



Home Builders Association
of Metropolitan Portland

February 17, 2021

Rocky Smith, President
Oregon City Commission
625 Center Street
Oregon City, OR 97045

Subject: Public Hearing for Modifications to the Oregon City Water System Development Charges

Dear President Smith and Commissioners:

The Home Builders Association of Metropolitan Portland (HBA) represents over 850 companies and tens of thousands of women and men who work in the residential building and remodeling industries throughout the greater Portland area. We work to promote housing affordability and are dedicated to maximizing housing choice for all who reside in the region.

Oregon City (“the City”) recently became severely housing cost burdened, meaning that over 25% of its households spend more than half of their income on their rent or mortgage payment. Meanwhile, recent reports show that tragically, Oregon has underbuilt housing by over 155,000 units since the Great Recession and the Portland metro area has a record low three-week inventory of homes for sale. While a growing population continues its desperate housing search amidst a scarce supply of homes, rents and home prices have nowhere to go but up.

The City can help relieve the housing cost pressure its residents face by encouraging a greater supply of housing. With each additional available unit, households gain greater choice and financial stability. In order to encourage housing production, the City must ensure a level of certainty in the development process sufficient to warrant the fiscal risk the development community assumes over multiple years, often decades. One way to ensure development predictability is to avoid dramatic hikes in local fees, including System Development Charges (“SDCs”).

According to the City’s December 2020 Water SDC Methodology Report, the maximum defensible portion of its water SDC would be an increase from \$4,603 to \$9,374 for a 5/8” meter, representing a **104% increase** for the smallest, most commonly used residential meter. Unfortunately, this sudden and drastic SDC increase would shock development budgets, triggering project financing delays and forcing housing prices to rise to account for development costs. To ensure the water SDC increase is less disruptive, more easily absorbed, and continues to provide needed infrastructure funding, the City should consider implementing the following recommendations.

Implement an initial \$6,240 water SDC for a 5/8” meter and allow the SDC to further increase with certain development triggers. This funding approach represents an initial 36% increase from the current SDC—approximately one third of the maximum defensible increase—and would allow the charge to increase as specific water projects approach construction by the developer.

Due to development constraints, Water Capital Improvement Program Map ID project numbers 5, 16, 17, 21, 27, 28, and 29 are projects the developer is responsible for constructing, yet are unlikely to be constructed in their projected timeframe. Therefore, the City should delay the collection of \$18,061,000 in SDCs for these specific growth-only projects, and begin collecting them only when land use applications requiring one or more of the projects achieve preliminary approval. This measured approach allows the City enough time to collect SDCs necessary to fund or reimburse specific development-responsible projects, while maintaining consistent advanced collection on City-driven projects that must precede development further in advance.

Phase in the water SDC increase over a two-year period and allow approved applications to lock in the current rate during the phase-in. HBA requests that phasing occur in one-third incremental increases over a two-year period. By allowing a two-year phase-in and for preliminary plat holders to lock in the current SDC rate during that time, the City can facilitate a smooth transition to maximum defensible SDC collection with the least disruption to the City's projected growth.

Collect water SDCs later in the construction process (e.g. upon sale transfer). Infrastructure impacts related to new housing (i.e. the usage of water, roads, etc.) occur once a house is occupied. However, the City collects SDCs related to these impacts upon the issuance of a building permit, which precedes the true impact. This early collection increases housing costs in two ways. First, dollars used during the initial phase of construction are more expensive than those a builder can access later in the process. Second, dollars spent to finance SDCs incur carrying costs, which increase over the duration of construction. Because water SDCs relate to household occupancy, rather than construction, **the City should defer SDC collection to align better with project completion.**

Reduce the City's water SDC finance rate. At the current 9% rate, City-provided SDC financing is not as attractive as conventional financing. By lowering the rate, the City can encourage housing suppliers, including smaller builders who may not have access to the same institutional lending dollars, to do business in the community. Recognizing the development community is better able to pay its way with increased financial certainty, the City can use attractive SDC financing as a tool to lessen unnecessary carrying costs that cumulatively add to residents' housing cost burden.

The City has multiple opportunities to encourage housing production through strategic approaches to funding its water infrastructure. Knowing the careful consideration the City has given its concept-planned areas and Water Master Plan, Oregon City can stand proud of incentivizing future housing development as a solution to its residents' severe housing cost burden.

Sincerely,



Roseann Johnson
Assistant Director of Government Affairs

Cc: Rachel Lyles-Smith, Commissioner
Denyse McGriff, Commissioner
Frank O'Donnell, Commissioner