



UTILITY BOARD STAFF REPORT

Item 3
September 9, 2025
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2026 Sewer Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Review the proposed 4.0% utility rate increase for sewer services for fiscal year 2026.	☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
STAFF:	Ben Schumacher, Financial Analyst II Matt Mornick, Finance Director	
COUNCIL LIAISON:	Wendy Weiker	
EXHIBITS:	1. 2025-2030 Projected Sewer Utility Cash Flow	

BACKGROUND

As part of the 2025-2026 mid-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 20, 2025.

Staff from Public Works and Finance worked with an outside consultant team to update the smoothed rate model based on 2025 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 4.0% increase to the Sewer Utility rates for 2026 as proposed in the smoothed rate model, down 0.5% from the projected 2026 rate adjustment as modeled during the fall of 2024.

2025-2026 OPERATING BUDGET

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

Operating Expenditures (\$ in thousands)	2023 Actual	2024 Actual	2025 Budget	2026 Budget	Percent Change	
					24-25	25-26
Salary & Benefits	\$1653	\$1714	\$1855	\$1952	8.2%	5.2%
King County Sewer Treatment	5,432	5,751	6,134	6,595	6.6%	7.5%
Debt Service	1021	1032	1029	1029	-0.3%	0.1%
Other Services and Charges	1747	1285	1864	1961	45.1%	5.2%
TOTAL	\$9,853	\$9,782	\$10,881	\$11,537	10%	6.9%

Table 1

Highlights from the Sewer Utility operating budget include:

- The combined total employee compensation costs in 2026 are increasing 5.2% as compared to 2025. The increase is a result of two factors, one being the estimated cost-of-living adjustment (COLA) per the City's

collective bargaining agreement of 2.3% in 2026. The COLA applied in 2025 was 4.2%. Second, City staff observed higher than anticipated cost increases relating to benefits.

Additionally, in June 2024, the City Council adopted a Compensation Plan (see [AB 6491](#)) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce.

- King County Sewage Treatment services are increasing service rates 7.5% in 2026. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- Existing debt service is related to a Public Works Trust Fund loan (2005) for the Sewer Lake Line project. Final repayment for the PWTF loan is anticipated in July 2026.
- The sewer rate model assumes no new debt will be issued for capital projects in the current biennium, with a tentative bond issuance scheduled for 2027. The debt issuance required to maintain the model's smoothed rate structure at 4.0% is estimated to be \$21 M in 2027, pending further analysis.
- 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.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Sewer Utility.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2025 and 2026 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.

Sewer Utility Capital Program 2025-2026 (\$ in thousands)			
Project ID	Description	2025	2026
90.30.0001	Emergency Sewer System Repairs	\$50	\$52
90.30.0002	Backyard Sewer System Improvements Program	130	124
90.30.0003	Sewer System Components	50	52
90.30.0004	Pump Station Access Improvements	30	31
90.30.0005	Pump Station Rehabilitation	2,635	2,732
90.30.0006	Wet Well Cleaning & Restoration	380	384
90.30.0007	Lake Line Reach 1 Capacity Improvements	350	674
90.30.0008	Sewer Pipe Replacements & Upsizing		250
90.30.0009	Computer Hydraulic Model Development	250	
90.30.0010	Comprehensive Inflow and Infiltration (I/I) Evaluation	100	104
90.30.0012	Sewer Easements and Right-Of-Way	150	156
90.30.0013	General Sewer Plan Update		135
90.30.0023	Sewer System Generator Replacement	1,368	
90.30.0024	SCADA System Replacement	1,070	
90.30.0025	Pump Station Replacement Design	910	
Sewer Utility CIP Total		\$7,473	\$4,693

Table 2

SEWER RATE PROPOSAL

In the fall of 2024, staff projected a 2026 local sewer rate adjustment of 4.5%. At the time, this projection was based on a partially completed year of 2024 expenditure actuals and a fully staffed project manager/engineering team in the Public Works department.

Since then, staff from Public Works and Finance worked with the outside consultant team to update the smoothed rate model based on 2025 budget actuals through July, capital work already underway, and emerging reinvestment needs for the sewer conveyance system through the current biennium and beyond. Staff also incorporated a realization factor, which takes into account staffing levels in the current biennium and estimates expenditure actuals based on historical and current year actuals relative to the total authorized budget between 2025 through 2030.

As a result of this analysis, staff recommends a reduced 4.0% Sewer Utility rate adjustment for 2026.

This updated year-over-year smoothed rate model relies on outside funding beginning in 2027 for investments that cost more than \$2.5 M each and have a useful life greater than 20 years. Debt financing spreads 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. No debt issuance is planned in the current biennium for the Sewer Utility.

The proposed rate adjustment for 2026 is part of a multiyear effort to ensure the Sewer Utility Fund has adequate resources to complete critical capital project work detailed below and into the future, as well as meet long-established fiscal policy guidelines.

These include funding an operating reserve target equal to 30 days of operating and maintenance costs, and a capital reserve target of 1.0% of capital assets. The 1% target was 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 1-2% 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.

The 4.0% rate increase in 2026 enables the Sewer Fund to achieve its target for both established guidelines, as detailed in Exhibit 1. Exhibit 1 also details an additional LTGO debt issuance estimated to be \$21 M in 2027.

Table 3 provides a summary comparing proposed rates from the most recent rate model updates (2020-2024) as compared to the “2025-2026 Rate Proposal” presented in the second row.

Rate Recommendations	2023	2024	2025	2026	2027	2028	2029	2030
2025-2026 Rate Proposal			4.50%	4.00%	4.00%	4.00%	4.00%	4.00%
2023-2024 Rate Update	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		
2021-2022 Rate Update	4.00%	4.00%	4.00%	4.00%				
2020 Rate Update	7.70%	7.70%						

Table 3

NEXT STEPS

Staff seeks to answer the Utility Board’s questions about the 2026 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 for fiscal year 2026.

The 2026 Sewer Utility rate adjustment will be included in the City’s fee schedule update at the November 18, 2025 City Council meeting. Staff will return during the 2027-2028 budget process with new information to inform potential annual rate adjustments for fiscal year 2027 and beyond.

RECOMMENDED ACTION

Review the proposed 4.0% utility rate increase for sewer services for fiscal year 2026.