

Research Update:

Seattle Series 2026 Water System Improvement And Refunding Revenue Bonds Assigned 'AA+' Rating

May 7, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to [Seattle](#)'s \$125 million series 2026 water system improvement and refunding revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's water system parity debt outstanding.
- The outlook is stable.

Rationale

Security

Proceeds from series 2026 issuance will be used to fund upcoming capital needs and, depending on market conditions, refund certain obligations.

Net revenue of the city's water system secures the bonds. A rate covenant requires the system to generate debt service coverage of 1.25x, though withdrawals from a rate stabilization fund can be included in this calculation.

As of Dec. 31, 2025, the system has \$625 million of parity water system bonds outstanding as well as \$15 million of subordinate state loans.

Credit highlights

The rating reflects our view of Seattle's ample water supply and overall economic considerations of its large customer base, which also include many of the city's suburbs served under long-term wholesale contracts. The rating further reflects our opinion of Seattle's financial forecast supporting sound metrics while in alignment with a larger capital improvement plan (CIP), which we believe is achievable given the system's flexible capital needs during the six-year planning period as well as its proposed rate plan, which assumes relatively modest rate increases through the next three years. While we believe the upcoming CIP is large compared with the system's historical spending (and will require about \$660 million in new-money debt financing through 2031, including this issuance, with debt expected to fund 75%), we note that significant cost overruns that negatively affect financial metrics could put pressure on the rating.

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Beyond Seattle's plentiful water supply and storage, the rating further reflects our view of the city's broad customer base, as well as comprehensive financial policies, conservative forecasting, and modest rate plans, which together indicate that the water system's financial metrics should remain consistent with historical trends despite escalating capital spending during the forecast period. Maintenance of healthy projected all-in coverage and liquidity will likely require a delicate balance of imposing sufficient rate increases and not burdening affordability.

As a result of Seattle Public Utilities' (SPU) proactive water resources management, SPU monitors reservoir, weather, and precipitation conditions daily; makes frequent real-time and dynamic operational adjustments; and models future scenarios out several months to ensure that it can meet downstream river conditions and have sufficient water for customers. The city has not needed to implement mandatory water curtailments during the past 30 years, and forecasts that it has sufficient water supply through at least 2060. While systemwide consumption fell slightly in 2020 as a result of COVID-related restrictions, it rebounded to its pre-2020 average in 2021, which we consider credit supportive, and regional water conservation programs and other water-use reductions are expected to continue offsetting the effects of population and employment growth on water demand.

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

- Economically strong, diverse, and wealthy customer base. The City of Seattle (population: 816,600) sits at the center of the large, diverse Puget Sound regional economy. We view the service area's income levels as strong based on the city's median household effective buying income at 150% of the national level.
- Demonstrated ability and willingness to increase service rates, through the city council, with multiyear rate schedules that we believe promote cost recovery and revenue stability.
- Modest adopted rate increases in the near term, though we consider SPU to have somewhat constrained rate affordability as a result of the high combined bills for water, wastewater, drainage and solid waste services. While water charges are generally affordable, on a combined basis the city's typical monthly residential bill totals \$240. To address affordability risks, the city offers a rate program that provides a 50% discount to income-qualifying households, with an enrollment of about 30,000 households, but we believe SPU's higher service costs may encounter political pressure to minimize future rate increases.
- Sound pro forma financial metrics, based on our assessment of proactive debt management practices, conservative budgeting based on known increases and localized Consumer Price Index escalators, and plans to fund approximately 25% of the upcoming CIP on a pay-as-you-go basis. The city levies a sizable tax of 15.54% on gross retail revenue, so our calculation of all-in debt service coverage differs from the city's as we net out the payment of taxes to the city from revenue.
- Strong liquidity, with \$128 million (or 219 days' cash on hand) available as of Dec. 31, 2025. We do not expect SPU to draw cash down materially during the next five years given reasonable assumptions for pay-as-you-go cash funding for CIP needs. While unexpected, increased general fund transfers in addition to the existing tax (which would violate the Washington State Accountancy Act) would weaken the rating, potentially by several notches.

Partly offsetting the above strengths, in our view, are the system's:

- Adequate debt capacity, with increasing leverage given planned debt needs. While the upcoming CIP totals about \$950 million through 2031, we will monitor the financial profile as

additional planned debt during the next five years is layered in and will review if planned rate increases cover rising debt service costs adequately.

Environmental, social, and governance

We analyzed the system's environmental, social, and governance factors relative to its enterprise and financial risk profiles and view them as neutral in our credit rating analysis. Although the water system has an abundant water supply, which we consider a key credit strength, we recognize that climate risks resulting in extreme weather events, sea-level rise, and drought could pressure system operations over time. While shifting weather patterns--including warmer, wetter winters and drier summers--could increase operational costs through flooding or drought, the system's abundant water supply remains a core credit strength. Management's successful execution of its 10-year strategic plan, combined with robust drought planning, comprehensive water conservation programs, aggressive leak detection, and an absence of material regulatory compliance costs for per- and polyfluoroalkyl substances (PFAS) or lead and copper, ensures that environmental challenges do not pressure credit quality.

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

Outlook

The stable outlook reflects our anticipation that, even with the additional planned debt layered in, financial capacity should not diminish to a point where financial metrics would become inconsistent with the rating. The outlook also reflects our view of the system's long-range financial plans and its ability to plausibly demonstrate that it can maintain healthy operating margins even with potentially upcoming debt needs.

Downside scenario

We could also lower the rating if rising costs and increased leverage compromise rate-making flexibility and financial performance consequently declines. In addition, we could lower the rating if the system materially underperforms its financial forecast such that operating cost escalations or revenue shortfalls lead to materially lower all-in debt service coverage or liquidity, especially in the context of rising annual debt service requirements.

Upside scenario

Although elements of SPU's credit quality could support a higher rating, a positive rating action would likely hinge on improvement in SPU's market position assessment and overall financial metrics to levels commensurate with those of 'AAA' rated peers.

Seattle--economic and financial data

Fiscal year-end

	Most recent	2025	2024	2023	Median (AA+)
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
Water rate (6,000 gallons or actual; \$)	50.71				33.9
Annual utility bill as % of MHHEBI	0.6				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenue (\$000s)		337,565	307,820	301,496	41,982
Total operating expenses less depreciation (\$000s)		239,515	202,905	199,444	31,740
Net revenue available for debt service (\$000s)		109,386	115,926	120,186	--
Debt service (\$000s)		78,650	74,301	83,632	--
S&P Global Ratings-adjusted all-in DSC (x)		1.7	1.6	1.4	2.5
Unrestricted cash (\$000s)		128,429	109,255	106,297	55,536
Days' operating expenses		219	197	195	650
Total on-balance-sheet debt (\$000s)		640,379	484,115	624,223	74,352
Debt-to-capitalization ratio (%)		41.5	35.8	43.2	25.0
Financial management assessment	Strong	--	--	--	Good

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

Ratings List

New Issue Ratings

US\$125,100,000 Seattle, Washington, Water System Improvement And Refunding Bonds, Series 2026, dated: Date of Delivery, due: June 1, 2056

Long Term Rating AA+/Stable

Ratings Affirmed

Water & Sewer

Seattle, WA Water 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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