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Tax Increment Financing Project Analysis Review

– Port of Vancouver –

May 27, 2022

Office of the Treasurer
State of Washington
Mike Pellicciotti

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OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti

May 27, 2022

Scott D. Goodrich
Director of Finance & Accounting
Port of Vancouver
3103 NW Lower River Rd
Vancouver, WA 98660

Dear Mr. Goodrich:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the Port of Vancouver USA's (the "Port") tax increment financing ("TIF") project analysis dated May 6, 2022. OST and Piper Sandler, the state's municipal advisor, have reviewed the provided material. Based on our review, which is provided in the sections to follow, we believe the Port's project analysis meets the requirements of RCW 39.114 (the "TIF Statute").

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, RCW 39.114.020 requires that prior to the adoption of an ordinance authorizing the creation of a TIF project area, the local government proposing the TIF project area must provide a project analysis to OST for review. OST must complete the review within 90 days of receipt of the project analysis. Upon completing the review, OST must promptly provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the Port's first draft project analysis on January 10, 2022 and a second, updated draft on March 11, 2022. The Port has since provided OST with its final project analysis report dated May 6, 2022. OST relied on information contained in this updated report for its review and this letter makes reference to such information.

State Statutory Problem – Need for Legislative Fix

To move forward with the Port's project as planned, using tax increment revenue by designating a Tax Increment Area ("TIA"), the current state statute must be amended to retroactively incorporate personal property into the tax increment calculation.

As noted by the Port in its analysis, the TIF Statute defines *increment value* as "any increase in the true and fair value of real property in an increment area." Washington law characterizes leasehold improvements on state-owned land as *personal* property rather than *real* property.[1] Furthermore, Washington law characterizes port districts as subdivisions of the state and treats leasehold improvements on land owned by port districts (port-owned land) the same as leasehold improvements on

[1] RCW 84.04.080 "Personal property."

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land owned by the state of Washington. Thus, improvements made by private parties on land owned by any port district, including the Port of Vancouver, are considered personal property, and are not expressly included in the statutory definition of increment value.

All the tax lots (all of the real property) located within the Port's proposed TIA are owned by the Port, with private development planned to occur through long-term leases to private businesses. Therefore, the increase in assessed value within the TIA will be considered an increase in assessed value of personal property, not real property and under current law, no tax increment revenue would be created.

All tax increment revenues in the Port's final project analysis assume that future legislative action will result in all planned leasehold improvements within the TIA being retroactively included in the calculation of increment value. In other words, under current statute the TIA will generate zero tax increment revenue. Future legislative action is not guaranteed and, as acknowledged by the Port, presents a fundamental risk to the tax increment revenues assumed for the project.

Project Overview

Issuing Jurisdiction: Port of Vancouver USA	**Bond Counsel:** Snell & Wilmer LLP
Project Title: Terminal 1 Tax Increment Area	**Municipal Advisor:** PFM Financial Advisors LLC
County: Clark County	**Consultants:** Tiberius Solutions LLC; Elaine Howard Consulting, LLC; John C. Martin Associates, LLC

The Port is planning to designate its original marine terminal, Terminal 1, as a TIA. The Port's objective for the Terminal 1 project is to develop a parklike open space along the waterfront in order to attract private business investment. The public improvements will include trails and public access opportunities, a public restroom, landscaping, and a dock with plans for it to contain a future public marketplace.

The Port's goal is to accelerate the private development of five new buildings: one hotel, one apartment building, and three office and retail buildings. Each of the new buildings will be constructed, operated and owned by private entities, on land leased from the Port. Combined, the development will add 70,000 square feet of retail space, 620,000 square feet of office space, as well as 204 residential units, 150 hotel rooms, and 2,400 parking spaces.

To help facilitate the private development, the Port plans to construct $50.2 million (nominal dollars) in public improvements for the Terminal 1 project. The Port expects to issue taxable limited tax general obligation (LTGO) bonds to fund these improvements and that tax increment revenue is projected to cover approximately 54% of the debt service on these bonds.

Tax Increment Area

The proposed TIA includes 17 acres (including 12 acres of land and 5 acres of water) west of the I-5 bridge over the Columbia River. The TIA is bordered by the Columbia River to the south, Esther Street to the west, a railroad berm to the north, and Columbia Street to the east. The public improvement dock project will extend south into the Columbia River. The Port owns all 19 tax lots within the TIA and does not intend to acquire any additional property for the project. The Port expects to officially adopt an ordinance in June

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2022 designating the boundaries of the TIA and describing the public improvements to be financed with tax increment revenues.

Project Timeline

The Port's construction of public improvements is expected to begin in 2022. The largest project is the dock replacement project, on which the Port plans to locate a future public marketplace (construction of the future marketplace is not a part of the Terminal 1 project). The dock replacement will begin in 2022 and is expected to be completed in 2025. Other public improvements, such as extension of the Renaissance Trail from Terminal 1 to the east and accompanying seismic work, the dock landscaping, the Daniels Way public square construction, and development of the East Portal gateway and public restroom are expected to be completed by 2028.

The Port has signed lease agreements with private developers that will accompany the public waterfront development at Terminal 1. The first of the private developments expected to be operational is a hotel—currently under construction—which is expected to be operational in 2022. The other private developments, including offices, retail spaces and an apartment building, are expected to be operational between 2024 and 2026. According to the Port's project analysis, this new construction is expected to begin producing tax increment revenue in 2024 (hotel), 2026 (office and retail space), 2028 (other office and retail space), and 2034 (apartment building).[2]

Table 1

Location	Construction	Total Costs (2022 $)	Operational Date	Year on Tax Roll
Block A & C	Office and retail space	$211,860,000	2024	2025
Block B	Office and retail space	64,200,000	2026	2028
Block D	Hotel	64,200,000	2022	2023
Block 1	Office and retail space	101,650,000	2024	2025
Block 2	Apartment building	127,544,000	2024	2034
Total		**$569,454,000**		

See Attachment A: TIF Timeline

Leasing Arrangements with Developers

The Port has executed land leases with developers for all six of its developable blocks located within the TIA. All six land leases are 50-year leases with two 15-year extension options at the sole discretion of the lessee. By 2031, annual land lease revenue to the Port on these six blocks is anticipated to exceed $2.1 million.

Permits

OST inquired with the Port's consultant, Tiberius Solutions LLC, about the status of environmental reviews for the site. The TIA's location along the Columbia River and its prior industrial use may present a risk in unforeseen delays due to additional environmental review or permits. In response, Tiberius Solutions

[2] The Port's tax increment revenue projections assume a retroactive legislative amendment to state statute

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reported that the Port is familiar with the prior business use at the site, and the Port has results from a soil and groundwater environmental assessment and a subsurface investigation environmental assessment of the area conducted in 2015 and 2016.

Tiberius Solutions also reported that the private site developers are responsible for additional environmental testing as they deem necessary. The Port does not anticipate any unknown environmental issues that have not already been identified in previous environmental assessments of the area.

Tax Increment Revenue Projections

Please note that while the information in this section was provided in the Port's final project analysis, these assessed value and tax increment revenue projections are dependent on the Port securing a legislative change to existing state statute. As previously identified, while the Port has taken steps to seek a legislative change, such future action is not guaranteed and presents a fundamental risk to the tax increment revenues assumed for the project. Accordingly, without the required legislative action, the Port's proposed TIA will generate zero tax increment revenue. For the purpose of this analysis, the following section assumes that the Port is successful in obtaining the required statutory change.

All 19 tax lots in the TIA are owned by the Port and are tax exempt, resulting in a base value of zero assessed value ("AV") in the proposed TIA in 2021. The incremental assessed value, and related tax increment revenue for the TIA will be driven by the growth in assessed value within the area. There are relatively few tax parcels within the TIA and, according to the project analysis, private developers have fairly well-defined development plans for the parcels. Based on these plans, the Port has estimated the construction costs of the planned private development within the TIA to be approximately $569.5 million (in 2022 dollars), as shown in Table 2 below. The Port has assumed an annual growth rate for both the assessed value and the construction costs of the private development within the TIA of 7.0%, which is consistent with the rate of appreciation assumed countywide for the calculation of future property tax rates. This assumed rate of growth results in a nominal value of future construction in the TIA of $758.2 million, as shown in Table 2 below.

The construction of the planned developments in the TIA is expected to be completed in 2022 through 2026, with the values hitting the tax rolls in 2024 through 2034 (see Table 2 below). There is an assumed one- to two-year lag from the year of project completion to the values being assessed by the county and included in the tax rolls. It is worth noting that Block 2 is expected to qualify for the City of Vancouver's eight-year multi-family exemption program, which explains that project's expected delay in appearing on the tax rolls. Additionally, while construction in progress as of July 31st each year will be assessed for inclusion in the following year's tax rolls, these in-progress amounts are conservatively not assumed as part of the Port's assessed value projections.

It is also important to note that the initial assessed value that is projected to appear on the tax rolls is based on the full projected construction cost of each planned development, including soft costs. These assumptions do not take into account the built-in delay in the assessment process where the assessed value appearing on the tax rolls will be based on a value as of July 31st (for new construction) or January 1st (completed properties) of the prior year. This process results in assessed values typically lagging market values. There is also the possibility that actual assessed value may be lower than full construction cost. However, based on conversations with the Clark County Assessor's Office, it is likely the cost approach to valuation is a conservative approach to estimating future value. Additionally, the Assessor's Office expects to shift to an income-based valuation approach for these developments as they are completed and operations stabilize, which is likely to reflect assessed values that are closer to market value.

Table 2

Location	Operational Year	Year on Tax Roll	Assessed Value Increase 2022 $	Nominal $
Block A & C	2024	2025	$ 211,860,000	$ 242,558,514
Block B	2026	2028	$ 64,200,000	$ 84,153,104
Block D	2022	2023	$ 64,200,000	$ 64,200,000
Block 1	2024	2025	$ 101,650,000	$ 116,379,085
Block 2	2024	2034	$ 127,544,000	$ 250,898,353
Total			**$ 569,454,000**	**$ 758,189,056**

Through a combination of new construction and assessed value growth, the projected assessed value in the TIA is projected to grow from approximately $64.2 million in 2023 to about $2.8 billion in 2047. The projections do not anticipate any new construction in the TIA after 2026, so any future growth after that point is completely dependent upon the appreciation of properties to be constructed, including appreciation of the apartment building that will not appear on the tax rolls until 2034.

The tax rates that will be levied in the TIA will be set by each overlapping taxing entity. The Port's assumption is that the assessed value of each of these entities will grow by 7% per year through 2047. Given the substantial assessed value growth assumptions and the fact that each overlapping taxing entity's levy amount will be limited to a growth rate of 1% plus an allotment for new construction, it is assumed that future levy rates will decline significantly over time from the projected 2022 level of $3.276902 down to $0.926513 in 2047. Table 3 below shows the overlapping taxing districts and the 2021 Levy Rate.

Table 3

Levy	2021 Levy Rate (Per $1,000 AV)
County Current Expense	$ 0.960786
Conservation Futures	$ 0.036213
City of Vancouver General Fund	$ 1.977314
Fort Vancouver Library	$ 0.342747
Port of Vancouver	$ 0.150730
Total	**$ 3.467790**

According to the final project analysis, the projected assessed value and levy rates are estimated to produce tax increment revenue beginning in 2023 of $231,488, growing to $1.67 million by 2028, and eclipsing $2.27 million in 2034, the last year to add the additional assessed value of the expected new construction. The growth in tax increment revenues moderates after 2034 as no new construction is added to the TIA, and revenues settle into a long-term growth rate of 1%, matching the rate of growth that the overlapping taxing entities can increase their respective levy. See Table 4 below for a summary of assessed value, levy rate and revenue projections.

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Table 4

Year	Projected Assessed Value: Total	Projected Assessed Value: Base Value	Projected Assessed Value: Increment	Projected Levy Rate	Projected Tax Increment Revenues
2022	$ -	$ -	$ -	$ -	$ -
2023	$ 64,200,000	$ -	$ 64,200,000	$ 3.6057	$ 231,488
2024	$ 68,694,000	$ -	$ 68,694,000	$ 3.4073	$ 234,058
2025	$ 432,440,179	$ -	$ 432,440,179	$ 3.2197	$ 1,392,329
2026	$ 462,710,992	$ -	$ 462,710,992	$ 3.0425	$ 1,407,785
2027	$ 495,100,761	$ -	$ 495,100,761	$ 2.8750	$ 1,423,412
2028	$ 613,910,918	$ -	$ 613,910,918	$ 2.7167	$ 1,667,836
2029	$ 656,884,682	$ -	$ 656,884,682	$ 2.5672	$ 1,686,350
2030	$ 702,866,610	$ -	$ 702,866,610	$ 2.4259	$ 1,705,070
2031	$ 752,067,273	$ -	$ 752,067,273	$ 2.2923	$ 1,723,998
2032	$ 804,711,982	$ -	$ 804,711,982	$ 2.1662	$ 1,743,136
2033	$ 861,041,821	$ -	$ 861,041,821	$ 2.0469	$ 1,762,486
2034	$ 1,172,213,101	$ -	$ 1,172,213,101	$ 1.9342	$ 2,267,351
2035	$ 1,254,268,018	$ -	$ 1,254,268,018	$ 1.8278	$ 2,292,521
2036	$ 1,342,066,779	$ -	$ 1,342,066,779	$ 1.7272	$ 2,317,970
2037	$ 1,436,011,454	$ -	$ 1,436,011,454	$ 1.6321	$ 2,343,702
2038	$ 1,536,532,256	$ -	$ 1,536,532,256	$ 1.5423	$ 2,369,719
2039	$ 1,644,089,514	$ -	$ 1,644,089,514	$ 1.4574	$ 2,396,025
2040	$ 1,759,175,780	$ -	$ 1,759,175,780	$ 1.3771	$ 2,422,623
2041	$ 1,882,318,085	$ -	$ 1,882,318,085	$ 1.3013	$ 2,449,516
2042	$ 2,014,080,351	$ -	$ 2,014,080,351	$ 1.2297	$ 2,476,708
2043	$ 2,155,065,976	$ -	$ 2,155,065,976	$ 1.1620	$ 2,504,202
2044	$ 2,305,920,594	$ -	$ 2,305,920,594	$ 1.0980	$ 2,532,001
2045	$ 2,467,335,036	$ -	$ 2,467,335,036	$ 1.0376	$ 2,560,108
2046	$ 2,640,048,489	$ -	$ 2,640,048,489	$ 0.9805	$ 2,588,528
2047	$ 2,824,851,883	$ -	$ 2,824,851,883	$ 0.9265	$ 2,617,263
Total					**$ 49,116,185**

Sources and Uses

The final project analysis includes a list of planned public improvement projects in the TIA that the Port plans to complete as part of the redevelopment of Terminal 1. The total cost of the improvements to be funded by the Port is estimated to be $36.75 million in 2022 dollars. Assuming annual inflation of 5.0% and construction occurring between 2022 to 2028, these projects are estimated to cost $50.2 million in year-of-expenditure dollars. Table 5 below outlines the public improvement costs.

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Table 5

Project Name	Estimated Project Cost 2022 $	Estimated Project Cost Nominal $	Years of Construction
Terminal 1 Dock Replacement	$ 26,200,000	$ 34,300,000	2022 to 2025
Ground Stabilization and Pile Extraction:			
Renaissance Trail: Part 2	$ 2,000,000	$ 2,800,000	2026
Landscaping: Dock	$ 2,400,000	$ 3,500,000	2027
Daniels Way: Part 2	$ 2,100,000	$ 3,300,000	2028
Renaissance Trail: Part 2	$ 1,500,000	$ 2,300,000	2028
East Portal	$ 2,300,000	$ 3,600,000	2028
East Portal: Public Restroom	$ 250,000	$ 400,000	2028
Total	**$ 36,750,000**	**$ 50,200,000**	

To pay for the public improvements, the Port anticipates relying on the issuance of taxable LTGO bonds. These bonds are expected to be issued with the following security pledge:

> *"The Port has irrevocably covenanted that it will levy taxes annually upon all the taxable property in the Port within the levy limits permitted to port districts without a vote of the electors and in amounts sufficient, with other monies legally available therefor, to pay the principal of and interest on the bonds as the same shall become due. The full faith, credit and resources of the Port are irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest."*

According to the final project analysis, the principal amount of indebtedness is estimated to be $50.7 million and the bonds are expected to be issued in 2024. The preliminary structuring assumptions, including principal amount, interest rate and maturity schedule are shown in Table 6.

Table 6

Loan	Total
Amount Total	$ 50,710,000
Coupon Rate	3.44% - 5.16%
First Coupon	2024
First Maturity	2025
Final Maturity	2047

On page 32 of the Port's final project analysis, it is stated that the Port is considering expressly pledging TIF revenues in addition to the general tax levy in a "double barrel" approach. We encourage the Port to review such an approach carefully. We expect that adding the speculative tax increment revenues to the Port's A+/Aa2-rated LTGO pledge[3] would provide no interest rate savings, but would instead significantly increase the Port's disclosure requirements, complicate continuing disclosure obligations, and potentially cause confusion regarding the exact nature of the credit for potential buyers.

[3] S&P Global Ratings' rating action dated February 11, 2021, and Moody's Investors Service's Credit Opinion dated October 14, 2020 are included as attachments to this report.

Debt Capacity

Based on an assumed assessed value of $56,232,760,668 in 2024 (based on an annual growth rate assumption of 5% in total taxable value for the Port, per the project analysis), the Port is projected to have $140,581,902 in total non-voted debt capacity. As of the same date, assuming no additional debt issuance beyond a planned sale later in 2022, the Port is expected have $35,915,000 in non-voted general obligation debt outstanding, resulting in $104,666,902 of remaining non-voted debt capacity. As shown below in Table 7, the Port is projected to have sufficient capacity for the issuance of the proposed $50,710,000 LTGO bonds related to the TIA project and is expected to have $53,956,902, or 38.4% of its debt capacity remaining after the proposed issuance.

Table 7

Non-Voted Debt Capacity (0.25% of 2024 AV)		$140,581,902
Less:	Outstanding Non-voted Debt	$35,915,000
	Non-Voted Debt Capacity	$104,666,902
Less:	Financing (proposed)	$50,710,000
	Projected remaining Non-voted Capacity	**$53,956,902**
	Projected Remaining Non-voted Capacity	**38.4%**

Interest Rate Assumptions

The debt service figures included in the project analysis assume interest rates for the TIA project bonds ranging from 3.44% to 5.16% for an issuance in 2024, with maturities ranging from 2025 through 2047. The projected debt structure is somewhat backloaded compared to a conventional level debt service structure and the bonds are assumed to be sold on a taxable basis.

Interest rates have risen significantly across the entire yield curve since the beginning of 2022, with the yield on the 5-Year US Treasury Note increasing by approximately 140 basis points (1.40%), more than doubling from early January to the week of May 23rd. Over the same period, the 10-year US Treasury Note increased approximately 110 basis points (1.10%).

Interest rates are expected to continue to rise over the next two years as the Federal Reserve reverses the significant support for the bond market that it put in place at the beginning of the COVID pandemic. A recent survey of market participants by Bloomberg indicated that a majority of economists expect that long-term US Treasury interest rates will increase by almost 1.00% by the first half of 2024, when the Port anticipates that it will sell the bonds for the TIA public improvements.

Given the current level of interest rates, increased market volatility, inflation levels at 40-year highs, the market's expectation for higher interest rates going forward, and the expectation that the bonds for the TIA improvements will not be sold for two years, we encourage the port to maintain conservative assumptions and monitor interest rates carefully as it moves forward with the project.

Financing Structure and Projected Debt Service Coverage

Based on the assumed terms for the taxable LTGO bonds, the Port's financial advisor has estimated annual debt service payments as shown in Table 8. Annual payments are estimated to be as low as $1,247,154 in 2024 and as high as $6,707,935 in 2044. According to the Port, the variations in annual debt service

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payments are intended to produce relatively level aggregate debt service for the Port, taking into account its existing LTGO obligations and future indebtedness that the Port may incur, unrelated to the Terminal 1 TIA. After factoring in the Port's assumed cost of interest, the $50,710,000 of bonds expected to be issued to fund TIA projects is expected to result in $91,079,743 in total principal and interest payments over the life of the bonds.

The debt service payments shown in Table 8 will be repaid by a combination of tax increment revenues and the Port's property tax levy. It is expected that $49,102,782 of tax increment revenues (the entire amount of the projected tax increment revenues through the life of the TIA) along with $41,976,961 of the Port's property tax levy will be required to pay the debt service payments on the Terminal 1 bonds. This translates to about 54% of the project's debt service costs being paid from tax increment revenues, with approximately 46% of the debt service for the Terminal 1 bonds being paid from the Port's existing property tax levy.

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Table 8

Tax Increment Revenues and Debt Service Payments

		Revenue Source			
		Tax Increment Revenue		**Property Tax Levy**	
	Payment	*Amount*	*% of Payment*	*Amount*	*% of Payment*
2024	$ 1,247,154	$ 465,547	37.3%	$ 781,607	62.7%
2025	$ 2,559,308	$ 1,392,329	54.4%	$ 1,166,979	45.6%
2026	$ 2,577,071	$ 1,407,785	54.6%	$ 1,169,286	45.4%
2027	$ 2,593,758	$ 1,423,412	54.9%	$ 1,170,346	45.1%
2028	$ 2,839,383	$ 1,667,836	58.7%	$ 1,171,548	41.3%
2029	$ 3,693,896	$ 1,686,350	45.7%	$ 2,007,546	54.3%
2030	$ 3,718,886	$ 1,705,070	45.8%	$ 2,013,816	54.2%
2031	$ 3,733,948	$ 1,723,998	46.2%	$ 2,009,950	53.8%
2032	$ 3,754,609	$ 1,743,136	46.4%	$ 2,011,474	53.6%
2033	$ 3,775,570	$ 1,762,486	46.7%	$ 2,013,084	53.3%
2034	$ 4,276,591	$ 2,267,351	53.0%	$ 2,009,240	47.0%
2035	$ 4,304,854	$ 2,292,521	53.3%	$ 2,012,333	46.7%
2036	$ 4,331,617	$ 2,317,970	53.5%	$ 2,013,647	46.5%
2037	$ 4,356,564	$ 2,343,702	53.8%	$ 2,012,863	46.2%
2038	$ 4,379,060	$ 2,369,719	54.1%	$ 2,009,341	45.9%
2039	$ 4,408,932	$ 2,396,025	54.3%	$ 2,012,907	45.7%
2040	$ 4,435,285	$ 2,422,623	54.6%	$ 2,012,662	45.4%
2041	$ 4,467,300	$ 2,449,516	54.8%	$ 2,017,783	45.2%
2042	$ 4,489,340	$ 2,476,708	55.2%	$ 2,012,632	44.8%
2043	$ 6,676,186	$ 2,504,202	37.5%	$ 4,171,984	62.5%
2044	$ 6,707,935	$ 2,532,001	37.7%	$ 4,175,934	62.3%
2045	$ 2,555,759	$ 2,555,759	100.0%	$ 0	0.0%
2046	$ 2,583,440	$ 2,583,440	100.0%	$ 0	0.0%
2047	$ 2,613,297	$ 2,613,297	100.0%	$ 0	0.0%
Total	**$ 91,079,743**	**$ 49,102,782**	**53.9%**	**$ 41,976,961**	**46.1%**

Any shortfall in the projected tax increment revenue stream would increase the portion of the debt service that would need to come from the Port's property tax levy. According to cash flow projections provided in the Port's final project analysis, the projected property tax levy to be received by the Port in 2028, excluding tax increment revenues, will be $13,423,133. These funds, which exclude tax increment revenues, would be enough to cover the projected $7,384,416 in total Port LTGO debt service (including the TIF LTGO bonds) for that year with a coverage rate of about 1.82x. If projected tax increment revenue is added to the Port's existing tax levy, the debt service coverage in 2028 increases to 2.04x. In 2029, the projected tax levy, excluding tax increment revenues, increases to $13,557,364 at the same time projected overall LTGO debt service drops to $5,856,093, providing debt service coverage of 2.32x. With projected tax increment revenue added in, debt service coverage increases to 2.60x in 2029 (see Table 9).

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Table 9

	2024	2025	2026	2027	2028	2029	2030
TIA Revenue	$ 465,546*	$ 1,392,329	$ 1,407,785	$ 1,423,412	$ 1,667,836	$ 1,686,350	$ 1,705,070
TIF Debt Service	$ 1,247,154	$ 2,559,308	$ 2,577,071	$ 2,593,758	$ 2,839,383	$ 3,693,896	$ 3,718,886
TIF DSC with TIA Revenue Only	**0.37x**	**0.54x**	**0.55x**	**0.55x**	**0.59x**	**0.46x**	**0.46x**
Unrestricted Tax Levy Revenue	$ 7,342,048	$ 7,321,863	$ 7,450,035	$ 7,575,849	$ 7,706,552	$ 9,387,621	$ 9,516,454
Restricted Tax Levy Revenue	5,557,318	5,706,497	5,708,608	5,714,381	5,716,581	4,169,743	4,176,483
Total Tax Levy Revenue	$ 12,899,366	$ 13,028,360	$ 13,158,643	$ 13,290,230	$ 13,423,133	$ 13,557,364	$ 13,692,937
Current Debt Service	$ 4,544,222	$ 4,539,517	$ 4,539,322	$ 4,544,035	$ 4,545,033	$ 2,162,197	$ 2,162,667
TIF Debt Service	1,247,154	2,559,308	2,577,071	2,593,758	2,839,383	3,693,896	3,718,886
Total Projected Debt Service	$ 5,791,376	$ 7,098,825	$ 7,116,393	$ 7,137,793	$ 7,384,416	$ 5,856,093	$ 5,881,553
DSC With Tax Levy Revenue Only**	**2.23x**	**1.84x**	**1.85x**	**1.86x**	**1.82x**	**2.32x**	**2.33x**
Total Tax Levy Revenue	$ 12,899,366	$ 13,028,360	$ 13,158,643	$ 13,290,230	$ 13,423,133	$ 13,557,364	$ 13,692,937
TIA Revenue	465,546	$ 1,392,329	$ 1,407,785	$ 1,423,412	$ 1,667,836	$ 1,686,350	$ 1,705,070
Total Tax Levy and TIA Revenue	$ 13,364,912	$ 14,420,689	$ 14,566,428	$ 14,713,642	$ 15,090,969	$ 15,243,714	$ 15,398,007
Total Projected Debt Service	$ 5,791,376	$ 7,098,825	$ 7,116,393	$ 7,137,793	$ 7,384,416	$ 5,856,093	$ 5,881,553
DSC TIF + Available Unrestricted Revenues	**2.31x**	**2.03x**	**2.05x**	**2.06x**	**2.04x**	**2.60x**	**2.62x**

*TIA Revenues in 2024 include the projected amount from 2023, during which there is no projected debt service.

**Assumes entire Unrestricted and Restricted levies are available for debt service.

Port of Vancouver Financials

As previously discussed, the Port's proposed taxable LTGO bonds are expected to be secured by the following pledge:

> *"The Port has irrevocably covenanted that it will levy taxes annually upon all the taxable property in the Port within the levy limits permitted to port districts without a vote of the electors and in amounts sufficient, with other monies legally available therefor, to pay the principal of and interest on the bonds as the same shall become due. The full faith, credit and resources of the Port are irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest."*

The Port's property tax levies are a significant source of revenue and the Port benefits from population growth in the surrounding metro area, creating a strong and growing tax base. As reported in the 2021 annual State Auditor Office's Financial Statements Audit Report, the Port received $12,287,318 in ad valorem tax revenue in 2021, a 2.7% increase from the prior year. Ad valorem tax revenue was relatively flat over the past 5 years prior to an approximately 19.44% increase from 2019 to 2020. The compound annual growth rate from 2017 through 2021 was 4.14%. Property tax revenues makes up close to 20% of the Port's total revenues. Additionally, the assessed value of the Port has increased 39% over the last 5 years, increasing the Port's levy capacity. As of 2020, the Port had an "Aa2" bond rating from Moody's Investors Service and in 2021 the Port had an "A+" rating from S&P Global Ratings.

At the close of fiscal year 2021, the Port's balance of cash and cash equivalents equaled $26.4 million and represented 215% of property tax revenues. The Port's unrestricted net position for the last five years has ranged from a low of $7,313,436 in 2017 to $24,482,555 in 2021.

Risk Factors

While it appears that the Port's project is well conceived and will provide significant benefit to the region, without a change to state statute, the project area will generate zero tax increment dollars. With this

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understanding, we are supportive of the Port's plan to move forward with adoption of the TIA, in the hopes of securing a retroactive legislative solution.

In addition to the state statute issue, the TIA also comes with certain financial risks that can be broadly categorized as execution, business operation, and assumption risks, all of which could have a negative impact on the Port's revenue outlook. We recognize that the final project analysis the Port provided on May 6th contemplates the risks OST shared in a previous version of our review. For transparency, and for the purpose of underscoring the risks apparent to the proposal, we retained the discussion in our final review and recommend continuous monitoring.

Legislative Risk

As currently written, the TIF Statute characterizes leasehold improvements in a TIA as personal property rather than real property, meaning that the projects proposed by private developers in a TIA will produce zero increment value. The Port's TIA proposal is based on an assumption that in 2023 the Legislature will update the TIF Statute to include leasehold improvements in the calculation of increment value for tax increment financings, and that such legislative update will be retroactive. As previously identified, future legislative action is not guaranteed, and without such legislative action, the Port's proposed TIA will generate zero tax increment revenue.

Execution Risk

Execution risk broadly describes the risk to the Port related to its ability to complete the public developments and the developers' ability to complete their private developments on time and on budget. Delays and cost overruns associated with the Port's projects could potentially require the Port to commit additional resources towards the project. Likewise, delays by developers in the completion of the private portion of the project could result in a delay in the receipt of the expected tax increment revenues. Such a delay in the completion of the private developments and the associated collection of tax increment revenues would put additional pressure on existing Port resources to pay debt service and, since the TIF legislation limits the ability to collect tax increment revenues to 25 years, could also reduce the overall amount of tax increment revenue that would be received by the Port.

While execution risk could be caused by a number of different factors, given the location of the TIA, there is a potential risk of environmental challenges impacting the expected project timeline. If any environmental issues are discovered, they could result in construction delays due to mitigation efforts or potential litigation.

Business Operation

Once the project is substantially completed, risks to the Port will be materially reduced. However there will continue to be ongoing business risks related to the demand for and value of the properties that are built. Our understanding is that the Port expects strong demand for the office space, hotel, retail space, residential units and parking, which make up the private development in the TIA. If there is not sufficient demand for any of these elements, there is risk that the assessed value of the properties may not increase at the expected rate, which could in turn negatively impact tax increment revenue growth.

Assumption Risks

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The primary assumption risk with the Port's project is that for a number of potential reasons, the value of the properties constructed within the TIA could be assessed at a lower amount than projected. If assessed valuations come in lower than expected, projected tax increment revenues would be negatively impacted, requiring the Port to fund a higher-than-expected share of the proposed debt service from non-tax increment revenues.

For its long-term tax increment projections, the Port assumes an annual appreciation rate of 7.0% for property within the TIA, which is consistent with countywide growth projections. However, the 7.0% countywide growth assumption includes new construction, which will only be a factor in the initial assessment of the TIA. This could potentially create a disconnect in future years if the assessed value of the TIA does not appreciate at the same rate as the county as a whole. If the disconnect results in countywide assessed values growing faster than the assessed value of property within the TIA, the related reductions in levy rates could result in tax increment revenue coming in lower than expected.

Risk Summary

The general impact to the Port if any of the risk factors outlined above are realized would be a greater reliance on the Port's non-tax increment revenues to pay the debt service on the LTGO bonds issued to fund TIA public improvements. The Port projects that approximately 54% of the future debt service will be paid by tax increment revenues. If these tax increment revenues end up being lower than expected, it will force the Port to apply more of its tax levy, or other available funds, towards the repayment of the bonds, reducing the Port's ability to allocate those funds to other projects or operations.

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Recommendations

We recognize that the Port updated its project analysis to include risks identified in prior drafts of our review. We commend the Port for its assistance in this process and for incorporating our previous recommendations. To help ensure the long-term financial success of the project and to minimize risk, we recommend the Port continuously monitor the risks identified and consider the following measures.

1. Continue to coordinate closely with the Clark County Assessor's Office throughout the construction and assessment process. The Terminal 1 development is a significant project operating under relatively new legislation, with a number of moving pieces and properties that tend to be larger and of a higher cost than the average new construction in the county. Accordingly, close coordination with the Assessor's Office will help to ensure that the Port's projections are as realistic as possible.

2. As discussed earlier, the Port will be subject to interest rate risk until the bonds for the project are issued, which is expected in 2024. The Port has increased the interest rate cushion in its final project analysis, which will help mitigate future changes in interest rates. However, given the uncertainty around projecting future interest rates, we recommend that the Port continue to use conservative assumptions and regularly review its interest rate projections.

3. Quantify the impact to tax increment revenues in the event of a delay in construction, to better inform stakeholders and decision makers about potential costs to the Port. As delays happen, especially in large scale construction projects, it may be helpful to quantify the potential magnitude of a delay in one or more of the projects.

4. Quantify the impact to tax increment revenues in the event of a dislocation in the growth of assessed value in the TIA compared to the county as a whole. The growth in assessed value of the property located within the TIA may not precisely match the growth in assessed value of the county as a whole. Such a dislocation could have a negative (or a positive) impact on tax increment revenues. Accordingly, it may be helpful to quantify the potential magnitude of such a dislocation.

Thank you for the opportunity to review the Port's project analysis. Based upon the information provided to date in connection with this project, this concludes our review. If there are material changes in the scope, timing, or cost of the project, please let us know. We wish the Port the best of luck with the project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

DocuSigned by:

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Deputy Treasurer

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OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti

Attachment A: Port of Vancouver TIF Timeline

TIF Project Area takes effect
- June 2022

Port Public Improvement construction begins
- Dock construction begins 2022

Hotel Operational
- Hotel (Block D) is operational in June 2022

New construction begins to come onto tax rolls
- TIF tax revenue including valuation of hotel (Block D) is collected starting in 2023

Private Development Operational
- Office and retail space on Blocks A & C operational in August 2024
- Office and retail space on Block 1 and apartment building on Block 2 operational in December 2024

LTGO bond issuance to finance Port Public Improvements
- 2024

Private Development Operational
- Office and retail space on Block B operational in December 2025

New construction comes onto tax rolls
- TIF tax revenue including valuation of office and retail in Block A & C, Block 1 is collected starting in 2026

Port Public Improvement construction expected to be completed
- 2028

New construction comes onto tax rolls
- TIF tax revenue including valuation of new office and retail construction in Block B is collected starting in 2028

Last of anticipated new construction comes on the tax rolls
- Tax increment revenue including valuation of apartment building with 204 units (Block 2) is collected beginning in 2034
- *8 Year Multi-family Housing tax exemption per RCW 84.14*

Tax increment revenues complete and final maturity for LTGO bond issuance
- 2047

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