

Potential Property Tax Levy

The Town projects an operating budget deficit of over \$500,000 a year on average for the next six years. The deficit is due in part to state limitations on the Town's largest source of revenue – property tax. The Mayor and Town Council have made it a priority this year to develop a strategy to address this deficit.

Because of state requirements on what positions the Town must maintain and services that Town must provide, as well as limitations on the types and amounts that the Town can collect from various revenue sources, the Town has few options to address the deficit. **Without additional revenue, the Town will have to cut public safety services – in particular police services.**

Addressing the deficit by increasing the Town's property tax rate requires voter approval. Based on the feedback the Mayor received in multiple community meetings, he intends to recommend to the Town Council that they place on the November ballot a property tax increase. The proposed increase would be phased in over six years. The cost over six years would be an average of approximately **\$53 a month** for each \$1 million in assessed value (about \$3,840 in total over six years).

This proposal will balance the Town's budget for the next six years and retain 24-hour 911 coverage through the Town's contract with the City of Edmonds. The proposal also will enhance police services – increasing patrol by Town police officers from a little over three hours a day to about eight hours a day. Combined with new technology, these additional resources will provide increased police presence to address residents' concerns about speeding and home burglaries.

As part of his proposal, **the Town will dedicate the entirety of the tax increase to public safety expenditures, including police, fire, and emergency medical services.** Here is an example of what the tax could look like:

Potential Property Tax Levy - With Police Funding							
	2024	2025	2026	2027	2028	2029	2030
Town Levy	1,110	1,538	1,621	1,709	1,787	1,869	1,955
Other Jurisdictions	5,770	5,770	5,770	5,770	5,770	5,770	5,770
Total Levy	\$ 6,880	\$ 7,308	\$ 7,391	\$ 7,479	\$ 7,557	\$ 7,639	\$ 7,725

We hope you will join us at upcoming meetings or contact us directly to learn more about the Town's finances. Mayor Quinn, our Councilmembers, and our Town Administrator also are available if you have questions that are not included in this document.

Q&A

1. *What are the Town's primary sources of revenue?*

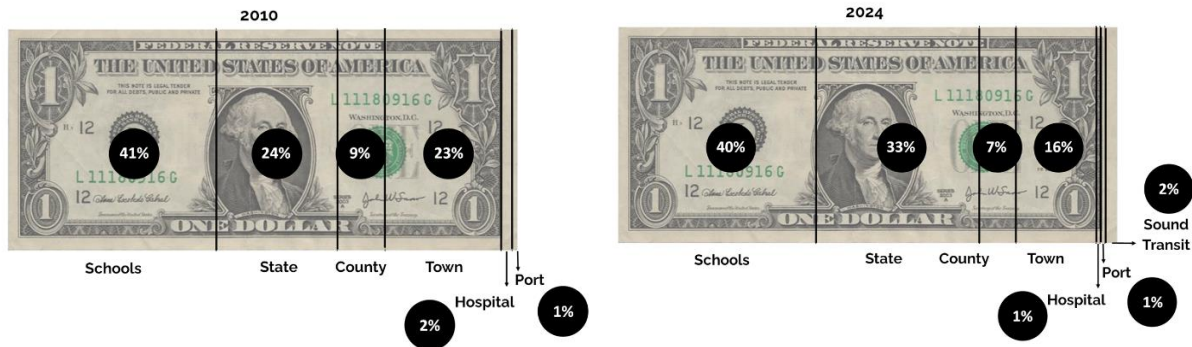
The Town's 2024 operating budget revenue is \$2.1 million. Major sources of revenue include:

- Property tax: \$1.2 million
- Utility tax/fees: \$300,000
- Sales tax: \$200,000

Other significant sources of revenue include development fees to pay for services (\$80k); various distributions the state provides to cities (\$75k); and an internal transfer from the Stormwater Utility to pay for services (\$45k).

2. *What percentage of my property tax bill does the Town receive?*

The Town's 2024 property tax rate is \$1.11 for every \$1,000 of assessed value. The total property tax rate for homes in Woodway is \$6.88 (this includes taxes rates for the state, county, Edmonds School District, Sound Transit, etc.). So, the Town receives approximately 16% of your property tax bill. By way of comparison, in 2010 (the year following the last voter approved increase in the Town's property tax rate), the Town received 23% of your total bill.



3. *Does the Town's property tax revenue increase annually as my home increases in value?*

No. An individual property owner's tax bill is calculated by first establishing a rate for each taxing jurisdiction. The rate for each jurisdiction is created by dividing the amount of property tax revenue that the jurisdiction proposes to raise by that jurisdiction's total assessed value. The amount of property tax revenue that the jurisdiction proposes to raise, however, has a limitation based on state law.

In the '90s, following passage of a voter approved initiative, the state adopted a law that restricts the amount a city can collect in property tax revenue. Cities can only collect 1% more than what the city received the prior year. This 1% increase in revenue is not related to increases or decreases in the assessed value of your home. *In other words, an increase in your home's value does not result in an increase in the amount of property tax revenue the Town receives.*

Your tax bill shows you the tax rate for each jurisdiction and the tax amount for each jurisdiction (based on your home's assessed value, as determined by the County). If you look at your bill over time, you'll notice that the percentage of the total taxes you've paid to the Town since 2010 has

declined. Interestingly, because of this 1% limit and associated formulas, many homeowners have experienced a decrease in their Town property tax bill compared to 2010.

If your property taxes have increased by more than 1% annually, it is likely due to one of four reasons.

1. Voters approved tax increases for other jurisdictions (e.g., school bonds or levies, or a voter approved property tax for Sound Transit's expansion).
2. The state increased property taxes for schools following a State Supreme Court decision related to school funding.
3. The County Assessor has determined that your home's value has increased faster than the average value for similar properties.
4. You have made improvements to your property that have increased its value.

4. *Why is this situation called a structural deficit?*

As a predominately residential community, property taxes account for over 57% of the Town's revenue. The state's limitation on the Town's property tax revenue growth has been less than rate of inflation every year after 2010. As a result, the Town's revenue has not kept up with the Town's ongoing costs over the past 14 years.

The Town will receive approximately \$12,000 more in property tax revenue in 2024 than it received in 2023 (excluding revenue from new construction). The Town's police and fire contracts have increased by more than \$30,000 this year. This increase does not include increases in other expenses, such as wages and benefits, property and liability insurance, utilities, and fuel.

To maintain existing services and comply with the Town's legal and contractual obligations with the legal constraints imposed on the Town's primary revenue sources, the Town must periodically return to voters or, over time, eliminate services that are not legally or contractually mandated. For this reason, we consider it a structural deficit.

5. *What are the Town's major expenses?*

The Town's operating budget expense is approximately \$2.4 million. Major expenses include:

- Public Safety: \$1.1 million (including Fire/EMS - \$630k; Edmonds Police contract & dispatch contract - \$280k; Woodway Police staff - \$128k)
- Administration: \$380,000
- Parks/Public Works: \$380,000
- Building/Planning: \$280,000

Other significant expenses include Town Hall debt and maintenance & operations (\$110k); insurance (\$90k), road maintenance and supplies (\$55k), and legal services (\$40k).

6. *How big is the deficit and how much would a potential property tax increase to balance the budget cost me?*

The Town's financial forecast shows a projected average annual deficit of over \$500,000 beginning in 2025. We estimate that a property tax increase to balance the budget would cost homeowners

approximately \$2,900 in total over the next six years (an average of about \$40 a month), for each \$1 million in assessed value. This amount can be divided over six years in any number of ways.

Below is an example that is a gradual implementation over six years:

Potential Property Tax Levy - Six Year Levy on \$1 Million Home							
	2024	2025	2026	2027	2028	2029	2030
Town Levy	1,110	1,388	1,471	1,559	1,637	1,719	1,805
Other Jurisdictions	5,770	5,770	5,770	5,770	5,770	5,770	5,770
Total Levy	\$ 6,880	\$ 7,158	\$ 7,241	\$ 7,329	\$ 7,407	\$ 7,489	\$ 7,575

7. Does the Town have other sources of revenue that could be used for these services?

Not many. The state generally limits the revenue options available to cities and the rates associated with those revenues. And most of the Town's significant tax revenue options are at their statutory maximums or have significant restrictions.

There are a couple other specific tax options. But these options also are dedicated for specific uses, would generate a very limited amount of revenue, and/or would require voter approval. For example, the Town Council could impose a \$40 vehicle license fee (car tabs). This fee must be dedicated to right-of-way maintenance. We estimate that this fee would generate about \$30,000 a year. The Town's sales tax rate is limited by law to 0.84% of the 10.1% total sales tax rate. The Town Council can raise this rate by 0.1%, but only if the funds are dedicated to an affordable housing program. Similarly, the Town Council could impose a business and occupations tax. It would be speculative to estimate the amount that could be generated by this tax, especially given the predominately residential character of Town.

8. Which Town services are mandatory, as opposed to discretionary?

By law, the Town is 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 (such as maintaining safety of the public's rights-of-way). There also are mandatory costs, such as State Auditor charges, County election charges, etc. *Mandatory costs consume on average 47% of the Town's revenues.*

Police officers, a fire department, and the stormwater component of public works services are not legally or contractually mandated and not included on the list of mandatory positions/responsibilities. Traffic enforcement, police patrols, and even police response are not required by law. Nor are fire protection or emergency medical services. Paved roads also are not required. While these services are technically discretionary, we have categorized each of these as "essential" services. Public safety services are 85% of essential services. An additional 8% of the essential services are Public Works Department stormwater expenses paid for by the Town's stormwater utility (meaning, a cut in this area would not affect the overall deficit). *Essential services consume on average almost 67% of the Town's revenues.*

A non-exhaustive list of discretionary items includes certain responsibilities of Public Works (e.g., beautification and park maintenance), our Town Administrator position, the Town Fair, and communications (e.g., Woodway Whisper and newsletters). With regard to parks, the Town purchased its parks with grants that require the Town to keep them open to the public. This

contractual requirement requires that we maintain safety within them. From this perspective, parks operations and maintenance are mandatory. However, there is no legal requirement that the Town have parks. The Town could choose to close its parks, sell the property, and then (pursuant to contract requirements) return the proceeds to the granting agencies. As a result, the parks and parks maintenance are classified as discretionary. *Discretionary services consume a little over 10% of the Town's revenues.*

9. *Has the Town Council considered cutting costs to balance the budget?*

Yes. After the failure of the 2016 property tax levy, Council cut staffing and services. For example, Council cut the Deputy Clerk/Permit Technician job from full-time to half-time. What followed was four successive hires and resignations. As they left, each stated that the job was too stressful because it was not a half-time job. We brought some stability to the job by eventually returning the position to full-time.

Similarly, Council eliminated the summer maintenance position for Public Works. What quickly followed was a change in our number one complaint – placing complaints about right-of-way maintenance over speeding for the first time. The position was reinstated two years later.

Collectively, the Town's essential and discretionary service costs exceed available revenues by approximately 25%, resulting in the Town's annual deficit. Balancing the budget without cuts in mandatory expenses and without new revenue will result in cuts within the essential category of expenditures.

Expenses as a Percentage of Revenues							
	2025	2026	2027	2028	2029	2030	2031
Mandatory	44%	43%	47%	47%	50%	51%	54%
Essential	62%	63%	66%	68%	69%	71%	73%
Discretionary	10%	10%	11%	11%	11%	12%	12%
Total	116%	117%	124%	126%	131%	134%	139%

Moreover, cuts in the essential category will grow over time, as essential category expenses and the Town's deficit grow. These cuts will have an outsized effect on the public safety portion of the Town's budget because public safety is approximately 85% of the essential category of the budget, and 8% of the category is funded by the Town's stormwater utility.

10. *What are "public safety" expenses?*

Some of the Town's public safety expenses are obvious. They include police, fire protection, and emergency medical services. The Town also is responsible for dispatch, court, prosecutor, public defender, jail, emergency preparedness, and disaster management expenses.

11. *What percentage of the Town's revenue is used for public safety expenses?*

Public safety expenses are approximately 57% of the Town's revenues and almost half of the Town's expenditures.

12. *How does the Town provide police services?*

The Town contracts with the City of Edmonds to provide the same 24-hours-a-day, 365 days-a-year, police coverage that Edmonds provides to its own residents. The Town currently pays Edmonds

\$245,165 for this service. The contract rate increases with inflation, with a minimum annual increase of 3%.

The Edmonds contract includes response to 911 calls and investigations. Additionally, Edmonds provides support services for its officers, such as public information, records, fleet maintenance, property room, payroll and finances, human resources, and legal and risk management pertaining to the operations and delivery of the police services (including, importantly, liability for all actions of their officers). The contract excludes SWAT, animal control, parking enforcement, and code enforcement (e.g., land use complaints, nuisance abatement, fire and building code violations).

The Town's Police Department includes a chief and five part-time officers who patrol the Town, handle speeding and DUI enforcement, alarm calls, suspicious person reports, and some investigations. The Town's chief and officers are full-time officers at other neighboring jurisdictions, who work as employees of the Town an additional 20 hours a month. The Town also has a part-time police records specialist who handles all confidential records for the Department.

13. *Does the Town have alternative ways of providing police services?*

Back in 2009, when voters last approved a property tax levy increase, the Town had 12 part-time officers for patrol and a contract with Edmonds to provide 911 response when the Town's officers were not on duty. The contract with Edmonds allowed the Town to pay for the Edmonds officers' response on a per call basis.

In 2014, Edmonds notified the Town that the existing contract model was unfair and failed to address the City's fixed costs (what was described as the insurance-like character of police services). The parties negotiated several amendments to the existing contract while negotiations of a different contracting model progressed. Ultimately, Edmonds stated that they would only contract with the Town under a full-service contract model, at a rate ten times what the Town had been paying. The Town rejected the demand.

The Town contacted several other service providers, including Snohomish County, Lynnwood, Mountlake Terrace and King County (the service provider for the City of Shoreline). Only Mountlake Terrace was willing to enter into a contract with the Town. The Town was willing to contract with Mountlake Terrace, its only option, even though response times would be delayed. Upon learning of the potential contract, Edmonds returned to negotiations.

In 2019, the parties agreed to the current model. The cost of the current model, including both the contract cost and the Town's own police department, was a 25% increase in the Town's total policing cost. However, with the contract, the Town gained 24-hour coverage, enhanced response times and limits on liability.

14. *Can the Town negotiate a better rate or different rate structure with the City of Edmonds?*

The Town Council has received public comments suggesting that the Town should renegotiate the Town's agreement with Edmonds in a manner that reduces the cost by returning to a model based the number of calls (i.e., that the cost is too high on a per call basis). The history outlined in question #13 above is instructive as to why that model is not an option. The fact is that there are no service providers that are obligated to provide the Town with police services. And there are no service providers willing to provide us with police services on a per call basis – we have asked. It doesn't

matter what a detailed cost analysis of such a scenario shows if there is no one willing to provide the Town services in this manner.

There are few, if any, alternative policing models or, more importantly, reasonably proximate policing partners willing to work with the Town that are not substantially more expensive. This is even more true given the substantial increase in cost and complexity involved in policing today that did not exist in 2009 or 2019. In fact, while we have developed a forecast based on our existing model, given these costs and complexities, we can't guarantee that the current model and the current cost structure will continue indefinitely into the future.

15. Does the Town have much crime? What level of police service is appropriate?

The Town has a low level of crime. But that doesn't mean that the Town is free of crime. The Town had 170 calls to 911 in 2023. The Town has averaged over five burglaries a year over the past ten years. We recently have experienced increased vehicle prowls. However, the most significant activity in Town, and the one for which we've received the most complaints, has been speeding.

The Town's officers have focused a significant amount of their time addressing speeding, especially on Woodway Park Road and Timberlane. However, to contain costs within our current policing model, the Town's officers are only on patrol an average of three hours a day, compared to eight hours a day in 2009. This affects not only the amount of time dedicated to addressing speeding, but also the perception that there is a significant risk of being caught when speeding in Woodway.

The Town has sufficient in-house staff and contract resources to address its current level of service. A central question that Council has asked as part of this process is whether residents feel that there should be, not only funding to maintain our existing police staffing (which cannot be maintained without additional revenue), but also additional resources committed to addressing speeding and residential burglaries.

16. How much more would it cost me to increase police staffing to eight hours a day and to provide funding for technology improvements to deter and solve crimes, such as residential burglaries?

We estimate that a property tax increase to provide eight hours a day of police coverage and funding for technology improvements would cost homeowners approximately \$900 in total over the next six years, for each \$1 million in assessed value. This is about \$120 a year for six additional part-time officers and \$30 a year for new police technology.

Here is what the total levy could look like (adding \$150 a year to the levy amounts shown in the chart under question #6):

Potential Property Tax Levy - With Police Funding							
	2024	2025	2026	2027	2028	2029	2030
Town Levy	1,110	1,538	1,621	1,709	1,787	1,869	1,955
Other Jurisdictions	5,770	5,770	5,770	5,770	5,770	5,770	5,770
Total Levy	\$ 6,880	\$ 7,308	\$ 7,391	\$ 7,479	\$ 7,557	\$ 7,639	\$ 7,725

17. Can the levy be dedicated to adding public safety?

We have evaluated whether the Town can maintain current services (specifically essential services) while dedicating all or a portion of the potential levy to public safety. We have concluded that we

can. As a result, the Mayor will recommend that Council dedicated all of the additional money generated by the levy to public safety expenses – particularly police.

18. *How does the Town provide fire and emergency medical services?*

The Town contracts with the Shoreline Fire Department for fire and emergency medical services. Shoreline Fire is a separate jurisdiction with an elected board – it is not affiliated with the City of Shoreline. The Town entered into the contract in 2013, after receiving bids from Shoreline Fire and Fire District 1 (which provided services to several south County cities, including the City of Edmonds). The contract term with Shoreline Fire is indefinite, at a rate that increases 3% annually.

19. *Does the Town have alternative ways of providing fire and emergency medical services?*

The Town has four primary options for fire and emergency medical services.

- The Town could continue its existing contract with Shoreline Fire.
- The Town could cancel its contract with Shoreline Fire and execute a contract with South County Fire - a regional fire authority (“RFA”) established by voters in 2017 as a successor to Fire District 1 and the City of Lynnwood’s fire department. Voters in the cities of Mill Creek (2022), Brier (2023), and Mountlake Terrace (2023) voted to join the RFA. South County Fire provides services to the City of Edmonds under a service contract. Edmonds’ Council is considering whether to submit to their voters a ballot measure to join the RFA.
- The Town could present to voters a ballot measure to officially join Shoreline Fire or South County Fire RFA.
- The Town could establish its own Woodway Fire Department.

The provision of fire and emergency medical services is a very expensive endeavor – perhaps the single most expensive service provided by cities. The Town has concluded that the current contractual arrangement is the most cost-effective method of providing the Town and its taxpayers with the fire and emergency management services.

20. *Can the Town negotiate a better rate with Shoreline Fire, given that these contracts’ costs are very expensive when calculated on a per call basis?*

Residents served by Shoreline Fire District are represented by an elected board. Shoreline Fire’s chief has stated that he cannot reasonably argue to the district’s board and its constituents that Town residents should pay less than we pay now. Additionally, in a recent quarterly report to the Town Council, Shoreline Fire’s chief told our Council that fire districts in Washington do not charge on a per call basis, and the District would not provide services to the Town on that basis. He stated that such a model would not recognize the fixed costs of providing fire and emergency medical services that exist whether or not there is a call. This is the same argument expressed by the City of Edmonds relating to our police contract (see questions 13 and 14). As noted in questions 18 and 19 above, the rates paid by Woodway homeowners are very reasonable when compared to other alternatives.

21. *With regard to Public Works, can we save money by contracting out for mowing and line trimming along the Town’s streets?*

This issue was suggested as a solution during the 2016 property tax levy campaign and subsequently in public comment during several Council meetings. We have studied this topic, including discussions with other jurisdictions that are or have contracted for this service, as well as with a

contractor. Unfortunately, the short answer is “no”. After evaluating it, we’ve determined that it is neither a cost-effective solution nor an effective solution for the Town generally.

A significant factor in this conclusion is the fact that, as a government, we cannot pay someone the same rate that a resident might pay someone to do landscaping at their home. 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. More importantly, our Public Works crew does a lot of critical (and some legally mandated) tasks other than mowing and line trimming, and they are available 24 hours a day. We have not found it reasonably feasible to duplicate that degree of flexibility and expertise for less money.

22. *When would a potential levy appear on the ballot?*

Council has not made a decision as to whether or when to put a property tax measure on the ballot. The Mayor will recommend that Council place the levy on the November ballot. To place an item on the November 5 ballot, Council will have to pass a resolution doing so by August 5. Alternatively, Council could consider a 2025 ballot measure. A consideration Council will need to consider is the fact that a 2025 election would delay receipt of new property tax revenue until 2026, requiring a ballot measure with a higher tax rate to balance the budget over a shorter time period.

23. *Given the ongoing, structural nature of the deficit, how long would it be before the Town would have to return to the ballot for another property tax increase?*

The Town’s forecasts suggest that the Town will have to return to voters approximately every six years. That being said, future levies will not face the problem of solving for both a sizable existing deficit and a projected ongoing structural deficit, as is the challenge that the Town faces with the current potential levy.

24. *Will the recent annexation of Point Wells help the Town’s finances, making a property tax increase unnecessary?*

No. We forecast revenue and expenditures conservatively. We will not project new revenue at Point Wells in excess of new costs until we know more about the level of taxable or fee generating activity at the site or until there is actual redevelopment.

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