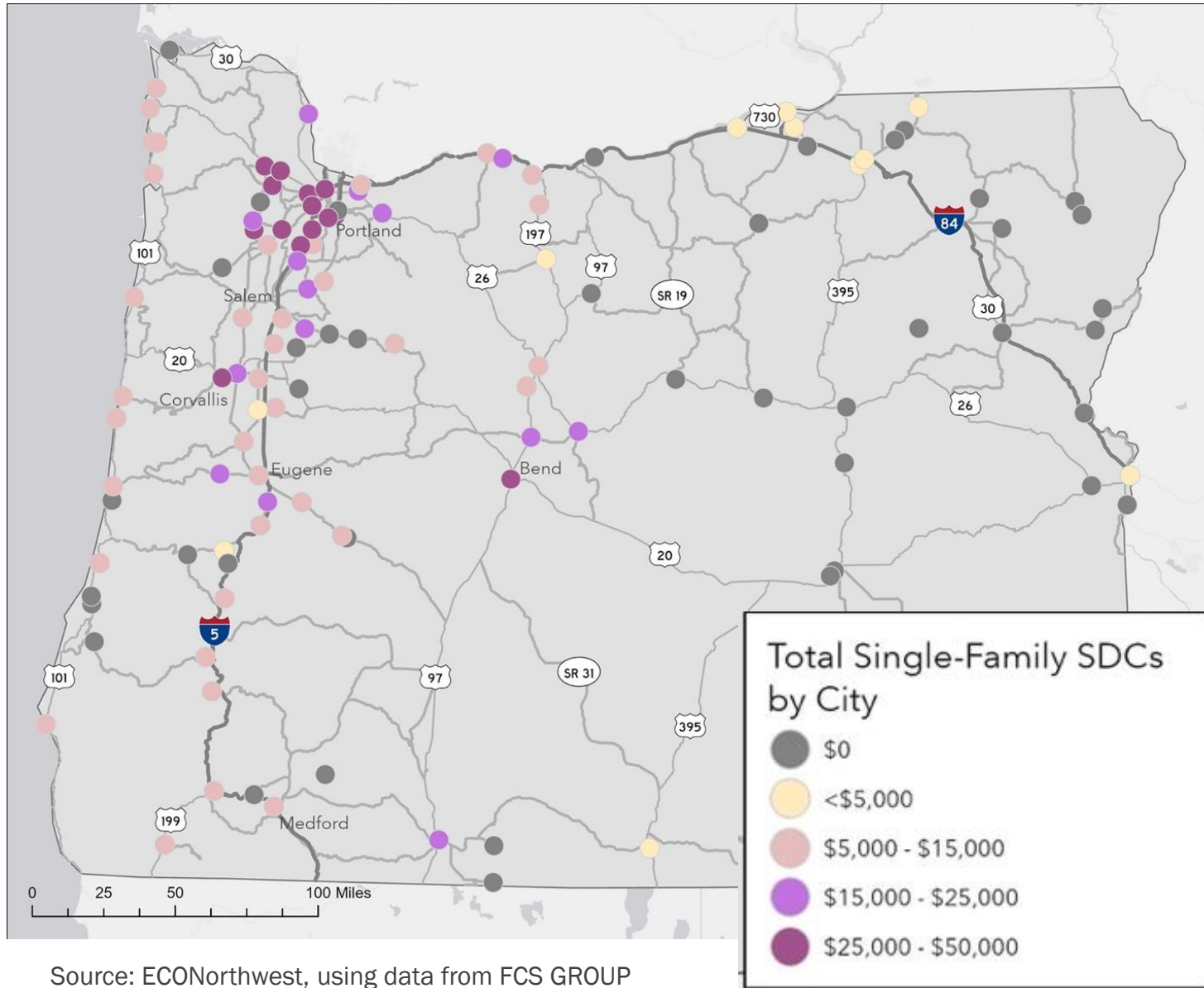
SDC Rates are Increasing



- SDC rates increasing faster than inflation on average
- Highest % increases for transportation and parks

* 2007 data may not include all special district SDCs

SDC Rates Vary Across Oregon



Source: ECONorthwest, using data from FCS GROUP

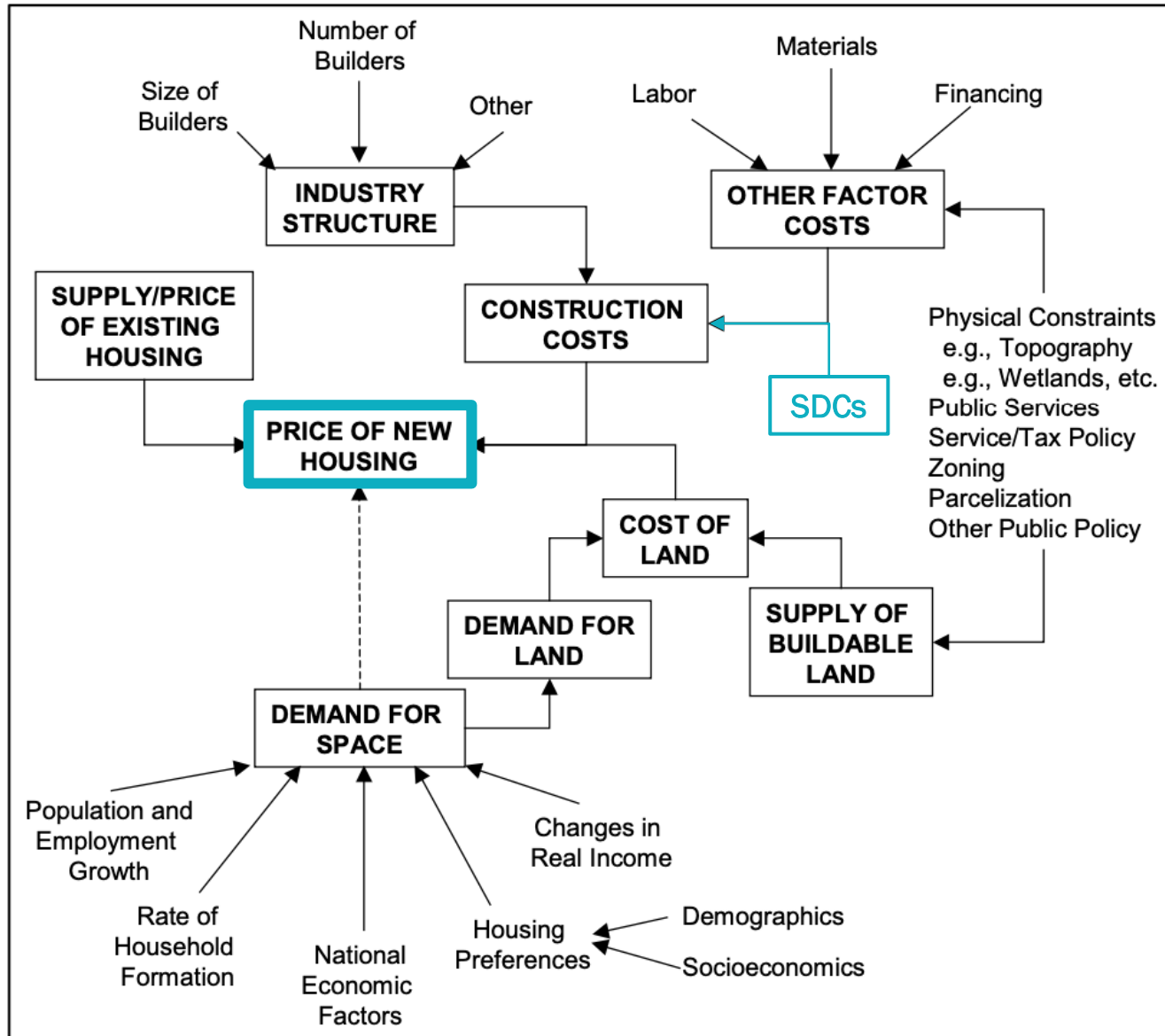
2022 sample, for a single-detached home:

- \$0 - \$50,000 per unit
- ~\$15,000 average per unit
- Often lower for multifamily, townhouses
- Differences reflect local needs, cost factors, and priorities



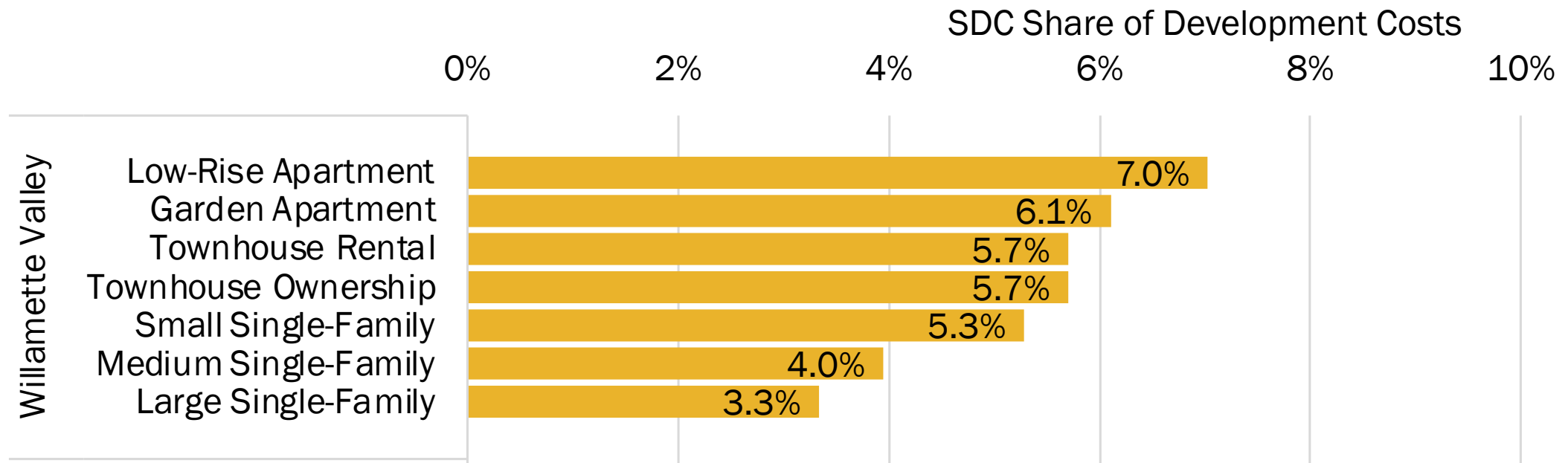
How SDCs Affect Housing

Many Factors Drive the Price of Housing



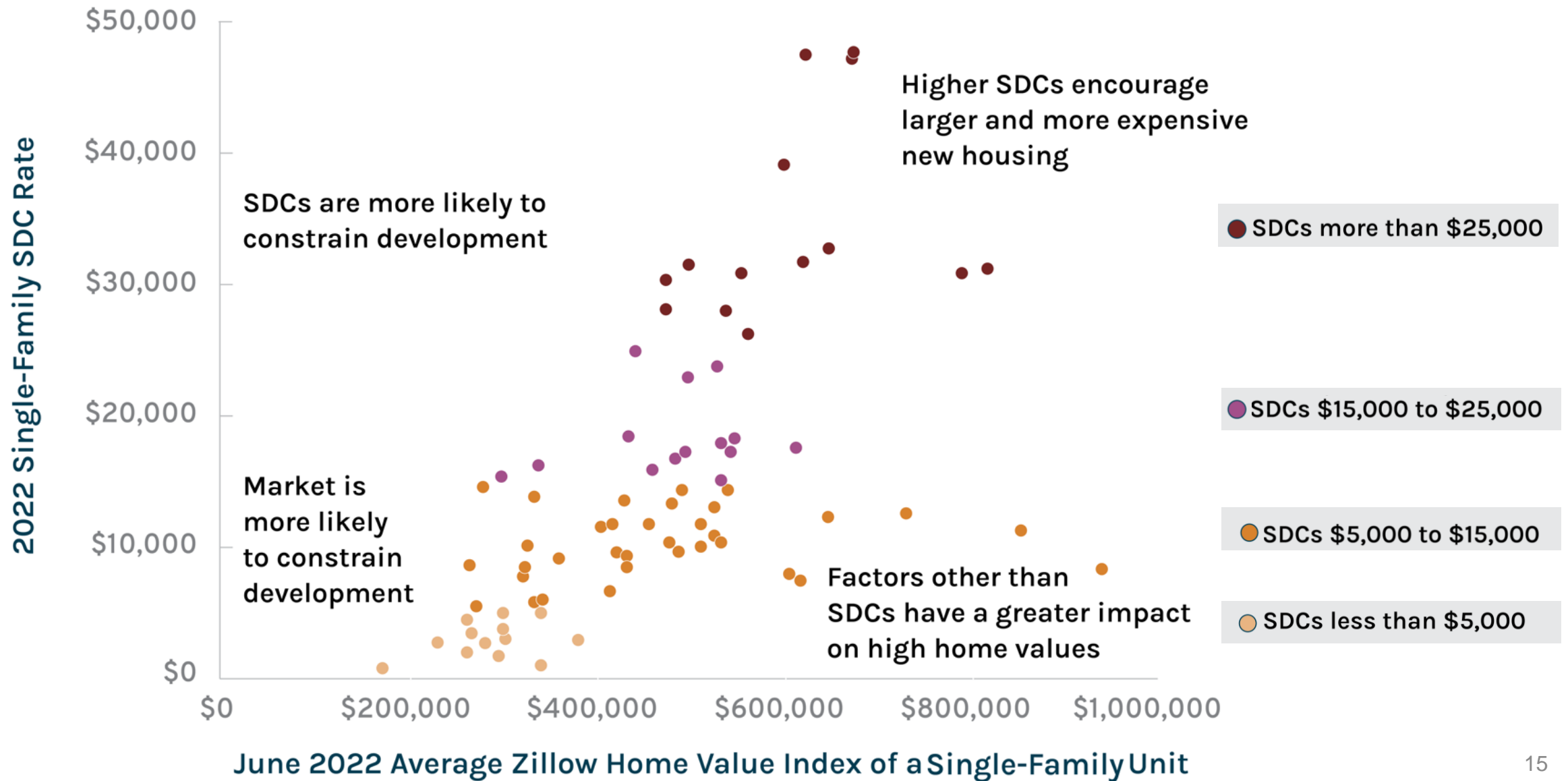
SDCs can combine with other factors to **exacerbate challenges for housing production and affordability**, even if they are not the primary driver

- **SDCs increase the cost of building new housing**
 - Smaller and lower-cost housing units tend to be more affected than larger and more expensive homes



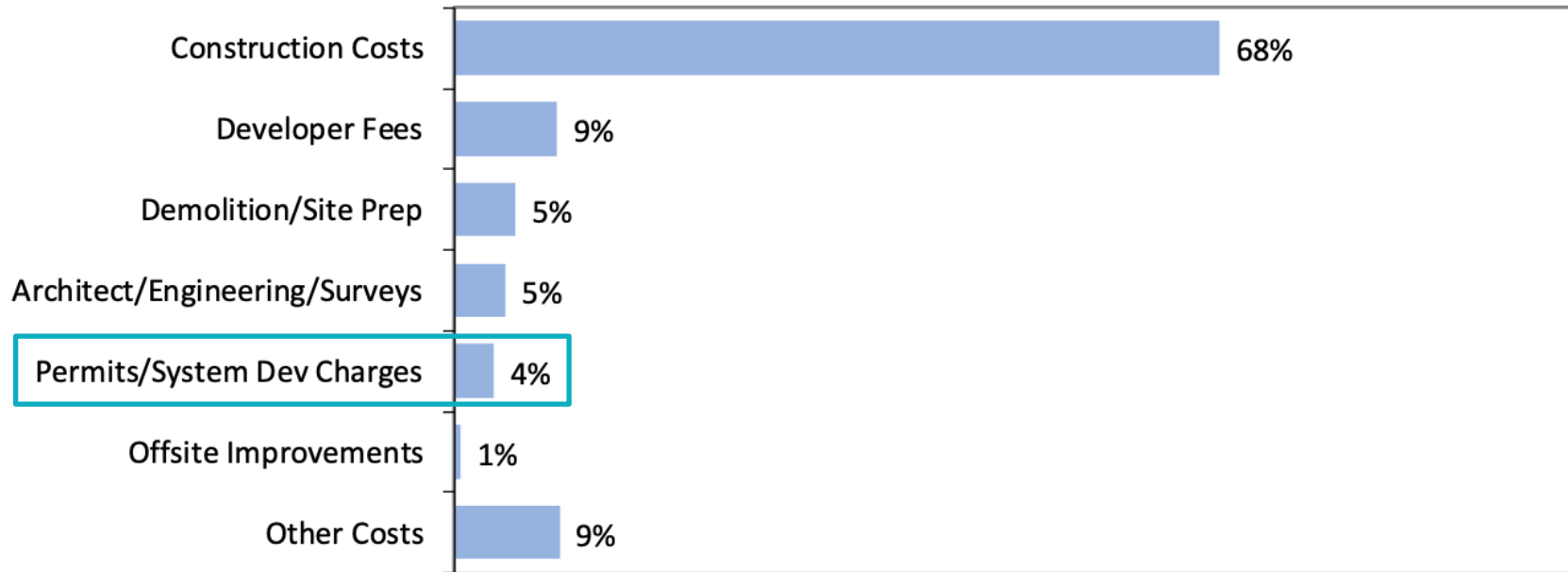
Statewide range: just under 2 percent to nearly 13 percent depending on housing type and region

How Do SDCs Relate to Market Conditions in Oregon?



SDCs Impact Affordable Housing Too

**Affordable Housing New Construction Projects:
Cost Components as % of Total Development Costs (Net of Land)**



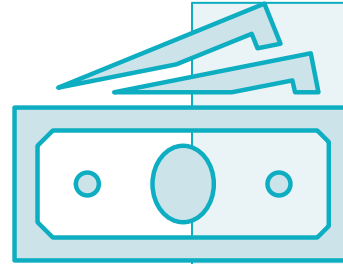
Average calculated by summing (real) cost measures across all affordable projects and dividing by total project costs excluding land.

SDCs are a relatively small % of total development costs, but cost is increasing, likely consume millions of dollars per year in funding for affordable housing statewide

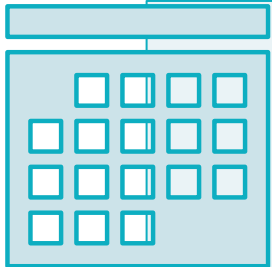
Reducing the Impact of SDCs on Housing



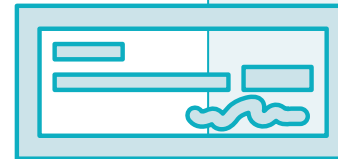
Scaled SDC rates for smaller units



SDC exemptions for affordable housing

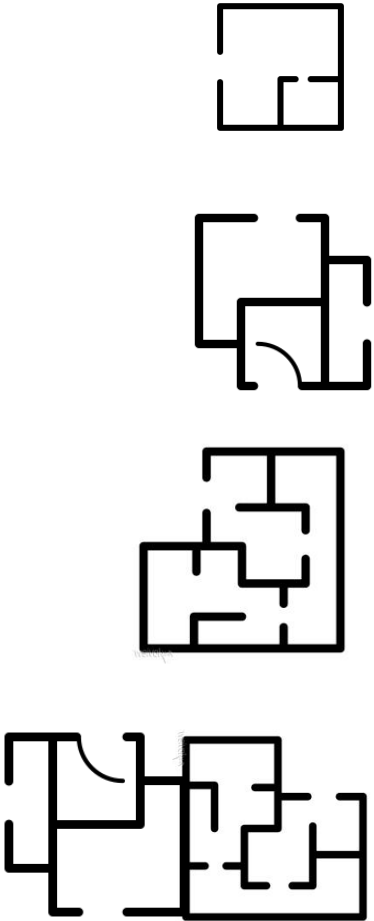


SDC deferrals



Clear SDC estimates for Multifamily & Middle Housing

Scaled Rates Help Smaller Units



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

SDC Exemptions Support Affordable Housing

With Exemption

72Foster (2019): 101 units

SDC Total: \$0 for residential (\$140k for commercial)



Without Exemption

Nueva Esperanza (2022): 150 units

SDC Total: \$2.9m (5.4% of costs)



SDC Deferrals Offer Benefits but also Challenges

Benefits to Development

- Lowers financing costs
 - cuts cost of paying SDCs by 10-25%
- Funds available for early construction costs

Challenges for Jurisdictions

- Time-consuming paperwork
- Tracking payments
- Reminders / enforcement

Reducing SDC Costs Broadly Would Require Other Funding

- Expanding other funding options that have less impact on development costs and low-income households
- Targeting funding to mitigating impacts on affordable & lower-cost housing

Jurisdictions can Mitigate Impacts of SDCs on Housing

- Consider scaled rate structures, deferrals, and/or affordable housing exemptions
- Provide clear SDC estimates

Questions?

Resource Slides

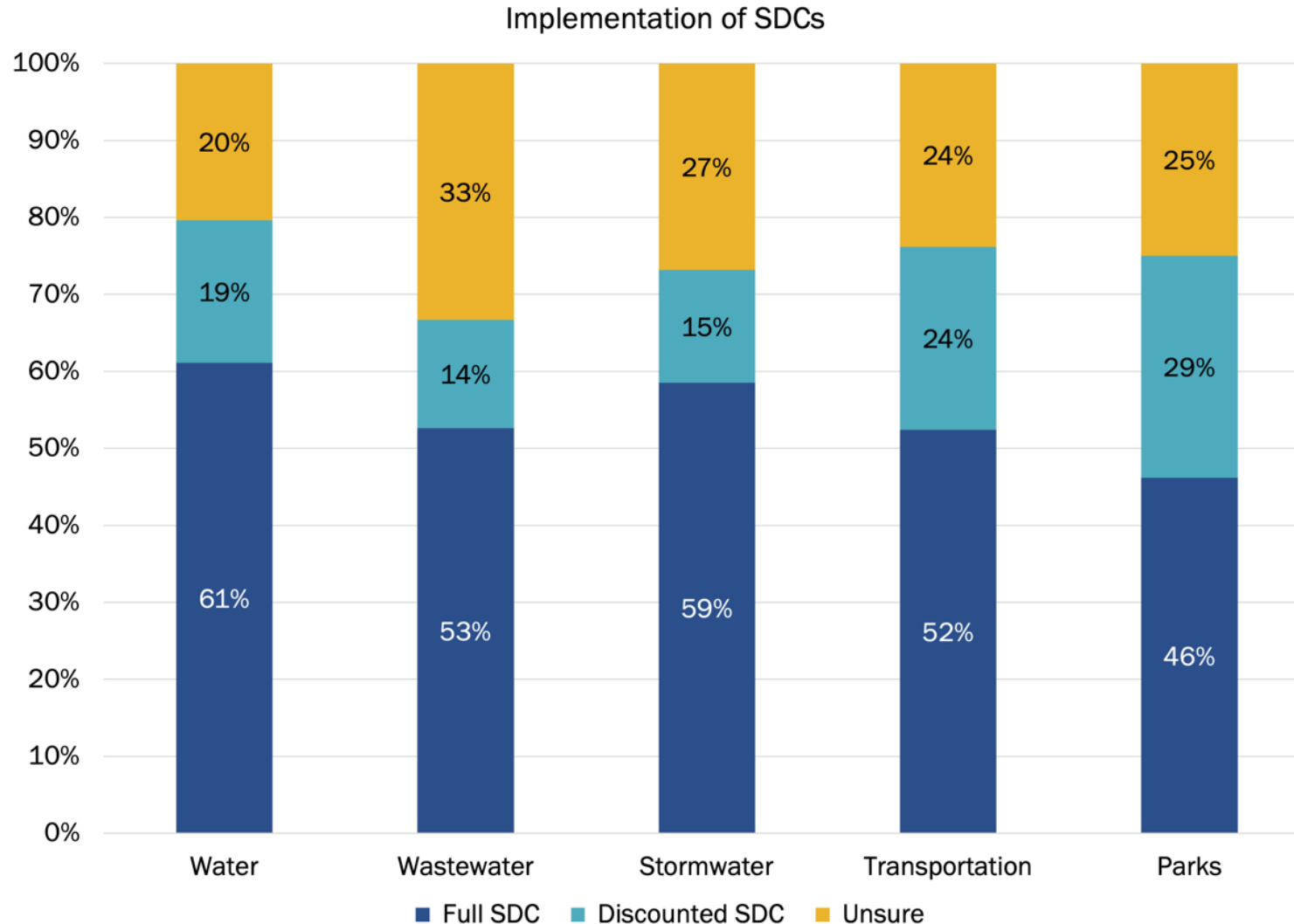
Overview: What Are SDCs?

- One-time impact fees charged on new development to help pay for infrastructure that serves or provides capacity for growth
- Subject to state law (Oregon SDC Act: ORS 223.297-223.316) and U.S. Constitution
- Used for capital costs (not operations & maintenance) for specific infrastructure systems:
 - Water supply, treatment and distribution
 - Waste water collection, transmission, treatment and disposal
 - Drainage and flood control
 - Transportation
 - Parks and recreation

Differences Reflect Local Needs, Cost Factors, and Priorities



Rate-Setting Decisions



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

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

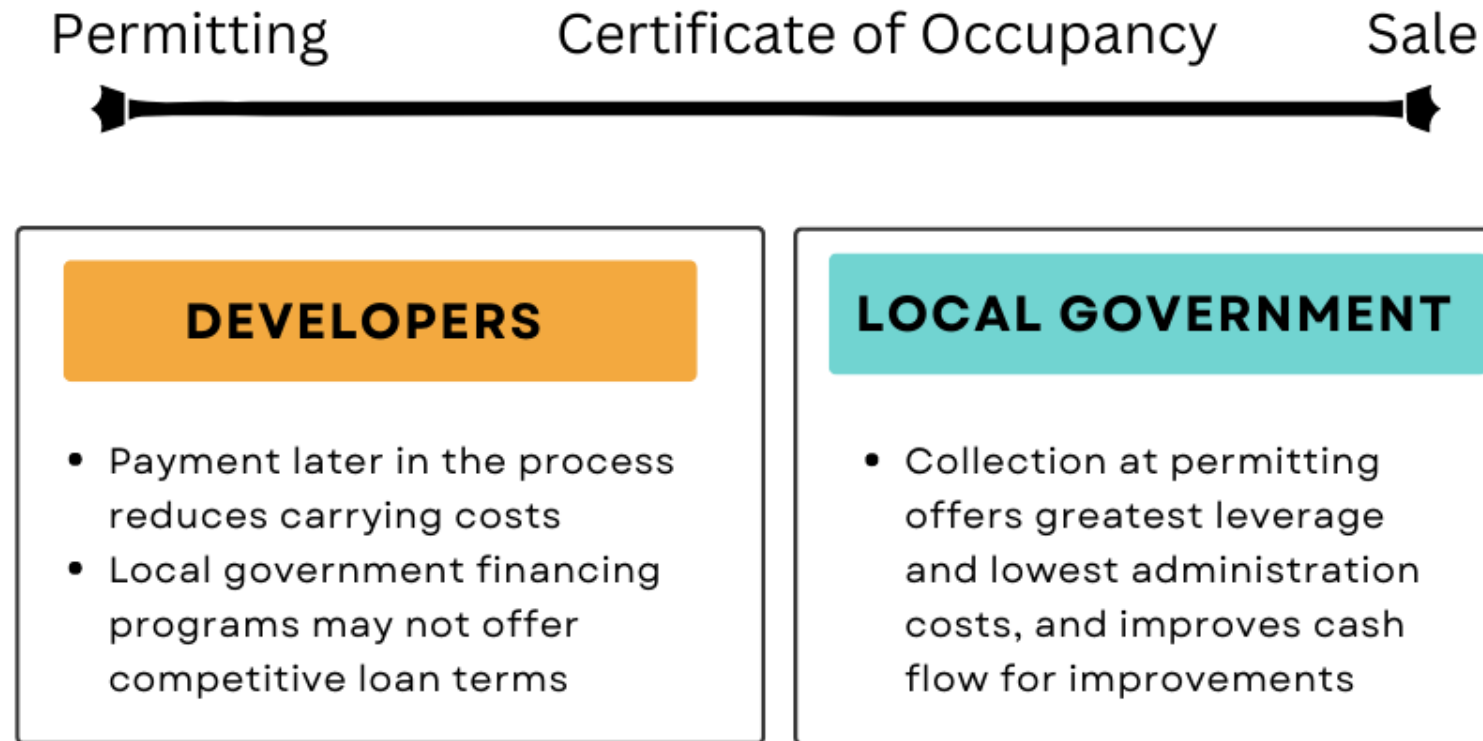
- Improvements allow development to move forward
- Minimum credit requirements may not be sufficient to recoup actual costs
- Lack of transparency makes it difficult to estimate credits upfront

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

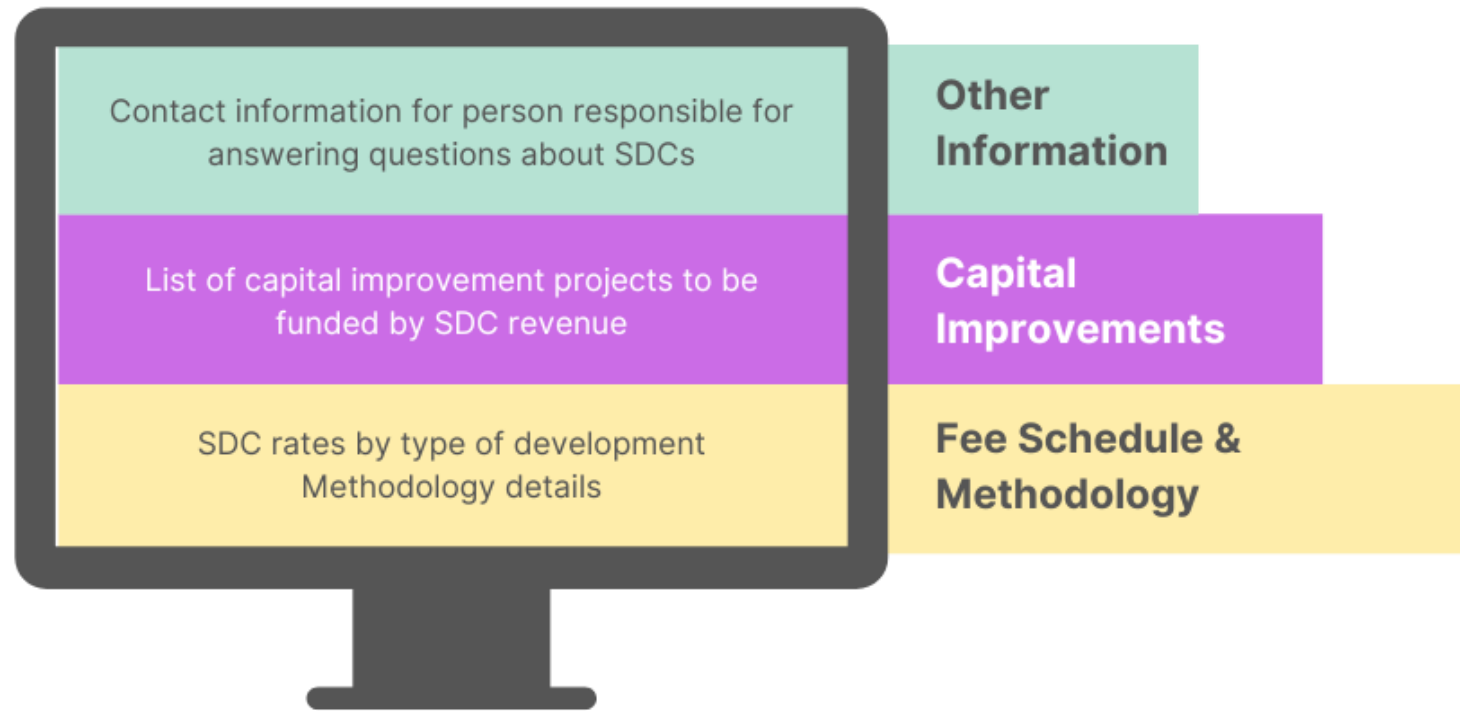
Implementation Considerations: Timing & Deferrals

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



Transparency & Information

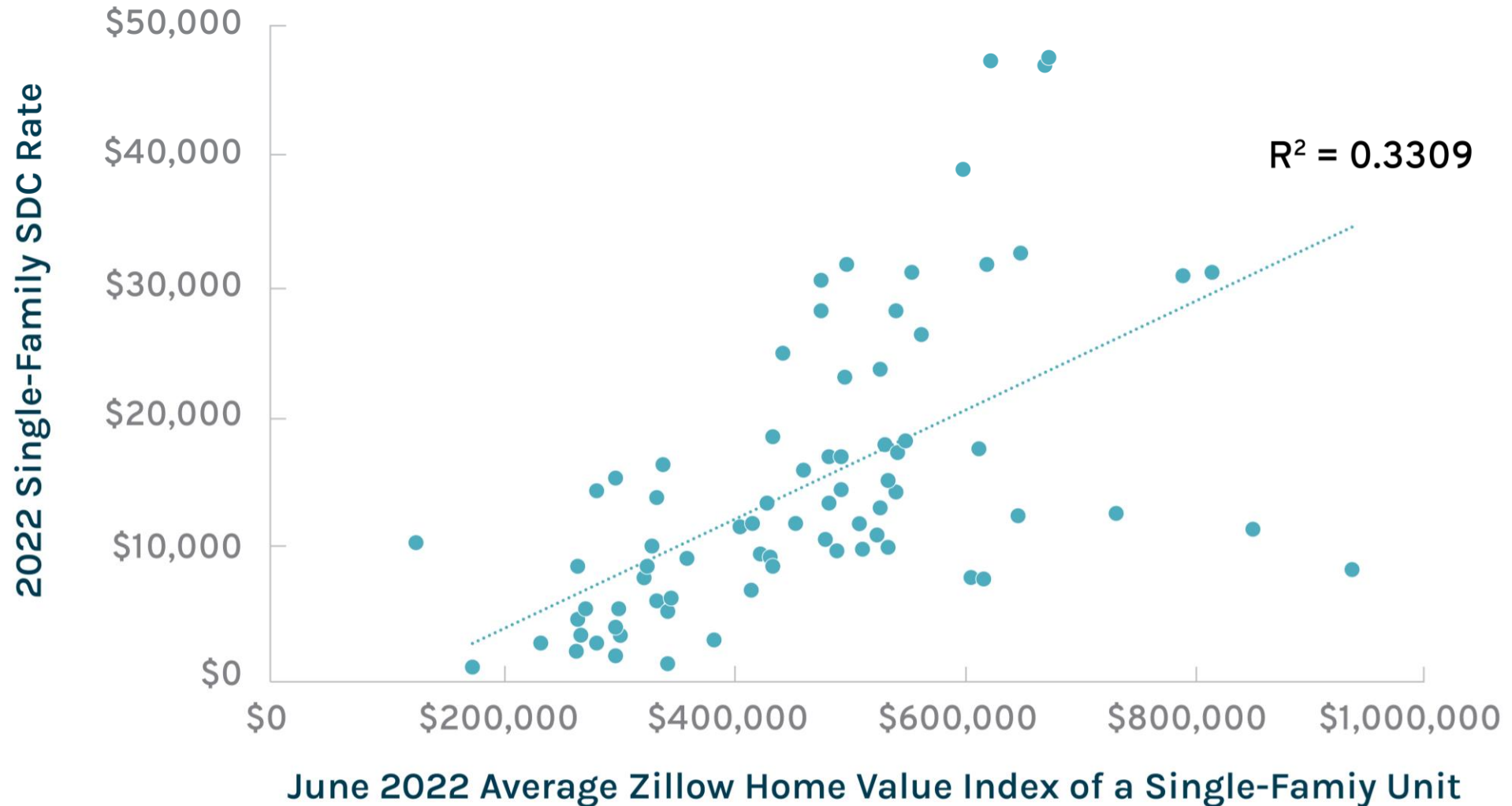
- Recent addition to statutes (ORS 223.316) broaden SDC information to be included on local government website.
- Developers value clear information about SDC costs for a particular project.



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?



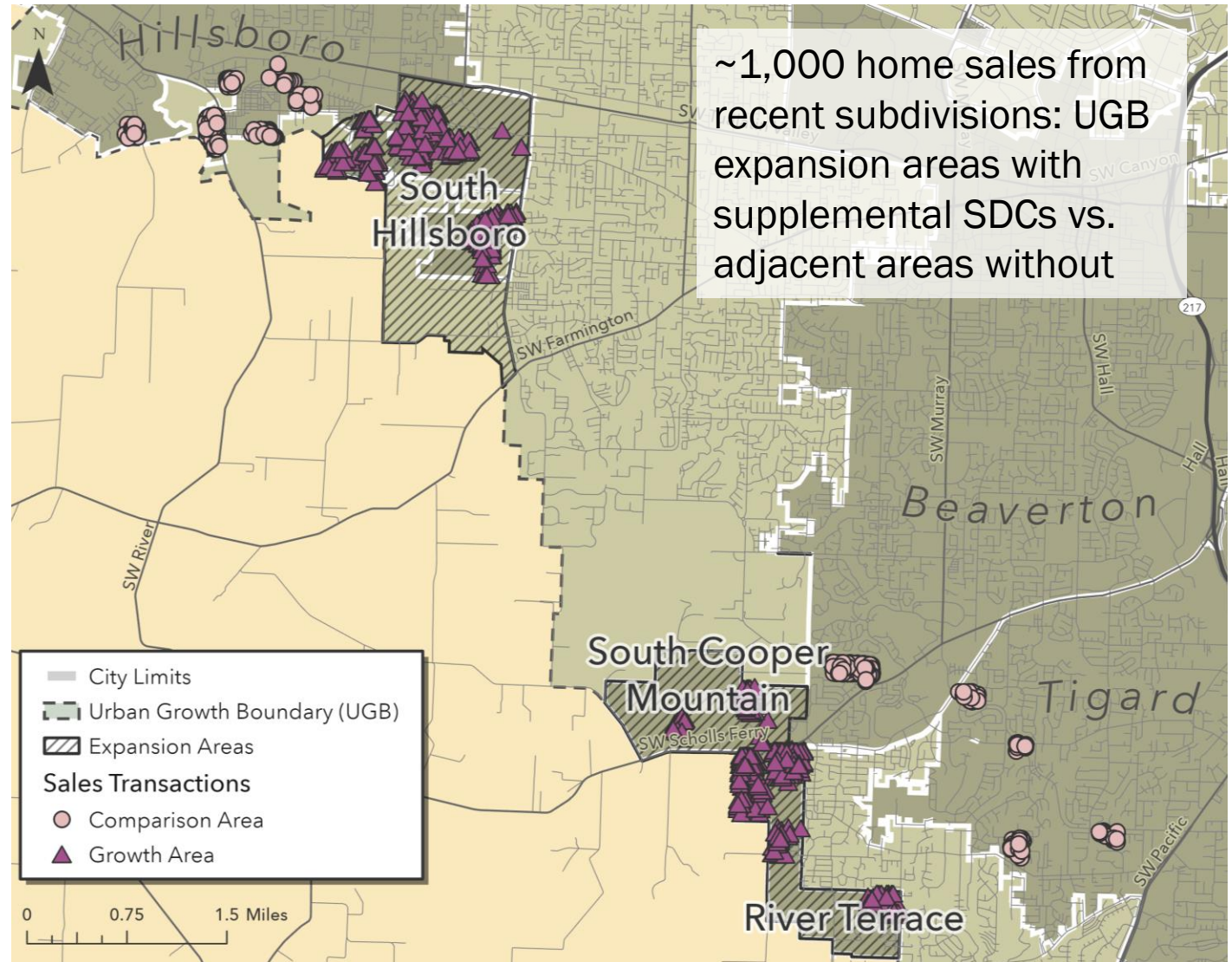
How do SDCs Differences within a Market Affect Home Prices?

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



Clear, Accurate SDC Estimates Reduce Uncertainty

