

City of Happy Valley, Oregon



Final Report for  
PARKS SYSTEM  
DEVELOPMENT CHARGE  
METHODOLOGY

November 21, 2017

**FCS GROUP**

Building 1, Suite 220  
4000 Kruse Way Place  
Lake Oswego, OR 97035  
503.841.6543

# TABLE OF CONTENTS

---

SECTION 1: INTRODUCTION .....	1
Project .....	1
Policy .....	1
State Statutes.....	1
Local Ordinance.....	2
SECTION 2: ANALYSIS .....	3
Growth.....	3
Current Demand.....	3
Future Demand .....	4
Levels of Service .....	4
Current Inventory .....	5
Planned Projects .....	5
Future Inventory .....	6
Improvement Fee Eligibility .....	6
Reimbursement Fee.....	7
Improvement Fee.....	7
Adjustments .....	7
Compliance Costs.....	8
Fund Balance .....	8
Calculated SDCs .....	8
CIP Funding Plan .....	8
SECTION 3: IMPLEMENTATION.....	10
Discounting.....	10
Comparisons .....	10
Annual Indexing .....	10

# SECTION 1: INTRODUCTION

---

This section describes the project scope and policy context upon which the body of this report is based.

## PROJECT

On June 6, 2017, the City Council of Happy Valley (“City”) enacted an ordinance to withdraw from the North Clackamas Parks and Recreation District (“NCPRD”). The withdrawal will be effective December 31, 2017. The City is seeking to update its system development charge (SDC) for parks by adopting a new methodology and revising its SDC ordinance.

In July, 2017, the City engaged the FCS GROUP project team, made up of FCS GROUP, Conservation Technix, and JLA, to (1) develop a parks master plan, (2) develop a new SDC methodology based on that plan, and (3) develop a revised parks SDC ordinance. The body of this document contains the SDC methodology. The parks master plan (currently in draft form) is a separate document, and the parks SDC ordinance is forthcoming.

During the development of the SDC methodology, FCS GROUP maintained close contact with City staff to ensure that the project was meeting City objectives. We met in person with City staff on September 18, 2017, to review a draft analysis. In addition, we have exchanged several telephone calls and e-mails with City staff.

## POLICY

SDCs are enabled by state statutes and authorized by local ordinance.

### State Statutes

Oregon Revised Statutes (“ORS”) 223.297 to 223.314 enable local governments to establish SDCs, which are one-time fees on new development that are paid at the time of development. SDCs are intended to recover a fair share of the cost of existing and planned facilities that provide capacity to serve future growth.

ORS 223.299 defines two types of SDC:

- A reimbursement fee that is designed to recover “costs associated with capital improvements already constructed, or under construction when the fee is established, for which the local government determines that capacity exists”
- An improvement fee that is designed to recover “costs associated with capital improvements to be constructed”

ORS 223.304(1) states, in part, that a reimbursement fee must be based on “the value of unused capacity available to future system users or the cost of existing facilities” and must account for prior contributions by existing users and any gifted or grant-funded facilities. The calculation must “promote the objective of future system users contributing no more than an equitable share to the

cost of existing facilities.” A reimbursement fee may be spent on any capital improvement related to the system for which it is being charged (whether cash-financed or debt-financed).

ORS 223.304(2) states, in part, that an improvement fee must be calculated to include only the cost of projected capital improvements needed to increase system capacity for future users. In other words, the cost of planned projects that correct existing deficiencies or that do not otherwise increase capacity for future users may not be included in the improvement fee calculation. An improvement fee may be spent only on capital improvements (or portions thereof) that increase the capacity of the system for which it is being charged (whether cash-financed or debt-financed).

## Local Ordinance

We will provide a draft ordinance to update the SDC section of the Happy Valley Municipal Code for the City’s consideration as part of this engagement.

## SECTION 2: ANALYSIS

This section provides our detailed calculations of the maximum defensible parks SDC.

In general, SDCs are calculated by adding a reimbursement fee component (if applicable) and an improvement fee component—both with potential adjustments. Each component is calculated by dividing the eligible cost by growth in units of demand. The unit of demand becomes the basis of the charge.

### GROWTH

The City’s park system serves both the residents and employees of Happy Valley. We therefore define growth for the parks SDC as a combination of growth in total population and growth in employment during the ten-year planning period from 2017 to 2027.

#### Current Demand

The calculation of growth begins with the most recent counts for population and employment in Happy Valley. In 2014 (the most recent year for which employment data are available), 16,480 residents lived in Happy Valley, and 2,324 employees worked in Happy Valley. Of these, 160 people both lived and worked in Happy Valley.

<b>Table 2.1: Population and Employment, 2014</b>	<b>Living inside Happy Valley</b>	<b>Living outside Happy Valley</b>	<b>Total</b>
<b>Working inside Happy Valley</b>	160	2,164	2,324
<b>Working outside Happy Valley</b>	8,295		
<b>Not working</b>	<u>8,025</u>		
<b>Total</b>	<u>16,480</u>		

*Source: Portland State University, Population Research Center, 2014 annual report tables, Table 7 (total living inside Happy Valley); U.S. Census Bureau, OnTheMap Application (working inside and outside Happy Valley).*

Next, we calculate the relative demand of residents and employees by estimating the number of hours of park availability for each of the two groups.

<b>Table 2.2: Hours per Week of Park Availability per Person, Residential Demand</b>	<b>Living inside Happy Valley</b>	<b>Living outside Happy Valley</b>
<b>Working inside Happy Valley</b>	72	
<b>Working outside Happy Valley</b>	72	
<b>Not working</b>	112	

*Source: FCS Group.*

<b>Table 2.3: Hours per Week of Park Availability per Person, Non-Residential Demand</b>	<b>Living inside Happy Valley</b>	<b>Living outside Happy Valley</b>
<b>Working inside Happy Valley</b>	40	40
<b>Working outside Happy Valley</b>		
<b>Not working</b>		

Source: FCS Group.

When the hours per week of park availability are multiplied by the counts from Table 2.1, we are able to determine the relative demand of residents and employees. As shown in Table 2.4, one employee is equivalent to 0.44 resident.

<b>Table 2.4: Total Hours per Week of Park Availability, 2014</b>	<b>Residential Hours</b>	<b>Non-Residential Hours</b>	<b>Total Hours</b>
<b>Working inside Happy Valley</b>	11,520	92,960	104,480
<b>Working outside Happy Valley</b>	597,240		597,240
<b>Not working</b>	898,800		898,800
<b>Total</b>	<u>1,507,560</u>	<u>92,960</u>	<u>1,600,520</u>
<b>Hours per resident</b>	91		
<b>Hours per employee</b>		40	
<b>Residents per employee</b>			0.44

Source: Previous tables.

## Future Demand

Based on the growth assumptions in the draft *Parks, Recreation & Open Space Plan*, we calculate the growth in residents and employees over the 10-year planning period. Because each employee is equivalent to 0.44 resident, we can combine these growth calculations into the single category of residential equivalents. In 2017, there are 20,426 residential equivalents in Happy Valley. After growing at an annual rate of three percent, there will be 28,260 residential equivalents in 2017. The difference between these numbers, 7,834 residential equivalents, is the expected growth from which the costs calculated later in this report can be recovered.

<b>Table 2.5: Growth</b>	<b>2014</b>	<b>2016</b>	<b>2017</b>	<b>2027</b>	<b>2035</b>	<b>Growth from 2017 to 2027</b>	<b>Annual Change after 2016</b>
<b>Residents</b>	16,480	18,680	19,240	26,619	32,727	7,379	3.00%
<b>Employees</b>	2,324	2,634	2,713	3,754	4,615	1,041	3.00%
<b>Residential equivalents</b>	17,496	19,832	20,426	28,260	34,745	7,834	3.00%

Source: Previous tables (2014); Draft Parks, Recreation & Open Space Plan, Figure 2 (2016 residents); Metro, 2035 Forecast of Population by City and County (2035 residents).

## LEVELS OF SERVICE

Determining what portion of which costs can be legally recovered in an SDC begins with determining *both* the level of service (LoS) that is currently being achieved for each type of facility (i.e., category of park) *and* the LoS that will be achieved after all projects in the capital improvement

plan (CIP) have been completed. For purposes of analyzing LoS, we use the following four categories:

- Community parks (which includes natural areas, open space, and regional parks)
- Neighborhood parks (which includes pocket parks)
- Special facilities
- Trails

## Current Inventory

The City’s current inventory of park facilities includes both parks that are owned by the City and those that are owned by other agencies. Because park users are typically unconcerned or unaware of a park’s ownership, we include all facilities regardless of ownership in our analysis. Table 2.6 summarizes these facilities and the LoS that they provide.

Table 2.6: Current Inventory	Units	Units Owned		Total Units	Units per
		by City	by Other Agencies		1,000 Residents in
Community parks	Acres	103.73	324.88	428.61	22.28
Natural areas					
Open space					
Regional parks					
Neighborhood parks	Acres	1.51	15.78	17.29	0.90
Pocket parks					
Special facilities	Acres	0.00	36.00	36.00	1.87
Trails	Miles	9.57	10.12	19.70	1.02

Source: Draft Parks, Recreation & Open Space Plan.

## Planned Projects

During the ten-year planning period, the City intends to spend \$66.7 million on park projects that will, in part, add capacity to the park system. Table 2.7 summarizes this cost and the added capacity by park category.

Table 2.7: Planned Projects, 2018-2027	Units	Units Added	Design and			Total Cost
			Acquisition Cost	Development Cost	Renovation Cost	
Community parks	Acres	50.00	\$ 25,000,000	\$ 25,955,000	\$ 2,851,000	\$ 53,806,000
Natural areas						
Open space						
Regional parks						
Neighborhood parks	Acres	8.00	4,000,000	2,200,000	-	6,200,000
Pocket parks						-
Special facilities	Acres					-
Trails	Miles	5.90	-	6,315,000	-	6,315,000
Other facilities			-	250,000	155,000	405,000
<b>Total</b>			<u>\$ 29,000,000</u>	<u>\$ 34,720,000</u>	<u>\$ 3,006,000</u>	<u>\$ 66,726,000</u>

Source: Draft Parks, Recreation & Open Space Plan; Michael Walter, e-mail, 09/14/2017.

## Future Inventory

Table 2.8 summarizes the expected inventory in 2027, after the completion of the planned projects.

Table 2.8: Future Inventory	Units	Units Owned		Total Units	Units per 1,000 Residents in 2027
		by City	by Other Agencies		
Community parks	Acres	153.73	324.88	478.61	17.98
Natural areas					
Open space					
Regional parks					
Neighborhood parks	Acres	9.51	15.78	25.29	0.95
Pocket parks					
Special facilities	Acres	0.00	36.00	36.00	1.35
Trails	Miles	15.47	10.12	25.60	0.96

Source: Previous tables.

## Improvement Fee Eligibility

Project costs must pass two tests to be included in an improvement fee cost basis. First, the project must create additional capacity. Second, that additional capacity must be available for new users in the planning period. In other words, the additional capacity cannot be absorbed by existing users (which would be curing a deficiency), and it cannot wait to be absorbed by users who will arrive after the planning period (which would be overbuilding).

In this analysis, the first test can be met by excluding (1) all project costs in the “Renovation Cost” column of Table 2.7 and (2) all project costs in the “Other Facilities” row of Table 2.7 (because no additional capacity is being created in this category). After these exclusions, the acquisition and design/development costs for community parks, neighborhood parks, and trails are includable to the extent that they pass the second test.

In this analysis, the target level of capacity is the expected LoS in 2027, as shown in Table 2.8. The current LoS of community parks and trails (as shown in Table 2.6) exceeds the expected LoS in 2027 (as shown in Table 2.8). Therefore, all project costs in these categories that pass the first test will also pass the second test. Neighborhood parks, on the other hand, will experience an increase in LoS from 0.90 acre per 1,000 residents to 0.95 acre per 1,000 residents. That increase indicates that the current inventory of neighborhood parks is deficient. The portion of project costs that cure this deficiency must be excluded from the improvement fee cost basis. This exclusion results in an eligibility of 87.64 percent for neighborhood parks. Table 2.9 derives the eligibility for all project costs that pass the first test.



Table 2.9: Improvement Fee Eligibility Based on Post-CIP Level of Service	Community	Neighborhood	
	Parks	Parks	Trails
Units per 1,000 Residents in 2027	17.98	0.95	0.96
<b>Facility needs in 2027:</b>			
Current inventory in acres/miles	428.61	17.29	19.70
Additional units to meet level of service in 2017	0.00	0.99	0.00
Additional units to meet level of service in 2027	<u>50.00</u>	<u>7.01</u>	<u>5.90</u>
Total facility needs in 2027	<u>478.61</u>	<u>25.29</u>	<u>25.60</u>
<b>Planned projects:</b>			
Curing deficiencies	0.00	0.99	0.00
Accommodating growth	50.00	7.01	5.90
Increasing level of service	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total planned projects	<u>50.00</u>	<u>8.00</u>	<u>5.90</u>
Improvement fee eligibility	100.00%	87.64%	100.00%
Acres/miles eligible for reimbursement fee	82.68	0.00	1.20

Source: Previous tables.

## REIMBURSEMENT FEE

The reimbursement fee is the cost of available capacity per unit of growth that such available capacity will serve. In order for a reimbursement fee to be calculated, unused capacity in the existing park system must be available to serve future growth. For facility types that do not have excess capacity, no reimbursement fee may be charged.

Although Table 2.9 shows available capacity in community parks (82.68 acres) and trails (1.20 miles), we have not calculated a reimbursement fee. Such a calculation would require further investigation into the funding sources of the reimbursable assets.

## IMPROVEMENT FEE

Applying the eligibility percentages in Table 2.9 to the project costs in Table 2.7 results in an improvement fee cost basis of \$62.6 million.

Table 2.10: Improvement Fee Cost Basis, Post-CIP Level of Service	Units	Units Added	Eligible			Total Eligible Cost
			Eligible Acquisition Cost	Design and Development Cost	Renovation Cost	
Community parks	Acres	50.00	\$ 25,000,000	\$ 25,850,000	\$ -	\$ 50,850,000
Neighborhood parks	Acres	8.00	3,505,581	1,928,070	-	5,433,651
Trails	Miles	5.90	-	6,315,000	-	6,315,000
<b>Total</b>			<u>\$ 28,505,581</u>	<u>\$ 34,093,070</u>	<u>\$ -</u>	<u>\$ 62,598,651</u>

Source: Previous tables.

## ADJUSTMENTS

Two cost basis adjustments are potentially applicable to both reimbursement and improvement fees: compliance costs and fund balance.

## Compliance Costs

ORS 223.307(5) authorizes the expenditure of SDCs on “the costs of complying with the provisions of ORS 223.297 to 223.314, including the costs of developing system development charge methodologies and providing an annual accounting of system development charge expenditures.” To avoid spending monies for compliance that might otherwise have been spent on growth-related projects, this report includes an estimate of compliance costs in its SDCs.

City staff has estimated that compliance costs represent four percent of the improvement fee cost basis. However, since this estimate is based on past cost bases (not the one calculated in this report), we have applied this percentage to an estimate of the prior cost basis using the current SDC. As a result, we have added \$725,630 to the total cost basis.

## Fund Balance

To the extent that SDC revenue is currently available in a fund balance, that revenue should be deducted from its corresponding cost basis. Because any such revenue is currently held by NCPRD—and its transfer to the City is not assured—we have not deducted for any fund balance in our calculation.

## CALCULATED SDCS

Table 2.11 shows that dividing the total cost basis of \$63.3 million by 7,834 residential equivalents results in an SDC of \$8,083 per residential equivalent.

<b>Table 2.11: SDC per Residential Equivalent</b>		<b>Based on Post-CIP Level of Service</b>
<b>Reimbursement fee cost basis</b>		\$ -
<b>Improvement fee cost basis</b>		62,598,651
<b>Compliance costs</b>		725,630
<b>Less fund balance</b>		
<b>Total cost basis</b>		<u>\$ 63,324,280</u>
<b>Growth in residential equivalents from 2017 to 2027</b>		7,834
<b>SDC per residential equivalent</b>		\$ 8,083

*Source: City staff (compliance costs); previous tables.*

The final analytic step is to convert the SDCs per residential equivalent into the categories of land use that appear in the current fee schedule published by NCPRD.

<b>Table 2.12: SDC Schedule Based on Post-CIP Level of Service</b>	<b>Residential Equivalents</b>	<b>Current SDC</b>	<b>Proposed SDC</b>	<b>Proposed \$ Change</b>	<b>Proposed % Change</b>
<b>Single-family residence and manufactured home</b>	2.62	\$ 6,075	\$ 21,206	\$ 15,131	249.07%
<b>Multi-family residence (per dwelling unit)</b>	1.84	5,290	14,855	9,565	180.81%
<b>Non-residential development (per employee)</b>	0.44	60	3,534	3,474	5790.80%

*Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates, tables B25024 and B25033 for Clackamas County (residents per dwelling unit); System Development Charge (SDC) Information Packet, 2017 (current SDC); previous tables.*

## CIP FUNDING PLAN

If the City charges the full SDCs proposed in Table 2.12—and the expected growth materializes—the City will raise \$63.3 million in SDC revenue during the ten-year planning period. This revenue will

be short of total capital and compliance costs by \$4.1 million. The City could use funding sources such as the General Fund or general obligation bonds to make up this difference.

<b>Table 2.13: CIP Funding Plan</b>	<b>Based on Post-CIP Level of Service</b>
<b>Resources:</b>	
<b>SDC revenue</b>	\$ 63,324,280
<b>Other resources</b>	4,127,349
<b>Total resources</b>	<u>\$ 67,451,630</u>
<b>Requirements:</b>	
<b>Projects in capital improvement plan</b>	\$ 66,726,000
<b>Compliance costs</b>	725,630
<b>Total requirements</b>	<u>\$ 67,451,630</u>

*Source:* Previous tables.

Moreover, to the extent that the City charges SDCs that are lower than those calculated here, the funding gap will be larger.

## SECTION 3: IMPLEMENTATION

This section addresses practical aspects of implementing SDCs.

### DISCOUNTING

The SDCs calculated in Table 2.12 represent our opinion of the maximum parks SDCs that the City can charge under Oregon law. The only risk of imposing lower SDCs is financial (i.e., the risk of having insufficient revenue to complete the CIP).

Many cities and park districts have taken a phased approach to implementing new SDCs that are significantly higher than previous SDCs. This approach also requires no analytic justification.

### COMPARISONS

The parks SDCs of other agencies play no role in calculating the maximum parks SDCs for the City. However, we recognize that an understanding of the current parks SDCs in comparable jurisdictions can be an important input to decision makers. Table 3.1 summarizes the parks SDCs for selected cities.

<b>Table 3.1: Comparison of Parks SDCs</b>	<b>Parks SDC for a Single- Family Residence</b>
<b>Happy Valley, legal maximum</b>	\$ 21,206
<b>Hillsboro, SoHi (without LID)</b>	\$ 14,683
<b>Portland, non-central city (&gt; 2,200 square feet)</b>	\$ 13,895
<b>Lake Oswego</b>	\$ 13,110
<b>West Linn</b>	\$ 10,616
<b>Portland, central city (&gt; 2,200 square feet)</b>	\$ 10,330
<b>Gresham, Springwater</b>	\$ 6,868
<b>Happy Valley/NCPRD, current</b>	\$ 6,075
<b>Wilsonville</b>	\$ 5,374
<b>Gresham, Pleasant Valley</b>	\$ 5,356
<b>Hillsboro, most of city</b>	\$ 5,149
<b>Oregon City</b>	\$ 4,881
<b>Gresham, most of city</b>	\$ 3,955

*Source: City websites; Ben Bryant, e-mail, 09/26/2017; FCS Group.*

### ANNUAL INDEXING

ORS 223.304 allows for the periodic indexing of system development charges for inflation, as long as the index used is:

(A) A relevant measurement of the average change in prices or costs over an identified time period for materials, labor, real property or a combination of the three;

(B) Published by a recognized organization or agency that produces the index or data source for reasons that are independent of the system development charge methodology; and

{00601188; 1 }

(C) Incorporated as part of the established methodology or identified and adopted in a separate ordinance, resolution or order.

We recommend that the City implement annual indexing, and we will include this provision in our forthcoming ordinance.