

# TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF LYNNWOOD —

APRIL 14, 2025



April 14, 2025

Ben Wolters  
Executive Development Manager  
City of Lynnwood  
19100 44<sup>th</sup> Avenue West  
Lynnwood, WA 98036

Dear Mr. Wolters:

This letter confirms the Office of the State Treasurer’s (“OST”) receipt and review of the City of Lynnwood’s (the “City”) tax increment financing (“TIF”) draft project analysis report dated February 10, 2025. OST and Montague DeRose and Associates, the state’s municipal advisor, have reviewed the provided materials. Based on our review, which is detailed in the sections to follow, we believe that the City’s project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the “TIF Statute”). However, please see our recommendations provided at the end of this letter.

Please note that this review is based on the information, projections, and assumptions provided by the City and its consultants in the project analysis. OST has not independently verified the data, 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 City’s draft project analysis report, dated February 10, 2025, on February 11, 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.

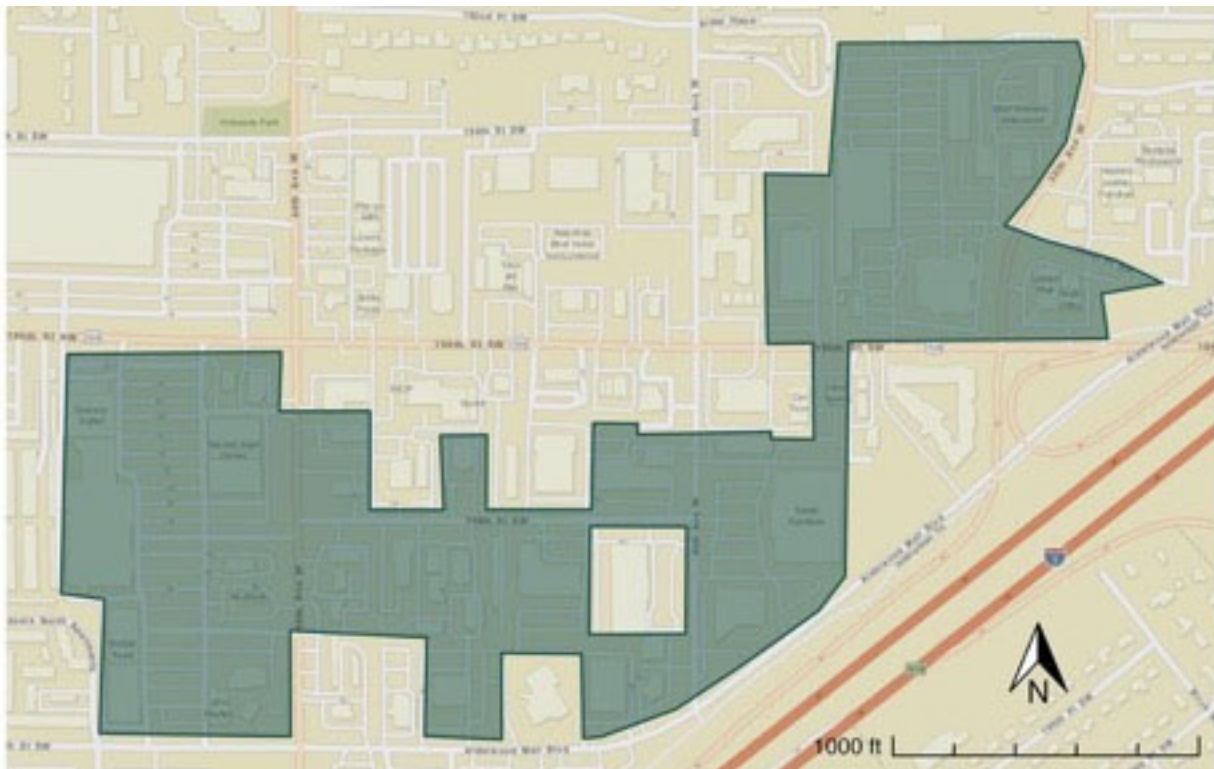
**Project Team**

<b>Jurisdiction:</b> City of Lynnwood	<b>Consultants:</b> Stowe Development & Strategies ECONorthwest PFM Financial Advisors LLC (municipal advisor) Foster Garvey PC (bond counsel)
<b>County:</b> Snohomish County	
<b>Redevelopment Area:</b> City of Lynnwood TIA	

### Proposed Tax Increment Area

The City's proposed TIA of approximately 67.9 acres, including 53.8 acres in the city center, is bordered by Alderwood Mall Boulevard to the south and east, with I-5 to the southeast of the TIA. Excluding rights-of-way, the TIA includes 48 taxable parcels with an area of 63.4 acres and total assessed value ("AV") of \$177,381,000 for the 2024 tax year. (The zoning classifications for the parcels were not included in the project analysis.) The TIA's total assessed value of \$177.4 million for the base year represents 1.7% of the City's total AV of \$10.4 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 Lynnwood

### Impacted Taxing Districts

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

- |  |  |
|--|--|
| (1) City of Lynnwood;                          | (5) Hospital District #2;                    |
| (2) Snohomish County;                          | (6) South County Regional Fire District; and |
| (3) Sound Transit;                             | (7) Sno-Isle Library District.               |
| (4) EMS (South County Regional Fire District); |  |

After the TIA effective date, 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 reimburse the City for debt

service on bonds issued to finance public improvements within the TIA and to potentially pay for the remaining unfunded public improvements.

The TIF statute requires a mitigation plan if at least 20% of a regional fire protection and/or EMS district’s AV is expected to be impacted. The project analysis states that the TIA’s \$177.4 million base year assessed value represents 0.3% of the \$53.7 billion assessed value (2024) of Hospital District #2 and 0.3% of the \$60.0 billion assessed value (2024) of the South County Regional Fire District; therefore, no mitigation plan is required for either district.

**Project Description**

*Public Improvements within the TIA*

To facilitate private development in the TIA, the project analysis identifies three prioritized public improvement projects with construction of the respective projects to commence in 2027, 2028, and 2030. The total cost of the public improvements is projected to be \$66.0 million, with three bond issuances planned to fund \$24.0 million, or 36.4%, of the total cost of the public improvements. The bonds would be issued as follows: in 2027, \$10.0 million to finance the Ring Road project; in 2028, \$10.0 million to finance the 42<sup>nd</sup> Avenue project; and, in 2030, \$4.0 million to finance the City Center Park.

**Table 1 – Sources and Uses of Public Improvements within the TIA (\$ millions)#**

Public Improvement	Description	Total Cost	Grants	City Funds	TIF Bonds
194 <sup>th</sup> St & 38 <sup>th</sup> Ave Ring Road	Two new streets to provide access, circulation, and future connection to the 194th St extension in the city center	\$18	\$5	\$3	\$10
42 <sup>nd</sup> Ave Phase 1	A new street and two intersections mid-block between 196th St and 198th St to provide improved access, circulation, and street frontage	38	13	15	10
City Center Park	A 1.6-acre destination urban park surrounded by a mixed use residential and commercial neighborhood	10	0	6	4
		<b>\$66</b>	<b>\$18</b>	<b>\$24</b>	<b>\$24</b>

Source: City of Lynnwood#

*“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:

Within the initial development term of 10 years, City staff projects that private development will likely be 50 percent less than with the proposed public improvements in place. The proposed development of the PFD Master Plan cannot begin without the proposed Ring Road Project. Right-of-way acquisition and construction for the new 42nd Avenue would be significantly slower

without TIF funding, delaying construction of the new road, redevelopment of adjacent private parcels, and traffic circulation improvements that would otherwise make City Center more attractive for developers. The City Park is a significant amenity that would attract further high-quality mixed-use development to the area if built sooner than originally planned. (page 45)

#### *Private Development within the TIA*

The project analysis includes private development of The District and Northline Village portions of the TIA with three product types—multi-family, hotel, and retail—and identifies each with categories of “planned” and “speculative.” Three private development scenarios were prepared: Baseline, Moderate, and Conservative. With Baseline as the most aggressive scenario, the Moderate scenario includes the same scope of development as the Baseline scenario but over a longer timeframe, while the Conservative scenario reduces speculative development in the Moderate scenario by 20%. As the City has selected the Moderate scenario as the most likely to occur, our review of the project analysis will be based on the Moderate and Conservative scenarios.

The quantity and timing of the absorption of planned private development is the same under both the Moderate and Conservative scenarios: 1,775 multi-family units from 2029-2036, 300 hotel rooms in 2029, and 788,007 square feet of retail space from 2029-2045. Under the Moderate scenario, speculative private development is projected as follows: 3,232 multi-family units from 2026-2047, 450 hotel rooms from 2031-2040, and 110,520 square feet of retail from 2026-2045. Under the Conservative scenario, speculative private development is projected as follows: 2,586 multi-family units from 2026-2048, 360 hotel rooms from 2031-2040, and 88,416 square feet of retail space from 2026-2045. The projected market values for private development under the two scenarios were not provided in the project analysis.

The projections of assessed values and tax increment revenues assume all multi-family development occurs under the City’s Multi-Family Tax Exemption (“MFTE”) program, which provides two types of exemptions from ad valorem property taxation for multiple-unit housing. The City’s 12-year MFTE program requires that at least 20% of the units must be affordable to low-income or moderate-income households, with low-income defined as 80% of the area median income (“AMI”) and moderate-income defined as 80-115% of AMI. The City’s 8-year MFTE program requires no affordable units. For the Moderate scenario, the project analysis assumes that 85% of multi-family units use the City’s 12-year MFTE and 15% use the City’s 8-year MTFE. For the Conservative scenario, it assumes that 100% of multi-family units use the City’s 12-year MFTE.

**Table 2 – Private Development under the Moderate Development Scenario**

Product Type	MF Planned	MF Speculative	Hotel Planned	Hotel Speculative	Retail Planned	Retail Speculative
Absorption	1,775	3,232	300	450	788,007	110,520
	Units	Units	Rooms	Rooms	Square Feet	Square Feet
2025						
2025						
2026		316				4,200
2027						
2028						
2029	350		300		43,748	
2030	350				20,769	9,840
2031	350			150		19,400
2032		350				12,840
2033		350				
2034		350				24,440
2035	350			150	51,737	
2036	375					22,200
2037		350				
2038						
2039		350				
2040				150	282,337	
2041		350			282,337	
2042						
2043		350				
2044						
2045		350			107,079	17,600
2046						
2047		116				
2048						

Source: City of Lynnwood#

**Table 3 – Private Development under the Conservative Development Scenario**

Product Type	MF Planned	MF Speculative	Hotel Planned	Hotel Speculative	Retail Planned	Retail Speculative
Absorption	1,775	2,586	300	360	788,007	88,416
	Units	Units	Rooms	Rooms	Square Feet	Square Feet
2025						
2025						
2026		253				3,360
2027						
2028						
2029	350		300		43,748	
2030	350				20,769	7,872
2031	350			120		
2032		280				15,520
2033						
2034		280				10,272
2035	350			120	51,737	
2036	375					19,552
2037		280				
2038						17,760
2039		280				
2040				120	282,337	
2041		280			282,337	
2042		280				
2043						
2044		280				
2045					107,079	14,080
2046		280				
2047						
2048		93				

Source: City of Lynnwood#

**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 \$177.4 million, or 1.7% of the City's total AV of \$10.4 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.

Detailed year-over-year projections of assessed values within the TIA for all development scenarios, along with supporting assumptions, were not provided in the project analysis. Therefore, we assume 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, which is added to the tax roll one year after construction is completed. The project analysis did not describe the assumptions used to project increases in the TIA base assessed value, the assessed values of the newly developed properties, nor the increases in assessed value for areas outside the TIA.

**Tax Allocation Revenue Projections**

The TIA is expected to be created in 2025, with 2027 being the first year in which the City expects to receive tax increment revenues based on the tax increment produced in 2026. The term of the TIA is assumed to be 25 years (the maximum allowed) with 2051 being the final year in which tax increment revenues will be received. The City assumes a tax increment base AV of \$177.4 million.

In the Moderate Development Scenario, a projected \$3.7 billion in incremental AV to the City would be added between 2027 and 2051, with \$3.2 billion from private development and \$577.5 million from TIA assessed value growth. The City projects \$46.0 million of tax increment revenues collected over the 25-year term of the TIA. See Table 4 – Tax Increment Revenues (Moderate Scenario).

In the Conservative Development Scenario, the City projects \$38.4 million of tax increment revenues collected over the 25-year term of the TIA. Detailed annual projections of tax increment revenues for the Conservative scenario were not provided by the City.

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 Table 4.

**Table 4 – Tax Incremental Revenues (nominal \$)  
Moderate Development Scenario**

<b>Tax Year</b>	<b>Base Assessed Value</b>	<b>Projected Incremental Assessed Value</b>	<b>Total Assessed Value</b>	<b>Average Levy Rate</b>	<b>Tax Increment Revenues</b>
2027	\$177,381,000	\$1,560,000	\$178,941,000	\$2.564	\$4,000
2028	\$177,381,000	\$1,601,000	\$178,982,000	\$2.498	\$4,000
2029	\$177,381,000	\$1,643,000	\$179,024,000	\$2.435	\$4,000
2030	\$177,381,000	\$19,437,000	\$196,818,000	\$2.367	\$46,000
2031	\$177,381,000	\$32,745,000	\$210,126,000	\$2.321	\$76,000
2032	\$177,381,000	\$41,963,000	\$219,344,000	\$2.288	\$96,000
2033	\$177,381,000	\$48,768,000	\$226,149,000	\$2.235	\$109,000
2034	\$177,381,000	\$50,060,000	\$227,441,000	\$2.217	\$111,000
2035	\$177,381,000	\$62,883,000	\$240,264,000	\$2.179	\$137,000
2036	\$177,381,000	\$89,615,000	\$266,996,000	\$2.142	\$192,000
2037	\$177,381,000	\$103,068,000	\$280,449,000	\$2.105	\$217,000
2038	\$177,381,000	\$105,799,000	\$283,180,000	\$2.079	\$220,000
2039	\$177,381,000	\$283,065,000	\$460,446,000	\$2.042	\$578,000
2040	\$177,381,000	\$290,566,000	\$467,947,000	\$2.010	\$584,000
2041	\$177,381,000	\$456,840,000	\$634,221,000	\$1.979	\$904,000
2042	\$177,381,000	\$992,185,000	\$1,169,566,000	\$1.948	\$1,933,000
2043	\$177,381,000	\$1,235,963,000	\$1,413,344,000	\$1.918	\$2,371,000
2044	\$177,381,000	\$1,571,635,000	\$1,749,016,000	\$1.888	\$2,967,000
2045	\$177,381,000	\$1,844,014,000	\$2,021,395,000	\$1.858	\$3,427,000
2046	\$177,381,000	\$2,211,712,000	\$2,389,093,000	\$1.830	\$4,047,000
2047	\$177,381,000	\$2,515,104,000	\$2,692,485,000	\$1.801	\$4,530,000
2048	\$177,381,000	\$2,922,691,000	\$3,100,072,000	\$1.773	\$5,182,000
2049	\$177,381,000	\$3,278,381,000	\$3,455,762,000	\$1.745	\$5,722,000
2050	\$177,381,000	\$3,632,739,000	\$3,810,120,000	\$1.718	\$6,242,000
2051	\$177,381,000	\$3,729,006,000	\$3,906,387,000	\$1.691	\$6,307,000
				<b>Total</b>	<b>\$46,010,000</b>

Source: City of Lynnwood#

## Financing Plan for Public Improvements

To fund a portion of the \$66.0 million of proposed public improvements, the City plans to issue \$24.0 million of tax-exempt LTGO bonds over three issuances: \$10.0 million in 2027, \$10.0 million in 2028, and \$4.0 million in 2030. The project analysis provides “baseline” and “alternate” debt issuance plans, which are then used to compare the Moderate and Conservative Development Scenarios.

Under the baseline debt issuance plan, the bonds would be structured with principal amortizing in years 1-20 and level annual debt service, assuming a rating of AA+, interest rates as of January 24, 2025 plus 0.50%, and a 10-year par call. Total debt service is projected to be \$37.2 million. Under the alternate debt issuance plan, the bonds would be structured with no principal amortization (interest only) in the first 10 years of the same 20-year term in order to better align annual debt service with projected increasing tax increment revenues, but at the expense of paying more total interest. Total debt service under the alternate issuance plan is projected to be \$44.3 million.

As stated in the project analysis, because of its general obligation pledge, the City 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 Moderate Development Scenario and the baseline debt issuance plan, annual deficits between tax increment revenues and debt service are projected to average \$1.5 million over the first 15 years (2027-2041) of repayment, resulting in an accumulated deficit of \$22.9 million by 2041. Tax increment revenues are forecast to exceed debt service annually from 2042-2051, and by 2050 the City’s \$22.9 million deficit would be repaid while also generating a surplus of \$8.8 million. With the alternate debt issuance plan wherein principal payments are deferred to years 11-20, the annual deficits between tax increment revenues and debt service are projected to average a lower \$1.1 million over the first 17 years of repayment (2027-2043), resulting in an accumulated deficit of \$19.2 million by 2043. Tax increment revenues are forecast to exceed debt service annually from 2044-2051 such that by 2051 the City’s \$19.2 million accumulated deficit would be repaid, while also generating a surplus of \$1.7 million.

In the Conservative Development Scenario and the baseline debt issuance plan, annual deficits between tax increment revenues and debt service are projected to average \$1.5 million over the first 16 years (2027-2042) of repayment, resulting in an accumulated deficit of \$24.2 million by 2042. Tax increment revenues are forecast to exceed debt service annually from 2043-2051, and by 2051 the City’s \$24.2 million accumulated deficit would be repaid while also generating a surplus of \$1.1 million. With the alternate debt issuance plan wherein principal payments are deferred to years 11-20, the annual deficits between tax increment revenues and debt service are projected to average a lower \$1.2 million over the first 18 years (2027-2044) of repayment, resulting in an accumulated deficit of \$21.3 million by 2044. Tax increment revenues are forecast to exceed debt service annually from 2045-2051, and the \$21.3 million accumulated deficit would not be fully repaid but reduced by \$15.4 million to -\$5.9 million in 2051.

Regarding the projected annual shortages between tax increment revenues and debt service costs, the City’s mitigation plan for covering the deficits includes the following options as described in the project analysis:

- (1) The City may pursue agreements with developers of key development sites that may contain provisions for a financial backstop requiring the developer to pay for some to all of any gap

between TIF revenues and the City’s annual debt service associated with the public improvements.

- (2) The City could reduce its financial exposure related to the timing and uncertainty of private development by opting for interest-only payments during the first 10 years, instead of using a level debt structure (the alternate debt issuance plan).
- (3) In the Moderate Development Scenario, the City projects receiving \$103.8 million in additional tax revenues generated by the proposed private development with an estimated 30% of these taxes available to cover some or all of the deficits.
- (4) The City has up to 10 funds with reserve balances that may be available to cover some or all of the deficits.
- (5) Lastly, the City may reprioritize some capital project expenditures to respond to any gaps between TIF revenues and debt payments.

**Debt Capacity**

Based on the City’s 2025 total assessed value, the City has \$161,185,909 in total non-voted debt capacity (1.5% of 2025 AV). The City currently has \$84,837,153 in outstanding non-voted general obligation debt, leaving sufficient net non-voted debt capacity of \$76,348,756 before the \$24,000,000 in TIA Bonds are anticipated to be issued in three series (2027, 2028 and 2030). After these debt issuances, the City’s remaining non-voted debt capacity would be \$52,348,756 based on 2025 AV.

**Table 5 – Debt Capacity (2027, 2028 and 2030 Issuances)**

Assessed Valuation for 2025 Tax Year	\$ 10,745,727,293
Non-Voted Debt Capacity (1.5% of AV)	161,185,909
Less: Outstanding Non-Voted Debt	84,837,153
Remaining Non-Voted Debt Capacity	76,348,756
Less: Bonds Proposed	24,000,000
<b>Projected Remaining Non-Voted Capacity</b>	<b>\$ 52,348,756</b>
<b>Projected Remaining Non-Voted Capacity (%)</b>	<b>32.5%</b>

Source: City of Lynnwood#

**Projected Debt Service Coverage**

Tables 6, 7, and 8 below summarize the total tax increment revenues, revenue surpluses, and debt service coverage for the Moderate Development Scenario and the Conservative Development Scenario under the baseline and alternate debt issuance plans. The aggregate debt service coverage ratios are 1.24x for the Moderate Development Scenario and baseline debt issuance plan, 1.04x for the Moderate Development Scenario and alternate debt issuance plan, 1.03x for the Conservative Development Scenario and Baseline debt issuance plan, and 0.87x for the Conservative Development Scenario and alternate debt issuance plan.

**Table 6 – Tax Allocation Revenues and Debt Service Coverage**

Development Scenario & Debt Issuance Plan	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
Moderate / Baseline	2042	2050	\$46.010	\$37.198	\$22.880	\$8.812	1.24x
Moderate / Alternate	2044	2051	\$46.010	\$44.299	\$19.154	\$1.712	1.04x
Conservative / Baseline	2043	2051	\$38.373	\$37.198	\$24.225	\$1.175	1.03x
Conservative / Alternate	2045	none	\$38.373	\$44.299	\$21.290	(\$5.923)	0.87x

Source: City of Lynnwood

**Table 7 – TIF Debt Service Coverage for Moderate Development Scenario**

Year	Moderate Development Scenario -- Baseline Debt Issuance Plan					Moderate Development Scenario -- Alternate Debt Issuance Plan				
	Tax Increment Revenues	Debt Service on TIF Bonds	Cumulative Surplus (Shortfall)	Cumulative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on TIF Bonds	Cumulative Surplus (Shortfall)	Cumulative Surplus (Shortfall)	Debt Service Coverage
2027	4,000	760,799	(756,799)	(756,799)	0.01x	4,000	441,685	(437,685)	(437,685)	0.01x
2028	4,000	1,538,952	(1,534,952)	(2,291,751)	0.00x	4,000	931,698	(927,698)	(1,365,383)	0.00x
2029	4,000	1,541,500	(1,537,500)	(3,829,251)	0.00x	4,000	976,500	(972,500)	(2,337,883)	0.00x
2030	46,000	1,854,022	(1,808,022)	(5,637,273)	0.02x	46,000	1,156,617	(1,110,617)	(3,448,500)	0.04x
2031	76,000	1,855,000	(1,779,000)	(7,416,273)	0.04x	76,000	1,177,250	(1,101,250)	(4,549,750)	0.06x
2032	96,000	1,859,500	(1,763,500)	(9,179,773)	0.05x	96,000	1,177,250	(1,081,250)	(5,631,000)	0.08x
2033	109,000	1,861,750	(1,752,750)	(10,932,523)	0.06x	109,000	1,177,250	(1,068,250)	(6,699,250)	0.09x
2034	111,000	1,861,750	(1,750,750)	(12,683,273)	0.06x	111,000	1,177,250	(1,066,250)	(7,765,500)	0.09x
2035	137,000	1,864,500	(1,727,500)	(14,410,773)	0.07x	137,000	1,177,250	(1,040,250)	(8,805,750)	0.12x
2036	192,000	1,859,750	(1,667,750)	(16,078,523)	0.10x	192,000	1,177,250	(985,250)	(9,791,000)	0.16x
2037	217,000	1,857,750	(1,640,750)	(17,719,273)	0.12x	217,000	1,677,250	(1,460,250)	(11,251,250)	0.13x
2038	220,000	1,863,250	(1,643,250)	(19,362,523)	0.12x	220,000	2,232,250	(2,012,250)	(13,263,500)	0.10x
2039	578,000	1,860,750	(1,282,750)	(20,645,273)	0.31x	578,000	2,228,250	(1,650,250)	(14,913,750)	0.26x
2040	584,000	1,860,500	(1,276,500)	(21,921,773)	0.31x	584,000	2,511,750	(1,927,750)	(16,841,500)	0.23x
2041	904,000	1,862,250	(958,250)	(22,880,023)	0.49x	904,000	2,508,250	(1,604,250)	(18,445,750)	0.36x
2042	1,933,000	1,855,750	77,250	(22,802,773)	1.04x	1,933,000	2,506,250	(573,250)	(19,019,000)	0.77x
2043	2,371,000	1,861,250	509,750	(22,293,023)	1.27x	2,371,000	2,505,500	(134,500)	(19,153,500)	0.95x
2044	2,967,000	1,863,000	1,104,000	(21,189,023)	1.59x	2,967,000	2,510,750	456,250	(18,697,250)	1.18x
2045	3,427,000	1,866,000	1,561,000	(19,628,023)	1.84x	3,427,000	2,506,500	920,500	(17,776,750)	1.37x
2046	4,047,000	1,860,000	2,187,000	(17,441,023)	2.18x	4,047,000	2,508,000	1,539,000	(16,237,750)	1.61x
2047	4,530,000	1,090,250	3,439,750	(14,001,273)	4.16x	4,530,000	2,509,750	2,020,250	(14,217,500)	1.80x
2048	5,182,000	319,750	4,862,250	(9,139,023)	16.21x	5,182,000	2,506,500	2,675,500	(11,542,000)	2.07x
2049	5,722,000	320,250	5,401,750	(3,737,273)	17.87x	5,722,000	2,513,250	3,208,750	(8,333,250)	2.28x
2050	6,242,000	0	6,242,000	2,504,727	--	6,242,000	2,504,250	3,737,750	(4,595,500)	2.49x
2051	6,307,000	0	6,307,000	8,811,727	--	6,307,000	0	6,307,000	1,711,500	--
Total	\$46,010,000	\$37,198,273	\$8,811,727		1.24x	\$46,010,000	\$44,298,500	\$1,711,500		1.04x

Source: City of Lynnwood

**Table 8 – TIF Debt Service Coverage for Conservative Development Scenario**

Year	Conservative Development Scenario -- Baseline Debt Issuance Plan					Conservative Development Scenario -- Alternate Debt Issuance Plan				
	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	Debt Service Coverage
2027	3,000	760,799	(757,799)	(757,799)	0.00x	3,000	441,685	(438,685)	(438,685)	0.01x
2028	3,000	1,538,952	(1,535,952)	(2,293,751)	0.00x	3,000	931,698	(928,698)	(1,367,383)	0.00x
2029	3,000	1,541,500	(1,538,500)	(3,832,251)	0.00x	3,000	976,500	(973,500)	(2,340,883)	0.00x
2030	45,000	1,854,022	(1,809,022)	(5,641,273)	0.02x	45,000	1,156,617	(1,111,617)	(3,452,500)	0.04x
2031	73,000	1,855,000	(1,782,000)	(7,423,273)	0.04x	73,000	1,177,250	(1,104,250)	(4,556,750)	0.06x
2032	89,000	1,859,500	(1,770,500)	(9,193,773)	0.05x	89,000	1,177,250	(1,088,250)	(5,645,000)	0.08x
2033	100,000	1,861,750	(1,761,750)	(10,955,523)	0.05x	100,000	1,177,250	(1,077,250)	(6,722,250)	0.08x
2034	101,000	1,861,750	(1,760,750)	(12,716,273)	0.05x	101,000	1,177,250	(1,076,250)	(7,798,500)	0.09x
2035	155,000	1,864,500	(1,709,500)	(14,425,773)	0.08x	155,000	1,177,250	(1,022,250)	(8,820,750)	0.13x
2036	177,000	1,859,750	(1,682,750)	(16,108,523)	0.10x	177,000	1,177,250	(1,000,250)	(9,821,000)	0.15x
2037	198,000	1,857,750	(1,659,750)	(17,768,273)	0.11x	198,000	1,677,250	(1,479,250)	(11,300,250)	0.12x
2038	200,000	1,863,250	(1,663,250)	(19,431,523)	0.11x	200,000	2,232,250	(2,032,250)	(13,332,500)	0.09x
2039	202,000	1,860,750	(1,658,750)	(21,090,273)	0.11x	202,000	2,228,250	(2,026,250)	(15,358,750)	0.09x
2040	493,000	1,860,500	(1,367,500)	(22,457,773)	0.26x	493,000	2,511,750	(2,018,750)	(17,377,500)	0.20x
2041	812,000	1,862,250	(1,050,250)	(23,508,023)	0.44x	812,000	2,508,250	(1,696,250)	(19,073,750)	0.32x
2042	1,139,000	1,855,750	(716,750)	(24,224,773)	0.61x	1,139,000	2,506,250	(1,367,250)	(20,441,000)	0.45x
2043	1,862,000	1,861,250	750	(24,224,023)	1.00x	1,862,000	2,505,500	(643,500)	(21,084,500)	0.74x
2044	2,305,000	1,863,000	442,000	(23,782,023)	1.24x	2,305,000	2,510,750	(205,750)	(21,290,250)	0.92x
2045	2,878,000	1,866,000	1,012,000	(22,770,023)	1.54x	2,878,000	2,506,500	371,500	(20,918,750)	1.15x
2046	3,401,000	1,860,000	1,541,000	(21,229,023)	1.83x	3,401,000	2,508,000	893,000	(20,025,750)	1.36x
2047	3,789,000	1,090,250	2,698,750	(18,530,273)	3.48x	3,789,000	2,509,750	1,279,250	(18,746,500)	1.51x
2048	4,276,000	319,750	3,956,250	(14,574,023)	13.37x	4,276,000	2,506,500	1,769,500	(16,977,000)	1.71x
2049	4,934,000	320,250	4,613,750	(9,960,273)	15.41x	4,934,000	2,513,250	2,420,750	(14,556,250)	1.96x
2050	5,353,000	0	5,353,000	(4,607,273)	--	5,353,000	2,504,250	2,848,750	(11,707,500)	2.14x
2051	5,782,000	0	5,782,000	1,174,727	--	5,782,000	0	5,782,000	(5,925,500)	--
Total	\$38,373,000	\$37,198,273	\$1,174,727		1.03x	\$38,373,000	\$44,298,500	(\$5,925,500)		0.87x

Source: City of Lynnwood

## Key Risks

From OST's review of the project analysis, it appears that the planned 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:

General Obligation Pledge: The LTGO bonds expected to be issued in connection with the project's plan of finance will obligate the City to pay the full amount of debt service due from City revenues and resources, regardless of the amount of tax increment revenues generated by the TIA. Because of the potential cost to the City's general fund, it is essential that decision makers understand and accept the project's risks and potential long-term costs in comparison to its benefits.

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 demand for development, jeopardizing the timeline, scale, and market value of private development, potentially reducing tax increment revenues.

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

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.

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.

Interest Rate Risk: The City will be exposed to interest rate risk until all issuances of anticipated bonds are sold. The project analysis assumes interest rates as of January 24, 2025 plus 0.50% for the three series to be issued in 2027, 2028, and 2030.

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

## Recommendations

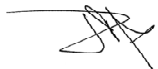
To help minimize unanticipated costs and risks associated with the project, we recommend the City consider the following measures:

1. Prior to approving the TIA, we recommend the City coordinate closely with the taxing districts impacted by the project, and the County Assessor's Office, to ensure that all parties have an accurate understanding of how the TIA will impact them and provide sufficient time to work through any concerns.
2. Prior to approving the TIA, we recommend that the City discuss and establish a policy regarding how much project-related debt service it is able and willing to pay from general fund revenues and reserves on an annual basis, to offset projected as well as unanticipated tax increment revenue shortfalls.
3. We recommend that the City conservatively budget for and proactively set funds aside to cover its projected tax increment revenue shortfalls.
4. As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process and are as accurate as possible.
5. Given the timeline for public improvements, we recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.
6. Given the timeline for its bond issuances, we recommend the City periodically revisit its interest rate assumptions.

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