OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti

April 28, 2023

Mike Rizzitiello, City Administrator
City of College Place
625 S. College Avenue
College Place, WA 99324

Dear Mr. Rizzitiello:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of College Place's (the "City") tax increment financing ("TIF") project analysis provided on February 24, 2023. OST and Montague DeRose and Associates, the state's municipal advisor, have reviewed the provided material. Based on our review, which is detailed in the sections to follow, we believe that the City's project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute").

Please note, this review is based on the information, projections, and assumptions provided by the City and its consultants in the Project Analysis dated February 1, 2023. OST has not independently verified the data or its accuracy or performed any feasibility analyses or projections of its own.

Executive Summary

The City's plans to develop its Stone Creek and Downtown areas began in the early 2000s and were set out in the City's Comprehensive Plan and the College Avenue Design Standards and Guidelines adopted in 2018. The proposed tax increment area (the "TIA") includes the Stone Creek and Downtown areas representing a combined 260 acres. Four public infrastructure projects costing $18.9 million in total are expected to stimulate and support private development within the TIA by remedying inadequate infrastructure and providing regional transportation benefits (the "Public Improvements").

As described by the City's project analysis, of the $18.9 million in costs, $10.7 million (57%) will be funded with a mix of federal and State grants, plus contributions from the Stone Creek developer, the College Place School District, and the City. The balance of $8.2 million (43%) will be financed from the City's issuance of Limited Tax General Obligation Bonds (the "Bonds") by early 2024.

Should tax allocation revenues be insufficient to fully pay the debt service on the LTGO bonds, the full faith and credit pledge would require the City to pay the remaining debt service due on the bonds from the City's general revenues or reserves. The City's base case structure for the Bonds assumes a 20-year term and an interest rate of 4.50%, with annual debt service payments of $630,000 from 2024 through 2043. As shown in Table 5, the projections contained in the Alternative 1 development scenario, which is referred to by the City as the likely scenario, indicate that tax increment revenues will fall short of the debt service due during the first seven years of the Bonds. These shortfalls are projected to grow into an accumulated deficit of $2.7 million by 2030. The City expects to fund these annual tax increment revenue shortfalls with City resources, and to reimburse itself for these advances with surplus tax increment revenues between 2031 and 2036.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) requires that prior to the adoption of an ordinance authorizing the creation of a TIA, the local government proposing the TIA must provide a project analysis to OST for review. OST is to complete its review within 90 days of receipt of the project analysis. Upon completing the review, OST must provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the City's Project Analysis (dated February 1, 2023) on February 24, 2023.

Project Team

Jurisdiction: City of College Place	**County:** Walla Walla County
Project Title: TIA of Stone Creek and Downtown development areas	**Development Areas:** Stone Creek and Downtown
City of College Place: Mike Rizzitiello, City Administrator Rea Culwell, City Attorney Brian Carleton, Finance Director Jon Rickard, Community Development Director Robert McAndrews, Public Works Director	**Consultants:** Bob Stowe, Stowe Development & Strategies (TIF Project Manager) Morgan Shook, ECONorthwest

Proposed Tax Increment Area

Source: City of College Place

The proposed TIA includes the Stone Creek and Downtown areas (shown at left) which represent approximately 260 acres and roughly 150 parcels. The TIA boundary was selected because it represents key areas expected to benefit from private development as the result of the Public Improvements, as shown in Table 1. The Stone Creek area is owned by two property owners: Lakeside Capital with 131 acres and McKiernan Commercial with 47.5 acres. The remaining properties are owned by multiple parties in the Downtown area along College Avenue.

The taxing districts whose property tax levy would be directly impacted by TIA include: (1) the City of College Place, (2) Walla Walla County, (3) the Port of Walla Walla, (4) the Emergency Medical District (EMS), and (5) Library. The levy rate for each of these jurisdictions will be applied to the increased assessed valuation within the TIA and remitted to the City to pay debt service on the Bonds.

Project Description

Public Improvements within the TIA

The Public Improvements, costing $18.9 million in total are expected to stimulate and support private development within the TIA by remedying inadequate infrastructure and providing regional transportation benefits. These projects, which have existed in the City's Comprehensive Plan and Capital Facilities Plan for several years, are considered unlikely to be built by any single developer, and using tax increment financing for the Public Improvements will serve to expedite the City's development vision. According to the Project Analysis, of the $18.9 million total, $10.7 million (57%) will be funded with a mix of federal and State grants, and contributions from the Stone Creek developer, the College Place School District and the City. The balance of $8.2 million (43%) will be financed from the City's issuance of the Bonds by early 2024. Please see the table below for details regarding the Public Improvements.

Table 1 – Sources and Uses of Public Improvements

Stone Creek and Downtown Tax Increment Area

Public Improvement	Description	Cost (MMs)	Grants & Contributions (MMs)	TIF Bonds (MMs)
Mojonnier Road	Road condition is inadequate to support traffic with development at the College Place HS/Sager MS campuses and the Stone Creek area	$9.300	$5.000	$4.300
New East-West Road	New road needed to allow circulation into commercial development of the McKiernan Property and to connect the CPHS/SMS campuses with a new intermediate school at the far west end of the new East-West Road	$7.100	$5.164	$1.936
Signalization at College Avenue and East/West road	Lining up the school parking lot entrance at the CPHS/SMS campuses with the new East-West road and installing signalization at the intersection will make for safer ingress and egress as well as support the increased vehicle and pedestrian traffic resulting from private development	$1.100	$0.550	$0.550
Downtown Parking Lots	A lack of parking in the Downtown area along College Avenue has been cited as a deterrent to private investment. Land would be acquired to build three or four surface parking lots in the Downtown corridor providing up to 183 parking spaces	$1.400	$0.000	$1.400
	Total	**$18.900**	**$10.714**	**$8.186**

Source: City of College Place

Private Development within the TIA

Within the Stone Creek area, the City envisions the construction of a mixed-use development containing 829 residential units (including senior housing), a 200-room hotel, and both small and large commercial retail stores totaling 280,000 square feet. Based on this full development plan, the City prepared a Baseline development scenario wherein roughly $415 million of private assessed value is added to the TIA between 2028 and 2040. Relative to the $22.45 million in TIA base value, the $415 million is a 1,749% increase equivalent to a compound annual growth rate of 17.6% from 2022 through 2040.

Table 2 – Projected Increased Real Property in the TIA
Baseline Development Scenario

	Value Per Unit	Number of Units	Start Year	Build-Out/Years	Total Value
Phase 1 - North					
SF Homes - 5,200 Lot	$676,554	130	2024	4 years	$87,952,020
SF Homes - 7,800 Lot	$817,148	44	2026	2 years	$35,954,512
Sub-Total					**$123,906,532**
Phase 2 - South					
Row Homes	$448,880	50	2030	2 years	$22,444,000
Cottage BTR	$448,880	37	2032	2 years	$16,608,560
SF Homes- 3850 Lot	$524,635	24	2029	3 years	$12,591,240
SF Homes - 5720 Lot	$676,554	58	2030	2 years	$39,240,132
SF Homes - 8640 Lot	$817,148	20	2031	2 years	$16,342,960
Sub-Total					**$107,226,892**
Phase 3					
Apartments (Market)	$225,000	176	2034	2 years	$39,600,000
Apartments (Workforce)	$175,000	120	2036	2 years	$21,000,000
Sub-Total					**$60,600,000**
Phase 4					
Senior Housing	$200,000	170	2038	2 years	$34,000,000
Sub-Total					**$34,000,000**
McKiernan					
Hotel (Rooms)	$150,000	200	2026	2 years	$30,000,000
Retail - Large Format (SF)	$150	200,000	2030	4 years	$30,000,000
Retail/Restaurant (SF)	$325	80,000	2026	10 years	$26,000,000
Sub-Total					**$86,000,000**
Downtown					
Retail/Restaurant (SF)	$325	10,000	2024	5 years	$3,250,000
Sub-Total					**$3,250,000**
TOTAL					**$414,983,424**

Source: City of College Place

In its analysis, the City acknowledged that the Baseline development scenario is the most aggressive development plan and prepared two alternative development scenarios to assess risks related to repayment of the Bonds. With Alternative 1, the build-out time in years for completion of all development identified in the Baseline is doubled and the projected single-family home value is reduced by 20%. Alternative 2 also doubled the build-out time for completion of Baseline development, reduced the projected single-family home value by 30%, reduced the number of senior housing units by 50%, and included only commercial development of the hotel (presumably also excluding the downtown retail development).

Assessed Value of Proposed TIA

The 2022 assessed valuation of the TIA for 2023 taxes is approximately $42.8 million, well below both statutory limits of $200 million in assessed valuation and 20% of the City's total assessed valuation of $907.14 million. Based on the 2022 valuation, the TIA would represent 4.7% of the City's total assessed valuation. The magnitude and timing of real property development within the TIA will drive growth in incremental assessed value and therefore tax increment revenues. For the three development scenarios provided by the City, the incremental assessed value of the TIA is estimated by assigning market-based improvement prices reflecting the land use and size of the proposed development. The City assumed the TIA base value and the assessed values of newly developed properties both increase by 2.8% annually, but historical data was not provided as context for this assumption. Outside of planned development in the TIA, new construction within the City was assumed to represent no more than 2.9% of the City's assessed value.

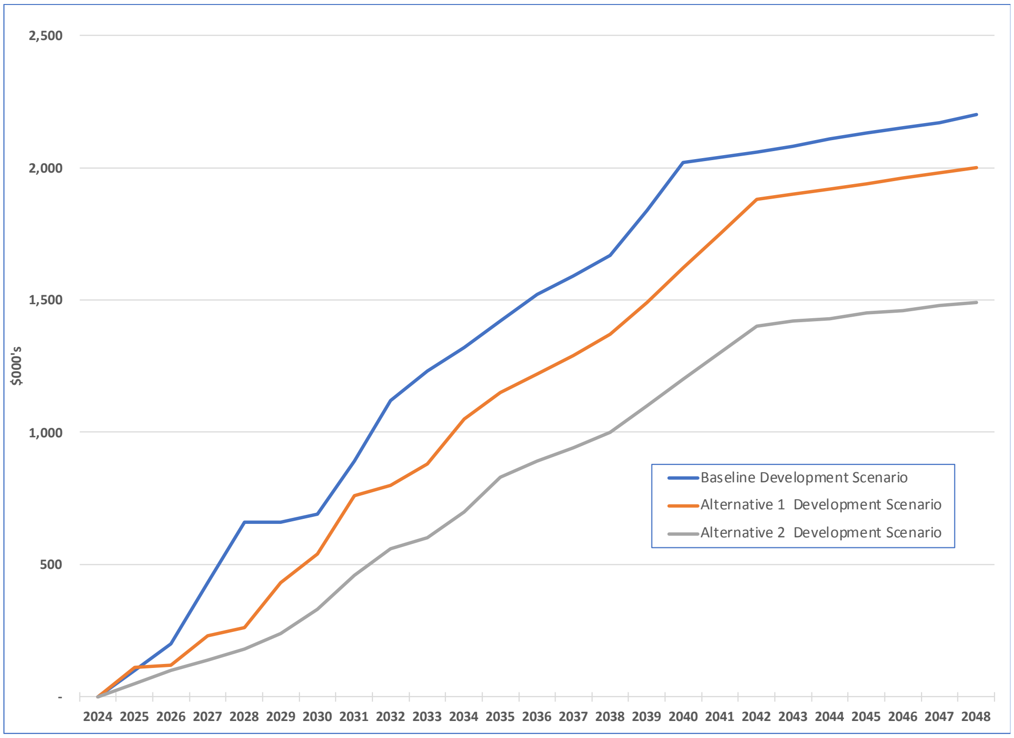
Tax Increment Revenue Projections

Of the TIA's $42.8 million 2022 assessed valuation , $22.5 million represents real (not personal/unsecured) property, which is used as the tax increment base value in the City's analysis. Based on the full development plan, the City prepared the Baseline development scenario that assumes roughly $415 million of assessed value added to the TIA between 2028 and 2040. Acknowledging that the Baseline development scenario is the most aggressive development plan, the City also provided two alternative development scenarios, and noted that Alternative 1 is the likely development scenario.

Under the TIF legislation, only certain regular tax levies are available to the TIA. These taxes, applied as part of regular levies, must conform to the constitutional 1% limit, as well as the $5.90 aggregate limit. Both parts of the State School levy, local school district excess levies, voted bond levies and levies of port districts for bond payments were excluded from the TIA levy rate. Based on the 2022 levy rates, an aggregate levy rate of $4.17 would have been applied to the TIA in 2023. The TIA's annual levy rate can change from one year to the next based on factors including future incremental assessed value of the TIA, future assessed values of the five taxing districts, and relevant levy limits. For each of the three development scenarios, the City's analysis calculated the levy rate for each of these jurisdictions and applied the levy rates to the incremental assessed valuation within the TIA.

The City created a multi-year cash flow model to estimate the tax increment revenues for each of the three development scenarios, and the following chart provides a visual comparison. Collection of tax increment revenues is projected for the 2024-2048 period, with total projected revenues for the Baseline, Alternative 1 and Alternative 2 scenarios at $34.3 million, $28.7 million and $20.8 million, respectively. The total increment revenues for the City's likely development scenario, Alternative 1, are equivalent to 84% of the Baseline scenario total, while the total for Alternative 2 represents 61% of the Baseline scenario total.

Figure 1 – Projected Tax Increment Revenues for Three Development Scenarios



Source: City of College Place

Financing Plan for Public Improvements

The City anticipates issuing $8.2 million of Limited Tax General Obligation Bonds by early 2024 to finance the portion of Public Improvements not funded with grants or local contributions. While the City anticipates using tax increment revenues generated by the TIA to pay scheduled principal and interest on the Bonds, the Bonds will be secured by the full faith and credit of the City. The City's base case structure for the Bonds assumes a 20-year term and an interest rate of 4.50% with annual debt service payments of $630,000 from 2024 through 2043.

As stated in the Project Analysis, the City will need to pay the debt service on the Bonds with available resources regardless of whether assessed values increase within the TIA. The City acknowledged that increment revenues early in the TIF period are projected to be insufficient to cover debt service payments in each of the three development scenarios. As shown in Table 4, in the Alternative 1 (likely) development scenario, the City projects annual deficits between tax increment revenues and debt service in the first seven years of the Bonds, resulting in an accumulated deficit of $2.7 million by 2030. The City expects to cover these annual shortfalls with other resources and pay down the balance over six years (from 2031-2036) using tax increment revenues projected to exceed annual debt service.

The project analysis discusses the possibility of adjusting the timing, amount and repayment structure of the Bonds based on revised development activity (i.e., delayed or multiple bond issuances, backloading debt repayment, and/or use of capitalized interest). As such, it is possible that the City's bond issuance plans may be adjusted to reflect progress in private development and assessed value growth in the TIA.

Debt Capacity

Based on the City's total 2023 assessed value of $1,070,059,643, the City has $16,050,895 in total non-voted debt capacity (1.5% of 2023 AV). The City currently has $3,877,052 in outstanding non-voted debt, leaving sufficient net non-voted debt capacity of $12,173,843 before the proposed $8,186,000 financing.

Table 3 – Debt Capacity

2022 Assessed Valuation for 2023 Collections	$1,070,059,643
Non-Voted Debt Capacity (1.5% of AV)	16,050,895
Less: Outstanding Non-Voted Debt	(3,877,052)
Remaining Non-Voted Debt Capacity	12,173,843
Less: Financing Proposed	(8,186,000)
Projected Remaining Non-Voted Capacity	**$3,987,843**
Projected Remaining Non-Voted Capacity %	**24.84%**

Source: City of College Place

Projected Debt Service Coverage

Depending on the pace and final features of the completed private development, the magnitude of the shortfalls in tax increment revenues compared to the debt service on the Bonds which the City will be required to fund varies between the three development scenarios.

- In the Baseline scenario, the City would be required to fund TIF revenue shortfalls in years 2024 through 2027 from general revenues or reserves, with projections showing that it will be fully reimbursed for the $1.79 million cumulative shortfall by the end of 2034.
- In the Alternative 1 scenario, the TIF revenue shortfalls extend through 2030, with the City being fully reimbursed for the $2.72 million cumulative shortfall by the end of 2037.
- In the Alternative 2 scenario, the TIF revenue shortfalls extend through 2033, with the City being fully reimbursed for the $3.64 million cumulative shortfall by the end of 2042.

Tables 4 and 5 below summarize the total tax increment revenues, revenue shortfalls and debt service coverage for the three development scenarios.

Table 4 – Summary of Tax Increment Revenue Shortfalls and Average Debt Service Coverage

Development Scenario	First Year Tax Increment Revenues Exceed TIF Debt Service	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected Tax Increment Revenue ($MMs) [1]	Total Projected Debt Service ($MMs)	Projected Cumulative Shortfall ($MMs)	Total Surplus/ (Shortfall) ($MMs)	Average Debt Service Coverage Ratio
Baseline	2028	2034	$23.540	$12.600	($1.790)	$10.940	1.97x
Alternative 1	2031	2037	$18.850	$12.600	($2.720)	$6.250	1.57x
Alternative 2	2034	2042	$13.440	$12.600	($3.640)	$0.840	1.12x

1. Projected over the term of repayment of the Bonds, 2024-2043

Source: City of College Place

Table 5 – Annual Tax Increment Revenue Shortfalls and Average Debt Service Coverage

	Baseline ($MMs)					Alternative 1 ($MMs)					Alternative 2 ($MMs)				
Year	Tax Increment Revenues	Debt Service on Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage
2024	-	630	(630)	(630)		-	630	(630)	(630)		-	630	(630)	(630)	
2025	100	630	(530)	(1,160)	0.16x	110	630	(520)	(1,150)	0.17x	50	630	(580)	(1,210)	0.08x
2026	200	630	(430)	(1,590)	0.32x	120	630	(510)	(1,660)	0.19x	100	630	(530)	(1,740)	0.16x
2027	430	630	(200)	(1,790)	0.68x	230	630	(400)	(2,060)	0.37x	140	630	(490)	(2,230)	0.22x
2028	660	630	30	(1,760)	1.05x	260	630	(370)	(2,430)	0.41x	180	630	(450)	(2,680)	0.29x
2029	660	630	30	(1,730)	1.05x	430	630	(200)	(2,630)	0.68x	240	630	(390)	(3,070)	0.38x
2030	690	630	60	(1,670)	1.10x	540	630	(90)	(2,720)	0.86x	330	630	(300)	(3,370)	0.52x
2031	890	630	260	(1,410)	1.41x	760	630	130	(2,590)	1.21x	460	630	(170)	(3,540)	0.73x
2032	1,120	630	490	(920)	1.78x	800	630	170	(2,420)	1.27x	560	630	(70)	(3,610)	0.89x
2033	1,230	630	600	(320)	1.95x	880	630	250	(2,170)	1.40x	600	630	(30)	(3,640)	0.95x
2034	1,320	630	690	370	2.10x	1,050	630	420	(1,750)	1.67x	700	630	70	(3,570)	1.11x
2035	1,420	630	790	1,160	2.25x	1,150	630	520	(1,230)	1.83x	830	630	200	(3,370)	1.32x
2036	1,520	630	890	2,050	2.41x	1,220	630	590	(640)	1.94x	890	630	260	(3,110)	1.41x
2037	1,590	630	960	3,010	2.52x	1,290	630	660	20	2.05x	940	630	310	(2,800)	1.49x
2038	1,670	630	1,040	4,050	2.65x	1,370	630	740	760	2.17x	1,000	630	370	(2,430)	1.59x
2039	1,840	630	1,210	5,260	2.92x	1,490	630	860	1,620	2.37x	1,100	630	470	(1,960)	1.75x
2040	2,020	630	1,390	6,650	3.21x	1,620	630	990	2,610	2.57x	1,200	630	570	(1,390)	1.90x
2041	2,040	630	1,410	8,060	3.24x	1,750	630	1,120	3,730	2.78x	1,300	630	670	(720)	2.06x
2042	2,060	630	1,430	9,490	3.27x	1,880	630	1,250	4,980	2.98x	1,400	630	770	50	2.22x
2043	2,080	630	1,450	10,940	3.30x	1,900	630	1,270	6,250	3.02x	1,420	630	790	840	2.25x
Total	23,540	12,600	10,940		1.97x	18,850	12,600	6,250		1.57x	13,440	12,600	840		1.12x

City of College Place Financials

The City stated that it has averaged approximately $9 million in available General Fund reserves not allocated to any specific operating or capital expense over the last six years (2018 to 2023), and these unallocated funds would be available to pay debt service on the Bonds should tax increment revenues be insufficient. The City also noted it may reprioritize capital project expenditures to respond to any gaps between tax increment revenues and debt service. The City did not document these historic reserve levels in its analysis; however, provided below are actual and projected ending fund balances, classified as unassigned, assigned, and committed, as of 12/31/2020 through 12/31/2023 (projected). The 2020 figures are from the 2020 financial audit, the 2021 figures are sourced to the City's Dec. 2021 Financial Report, and the 2022 and 2023 years are from the City's adopted 2023 annual budget.

Table 6 – Ending Fund Balances of Certain City Funds for 12/31/2020--12/31/2023 (projected)

		Ending Fund Balances			
City Fund	**Fund Balance Classification**	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023 (projected)**
001 - Current Expense Fund	Unassigned	$ 2,156,478	$ 4,143,901	$ 4,085,946	$ 2,741,800
005 - Current Expense Reserve Fund	Committed	(1)	377,709	420,933	522,433
012 - Technology Reserve Fund	Committed	(1)	292,482	325,395	294,924
061 - Employee Benefit Reserve Fund	Committed	(1)	344,549	407,230	421,755
100 - Street Fund	Committed	305,359	269,299	250,360	286,454
305 - Capital Improvement Fund (REET)	Committed	323,252	468,994	534,772	434,581
306 - Capital Improvement Fund (REET 2)	Committed	583,592	1,252,322	1,429,130	369,790
311 - Street Improvement Fund	Committed	395,775	198,664	205,926	144,965
315 - Facility Maintenance Reserve Fund (CE)	Committed	232,667	477,136	675,991	654,115
320 - Equipment Reserve Fund	Committed	265,081	458,264	608,487	610,454
330 - Economic Development Fund	Committed	577,091	610,005	100,221	100,421
500 - Equipment Rental & Replacement	Assigned	190,937	225,537	210,891	132,562
		$ 5,030,232	$ 9,118,862	$ 9,255,282	$ 6,714,254
Data source:		2020 Audit	12/2021 Report	2023 Budget	2023 Budget
(1) 12/31/2020 balance included in Fund 001					

While the City has indicated a willingness to use reserves to cover cumulative deficits between tax increment revenues and Bond debt service, which are projected to range from $1.79 million to $3.64 million in the development scenarios, there is risk that the City may not receive full reimbursement of these amounts from tax increment revenues. Moreover, spending down City reserves for this purpose reduces the City's liquidity and financial flexibility, limiting its ability to weather future economic downturns.

Key Risks to the City

From our review of the Project Analysis, it is clear the anticipated Public Improvements and economic development could provide significant benefits to the City. Nonetheless, the financing plan comes with certain risks to the City, primarily related to the sufficiency of projected tax increment revenues to repay the Bonds that the City expects to issue to finance the Public Improvements.

During years with shortfalls, the City will be required to pay any difference between debt service due and tax increment revenues collected using general City revenues or reserves. While the City plans to reimburse itself for debt service payments made from general City revenues, it is important for decision makers to be aware of the potential magnitude and timing of such payments and reimbursements. Since the TIF legislation limits the ability to collect tax increment revenues to a period of 25 years, delays could reduce the overall amount of tax increment revenues which would be received by the City. Additional factors that could impact tax increment revenues are described below:

Escalation of Project Costs: With the Public Improvements projected to be completed between 2024 and 2030, inflation could have a significant impact on the projected cost of these projects, especially recognizing that the City assumed a 3% construction cost inflator in its analysis. This assumption does not provide the City with substantive flexibility to weather higher than expected escalation of construction costs.

Economic Conditions: The timing of tax increment revenues could be negatively impacted by a downturn in the economy. A variety of economic factors could negatively impact the demand for and timeline the development, jeopardizing the rate and scale of private development and potentially reducing tax increment revenues.

Permits: Unforeseen delays in permits could negatively impact the construction of the expected residential, commercial, and mixed-use properties within the TIA. Delays to either the Public Improvements or the private development could negatively impact the timing and/or amount of tax increment revenues.

Construction Delays: Any setback or delay in the private developers' ability to complete construction projects could negatively impact tax increment revenues. Whether the cost of the improvements themselves or some unforeseen change in developers' abilities to complete both their public improvements and private developments, the City will remain responsible for repaying the Bonds. Moreover, any delay in the City's ability to complete the Public Improvements necessary for private developers to close on contracts or initiate private developments exposes the project to risk of delayed timing and/or a reduced amount of tax increment revenues.

Assessed Valuations: As private developments are completed, tax increment revenues may be less than anticipated if the assessed value projections do not materialize or take more time to fully hit the tax rolls than is currently projected. If assessed valuations come in lower than or later than expected, projected tax increment revenues would be reduced.

Debt Capacity: While the amount of debt to be issued wouldn't exceed its legal debt limit, assuming the TIF related LTGO bonds are issued, only 24.8% of the City's non-voted debt capacity would remain ($4 million). This would limit the City's ability to issue additional LTGO debt in the short term if an immediate capital need were to materialize.

Interest Rate Risk: The City is exposed to interest rate risk until the Bonds are sold. The key assumption of a 4.5% interest rate for the LTGO bonds offers a slight cushion to current market conditions. However, in the event interest rates rise to levels in excess of this assumption, debt service will exceed the amounts assumed in the project analysis.

Risk Summary: The general impact to the City from any of the risk factors outlined above could be lower than expected tax increment revenues and a greater reliance on general City revenues and reserves to pay the debt service on the Bonds issued to fund the Public Improvements in the TIA. Shortfalls in tax increment revenues would require the City to apply general fund revenues or reserves towards the repayment of the Bonds, reducing its ability to allocate those funds to other projects or operations. If severe enough, this could result in the City not being fully reimbursed for any debt service payments made from general City funds.

Recommendations

To help ensure the long-term financial success of the project and to minimize risk, we recommend the City carefully monitor the risks identified and consider the following measures:

1. We recommend that the City discuss how much risk exposure is appropriate for the project and how much potential debt service costs it is willing to cover to advance the project through potentially years of tax increment revenue shortfalls.
2. Prior to approving the TIA, we recommend that the City coordinate closely with other taxing districts impacted by the project, and the County Assessor's office, to ensure that all parties have an accurate understanding of how the TIA will impact them.
3. Based on the City's willingness to cover potential debt service, we recommend the City consider budgeting for and setting aside funds to cover potential tax increment revenue shortfalls.
4. As the project moves forward, coordinate closely with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process and are as realistic as possible.
5. The City's interest rate assumptions contain a moderate amount of cushion compared to current market conditions. We recommend that the City consider using more conservative interest rate assumptions.
6. We recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

Thank you for the opportunity to review the City'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 City all the best with the project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

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Jason Richter
Deputy Treasurer