

CITY OF GEARHART
Worksession of the City Council
Wednesday, January 8, 2025
6:00 pm On-site and Virtual/Telephonic

A worksession of the Gearhart City Council was held Wednesday, January 8, 2025. Council members, City staff, and the public were able to attend on-site, virtually, or by dialing in on a telephone.

Present were Mayor Kerry Smith, Councilor Paulina Cockrum, Councilor Preston Devereaux, Councilor Dana Gould, Councilor Sharon Kloepfer, City Administrator Chad Sweet, City Attorney Peter Watts, Executive Assistant Krysti Ficker, and City Treasurer Justine Hill. A quorum of the Council was present.

Mayor Smith called the worksession to order at 6:00 pm. He invited Administrator Sweet to go over the topic, System Development Charges (SDC). Administrator Sweet distributed a discussion sheet on SDC and a document on City tax rates in Oregon. He explained Gearhart's tax rate (permanent and general obligation) is \$1.98, which will be reduced in 2025 and again in 2031 when Gearhart's water general obligation bonds are paid off. He pointed out that Gearhart staff have been very efficient with limited tax revenue. Administrator Sweet shared a budget comparison example between the City of Gearhart and the Cannon Beach Rural Fire Protection District. He pointed out that the City of Gearhart supports all of its departments with significantly less revenue than the Cannon Beach Rural Fire District. He reiterated that the City's expenditures continue to out pace revenues. He mentioned that information provided by the League of Oregon Cities (LOC) suggests that 46%-47% of Oregon Cities are now operating in a deficit. He explained that Attorney Watts would be going over some key elements of SDC, which included Overview; Current Rates; Proposed Changes; Impact Analysis; Capital Improvement Plan; Stakeholder Feedback; and Implementation Timeline.

Attorney Watts explained that it is virtually impossible for cities to increase their permanent tax rate. If the City was interested in increasing revenue, they would need to explore other options, such as levies and/or voter imposed fees. He explained that the Federal and/or State government used to pay for infrastructure; however, these funding sources have primarily stopped. He also pointed out that as infrastructure gets older, new construction permit fees often do not produce enough revenue to keep up with the back-log of replacement projects. Because of increased pressure to find other revenue sources, he mentioned that some cities have implemented SDC. He explained that SDC are imposed on new development to recover the cost of expanding infrastructure and future improvements. He explained that the most common areas SDC are implemented in are transportation, parks, and water/sewer. He also explained that there is no legal framework for SDC in Oregon; however, cities are required to provide a nexus between what the city wants to accomplish and why they are collecting the fees. He said that SDC should be dedicated to fixed costs

and not ongoing, operational costs. He explained that there is no current, universal SDC fee schedule, which requires individual cities to look at other jurisdictions in the area. He noted that there can be huge discrepancies depending on each city's needs. Attorney Watts also talked about potential impacts on builders, which can change the type of projects being developed in the city. He said that SDC can become a barrier for development. He also mentioned that one legal concern of implementing SDC is Goal 10, which requires cities to provide housing in a variety of forms to serve people at a variety of income levels. He explained that SDC could negatively impact Goal 10. He briefly discussed a US Supreme Court case (*Sheetz v. County of El Dorado*), requiring that any payment of SDC be justified. SDC must be “fair and equitable” charges. He references an example of Portland park SDC fees. He said it is important to look through a comprehensive lens when creating SDC. He mentioned using an outside expert to assist with the implementation process, which would provide a quantitative methodology for SDC fees. Attorney Watts indicated the most current issue he has seen with SDC is with accessory dwelling units (ADU). He indicated that some government entities have decided not to charge SDC on ADU; however, he feels this could create some legal challenges. He mentioned that one of the benefits of SDC could be SDC credits, which is an incentive given to a developer or project in lieu of paying the full SDC. These credits can then be used at a later date. He stressed the importance of stakeholder feedback. He reiterated that the public must understand the purpose of SDC and include them in the planning process, which is a requirement of Goal 1 that requires the public to be involved. He talked about steps related to implementation (hiring an outside consultant; finding a quantitative methodology; reviewing options; defining specific future needs; public involvement). Councilor Devereaux inquired about the actual amount of developable property still available in Gearhart and questioned the feasibility of future growth to support SDC. Attorney Watts agreed that currently there are not many buildable lots; however, the City is working on housing needs analysis, which may require adding additional land. Attorney Watts also agreed with Councilor Devereaux that SDC would likely not be a financial barrier for property owners in the Gearhart area. Councilor Devereaux felt more emphasis should be placed on the distribution options for cities with transient room tax rather than the implementation of SDC. Councilor Gould mentioned that LOC has prioritized the transient room tax distribution issue. She indicated that although Gearhart is allowed flexibility with their transient room tax revenue, other surrounding cities do not have the same flexibility. She pointed out that these cities are required to promote tourism, which flows over into our community. Councilor Cockrum inquired about increasing our transient room tax percentage and Attorney Watts clarified that it can be increased; however, an update would require Gearhart to follow any updated tax distribution requirements (percentage of funds to tourism related activities). Mayor Smith talked about the upcoming LOC Day at the Capitol. LOC has encouraged all cities to talk to legislators about transient room tax distribution. Councilor Kloepfer inquired if other coastal towns have implemented SDC and what their fee schedules look like. Attorney Watts did indicate that other surrounding cities have implemented SDC and that more information would be provided at the next City Council meeting. Councilor Gould wants to make sure that

SDC implementation is a worthwhile endeavor. She would like to make sure that any revenue collected would pay for hiring an outside consultant; as well as allow for future projects. She would also like to know any staff impacts on implementing a new program.

The Mayor adjourned the worksession at 7:06 pm and transitioned directly into the regular City Council meeting.



Mayor Kerry Smith



Chad Sweet, City Administrator