Home Builders Association
of Metropolitan Portland

May 31, 2019

Tim Knapp, Mayor
Wilsonville City Council
29799 SW Town Center Loop E
Wilsonville, OR 97070

Subject: Ordinance No. 816 – 1st Reading to Repeal and Replace Chapter 11 of the Wilsonville Code (WC) regarding System Development Charges (SDCs): Request for Modifications to Vesting Rights, Point of Fee Collection and Credit Transfer (Public Hearing Item A.).

Dear Mayor Knapp and Councilors:

The Home Builders Association of Metropolitan Portland (HBA) represents over 1,400 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.

The HBA recognizes the importance of system development charges (SDCs) as a means to pay for the necessary infrastructure that accompanies increased demand on public facilities. We appreciate the City of Wilsonville's ("the City") critical need to have suitable infrastructure in place to further the quality of life for existing residents and businesses, while ensuring access to future residential growth opportunities. In particular, we commend the proposed SDC bi-annual installments, as well as refund provisions. ***However, the current proposal detracts from developer certainty through its SDC methodology calculation 'lock-in' date, by prohibiting SDC payment deferral, and by limiting SDC credit transfers.*** Providing enhanced certainty during the land use development process will help ensure that recent and future new fees do not unreasonably contribute to the cost of new housing. The HBA asks the City Council to consider the following items:

I. Enhanced Vesting Rights During Land Use Will Reduce Housing Costs.

Land prices play a pivotal role in new home construction affordability. Oftentimes, depending on market expectations, they will act to prohibit the creation of entry-level housing. However, land prices have the capacity to account for the development fees, including SDCs. When fees increase, land value can "correct" and reflect the new cost of development on the market. However, this process is not instantaneous and can take several years to occur. Furthermore, new home pro forma budgets are established long before construction begins and construction gap funding comes with high interest rates. As such, any mid-development fee increase will have a direct impact on housing affordability. For this reason we request that the City ***'lock-in' SDC calculation methodologies for all SDCs, <u>in particular the reimbursement component</u>, at the time a land use application is deemed complete.***

Vesting at time of complete land use application provides the City and developer mutually beneficial assurances. By this time, developers have already invested tens if not hundreds of thousands of dollars in soft costs to demonstrate the feasibility of their application—to both the financiers and jurisdictional land use authorities—and to make a project build-ready. Lender requirements serve to ensure the developer is invested in successful completion of the project. Additionally, Oregon Statute for land use applications is a tool for both the City and a developer to plan for when land use review/approval can transition to tangible development. In the interim, the cost of an SDC's improvement component may change between land use and construction; however the reimbursement component does not, since it is for infrastructure work that has already taken place. 'Locking-in' the SDC methodology for reimbursement is an equitable decision that incentivizes development completion *and* contributes to housing affordability. 'Locking-in' SDC methodologies as a whole can serve as a critical tool to get housing to market and close the gap even further for homebuyers.

II. Allow for SDC Payment Deferral to Align with Usage.

The impacts to infrastructure capacity related to new housing (i.e. the usage of roads, water, etc.) occurs once a house is occupied. However, the City collects fees related to these impacts (e.g. SDCs) upon the issuance of a building permit, which is not when the true impact occurs. This early collection increases housing costs in two regards. First, due to the nature of financing, dollars used during the initial phase of construction are more expensive than those a builder can access later in the process. Second, any dollar spent incurs carrying costs, which increase over the duration of construction. Because the SDC relates to occupancy, rather than construction, ***the HBA requests that the City collect SDCs prior to COO, or at another pre-determined point in construction, as close to completion of a project as possible.***

Tracking SDC payments is a function of current City government. The current collection point is at building permit issuance, and the HBA asks that the City adjust the collection point as far forward in the permit inspection process as possible. This difference in the SDC collection timeline would lead to substantial cost savings for new homeowners. Importantly, the true cost of impact fees are far greater than the price paid at the permit counter, when considered in the context of a 30-year home loan at an interest rate of 4.75%. The average cost of impact fees for a single family home in the City totals tens of thousands of dollars. Reducing those by the carrying cost percentages alone allows for increased housing affordability, which can be done by the City shifting and reapplying the current mechanism through which SDCs are collected to a point later in the construction process.

III. Providing Greater Flexibility for SDC Transfer Credits Maximizes Development Potential.

It is in the City's interest to keep SDC credits for application to future development within their jurisdiction. Because of private development efficiencies in housing production, the City would benefit from allowing as much SDC credit as possible to be available to that industry. By limiting the transfer rights to 75% of SDC credit balance, the City would not only hamper future private development, but also limit options for the most economical public-private partnerships related to housing, transportation, parks and their associated water/sewer requirements. There are a variety of situations in which a developer may not be able to utilize the balance of its SDC credit within ten years, including but not limited to: business responses to market shifts, scale of development entity, and new entity partnerships. The City has not provided a justification for retaining 25% of SDC funds upon credit transfer, nor has it provided an explanation for what those credited funds will be used and for how they will be accounted. ***Allowing for 100% SDC credit transfers between parties, combined with the ten-year time threshold for utilization, offers the most potential to bring needed housing and other SDC-funded infrastructure to benefit the City.***

We believe that these requests represent a fair compromise between the City, development and future homeowners. We value our long-standing partnership with the City and believe that through these adjustments to the fee ordinance for SDCs we can ensure that current and future residents alike have access to a wide range of housing options to meet varying needs and income levels.

If you have any questions, please feel free to contact the HBA's Assistant Director of Government Affairs, Roseann Johnson, Roseannj@hbapdx.org / (503) 684-1880.

Respectfully,

Roseann Johnson
Assistant Director of Government Affairs
Home Builders Association of Metropolitan Portland