



INDEPENDENCE PARKS & OPEN SPACE MASTER PLAN

SECTION VIII:
SYSTEM FINANCE

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8.1 INTRODUCTION

This initial review of Independence’s system development charge (SDC) for parks is being done in conjunction with development of the Parks and Open Space Master Plan Update (Master Plan) to be completed in May 2015. The revised parks SDC will be based on the capital improvement program developed as part of the Master Plan and will become an important component of funding future parks projects. For this SDC update, Independence has established a number of objectives:

- Review the basis for the parks SDC to ensure a methodology consistent with statute;
- Evaluate whether a reimbursement element of the SDC is appropriate;
- Consider possible revisions to the structure or basis of the charge that might improve equity or proportionality to demand; and
- Provide clear, orderly documentation of the assumptions, methodology, and results, so that City staff can, by reference, respond to questions or concerns from the public

The purpose of this introductory technical memo is to summarize the City’s current parks SDC, statutory requirements and comparable SDCs in local communities. An outline of the steps toward revising Independence’s SDC based on the Master Plan is also provided.

8.2 SDCS IN INDEPENDENCE

Independence first established its authority to implement SDCs in June 1991 through Ordinance No. 1241 “An Ordinance Establishing System Development Charges for Development in the City of Independence.” Current SDC authorization is contained in the City of Independence Municipal Code Chapter 13.24. which stipulates in 13.24.5(C) that “the methodologies used to establish system development charges shall be adopted by resolution of Council.” The most recent revision to the parks SDC methodology and amount was done through adoption of Resolution No. 04-1139 effective September 15, 2004. The catalyst for changing the parks SDC in 2004 appears to be based on the City’s desire to eliminate land costs from the calculation...”this update is a result of removing all costs associated with acquisition of land for SDC eligible parks projects.” This produced a parks SDC fee of \$1,682 for a single family residence. As of the 2013 League of Oregon Cities SDC Survey, the parks SDC for Independence is \$1,741 for a single family home. The \$59 increase reflects inflationary adjustments to the capital project costs.

8.3 SDCS IN OREGON

System development charges are authorized by Oregon Revised Statute (ORS) 223.297-314. The statute is specific in establishing the structure for SDCs, how they can be applied, how these funds can be used and the means of their accounting. SDCs are a one time fee imposed on new development, intended to promote equity between new and existing users of public facilities by recovering a proportionate share of existing and planned capital facilities which serve or will serve developing property within Independence. ORS 223 further provides that the charge be calculated based on two fee components. These components are the reimbursement fee and the improvement fee.

The reimbursement fee considers the cost of existing parks facilities, prior contributions by existing users of those facilities, the value of the unused/available capacity, and generally accepted ratemaking principles. The objective is that “future parks system users contribute no more than an equitable share to the cost of existing facilities.” The calculation of the reimbursement fee is typically based on the original cost of parks facilities identified in the City’s fixed asset schedule. An original cost base reflects the fact that most parks infrastructure is not mechanical in nature and prone to the same level of depreciation as are water and sewer systems. Also, any donated or grant funded facility costs are also removed from the reimbursement fee calculation as not reflecting the costs actually incurred by the City and its parks customers. The reimbursement fee reflects a “buy in” to existing parks system capacity available to serve growth and paid by existing parks customers/City residents. Currently, Independence does not include a reimbursement component in its parks SDC.

The improvement fee is based on the cost of planned future facilities that expand the park system’s capacity or increase its level of performance to accommodate growth. In developing an analysis of the improvement portion of the fee, each project in the City’s parks Master Plan will be reviewed to exclude costs related to correcting existing system deficiencies or upgrading for historical lack of parks capacity. The improvement SDC is currently calculated in Independence as a function of the estimated number of additional people in the City through the 20 year planning period (2020). The City then determines the cost per single family residence based on a 2.9 persons per unit factor. Multi family units are based on a 2.7 persons per unit factor. The unit cost per capita is multiplied by the persons per unit to determine the SDC amount for parks. A parks SDC is not applied to commercial and industrial properties. ORS 223.301 prohibits the use of number of employees as a basis for any SDC.

In terms of evaluating capital improvements for parks SDC improvement fee eligibility, each project developed through the Master Plan will be reviewed using the following ORS 223 Requirements:

- Capital improvements mean the facilities or assets used for parks and recreation. This definition DOES NOT ALLOW costs for operation or routine maintenance of the parks improvements.
- The SDC improvement fee shall consider the cost of projected capital improvements needed to increase the capacity of the parks system to accommodate future growth.
- An increase in system capacity is established if a capital improvement increases the “level of performance or service” provided by existing facilities or provides new facilities in order to accommodate anticipated growth.

Under this approach, the following rules will be followed:

- Repair costs are not included;
- Replacement costs will not be included unless the replacement includes an increase of the park system capacity;
- Costs will not be included which bring deficient parks up to established design standards or service levels.

8.4 CREDITS

ORS 223.304(4) requires that a credit be allowed for the construction of a “qualified public improvement” by a new development. The credit for a qualified public improvement may only be applied against an SDC for the same type of improvement (in this case parks) and is calculated as a function of the portion of the improvement that exceeds the capacity requirements necessary to serve a specific development project. The credited improvement must also be required as a condition of development approval, identified in the Master Plan and “not located on or contiguous to property that is the subject of development approval, or is located on or contiguous to such property and is required to be built larger or with greater capacity than is necessary to meet the needs of the development.”

The City may also consider exemptions of certain property types such as affordable housing from the parks SDC. However, exemptions do not eliminate parks capital costs but transfer those costs to other funding sources.

8.5 SDCS - COMPETITIVENESS AND FUNDING CAPACITY

The design of an SDC is focused on assigning a proportionate share of the parks system project costs to new development. The proportionality is determined based on the extent to which existing and future parks projects provide capacity for new residents in Independence. As outlined above, State Statute and City Code lay out the framework for calculating this proportionality. At the same time, there is a real or perceived notion that SDCs are a prime determinant in the City’s competitiveness to attract new development and jobs. Competitiveness is typically defined in terms of how much neighboring cities charge for their SDCs and how Independence ranks relative to these other cities. The case can also be made that a city’s relative position in this competitiveness ranking is a function of the timing for capital facilities planning. Much like a conveyor, as cities develop new capital plans they move up the relative rankings scale and decline as other cities develop their own updated capital requirements. Regardless, the rankings are part of developing SDCs and the following local comparisons are provided based on the summer 2013 SDC Survey from the League of Oregon Cities:

Section VIII: Figure 1 – League of Oregon Cities

CITY	PARKS	SEWER	STORM	WATER	TRANS	TOTAL
Corvallis	5,197	3,492	82	1,122	2,471	12,364
Dallas *	2,343	4,136	957	4,046	1,199	12,681
Independence	1,741	3,573	823	2,445	3,231	11,813
Monmouth	1,726	2,918	152	1,498	394	6,688
Philomath	808	6,759	1,277	7,362	4,124	20,330
Salem	3,745	3,002	494	3,722	1,954	12,917
Sheridan	782	2,671	279	4,236	365	8,333

** based on 2014 SDC revisions*

Table depicts SDCs for a typical single family residence

It is noteworthy that none of the cities listed above charge a reimbursement element for their parks SDC. This indicates that, at the time of the SDC calculation, it was determined that existing parks facilities were either at or over capacity to accommodate the park needs of existing residents.

Statute also allows cities to provide programs for phasing of SDC payments over time. Independence has established this process in its Municipal Code Chapter 13.24.9(E)(1)(2) where payments can be made over an agreed upon time period with guarantees established through surety bonds or liens.

It is important to emphasize that parks SDCs alone cannot fully fund the capital requirements to be identified in the Master Plan. In order to build new facilities in a timely manner, capital commitments need to be made in advance of planned new development/growth. The timing of SDC receipts typically lags behind the project's cash flow requirements. Because parks do not have an on-going and dedicated revenue stream as in water and sewer utilities, the parks capital funding options are limited to SDCs, grants and bonds. All will need to be part of implementing the Master Plan. By way of a current financial snapshot, the City's Parks SDC Fund began FY'12 with a deficit of \$78,385. This deficit was eliminated through a 5 year interfund loan from the City's General Fund in the amount of \$78,873 (FY'12). The amount owed as of the beginning of FY'15 is \$31,549. Budgeted revenues from the parks SDC for FY'15 are estimated at \$17,650. The FY'15 principal and interest payment for the interfund loan from the SDC Fund to the General Fund will be \$15,981. So, while the City's Parks SDC Fund is moving out of a deficit position, it is not a resource pool available to fund future parks projects at this time.

8.6 SUMMARY

The City's current parks SDC does not include a reimbursement fee or "buy in" to existing parks capacity. This decision was based on the assessment that existing parks capacity had no surplus capacity available for new residents. This will be re-evaluated as part of the SDC update.

The improvement portion of the fee is based on the planned future parks improvements that add capacity to the system. As of September 2004 it was determined that future parks project costs allocatable to growth was \$1,932,025. The projected population growth was 3,330 which results in a per capita SDC rate of \$580.19. This per capita rate was then multiplied by the number of people in a single family home (2.9) and in a multi-family residence (2.7) to generate parks SDCs of \$1,683 and \$1,567 respectively. There are no SDCs applied to other land uses within the City. The City also deleted costs pertaining to land acquisition in their 2004 SDC update. Typically, land costs are part of the overall project cost and included in the SDC calculation unless the land was donated to the City. This will also be re-evaluated as part of this update.

The key steps in updating Independence's parks SDC will be:

- Develop an existing inventory and costs of parks and recreation facilities (typically derived from the City's fixed asset schedule;
- Determine how these existing assets were funded;
- Establish the parks capacity requirement for the City's current population;

- Determine how much, if any, surplus capacity exists within the current parks system;
- Evaluate each proposed new project and its cost in terms of how much capacity the facility will add to the City's park system and differentiate this added capacity into what is required to accommodate existing residents versus what is required to accommodate future growth
- Determine the population growth for the Master Plan period.

Working through these key steps will provide the framework for determining a parks SDC that is consistent with the Master Plan and compliant with ORS 223.