

5 Most Common Mistakes Jurisdictions Make When Calculating an SDC

Or...how to get sued by a
Builders Association

Guiding Principle

- ❖ **SDCs ARE USER FEES**
 - **Must be a cause/effect relationship**
 - **Must be roughly proportional to impact**
 - **Must be based upon rate-making principles**

- ❖ **FAIRNESS AND EQUITY**

Guiding Principle

❖ SDCs DO NOT:

- Fix preexisting problems
- Provide discretionary revenue
- Solve maintenance or operational issues

❖ **FAIRNESS AND EQUITY**

The Builder's Perspective

- ❖ **SDCs ARE NOT PAID BY BUILDERS OR DEVELOPERS**
- ❖ **SDCs ARE A PROPER FUNDING MECHANISM FOR CERTAIN INFRASTRUCTURE.**
- ❖ **IF AN SDC IS CALCULATED FAIRLY AND EQUITABLY MOST BUILDERS WILL BE SUPPORTIVE.**
- ❖ **GOAL IS TO PROTECT OUR CUSTOMERS**
 - **THEIR ABILITY TO PURCHASE A HOME WITHOUT PAYING UNFAIR, INEQUITABLE CHARGES.**

Mistake #1

❖ PROPORTIONALITY

- Include projects (or parts of projects) that aren't related to impacts caused by development
- Include projects that cure **EXISTING DEFICIENCIES**
- Include projects that replace existing capacity

Examples

- ❖ City claimed that 100% of all new road projects were SDC eligible.
(need for new roads is caused by increased VMT by existing residents, pass through traffic, policy decisions, etc.)
- ❖ City replaced a worn-out sewer line entirely with SDCs.
- ❖ City included cost of building a storage shed in an existing park to house existing equipment.

Mistake #2

- ❖ Not Accounting for Unused Capacity
 - ❖ Don't analyze current systems to see if additional capacity is necessary
 - ❖ Adopt a methodology that charges for theoretical incremental costs, without regard to “on-the-ground” facilities.
 - ❖ Charge an improvement fee when there's plenty of existing capacity to “sell”.

Examples

- ❖ City had a water reservoir that could accommodate 20 years of development, and still charged an improvement fee SDC.
Result: system overbuild, SDC overcollect
- ❖ City did not identify an LOS for traffic, didn't analyze existing system, charged an improvement SDC based upon the cost of new roads per sq.ft.

Mistake #3

❖ Not Accounting for Previous or Future Contributions

- ❖ Don't give credit for past property taxes on undeveloped land.
- ❖ Don't give credit for anticipated bonds, etc.
- ❖ Don't give credit for fees, revenues, taxes that development will contribute over time.

GOAL: Zero Sum Gain

Examples

- ❖ Parks SDC: City didn't give credit for property taxes paid on undeveloped property that were used to help build existing park system
- ❖ City instituted a water SDC, then raised water rates to pay for system repairs.
Result: New development pays for its impact plus fixing existing deficiencies.

Mistake #4

❖ “Gold Plated” Infrastructure

- Require a higher LOS than existing LOS.
- Require aesthetic improvements or other costs that don't add additional capacity.
- Fund projects that the community wants, but that new development doesn't require.

Examples

- ❖ City plans to build a bridge with 100% SDC revenue:
 - “Functional” bridge costs 2 million
 - “Fancy” bridge costs 6 million
- ❖ City calculated a parks SDC on a LOS of 10 acres per 1000 population. Existing LOS was 5 acres.
- ❖ City included the cost of 12’ wide landscaped medians on minor collector streets.
Doesn’t add additional capacity.

Mistake #5

❖ Etcetera

- Charge a full reimbursement fee AND a full improvement fee.
- Base an SDC on a theoretical “need”.
- Base an SDC on a theoretical “use”.
- Add theoretical soft costs.

Mistake #5

❖ Etcetera

- Charge a reimbursement SDC without demonstrating that excess capacity exists.
- Charge a reimbursement fee on systems city didn't pay for.
- Charge for impacts occurring on State/County roads and/or from outlying areas

Examples

- ❖ City determined that average house required 742 gpd of water capacity...charged for 742 of new capacity, and 742 of existing capacity.
- ❖ City added 14% in administrative costs to an SDC (without documentation).
- ❖ City charged a reimbursement fee for excess capacity on a State Hwy.
- ❖ City charged an improvement fee for improvements to a County road.

The Biggest Mistakes

- ❖ Not hiring a qualified SDC consultant to write a legally defensible methodology.
- ❖ Not communicating with local builders, developers and Builders Associations.

For More Information

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