



Capital Improvement Plan Update & SDC Discussion  
Molalla City Council Work Session – April 13, 2022

**A new bicycle/pedestrian path along OR 211 in Molalla is separated from traffic.**

# Overview of Capital Improvement Plans: Master Plans to SDC's

## Master Plan Adopted Into Comprehensive Plan – Each System

- Developed to Plan for Meeting the needs of the system for the entire planning period, typically 20-years
- Updated Every 8-10 Years or Earlier if Major Change in Circumstances
- Includes a Capital Improvement Plan (CIP) for the entire planning period, and the initial 5-year CIP

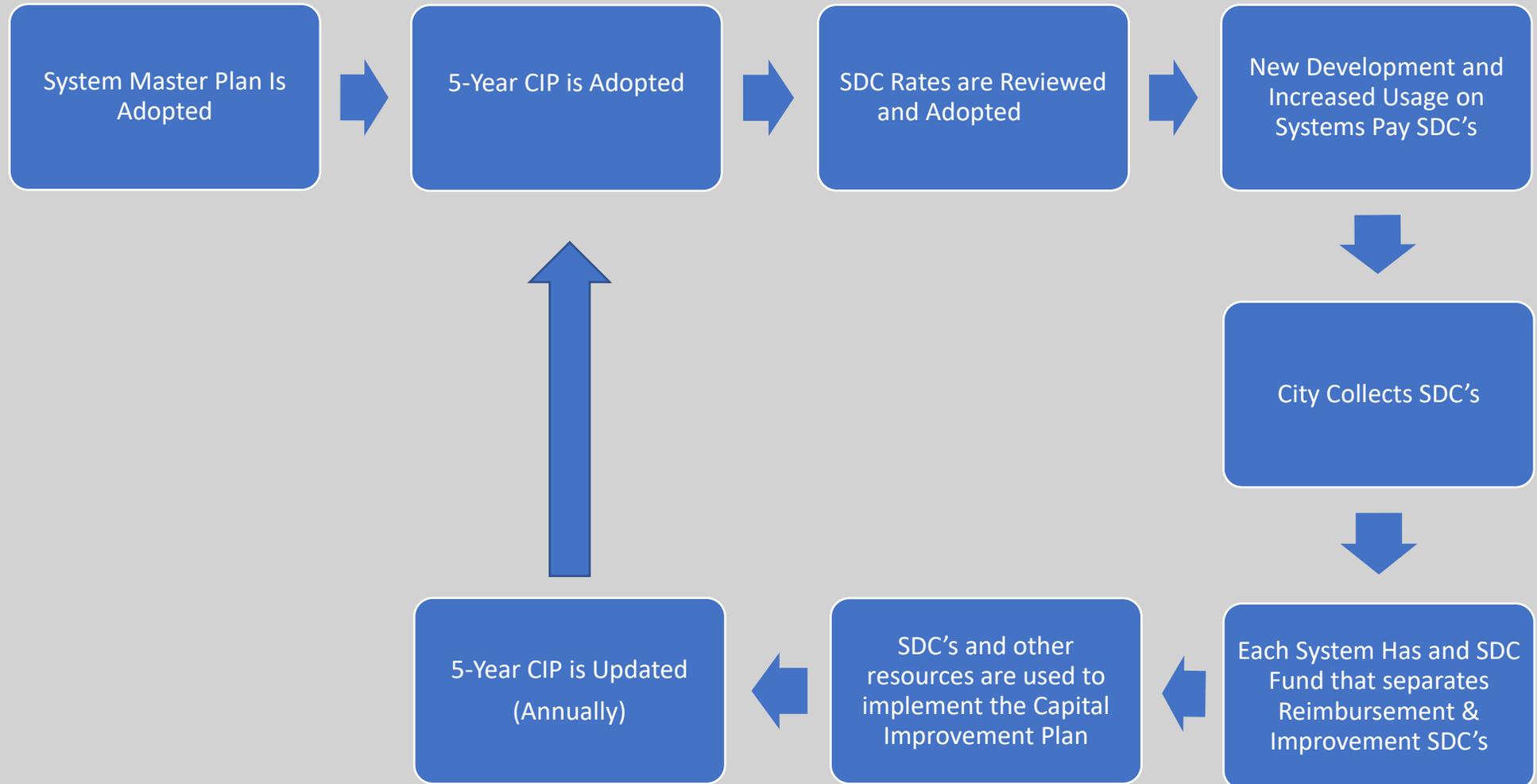
## Capital Improvement Plan

- Identifies projects necessary to enhance service levels, address existing deficiencies, and provide for future growth
- Uses a 5-year Planning Period
- Living Document – Typically Updated Annually

## System Development Charge Analysis & Adoption

- Based on Most Recent CIP Update
- Adjustable in Several Ways
- Paid by New/Re-Development for:
  - Creating Need to Increase System Capacity, and
  - Reimbursing for Use of Existing Capacity

# How does this all fit together?



# The Capital Improvement Plan – Overview



A Capital Project is one that creates, improves, replaces, repairs, or permanently adds to city assets.

Capital Assets Are: land, site improvements, parks, buildings, streets/paths, bridges, utility improvements, major equipment, computer hardware, communications systems

## The CIP is:

1. A 5-year forecast;
2. Lists major capital projects;
3. That require the use of public funds;
4. Beyond routine annual operating expenses;
5. Projects are identified by the system's master plan, and subsequently identified system needs;
6. Project lists are broken down into:
  - What may be attainable in the next 5-years, and
  - Everything else known at the time of adoption.



## The CIP Uses Multiple Resources, *e.g.:*

- General Fund Revenues
- Permit Revenues
- Utility Rate Revenues
- Urban Renewal Agency Tax Increment Proceeds
- System Development Charges
- Grants

# What are the Goals of the Capital Improvement Plan?

- To provide sound, transparent, financial planning and management of projects which:
  - Preserve existing public owned property and infrastructure
  - Provide new facilities and infrastructure to accommodate orderly, well-planned expansion of the community
  - Ensure consistency with statewide planning goals and the comprehensive plan
  - Enhance community livability
  - Comply with legal and regulatory standards

# How is the 5-Year CIP Determined?

- **Projects are identified using the Master Plan and System Capital Needs identified post-adoption:**
  - Necessity based on legal and regulatory impacts
  - Operational Impacts
  - Funding availability (actual and potential)
  - Population Changes
  - Land Use Patterns
  - Projects Completed
  - Opportunities to multiply spending power through public/private partnership
  - Staffing Resources
  - Financial Impacts to Utility Rates and SDC Rates
  - Opportunities to align multiple projects and achieve economies of scale in both financial costs and community impacts

# Why does the 5-year CIP get updated annually?



# What are the Parts of the 5-year CIP?

- **Data Points Per Project:**

- Project Location
- Project Description
- Project Status
- Project Source
- Master Plan Priority for Project (as applicable)
- Percent Improvement SDC Eligible
- Project Cost (in extemporaneous dollars)
- Annual cost projections of project for:
  - 5 –year Planning Period
- Cost projection beyond 5-Years (as applicable)

- **Data Points Per Section:**

- Sectioned off by System
  - Water, Wastewater, Transportation, Storm, Parks
- Annual Projected Cost Total
- 5-Year Projected Cost Total
- Beyond 5-Year projected Cost Total
- Special Inclusion for Streets CIP
  - Funded CIP – Capital Projects
  - Resurfacing CIP – Maintenance Projects
  - Unfunded CIP – Future Capital Projects

# Practical Application: The City of Molalla Proposed 5-Year CIP

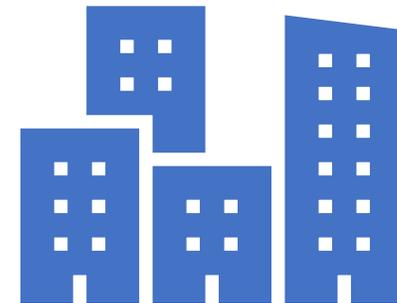
## **Developed by:**

City of Molalla Community Development Department

## **Consultation by:**

Molalla Engineer of Record, The Dyer Partnership

President of Donovan Enterprises, Steve Donovan



# What Are System Development Charges?

## SDC's Are (ORS 223.299)

- A one-time fee,
- Collected or assessed:
  - at the time of increased usage of a capital improvement; or
  - the issuance of a development permit, building permit, or connection to the capital improvement.
- **SDC's are not** system connection fees, or the cost of improvements legally required by a land use decision.

## A Capital Improvement Is (ORS 223.299):

- Facilities or Assets used for:
  - Water Supply, Treatment, and Distribution (Water SDC's);
  - Wastewater Collection, Transmission, Treatment, and Disposal (Sewer SDC's);
  - Drainage and Flood Control (Storm SDC's);
  - Transportation (Street SDC's); or
  - Parks and Recreation (Parks SDC's).
- **A Capital Improvement is not** the costs of operations or routine maintenance.

### Plain Language

- SDC's are a one-time fee.
- Assessed at the time of building permit issuance or at the time of increased usage of a system.
- SDC's are one charge with separate accounting for the reimbursement element and the improvement element.
- All SDC's are paid to the City for use on Capital Projects in the 5-year CIP.

# Who Pays SDC's & Why?

## SDC's are paid by:

- New Development
- Existing Development that Increases System Impacts

## These Properties Pay SDC's Because:

- Existing residents/businesses have paid their way through taxes, rates, and other means for systems that are already in place (Reimbursement)
- Provide growth that ultimately must be accommodated through system expansion (Improvement)

\*Note – Only residential development/impacts pay Parks and Recreation SDC's

### Plain Language

1. Only new development and action that increases system usage pays SDC's.
2. REIMBURSEMENT SDC's account for new/increased usage of existing infrastructure.
3. IMPROVEMENT SDC's account for the need for new/enhanced infrastructure to be caused by community growth.

# What Can SDC's Be Used For?

## The Two Components of SDC's and their Allowed Uses

1. Reimbursement SDC's – Charged for use of existing capacity
  - Most Flexible, everything improvement SDC's can be used for plus any other part of the system
  - Can be spent on any capital improvement associated with the system for which it was assessed, including repayment of debt.
2. Improvement SDC's – Charged for growth related system impacts
  - Most Restrictive, only capacity increasing improvements, and only the proportion that increases
  - Can only be spent on capacity increasing improvements including repayment of debt for such improvements.
    - May be an increase in performance/service level of existing improvement (only that proportion that is considered to cause the increase and must be related to a need for increase); or
    - Provision of new facilities.

\*Note - SDC's may not be used for administrative office facilities, operations, or maintenance

### **Plain Language**

1. Reimbursement SDC's can be used on any capital improvement in the system for which they were collected.
2. Improvement SDC's can only be used:
  1. On capital improvements on the system for which they were collected; and
  2. Only the capacity increasing portion of a capital project.

# The Customer Perspective:

## New Development

Mr. X proposes to build a new 2,000 sf equipment rental store where a single-family house is located.

Mr. X must pay SDC's for Water, Wastewater, Transportation, and Storm.

Mr. X completes site design review and is required to make frontage improvements.

Mr. X completes frontage improvements and applies for a building permit.

Staff Calculates Mr. X's SDC charge for each system based on proposed use and square footage.

Staff reduces Mr. X's SDC charge for each system equal to the SDC for a single-family Residence.

Credits are in terms of SDC units, not paid dollars... e.g. a  $\frac{3}{4}$ " meter credit, not the cash paid for it at the time.

Mr. X pays the SDC charges, and his building permit is approved.

Mr. X's property now has SDC credit for each system equal to his system impacts... he may use the property however zoning laws allow without paying SDC's unless his new use exceeds his property's credits.

## Existing Development Increasing Use

Mr. X later proposes to change the use of the property to a Convenience Store.

The change will increase his peak hour traffic trips from 0.99/1,000 sf to 4.18/1,000 sf.

Additionally, he wants to downsize his water meter from 1" to  $\frac{3}{4}$ ".

Mr. X is now required to pay the SDC's relevant to his new impacts.

Staff calculates Mr. X's SDC charge for each system based on the proposed use and square footage.

Mr. X does not owe Water or Wastewater SDC's because his property has already paid for a 1" meter... additionally, he can increase his meter size back to 1" without paying SDC's.

Mr. X does owe Transportation SDC's, but will receive a 0.99/1,000 sf credit, which makes his new trip calculation 3.19/1,000 sf. The single-family residence SDC is 1.00 total trips, so he receives the highest available SDC credit of 0.99.

# How Are SDC Rates Calculated?



**The Master Planning Document for Each System Provides the Formula for Calculating SDC Rates for That System... This is an overview of how SDC's are calculated in General.**

## General Principles of Calculating SDC Rates:

### 1. Reimbursement SDC's – Based on Fixed Assets:

1. Determine the depreciated value of existing capital infrastructure in a given system (Water, Transportation, etc.);
2. Determine the projected growth in system demand over the planning period;
3. Divide the depreciated value by the projected growth;
4. This provides the per unit reimbursement charge for new or increased system impacts.

### 2. Improvement SDC's – Based on 5-Year Capital Improvement Plan:

1. Develop and adopt the 5-year CIP;
2. Determine capacity increase provided by each capital project in the 5-year CIP;
3. Determine cost estimate for each capital project in the 5-year CIP;
4. Multiply the cost estimate for each project in the 5-year CIP by the percentage the project increases capacity (provides dollar amount of improvement SDC eligibility);
5. Determine the projected growth in system demand over the planning period;
6. Add up the dollar amount of improvement SDC eligibility and divide by projected growth;
7. This provides the per unit improvement charge for new or increased system impacts.

# Practical Application of SDC Rate Calculation?

## Reimbursement SDC's Example

(Fixed Assets in System – Depreciation & Assistance)

Projected Growth

Total Fixed Assets in Water System = \$1,000,000

Depreciation & Assistance of those Assets = \$500,000

Projected Growth in System Use is 1,000 Meter Ends

(\$1,000,000 - \$500,000)

1,000

\$500 Water Reimbursement SDC per new ¾" Meter End

## Improvement SDC's Example

(Cost of Water Projects in 5-year CIP \* % SDC Eligibility for Each)

Projected Growth

Project 1 – Est. \$1,000,000 \* 50% SDC Eligible = \$500,000

Project 2 – Est. \$500,000 \* 20% SDC Eligible = \$100,000

Project 3 – Est. \$5,000,000 \* 0% SDC Eligible = \$0

Add up all SDC Eligible Costs in 5-Year CIP =  
\$600,000

Projected Growth in System Use is 1,000 Meter Ends

$\$600,000/1,000$

\$600 Water Improvement SDC per new ¾" Meter End

# How Are SDC Rates Determined?



## The City Council Ultimately Determines SDC Rates

1. The 5-Year CIP is Adopted.
2. The Reimbursement SDC and Improvement SDC are Calculated;
  1. This provides the Baseline Maximum SDC Rate under the adopted 5-Year CIP.
3. The SDC Rates may be adopted at Baseline Maximum or adjusted.
4. Adjusting Upward:
  1. Only Improvement SDC's can be adjusted upward from the baseline max;
  2. Additional SDC Eligible Projects can be added to the 5-year CIP to achieve upward adjustment.
5. Adjusting Downward
  1. Improvement and Reimbursement SDC's can be adjusted downward from the baseline max;
  2. SDC Eligible Projects can be removed from the 5-year CIP;
  3. The Council can set the rate at any level below the baseline max that it chooses;
    1. Staff would need to modify the SDC eligibility of projects downward to meet the council's chosen rate;
    2. May be one project or more... for instance all projects down proportionately to equal the desired rate.

## Plain Language

1. The Fixed Asset Formula and CIP Formula from last slide are used to produce the Baseline Max for each portion of the SDC (Reimbursement & Improvement).
2. From Baseline Maximum, Downward adjustments can be made easily by:
  1. Reducing SDC eligibility of one or more projects; or
  2. Removing projects from the CIP.
3. From Baseline Maximum, Upward adjustments can only be made to Improvement SDC's.
  1. This is done by adding SDC eligible projects to the CIP.

# Determining SDC Rates: A Balancing Act

1. As a General Principle: You want the highest SDC's you can charge without chilling the new development that pays them.
  1. If they are too low, it is an injustice to the existing community:
    1. New development should pay their share for systems the existing community has already paid for... they are buying their share of ownership.
    2. New development IS the growth that triggers the need for expanded systems... they are paying their fair share of the costs that their presence produces.
  2. If they are too high, it is an injustice to the existing community:
    1. New development provides new amenities & opportunities, updated properties & increased property values, expanded tax base to enhance services and service levels.
    2. New development provides economies of scale to carry the burdens of system maintenance and improvement (i.e. lower rates), opportunities for public/private partnership to increase the spending power of existing funds, and economies of scale to address system maintenance and improvement.
  3. So how do we strike an appropriate balance?
    1. Engineering principles (system needs) combined with Trial and Error (taking the pulse).
      1. We have a great example of this over the last 18-months

# Molalla's System Development Charges

## Resolution 2021-27

- Adopted Modified SDC Rates with a Sunset Clause
  - Modified Rates Effective Through 6/30/22
  - Prior Rates Effective 7/1/22...
    - This will become moot with adoption of new CIP and new SDC rates

## Adoption of new 5-Year CIP includes new Baseline Maximum SDC's

- Rates may be set in accordance with new 5-year CIP; or
- Adjusted as desired, subject to discussed limitations

# Comparison – Single Family Residence (Raw SDC Rates)

## Current (Modified) SDC Rates

1. Water SDC (3/4" Meter)
  1. \$4,166
2. Sewer SDC (3/4" Meter)
  1. \$11,196
3. Storm SDC
  1. \$984
4. Transportation SDC
  1. \$4,226
5. Parks SDC
  1. \$2,643

Total SDC's - \$23,215

## Prior SDC Rates (12/8/2021)

1. Water SDC (3/4" Meter)
  1. \$4,166
2. Sewer SDC (3/4" Meter)
  1. \$11,196
3. Storm SDC
  1. \$984
4. Transportation SDC
  1. \$9,306
5. Parks SDC
  1. \$2,643

Total SDC's - \$28,295

## Baseline Max New 5-Year CIP

1. Water SDC (3/4" Meter)
  1. \$7,035
2. Sewer SDC (3/4" Meter)
  1. \$7,484
3. Storm SDC
  1. \$984
4. Transportation SDC
  1. \$8,722
5. Parks SDC
  1. \$2,643

Total SDC's - \$26,868

# Comparison – Commercial Convenience Store

## Current (Modified) SDC Rates

1. Water SDC (1" Meter)
  1. \$6,849
2. Sewer SDC (1" Meter)
  1. \$18,396
3. Storm SDC (41,105 sf Imp)
  1. \$15,069
4. Transportation SDC
  1. \$265,735
5. Parks SDC
  1. \$0.00

Total SDC's - \$306,049

## Prior SDC Rates (12/8/2021)

1. Water SDC (3/4" Meter)
  1. \$6,849
2. Sewer SDC (3/4" Meter)
  1. \$18,396
3. Storm SDC
  1. \$15,069
4. Transportation SDC
  1. \$577,548
5. Parks SDC
  1. \$0.00

Total SDC's - \$617,862

## Baseline Max New 5-Year CIP

1. Water SDC (3/4" Meter)
  1. \$11,678
2. Sewer SDC (3/4" Meter)
  1. \$12,423
3. Storm SDC
  1. \$15,069
4. Transportation SDC
  1. \$541,304
5. Parks SDC
  1. \$0

Total SDC's - \$580,474

# Staff Recommendation

## **Downward Adjustment of Transportation SDC... All other SDC's at Baseline Max:**

This example shows the TSDC at a trip rate of \$5,250 (the new baseline max would be \$8,722)

1. Total SDC's for SFR
  1. Current Rate \$23,215;
  2. Previous Rate \$28,295;
  3. Baseline Max Rate \$26,868;
  4. **Example Rate \$23,396**
  
2. Total SDC's for Commercial Convenience Store
  1. Current Rate \$306,049;
  2. Previous Rate \$617,862;
  3. Baseline Max Rate \$580,474;
  4. **Example Rate \$364,985**

\*This can be easily achieved by adjusting the SDC eligibility of project M18, a *Low Priority* project to reconstruct and widen Molalla Forest Road.