Draft Methodology Report

Stormwater System Development Charges

Prepared For

City of Pendleton

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SECTION 1

Introduction

Oregon legislation establishes guidelines for the calculation of system development charges (SDCs). Within these guidelines, local governments have some latitude in selecting technical approaches and establishing policies related to the development and administration of SDCs. A discussion of this legislation follows, along with the recommended methodology for calculating stormwater SDCs for the City of Pendleton (the City), in accordance with state law and the City's recently adopted Stormwater System Master Plan (Murray, Smith & Associates, March 2015). While the City has charged SDCs for many years, they have been limited to transportation infrastructure.

SDC Legislation in Oregon

In the 1989 Oregon state legislative session, a bill was passed that created a uniform framework for the imposition of SDCs statewide. This legislation (Oregon Revised Statute [ORS] 223.297-223.314), which became effective on July 1, 1991, (with subsequent amendments), authorizes local governments to assess SDCs for the following types of capital improvements:

- Drainage and flood control
- Water supply, treatment, and distribution
- Wastewater collection, transmission, treatment, and disposal
- Transportation
- Parks and recreation

The legislation provides guidelines on the calculation and modification of SDCs, accounting requirements to track SDC revenues, and the adoption of administrative review procedures.

SDC Structure

SDCs can be developed around two concepts: (1) a reimbursement fee, and (2) an improvement fee, or a combination of the two. The **reimbursement fee** is based on the costs of capital improvements *already constructed or under construction*. The legislation requires the reimbursement fee to be established or modified by an ordinance or resolution setting forth the methodology used to calculate the charge. This methodology must consider the cost of existing facilities, prior contributions by existing users, gifts or grants from federal or state government or private persons, the value of unused capacity available for future system users, rate-making principles employed to finance the capital improvements, and other relevant factors. The objective of the methodology must be that future system users contribute no more than an equitable share of the capital costs of *existing* facilities. Reimbursement fee revenues are restricted only to capital expenditures for the specific system which they are assessed, including debt service.

The methodology for establishing or modifying an **improvement fee** must be specified in an ordinance or resolution that demonstrates consideration of the *projected costs of capital improvements identified in an adopted plan and list*, that are needed to increase capacity in the system to meet the demands of new development. Revenues generated through improvement fees are dedicated to capacity-increasing capital improvements or the repayment of debt on such improvements. An increase in capacity is established if an improvement increases the level of service provided by existing facilities or provides new facilities.

In many systems, growth needs will be met through a combination of existing available capacity and future capacity-enhancing improvements. Therefore, the law provides for a **combined fee** (reimbursement plus improvement component). However, when such a fee is developed, the methodology must demonstrate that the charge is not based on providing the same system capacity.

Credits

The legislation requires that a credit be provided against the improvement fee for the construction of "qualified public improvements." Qualified public improvements are improvements that are required as a condition of development approval, identified in the system's capital improvement program, and either (1) not located on or contiguous to the property being developed, or (2) located in whole or in part, on or contiguous to, property that is the subject of development approval and required to be built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related.

Update and Review

The methodology for establishing or modifying improvement or reimbursement fees shall be available for public inspection. The local government must maintain a list of persons who have made a written request for notification prior to the adoption or amendment of such fees. The legislation includes provisions regarding notification of hearings and filing for reviews. "Periodic application of an adopted specific cost index or… modification to any of the factors related to the rate that are incorporated in the established methodology" are not considered "modifications" to the SDC. As such, the local government is not required to adhere to the notification provisions. The criteria for making adjustments to the SDC rate, which do not constitute a change in the methodology, are further defined as follows:

- "Factors related to the rate" are limited to changes to costs in materials, labor, or real property as applied to projects in the required project list.
- The cost index must consider average change in costs in materials, labor, or real property and must be an index published for purposes other than SDC rate setting.

The notification requirements for changes to the fees that *do* represent a modification to the methodology are 90-day written notice prior to first public hearing, with the SDC methodology available for review 60 days prior to public hearing.

Other Provisions

Other provisions of the legislation require:

- Preparation of a capital improvement program or comparable plan (prior to the establishment of a SDC), that includes a list of the improvements that the jurisdiction intends to fund with improvement fee revenues and the estimated timing, cost, and eligible portion of each improvement.
- Deposit of SDC revenues into dedicated accounts and annual accounting of revenues and expenditures, including a list of the amount spent on each project funded, in whole or in part, by SDC revenues.
- Creation of an administrative appeals procedure, in accordance with the legislation, whereby a citizen or other interested party may challenge an expenditure of SDC revenues.

The provisions of the legislation are invalidated if they are construed to impair the local government's bond obligations or the ability of the local government to issue new bonds or other financing.

SECTION 2

Stormwater SDC Methodology

Overview

The general methodology used to calculate stormwater SDCs begins with an analysis of system improvements to determine the portion of each needed to provide capacity for growth in order to determine the "cost basis" for the SDCs, which is then divided by the total growth capacity units to determine the system wide unit cost of capacity. The final step is to determine the SDC schedule, which identifies how different developments will be charged, based on their estimated capacity requirements.

Develop Cost Basis

The reimbursement fee is intended to recover the costs associated with the growth-related (or available) capacity in the existing system; the improvement fee is based on the costs of capacity-increasing future improvements needed to meet the demands of growth. The City's stormwater SDC analysis is limted to an improvement fee, as existing City-funded facilities will generally either be replaced over the planning period, or cost data is not available in the fixed asset records to support development of a reimbursement fee.

Improvement Fee Cost Basis

The cost of future capacity-increasing improvements (the improvement fee cost basis) is presented in **Table 1**. The Master Plan identified mains needing replacement due to existing or future deficiencies. Modeling data for each project was reviewed to determine the portion of planned future capacity related to growth vs. remedying an existing deficiency or replacing existing capacity. Table 1 shows the total growth-related costs for deficiency upgrades for each time period (5, 10, and 20-year projects). The Master Plan also recommended a general plan for main replacement over the planning period. As mains are replaced, they will serve a combination of existing and future development; therefore, all of the main replacement projects are allocated to growth based on a system-wide average of 65 percent growth. Expansion of the stormwater system in the Airport Industrial Area (AIA) is 100 percent for future growth.

The the Master Plan includes recommended vehicle and operation and maintenance (O&M) projects, including: local improvement fund (maintenance of existing system by City staff), City and prison levee maintenance, and Geographical Information System field work which are excluded from the SDC cost basis, as SDCs may not recover O&M costs.

Table 1
City of Pendleton Stormwater SDC Analysis
Improvement Fee Cost Basis

PROJECT	Master Plan Cost	SDC Portion %	SDC Portion $
5-Year Projects			
Combo Truck	$50,000	0%	$0
Provisional City and Prison Levee Cert	$527,000	40%	$210,800
City and Prison Levee O&M	$665,000	0%	$0
Local Improvement Fund	$200,000	0%	$0
Main Replacement	$420,000	65%	$273,000
GIS Data Field Work	$50,000	0%	$0
Deficiency Upgrades	$5,761,000	10%	$576,100
Subtotal	**$7,673,000**		$1,059,900
10-Year Projects			
Master Plan Update	$150,000	65%	$97,500
City and Prison Levee O&M	$560,000	0%	$0
Local Improvement Fund	$200,000	0%	$0
Main Replacement	$420,000	65%	$273,000
GIS Data Field Work	$50,000	0%	$0
Deficiency Upgrades	$9,075,000	20%	$1,815,000
Subtotal	**$10,455,000**		$2,185,500
20-Year Projects			
City and Prison Levee O&M	$1,120,000	0%	$0
Local Improvement Fund	$400,000	0%	$0
Main Replacement	$840,000	65%	$546,000
Master Plan Update	$300,000	75%	$225,000
Deficiency Upgrades	$12,250,000	40%	$4,900,000
Airport Expansion	$3,530,000	100%	$3,530,000
Combo Truck	$420,000	0%	$0
Subtotal	**$18,860,000**		$9,201,000
Total Capital Improvement Plan	**$36,988,000**	34%	**$12,446,400**

Overall, the SDC cost basis includes 34 percent of the planned improvements identified in the Master Plan. The total improvement fee cost basis is $12.5 million.

Develop SDC Schedule

Stormwater SDCs are generally assessed based on a development's estimated or measured impervious area. Impervious surfaces create run-off that must then be managed in the storwmater system, and therefore are a reasonable basis for estimating stormwater impact. As shown in Table 2, the system-wide unit cost of capacity is determined by dividing the improvement fee cost basis by the system-wide increase in impervious area projected in the Master Plan.

Table 2
City of Pendleton Stormwater SDC Analysis
Stormwater SDC Schedule

	Amount
Cost Basis	$12,446,400
Projected Growth-Related Impervious Area (Sq. Ft)	238,795,920
$/Sq Ft Impervious	$0.0521
Estimated Square Ft./EDU [1]	2,400
SDC per EDU	$125

[1]Based on current available data; residential over 3,500 sq. ft to be charged based on measured area

As shown in Table 2, the cost per square foot of impervious area is $0.0521. Typical residential dwelling units are generally charged based on an average impervious area, while larger residential developments (over 3,500 square feet) and nonresidential developments are based on actual measured area. The estimated impervious area for a typical residential customer is currently 2,400 square feet; however, the City will update this figure in the future as additional data becomes available. Based on an average of 2,400 square feet, the SDC per residential equivalent dwelling unit is $125.

Inflationary Adjustments

In accordance with Oregon statutes, the SDCs will be adjusted annually based on a standard inflationary index. Specifically, the City plans to use the Engineering News Record (ENR) 20-City Average Construction Cost index as the basis for adjusting the SDCs in the future.