

**To:** Derrick Tokos, City of Newport

**Date:** January 20, 2017

**From:** Todd Chase and Timothy Wood, FCS GROUP

**RE:** SDCs Legal Framework and Methodology Alternatives

## INTRODUCTION

Over the next several months the City of Newport intends to update its system development charges (SDCs) and will be considering alternative SDC methodologies and policies. This memorandum examines the legal basis for SDC reimbursement and improvement fees, what these fees can be used for, and how these fees can be calculated. Existing and potential methods for calculating SDCs are discussed.

Oregon Revised Statutes (ORS) 223.297 to 223.314 authorize local governments to impose SDCs, as one-time fees on new development paid at the time of development. SDCs are used for capital projects and have two components: a reimbursement fee intended to recover a fair share of the cost of existing infrastructure and an improvement fee intended to recover a fair share of planned facilities that provide capacity to serve future growth. An SDC can include both a reimbursement fee and an improvement fee or either separately.

In Newport, the assessment of SDCs is authorized by Newport Municipal Code (NMC) Chapter 12.15, which authorizes the City to charge SDCs pertaining to: water, wastewater, storm drainage, transportation and parks.

Newport's last major update to its SDC methodology occurred in 2008. Between 1981 to 2008 Newport charged water and sewer SDCs based on the number of fixtures included in a given development. During that same time, Newport charged transportation SDCs based on off-street parking demand while parks SDCs were charged on a dwelling unit basis. In 2008, Newport began charging all of the aforementioned SDCs on an Equivalent Dwelling Units (EDUs) basis and added a storm drainage SDC which is assessed based on the increase in impervious surface being added to a parcel or lot.

## REIMBURSEMENT FEE

ORS 223.304(1) states that a reimbursement fee must be based on "the value of unused capacity available to future system users or the cost of existing facilities." The reimbursement fee must consider prior contributions by existing users as well as gifted or grant-funded facilities. Additionally, existing facilities must have current unused capacity available for growth to be included in a reimbursement fee. The reimbursement fee calculation must also "promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities."

A reimbursement fee may be spent on any capital improvement related to the system for which it is being charged regardless if an improvement is cash-financed or debt-financed. There are several alternative approaches for establishing the reimbursement fee cost basis:

- ◆ **Original infrastructure cost less depreciation.** This approach considers the original cost of existing facilities less accumulated depreciation on those facilities as a basis for the reimbursement fee. This approach recognizes that the value of the system to the new user may be better reflected by

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depreciated cost. However, existing customers are not fully reimbursed for their investments in excess capacity.

- ◆ **Original infrastructure cost.** Using the original cost of existing facilities at the time they were constructed is a straight forward method that requires the future users of the system to reimburse the City (pre-existing users) for their original investment cost in the system. However, this method may understate the cost basis, since it does not necessarily reflect the true/current infrastructure value to the new users of the system (since it does not reflect financing or carrying costs of providing the oversized system).
- ◆ **SDC Improvement fee expenditures.** As will be explained below, improvement fee revenue must be spent on capacity improving projects. Therefore, all previous improvement fee expenditures can be calculated toward a reimbursement fee. This approach acknowledges that the original cost of the infrastructure system less both the cost of gifted or grant-funded facilities and facilities or portions of facilities funded with tax revenues may effectively be equal to prior SDC funded infrastructure. Note that this is a method of estimating original in the absence of capacity information. Additionally, SDC expenditures must be adjusted to account for capacity used since the expenditure.
- ◆ **Infrastructure replacement cost less depreciation.** The replacement cost of existing facilities less the accumulated depreciation on those facilities is a valid measure of the value of a system. The current replacement cost of the system must be appropriately discounted for depreciation in order to incorporate the concurrent remaining useful life of the asset.
- ◆ **Full replacement cost.** The full replacement cost is the escalated cost of existing facilities as a measure of what they would currently cost to construct. While an adequate measure of the cost of replacing the system, this approach overstates the value of the system to the new user. It also ignores the fact that users of the system pay for the replacement of the system as needed in ongoing taxes and/or rates.

Locally, Newport’s adopted SDC methodology report (2007) establishes a basis to charge reimbursement fees for the city’s transportation, water and wastewater utilities (**Exhibit 1**). According to the methodology report, Newport’s reimbursement fees are calculated on an original infrastructure cost basis.

**Exhibit 1: Newport SDCs per EDU**

Utility	Reimbursement Fee	Improvement Fee	Compliance Fee	Total
Transportation	\$118	\$994	\$46	\$1,158
Water	\$77	\$2,336	\$101	\$2,514
Wastewater	\$1,446	\$2,523	\$166	\$4,135
Storm Drainage	\$0	\$857	\$36	\$893
Parks	\$0	\$2,643	\$110	\$2,753
<b>Total</b>	<b>\$1,641</b>	<b>\$9,353</b>	<b>\$460</b>	<b>\$11,454</b>

*Source: City of Newport Fee Schedule.*

*Note: Transportation, Water and Wastewater reimbursement and improvement fees shown above are based on methodology observed in Methodology Report (2007). Compliance cost is 4.18% of a given SDC per the adopted SDC methodology report.*

## SDC IMPROVEMENT FEE

ORS 223.304(2) states that an improvement fee is to be calculated based upon a list of capital improvements necessary to increase the capacity of the system for future users. The capital improvements must be identified in an adopted plan. Improvement fee revenue use is more restrictive

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than reimbursement fee revenue use. An improvement fee may be spent only on capital improvements, or portions thereof, that increase the capacity of the system for which it is being charged, whether cash-financed or debt-financed.

The cost of planned projects that correct existing deficiencies or do not otherwise increase capacity for future users may not be included in the improvement fee calculation. In reality, many projects meet existing demand and serve future growth. Therefore, to compute a compliant improvement fee, growth-related costs must be isolated and costs related to current demand must be excluded. Three alternative approaches to determining the capacity-increasing, growth-related portion of planned project costs are provided below:

- ◆ **Project incremental cost.** This approach considers project cost as if the project were to be constructed to only meet existing needs. Then, any additional project costs above that are allocated to the fee basis as a measure of the incremental additional cost of sizing a project to meet the needs of growth. The incremental cost approach, while easily defensible, conservatively assigns costs to growth. It will usually result in the smallest allocation to the improvement fee cost basis.
- ◆ **Project causation.** Under this approach, if construction of a project is the direct result of growth, then the entire project cost is allocated to the fee basis. This approach is potentially the most difficult to defend because it allocates the cost of non-capacity increasing portions of a project to the improvement fee cost basis. Under this approach, the improvement fee cost basis for all projects not explicitly caused by growth would be calculated in a different way or disregarded. Of the three allocation methods, the causation method most aggressively allocates costs to growth.
- ◆ **Project capacity.** Under this approach, the cost of a given project is allocated to the fee basis according to the capacity to be provided for growth. For this method, the most directly applicable measure of capacity demand for the improvement is the ideal basis for allocation. For example, estimated growth in water usage is commonly used for allocating water projects. The capacity approach, easily defensible and commonly used, is easy to understand and apply. While less aggressive than the causation method, it usually results in an appropriately higher allocation to the improvement fee basis than the incremental cost approach.

Locally, Newport's adopted SDC methodology report establishes a basis to charge improvement fees for all of the city's utilities (**Exhibit 1**). According to the methodology report, Newport's improvement fees are calculated on a project capacity basis.

## SDC ADJUSTMENTS

Three cost basis adjustments are applicable to both reimbursement and improvement fees: fund balance, compliance costs and debt principal/non-local funding.

### Fund Balances

To the extent that SDC revenue is currently available in a fund balance, that revenue is typically deducted from its corresponding cost basis. This prevents a jurisdiction from double-charging for projects that will be constructed with fund balance monies. It is recommended that Newport ensure that all fund balances are deducted from the SDC cost basis.

### Compliance fee

ORS 223.307(5) authorizes the expenditure of SDCs for "the costs of complying with the provisions of ORS 223.297 to 223.314, including the costs of developing system development charge methodologies and providing an annual accounting of system development charge expenditures." To avoid spending

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monies for compliance that might otherwise have been spent on growth-related projects, jurisdictions typically include an estimate of compliance costs in their SDCs. Locally, Newport's adopted SDC Methodology Report justifies a 4.18% compliance fee charged on each SDC Newport collects.

### Debt principal/non-local funding

To the extent that debt financing and non-local funding for capital projects are predictable, such revenues should be deducted from the from the SDC cost basis to avoid over-charging for projects that may be paid for in whole or in part by debt or non-local revenues. It is recommended that Newport continues deducting debt principal and non-local funds from the cost basis of its SDCs. These adjustments are needed to avoid the potential for "double counting" future revenues.

It is recommended that the adjustment to debt principal should take into account only the portion of the future (non SDC) debt principal revenue receipts that will be allotted to capacity expansion elements. Note, current debt funded projects in Newport include new water treatment plant (GO Bond); upsizing capacity of the northside wastewater pump stations (utility fee revenue bonds), and the extension of water and sewer lines in South Beach from 40<sup>th</sup>-50<sup>th</sup> streets (URA revenue bonds). Hence, the SDC-improvement fee eligible cost basis for water and sewer should be adjusted to account for debt principal to be received from these non-SDC funding sources to avoid over charging future users, who will also be paying for property taxes (which support GO bonds and URA bonds) and utility fees (which pay for revenue bonds).

## CREDITS

### Legal Basis

Oregon Revised Statute 223.304 states the minimum requirements for which credits will be provided against the improvement fee portion of the total SDC fees. A credit is a reduction in the amount of SDCs paid for a specific development.

ORS 223.304 requires that a credit be allowed for the construction of a "qualified public improvement" which (1) is required as a condition of development approval, (2) is identified in the City's capital improvements program, and (3) either is not located on or contiguous to property that is the subject of development approval, or is located on or contiguous to such property and is required to be built larger or with greater capacity than is necessary for the particular development project.

Credits also must be granted only for the cost of that portion of an improvement which exceeds the capacity needed to serve the particular project, up to the amount of the improvement fee. For multi-phase projects, any excess credit may be applied against SDCs that accrue in subsequent phases of the original development project. The law specifies that credits must be used within ten years of issuance.

In addition to the required credits, the City may, if it so chooses, provide additional credits, establish a system for the transferability of credits, or provide credits for a capital improvement not identified in the City's SDC capital improvements plan.

Per state statutes, credits expire within ten years from the date the credit was given.

## CREDIT POLICY ANALYSIS

### Extent of Credit Policy

- ◆ Newport provides credit to developers that undertake construction of qualified public improvements, pending approval of the City Council. In the instance that the applicant delivers an improvement which exceeds the capacity deemed necessary by the City to serve the development in question, Newport awards a credit for the cost that exceeds the City's minimum standard (provided that the improvement is on the CIP or if the City Manager determines that the project should be included in the CIP). In the instance that the credit exceeds the SDC improvement fee levied against the development the credit can only be applied to additional phases of development on the original property.
- ◆ In Newport, if development is to occur on property for which an SDC has already been paid, credit is awarded to the applicant equal to the amount that would be payable for the level of service lawfully existing from a prior use under the current fee schedule.
- ◆ In the instance that a property was developed prior to the institution of SDCs in Newport, credit is awarded to the applicant equal to the amount that would be payable for the existing level of service lawfully existing from a prior use under the current fee schedule. This policy is limited to any structure and or use of the property in the previous 30 years.
- ◆ A credit policy which satisfies the legal minimum would require a city only to grant a credit up to the amount of the improvement fee that would have been due. This is true even if the extra capacity costs of constructing a qualified public improvement might be substantially more than the improvement fee due. In this instance, the cost of that extra capacity not credited is a saved cost to the city.
- ◆ System development charge credits for development can encourage private enterprise and assist in providing community needs. However, to the extent that the City provides credits in excess of minimum legal requirements, the practice can lead to a loss of institutional control over the construction of projects in the capital plan. By constructing projects for credits, a developer is imposing a construction schedule on the City that may conflict with the City's established priorities. SDC funds may not accrue as expected and the CIP schedule can be inverted or shuffled.
- ◆ The fundamental choice the City faces is to grant credits in excess of the legal minimum and acknowledge that this will lead to occasional re-ordering of CIP projects, or to utilize the legal minimum credit policy and potentially reduce the likelihood that developers build projects.

### How to Credit the Improvement Fee

- ◆ The City's existing credit policy allows for privately-provided construction cost estimates and receipts to supersede planned project expenditures subject to limits based on market rates. It is notable that this could potentially result in SDC credits exceeding SDC revenues the City expects to collect for the project.
- ◆ Another option is for the City to provide credits based on cost estimates according to the capital plan list. This way, if a developer builds a project, they receive credits commensurate to the projected amount of required funding for the project. This approach ensures that credits do not exceed the revenues for a specific project and maintains the City's revenue expectations. However, this

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approach may be more administratively burdensome if a developer completes a portion of a capital project.

- ◆ A final option, to prevent cost over-runs from impacting city resources, would be to credit the over-sizing cost as determined by the lesser of the actual cost and the city-planned cost. The credit amount could also be set through mutual agreement between a city and developer in order to protect a developer from being held to outdated project cost estimates.

## Credits for Public Improvements Not on List

- ◆ Granting credits for projects that are not on the project list used to calculate the SDC jeopardizes the ability of a city to fully recover remaining SDC-eligible project costs. Done on a routine basis, this practice would make it almost impossible for a city to construct its planned projects with SDC revenues.

## Transferability of Credits

- ◆ Newport currently does not allow credits for qualified public improvements to be transferred from one property owner to another but does allow credits to be used if contiguous properties pool SDC credits as a part of a common scheme for redevelopment.
- ◆ It is our interpretation of state law that the City does not need to allow credits to transfer between developers or even between developments, unless the development is a subsequent phase of the original development project or if
- ◆ A city can allow credits to transfer between developers. This may make it more likely for developers to construct public improvements since the excess credits can be traded. However, prior to allowing transference of credits, the City must determine the limits of transference and the administrative cost/effort the City will spend overseeing transferred credits.
- ◆ Note that similar to providing credits above the legal minimum, allowing credits to transfer above the legal minimum can result in less revenue to the City.

## Credit Escalation

- ◆ The City can decide to escalate the value of credits commensurate with the SDC. Credits must be used within 10 years, but if the City escalates its SDCs every year, the credits will decrease in value. Escalating the value of credits commensurate with SDCs benefits developers; since after annual escalations the future value of the credits would be on par with original value. Escalating credits, however, places a large administrative burden on the City and also reduces the overall amount of SDC revenues acquired.

# SDC METHODOLOGY ALTERNATIVES

## WATER SDC ALTERNATIVES

Newport's water SDC includes reimbursement, improvement and compliance cost elements (**Exhibit 2**). Currently, Newport's wastewater SDC is calculated based on EDUs for each use type. For many non-residential developments, conversion factors available in **Appendix A** determine the amount of EDUs a given development represents. For those use types not included in Appendix A, Newport determines

**Exhibit 2: Current Newport Water SDC Practices and Alternatives**

Water			
Component	Current Practice	Current Fee by Use	Alternatives to Consider
Reimbursement Fee	Newport assesses the water SDC (both reimbursement and improvement components) on an EDU basis. Administers SDCs using a Avg. Daily Flow by land use type.	\$77.09/EDU (See appendix A for conversion table).	1) Charge based on EDUs. 2) Utilize meter size approach for all development. 3) Charge based on fixtures.
Improvement Fee		\$2,335.94/EDU (See appendix A for conversion table).	
Compliance Cost	Charge 4.18% of SDC Subtotal	4.18% of SDC Subtotal	
<b>Total</b>		per EDU <b>\$2,514</b>	

*Source: Newport Fee Schedule, Newport SDC Methodology Report (2007)*

*Note: Reimbursement and improvement fees calculated based on split observed in Methodology Report.*

EDU counts based on meter size (**Exhibit 3**). Newport could consider charging all water SDCs based exclusively on meter size. Additionally, Newport could consider returning to a fixture count-based SDC rather than the current EDU basis. Finally, Newport could consider basing SDCs on peak demand in order to better charge based on stress placed on the system.

**Exhibit 3: Newport Water Meter to EDU Conversion Factors**

Meter Size	Hydraulic Capacity Factor	Number of EDUs
3/4"	1	1
1"	1.67	1.7
1-1/2"	3.33	3.3
2"	5.33	5.3
3"	10.67	10.7
4"	16.67	16.7
6"	33.33	33.3
8"	53.33	53.3
10"	76.67	76.7

*Source: Newport SDC Methodology Report (2007)*

A comparison of the pros and cons of water SDC methodology alternatives is provided below in **Exhibit 4**.

Exhibit 4: Water SDC Method Alternatives				
	ERUs	Meter Size	Fixtures	ERUs/Meter Size Hybrid
Pros	<ul style="list-style-type: none"> <li>• Consistent with current method</li> </ul>	<ul style="list-style-type: none"> <li>• Very common method nationally</li> </ul>	<ul style="list-style-type: none"> <li>• Results in accurate SDC impacts for residential, commercial &amp; lodging</li> </ul>	<ul style="list-style-type: none"> <li>• Modifies current method to account for accurate impact by all customer groups</li> </ul>
	<ul style="list-style-type: none"> <li>• Localized Customer Data; and fairly easy to administer</li> </ul>	<ul style="list-style-type: none"> <li>• Fairly easy to administer</li> </ul>		<ul style="list-style-type: none"> <li>• Localized customer data, and fairly easy to administer</li> </ul>
Cons	<ul style="list-style-type: none"> <li>• Generally assumes future demand = current demand by land use type</li> </ul>	<ul style="list-style-type: none"> <li>• SDC based on peak flow may not account for total water usage</li> </ul>	<ul style="list-style-type: none"> <li>• More difficult to administer</li> </ul>	<ul style="list-style-type: none"> <li>• Generally assumes future demand = current demand by customer type</li> </ul>
			<ul style="list-style-type: none"> <li>• May undercharge larger users</li> </ul>	
			<ul style="list-style-type: none"> <li>• Fixture efficiency changes over time</li> </ul>	

## WASTEWATER SDC ALTERNATIVES

Newport’s wastewater SDC includes reimbursement, improvement and compliance cost elements (**Exhibit 5**). Currently, Newport’s wastewater SDC is calculated based on EDUs for each use type. For many non-residential developments, conversion factors (Appendix A) determine the amount of EDUs a given development represents. For those use types not included in Appendix A or for those applicants that wish to seek an alternative method of assessment, plan reviews are performed by city staff to determine appropriate EDU conversions.

Newport could consider charging all wastewater SDCs based exclusively on meter size. Additionally, Newport could consider returning to a fixture count-based SDC rather than the current EDU basis. Additionally, Newport could consider an alternative methodology which calculates the relative cost burden placed on the wastewater system based on the class of user and the strength of effluent emitted. This approach is informed by the “Revenue Program Guidelines” (**Appendix B**), which was published by the California State Water Resources Control Board in 1998. Although Appendix B was intended for California municipalities and districts, its data on wastewater customer characteristics provide an industry standard nationwide; and have been included as best practice by at least one Oregon municipality (The Dalles).

**Exhibit 5: Current Newport Wastewater SDC Practices and Alternatives**

Wastewater			
Component	Current Practice	Current Fee by Use	Alternatives to Consider
Reimbursement Fee	Newport assesses the water SDC (both reimbursement and improvement components) on an EDU basis. Administers SDCs using a Avg. Daily Flow by land use type.	\$1,446.49/EDU (See appendix A for conversion table).	1) Charge based on meter size. 2) Charge based on fixtures. 3) Charge based on meter size and strength of effluent.
Improvement Fee		\$2,522.51/EDU (See appendix A for conversion table).	
Compliance Cost	Charge 4.18% of SDC Subtotal	4.18% of SDC Subtotal	
<b>Total</b>	per EDU	<b>\$4,135</b>	

*Source: Newport Fee Schedule, Newport SDC Methodology Report (2007)*

*Note: Reimbursement and improvement fees calculated based on split observed in Methodology Report.*

A comparison of the pros and cons of wastewater SDC methodology alternatives is provided below in **Exhibit 6**.

Exhibit 6: Wasterwater SDC Method Alternatives				
	ERUs	Meter Size	Fixtures	Modified ERUs
Pros	<ul style="list-style-type: none"> <li>Consistent with current method, which is based on peak water flows</li> </ul>	<ul style="list-style-type: none"> <li>Very common method nationally</li> </ul>	<ul style="list-style-type: none"> <li>Results in accurate SDC impacts for residential, commercial &amp; lodging</li> </ul>	<ul style="list-style-type: none"> <li>Modifies current method to account for accurate impact of effluent treatment cost by all customer groups</li> </ul>
	<ul style="list-style-type: none"> <li>Localized Customer Data; and fairly easy to administer</li> </ul>	<ul style="list-style-type: none"> <li>Fairly easy administer</li> </ul>		<ul style="list-style-type: none"> <li>Localized customer data, and fairly easy to administer</li> </ul>
Cons	<ul style="list-style-type: none"> <li>Generally assumes future demand = current demand by land use type</li> </ul>	<ul style="list-style-type: none"> <li>SDC based on peak water flow may not account for total water usage</li> </ul>	<ul style="list-style-type: none"> <li>More difficult to administer</li> </ul>	<ul style="list-style-type: none"> <li>Generally assumes future demand = current demand by customer type</li> </ul>
			<ul style="list-style-type: none"> <li>May undercharge larger users</li> </ul>	
			<ul style="list-style-type: none"> <li>Fixture efficiency changes over time</li> </ul>	

## TRANSPORTATION SDC ALTERNATIVES

Newport’s transportation SDC includes reimbursement, improvement and compliance cost elements (**Exhibit 6**). Currently, Newport’s transportation SDC is calculated on an EDU basis and then applied to land uses based on trip generation rate assumptions using the ITE Trip Generation Handbook. A reference table of assumed trip rates by development type is included in **Appendix C**. Currently, Newport uses peak vehicle trips as a metric but could consider using average daily vehicle trips or average daily person trips (which includes bicycle and pedestrian trips). Additionally, the city could vary this SDC by subarea, which may result in a reduced fee in areas that have a concentrated mix of development (e.g., housing within ½ mile of retail centers).

**Exhibit 6: Current Newport Transportation SDC Practices and Alternatives**

Transportation			
Component	Current Practice	Current Fee by Use	Alternatives to Consider
Reimbursement Fee	Newport calculates the transportation SDC on an EDU basis; assumes 10 ADT vehicle trips per dwelling unit, plus 20% trip factor for non-res & external trips; utilizes ITE for "trip link" adjustments by development type.	\$117.58/EDU (See appendix B for conversion table).	1) Charge based on peak vehicle trips. 2) Charge based on avg. daily trips. 3) Charge based on avg. person trips. 4) Vary SDCs by sub-area (e.g. Nye Beach).
Improvement Fee		\$994.42/EDU (See appendix B for conversion table).	
Compliance Cost	Charge 4.18% of SDC Subtotal	4.18% of SDC Subtotal	
<b>Total</b>	per EDU	<b>\$1,158</b>	

*Source: Newport Fee Schedule, Newport SDC Methodology Report (2007)*

*Note: Reimbursement and improvement fees calculated based on split observed in Methodology Report.*

A comparison of the pros and cons of transportation SDC methodology alternatives is provided below in **Exhibit 7**.

Exhibit 7: Transportation SDC Method Alternatives			
	Peak Vehicle Trips	Average Daily Vehicle Trips	Avg. Daily Person Trips
Pros	• Consistent with current method; and optimal (peak) transportation system design	• Very common method nationally	• Stronger nexus between person trips and bike/ped facilities
	• ITE is national standard, allows for trip link adjustments	• May more accurately reflect local trip generation and planned system of improvements for slow growing or built out cities	
Cons	• ITE trip generation rates may not accurately reflect travel patterns for coastal cities with high seasonal traffic	• Nexus between vehicle trips and investment in pedestrian & bicycle facilities is weak	• ITE vehicle trip data must be factored up to account for total person trips
	• Nexus between vehicle trips and investment in pedestrian & bicycle facilities is weak		• May be less accurate for detailed land use types

## STORM DRAINAGE SDC ALTERNATIVES

Newport’s storm drainage SDC includes improvement and compliance cost elements (**Exhibit 8**). Newport’s storm drainage SDC is calculated primarily on the basis of square feet of added impervious surface area attributed to a new development that requires a building permit. For non-residential applicants, an SDC of \$0.32/SF is applied to all added impervious surface areas. For residential applicants, the fee can be calculated as described above or based on a calculated EDU average of 2,727 SF/EDU (or \$857).

It should be noted that this SDC applies only to new development that requires a building permit. Hence, the SDC is not currently charged in instances where a developer creates a new paved parking area without making building improvements. An alternative that Newport could consider is to supplement the current SDC approach by creating a citywide database that tracks changes in impervious surface areas in GIS, and then require a permit and SDC payment for development that creates new parking areas.

**Exhibit 8: Current Newport Storm Drainage SDC Practices and Alternatives**

Storm Drainage			
Component	Current Practice	Current Fee by Use	Alternatives to Consider
Reimbursement Fee	Newport does not charge a reimbursement SDC for storm drainage.	\$0	Consider implementing a reimbursement fee, as well as charges for new parking lots.
Improvement Fee	Newport charges the storm drainage fee based on an EDU basis or based on the additional square footage of impervious surface area to be developed.	\$857/EDU or \$0.32/SF of additional impervious surface area.	
Compliance Cost	Charge 4.18% of SDC Subtotal	4.18% of SDC Subtotal	
<b>Total</b>	per EDU	<b>\$893</b>	-

*Source: Newport Fee Schedule, Newport SDC Methodology Report (2007).*

A comparison of the pros and cons of stormwater SDC methodology alternatives is provided below in **Exhibit 9**.

Exhibit 9: Stormdrainage SDC Method Alternatives			
	ERUs with Improvement Fee Only	ERUs with SDC Reimbursement Fee and Improvement Fee	Allow SDC for parking lot developments
Pros	• Consistent with current method	• Very common method nationally	• May increase SDC revenue slightly
	• Fairly simple to administer	• May increase SDC revenue slightly	
Cons	• May not generate as much revenue as other alternatives	• Showing excess capacity in existing stormwater system is often difficult	• Difficult to administer
			• Benefit to storm water runoff when going from compact soil to pavement is questionable

## PARKS SDC ALTERNATIVES

Newport’s parks SDC includes improvement and compliance cost elements (**Exhibit 10**). Currently, Newport charges residential development in a tiered manner detailed further in the exhibit below. Non-residential development is not charged with the exception of lodging developments. Potential alternatives to be considered by Newport include an inclusion of a reimbursement fee for parks development; and consideration of SDC funding for non-city parks facilities (such as schools and port properties) in SDC calculations. Newport may also desire to change the growth calculation of parks customers to include average overnight population at lodging establishments. Newport could also consider charging the full Parks SDC (In Newport’s 2007 parks SDC methodology update, the City opted to charge at half of the legally allowable charge).

**Exhibit 10: Current Newport Parks SDC Practices and Alternatives**

Parks			
Component	Current Practice	Current Fee by Use	Alternatives to Consider
Reimbursement Fee	Newport does not charge a reimbursement SDC for parks.	\$0	May add reimbursement fee
Improvement Fee	Newport charges the parks SDC on an EDU basis for residential development with multifamily units charged at a rate of .75 EDUs per unit. Lodging is charged at a rate of .5 EDUs per lodging room. All other non-residential development is not charged the parks SDC.	\$2,643/EDU	1) Charge on a per capita basis (overnight population). 2) Include funding share for school and port parks facilities. 3) charge legally allowable Parks SDC in full.
Compliance Cost	Charge 4.18% of SDC Subtotal	4.18% of SDC Subtotal	
<b>Total</b>	per EDU	<b>\$2,753</b>	

*Source: Newport Fee Schedule, Newport SDC Methodology Report (2007).*

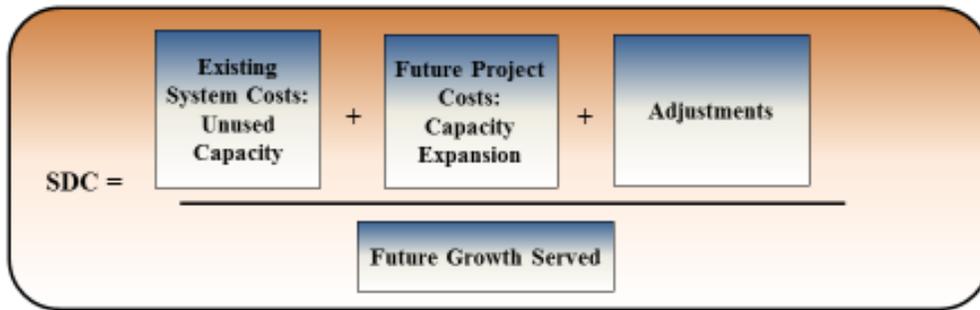
A comparison of the pros and cons of parks SDC methodology alternatives is provided below in **Exhibit 11**.

Exhibit 11: Parks SDC Method Alternatives			
	ERUs with Improvement Fee Only	ERUs with SDC Reimbursement Fee and Improvement Fee at full cost recovery	Expand SDC to include non-city “parks”
Pros	• Consistent with current method	• Very common method nationally	• May increase SDC revenue slightly
	• Fairly simple to administer	• May increase SDC revenue slightly	
Cons	• May not generate as much revenue as other alternatives	• Increases parks SDC may increase cost of housing	• Requires new Level of Service calculations based on revised inventory of all city, school dist., port parks
			• Increases parks SDC may increase cost of housing

## GROWTH FORECAST ALTERNATIVES

The factors of growth serve as the denominator in the SDC equation (**Exhibit 12**). The accuracy of the City’s growth forecast has a significant impact on the calculated SDC rates. The prior SDC methodology report (2007) assumed a growth rate of 1% annually for EDUs, which was the City’s adopted growth rate at the time.

**Exhibit 12: SDC Equation**



A summary of growth rate forecasts from various Newport planning documents in comparison to historic population growth rates is provided in **Exhibit 13**. As shown below, the historic rate of population growth has been significantly below the forecasted growth rates. In this SDC methodology update, Newport should consider a revised growth rate forecast that is more consistent with historic levels.

**Exhibit 13: Select Newport Growth Forecasts**

Source Document	AAGR	Timeframe	Units
SDC Methodology Report (2007)	1.00%	2007-27	Population
Water Master Plan	1.25%	2010-30	Population
Storm Water Master Plan	0.64%	2014-34	Population
Newport Economic Opportunity Analysis	1.00%	2012-32	Employees
Newport Comprehensive Plan	0.70%	2011-31	Population
Newport Historic Population Growth (PSU)	0.43%	2000-16	Population

*Compiled by FCS GROUP. AAGR = average annual growth rate*

## SDC ISSUES REGARDING AFFORDABLE HOUSING

The general intent of an SDC is to provide a uniform framework for the imposition of charges by local governments to provide equitable funding for orderly growth and development. Oregon SDC law (ORS 223.297 to 223.314) is silent on the issue of affordable housing. Instead, the SDC law requires that SDCs must be based on “ratemaking principles employed to finance publically owned capital improvements.”

Local jurisdictions in Oregon have traditionally adopted SDC methodologies that determine the maximum defensible charge on new development. SDC exemptions and discounts may also be specified as part of the SDC methodology, or implemented through separate resolutions. However, when SDC exemptions and discounts result in the under collection of SDC revenues, other local funding sources will be needed to address future funding shortfalls. The desire to promote development of affordable housing is widespread among Oregon communities. As such, at least one city has provided SDC exemptions for

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development of affordable housing by non-profit developers (Newberg waives water and sewer SDCs for up to 2 dwellings per year). Other cities or special districts have implemented SDC discounts which may or may not be phased out over time depending upon development activity (Estacada, Hood River, Hillsboro). SDC waivers for certain development types (such as accessory housing units) has been used in Portland. However, SDC discounts and waivers usually result in the under collection of future SDC revenues, which in turn requires other local funding sources (such as General Funds) to be used to fully fund projects.

Oregon's largest city (Portland) is in the process of implementing a new parks SDC methodology that considers variations in expected population density when calculating SDCs by subarea. While such a method has survived a recent court challenge, it is untested in small to medium size cities in Oregon. Furthermore, it is doubtful that the "population density" method has ever been used for any facility other than parks in Oregon. Hence, the ability to consider population density, or housing floor area in the calculation of SDCs may be regarded as "pushing the envelope" and result in a court challenge. When possible, FCS GROUP recommends that housing affordability programs be considered comprehensively by local and state governments. From an SDC perspective, this may include limiting the overall costs of SDCs and other fees as a percentage of home sales prices (e.g., total SDCs shall not exceed 10% of new home sales prices). Such a policy would serve to provide a policy foundation for elected officials to limit SDCs (provide SDC discounts) and would help assure developers that SDC costs will be limited.

It is important to note that Oregon Senate Bill 1533, enacted in 2016 by the Oregon Legislature, aims to promote affordable housing. This bill allows cities or counties to adopt regulations that impose conditions on development for new multifamily structures (with 20 or more units), including: requirements for the inclusion of some affordable housing; or the option of paying an in-lieu fee (construction excise tax) not to exceed \$1 per square foot for residential buildings, and \$0.50 per square foot for nonresidential structures (with a maximum cap of \$25,000 per building or structure). For new affordable housing projects, this legislation supports special incentives including: full or partial exemption of ad valorem property taxes, SDC waivers or reductions and other incentives. The discussion of a potential Newport Construction Excise Tax (CET) shall be the subject of a future memorandum. Discussion of other affordability programs that mitigate the impact of high utility bills on low-income households may also be considered during Newport's rate update work effort along with other strategies to provide a broader package of beneficial programs.

# APPENDIX

## Appendix A: Water and Sewer EDU conversion Table

Enterprise	EDUs	Units
Apartments	0.75	Per dwelling unit
Apparel Store	0.2	Per 1,000 sqft.
Athletic Club	0.3	Per 1,000 sqft.
Auto Care	0.1	Per service bay
Auto Parts Sales	0.2	Per 1,000 sqft.
Auto Sales	0.2	Per 1,000 sqft.
Bank, Drive-in	0.3	Per 1,000 sqft.
Bank, Walk-in	0.3	Per 1,000 sqft.
Building Material and Lumber Store	0.2	Per 1,000 sqft.
Cab Company	0.2	Per 1,000 sqft.
Car Wash, Automated	N/A	See meter sizing assessment table
Car Wash, Self Service	0.7	Per stall
Cemetery	0.2	Per 1,000 sqft.
Church	0.2	Per 1,000 sqft.
Community/Junior College	1	Per 250 gross sqft.
Convenience Market (24 hrs.)	0.2	Per 1,000 sqft.
Convenience Market (15-16 hrs.)	0.2	Per 1,000 sqft.
Convenience Market w/ Gasoline Pumps	0.2	Per 1,000 sqft.
Day Care	0.2	Per student
Drinking Establishment	0.7	Per 1,000 sqft.
Furniture Store	0.2	Per 1,000 sqft.
Hardware/Paint	0.2	Per 1,000 sqft.
Health/Fitness Club	0.3	Per 1,000 sqft.
Hospital	1	See meter sizing assessment table
Industrial	1	See meter sizing assessment table
Library	0.2	Per 1,000 sqft.
Lodge/Fraternal	0.3	Per 1,000 sqft.
Manufacturing	0.2	Per 1,000 sqft.
Medical/Dental Office	0.4	Per 1,000 sqft.
Mini-Warehouse Storage and Warehouses	0.1	Per 1,000 sqft.
Mobile Home Park	0.75	Per dwelling unit
Motel	0.3	Per room
Nursery Garden Center	0.2	Per 1,000 sqft.
Nursing Home	0.3	Per bed
Office Building	0.2	Per 1,000 sqft.
Retail Establishment, Shopping Center, Grocery, Etc.	0.2	Per 1,000 sqft.
Post Office	0.2	Per 1,000 sqft.
Quick Lubrication Vehicle Stop	0.1	Per bay
Recreational Facility, Multipurpose	0.3	Per 1,000 sqft.
Restaurant, any type	4	Per 1,000 sqft.
Schools	1.4	Per 250 gross sqft.
Service Station	0.1	Per bay
Service Station w/Convenience Market	0.1	Per pump
Single Family Detached Housing	1	Per house
Fish Processing Facility	N/A	See meter sizing assessment table
Pools and Aquatic Facilities	N/A	See meter sizing assessment table
Brewery	N/A	See meter sizing assessment table
Movie Theater	0.3	Per 100 seats
Commercial/Coin-op Laundry	N/A	See meter sizing assessment table

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**Appendix B1: “Revenue Program Guidelines” Excerpt, Page 1**

COMMERCIAL USER STRENGTH CHARACTERISTICS

<u>STANDARD CLASSIFICATIONS</u>	<u>BOD<sub>5</sub>(ppm)</u>	<u>SS(ppm)</u>
Residential (average varies depending on average water usage per capita)	175 to 250	175 to 250
Auto Steam Cleaning	1,150	1,250
Bakery, wholesale	1,000	600
Bars without dining facilities	200	200
Car Wash	20	150
Department and Retail Store	150	150
Hospital and Convalescent	250	100
Hotel with dining facilities	500	600
Hotel/Motel without dining	310	120
Industrial Laundry	670	680
Laundromat	150	110
Laundry, commercial	450	240
Market with garbage grinders	800	800
Mortuary	800	800
Professional Office	130	80
Repair Shop and Service Station	180	280
Restaurant	1,000	600
School and College	130	100
Septage	5,400	12,000
Soft Water Service	3	55

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## Appendix B2: “Revenue Program Guidelines” Excerpt, Page 2

### NOTES ON COMMERCIAL USER STRENGTH CHARACTERISTICS

The list of commercial strengths listed on Page G - 21 was derived from data made available to the State Water Resources Control Board (SWRCB) staff by **East Bay Municipal Utility District, City of San Jose, Los Angeles County Sanitation Districts,** and the **Sacramento Regional County Sanitation District**. The results generally represent the mean of the values used by the agencies which collected the data with extreme values eliminated in some cases.

The SWRCB staff feels that the data on strength is representative of most cities in California. The data is provided for your information. The values in the table will be accepted by SWRCB staff. If you feel that the data provided in the table is not representative of your service area, please feel free to utilize more representative data. If strength values for commercial users other than those provided on this list are utilized, supporting data should be submitted to verify values used.

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**Appendix B3: “Revenue Program Guidelines” Excerpt, Page 3**

TABLE G-1  
Estimated water consumption at different types of establishments.

TYPE OF ESTABLISHMENT	FLOW in GPD per PERSON or UNIT
Dwelling units, residential:	
Private dwellings on individual wells or metered supply	50-75
Private dwellings on public water supply, unmetered	100-200
Subdivision dwelling on individual well, or metered supply, per bedroom	150
Subdivision dwelling on public water supply, unmetered, per bedroom	200
Dwelling units, multiple:	
Apartment houses on individual wells	75-100
Apartment houses on public water supply, unmetered	100-200
Hotels:	50-100
Boarding houses:	50
Lodging houses and tourist homes:	40
Motels, without kitchens, per unit:	100-150
Camps:	
Pioneer type	25
Children's, central toilet and bath	40-50
Day camp, no meals	15
Luxury, private bath	75-100
Labor	35-50
Trailer with private toilet and bath, per unit	125-150*
Restaurants (including toilet):	
Average	7-10
Kitchen wastes only	2.5-3
Short order	4
Short order, paper service	1-2
Bars and cocktail lounges:	2
Average type, per seat	35
Average type, 24 hour, per seat	50
Tavern, per seat	20
Service area, per counter seat (highway)	350
Service area, per table seat (highway)	150
Institutions:	
Average type	75-125
Hospitals	150-250
Schools:	
Day	5-10
Day, with cafeteria or lunch room	10-15
Day, with cafeteria and showers	15-20
Boarding	75
Theaters:	
Indoor, per seat, two showings per day	3
Outdoor, including food stand, per car	3-5
Automobile service station:	
Per vehicle served	10
Per set of pumps	500
Stores:	
First 25 feet of frontage	450
Each additional 25 feet of frontage	400
Country clubs:	
Resident type	100
Transient type, serving meals	17-25
Offices:	10-15
Factories, sanitary wastes, per shift:	15-35
Self service laundry:	250-500
Bowling alleys, per alley:	200
Swimming pools and beaches, toilet and shower:	10-15
Picnic parks, with flush toilets:	5-10
Fairgrounds (based on daily attendance):	1
Assembly halls, per seat:	2
Airport, per passenger:	2½

\* Add 125 gal. per space for lawn sprinkling, car washing, leakage, etc. NOTE: Water under pressure, flush toilets, and wash basins are assumed unless otherwise noted. Figures are flows per capita per day unless otherwise stated.

**Appendix B4: “Revenue Program Guidelines” Excerpt, Page 4**

TABLE G-2

Design unit sewage flows for recreational facilities

(Yellowstone National Park)

Establishment	Unit	Flow in gpd
Cafeteria	Table seat	150
Campground (developed)	Person	25
Cocktail lounge	Seat	20
Coffee shop	Counter seat	250
Dining room	Table seat	150
Dormitory, bunkhouse	Person	50
Fish cleaning station	Station	7,500
Gas station	Station	2,000-5,000
Hospital	Bed	200
Hotel	Person	75
Laundromat	Washing machine	500
Lodge or cabins	Person	50
Mess hall	Person	15
Offices and stores	Employee	25
Residence homes, apartments	Person	75
Trailer village	Person	35
Visitor centers	Visitor	5

TABLE G-3

Sewage flows from commercial districts

Establishment	Unit	Flow in gpd
Airport	Passenger	5
Hotel	Person	100
Motel	Person	50
Restaurant	Meal	7
Shopping Center	Employee	60
Small business	Employee	20
Theater	Seat	5

TABLE G-4

Average sewerage flows from institutional facilities

Establishment	Unit	Flow in gpd
Elementary schools	Student & Staff	10
High schools	Student & Staff	20
Medical Hospital	Patient & Staff	175
Mental hospital	Patient & Staff	125
Prisons	Inmate & Staff	175

**Appendix C1: ITE Trip Counts and EDU Counts for the City of Newport Transportation System**

Land Use	Trips Per Day	Trip Bypass Percentage	Newport Trips per Day	Equivalent Transportation EDUs	Unit
Waterport/Marine Terminal	12.5	0%	12.5	1.25	Acre
General Aviation Airport	6.9	0%	6.9	0.69	Based Aircraft
Truck Terminal	85.7	0%	85.7	8.57	Acre
General Light Industrial	7.3	0%	7.3	0.73	1,000 Sq. Ft. Gross Floor Area
General Heavy Industrial	1.6	0%	1.6	0.16	1,000 Sq. Ft. Gross Floor Area
Industrial Park	6.9	0%	6.9	0.69	1,000 Sq. Ft. Gross Floor Area
Manufacturing	4	0%	4	0.4	1,000 Sq. Ft. Gross Floor Area
Warehousing	5.1	0%	5.1	0.51	1,000 Sq. Ft. Gross Floor Area
Mini-Warehousing	2.7	0%	2.7	0.27	1,000 Sq. Ft. Gross Floor Area
Utilities	0.2	0%	0.2	0.02	1,000 Sq. Ft. Gross Floor Area
Single-Family Detached Housing	10	0%	10	1	Dwelling Unit
Two-family housing	10	0%	10	1	Dwelling Unit
Apartments (3 Units or more)	6.8	0%	6.8	0.68	Dwelling Unit
Residential Condominium	6.1	0%	6.1	0.61	Dwelling Unit
Mobile Home Park	5	0%	5	0.5	Dwelling Unit
Congregate Care Facility	2.3	0%	2.3	0.23	Dwelling Unit
Hotel	9.1	40%	5.46	0.546	Lodging Room
Motel	10.7	40%	6.42	0.642	Lodging Room
City Park	2.3	0%	2.3	0.23	Acre
County Park	3.1	0%	3.1	0.31	Acre
State Park	0.5	0%	0.5	0.05	Acre
Recreational Vehicle Park	77.9	40%	46.74	4.674	Acre
Marina	3.1	0%	3.1	0.31	Berth
Golf Course	39.4	0%	39.4	3.94	Hole
Theater	1.8	0%	1.8	0.18	Seat
Amusement Park	79.3	0%	79.3	7.93	Acre
Zoo	120.3	0%	120.3	12.03	Acre
Tennis Courts	34.9	0%	34.9	3.49	Tennis Court
Racquet/Health Club	17.9	0%	17.9	1.79	1,000 Sq. Ft. Gross Floor Area
Bowling Alley	34.9	0%	34.9	3.49	Bowling Lane
Recreational Community Center	7.7	0%	7.7	0.77	1,000 Sq. Ft. Gross Floor Area
Elementary/Middle/Private School	2.9	0%	2.9	0.29	1,000 Sq. Ft. Gross Floor Area
High School	11.4	0%	11.4	1.14	1,000 Sq. Ft. Gross Floor Area
Junior College	13.5	0%	13.5	1.35	1,000 Sq. Ft. Gross Floor Area
Church/Synagogue	9.8	0%	9.8	0.98	1,000 Sq. Ft. Gross Floor Area
Day Care Center	83	50%	41.5	4.15	1,000 Sq. Ft. Gross Floor Area
Cemetery	4.4	0%	4.4	0.44	1,000 Sq. Ft. Gross Floor Area
Prison	6.8	0%	6.8	0.68	1,000 Sq. Ft. Gross Floor Area
Library	47.6	0%	47.6	4.76	1,000 Sq. Ft. Gross Floor Area
Hospital	17.6	20%	14.08	1.408	Bed
Nursing Home	2.7	40%	1.62	0.162	1,000 Sq. Ft. Gross Floor Area

**Appendix C2: ITE Trip Counts and EDU Counts for the City of Newport Transportation System**

Land Use	Trips Per Day	Trip Bypass Percentage	Newport Trips per Day	Equivalent Transportation EDUs	Unit
Clinic	24.9	40%	14.94	1.494	1,000 Sq. Ft. Gross Floor Area
General Office			0	0	
Less than or equal to 10,000 Sq. Ft.	25.8	10%	23.22	2.322	1,000 Sq. Ft. Gross Floor Area
Less than or equal to 25,000 Sq. Ft.	20.6	10%	18.54	1.854	1,000 Sq. Ft. Gross Floor Area
Less than or equal to 50,000 Sq. Ft.	17.4	10%	15.66	1.566	1,000 Sq. Ft. Gross Floor Area
Single Tenant Office Building	12	0%	12	1.2	1,000 Sq. Ft. Gross Floor Area
Medical-Dental Office Building	35.8	20%	28.64	2.864	1,000 Sq. Ft. Gross Floor Area
Government Office building	72.2	20%	57.76	5.776	1,000 Sq. Ft. Gross Floor Area
State Motor Vehicles Department	173.8	20%	139.04	13.904	1,000 Sq. Ft. Gross Floor Area
Post Office	91.2	20%	72.96	7.296	1,000 Sq. Ft. Gross Floor Area
Retail-General Merchandise	20.1	40%	12.06	1.206	1,000 Sq. Ft. Gross Floor Area
Building Materials & Lumber Store	32	20%	25.6	2.56	1,000 Sq. Ft. Gross Floor Area
Specialty Retail Center	42.6	20%	34.08	3.408	1,000 Sq. Ft. Gross Floor Area
Free Standing Discount Store	73.4	40%	44.04	4.404	1,000 Sq. Ft. Gross Floor Area
Hardware/Paint Store	53.7	20%	42.96	4.296	1,000 Sq. Ft. Gross Floor Area
Nursery (Garden Center)	37.8	20%	30.24	3.024	1,000 Sq. Ft. Gross Floor Area
Nursery-Wholesale	3.3	20%	2.64	0.264	1,000 Sq. Ft. Gross Floor Area
Shopping Center			0	0	
Less than or equal to 10,000 Sq. Ft.	175.5	40%	105.3	10.53	1,000 Sq. Ft. Gross Floor Area
Less than or equal to 50,000 Sq. Ft.	96	40%	57.6	5.76	1,000 Sq. Ft. Gross Floor Area
Less than or equal to 100,000 Sq. Ft.	74	40%	44.4	4.44	1,000 Sq. Ft. Gross Floor Area
Less than or equal to 200,000 Sq. Ft.	57.1	40%	34.26	3.426	1,000 Sq. Ft. Gross Floor Area
Sit Down Restaurant	215	50%	107.5	10.75	1,000 Sq. Ft. Gross Floor Area
Fast Food Restaurant w/o Drive Thru	823.3	50%	411.65	41.165	1,000 Sq. Ft. Gross Floor Area
Fast Food Restaurant W/Drive Thru	661.9	75%	165.475	16.5475	1,000 Sq. Ft. Gross Floor Area
Drinking Place	125.7	40%	75.42	7.542	1,000 Sq. Ft. Gross Floor Area
Automobile Car Center	9.7	10%	8.73	0.873	1,000 Sq. Ft. Gross Floor Area
New Car Sales	50.2	10%	45.18	4.518	1,000 Sq. Ft. Gross Floor Area
Service Station	83.8	80%	16.76	1.676	Gasoline Pump
Service Station w/Convenience Center	94.2	80%	18.84	1.884	Gasoline Pump
Self Service Car Wash	113.1	50%	56.55	5.655	Swash Stall
Tire Store	20.9	20%	16.72	1.672	Service Bay
Supermarket	157.1	20%	125.68	12.568	1,000 Sq. Ft. Gross Floor Area
Convenience Market	772.8	75%	193.2	19.32	1,000 Sq. Ft. Gross Floor Area
Wholesale Market	7	10%	6.3	0.63	1,000 Sq. Ft. Gross Floor Area
Discount Club	81.7	20%	65.36	6.536	1,000 Sq. Ft. Gross Floor Area
Apparel Store	26.2	10%	23.58	2.358	1,000 Sq. Ft. Gross Floor Area
Furniture Store	4.5	10%	4.05	0.405	1,000 Sq. Ft. Gross Floor Area
Video Arcade	94.2	0%	94.2	9.42	1,000 Sq. Ft. Gross Floor Area
Walk-in Bank	147.2	20%	117.76	11.776	1,000 Sq. Ft. Gross Floor Area
Drive-in Bank	277.7	20%	222.16	22.216	1,000 Sq. Ft. Gross Floor Area