



UTILITY BOARD STAFF REPORT

Item 2
October 28, 2025
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2026 Water Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Review the proposed 8% utility rate increase for water 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 Water Utility Cash Flow	

BACKGROUND

As part of the 2025-2026 mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the Water Utility rate adjustment for the upcoming fiscal year. The operating and capital budgets presented in this memo include adopted and amended 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 in the water distribution system through the current biennium and beyond. As a result of this updated analysis, staff recommends an 8% increase to the Water Utility rates for 2026 as proposed in the smoothed rate model.

2025-2026 OPERATING BUDGET

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

Operating Expenditures (\$ in thousands)	2023	2024	2025	2026	Percent Change	
	Actual	Actual	Budget	Budget	24-25	25-26
Salary & Benefits	\$2,637	\$2,098	\$2,512	\$2,655	19.7%	5.7%
Water Purchased for Resale	2,134	1,958	2,255	2,335	15.2%	3.5%
Other Services and Charges	3,987	2,310	3,117	3,333	34.9%	6.9%
Debt Service	107	322	2,427	2,430	654.0%	0.1%
Total	\$8,865	\$6,687	\$10,311	\$10,754	54.2%	4.3%

Table 1

Highlights from the Water Utility operating budget include:

- The combined total for salary and benefit costs in 2026 are increasing 5.7% as compared to the 2025 budget. This increase is due to the 2.3% cost-of-living adjustment (COLA) for 2026 as well as increasing benefit costs. The increase is also due, in part, to the City Council's adoption of a new Compensation Plan

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

- Water Purchases from Seattle Public Utilities (SPU) are projected to increase 3.5% in 2026 when compared to the 2025 budget. Note that SPU sets a higher rate for the period of peak usage (May 15-Sept 15) than for non-peak period usage (Sept 16-May 14).
- In 2024, debt service payments were for limited tax general obligation (LTGO) bonds issued in 2011 for the First Hill Booster Pump Station upgrade and water system improvements projects.
- New debt service payments came online in 2025. A public works trust fund low-interest loan for the Booster Chlorination System project has an initial principal and interest payment of \$309,870 in 2025. In October 2024, the City issued limited tax general obligation (LTGO) bonds to fund major capital reinvestments in the water distribution system. The initial annual principal and interest payment of \$2,116,692 began in 2025 and will continue through 2044. This resource will help pay for critical capital work within the three-year eligibility window to meet federal obligations for tax-exempt bonds.
- Other Services and Charges include all other costs of operations including supplies, insurance, and City administrative overhead. Administration costs include the Water Fund’s share of administrative support provided by the City Attorney’s Office, City Manager’s Office, Finance, and Human Resources staff.

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

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestments in 2025 and 2026 are outlined below in Table 2. Systemwide water distribution components – such as main transmission lines, water reservoirs, and pressure reducing valve stations, among others – are simultaneously reaching the end of their useful life. Capital investment costs are the primary driver of the proposed water rate increase as the water distribution system is undergoing a period of significant reinvestment. Table 2 outlines capital investments that are currently underway and scheduled in the 2025-2026 biennium.

Water Utility Capital Program Budget 2025-2026 (\$ in thousands)			
Project ID	Description	2025	2026
90.40.0001	Emergency Water System Repairs	\$200	\$207
90.40.0002	Water System Components Replacement	50	52
90.40.0003	Modeling & Fire Flow Analysis	40	41
90.40.0004	Street Related Water System Improvements	150	156
90.40.0005	2024 PRV Station Construction	2,500	
90.40.0007	2025 WSI: Greenbrier Loop	400	
90.40.0008	WS Regulatory Compliance Plans	225	233
90.40.0009	Reservoir Security Improvements	50	156
90.40.0010	Water System Instrumentation	75	78
90.40.0011	First Hill VFD Replacement	50	270
90.40.0012	First Hill Generator Replacement	640	570
90.40.0013	2025 AC Main Replacement	1,067	4,633
90.40.0014	2026 Water System Improvements	117	516
90.40.0015	2026 PRV Station Replacements	395	2,100
90.40.0016	2026 AC Main Replacement		596
90.40.0017	2027 Water System Improvements		513
90.40.0018	2027 PRV Station Replacements		410
90.40.0031	2024 Water System Imp Construction	4,820	
90.40.0032	City Transmission Line Replacement	1,870	3,740
90.40.0033	Water Reservoir Improvements	2,675	
90.40.0034	Reservoir Pump Replacement	1,419	
90.40.0035	Water Meter Replacement Program	1,433	
90.40.0036	PRV Station Replacements	1,100	
90.40.0037	2023 Water System Improvement	15	
90.40.0038	Reservoir Standby Generator	503	
90.40.0039	2024 AC Main Replacement	3,881	
90.40.0040	SCADA System Replacement	75	
Water Utility CIP Total		\$23,750	\$14,271

Table 2

WATER RATE PROPOSAL

The 2026 Water rate proposal is based on the 2025-2026 operating budget, the 2025-2030 Capital Improvement Program (CIP), and the corresponding debt financing needs. 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 in the water distribution system through the current biennium and beyond. As a result of this updated analysis, staff recommends an 8.0% increase to the water utility rates for 2026 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding 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.

The proposed rate adjustment for FY 2026 ensures that the Water 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.

These include an operating reserve target of 90 days of operating and maintenance costs, and a baseline capital reserve target of 1% 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 8.0% rate increase in FY 2026 enables the Water Fund to achieve its target for both established guidelines, as detailed in Exhibit 1. Exhibit 1 details an additional LTGO debt issuance estimated to be \$44.0 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			8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%		
2021-2022 Rate Update	5.25%	5.25%	5.25%	5.25%				
2020 Rate Update	6.50%	6.50%						

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 receive the Utility Board’s recommendation for the adoption of the proposed utility rate adjustment for water service for fiscal year 2026.

The 2026 Water Utility rate adjustment will be included in the City’s fee schedule update at the December 2, 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

Accept staff’s recommendation of an 8% utility rate increase for water services for fiscal year 2026.