



SEATTLE CITY COUNCIL
CENTRAL STAFF

CB 120602: Water Utility Tax Repeal

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SELECT BUDGET COMMITTEE

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Presentation Overview

- City Utility Taxes
- Water Rate Structure
- CB 120602
- Proposed Amendment

City Utility Taxes

Slide (1/4)

- City's authority to impose utility business and occupation taxes derives from the general authority to impose taxes on businesses operating within the city's boundaries
- City imposes utility taxes on the provision of: telecommunications, natural gas, steam, electricity, water, drainage, wastewater, and solid waste
- Public and private service providers are subject to the taxes – taxes are applied upon the utility business itself, not upon the individual utility customers

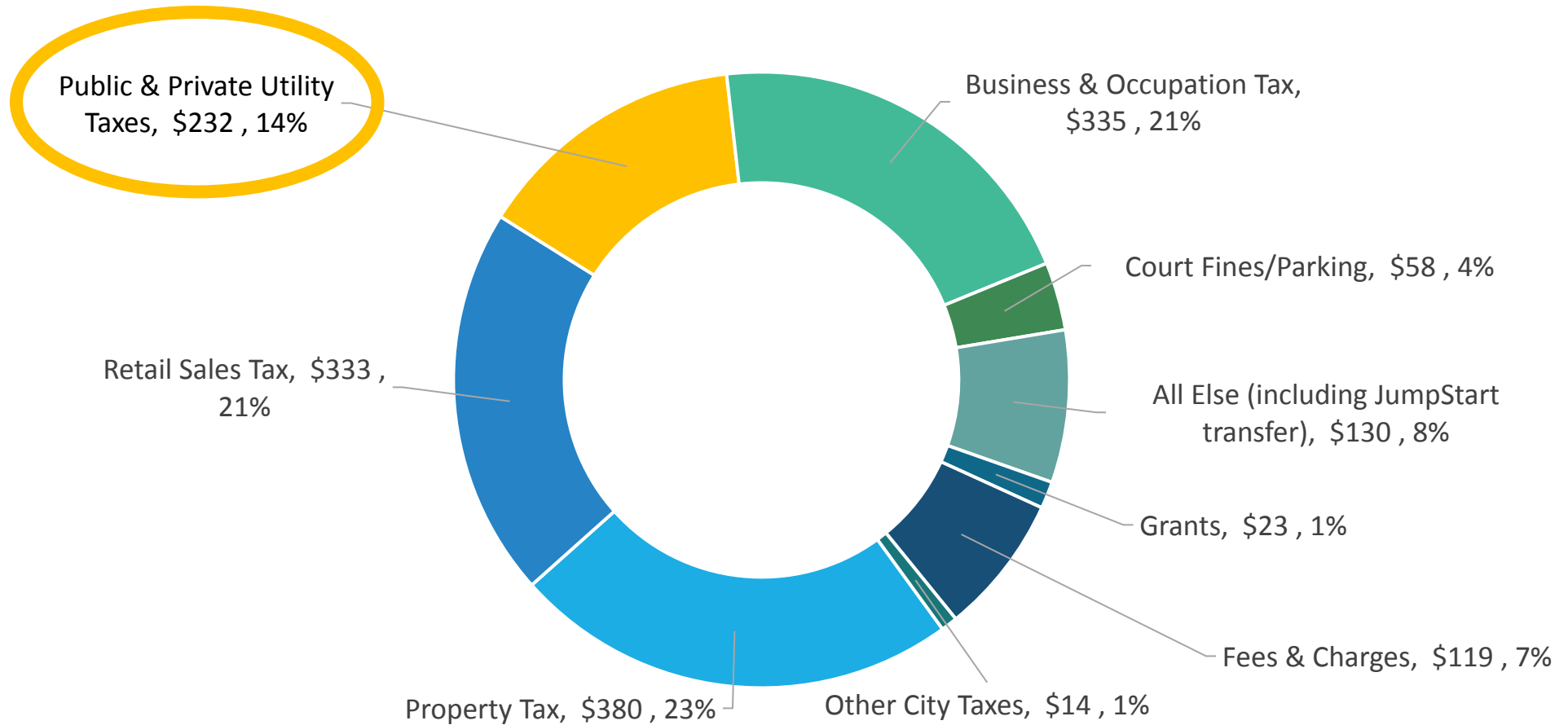
City Utility Taxes

Slide (2/4)

- The taxes are levied on most revenue from retail sales collected by the utilities
 - Wholesale revenues are not subject to the utility tax
- Taxes on the electricity and water utilities apply to business performed both inside and outside of the city
- For example:
 - Seattle Public Utilities (SPU) provides retail water service to certain customers in Burien
 - The revenue SPU generates by providing this service is taxed at the same rate as revenue generated from retail customers within the City of Seattle

City Utility Taxes

2023 Adopted General Fund Revenues by Source (\$ in millions)



Source: 2023 Adopted and 2024 Endorsed Budget Book, Page 52

City Utility Taxes

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Seattle City Light

- Electricity: 6.00% *(last adjusted in 1990)*

Seattle Public Utilities

- Drainage: 11.50% *(last adjusted in 2005)*
- Wastewater: 12.00% *(last adjusted in 2005)*
- Water: 15.54% *(last adjusted in 2011)*
- Solid Waste: 14.20% *(last adjusted in 2017)*

Water Rate Structure

Slide (1/4)

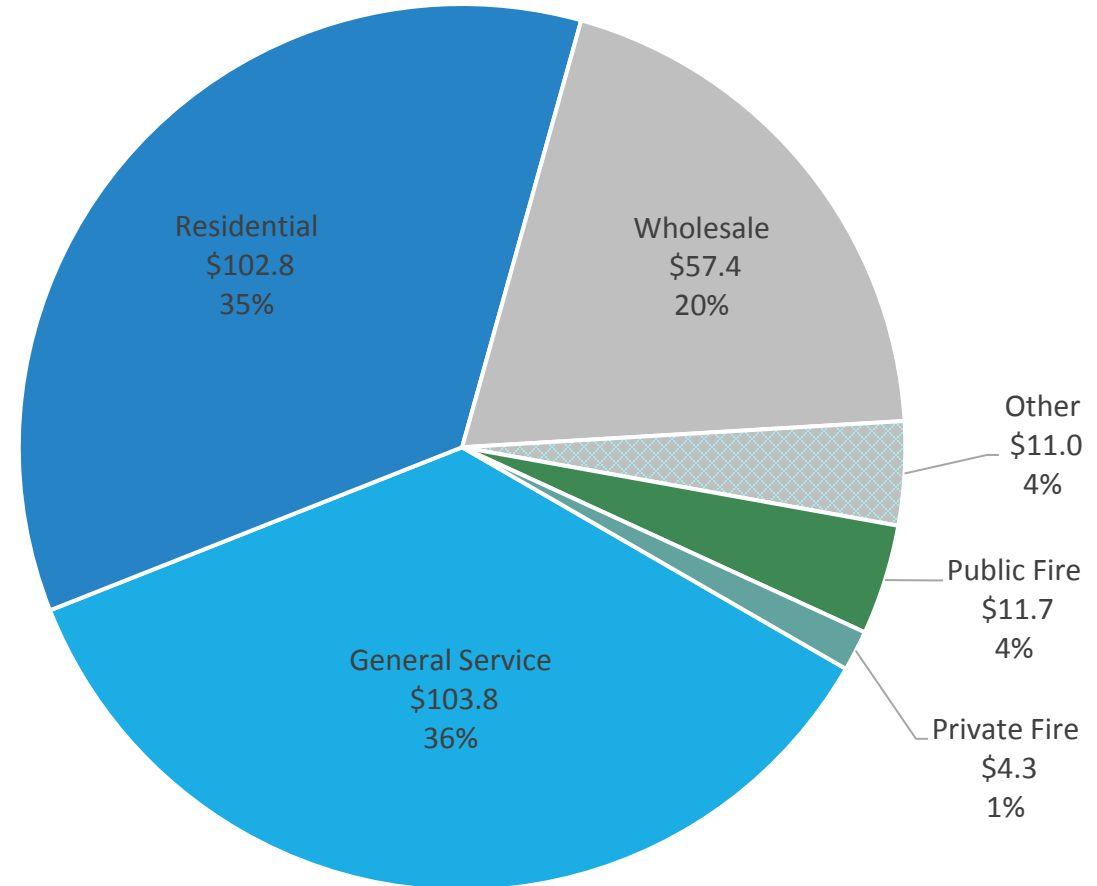
- SPU's first step in the rate setting process is to determine the revenue requirement for the water system
- Revenue requirement is the amount of operating revenue necessary to fund the water system's operating budget and meet its financial targets
- In the simplest terms, when expenses increase, the revenue requirement increases
- Taxes are an operating expense for the water system – including the City's utility tax

Water Rate Structure

SPU derives revenue to support the water system from:

- Retail water rates
 1. Residential
 2. General Service
 3. Private Fire
 4. Public Fire
- Wholesale contracts (with nearby cities and water districts)
- Other miscellaneous non-rate revenue

2022 Operating Revenue (\$ in millions)



Source: Seattle Public Utilities

Water Rate Structure

Slide (3/4)

Retail: SPU uses a complex cost allocation process to distribute costs amongst different customer classes, which are groups of similar customers in terms of demand patterns and cost to provide services. There are 4 retail customer classes:

1. Residential

- Single-family homes and duplexes
- 173,000 accounts (88%)
- 38% of annual retail water usage

2. General Service

- Governmental, industrial, and commercial (includes multi-family residential structures)
- 22,500 accounts (11%)
- 61% of annual retail water usage

Water Rate Structure

Slide (4/4)

3. Private Fire

- Separately-metered connections for fire-protection sprinkler systems

4. Public Fire

- Governmental agencies responsible for providing public fire protection, such as fire hydrants

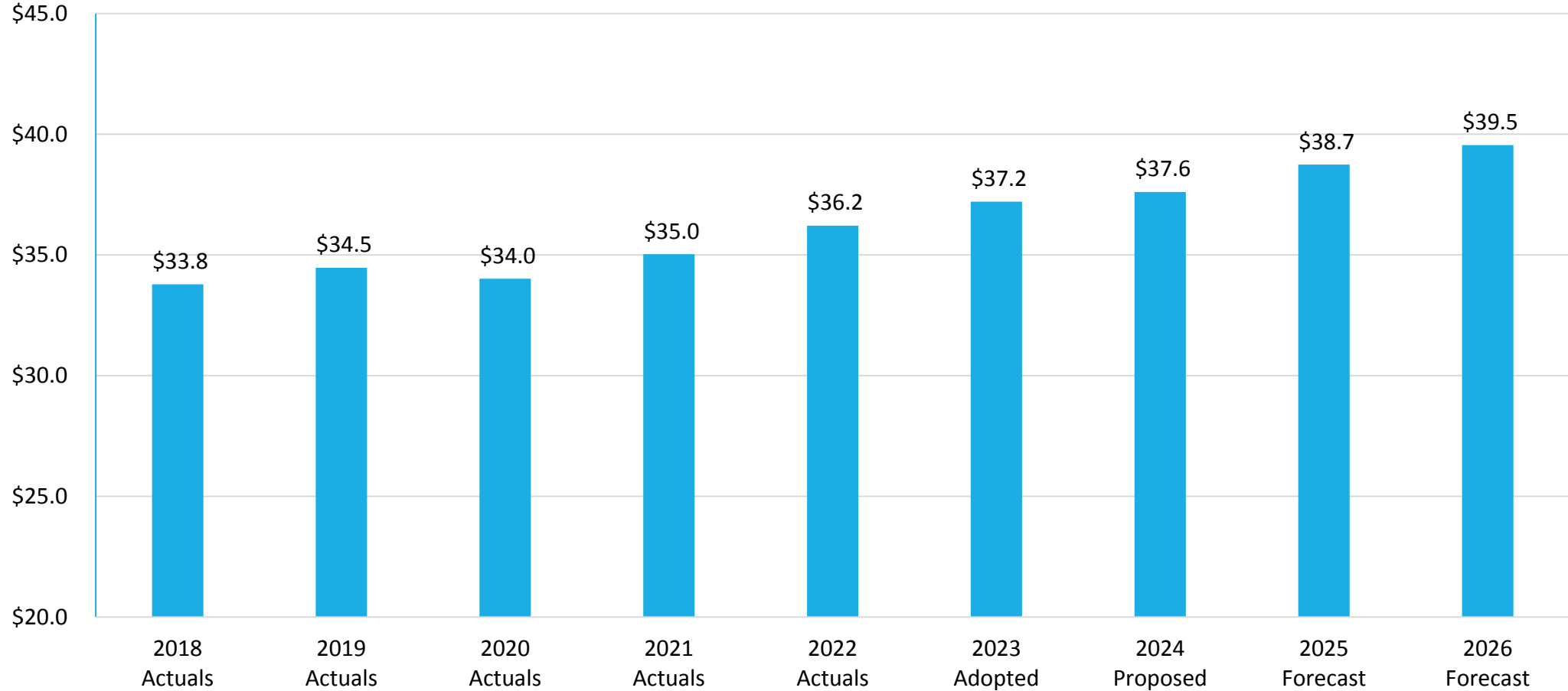
Combined, the Private Fire and Public Fire customer classes make up less than 1% of retail water accounts.

CB 120602

Slide (1/4)

- Amends Section 5.48.050 of Seattle Municipal Code to eliminate the tax on the business of selling or furnishing water
- The repeal would be effective beginning on January 1, 2025

General Fund Revenues from Water Utility Tax (\$ in millions)



CB 120602

- Potential impact of the repeal on different customer classes

	Customer Type	2023 Bill (per month)	Water Tax (per month)	Repeal Savings (annual)
Residential	Median	\$49	\$8	\$91
General Service	Convenience Store	\$114	\$18	\$213
	Small Office Building	\$362	\$56	\$675
	Apartment (90 units)	\$1,368	\$213	\$2,551
	Medium Hotel	\$8,504	\$1,322	\$15,858
	Large Industrial	\$20,538	\$3,192	\$38,299

Source: Seattle Public Utilities

CB 120602

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- In September, Council passed Ordinance 126909 establishing retail water rates for 2024 through 2026
- Passage of CB 120602 would reduce SPU's water system operating expenses, thereby reducing the revenue requirement
- For customers to receive a financial benefit of the elimination of the tax, Council would need to adjust the retail water rates for 2025 and 2026
- Councilmember Pedersen has proposed an amendment that would request that SPU transmit legislation proposing revised retail water rates for 2025 and 2026 in recognition of the elimination of the tax

Questions?