



Mayor Harrell and members of the council:

Sightline Institute is a regional sustainability think tank. We think cities are good for our society, our environment and our economy, and that everyone who wants to live or remain in a city should be able to.

As our lead researcher on housing policy in Oregon, I'm watching my own state grappling with the **unintended regressive effects of impact fees** on housing and, indirectly, on both a city's economy and its budget. New research here suggests that impact fees are a bigger barrier to housing production than other revenue sources, especially for smaller, lower-cost housing types. This year, legislators in Oregon have been moving to limit or reduce local impact fees as the state tries to remove barriers to housing.

We write to convey some of Oregon's recent research and debate to Sightline's hometown of Seattle as Seattle's leaders consider imposing the city's first impact fees.

In 2022, the Oregon Housing and Community Services Department, the state's affordable housing agency, released a major study of impact fees, which are known in Oregon as system development charges or SDCs.¹ It documented that typical impact fees in Oregon have more than doubled over the last 15 years, rising at about five times the rate of inflation, and concluded the following:

- **Impact fees disproportionately burden less expensive housing types:** "SDCs affect some housing more than others—smaller entry-level homes, lower-cost middle housing and apartments, and communities with weaker markets are disproportionately affected by SDCs. High-end single-family detached housing is generally impacted least."
- **Impact fees tend to simply kill projects rather than affecting developer profit or investor return:** "If SDCs contribute to making a project financially infeasible, the project will not be able to attract funding to move forward to construction."

¹ Oregon Housing and Community Services, "[Oregon System Development Charges Study](#)." December 2022.

- **In scarce housing markets, most impact fee costs likely fall on renters and new homebuyers:**
“Homebuyers and renters in tight housing markets likely bear a greater share of SDC costs” than landowners.

SDCs can also be a barrier to converting underoccupied commercial buildings to residential use. In 2023, Oregon’s legislature suspended transportation and parks impact fees for such conversions.²

Upon taking office in 2023, Oregon Gov. Tina Kotek convened a Housing Production Advisory Council to recommend future legislation for accelerating housing production, especially of lower-priced homes. This Friday, Oct. 13, the council will hear the first reading of a proposal to waive all impact fees for homes priced at up to 120 percent of area median income. “The social benefits of increased housing production outweigh the cost of forgone SDC revenue,” the body’s Finance Workgroup wrote.³

Washington’s tax system makes impact fees an even worse deal for jurisdictions like Seattle. Because new homes already pay sales taxes, real estate excise taxes, and MHA in-lieu fees to the city, and because new development is exempt from the constitution’s year-on-year 1 percent cap on property tax increases, fees that further reduce the rate of housing production may be of little net fiscal benefit to the city. The public would never be able to measure how many millions of dollars it’s missing out on.

A flat per-dwelling impact fee for multifamily dwellings regardless of size, as currently contemplated for Seattle, is a particular barrier for the lowest-cost home types, such as studio apartments, and those that can be financed by landowners with little access to capital, such as garage-to-ADU conversions. In Portland, annual ADU production rose 20x after the 2009 suspension of impact fees on ADUs. When those fees were largely reimposed in 2018, ADU production fell in half.

For that reason, the 2022 OHCS report explored the benefits of impact fees that are scaled by square footage, a method now used by the City of Portland and other cities with impact fees.⁴ Scaling fees by unit size can reduce, though not eliminate, some of the unintended regressive effects of impact fees.

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² Bolstad, Erica. “[Converting Offices to Housing Is Hard. These Changes Could Make it Easier.](#)” *Stateline*, April 20, 2023.

³ Daniel Bunn and Ivory Matthews, “[SDC offset incentive recommendation.](#)” Oregon Housing Production Advisory Council Finance Workgroup, Oct. 6, 2023.

⁴ Oregon Housing and Community Services, “[Oregon System Development Charges Study.](#)” December 2022.