UTILITY BOARD STAFF REPORT

Item 3
September 8, 2026
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2027 Sewer Rate Discussion/Recommendation	☒ Discussion Only ☐ Action Needed: ☐ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Review the proposed 7.0% utility rate increase for sewer services for fiscal year 2027.	

STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst II
COUNCIL LIAISON:	Wendy Weiker
EXHIBITS:	1. 2027-2032 Projected Sewer Utility Cash Flow

BACKGROUND

As part of the 2027-2028 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer Utility rate adjustment for the upcoming fiscal year. The operating and capital budgets presented in this memo include amended budget figures through May 5, 2026.

Staff from Public Works and Finance worked with an outside consultant team to update the smoothed rate model based on 2026 budget actuals through July, capital work already underway, and emerging reinvestment needs for the sewer conveyance system through the current biennium and beyond. As a result of this updated analysis and the current state of the sewer system, staff recommends a 7.0% increase to the Sewer Utility rates for 2027.

2027-2028 OPERATING BUDGET

The operating budget for the Sewer Utility is presented in Table 1.

Table 1

Operating Expenditures *($ in thousands)*	**2025 Actual**	**2026 Forecasted**	**2027 Budget**	**2028 Budget**	**Percent Change 26-27**	**27-28**
Salary & Benefits	$1,495	$1,681	$1,737	$1,794	3.3%	3.3%
King County Sewer Treatment	6,043	6,653	7,501	8,457	12.8%	12.8%
Other Services and Charges	1,672	1,924	2,722	2,401	41.5%	-11.8%
Debt Service	1,021	1,030	2,371	2,734	130.3%	15.3%
TOTAL	**$10,231**	**$11,288**	**$14,331**	**$15,387**	**1.0%**	**6.9%**

Highlights from the Sewer Utility operating budget include:

- Combined personnel costs in 2027 are increasing 3.3% as compared to 2026. This increase is driven by a 4.10% cost-of-living adjustment (COLA) tied to the first half of 2026 CPI-W for Seattle-Tacoma-Bellevue WA and rising benefit costs.

- King County Sewage Treatment services are increasing service rates 12.75% in 2026. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.

- Other Services and Charges include all other operating costs including supplies, contract services, insurance, and administrative costs. The latter includes the Sewer Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance, and Human Resources staff. The 41.5% increase from 2026 to 2027 is primarily due to rising maintenance and replacement costs for the City's fleet of vehicles. Examples include the sewer jet truck and sewer pipe camera truck.

  In 2026, staff recognized that new vehicle replacement costs were outpacing expectations from past fleet rate models. This increase in fleet rates more accurately represents the costs to operate and maintain as well as replace the Sewer Utility fleet as vehicles and equipment reach the end of their useful life.

- Existing debt service is related to a Public Works Trust Fund loan (2005) for the Sewer Lake Line and Lake Line LTGO bond issuance (2017). Final repayment for the PWTF loan is anticipated in 2026, while final repayment for the Lake Line LTGO is anticipated in 2029.

- The sewer rate model assumes debt will be issued for a list of qualifying projects highlighted below in 2027, with a potential additional bond issuance anticipated in 2030. The debt issuance required to maintain the model's smoothed rate structure at 7.0% is estimated to be $26 million in 2027, and $5.5 million in 2030.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2027 and 2028 is shown in Table 2 below. Capital investment costs are the primary driver of the proposed sewer rate increases in the upcoming year as the sewer conveyance system is undergoing a period of significant reinvestment.

Table 2

Sewer Utility Capital Program 2027-2028

($ in thousands)

Project ID	Description	2027	2028
42903059	Capital Project Management	$336	$351
90.30.0001	Emergency Sewer System Repairs	55	56
90.30.0002	Backyard Sewer System Improvements	140	137
90.30.0003	Sewer System Components	55	56
90.30.0004	Pump Station Access Improvements	107	114
90.30.0006	Wet Well Cleaning	250	
90.30.0007	Lakeline Reach 1 Capacity Improvement	2,700	10,094
90.30.0013	General Sewer Plan Update	128	
90.30.0017	Pump Station Flow Monitoring	593	510
90.30.0026	Pump Station 19 & 21 Replacement	500	10,573
90.30.0028	PS 20 & 22 Generator Replacement	252	989
Sewer Utility CIP Total		**$5,114**	**$22,880**

SEWER RATE PROPOSAL

The proposed 7.0% sewer rate increase for 2027 is based on the City's updated rate model that reflects the 2027-2028 operating budget, the 2027-2032 Capital Improvement Program (CIP), debt financing requirements, and budget to actuals performance through July 2026. Prepared jointly by Finance, Public Works, and outside consultants, the rate model incorporates a third and fourth bond sale in 2027 and 2030, respectively, to finance qualifying capital project work that exceeds $2.5 million with useful lives over 20 years.

This strategy spreads major infrastructure costs incurred in a relatively short period over the useful life of updated infrastructure, thereby avoiding spikes in annual rate adjustments year-over-year while generations of rate payers who benefit from these investments help pay down the associated costs.

The proposed 7.0% rate adjustment for 2027 ensures that the Sewer Fund has adequate resources to complete the critical capital project work detailed below and into the future, as well as meet long-established fiscal policy guidelines – specifically a 30-day operating reserve and a 1% capital reserve target established by the Utility Board in 2006 as a prudent measure to protect the City's multi-million-dollar investments in its utility assets. This 1% capital reserve target enables the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of new development, existing customers, and future customers to fund both current and future reinvestment needs.

As detailed in Exhibit 1, the 7.0% rate increase in 2027 supports a planned LTGO bond sale of $26 million in 2027, which Table 3 compares the 2027-2028 rate proposal against historical projections from 2021-2025.

Table 3

Rate Recommendations	2025	2026	2027	2028	2029	2030	2031	2032
2027-2028 Rate Proposal			**7.00%**	7.00%	7.00%	7.00%	7.00%	7.00%
2025-2026 Rate Update	4.50%	4.00%	4.00%	4.00%	4.00%	4.00%		
2023-2024 Rate Update	4.50%	4.50%	4.50%	4.50%				
2021-2022 Rate Update	4.00%	4.00%						

SEWER UTILITY BOND ISSUANCE – Q3 2027

The current Sewer Utility rate proposal assumes a portion of the scheduled capital projects will rely on outside funding to offset the more than $42.2 million in escalated capital spending between 2027-2032. Exhibit 1 includes the projected LTGO debt issuance that amounts to $26 million in 2027 and $5.5 million in 2030.

For modeling purposes, timing when to seek outside funding is based on when qualifying infrastructure improvements are scheduled in the six-year capital improvement program (CIP). In practice, staff closely manage cash-flow needs for capital projects as they unfold with the requirement to spend down bond proceeds within three years of receipt.

Staff forecast the Sewer Fund balance will require additional funding from the planned $26 million issuance next year to remain positive through year-end 2027. This issuance will provide critical funding support for the sewer utility, including the following projects:

- **Lakeline Improvements** (90.30.0007) is an ongoing program to address identified capacity and access deficiencies in the lakeline component of the City's sewer conveyance system. Reach 1 (90.30.0007) of the Sewer Lakeline extends approximately 2.5 miles and serves pump stations 22-25. Funding in 2027-2028 will continue work from 2026 to address identified capacity and access deficiencies. The estimated construction scope assumes rehabilitation and/or replacement of approximately 25% of the Reach 1 lakeline (roughly the segment between PS 25 and PS 24), along with installation of three new access points. The design phase of the project is expected to be completed in Q4 2027. Total project costs are estimated at $12.7 million through 2027-2028.

- **Pump Station Replacements** (90.30.0026, 90.30.0028) aims to address the capacity concerns and component failures present across multiple pump stations in the City's sewer conveyance system. Pump stations are selected for rehabilitation work based on a comprehensive evaluation of high-risk stations completed in 2024. Work in 2027-2028 will include replacement of pumps, piping, mechanical systems, and associated electrical and control equipment; rehabilitation or replacement of existing concrete vault structures; and related utility reconfiguration, system modernization, and site improvements. The objective is to extend the service life of each station by approximately 50 years while minimizing impacts to nearby residents and the shoreline environment. Total project costs are estimated at $12.3 million through 2027-2028.

NEXT STEPS

Staff seeks to answer the Utility Board's questions about the 2027 rate adjustment, follow up with additional information as required, and return at the October 2026 Utility Board meeting for final review and adoption of the proposed utility rate adjustment for sewer service in fiscal year 2027.

The 2027 Sewer Utility rate adjustment will be included in the City's fee schedule update at the December 1, 2026 City Council meeting. Staff will return during the 2027-2028 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2028 and beyond.

RECOMMENDED ACTION

Review the proposed 7.0% utility rate increase for sewer services for fiscal year 2027.