

MODIFY THE SDC FINANCING PROGRAM

SDCs are an important source of revenue for the City to pay for the cost of public infrastructure. However, they also represent potentially significant upfront costs of development. Large costs at the beginning of a real estate development project, before revenue generation, can be a major barrier—particularly for small- and medium-sized builders. State law and City code currently allow for the financing of SDCs. Through modifications to the existing SDC program, the City could potentially lower the cost of development and incentivize desired development within the Core Area.

Reduce Interest Rates for SDC Loans

The City's current SDC financing program allows for a 10-year payment plan at a 7% interest rate or a 5-year payment plan at a 6% interest rate. These loan rates are higher than commercial loan rates, which are at a historically low and likely to escalate. Public borrowing rates are much lower than 6-7%, enabling the City to lend money at substantially lower rates than commercial lenders—even in this low interest rate environment. It is recommended that the City explore reducing rates to better reflect local

borrowing rates for development projects that have a defined public benefit within this area. One option would be to consider establishing a rate that is linked to the City's borrowing rates, such as using the prime interest rate plus an additional percentage point or points to capture associated financial risks and administrative processing that the City would be taking on. Research of other existing programs throughout the state of Oregon can provide guidance on best practices to modify the City's program to mitigate risk and account for administrative impacts to the City, such as the consideration of program maximums and application fees. Examples of SDC loan programs from other Oregon communities are found in the following tables.

SDC Deferrals

The City currently has a program that allows for multifamily projects to apply for a deferral of SDC payments from the time of permit issuance to the issuance of a Certificate of Occupancy (CO). This deferral can delay this payment for 12-18 months or more on a typical project which can be very helpful for the financial feasibility of the project. During this 12-18-month period new development projects are usually

utilizing short term construction loans that have a higher interest rate than permanent financing. If the funds used to pay the SDC fees are financed, this deferral in payment can reduce interest charges—and this is especially true with a higher interest construction loan. One drawback of the current program is that it requires that developers pay based on the fees that are in place at the time of occupancy, rather than at the time of application. In recent years, City SDC rates have risen roughly 3% each year which places uncertainty and risk on developers. In some cases, this has caused developers to choose to pay SDCs upfront at a known rate versus delaying payment to a potentially higher SDC rate at the time of occupancy.

The City could explore modifying or expanding the SDC deferral program to a broader range of project types beyond the current allowance for just multifamily projects with three or more units. In addition, the City could explore allowing a developer to "lock in" the current SDC rates at the time of permit issuance, but delay payment until a CO is issued. Examples of SDC deferral programs from other cities in Oregon shown in Table 4 can be used when considering modifications to the City's existing program.

Table 13. SDC Loan Programs in Oregon Cities

Program Details	Bend, OR	Hillsboro, OR	Grants Pass, OR	Gresham, OR
Rates	5-year term = 6%, 10-year term = 7%	10-year average United States Treasury (UST) + 2%	Bank rate + 2%	10-year average UST + 2%
Conditions	<ul style="list-style-type: none"> 0% down Single family, multifamily, commercial and industrial are eligible Require 1st position lien 	<ul style="list-style-type: none"> Requires a 15% down payment Eligible for single family, multifamily, commercial and industrial Require 1st position lien 	<ul style="list-style-type: none"> 10% minimum down payment-due at signing \$370 application fee \$100,000 financing maximum; larger amounts at discretion of Finance Director Total SDC financing not to exceed \$1 Million Require 1st position lien Commercial and industrial: required deferral agreement with City to defer to occupancy date 	<ul style="list-style-type: none"> \$434 process fee Repayment up to 10 years (developer's choice) \$100K max per customer \$1 million total program limit for the City

Table 14. SDC Deferral Programs in Oregon Cities

Program Details	Bend, OR	Medford, OR	Grants Pass, OR	Gresham, OR
Residential	<p>Multifamily deferral program (3+ units):</p> <ul style="list-style-type: none"> Administrative fee rate set at time of occupancy (2019 rate is \$524). SDCs paid prior to issuance of occupancy permit or actual occupancy. 	<p>Single-family deferral until sale of property or time of actual occupancy, whichever is first.</p>	<p>Single Family:</p> <ul style="list-style-type: none"> First priority lien filed by City. One-time administrative fee for application processing. Deferral until certificate of occupancy issued. 	<p>Single Family:</p> <ul style="list-style-type: none"> First priority lien filed by city with county. \$434 admin fee for application processing. SDCs deferred until certificate of occupancy is issued.
Commercial	<p>No existing commercial program.</p>	<ul style="list-style-type: none"> SDCs under \$250K: First priority liens filed against property after 60 days of approval. SDCs between \$250K-500K: 30% paid at time of building issuance; remainder deferred until sale/occupancy. 	<p>No commercial program.</p>	<p>No commercial program.</p>
Additional Considerations	<p>Only two projects have used the program since adoption in September 2016.</p>	<p>Construction Excise Tax: 1/3 of 1% of improvement value for all development. Program created at same time of SDC Deferral program to mitigate financial impacts; required Council approval.</p>	<p>Economic Development incentive: Subsidy for SDCs on commercial developments expanding or relocating to Grants Pass. Program not totally defined yet.</p>	<p>Not applicable.</p>