1000 Friends of Oregon
Phone: (503) 497-1000; Fax: (503) 223-0073; www.friends.org
534 SW Third Avenue, Suite 300, Portland, Oregon 97204-2597

Questions and Answers about Oregon's Land Use Program:

System Development Charges

Q: ***What are system development charges and what can they be used for?***

A: ***System development charges (SDCs) are fees levied on new development to recover all or part of the cost of building certain infrastructure needed to serve that development. Oregon law only allows SDCs for five types of infrastructure: water, sewers, stormwater, transportation, and parks and recreation.***

Cities and counties cannot use SDCs to recover costs of other infrastructure need by new development such as police and fire stations, libraries, and schools.[1]

Q: ***How can cities and counties pay for infrastructure if they don't charge SDCs?***

A: ***Through property taxes or increased utility rates, or by letting service and infrastructure quality decline with growth.***

SDCs don't create new costs; they are simply a different way of allocating costs.

Q: ***Don't SDCs increase the cost of housing?***

A: ***No. SDCs simply shift the cost of new infrastructure from the general public to the developer. This may increase the sales price of new houses, while decreasing the cost of existing housing stock by lowering property tax levels needed to subsidize new development.***

The total *cost* of a house differs from its market *price*, because some of the costs of new housing are not captured by the housing market. The total *cost* includes public resources expended for the new house as well as the market price. SDCs do not change the cost of housing; they help allocate how much of the cost is borne by builders and buyers of new homes, and how much by the whole community.

Some cities exempt affordable housing from SDCs. However, most housing affordable to those making less than the median income is existing housing stock. SDCs can increase the affordability of housing by limiting the amount residents of existing homes pay in property taxes and utility rates for sewers, roads, and water lines to serve new development.

Q: ***Many people who purchase new homes aren't new residents. Why should long-time community residents pay SDCs?***

A: ***Development in new areas requires new infrastructure, regardless of who lives there. SDCs are not meant to recover the costs of specific residents, but the aggregate costs of roads, parks, sewers, and water lines needed to serve new development.***

As markets adjust, existing residents who move to new homes will receive a price premium for their old home that has no SDC burden attached.

Q: ***Everyone benefits from new infrastructure. Why should one group subsidize everyone else?***

A: ***They don't. State law prohibits local governments from using SDCs to cover anything more than costs caused by new development.***

Once new infrastructure is built, maintenance and operation costs are shared by everyone. SDCs simply allow the construction costs caused by new development to be directly recovered.

Q: ***Not everyone who buys a new home has kids in school. Why should we allow SDCs for schools?***

A: ***On average, a new home adds 0.67 children to a community.[2] SDCs are meant to recover the costs over the lifetime of the house, not just for the initial buyers of the house. The costs of SDCs will be spread over the lifetime of the house as well.***

We use average costs for many public goods, from parks to schools to roads; this is but one more example. The logical end of arguing school SDCs should only be paid by those with children is that we should privatize all education. Not all taxpayers have children, yet school bonds are paid off by everyone's property taxes.

Once again, state law prohibits SDCs from recovering more than the development's impacts on the community; if a development does not contribute towards school growth, it could not be charged.

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Q: *Aren't SDCs just new taxes? Why should we use SDCs instead of bonds, taxes, and other revenue sources?*

A: *SDCs are similar to a fee for service, such as a day use fee at a state park or a water bill. SDCs therefore eliminate a subsidy for new development and encourage consumer prices that more accurately reflect public costs. As a distinct revenue source, SDCs can also help communities maintain their quality of life without increasing taxes.*

By incorporating the costs of infrastructure into the market for new housing, SDCs may provide an incentive for homebuyers to purchase existing homes. SDCs thus encourage a more compact, efficient urban form and spur redevelopment and revitalization.

As a local income source used to cover local costs, SDCs can allow communities to invest in adequate infrastructure, instead of falling into a cycle of deferred maintenance and postponed construction of roads, parks, and sewers, with decreased service quality for all.

Finally, communities that don't implement SDCs often choose to increase property taxes to pay for infrastructure. SDCs provide an alternative to increased taxes.

Q: *Doesn't development "pay its own way" by generating new property taxes?*

A: *No. Taxes generated by new residential development are usually insufficient to cover the costs of serving it.*

Two top Harvard economists found: "The available evidence shows that development does not cover new public cost; that is, it brings in less revenue for local governments than the price of servicing it."[3] The American Farmland Trust's Cost of Community Service studies consistently find residential development costs more to serve than it provides in taxes.[4]

Q: *Do SDCs cover the cost of new infrastructure?*

A: *Generally, SDCs are levied at a level that covers only part of the costs of new infrastructure. Moveover, local governments are prohibited from charging SDCs for many types of needed infrastructure.*

Most larger cities charge between $1,000 and $10,000 in SDCs. The Governor's Task Force on Growth found each new home tends to impose assorted infrastructure costs between $30-$50,000 and that 10 to 50% of those costs are not covered through SDCs or developer-financed construction of onsite and off-site infrastructure.[5]

Cities and counties are not legally prohibited from charging full SDCs; residents of the city of Sisters voted to require the city to charge the maximum SDCs allowable by law. In practice, however, cities and counties usually charge less than full SDCs for many reasons, including protecting themselves against lawsuits and keeping home prices low.

Q: *Aren't SDCs just passed along to home buyers?*

A: *Not necessarily. Who shoulders the ultimate burden of SDCs depends on specific market conditions and circumstances; SDC costs are spread among homebuyers, developers, land owners, and renters.*

Because new homes compete in a market against existing homes, new home prices do not usually increase by the amount of the SDC levied. Other markets will adjust; for example, developers will pay less for land, and home builders may build simpler homes.[6]

Once buyers of new homes pay SDCs, every following year they pay less in property taxes than they would in a community without SDCs. This is because they will not need to contribute as much to new infrastructure for other new houses, which will be assessed their own SDCs.

Q: *Aren't SDCs inefficient because they are added to the mortgage, costing homeowners $3 for every $1 of revenue?*

A: *No -- this is a red herring. The home building industry apparently has no qualms about selling a product that generally requires borrowing money over time, but attacks public financing structures that do the same.*

Sources:

[1] Oregon Revised Statutes 223.297 – 223.314.
[2] Fodor, Eben. Better not Bigger, New Society Publishers, 1999.
[3] Altshuler, Alan and Jose A. Gomez-Ibanez. Regulation for Revenue, Brookings, 1993.
[4] For more information or specific copies of the studies, visit www.farmland.org.
[5] "Growth and Its Impacts in Oregon: A Report from Governor Kitzhaber's Task Force on Growth in Oregon." January, 1999.
[6] Altshuler and Gomez-Ibanez, *ibid.*

Additional fact sheets on other land use planning issues are available from 1000 Friends.

For more information, visit www.friends.org.