

Appendix C – Financial Forecast

Key Rate Drivers

The rate paths for each fund contain key assumptions regarding debt issuances, capital accomplishment, consumption, and the Utility Discount Program. Below is a summary matrix of the primary assumptions. Each fund has additional assumptions that are unique to its structure, which are explored in the following sections.

Overall, the Utility is seeing demand return to pre-COVID levels in all services - residential-, commercial-, and developer-related. Simultaneously, increases in the Utility Discount Program are anticipated and included in the projected rates. The following table highlights key assumptions over the six-year period.

Proposed Strategic Business Plan Rate Path

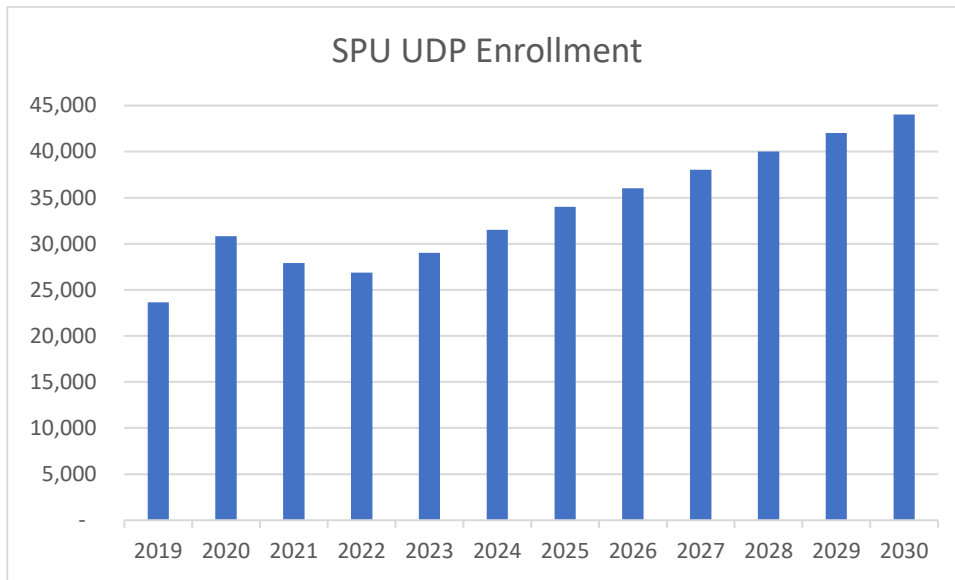
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2025-30</u>
Water	2.0%	2.0%	6.3%	3.3%	6.5%	3.8%	4.0%
Wastewater	5.0%	5.0%	5.0%	6.2%	7.0%	5.1%	5.5%
Drainage	5.0%	5.0%	5.1%	6.6%	6.3%	7.2%	5.9%
Solid Waste	2.5%	3.1%	3.4%	3.4%	3.8%	2.5%	3.1%
Combined	3.7%	3.9%	4.9%	5.0%	6.0%	4.6%	4.7%
	Approved rate legislation that is currently in effect						

	Water	Drainage & Wastewater	Solid Waste
Average Interest Rate on Bonds	2025-2030: 5.0%	2025-2030: 5.0%	No planned debt issuances
Capital Accomplishment Rate	80%	80%*	80%
Consumption	Residential: 0.0% Commercial: 0.0%	Residential: -3.0% Commercial: +3.0%	Residential: -1% Commercial: -4% Transfer Stations: 1%
Utility Discount Program Accounts	2025: +2,500	2025: +2,500	2025: +2,500

*Drainage & Wastewater Fund accomplishment rate is 80% for all projects except for the Ship Canal project, which is at a 95% accomplishment rate.

Utility Discount Program

The City of Seattle has one of the most robust Utility Discount Programs (UDP) in the country. SPU provides a 50% credit on all qualifying customer bills. The Utility also supports an Emergency Assistance Program (EAP) that provides relief for up to 50% of the bill two times per year for qualifying households. For more information about the UDP and EAP programs, please visit seattle.gov/utilities/your-services/discounts-and-incentives. The chart below provides historical and projected annual enrollment.



The following sections go into detail for each individual Fund. All three Funds entered 2024 in a healthy financial position, which is anticipated to allow them to weather the economic impacts over the course of the SBP 6-year period.

Water

Water Fund rate projections are anticipated to increase an average of 4.0% per year during the period of 2025-2030. The projected average rate increase for the first 3 years of the SBP is 3.4%; the average increase over the second half of the SBP is 4.5%.

During the six-year plan, operational expenses are projected to increase 4% per year. Non-rate revenues and cash reserves help offset the above-inflation cost increases. In addition, several bond series will be paid in full, reducing on-going debt service. The 1997 and 1999 bonds will be fully paid in 2026 and 2029, respectively. As part of the debt service management plan, the 2024 bond issue is projected to have no principal payment in 2029, with a double principal payment in 2030. This minor adjustment will create a smoother debt service profile when combined with existing debt service.

Key Rate Drivers

The key rate driver for the Water Fund is increasing operational expenses (O&M). Operating cash balance is the binding constraint, or the financial policy that is just met, for the Plan period. For this period, Water’s operating cash balance is above the policy target. However, rating agencies do not view large cash decreases favorably; therefore, the Plan has cash remain constant until 2029. In 2029, there is a \$6M drawdown to mitigate a large potential rate increase. The drawdown is expected to be replaced by 2031 through planned balance increases.

Revenue and Expenditure Assumptions

2025-2030 SBP	2025	2026	2027	2028	2029	2030
Total Retail Rate Revenue (\$M)	241.1	246.2	262.0	270.8	288.7	300.0
Annual Change	3.7%	2.1%	6.4%	3.4%	6.6%	3.9%
Retail Consumption (M CCF)	26.6	26.6	26.6	26.6	26.6	26.6
Annual Change	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual Rate Increase	2.0%	2.0%	6.3%	3.3%	6.5%	3.8%
Retail Rate Revenue (\$M)	241.1	246.2	262.0	270.8	288.7	300.0
Debt Service (\$M)	78.7	81.1	84.0	86.8	94.5	90.2
O&M incl. Taxes (\$M)	215.3	224.9	235.5	244.4	256.4	266.7
Cash-to-CIP (\$M)	30.0	25.1	26.4	25.2	28.0	25.4
Less: Wholesale Revenue (\$M)	-58.4	-59.7	-59.7	-59.7	-59.7	-59.7
Other Net Expense / (Revenue) (\$M)	-24.4	-25.2	-24.3	-25.8	-30.5	-22.6

*Other Net Expense/Revenue include taps and capital contributions, other non-operating income, miscellaneous charges, and changes in cash balance.

Risks and Watch Areas for Rate Path

For the Water Fund, the most likely risks are poor summer weather and a prolonged recession. Long-term risks include climate change and seismic events.

Financial Indicators

The Water Fund is expected to meet or exceed all financial policy targets during the SBP period.

(\$ in millions)	2025	2026	2027	2028	2029	2030
Debt Service Coverage	2.0	1.9	1.9	1.8	1.8	1.9
Net Income	\$29.4	\$23.2	\$23.8	\$19.7	\$21.5	\$21.7
Cash-to-CIP	23%	20%	20%	20%	20%	20%
Cash Balance	\$110.0	\$110.0	\$110.0	\$110.0	\$104.0	\$107.0
RSF Withdrawals/(Deposits)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bond Issues	\$106.7	\$107.8	\$108.5	\$109.9	\$112.3	\$106.3
Debt Service	\$78.7	\$81.1	\$84.0	\$86.8	\$94.5	\$90.2
Consumption (ccf, millions)	26.6	26.6	26.6	26.6	26.6	26.6

Drainage & Wastewater Fund

The Drainage & Wastewater Fund (DWF) receives revenue from two separate sets of rates. Wastewater rates are projected to increase an average of 5.5% per year during the period of 2025-2030. The projected average rate increase for the first 3 years of the SBP is 5.0%; the average increase over the second half of the SBP is 6.1%. Drainage rates are projected to increase an average of 5.9% per year during the period of 2025-2030. The projected average rate increase for the first 3 years of the SBP is 5.0%; the average increase over the second half of the SBP is 6.7%.

Cash is being used to reduce the rate path over the next few years. This cash is the product of unspent capital funds, lower than projected O&M expenditures, and surplus revenues generated by higher-than-expected demand. The specific use of this cash is to offset the consent-decree driven spike in the DWF

capital program, keeping the Fund’s periodic debt issuance related rate increases closer to a steady, long-term baseline. Because the cash is being used to offset the investment spike, as opposed to offset baseline investment or to pay for current O&M expenses, there is no bow-wave effect on rates, which would be the case when, for example, expenses increase annually and steadily but rate increases are held flat.

Key Rate Drivers

The key rate driver for the DWF is increasing capital investment necessitated by consent decree programs. To offset the investment cost spike these programs are creating, the DWF will spend down operating cash to 100 days of operating cash on hand, a level that, through consultation with SPU’s financial advisors, was deemed adequate to defend the Fund’s bond ratings and inexpensive access to capital. Through 2030, 100 days of operating cash is approximately \$179 million, and this becomes the binding constraint, or the financial policy that is just met, for the SBP period.

Revenue and Expenditure Assumptions

2025-30 SBP	2025	2026	2027	2028	2029	2030
Wastewater Rate Revenue (\$M)	402.1	422.7	443.9	471.1	504.8	533.2
Annual Change	5.2%	5.1%	5.0%	6.1%	7.1%	5.6%
Consumption (M CCF)	20.9	20.9	21.0	20.9	21.0	21.1
Annual Change	-0.2%	0.1%	0.0%	-0.1%	0.2%	0.5%
Annual Rate Increase	5.0%	5.0%	5.0%	6.2%	7.0%	5.1%
Drainage Rate Revenue (\$M)	211.2	221.8	232.9	248.8	264.2	283.1
Annual Rate Increase	5.0%	5.0%	5.0%	6.8%	6.2%	7.1%
Retail Rate Revenue (\$M)	613.3	644.4	676.8	719.9	769.0	816.3
Debt Service (\$M)	84.8	94.2	101.8	114.1	123.7	129.8
O&M inc. Taxes (\$M)	273.4	289.0	301.7	313.3	327.2	347.8
Treatment (\$M)	218.5	231.8	247.9	265.3	283.8	305.0
Cash-to-CIP (\$M)	71.1	81.9	66.6	44.2	42.0	71.3
Other (\$M)	-34.5	-52.5	-41.2	-16.9	-7.6	-37.6
King County Treatment Rate ¹	5.75%	5.75%	6.50%	6.50%	6.50%	7.00%

Risks and Watch Areas for Rate Path

For the DWF, the most likely risks are capital project cost overruns, increased interest rates, and increases in King County treatment rates. The DWF has entered a period of intense capital investment, requiring the Fund to access capital markets frequently over the SBP period. Both wastewater and drainage rates have a treatment and system component. Treatment expense is the Fund’s largest expenditure obligation. King County wastewater treatment rates are projected to increase annually during the SBP period as the County continues an intense capital program driven by asset management and regulatory requirements. Long-term risks include climate change and seismic events.

Financial Indicators

The DWF is expected to meet or exceed all financial policy targets during the SBP period.

¹ King County Treatment Rate: 2024 is adopted; 2025 – 2030 are based on King County projections.

(\$ in millions)	2025	2026	2027	2028	2029	2030
Debt Service Coverage*	2.6	2.5	2.4	2.4	2.4	2.4
Net Income	\$39.4	\$41.6	\$40.8	\$53.1	\$64.2	\$75.2
Cash-to-CIP	40%	41%	33%	25%	25%	31%
Cash Balance	310.0	258.8	216.9	206.4	203.1	179.0
Bond Issues	\$65.7	\$82.5	\$133.3	\$137.8	\$147.2	\$177.0
Debt Service	\$84.8	\$94.2	\$101.8	\$114.1	\$123.7	\$129.8
Consumption (ccf, millions)	20.9	20.9	21.0	20.9	21.0	21.1

*Debt Service Coverage is less taxes.

Solid Waste

Solid Waste rates are projected to increase an average of 3.1% per year during the period of 2025-2030. The projected average rate increase for the first three years of the SBP is 3.0% and the average increase over the second half of the SBP is 3.2%. These rate increases are at or just slightly above inflation and are consistent with the annual increases in operational expenses.

The SBP rate path considers the latest capital projects plan, and the Solid Waste fund has sufficient balances to cash fund all capital projects. This eliminates the need for bond issues and helps to reduce the rate path. SWF does not anticipate a bow wave of rate increases in the future.

Key Rate Drivers

The key rate driver for the Solid Waste Fund is increasing operational expenses (O&M). Cash balances are currently the binding constraint, or the financial policy that is just met, for the rate period. The internal target for the Solid Waste Fund is currently 45 days operating expense, which is just met in 2029 at \$33 million. The cash balance target is set to ensure that the fund has sufficient cash on hand to pay operating expenses, as well as provide flexibility in case of financial hardship or major policy changes.

Revenue and Expenditure Assumptions

2025-2030 SBP	2025	2026	2027	2028	2029	2030
Total Retail Rate Revenue (\$M)	266.8	278.7	283.6	295.3	309.4	319.6
Annual Change	4.03%	4.46%	1.76%	4.13%	4.76%	3.30%
Annual Rate Increase	2.50%	3.10%	3.40%	3.40%	3.80%	2.50%
Retail Rate Revenue (\$M)	266.8	278.7	283.6	295.3	309.4	319.6
Debt Service (\$M)	6.0	4.0	3.5	3.2	2.4	2.4

O&M incl. Taxes (\$M)	273.3	272.9	271.6	282.6	301.4	297.6
Cash-to-CIP (\$M)	27.2	9.1	13.5	7.7	16.1	6.4
Other Net Expense / (Revenue) (\$M)*	-48.3	-17.9	-16.2	-9.6	-22.8	1.1

*Other Net Expense/(Revenue): non-operating income, miscellaneous charges, and changes in cash balance.

Risks and Watch Areas for Rate Path

For the Solid Waste fund, potential risks include market forces and contract risk. Solid waste collection processing, and transfer rely on contractors. There is a risk during contract renewals and negotiations, as well as risk if contractors run into any issues that could impede their ability to provide services.

Market forces could drive risk for the Solid Waste fund. Recycling markets and commodity revenues are subject to external economic forces. Creation of new services could require new solid waste facilities or additional contracting costs.

Financial Indicators

The Solid Waste Fund is expected to meet or exceed all financial policy targets during the SBP period.

(\$ in millions)	2025	2026	2027	2028	2029	2030
Debt Service Coverage	4.1	4.1	4.2	4.3	4.6	4.6
Net Income	\$11.3	\$10.1	\$10.9	\$11.3	\$14.0	\$12.6
Cash-to-CIP	100%	100%	100%	100%	100%	100%
Cash Balance	\$61.7	\$53.4	\$46.9	\$46.6	\$33.3	\$44.0
RSF Withdrawals/(Deposits)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bond Issues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Service	\$6.0	\$4.0	\$3.5	\$3.2	\$2.4	\$2.4

Fund Financial Policies

Metric	WF	DWF	SWF
Debt service coverage			
- Adopted	1.7x	1.8x	1.7X; 1.5X (less taxes)
- Internal	NA	2.0X; 1.5X (less taxes)	NA
Debt-to-Asset Ratio	NA	<=70 percent	NA
Cash-financed CIP	20 percent over rate period; 15 percent minimum in a given year	25 percent minimum 4-yr rolling average	Greater of \$4.0 million or 10 percent of CIP

Net Income	Generally positive	Generally positive	Generally positive
Year-end cash balance			
- Adopted	One-month current year operating expense (\$17M)	One-month treatment expense (\$17M)	20 days contract expense (\$8M)
- Internal	120 days operating cash including taxes (\$71M)	100 days operating cash (\$135M)	45 days operating cash (\$29M)
Variable Rate Debt	<=15 percent	<=15 percent	<=15 percent

Bill Tables

The tables below project the typical monthly cost for the following average customers. SPU customers are billed every two months.

Typical Monthly Cost
Examples

Single-Family Home

	2025	2026	2027	2028	2029	2030
Water	\$50	\$51	\$54	\$56	\$60	\$62
Wastewater	\$83	\$87	\$92	\$97	\$104	\$109
Drainage	\$63	\$66	\$69	\$74	\$78	\$84
Solid Waste	\$60	\$62	\$64	\$66	\$68	\$70
Combined	\$256	\$266	\$279	\$293	\$310	\$325
Monthly change	\$11	\$10	\$13	\$14	\$17	\$15

Multifamily Unit

	2025	2026	2027	2028	2029	2030
Water	\$28	\$28	\$30	\$31	\$33	\$34
Wastewater	\$77	\$81	\$85	\$90	\$96	\$101
Drainage	\$12	\$12	\$13	\$14	\$15	\$16
Solid Waste	\$30	\$31	\$32	\$34	\$35	\$36
Combined	\$147	\$153	\$160	\$169	\$179	\$187
Monthly change	\$5	\$6	\$8	\$8	\$10	\$8

Convenience Store

	2025	2026	2027	2028	2029	2030
Water	\$122	\$125	\$133	\$137	\$146	\$152
Wastewater	\$384	\$404	\$424	\$450	\$482	\$506
Drainage	\$152	\$160	\$168	\$179	\$191	\$204
Solid Waste	\$604	\$623	\$644	\$666	\$692	\$709
Combined	\$1,263	\$1,312	\$1,369	\$1,433	\$1,510	\$1,571
Monthly change	\$44	\$49	\$58	\$64	\$77	\$61