



City of Prineville

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DEPARTMENT OF PUBLIC WORKS ENGINEERING DEPARTMENT

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To: Prineville City Council

From: Eric Klann, Public Works Director/City Engineer

Staff Report: Proposed update to Transportation System Development Charge Methodology.

Overview:

In collaboration with the Oregon Department of Transportation (ODOT) and Crook County, the City of Prineville (City) recently completed an update to its Transportation System Plan (TSP). This TSP is intended to provide the City, County and ODOT with guidance for operating and improving the multimodal transportation system within the Prineville Urban Growth Boundary. The TSP focuses on priority projects, policies and programs for the next twenty years, but also provides a vision for longer-term projects that could be implemented should funding become available. The TSP is intended to be flexible to respond to changing community needs, economic opportunities, grants, and other revenue sources.

With completion of the TSP, an update to the Transportation System Development Charge (SDC) Methodology is now needed. The City assembled a project advising team to develop the Transportation SDC Methodology Report. This team consisted of City staff and council members Uffelman, Carr and Noyes. The team met twice, on April 22, 2014 and May 13, 2014, to review potential Transportation SDC calculations. Components of this review included proposed projects, proposed growth rates and estimated levels of contribution from the City and other agencies. As a result of these meetings, City staff drafted a Transportation SDC Methodology Report (Report) which is attached for your review.

State Statute (223.304) requires review of the Report prior to public hearing and adoption. The City must provide written notification to persons who have requested notification at least 90 days prior to the first hearing to establish or modify a SDC. The Report must be available at least 60 days prior to the first hearing for review. The Report is tentatively scheduled to be available for public review by July 9, 2014.

Staff will request council hold a public hearing on the Report during the September 9, 2014 meeting. This meeting date is an opportunity for public review and comment. Council may then, if they so choose, adopt the Report, updating the Transportation System Development Charge Methodology.

Recommendation:

Please review the attached Transportation System Development Methodology Report and forward all questions and comments to Staff by the end of June, 2014.



2014: Work Begins on the Combs Flat Rd. Extension to Serve a New Elementary School.

City of Prineville, Oregon
2014 Transportation System Development Charge Methodology Report
June 2, 2014

Section 1: Introduction

As new homes and commercial facilities are constructed within the City of Prineville (City) and its Urban Growth Boundary (UGB), additional demands are placed upon the existing infrastructure. These increased demands require the construction of additional municipal facilities. In the community, citizens have contributed money through taxes, donations, debt and user fees to construct the infrastructure system elements that make urban living within the City possible. These improvements include streets; water treatment, storage and distribution systems; wastewater collection and treatment systems; stormwater drainage facilities; and parks. The City is the municipal entity that has the responsibility for the construction and operation of these infrastructure systems with the exception of parks. Parks improvements and facilities within the City are the responsibility of the Crook County Parks and Recreation District.

The City utilizes a variety of revenue sources to provide for the construction and operation of its systems infrastructure. These revenue sources include, but are not limited to, state and federal gas taxes, intergovernmental contributions, franchise fees, developer contributions, property owner contributions, grants from federal and state sources, short- and long-term borrowing, user fees and system development charges (SDCs). This report addresses the maximum amount of SDC that may be charged to support the construction of transportation facilities that serve residents and others using the City's transportation system. SDCs are one-time fees charged to new development to pay for a portion of the costs associated with building capital facilities to meet increased demands associated with the new development.

SDCs within the City of Prineville

The City initially adopted SDCs in the year 2000 for the following capital improvements:

- Transportation
- Water supply, treatment and distribution
- Wastewater collection, transmission, treatment and disposal
- Parks and recreation

These SDCs are updated annually using an inflation index to account for changes in construction costs. The City currently uses the Engineering News Record Construction Cost Index (ENR CCI) for Seattle to adjust SDCs for inflation.

Previous City of Prineville Transportation System Plans

The City adopted the first City only Transportation System Plan (TSP) in 2000. Prior to this, combined TSPs were done for both Crook County and the City. This plan was used to create the original 2000 SDC Methodology Report. An update to the TSP was done in 2005 but was not used to update the Transportation SDC Methodology Report (Report). The current Transportation SDC is based upon the 2000 TSP and has only been updated for inflation since that time.

2013 TSP Update

In collaboration with the Oregon Department of Transportation (ODOT) and Crook County, the City recently completed an update to its TSP in the fall of 2013. This TSP is intended to provide the City, County and ODOT with guidance for operating and improving the multimodal transportation system within the Prineville Urban Growth Boundary. The TSP focuses on priority projects, policies and programs for the next twenty years, but also provides a vision for longer-term projects that could be implemented should funding become available. The TSP is intended to be flexible to respond to changing community needs, economic opportunities, grants, and other revenue sources

The 2013 TSP identified \$41,042,000 of needed projects over the short, medium and long term. These projects included everything from simple restriping roadway projects to very expensive arterial road extensions and improvements. It was projected that 2,788 PM new Peak Hour Trips will come online over the next 20 years.

This report presents an updated SDC methodology, documents the calculation of Transportation SDC rates and identifies projects to be funded from SDC revenues for the City of Prineville.

Section 2: Authority and Background Information

SDC Legislation in Oregon

Oregon legislation establishes guidelines for the calculation of SDCs. Within these guidelines, local governments have some latitude in selecting technical approaches and establishing policies related to the development and administration of SDCs. A discussion of this legislation follows, along with the recommended methodology for calculating an updated Transportation SDC for the City of Prineville.

In the 1989 Oregon State Legislative session, a bill was passed that created a uniform framework for the imposition of SDCs statewide (Oregon Systems Development Act). This legislation (Oregon Revised Statute [ORS] 223.297-223.314), which became effective on July 1, 1991, (with subsequent amendments), authorizes local governments to assess SDCs for the following types of capital improvements:

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

The legislation provides guidelines on the calculation and modification of SDCs, accounting requirements to track SDC revenues and the adoption of administrative review procedures. The SDC Act requires local governments to:

- Enact SDCs by ordinance or resolution;
- Develop a methodology outlining how the SDCs were developed;
- Adopt a Capital Improvement Plan (CIP) to designate capital improvements that may be funded with “improvement fee” SDC revenues;
- Provide credit against the amount of the SDC for the construction of “qualified public improvements”;
- Separately account for and report receipt and expenditure of SDC revenues and develop procedures for challenging expenditures; and
- Use SDC revenues only for costs related to capital expenditures (operations and maintenance uses are prohibited).

SDC Structure

SDCs can be developed around two concepts:

1. A reimbursement fee, and
2. An improvement fee, or
 - a. A combination of the two.

The **reimbursement fee** is based on the costs of capital improvements *already constructed or under construction*. The legislation requires the reimbursement fee to be established or modified by an ordinance or resolution setting forth the methodology used to calculate the charge. This methodology must consider the cost of existing facilities, prior contributions by existing users, gifts or grants from federal or state government or private persons, the value of unused capacity available for future system users, rate-making principles employed to finance the capital improvements and other relevant factors. The objective of the methodology must be that future system users contribute no more than an equitable share of the capital costs of *existing* facilities. This fee establishes the current value of unused capacity of existing capital improvements. The unused capacity can be assessed to future connections until the excess capacity is exhausted. This fee is levied to new development to repay existing customers a proportionate share of the cost of constructing the existing facilities. Reimbursement fee revenues are restricted only to capital expenditures for the specific system which they are assessed, including debt service.

The methodology for establishing or modifying an **improvement fee** must be specified in an ordinance or resolution that demonstrates consideration of the *projected costs of capital improvements identified in an adopted plan or list*, that are needed to increase capacity in the system to meet the demands of new development. This fee establishes the cost of planned capital improvements to be constructed within the planning period. This cost is levied to new development to provide funding for capital improvement projects, to increase system capacity and to provide the needed service. Revenues generated through improvement fees are dedicated to capacity-increasing capital improvements or the repayment of debt on such improvements. An increase in capacity is established if an improvement increases the level of service provided by existing facilities or provides new facilities.

In many systems, growth needs will be met through a combination of existing available capacity and future capacity-enhancing improvements. Therefore, the law provides for a **combined fee** (reimbursement plus improvement component).

Credits

The legislation requires that a credit be provided against the improvement fee for the construction of “qualified public improvements.” Qualified public improvements are improvements that are required as a condition of development approval, identified in the system’s capital improvement program and either:

1. Not located on or contiguous to the property being developed, or
2. Located, in whole or in part, on or contiguous to property that is the subject of development approval and required to be built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related.

The credit for a qualified public improvement may only be applied against an SDC for the same type of improvement (e.g., a wastewater improvement can only be used for a credit for a wastewater SDC). Further, a credit may be granted only for the cost of that portion of an improvement which exceeds the minimum standard facility size or capacity needed to serve the particular project. For multi-phase projects, any excess credit may be applied against SDCs that

accrue in subsequent phases of the original development project. In addition to these required credits, the City may set a policy to provide a greater credit, establish a system providing for the transferability of credits, provide a credit for a capital improvement not identified in the Capital Improvement Plan, or provide a share of the cost of an improvement by other means.

Exemptions

The City may exempt certain types of development, such as “affordable housing” from the requirement to pay SDCs. Exemptions reduce SDC revenues and therefore, increase the amounts that must come from other sources, such as user fees and property taxes.

Discounts

The City may discount the SDC rates by choosing not to charge a reimbursement fee for excess capacity, or by reducing the portion of growth-required improvements to be funded with SDCs. A discount in the SDC rate may also be applied on a pro-rata basis to any identified deficiencies, which must be funded from sources other than improvement fee SDCs. For example, the City may charge new development an SDC rate sufficient to recover only fifty percent of identified growth-required costs. The portion of growth-required costs to be funded with SDCs must be identified in the CIP. Because discounts reduce SDC revenues, they increase the amounts that must come from other sources, such as user fees or general fund contributions, in order to acquire the facilities identified in the Facility Plan.

Update and Review

The methodology for establishing or modifying improvement of reimbursement fees shall be available for public inspection. The local government must maintain a list of persons who have made a written request for notification prior to the adoption or amendment of such fees. The legislation includes provisions regarding notification of hearings and filing for reviews. Recent amendments clarified that “periodic application of an adopted specific cost index or ... modification to any of the **factors related to rate** that are incorporated in the established methodology” are not considered “modifications” to the SDC. As such, the local government is not required to adhere to the notification provisions. As a result of 2003 amendments, the criteria for making adjustments to the SDC rate which do not constitute a change in methodology, have been further refined as follows:

- “Factors related to the rate” are limited to changes to costs in materials, labor, or real property as applied to projects in the required projects list.
- The cost index must consider average change in costs in materials, labor, or real property and must be an index published for purposes other than SDC rate setting.

The notification requirements for changes to the fees that do represent a modification to the methodology are 90-day written notice prior to the first public hearing, with the SDC methodology available for review 60 days prior to the public hearing.

Alternative Methodology Approaches

There are three basic approaches used to develop improvement fee SDCs:

1. **Standards-Driven Approach:** The “standards-driven” approach is based on the application of Level of Service (LOS) standards for infrastructure facilities. Facility needs are determined by applying the LOS Standards to projected future demand, as applicable. SDC-eligible amounts are calculated based on the costs of facilities needed to serve growth. This approach works best where LOS standards have been adopted but no specific list of projects is available.
2. **Improvements-Driven Approach:** The “improvements-driven” approach is based on a specific list of planned capacity-increasing capital improvements. The portion of each project that is attributable to growth is determined and the SDC-eligible costs are calculated by dividing the total costs of growth-required projects by the projected increase in future demand, as applicable. This approach works best where a detailed master/facility plan or project list is available and the benefits of projects can be readily apportioned between growth and current users.
3. **Combination/Hybrid Approach:** The combination/hybrid-approach includes elements of both the “improvements-driven” and “standards-driven” approaches. LOS standards may be used to create a list of planned capacity-increasing projects and the growth requirement portions of projects are then used as the basis for determining SDC eligible costs. This approach works best where LOS has been identified and the benefits of individual projects are not easily apportioned between growth and current users.

Overview of Methodology

The general methodology used to calculate a SDC is discussed below. It begins with an analysis of system planning and design criteria to determine growth’s capacity needs and how they will be met through existing system available capacity and capacity expansion. The capacity to serve growth is then valued to determine the “cost basis” for the SDCs. This cost is then spread over the total growth capacity units to determine the system wide unit costs of capacity. The cost basis is divided by the total growth units to be served by both available and new capacity, in order to establish a weighted average cost of capacity.

Section 3: Transportation SDC Methodology

This section of the SDC methodology report presents the assumptions and analysis process utilized to establish the basis to calculate the SDC fees to be considered. The Improvements-Driven approach has been selected to develop the updated Transportation SDC methodology as it is assumed that there is little excess capacity in the existing Transportation network. There is also little existing debt associated with projects that could be recouped.

Essential Nexus

Transportation facilities benefit City residents, businesses, their employees and customers and visitors. The methodology used to update the City's Transportation SDC establishes the required "essential nexus" between a specific project's impacts and the SDC by identifying specific types of Transportation facilities and analyzing the proportionate need of each type of facility for use by each type of development. The SDCs to be paid by a development meet the "rough proportionality" requirement because they are based on the nature of the development and the extent of the impact of the development on the types of Transportation facilities for which they are charged. The evaluation best supports a Transportation SDC that is based on a PM Peak Hour Trip. Transportation SDCs may be charged to both residential and non-residential developments. Each residential unit represents a single PM Peak Hour Trip. Multi-family developments utilize a discounted PM Peak Hour Trip factor resulting from less demand on the transportation network per living unit. Non-residential development requires an analysis of the transportation network and equates that use to that of a number of PM Peak Hour Trips.

Analysis of the transportation network and demand associated with a proposed development is defined below:

"The rate of the charges for transportation systems development shall be based on the peak hour vehicular trip generation as set forth in the document entitled 'Trip Generation' put forth by the Institute of Transportation Engineers, alternatively the City Planning Director may also consider alternative methods for trip calculations based on other industry approved methodology."

Section 4: System Development Charge Calculations

As noted previously, SDCs are one-time fees assessed on new development to cover a portion of the cost of providing specific types of public infrastructure required as a result of the development. The 2013 TSP identified \$41,042,000 of needed projects to support growth over the short, medium and long term. It also projected that 2,788 new PM Peak Hour Trips would be associated with that growth. Therefore, one might argue that the maximum Transportation SDC would be...

$$\frac{\$41,042,000 \text{ Projects}}{2,788 \text{ PM Peak Hour Trips}} = \frac{\$14,720 \text{ transportation SDC}}{\text{PM Peak Hour Trip}}$$

However, the City should not be expected to fund 100% of the identified projects as many of the projects will include other funding partners such as Crook County and ODOT. Some projects will alleviate existing need or, when constructed, provide more than 20 years of capacity.

Proposed Funding Scenarios

To determine the maximum Transportation SDC allowable, the entire list of projects totaling \$41,042,000 in cost were identified with one of ten funding scenarios. These scenarios are shown below and are used to determine the City's Projected Contribution for each project.

Option ID #	Description/Funding Partners	City's Percentage Contribution	
0	Not SDC eligible	0%	Not included in total calculations
1	City only	70%	Assume 30% will come from grants, Street fund due to existing need and will results in projects with more than 20 yrs capacity
2	Private only	0%	
3	State only	0%	
4	City and State - on a state facility	15%	
5	City and State - on a city facility, intended to relieve State facility	15%	9th St Extension, Ect.
6	City and County, but may be intended to relieve State facility or be multimodal projects	20%	5th st/Ochoco logging ext.; Willowdale ext.; trails
7	City, County, State, and Private - on a State facility	20%	Tom McCall and the intersection of Combs Flat Rd/US 26 fit this category
8	City, County, and State	15%	Combs Flat and Lynn improvements fit this category
9	City and Private	40%	crosswalks - combs flat and 5th; Ochoco creek trail crossing of 3rd st, N-S arterial extensions

The final list of projects with the above funding contributions is attached as Exhibit A. By applying the above estimated contribution levels, total projected City contributions were reduced to \$10,684,000. Therefore, the maximum Transportation SDC would be...

$$\frac{\$10,684,000 \text{ Projects}}{2,788 \text{ PM Peak Hour Trips}} = \frac{\$3,832.14 \text{ Transportation SDC}}{\text{PM Peak Hour Trip}}$$

Section 5: Summary:

Growth within the City of Prineville will require a combination of techniques, including system development charges and other funding mechanisms to pay for the capital facilities required to serve the transportation needs of current and future residents. The City's transportation needs should be reviewed and updated every five years. A cost adjustment index should continue to be used to adjust the SDCs annually to reflect changes in costs for construction. The SDC methodology should also be updated when significant changes are made to the Transportation Network.

The maximum Transportation SDC for current conditions is calculated to be \$3,832.14.per PM Peak Hour Trip.