SEATTLE CITY COUNCIL
CENTRAL STAFF

May 14, 2025

M E M O R A N D U M

To:	Parks, Public Utilities, and Technology Committee
From:	Brian Goodnight, Ketil Freeman, Jen LaBreque, and Traci Ratzliff, Analysts
Subject:	CBs 120966, 120967, 120968: SPU System Development Charges

On May 14, 2025, the Parks, Public Utilities, and Technology Committee (Committee) will continue discussion of, and possibly vote on, three Council Bills (CBs) related to Seattle Public Utilities (SPU) System Development Charges (SDCs). SPU provided a presentation on the proposed bills at the Committee's April 23, 2025, meeting. The three bills are:

- CB 120966 – Increases the water line of business SDC, establishes new SDCs for the drainage and wastewater lines of business, and consolidates the relevant provisions into a new Subtitle VI of Title 21 of the Seattle Municipal Code (SMC)
- CB 120967 – Relates to latecomer agreements and authorizes SPU to create municipal assessment reimbursement areas
- CB 120968 – Amends the 2025 Adopted Budget to add six new positions within SPU to manage the City's involvement in mainline extensions constructed by private developers

This memorandum (1) provides relevant background information on SDCs, (2) summarizes the proposed changes and financial impacts, (3) describes the intersection with the City's Comprehensive Plan update, (4) highlights the impact of the changes on affordable housing development, (5) summarizes a proposed technical amendment, and (6) describes next steps.

Background

State law (Revised Code of Washington (RCW) 35.92.025) authorizes cities and towns to charge property owners to connect to the water or sewerage system of the jurisdiction. The intent of the connection charge is for property owners to bear an equitable share of the system's cost. The state allows jurisdictions some flexibility to determine how to calculate the charges, including whether to include interest in the calculation (up to a maximum period of ten years). Currently, SPU only has a connection charge, or SDC, for the water line of business (SMC 21.04.105). SPU does not collect SDCs for connections to the wastewater or drainage systems.

In 2017, via RES 31760 that adopted SPU's 2018–2023 Strategic Business Plan, the Council made two requests related to SPU's water SDC. The first request was for SPU to refresh the calculation of the charge to ensure that it was collecting an appropriate amount. The second request was for SPU to develop a policy to potentially change the method of calculating the water SDC altogether. In response to these requests, SPU updated its water SDC amount and established a revised Director's Rule (WTR-436.1), and it performed an analysis of the City's SDC regime and compared it to other utilities in the region (Clerk File 321359). The analysis found that the City's water SDC was one of the lowest in the region and fell short of recovering a proportionate share of system costs from development. The analysis also explored alternative methods for calculating the water SDC and the impacts of establishing SDCs for wastewater and drainage, but the Council and the Executive did not pursue legislative changes at that time.

Summary of Proposed Changes

Infrastructure Cost-Sharing

SPU has proposed this package of three bills in an attempt to alter how development projects contribute to the infrastructure costs of SPU's three systems: water, drainage, and wastewater. In the current state, most development projects (approximately 90 percent) pay a relatively small water SDC upon connecting to the water system for the first time, or when expanding water service through development that requires a larger meter size. Developers do not pay an SDC for connecting to the drainage system or the wastewater system.

The remaining development projects (about 10 percent) are required to build a mainline extension for one or more of the three systems to allow their development to proceed. The costs for a mainline extension can be significant and can result in projects being abandoned. SPU has also stated that developers sometimes avoid acquiring parcels that would require a mainline extension and, therefore, projects are never pursued for parcels that may otherwise be suitable for development.

SPU is attempting to encourage development by cost-sharing the construction costs on parcels requiring mainline extensions. In brief, the developer would construct the required mainline extension and fund the portion of the project fronting their property. For the portions of the mainline not directly fronting the property, SPU would contribute the initial funding to cover construction and would subsequently attempt to recover "latecomer" payments from benefiting parcels that develop in the next 20 years and connect to the constructed mainline.

SPU currently possesses the authority to participate in the financing of capital facilities and seek reimbursement via latecomer agreements, but the proposed legislation would also allow SPU to undertake mainline extension projects independently and collect latecomer payments from benefiting parcels in the same manner. These types of activities are known as municipal assessment reimbursement areas and are authorized in state law (RCW 35.91.060). Consistent with other department programs, SPU's ability to financially participate in projects is governed by Council's appropriation authority.

Funding Source

To fund this cost-sharing activity with developers, SPU is proposing to revise the current water SDC and to implement new SDCs for drainage and wastewater. The proposed legislation would codify the methodology for calculating the SDCs, but the actual SDC rates and charges would be published via SPU Director's Rule. In general, the calculations utilize the original value of the assets for the system in question (less outstanding bonds that have been spent and certain other physical elements, plus five years of interest) and a multiplier based on the impact of the development, known as the customer equivalent. For the water and wastewater SDCs, the customer equivalent is based on new or increased meter size, and for the drainage SDC it is based on the increase in the amount of hard surface area. The SDC calculations for each system would be refreshed by SPU along with the development of retail rates, which typically occur every three years.

SPU estimates that the revised and new SDCs would generate approximately $12.7 million in additional revenues per year, beginning in 2026 (the effective date for CB 120966).[1] For context, if SPU were to instead generate this amount of revenue through customer rate adjustments, the rates for each line of business would need to be increased by between one and three percent.

The proposed legislation also contains revisions to SDC exemption, deferral, and payment provisions. Regarding exemptions, if a developer is required to construct a mainline extension as part of their project, the SDC for that particular system is waived. For example, if a developer constructs a water mainline extension for a project, the water SDC would be waived but they would still be responsible for any applicable wastewater or drainage SDCs. Property owners may also defer the payment of SDCs, with interest, until the sale or transfer of property if they occupy the residence and meet certain income requirements. Lastly, based on feedback from developers, the proposed legislation would modify payment installment terms to allow for a 25 percent down payment with the remainder due within two years. This arrangement would replace the existing installment terms, which have never been used, allowing owners to make regular SDC payments over a 10-year period.

Financial Impacts

The proposed legislation has the potential to financially impact many development projects in the city moving forward. For projects that are increasing water service and/or adding new hard surface area but do not require a mainline extension, they will be subject to expanded SDCs. For projects that do require a mainline extension, SPU would have the ability to participate in the funding of the required infrastructure if it extends beyond the boundaries of the specific project, potentially making that project less costly for the developer. In its presentation to the Committee on April 23, SPU provided a number of examples to show the potential financial impact on projects. For example, a project that replaces a single-family house and adds an Accessory Dwelling Unit (ADU) and a Detached ADU (increasing its meter size from 3/4" to 1 1/2" and adding 1,350 square feet of new hard surface) would be assessed a total of $23,500 in SDCs for all three systems, compared to the City's current water SDC of $5,520.

Overall, SPU is attempting to balance the revenue generated by the expanded SDCs with the reduction in mainline extension costs that developers will have to fund. SPU has modeled 10 years of development activity and believes that the almost $13 million in increased SDC revenue per year will be offset by a reduction in developer contributions to mainline extensions by a commensurate amount. Balancing out the SDC revenues with the City's contribution to mainline extension construction also ensures that utility customer rates are not impacted by the new program. SPU estimates that, in the near-term, the water and drainage lines of business will contribute slightly more to mainline extension projects than the amount of revenue being raised by the expanded SDCs, whereas the wastewater line of business will bring in more revenue than is needed for mainline extension contributions. These estimates do not account for any potential latecomer revenues that may be generated as future development occurs, and over time SPU intends to adjust the program to balance revenues and costs.

[1] The current water SDC generates approximately $4-5 million per year, which is not included in the $12.7 million amount. SPU intends to continue using the revenue from the current water SDC for capital projects over the next several years until the capital projects are completed, in order to prevent impacting water rates.

Program Administration

The third bill in the proposed legislative package, CB 120968, would amend the 2025 Adopted Budget to add six new positions and a total of $950,000 in appropriation authority to SPU's Water Fund and Drainage and Wastewater Fund. According to SPU, the additional staff are needed to manage the engineering, contractual, and administrative aspects of the cost-sharing program and the latecomer agreements, and the position costs will be funded by anticipated SDC revenues. The positions include 4.0 FTE Capital Project Coordinators, 1.0 FTE Associate Civil Engineering Specialist, and 1.0 FTE Senior Real Property Agent. If the proposed legislation is approved, SPU intends to hire the new staff by September.

Comprehensive Plan and House Bill 1110 Implementation

The Council is currently considering CB 120969, which would implement on an interim basis the requirements of Engrossed Second Substitute House Bill 1110 (HB 1110). HB 1110 requires that Seattle allow on lots zoned primarily for residential use: (1) at least four units on every lot; (2) at least six units on every lot within one-quarter mile of a major transit stop; and (3) at least six units on every lot with at least two affordable housing units. The Council will consider legislation implementing the requirements of HB 1110 on a non-interim basis later this summer concurrently with a major update to the Comprehensive Plan.

The environmental analysis for HB 1110 implementation in the Comprehensive Plan update identifies:

> No significant unavoidable adverse impacts to utilities are anticipated under any of the alternatives as a result of the City's Comprehensive Plan update. *Population and job growth under all alternatives would increase demand on the City's water, wastewater, drainage, and electrical systems and, for the action alternatives, exceed the planned growth anticipated in the utilities' planning forecasts. However, the utilities are anticipated to accommodate this growth through a combination of existing and future anticipated supply, demand management, and upgrades to existing infrastructure and facilities to improve capacity, operation, and reliability.*
>
> In areas considered capacity constrained for stormwater runoff, such as those areas with informal ditch and culvert systems, development would be subject to more stringent stormwater management requirements to avoid adversely affecting conveyance capacity and protect water quality. These requirements could require construction of formal drainage facilities to treat and manage the flow of stormwater as well. (Italics added)[2]

Proposed goals in the Utilities Element of the Comprehensive Plan contemplate the provision of utility infrastructure to support new development:

> Utility infrastructure and services support existing and new development consistent with the Growth Strategy. (Proposed Utility Goal G1)[3]

[2] Final EIS. *One Seattle Comprehensive Plan Update*. January 2025, p. 3.12-29.
[3] Mayor's Preferred Comprehensive Plan, p.106.

SDCs are an implementation step towards achieving that goal. With consideration of the Comprehensive Plan, Council may want to consider whether to add specific policies in the Utilities Element related to use of SDCs to accommodate anticipated residential and employment growth.

Impact of Proposal on Middle Housing Feasibility

In February 2025, the Executive released the report [Updating Seattle's Neighborhood Residential Zones: Middle Housing Feasibility Analysis](), conducted by ECOnorthwest. This study analyzed feasibility on about 100,000 lots in Neighborhood Residential (NR) zones across the city. The study estimated that middle housing would be feasible on about 19 percent of the NR lots, or about 19,000 lots, based on the NR zoning proposal released by the Executive in October 2024.[4] The report identified that sites with access to existing infrastructure are more likely to be developed. For example, only about eight percent of the NR lots that were identified as needing a water main extension are feasible for middle housing development.

The study also found that middle housing is sensitive to increased costs, finding that if costs increased by $18,600 per unit, 25 percent of the middle housing projects in NR zones would no longer be feasible, and if development costs increased by $41,900, then 50 percent of the projects would no longer be feasible. For context, and as noted above, SPU provided an example of a middle housing type project that replaces a single-family house and adds an ADU and a Detached ADU (increasing its meter size from 3/4" to 1 1/2" and adding 1,350 square feet of new hard surface). The total SDC for all three systems would be $23,500 for the entire project, compared to the City's current water SDC of $5,520, an increase in costs of about $6,000 per unit. This is below the $18,600 per unit threshold that would make 25 percent of the projects infeasible.

Affordable Housing

SPU states that they would expect that, over time, the impact on Office of Housing funding to be roughly neutral, with the savings on projects requiring mainline extensions offsetting the increase in SDCs on other projects. Given the challenges with predicting which future projects will need a mainline extension, it is not possible to verify this assumption. If the cost increases for most developments are not offset by decreases for others, then it is possible that this proposal could result in overall increased costs and fewer affordable housing units being developed.

The new and revised system development charges included in the proposed legislation would have the same cost impacts for non-profit and for-profit developers of affordable housing as would be experienced by developers of market rate housing or commercial buildings. State law precludes the provision of a waiver or partial waiver from SDCs for affordable housing unless the General Fund, grant dollars, or other another revenue source is used to backfill the waived fees.

[4] The October 2024 proposal is largely consistent with the Mayor's proposed permanent zoning proposal.

Under this proposal, costs would increase for most affordable housing developments (those that are now paying the new or increased SDCs) but would decrease for some others (those that need a new mainline extension and would be able to take advantage of the new cost-sharing program). As described above, SPU has estimated that over the last 10 years, roughly 10 percent of developments have required water, wastewater, and/or drainage mainline extensions. City-funded affordable housing projects have generally followed the same pattern. From 2014 to 2023, there were approximately 100 affordable housing projects, 12 of which required water main extensions.

Amendment

There is one technical amendment for the Committee's consideration:

- Amendment 1 (CM Hollingsworth) – This amendment would correct an error contained in the introduced version of CB 120966. Section 5 of the introduced bill would modify SMC 21.04.465 by removing references to a connection charge, but the bill inadvertently added the phrase "system development" which is not necessary. This amendment would remove the errant addition.

Next Steps

The Committee is scheduled to discuss and possibly vote on CBs 120966, 120967, and 120968 at its meeting on May 14. If the Committee votes to recommend passage of the bills at that time, the City Council could consider the legislation at its meeting on May 20, at the earliest. The Committee could also continue discussions of the bills at a future meeting, either on May 28 or later.

cc: Ben Noble, Director
Calvin Chow, Lead Analyst