

POINT WELLS ANNEXATION QUESTIONS AND ANSWERS

The Town's annexation of Point Wells has long been a subject of discussion within the Town, dating back to the Town's incorporation in 1958. The annexation issue was brought forward more recently by a letter last July from the Town Council to the property owner (BSRE). The letter invited BSRE to a conversation about BSRE's and the community's interests, including a discussion about annexation. BSRE responded to the letter with an expression of mutual interest.

The Town also approached Snohomish County, City of Shoreline and Olympic View Water & Sewer District about the prospects of an annexation agreement between the Town and Snohomish County via a new state law. The law allows the Town to annex Point Wells without the property owner's consent.

In January, the Town Council decided to start a discussion with residents on whether the Town should annex Point Wells. On February 6, Mayor Quinn sent out an e-Newsletter inviting residents to participate at Council meetings (either in person or remotely) or by email. Council reserved time at each of its fifteen Council meetings between February and September for these various updates and for public comment and discussion. The Town also included a reminder of the annexation discussion in the April edition of the Woodway Whisper, which is mailed to every home.

In addition to hearing from the public, Council engaged a consultant to conduct a financial analysis, evaluating the effect of several development scenarios on the Town's finances. Council also heard from the Town's attorney on legal considerations related to annexation and from the Town's Planner related to zoning and development matters. The Mayor and Town Administrator provided regular updates on the progression of annexation discussions with BSRE and the governmental entities.

Discussions with BSRE over the past year have been cordial and informative. But they did not lead to an annexation or development proposal. However, negotiations with the Town's governmental partners on an agreement were completed successfully in September. In the September edition of the Woodway Whisper, the Town announced an October 2 public hearing on an annexation agreement between the Town, Snohomish County, the City of Shoreline and Olympic View Water & Sewer District.

After hearing from those in favor and against annexation, Council adopted a resolution authorizing Mayor Quinn to execute the agreement. Council also authorized the Mayor to file a "Notice of Intent" to annex Point Wells with the County's Boundary Review Board. The Notice of Intent is necessary procedural requirement, but it does not commit the Council to annex. An annexation decision can come only if the Board authorizes annexation and only after Council holds another public hearing on an annexation ordinance. As a result, a final decision may be months (or even years, with potential appeals) away.

This Q&A is intended to address many of the questions that we have been asked over the years and as part of the outreach effort the Town has engaged in since January. The document does not address all questions. In particular, the document does not answer questions that might be the subject of negotiation with the property owner or that might be the subject of potential future litigation. We encourage residents to participate in our

council meetings (including future public hearing), or to set up a meeting with the Mayor, a Council member, or our Town Administrator if you have questions that are not included in this document.

1. *What is Point Wells and where is it located?*

Point Wells is about 67 acres of unincorporated Snohomish County, located along the southwestern boundary of the Town and the northern boundary of the Shoreline/King County line. The property currently has an industrial use, but most of the property is zoned by Snohomish County for commercial and mixed-use development. A parcel at the southern end of the site is the King County Brightwater Treatment Plant's outfall to Puget Sound. This parcel continues to be zoned for industrial use.

2. *What is the significance of Point Wells to the Town?*

The State's Growth Management law divides lands in the state between urban and rural. Urban areas are intended to be annexed by cities. Snohomish County has designated Point Wells as an urban area within the Town's "municipal urban growth area," also known as a "MUGA". This means that, at some point, the property is intended to be annexed by the Town and developed pursuant to the Town's regulations. The Town has planned for the eventual annexation of Point Wells since 1999. The Town has significant concerns that, under County jurisdiction, the property may be developed in a manner that is inconsistent with the desires of Woodway residents.

3. *Is the Town required to annex Point Wells?*

No. While State law intends for all urban unincorporated areas within the state to be annexed and managed by cities, State law does not currently mandate that the associated cities annex these areas.

4. *What is the source of the years of litigation related to Point Wells?*

In 2009, BSRE (the owner of Point Wells) submitted a request to Snohomish County to rezone Point Wells to allow for a new "Urban Center" with over 3,000 housing units and 100,000 square feet of commercial space. The Town and the City of Shoreline appealed the designation to the Growth Management Hearings Board. We prevailed.

Following the Board's ruling, Snohomish County rezoned Point Wells to create an optional "Urban Village" zoning designation. Under this zone, the developer would be required to negotiate agreements with the Town and Shoreline before a development application could be approved. While the Urban Village zoning became the official zoning for the site, the Washington Supreme Court later ruled that, because BSRE filed their application under the Urban Center code before the Board's ruling, their project was "vested" under that illegal code. As a result, BSRE's unreasonably large redevelopment project could continue to move forward.

A couple years ago, the County moved to terminate BSRE's application because BSRE failed to diligently pursue its application in compliance with the County's code requirements. A court gave BSRE additional time to fix its application. However, the court ultimately determined that BSRE failed to adequately revise its application, and the court ruled that the County was justified in terminating BSRE's application.

In December 2022, the Washington Court of Appeals affirmed the lower court's determination that the County's termination of BSRE's project was justified. The State Supreme Court declined to hear BSRE's appeal. As a result, BSRE's 3,000+ unit Urban Center development application is dead. Mixed use development at Point Wells is now subject to the County's more restrictive Urban Village zoning designation.

In addition to litigation regarding the project itself, Ronald Wastewater District, the City of Shoreline, and King County sued the Town, Olympic View Water & Sewer District, and Snohomish County regarding jurisdiction over sewer service to Point Wells. The State Supreme Court ruled in our favor, stating that Ronald, Shoreline, and King County have no right to provide sewer services within Snohomish County. Point Wells is within Olympic View's water and sewer service area.

5. *What is contained in the Town's Settlement Agreement with Shoreline?*

The Town and the City of Shoreline entered into a settlement agreement, resolving our differences related to both annexation and sewer service at Point Wells. In this agreement, the Town and Shoreline agreed to work together on issues related to Point Wells. The agreement addresses zoning, annexation, traffic, mitigation and utility service.

The settlement agreement provides that the Town will have an opportunity to initiate an annexation of Point Wells, and Shoreline will support that annexation. If the Town fails to initiate an annexation under certain circumstances, Shoreline will have an opportunity to annex Point Wells.

Perhaps most importantly, under the terms of the agreement, density at the site will be limited (based on traffic generated by certain types of development). No more than 24 residential units may be developed unless there is a secondary access through upper Woodway. The agreement estimates that, with secondary access, density will be limited to approximately 400 single-family homes or 800 multi-family homes.

6. *Does the Settlement Agreement mean that Woodway will annex Point Wells?*

No. The settlement agreement does not require the Town to annex Point Wells. While the parties agree that Woodway should have the right of first refusal to annex Point Wells, the decision on whether to annex will ultimately be made by the Town Council, in accordance with state law, at a public meeting.

7. *How does the annexation ILA alter the Shoreline-Woodway settlement agreement?*

The ILA amends the settlement agreement to clarify the process by which the Town will notify, consider, and in some cases impose mitigation requests made by Shoreline when plans, development regulations, project permit applications, and non-conforming use designations may impact Shoreline's transportation infrastructure and public facilities. When the Town imposes mitigation as requested by Shoreline, Shoreline agrees to indemnify and defend the Town in any legal dispute arising from the imposition of such mitigation. The ILA also states that the cities will work collaboratively to identify and consider other ways to address such impacts for developments more broadly within each city. Lastly, the ILA addresses impacts from the expansion or modification of vested permits.

8. *Do residents get to vote on whether to annex Point Wells?*

No. The annexation laws are very prescriptive. State law provides that an annexation can only be approved by the Town Council. However, State law requires the Town Council to hold public hearings to hear from residents and affected parties before taking action to annex territory. In addition to the official public hearing, the Council may use a variety of methods for obtaining information on public opinion regarding a potential annexation (such as the fifteen open forum discussions held during Council meetings this year, the Woodway Whisper, the Mayor's e-Newsletter, and one-on-one discussions).

9. *Can the Town maintain a balanced budget without annexation?*

Yes. In fact, the Town has a legal obligation to maintain a balanced budget and will always do so. However, maintaining a balanced budget does not mean that service levels or taxes will remain the same.

Without new revenue, the Town Council will have to reduce services. Unfortunately, many of the Town's responsibilities are legally mandated. Surprisingly, services that we would otherwise view as essential, such as police, fire, and certain aspects of our street & right-of-way maintenance, are not legally mandated. These services will be reduced prior to a reduction in legally-mandated services or funding for legally mandated tasks that might seem less important.

The challenge associated with the Town's budget is not unique to Woodway. It results from the tax structure that the State uses to fund local government. Generally speaking, property tax revenue is the largest single source of revenue for most cities in Washington. A state-wide voter approved initiative in the '90s restricts the amount a city can collect in property tax revenue to 1% more than what the city received the prior year. This 1% increase in revenue is irrespective of what happens to the assessed value of your home (*i.e., an increase in your home's value does not result in an increase in the amount of property tax revenue the Town receives*). As a result, most cities have a structural deficit, requiring either regular voter approved tax increases or service level cuts to maintain a balanced budget.

For Woodway, the Town will receive approximately \$11,000 more in property tax revenue in 2023 than it received 2022 (excluding revenue from new construction). In contrast, public safety costs, which are generally the largest single expense for most cities, tend to grow at a rate far greater than 1%. For Woodway, the Town's police and fire contracts alone increased by over twice that amount in 2023. This does not include other costs that grow by more than 1%. As a result, most cities are faced with a deficit that grows exponentially over time, forcing them to return to voters periodically to maintain services.

Annexation will not solve this problem. None of the development scenarios reviewed by the Town's financial consultant would eliminate the need for periodic tax increases. Depending on the nature of the development at Point Wells, however, annexation may allow the Town to distribute relatively fixed costs over a larger tax base, thereby reducing the amount of a tax increase on a Town homeowner.

10. *When will the Town conduct a financial analysis of annexation?*

Several years ago, we worked with Shoreline to jointly hire a consultant to conduct a financial analysis of annexation based on BSRE's application with the County. The analysis required certain assumptions regarding service levels, such as fire, police, and public works services and staffing. While the analysis showed that annexation would provide the Town with a substantial financial benefit, the analysis was

based on a much larger scale of development than is anticipated under the current code. It also includes a lot of assumptions that now, years later, are not accurate.

As a result, Council directed staff to engage a consultant to conduct an updated financial analysis based on several scenarios. The scenarios we are considering include:

- a 24-lot single-family subdivision (the most that could be built without secondary access);
- a 140-unit multi-family condominium development (the County's housing projection based on environmental limitations);
- a 734-unit multi-family condominium development (the projected upper limit of what could be built under the Settlement Agreement with Shoreline); and
- a modernized industrial use similar to Point Wells' historical use.

You can find a copy of the consultant's report on our website. Key findings include:

- 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, thereby reducing the burden on existing taxpayers.
- Consistent with the prior analysis, the larger condominium development provides the largest net financial benefit for the Town because of the large one-time revenues associated with construction.
- The larger condominium development 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 – property tax.

Of note, this analysis is intended to be comparative and not conclusive. A truly meaningful financial analysis is difficult without answers to a lot of very basic questions, which we don't have. This financial analysis includes a number of assumptions.

For example, for residential uses, we had to estimate the assessed values of the units to be developed and what the Town's tax rate will be upon completion of the development. We don't know the type or amount of public space and whether the Town or the business/homeowner's association would be responsible for maintaining these spaces or providing certain services. We also do not know what types of businesses will be at the site – some businesses generate more tax revenue than others. Many of these and other questions would be subject to negotiations with and cooperation of the property owner/developer.

Perhaps the biggest area of uncertainty that will test the real-world reliability of our analysis is the financial feasibility of any of these scenarios. The most significant variable in this regard is the anticipated environmental cleanup cost. We don't know the scale of the environmental contamination or the cost of cleanup that will be required. As a result, we don't know whether any of the scenarios are feasible.

11. *How will the Council evaluate the benefits of annexation versus the risks?*

Whether an annexation is financially advantageous is perhaps the most fundamental question to be considered by the Council. As stated above, there is significant uncertainty as to whether certain types of development will be built and how much new revenue may result from redevelopment. However, we know that adding even undeveloped land will generate additional property taxes, which can marginally reduce the tax burden on existing taxpayers. But, given the state's tax structure, we also know that it is likely that an annexation will not permanently eliminate the Town's need to ask for tax increases.

As a result, Council also has considered several other factors when deciding whether to pursue an annexation. The most significant of these is the extent to which control over future development of the site outweighs or will help us mitigate the potential impacts from an annexation.

12. *If the Town's zoning and Shoreline's zoning are the same, why not just let Shoreline annex Point Wells?*

There is no agreement that would guarantee that the Town's and Shoreline's (or County's) zoning regulations will remain harmonized indefinitely. Without annexation, the Town has no control. Also, depending on the nature of redevelopment at Point Wells, the Town could receive the impacts of redevelopment without corresponding revenue from the site.

13. *If the Town annexes, can we limit the voting power of future residents at Point Wells?*

No. Voting in Washington requires one person, one vote. There is not a legal way to dilute the voting power of one area of a city in favor of another. That being said, we have about 1,000 registered voters in Woodway. It is entirely possible that any residential development at Point Wells will have fewer registered voters than registered voters in the remainder of Woodway. It also is entirely possible that these new voters will share many of the same concerns and many of the same values as those held by current Woodway residents.

14. *Will annexation of Point Wells mean that we have to allow commercial zoning in Town?*

The only potential commercial zoning district in Town resulting from an annexation of Point Wells would be at Point Wells. Commercial zoning at Point Wells will not result in commercial zoning in the rest of Town.

15. *Does the Town have to build a secondary access road up the bluff?*

No. If a developer at Point Wells wants to develop a project that results in traffic greater than would be generated by more than 24 single-family homes, their application cannot be approved under either the County's zoning or the Town's proposed zoning without a secondary access. The developer will have the responsibility to prove that such an access is environmentally feasible. The developer will be required to obtain the necessary property to construct the access. The developer will have to design the road in accordance with the Town's standards, including any requirements necessary to ensure privacy for adjacent residences. And the developer would have to pay to construct the road. Upon completion, the road likely would be turned over to the Town and, if so, the Town would be required to insure and maintain the road, as it does with any other public road in Woodway.

16. *Will the Town be required to widen or improve other Town roads to accommodate development at Point Wells?*

While we do not anticipate any major changes to the Town's street network because of redevelopment at Point Wells, we cannot completely rule out that some improvements might be required. If the existing roads in Woodway are insufficient to support an otherwise legally allowable development at Point Wells, the developer may have the right to mitigate their impacts by making improvements to the Town's street network. This right may exist whether or not an annexation occurs.

17. *Do we have an estimate of how much traffic will be coming into Town from Point Wells?*

The preliminary analysis done as part of BSRE's County application suggest that approximately 16-20% of Point Wells traffic will come through upper Woodway. The exact number of vehicles will depend on the size and type of development.

18. *Do we know when the project will start or when the secondary access road will be built?*

No. We don't know whether a project at Point Wells is even feasible, let alone when it would be built within a specific timeframe. We don't know the extent of the environmental cleanup or the time that would be required to accomplish that task. We don't know the scale of the project or the timeline for an approval of a redevelopment plan. It's possible that no redevelopment occurs. And, if BSRE's industrial operations are legal non-conforming uses, it's possible that BSRE continues its existing operations indefinitely.

19. *If the Town annexes Point Wells, will the Town be responsible for the clean-up costs at the site?*

No. The Town is not in the chain of title for any land at Point Wells and does not become so as a result of annexation. Even if the site becomes abandoned, it will not be the Town's responsibility to clean-up the property.

20. *Does the Town have the expertise or financial ability to process permits for Point Wells?*

Yes. The Town likely would contract out for this work, with the costs of such work to be paid for by the developer. Working with consultants (paid for by the applicant) is how the Town currently processes most development applications in the Town.

21. *If the Town annexes Point Wells, can the Town adopt procedures or requirements that will limit BSRE's ability to sue the Town or to require the developer to pay for the Town's legal costs?*

No. Property owners have the right to develop pursuant to development regulations in effect when they submit a completed development application. Property owner rights are further defined by state law. No jurisdiction in the state has the right, through legislation, to limit a property owner's right to pursue litigation to assert what they believe is a legal right or to require a property owner to pay for the Town's costs in that litigation.

The Town also cannot adopt mandatory arbitration provisions or similar legislation that would limit the ability of a property owner to pursue litigation. This applies to current Town property owners, as well as to a property owner at Point Wells after annexation.

The Town can enter into an agreement with a developer that addresses litigation expenses and requires mandatory or binding arbitration in the event of a dispute. But this is a voluntary agreement between the parties. The most effective thing that the Town can do to limit the cost of litigation is to adopt reasonable development regulations that we can live with and have strongly defensible positions with regard to those regulations if challenged.

22. *Can the Town require that BSRE cleanup hazardous waste on the site before approving an application to develop a large mixed-use project?*

No. The Town cannot require a developer to clean-up a site prior to submission or vesting of a development application. However, the Town's code does require a development agreement between the Town and a developer before a developer obtains a vested right to develop anything other than single-family housing at Point Wells. A development agreement will likely address state environmental policy act (SEPA) compliance and a clean-up schedule.

23. *How much has the Town spent on litigation?*

The Town has spent approximately \$225,000 on Point Wells related litigation over the past 12 years. Most of this cost was incurred several years ago to defend the Town from lawsuit brought by Ronald Wastewater, Shoreline, and King County.

24. *What sort of costs related to Point Wells can we anticipate going forward?*

We may experience costs related to review or development of environmental or traffic reports, or litigation related to the size, type or design of a development. These costs may be necessary to protect our interests and the character of our community, with or without an annexation. We also may experience costs to ensure that, if we choose to annex, our rights to facilitate and manage a development are more fully under our control. Lastly, if we annex, we may experience litigation costs related to whether BSRE has the right to continue an industrial use at Point Wells.

If you have any questions about any of this, or if you want to provide comments, please feel free to contact our Town Administrator, Eric Faison, at eric@townofwoodway.com. You also can reach us by phone at (206) 542-4443.