

System Development Charges & Cost Sharing on System Improvements

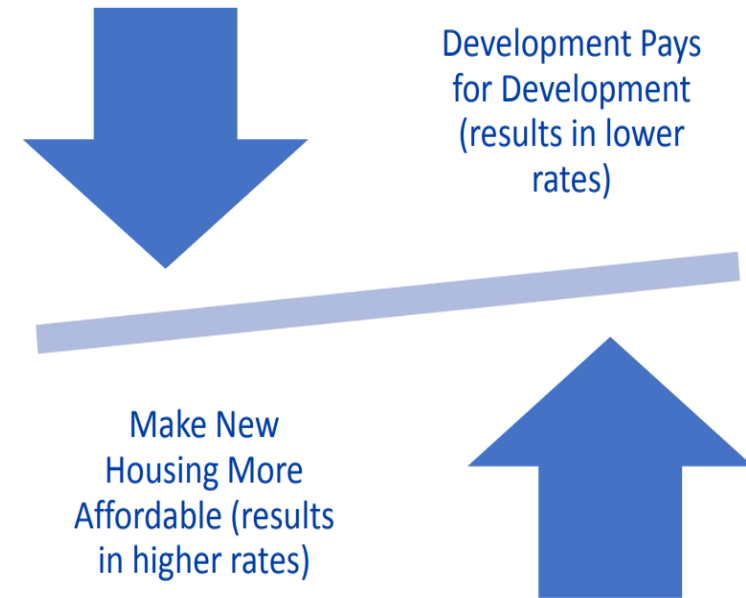
Seattle City Council
Parks, Public Utilities & Technology Committee

April 23, 2025

What problem are we trying to solve?

- Seattle is experiencing a housing affordability crisis.
- Various factors are driving changes in Seattle's growth and development patterns, which means SPU needs to rethink its approach to funding its infrastructure by distributing costs equitably across the system.

Balancing Two Objectives



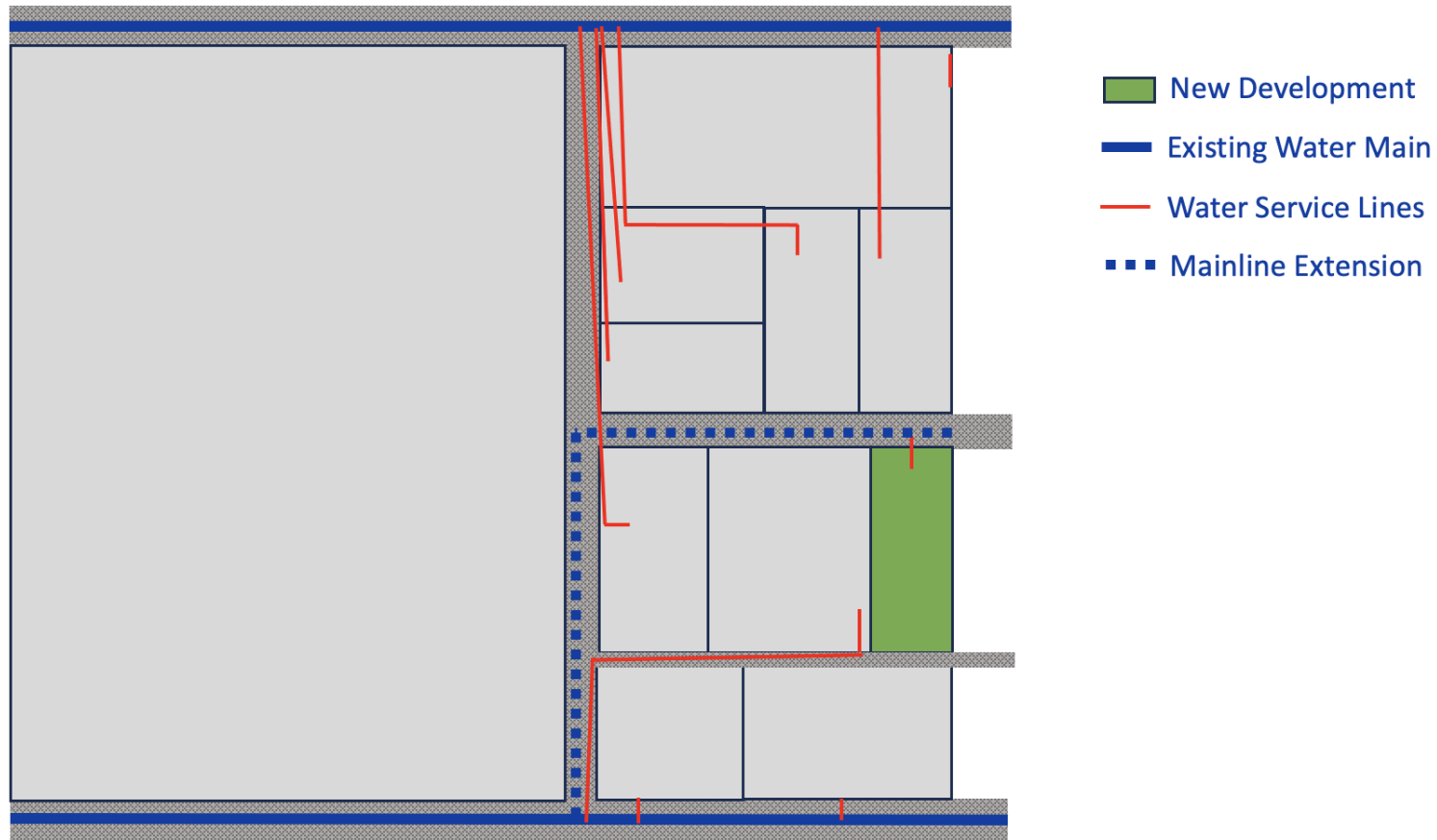
Purpose of Legislation:

This legislation, combined with accompanying System Development Charges (SDCs) legislation and budget amendment legislation, is part of SPU's effort to reduce inequity in housing development and make housing development more viable in more locations of the City.

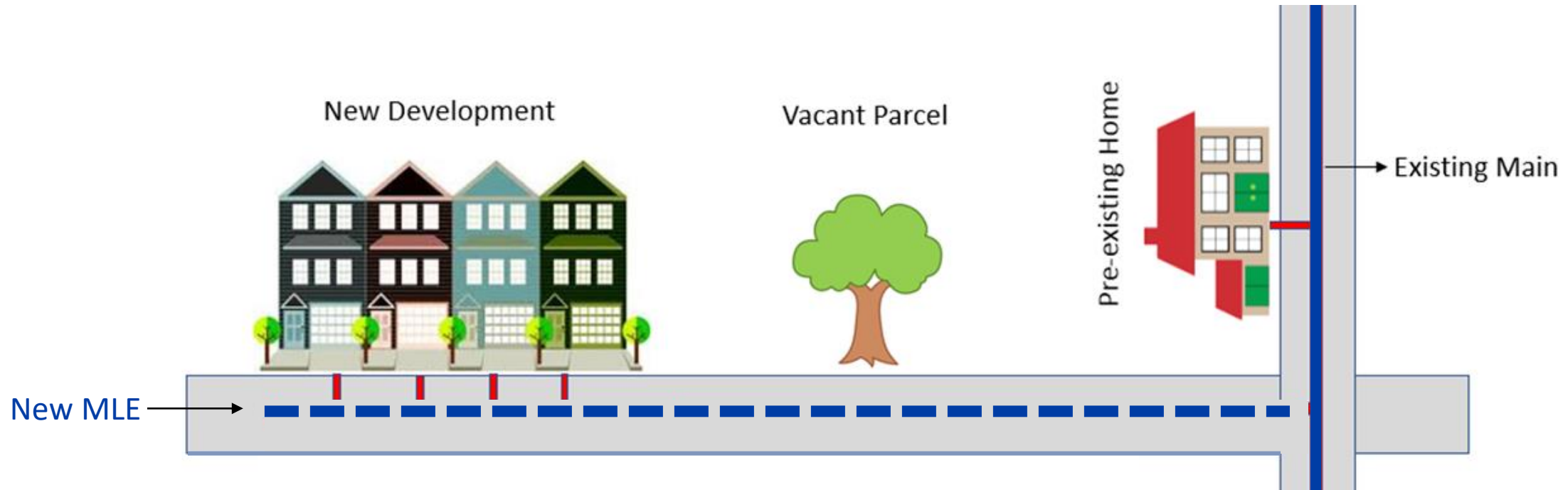
Three-Ordinance Package to develop an SPU Mainline Cost Sharing Program with Latecomer Agreements funded by System Development Charges (SDC)

- Authorizing revisions to the water SDC and adding drainage and wastewater SDCs
- Authorizing SPU to participate in Latecomer Agreements
- Authorizing budget and staffing to implement

Why are new mainlines needed?



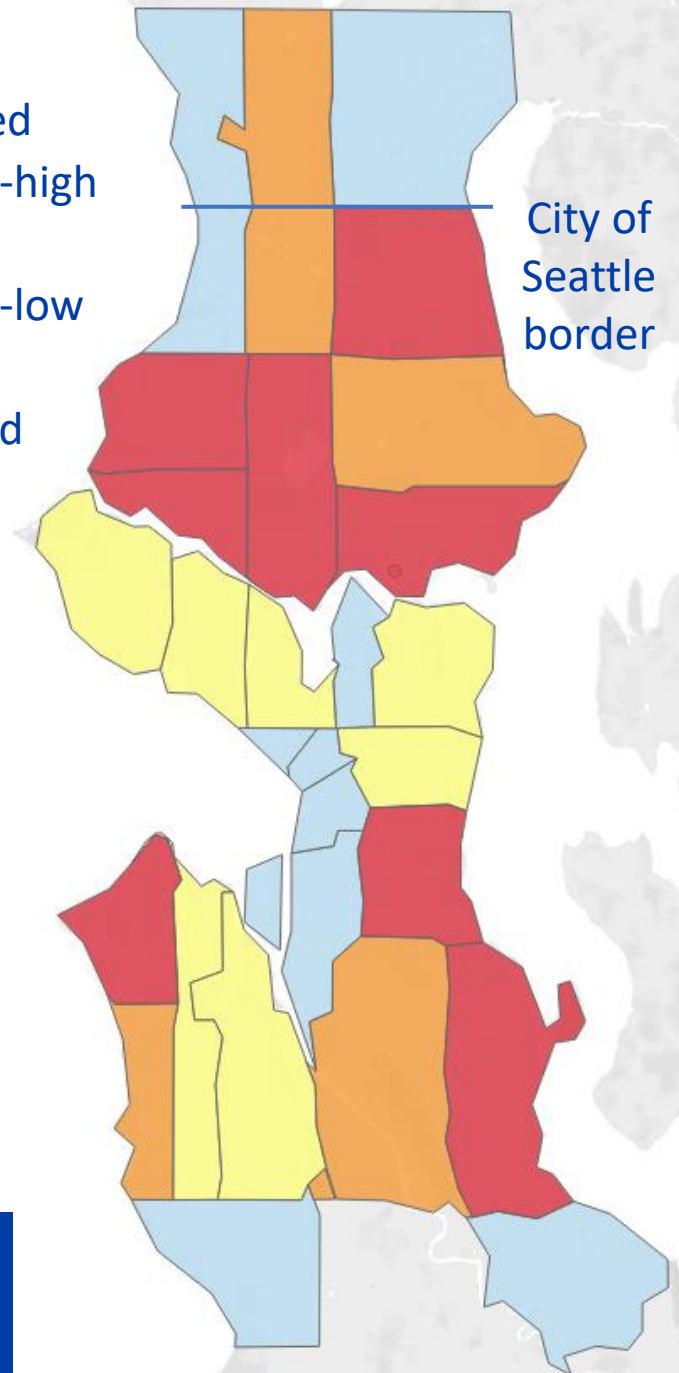
Current SPU Infrastructure Requirements on Development



- New development constructs and pays for SPU infrastructure when property is not fronted by a water, wastewater or drainage main.
- Can add over \$500K to a development's costs, including SDOT street improvements.

Need for Mainline Extensions (MLEs)

- Over 13,000 blocks in the city missing a water, wastewater, or drainage mainline segment.
- Developments that require MLEs are ~30% less likely to move forward.
- The cost of MLE can be especially challenging for smaller developments.
- Building out water, wastewater, and drainage infrastructure will unlock parcels of land for development that today are not financially feasible.



Current Development Contributions

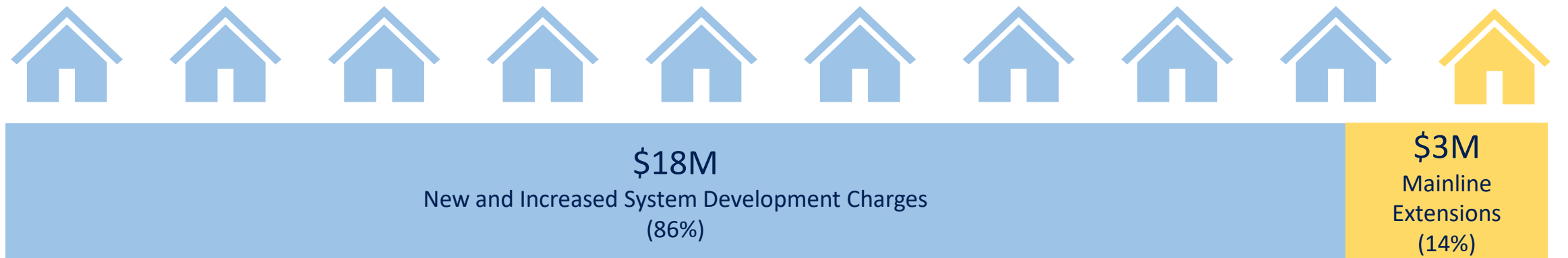


Goal: More equitable distribution across development

Current State:

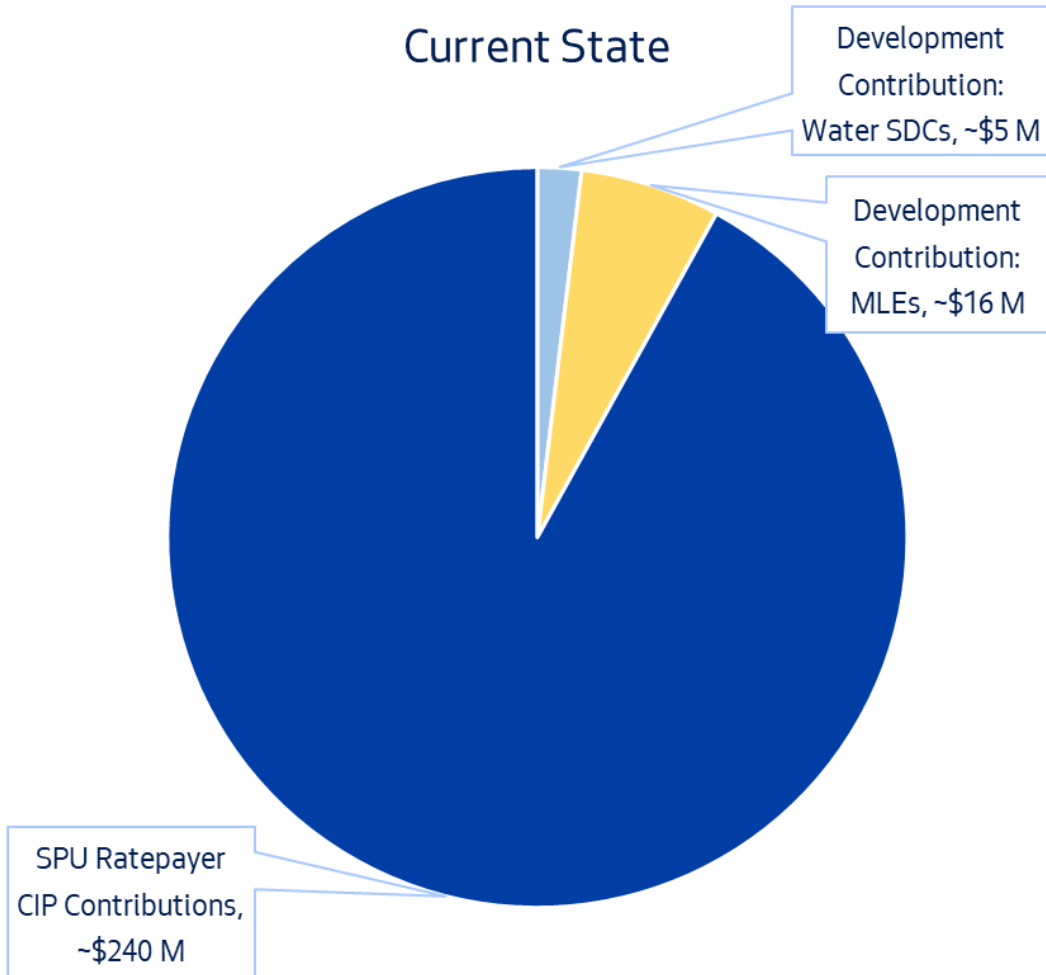


Future State:

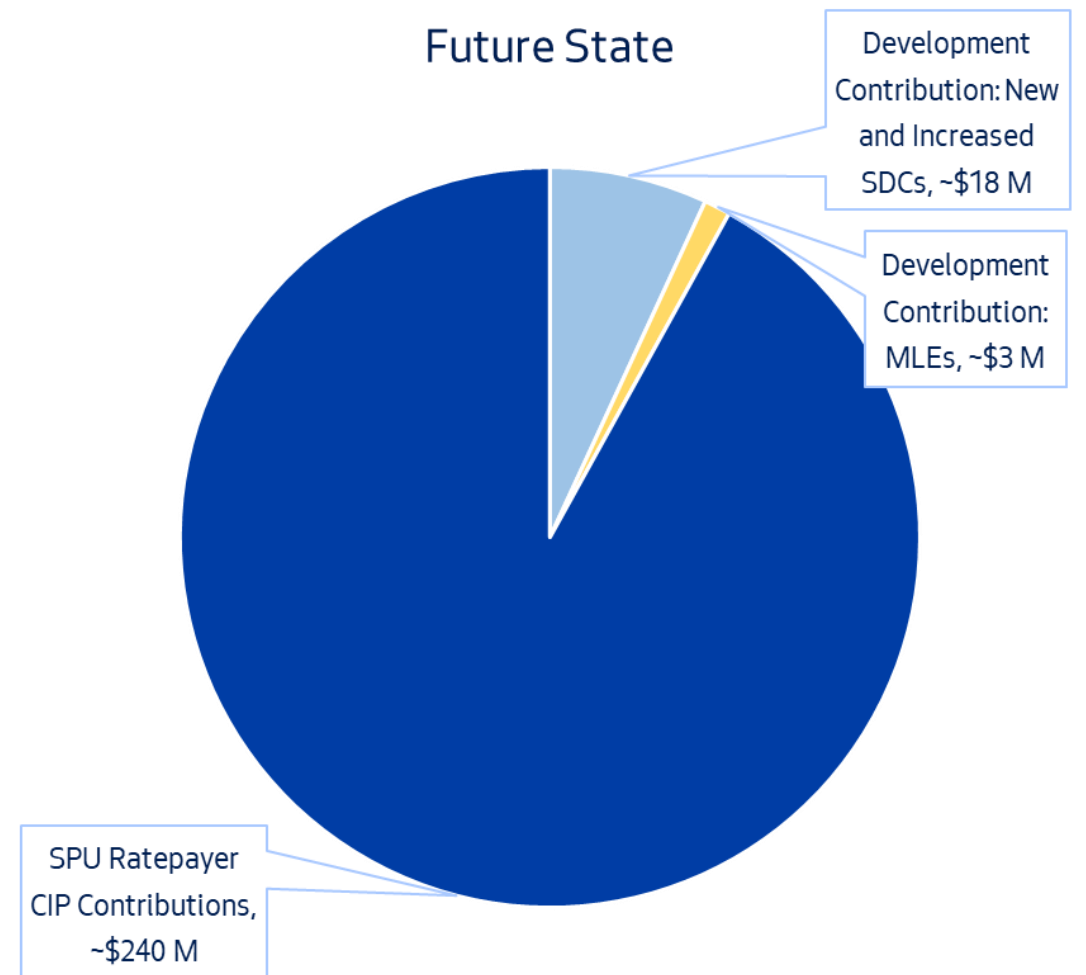


Approximate Annual Contributions by Source

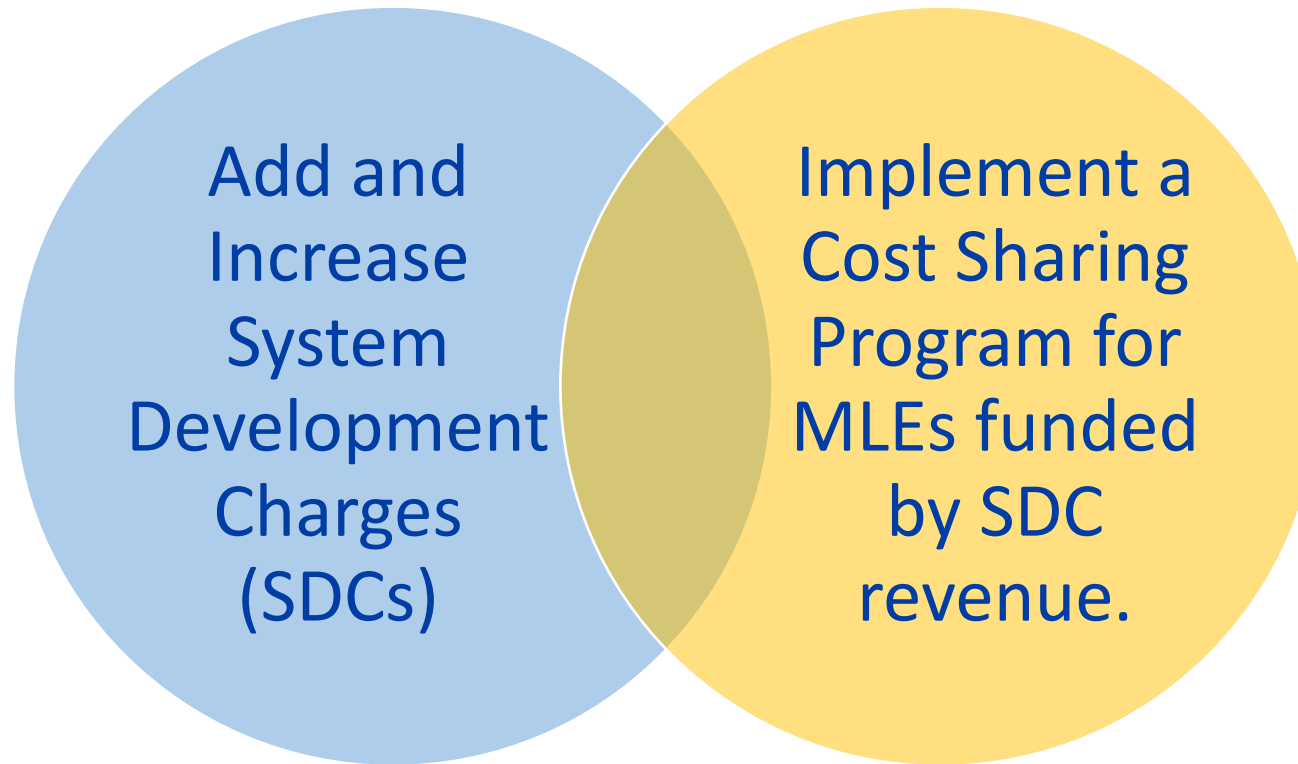
Current State



Future State



Proposal



- Everyone pays a little more so more projects become feasible
- Project costs are more predictable up front
- Benefits future homeowners by reducing long service lines that are expensive to maintain

Proposal:

Revised System Development Charges



SDCs are charged on all development based on the increased size of the water meter or added hard surface. SDCs are not a “per residential unit” charge.



Update SDC formula to use more complete definition of cost of the system which increases current Water SDC



Add new SDCs for Wastewater and Drainage using same formula



Generate ~\$13M in new water, wastewater and drainage revenue to fund MLE Cost Sharing Proposal



SDCs would be updated according to formula every 3 years with rate studies

Revised System Development Charges

- Water and Wastewater SDCs are charged to development projects based on their new or increased water meter size.
- Drainage is charged per 1,000 sf of increased hard surface.
- **Rate neutral, i.e. no customer bill increase required.**

System	Current SDCs	Proposed SDC	Estimated Revenue
Methodology	Depreciated cost, no interest	Original cost, 5 years interest	Proposed SDC x average annual development
Water (3/4" meter)	\$2,400	\$6,900	\$7.2M*
Wastewater (3/4" meter)	\$0	\$2,600	\$3.6M
Drainage (1,000 sf hard surface)	\$0	\$1,225	\$2.1M

*Excludes current Water SDC revenue (~4-5M / year) dedicated to capital projects.



SDC Examples in Detail



Single Family (SF) House

Existing SF lot subdivided to create new vacant lot. New $\frac{3}{4}$ " meter. Adds 2,700 sf new hard surface.

- Water: 1 CE
- Wastewater: 1 CE
- Drainage: 2,700 sf

Total SDC across services:

- Proposed: \$12,800
- Replaces: \$2,400



SF House + AADU + DADU

SF tear down replacing $\frac{3}{4}$ " meter with 1.5" meter. Adds 1,350 sf new hard surface.

- Water: 2.3 CE
- Wastewater: 2.3 CE
- Drainage: 1,350 sf

Total SDC across services:

- Proposed: \$23,500
- Replaces: \$5,520



12 Townhomes

Two adjacent SF tear downs with 2 x $\frac{3}{4}$ " meters. New 2" master meter. Adds 2,700 sf new hard surface.

- Water: 3.3 CE
- Wastewater: 3.3 CE
- Drainage: 2,700 sf

Total SDC across services:

- Proposed: \$34,650
- Replaces: \$7,920



150-unit Apartment Building

Vacant paved parking lot with no existing water service. New 4" meter. No new hard surface added.

- Water: 17 CE
- Wastewater: 17 CE
- Drainage: 0 sf

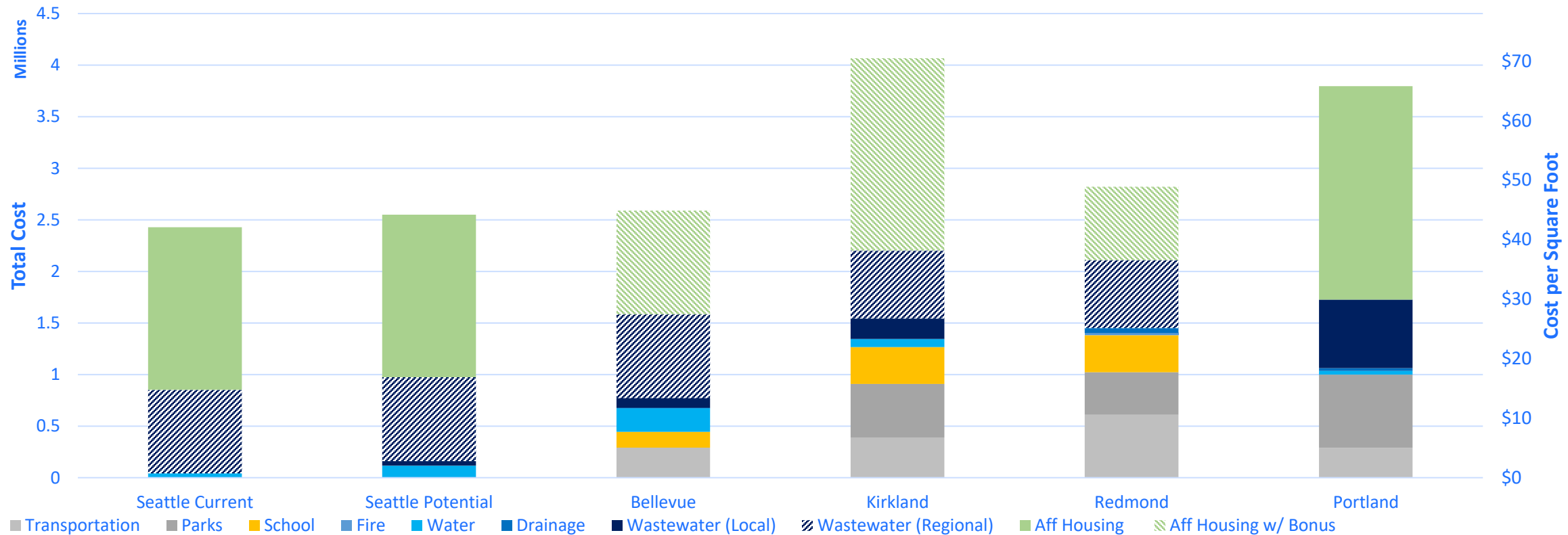
Total SDC across services:

- Proposed: \$161,500
- Replaces: \$40,800

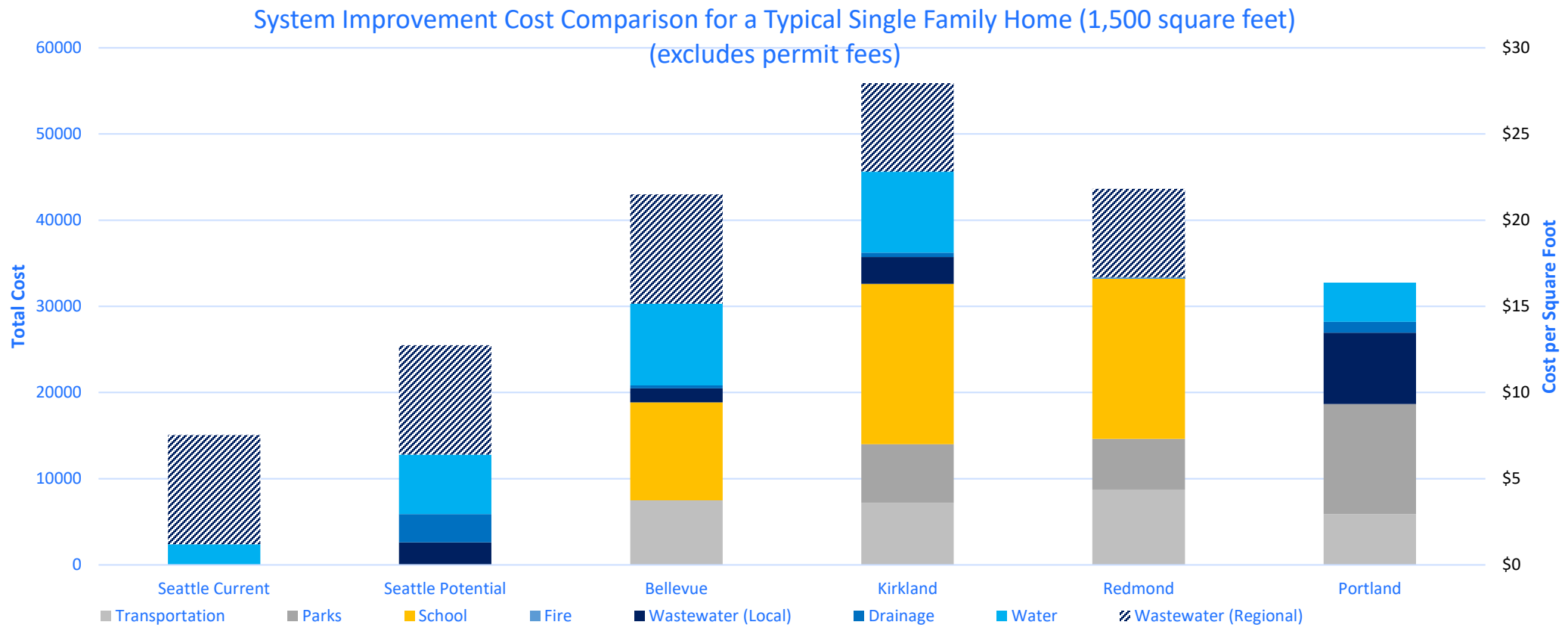
- Credit is given for existing levels of water / wastewater service or hard surface.
- System Development Charges are waived for developments required to do MLE.

Development Charges Benchmarking - Multifamily

System Improvement Cost Comparison for a Typical Multi-Family Development
(100 dwelling unit, excludes permit fees)



Development Charges Benchmarking Single Family



Proposal: MLE Cost Sharing Program



Developer pays for the portion of MLE associated with their development, SPU pays for remainder



For predictability, SPU pays actual cost up to \$1,500 / lineal foot (LF)



MLE cost sharing limited to first 750LF to ensure financial viability of program



Future beneficiaries of the Mainline Extension repay SPU per latecomer agreement

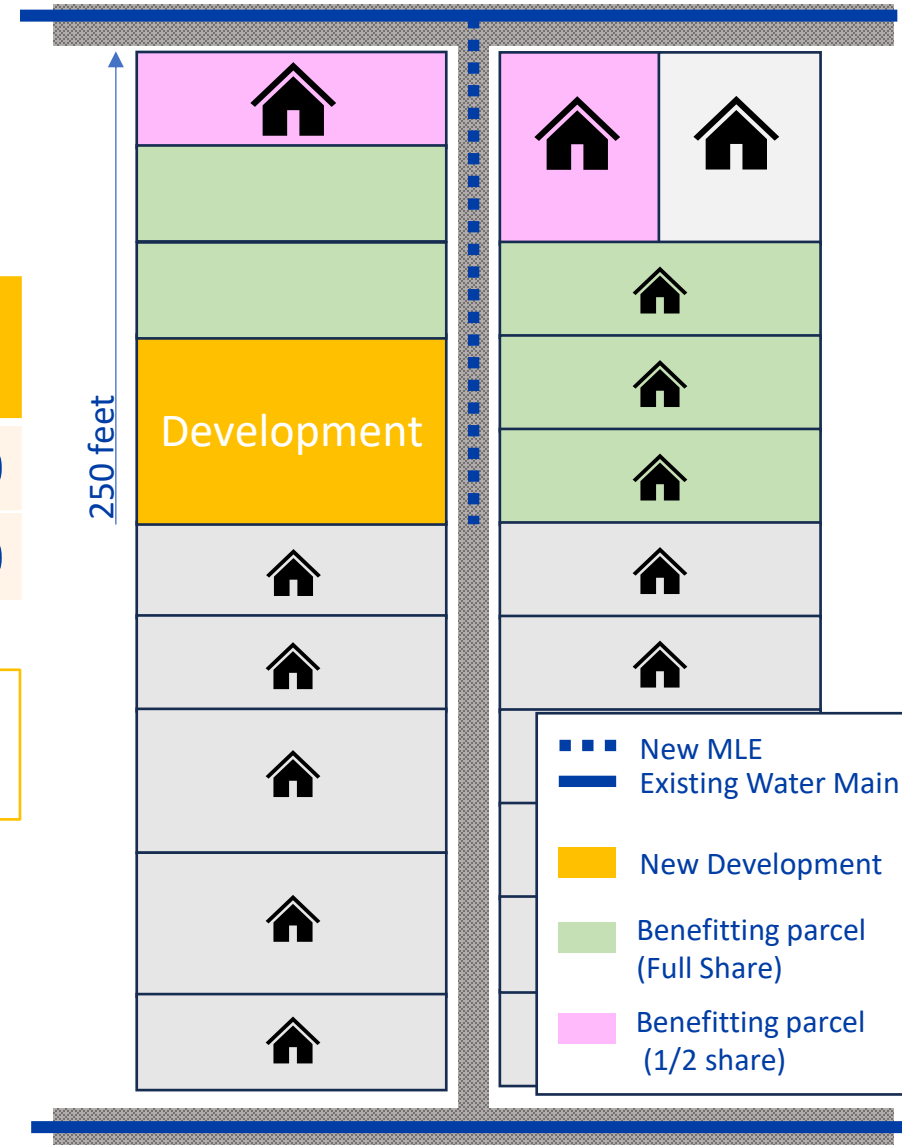


Program will be evaluated annually to ensure program viability within existing resources.

MLE Cost Sharing Example

Development 250 LF Water MLE and 25% of area	SPU	Developer
Current: No cost sharing	\$0	\$375,000
Future: With cost sharing	\$281,250	\$93,750

Benefitting parcels pay their share through an SPU administered Latecomer Agreement if redevelop within 20 years (E.g. green = \$47k)



MLE Cost Sharing Program Funding

Cost sharing program tailored to meet expected SDC Revenue with no impacts on rates

MLE Cost Sharing Program	Water	Wastewater	Drainage
Est. SDC Revenue less Program Admin Costs	\$6.6M	\$3.5M	\$1.9M
Est. SPU payments to developers for MLE Cost Sharing	\$7.1M	\$1.4M	\$3.2M
Estimated shortfall / SDC Capital remaining per year	(\$0.5M)*	\$2.1M	(\$1.3M)*

*SPU has existing capital funds to dedicate so the program remains rate neutral.

Because Latecomer payments are unpredictable, they have not been included in program estimates.



Public Engagement

- SPU began extensive outreach in April 2023, including three SPU-hosted virtual meetings open to the public
- Other stakeholders included:
 - The Housing Development Consortium's Streamlining Affordable Housing Production Workgroup
 - The Black Home Initiative Network Policy Group
 - The American Institute of Architects Seattle Housing Taskforce
 - The Master Builders Association's Seattle Builders Council
 - The City of Seattle Housing Subcabinet



Three-Ordinance Package

- **CB 120966: System Development Charge Amendments**
 - Establishes SDCs for sewer and drainage systems
 - Redefines SDC for water, replacing “water connection charge”
 - Expands payment plans for SDCs, allowing 25% up front payments with remainder plus interest due in two years or upon sale
- **CB 120967: Cost Sharing and Latecomer Agreements**
 - Authorizes SPU to participate in the reimbursement of mainline extensions built by private developers and to retain a pro rata share of latecomer payments
 - Authorizes “municipal assessment water and sewer reimbursement areas” which act similarly to latecomer agreements on infrastructure built and paid for by SPU
- **CB 120968: Program Administration**
 - Adds six positions to manage engineering, contracts, and administrative aspects of developer-installed mainlines and latecomer agreements
 - Positions are funded by the increased SDC revenue
- New System Development Charges and Cost Sharing to begin January 1, 2026 to allow for implementation planning and hiring.



Questions?



Appendix



SDC Examples



Detached House on new lot

Total SDCs for Development

- Proposed: \$12,800
- Replaces: \$2,400



Detached House + AADU + DADU

Total SDCs for Development:

- Proposed: \$23,500
- Replaces: \$5,520



12 Townhomes

Total SDCs for Development:

- Proposed: \$34,650
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150-unit Apartment Building

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Customer Equivalents

Water and Wastewater SDCs	
Water Service Size (inches)	Customer Equivalents (CE)
3/4	1.0
1	1.7
1 1/2	3.3
2	5.3
2 (high flow)	8.3
3	11.0
4	17.0
6	33.0

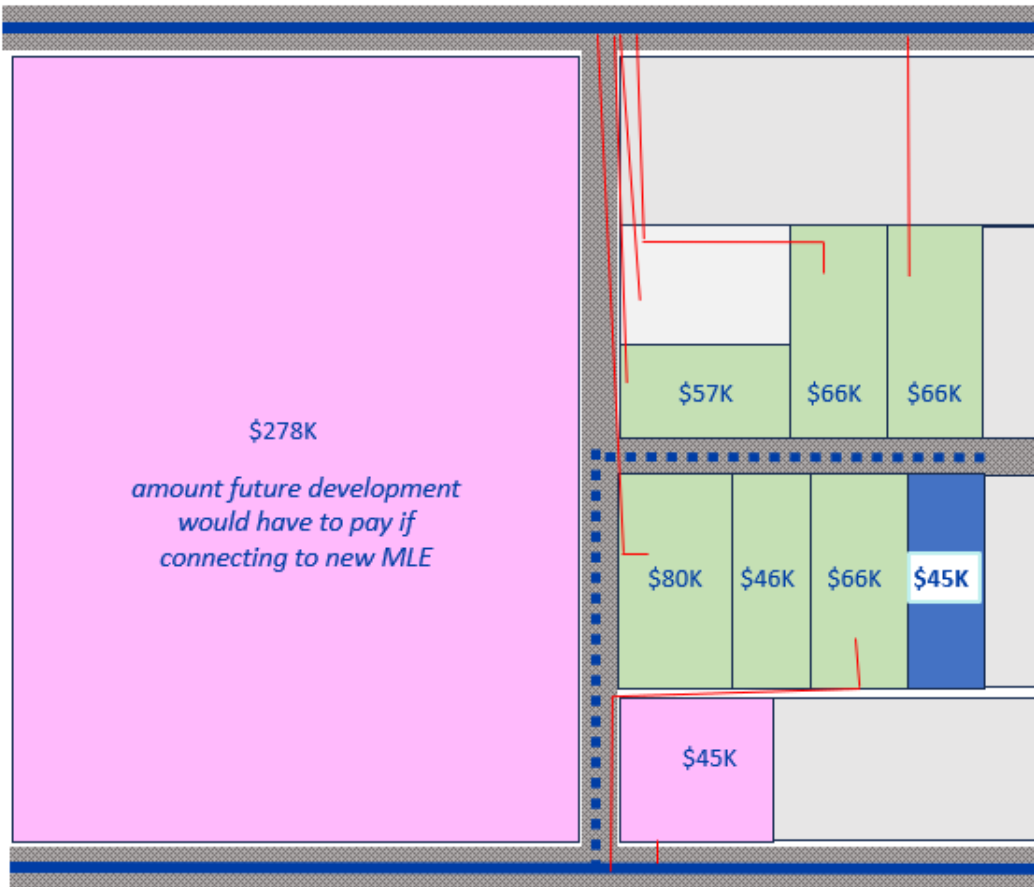
Drainage

Charged on square foot basis of added hard surface

Hard surface = impermeable to runoff, for example
buildings, driveways and sidewalks



MLE Cost Sharing Example



New 4-plex is 6% of parcel area and requires 500 LF 8" Water MLE	SPU Portion	Developer Portion
Status Quo: No cost share	\$0	\$750K
SPU cost sharing proposal	\$705K**	\$45K*

**Development's and benefitting parcels' water SDC requirements are waived when MLE or latecomer fees are required.*

***Repayment from latecomers are unpredictable, therefore not assumed in program financing.*