

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

– PORT OF DOUGLAS COUNTY –

NOVEMBER 7, 2024



November 7, 2024

Jim Kuntz
Chief Executive Officer
Port of Douglas County
285 Technology Center Way, Suite 202
Wenatchee, WA 98801

Dear Mr. Kuntz:

This letter confirms the Office of the State Treasurer’s (“OST”) receipt and review of the Port of Douglas County’s (the “Port”) tax increment financing (“TIF”) project analysis, consisting of the draft project analysis report dated August 14, 2024 and the response to OST’s questions, as provided by the Port’s consultant, dated September 20, 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 Port’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 Port and its consultants in the project analysis. OST has not independently verified the data, as to either its accuracy or completeness, nor performed any feasibility analyses or projections of its own.

Executive Summary

To facilitate private development in the proposed tax increment area (“TIA”), the project analysis identified fifteen public improvements totaling \$130.4 million (in 2024 dollars). The project analysis did not provide an expenditure plan for the public improvements; however, the Port expects to issue four series of bonds to finance \$31.0 million (or approximately 24%) of the \$130.4 million of total project costs.

Projected net revenues from the TIA would cover an additional \$28.3 million (or 22%) of project costs under the baseline development scenario, or \$11.4 million (or 9%) of project costs under the alternate development scenario. The project analysis did not provided details on how the remaining \$71.1 million to 105.7 million of public improvement costs would be funded.

To fund \$31.0 million of the proposed public improvements, along with capitalized interest costs, the Port plans to issue four series of Limited Tax General Obligation (“LTGO”) bonds, totaling \$39.0 million. The LTGO bonds will be backed by the full faith and credit of the Port and are expected to be issued as tax-exempt and non-rated obligations. As stated in the project analysis, because of the general obligation pledge, the Port will be required to pay the full debt service due on the bonds from available resources, regardless of the amount of tax increment revenues generated within the TIA. In the baseline development scenario, the Port projects surpluses between tax increment revenues and debt service averaging \$1.0 million per year between 2028 and 2049. By 2050, the projected cumulative surplus is \$28.3 million.

The project analysis describes an alternate development scenario in which \$17.0 million of non-rated, tax-exempt LTGO bonds are sold over two issuances, to pay capitalized interest costs, and to generate \$13.3 million to fund the public improvements. The interest rate, terms of repayment, and capitalized interest assumptions are consistent with those used for the baseline development scenario. In the alternate development scenario, the Port projects surpluses between tax increment revenues and debt service averaging \$383,000 per-year between 2028 and 2049. By 2050, the projected cumulative surplus would be \$11.4 million.

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 Port’s draft project analysis report dated August 14, 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 that might result from the implementation of the project are adequately disclosed.

Project Team

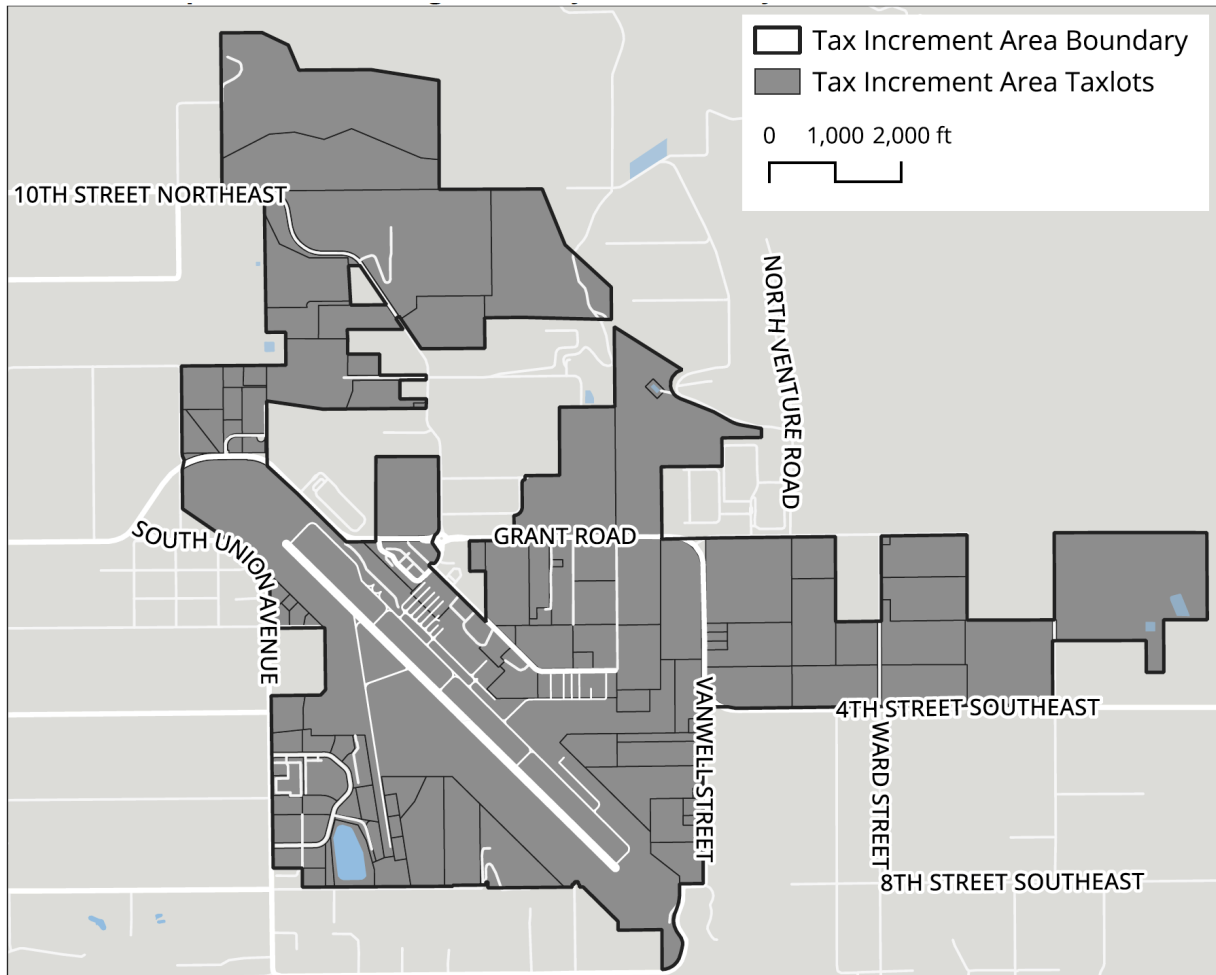
<p>Jurisdiction: Port of Douglas County</p>
<p>County: Douglas County</p>
<p>Redevelopment Area: Port of Douglas County TIA</p>
<p>Consultants: Tiberius Solutions LLC Hilltop Securities Inc. (underwriter) K&L Gates LLP (bond counsel)</p>

Proposed Tax Increment Area

The Port is part of the Chelan Douglas County Regional Port Authority. The Port’s proposed TIA will generally include the Pangborn Memorial Airport and surrounding properties to the southwest, north, and northeast. The proposed size of the TIA is 1,782 acres, which includes 1,761 acres of parcels and 21 acres of right-of-way. Based on acreage and excluding rights-of-way, the parcels are zoned as 71% General Industrial, 24% Commercial Agriculture and Dryland Agriculture, and 5% Rural Essential Public Facilities.

According to the project analysis, the 128 parcels within the TIA had an aggregate market value of \$223,898,300 and a total assessed value of \$185,999,800 for the 2024 tax year. According to the Port, the TIA’s total assessed value of \$185,999,800 is close to, but below the statutory limit of \$200 million. We recommend that the Port confirm the accuracy of the TIA’s total assessed valuation with the County Assessor prior to enacting its TIF ordinance, to ensure compliance with statute.

Figure 1 – Map of Proposed Tax Increment Area



Source: Port of Douglas County

Impacted Taxing Districts

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

- (1) Douglas County;
- (2) Port of Douglas County;
- (3) County Road District;
- (4) North Central Regional Library;
- (5) Eastmont Metropolitan Park District; and
- (6) Fire District 2.

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

It should be noted that the TIF Statute requires a mitigation plan if at least 20% of a regional fire protection district’s AV is expected to be impacted. As described in the project analysis, the proposed TIA is estimated to reach a maximum of 9.6% of the total assessed value for Fire District 2 in 2050, and therefore would fall below the threshold required for negotiation of a mitigation plan. Additionally, the anticipated public improvements include a new fire station.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis identified fifteen public improvements, totaling \$130.4 million (in 2024 dollars). The project analysis did not provide an expenditure plan for the public improvements; however, the Port expects to issue four series of bonds (in December 2024, July 2026, July 2030, and July 2033) to finance \$31.0 million, or 24%, of the \$130.4 million total. The project analysis notes that additional, partial funding will come from net TIF revenues, which are forecast to be \$28.3 million in the baseline development scenario and \$11.4 million in the alternate development scenario. The project analysis did not provide details on how the remaining \$71.1 million (baseline scenario) to \$88.0 million (alternate scenario) of public improvement costs would be funded.

Table 1 – Public Improvements to be Funded with TIA Revenues (2024 \$)

A	Airport Way Improvements	\$	25,000,000
B	Van Well Ave south to 8th Street SE	\$	5,000,000
C	Water Utility Improvements	\$	4,350,000
D	Sewer Utility Improvements	\$	29,000,000
E	Pangborn Airport Terminal Parking - 1 Pangborn Drive	\$	6,500,000
F	Pangborn Airport Business Park- 2nd Street SE	\$	2,000,000
G	Pangborn Airport - 8th Street SE Business Park	\$	7,000,000
H	Industrial Cooling Water System	\$	10,000,000
I	General Aviation Terminal Building	\$	2,500,000
J	Wenatchee Valley Fire Department	\$	5,000,000
K	National Guard Complex- Executive Flight Building	\$	3,000,000
L	Pangborn Airport Terminal Building- 1 Pangborn Drive	\$	20,000,000
M	The Trades District	\$	6,000,000
N	Airlift Northwest Operations Hangar	\$	2,000,000
O	Daycare Facility	\$	3,000,000
Total		\$	130,350,000

Source: Port of Douglas County

The project analysis asserts that certain utility improvements (included in Table 1) are essential to facilitate “the next tranche of private and public investments” at the Port. These utility improvements include the extension of renewable natural gas pipelines to economic development projects, the relocation of a major water irrigation pipeline, and the development of a cooling water discharge system (lagoons and spray fields) to accommodate future growth of recent data center investments. TIA revenues

will be used “to leverage grants, loans, and public utility district capital contributions to complete major elements of these utility” improvements.

We note that Douglas County (the “County”) has submitted a letter to OST in which the eligibility of certain of the proposed public improvements is questioned. We recommend that the Port carefully review each of the proposed public improvements with its legal counsel for compatibility with RCW 39.114 and update the project analysis if any changes are warranted.

“But For” Finding

The project analysis indicates that without the public improvements, future phases of private development forecast to occur in the TIA likely would be delayed, reduced, or canceled. The report states that:

The private development forecast in this analysis would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements. The increase in assessed value within the increment area that could reasonably be expected to occur without the proposed public improvements would be less than the increase in the assessed value estimated to result from the proposed development with the proposed public improvements. (page 10)

In its letter to OST, the County remarked that some of the private development expected to be completed within the TIA is already in progress. With this in mind, we recommend that the Port update its project analysis with additional information supporting the nexus between the proposed eligible public improvements and the expected private developments.

Private Development within the TIA

The project analysis identified nine private projects anticipated to be constructed in the TIA between 2024 and 2030. These projects, including a data center with multiple phases, a natural gas facility, a distribution center, and a helicopter base, are estimated to increase real property assessed value by \$1.4 billion (\$1.3 billion in 2024 dollars) and personal property assessed value by \$1.4 billion (\$1.2 billion in 2024 dollars), totaling \$2.8 billion. The first two projects listed below, Microsoft EAT 04 and Microsoft EAT 05, are the first two phases of the Microsoft data center development which have already completed construction but, for the most part, have not been added to the tax roll.

Table 2 – Projected Known Private Development (2024 \$)

Project	Development Complete	First Year on Tax Roll	Real Property	Personal Property
Microsoft EAT 04	2024	2025	\$200,000,000	\$200,000,000
Microsoft EAT 05	2024	2025	\$200,000,000	\$200,000,000
Microsoft EAT 06/09	2027	2028	\$200,000,000	\$200,000,000
Microsoft EAT 41	2028	2029	\$200,000,000	\$200,000,000
Microsoft EAT 42	2029	2030	\$200,000,000	\$200,000,000
Microsoft EAT 43	2030	2031	\$200,000,000	\$200,000,000
NW Natural Gas - RNG Facility	2025	2027	\$43,000,000	\$0
Amazon Distribution	2024	2026	\$25,000,000	\$0
National Guard Facility	2030	2032	\$0	\$0
Total			\$1,268,000,000	\$1,200,000,000

Source: Port of Douglas County

The draft report also identified speculative development opportunities based on the current residual land value of each parcel not associated with known development projects. This speculative development was forecast to add \$194.1 million in assessed value over the life of the proposed TIA, increasing the TIA's projected private development total to \$2.97 billion.

The projection of assessed values and tax increment revenues conservatively assumes that new construction is not added to the tax roll until one to two years after construction is completed. The timing and value of projected assessed values within the TIA from private development under the baseline development scenario are presented in Table 3 below.

**Table 3 – Projected Assessed Values from Private Development (nominal \$)
Baseline Development Scenario**

Year on Tax Roll	Real Property			Total
	Known Development	Speculative Development	Known Personal Property	
2025	\$ 400,000,000	\$ -	\$ 400,000,000	\$ 800,000,000
2026	\$ 26,000,000	\$ -	\$ -	\$ 26,000,000
2027	\$ 46,400,000	\$ -	\$ -	\$ 46,400,000
2028	\$ 224,300,000	\$ -	\$ 224,300,000	\$ 448,600,000
2029	\$ 233,100,000	\$ -	\$ 233,100,000	\$ 466,100,000
2030	\$ 242,200,000	\$ -	\$ 242,200,000	\$ 484,300,000
2031	\$ 251,600,000	\$ 6,600,000	\$ 251,600,000	\$ 509,800,000
2032	\$ -	\$ 6,800,000	\$ -	\$ 6,800,000
2033	\$ -	\$ 7,100,000	\$ -	\$ 7,100,000
2034	\$ -	\$ 7,400,000	\$ -	\$ 7,400,000
2035	\$ -	\$ 7,700,000	\$ -	\$ 7,700,000
2036	\$ -	\$ 8,000,000	\$ -	\$ 8,000,000
2037	\$ -	\$ 8,300,000	\$ -	\$ 8,300,000
2038	\$ -	\$ 8,600,000	\$ -	\$ 8,600,000
2039	\$ -	\$ 8,900,000	\$ -	\$ 8,900,000
2040	\$ -	\$ 9,300,000	\$ -	\$ 9,300,000
2041	\$ -	\$ 9,700,000	\$ -	\$ 9,700,000
2042	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000
2043	\$ -	\$ 10,400,000	\$ -	\$ 10,400,000
2044	\$ -	\$ 10,800,000	\$ -	\$ 10,800,000
2045	\$ -	\$ 11,300,000	\$ -	\$ 11,300,000
2046	\$ -	\$ 11,700,000	\$ -	\$ 11,700,000
2047	\$ -	\$ 12,200,000	\$ -	\$ 12,200,000
2048	\$ -	\$ 12,600,000	\$ -	\$ 12,600,000
2049	\$ -	\$ 13,100,000	\$ -	\$ 13,100,000
2050	\$ -	\$ 13,600,000	\$ -	\$ 13,600,000
Total	\$ 1,423,600,000	\$ 194,100,000	\$ 1,351,200,000	\$ 2,968,700,000

Source: Port of Douglas County

The Port's project analysis included an alternate development scenario, which assumes reduced levels of known development and no future speculative development. This scenario limits the value of future data center development to only the three buildings already constructed or permitted and excludes subsequent phases of data center development that have not yet received permits. This private development is expected to total \$668.0 million, compared to \$1.3 billion in the baseline development scenario.

Assessed Value of the TIA

As cited in the project analysis, the estimated AV of the parcels within the TIA for the 2024 tax year is \$186.0 million, or 2.0% of the Port's total AV of \$9.2 billion, which is below the statutory limit of the lesser of \$200 million in AV and 20% of the Port's total AV.

The timing and magnitude of real property development in the TIA will drive growth in incremental assessed value, which in turn will determine the amount of tax increment revenues generated by the project area. For both development scenarios provided by the Port, the incremental taxable assessed value of the TIA is estimated by assigning market-based improvement prices reflecting the land use and size of the proposed development.

The Port assumes the TIA base value and the assessed values of newly developed properties will increase based on a combination of the past growth rate in per-capita personal income and forecasted population growth rates. The long-term historical trend for per-capita personal income growth for Douglas County from 2002-2022 was used as the basis for forecasting a 3.9% annual appreciation rate in the assessed values of existing properties. To project annual increases in assessed value from new construction outside of the TIA, the project analysis applied the population growth rates from the 2022 State Growth Management Act forecast for Douglas County for the 2025-2050 period, which calls for a gradual slowing of population growth of 1.1% (during 2025 to 2026) to 0.7% (during 2049 to 2050).

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2025, with 2025 as the base year and 2026 being the first year in which the Port expects to receive tax increment revenues. The term of the TIA is assumed to be 25 years (the maximum allowed) with 2050 the final year in which tax increment revenues will be received. The Port projects that the TIA will have a 2025 tax increment base AV of \$593.3 million.

In the baseline development scenario, it is projected that \$3.1 billion in incremental AV will be added to the TIA between 2026 and 2050, with \$3.0 billion from private development and \$155.7 million from TIA assessed value growth. Under the baseline development scenario, the Port projects that \$94.1 million of tax increment revenues will be collected over the 25-year term of the TIA. See Table 4 – Tax Allocation Revenues (Baseline Development Scenario).

**Table 4 – Tax Allocation Revenues (nominal \$)
Baseline Development Scenario**

Tax Year	Assessed Value			Levy Rate	Tax Allocation Revenues
	Total	Base Value	Increment		
2024	\$ 185,999,800			\$ 4.036483	\$ -
2025	\$ 593,253,792	\$ 593,253,792		\$ 3.539039	\$ -
2026	\$ 626,765,690	\$ 593,253,792	\$ 33,511,898	\$ 3.444350	\$ 115,427
2027	\$ 681,015,930	\$ 593,253,792	\$ 87,762,138	\$ 3.349675	\$ 293,975
2028	\$ 913,476,634	\$ 593,253,792	\$ 320,222,842	\$ 3.261028	\$ 1,044,256
2029	\$ 1,170,603,305	\$ 593,253,792	\$ 577,349,513	\$ 3.178799	\$ 1,835,278
2030	\$ 1,438,770,940	\$ 593,253,792	\$ 845,517,148	\$ 3.094516	\$ 2,616,466
2031	\$ 1,725,795,489	\$ 593,253,792	\$ 1,132,541,697	\$ 3.012507	\$ 3,411,790
2032	\$ 1,771,599,571	\$ 593,253,792	\$ 1,178,345,779	\$ 2.931128	\$ 3,453,882
2033	\$ 1,828,546,817	\$ 593,253,792	\$ 1,235,293,025	\$ 2.851928	\$ 3,522,966
2034	\$ 1,897,436,725	\$ 593,253,792	\$ 1,304,182,933	\$ 2.774777	\$ 3,618,817
2035	\$ 1,979,114,207	\$ 593,253,792	\$ 1,385,860,415	\$ 2.699700	\$ 3,741,407
2036	\$ 2,064,276,531	\$ 593,253,792	\$ 1,471,022,739	\$ 2.625084	\$ 3,861,558
2037	\$ 2,153,071,283	\$ 593,253,792	\$ 1,559,817,491	\$ 2.552523	\$ 3,981,470
2038	\$ 2,245,652,262	\$ 593,253,792	\$ 1,652,398,470	\$ 2.481967	\$ 4,101,198
2039	\$ 2,342,179,736	\$ 593,253,792	\$ 1,748,925,944	\$ 2.413361	\$ 4,220,789
2040	\$ 2,442,820,716	\$ 593,253,792	\$ 1,849,566,924	\$ 2.346650	\$ 4,340,286
2041	\$ 2,547,749,238	\$ 593,253,792	\$ 1,954,495,446	\$ 2.281721	\$ 4,459,613
2042	\$ 2,657,146,653	\$ 593,253,792	\$ 2,063,892,861	\$ 2.218587	\$ 4,578,927
2043	\$ 2,771,201,940	\$ 593,253,792	\$ 2,177,948,148	\$ 2.157200	\$ 4,698,270
2044	\$ 2,890,112,020	\$ 593,253,792	\$ 2,296,858,228	\$ 2.097511	\$ 4,817,686
2045	\$ 3,014,082,088	\$ 593,253,792	\$ 2,420,828,296	\$ 2.039473	\$ 4,937,215
2046	\$ 3,143,325,961	\$ 593,253,792	\$ 2,550,072,169	\$ 1.983041	\$ 5,056,897
2047	\$ 3,278,066,436	\$ 593,253,792	\$ 2,684,812,644	\$ 1.928169	\$ 5,176,773
2048	\$ 3,418,535,670	\$ 593,253,792	\$ 2,825,281,878	\$ 1.874816	\$ 5,296,883
2049	\$ 3,564,975,565	\$ 593,253,792	\$ 2,971,721,773	\$ 1.822889	\$ 5,417,118
2050	\$ 3,717,638,179	\$ 593,253,792	\$ 3,124,384,387	\$ 1.772399	\$ 5,537,656
Total					\$ 94,136,602

Source: Port of Douglas County

As noted above, the Port prepared an alternate development scenario wherein private development in the TIA is projected to total \$696.7 million compared to \$3.0 billion in the baseline development scenario. In the alternate development scenario, the Port projects that \$1.5 billion of assessed value will be added to the TIA between 2026 and 2050, and \$41.8 million of tax increment revenues will be collected over the 25-year term, which is 56% lower than the \$94.1 million forecast in the baseline development scenario. See Table 5 – Tax Allocation Revenues (Alternate Development Scenario).

**Table 5 – Tax Allocation Revenues (nominal \$)
Alternate Development Scenario**

Tax Year	Assessed Value				Levy Rate	Tax Allocation Revenues
	Total	Base Value	Increment			
2024	\$ 185,999,800				\$ 4.036483	\$ -
2025	\$ 593,253,792	\$ 593,253,792			\$ 3.539039	\$ -
2026	\$ 626,765,690	\$ 593,253,792	\$ 33,511,898		\$ 3.444350	\$ 115,427
2027	\$ 681,015,930	\$ 593,253,792	\$ 87,762,138		\$ 3.349675	\$ 293,975
2028	\$ 913,476,634	\$ 593,253,792	\$ 320,222,842		\$ 3.261028	\$ 1,044,256
2029	\$ 937,530,187	\$ 593,253,792	\$ 344,276,395		\$ 3.175398	\$ 1,093,215
2030	\$ 963,534,853	\$ 593,253,792	\$ 370,281,061		\$ 3.087897	\$ 1,143,390
2031	\$ 992,364,058	\$ 593,253,792	\$ 399,110,266		\$ 3.002984	\$ 1,198,522
2032	\$ 1,031,066,257	\$ 593,253,792	\$ 437,812,465		\$ 2.921990	\$ 1,279,284
2033	\$ 1,071,277,841	\$ 593,253,792	\$ 478,024,049		\$ 2.841219	\$ 1,358,171
2034	\$ 1,113,057,676	\$ 593,253,792	\$ 519,803,884		\$ 2.762600	\$ 1,436,010
2035	\$ 1,156,466,926	\$ 593,253,792	\$ 563,213,134		\$ 2.686156	\$ 1,512,878
2036	\$ 1,201,569,135	\$ 593,253,792	\$ 608,315,343		\$ 2.611827	\$ 1,588,815
2037	\$ 1,248,430,331	\$ 593,253,792	\$ 655,176,539		\$ 2.539555	\$ 1,663,857
2038	\$ 1,297,119,114	\$ 593,253,792	\$ 703,865,322		\$ 2.469283	\$ 1,738,043
2039	\$ 1,347,706,760	\$ 593,253,792	\$ 754,452,968		\$ 2.400955	\$ 1,811,408
2040	\$ 1,400,267,324	\$ 593,253,792	\$ 807,013,532		\$ 2.334518	\$ 1,883,988
2041	\$ 1,454,877,750	\$ 593,253,792	\$ 861,623,958		\$ 2.269858	\$ 1,955,764
2042	\$ 1,511,617,982	\$ 593,253,792	\$ 918,364,190		\$ 2.206988	\$ 2,026,819
2043	\$ 1,570,571,083	\$ 593,253,792	\$ 977,317,291		\$ 2.145860	\$ 2,097,186
2044	\$ 1,631,823,355	\$ 593,253,792	\$ 1,038,569,563		\$ 2.086425	\$ 2,166,897
2045	\$ 1,695,464,466	\$ 593,253,792	\$ 1,102,210,674		\$ 2.028636	\$ 2,235,984
2046	\$ 1,761,587,581	\$ 593,253,792	\$ 1,168,333,789		\$ 1.972448	\$ 2,304,477
2047	\$ 1,830,289,496	\$ 593,253,792	\$ 1,237,035,704		\$ 1.917816	\$ 2,372,406
2048	\$ 1,901,670,787	\$ 593,253,792	\$ 1,308,416,995		\$ 1.864697	\$ 2,439,801
2049	\$ 1,975,835,947	\$ 593,253,792	\$ 1,382,582,155		\$ 1.813000	\$ 2,506,621
2050	\$ 2,052,893,550	\$ 593,253,792	\$ 1,459,639,758		\$ 1.762736	\$ 2,572,959
Total						\$ 41,840,152

Source: Port of Douglas County

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 future incremental increases to the AV of the TIA, the future AV of the 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 Tables 4 and 5.

Financing Plan for Public Improvements

To fund \$31.0 million of the \$130.4 million of proposed public improvements, the Port plans to issue \$39.0 million of tax-exempt LTGO bonds over four issuances: \$5.0 million in December 2024, \$22.0 million in July 2026, \$10.0 million in July 2030, and \$2.0 million in July 2033. As stated in the project analysis, because of their general obligation pledge, the Port will be required to pay the full debt service due on the bonds from available resources, regardless of the amount of tax increment revenues generated within the TIA.

The Port's baseline development scenario assumes the bonds are non-rated, with interest rates as of August 9, 2024, plus a 0.50% cushion, resulting in a true interest cost for each issuance ranging from 5.30% to 5.66%. Total principal and interest on the bonds is projected to be \$65.8 million over the 2028 to 2049 repayment term. Approximately \$6.0 million of the \$39.0 million of the total issuance amount would be used to fund capitalized interest (using bond proceeds to pay interest due on the bonds) during the first three years after issuance, when tax increment revenues are projected to be lower than the scheduled interest payments. The Port projects that surpluses between tax increment revenues and debt service will average \$1.0 million between 2028 and 2049, with a projected cumulative surplus of \$28.3 million by 2050. As stated in the project analysis, the Port intends to use the annual surpluses to fund additional public improvements on a cash basis.

The project analysis describes an alternate development scenario in which \$17.0 million of non-rated, tax-exempt LTGO bonds are issued to generate \$13.3 million of proceeds to fund the public improvements. The bonds would be sold in two issuances: \$5.0 million in December 2024 and \$12.0 million in July 2026, with interest rates, terms of repayment, and capitalized interest assumptions consistent with those used for the baseline development scenario. The Port projects surpluses between tax increment revenues and debt service averaging \$383,000 between 2028 and 2049, and by 2050, the projected cumulative surplus is projected to be \$11.4 million.

Debt Capacity

Based on its 2024 total assessed value, the Port has \$22,877,041 in total non-voted debt capacity (0.25% of 2024 AV). The Port states that it has no outstanding non-voted general obligation debt, leaving net non-voted debt capacity of \$22,877,041 before the \$5.0 million in bonds are expected to be issued in December 2024. After this debt issuance, the Port's remaining non-voted debt capacity would be \$17,877,041. The amounts and timing of the Port's anticipated bond issuances in 2024, 2026, 2030, and 2033 (as included in the baseline development scenario) are shown below. Based on assumed growth of the Port's total assessed valuation and the planned principal amortization of the four series, the Port is projected to exhaust its non-voted debt capacity in FY 2026 and 2030.

Table 6 – Debt Capacities in \$000s
(2024, 2026, 2030 and 2030 Issuances)

	2024	2026	2030	2033
Assessed Valuation for Relevant Tax Year	\$9,150,816	\$10,934,742	\$14,786,584	\$17,643,739
Non-Voted Debt Capacity (0.25% of AV)	22,877	27,337	36,966	44,109
Less: Outstanding Non-Voted Debt	0	5,000	26,835	35,355
Remaining Non-Voted Debt Capacity	22,877	22,337	10,131	8,754
Less: Bonds Proposed	5,000	22,000	10,000	2,000
Projected Remaining Non-Voted Capacity	\$17,877	\$337	\$131	\$6,754
Projected Remaining Non-Voted Capacity	78.1%	1.2%	0.4%	15.3%

Projected Debt Service Coverage

Tables 7 and 8 below summarize the total tax increment revenues, revenue surpluses, and debt service coverage for the baseline and alternate development scenarios. For the baseline development scenario, the average debt service coverage ratio is 1.52x, while the ratio is 1.39x for the alternate development scenario.

Table 7 – Tax Allocation 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	2026	N/A	\$94.137	\$65.850	\$0	\$28.287	1.52x
Alternate	2026	N/A	\$41.840	\$30.440	\$0	\$11.400	1.39x

Source: Port of Douglas County

Table 8 – TIF Debt Service Coverage

Source: Port of Douglas County

Key Risks

From OST's review of the project analysis, it appears that the anticipated public improvements and corresponding economic development could benefit the Port and the surrounding community. Nonetheless, the proposed project comes with certain risks, 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 Port to pay the full amount of debt service due from Port revenues and resources, regardless of the amount of tax increment revenues generated from the TIA. If tax increment revenues are ever insufficient for full debt service payments, the Port would be required to pay its debt service obligation from other sources of funds.

Issuing Bonds Before TIA Approval: The project analysis notes that the TIA is expected to take effect on June 1, 2025; however, the Port plans to issue the first series of bonds in December 2024. Any delay in the implementation of the TIA would have a direct impact on the Port's collection of tax increment revenues. Depending upon the magnitude of any delay, the Port could be required to fund debt service for the bonds from its operating budget or reserves.

Debt Limit: Based on the projections in the project analysis, the Port will exhaust its non-voted debt capacity in FY 2026 and 2030 under the statutory the 0.25% of AV limit. If the TIA's AV does not grow as rapidly as projected, the Port's legal capacity to issue bonds will be reduced. Additionally, by utilizing nearly all of its non-voted debt capacity, the Port will be unable to borrow for other projects or needs.

Permits: It is unclear where the private development 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.

Construction Delays: Any delay in the construction timeline of the private developments could reduce the amount of tax increment revenues produced by the TIA.

Escalation of Project Costs: With an estimated 25-year timeframe to construct all the public improvements, inflation and any legal regulatory changes could have a significant impact on the delivery of the public improvements.

Economic Conditions: Growth in the TIA's assessed value could be negatively impacted by depressed economic conditions. A variety of economic and technological factors could negatively impact the demand for development, jeopardizing the timeline, scale, and market value of private development, potentially reducing tax increment revenues.

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.

Technology Risk: Much of the TIA's anticipated growth in assessed value appears to be linked to the assessed value (or projected assessed value) of certain data centers. Over the course of 25 years, technology can change rapidly. Any changes in technology that reduce the value of the data centers could have a severe negative impact on the TIA's future tax increment revenues.

Interest Rate Risk: The Port will be exposed to interest rate risk until all issuances of anticipated bonds are sold. The project analysis assumes interest rates as of August 9, 2024, plus an interest rate cushion of 0.50%.

Risk Summary: The risk factors outlined above could result in a decreased ability to fund the public improvements and facilitate the expected growth in the TIA. If severe enough, reduced tax increment revenues could obligate the Port to pay a portion of the debt service due on the LTGO Bonds from Port revenues and resources.

Input from Douglas County

We note that the County has provided OST with a letter dated October 23, 2024, expressing concern about certain aspects of the TIA. Key concerns raised by the County include the starting assessed value of the TIA, the eligibility of certain proposed public improvements, the casual nexus between the proposed public improvements and expected private development, and certain other operational aspects of the project. Before moving the TIA to approval, we recommend that the Port review the concerns contained in the County's letter and ensure that all aspects of the TIA are in compliance with statute.

Recommendations

To help minimize unanticipated costs and risks associated with the project, we recommend the Port consider the following measures:

1. Prior to approving the TIA, we recommend the Port 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. To ensure a smooth implementation, we recommend that the Port work with the County Assessor's office to confirm that the TIA's beginning AV will not exceed the statutory maximum of \$200 mm.
3. We recommend the Port carefully review each of the proposed public improvements listed in the project analysis with its legal counsel to ensure compliance with RCW 39.114.
4. We recommend that the Port update its project analysis with additional information (and potentially documentation) supporting the nexus between the proposed eligible public improvements and the expected private developments to clarify why the forecasted private development would more likely than not be delayed, reduced, or canceled without the public improvements.
5. The Port indicated in its project analysis that it plans to issue bonds prior to the TIA's expected June 1, 2025 adoption. As issuing bonds prior to the adoption of a TIA is not a common feature of TIA proposals reviewed by OST, we suggest that the Port ensure sign-off on the approach from its bond counsel. If the Port moves forward with this structure, it is important that Port decision makers understand the risk of the approach.
6. We suggest that the Port review its assumption that its LTGO Bonds will be issued as non-rated with its financing team to assess the potential, if any, for reducing borrowing costs by having its bonds rated.

7. We recommend that the Port provide additional insight on how it expects to fund the remaining \$71.1 million to \$105.7 million of public improvement project costs.
8. As the project moves forward, we recommend the Port 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.
9. Given the timeline for public improvements, we recommend the Port 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 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 all the best with its project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer



Jason Richter
Deputy Treasurer