



# Establishing Defensible System Development Charges

## How does Oregon law define System Development Charges?

ORS 223.297 – 223.314 provides “a uniform framework for the imposition of system development charges by governmental units” and establishes “that the charges may be used only for capital improvements.” An SDC can be constructed to include one or both of the following components: (1) a reimbursement fee, intended to recover an equitable share of the cost of facilities already constructed or under construction and (2) an improvement fee, intended to recover a fair share of future, planned, capital improvements needed to increase the capacity of the system for future users. Reimbursement fee proceeds can be used for any related capital facility costs, but improvement fees can only be used to fund capacity increasing facilities.

### SDCs May Be Used For:

- ▶ Water supply, treatment & distribution
- ▶ Wastewater collection, transmission, treatment & disposal
- ▶ Drainage and flood control
- ▶ Transportation
- ▶ Parks and recreation



## Where Should You Begin in Setting SDCs?

The math is easy. The hard part is making policy choices that fit the goals of your community. These decisions impact the inputs, the charge structures, and the message sent to existing and future citizens. For example, several approaches may be used to determine the “growth-related” cost of infrastructure, all yielding different yet defensible results. Key policy questions often include:

- How shall we base the charges? [e.g., peak-hour vs. average daily trips; flow capacity vs. estimated usage vs. fixture units; impervious area vs. density of development]
- Shall we use a more or less aggressive methodology to allocate costs to growth?
- Shall we impose parks SDCs on both residential and commercial development?
- Shall we apply SDCs uniformly system-wide, or on an area-specific basis?
- What is an equitable credit approach?

...Our combined experience provides us with a thorough understanding of the range of practical and defensible approaches to SDC policies & calculations.

FCS Group recommends a collaborative approach, designed to foster input from a variety of participating groups: City staff and Council, local developers and builders, and interested citizens. We take great pride in our ability to communicate concepts and resolve issues in each successive phase of a project.

While we tailor each study to the particular needs of our clients, in general, our clients ask us to perform some combination of the following tasks:

- 1. Collect and Review data.**
- 2. Establish SDC Policy Framework.** Evaluate and recommend an appropriate policy framework for the SDC analysis based on City objectives. This task may be done with a citizens committee.
- 3. Develop Fee Cost Bases.** Complete allocations to reimbursement and improvement fee cost bases by applying policy guidelines developed in Task 2.
- 4. Develop and Complete Technical Analysis.** Calculate reimbursement fees. Calculate improvement fees.
- 5. Meetings and Presentations.** Prepare for and attend staff work sessions. Prepare for and participate in City Council / public meetings.
- 6. Documentation.** Prepare draft and final reports. Prepare a draft ordinance reflecting the recommended fees and fee structures.

### Tips for Establishing Legally Defensible and Politically Palatable Fees

- Timing is everything. Once growth has occurred, infrastructure deficiencies generally cannot be funded by SDCs.
- Set adequate charges. Charges that do not fully recover growth-related costs, shift the burden of growth-related capital improvements to existing rates and tax payers.
- Involve and educate local developers and builders as much as possible. They are willing to pay their fair share. Predictability is often their key concern.
- Structure SDC credits in a way that treats developers equitably without jeopardizing City cash flow from SDCs.
- Show your work. The capacity-increasing portion of the capital project list should be readily identifiable, as should the determination of unused capacity in the existing system.
- Be cognizant of new statutory requirements. SDCs can be increased without notice if the change is based on the periodic application of a specific cost index.



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