

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF SEQUIM —

MAY 1, 2025



May 1, 2025

Matthew Huish
City Manager
City of Sequim

Dear Mr. Huish:

This letter confirms the Office of the State Treasurer’s (“OST”) receipt and review of the City of Sequim’s (the “City”) tax increment financing (“TIF”) draft project analysis report dated February 19, 2025. OST and Piper Sandler & Co., the state’s municipal advisor, have reviewed the materials provided. 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 RCW 39.114.020(2) (the “TIF Statute”). However, please see our recommendations provided throughout 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, 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)(c) 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 City’s draft project analysis report on February 19, 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: City of Sequim	Redevelopment Area: City of Sequim TIA
County: Clallam County	Consultants: Stowe Development & Strategies ECONorthwest

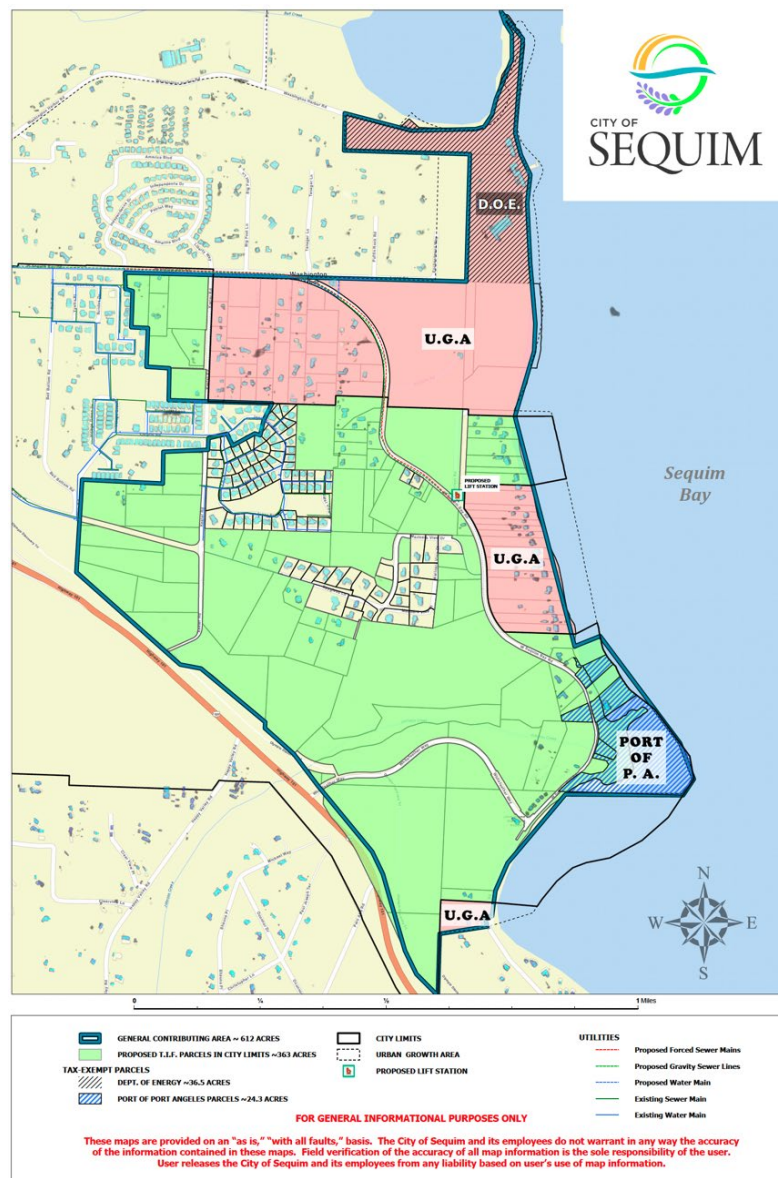
Proposed Tax Increment Area

The project analysis identifies approximately 612 acres as the “general contributing area”, which is comprised of 363 acres of proposed tax increment financings parcels, 36.5 acres of Department of Energy land, 24.3 acres of Port of Port Angeles land, and the remaining approximately 200 acres as Urban Growth Area (“UGA”). Of this “general contributing area”, the City’s proposed TIA of 363 acres is generally located

in the southeastern corner of the City's urban growth boundary, with Sequim Bay to the east, Highway 101 to the south and west, and West Sequim Bay Road and UGA forming the northern border. The "general contributing area" is zoned as R4-8 single family residential, with 160 acres designated as a planned resort community. The project analysis describes these areas as being underserved and underdeveloped, with access to potable water and wastewater infrastructure being a limiting growth factor.

According to the project analysis, the 363 acres within the TIA had a total assessed value ("AV") of \$57,258,192 for the 2024 tax year, or approximately 3.0% of the City's total AV of \$1.9 billion, which is below the statutory limit of the lesser of \$200 million in AV and 20% of the City's total AV.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Sequim TIA Project Analysis

Within the boundaries of the TIA, Seabrook Land Corporation (“Seabrook”) has proposed to develop a “high quality, multi-generational, new urbanist mixed use master plan community” (“Westbay”) similar to the community at Pacific Beach on the Washington coast, also developed by Seabrook. The specific development program proposed by Seabrook for Westbay includes:

- 450 single-family homes at 1,800 square feet with an average sale price of \$1.1 million
- 150 townhome/condo units with an average sale price of \$900,000
- 25,000-30,000 square feet of commercial/retail space
- Construction starting in 2026, with buildout over 12 years (50 units per year)

The project analysis states that this development program represents the Baseline Development Program scenario. Moderate and Conservative development scenarios were also described. Both of these scenarios reflect a two-year delay in Westbay development with the Conservative development scenario assuming that only 90% of the overall development included in the Baseline and Moderate scenarios will occur.

Figure 2 – Westbay Concept Plan



Source: City of Sequim TIA Project Analysis

Impacted Taxing Districts

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

- | | |
|-----------------------------|-------------------------------------|
| (1) City of Sequim; | (5) Hospital District #2; |
| (2) Clallam County; | (6) Fire District #3; and |
| (3) Port of Port Angeles; | (7) North Olympic Library District. |
| (4) EMS (Fire District #3); | |

After the effective date of the TIA, the levy rate for each of these jurisdictions will be applied to the increased assessed value within the TIA, with the tax increment revenues remitted to pay for or reimburse the City for certain public improvement costs. The City has indicated that the public improvement costs include the debt service on an already-obtained utility system revenue loan, and reimbursement payments to Seabrook, the developer, for the share of the public improvements for which Seabrook is responsible. Please see the “Recommendations” section later in this review for OST’s comments regarding the Seabrook reimbursement agreement and the use of TIF revenue to pay the debt service costs of the already-obtained utility system revenue loan.

The TIF Statute requires a mitigation plan if at least 20% of a fire district, regional fire protection service authority, EMS district, and/or public hospital district’s AV is expected to be impacted. As described in the project analysis, the proposed TIA represents 0.6% of the total AV for the Clallam County Fire Protection District #3 and its related EMS area, and 0.4% of the total AV for the Clallam County Public Hospital District #2. Therefore, no mitigation plan is required for either of these districts.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis describes the need to construct two sanitary sewer lift stations with attendant gravity and pressure lines, along with the need to extend water mains. The current planning level costs for the sanitary infrastructure are in excess of \$30 million while the water infrastructure cost is approximately \$5 million. TIF revenues are projected to support \$22.7 million of these amounts, with the balance coming from other City sources. Per our understanding of the project analysis, the specific TIF-funded projects appear to be:

- Lift Station 1: \$4.7 million (full project cost = \$14.5 million)
- Lift Station 2 and Related Water Lines: \$11.5 million
- Road Improvements: \$6.5 million (subject to funds remaining)

There appear to be certain discrepancies in the project analysis regarding cost estimates of the public improvements, specifically in the descriptions under “TIA Public Improvement Needs and Costs” on page 10, and “Private Development Risk Sharing” on pages 14 and 15.

The full project cost of Lift Station 1 is described as \$14.5 million; however, the project analysis states separately that the anticipated TIF revenues of \$4.7 million are 50% of total project costs, which would produce a total project cost of \$9.4 million.

Regarding Lift Station 2, related water lines, and road improvements, the project analysis describes the total project cost of Lift Station 2 and related water lines as approximately \$18 million, with road improvements “subject to any remaining funds from Lift Station 2/water lines” (page 10). However, Figure 6 of the project analysis shows a cost of \$11.5 million for Lift Station 2 and related water lines, and \$6.5 million for road improvements, for a combined total cost of \$18 million.

According to the project analysis, the responsibility for the construction of these public improvements will be split between the City and Seabrook. Lift Station 1 is expected to be constructed by the City. Lift Station 2 and the described water lines and road improvements will be constructed by Seabrook. The project analysis did not provide an expected timeline for the completion of the public improvements.

Based on a future reimbursement agreement between the parties, the City will repay Seabrook for the public improvement costs to be constructed by Seabrook from tax allocation revenues received from the TIA. The maximum amount that the City will reimburse Seabrook for public improvement costs from TIA revenues is \$18 million over the life of the TIA. Under the anticipated reimbursement agreement, Seabrook will assume all the risk if TIF revenues are insufficient to fully reimburse the costs of the identified public improvements that it is responsible for constructing.

Given the unique nature of this reimbursement agreement, OST strongly recommends that the City consult with its legal counsel to ensure that the reimbursement agreement is structured in a manner that complies with the Washington State Constitution and does not inadvertently create any lending of credit or gift of public funds issues.

“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 proposed private development could not be reasonably expected to occur without the identified TIF infrastructure improvements. Additionally, the assessed values from projected private development within the TIA would be less than the increase in assessed values from private development with the TIF improvements. (page 41)

Private Development within the TIA

A Baseline development scenario for private development assumptions was provided in the project analysis, with details shown in Table 1 below. Moderate and Conservative development scenarios were also included, and those assumptions are shown below in Tables 2 and 3, respectively. The City has identified the Moderate development scenario assumptions as the most likely development scenario to occur at this time.

Beyond the development anticipated as part of Westbay, each development scenario includes some assumed amount of speculative development. This speculative development should be viewed conservatively and may require further sensitivity analysis to arrive at reliable revenue projections within the TIA.

Table 1 – Baseline Development Scenario

Westbay					
Product Type	Units/SF	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	450	\$1,100,000	2026	12	\$ 495,000,000
TownHomes/Condos	150	\$ 900,000	2026	12	\$ 135,000,000
Commercial/retail	25,000	\$ 375	2026	6	\$ 9,375,000
					\$ 639,375,000.00

Speculative Development					
Product Type	Units	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	220	\$ 800,000	2030	20	\$ 176,000,000
					\$ 176,000,000.00

Source: City of Sequim

Table 2 – Moderate Development Scenario Assumptions

Westbay					
Product Type	Units/SF	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	450	\$1,100,000	2028	15	\$ 495,000,000
TownHomes/Condos	150	\$ 900,000	2028	15	\$ 135,000,000
Commercial/retail	25,000	\$ 375	2028	6	\$ 9,375,000
					\$ 639,375,000.00

Speculative Development					
Product Type	Units	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	220	\$ 800,000	2030	20	\$ 176,000,000
					\$ 176,000,000.00

Notes: Moderate – Westbay adds two years to start dates and 3 years to build-out for all products from Baseline.

Source: City of Sequim

Table 3 – Conservative Development Scenario Assumptions

Westbay					
Product Type	Units/SF	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	405	\$ 880,000	2028	15	\$ 356,400,000
TownHomes/Condos	135	\$ 720,000	2028	15	\$ 97,200,000
Commercial/retail	22,500	\$ 300	2028	6	\$ 6,750,000
					\$ 460,350,000.00

Speculative Development					
Product Type	Units	Value Per Unit/SF	Start	Build-Out/Years	Market Value
Single Family	220	\$ 800,000	2030	20	\$ 176,000,000
					\$ 176,000,000.00

Notes: Conservative – Westbay reduces unit count/sf by 10% and value per units/sf by 20% from Moderate.

Source: City of Sequim

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 \$57.3 million, or approximately 3.0% of the City's total AV of \$1.9 billion, which is below the statutory limit of the lesser of \$200 million in AV and 20% of the City'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 the three development scenarios provided by the City, the incremental taxable assessed value of the TIA is estimated by assigning market-based improvement prices reflecting the land use and size of the projected and assumed speculative development.

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 City expects increment revenue to be calculated. Due to the lagging nature of the property tax, the first year that tax increment revenue will be received is 2027. The term of the TIA is assumed to be 25 years (the maximum allowed) with 2051 the final year in which tax increment revenues will be received.

The projection of assessed values, and the resulting tax increment revenues, assumes that new construction is added to the tax roll the year after construction is completed. This may be aggressive given the potential for intra-year delays in establishing a property on the tax rolls for the following year.

The total projected TIF revenues produced under each development assumption scenario over the 25-year life of the TIA are shown below in Tables 4 through 6. In addition to the total revenues, a present value figure assuming a discount rate of 5% (approximating the City's cost of capital) is included. This is intended to illustrate the amount of debt that the projected TIF revenues could be expected to support.

Table 4 – TIA Allocation Revenues for Baseline Development Scenario

	TIA Allocation Revenue	
	Present Value	Nominal Value
City of Sequim	\$7,600,000	\$16,052,000
Clallam County	\$6,440,000	\$13,613,000
Port of Port Angeles	\$890,000	\$1,876,000
EMS (FD #3)	\$2,850,000	\$6,016,000
Hospital District #2	\$2,550,000	\$5,396,000
Fire District #3	\$9,010,000	\$19,026,000
North Olympic Library District	\$2,360,000	\$4,989,000
Total	\$31,700,000	\$66,968,000

Source: City of Sequim

Table 5 – TIA Allocation Revenues for Moderate Development Scenario

	TIA Allocation Revenue	
	Present Value	Nominal Value
City of Sequim	\$6,140,000	\$13,895,000
Clallam County	\$5,210,000	\$11,783,000
Port of Port Angeles	\$720,000	\$1,625,000
EMS (FD #3)	\$2,300,000	\$5,208,000
Hospital District #2	\$2,070,000	\$4,673,000
Fire District #3	\$7,280,000	\$16,468,000
North Olympic Library District	\$1,910,000	\$4,319,000
Total	\$25,630,000	\$57,971,000

Source: City of Sequim

Table 6 – TIA Allocation Revenues for Conservative Development Scenario

	TIA Allocation Revenue	
	Present Value	Nominal Value
City of Sequim	\$4,700,000	\$10,658,000
Clallam County	\$3,980,000	\$9,034,000
Port of Port Angeles	\$550,000	\$1,246,000
EMS (FD #3)	\$1,760,000	\$3,995,000
Hospital District #2	\$1,580,000	\$3,583,000
Fire District #3	\$5,570,000	\$12,632,000
North Olympic Library District	\$1,460,000	\$3,311,000
Total	\$19,600,000	\$44,459,000

Source: City of Sequim

Projected Increment Value Under Moderate Development Scenario

As shown in Table 5, the total projected TIF revenues generated throughout the life of the TIA under the Moderate development scenario, which was identified in the project analysis as the most likely scenario, are \$57,971,000, or \$25,630,000 on a present value basis. The projected revenue is based on realizing a total increment value of almost \$1.7 billion by the end of the TIA in 2051. The first year that any increment value and related revenue would be realized appears to be 2029 (note the discrepancy in Figure 23 of the project analysis, which shows revenue first occurring in 2028). See Table 7 for details (note that, per the project analysis, the first column header is “Assessment Year” but in later tables similar information is labeled as “Tax Year”).

Table 7 – Projected Increment Value with the TIA Under the Moderate Development Scenario

City of Sequim		
1	2	3
Assessment Year	Base Value	Increment Value
2025	\$57,258,000	\$0
2026	\$57,258,000	\$0
2027	\$57,258,000	\$0
2028	\$57,258,000	\$0
2029	\$57,258,000	\$49,030,000
2030	\$57,258,000	\$100,830,000
2031	\$57,258,000	\$166,026,000
2032	\$57,258,000	\$234,825,000
2033	\$57,258,000	\$307,379,000
2034	\$57,258,000	\$383,845,000
2035	\$57,258,000	\$462,288,000
2036	\$57,258,000	\$544,858,000
2037	\$57,258,000	\$631,725,000
2038	\$57,258,000	\$723,068,000
2039	\$57,258,000	\$819,069,000
2040	\$57,258,000	\$919,919,000
2041	\$57,258,000	\$1,025,816,000
2042	\$57,258,000	\$1,136,964,000
2043	\$57,258,000	\$1,253,577,000
2044	\$57,258,000	\$1,302,228,000
2045	\$57,258,000	\$1,352,631,000
2046	\$57,258,000	\$1,404,846,000
2047	\$57,258,000	\$1,458,936,000
2048	\$57,258,000	\$1,514,966,000
2049	\$57,258,000	\$1,573,001,000
2050	\$57,258,000	\$1,633,111,000
2051	\$57,258,000	\$1,676,388,000

Source: City of Sequim

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 the purpose of making required payments of principal and interest on general indebtedness 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 through 6.

Financing Plan for Public Improvements

The City plans to finance the \$14.5 million cost of Lift Station 1 through an already-obtained loan with an interest rate of 1.6%. Our understanding is that the loan will be backed by the City's utility system revenues and will not be a general obligation of the City. This is the only City debt expected to be issued in support of the public improvements within the TIA. TIF revenues are expected to support loan payments for \$4.7 million of the principal amount of this loan. The City anticipates that the remaining loan amount will be paid by revenue from latecomer agreements or other utility sources.

While the full details on the City's "already-obtained loan" were not provided in the project analysis, this novel approach raises certain concerns. First, and most importantly, it is not clear that the loan payments of a utility system revenue obligation can legally be paid with TIF revenues. RCW 39.114.010(6)(d) identifies the principal and interest costs on general indebtedness issued to finance public improvements as eligible public improvement costs. General indebtedness is further defined as general obligation bonds or notes. Given the specific wording of the TIF Statute, OST recommends that the City consult with counsel to determine whether TIF revenues legally may be used to pay the principal and interest costs of the City's utility system revenue loan.

Secondly, if the City is unable to use TIF revenues to pay the debt service on this loan, would that impact the City's "but for" analysis (RCW 39.114.020(1)(j)(iii)), and the City's need for the TIA?

It is expected that Seabrook will finance its share of the public improvements. There is specific discussion in the project analysis of the terms for this borrowing, and it appears that the assumed borrowing rate is 8.00%. Under the anticipated reimbursement agreement, Seabrook will assume all the risk if TIF revenues are insufficient to fully reimburse Seabrook for the costs of the identified public improvements that it is responsible for constructing.

Debt Capacity

The City does not anticipate issuing general obligation debt to support this TIA; therefore, there is not expected to be any impact to the City's debt capacity.

Projected Debt Service Coverage

Under the potential reimbursement agreement with Seabrook, the TIF revenues are expected to be allocated 50/50 between the City and Seabrook (see Table 8). This adjusted TIF revenue stream is what the City is using to project how much will be available to pay debt service on its loan.

Table 8 – City’s Projected TIF Allocation Revenues Under the Moderate Development Scenario*

Tax Year	Moderate	
	TIF Allocation Revenues (100%)	TIF Allocation Revenues (50%)
2025	\$0	\$0
2026	\$0	\$0
2027	\$0	\$0
2028	\$173,000	\$86,500
2029	\$351,000	\$175,500
2030	\$568,000	\$284,000
2031	\$791,000	\$395,500
2032	\$1,020,000	\$510,000
2033	\$1,253,000	\$626,500
2034	\$1,486,000	\$743,000
2035	\$1,724,000	\$862,000
2036	\$1,968,000	\$984,000
2037	\$2,217,000	\$1,108,500
2038	\$2,472,000	\$1,236,000
2039	\$2,733,000	\$1,366,500
2040	\$3,000,000	\$1,500,000
2041	\$3,273,000	\$1,636,500
2042	\$3,553,000	\$1,776,500
2043	\$3,633,000	\$1,816,500
2044	\$3,715,000	\$1,857,500
2045	\$3,798,000	\$1,899,000
2046	\$3,883,000	\$1,941,500
2047	\$3,969,000	\$1,984,500
2048	\$4,056,000	\$2,028,000
2049	\$4,146,000	\$2,073,000
2050	\$4,189,000	\$2,094,500
2051	\$4,233,000	\$2,116,500

Source: City of Sequim

*OST notes that Table 8 (Figure 23 of the City’s project analysis) should be corrected to show revenues beginning in 2029, not 2028.

Based on the City’s share of projected TIF allocation revenues shown in Table 8, Table 9 below illustrates the annual and cumulative revenue shortfall/surplus and the resulting debt service coverage under the Moderate development scenario. The projected results show annual shortfalls for the initial five years and a positive cumulative balance by year ten. Note that the debt service shown reflects only the \$4.7 million portion of the total \$14.5 million loan that the City is expecting to be paid from TIF revenues.

Table 9 also includes similar projections related to the debt service of Seabrook's expected borrowing to fund its share of the cost of the public improvements. Seabrook is expected to see annual shortfalls through 2037 and does not expect to achieve a positive cumulative balance until 2048. Note that once the City has achieved a positive cumulative balance, its share of the annual TIF revenues will be provided to Seabrook to assist with covering the developer's debt service costs. The annual shortfalls and cumulative balance information shown in Table 9 reflect this transfer of the City's excess TIF revenues.

Table 9 – Projected Debt Service Coverage/Shortfall Under the Moderate Development Scenario

Tax Year	City Builds Shares Excess TIF Payments with Seabrook								
	City Debt Issuance	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	City TIF Debt Service Coverage	Seabrook Debt Issuance	TIF Revenue Share	City TIF Excess Share to Seabrook	Surplus (Shortfall)	Seabrook Cumulative
2026	\$276,461	-\$276,461	-\$276,461	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$1,833,340
2027	\$276,461	-\$276,461	-\$552,922	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$3,666,680
2028	\$276,461	-\$276,461	-\$829,383	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$5,500,019
2029	\$276,461	-\$189,961	-\$1,019,345	0.31	\$1,833,340	\$86,500	\$0	-\$1,746,840	-\$7,246,859
2030	\$276,461	-\$100,961	-\$1,120,306	0.63	\$1,833,340	\$175,500	\$0	-\$1,657,840	-\$8,904,699
2031	\$276,461	\$7,539	-\$1,112,767	1.03	\$1,833,340	\$284,000	\$0	-\$1,549,340	-\$10,454,039
2032	\$276,461	\$119,039	-\$993,728	1.43	\$1,833,340	\$395,500	\$0	-\$1,437,840	-\$11,891,878
2033	\$276,461	\$233,539	-\$760,189	1.84	\$1,833,340	\$510,000	\$0	-\$1,323,340	-\$13,215,218
2034	\$276,461	\$350,039	-\$410,150	2.27	\$1,833,340	\$626,500	\$0	-\$1,206,840	-\$14,422,058
2035	\$276,461	\$466,539	\$56,388	2.69	\$1,833,340	\$743,000	\$466,539	-\$623,801	-\$15,045,859
2036	\$276,461	\$585,539	\$641,927	3.12	\$1,833,340	\$862,000	\$585,539	-\$385,801	-\$15,431,660
2037	\$276,461	\$707,539	\$1,349,466	3.56	\$1,833,340	\$984,000	\$707,539	-\$141,801	-\$15,573,461
2038	\$276,461	\$832,039	\$2,181,505	4.01	\$1,833,340	\$1,108,500	\$832,039	\$107,199	-\$15,466,261
2039	\$276,461	\$959,539	\$3,141,044	4.47	\$1,833,340	\$1,236,000	\$959,539	\$362,199	-\$15,104,062
2040	\$276,461	\$1,090,039	\$4,231,083	4.94	\$1,833,340	\$1,366,500	\$1,090,039	\$623,199	-\$14,480,863
2041	\$276,461	\$1,223,539	\$5,454,622	5.43	\$1,833,340	\$1,500,000	\$1,223,539	\$890,199	-\$13,590,664
2042	\$276,461	\$1,360,039	\$6,814,660	5.92	\$1,833,340	\$1,636,500	\$1,360,039	\$1,163,199	-\$12,427,465
2043	\$276,461	\$1,500,039	\$8,314,699	6.43	\$1,833,340	\$1,776,500	\$1,500,039	\$1,443,199	-\$10,984,266
2044	\$276,461	\$1,540,039	\$9,854,738	6.57	\$1,833,340	\$1,816,500	\$1,540,039	\$1,523,199	-\$9,461,067
2045	\$276,461	\$1,581,039	\$11,435,777	6.72	\$1,833,340	\$1,857,500	\$1,581,039	\$1,605,199	-\$7,855,868
2046	0	\$1,899,000	\$13,334,777	0.00	0	\$1,899,000	\$1,899,000	\$3,798,000	-\$4,057,868
2047	0	\$1,941,500	\$15,276,277	0.00	0	\$1,941,500	\$1,941,500	\$3,883,000	-\$174,868
2048	0	\$1,984,500	\$17,260,777	0.00	0	\$1,984,500	\$1,984,500	\$3,969,000	\$3,794,132
2049	0	\$2,028,000	\$19,288,777	0.00	0	\$2,028,000	\$2,028,000	\$4,056,000	\$7,850,132
2050	0	\$2,073,000	\$21,361,777	0.00	0	\$2,073,000	\$2,073,000	\$4,146,000	\$11,996,132
2051	0	\$2,094,500	\$23,456,277	0.00	0	\$2,094,500	\$2,094,500	\$4,189,000	\$16,185,132

Source: City of Sequim

The City also provided projected debt service coverage calculations under the Baseline and Conservative development scenarios, which are shown in Tables 10 and 11.

We note that there appears to be a double counting in Tables 9, 10, and 11 (Figures 24-26 of the project analysis) in the year in which the City's final shortfall is repaid. For example, in Table 9, in tax year 2035, the City starts the year with a cumulative shortfall of \$410,150. After reimbursing the City for this shortfall, \$56,389 of tax increment revenue remains. However, Table 9 shows the full \$466,539 being transferred to Seabrook, which should be instead \$56,389. Table 10 contains a similar error in Tax Year 2032, while Table 11 contains a similar error in Tax Year 2037.

For the Baseline development scenario (Table 10), the more rapid timeline for private construction within the TIA compared to the Moderate development Scenario results in a projected initial annual surplus for the City in 2029 with a positive cumulative balance in 2032. Seabrook is projected to realize an initial positive annual surplus in 2035 with a positive cumulative balance in 2045.

Table 10 – Projected Debt Service Coverage/Shortfall Under the Baseline Development Scenario

Tax Year	City Builds Shares Excess TIF Payments with Seabrook								
	City Debt Issuance	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	City TIF Debt Service Coverage	Seabrook Debt Issuance	TIF Revenue Share	City TIF Excess Share to Seabrook	Surplus (Shortfall)	Seabrook Cumulative
2026	\$276,461	-\$276,461	-\$276,461	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$1,833,340
2027	\$276,461	-\$171,961	-\$448,422	0.38	\$1,833,340	\$104,500	\$0	-\$1,728,840	-\$3,562,180
2028	\$276,461	-\$64,961	-\$513,383	0.77	\$1,833,340	\$211,500	\$0	-\$1,621,840	-\$5,184,019
2029	\$276,461	\$45,039	-\$468,345	1.16	\$1,833,340	\$321,500	\$0	-\$1,511,840	-\$6,695,859
2030	\$276,461	\$157,039	-\$311,306	1.57	\$1,833,340	\$433,500	\$0	-\$1,399,840	-\$8,095,699
2031	\$276,461	\$290,039	-\$21,267	2.05	\$1,833,340	\$566,500	\$0	-\$1,266,840	-\$9,362,539
2032	\$276,461	\$426,539	\$405,272	2.54	\$1,833,340	\$703,000	\$426,539	-\$703,801	-\$10,066,339
2033	\$276,461	\$562,539	\$967,811	3.03	\$1,833,340	\$839,000	\$562,539	-\$431,801	-\$10,498,140
2034	\$276,461	\$702,039	\$1,669,850	3.54	\$1,833,340	\$978,500	\$702,039	-\$152,801	-\$10,650,941
2035	\$276,461	\$844,539	\$2,514,388	4.05	\$1,833,340	\$1,121,000	\$844,539	\$132,199	-\$10,518,742
2036	\$276,461	\$990,539	\$3,504,927	4.58	\$1,833,340	\$1,267,000	\$990,539	\$424,199	-\$10,094,543
2037	\$276,461	\$1,140,039	\$4,644,966	5.12	\$1,833,340	\$1,416,500	\$1,140,039	\$723,199	-\$9,371,344
2038	\$276,461	\$1,292,539	\$5,937,505	5.68	\$1,833,340	\$1,569,000	\$1,292,539	\$1,028,199	-\$8,343,145
2039	\$276,461	\$1,329,039	\$7,266,544	5.81	\$1,833,340	\$1,605,500	\$1,329,039	\$1,101,199	-\$7,241,946
2040	\$276,461	\$1,366,539	\$8,633,083	5.94	\$1,833,340	\$1,643,000	\$1,366,539	\$1,176,199	-\$6,065,747
2041	\$276,461	\$1,404,539	\$10,037,622	6.08	\$1,833,340	\$1,681,000	\$1,404,539	\$1,252,199	-\$4,813,548
2042	\$276,461	\$1,443,039	\$11,480,660	6.22	\$1,833,340	\$1,719,500	\$1,443,039	\$1,329,199	-\$3,484,349
2043	\$276,461	\$1,482,039	\$12,962,699	6.36	\$1,833,340	\$1,758,500	\$1,482,039	\$1,407,199	-\$2,077,149
2044	\$276,461	\$1,522,039	\$14,484,738	6.51	\$1,833,340	\$1,798,500	\$1,522,039	\$1,487,199	-\$589,950
2045	\$276,461	\$1,562,539	\$16,047,277	6.65	\$1,833,340	\$1,839,000	\$1,562,539	\$1,568,199	\$978,249
2046	0	\$1,880,500	\$17,927,777	0.00	0	\$1,880,500	\$1,880,500	\$3,761,000	\$4,739,249
2047	0	\$1,922,500	\$19,850,277	0.00	0	\$1,922,500	\$1,922,500	\$3,845,000	\$8,584,249
2048	0	\$1,965,500	\$21,815,777	0.00	0	\$1,965,500	\$1,965,500	\$3,931,000	\$12,515,249
2049	0	\$2,009,500	\$23,825,277	0.00	0	\$2,009,500	\$2,009,500	\$4,019,000	\$16,534,249
2050	0	\$2,053,500	\$25,878,777	0.00	0	\$2,053,500	\$2,053,500	\$4,107,000	\$20,641,249
2051	0	\$2,075,500	\$27,954,277	0.00	0	\$2,075,500	\$2,075,500	\$4,151,000	\$24,792,249

Source: City of Sequim

Under the Conservative development scenario (Table 11), the reduced scope of private development within the TIA compared to the Moderate development scenario results in a projected initial annual surplus for the City in 2032 with a positive cumulative balance in 2037. Seabrook is projected to realize an initial positive annual surplus in 2041 with a positive cumulative balance not occurring until 2051.

Table 11 – Projected Debt Service Coverage/Shortfall Under the Conservative Development Scenario

Tax Year	City Builds Shares Excess TIF Payments with Seabrook								
	City Debt Issuance	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	City TIF Debt Service Coverage	Seabrook Debt Issuance	TIF Revenue Share	City TIF Excess Share to Seabrook	Surplus (Shortfall)	Seabrook Cumulative
2026	\$276,461	-\$276,461	-\$276,461	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$1,833,340
2027	\$276,461	-\$276,461	-\$552,922	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$3,666,680
2028	\$276,461	-\$276,461	-\$829,383	0.00	\$1,833,340	\$0	\$0	-\$1,833,340	-\$5,500,019
2029	\$276,461	-\$213,961	-\$1,043,345	0.23	\$1,833,340	\$62,500	\$0	-\$1,770,840	-\$7,270,859
2030	\$276,461	-\$150,461	-\$1,193,806	0.46	\$1,833,340	\$126,000	\$0	-\$1,707,340	-\$8,978,199
2031	\$276,461	-\$66,961	-\$1,260,767	0.76	\$1,833,340	\$209,500	\$0	-\$1,623,840	-\$10,602,039
2032	\$276,461	\$18,539	-\$1,242,228	1.07	\$1,833,340	\$295,000	\$0	-\$1,538,340	-\$12,140,378
2033	\$276,461	\$106,039	-\$1,136,189	1.38	\$1,833,340	\$382,500	\$0	-\$1,450,840	-\$13,591,218
2034	\$276,461	\$195,539	-\$940,650	1.71	\$1,833,340	\$472,000	\$0	-\$1,361,340	-\$14,952,558
2035	\$276,461	\$285,039	-\$655,612	2.03	\$1,833,340	\$561,500	\$0	-\$1,271,840	-\$16,224,398
2036	\$276,461	\$376,039	-\$279,573	2.36	\$1,833,340	\$652,500	\$0	-\$1,180,840	-\$17,405,237
2037	\$276,461	\$469,539	\$189,966	2.70	\$1,833,340	\$746,000	\$469,539	-\$617,801	-\$18,023,038
2038	\$276,461	\$565,539	\$755,505	3.05	\$1,833,340	\$842,000	\$565,539	-\$425,801	-\$18,448,839
2039	\$276,461	\$663,539	\$1,419,044	3.40	\$1,833,340	\$940,000	\$663,539	-\$229,801	-\$18,678,640
2040	\$276,461	\$763,539	\$2,182,583	3.76	\$1,833,340	\$1,040,000	\$763,539	-\$29,801	-\$18,708,441
2041	\$276,461	\$866,039	\$3,048,622	4.13	\$1,833,340	\$1,142,500	\$866,039	\$175,199	-\$18,533,242
2042	\$276,461	\$971,039	\$4,019,660	4.51	\$1,833,340	\$1,247,500	\$971,039	\$385,199	-\$18,148,043
2043	\$276,461	\$1,078,039	\$5,097,699	4.90	\$1,833,340	\$1,354,500	\$1,078,039	\$599,199	-\$17,548,844
2044	\$276,461	\$1,114,039	\$6,211,738	5.03	\$1,833,340	\$1,390,500	\$1,114,039	\$671,199	-\$16,877,645
2045	\$276,461	\$1,150,539	\$7,362,277	5.16	\$1,833,340	\$1,427,000	\$1,150,539	\$744,199	-\$16,133,446
2046	0	\$1,464,000	\$8,826,277	0.00	0	\$1,464,000	\$1,464,000	\$2,928,000	-\$13,205,446
2047	0	\$1,501,500	\$10,327,777	0.00	0	\$1,501,500	\$1,501,500	\$3,003,000	-\$10,202,446
2048	0	\$1,540,000	\$11,867,777	0.00	0	\$1,540,000	\$1,540,000	\$3,080,000	-\$7,122,446
2049	0	\$1,579,500	\$13,447,277	0.00	0	\$1,579,500	\$1,579,500	\$3,159,000	-\$3,963,446
2050	0	\$1,619,500	\$15,066,777	0.00	0	\$1,619,500	\$1,619,500	\$3,239,000	-\$724,446
2051	0	\$1,636,500	\$16,703,277	0.00	0	\$1,636,500	\$1,636,500	\$3,273,000	\$2,548,554

Source: City of Sequim

Key Risks

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

Utility System Revenue Bond Debt Service: Using TIF revenues to pay the debt service on the City's already-obtained utility system revenue loan is a novel approach. However, the approach is untested, and it is not clear that the loan payments of a utility system revenue obligation can legally be paid with TIF revenues. The TIF Statute identifies the principal and interest costs on general indebtedness issued to finance public improvements as eligible public improvement costs. However, general indebtedness is further defined as general obligation bonds or notes. We recommend that the City consults with its legal counsel to determine whether tax allocation revenues may be used to pay the principal and interest costs of the City's utility system revenue loan.

Finally, if it is determined that using TIF revenues to pay the principal and interest of the City's already-obtained utility system revenue loan is proper payment of an eligible public improvement cost, the arrangement will subject the City to the risk that its utility system will be required to pay a greater

than anticipated amount of debt service due on the loan, if the amount of TIF revenues collected is less than expected to be available to contribute to debt service payments.

Developer Risk: A significant risk to the City with this project is its exposure to the developer, Seabrook. The City is offloading a portion of the public improvement costs to the developer, thereby reducing the City's reliance on projected TIF revenues. However, this transfer of risk means that the City is dependent on Seabrook to uphold its responsibilities. The TIF revenue projections are based on Seabrook successfully developing the Westbay master plan community, and that development is in part predicated on successful completion of Seabrook's portion of the public improvements. If Seabrook fails to follow through on either front, then the TIF revenue projections will be lower than projected. Additionally, the project analysis describes an anticipated reimbursement agreement with Seabrook. As that agreement has not yet been finalized, the terms for protecting the City in the event that Seabrook experiences any financial difficulties will be important to consider. It will also help shield the City from risk if the public improvements constructed by Seabrook are transferred to City ownership as soon as possible.

Seabrook Reimbursement Agreement: If not structured correctly, using tax allocation revenues to make payments to a private developer could cause the City to violate the lending of credit or gift of public funds provisions of the Washington State Constitution.

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.

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 TIF 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.

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.

Escalation of Project Costs: There was no timeline provided for the development of the public improvements, but an extended construction timeline could introduce inflation and potential legal regulatory changes, which could have a significant impact on the delivery of the public improvements.

Interest Rate Risk: The City has obtained a low 1.6% interest rate for the financing it expects to complete in conjunction with the TIA so it will not be exposed to interest rate risk. However, Seabrook will be exposed to interest rate risk until it secures financing for its share of the public improvements. The project analysis assumes a developer interest rate of 8.00%. An increase in the actual interest rate would require more TIF revenues and/or developer resources than anticipated in order to service the debt.

Risk Summary: The risk factors outlined above could result in delays to the project, and/or decreased tax increment revenues, and a decreased ability to reimburse the costs of the public improvements. If severe enough, reduced tax increment revenues could obligate the City to pay a larger-than-expected portion of the debt service due on the loan from City utility system revenues.

Recommendations

To help avoid problems or unanticipated costs and risks associated with the project, we recommend the City consider the following measures:

1. Prior to approving the TIA, we recommend that the City consult with its legal counsel to determine whether TIF revenues may be used to pay the principal and interest costs of the City's already-obtained utility system revenue loan.
2. Prior to approving the TIA, we recommend that the City consult with its legal counsel to make sure that the Seabrook reimbursement agreement is structured in a manner that complies with the Washington State Constitution, does not inadvertently create any lending of credit or gift of public funds issues, and adequately protects the City from risks associated with any nonperformance or material delay by Seabrook.
3. Prior to approving the TIA, we recommend the City coordinate closely with the County Assessor's office as well as impacted taxing districts 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.
4. As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the TIF revenue projections match the County's assessment process and are as accurate as possible.

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