FCS GROUP
Solutions-Oriented Consulting

| Memorandum

To: Scott Archer, NCPRD **Date:** June 4, 2018

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RE Interim Report

In December, 2017, the North Clackamas Parks and Recreation District (NCPRD or District) re-engaged FCS GROUP to perform policy and technical analyses in support of the District's system development charge (SDC) update. This interim report documents the status of the policy analysis. The engagement is still in process.

Policy Process

To date, our primary role in the policy analysis has been to facilitate and provide content for the District's SDC Steering Committee. We met with this committee on January 17, March 14, and April 11.

During these meetings, we provided and reviewed two issue papers, which are appended to this report. The central policy question addressed by these papers was whether and how to make geographical distinctions in the new SDCs. Options included the following:

- Some version of the area-specific charges currently in place
- A uniform charge
- Some hybrid or combination of area-specific and uniform charges

In addition to the meetings with the SDC Steering Committee, we met with the Milwaukie City Council on April 17.

Policy Recommendations

After vigorous discussion of the options, the SDC Steering Committee reached unanimous consensus that the new SDCs should be charged uniformly throughout the district and that new SDC revenue should be available to fund projects in all parts of the district.

ISSUE PAPER 1

AREA-SPECIFIC SYSTEM DEVELOPMENT CHARGES

Issue

System development charges (SDCs) are one-time fees on new development that are paid at the time of development and used for capital projects. SDCs are intended to recover a fair share of the cost of existing and/or planned facilities that provide capacity to serve future growth. One consideration when implementing SDCs in a demographically diverse district is whether to impose area-specific SDCs. These SDCs vary by location within a district. This issue paper examines the concept of area-specific SDCs.

Alternatives

There are three approaches to making geographic distinctions with SDCs:

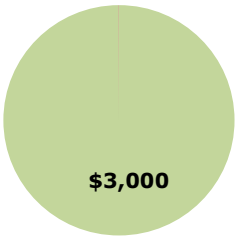
Uniform SDCs throughout the district (no geographic distinction)

Area-specific SDCs with overlays

Area-specific SDCs with zones

Analysis

Uniform SDCs

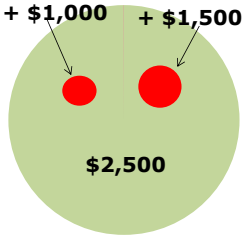


Uniform SDCs are charged throughout the entire district regardless of either the location of development being charged or the location of the projects to be funded with SDCs.

Advantages of uniform SDCs are administrative ease and flexibility of spending. Because SDC revenue is treated the same way throughout the district, there is no need for area-specific accounting. Likewise, there is no need to match project expenditures in a certain area with SDC revenue generated in that same area.

The disadvantage of uniform SDCs is the perceived or actual inequity of treating all areas in the same way. Constituents of an area that generates a high proportion of SDC revenue may want some assurance SDCs generated in their area are also spent on projects on their area. Under a typical uniform approach, SDC revenue could be spent anywhere in the district regardless of where the revenue was generated.

Area-Specific SDCs with Overlays



A first step toward area-specific SDCs would be to define one or more overlay areas. Overlay areas are specific portions of the district with distinct growth rates and/or project costs that make those areas more expensive to serve with parks infrastructure. Not every part of the district would be in an overlay area.

Under this approach, all development would be charged a districtwide SDC. In addition, those developments located in an overlay area would also be charged an SDC associated with that overlay area.

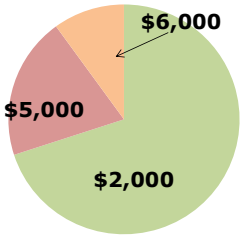
In calculating improvement fees under this approach, some capital projects are designated as providing benefit districtwide while others benefit specific

areas. This approach accounts for the project's scope of benefit. This means a project physically located in an overlay area can be designated as a districtwide project if it benefits the entire district and not just the specific area. Similarly, capital projects that primarily benefit a targeted area for development will be included in the improvement fee cost basis only for the overlay area.

The advantage of area-specific SDCs with overlays is the ability to isolate the differential cost to serve specific portions of the district. In addition, because all developments pay a districtwide SDC, this approach allows the District to retain some flexibility in spending the districtwide portion of the SDC revenue.

The main disadvantage of area-specific SDCs with overlays is that this approach is most appropriate for a district with fairly homogenous demographics with one or two high-cost or high-growth exceptions.

Area-Specific SDCs with Zones



The fullest expression of area-specific SDCs involves the division of the district into a set of zones that are mutually exclusive and collectively exhaustive. Each zone has its own calculated SDC, and zone revenues must be spent on the projects (or portions of projects) that are associated with that zone.

This approach works particularly well when projects benefit the growth in the zone in which they are located. However, this approach can also be used when projects benefit more than one zone. Each zone must have its own project list, but each project can be allocated to multiple zones (as long as no more than 100 percent of the eligible project cost is allocated). Below is an example of how this allocation might look:

Recommended Approach to Allocations	Zone 1	Zone 2	Zone 3	Total
Neighborhood park A	100%			100%
Neighborhood park B		100%		100%
Neighborhood park C			100%	100%
Neighborhood park D	100%			100%
Community park/center X	25%	75%		100%
Community park/center Y	20%	30%	50%	100%
Community park/center Z	70%	15%	15%	100%

An extreme alternative to this kind of allocation would be to exclude projects that benefit multiple zones. Below is an example of how this alternative would look:

Alternate Approach to Allocations	Zone 1	Zone 2	Zone 3	Total
Neighborhood park A	100%			100%
Neighborhood park B		100%		100%
Neighborhood park C			100%	100%
Neighborhood park D	100%			100%
Community park/center X				0%
Community park/center Y				0%
Community park/center Z				0%

We do not recommend this alternative, because allocating projects among multiple zones is a fully defensible way to include community-level projects in the SDC calculation. In fact, allocating projects across multiple zones can be more equitable and defensible than simply assigning the full cost of the project to the zone in which the project is constructed.

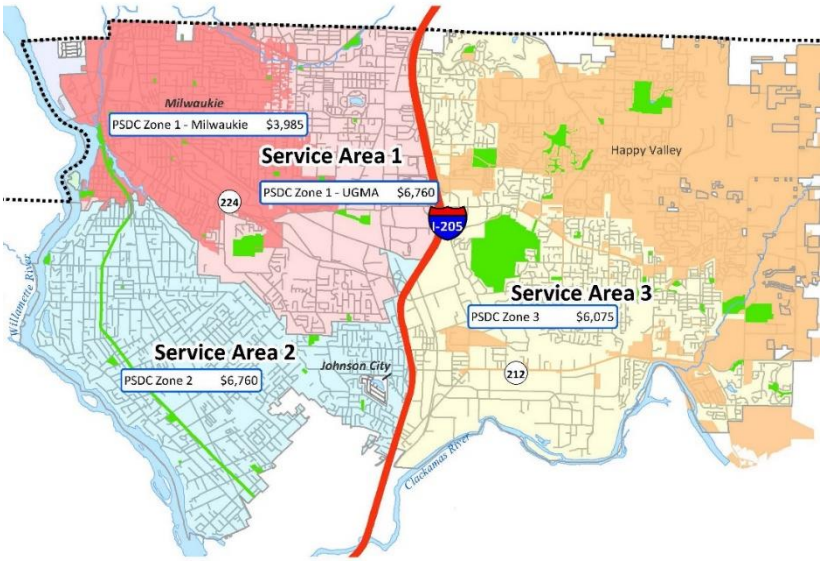
The advantage of area-specific SDCs with zones is equity. The precision with which an individual project can be allocated (and therefore charged) to each zone is limited only by the data upon which the allocation decision is based.

The disadvantage of area-specific SDCs with zones is the administrative complexity of accounting for the SDC revenues and expenditures. Not only must SDC revenue be retained in the zone in which it was earned, but each zone's expenditures on a project must not exceed that zone's allocation of the eligible cost. For example, in the case of community park X above (in the recommended approach), staff must ensure that SDC revenues from zone 1 contribute no more than 75 percent of the eligible project costs and that SDC revenues from zone 2 contribute no more than 25 percent of the eligible project costs.

A more detailed discussion of allocating projects to zones can be found in Issue Paper 2 which can be discussed at the next meeting if needed.

Current Three-Zone Configuration

The District currently charges area-specific SDCs with three zones. In the map below, each zone is labeled as a "service area." The first service area includes both the city and the urban growth management agreement (UGMA) area of Milwaukie. The second service area includes the unincorporated area of the District south of the first service area and west of Interstate 205. The third service area includes all district territory east of Interstate 205.



How SDCs have been allocated in the District has changed over time. In 1994, the District had uniform SDCs (except for the East Sunnyside Village area). In 2004, each SDC represented the sum of two layers: a districtwide charge and a zone-specific charge similar to the overlay approach described above. Today, SDCs collected in a zone can only be used for projects in that zone. This is an example of area-specific SDCs with zones.

Uniform/Zone Combination

The District need not use the same approach for all facility types. For example, area-specific SDCs with zones may be appropriate for neighborhood parks and community parks/centers. Meanwhile uniform SDCs might be more appropriate for regional parks. Such a combination would be similar to the District's practice in 2004.

A Policy Choice

The decision of whether or how to implement area-specific SDCs is ultimately a policy choice rather than a technical choice. While area-specific SDCs can enhance perceived or actual equity, they do not make an SDC methodology more technically sound or legally defensible. They do add complexity to the communication and administration of an SDC program. That additional complexity must be weighed against any perceived or actual enhancement of equity.

If the District chooses to implement area-specific SDCs, a reasonable option would be the current three-zone configuration which matches the three District planning areas.

Recommendation

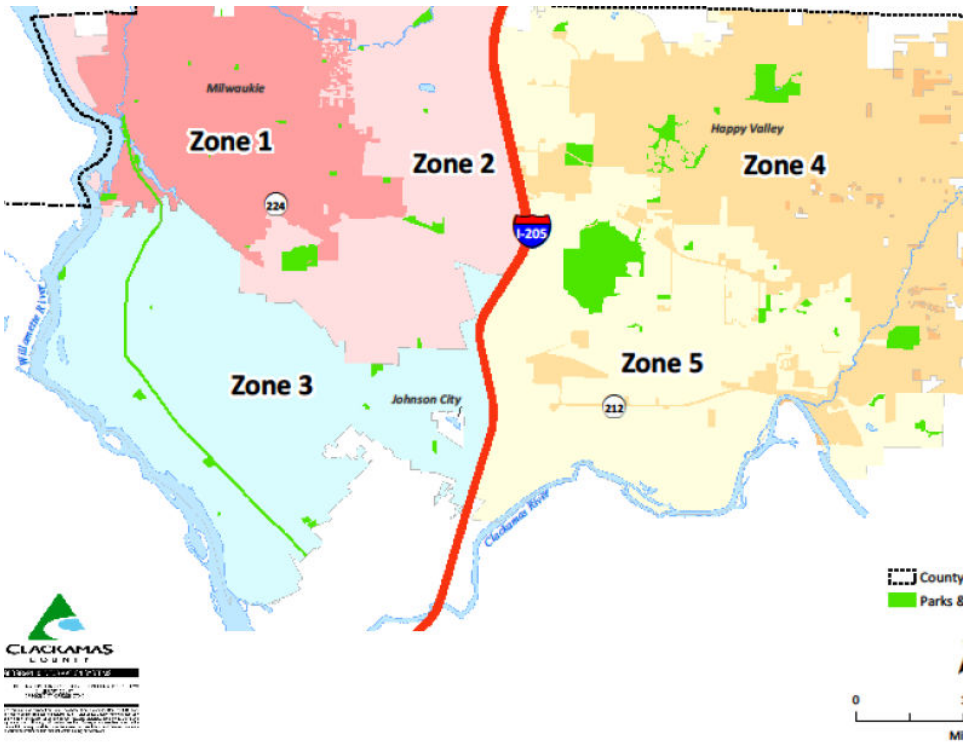
Because area-specific SDCs are a policy choice, our recommendation relates more to process than to outcome. We recommend that the District carefully identify the benefits of continuing with area-specific SDCs. We further recommend that the District weigh those identified benefits against the simplicity and flexibility that can be gained by implementing uniform SDCs.

ISSUE PAPER 2
PROJECT ZONE ALLOCATION OPTIONS

Issue

The District currently charges area-specific SDCs with three zones. If the District continues with area-specific SDCs in zones during the update of its SDC methodology, it will need a way to assign or allocate projects in the improvement fee cost basis to individual zones. Issue Paper 1 briefly touched on possible approaches. In this paper, we provide a deeper dive into methods for allocating project costs among zones for the purpose of developing zone-specific charges.

For the purpose of making apples-to-apples comparisons, all approaches described below assume a four-zone configuration. This configuration is based on the five zones shown in the map below, except that Zone 4 in our analysis represents the territory remaining in the District to the east of I-205 (Zone 5 in the map).



Alternatives

There are a number of approaches that could be taken to allocate park project costs among zones for the development of zone-specific SDCs:

1. Geographic location
2. Proportionally by current users (population and employment)
3. Proportionally by growth in users (population and employment)
4. Projected park usage by zone
5. Hybrid(s)

For the purpose of this issue paper, all non-neighborhood parks are assumed to serve users and provide benefits beyond zone boundaries, and shall be

referred to as "community parks." It is assumed that neighborhood park costs will typically be borne by the zone in which they are located.

Analysis

1. Geographic Location

An allocation of community park project costs by geographic location would take its most rigid form in an approach that allocates the full cost of each project to the zone in which it is to be located.

In the table below, this approach is illustrated by community parks X, Y, and Z allocated 100% each to zones 2, 3, and 4, respectively.

Geographic Area Allocation	Zone 1	Zone 2	Zone 3	Zone 4	Total
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D				100%	100%
Community park X (Z 2)		100%			100%
Community park Y (Z 3)			100%		100%
Community park Z (Z 4)				100%	100%

Advantages of this approach include simplicity and understandability.

The disadvantage of this approach is the lack of relationship between location and usage, particularly for community parks, generally expected to draw users from outside their respective zones. As noted previously, an approach based on geographic location could reasonably be applied to neighborhood parks.

2. Proportional by Current Users

A proportional by current users approach would allocate community parks costs to zones based on the current number of residents and employees (expressed as population equivalents) in each zone. The derivation of current population equivalents by zone is summarized below. It is assumed that an employee in the District is available to enjoy District parks about 15% of the time that a full-time resident is available to enjoy the parks.

Calculation of Current Users	Zone 1	Zone 2	Zone 3	Zone 4	Total
Estimated Population	21,348	21,128	32,941	27,517	102,934
Estimated Employment	25,841	17,641	7,919	27,197	78,598
Adjusted Employment	3,876	2,646	1,188	4,080	11,790
Total Population Equivalents	25,224	23,774	34,129	31,597	114,724

Key Assumption

One employee = X Residents: 0.15

The table below illustrates the application of this approach to community parks X, Y, and Z.

Current Users Allocation Population Equivalents	Zone 1 25,224	Zone 2 23,774	Zone 3 34,129	Zone 4 31,597	Total 114,724
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D				100%	100%
Community park X (Z 2)	22%	21%	30%	28%	100%
Community park Y (Z 3)	22%	21%	30%	28%	100%
Community park Z (Z 4)	22%	21%	30%	28%	100%

There are several disadvantages to this approach. Such an approach would ignore the impact of proximity to the park on usage, and corresponding benefit from the project. Such an approach would also ignore expected growth in each zone by allocating based on current population equivalents, a significant issue because the costs to be allocated are the costs of increasing capacity for future users – growth, not current population.

3. Proportional by Growth

A proportional by growth approach would allocate community parks costs to zones based on the projected growth in residents and employees (expressed as population equivalents) in each zone. The derivation of growth in population equivalents by zone is summarized below. Growth estimates (2016 – 2035) have been developed using the North Clackamas PRD comprehensive plan and the Metroscope Gamma Traffic Analysis Zone (TAZ) Forecast.

Calculation of Growth in Users	Zone 1	Zone 2	Zone 3	Zone 4	Total
Estimated Population	1,184	2,823	1,210	5,510	10,727
Estimated Employment	6,478	6,491	2,752	9,092	24,813
Adjusted Employment	972	974	413	1,364	3,722
Total Population Equivalents	2,156	3,797	1,623	6,874	14,449

Key Assumption

One employee = X Residents: 0.15

The table below illustrates the application of this approach to community parks X, Y, and Z.

Growth in Users Allocation Population Equivalent Growth	Zone 1 2,156	Zone 2 3,797	Zone 3 1,623	Zone 4 6,874	Total 14,449
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D					0%
Community park X (Z 2)	15%	26%	11%	48%	100%
Community park Y (Z 3)	15%	26%	11%	48%	100%
Community park Z (Z 4)	15%	26%	11%	48%	100%

Like the approach based on current population equivalents, this approach would ignore the impact of proximity on usage and benefit. It would also lead to few if any distinctions in the SDCs by zone, for the simple reason that we would be allocating project costs by the denominators in the zone-specific SDC calculations. In fact, this approach would result in community park costs being shared in a way that is essentially the same as the current approach for projects of district-wide benefit.

4. Project Park Usage

An allocation approach based on projected park usage presumes that there is or will be data on usage of existing and/or future parks by zone. If available, such data could be applied as shown in the example below.

Park Usage Allocation	Zone 1	Zone 2	Zone 3	Zone 4	Total
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D					0%
Community park X (Z 2)	25%	50%	15%	10%	100%
Community park Y (Z 3)	20%	25%	40%	15%	100%
Community park Z (Z 4)	15%	15%	15%	55%	100%

The advantages of such an approach include precision and equity. The disadvantage may be the lack of available data on park usage by location.

5. Hybrid(s)

There are many possible hybrid approaches, one of which would weight the population or population growth allocations by zone proximity to a community park. In the example below, community parks are allocated a 3X share to the zone in which they are located, a 2X share to any other zones on the same side of I-205 as the park, and a 1X share to the zones on the other side of I-205 from the park.

The table below applies this approach to an allocation by current population equivalents.

Hybrid - Zone Proximity / Current	Zone 1	Zone 2	Zone 3	Zone 4	Total
Population Equivalents	25,224	23,774	34,129	31,597	114,724
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D				100%	100%
Community park X (Z 2)	23%	32%	31%	14%	100%
Community park Y (Z 3)	22%	20%	44%	14%	100%
Community park Z (Z 4)	17%	16%	23%	43%	100%

Sample Rules:

3X weighting for zone in which park is located

2X weighting for other zone(s) on same side of I-205

1X weighting for other zone(s) on other side of I-205

The table below applies this approach to an allocation by projected growth in population equivalents.

Hybrid - Zone Proximity / Growth	Zone 1	Zone 2	Zone 3	Zone 4	Total
Population Equivalent Growth	2,156	3,797	1,623	6,874	14,449
Neighborhood park A	100%				100%
Neighborhood park B		100%			100%
Neighborhood park C			100%		100%
Neighborhood park D				100%	100%
Community park X (Z 2)	17%	44%	13%	27%	100%
Community park Y (Z 3)	18%	32%	21%	29%	100%
Community park Z (Z 4)	10%	18%	8%	64%	100%

Sample Rules:

3X weighting for zone in which park is located

2X weighting for other zone(s) on same side of I-205

1X weighting for other zone(s) on other side of I-205

Such an approach relies on a reasonable simplifying assumption, and applies it consistently to all projects on the project list.

Recommendation

If the District makes the policy choice to implement area-specific SDCs by zone, we would propose to base initial allocations of community parks on Projected Park Usage by zone, if available. If usage data is not available, we would propose to use the Hybrid – Zone Proximity / Growth approach as a reasonable surrogate.