July 24, 2026

M E M O R A N D U M

To:	Governance and Utilities Committee
From:	Brian Goodnight, Analyst
Subject:	CB 121245: 2027–2029 Water Rates

Introduction and Overview

On July 29, 2026, the Governance and Utilities Committee (Committee) will continue its consideration of Council Bill (CB) 121245 that would establish Seattle Public Utilities' (SPU) retail water rates for 2027 through 2029, revise qualification requirements for the Utility Discount Program, and authorize withdrawals from the Revenue Stabilization Subfund. SPU provided a presentation on the proposed bill at the Committee's meeting on July 9, 2026.

This memorandum provides background information on prior Council actions and the structure of water rates, compares the proposed rate increases against the rates endorsed in the 2024–2029 Strategic Business Plan, highlights elements of the proposal, and summarizes the impact to customers.

Background

Prior Council Actions

SPU operates three distinct utilities: Drainage and Wastewater, Solid Waste, and Water. The Council typically considers rate-setting legislation for one of the utilities each year, with rates being set for a three-year period. The Council last approved a water rates package in September 2023, via ORD 126909, covering calendar years 2024 through 2026.

In addition to rate-setting legislation, every three years the Council also considers an update to SPU's Strategic Business Plan (SBP). The Council most recently adopted an SBP in September 2024, via RES 32136, covering 2025–2030. The SBP identified focus areas for SPU, described its long-term goals and short-term strategies, and specified a three-year rate path (2025 to 2027) and a three-year rate forecast (2028 to 2030) for all three of SPU's utilities.

Water Rate Structure

SPU manages and operates a water system that supplies drinking water to customers inside and outside of the city boundaries. The department derives revenue to support the water system through a few primary sources: retail water rates charged to residential, commercial, and fire system customers; wholesale contracts with nearby cities and water districts[1]; and other

[1] Wholesale customers typically own and operate separate water delivery systems and assets, but still rely on SPU to provide maintenance, oversight, and investment in the regional water supply system.

miscellaneous non-rate revenues[2]. In 2027, it is estimated that retail customers will provide approximately 73 percent of revenues, wholesale customers will provide about 18 percent, and miscellaneous non-rate revenues will account for the remaining nine percent. These revenues are all managed within the department's enterprise Water Fund, and the revenues generated on an annual basis from these sources must be sufficient to cover the costs of the water system and to meet established financial targets.[3]

For the retail water rates, which are the subject of CB 121245, 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 the cost to provide services. The four customer classes are:

- Residential – This class includes single-family homes and duplexes and represents about 88 percent of all SPU retail water accounts and approximately 39 percent of annual retail water usage. Residential customers are charged two types of charges: a "base service charge" that is based on the size of their water meter, and a commodity charge that is based on the amount of water consumed. Residential commodity charges are seasonal, with a uniform, lower rate in the off-peak season (September 16–May 15) and tiered, higher rates in the peak season (May 16–September 15). Tiering rates in the peak season is intended to provide a disincentive for excessive summer water usage.
- General Service – This includes commercial, governmental, and industrial customers, as well as multi-family residential structures. The class represents about 11 percent of all retail water accounts, but accounts for approximately 60 percent of annual retail water usage. Similar to the Residential class, General Service customers are charged a base service charge and a commodity charge that varies seasonally. Unlike the Residential class, however, the General Service commodity rates do not have tiers; rather, there is a uniform rate for off-peak and a uniform rate for peak season.
- Private Fire – This class contains separately-metered connections for fire-protection sprinkler systems installed on customer property and, combined with the Public Fire class, makes up less than one percent of retail water accounts. Customers pay a monthly base service charge based on meter size, which includes a monthly usage allowance for testing and system operations. The charges for these services are in addition to their Residential or General Service charges.
- Public Fire – This class includes governmental agencies that are responsible for providing public fire protection, such as fire hydrants. Customers are charged a flat annual fee that is determined by the size of the water main attached to the hydrant and the jurisdiction where the hydrant is located.

[2] Non-rate revenue includes things such as capital contributions and fees, interest income, rentals, and charges for miscellaneous services.
[3] Council most recently updated the policies in March 2005, via RES 30742.

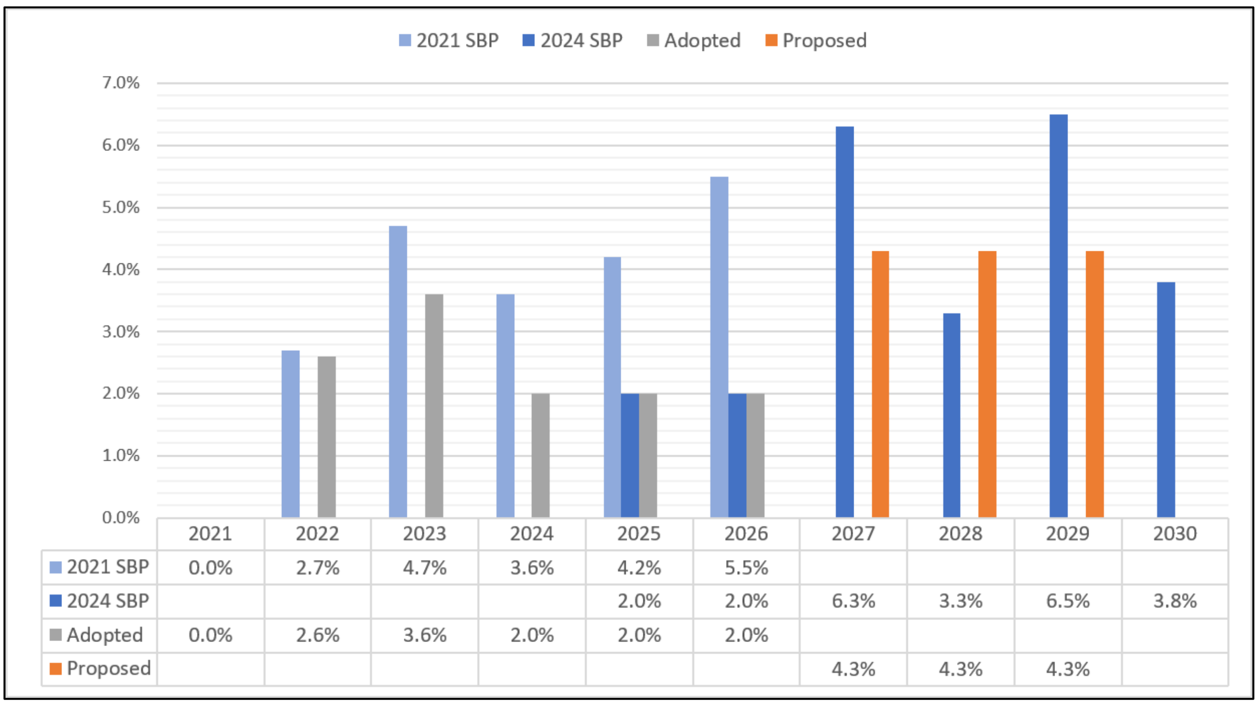
Retail water rates are also influenced by anticipated customer demand and expected enrollment in the City's Utility Discount Program, which provides qualifying low-income customers with a 50 percent discount on their bills. See below for a more detailed description of the impact of Utility Discount Program changes on the proposed rates.

Additional detailed information on the cost allocation model and rate structure for the various customer classes can be found in [Exhibit A to the Summary and Fiscal Note](), which is SPU's 2027–2029 Water Rate Study.

Comparison of Proposed 2027–2029 Rates and SBP Endorsed Rates

The proposed water rate increases for 2027–2029 are shown in Chart 1, alongside previously adopted rates for 2021–2026 and the endorsed rate increases from the 2021 and 2024 SBPs.

Chart 1: Water Rates Comparison – Endorsed, Adopted, Proposed



As shown in Chart 1, the proposed water rate increases for 2027 and 2029 are lower than the increases endorsed in the 2024 SBP, but the proposed increase for 2028 is higher than the endorsed rate. Overall, the proposed rates of 4.3 percent in each year would result in a lower cumulative rate increase over the three-year period than the rates endorsed in the SBP. SPU has indicated that the rate increases have been moderated, at least in part, by a more favorable capital construction market and the department's bond ratings which reduce the cost of debt service.

The proposed water rates are expected to increase SPU revenues by approximately $11.3 million in 2027 (relative to 2026), $11.3 million in 2028 (relative to 2027), and $11.8 million in 2029 (relative to 2028). Due to the City's imposition of a utility tax on retail water revenue, the City's General Fund is estimated to receive approximately $1.8 million of additional revenue in each of the three years as a result of the proposed rate increases.

Proposed Bill Highlights

A few of the more significant elements impacting the proposed water rates or included in the proposed legislation are:

- Utility Discount Program (UDP) – Consistent with the Executive's response to Council's 2026 Statement of Legislative Intent SPU-012S-A, the proposed water rates assume eligibility changes to the UDP. The rates assume an increase to the eligibility threshold for the program from 70 percent of State Median Income (SMI) to 60 percent of Area Median Income (AMI), with an expected enrollment increase of approximately 11,000 new customers. Increased participation in the UDP reduces revenues to SPU, since more customers pay a discounted rate, and those revenues have to be made up for in the standard rates. The estimated increase in UDP enrollment adds 1.1 percentage points to the proposed rate increase in 2027, the year enrollment is expected to surge as a result of the eligibility adjustment.

  On July 14, Council passed ORD 127468 changing the UDP's eligibility threshold from 70 percent SMI to 60 percent AMI, in addition to signaling future threshold changes and requesting reporting on program performance. Due to the passage of ORD 127468, Amendment 1 to CB 121245, sponsored by Councilmember Strauss, has been prepared to remove duplicative code changes from the proposed legislation.

- Revenue Stabilization Subfund (RSF) Withdrawal Authorization – Section 5 of the proposed bill authorizes the General Manager and Chief Executive Officer of SPU to make one or more withdrawals from the Water Fund RSF, up to a cumulative maximum of $19.8 million, contingent upon the balance of the RSF staying above $17.1 million.

  Per the financial policies for the management and operation of the water system and conditions for the RSF[4], the minimum balance in the RSF should be no less $9 million. Due to the amount of time since the last update of the financial policies, however, SPU has increased its internal target for the RSF minimum balance to approximately $17 million. The RSF currently has a balance of $38.1 million.

  The department anticipates that any needed RSF withdrawals will occur in 2026, and therefore the 2027–2029 Water Rate Study does not reflect any withdrawals during the rate study period. The department expects to utilize this authority to fund possible capital expenses and would request additional appropriation authority in the future, if needed.

[4] ORD 121761, March 20025

- Rate Smoothing – As discussed above, the Council has established financial policies for the management of the water system. In addition to setting a minimum balance requirement for the RSF, the policies address elements such as the amount of debt service coverage required, the percentage of capital program costs that must be funded with cash, and the minimum cash balance to be kept on-hand. Typically, retail water rates are set to generate a sufficient amount of revenue to cover the system's costs and to satisfy all of the financial policies.

  With the rates proposed in CB 121245, however, the increases are designed to smooth the impact of a capital program in 2029 that is projected to be larger than previous years. To accomplish this smoothing, the 2027 and 2028 rates are proposed to increase above the minimum requirement in order to generate a cash balance to be utilized in 2029 – to essentially "buy down" the 2029 rate increase – while still leaving the Water Fund with the same cash balance as exists at the beginning of the rate period.

- Focus on Fixed Revenues – Consistent with the prior water rate study and rates package from 2023, the proposed water rates emphasize increasing the share of "fixed revenue" relative to revenue that fluctuates based on usage. As described above, water rates are a combination of base service charges derived from meter size (fixed revenue) and commodity charges dependent on the amount of water consumed. The proposed rates would implement this direction by increasing base meter charges at a faster rate during the three-year period relative to the increases in commodity rates.

  SPU currently generates about 28 percent of its revenue from base service charges, compared to other utilities in the region that generate closer to 40 percent of their revenues from fixed charges. In addition to providing revenue stability for SPU, having a larger portion of the revenue stream come from fixed charges provides more bill predictability for customers.

- Annual Hydrant Inspections – At the Committee's last meeting on July 9, SPU staff indicated that one of the new investments since approval of the 2024 SBP was the transfer of annual fire hydrant inspections from the Seattle Fire Department (SFD). Currently, SFD performs hydrant inspections and the work, covered under regular staff hours outside of calls, is funded entirely by the General Fund. In preparation for the upcoming proposed budget, the Executive is considering options for shifting operational responsibility for this work. Additionally, the Executive is exploring whether SPU's Water utility benefits from the inspections and could therefore justify having the Water Fund cover some portion of the program cost. For the purposes of the water rate study, SPU assumed a preliminary cost of approximately $273,000 per year for the Water Fund's portion of the inspection work.

Customer Impact

Table 1 shows the impact of the proposed water rate increases on the monthly bills for a median residential customer, 90-unit apartment building, 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. Please note that the percentage increases for each customer type in Table 1 do not exactly match the proposed rate increases shown in Chart 1. The rate increases in Chart 1 show the average increase for all customer types and tiers, but do not represent the specific increase that every customer will experience.

Table 1. Monthly Impact of Proposed Rate Increases to Customers[5]

	2026	2027	2028	2029
Residential {a}	**$50.71**	**$53.53**	**$56.39**	**$59.26**
$ change from prior year	--	$2.82	$2.86	$2.87
% change from prior year	--	5.6%	5.3%	5.1%
90-Unit Apartment Building {b}	**$1,478.00**	**$1,515.00**	**$1,566.00**	**$1,628.00**
$ change from prior year	--	$37.00	$51.00	$62.00
% change from prior year	--	2.5%	3.4%	4.0%
Convenience Store {c}	**$125.10**	**$128.10**	**$132.75**	**$138.30**
$ change from prior year	--	$3.00	$4.65	$5.55
% change from prior year	--	2.4%	3.6%	4.2%

{a} – Based on monthly water consumption of 5 CCF ("hundred cubic feet"; 1 CCF = 748 gallons), and a 3/4" meter size
{b} – Based on monthly water consumption of 195 CCF, and a 3" meter size
{c} – Based on monthly water consumption of 15 CCF, and a 1" meter size

Next Steps

The Committee is scheduled to discuss and possibly vote on CB 121245 at its meeting on July 29. If the Committee votes to recommend passage of the bill at that time, the City Council could consider the legislation at its meeting on August 4, at the earliest.

cc: Lish Whitson, Director
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Jennifer LaBrecque, Lead Analyst

[5] Data from Table 1–1 of the [2027–2029 Water Rate Study](#).