Tax Increment Financing Project Analysis Review

– City of Moses Lake –

May 6, 2024

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May 6, 2024

Kevin Fuhr, City Manager
City of Moses Lake
401 S. Balsam St, PO Box 1579
Moses Lake, WA 98837

Dear Mr. Fuhr:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Moses Lake's (the "City") tax increment financing ("TIF") project analysis, consisting of the project analysis report dated February 9, 2024. OST and Montague DeRose and Associates, the state's municipal advisor, have reviewed the provided materials. 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"). However, please see our recommendations provided at the end of this letter.

Please note that this review is based on the information, projections, and assumptions provided by the City and its consultants in the project analysis. 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 proposed tax increment area ("TIA"), consisting of 96 acres with a total assessed value of $6.8 million, was selected because it represents a planned development ("Desert Point") that can be built over time, as the result of the infrastructure improvements funded by TIF. The public improvements described in the project analysis total $14.0 million and include roads and utilities (estimated to cost $9.0 million) and a round-about (estimated to cost $5.0 million) connecting the TIA to Highway 17. The project analysis did not provide a detailed expenditure plan for the public improvements; however, the City expects to issue the first series of bonds in 2025 to finance the $9.0 million needed for the roads and utilities, followed by a second bond series of $5.0 million by 2029 for the round-about. The City may not proceed with the second bond issuance in the event that a state grant or legislative allocation is received for the round-about.

The baseline development scenario's projections show that for the two series of bonds, annual deficits between tax increment revenues and debt service will average $153,000 over the first 20 years of repayment, resulting in an accumulated deficit of $3.1 million by 2045. Tax increment revenues are forecast to exceed debt service annually from 2046-2050 which will allow the City's $3.1 million deficit to be repaid, while also generating a $1.0 million surplus.

If the City receives a state grant for the round-about project and only issues the first $9.0 million series of bonds , annual deficits between tax increment revenues and debt service are projected to average $337,000 over the first four years of repayment, resulting in an accumulated deficit of $1.3 million by 2029. Tax increment revenues are forecast to exceed debt service annually from 2030-2050 such that the City's $1.3 million deficit is projected to be repaid by 2036, with a cumulative surplus of $9.1 million being generated by 2050.

The City expects to cover these projected annual shortfalls through a combination of general fund resources and a limited financial guarantee arrangement with the ownership group of Desert Point ("OG-DP"). The project analysis notes that the City has averaged approximately $3.5 million in available general fund reserves not allocated to any specific operating or capital expense over the six years from 2018 to 2023, and these unallocated funds can be used to cover deficits between tax increment revenues and debt service. The City plans to enter into an agreement with OG-DP in which the ownership group will reimburse the City for deficits between tax increment revenues and debt service up to a maximum of $10.0 million. The City's project analysis did not include any information regarding the adequacy of the financial resources of the OG-DP to provide this guarantee to the City.

Our review of the project analysis found potential risks worth consideration. A discussion of these risks, as well as other factors that could impact tax increment revenue projections, are included later in this review.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) of the TIF Statute 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. 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 report dated February 9, 2024.

OST's primary goal in our statutorily mandated review is to ensure that the project analysis addresses the topics listed in the TIF statute and that risks to the City that might result from the implementation of the project are adequately disclosed.

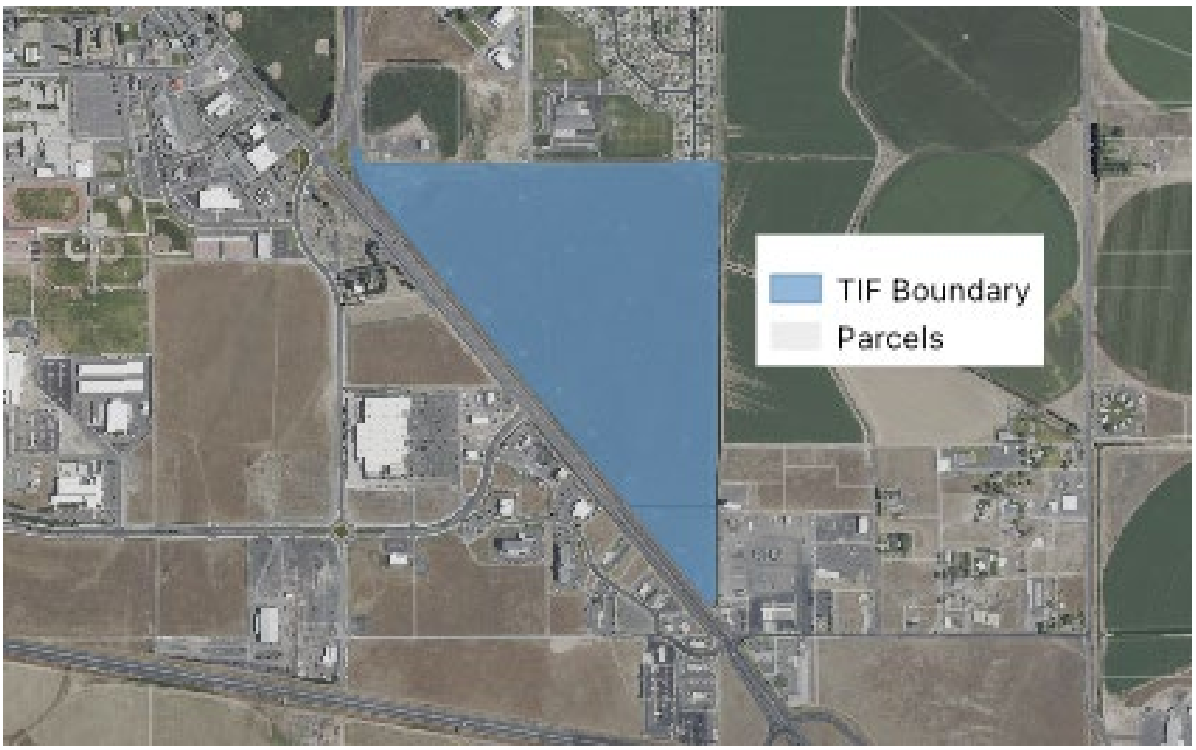
Project Team

Jurisdiction: City of Moses Lake
County: Grant County
Redevelopment Area: City of Moses Lake TIA
Consultants: Stowe Development & Strategies ECONorthwest D.A. Davidson Company (municipal advisor) K&L Gates (bond counsel)

Proposed Tax Increment Area

The City's proposed TIA of approximately 96 acres is comprised of two undeveloped parcels with total assessed value (unimproved land) of $6,782,120 for the 2024 tax year. Located in the southeast portion of the City roughly one mile from Interstate 90, the TIA is shaped like a right-triangle with its longest side following Highway 17. The TIA was selected because it represents a planned development to be built over time following the infrastructure improvements to be funded by TIF revenues. (The TIA proposed for the Port of Moses Lake, with 5,100 acres to be developed for industrial projects, would be located to the northeast of the City's TIA.)

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Moses Lake

Impacted Taxing Districts

Four taxing districts with regular property tax levies would be directly impacted by the TIA. These districts are:

(1) Grant County;
(2) Port of Moses Lake;
(3) Library District; and
(4) Hospital District #1.

After the TIA effective date, the levy rate for each of these jurisdictions will be applied to the increased AV within the TIA, with the tax increment revenues remitted to reimburse the City for debt service on the bonds and, potentially, to pay for the remaining unfunded public improvements.

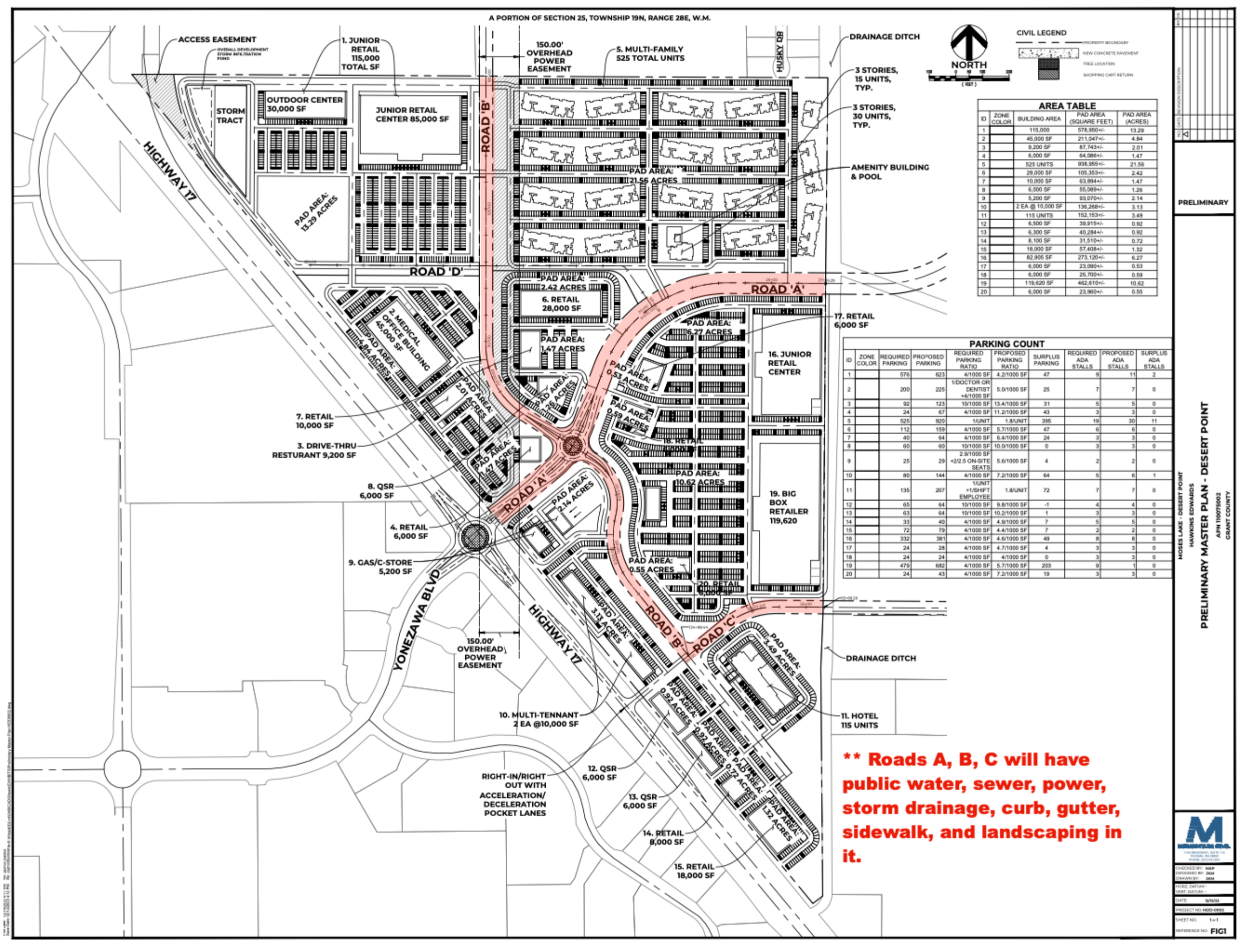
Not all taxing districts would be impacted by the TIA. The property tax levies for State Schools (Part 1 and 2) and School District 161 would be excluded from the calculation of tax increment revenues.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis identifies three categories of public improvements totaling $14.0 million (2024 dollars): 1) three roads; 2) utilities such as curbs, gutters, and sidewalks, storm, water, and sewer mains, landscaping, and gateway features; and 3) a round-about connecting the TIA to Highway 17. The costs are estimated at $9.0 million for the roads and utilities and $5.0 million for the round-about. The project analysis did not provide a detailed expenditure plan for the public improvements; however, the City expects to issue the first series of bonds in 2025 to finance $9.0 million the roads and utilities, and a second series of bonds by 2029 to finance $5.0 million for the round-about project in the event a state grant or other funding is not realized.

Figure 2 – Map of Public Improvements within the TIA



Source: City of Moses Lake

The project analysis indicates that if the public improvements were required to be funded by private developers, only the most profitable developments could be built, reducing the size and scale of the proposed private development within the TIA. Without TIF revenues funding the public improvements, the City estimates that only 50% of the proposed private development would occur and take an additional five years to materialize.

Private Development within the TIA

The proposed private development within the TIA would be a large mixed-use project referred to as Desert Point. This project would develop 82 of the 96 TIA acres over three phases from 2025-2027, 2027-2029, and 2029-2031. At build-out, Desert Point is projected to include 510 multi-family rental units, a 60,000 sq. ft. hotel, large format retail space (340,000 sq. ft.), office and related space (81,000 sq. ft.), and general retail, food, and beverage locations (39,900 sq. ft.). Each development phase includes an average of 170 multi-family rental units and a mix of retail and office space. The details of this baseline scenario are summarized in Table 1. The projected market value of each phase is approximately $60.0 million with a total market value of $178.2 million for all phases (2023 dollars).

Table 1 – Projected Private Development of the TIA in Three Phases

DEVELOPMENT REVENUE - PHASE I - 2025-2027

#	Land Acreage	Use	Bldg SF	Per $ / SF	Total Market Value
1	15.00 ac	North 40 Outfitters	115,000	$ 135.00	$ 15,525,000
8	1.47 ac	STCU & ICCU Credit Union	6,000	$ 160.00	$ 960,000
9	7.19 ac	Apartment Complex (Phase I - 150 units)	267,000	$ 112.00	$ 29,904,000
11	1.47 ac	Sit Down Resturant -	10,000	$ 160.00	$ 1,600,000
13	2.14 ac	Gas/C-Store	5,200	$ 150.00	$ 780,000
14	3.13 ac	Car Wash & Bank Pads	10,000	$ 170.00	$ 1,700,000
15, 16, 17	5.00 ac	Ruby & Hilton Hotel & Event Center	60,000	$ 150.00	$ 9,000,000
	35.40 ac		**473,200**		**$ 59,469,000**

DEVELOPMENT REVENUE - PHASE II - 2027-2029

#	Land Acreage	Use	Bldg SF	Per $ / SF	Total Market Value
7	2.01 ac	Retail Strip Bldg	9,200	$ 150.00	$ 1,380,000
9	7.19 ac	Apartment Complex (Phase II - 180 units)	315,000	$ 115.00	$ 36,225,000
12	1.26 ac	QSR Resturant	4,000	$ 150.00	$ 600,000
18, 19	2.00 ac	Office / Retail Building	20,000	$ 140.00	$ 2,800,000
21	10.00 ac	Big Box / Grocery Store (Fred Meyer)	115,000	$ 130.00	$ 14,950,000
22	1.00 ac	Grocery Pad Bldg.	3,500	$ 160.00	$ 560,000
	23.46 ac		**466,700**		**$ 56,515,000**

DEVELOPMENT REVENUE - PHASE III - 2029-2031

#	Land Acreage	Use	Bldg SF	Per $ / SF	Total Market Value
6	4.84 ac	Medical / Dental Office Bldg	45,000	$ 180.00	$ 8,100,000
9	7.19 ac	Apartment Complex (Phase III -180 units)	315,000	$ 120.00	$ 37,800,000
10	2.42 ac	Junior Box Retail	28,000	$ 140.00	$ 3,920,000
20	7.00 ac	Junior Box Retail	82,000	$ 135.00	$ 11,070,000
23	1.00 ac	Grocery Pad Bldg.	4,000	$ 160.00	$ 640,000
14	1.00 ac	Grocery Pad Bldg.	4,000	$ 160.00	$ 640,000
	23.45 ac		**478,000**		**$ 62,170,000**

Source: City of Moses Lake

Assessed Value of the TIA

As cited in the project analysis, the estimated AV of the two parcels within the TIA for the 2024 tax year is $6.8 million, or 0.2% of the City's total AV of $2.97 billion, which is below the statutory limit of the lesser of $200 million in AV and 20% of the City's total AV.

The magnitude and timing of real property development in the TIA will drive growth in incremental assessed value and, therefore, will drive growth in tax increment revenues. For the baseline scenario provided by the City, the incremental taxable assessed value of the TIA was estimated by assigning market-based improvement prices reflecting the land use and size of the proposed private development. (Detailed year-over-year projections of assessed values within the TIA resulting from the $178.2 million baseline scenario were not provided by the City.) The assessed values used to calculate tax increment revenues assumes the market value of new development is added to the tax roll one year after construction is completed. The City assumes the TIA base value and the assessed values of newly developed properties will increase by 2.65% annually, which is described as slightly below the region's 3.7% real rate of assessed valuation growth and reflective of modest growth assumed for the regional economy.

Tax Increment Revenue Projections

The TIA is expected to be created in 2024, with 2026 being the first year in which the City expects to receive tax increment revenues based on the tax increment produced in 2025. The term of the TIA is assumed to be 25 years (the maximum allowed) with 2050 being the final year in which tax increment revenues will be received. The City assumes a tax increment base AV of $6.8 million. In the baseline scenario, a projected $353.5 million in incremental AV would be added between 2026 and 2050, with $178.2 million from private development and $175.3 million from TIA assessed value growth. Under the baseline scenario, the City projects $23.5 million of tax increment revenues would be collected over the 25-year term of the TIA. See Table 2 – Tax Increment Revenues (Baseline Scenario).

Under the TIF Statute, only certain regular levies are applied to the TIA. Both parts of the state school levy, local school district excess levies, voted bond levies, and levies of districts for bond payments are excluded from the TIA levy rate. The TIA's annual levy rate may change year-to-year based on factors including the growth rate of the AV of overlapping taxing districts and relevant levy limits. The project analysis calculates the levy rate for each of these jurisdictions and applies the levy rates to the projected incremental AV within the TIA to calculate the projected tax allocation revenues provided in Table 2.

Table 2 – Tax Increment Revenues ($ nominal)
Baseline Scenario

Tax Year	Base Assessed Value	Projected Assessed Value	Incremental Assessed Value	Average Levy Rate	Tax Increment Revenues
2026	$6,782,120	$38,405,958	$31,623,838	$4.817	$152,338
2027	$6,782,120	$71,816,542	$65,034,422	$4.742	$308,395
2028	$6,782,120	$105,840,369	$99,058,249	$4.668	$462,406
2029	$6,782,120	$141,734,840	$134,952,720	$4.595	$620,131
2030	$6,782,120	$180,732,648	$173,950,528	$4.523	$786,858
2031	$6,782,120	$221,826,545	$215,044,425	$4.453	$957,564
2032	$6,782,120	$227,525,222	$220,743,102	$4.383	$967,600
2033	$6,782,120	$233,374,915	$226,592,795	$4.315	$977,741
2034	$6,782,120	$239,379,624	$232,597,504	$4.248	$987,988
2035	$6,782,120	$245,543,458	$238,761,338	$4.181	$998,343
2036	$6,782,120	$251,870,633	$245,088,513	$4.116	$1,008,806
2037	$6,782,120	$258,365,479	$251,583,359	$4.052	$1,019,379
2038	$6,782,120	$265,032,438	$258,250,318	$3.989	$1,030,063
2039	$6,782,120	$271,876,071	$265,093,951	$3.926	$1,040,858
2040	$6,782,120	$278,901,061	$272,118,941	$3.865	$1,051,767
2041	$6,782,120	$286,112,213	$279,330,093	$3.805	$1,062,790
2042	$6,782,120	$293,514,460	$286,732,340	$3.745	$1,073,929
2043	$6,782,120	$301,112,867	$294,330,747	$3.687	$1,085,184
2044	$6,782,120	$308,912,632	$302,130,512	$3.629	$1,096,558
2045	$6,782,120	$316,919,090	$310,136,970	$3.573	$1,108,050
2046	$6,782,120	$325,137,720	$318,355,600	$3.517	$1,119,663
2047	$6,782,120	$333,574,144	$326,792,024	$3.462	$1,131,398
2048	$6,782,120	$342,234,132	$335,452,012	$3.408	$1,143,256
2049	$6,782,120	$351,123,611	$344,341,491	$3.355	$1,155,237
2050	$6,782,120	$360,248,660	$353,466,540	$3.303	$1,167,345
				Total	**$23,513,644**

Source: City of Moses Lake

In addition to the baseline scenario, the City's project analysis included three alternative scenarios with lower estimates of total tax increment revenues. These scenarios are referred to as the levy rate decline scenario, the lower valuation scenario, and the lower absorption scenario. Table 3 provides a summary description of each scenario with projected total tax increment revenue relative to the $23.5 million projected for the baseline scenario. (Detailed annual projections of tax increment revenues for the alternate scenarios were not provided by the City.)

Table 3 – Alternative Tax Increment Revenue Scenarios

TI Revenue Scenario	Description Relative to Baseline Scenario	Total TI Revenue ($ nominal)
Levy Rate Decline	The tax levy rates decline faster due to higher than assumed growth of assessed valuations in the taxing districts	$19.7 million
Lower Valuation	The private development is assessed at 75% rather than 100% of the $178.2 million market value	$17.6 million
Lower Absorption	The value of private development is 25% lower and requires three additional years to complete	$15.7 million

Source: City of Moses Lake

Financing Plan for Public Improvements

To fund $9.0 million of the proposed roads and utilities public improvements, the City plans to issue $9.0 million of tax-exempt LTGO Bonds in 2025. The City will issue a second series of bonds by 2029 to finance $5.0 million for the round-about project in the event that a state grant or other funding is not awarded to the City. As stated in the project analysis, because of their general obligation pledge, the City will be required to pay the full debt service due on these bonds from the City's general fund resources, regardless of the amount of tax increment revenues generated within the TIA.

The City's structure for the Bonds assumes a 5.0% true interest cost with 20 equal annual payments for each series. The total principal and interest is estimated at $22.5 million for both series combined. The maximum annual debt service is projected to be $1.1 million from 2030 through 2045.

For the baseline scenario, which includes both series of bonds being issued, annual deficits between tax increment revenues and debt service are projected to average $153,000 over the first 20 years of repayment, resulting in an accumulated deficit of $3.1 million by 2045. Tax increment revenues are forecast to exceed debt service annually from 2046-2050 such that by 2050 the City's $3.1 million deficit is repaid, while also generating a surplus of $1.0 million. Alternatively, if the City receives a state grant for the round-about project and only issues the first series of bonds for $9.0 million, annual deficits between tax increment revenues and debt service are projected to average $337,000 over the first four years of repayment, resulting in an accumulated deficit of $1.3 million by 2029. Tax increment revenues are forecast to exceed debt service annually from 2030-2050 such that the $1.3 million deficit is repaid to the City by 2036, while generating a cumulative surplus of $9.1 million by 2050.

The City expects to cover these projected annual shortfalls through a combination of general fund resources and a limited financial guarantee arrangement with OG-DP. The project analysis notes that the City has averaged approximately $3.5 million in available general fund reserves not allocated to any specific operating or capital expense over the six years from 2018 to 2023, and these unallocated funds can be used to cover deficits between tax increment revenues and debt service. Also, the City may reprioritize some capital spending to cover such deficits.

The City plans to enter into an agreement with OG-DP in which the ownership group will reimburse the City for deficits between tax increment revenues and debt service up to a maximum of $10 million. The ownership group would be repaid by the City for any reimbursements if or when tax increment revenues exceed debt service in later years. The City's project analysis did not include information regarding the adequacy of the financial resources of OG-DP to provide this guarantee to the City.

Debt Capacity

Based on the City's 2024 total assessed value, the City has $44,509,055 in total non-voted debt capacity (1.5% of 2024 AV). The City currently has $1,452,152 in outstanding non-voted general obligation debt, leaving sufficient net non-voted debt capacity of $43,056,903 before the $14,000,000 in TIA bonds are anticipated to be issued in two series (2025 and by 2029). After these debt issuances, the City's remaining non-voted debt capacity would be $29,056,903.

Table 4 – Debt Capacity (2025 and 2029 Issuances)

Assessed Valuation for 2024 Tax Year	$ 2,967,270,315
Non-Voted Debt Capacity (1.5% of AV)	44,509,055
Less: Outstanding Non-Voted Debt	1,452,152
Remaining Non-Voted Debt Capacity	43,056,903
Less: Bonds Proposed	14,000,000
Projected Remaining Non-Voted Capacity	**$ 29,056,903**
Projected Remaining Non-Voted Capacity (%)	**65.3%**

Projected Debt Service Coverage

Tables 5 and 6 below summarize the total tax increment revenues, revenue shortfalls, and debt service coverage for the two financing structures using the baseline tax increment projections. For the financing structures, cumulative shortfalls of $3.1 million and $1.4 million, respectively, would need to be covered using the City's general fund resources.

Table 5 – Tax Increment Revenues and Debt Service Coverage

Development Scenario	First Year Tax Increment Revenues Exceed Debt Service	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue ($MMs)	Total Projected Debt Service ($MMs)	Projected Maximum Cumulative Shortfall ($MMs)	Total Surplus/ (Shortfall) Through End of TIA ($MMs)	Aggregate Debt Service Coverage Ratio
Baseline with $14.0MM of Bonds	2026	2050	$23.51	$22.47	$3.07	$1.05	1.16x
Baseline with $9.0MM of Bonds	2026	2036	$23.51	$14.44	$1.35	$9.07	1.23x

Source: City of Moses Lake

Table 6 – TIF Debt Service Coverage

	Baseline Development Scenario – $14.0 Million of Bonds (2025 & 2029)					Baseline Development Scenario – $9.0 Million of Bonds (2025)				
Year	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage
2026	152,000	722,183	(570,183)	(570,183)	0.21x	152,000	722,183	(570,183)	(570,183)	0.21x
2027	308,000	722,183	(414,183)	(984,366)	0.43x	308,000	722,183	(414,183)	(984,366)	0.43x
2028	462,000	722,183	(260,183)	(1,244,549)	0.64x	462,000	722,183	(260,183)	(1,244,549)	0.64x
2029	620,000	722,183	(102,183)	(1,346,732)	0.86x	620,000	722,183	(102,183)	(1,346,732)	0.86x
2030	787,000	1,123,396	(336,396)	(1,683,128)	0.70x	787,000	722,183	64,817	(1,281,915)	1.09x
2031	958,000	1,123,396	(165,396)	(1,848,524)	0.85x	958,000	722,183	235,817	(1,046,098)	1.33x
2032	968,000	1,123,396	(155,396)	(2,003,920)	0.86x	968,000	722,183	245,817	(800,281)	1.34x
2033	978,000	1,123,396	(145,396)	(2,149,316)	0.87x	978,000	722,183	255,817	(544,464)	1.35x
2034	988,000	1,123,396	(135,396)	(2,284,712)	0.88x	988,000	722,183	265,817	(278,647)	1.37x
2035	998,000	1,123,396	(125,396)	(2,410,108)	0.89x	998,000	722,183	275,817	(2,830)	1.38x
2036	1,009,000	1,123,396	(114,396)	(2,524,504)	0.90x	1,009,000	722,183	286,817	283,987	1.40x
2037	1,019,000	1,123,396	(104,396)	(2,628,900)	0.91x	1,019,000	722,183	296,817	580,804	1.41x
2038	1,030,000	1,123,396	(93,396)	(2,722,296)	0.92x	1,030,000	722,183	307,817	888,621	1.43x
2039	1,041,000	1,123,396	(82,396)	(2,804,692)	0.93x	1,041,000	722,183	318,817	1,207,438	1.44x
2040	1,052,000	1,123,396	(71,396)	(2,876,088)	0.94x	1,052,000	722,183	329,817	1,537,255	1.46x
2041	1,063,000	1,123,396	(60,396)	(2,936,484)	0.95x	1,063,000	722,183	340,817	1,878,072	1.47x
2042	1,074,000	1,123,396	(49,396)	(2,985,880)	0.96x	1,074,000	722,183	351,817	2,229,889	1.49x
2043	1,085,000	1,123,396	(38,396)	(3,024,276)	0.97x	1,085,000	722,183	362,817	2,592,706	1.50x
2044	1,097,000	1,123,396	(26,396)	(3,050,672)	0.98x	1,097,000	722,183	374,817	2,967,523	1.52x
2045	1,108,000	1,123,396	(15,396)	(3,066,068)	0.99x	1,108,000	722,183	385,817	3,353,340	1.53x
2046	1,120,000	401,123	718,877	(2,347,191)	2.79x	1,120,000	0	1,120,000	4,473,340	–
2047	1,131,000	401,123	729,877	(1,617,314)	2.82x	1,131,000	0	1,131,000	5,604,340	–
2048	1,143,000	401,123	741,877	(875,437)	2.85x	1,143,000	0	1,143,000	6,747,340	–
2049	1,155,000	401,123	753,877	(121,560)	2.88x	1,155,000	0	1,155,000	7,902,340	–
2050	1,167,000	0	1,167,000	1,045,440	–	1,167,000	0	1,167,000	9,069,340	–
Total	$23,513,000	$22,467,560	$1,045,440		1.16x	$23,513,000	$14,443,660	$9,069,340		1.23x

Source: City of Moses Lake

Key Risks

From OST's review of the project analysis, it appears that the anticipated public improvements and corresponding economic development will provide benefits to the City and its community. Nonetheless, the proposed project comes with certain risks and costs to the City, which we attempt to summarize below:

> *General Obligation Pledge:* The LTGO Bonds expected to be issued in connection with the project's plan of finance will obligate the City to pay the full amount of debt service due from City revenues and resources, regardless of the amount of tax increment revenues generated from the TIA. Because of the potential cost to the City's general fund, it is essential that decision makers understand and accept the project's risks and potential long-term costs in comparison to its benefits.
>
> *Escalation of Project Costs:* With an unclear timeline for the construction of the public improvements, inflation could have a significant impact on the cost of these projects.
>
> *Construction Delays*: Any delay in private development construction timelines could reduce the amount of tax increment revenues generated by the TIA.
>
> *Permits*: It is unclear where the projects are in the permitting process. Delays in permits could negatively impact the construction of the private developments within the TIA, potentially reducing the amount of tax increment revenues generated by the TIA.
>
> *Economic Conditions*: Growth in the TIA's assessed value could be negatively impacted by depressed economic conditions. A variety of economic factors could negatively impact the demand for development, jeopardizing the timeline, scale, and market value of private development, potentially reducing the amount of tax increment revenues generated by the TIA.
>
> *Assessed Valuations*: As private developments are completed, the actual assessed values will depend on factors considered by the County Assessor's office. Tax increment revenues could potentially be lower than projected if the assessed values of the projects are lower than expected or take longer than anticipated to be reflected on the County's tax rolls, potentially reducing the amount of tax increment revenues generated by the TIA.
>
> *Interest Rate Risk*: The City will be exposed to interest rate risk until the anticipated bonds are sold. The project analysis assumed a relatively generic 5.0% financing rate for 20-year bonds which is relatively conservative based on current market data.

Risk Summary: The general impact to the City from any of the risk factors outlined above could potentially be higher costs and/or lower than projected tax increment revenues and a greater than expected reliance on the City's general revenues and reserves to pay the debt service due on the bonds issued to fund the public improvements, reducing the City's ability to allocate those funds to other projects or operations.

Recommendations

To help ensure the financial success of the project, and to minimize unanticipated costs and risks, we recommend the City consider the following measures:

1. Prior to approving the TIA, we recommend the City coordinate closely with the 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 and provide sufficient time to work through any concerns.

2. Prior to approving the TIA, we recommend that the City discuss and establish a policy regarding how much project related debt service it is able and willing to pay from general fund revenues and reserves on an annual basis, to offset projected as well as unanticipated tax increment revenue shortfalls.

3. We recommend that the City conservatively budget for and proactively set funds aside to cover its projected tax increment revenue shortfalls.

4. As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process and are as accurate as possible.

5. Given the timeline for its bond issuances, we recommend the City periodically revisit its interest rate assumptions.

6. Given the timeline for public improvements, 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 its project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer