

SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
Seattle Public Utilities	Terri Gregg	Akshay Iyengar

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to Seattle Public Utilities; authorizing the General Manager/Chief Executive Officer of Seattle Public Utilities to execute the First Amended and Restated Contract between The City of Seattle and its long-term, full and partial requirements contract holders for the supply of water; authorizing the withdrawal of funds from the Water Fund Revenue Stabilization Subfund; providing budget authority to use such funds to provide payments to Water Utilities as required under the proposed contracts; amending Ordinance 127156, which adopted the 2025 Budget, including the 2025-2030 Capital Improvement Program; changing appropriations to various departments and budget control levels, and from various funds in the Budget; imposing a proviso; and ratifying and confirming certain prior acts; all by a 3/4 vote of the City Council.

Summary and Background of the Legislation:

Seattle Public Utilities serves 16 cities and water districts under long term wholesale water contracts signed in 2001 and 2011. These contracts have periodic reopeners to amend certain portions of the contracts, with the current reopener period concluding in 2025.

SPU has completed negotiations with its full and partial requirements contract holders who have agreed to amendments which provide certainty for future water planning through automatic extensions every 10 years. The amendments include stranded cost protections that provide reimbursements by customers if they choose to leave the system when supply is plentiful, and incentives if they leave at a point in the future when the region needs additional supply. Additionally, the contracts were updated to increase flexibility, to respond to changes in the bond market and SPU's financial systems, and to expand authority for the joint Seattle-customer Operating Board over contract administration.

The updated contract is anticipated to result in slightly higher revenues beginning in 2027, once new water rates are adopted. However, the larger impact in the near term is the mechanism used to return past overpayments. Under the current contracts, the \$27 million in overpayments that have accumulated primarily since 2018 would be returned in the form of lower rates over 2027-2029.

The amended contract would instead return these as a direct payment in 2025 or 2026, with the timing dependent on when all the customers have signed the amendment. This legislation requests budget authority for 2025, with carry forward to 2026 if unspent in 2025. The direct payment has two advantages: the earlier return to customers avoids accrual of additional interest to be paid by Seattle, and the ability to match the payment with a withdrawal from the Water Fund Revenue Stabilization Subfund (RSF) which itself represents past overpayments.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project?

☐ Yes ☒ No

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City?

☒ Yes ☐ No

Expenditure Change (\$); General Fund	2025	2026 est.	2027 est.	2028 est.	2029 est.
	-	-	-	-	-
Expenditure Change (\$); Other Funds	2025	2026 est.	2027 est.	2028 est.	2029 est.
	27,000,000	-	-	-	-

Revenue Change (\$); General Fund	2025	2026 est.	2027 est.	2028 est.	2029 est.
		-	-	-	-
Revenue Change (\$); Other Funds	2025	2026 est.	2027 est.	2028 est.	2029 est.
	-	-	10,000,000	10,000,000	10,000,000

Number of Positions	2025	2026 est.	2027 est.	2028 est.	2029 est.
	-	-	-	-	-
Total FTE Change	2025	2026 est.	2027 est.	2028 est.	2029 est.
	-	-	-	-	-

The timing of the expenditure is dependent on when the last of the 16 wholesale water customers sign the amended contract, which could occur in *either* 2025 or 2026. Also, because the contracts require the payment to be made within 60 days of signing, the expenditure cannot simply be delayed until 2026.

3.a. Appropriations

☒ This legislation adds, changes, or deletes appropriations.

Fund Name and Number	Dept	Budget Control Level Name/Number	2025 Appropriation Change	2026 Estimated Appropriation Change
Water Fund (43000)	Seattle Public Utilities	General Expense (BO- SU-N000B)	\$27,000,000	
TOTAL			\$27,000,000	

Appropriations Notes: The timing of the expenditure is dependent on when the last of the 16 wholesale water customers sign the amended contract, and this may occur in *either* 2025 or 2026. Also, because the contracts require the payment to be made within 60 days of signing, it cannot simply be delayed until 2026.

3.b. Revenues/Reimbursements

☐ This legislation adds, changes, or deletes revenues or reimbursements.

Revenue/Reimbursement Notes: Changes in revenues will occur in 2027 and later as shown in the Financial Implications table.

3.c. Positions

☐ This legislation adds, changes, or deletes positions.

3.d. Other Impacts

Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.

All the impacts are described in the summary and shown in Financial Implications table.

Specifically, they are:

1. The direct return to customers of up to \$27M in past overpayments as an expense in 2025 or 2026. The exact amount will be determined by our financial auditor's final wholesale water cost allocated report for 2024, which is currently in progress.
2. The slightly higher revenues beginning in 2027 once new rates are adopted (\$200k/year)
3. The avoided impact of the return of the overpayment on revenues in 2027-2029 (\$9.8M/year for three years).
4. The RSF withdrawal to Water Fund operating cash (amount corresponds to the payment in item 1), which would decrease the 2025 year-end RSF balance from \$54.1M to \$27.1M. This is above the required balance of \$9.0M.

If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.

There are no additional costs.

Please describe any financial costs or other impacts of *not* implementing the legislation.

The impact of not implementing the legislation would be loss of goodwill with wholesale customers that we have negotiated with for 5 years. Seattle would also be giving up on the hard-won stranded cost provisions that are being significantly strengthened by the amendment.

Please describe how this legislation may affect any City departments other than the originating department.

None

4. OTHER IMPLICATIONS

- a. Is a public hearing required for this legislation?** No
- b. Is publication of notice with The Daily Journal of Commerce and/or The Seattle Times required for this legislation?** No
- c. Does this legislation affect a piece of property?** No
- d. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.**
 - i. How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.** The impact on communities is handled by retail rates and policies within each of the wholesale water customers' service areas. It is not affected by this contract amendment.
 - ii. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.** N/A
 - iii. What is the Language Access Plan for any communications to the public?** This is a contract between governmental agencies so there is no direct communication with the public.
- e. Climate Change Implications**
 - i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.** It is not likely to impact carbon emissions.
 - ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.** This legislation includes stranded cost provisions, which ensures additional regional water supplies are developed when needed, but not before. This potentially improves resiliency and impacts on the environment.

- f. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals? N/A**
- g. Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization? No**

5. ATTACHMENTS

Summary Attachments: None