City of Tacoma Standing Committee Memorandum

TO: Hyun Kim, City Manager
FROM: Jackie Flowers, Tacoma Public Utilities (TPU)
COPY: Government Performance and Finance Committee
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Keri Burchard-Juarez, Superintendent, Tacoma Water
PRESENTER: Dana Larsen, Division Manager, Tacoma Water
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SUBJECT: Tacoma Water System Development Charge ("SDC") Update
DATE: November 4, 2025

PRESENTATION TYPE:
Please select the type of presentation you will be making to the Council Committee.
Request for Action

SUMMARY:
Tacoma Water requests Government Performance & Finance Committee (GPFC) move to City Council for approval of proposed amendments to Tacoma Municipal Code (TMC) Title 12 (Utilities) Section 12.10.310, which will revise the water system development charge for each new water service connection with a proposed effective date of February 1, 2026.

BACKGROUND:
A System Development Charge (SDC) is one-time charge imposed on the sale of water service as a condition of receiving or upsizing a new water connection. SDCs are authorized by RCW 35.92.025 and were adopted by Tacoma Water in 1997 (TMC 12.10.310). These charges are necessary to help fund critical infrastructure to support growth of housing and commercial development within our service area.

In 2025, a comprehensive study was completed to reassess Tacoma Water's SDC to reflect new capital investments made by the utility since 2020. The study updated the methodology and charges to ensure they remain aligned with current and projected system needs through 2030. The updated charges have the same basis to recover an equitable portion of future and past capital infrastructure costs necessary to accommodate projected growth over time, ensuring customers pay their fair share of system capacity.

ISSUE:
Tacoma Water is proposing an update to the SDC to include increases that align with the current Capital Improvement Plan (CIP) and aim to achieve equitable recovery of capital system costs to accommodate growth through 2030. Over the last six years, Water has made new capital investments and identified growth-related improvements allocable to the SDC calculation as well as implemented Advanced Metering (AM) which provides new consumption data insights not included in previous calculation methodologies. The updated SDC spreads the cost of growth-related improvements over the total system capacity, producing a more stable and predictable charge phased-in over time. The study applied an average-cost methodology which generated a more accurate and consistent SDC reflective of class-specific demand patterns by using allocable capital investments and incorporating detailed customer usage data.

ALTERNATIVES:
If these SDC fees are not updated, other retail customers would pay the increased costs associated with providing new water service. This is inconsistent with the cost causation principle that those who are responsible for the costs pay for the costs.

FISCAL IMPACT:
Tacoma Water collects an average of $2.4 million in SDC revenue annually. SDC revenue is based on the pace of development and the state of the economy. Since 2020 Water has invested $34.5 million on capital projects and decreased SDC funds by $15.8 million.

New charges will slightly increase revenues assuming a steady growth rate projection. However, the SDC was reduced in 2020, which created a lower baseline. The proposed phase-in of increases through 2030 means that by 2028 the charges return to 2019 levels.

To ensure strategic use of available funds, Water is also preparing a reserves strategy to identify current and future capital projects that can be funded with existing and projected SDC balances.

RECOMMENDATION:
Tacoma Water recommends approval of the proposed amendments to Tacoma Municipal Code (TMC) Title 12 (Utilities) Section 12.10.310, which will revise the water SDC for each new water service connection.