



SYSTEM DEVELOPMENT CHARGES

ISSUE BRIEF

LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

This issue brief provides an overview of system development charges (SDCs) in Oregon. SDCs are one-time charges on new development and certain types of redevelopment to help pay for existing and planned infrastructure to serve that development. SDCs are one means available to local governments for financing growth.

STATUTORY REQUIREMENTS

State law creates a framework for local SDCs and specifies how, when, and for what improvements they can be imposed. Under ORS 223.297 to 223.314, SDCs may be used by cities, counties, and special districts for capital improvements related to:

- water supply, treatment, and distribution;
- waste water collection, transmission, treatment, and disposal;
- drainage and flood control;
- transportation; or
- parks and recreation.¹

SDCs may be charged to a new development based on a fee to reimburse for existing unused infrastructure capacity (reimbursement fee); to make planned improvements that increase infrastructure capacity (improvement fee); or for both existing and future capacity. SDC revenues may only be used for capital costs; they cannot be used for ongoing facility or system maintenance or for projects that either fix existing system deficiencies or replace existing capacity. State law also explicitly prohibits local governments from imposing SDCs on employers based on the number of employees or potential new hires.

Local governments must establish SDCs by ordinance or resolution and through a public process. They must have a methodology to calculate reimbursement and improvement fees and provide for a credit if a developer finances certain improvements. Local governments must also provide a review procedure through which anyone may challenge an expenditure of SDC revenue if it is out of compliance with state requirements.

¹ [ORS 223.297 to 223.314](#) (2019).

Prior to imposing a SDC for planned improvements based on an improvement fee for capital facilities, the local government must have in place a capital improvement plan, public facilities plan, master plan, or comparable plan that:

- lists the improvements to be funded with the SDC; and
- estimates the cost, timing, and percentage of costs eligible for funding from the improvement fee for each improvement.²

The plan and list of improvements may be modified at any time, although there are additional notice and hearing requirements if the SDC will be increased as a result of modifying the list. The plan must make a reasonable connection between the need for additional facilities and the growth generated by new development. There must also be a reasonable connection between the expenditure of the fee collected and the benefits received by the developer paying the fee.

SDCs are typically assessed at the time of building permit issuance but can be collected upon connection to a water or sewer system or at the time of occupancy. Developers may pass all or some of the cost to buyers. Some jurisdictions have recurring street maintenance fees that are not covered by SDC law.

SDC RATE CALCULATIONS

State law does not specify the method of calculating SDC rates; it only requires that the fee be established or modified by local ordinance or resolution and consider certain factors. Reimbursement fee methodologies should consider ratemaking principles; prior contributions from existing users; other funding sources; the value of unused capacity; and other relevant factors. Improvement fee methodologies should consider the projected costs of the plan's capital improvements and the need for increased system capacity to meet the demand of future users.³

LEGISLATIVE HISTORY

Local governments collected SDCs as early as the 1970s, originally for water and sewer improvements. Corvallis enacted its SDC ordinance in 1972. The state law regulating local SDCs was enacted in 1989 in order to provide a consistent process that would avoid litigation and to limit SDCs to certain capital improvements.

The last significant change to the SDC statutes occurred in 2003 through Senate Bill 939, which made the following changes:

- clarified that an SDC can be a combination of improvement fee and reimbursement fee so long as the charge is not based on providing the same system capacity;
- strengthened the tie between the required improvement plan and the list of projects eligible for SDCs;

² [ORS 223.309](#) (2019).

³ [ORS 223.304](#) (2019).

- clarified that SDC expenditures may not be used for operation or maintenance of facilities constructed with SDC revenues;
- required local governments to provide notice and hold a hearing, if requested, when changes to the list of projects results in an increase in the SDC;
- allowed local governments to include an inflation index in their SDCs; and
- required the locality to demonstrate that certain factors were considered in establishing fees.⁴

CURRENT USE OF SDCs

Every three years, the League of Oregon Cities (LOC) surveys its member cities on SDCs, including the types charged, rates, and methodologies. The LOC 2019 survey, which included responses from 96 cities, was released in February of 2020.⁵ This report concluded that among survey respondents, 82 percent of cities collect SDCs for their city, county, and/or special district. Cities with a population greater than 1,250 and cities in the North Willamette Valley, Metro, and Central Oregon regions were more likely to have SDCs.⁶

Other findings on SDCs include:

- **Parks SDCs.** 57 cities had SDCs to fund parks with an average collection of \$1.5 million in fiscal year 2018. Parks SDCs are most common in cities with a population greater than 3,000 residents and in the Metro, Willamette Valley, and Central Oregon regions.
- **Sewer SDCs.** 69 cities had SDCs to fund sewers with an average collection of \$900,000 in fiscal year 2018. Sewer SDCs are most common in cities with a population greater than 1,250 and in the Metro, North Willamette Valley, and Central Oregon regions. Sewer and water SDCs are the most common SDCs.
- **Stormwater SDCs.** 46 cities had SDCs to fund stormwater infrastructure with an average collection of \$142,000 in fiscal year 2018. Stormwater SDCs are most common in cities with a population greater than 3,000 and in the Metro, North, and South Willamette Valley regions.
- **Transportation SDCs.** 52 cities surveyed utilized transportation SDCs with an average collection of \$1.14 million in fiscal year 2018. Transportation SDCs are most common in cities with a population of more than 3,000 and in the Metro, North and South Willamette Valley, and Central Oregon regions.
- **Water SDCs.** 69 cities had SDCs for water systems with an average collection of \$468,000 in fiscal year 2018. Water SDCs are most common in cities larger than 1,250 population and in the Metro, North Willamette Valley, and Central Oregon regions.

⁴ [Chapter 765 Oregon Laws 2003.](#)

⁵ League of Oregon Cities, *System Development Charges Survey Report (2020)* (available online at <https://www.orcities.org/application/files/2615/8170/9849/SDCSurveyReport2-13-20.pdf>).

⁶ *Id* at 4.

The City of Corvallis has assembled a comparison table of the 20 cities that charge SDCs for parks, sewer, water, transportation, and stormwater for fiscal year 2019-2020. For single-family residences, the total SDCs imposed in these cities range from \$8,703 in Grants Pass to \$37,458 in Lake Oswego.⁷

While no single report details the use of SDCs by counties or special districts, a review of county websites shows that several counties have transportation and/or parks SDCs. Transportation SDCs are used by Clackamas, Columbia, Deschutes, Hood River, Jackson, Jefferson, and Marion counties. Parks SDCs are used in Columbia, Jefferson, Lane, and Yamhill counties.

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⁷ City of Corvallis, *Table 2 – Multi-City SDC Comparison*, <https://archives.corvallisoregon.gov/public/ElectronicFile.aspx?dbid=0&docid=1707695> (last visited October 13, 2020).