S&P Global Ratings

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Research Update:

Seattle Solid Waste Revenue Bond Ratings Affirmed At 'AA+'; Outlook Is Stable

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Primary Contact

Alexandra Rozgonyi
Englewood
1-303-721-4824
alexandra.rozgonyi
@spglobal.com

Secondary Contact

Chloe S Weil
San Francisco
1-415-371-5026
chloe.weil
@spglobal.com

Overview

- S&P Global Ratings affirmed its 'AA+' long-term rating on Seattle, Wash.'s series 2021 solid waste system refunding revenue bonds and series 2016 refunding revenue bonds.
- The outlook is stable.

Rationale

Security

We view the bond provisions as credit neutral. A pledge of net revenue of the city's solid waste system secures the bonds. A rate covenant requires the system to generate at least 1.25x debt service coverage. The additional bonds test requires that historical or projected net revenue provide at least 1.25x coverage of existing and proposed debt. As of June 4, 2025, the system had $53 million of solid waste revenue bonds outstanding.

Credit highlights

The rating is underpinned by the solid waste system's consistently robust financial metrics including all-in coverage at above 3.0x, unrestricted cash at about a year's worth of operating expenses, and a declining debt burden. In addition, given the annual rate increases through 2030 and robust operating margins, management does not expect a material decrease in cash despite funding 100% of the approximately $95 million six-year capital plan through rate revenue and reserves. Further supporting the rating is our view of residential solid waste fees that are affordable due to the amalgam of above-average incomes, manageable monthly solid waste fees, and below-average county poverty rate.

Potential future cost pressures come from recontracting risk associated with the renegotiation of the various collection, landfill, and recyclables contracts. The city contracts for collection services with Waste Management of Washington Inc. (Waste Management) and Recology, for which management indicates positive relationships and monthly meetings. Seattle Public

Utilities' (SPU) waste is then hauled to Columbia Ridge under a contract that expires in 2028. Management is reviewing the future landfill contract. Furthermore, SPU has a contract with Republic Recycling Processing (expiring in 2027) and Lenz and Cedar Grove (expiring in 2030) for organics and recyclables. Although management has not renewed or entered into new contracts for the upcoming expirations, it is looking into these contract renewals and also potential alternatives.

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

- Stable and diverse customer base in the Seattle-Tacoma-Bellevue metropolitan statistical area, with various employment opportunities, including the city, University of Washington, Starbucks, and Amazon.
- Stable tonnage during the past few years albeit with about an 8% increase in total tons generated in 2024 (largely due to private recycling and commercial collection). We would view negatively a large percent of revenue coming from a system that has 53% of total tonnage derived from recycling. However, in Seattle's case, we do not view this as presenting revenue volatility given the city contracts out for the service and we believe these companies take on the commodity price risk.
- Strong revenue collection mechanism where monthly fees appear on the water and sewer bill.
- Manageable solid waste fees at about $45 per month for 32 gallons, which represented less than 0.5% of median household effective buying income and solid waste fees that we expect will remain manageable despite the endorsed annual rate increases that range from 2.5% to 3.8% annually through 2030.
- Decline in the debt-to-capitalization ratio to 25% for fiscal 2024, which we expect will continue to fall given the lack of future debt plans.

Somewhat offsetting the above credit strengths include the following factors:

- Re-contracting risk, particularly with regard to the Columbia Ridge landfill that expires in March 2028, where the waste is rail hauled from the transfer station to the landfill; and
- Continued cost pressures related to post-closure and increasing regulatory requirements associated with emerging contaminants including per- and polyfluoroalkyl substances (PFAS) which are being added to monitoring.

Environmental, social, and governance

In our opinion, environmental physical risks are slightly negative given continued regulatory requirements and emerging contaminants including PFAS monitoring related to landfill and drainage requirements. Kent-Highlands has a consent order and Midway has a consent decree from the early 1990s whereby the milestones have already been met. The South Park Landfill also is under a consent decree whereby mitigation elements are being constructed. Management emphasizes the importance of managing environmental issues and addressing regulatory requirements related to current and historical solid waste facilities and the system has sufficient capacity for solid waste disposal for the foreseeable future. Other environmental risks include increased precipitation, and management is incorporating drainage improvement projects at the transfer stations and closed landfills.

In our opinion, solid waste fees are affordable with rate-raising flexibility although we note that on a combined water, sewer, and solid waste bill, rates could become less affordable if rates rise faster than wealth and income levels.

Governance is credit supportive given formalized financial policies and practices that have resulted in robust and stable financial performance. For example, the solid waste utility has a policy to maintain reserves at 25 days of contract costs and 45 days of operating expenses, which it has significantly exceeded. Management is forward looking, which is indicated by updated strategic plans and rate studies.

Outlook

The stable outlook reflects our opinion of robust operating margins and reserves in combination with approved rate increases, all of which we expect will fund the system's capital improvement plan without resulting in a material deviation in financial metrics.

Downside scenario

We could lower the rating if the renewal of various contracts results in an outsized increase in operating expenses, leading to a decline in financial metrics; or if capital needs exceed expectations, resulting in an increase in leverage or a higher-than-forecast decrease in cash.

Upside scenario

We could raise the rating if the solid waste utility is able to successfully renew solid waste agreements that provide long-term cost predictability while maintaining exceptionally strong all-in coverage and cash in line with recent levels as it progresses through the system's capital improvement plan, while also assuming no significant additional debt given the city plans to fund its capital plan from reserves.

Seattle, Washington--economic and financial data

		Fiscal year-end			
	Most recent	2024	2023	2022	Median (AA+)
Economic data					
MHHEBI of the service area as % of the U.S.	153.0				112.0
Unemployment rate (%)	3.8				3.4
Poverty rate (%)	8.8				10.2
Water rate (6,000 gallons or actual) ($)	0.0				33.9
Sewer rate (6,000 gallons or actual) ($)	0.0				38.6
Annual utility bill as % of MHHEBI	0.4				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		285,323	267,905	256,808	41,982
Total operating expenses less depreciation ($000s)		220,646	212,252	193,605	31,740
Net revenues available for debt service ($000s)		73,750	64,455	56,322	--
Debt service ($000s)		13,043	14,635	14,640	--
S&P Global Ratings-adjusted all-in DSC (x)		5.7	4.4	3.8	2.5
Unrestricted cash ($000s)		190,675	198,364	158,693	55,536
Days' cash of operating expenses		315	341	299	650
Total on-balance-sheet debt ($000s)		92,214	149,704	157,414	74,352

Seattle, Washington--economic and financial data

		Fiscal year-end			
	Most recent	2024	2023	2022	Median (AA+)
Debt-to-capitalization ratio (%)		25.1	41.2	48.5	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	
Ratings Affirmed	
Water & Sewer	
Seattle, WA Solid Waste 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.