City of Tacoma Standing Committee Memorandum

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SUBJECT: Wastewater and Stormwater System Development Charges
DATE: August 27, 2025

DS RC

Initial GMS

PRESENTATION TYPE:
Informational Briefing

SUMMARY:
The Environmental Services Department (ES) will brief IPS on system development charges, one-time charges for new development to fund projects that increase our wastewater and stormwater system capacities. Increasing system capacity will be critical to accommodate projected population growth and increased density following the passage of Home in Tacoma.

BACKGROUND:
A system development charge (SDC) is a one-time charge imposed as a condition of receiving or upsizing a wastewater, stormwater, or water connection. The amount charged is proportional to the increase in capacity required by the new development. SDC revenues must be spent by the utility that collected them on capital projects or debt service.

SDCs are authorized by RCW 35.92.025 and would need to be adopted by the City Council to go into effect. Currently, the City of Tacoma only assesses capacity-based system development charges for one of the three relevant utilities, Tacoma Water, which was adopted in 1997 (TMC 12.10.310). Tacoma's stormwater and wastewater utilities do not currently assess capacity-based system development charges.

Most jurisdictions in the Puget Sound region assess wastewater and/or stormwater SDCs, including Gig Harbor, Puyallup, Sumner, Federal Way, Pierce County, Everett, and Bellingham. Environmental Services' proposed SDCs are generally lower than those of other area jurisdictions.

SDC revenue would ebb and flow with the pace of development and the state of the economy. Preliminary estimates range from $2M annually in Home in Tacoma's low-growth scenario to $8M in the high-growth scenario for both utilities combined.

ISSUE:
Current ES wastewater and stormwater rates fund maintaining systems at their current permitted capacities and current regulatory requirements. These utilities now face three tiers of funding risk in the near to medium term:

1. Aging infrastructure with a deferred maintenance backlog, requiring increased capital expenditures to maintain the systems' current level of service.
2. Population growth and increased density, particularly following passage of Home in Tacoma, requiring new assets or upgrades to existing assets to meet higher system capacity needs.
3. New, more stringent regulatory requirements requiring new assets or upgrades to existing assets to provide additional treatment or remediation.

System development charges may be an effective tool to address the second tier of risk. ES is currently developing separate proposals for the first and third tier of risk.

System development charges have been identified as a mechanism to help pay for the infrastructure to support future increased system capacity, including piping, pump stations, and treatment plant facilities. Implementing SDCs would remove the burden of financing system growth from ratepayers and provide a way to generate revenue at a scale that is proportionate to the variable rate of growth. While this would impose additional costs on development, SDCs are a well-established funding mechanism that developers are generally familiar with, and most jurisdictions in the region already assess these charges for development. Tacoma's proposed charges are generally lower than neighboring and peer jurisdictions, preserving a degree of competitive advantage in instances where developers may compare costs between potential development locations.

As an alternative, ES could explore a dedicated rate increase to raise capital funds for projects that accommodate projected growth. However, increasing the rate for all ratepayers to account for new development may be considered inequitable, as it requires rate payers to subsidize new development, above and beyond funding maintenance of the current system. Given uncertainties around the expected rate of population and density growth, introducing a future growth rate estimate into ES's rate structures could also lead to too little or too much revenue being collected relative to the actual rate of growth. SDCs are charged when new development is built, enabling growth to pay for growth and generating revenue in proportion to the rate of growth.

ALTERNATIVES:
This is an information briefing only. There are no alternatives presented.

FISCAL IMPACT:
This is an information briefing only. There is no fiscal impact.

RECOMMENDATION:
This is an information briefing only. There is no recommendation.