

October 28, 2020

Town of Woodway
WASHINGTON



My Fellow Woodway Residents,

Although this is a lengthy letter with a lot of detail, I believe that it's important right now that I share with you some thoughts about Point Wells, the recently enacted utility tax, and the Town's finances. At the end of the letter, I've also included a brief Q&A that addresses some of the questions that I have been asked recently.

In the past few years, a small but vocal group of residents have questioned Town policies, asked questions of Town staff and me, and then circulated these questions and answers via an email list of Town residents. I, along with my Town Administrator Eric Faison, have in good faith answered these inquiries. But I fear that both the initial emails the group shares with the public and follow up information they've provided include statements that are inaccurate or include alternatives that are not legally or practically feasible.

I want you to know that we welcome comments and even criticism. There will be issues that we simply disagree on, and that's ok. In fact, there have been vigorous debates amongst Council members on a variety of topics and expenditures. But we should agree or disagree based on facts, not hyperbole.

I try to send out information that I think is critical for us to distribute or receive feedback on. I do not do this for every issue, however. We elect a representative government to develop a deeper understanding of the issues, balance the equities and make most decisions. But I need your help to get the word out when there are big issues. Please sign up for my email list on our website: https://www.townofwoodway.com/how_do_i/email_notifications.php. Or you can call me directly when you have questions.

Not many cities have this level of direct connection with their residents. I think it is invaluable for a small town like ours. Please take advantage of it so that, despite all that is going on in our country, we can at least maintain a high level of trust in our Town government.

Point Wells

The first example of the types of statements that I was referring to above relates to a recent email sent out on Point Wells. The email stated or implied that proposed code changes the Planning Commission and Council were scheduled to review would massively expand the size of a development at Point Wells. The statement elicited hysteria completely removed from the facts.

First, the Council and I have been uniformly opposed to a development at Point Wells that is inconsistent with the surrounding communities. We have fought this issue in every forum, from the Growth Management Hearings Board to the Washington State Supreme Court. We got the County to change their zoning to require the developer to negotiate a development agreement with the Town and Shoreline before they can get a permit. We followed the advice of our residents and reduced our legal costs by settling our differences with Shoreline. In that settlement, we clearly lay out the preferences of both city Councils – a development with no more than 400-800 residential units, as opposed to the 3,080-unit development proposed by the developer. Our goals have not changed.

I recognize that we have very knowledgeable people in the Woodway/Shoreline community who have helped us through the Point Wells issue. I want to assure you that the Town also has very good lawyers and staff who advise us. I hope that you call us directly when you have questions, especially when you receive information that seems at odds with what you know has been the practice of the Town over the years. Attached to this letter you will find information on upcoming meetings about Point Wells. These are public meetings, so feel free to attend.

Utility Tax

Only once before have I sent out a long, detailed letter that dives deep into an issue. I did so when I thought there was a lot of misleading information distributed on an issue critical to all of us. I decided to send this letter out to all households because, once again, I think it’s important for you to have a clearer picture of the facts.

If you decide that you don’t want a lot of information on the utility tax, I want you to know three things: 1) at our October 19 meeting, the Town Council extended the Town’s 6% utility tax to water, sewer and stormwater and imposed a 10% franchise fee on Olympic View for use of the Town’s streets; 2) the total fee for an average user of water and sewer service is \$15 a month; and 3) even after the fee and tax are imposed, Olympic View’s rates will be similar to that of other utility districts in the area for users with a similar level of utility usage. Our rate for water and sewer services would be \$110 per month. By way of comparison, Brier’s is \$119, Edmonds is \$97, Lynnwood’s is \$111, Medina is \$126, and Mill Creek, Mukilteo and Mountlake Terrace are about \$106.

The chart below shows in more detail what we estimate the sewer fee and tax will cost most rate payers each month (note: Olympic View bills for a two-month period):

| | Rate | Franchise Fee | Utility Tax | Total | Total Increase |
|--------------|-------|---------------|-------------|-------|----------------|
| Sewer | 63.14 | 6.31 | 3.79 | 73.24 | \$ 10.10 |

Calculating the fee and tax on water is a little more difficult because water service bills vary based on usage. To try to get a rough estimate, we assumed a usage level that we have been informed is a reasonable baseline for a single-family residence. The chart below shows what we estimate the water fee and tax will cost modest users of water services each month:

| | Rate | Franchise Fee | Utility Tax | Total | Total Increase |
|--------------|-------|---------------|-------------|-------|----------------|
| Water | 32.10 | 3.21 | 1.93 | 37.23 | \$ 5.14 |

While some people with multiple sewer connections or less modest water users will pay more, generally speaking, we are talking about somewhere around \$15 a month! There has been a lot of anger expressed by a few people over \$15 a month, which will be used to support non-frivolous things, like police, fire, emergency medical and other essential services in Town.

Your Town Government

I want to step back a bit and talk about how we got here and where we are headed. As a brief reminder, your Council members and I are all taxpaying residents of Woodway, who have volunteered to serve our community, without pay. We all are committed to small, efficient, and effective local government. We simply want to contribute to our community. We too are subject to any tax imposed by the Town.

We have hired a very smart, effective, and thoughtful staff. We have 4 full-time employees: a clerk-treasurer, public works director and two public works crew members. We have 10 part-time employees: a Town administrator, a deputy clerk/permit technician, a building official, a building inspector, a police chief, four officers who focus on patrol and traffic enforcement, and a police records clerk.

Most of our staff have worked for the Town for over ten years. They feel a deep connection and commitment to the Town, even though they do not live here. Despite their qualifications and dedication, we do not pay them top dollar. They stay here because we provide reasonably competitive pay and benefits, and we have a culture that makes them feel valued.

What Town Government Does

The Town’s staffing and its business generally fall in three categories – mandatory, essential, and discretionary. The Town, although called a “Town”, is legally a city. We have all the rights, authority, legal obligations, and requirements of a city the size of Edmonds or Shoreline.

Mandatory

By law, we are required to have a Mayor, a Council, a clerk, a treasurer, a building official, an attorney, and a police chief. We also are required to perform the functions of a building inspector,

a planner, and certain responsibilities generally performed by public works. There are also mandatory costs, such as State Auditor charges, County election charges, etc.

Essential

You'll notice that not included on the list of mandatory positions/responsibilities are police officers, a fire department, or public works. Traffic enforcement, police patrols, and even police response are not required by law. Nor are fire protection or emergency medical services. Paved roads, surprisingly, are not required. However, I think we all would categorize each of these as essential.

Discretionary

Lastly are items that are discretionary. A non-exhaustive list of these items would include parks, roadside mowing/line trimming (except for life/safety reasons), beautification, and events, such as the Town Fair.

I want to point out two things related to what we do: 1) most of our mandatory responsibilities are not things that most residents would notice; and 2) I think most of us would agree that maintaining public safety and maintaining the visual appearance of our Town are two very important functions of Town government. The way we maintain our residential streets and conduct police patrols in residential neighborhoods does represent a higher level of service than is provided in our neighboring cities. Outside of these functions, however, the Town doesn't do many other things. That is because we always have had a small, efficient government, and we do not have the resources to provide a lot of truly discretionary services.

Town's Finances

The Town has revenue of a little over \$1.8 million a year. As a predominantly residential community, it probably doesn't come as a surprise that the largest single source of revenue is property tax, at \$1.2 million. Utility taxes and sales taxes make up an additional \$500,000 a year. Development fees account for most of the remainder. The Town also has other sources of revenue (such as the real estate excise tax and stormwater fees). But most of these are legally restricted for a particular use and cannot be used to fund police and fire expenses.

Our largest expense is for public safety – police, fire, emergency medical services, jail, prosecution/public defense, 911 dispatch, and emergency management services. These expenses account for approximately half of our budget. Our contracts with Shoreline Fire Department for fire/EMS and the City of Edmonds for police represent the largest portion of the cost. These contract costs increase by 3% a year.

Parks and Public Works account for about 20% of our budget, building and planning about 10%, and general operations about 20%. These services are primarily provided by staff.

Budget Deficit

State law requires any property tax increase in excess of 1% be approved by voters. The Town’s last voter approved tax increase was in 2009. With many of the Town’s expenses increasing at a rate of 3% per year, and the Town’s primary revenue source (property tax) legally limited to a 1% annual increase, the Town eventually will not be able to maintain services without additional revenue.

When the Town’s last levy proposal failed in 2016, the Council reduced expenses. We also benefitted from a few years where our revenues exceeded our expectations. But with relatively few discretionary expenses, and without knowing whether one-time revenues will continue to delay the inevitable, we are projecting an annual budget deficit going forward. Eleven years after the last tax increase, as shown below, the Town anticipates a budget deficit of about \$200,000 a year, growing annually as expenses grow at a rate faster than revenues.

Chart 1

| Operating Funds | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 1,814,134 | 1,830,838 | 1,847,727 | 1,865,544 | 1,883,292 | 1,901,356 | 1,919,250 | 1,937,368 | 1,955,250 |
| Expenses | (2,012,672) | (2,096,113) | (2,112,395) | (2,205,061) | (2,244,290) | (2,347,447) | (2,396,851) | (2,507,100) | (2,561,801) |
| | (198,538) | (265,274) | (264,668) | (339,517) | (360,998) | (446,090) | (477,601) | (569,732) | (606,551) |

The Town has relied on its reserves to fund the deficit. The Town currently has about \$1.8 million in reserves. After much discussion, Council has unanimously supported a policy of maintaining at least \$1 million in reserves in case of an emergency, an uninsured legal claim, or natural disaster. \$1 million, which is about 50% of the Town’s operating budget, is more than some larger cities maintain, but less than that of many smaller cities. Some Councilmembers have expressed concerns that, as our expenses grow, our reserves will become an increasingly smaller percentage of the budget.

The chart below shows how much the Town projects having in reserves at the beginning of each year. We estimate that we will drop below \$1 million sometime during the middle of 2023.

Chart 2

| Beginning Fund Balances | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-------------------------|-----------|-----------|---------|---------|---------|-----------|-----------|-------------|-------------|
| Beginning Balances | 1,321,716 | 1,123,179 | 857,904 | 593,236 | 253,719 | (107,279) | (553,369) | (1,030,970) | (1,600,702) |

Utility Tax

Utility taxes are a core revenue for most Washington cities, including ours. Like most cities, the Town has a 6% utility tax on natural gas, electric, garbage, telephone, and cable services. Until the Council’s recent action, the Town did not have a utility tax on water and sewer services.

Charging utilities fees for placing facilities in the public streets is also common. The Town’s 2004 agreement with Olympic View authorized the Town, beginning in 2011, to place a fee on Olympic View’s water and sewer service at the same rate the City of Edmonds charges Olympic View – currently 10%. So, as you can see, this issue has a long history.

In my September and October e-Newsletters, and in the October Woodway Whisper, I spoke to you about the Town’s proposed 2021 budget and my thoughts about the need for new revenue sources. I stated that I would be recommending that the Town Council approve a franchise fee and a utility tax on water, sewer, and stormwater services to raise revenue to partially address the Town’s long-term budget deficit. I invited the public to participate in the Council’s meeting on October 19, when the Council would be considering the proposal. I stated that, “[i]f you have thoughts about the proposed increases on water and sewer usage and the franchise fee charges, this is your time to communicate.”

I received four emails prior to the meeting, and we heard from four residents at the meeting, three of whom opposed the fee and tax. I’ve received two more emails in opposition and four emails in support since then. The primary objection has been application of the fee and tax on sewer services. It has been argued that the fee and tax are inequitable because 40% of homes in Town are on septic systems and wouldn’t have to pay. It’s also argued that more notice of the proposed action should have been provided before Council took action.

The utility fee and tax are expected to generate approximately \$100,000 a year. But assessing the fee and tax will not totally solve the Town’s budget deficit. Even with the fee and tax, this chart shows that the Town’s reserves will drop below \$1 million in 2025.

Chart 3

| Beginning Fund Balances | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-------------------------|-----------|-----------|-----------|-----------|---------|---------|---------|-----------|-----------|
| Beginning Balances | 1,421,716 | 1,324,929 | 1,163,177 | 1,003,829 | 771,452 | 519,438 | 184,200 | (180,656) | (635,726) |

Comparing Charts 2 and 3, you’ll notice that there is only a two-year delay in when we drop below \$1 million in reserves. However, comparing the charts, you’ll also notice that the utility fee and tax reduce the property tax increase needed to balance the budget through 2030 by almost \$1 million in total (-\$1.6 million compared to -\$635,000).

Questions and Answers

This was not a decision the Council took lightly. Tax issues are difficult and often the most controversial topic that a council must address. So, I wanted to take a moment to answer a few questions that have come up in light of the decision to adopt the fee and tax.

1. Why did Council decide to adopt the fee and tax?

Council felt that the fee and tax addressed three issues. The first, and most important, was the need to address the Town’s annual budget deficit. As noted above, the sooner we raise revenue to address the deficit, the lower the property tax rate increase needed to ultimately solve the problem. The second was a belief, dating back to 2004, that Olympic View should pay for use of the Town’s streets. Lastly, Council believed that water and sewer utilities should be taxed at the same rate and in the same manner as all other utilities operating in Town.

2. Is it fair to impose a fee and tax on sewer when 40% of the Town's households are on septic?

Charging Olympic View for use of the Town's streets is fair. Septic systems (unlike sewer systems) are not located in the Town's streets. So, it would be unfair to charge homeowners on septic a fee for use of the streets.

Utility taxes are based on use. The rate is the same for everyone, but not everyone pays the same amount or pays at all. Not everyone has cable TV, but we apply a utility tax on the service for those who do. Not every household has the same number of cell phones. Not every household has natural gas. Frankly, not every household pays the Town the exact same amount in sales tax or property tax either.

3. Why did Council act so quickly and why didn't the Town provide more notice?

I do not believe that Council acted quickly. Council studied this issue for a couple months, in preparation for development of the 2021 budget. These discussions were in public meetings, complete with staff reports, which can be found on the Town's website. I provided an initial notice to everyone in September that Council would be considering revenue options. And I provided detailed information at least a week in advance in Woodway Whisper (which is mailed to every household), and to those who have signed up for my e-Newsletter. I believe that this was significantly more notice and information than any other city would have given its residents for most budget topics, let alone for a very common fee and tax that is, on average, \$15 a month.

4. Why didn't Council consider allowing the public to vote on the tax?

While our estimate won't apply to every home in Town (because water usage in particular varies widely), I personally believe the fee and tax of approximately \$15 a month, imposed in a way that is very common amongst Washington cities, is not unreasonable and will not be particularly onerous on anyone. I also believe that it was appropriate for the Council, as our representative government, to act on the matter. I do not believe that every single fee or tax should be subject to a public vote.

5. Why didn't Council look at cutting expenses first?

After the failure of the 2016 property tax levy, Council cut staffing and expenses. I believe that our current staffing and service levels are as low as they should go. I believe that any additional cuts will dramatically alter the character of the Town, and ultimately affect our property values. Why is that? Because, as shown above, there aren't many non-essential personnel or services left to cut. Prior to the utility tax, our initial assessment was that, without additional revenue, we would need to eliminate all four of our police officers, our

entire public works crew, and our Town Administrator. There simply aren't easy ways to make up a deficit that could average as high as \$400,000 a year.

As your mayor, I believe that we have a responsibility to provide not just public safety services, but also those services that protect and enhance our private property values and quality of life. Without a community commitment to support these services, I believe that Woodway will lose the appearance and charm that makes our Town so special.

6. What size property tax increase will the Town need to maintain existing services now that the utility tax has been approved?

Council has not yet determined the timing and amount of a future property tax ballot measure. But I want to give you a sense of what I have discussed with Council, although no decisions have been made and additional analysis and feedback will be necessary.

Town staff's preliminary estimate, depending on timing, is that we will need a six-year levy with an increase of approximately 5% each year to balance the budget through 2030. *Remember, this is on the Woodway portion of your tax bill, which is only about 17% of your total property tax bill.* For a \$1 million house, this would be an increase of about \$75 a year, each year for six years. I think you should know that we have been threatened by at least one member of the group of residents opposed to the utility tax that he will actively oppose a future ballot measure.

It's also important for you to know what has happened to property taxes since our last levy approval in 2009.

- Property value on the average home in Town has increased by \$490,000, or 46%.
- The average total property tax bill (of which the Town's portion is only 17%) has increased by \$5,200, or 58%.
- While the total property tax bill has increased by \$5,200, the amount of money that the average homeowner pays the Town has increased by just \$320 over the past 11 years.
- The Town's percentage of your property tax bill has decreased from 23% to 17%.

While home values and total property have increase substantially, the Town's property tax revenue has not appreciated dramatically – in fact, tax contributions have decreased as a percentage of total taxes.

7. Why can't we delay a tax increase by reducing our reserves from \$1 million to \$500,000?

It has been suggested both back in 2016 and again now that the Town does not need additional tax revenue – we can delay when a property tax would be needed by simply reducing our reserves from \$1 million to \$500,000. Ignoring for a moment the rationale for maintaining our reserves at \$1 million, the argument fails to recognize that the use of the reserves results in only a one-time reduction in the amount of the cumulative deficit. It does not reduce the Town's annual deficit, which by 2030 we estimate will be \$600,000 a year. See Chart 3.

8. Why can't we rely on our real estate excise tax (REET) balance to solve the problem?

REET is a State authorized tax on the sale of your home. The State collects most of this revenue, but the Town receives a portion of it. The State has specific limitations on how we use the money – primarily in street and park maintenance and park land acquisition. This revenue cannot be used to fund police, fire, or general operations. It cannot be used to pay legal costs or to fund all potential types of infrastructure damage in a natural disaster. While we currently have approximately \$700,000 in this account, we have paving projects in our six-year transportation improvement plan (including the Highlands, the Estates, and streets within our R-14.5 zone) that total \$385,000. At the cost of \$1 million per mile to repave our streets, this fund can be depleted quickly (and not replenished quickly) just by our conducting ordinary maintenance.

9. Can we sell park land or rezone property to help solve the deficit?

I lumped these two questions together because they both suggest that increasing density might help with our budget deficit. The answer is a little complicated. I'll ignore for the moment arguments about the effect of this strategy on the character of the Town.

With regard to park land, most of our parks were purchased with grants. The Town accepted these grants on the condition that the land remain in public open space in perpetuity. The grants generally require repayment or investment in similar park property if the park land is sold. So, there would be no one-time windfall from selling parks. There might be additional revenue from redevelopment of the park, but most of the revenue would be one-time construction sales tax, which doesn't really solve the ongoing nature of the financial problem. The Town receives \$3,030 a year in property taxes for a home with an assessed value of \$2 million. It might take quite a few homes to make a dent in our projected \$600,000 annual deficit. I also should note that most of the one and two acre lots in Town are subject to covenants that restrict development, even if the Town's zoning allowed additional density.

10. Can we save money by contracting out for mowing and line trimming?

This issue was suggested as a solution during the 2016 property tax levy campaign. Unfortunately, it was another one of those solutions that sounds attractive but has no basis in reality. The short answer is “no”. We have evaluated it, and it is not a cost-effective solution because contracting for public works services requires a public bid process that is only available to certain contractors and requires the Town to pay a prevailing wage for each defined task, which is substantially more costly than having employees. As a government, we do not get to pay someone the same rate that you or I might pay someone to do landscaping at our home. More importantly, our Public Works crew does a lot of other critical (and some legally mandated) tasks other than mowing and line trimming, and they are available 24-hours a day.

11. Can we save money by contracting for police or fire service by paying on an as needed basis?

Again, this is another “solution” that has been widely shared that is not based in reality. I will keep it simple – there are no service providers willing to provide us with police or fire service on a per call basis. We have asked. It doesn’t matter what the analysis shows if there is no one willing to provide us service in that manner. We believe we have very good, long-term agreements with Edmonds and the Shoreline Fire Department that are mutually beneficial.

While this letter has been lengthy and detailed, I felt it was important to share with you as much factual information as I can, along with my opinion, so that you can develop your own opinion on these important topics for our community. I again encourage you to sign up for my e-newsletter: [https://www.townofwoodway.com/how do i/email notifications.php](https://www.townofwoodway.com/how_do_i/email_notifications.php). And please don’t hesitate to reach out and contact me, the Council, or our staff to answer any questions that you might have.

Sincerely,



Carla A. Nichols, Mayor

TOWN OF WOODWAY | NOTICE OF PUBLIC HEARINGS
POINT WELLS AREA PLANNING AND ZONING

NOTICE IS HEREBY GIVEN that the Woodway Town Council will hold two Virtual Public Hearings on Monday, November 16, 2020 at 6:00 p.m. and two Virtual Public Hearings on Monday, December 21, 2020 at 6:00 p.m. or as called as soon thereafter, via Microsoft Teams.

For the November 16 public hearings, you can call in to listen to the meeting at 1 321-209-6411 and enter Conference ID: 826 110 444# or you can join virtually at https://teams.microsoft.com/l/meetup-join/19%3ameeting_ZDQzZGNkMDQtMzMzOC00MmUyLWJINjMtZWJjNDQwMzAxMGE0%40thread.v2/0?context=%7b%22Tid%22%3a%22945f0587-30f4-4c4a-af11-350f8395068c%22%2c%22Oid%22%3a%22657497cc-96da-4d77-a4cc-c9a20a0d8a83%22%7d.

For the December 21 public hearings, you can call in to listen to the meeting at 1 321-209-6411 and enter Conference ID: 119 969 834# or you can join virtually at https://teams.microsoft.com/l/meetup-join/19%3ameeting_YjBjZTY3ZDMtZjljYi00ZGU2LTgyZjQtYjhlMGZjOWFiMjVm%40thread.v2/0?context=%7b%22Tid%22%3a%22945f0587-30f4-4c4a-af11-350f8395068c%22%2c%22Oid%22%3a%22657497cc-96da-4d77-a4cc-c9a20a0d8a83%22%7d.

The links are also available in the calendar on our website: <https://www.townofwoodway.com/calendar.php>.

The purpose of the first public hearing each night is to consider comment regarding amendments to the Woodway Municipal Urban Growth Area Subarea Plan that includes renaming the subarea plan to Point Wells Subarea Plan 2020.

The purpose of the second public hearing each night is to consider comment regarding amendments to the Urban Village Zone District (WMC 14.40) and adopting a new chapter entitled Urban Village Design Standards (WMC 14.60). These are zoning regulations that will become effective upon annexation pursuant to RCW 35A.14.330-340.

Any interested person(s) may provide oral and written public testimony regarding this issue at the virtual public hearing. Directions for participation in the virtual public hearing can be found on the Town's website. Written comments may also be submitted prior to the public hearing to Heidi Napolitano, Clerk-Treasurer at heidi@townofwoodway.com. Comments received by noon on the day of the meeting will be provided to the Town Council electronically for consideration at that evening's meeting. Comments received after that deadline will be provided to the Town Council after the meeting. If for any reason this hearing cannot be completed, the Town Council may continue it to another date. No further notice of a continued hearing is required.

The Town of Woodway will attempt to accommodate any special needs of those wishing to attend. If you require special needs, please contact Town Hall a minimum of three (3) working days prior to the meeting date.

Heidi K. S. Napolitano, Clerk-Treasurer

