SEATTLE CITY COUNCIL
CENTRAL STAFF

August 9, 2024

M E M O R A N D U M

To: Parks, Public Utilities & Technology Committee
From: Brian Goodnight, Analyst
Subject: CBs 120819 & 120820: 2025–2027 Drainage and Wastewater Rates

On August 14, 2024, the Parks, Public Utilities & Technology Committee (Committee) will continue discussion of, and possibly vote on, Council Bills (CBs) 120819 and 120820, which would set Seattle Public Utilities' (SPU's) drainage and wastewater rates for 2025 through 2027. SPU provided a presentation on the proposed bills at the Committee's July 24, 2024, meeting.

This memorandum: a) provides background information on prior Council actions, b) describes the proposed rate increases and compares them to the current and proposed Strategic Business Plans, and c) summarizes impacts to customers.

Background

SPU operates three distinct utilities: Drainage and Wastewater, Solid Waste, and Water. Customer rates for the three utilities are guided by six-year Strategic Business Plans, which are updated every three years, although actual utility rates are established by the Council via ordinance. The current 2021–2026 Strategic Business Plan (2021 SBP) was adopted by Council in May 2021 (RES 32000), and the Committee is presently considering a new Strategic Business Plan covering 2025–2030 (2024 SBP) via RES 32136.

The Council typically considers rate-setting legislation for one of the three utilities each year, with rates being set for a three-year period. The most recent updates for the Drainage and Wastewater utility occurred in September 2021 and established rates for 2021–2024: ORD 126432 for drainage, and ORD 126433 for wastewater.

Drainage and wastewater rates work in tandem to provide SPU sufficient revenue to manage the stormwater and wastewater collection and treatment systems. The systems are physically interconnected in parts of the city through combined pipes that handle both stormwater and wastewater. Customers receive charges for their applicable drainage and wastewater rates in different ways; drainage fees are billed through King County's property tax system, whereas wastewater fees are billed directly by SPU through bi-monthly bills.

Proposed 2025–2027 Rates

The proposed legislation would establish drainage and wastewater rates for 2025 through 2027. The proposed rates are shown in Table 1, alongside the endorsed rate increases from the 2021 SBP and the rates included in the 2024 SBP.

Table 1. Comparison of Proposed Drainage and Wastewater Rates vs 2021 & 2024 SBPs[1]

	2025	2026	2027
DRAINAGE			
Proposed Rates	**5.0%**	**5.0%**	**5.1%**
2021 SBP	*6.5%*	*6.7%*	---
2024 SBP	5.0%	5.0%	5.1%
WASTEWATER			
Proposed Rates	**5.0%**	**5.0%**	**5.0%**
2021 SBP	*7.8%*	*3.6%*	---
2024 SBP	5.0%	5.0%	5.0%

As shown in Table 1, the proposed drainage rate increases for 2025 and 2026 are lower than the increases included in the adopted 2021 SBP and are consistent with the rates included in the 2024 SBP. For wastewater, the proposed rate increases for 2025 and 2026 are lower on average from the rates included in the 2021 SBP, although the proposed rates are lower for 2025 and higher for 2026. Again, the proposed wastewater rates are consistent with the rates in the 2024 SBP.

To determine the rate adjustments needed to support the drainage and wastewater systems, SPU performed a detailed rate study (attached as Exhibit A to the Summary and Fiscal Notes to each CB) that revises key assumptions, projects customer demand, determines the level of resources required to allow the department to meet its financial policies, and calculates the revenue requirements for each system.

In addition to updating assumptions and projections, the rate study includes other modifications that are impactful to the proposed rates. The first of these changes is the removal of treatment expenses from the drainage rates. Historically, both the wastewater rates and the drainage rates have been composed of two parts: a system component, to recover operating and capital expenses, and a treatment component, to recover payments to wastewater treatment providers. SPU's treatment payments to providers are calculated based on metered water usage, however, and are not impacted by the quantity of stormwater flows. Therefore, SPU is proposing to remove the treatment component from the drainage rates, and all of the treatment expenses will be recovered through wastewater rates.

Two other notable changes in the rate study are enabled by new data sets procured by SPU in 2023: a citywide Geographic Information System (GIS) map of hard and pervious surface types, and a citywide map of tree canopy. These new data allowed SPU to perform the first

[1] The tables in this memorandum include projections for future increases to King County's wastewater treatment rate. Wastewater treatment rates are adjusted as necessary via an automatic passthrough mechanism authorized in Seattle Municipal Code 21.28.040.

comprehensive update to drainage customer billing data since 2012. SPU used this new data to introduce additional rate tiers for all drainage customer types, which is intended to increase equity by billing parcels based on a narrower range of land characteristics. SPU has also revised the qualification structure for providing low-impact discounts. The new structure expands the availability of discounts to more parcels across the city while narrowing the focus of discounts to those characteristics (forest and unmanaged grass) that mitigate stormwater more effectively.[2]

Lastly, SPU's rate study assumes the use of accumulated cash balances to fund a greater share of the capital program than usual. SPU has a goal of maintaining a cash balance in the Drainage and Wastewater Fund to cover 100 days of operating expenses. The fund is currently holding more than 300 days of operating expenses, however, and SPU is attempting to reduce this cash balance to the 100-day target over the next six years. The greater cash contributions to the capital program result in a lower and smoother rate path than could be achieved otherwise.

Customer Impact

Table 2 shows the impact of the proposed drainage and wastewater rate increases on the monthly bills for a typical residential customer and for a typical small store, such as a convenience store. The table shows the expected monthly bills for those typical customers and provides the dollar and percentage increases from the previous year.

It is important to note that the percentage changes in Table 2 do not match the proposed rate increases in Table 1 in all instances. This discrepancy occurs because Table 1 shows the average increases for all customer types and tiers, but those rates do not represent the specific increases that every customer will experience. For example, the residential category in Table 2 shows a decrease in its drainage charges for 2025. This is the result of the example parcel (at 5,000 sq. ft.) being assigned to a smaller rate tier and benefiting from improvements related to SPU's new data sets.

[2] Additional information is available in Appendix D of Exhibit A to the Summary and Fiscal Notes.

Table 2. Monthly Impact of Proposed Rate Increases to Customers

	2024	2025	2026	2027
DRAINAGE				
Residential [a]	**$59.36**	**$56.08**	**$58.89**	**$61.86**
$ Change from Prior Year	--	*($3.29)*	*$2.82*	*$2.97*
% Change from Prior Year	--	*(5.5%)*	*5.0%*	*5.0%*
Convenience Store [b]	**$145.17**	**$156.72**	**$168.31**	**$176.78**
$ Change from Prior Year	--	*$11.56*	*$11.59*	*$8.48*
% Change from Prior Year	--	*8.0%*	*7.4%*	*5.0%*
WASTEWATER				
Residential [c]	**$78.69**	**$82.60**	**$86.77**	**$91.12**
$ Change from Prior Year	--	*$3.91*	*$4.17*	*$4.34*
% Change from Prior Year	--	*5.0%*	*5.0%*	*5.0%*
Convenience Store [d]	**$366.00**	**$384.20**	**$403.60**	**$423.80**
$ Change from Prior Year	--	*$18.20*	*$19.40*	*$20.20*
% Change from Prior Year	--	*5.0%*	*5.0%*	*5.0%*

a – Typical monthly single-family drainage fee based on 1/12 of annual fee for a 5,000 sq. ft. parcel
b – Based on 1/12 of annual fee for 8,700 sq. ft. with 90% hard surface
c – Typical monthly single-family wastewater consumption is 4.3 CCF
d – Based on monthly wastewater consumption of 20 CCF

Next Steps

If the Committee votes to recommend passage of CBs 120819 and 120820, the City Council could consider both pieces of legislation at its meeting on September 3, at the earliest. Following Council passage, the new drainage and wastewater rates would go into effect for 2025 through 2027.

cc: Ben Noble, Director
Yolanda Ho, Deputy Director