**MINUTES**
**City of Newport Planning Commission**
**Work Session**
**Newport City Hall Conference Room A**
**June 27, 2016**
**6:00 p.m.**

**Planning Commissioners Present:** Jim Patrick, Lee Hardy, Rod Croteau, Bob Berman, Mike Franklin, and Jim Hanselman.

**Planning Commissioners Absent:** Bill Branigan *(excused)*.

**PC Citizens Advisory Committee Members Present:** Dustin Capri, Karmen Vanderbeck, and Bob Heida.

**City Staff Present:** Community Development Director (CDD) Derrick Tokos and Executive Assistant Wanda Haney.

**1. Call to Order.** Chair Patrick called the Planning Commission work session to order at 6:02 p.m.

**2. Unfinished Business.**

**A. Review draft RFP for System Development Charges (SDCs) methodology update.** Tokos noted that included in the packet was the draft RFP to update the City's SDC methodology, which was last addressed with wholesale revisions in 2007. This is also to take a hard look at the construction excise tax (CET) option that we now have available, which came out of the last Legislative session. Tokos said he tried to convey the reason the two are put together. The tax option requires that a portion be filtered back as developer incentives; and the most likely candidate would be to buy down SDCs. So, we want to see these two interplay as we go through the process. He noted that we've had discussions about this; and it was a Council goal.

Tokos noted that included with the materials was a PowerPoint that he presented to the Council; which gives a pretty good overview of what SDCs are and how Newport utilizes that tool and how that compares to other jurisdictions. SDCs are something we can impose on new development to help pay for the impact to the capital system. There are five areas for which State law allows us to collect SDCs; and we collect all five. The City has had SCDs for a very long time, but there was just a loose arrangement until 2007 when it got more formalized and aligned with current statutes. In part, that was homebuilders saying they wanted to make sure SDCs aren't something jurisdictions are doing "willy-nilly" without methodology behind them. They wanted consistency. Jurisdictions have to follow methodology; you have to show that what you're charging relates to the capital improvements you need. That's why we have such a formal methodology adopted in 2008. We made changes in the capital program. Since 2007, we overhauled the TSP in 2012; the storm drainage master plan is just about wrapped up; we are far enough in the sewer master plan that we can roll the capital plan into this; and the water master plan was done in 2008. Parks is the only thing dragging its funding; but we don't want to tackle it until visioning is done. We can cobble something together for parks for the purpose of this.

Tokos said what we are trying to accomplish is to ensure the formulas we use accurately account for the impact of the development and are proportional to the scale of the project. We had a problem with restaurants. As it's reflected in the methodology, he's not sure it's entirely right. It's pretty steep for a restaurant. Because of that, restaurants seem to locate where former restaurants have been. Also with this, Tokos tried to show that the City's credits aren't inconsequential. He showed sample SDCs from 2014. He said you can see what Local Ocean paid; while O'Reilly's located where there was a prior restaurant and only ended up paying $3,000. Franklin asked if Wilder received such high credits because it's a new subdivision as compared to Jeffries Court. Tokos said Wilder oversized infrastructure. He said it helps for a large development when you think about it. They basically get credits to wipe out charges for their initial phases. The credits will be drawn down. Wilder didn't need a collector road to serve forty lots. They didn't need the water and sewer they installed. We went through what the minimum was they needed as opposed to what they constructed, and the difference was what they got in credits. Basically everything except storm drainage they have credits for. They also built a park.

Franklin said if they added another master plan, they would have to have oversized sewer even if they were just starting with forty lots. Tokos said they never disputed the need for it. If they oversize, they get credits and are not paying through SDC funds to build what they have already constructed. Franklin asked what's wrong with just a flat price for every lot within a subdivision, and no credits. Tokos said we're required by law to give credits for public improvements. If they oversize, by law, they get credit if it's on the capital projects list. Berman asked, they paid for oversized utilities up front and then get credit until what? They built up a pool, and as they build they get credit? When it's gone, they pay full bore? Tokos said unless Landwaves is extending Harborton as a collector, then they would get more credits. Franklin said he was confused; it's not oversized on the full size of the subdivision. Tokos said it's oversized for the initial phase. Patrick said they shouldn't need a collector road for the entire subdivision. Tokos said it's needed for the master plan because it's huge; but not for the initial phase.

Tokos said for clarification he would walk through the SDC overview PowerPoint. He reiterated that the purpose of SDCs is basically to impose a portion of the cost of capital improvements for water, wastewater, storm drainage, transportation, and parks on new developments and redevelopments that create the need for or increase the demands on capital improvements. The existing tax share by itself isn't paying for new collector roadways to serve future developments, or sewer treatment, or storm water mains; the kinds of things that growth needs to pay a portion of. He said that's the concept with SDCs. He said there are two kinds of SDCs; improvement fees and reimbursement fees, the combination of which is the assessment basically. We collect them and have to before we issue a building permit. If someone has septic and is connecting to the sewer, they pay just the sewer SDC. It's when the impact happens. Berman asked if there's ever been any consideration to lien and have time payments; assuming that at some point developers say they can't afford to pay SDCs up front. Tokos said we do have the option in the code where they could pay over time up to ten years. Berman asked if anybody does. Tokos said we have two he can think of. While with the expense on single-family developments, which is in the $11,000 range, they usually roll them into the cost. He said the one that comes to mind that's been financed is Pig 'n Pancake.

Tokos said, when talking about capital improvements, included in the PowerPoint is the definition out of the SDC statute (public facilities). It's not routine maintenance of those facilities; that's addressed by the tax base and through utility fees for water and sewer. For transportation, we have some gas tax money we can apply to that. System development charges can only go to projects that need support. Vanderbeck wondered if we have a bunch of people behind on their water payments. If so, how could we address that; add something? Tokos said that's something the Finance Director handles; he's not sure how many may be in arrears. There are tools the City has for collecting from folks that aren't paying for services. Services could be shut off. Some people just don't have it; and that's when you get into the dilemma about shutting off service.

Heida said from the credit aspect, it almost seems it's a better idea to bring SDCs down a little bit and make fewer credits. He noted that they oversized Wilder for now; but it will not be when everything is done. He said they aren't doing anything that doesn't benefit them. He doesn't see that they necessarily deserve a credit for oversizing to begin with. Franklin said he sees it's designed so there's less capital expenditure at the start. Tokos said one thing to keep in mind is the challenge for up-front capital costs to bring land on line for a development. In many cases, if they're doing something of significant consequence such as Wilder has done, we have to think of what it will look like at build-out and require that goes in there although they are not going to need that for a considerable time. This is a way for them to absorb that cost so they don't have SDCs on top of that. Capri said either they put in a park or pay at the end. Tokos noted that in Ksenya's Ridge up off 71st they put in conventional infrastructure just to support the sixteen lots. As each home was constructed, there was a $10-$11 thousand hit per home because they were all new construction. That will lead to other improvements. The City just upsized the water tank up there. Those are the expenses of growth.

Tokos explained that the next slide talked about improvement and reimbursement fees. Improvement is collected for something we will have to build in the future. With reimbursement fees, we are collecting a share of something we had to build. For Abalone, which is a collector, we could do reimbursement; and the big water tank is a good example. Tokos explained that through the methodology update, we'll determine how many projects we need to support growth and how many projects we should program in for reimbursement fees. He said it's a balancing act. We don't want to put more projects on the capital list than we think we will need over the period of time. If there are more projects than we should have, it will drive the cost up. Hanselman asked, so you're relying on projects. Tokos said there's growth projections. It was rosier in 2008 when the water system plan was done and before the recession. Now we will be going in with a more conservative growth projection.

Tokos noted that he already mentioned that methodology is required. It has to include certain things. State law requires that it include: a capital improvement plan, growth projections, evidence that system capacity needs to be improved to meet service needs of future users, projected costs of improvements that increase system capacity, and a portion of those costs attributed to future demand. He said we may have a project where the bulk of it is not growth-related, but some percentage would be; a good example would be the daisy chain improvements to the pump stations. That would be when we figure out 10-15%. He said there's an art there; it's not all science.

Looking at the City's history with SDCs, Tokos explained that we've had them in some form since at least 1981. In 2008, the methodology became based on EDUs (equivalent dwelling units) where a dwelling is a dwelling. He said that's one piece to take a look at on the affordability side. Do we need to tweak EDUs? As we go through this process, we want to engage folks to see if that's what we need to address. The formula needs to be easy for the public to understand and for us to administer. Franklin asked if that's not just a base price. Tokos said some jurisdictions do that and do a fixture-based methodology. Capri thought it should be based on bedrooms. Tokos said without doing away with EDUs, a tiny house could be half an EDU, and a larger home would be a full EDU. Going to fixture-based is an option; but that runs into what Corvallis did when you add a bedroom. Hanselman asked if it could be defined by occupancy; by the number of bedrooms, you figure there's a corresponding amount of people and water usage. Patrick noted that almost all homes being built here now are second homes.

Going on to the slide about authorized expenditures, Tokos explained that these fees can only be used on capital improvements associated with the systems for which we assess the fees. We can't budget street SDCs to pay for a water project. That's why

when we collect SCDs we collect for all the categories. We have to have the project in the Capital Improvements Plan (CIP). We can spend some on updating plans and methodology, which is part of the funding for this project.

The next slide showed how we figure out the SDC fee per EDU. The correlation for commercial is that an office, for example, is a certain number of EDUs per 1,000 square feet. Restaurants should be higher than an office, but is "4" the right number? He said another piece for discussion is how to calculate square footage and usage. A larger warehouse could have that usage and a portion for an office. We can handle it that way. Or a brewery could have a kitchen, restaurant, and warehouse. Patrick noted that Local Ocean had retail upstairs; and when they turned it into restaurant space, they paid more SDCs. Tokos said we have to be careful what we load in here, or in a 20-year period, SDCs will go through the roof.

Tokos went on to the slide explaining what triggers an SDC assessment; new construction or alteration, expansion, or replacement of a building or development that has local impact by adding square footage or increasing usage. He said you can take general retail and put a restaurant in there, which will have an impact on water and sewer and transportation. Berman asked how the City would find out about that; a building permit? Tokos said yes, they would have to come in for a building permit because they would have to put in a commercial kitchen. Tokos was asked about a bookstore that puts in a coffee shop. Tokos said if they need a new water service or are changing the plumbing in a building, they will have to get a permit. The Health Department is in the loop, too. They make sure everything is in line on our side before they do an authorization.

Tokos noted that the PowerPoint had charts about collections, which are valuable. He noted that the NOAA Marine Operations Center paid pretty hefty SDCs. By type, collections for streets, water, and sewer are the most; parks is small, and administration would be the smallest portion. There's a fee comparison chart showing how Newport's SDCs compare to other jurisdictions. Tokos said we will update this through this process. He just filled out a survey for the League of Oregon Cities, and the results of that will probably be coming out as we get into this process. So, this chart will look different down the road. Patrick asked if most jurisdictions didn't do EDUs, but some did EDUs plus something else. Tokos said it varies. Next, he presented a chart that showed how large projects such as the NOAA Moc-P influenced collections. Commercial and industrial are higher collections than residential. Hanselman wondered if that changes by industry. Tokos noted that the Rogue will be doing a 40,000 square-foot expansion; and they just pulled permits to do 26,000 right now. Their SDCs were around $30,000 or something. It's warehouse, so not a heavy-hitter on commercial. Hanselman asked about heavy water users such as Pacific Shrimp. Tokos said he didn't know that they added any meter at Pacific Shrimp. They already had meters. When they do renovations but not increasing their footprint, they're not increasing meter size. If they use the existing size meter for a commercial project, they don't pay anything for the water SDC. The way it's set up, we assume there's no impact.

Franklin asked on collections versus expenditures, what are we shooting for? He noted that in FY 2010/11 collections were huge compared to expenditures. He assumes that took into account the NOAA collections. Then moving forward to FY 2012/13, the collections were less than a quarter of the expenditures. He wondered if that is what we are trying to shake out; make it balance. Tokos said we can't; collections will always be volatile. If we're collecting less, there's not as much growth as was anticipated. The City Council was more interested in making sure that what we are charging is proportional to the impact of the development; right size it. What that shows is that funds get used. Often there will be a few years when funds collect for a while and we don't have a project where funds get used; then one hits and draws down three years' worth, and water SDCs around $400 thousand get dropped down to $100 thousand or we find other ways to pay. In South Beach Urban Renewal has paid for a lot that we could have used SDCs for. Tokos explained that the next slide showed significant SDC-funded projects. Vanderbeck noted that there are two matches listed there. Tokos said that we rearranged quite a bit of money with the Agate Beach Wayside. We had federal money, but we ended up having to pay more of the reserves. He said it was the same with Naterlin Drive. He said we do the same with Urban Renewal; we leverage federal and state money with city matches.

Franklin noted that in 13/14 wastewater & water both went up the same amount, and he wondered if that was where we increased the rates. Tokos said this whole chart shows the increased rates. It means we expended money on something when the beginning balances drop. There's years we don't use SDCs, and then a project hits and it will drop down two or three years' worth. Tokos said that we don't collect anywhere near what we projected we need. We went through a recession, and we probably didn't need it all anyway. Tokos said, to be fair, we had some ridiculously high permit traffic prior to that. Patrick agreed that there were contractors who tried to beat the increased rates.

Tokos said if growth isn't what we thought it would be, we have to be careful about where SDCs can be an impediment. He said by and large that hasn't been an issue except for restaurants. We will want to see if we can come up with a way to address that. He noted that on the residential side, there's a growing desire for accessory dwelling units. That small house concept is worth looking at. Do we want to parse EDUs up? For ADUs water and sewer SDCs would be wiped out because they have to connect to the same service so they don't get hit with water and sewer fees; but they do with transportation and parks. It comes out pretty small; about half, in the $3 or $4 thousand range. But is that right? Do we want to do any other adjustments? Vanderbeck asked what about the impact of tourists; is that through hotel and restaurant usage. Tokos said it is. Those are impacts to the system; like a hotel expansion. It was around $60 thousand when the Inn at Nye Beach expanded. It's a per room thing; like a half EDU. They will get hit with transportation and parks.

Tokos said one thing that we have talked about that we will start work on is to take a hard look at the credits and whether they are where they should be. His hope is to do away with the thirty-year credit because it's hard to look back. He said possibly ten years would work. Capri mentioned a client having to pay SDCs for sewer, which is not readily available to them, so they also have to pay to run the private line to connect to the sewer. Tokos said this is getting at SDCs, which is the impact to the system; not the cost to actually connect to it. Through the credit system, they may be able to come up with credits for the connection to the public system; but not on the private. Tokos said there were times in the past when the City wasn't as diligent to verify that lots were fully serviceable before they were split up. He noted that those owners had that information disclosed to them. He said it is "buyer beware." Capri said you're supplying an avenue for people to get a credit. Are those people going to have to pay Wilder or the City? Tokos said it's the responsibility of the person who wants to develop the property to get services out there. He said Wilder will most likely work with them. If services were extended, Wilder would get the credit; and if that person wants to have access to that system, they are paying SDCs, but they wouldn't pay for the extension. Patrick thought that on Vista Drive when they extended the sewer to service one house, they got credit for extending the service and the others hooked in.

Franklin wondered why ADUs would not have to pay for water and sewer. Tokos said it's because they are connected through the same meter. It's basically just footage extension of the house. Franklin wondered if that's something we can look at. Tokos said because of the desire for affordability, it's to make sure ADU charges aren't excessive. They fill a housing need, and we want to see more. Tokos said that affordability is in the methodology, so we will be able to come up with something on that. He said there are tradeoffs. He noted that Portland has something like that, which comes with deed restrictions. We would have to be careful. Capri mentioned the upsized lines for the hospital. Tokos said that would be demand driven; that line is needed for their use. Berman said the hospital is a public facility; but if we build a fire station, they don't pay SDCs. Tokos said, yes they do. We can't distinguish between public and private. Tokos said with the hospital project and the NOAA Moc-P project, in both cases the engineers fine-tuned the numbers and made sure they didn't need that big of a water meter. It forces that kind of fine-tuning so that they right size it and don't pay additional costs.

Moving on to discussion of the RFP, Tokos said that he noted in there that we do adjust SDCs. We didn't do it this year because we are walking into this process. The adjustment accounts for changes in construction costs. They don't always go up annually; but more often than not they do. We don't update cost estimates for each project on the capital list. How we handle that is by annually adjusting the SDCs to keep up with construction cost estimates. Tokos noted that the project overview section explains that the purpose of the project is to ensure that formulas used to establish SDC fees accurately account for the impact new development has on the capital system and are proportional to the scale of the project; confirm that growth projections are reasonable; promote affordable housing; update capital project lists to align with current facilities plans and confirm that projects listed are likely to be needed in a 20-year planning period; and gauge the cumulative impact of proposed SDC rate adjustments to ensure that they are in line with other similarly-situated communities. In terms of the construction excise tax, the consultant is to calculate what the likely revenues are for 1% on permit valuation for residential and give a range from 1-3% on commercial and how the developer incentive piece of that would work in driving down SDC costs and how that plays out. The scope of work begins with the project kick-off. We give them information they need. Another piece is the overview of the methodology alternatives. Tokos said he's framing this as an advisory committee. Ultimately he thinks it will be a recommendation from the full Planning Commission. The advisory committee can be formed with developers and interested parties, and Planning Commission and City Council representation. He has four to five times plugged in for the committee to meet to look at the deliverables. The scope of work will include the confirmation of eligible capital projects. This would involve working with Public Works and Parks to come up with these. Something else would be the SCD methodology alternatives analysis where the consultant would say, "for Newport this is what we propose as part of the methodology." It would be much more detailed. The CET assessment would follow.

Croteau said that construction excise tax is pretty new ground, isn't it? Tokos noted that Portland is doing one right now with 1% for residential and commercial, so the dominos are starting to fall. He said that affordable housing is a statewide issue. You have to balance costs. That's an additional chunk of change that has to be paid. People build vacation homes and have no problem paying that money. Maybe this is the way they contribute with each home so you have the resources to deal with affordability. He said that the hospital is dying for affordable housing; and that's a way for them to contribute, too. If they pay up front when they have the impact of expanding their business, they can let the City sort that out for how to create additional units. Vanderbeck noted that Tokos had mentioned "workforce" housing, but in the RFP it says "affordable." She said it seems that workforce is suffering the most. She pointed out that it mentions "affordable" on page 2 under project overview item c. The PowerPoint said "affordable workforce housing." She said it seems that workers can't live here in town. Croteau said it's defined in the Senate bill. Tokos said Senate Bill 1533 talks about equals 80% of median family. That would hit workforce more so. They use affordable housing, but that would be workforce range. Hanselman asked if it wouldn't target a small group of people with the excise tax. Tokos said we would collect for every development. Hanselman said in comparison to the number of residents in the community, those who are building homes and paying that excise tax to fund a whole lot of things would be only a small percentage. It's still a small number in terms of the community. Tokos said we work with the tools we have available to us. The excise tax is available to us. There are other tools where the broader population could be involved. Portland used a general obligation bond for the general public. That would hit everybody. The normal taxes don't get at this issue. The CET, if adopted, applies moving forward. We can't make it retroactive, but there is a logic to it; particularly on commercial and industrial. They are adding a demand for homes that you are not addressing. Hanselman said those who are building homes are

building their own house; they're not putting pressure on housing. They just built for themselves. He didn't think you can do it for residential. Tokos thinks you can. He said there's a coastal connection here because so much of our housing stock is locked up in second homes. By having the CET conversation at the same time as the SDCs, we are looking at the overall development costs. If we put the CET in place that drives down the SDCs. We're not looking at a significant increase overall; just making a policy choice that less will go to infrastructure and a piece will go to affordable housing.

Hardy said she doesn't see that as being more than a drop in the bucket over a long period of time given what's the alleged housing demand for affordability. Tokos said we are capped at 1% on residential by law. Bend is on 3%. We do have the ability to flex on commercial and industrial. If Newport, Lincoln County, and Lincoln City collected CETs and pool them; it could be more significant. Hardy wondered if we even have the developers or the land. Croteau asked about the utilization of the monies collected and what sort of restrictions were on that. Tokos said as he set it up for the RFP he kept with the limitations of the statute; and that's as far as he wanted to go. He didn't want to define it in the RFP. It's up to the consultant how to handle that. It could be an excise tax and not address how to use the money up front. Hardy asked what the consultant would cost. Tokos said he had $30 thousand budgeted. Berman said, maybe based on the detailed scope of work; but they can always add to it later. Tokos said the question is, do you put the number out there? That that's the defined budget to hit. If you don't put it out there, then you don't know what you're going to get. This says this is what we have; and we take the best proposal. He said if it were at $32 thousand, he has enough in his budget to cover it. If it's $45 thousand, then we have an issue. Then you cut the scope of work down and put it out again. He thinks we will probably get four to five proposals on this.

Tokos asked if the Commissioners had any comments on the RFP; changes, or modifications. He asked if it seems reasonable. Berman thought it was very well done, other than the loose statement in point F that he raised. Franklin noted that they get 15 points for being able to meet the 6-month timeline, but only 10 for past experience. Tokos said he could flip that.

Vanderbeck asked what the median family income is for Lincoln County. Tokos said it's by size of family. In 2016 for a family of four it's $44,150. Vanderbeck said affordable would be 80% or more. Tokos said that affordable doesn't mean owner-occupied; it could be apartments, a duplex, or a four-plex. Capri said if a developer builds ten units and some have to be affordable; if they can increase the density by 20%, the developer comes out ahead. Tokos said we probably should talk about inclusionary zoning at a work session. There is some option for that. Projects have to be at least twenty units before that can be employed. Do you want to maintain a certain number as affordable? Patrick said developers come with projects below density. They are building what they can sell. You can't sell increased density here.

**3. New Business.**

**A. Work session on upcoming changes to the FEMA National Flood Insurance Program.** Tokos said he had this item on the agenda for information for the Commissioners about what's coming down the pipe. He said if the Commissioners were interested, they could attend the July meeting in Tillamook that he will be attending. He said the point is that we are going to have to make changes between now and 2018 for how the Flood Insurance Program works to provide for the protection of salmon habitat. What those protections look like will be sorted out. Hopefully we will have state assistance so we're not left implementing this, and it's going to be each city doing something different. There's not a lot of exposure. He noted that the new handout being provided tonight is further refinement for when we get the maps. It should be later this summer. They are working with LIDAR mapping and high resolution imagery. They've really cleaned up the maps. There's more property coming out than is going in. There's still exposure in South Beach and the Bay Front and Big Creek. The landward side of Bay Boulevard is all out with the new maps. There are big changes in South Beach. A good chunk of the brewery will be out now. Franklin asked if they are really taking into consideration the suggestions we made to them about which locations should be in or out. Tokos said yes, he was told those changes were made. We will actually see when the maps come out. The South Beach townhouses on 35th should be in; we have pictures showing flooding there. From a public safety standpoint, if it's an area that floods, it should be in the floodplain. That's where we need construction standards to make sure it's elevated so water passes through and electrical wiring is built up. Tokos said we will learn more about how this plays out. With the habitat piece, that will jack up prices; that's the unfortunate side. Tokos said this is about staying tuned. There's the one meeting on July 14th. He told the Commissioners to let us know if they would like to attend any one of the meetings; and we can cover fees or expenses for travel.

Tokos said we could set up a session down the road. Anything we have to do for implementation, he would like to do it legislatively. We have two years. Hopefully we can come up with a coordinated way to roll it out intelligently so the public can understand; particularly those who are impacted.

Regarding the SDC review, Tokos said maybe at the next regular meeting we can put in a placeholder for discussion about who wants to serve on the SDC committee.

**4. Adjournment.** Having no further discussion, the meeting adjourned at 7:21 p.m.

Respectfully submitted,

Wanda Haney,
Executive Assistant