

MEMORANDUM

DHC Planning

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DATE: September 28, 2016
TO: Tom Gamble, Director of Parks and Recreation
City of Forest Grove
FROM: DJ Heffernan
SUBJECT: Forest Grove Park System Development Charge (SDC) Methodology Update

A. Overview

This memorandum reviews a proposal to update the City of Forest Grove Park System Development Charge (SDC) methodology. Many provisions in the City's 2002 SDC methodology are out of date or not applicable to current conditions in Forest Grove. The memo outlines a new methodology and fee system and also the steps required to implement the proposed methodology. The memo is arranged by topic. Section B reviews how a typical SDC fee is developed. Section C presents the SDC fee analysis and rate structure for Forest Grove. Section D reviews a series of policy issues and recommendations made by the City's Technical Advisory Committee (TAC) for the fee program. Section E reviews required steps to update the Park SDC methodology and fees.

SDC fee programs are regulated by state law in ORS 223.297 et seq. The law has been in place since 1989 and has been amended several times. SDC fees may be collected for sanitary sewer, water, storm drainage, transportation, and park systems. A local SDC fee methodology must be adopted for each SDC fee that is collected. The methodology is the rate-setting analysis that establishes service levels for the fee program, how the fee is calculated, the amount of the fee, and the type of development that is subject to the fee. The fees are designed to offset the cost to expand public infrastructure that benefits new development – in this case city-owned parks.

An important feature of SDC fee programs is that they may include two types of fees: an improvement fee and a reimbursement fee. Improvement fees are based on the cost to expand infrastructure for the benefit of new residents. Improvement fees need to be consistent with system master plans and include cost estimates for projects that are needed to sustain current levels of service. Reimbursement fees recover the value of prior investments that have been made with the capacity to serve future development. Reimbursement fees may only recover the value of prior investment that will benefit future residents. They must be based on historic costs excluding third-party grants, contributions, and gifts.

Program accounting must track SDC revenue sources and their use separately. The statute provides greater flexibility for the use of reimbursement fee revenue than for improvement fee revenue. SDC fees must be spent on capital improvement projects and may not be used

for operations and maintenance. In addition, improvement fee revenue may not be used to expand the level of service for current residents. Cities may choose to raise their overall service standards, but the SDC fee program may not be used to finance system-wide improvements that raise service standards. Other resources must be used for that purpose.

Discretion may be used when defining a current level of service to account for changing consumer preferences (e.g. less investment in tennis courts and more investment in disk golf) and for changes to public safety regulations (e.g. how sewerage discharge is treated). These factors may affect the design and cost of planned system improvements that in turn may affect SDC rates.

B. Park SDC Methodology Outline

The following outline shows the steps typically followed to calculate SDC fees.

1. Calculate Level of Service Basis – the number of park acres /1,000 residents.
2. Calculate Future Demand – the number of new residents or households that the City expects to serve over a defined time period, which coincides with growth projections in the *Forest Grove Parks, Recreation, and Open Space System Master Plan*.
3. Calculate Improvement Needs and Costs – the number of new park facilities that need to be acquired / improved in order to sustain current service levels over time, and the cost to build them.
4. Calculate Reimbursement Value – reimbursement fees recover the cost that existing residents paid to provide capacity for future residents. In a park system, for example, this could include the value of land acquired for parks that have not yet been developed, or the value of untapped service capacity in an existing facility.
5. Calculate Administrative costs – the cost to prepare park master plans and to administer the SDC fee program may be recovered through the fee program.
6. Calculate contribution credits – adjust fees to account for general contributions that future residents will make to system improvements, such as estimated tax assessments that are programmed for park system improvements.
7. Calculate SDC Rates – establish the fee for a unit of service, such as a new dwelling unit. The fees basis may vary by use (e.g. residential vs employment uses) so long as the burden for the capital program is shouldered proportionally. Reimbursement and improvement fees are calculated separately.
8. Calculate SDC Index Basis – this is an optional feature that may be included in a methodology. Many cities index their SDC fees to protect against inflation risk. An index may not be added later without updating the methodology and subjecting it to judicial review.

C. Proposed Forest Grove Park System Methodology

The proposed SDC fee program for the City of Forest Grove was developed concurrent with the 2016 update to the *Parks, Recreation, and Open Space System Master Plan* (Master Plan). The proposed SDC includes an improvement fee but not a reimbursement fee. The cost basis for calculating the proposed improvement fee is consistent with design assumptions in the Master Plan that maintain existing park system service levels. The program is designed to address demand for four types of park facilities: Neighborhood Parks, Community Parks, Open Space, Trails and Greenways (OSTG), and Special Use Parks (e.g. the Senior Center and Aquatic Center). The OSTG category includes city-owned parks as well as city-owned and maintained trail corridors that pass through natural areas owned by third parties (e.g. Metro “B” Street Wetland Trail).

The proposed methodology assumes a future service population that is consistent with the City’s adopted comprehensive land use plan and with the Master Plan. The 2016 base year estimated population for Forest Grove is 23,365,¹ and uses an annual population growth rate of 2.3%.² At this growth rate, the expected population in 2026, which is the planning horizon for the park system, will be 28,970³. This is an increase of 5,605 residents.

In 2002, Forest Grove adopted a policy to exempt non-residential development from Park SDC fees. The proposed methodology retains this policy and allocates all park system improvement costs to residential uses.

1. Level of Service (LOS) Analysis

The proposed LOS for parks is acres per 1000 residents.

Table 1: Existing Level of Service (in acres/1000 residents)

Park Type	Inventory *	Current LOS	Notes
Neighborhood Park	19.7 acres	0.84 acres	Existing city-park acreage
Community Park	51.3 acres	2.22 acres	Existing city-park acreage
Open Space, Trails, and Greenways	59.2 acres	2.53 acres	Existing City-park acreage and city-owned trail corridors through third-party open space areas.
Special Use Park	4.3 acres	0.18 acres	The Aquatic and Senior Center sites.

¹ Estimate by City of Forest Grove Planning Department
² Forest Grove 2014 Comprehensive Plan Update, p. 38.
³ City of Forest Grove Planning Department

2. Future Demand

The demand for park system improvements is calculated by multiplying the current LOS times projected growth. The forecast horizon year is 2026, which is the time frame used in the Master Plan. The following table shows the system improvements needed to maintain park service levels for an increase of 5,605 residents in 2026.

Table 2: Park System Land Need Analysis

Park Type	Acres per 1000	Forecast Need	Net Need *	Notes
Neighborhood	0.85 acres	4.7acres	4.7 acres	The City has no suitable undeveloped neighborhood park sites.
Community	2.22 acres	12.3 acres	12.3 acres	The City has no suitable undeveloped community park sites.
Open Space, Trails, and Greenways	2.56 acres	14.2 acres	0.0 acres	The City own 17 acres of land suitable for OSGWT park sites.
Special Use	0.18 acres	1.0 acres	0.0 acres	The City owns a 3.2-acre site that is suitable for a special use park.

* - adjusted for city-owned undeveloped inventory

3. Improvement Fee Cost Basis

The cost to develop park facilities covers land acquisition and site development. Costs differ for each park type. Adjustments were made for parkland the City owns, which reduced the amount of land the City will need to acquire for new parks. For example, the City has enough land that is suitable for Open Space, Trails, and Greenways and for a 3.2-acre Special Use Park. There is not enough land in inventory to sustain current service levels for neighborhood and community parks. The cost to acquire this additional land is based on an estimated cost for vacant residential zoned land in Forest Grove. City staff estimate that this land costs \$200,000/acre. The land acquisition cost included in the rate basis is:

$$\$200,000 \quad \times \quad 17.0 \text{ acres} \quad = \quad \$3,400,000$$

The cost to improve parks varies by park type. The costs are based on estimates included in the Master Plan, which reflect the average cost per acre to develop park land and the amenities typically found in each park type, such as playgrounds, pathways, access and parking, restrooms, picnic areas, etc. The cost estimates include upgrades to unimproved parkland owned by the City. Table 3 below shows the amount included in the rate base for each type of park facility.

Table 3 – Park Improvement Cost Estimates

Park Type	Unit Cost/acre	Need	Improvement Cost
Neighborhood	\$300,000	4.7 acres	\$1,410,000
Community	\$400,000	12.3 acres	4,920,000
Open Space, Greenways and Trails	\$200,000	14.2 acres	2,840,000
Special Use	\$500,000	1.0 acres	500,000
Total Improvements			\$9,670,000

4. Administrative Costs

SDC program administration costs may be recovered through the SDC fee. These include the cost to prepare the methodology, the cost to prepare/update the improvement fee project list program (ORS 223.309), the annual cost to prepare a financial summary for the program and other related administrative expenses. It also includes a cost to update the Master Plan, which is needed for rate setting updates. These costs are shown in Table 4 below.

Table 4 – Administrative Costs Summary

Cost Factor	Unit Cost	Timing	Discounted Cost *
Financial Review	\$ 1,000	Annual	\$ 9,800
Master Plan Update	100,000	Year 10	78,100
SDC Rate Review	5,000	Year 5	4,400
Adjusted Cost			\$92,300

* - future costs are discounted to 2016 dollars using a discount rate of 2.5%

5. Contribution Credits

Two types of credits are considered in SDC programs. The first is a credit granted to developers when they build credit-eligible improvements that are listed in the park system capital improvement program. For example, a developer would be eligible for SDC credits for donating land and/or constructing a neighborhood park that is called for in the park system SDC capital improvement plan. These credits reduce the developer’s SDC obligation. The credit is calculated case-by-case and generally only applies on large-scale projects.

Forest Grove has a procedure in place for calculating SDC credits per this provision in the law. No change is proposed to that process.

The second type of credit is a general rate credit. This credit applies when existing or planned park system improvements will be financed in part with fees or property tax assessments paid by city residents. For example, if a city intends to build a park facility and pay half the cost using a property assessment, a credit would be calculated for the future tax contribution that new residents will be making through property assessments so that they are not taxed twice for the improvement.

No such credit is necessary for the park SDC rate in Forest Grove because City park improvements to meet existing service levels are not being financed with bonds backed by ad valorem taxes or City fees.

6. SDC Rate Calculation

Given that City only collects Park SDC fees from residential development, an SDC rate can be calculated on a per dwelling unit basis. The calculation uses an assumed average household size for Forest Grove based on the Comprehensive Plan⁴ and a historic average housing vacancy rate (5%) to estimate new dwelling units.

If new population / household size = new households, then $5,605 / 2.68 = 2,091$ new households.

If new Households x one plus the vacancy rate = new dwellings, then $2,091 \times 1.05 = 2,190$ dwellings.

The SDC rate per dwelling is calculated by summing all eligible park SDC costs and dividing that total by the estimated number of new dwelling units.

Table 5 - SDC Rate Calculation

Cost Factor	Amount
Park Land	\$ 3,400,000
Park Improvements	9,670,000
Admin	92,300
Total Eligible Cost	\$ 13,162,300
/ New Dwellings	/ 2,190
SDC Rate/ DU	\$ 6,010

⁴ Forest Grove 2014 Comprehensive Land Use Plan, Housing Element

D. Policy Questions and Recommendations

The City's Technical Advisory Committee (TAC) reviewed a number of policy questions related to the SDC fee. Their recommendations regarding these policies are summarized below for Council review and decision-making when the SDC methodology is reviewed and adopted.

Question 1: Should the City include undeveloped parkland in its park inventory?

Recommendation: Include the vacant land in the existing inventory.

Forest Grove's existing park inventory includes some undeveloped park acreage, such as the land adjacent to Thatcher Park and Lincoln Park. The TAC recommended we include this undeveloped parkland as part of the park system inventory. They did not recommend including the cost to improve this acreage as an additional system development cost. Doing so would increase the capital program by \$4,402,000 and the SDC rate by ~ \$2,190 per new dwelling.

Question 2: Should the City increase SDC fees in some parts of the UGB to upgrade park services in those areas?

Recommendation: Do not establish separate SDC fee zones in the City.

Forest Grove's existing level of service does not preclude the City from adopting higher park service standards in part of the City provided that the fees collected are paid by and principally benefit new residents within that area. Under this approach, the City could adopt a split-fee rate structure with higher park SDC fees in relatively undeveloped parts of its service area. The higher fees would generate revenue targeted for land acquisition and improvements in those areas under the assumption that proximity to the new facilities in those areas would benefit the new residents in those areas.

Clackamas Park and Recreation District, Hillsboro, and Tualatin Hills Park and Recreation District have used this approach to improve park services in areas with no parks and virtually no development. Citizens and developers supported the approach in those communities.

There are pros and cons to this approach. On the plus side, more SDC funds for park development would increase the quality of parks in newer residential areas within Forest Grove, which may be attractive to developers who value better parks for marketing purposes and by new residents who benefit from better parks. Conversely, this would create an equity issue and disparity in the quality of parks in newer and older areas. Also, the approach is more expensive to design and monitor and could prove divisive within a community the size of Forest Grove. Forest Grove used this approach in the past and found it expensive and difficult to implement.

Question 3: Should Forest Grove impose a different SDC rate for single-family and multi-family units?

Recommendation: Do not establish separate SDC rates for single-family and multi-family dwellings.

Some cities charge single-family residential (SFR) units higher SDC fees than multi-family units (MFR) based on the assumption that SFR imposes higher demand on public facilities. Research shows, for example, that per-capita trip rates, water use, and impervious surface area is greater for SFR units than for MFR units. The argument for higher SFR park SDC fees is that SFR has larger household size and more people equals more demand.

If the City were to take this approach, the park SDC rate would decrease for MFR and increase for SFR. We used census bureau household size differences for owner vs renter occupied units to estimate the impact. This is not a perfect proxy; some SF units are rented and some attached dwellings are owned. But this approach is a generally accepted for adjusting SDC fees to account for differences in household size between SFR and MFR.

Under this approach, the SDC rate would be calculated on a cost per person basis times estimated household size difference between SFR and MFR units in Forest Grove⁵. An adjustment was made to account for vacancies.

SFR persons/household: 3.14

MFR persons/household: 2.47

SDC Cost per person: $\$13,162,000/5,605 = \$2,003/\text{person}$

SFR Rate/DU: \$ 6,290

MFR Rate/DU: \$ 4,950

The TAC recommended against this approach because it conflicts with existing policy for other SDC fees. The impact of SDCs on housing affordability was noted but that issue should be addressed separately and comprehensively by City Council.

Question 4: Should Forest Grove adjust Park SDC fees annually using an index formula?

Recommendation: Yes, include an index in the methodology that adjusts rates annually.

ORS 223.304(8) allows jurisdictions to adjust SDC rates based on an index. The purpose is to protect against inflation risk and very large fee increases to catch up. Park development involves general construction and land acquisition costs. Some communities use a blended index formula to adjust land and construction costs separately. Other cities take a simpler approach and just use a construction index, which is easier to administer. Neither method

⁵ Source: Affordable Housing On-line: <http://affordablehousingonline.com/housing-search/Oregon/Forest-Grove/>

ensures that the indexed fee will remain in parity with actual costs over time. The program should be reviewed at regular intervals to make sure that rates are consistent with current development costs.

The TAC reviewed different approaches and recommended the Engineers News Record Construction Index for Seattle. The ENR Construction index is more sensitive to development cost trends than the U.S. Department of Commerce Consumer Price Index (CPI). The ENR index for Seattle is the closest region for which a construction cost index is available.

The TAC did not recommend preparing a blended land and construction cost index. The City owns a significant share of the land it needs for future parks. Preparing a local land cost index requires an annual commitment of staff time. At the margin, the difference in the cost adjustments for land and improvements is not likely to be that significant, especially if the City reviews SDC rates every 5-years.

Forest Grove’s park SDC rate is not indexed at present. The TAC asked what would the effect have been had rates been indexed in 2002? The following table considers that effect for the adopted rate, for the recommended 2002 rate, and for an adjusted rate that excludes costs related to non-residential development.

<u>2002 Options</u>	<u>Amount</u>		<u>ENR Index Change</u>		<u>2016 Indexed Amount</u>
Adopted Rate	\$2,000	X	1.399	=	\$2,800
Recommended	\$6,587	X	1.399	=	\$9,222
Only Residential	\$5,665	X	1.399	=	\$7,930
2016 Proposed Park SDC Rate					\$6,010

This analysis illustrates that the City had a significant loss of revenue compared with what it could have collected in park SDC fees. Second it shows the effect of not setting rates in line with actual levels of service. The decision in 2002 to discount park SDC rates resulted in a decline in park service levels caused by deferred capital investment. This can be seen in the difference in the amount of the recommended 2016 SDC fee and the indexed 2016 Residential Only rate. Third, while the recommended 2016 rate is less than what the indexed recommended 2002 rate would now be, the proposed rate is comparable with rates charged by other suburban Metro jurisdictions shown in Table 6 below.

Question 5: Should Forest Grove discount its Park SDC rates in an effort to attract development?

Recommendation: The City should not discount its SDC rates. Lower fees do not support increased development and reduce the park level of service provided.

Economic research by the University of Oregon⁶ regarding the effect of SDC rates on development showed no correlation between discounted SDC fees and increased development trends. Developers are more concerned with land rent and rates of return on investment than on local development fees. Bend and Portland, for example, have among the highest SDC fees in the state and both have growth rates that are in line with neighboring jurisdictions whose SDC rates are much lower. Looking at SDC rates in isolation, it may be tempting to assume lower fees deliver a competitive advantage. At the margin, however, these fees make up a small fraction of overall development costs and reducing them does not provide enough incentive for developers to alter their geographic location plans. On the other hand, a higher level of park development supports a higher quality of community livability that is attractive to employers and new residents potentially looking to relocate to Forest Grove.

For comparison, the following table shows park SDC rates for other Metro area suburban cities.

Table 6: Comparison of Suburban Park SDC Rates

Jurisdiction	SFR Rate	Non-residential Fee?	Dwelling Type Fees?	Indexed Fee?
Beaverton ¹	\$16,047	Yes	No	Yes
Hillsboro ²	Variable	No	No	Yes
King City	1,627	No	No	No
Lake Oswego	11,650	Yes	No	No
Milwaukie	3,895	Yes	No	No
No Plains	3,910	No	No	No
THPRD ³	Variable	Yes	Yes	Yes
Tualatin	3,892	No	No	Yes
Wilsonville	3,221	Yes	No	No

Source: League of Oregon Cities 2013 SDC Survey except Hillsboro and THPRD, which reflect current rates

1 Beaverton imposes a separate \$5,247 park fee in addition to THPRD fees.

2. Hillsboro's Park SDC fees vary from \$4647 on older neighborhoods to \$8600 in So. Hillsboro.

3. THPRD's Park SDC fee is 10,800 in most of the district but increases to \$12,790 in Cooper Mt. and \$12,695 in Bethany.

⁶ http://economics.uoregon.edu/wp-content/uploads/sites/4/2014/07/DelSavio_Eugenio_Mulkey_SDC_2014.pdf

E. SDC Methodology Adoption and Implementation

There are specific notification requirements related to the modification of SDC fees and methodologies. This section summarizes the process that Forest Grove should follow to update its Park SDC program. Before considering the updated methodology, the City should first adopt the *Parks, Recreation and Open Space Master Plan*. The *Forest Grove Parks, Recreation and Open Space Master Plan* includes important information regarding demand forecasts as well as estimated costs to develop park facilities like the ones that City residents currently enjoy. It is important that these parameters are established prior to updating the SDC fee program, which relies on them.

Many of the capital projects listed in the Master Plan will be 100% eligible for SDC funding, such as proposed new Neighborhood Parks, new development in Community Parks, and new Open Space, Greenway, and Trails facilities. But not all proposed improvements in the Master Plan are SDC eligible. A capital improvement project list should note SDC-eligible projects.

The SDC implementation process is proscribed by state law.

ORS 223.304(2) states that an improvement fee must:

(a) Be established or modified by ordinance or resolution setting forth a methodology that is available for public inspection and demonstrates consideration of:

(A) The projected cost of the capital improvements identified in the plan and list adopted pursuant to ORS 223.309 that are needed to increase the capacity of the systems to which the fee is related; and

(B) The need for increased capacity in the system to which the fee is related that will be required to serve the demands placed on the system by future users.

(b) Be calculated to obtain the cost of capital improvements for the projected need for available system capacity for future users.

ORS 223.309(1) states that:

Prior to the establishment of a system development charge by ordinance or resolution, a local government shall prepare a capital improvement plan, public facilities plan, master plan or comparable plan that includes a list of the capital improvements that the local government intends to fund, in whole or in part, with revenues from an improvement fee and the estimated cost, timing and percentage of costs eligible to be funded with revenues from the improvement fee for each improvement.

An ordinance for adopting the Park SDC Methodology should include the methodology outlined in Section C of this memo, or as modified during the methodology review period. It should make specific references to the adopted Master Plan regarding level of service and capital improvement cost calculations that are applicable to the fee. It also should reference the planning basis for the park need calculations in the Master Plan and their relation to the city's comprehensive land use plan.

The ordinance needs to include the list of planned capital improvements that will be funded in whole or part with SDC funds (the 309-list). The SDC eligible percentage needs to be listed for each capital improvement project for which SDC funds will be used. The SDC eligible percentage for some projects may be less than 100%. This could occur if the Master Plan recommends levels of service for certain categories of park facilities that are greater than the levels of service City residents currently enjoy, or if the scope of a project also includes capital replacement work. The City will need to identify alternative funding sources to finance the cost-share that falls outside the allowed limits for SDC funding.

ORS 223.304 also requires that:

(6) Any local government that proposes to establish or modify a system development charge shall maintain a list of persons who have made a written request for notification prior to adoption or amendment of a methodology for any system development charge.

(7)(a) Written notice must be mailed to persons on the list at least 90 days prior to the first hearing to establish or modify a system development charge, and the methodology supporting the system development charge must be available at least 60 days prior to the first hearing. The failure of a person on the list to receive a notice that was mailed does not invalidate the action of the local government. The local government may periodically delete names from the list, but at least 30 days prior to removing a name from the list shall notify the person whose name is to be deleted that a new written request for notification is required if the person wishes to remain on the notification list.

(b) Legal action intended to contest the methodology used for calculating a system development charge may not be filed after 60 days following adoption or modification of the system development charge ordinance or resolution by the local government. A person shall request judicial review of the methodology used for calculating a system development charge only as provided in ORS 34.010 to 34.100.

Local procedures that comply with these requirements should already be in the City's general SDC program ordinance. Immediately following the Master Plan's adoption, the City should notify persons on its "list of interested persons" that it intends to modify the Park SDC program. It may at the same time but no less than 60 days prior to the first ordinance hearing notify persons on the list of the hearing date and indicate where review copies of the proposed new methodology may be obtained.

During the review period, the City may invite special interest groups to meet and comment on the proposed SDC fee amendments. Comments from groups such as the Portland Area Homebuilders, the Forest Grove Chamber of Commerce, the School District, and community-based recreation groups will help City Council determine an appropriate SDC rate for this community.

The following conceptual timeline outlines the review and adoption process for the SDC Methodology Amendments. This timeline is contingent upon the City’s schedule for adopting the Master Plan.

Table 7 – SDC Implementation (Pro-forma Timeline)

Date	SDC Methodology Update Step	Comment
10/25/16	Publish Notice of Intent to update SDC Methodology.	This notice may be published prior to the date the City adopts the Park Master Plan in order to expedite the adoption process.
10/25/16	Mail 90-day notice of the City’s intent to update its Park SDC Methodology to persons on the City’s SDC notification list.	This written notice must be sent 90 days prior to the first hearing to modify the SDC fee methodology. See ORS 223.304(7)(a).
11/24/16	Send notification about where the proposed SDC program modifications may be viewed at least 60-days prior to public hearing.	At the City’s discretion, this information may be included in the 90-day notice.
TBD	Informational meetings with stakeholder groups.	The City may elect to hold informational meetings with stakeholder groups, such as homebuilders, recreation interest groups, and the school district. These meetings are not required.
TBD	City Council Park SDC Work Session	The City Council may wish to review the proposed SDC changes with staff in work session prior to formal hearings. Work sessions are subject only to legislative agenda notice requirements. They are not subject to the notice requirements in ORS 223.304(7)(a).
1/23/17	City Council Park SDC Methodology Update Hearing	This date is 90 days after the 10/25/16 notice date and is the first date that a hearing could take place. The hearing may take place after this date provided notice has been provided per ORS requirements.
3/24/17	SDC Judicial Review filing period expires	After this date, if no objections have been filed to the updated methodology and fees, the methodology may not be challenged.

The SDC amendment timeline reflects an ideal timeline that conforms precisely to the requirements in the statute. The City may choose to follow a more relaxed timeline. The methodology update may not occur more quickly than shown here because of statutory requirements.