



City of Prineville

DEPARTMENT OF PLANNING & COMMUNITY DEVELOPMENT

STAFF REPORT

Date: August 16, 2007

To: Prineville City Council

From: Scott Edelman, Senior Planner

Through: Robb Corbett, City Manager

Issue: Timing of SDC Assessment in Development Process

Prineville City Council held a public hearing regarding the proposed increase of SDC fees on June 26, 2007. At this meeting Brad Lefler, a local builder, raised an issue regarding the timing by which the City of Prineville charges these fees. Currently the City charges SDC fees at the time building permits are issued. According to Mr. Lefler, this creates a situation in which builders pay SDC's several months before the actual impact on public facilities is created. As a result, builders who utilize construction loans are required to pay interest on these fees until the building is sold. As a result of Mr. Lefler's testimony, City Council asked staff to evaluate the possibility of charging SDC's at a later point in the development process. The following report is the result of discussions among Administration, Finance and Community Development Department staff.

Summary

Three primary issues were discussed by City staff in regard to the proposal to change the timing of SDC charges:

1. Alternatives to collecting SDC's at building permit issuance
2. Feasibility of Implementation
3. Financial Impact
4. Precedence

As a result of discussion revolving around these issues, explained in greater detail below, staff has concluded the following:

1. SDC's must be collected at a point in the development process where the City has the ability to ensure the fees are paid. The only two points that meet this requirement are at issuance of building permits or at the time of application for connection to city water and sewer.
2. It would be feasible on the staff level to implement this change with no anticipated long-term impacts on efficiency or amount of work required.
3. The financial impact on the City could be significant as a delay in collection of SDC's could create a shortfall in funds necessary to cover existing debt service obligations detailed in the 2007-2008 fiscal year budget. The slowdown Prineville has seen in development over the

past several months, and anticipated continuation of this slowdown, increases the importance of ensuring SDC's are collected in a timely manner to cover the City's debt and to ensure funds are available for new projects.

4. The current system of collecting SDC's at time of building permit issuance is consistent with procedures used by other cities in the region. Collecting SDC's at a different point in the development process would be a deviation from this precedence.

Discussion

Timing of Collection

The key issue for determining alternate points in the development process in which SDC's could be collected is ensuring the City will be able to ensure those fees are collected. Several points in the development process were considered, including the following:

1. Issuance of building permit.
2. Issuance of permit to connect to City water and sewer.
3. Issuance of occupancy permit.
4. A set period of time after a building permit is issued (example: 60 days)
5. At the time a house/building is sold.

In order to ensure SDC's will be collected, the City must have the power to stop construction, prevent occupancy and/or prevent transaction of ownership if the fees are not paid. Of the options listed above, there are only two that meet this requirement, Options 1 and 2. The City has signing authority on all building permits and fully controls the issuance of connection permits for public water and sewer.

Regarding Option 3, the City does not currently have signing authority on occupancy permits* and, even if it did, many buildings are occupied without obtaining this permit. Option 4 might be feasible as long as water and sewer connections were not approved until after the set period; however, administration of this policy could be time consuming and leave more room for error than options 1 and 2. Option 5 would be impossible to administer as the City has no control over property transactions.

** The City is currently working in cooperation with Crook County to install cross-jurisdictional software that will enable the City to review and sign off on all occupancy permits.*

Feasibility of Implementation

The current process of collecting fees at the time of building permit issuance is working effectively. It is efficient as all SDC's are paid prior to commencement of any construction and the City has the ability to ensure these fees are collected.

Changing the timing of which SDC's are collected would require a transitional period in which some SDC's would have already been paid at the time of building permit issuance while others would be collected when water and sewer connection permits are issued. Having a reliable tracking system in place would be critical to ensure that builders who paid their fees with building permit issuance would not be double charged and that builders who do not pay at the time of building permit issuance would be charged SDC's before being issued connection permits for water and sewer. The City is currently in the process of installing a software program that would provide the required tracking capacity. This software will allow the City to electronically track all payments to the City and ensure that all fees are correctly assessed and collected. As a result, staff does not anticipate the change in timing of SDC collection would have any negative long term impacts in regard to efficient service to the public and use of staff resources.

Financial Impact

There are two areas of financial impact that should be considered in evaluating a change of timing for SDC collection – benefits to the development community and costs to the City.

The primary goal in considering this change is to provide relief to the development community in light of recent (and future) increases in SDC's. The potential benefit to developers would come from savings on interest that would not have to be paid during the period between building permit issuance and the time they are required to connect to water and sewer. Since the current policy requires SDC's to be collected at the time of building permit issuance, it is not possible to get a reliable estimate of how many months of interest the average builder would save. The following table demonstrates potential savings over a range of months based on a construction loan covering \$11,960.17 in City SDC's (1 EDU) with an interest rate of nine percent (9%).

| | Length of time between building permit issuance and water/sewer connection | | | | | |
|--|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>1 month</u> | <u>2 months</u> | <u>3 months</u> | <u>4 months</u> | <u>5 months</u> | <u>6 months</u> |
| Interest Saved per EDU* (Developers) | \$89.70 | \$179.40 | \$269.10 | \$358.80 | \$448.50 | \$538.20 |

**Assumes interest-only payments by developer*

The actual length of time between building permit issuance and required water/sewer connection depends on several factors including the capacity of the developer, size of the project and strength of the market.

It is important to note that changing the timing in which SDC's are collected would not be cost-neutral to the City. Any SDC's that are not immediately required for public improvements or to cover debt service are put into the City's money market account which earns an interest rate of five and a half percent (5.5%). The following table summarizes the interest the City would lose per EDU based on the same assumptions as the table above.

| | Length of time between building permit issuance and water/sewer connection | | | | | |
|---------------------------------|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>1 month</u> | <u>2 months</u> | <u>3 months</u> | <u>4 months</u> | <u>5 months</u> | <u>6 months</u> |
| Interest Lost per EDU (City) | \$54.82 | \$109.64 | \$164.46 | \$219.28 | \$274.10 | \$328.92 |

The most significant impact on the City would be the availability of SDC funds to construct infrastructure projects or to cover debt service for projects that are already completed or are in-progress. For the 2007-2008 Budget the City has allocated \$800,000 for debt service in the Sewer SDC Fund and \$1,900,000 for debt service in the Water SDC Fund. The Budget is based on an estimated SDC collection which, if the City continues to experience the slowdown in development, could already have significant implications to these funds. Deferring collection of SDC's could further the risk of not meeting obligations already in place.

Precedence

Collection of SDC's at the time of building permit issuance is the standard procedure for Central Oregon communities. Bend, Redmond and Madras each collect SDC's at this time. This does not mean that Prineville cannot go against this precedence, particularly if doing so would provide an incentive for businesses to establish in Prineville over neighboring communities.

The potential downside to going against this precedence involves developer expectations. Developers who are used to SDC's collected throughout the region at the time of building permit issuance could face unforeseen conflicts. For example, if a builder purchases a building from another developer after a building permit has been issued, he may assume that SDC's have already been paid by the original owner who applied for the building permit. While this would ultimately be a private issue of disclosure between the buyer and seller, the City could be perceived negatively when the unexpected fees are reported to the builder requesting water and sewer connection permits.

Conclusions and Recommendation

While at face value it seems like a simple step to change the stage in the development process at which SDC's are collected, there are potential positive and negative impacts that should be considered. The pros and cons described above are summarized in the following table:

| Pros | Cons |
|--|--|
| <ul style="list-style-type: none">➤ Responsiveness to concerns expressed by the development community by providing some relief with increased SDC's➤ Savings by developers on construction loan interest➤ No long-term impact on the efficiency of service to the public or use of staff resources | <ul style="list-style-type: none">➤ Potential unavailability of SDC funds when needed for infrastructure projects or to cover debt service➤ Loss to City of interest in money market account➤ Potential confusion among developers due to divergence from regional precedent |

Staff is highly supportive of City Council's goal to be responsive to the needs of the development community. Further, staff believes that the proposed change in timing of collection fees is feasible and could be implemented with little, if any, disruption to efficient service of the City's customers. However, due to the potential financial ramifications of the policy change, it is the opinion of staff that the potential costs far outweigh the benefits to changing the timing of SDC collection.

The intent of staff in making this recommendation is not to oppose the development community, but to ensure that the City can support long term growth through fiscal responsibility in funding public infrastructure projects. Further, the City has made a commitment to developers of approved projects

who have been promised that infrastructure will be in place to serve their developments. Staff finds that the importance of ensuring the continued ability of the City to support development and maintain financial solvency significantly outweigh the potential cost savings to individual developers from delaying the collection of SDC fees.

Staff's recommends that the City Council maintain the current procedure of collecting SDC's at the time of building permit issuance.

Options

City Council has three options in regard to the proposal of delaying collection of SDC's:

1. Direct staff to continue to collect all SDC's at the time of building permit issuance.
2. Direct staff to draft a resolution to allowing all SDC's to be paid at the time of connection to the City's water and sewer system.
3. Delay a decision on this issue for further information, testimony and/or discussion at a future City Council meeting.