System Development Charges (SDCs) - Policy Paper

Home Builders Association
of Metropolitan Portland

HBA Positions

- **HBA believes SDCs have risen to a level that have an extremely negative impact on housing affordability and supports finding additional infrastructure funding mechanisms (1) to reduce the need for SDC's.** SDCs have grown substantially and now add significantly to the cost of a new home. Some jurisdictions have SDCs that total over $35,000.
- **HBA recognizes that the core SDCs (stormwater, sewer, water and transportation) are one of the tools needed to provide funding for basic infrastructure** directly related to the impact a new home has on systems.
- **HBA supports the current practice that the SDC a builder or developer pays should be set at the time they submit for building permits**. This helps create more certainty into the costs for the home.
- **HBA encourages jurisdictions to allow builders and developers to pay for SDCs at the end of the building cycle rather than upfront**. The impact to infrastructure is set once an occupant moves into the house, not when construction is started. The payment of SDCs upfront is a negative factor in a builder's ability to get financing for projects.
- **HBA encourages jurisdictions to provide ample notification and consider "stepping" into any larger SDC increases over a period of time**. The development process can take months or years. It is difficult for builders to adjust for an increased SDC once they've purchased the land or lots.
- **HBA supports efforts to improve statutory guidance that can clarify the process for developing or revising SDCs**. This effort should include standards of process for calculating fiscally sound parks SDCs and guidelines for reducing SDCs when capital improvement costs lower (such as land acquisition costs).
- **HBA is opposed to the creation of any new SDC categories and has a long history supporting community or regional bonding efforts** used to expand park and open space or for the construction of schools, libraries, police and fire facilities.
- **The HBA encourages the use of SDC credits and the transferability of those credits**. When a developer builds more infrastructure than the impact of the development necessitates, credits toward future SDC payments should be allowed and these credits should be tradable to another development.

SDC's Impact on Affordability:
Case Study

- **In 2005 the SDC fees in Portland on a typical 2,000 sq ft single family home were $8,875.**
- **In 2011 the SDC fees on the same home are $20,268.***
- **These SDC fees add over $108 a month to a typical mortgage at 5% interest resulting in almost $40,000 paid over the life of the mortgage.**
- **This is in addition to permit fees totaling almost $10,000.**

****some area jurisdictions have SDC fees over $35,000 per home* (2)**

Background

System Development Charges (also referred to as impact fees) are funding tools allowing Oregon local governments to pay for growth related infrastructure. They are allowed in five specific categories: transportation, sanitary sewer, storm water, domestic water and parks.

There are two parts to a typical SDC - the reimbursement fee and the improvement fee. The reimbursement fee is a fee new development pays to reimburse the local government for the already existing capacity in the current system. The improvement fee goes to pay for infrastructure yet to be built needed solely for new development. It cannot be used to pay for enhancing existing facilities that were already deficient (meaning the facilities didn't meet existing needs).

Builders and developers pay an SDC as their share of the capital costs of the impacts that their project places on the system. Whatever is paid by way of an SDC is a direct cost to the project and does impact the sales price of the homes constructed.

An important note is the limitations on how SDCs can be used. SDCs can NOT be used for the costs of operation or routine maintenance of capital improvements.

The impact SDCs have on Housing Affordability is a real concern.

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(1) Refer to Infrastructure Finance Policy Paper
(2) Refer to SDC Fee Chart

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Determining SDCs

Each city, county or special service district has unique needs, and consequently the costs generated within the capital improvement will vary accordingly.

Determining the appropriate SDC for water, sewer, stormwater and transportation needs of a community is relatively straight forward. Although existing statutes don't detail methodology, jurisdictions construct a system based on a community's needs.

The fifth SDC allowed (parks and recreation) is a challenging one for our industry. While certainly an important aspect of any community and a desirable feature for residents, the issue of whether or not parks are considered "a capital improvement" is debatable. HBA has ongoing concerns over expanding the definitions of what SDCs can pay for due to their ultimate impact on housing affordability and some of the inequities they create for the purchasers of new homes.

There is also inherently more ambiguity with parks SDCs, primarily because there is no regulated or even prescribed level of service (LOS) – meaning the amount of park acres needed per 1,000 residents can vary greatly. Jurisdictions are also free to select the inventory for use in the calculation which allows them to select some park areas and not others. This ambiguity means parks SDCs in particular vary widely from jurisdiction to jurisdiction.

Other Challenges with SDCs

SDCs are an easy tax that a jurisdiction can implement with little accountability to the end payer – the new home buyer. Since SDCs are not well understood by the public and since they are set by jurisdictions and not through a vote of the public, it can be easy to include more significant costs than may be really needed.

Also, the argument that SDCs are needed to "make growth pay" doesn't take into account the many other ways growth and new development pay. Jobs are created, employment taxes collected, the economy is strengthened, and property taxes increase. (1)

In addition, vacant, undeveloped or underdeveloped properties have already been paying into the city's or county's property tax base while putting little to no demand on any public services funded through property taxes. These properties have an accumulated equity already built up at the time when the property is ready to be developed, but this is not factored into SDC calculations.

HBA Review of SDCs

To ensure compliance with state law and help minimize the impact to the cost of housing, HBA reviews the local government service master plans, the capital improvement plans (CIP) and the methodology based on those plans that leads to a specific SDC, in order to assure that the assumptions and estimates are correct and within reason. Most local governments do a very good job in the preparation of these documents.

Other Funding Sources

It is often the case that SDCs, even when calculated completely in accordance with the statutory requirement, will not result in enough funds collected to cover the cost of the particular infrastructure. In almost all cases, the local governments are going to need to find additional sources for their capital construction needs.

For capital projects, the most effective and fair method of financing systems is the use of bonds. (2)

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HBA Website QR Code

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(1) Refer to "Does Growth Pay" Study
(2) Refer to Infrastructure Finance Policy Paper