

## SECTION II

# METHODOLOGY

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A system development charge is a one-time fee imposed on new development and some types of re-development at the time of development. The fee is intended to recover a fair share of the costs of existing and planned facilities that provide capacity to serve new growth. Oregon Revised Statute (ORS) 223.297 - 223.314 defines SDCs and specifies how they shall be calculated, applied, and accounted for. By statute, an SDC is either one of or the sum of two components:

- a **reimbursement fee**, designed to recover costs associated with capital improvements *already constructed or under construction*, and
- an **improvement fee**, designed to recover costs associated with capital improvements *to be constructed in the future*.

The reimbursement fee methodology must be based on “the value of unused capacity available to future system users or the cost of the existing facilities”, and must further account for prior contributions by existing users and gifted and grant-funded facilities. The calculation must also “promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities.” Reimbursement fee proceeds may be spent on any capital improvements related to the systems for which the SDC applied. Water SDCs must be spent on water improvements, wastewater SDCs must be spent on wastewater improvements, etc.

The improvement fee methodology must include only the cost of projected capital improvements needed to increase system capacity for future users. In other words, the cost(s) 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. Improvement fee proceeds may be spent only on capital improvements, or portions thereof, which increase the capacity of the systems for which they were applied.

### A. REIMBURSEMENT FEE METHODOLOGY

The calculation of the reimbursement fee is fairly straightforward under the approach taken. In short, it is the dollar cost of unused, available, system capacity divided by the capacity it will serve. The unit of capacity used becomes the basis of the fee. In addition to the cost or value of the system, Oregon law (ORS 223.304) requires that the reimbursement fee methodology also incorporate the following additional factors:

- “Ratemaking principles employed to finance publicly owned capital improvements”, taken to mean that the fees must be calculated to equitably recover appropriate costs;
- “Prior contributions by existing users”, taken to mean that the cost of contributed assets should not be included in the reimbursement fee basis;
- “Gifts or grants from federal or state government or private persons”, taken to mean that gifted or grant-funded assets should not be included in the reimbursement fee basis; and

- “Other relevant factors identified by the local government imposing the fee”.

Finally, the methodology must promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities.

**B. IMPROVEMENT FEE METHODOLOGY**

The improvement fee calculation, like that of the reimbursement fee, is straightforward. In short, it is the total dollar cost of capacity-increasing capital projects divided by the capacity they will serve. Again, the unit of capacity used becomes the basis of the fee. The overriding issue to consider in the improvement fee calculation is the identification and separation of capacity increasing capital costs.

**C. CALCULATION SUMMARY**

In general, an SDC is calculated by adding the applicable reimbursement fee component to the applicable improvement fee component. Each separate component is calculated by dividing the eligible cost by the appropriate measure of growth in capacity. The unit of capacity used becomes the basis of the charge. A sample calculation is shown below.

Reimbursement Fee	Improvement Fee	SDC
Eligible cost of capacity in existing facilities	Eligible cost of planned capacity-increasing capital improvements	
+ _____	+ _____	= SDC (\$ per unit)
Growth in system capacity demand	Growth in system capacity demand	

**D. SDC (IMPROVEMENT FEE) CREDITS**

The law requires that credits, for the construction of qualified public improvements, be provided against the improvement fee. Oregon Revised Statute 223.304 states that, at a minimum, credits be provided against the improvement fee for

“the construction of a qualified public improvement. A ‘qualified public improvement’ means a capital improvement that is required as a condition of development approval, identified in the plan and list adopted pursuant to ORS 223.309 and either:

- (a) Not located on or contiguous to property that is the subject of development approval; or
- (b) Located in whole or in part on or contiguous to property that is the subject of development approval and required to be built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related.”

The law further states that credits

“may be granted only for the cost of that portion of such improvement that exceeds the local government’s minimum standard facility size or capacity needed to serve the particular development project or property.”

We recommend that the City of Cottage Grove maintain / establish a credit policy that meets minimum legal requirements, except in the case of granting credits in excess of the improvement

fee when warranted. We believe that it is important for a city to retain as much control as possible over the prioritization and implementation of its capital plan(s). These plans are created to address total system needs – not just the needs of growth. Without control over how and when those needs are addressed, the re-prioritization of projects over time can leave important city needs unmet. To avoid this outcome, credits should:

- be for the portion of the actual, estimated, or agreed-upon cost of capacity in excess of that needed to serve the particular development;
- include no cash reimbursement; and
- be for planned projects only.

#### **E. INDEXING CHARGE FOR INFLATION**

Oregon law (ORS 223.304) also allows for the periodic indexing of system development charges for inflation, as long as the index used is

“(A) A relevant measurement of the average change in prices or costs over an identified time period for materials, labor, real property or a combination of the three;

(B) Published by a recognized organization or agency that produces the index or data source for reasons that are independent of the system development charge methodology; and

(C) Incorporated as part of the established methodology or identified and adopted in a separate ordinance, resolution or order.”

We recommend that the City of Cottage Grove index its charges to the **Engineering News Record (ENR) Construction Cost Index (CCI)** for the City of Seattle, and adjust the charges annually as per that index. There is no comparable Oregon-specific index.