

# CB 120602: Water Utility Tax Repeal

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SELECT BUDGET COMMITTEE NOVEMBER 15, 2023

## **Presentation Overview**

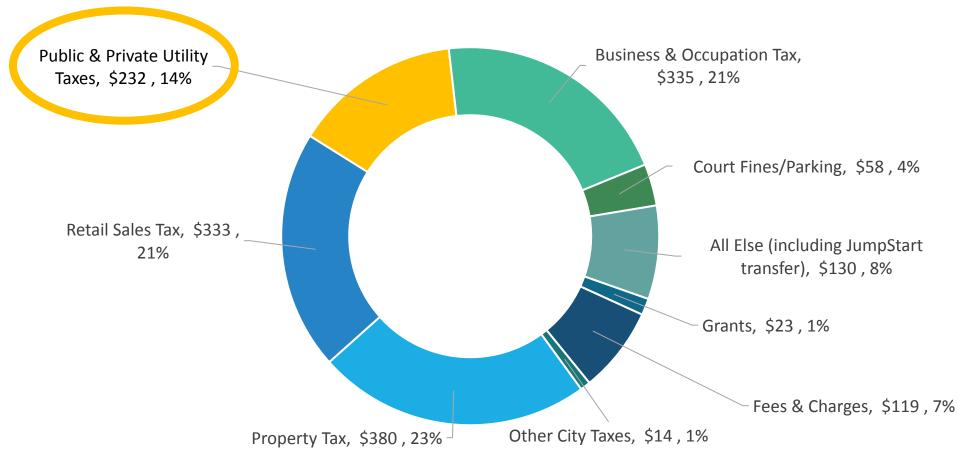
- City Utility Taxes
- Water Rate Structure
- CB 120602
- Proposed Amendment

- 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

- The taxes are levied on most revenue from <u>retail sales</u> 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)

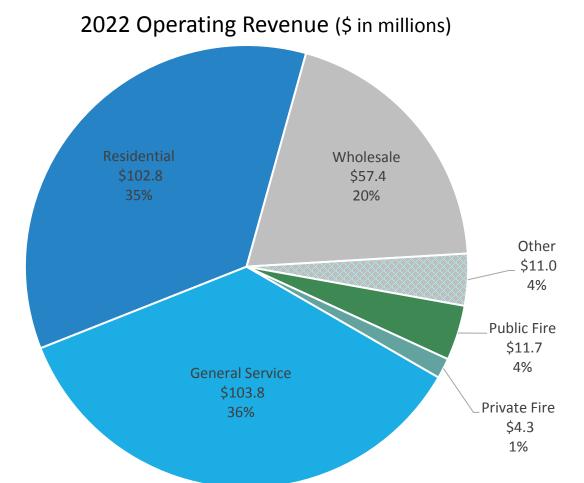
• Water: 15.54% (last adjusted in 2011)

• Solid Waste: 14.20% (last adjusted in 2017)

- 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

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



Source: Seattle Public Utilities

<u>Retail</u>: 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

#### 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.

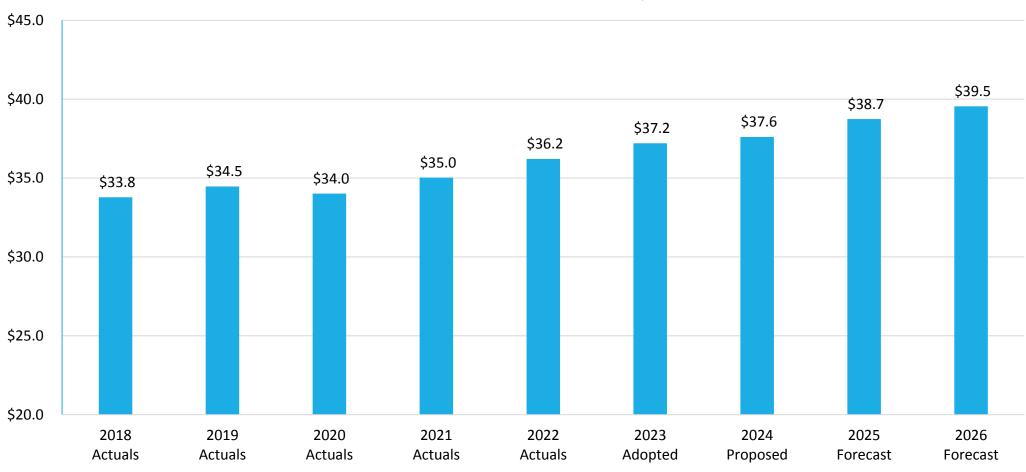
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 Amends Section 5.48.050 of Seattle Municipal Code to eliminate the tax on the business of selling or furnishing water

• The repeal would be effective beginning on January 1, 2025

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CB 120602 Slide (3/4)

• 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 Slide (4/4)

 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?