

Town of Woodway

# Point Wells Annexation Financial Analysis

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# Overview

The purpose of this analysis is to estimate the financial impact on the Town of Woodway of annexing the Point Wells area into the Town. The analysis will consider the impact of annexing Point Wells on major revenue and expenditure categories for the Town under four different potential development scenarios for the area. An estimate of the Town's revenues and expenditures under the status quo is included for comparison purposes. This analysis does not address the likelihood of these potential development scenarios, which were identified by Town staff. The assumptions used in this analysis are described in detail in Appendix A: Assumptions.

## Key Findings

- All the development scenarios result in a stronger financial position than the status quo because they enhance the tax base by adding population, housing units, assessed value, and/or real estate sales.
- Scenario 3 provides the largest net financial benefit for the Town because of the large one-time revenues associated with construction.
- Scenario 3 also has the largest increase in expenditures, including new positions and higher contractual costs to provide services to a larger community.
- In all scenarios, the Town would receive one-time real estate excise tax revenues (REET) from property sales, which are not included in this analysis, but could be used for capital projects.
- In each scenario, including the status quo, the Town would have to address its underlying structural budget deficit created by expenditures growing more quickly than the Town's primary revenue sources. This is explained under the discussion of Scenario 0, below.

## Development Scenarios

BERK staff projected impacts to the Town of Woodway's revenues and expenditures between 2024 and 2035 under these development scenarios:

- **Scenario 0:** Status quo. This scenario assumes no annexation of Point Wells.
- **Scenario 1:** A 24-lot single-family subdivision, completed in 2028.
- **Scenario 2:** A 140-unit multi-family condominium development, completed in 2030.
- **Scenario 3:** A 734-unit multi-family condominium development. One quarter of units are completed in each year between 2030 and 2033.
- **Scenario 4:** A modernized industrial use similar to the historical use of Point Wells. This scenario assumes no additional population or housing units on the Point Wells site.

# Analysis

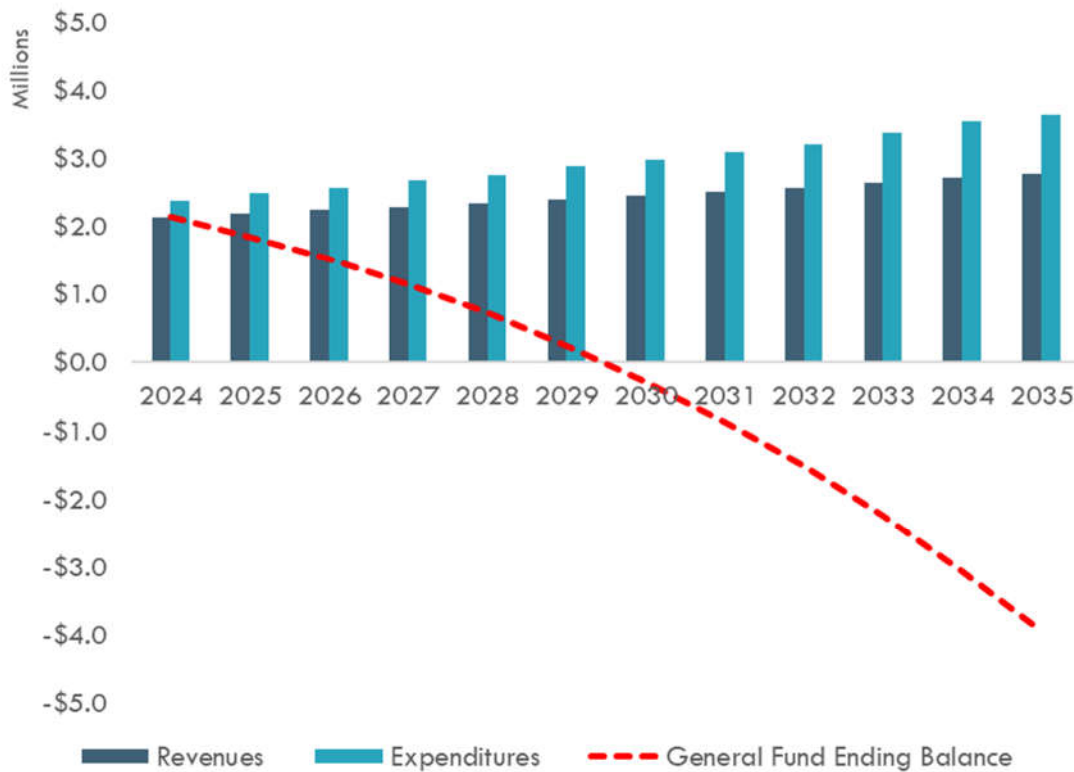
## Scenario 0: Status Quo

In this scenario, there is no revenue or expenditure impact from Point Wells. This scenario aligns with the Town's current financial forecast. The Town's primary revenue source is property tax, which is limited in how much it can grow annually. Other revenues for the Town fluctuate from year to year depending on economic conditions, such as sales tax or real estate excise tax (REET).

Expenditures are driven by personnel costs, which typically increase more than inflation. Between 2016 and 2023, the Town's revenues grew by 2 percent and expenditures grew by 10 percent. This imbalance in the rate of growth creates a structural budget deficit. This structural deficit is a challenge for the Town in all scenarios, including the Status Quo.

In this Status Quo scenario, the General Fund ending fund balance remains positive through 2029. Exhibit 1 shows the General Fund annual revenues, expenditures, and ending fund balance under this scenario.

**Exhibit 1: Scenario 0 Revenues, Expenditures, and Ending Fund Balance, 2024-2035**

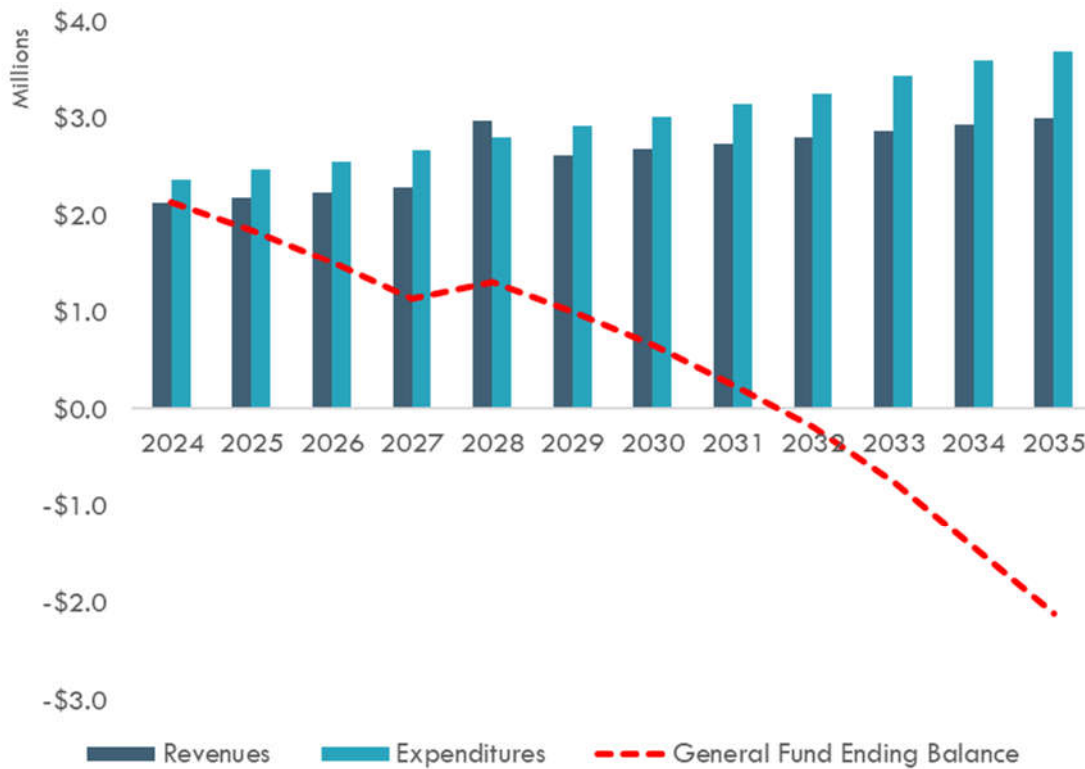


Sources: Town of Woodway, 2023; BERK, 2023.

# Scenario 1: 24 Single-family Homes

In this scenario, there are some additional costs for the Town. With 24 new single-family homes, there is a small increase in costs for general administration and contracted fire and dispatch services. Additional fire and dispatch expenditures are based on the number of new housing units. The Town would receive one-time sales tax from construction and one-time REET revenues and small increases in other revenues due to more residents and households. The General Fund ending fund balance remains positive through 2031. Exhibit 2 shows the General Fund annual revenues, expenditures, and ending fund balance under this scenario.

**Exhibit 2: Scenario 1 Revenues, Expenditures, and Ending Fund Balance, 2024-2035**

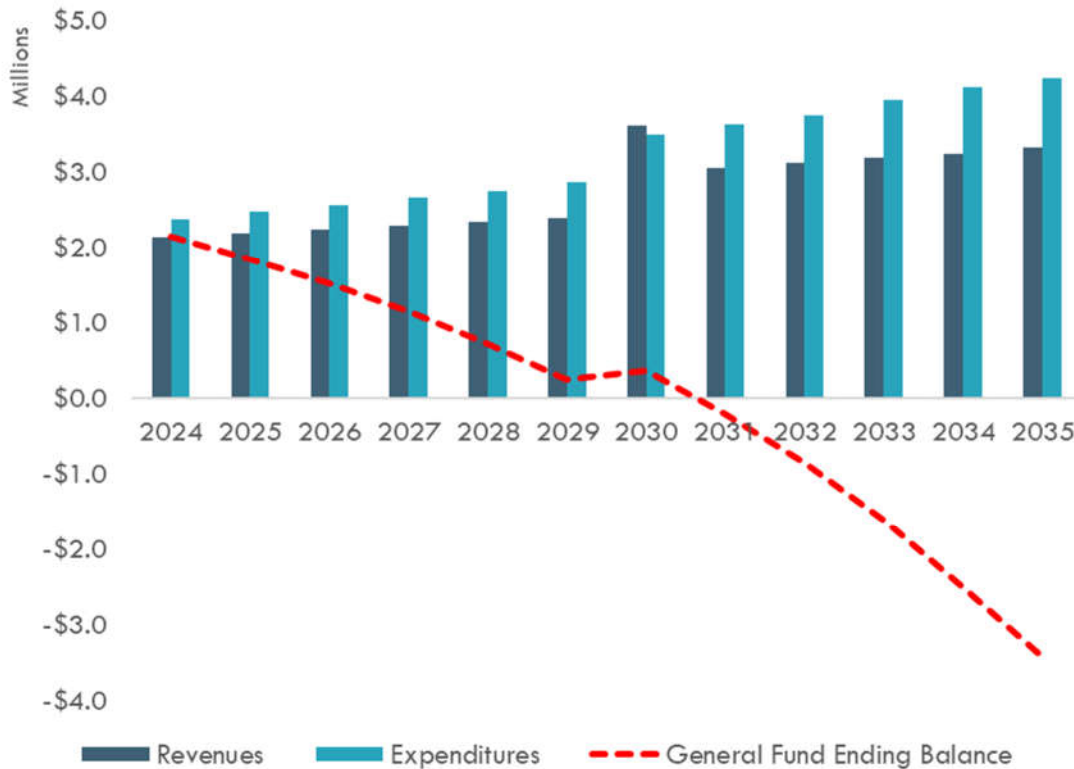


Sources: Town of Woodway, 2023; BERK, 2023.

## Scenario 2: 140 Multi-family Units

In this scenario, there are additional costs for the Town, both for new positions and contracted public safety services. With 140 new multi-family homes, there would be additional staff needed for administration, public works and parks, and contracted police, fire, and dispatch services. Police, fire, and dispatch expenditures are based on the number of new housing units. The Town would receive a higher amount of one-time sales tax from construction and REET revenues, as well as higher increases in other ongoing revenues due to more residents. The General Fund ending fund balance remains positive through 2030. Exhibit 3 shows the General Fund annual revenues, expenditures, and ending fund balance for 2024-2035 under this scenario.

**Exhibit 3: Scenario 2 Revenues, Expenditures, and Ending Fund Balance, 2024-2035**

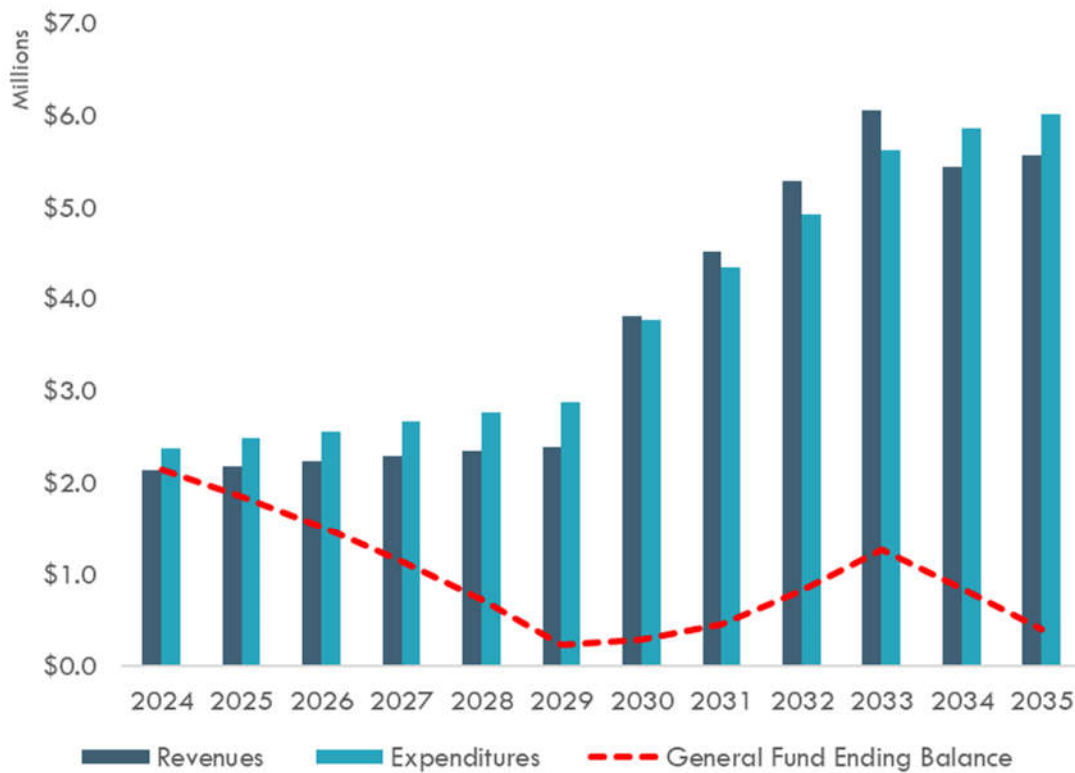


Sources: Town of Woodway, 2023; BERK, 2023.

## Scenario 3: 724 Multi-family Units

This scenario has the highest additional cost for the Town, both for new positions and contracted public safety services. With 734 new multi-family homes, there would be additional support needed for administration, public works and parks, and contracted police, fire, and dispatch services. Police, fire, and dispatch expenditures are based on the number of new housing units. The Town would receive the highest amount of one-time sales tax from construction and one-time REET revenues because of the value of new construction. This scenario would also have the highest increase in other revenues due to the largest gain in new residents. The General Fund ending fund balance remains positive through 2035. Exhibit 4 shows the General Fund annual revenues, expenditures, and ending fund balance for 2024-2035 under this scenario.

**Exhibit 4: Scenario 3 Revenues, Expenditures, and Ending Fund Balance, 2024-2035**



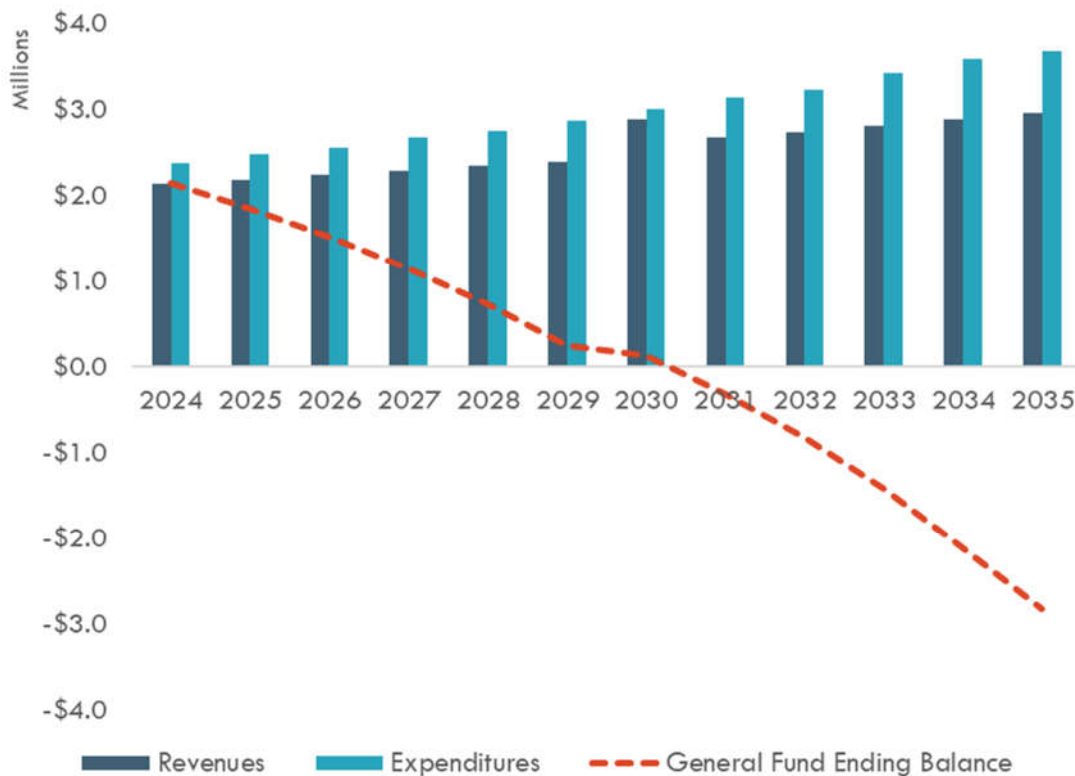
Sources: Town of Woodway, 2023; BERK, 2023.



## Scenario 4: Industrial Development

In this scenario, the only new cost for the Town is for fire service, as this area is not currently served by the Shoreline Fire Department. No additional police service is expected as the site would have its own security and would not have public access. The Town would receive one-time sales tax from construction and one-time REET revenues. The development is assumed to generate retail sales tax revenue. It could also generate business and occupation (B&O) tax revenue if the Town chose to institute a B&O tax. It is difficult to have a good basis for developing sales and B&O tax revenue estimates as it is unclear how much of the site would be used for an industrial purpose. Information on statewide gross business income for a fuel distribution site and local retail sales tax in other cities with fuel terminals has informed these estimates. The General Fund ending fund balance remains positive through 2030. Exhibit 5 shows the General Fund annual revenues and expenditures and ending fund balance for 2024-2035 under this scenario.

**Exhibit 5: Scenario 4 Revenues, Expenditures, and Ending Fund Balance, 2024-2035**



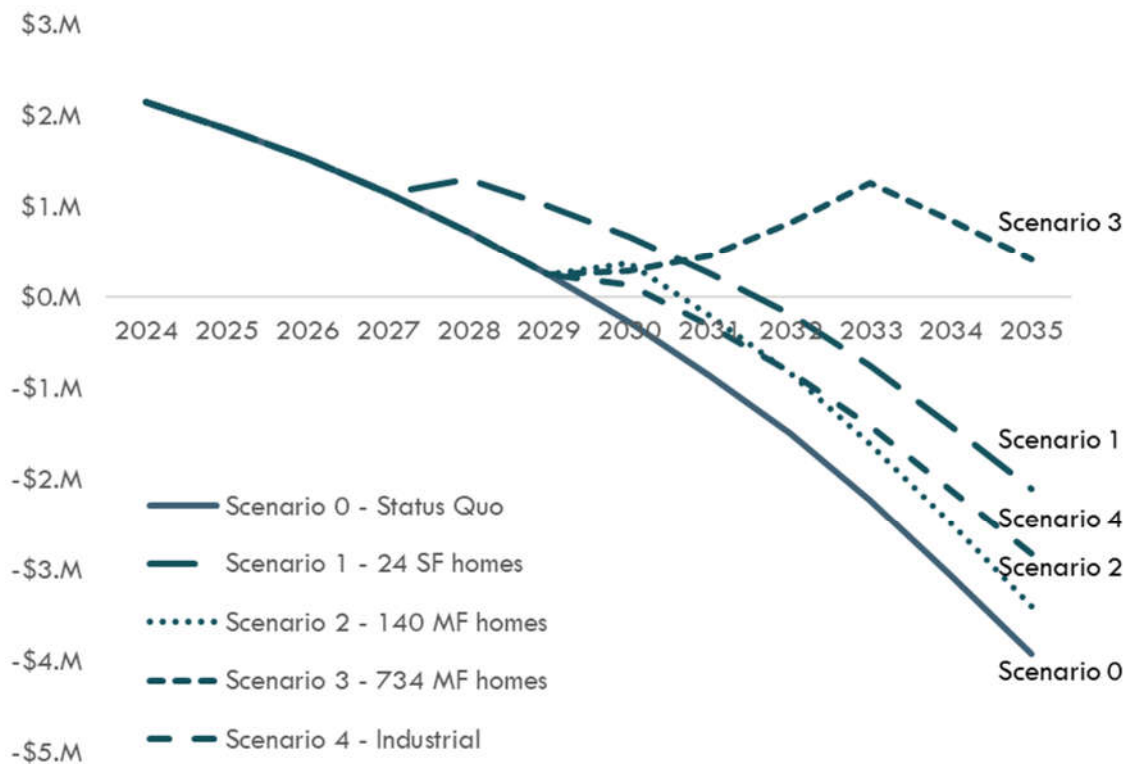
Sources: Town of Woodway, 2023; BERK, 2023.

## Scenario Comparison

All the development scenarios result in a stronger financial position than the status quo because they enhance the tax base by adding population, housing units, assessed value, and/or real estate sales. However, a structural budget deficit remains in any scenario. Scenarios 2 and 3 result in a larger increase in service costs that is partially offset by the large one-time REET and construction sales tax revenues. The increase in level of service would become a challenge in the longer term because it would cause Town expenditures to escalate more quickly than under the status quo or Scenarios 1 and 4 (which have minimal service/cost impacts).

Scenario 3 provides the largest financial benefit for the Town because of the higher construction values and associated one-time revenues. Exhibit 6 shows the impact of each scenario on the General Fund ending balance.

**Exhibit 6: Impact of Scenarios on Ending General Fund Balance**



Sources: Town of Woodway, 2023; BERK, 2023.

As shown in Exhibit 6, each scenario results in the General Fund ending balance falling below zero before 2035, except for Scenario 3. To address the annual deficit that contributes to the decreasing ending fund balance, an option would be increasing the Town's property tax levy rate. The Town's largest revenue source is property tax revenue, so increasing the levy rate would have the most significant impact on the annual deficit.

For each scenario, we estimated the property tax levy rates required to maintain an ending fund balance target. For Scenarios 0, 1, 2, and 4, the ending fund balance target is \$1 million. For Scenario 3, the

target is 30% of the General Fund expenditure budget, due to the budget in this scenario being significantly larger than in the other scenarios.

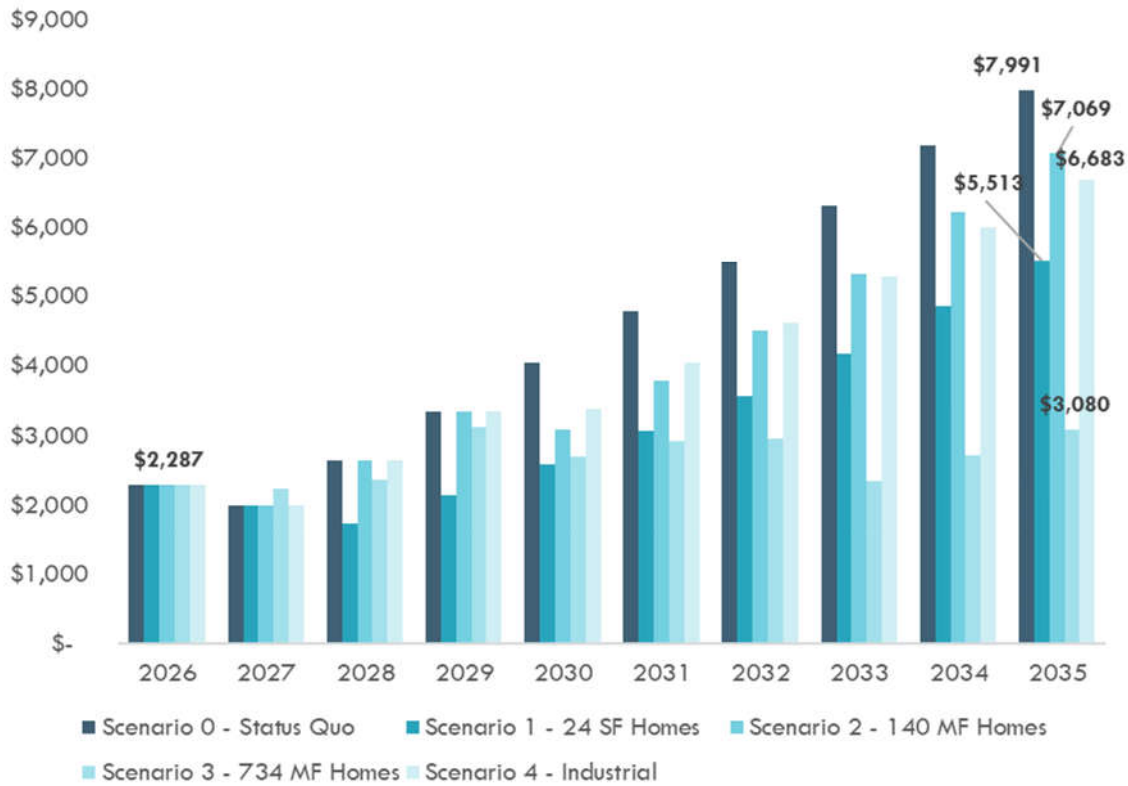
Exhibit 7 provides the levy rates required in each scenario. The levy rates remain below the Town’s limit and the total dollar limit for local taxing districts, assuming no change in other districts’ levy rates. Each scenario would require a lower increase in the property tax levy rate than the status quo scenario, with Scenario 3 having the lowest rates. Exhibit 8 provides the local property tax bill for the average existing property based on these levy rates. Exhibit 9 shows the property tax in 2026 and 2035 and the rate of growth over that period for each scenario.

**Exhibit 7: Levy Rate Required to Maintain Target Ending Fund Balance**



Sources: Town of Woodway, 2023; BERK, 2023.

**Exhibit 8: Property Tax Based on Target Ending Fund Balance**



Sources: Town of Woodway, 2023; BERK, 2023.

**Exhibit 9: Property Tax Summary Based on Target Ending Fund Balance**

Scenario	Town Property Tax in 2026	Town Property Tax in 2035	Percent Growth 2026 to 2035
Scenario 0 – Status Quo	\$2,287	\$7,991	10.2%
Scenario 1 – 24 SF Homes	\$2,287	\$5,512	6.9%
Scenario 2 – 140 MF Homes	\$2,287	\$7,069	9.1%
Scenario 3 – 734 MF Homes	\$2,287	\$3,080	1.8%
Scenario 4 - Industrial	\$2,287	\$6,683	8.6%

Sources: Town of Woodway, 2023; BERK, 2023.

# Appendix A: Assumptions

## General Assumptions

- Under the no annexation scenario (Scenario 0), population growth and housing unit growth are based on the 2035 population projection in the Town's 2015 Comprehensive Plan. Steady growth is assumed between 2022 and 2035. The other annexation scenarios assume this baseline of growth in addition to the growth from new development at Point Wells.
- Historical inflation is evaluated using the CPI-U annual index for the Seattle-Tacoma-Bellevue metro area. Future inflation is projected using a 10-year average of past inflation.
- The scenarios use the 2024 beginning fund balance for operating funds from the Town's 2022 year-end forecast. The revenues and expenditures reflect the General Fund only.

## Revenue Assumptions

- Property tax revenues from existing assessed value are projected to increase by 1% each year, in accordance with state law. New construction is not subject to the 1% annual limit on property tax revenues. Property tax revenues from new construction are based on the estimated assessed value of housing units in each scenario. Assessed values are determined by reviewing sales of similar property types in Snohomish County.
- Real estate excise tax (REET) revenues are estimated based on the average sale price per housing unit and the current excise tax rate. REET revenues go to the Capital Projects Fund. The ending balance for this fund earns interest revenue, which is included in the total General Fund revenues. REET revenues are not included in this analysis.
- Sales tax, utility tax, intergovernmental revenues, and other revenues are projected to remain flat on a per capita and inflation-adjusted basis. In other words, these revenues are projected to increase in proportion to population growth and to keep up with inflation.
- For the industrial development scenario, the estimated sales tax revenue is based on taxable retail sales in the "Petroleum and Petroleum Products Merchant Wholesalers" business category in two cities in the State of Washington with fuel terminal sites. The estimated B&O tax is based on the gross business income statewide in the same category.

## Cost Assumptions

- Existing personnel and non-personnel costs are projected to increase by 3.34% annually in nominal terms. Adjustments are made for one-time expenses or expenses that occur every other year.
- Personnel and non-personnel expenses for the different scenarios have been estimated based on input from staff and service providers, current costs, and future costs increased by inflation. Contracted fire and police services increase based on the number of new housing units.
- Costs to process development applications are not included because they are paid for by the applicant and completed by consultants. There may be other costs to the Town related to development, such as reviewing reports, that are not included in this analysis.

- The current contracts for police and fire services have language permitting either party to renegotiate the contract if the Town annexes Point Wells. Therefore, the cost assumed in this analysis may be different if the contracts change significantly.