

Research Update:

Seattle, WA Series 2026 Refunding Revenue Bonds Assigned 'AA+' Rating; Outlook Stable

May 8, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Seattle, Washington's anticipated \$185 million series 2026 drainage and wastewater system improvement and refunding revenue bonds, issued on behalf of Seattle Public Utilities (SPU), the city's utility system.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on Seattle's outstanding drainage and wastewater system parity debt.
- The outlook is stable.

Rationale

Security

Proceeds will be used to fund upcoming drainage and wastewater system capital needs and to refund certain existing bonds. We consider the bond provisions to be standard. The series 2026 bonds are secured by a pledge of net revenues of the city's drainage and wastewater system. In addition, securing all parity bonds is a reserve funded at the lesser of maximum annual debt service (MADS), 125% of average annual debt service, or 10% of proceeds. A rate covenant requires the system to generate coverage of 1.25x average annual debt service, although withdrawals from a rate stabilization fund may be included in this calculation.

As of Dec. 31, 2025, the system will have \$780 million of drainage and wastewater revenue bonds, \$199 million in subordinate state loans, and \$192 million in borrowing under the Water Infrastructure Finance and Innovation Act (WIFIA) program with the Environmental Protection Agency.

Credit highlights

SPU's well-embedded management policies and financial practices have contributed to a healthy financial risk profile and stable drainage and wastewater operations in recent years. The rating is further supported by the overall favorable economic considerations of the customer base in Seattle, offsetting retail rates that are above average for the region, especially when adding utility taxes that SPU pays to the city and state. While we believe the size and scope of the upcoming capital improvement plan (CIP) is large compared to the system's historical spending

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levels (and will require about \$850 million in new-money debt financing through 2031, including this issuance, with debt expected to fund 49% of the CIP), we note that significant cost overruns could negatively affect financial metrics.

We consider SPU's operational management comprehensive and forward-looking. Still, our assessment is tempered by the system's near-term capital spending, which focuses on regulatory compliance, environmental stewardship, emergency preparedness, and system reliability. While we consider the \$1.8 billion six-year CIP relatively substantial, about 51% will be funded with non-debt funding sources, which we consider credit-stabilizing. However, nearly all sewage within Seattle is treated on a wholesale basis by King County's regional wastewater treatment system (with about 1% treated by Southwest Suburban Sewer District). King County has approximately \$3.9 billion in outstanding debt and a \$14 billion 10-year CIP, approximately one-third of which will be passed through to the city, which could pressure affordability.

Our calculation of all-in debt service coverage considers SPU's imputed debt resulting from the city's participation in the county's regional wastewater treatment system and taxes paid to the general fund. It is weaker than SPU's calculation, given the sizable amount of debt the regional wastewater treatment system has outstanding--we estimate that SPU is responsible for approximately 32% of King County's annual debt service, or about \$85 million. We expect all-in coverage to moderate but remain at levels that we consider sound in the medium term (nearly 1.5x, as calculated by S&P Global Ratings).

The rating further reflects our view of the system's following credit factors:

- The underlying economic strength, diversity, and wealth of the customer base. The city of Seattle (population: 816,600) sits at the center of the large, diverse Puget Sound regional economy.
- City ordinance that allows SPU to pass through increases in King County's wastewater treatment charges based on adopted wholesale rates and projected billed consumption, which we consider a key credit strength.
- City council's demonstrated ability and willingness to increase service rates, with multiyear rate schedules that promote cost recovery and revenue stability. SPU's current plan assumes a combined 5% average annual rate increases in the next two years. However, we consider SPU to have somewhat constrained rate affordability due to the high combined bills for water, wastewater, drainage, and solid waste services.
- Sound financial metrics, based on our assessment of SPU's proactive financial management practices, and conservative budgeting supported by healthy liquidity, with \$545 million (or 403 days' cash on hand) available as of Dec. 31, 2025.

In our view, these credit strengths are partially offset by the system's:

- Increasing leverage given planned debt needs. While the upcoming CIP totals about \$1.8 billion through 2031, we will monitor the system's financial profile as additional planned debt during the next five years is layered in and will review whether planned rate increases cover rising debt service costs adequately.

Environmental, social, and governance

We believe SPU's direct environmental risks are substantial and we have factored them into the rating, given that SPU is subject to deadline-certain regulatory mandates to reduce the number of sewage backups and untreated sewage overflows that enter the Duwamish River, Lake Washington, and the Puget Sound. It also faces social risk related to its sizeable CIP, which we

expect will pressure rates that are already relatively high compared to those of its peer utilities. In our view, the service area's above-average income levels partially mitigate this risk. Because the city is concerned about affordability for low-income customers, it provides a 50% discount to income-qualifying households, with an enrollment of about 30,000 households.

About two-thirds of the drainage and wastewater system is a combined or partly combined storm water and wastewater system. This type of system leads to heavy flows and potential overflows during wet weather events. A significant portion of the drainage and wastewater system's CIP, including the Ship Canal Water Quality Project, is intended to address overflows and flooding. The Washington Department of Ecology issued the Puget Sound Nutrient General Permit, and the potential nutrient removal limits could compel King County to construct an additional wastewater treatment plant to finance significant upgrades to existing facilities. Based on current cost estimates -- in the multi-billion-dollar range -- Seattle would be responsible for one-third of that cost. We will evaluate the potential credit implications, if any, as the timing and funding mechanisms are clarified during the next several years.

Should SPU's rates increase faster than wealth and income levels for the area, social risks for affordability could rise. Finally, we view SPU's governance factors as credit-neutral because they include full rate-setting autonomy, strong policies and planning, and robust interaction between management and the city council.

Outlook

The stable outlook reflects our anticipation that even with the additional planned debt during the next five years layered in, the system's financial capacity will not diminish to the point that metrics would become inconsistent with the current rating. We believe that any reluctance or inability to raise sufficient rates could result in erosion of financial margins and, in turn, diminished credit quality.

Downside scenario

We could take a negative rating action if liquidity is substantially drawn down, or if project delays result in significantly greater-than-projected leverage. In addition, we could lower the rating if the system materially underperforms its financial forecast such that operating cost escalations or revenue shortfalls could lead to materially lower all-in DSC or liquidity levels, especially in the context of the system's rising annual debt service costs and pass-through requirements from King County for treatment services.

Upside scenario

Given the size of the CIP and the system's rising cost-of-service, we do not anticipate taking a positive rating action during the outlook period.

Seattle, Washington--Economic and financial data

	Most recent	Fiscal year-end			Median (AA+)
		2025	2024	2023	
Economic data					
MHHEBI of the service area as % of the U.S.	150.0				112.0
Unemployment rate (%)	4.5				3.4
Poverty rate (%)	8.8				10.2

Seattle, Washington--Economic and financial data

	Most recent	Fiscal year-end			Median (AA+)
		2025	2024	2023	
Sewer rate (6,000 gallons or actual) (\$)	144.2				38.6
Annual utility bill as % of MHHEBI	1.7				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		530,722	509,612	478,776	41,982
Total operating expenses less depreciation (\$000s)		494,259	361,756	353,828	31,740
Net revenues available for debt service (\$000s)		149,366	290,198	142,831	--
Debt service (\$000s)		74,669	73,809	67,084	--
S&P Global Ratings-adjusted all-in DSC (x)		1.5	2.3	1.5	2.5
Unrestricted cash (\$000s)		545,138	429,625	346,886	55,536
Days' cash of operating expenses		403	433	358	650
Total on-balance-sheet debt (\$000s)		1,276,203	1,233,575	1,116,949	74,352
Debt-to-capitalization ratio (%)		55.7	56.1	59.1	25.0
Financial management assessment	Strong	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List

New Issue Ratings

US\$185,590,000 Seattle, Washington, Drainage And Wastewater System Improvement And Refunding Bonds, Series 2026, dated: Date of Delivery, due: March 14, 2050

Long Term Rating AA+/Stable

Ratings Affirmed

Water & Sewer

Seattle, WA Sewer and Stormwater System AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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Seattle, WA Series 2026 Refunding Revenue Bonds Assigned 'AA+' Rating; Outlook Stable

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