

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— DOUGLAS COUNTY —

MARCH 24, 2025



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Jordyn Giulio
County Administrator
Douglas County
203 S Rainier Street
Waterville, WA 98858

Dear Jordyn Guilio:

This letter confirms the Office of the State Treasurer’s (“OST”) receipt and review of Douglas County’s (the “County”) tax increment financing (“TIF”) draft project analysis dated February 6, 2025. OST and PFM Financial Advisors LLC, 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 County’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 County 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.

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 tax increment area (“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 County’s draft project analysis report, dated February 6, 2025, on February 8, 2025.

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

Jurisdiction: Douglas County
Redevelopment Area: Douglas County TIA
Consultants: Stowe Development & Strategies ECONorthwest

Proposed Tax Increment Area

The County's proposed TIA encompasses approximately 318 acres in an area known as the Wenatchi Landing. The TIA generally surrounds the US Highway 2 and State Route 28 interchange on the east bank of the Columbia River, north of East Wenatchee. The zoning information for the TIA was not specified in the report.

The 58 parcels listed within the TIA had an aggregate assessed valuation ("AV") of \$18,529,000 (2023 values for the 2024 tax year), or 0.2% of the County's total AV of \$9.15 billion, which is below the statutory limit of the lesser of \$200 million or 20% of the County's total AV.

Figure 1 – Map of Proposed Tax Increment Area



Source: Douglas County, ECONorthwest

Impacted Taxing Districts

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

- (1) Chelan-Douglas Regional Port Authority,
- (2) Eastmont Metropolitan Park District,
- (3) Wenatchee Valley Fire Department – Regional Fire Authority, and
- (4) North Central Library District.

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 County for debt service on the bonds and to potentially pay for the remaining unfunded public improvements.

The TIF statute requires a mitigation plan if at least 20% of a public hospital district, regional fire protection district, and/or EMS district's AV is expected to be impacted by the TIA. As described in the project analysis, the proposed TIA is estimated to equal 0.3% of the total AV (2023 values for the 2024 tax year) for Wenatchee Valley Fire Department, so no mitigation plan is required. There are no public hospital districts or stand-alone EMS districts that would be impacted by the TIA.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis identifies three transportation improvements, totaling \$59.9 million:

- Wenatchi Landing Interchange and Empire Avenue to 35th Street NW - \$25,130,800
- 38th Street NW – Interchange to NW Cascade Avenue - \$13,131,000
- NW Empire Avenue – Interchange to Cascade Avenue NW - \$21,596,000

The project analysis notes that the projects are likely to be phased, with the first phase consisting of the Wenatchi Landing Interchange and Empire Avenue to 35th Street NW ("Wenatchi Landing Interchange project"). The project analysis assumes that the Wenatchee Landing Interchange project will be the primary project funded using TIF revenues. Each of the three identified projects will require the acquisition of right-of-way from the Washington Department of Transportation. No specific construction timelines for the projects were provided; however, the analysis mentions that additional phasing will be influenced by the readiness of private developments.

The County expects to issue one series of Limited Tax General Obligation ("LTGO") bonds to finance \$25 million of the Wenatchi Landing Interchange project. We note that the project analysis states the \$25 million is a "not to exceed" amount, and is included in the debt capacity calculation. Somewhat inconsistently, the project analysis also assumes the County will issue \$25,130,800 to fully fund the project. We recommend that the project analysis be updated to make these bond issuance amounts consistent.

We note that in the conservative scenario of the project analysis, which the County expects to be the most likely outcome, projected tax increment revenues are insufficient to pay for the remaining two projects, meaning an alternative funding source or sources would be needed.

"But For" Finding

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

"The proposed Wenatchi TIA is an area of Douglas County that has limited development, primarily due to the need for significant public infrastructure/improvements to stimulate the 283 acres of economic opportunities among multiple land uses. For the past decade, the County has been planning and working on providing infrastructure to this area and has identified several

transportation improvements that are needed; specifically the Wenatchi Landing Interchange and Empire Avenue to 35th Street NW at a cost of \$25,130,800. If these improvements, along with the other identified public improvements (38th Street NW – Interchange to NW Cascade Avenue - \$13,131,000 & NW Empire Avenue – Interchange to Cascade Avenue NW - \$21,596,000) were required to be funded by private developers it would likely mean that only smaller scale residential developments would be built.” (Page 37)

The project analysis projects that by 2050, without the implementation of the proposed TIA, the AV of the area is expected to grow by \$79.0 million. In comparison, in the conservative scenario, the TIA’s AV is expected to grow by \$790.3 million by 2050. We note that the \$790.3 million figure in 2050 differs from the incremental AV growth projection included in the TIF Summary Tables (Figures 14-18, pages 27-28) of the document.

Table 1 – Comparison of Incremental Assessed Value Growth Between TIF Scenarios and No TIF*

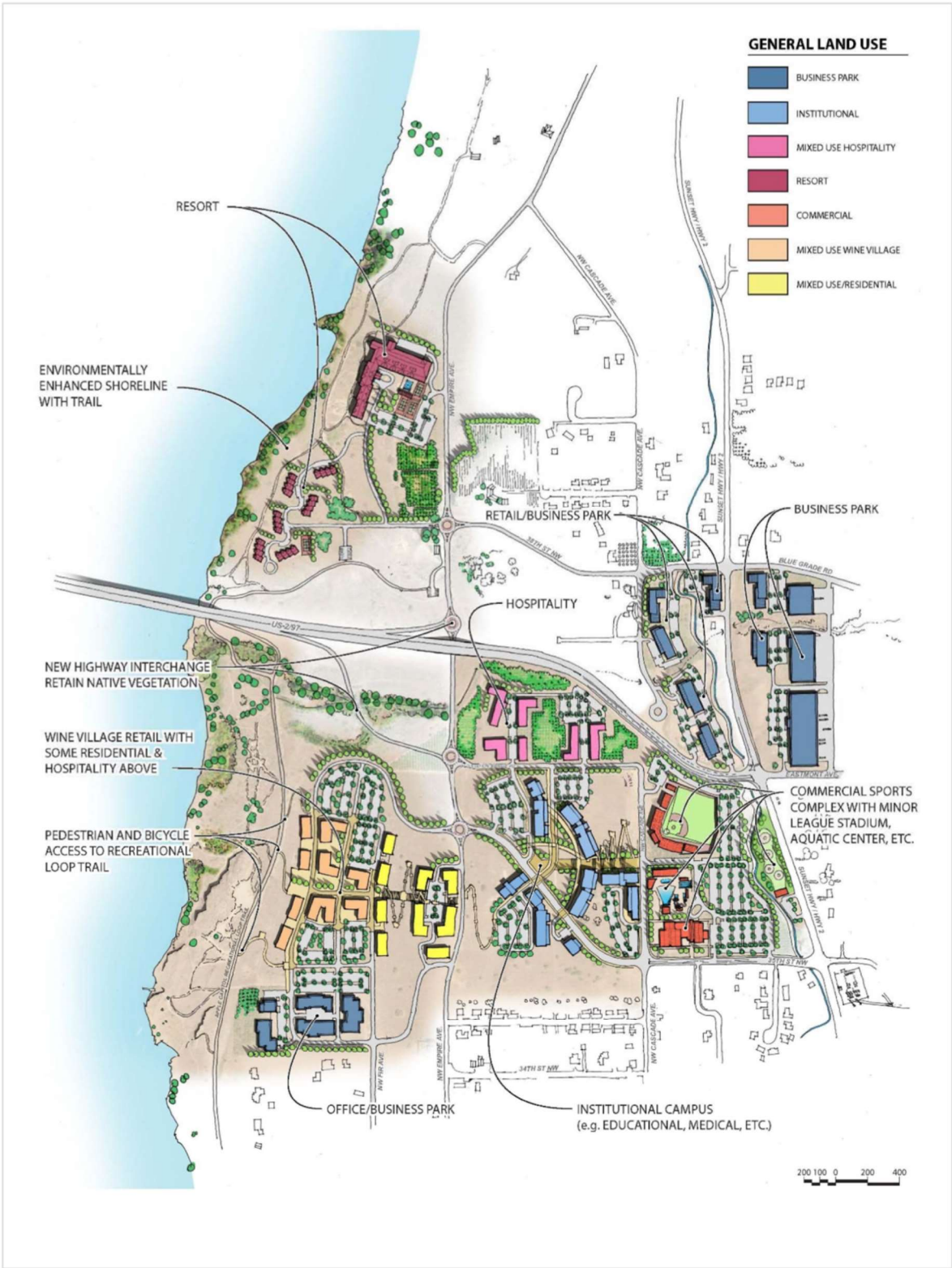
Assessment Year	2026	2030	2035	2040	2045	2050
Baseline	\$14,449,000	\$350,184,000	\$1,198,837,000	\$1,931,099,000	\$2,389,118,000	\$2,722,904,000
Moderate	\$14,449,000	\$252,933,000	\$764,956,000	\$1,154,214,000	\$1,378,987,000	\$1,571,647,000
Conservative	\$0	\$94,076,000	\$301,640,000	\$521,418,000	\$693,422,000	\$790,301,000
No TiF	\$0	\$9,408,000	\$30,164,000	\$52,142,000	\$69,342,000	\$79,030,000

*The baseline scenario is also referred to in the project analysis is the “aggressive” scenario.

Private Development within the TIA

The project analysis relies on the County’s North End Master Site Plan (“NEMSP”) to inform potential developments. The NEMSP was approved by the County in October 2016.

Figure 2 – Wenatchi Landing Concept Plan



Source: Douglas County

The NEMSP includes mixed-use developments, such as residential, retail, office space, recreation, hotel/resort, institutional/educational, and other hospitality uses. However, the project analysis states that at this time all development is speculative. Given the speculative nature of the development, the County identifies the conservative scenario as the most likely outcome to inform the rest of the project analysis.

Table 2 – Development Scenarios*

Development Scenario	Product Type	Value per Unit/SF	Start	Build-Out/Years	Market Value
Conservative	Dwellings	\$ 300,000	2027	20	\$ 68,100,000
	Resort Hospitality	150,000	2032	2	20,400,000
	Business Park or Winery	375	2030	15	134,775,000
	Office	350	2028	15	59,416,000
	Institutional	450	2028	15	60,390,450
	Retail	325	2029	10	21,919,950
	Commercial Recreation	100	2028	10	5,472,750
					\$ 370,474,150
Moderate	Dwellings	\$ 300,000	2026	10	\$ 136,200,000
	Resort Hospitality	150,000	2032	3	40,800,000
	Business Park or Winery	375	2030	10	269,550,000
	Office	350	2030	15	118,831,825
	Institutional	450	2028	15	120,780,675
	Retail	325	2029	10	43,839,575
	Commercial Recreation	100	2028	5	10,945,500
					\$ 740,947,575
Aggressive	Dwellings	\$ 300,000	2026	5	\$ 68,100,000
	Resort Hospitality	150,000	2032	5	81,600,000
	Business Park or Winery	375	2030	10	539,100,000
	Office	350	2030	15	237,663,650
	Institutional	450	2030	15	241,561,350
	Retail	325	2029	10	87,679,150
	Commercial Recreation	100	2028	5	21,891,000
					\$ 1,277,595,150

*The aggressive scenario is also referred to in the project analysis as the “baseline” scenario.

Source: Douglas County, Stowe Development & Strategies

The conservative scenario identifies \$370.5 million in market value that will be generated from private developments across a variety of property uses. This is compared to the baseline/aggressive and moderate scenario expected added values of \$1.28 billion and \$740.9 million, respectively. Compared to the baseline/aggressive scenario, the conservative scenario assumes a 15-year longer buildout period for the residential dwellings, a 75% decrease in development across other uses, and an additional 5 years of buildout to winery and commercial recreation projects. It is unclear why the resort hospitality classification has a shorter buildout time in the conservative scenario.

The timing and amount of projected incremental assessed value within the TIA from private development under the conservative scenario is presented in Table 3 below.

Table 3 – TIF Summary for Douglas County (Conservative Scenario) – Increment Value

Assessment Year	Base Value	Increment Value
2025	\$18,529,000	\$0
2026	\$18,529,000	\$0
2027	\$18,529,000	\$0
2028	\$18,529,000	\$3,721,000
2029	\$18,529,000	\$17,576,000
2030	\$18,529,000	\$34,751,000
2031	\$18,529,000	\$63,612,000
2032	\$18,529,000	\$94,076,000
2033	\$18,529,000	\$139,132,000
2034	\$18,529,000	\$186,658,000
2035	\$18,529,000	\$223,051,000
2036	\$18,529,000	\$261,352,000
2037	\$18,529,000	\$301,640,000
2038	\$18,529,000	\$343,996,000
2039	\$18,529,000	\$387,677,000
2040	\$18,529,000	\$430,139,000
2041	\$18,529,000	\$474,691,000
2042	\$18,529,000	\$521,418,000
2043	\$18,529,000	\$570,408,000
2044	\$18,529,000	\$607,249,000
2045	\$18,529,000	\$645,719,000
2046	\$18,529,000	\$669,165,000
2047	\$18,529,000	\$693,422,000
2048	\$18,529,000	\$711,798,000
2049	\$18,529,000	\$730,660,000
2050	\$18,529,000	\$750,023,000
2051	\$18,529,000	\$769,899,000

Source: ECONorthwest, Douglas County

We note that the 2050 figure of \$750.0 million included in Table 3 differs from the \$790.3 million included for the conservative scenario in the “but for” analysis on page 37 of the project analysis. The project analysis did not provide expected annual AV growth for the baseline/aggressive or moderate scenarios. However, as shown in Table 1, by 2050, incremental AV growth in the baseline/aggressive scenario is projected to reach \$2.72 billion, while incremental AV growth in the moderate scenario is projected to reach \$1.57 billion.

Additionally, we note that the project analysis did not specify what growth rate it assumed for the assessed value of property within the TIA. The analysis also did not indicate whether the market values of the private development were provided in 2024 dollars, or if they increased to reflect their expected value as of their projected date of completion.

Assessed Value of the TIA

As stated in the project analysis, the estimated AV of the parcels within the TIA for the 2024 tax year is \$18.53 million, or 0.2% of the County's total AV of \$9.15 billion, which is below the statutory limit of the lesser of \$200 million in AV and 20% of the County's total AV.

The timing and magnitude of real property development in the TIA will drive growth in incremental AV, which in turn will determine the amount of tax increment revenues generated by the project area. For the development scenarios provided by the County, the incremental taxable AV of the TIA is estimated by assigning market-based improvement prices reflecting the land use and size of the proposed development. The project analysis did not specify what ongoing growth rate it assumed for the AV within the TIA.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2025, with 2025 as the base year and 2027 representing the first year of tax increment collections. The final year of collections is 2051, 25 years after 2027, the maximum allowed in the TIF statute. However, the Tax Increment Revenue Projections section of the project analysis (page 14) states "Property taxes from the TIA begin on the calendar year following the passage of the Ordinance." If 2026 is the actual first year of collections, the final year of the TIA would be 2050.

Conservative Development Scenario Tax Increment Revenues

The conservative scenario projects that \$769.9 million in incremental AV will be added to the TIA between 2028 and 2051. We note that this is significantly greater than the \$370.5 million market value of the private developments provided in the conservative scenario (see figure 2). The project analysis did not provide context into the applied growth factor. Under the conservative scenario, the County projects that \$27.9 million of tax increment revenues will be collected over the 25-year term of the TIA.

Per RCW 39.114.020 (e), "The ordinance must set a sunset date for the increment area, which may be no more than 25 years after the first year in which tax allocation revenues are collected from the increment area." Table 4 below shows no revenue being collected in 2026, the first year after the increment area is established. Additionally, revenues are shown being collected through 2051, which is 26 years after the increment area is established; if the TIA is established in 2025, we would expect to see some amount of tax increment collected in 2026. If true, this would shorten the projections shown in Table 4 by one year.

Given the importance of these dates, we encourage the County to confirm the expected first year of collections with the County Assessor.

Table 4 – Tax Allocation Revenues

Year	Tax Year	Conservative	Moderate	Aggressive
1	2026	\$ -	\$ -	\$ -
2	2027	-	54,000	54,000
3	2028	14,000	110,000	110,000
4	2029	64,000	209,000	185,000
5	2030	125,000	329,000	298,000
6	2031	225,000	601,000	781,000
7	2032	327,000	880,000	1,218,000
8	2033	476,000	1,224,000	1,735,000
9	2034	629,000	1,567,000	2,246,000
10	2035	740,000	1,918,000	2,769,000
11	2036	853,000	2,216,000	3,305,000
12	2037	970,000	2,459,000	3,853,000
13	2038	1,088,000	2,707,000	4,339,000
14	2039	1,207,000	2,961,000	4,835,000
15	2040	1,319,000	3,200,000	5,301,000
16	2041	1,433,000	3,313,000	5,517,000
17	2042	1,549,000	3,429,000	5,738,000
18	2043	1,668,000	3,548,000	5,962,000
19	2044	1,748,000	2,628,000	6,192,000
20	2045	1,830,000	3,709,000	6,426,000
21	2046	1,867,000	3,748,000	6,493,000
22	2047	1,904,000	3,787,000	6,562,000
23	2048	1,924,000	3,827,000	6,630,000
24	2049	1,945,000	3,867,000	6,700,000
25	2050	1,965,000	3,908,000	6,770,000
26	2051	1,986,000	3,949,000	6,841,000
Total		\$ 27,856,000	\$ 60,148,000	\$ 100,860,000

Source: Douglas County, ECONorthwest

Alternate Development Scenarios Tax Increment Revenues

As noted above, the County also prepared baseline/aggressive and moderate development scenarios wherein the market value of private developments in the TIA is projected to total \$1.28 billion and \$740.9 million, respectively, compared to \$370.5 million in the conservative scenario. In these alternate scenarios, the County projects \$100.9 million in revenue in the baseline/aggressive scenario, and \$60.1 million in the moderate scenario.

Increment value projections were not provided for the two alternate scenarios.

Levy Rate

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 and tax rates 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 Table 4.

Financing Plan for Public Improvements

The County plans to issue \$25,138,000 in LTGO bonds to fund the Wenatchi Landing Interchange project in 2026. However, we note that the text of the project analysis specifies a not-to-exceed amount of \$25 million. As stated in the project analysis, because of its general obligation pledge, the County 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 County assumes an interest rate of 5% for the prospective debt issuance and 20 years of level debt service. Total principal and interest on the \$25 million of bonds is projected to be \$40.3 million over the 2026 to 2045 repayment term. The County does not expect annual increment revenues to be sufficient to meet the debt service on the bonds in any year, with annual deficits ranging from \$2.0 million to \$186,560, and a cumulative deficit of \$12.5 million through 2051. As stated in the project analysis, the County intends to use ongoing revenues, reserves, and, to the extent necessary, reprioritization of other capital expenditures to respond to the deficiency of increment revenues.

The financing plan for public improvements is unchanged for the baseline/aggressive and moderate development scenarios. However, if private developments materialize as modeled in the baseline/aggressive and moderate scenarios, the TIA's revenues would be materially higher. In the baseline/aggressive scenario, annual deficits end by 2034, with a cumulative surplus of \$60.5 million by 2051. In the moderate scenario, the County estimates annual deficits will end by 2036, with a cumulative surplus of \$20.8 million generated by 2051.

Debt Capacity

Based on its 2024 total AV, the County has \$137.3 million in total non-voted debt capacity (1.5% of 2024 tax year AV). With \$8.0 million of outstanding non-voted general obligation debt, the current non-voted debt capacity is \$129.3 million, before \$25.1 million of bonds are issued in 2026 to fund the Wenatchi Landing Interchange project. After this debt issuance, the County's remaining non-voted debt capacity for 2025 would be \$104.1 million, or 75.9%.

Table 5 – Non-Voted Debt Capacity

Assessed Valuation for 2024 Tax Year	\$ 9,150,816,276
Non-Voted Debt Capacity (1.5% of AV)	137,262,244
Less: Outstanding Non-Voted Debt	7,993,139
Remaining Non-Voted Debt Capacity	129,269,105
Less: Financing Proposed (in total) *	25,130,800
Projected Remaining Non-Voted Capacity	104,138,305
Projected Remaining Non-Voted Capacity %	75.87%

*The project analysis uses \$25,000,000 for the debt capacity calculation; however, the project analysis also specifies that the full amount will be funded through the issuance of bonds.

Projected Debt Service Coverage

Tables 6 and 7 below summarize the total tax increment revenues, revenue surpluses, and debt service coverage for the conservative, baseline/aggressive, and moderate development scenarios. The aggregate debt service coverage ratio is 0.69x for the conservative development scenario, 1.49x for the moderate development scenario, and 2.50x for the baseline/aggressive development scenario.

Table 6 – Tax Allocation Revenues and Debt Service Coverage

Scenario	First Year Tax Increment Revenues Exceed Debt Service	Years of Shortfall	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue (\$MMs)	Total Projected TIF Debt Service (\$MMs)	Projected Maximum Cumulative Shortfall (\$MMs)	Total Surplus/ (Shortfall) Through End of TIA (\$MMs)	Aggregate Debt Service Coverage Ratio
Conservative	N/A	20.00	N/A	\$27.86	\$40.33	\$24.07	(\$12.50)	0.69x
Moderate	2036	10.00	2046	\$60.15	\$40.33	\$13.27	\$19.82	1.49x
Baseline/Aggressive	2034	8.00	2040	\$100.86	\$40.33	\$11.75	\$60.53	2.50x

Source: Douglas County

Table 7 – TIF Debt Service Coverage*

Year	Conservative Scenario					Moderate Scenario					Aggressive Scenario				
	Tax Incremental Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	Tax Incremental Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	Tax Incremental Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2026	\$ -	\$ 2,016,560	\$ (2,016,560)	\$ (2,016,560)	0x	\$ -	\$ 2,016,560	\$ (2,016,560)	\$ (2,016,560)	0x	\$ -	\$ 2,016,560	\$ (2,016,560)	\$ (2,016,560)	0x
2027	-	2,016,560	(2,016,560)	(4,033,120)	0x	54,000	2,016,560	(1,962,560)	(3,979,120)	0.03x	54,000	2,016,560	(1,962,560)	(3,979,120)	0.03x
2028	14,000	2,016,560	(2,002,560)	(6,035,680)	0.01x	110,000	2,016,560	(1,906,560)	(5,885,680)	0.05x	110,000	2,016,560	(1,906,560)	(5,885,680)	0.05x
2029	64,000	2,016,560	(1,952,560)	(7,988,240)	0.03x	209,000	2,016,560	(1,807,560)	(7,693,240)	0.1x	185,000	2,016,560	(1,831,560)	(7,717,240)	0.09x
2030	125,000	2,016,560	(1,891,560)	(9,879,800)	0.06x	329,000	2,016,560	(1,687,560)	(9,380,800)	0.16x	298,000	2,016,560	(1,718,560)	(9,435,800)	0.15x
2031	225,000	2,016,560	(1,791,560)	(11,671,360)	0.11x	601,000	2,016,560	(1,415,560)	(10,796,360)	0.3x	781,000	2,016,560	(1,235,560)	(10,671,360)	0.39x
2032	327,000	2,016,560	(1,689,560)	(13,360,920)	0.16x	880,000	2,016,560	(1,136,560)	(11,932,920)	0.44x	1,218,000	2,016,560	(798,560)	(11,469,920)	0.6x
2033	476,000	2,016,560	(1,540,560)	(14,901,480)	0.24x	1,224,000	2,016,560	(792,560)	(12,725,480)	0.61x	1,735,000	2,016,560	(281,560)	(11,751,480)	0.86x
2034	629,000	2,016,560	(1,387,560)	(16,289,040)	0.31x	1,567,000	2,016,560	(449,560)	(13,175,040)	0.78x	2,246,000	2,016,560	229,440	(11,522,040)	1.11x
2035	740,000	2,016,560	(1,276,560)	(17,565,600)	0.37x	1,918,000	2,016,560	(98,560)	(13,273,600)	0.95x	2,769,000	2,016,560	752,440	(10,769,600)	1.37x
2036	853,000	2,016,560	(1,163,560)	(18,729,160)	0.42x	2,216,000	2,016,560	199,440	(13,074,160)	1.1x	3,305,000	2,016,560	1,288,440	(9,481,160)	1.64x
2037	970,000	2,016,560	(1,046,560)	(19,775,720)	0.48x	2,459,000	2,016,560	442,440	(12,631,720)	1.22x	3,853,000	2,016,560	1,836,440	(7,644,720)	1.91x
2038	1,088,000	2,016,560	(928,560)	(20,704,280)	0.54x	2,707,000	2,016,560	690,440	(11,941,280)	1.34x	4,339,000	2,016,560	2,322,440	(5,322,280)	2.15x
2039	1,207,000	2,016,560	(809,560)	(21,513,840)	0.6x	2,961,000	2,016,560	944,440	(10,996,840)	1.47x	4,835,000	2,016,560	2,818,440	(2,503,840)	2.4x
2040	1,319,000	2,016,560	(697,560)	(22,211,400)	0.65x	3,200,000	2,016,560	1,183,440	(9,813,400)	1.59x	5,301,000	2,016,560	3,284,440	780,600	2.63x
2041	1,433,000	2,016,560	(583,560)	(22,794,960)	0.71x	3,313,000	2,016,560	1,296,440	(8,516,960)	1.64x	5,517,000	2,016,560	3,500,440	4,281,040	2.74x
2042	1,549,000	2,016,560	(467,560)	(23,262,520)	0.77x	3,429,000	2,016,560	1,412,440	(7,104,520)	1.7x	5,738,000	2,016,560	3,721,440	8,002,480	2.85x
2043	1,668,000	2,016,560	(348,560)	(23,611,080)	0.83x	3,548,000	2,016,560	1,531,440	(5,573,080)	1.76x	5,962,000	2,016,560	3,945,440	11,947,920	2.96x
2044	1,748,000	2,016,560	(268,560)	(23,879,640)	0.87x	2,628,000	2,016,560	611,440	(4,961,640)	1.3x	6,192,000	2,016,560	4,175,440	16,123,360	3.07x
2045	1,830,000	2,016,560	(186,560)	(24,066,200)	0.91x	3,709,000	2,016,560	1,692,440	(3,269,200)	1.84x	6,426,000	2,016,560	4,409,440	20,532,800	3.19x
2046	1,867,000	-	1,867,000	(22,199,200)	-	3,748,000	-	3,748,000	478,800	-	6,493,000	-	6,493,000	27,025,800	-
2047	1,904,000	-	1,904,000	(20,295,200)	-	3,787,000	-	3,787,000	4,265,800	-	6,562,000	-	6,562,000	33,587,800	-
2048	1,924,000	-	1,924,000	(18,371,200)	-	3,827,000	-	3,827,000	8,092,800	-	6,630,000	-	6,630,000	40,217,800	-
2049	1,945,000	-	1,945,000	(16,426,200)	-	3,867,000	-	3,867,000	11,959,800	-	6,700,000	-	6,700,000	46,917,800	-
2050	1,965,000	-	1,965,000	(14,461,200)	-	3,908,000	-	3,908,000	15,867,800	-	6,770,000	-	6,770,000	53,687,800	-
2051	1,986,000	-	1,965,000	(12,496,200)	-	3,949,000	-	3,949,000	19,816,800	-	6,841,000	-	6,841,000	60,528,800	-
Total	\$ 27,856,000	\$ 40,331,200	\$ (12,496,200)		0.69x	\$ 60,148,000	\$ 40,331,200	\$ 19,816,800		1.49x	\$100,860,000	\$ 40,331,200	\$ 60,528,800		2.5x

*The aggressive scenario is also referred to in the project analysis as the “baseline” scenario.

Source: 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 County and the surrounding community. Nonetheless, the proposed project comes with certain risks to the County, 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 County to pay the full amount of debt service due from County revenues and resources, regardless of the amount of tax increment revenues generated by the TIA. In all three development scenarios, it is projected that the County will be required to pay a substantial amount of the debt service due on the LTGO bonds. If actual tax increment revenues are lower than projected, the County will be required to make up the difference. Based on the conservative scenario, which was described as the most likely outcome, the County is never fully reimbursed for the LTGO bond debt service costs.

Speculative Private Developments: The project analysis states that the private developments are all speculative in nature. Such uncertainty around these developments creates significant risk that the tax increment revenues do not materialize as projected, leaving the County to pay more debt service than originally planned.

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

Permits: Delays in permitting could negatively impact the construction of private developments within the TIA, 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.

Right of Way Acquisition and Construction Delays: With right-of-way acquisition required for all three public projects, any delay to the process will impact the ability of the County to start its public improvements, potentially delaying private development.

Escalation of Project Costs: Inflation and any regulatory changes could have a significant impact on the cost of delivering the public improvements.

Timing of Tax Collections and Term of the TIA: The project analysis states that "Property taxes from the TIA begin on the calendar year following the passage of the Ordinance." If collections begin in 2026, rather than in 2027 as stated in the analysis, the TIA would sunset a year earlier than projected in the project analysis, impacting the amount of tax increment the County could collect. Given the importance of this timing consideration, we recommend that the County clarify the termination date of the TIA with the County Assessor.

Interest Rate Risk: The County will be exposed to interest rate risk until all issuances of anticipated bonds are sold. The project analysis assumes interest rates of 5%.

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

Recommendations

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

1. Prior to approving the TIA, we recommend the County coordinate closely with the County Assessor to ensure that all parties have an accurate understanding of the TIA process and timeline and to provide sufficient time to work through any concerns, specifically the timing of the first year of tax collections and the impact it would have on the final year of the increment area.
2. Prior to approving the TIA, we recommend the County coordinate closely with the taxing districts impacted by the project to ensure that all parties have an accurate understanding of how the TIA will impact them and to provide sufficient time to work through any concerns.
3. Given the significant amount of debt service projected to be paid by the County for the LTGO bonds, we recommend that the County discuss and establish a policy regarding how much debt service it is able and willing to pay from general revenues and reserves on an annual basis.

It is critical that the County include these debt service costs in its future budgets and identify how it would fund increased debt service payments, in the event that actual tax increment revenues are lower than projected.

4. We recommend that the County provide additional insight into how the two unfunded projects are factored into the various development scenarios, if at all.
5. We recommend that the County provide additional insight into the ongoing growth assumptions for assessed valuation within the TIA.
6. We recommend reviewing and correcting the expected annual increment values in Figures 14-18 of the County's Project Analysis and the "but for" analysis to ensure projections are reported consistently, and confirm the correct figures are being used in the analysis.
7. Given the development scenarios relied on the 2016 NEMSP, prior to any debt issuance, we recommend reviewing or conducting market analysis to understand whether current demand for private development is consistent with the assumptions used in the analysis.
8. Assuming the County intends to finance the full cost of the project, and with no discussion of expected premium generated by the bond issuance, we recommend updating the debt capacity table and "not to exceed" bond amount referenced in the project analysis to reflect the expected issuance of \$25,130,800, as opposed to the \$25,000,000 referenced currently.
9. We recommend the County revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

10. Based on guidance provided by the GFOA best practices, we recommend the County consider hiring a financial advisor for this project to ensure responsible fiscal management. Financial advisors have the fiduciary obligation to represent the County's financial interests by providing expert analysis on revenue projections, debt structuring, and risk assessment, and valuable insight and assistance to the County throughout the financing process.
11. We recommend revising the names of the development scenarios in the TIF analysis to clarify the distinctions between each of the three scenarios. The TIF analysis should clearly indicate that the baseline and aggressive scenarios are the same and that the current conservative scenario is the expected or anticipated scenario. As it stands, the current naming conventions are somewhat confusing.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

A handwritten signature in black ink, appearing to read 'JR' or similar initials, with a long horizontal stroke extending to the right.

Jason Richter
Deputy Treasurer