

CHALLENGES TO DEVELOPMENT IN OREGON: It's not just about the UGB



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About OAPA

The Oregon Chapter of the American Planning Association (OAPA) is an independent, statewide, not-for-profit educational organization with approximately 850 members. OAPA provides leadership in the development of thriving communities by (1) advocating excellence in community planning, (2) promoting education about planning issues and citizen empowerment, and (3) providing the tools and resources necessary to meet the challenges of growth and change. Thriving communities are inclusive and diverse communities with strong economies, a healthy environment, and healthy people. They provide multiple options to get around as well as recreational, employment, and housing choices for all ages and abilities.

Find out more about OAPA at www.oregonapa.org.

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Cover Photo: Photograph by Christopher LaMarca for Modern Farmer; modernfarmer.com.

INTRODUCTION

It often feels like everyone is moving to Oregon. According to United Van Lines, more people moved to Oregon than any other state in 2015—as well as 2014 and 2013. According to Portland State University’s Population Research Center, over 60,000 people moved to Oregon in 2015, and another 500,000 people are expected to move to Oregon over the next 10 years. People are moving here for the jobs, Oregon’s unemployment rate of 5% (Dec 2016), as well as a quality of life that includes access to the outdoors and thriving downtowns.

One of the biggest challenges in accommodating the new jobs and residents is the complexity of building new homes and businesses – from finding development land in the right location, to building roads and installing sewer and water pipes, planning and paying for new parks and schools to accommodate growth, and complying with regulations.

Some people offer a simple solution: expand the urban growth boundary (UGB). They argue that if only it were easy to expand the UGB, then land would be less expensive and we could develop more houses and businesses faster and cheaper. While it’s tempting to grasp at this suggestion as the easiest solution, it ignores important issues that make it hard to develop on land around the edges of cities. Even if cities could expand their UGBs tomorrow, they would still have to pay for infrastructure (roads, sewer, and water lines) and other public services (e.g. parks and schools), find affordable land in locations that make sense to build new housing (which is not always at the edge of a city), and overcome an assortment of other challenges to residential development. These three challenges sometimes make UGB expansion less efficient and more expensive than options such as rezoning land and using it more efficiently inside the UGB.

Accommodating growth is about much more than just land availability. It’s about a community making conscious decisions about how and where it will grow, and who will pay for that

growth. This report attempts to highlight some of the challenges to development. The Oregon Chapter of the American Planning Association (OAPA) worked with ECONorthwest (ECO), an economic consulting firm that has completed more analyses of buildable lands

(both residential and employment) than any other organization in the state. ECO reviewed all of the Housing Needs Analyses (HNA) and Economic Opportunities Analyses (EOA) it had completed for Oregon cities (outside of the Metro UGB) over the past 10 years (2006-2016) (see Table 1). Analysis of these reports highlight the challenges to development.



Photo: Fredrick D. Joe/The Oregonian

Residents and farmers share the road and the UGB in North Plains. UGBs are critical tools to protect farm and forest land from encroachment from residential and other uses.

Table 1. HNAs and EOAs reviewed for this report, Oregon, 2006-2016

Jurisdiction	Type of Study	Forecast Period	Jurisdiction	Type of Study	Forecast Period
Bend	HNA & EOA	2008 - 2028	Madras	EOA	2015 - 2035
Brookings	EOA	2009 - 2029	Newport	HNA & EOA	2012 - 2032
Corvallis	HNA & EOA	2000 - 2020	Oakridge	EOA	2017 - 2037
Cottage Grove	HNA & EOA	2009 - 2029	Ontario	HNA & EOA	2006 - 2026
Eugene	HNA & EOA	2009 - 2029	Pendleton	EOA	2006 - 2026
Grants Pass	HNA & EOA	2013 - 2033	Rockaway	HNA & EOA	2017 - 2037
Harrisburg	HNA & EOA	2013 - 2033	Salem	HNA & EOA	2015 - 2035
Hood River	HNA	2015 - 2035	Sandy	HNA & EOA	2009 - 2029
Junction City	HNA & EOA	2009 - 2029	Talent	EOA	2016 - 2036
Lake Oswego	EOA	2010 - 2030	The Dalles	EOA	2006 - 2026
Lebanon	EOA	2007 - 2057	Tillamook	EOA	2013 - 2033

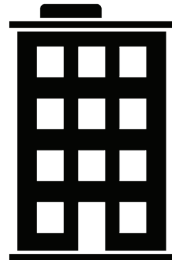
Source: ECONorthwest, 2016

WHAT IS THE PURPOSE OF AN URBAN GROWTH BOUNDARY (UGB)?

State law requires that every city in Oregon must adopt an urban growth boundary (UGB), the boundary around the city that indicates where urban development will be built (inside), and where rural uses should be maintained (outside). Planning for growth means not just drawing the boundary, but figuring out where houses, shops, and businesses will locate, as well as how to pay for roads, sewer, water, and much more.

Many cities make sure to put apartments and condominiums close to work, shops, and schools where it is easier to serve by public transit.

Building and maintaining roads, bike facilities, trails, and sidewalks is expensive. Cities must coordinate the planning, development, and maintenance of these facilities with counties and ODOT.



Kids love parks! So do their parents. UGB planning helps to make sure we have enough parks for current and new residents.



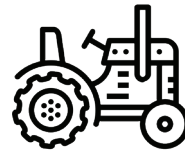
By restricting the number of homes and businesses located in rural areas, Oregon protects habitat for wildlife, including mule deer and elk.



Sewer and water systems are expensive, which is why it's important for city leaders to make a plan for expansion and maintenance to meet the needs of a city.



UGB planning helps cities determine where shops will locate.



According to the Oregon Farm Bureau, agriculture is the second largest industry in Oregon. UGBs help protect farmers from sprawling development that often creates conflicts between farm and non-farm uses.



According to the Oregon Forest and Industry Council, Oregon is the number one lumber producer in the US and has lost just 2% of acreage since 1976. UGBs protect forests for timber production and reduce the risk of wildfire to homes.



Studies by Active Living Research show that when communities plan and build safe and convenient facilities for pedestrians, bicyclists, and transit riders, people are healthier. Win win!



UGB planning helps cities determine where businesses will locate or expand.



Every city is required to have enough land over the next 20 years for housing. However, sometimes growth is slow, and sometimes it's fast, making it difficult to keep up the housing supply.

Public transit is more efficient when land use and transportation are coordinated.



All Oregonians value and treasure the natural beauty of our state. UGBs help protect the air, water, and natural places we all care about.

HOW DOES THE UGB PROCESS WORK?

While many cities have expanded their UGBs with a minimum of fuss, several cities have worked for over 15 years and been subject to one or more lawsuits as they attempted to expand their UGBs. In 2013, the Oregon legislature agreed it was time to streamline the UGB process. After three years, the Land Conservation and Development Commission (LCDC)—the Commission that adopts regulations related to Oregon’s statewide land use program and UGBs—adopted a new, streamlined UGB process that should allow cities to review their UGBs more often and make adjustments more easily.

Why does it take so long to bring more land into a UGB? Historically, cities would wait 10 to 20 years between efforts, and then try to bring in as much land as possible. Cities often take a number of steps to ensure they are planning well for a community. Completing these steps often takes between two to four years, without significant appeals or objections. Steps for expanding a UGB often include the following:

Step 1. Visioning, goal setting, community outreach. Most, but not all, cities ask their residents what are their goals for the future and how will the community change.

Step 2. Inventory of buildable lands for housing and employment. This inventory includes all land planned and/or zoned for housing and employment, including land already developed, vacant (undeveloped) land, and land that may be further developed or redeveloped based on its characteristics.

Step 3. Determine need for buildable land. The city conducts a Housing Needs Analysis (HNA) and an Economic Opportunities Analysis (EOA) to establish future needs for housing and jobs. The HNA must include consideration of demographics and future trends that will influence both the demand for and supply of different types of housing.

Step 4. Determine where future development will go. Once a city figures out what the demand for land will likely be in the future, it evaluates its existing supply to see how much of the houses and businesses can be accommodated inside the city, and if the city still needs more land, it looks outside the city for appropriate land.

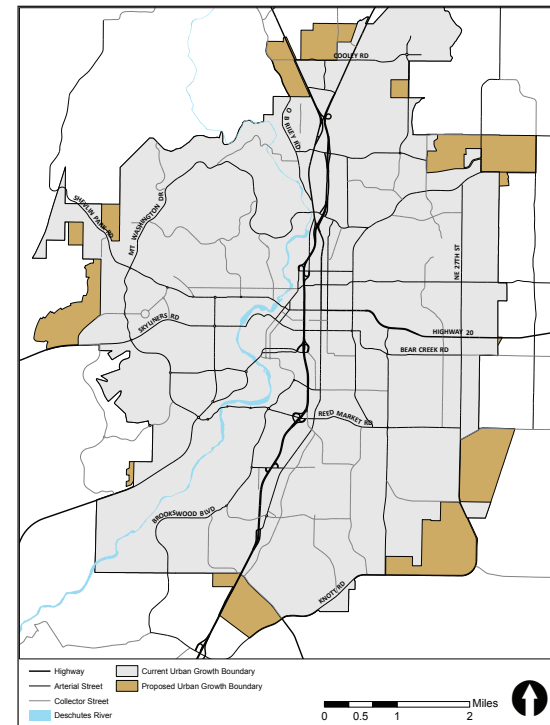


Figure 1. City of Bend UGB Expansion Areas

The City of Bend expanded its UGB by 2,380 acres in the fall of 2016. In 2009, the City originally proposed an expansion of over 8,900 acres, which was remanded by the Land Conservation and Development Commission in 2010. In early 2011, the City began work on the Remand and used it as a guide to compete the UGB proposal submitted to the State in 2016.

Source: City of Bend

Step 5. Develop final proposal for state approval. Once the city has an idea of where it wants to go, it drafts a proposal, with all of the rules and regulations, including its plan to pay for infrastructure (the roads, sewer, water, etc. needed to serve the homes and businesses), and submits the proposal to LCDC for approval. LCDC evaluates the proposal to make sure it meets the applicable statewide goals.

In short, expanding an UGB is a complex process involving hundreds (if not thousands) of people and properties. Throughout the history of Oregon’s land use system, property owners, developers, and nonprofit advocacy groups have all brought lawsuits against municipal and regional governments to challenge UGB decisions.

The recent development of the UGB Streamlining Process, adopted in December 2015, gives cities an alternative route to evaluating the need for and implementing a UGB expansion process. The Streamlining rules are designed to be easier and less costly to implement. The Streamlining process is new enough that cities are still in the process of using it for the first time.



Top left: City of Salem Wastewater Treatment Facility. Photo courtesy of Stephanie Einser said Curtis Byers.

Bottom left: Tillikum Crossing, Portland. Photo courtesy of Trimet.

Top right: Washington Park Reservoir, Portland. Photo courtesy of Portland Parks and Recreation.

Bottom right: Stormwater management, Twin Creeks Development, City of Central Point. Photo courtesy of City of Central Point.

CHALLENGE ONE: BUILDING INFRASTRUCTURE IS VERY, VERY EXPENSIVE

According to the League of Oregon Cities (LOC), there is a \$2 billion need for infrastructure in cities across the state (2014). Many local governments find that paying for infrastructure for new development presents a significant challenge. Governments have to build infrastructure to support new residential, commercial, and industrial development. Infrastructure includes roads (connecting the new development to the existing transportation system and providing roads for internal circulation within the development), water and sanitary services (extension of service to the development and service to each new unit), stormwater service (establishing stormwater service within the development and connecting it to the rest of the system), as well as parks and schools to serve the recreational and educational needs of the community. Infrastructure costs may be very high, especially for development at the urban fringe, where roads and trunk services may need to be extended to the new development.

Cities must also think to the future. Every inch of public infrastructure built now means a long-term maintenance commitment; people living in the city in fifty years will need to pay to clean, repair, and replace infrastructure built today. Many cities are struggling today to fund repair and replacement of infrastructure that was built 30 to 100 years ago. The LOC 2014 report found that half of the cities surveyed need to replace leaking water lines and \$1 billion is needed for transportation projects.

Many Oregon cities lack the financial capacity to build new and repair existing infrastructure. Cost of new infrastructure is expensive. For example, according to the City of Hillsboro's web page, the 1,400 acre South Hillsboro community requires "\$450 million in infrastructure investment, including \$300 million in new roads." Jurisdictions are faced with several options in financing new infrastructure¹: (1) require developers to pay for the cost of the new infrastructure required by development through system development charges (SDCs); (2) create

1. Other states allow another method, concurrency, which requires the necessary infrastructure to be in place prior to development. Thus, a developer must build roads, pipes, parks and schools prior to adding residential development.

a local improvement district whereby the first developer pays for the improvements (often used with sewer or storm water systems), and subsequent developers pay as they develop their properties; (3) form reimbursement districts; (4) subsidize development using general fund money; or (5) decrease level of service. Subsidizing development often leads to decreased level of service. Decreasing levels of service can result in increased traffic congestion, allowing developments to build without sidewalks, lowering park and trail service levels. Often, these decreased level of services impact not only future residents/workers in new development, but the entire community.

To avoid decreased levels of service, many cities pass some of the cost of new infrastructure on to new residents and employers through (SDCs). As described in ORS 223.297, the policy behind SDCs is "to provide equitable funding for orderly growth and development in Oregon's communities and to establish that the charges may be used only for capital improvements." SDCs are intended to recover a fair share of the cost of existing and planned facilities that provide capacity to serve future growth. In South Hillsboro, the SDC cost to pay for the water, sewer, roads, and parks is \$52,000 per home, on average. That cost is passed on to home buyers and those that purchase commercial and industrial buildings.

South Hillsboro is one of the most expensive areas of the state to develop in terms of infrastructure, so that is an extreme example of an issue that is not unique to Hillsboro. SDC charges in Bend are approximately \$21,000 per housing unit and about \$30,000 (including school SDCs) in Wilsonville.



Workers construct the Max Orange Line light rail in Portland, OR. Light rail is a critical component to the Portland region's transportation mobility.

Photo: Fred Joe Photography

CHALLENGE TWO: THE BIGGEST HOUSING NEED IS OFTEN NOT AT THE EDGE

A second reason that expanding a UGB is sometimes not the best solution to a housing shortage is that some cities need more land for multi-family homes than for single-family homes.

It's important to remember that people live in different types of housing throughout their lifetime, and cities must anticipate how much housing is needed. For example, a young adult might live in a studio apartment or in a large house with lots of roommates. When that person starts a family, she may want to live in a single-family house with a yard for the kids. When the kids move out of the house, she may want to move to a condo near the center of town (close to restaurants, movie theaters, and her job).

All cities in Oregon are required to plan for “needed housing”



High-density housing in Portland.

LOW, MEDIUM, AND HIGH DENSITY: What does it mean?

Planners often categorize housing (or dwelling units) in areas based on how many houses there are per gross* acre. The density is generally categorized in three ranges:

- **Low-density** designations allow single-family detached and manufactured housing on lots, at densities between 4 dwelling units per gross acre to 6 dwelling units per gross acre.
- **Medium-density** designations generally allow single-family detached and manufactured housing (on lots and in manufactured home parks), as well as some lower density multi-family housing (e.g., duplex, tri- and quad-plexes, and small multi-family buildings) and townhouses. The densities in medium density designations generally range from about 6 dwelling units per gross acre to 12 dwelling units per gross acre.
- **High-density** designations generally allow multi-family housing and may allow single-family detached, manufactured housing, some lower density multi-family housing, and townhouses. The densities in high-density designations generally range from about 10 dwelling units per gross acre to 25 dwelling units per gross acre.

Note: A “gross” acre is an acre of land available for development before the streets, sidewalks, and other public easements have been subtracted. Once these uses are subtracted, land is referred to as “net” acres.

(as defined by ORS 197.303 and 197.307) in their Housing Needs Analyses and Buildable Lands Inventories to ensure the UGB analysis complies with the statewide Goal 10 Housing rule. At a minimum, this means they have to accommodate single-family detached, single-family attached, and multi-family attached housing. This also includes manufactured housing on individual lots and in parks and subdivisions.

Among the cities reviewed for this report, the most common residential land deficit was in high-density residential zones. Cities like Salem, Grants Pass, Junction City, and Eugene all had deficits of about 50 acres or more of high-density residential land. In addition, a few cities in the study had deficits of land for medium- and low-density residential development.

City planners understand that higher-density housing is more effective at meeting resident's needs when it is located closer to the center of the city or in neighborhoods or commercial corridors. Cities typically locate high- and medium-density residential land near the core of



The Walnut Street Townhouses in the City of Eugene are an example of attached housing that blends in with existing single-family neighborhoods.

the city or in corridors, to provide better access for more people to transit, services, jobs, and schools. Cities in Oregon typically evaluate opportunities to accommodate medium- and high-density housing within the existing UGB, through policies to increase existing allowed densities, allow mixed-use development in commercial areas, or allow a wider range of housing types (e.g., duplexes or townhouses) in areas that have historically been low-density residential areas. If these policy changes do not increase capacity enough to meet medium- and high-density deficits, cities often identify opportunities to re-zone land closer to the central city for medium- and high-density development.

Cities over 25,000 are required to correct residential land deficits. Several cities with such residential land deficits reviewed for this report either recently evaluated their policies to increase land use efficiency within their existing UGB or expanded their UGB to address residential land deficits. Addressing high-density land deficits requires cities to consider a range of land-use efficiency measures before expanding their UGB. Just a few examples of residential development policy

changes to address the housing deficits are:

- **Harrisburg** developed a new high-density residential zone and plan designation that accommodated higher density housing and does not allow building of new single-family houses. While Harrisburg did expand its UGB, the city also upzoned areas throughout the city with some closer to the city core. While most of the new areas brought into the UGB were for single-family zoning, the upzoning inside the existing UGB was a key strategy to reduce the overall housing shortage.
- **Salem** has a shortage of land for multi-family housing and a surplus of land for single-family housing. The City is considering a range of policies to address this deficit, including allowing a wider range of lower-density multi-family housing in some zones, developing flexible design standards to encourage development of multi-family housing, allowing accessory dwelling units, identifying financial and other tools to encourage redevelopment and mixed use development, and other policies to encourage multi-family development.
- **Hood River** does not have a deficit of land in any category but the city has a very limited supply of residential land, especially high-density land. The City plans to consider policies to identify land to up-zone to allow higher intensity development, allow accessory dwelling units, and reduce minimum lot sizes in some zones.

CHALLENGE THREE: A LOT OF THINGS CAN GO WRONG AND MAKE RESIDENTIAL DEVELOPMENT UNFEASIBLE

Land supply is certainly a factor in the availability of developable land but simply expanding a UGB does not solve issues of land availability. It poses different challenges. Adding land to the UGB does not guarantee or immediately lead to development. Whether or not land is developed (or redeveloped) is dependent on a lot of variables, many of which are constantly changing.

Development is a business, and development feasibility is based upon the demand for a product (to ensure costs are covered) and financial returns (to ensure developers are compensated for their risk and effort). In short, developers expect to have a positive return on their investment, often within a few years of completing the residential development.

In many cases, development of single-family detached housing is the most financially feasible development option. It is harder to develop multi-family housing, either because of high construction costs, low achievable rents, or both.

When conducting HNAs across the state, ECO has observed the following barriers to residential development feasibility:

Access to capital. Residential development generally requires access to capital, either from private sources (such as investors or banks) or from public sources (such as government or nonprofit organizations). The lack of access to capital or high costs of capital (in the form of high-interest loans) can prevent or make residential development more difficult.

Land prices. Land prices account for a substantial amount of development costs. High land prices, especially in areas where real estate speculation has

occurred (such as in conjunction with an anticipated UGB expansion or close to transit lines or walkable commercial areas) may render more affordable residential development less feasible.

Government subsidy for affordable housing. The need for affordable housing far outweighs the funding available from the federal and local government. With limited federal or local government support to offset the costs of construction, it becomes more difficult, if not impossible, to develop government-subsidized affordable housing.

Land owner preferences. Landowner preferences are an important part of determining if development can happen. Cities cannot force property owners to sell or redevelop, even when additional housing or employment is needed. Landowners may choose not to develop their property for various reasons, such as: preference to continue to use the property for its current uses, desire to wait for land prices to increase, disagreement over development among multiple owners of the property, inability to negotiate the development process, and many other reasons. Many leaders of small cities have been frustrated by individual land owners that own large percentages of developable land inside a city, but refuse to sell or develop it.

Public support. Residential development requires public support at multiple phases in the development process. Historically, some cities required a public vote before annexation (the passage of Senate Bill 1573 in the 2016 Oregon Legislature no longer allows for voter approved annexations, though that law is being challenged). Development may require local government support or action, such as approval for a financial subsidy or vacation of a public right-of-way. Some development requires discretionary public hearings or review. Development in an existing or nearby neighborhood may involve discussions with existing residents. Each of these instances offers an example of opportunities for public opposition to new development.

Entitlement process. In working with cities across the western US, ECO has consistently heard from developers that the entitlement process creates

Affordability requires the change that comes with creating new units. If we are honestly concerned about affordability, we'll do what we can to see that all neighborhoods are adding new units as the city grows. The greatest impediment to affordability in Portland today is outmoded zoning that segregates neighborhoods by building type. If the only way to preserve "character" is to restrict the kinds of housing allowed in neighborhoods, then you can kiss affordability goodbye.

*-Ethan Seltzer
Professor, Portland State University,
Toulon School of Urban
Studies and Planning
The Oregonian, Opinion guest
columnist. Printed on March 16, 2016.*

barriers to residential development. Those barriers include (but are not limited to) complying with zoning standards (ranging from fairly straight-forward standards to highly complex zoning standards), meeting design standards, completing complex pre-development and development applications and processes, and requirements for discretionary public hearings or review.

That said, unlike most states, once an application is deemed complete, cities in Oregon have 120 days to issue a decision. This provides increased predictability for developers, though they can waive this requirement, and sometimes do for complex applications. Over the last 20 years, most cities experiencing growth have taken steps to streamline their development review processes and code requirements for housing, but development standards and review processes still add cost and difficulty to the process.

Development standards. There is a trade-off between development standards, such as parking requirements and design review, and development feasibility. For example, off-street parking requirements ensure that there is adequate parking for the development. However, minimum off-street parking requirements can add considerably to the cost of multi-family development, primarily because of the high costs of parking structures or underground parking. ECO estimated in 2016 that parking in Portland costs of about \$7,000 for a surface lot, \$20,000 for tuck under, \$45,000 for podium (structured above ground), and \$60,000 for underground parking (all costs per stall). While parking may cost less in other cities, it can significantly increase the overall cost of development. Many people across the country are questioning current requirements for parking and reducing them where appropriate to encourage denser—and often more affordable—development.

Design standards can also raise development costs, creating barriers to development, especially for multi-family housing. Multi-family housing often has design requirements that are created to increase compatibility of the building into the neighborhood, but add to the development's overall costs.

Undevelopable land within the land supply. There are a variety of reasons why land within a UGB may be effectively undevelopable. Examples of these reasons include, but are not limited to: vacant land that is under the minimum lot size for the underlying zoning district, land that has no access or potential access to a public right

of way (such as a street), land on slopes steep enough to make development challenging (and more expensive) but still considered buildable, developed land on lots larger than one-half acre that must be considered partially vacant but where additional development is unlikely in the foreseeable future, or land used by a home-owners association.

Having undevelopable land within a UGB makes it more difficult for cities to ensure that they have a sufficient supply of land to accommodate residential growth. This undevelopable capacity can make land supply tighter, creating barriers to residential development.

CONCLUSIONS

OAPA prepared this report to inform the discussion about UGB expansions as a solution to a shortage of housing or jobs. While supply of land is a factor in housing costs and job availability in many communities, it's not the only one or even necessarily the most important one. There are three major reasons why UGB expansion isn't the magic solution for a shortage of housing or jobs:

1. Infrastructure is expensive to build, and cities operating on tight budgets can't afford to build more infrastructure to support development at the edge without passing most of the cost off on new residents and businesses.
2. Cities need more people living and working in the centers and corridors, not around the edges.
3. Many factors can impact development feasibility, including limited financing options, public opposition, development standards that increase costs, and other factors that all can increase the costs of development. There are a lot of other barriers to residential development in particular that aren't addressed by UGB expansion.

Changing state law to allow for faster and easier UGB expansion will prove fruitless if these other factors are not addressed. Developing great communities takes time, effort, resources, and a lot of different people working together to make tough decisions for their communities. While the process of expanding a UGB can be messy, our communities are better for having done it.