Tax Increment Financing Project Analysis Review

– City of North Bend –

August 26, 2025

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August 26, 2025

James S. Henderson
Community & Economic Development Director
City of North Bend
920 SE Cedar Falls Way
North Bend, WA 98045

Dear James S. Henderson:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of North Bend's (the "City") tax increment financing ("TIF") draft project analysis, dated June 3, 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 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, including a recommendation to review the total initial assessed value of the project area, to ensure compliance with the limits provided in section 020(1)(c) of the TIF Statute.

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

RCW 39.114.020(7)(b) 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 on June 3, 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 also adequately discloses the potential risks that might result from the implementation of the project.

Project Team

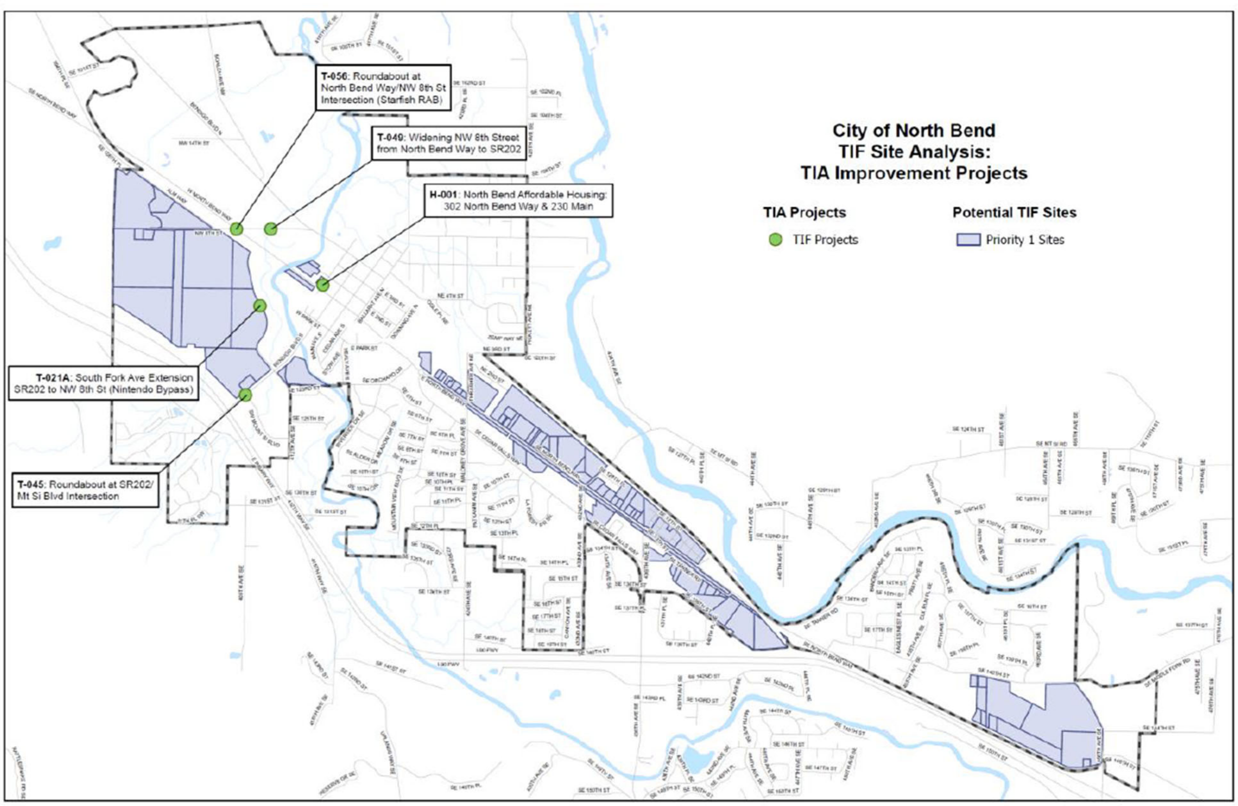
Jurisdiction: City of North Bend
Redevelopment Area: City of North Bend TIA
Consultants: FCS, a Bowman Company

Proposed Tax Increment Area

The City's proposed TIA encompasses approximately 543.3 acres spread out incongruently across the City. The objective of the TIA is "to help foster local economic development, job creation, and policies that encourage construction of additional affordable and market rate housing in a greater variety of housing types and at prices that are accessible to a greater variety of incomes" in accordance with RCW 36.70A.600(2) and to support the North Bend Economic Development Strategic Plan, and North Bend Housing Action Plan.

According to the project analysis, the chosen parcels were selected based on an evaluation criterion that included: tax lot size, zoning, current and potential assessed valuation of land and improvements, estimated current housing and jobs on site, proximity to existing and planned roads, water, and waste-water systems, and potential for development of new job creation and low-income housing. The blue shaded areas in Figure 1, below, are what we believe to represent the parcels included in the increment area. We note that page 11 of the city's project analysis references yellow shading to represent the increment area. We recommend that the City clarify in the text on page 11, or update Figure 3 of the project analysis to accurately describe the TIA boundary, as the map does not contain any yellow shading.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of North Bend

Impacted Taxing Districts

Six taxing districts with regular property tax levies have been identified as being directly impacted by the TIA. The impacted districts identified in the project analysis are:

(1) King County*,
(2) King County Flood Zone,
(3) King County EMS District,
(4) King County Library System,
(5) Snoqualmie Valley Hospital District #4, and
(6) Si View Metro Park District.

*Includes Countywide Transportation District, Marine District, and Conservation Futures.

After the effective date of the TIA, the levy rate for each of these jurisdictions will be applied to the increased assessed valuation ("AV") within the TIA, with the tax increment revenues remitted to reimburse the City for debt service on any bonds issued in connection with the project and to potentially pay for a portion of any 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 0.02% of the King County EMS District's total AV, and 1.4% of Snoqualmie Valley Hospital District #4's total AV (based on estimated 2026 AV), so no mitigation plan is needed due to the 20% test.

There are no fire districts listed in the project analysis as impacted districts. However, page 32 of the project analysis states "the City will continue to engage its local partners including Snohomish County and the North County Regional Fire Authority as discussions continue." While we believe references to these two entities may be an error, we recommend updating the project analysis to clarify what districts are impacted.

Additionally, to ensure accuracy, it may be prudent for the City to confirm with the County Assessor that the Port of Seattle does not overlap any portions of the TIA.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis identifies six essential capital projects, including four transportation improvements, an affordable housing project, and water main upsizing mitigation, totaling $41.05 million:

- Roundabout at SR-202/Mt Si Blvd Intersection: $5,800,000
- South Fork Ave Extension from SR-202 to NW 8th St Starfish Roundabout: $5,650,000
- Widening NW 8th St from NBW to SR-202: $2,750,000
- Roundabout at North Bend Way/NW 8th Street Intersection (Starfish RAB): $4,850,000
- North Bend Affordable Housing: 302 West NBW and 230 Main: $21,000,000

- Water Main Upsizing Mitigation: $1,000,000

It appears that the first two listed projects may have typos in the project analysis, being described as SR-2502 and SR0202. If this is the case, we suggest correcting the project analysis to avoid confusion about what projects are eligible to be funded with TIF revenues.

The project analysis did not specify the priority or timeline for the specific projects, but generally assumed that all will be completed between 2028 and 2030. The identified projects are expected to be funded through a mix of federal grants ($7.40 million), developer contributions ($22.20 million), and City reserves ($1.05 million), with the remaining ($10.41 million) being funded through TIF revenues.

Of the $10.41 million of project costs expected to be funded through TIF revenues, the City expects to issue one series of Limited Tax General Obligation ("LTGO") bonds to finance $8.10 million of the total. The project analysis does not identify how the City might fund the remaining $2.30 million of public improvements.

Private Development within the TIA

The private developments assumed in the City's project analysis include a mixture of light industrial, commercial, and residential construction. As seen in Table 1, below, the project analysis identifies six major planned developments within the North Bend TIA. All private development is expected to occur by year 11 of the TIA. The project analysis does not appear to include any speculative development in its projections.

Table 1 – Major Planned Developments within North Bend TIA

Project Name	Description	Development Type	Status
West North Bend			
90 North	115,420 square foot industrial concrete tilt building with office space, associated truck court, parking, and drive aisles.	Industrial	City has received positive feedback and development interest
Mt Si Industrial Park	Construction of 3 office/warehouse buildings totaling approximately 365,499sf.	Industrial	Concurrency Finalized.
Wyndham Hotel	Wyndham dual 136 room hotel in the outlet mall (approx. 81,555 Square Feet) on 1.27 Acres.	Commercial/Industrial	Final Design in process
Seawest	Potential townhome development adjacent to the Mountain Valley Center (Bendigo and South Fork Ave SW	Residential	Seawest (developer) purchased property
East North Bend			
Middle Fork Property Development	City Council entered into a development agreement with Middle Fork Property Development LLC to develop the former 35-acre Puget Western Property near truck town	Commercial/light manufacturing. Zoned Employment Park 2	Development Agreement approved
Central North Bend			
Hoenig Property	Planning Commission has recommended the property be rezoned from employment park to neighborhood business as part of the land use element in the updated comprehensive plan. Site also contains a master plan overlay district.	Neighborhood business allows for commercial/retail and multifamily residential	City has received positive feedback and development interest

Source: City of North Bend#

"But For" Finding

In the project analysis, the City indicates that "without the public improvements, the identified parcel related developments are not expected to achieve full buildout over the next 25 years. Major Developments in the TIA are awaiting strategic off-site public facility investments which would be partially funded with TIF funding. The developments listed in Figure 9 of the project analysis (Table 1, above) are expected to be constructed in the near term if the TIA is approved." (page 17).

Assessed Value of the TIA

The project analysis states that the parcels listed within the TIA had an aggregate AV of $194.10 million (as of Q3 2024), or 6.3% of the City's total AV of $3.10 billion, which is below the statutory limit of the lesser of $200 million or 20% of the City's total AV (RCW 39.11.020(1)(c)).

However, based on the information provided in Appendix A of the project analysis, it appears that the combined AV of the TIA may exceed the $200 million AV statutory limit. Appendix A states the total value of "Commercial, Industrial and Mixed-Use Zoned Tax Lots" equals $194.10 as stated in the report. Appendix A also appears to indicate that "Residential Zoned Tax Lots" have an additional $15.04 million of total assessed value. If our understanding is correct, the combined AV of the proposed TIA's Commercial, Industrial and Mixed-Use and Residential zoned tax lots would equal $209.14 million, which, if correct, would exceed the limits provided by the TIF Statute.

Additionally, while the Washington State Department of Revenue has not provided formal guidance, some industry professionals maintain that personal property should be included in the calculation of the project area's initial AV.

We recommend that the City review the assessed value of the parcels included in its proposed TIA in consultation with the County Assessor to ensure that the proposed TIA does not exceed the $200 million limit established in the TIF Statute based on 2025 AV, and if necessary, either adjust the size of the TIA, or amend the data contained in Appendix A of the project analysis.

Assessed Value Growth Within the TIA

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. As seen in Table 2, the project analysis includes a sensitivity analysis that compares the projected AV in project year 11 and project year 25, for three scenarios (see Table 2). First is the status quo scenario, which assumes no TIA. Next is the low absorption scenario, with assumes a 20% buildout of the TIA by year 11. Finally, the medium absorption scenario assumes a 30% buildout of the TIA by year 11.

The sensitivity analysis projects assessed values to increase by $53.40 million under the status quo (no TIA) scenario, $160.40 million under the low growth scenario, and $318.00 million under the medium growth scenario.

Table 2 – Impact of TIA on Jobs, Housing and Assessed Valuation by Years 1-25

Scenario	Proj. TIA Buildout Realized by Year 11	Existing 2026	Proj. Year 11	Proj. Year 25	Change from Existing: Years 1-25
Status Quo (without TIA)					
Assessed Values	4%	$ 198,000,000	$ 218,700,000	$ 251,400,000	**$ 53,400,000**
Employment	3%	930	1,030	1,140	**210**
Housing Units	9%	170	190	210	**40**
Low Absorption with TIA					
Assessed Values	20%	$ 198,000,000	$ 265,800,000	$ 358,400,000	**$160,400,000**
Employment	20%	930	2,160	2,160	**1,230**
Housing Units	20%	170	260	260	**90**
Medium Absorption with TIA					
Assessed Values	30%	$ 198,000,000	$ 398,700,000	$ 516,000,000	**$318,000,000**
Employment	30%	930	2,770	2,770	**1,840**
Housing Units	30%	170	310	310	**140**

Source: City of North Bend and FCS, based on stated assumptions. Data may not add due to rounding.

The project analysis appears to indicate that all private development will occur during the first 11 years of the TIA, with the final year of new assessments recorded in year 12. No additional development is projected to occur after year 11. Additionally, the project analysis assumes a 1% annual growth factor for the TIA's base value. The 1% growth factor, and the assumption of no additional development after year 11 appear to be conservative assumptions.

Levy Rate

Under the TIF Statute, only certain regular levies are included in the calculation of tax increment revenues. Both parts of the state school levy, local school district excess levies, voted bond levies, and levies of port districts used for bond payments are excluded from the TIA levy rate. The TIA's annual levy rate may change year-to-year based on several factors including future increases in the AV of the TIA, the future AV and levy rates of the overlapping taxing districts, and relevant levy limits. The project analysis includes the 2024 levy rate for each of these jurisdictions, which is applied to the projected incremental AV within the TIA to calculate the projected tax allocation revenues provided in Table 3.

The City's project analysis is unclear what assumed levy rate is being applied to calculate projected tax increment revenue after year 1 of the TIA. For clarity, we recommend the project analysis be updated to include additional details on the levy rates being assumed throughout the life of the TIA.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2026, with 2026 as the base year and 2027 representing the first year of possible collections. The project analysis conservatively assumes no new assessed value will be added in 2027.

The low growth development scenario projects that $160.40 million in incremental AV will be added to the TIA over the 25-year period, resulting in $14.77 million in projected tax increment revenues. The medium growth scenario projects $318.00 million in incremental AV will be added to the TIA over the 25-year period, resulting in $22.14 million in projected tax increment revenues. See Table 3 – Tax Allocation Revenues.

Appendix B of the City's project analysis shows that annual tax increment revenue is held constant after year 11 of the increment area, implying that future revenues are being conservatively calculated based on only the new development, omitting the 1% annual growth factor to the base value, and not including any growth factor for the previously assessed new developments.

Table 3 – Tax Allocation Revenues

Year	Low Growth	Medium Growth
1	$ -	$ -
2	-	-
3	83,703	134,087
4	168,242	257,965
5	253,627	383,083
6	339,866	509,452
7	426,967	637,084
8	514,939	765,993
9	603,791	896,191
10	693,532	1,027,691
11	778,996	1,168,494
12	778,996	1,168,494
13	778,996	1,168,494
14	778,996	1,168,494
15	778,996	1,168,494
16	778,996	1,168,494
17	778,996	1,168,494
18	778,996	1,168,494
19	778,996	1,168,494
20	778,996	1,168,494
21	778,996	1,168,494
22	778,996	1,168,494
23	778,996	1,168,494
24	778,996	1,168,494
25	778,996	1,168,494
Total	**$ 14,769,607**	**$ 22,138,956**

Source: City of North Bend, FCS#

While the City's project analysis assumes a 1% growth rate in AV, it does not correspond to an increase in TIF revenues, as shown in Table 3. We understand this to be a conservative assumption to allow for "revenue sharing" after year 11. The Project Analysis states that "In years 11-25, the level of net new AV within the TIA is projected to exceed the annual debt service requirements, which would lead to "revenue sharing" with the junior taxing districts."

Financing Plan for Public Improvements

The project analysis indicated that the $41.05 million of total project costs will be funded through a mix of federal grants ($7.40 million), developer contributions ($22.20 million), and City reserves ($1.05 million), with the remaining ($10.41 million) being funded through TIF revenues. Of the $10.41 million of project costs expected to be funded through TIF revenues, the City expects to issue one series of LTGO bonds to finance $8.10 million of the total.

Our understanding is the $8.10 million financing amount was calculated by discounting the TIA's projected tax increment revenues under the low growth scenario by 4.0%, representing the estimated cost of capital. The project analysis also calculated the low growth scenario's debt capacity using a 4.5% and 5.0% discount rate, which resulted in a financing of $7.60 million and $7.10 million, respectively.

In the medium growth scenario, the 4.0%, 4.5%, and 5.0% discount rates produced debt capacity of $12.20 million, $11.40 million, and $10.60 million, respectively. Based on this analysis, tax increment revenues in the medium growth scenario are projected to be sufficient to support the entire unfunded portion of project costs.

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. The City indicated that general fund revenues, development impact fees, special assessments, interfund loans from its water and sewer enterprise fund, or delaying the phase-in of TIA projects could be used to supplement TIF revenues, if necessary.

Debt Capacity

Based on its 2024 total AV (as of Q3), the City has $46.47 million in total non-voted debt capacity (1.5% of 2024 tax year AV). With $3.74 million of outstanding non-voted general obligation debt, the current net non-voted debt capacity is $42.72 million, before $8.10 million of bonds are issued to fund the various projects. After this debt issuance, the City's remaining non-voted debt capacity would be $34.63 million, or 74.52%.

Table 4 – Non-Voted Debt Capacity

Assessed Valuation for 2024 Tax Year (Q3)	$ 3,097,986,311
Non-Voted Debt Capacity (1.5% of AV)	46,469,795
Less: Outstanding Non-Voted Debt	3,742,548
Remaining Non-Voted Debt Capacity	42,727,247
Less: Proposed Financing (in total)*	8,100,000
Projected Remaining Non-Voted Capacity	**34,627,247**
Projected Remaining Non-Voted Capacity %	**74.52%**

Source: City of North Bend, FCS#

Projected Debt Service Coverage

To model the projected debt, the City provided three debt service schedules, all assuming an $8.1 million project fund deposit. The three scenarios assumed different interest rates for the bonds of 4.0%, 4.5% and 5.0%. Tables 5 and 6 below summarize the total tax increment revenues, revenue surpluses, and debt service coverage for the $8.1 million financing, given the three interest rate assumptions. The aggregate debt service coverage ratio, assuming the tax increment revenue produced in the low growth revenue scenario, is 1.15x assuming a 4.0% interest rate, 1.09x for the 4.5% interest rate, and 1.03x for the 5.0% interest rate.

Table 5 – Tax Allocation Revenues and Debt Service Coverage – Low Growth Scenario

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[1]
4.00%	Year 9	8	Year 18	$14.78	$12.86	$2.26	$1.91	1.15x
4.50%	Year 9	8	Year 20	$14.78	$13.56	$2.49	$1.21	1.09x
5.00%	Year 9	8	Year 23	$14.78	$14.28	$2.73	$0.49	1.03x

[1] *May not foot due to rounding.*

Source: City of North Bend, FCS.

Table 6 – TIF Debt Service Coverage – Low Growth Scenario[1]

		4.0% Interest Rate Scenario				4.5% Interest Rate Scenario				5.0% Interest Rate Scenario			
Year	Tax Increment Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
1	$ -	$ 423,174	$ (423,174)	$ (423,174)	0x	$ 457,400	$ (457,400)	$ (457,400)	0x	$ 491,953	$ (491,953)	$ (491,953)	0x
2	-	518,382	(518,382)	(941,556)	0x	546,120	(546,120)	(1,003,520)	0x	574,558	(574,558)	(1,066,511)	0x
3	83,703	518,382	(434,679)	(1,376,235)	0.16x	546,120	(462,417)	(1,465,937)	0.15x	574,558	(490,855)	(1,557,366)	0.15x
4	168,242	518,382	(350,140)	(1,726,375)	0.32x	546,120	(377,878)	(1,843,815)	0.31x	574,558	(406,316)	(1,963,682)	0.29x
5	253,627	518,382	(264,755)	(1,991,130)	0.49x	546,120	(292,493)	(2,136,308)	0.46x	574,558	(320,931)	(2,284,613)	0.44x
6	339,866	518,382	(178,516)	(2,169,646)	0.66x	546,120	(206,254)	(2,342,562)	0.62x	574,558	(234,692)	(2,519,305)	0.59x
7	426,967	518,382	(91,415)	(2,261,061)	0.82x	546,120	(119,153)	(2,461,715)	0.78x	574,558	(147,591)	(2,666,896)	0.74x
8	514,939	518,382	(3,443)	(2,264,504)	0.99x	546,120	(31,181)	(2,492,896)	0.94x	574,558	(59,619)	(2,726,515)	0.9x
9	603,791	518,382	85,409	(2,179,095)	1.16x	546,120	57,671	(2,435,225)	1.11x	574,558	29,233	(2,697,282)	1.05x
10	693,532	518,382	175,150	(2,003,945)	1.34x	546,120	147,412	(2,287,813)	1.27x	574,558	118,974	(2,578,308)	1.21x
11	778,996	518,382	260,614	(1,743,331)	1.5x	546,120	232,876	(2,054,937)	1.43x	574,558	204,438	(2,373,870)	1.36x
12	778,996	518,382	260,614	(1,482,717)	1.5x	546,120	232,876	(1,822,061)	1.43x	574,558	204,438	(2,169,432)	1.36x
13	778,996	518,382	260,614	(1,222,103)	1.5x	546,120	232,876	(1,589,185)	1.43x	574,558	204,438	(1,964,994)	1.36x
14	778,996	518,382	260,614	(961,489)	1.5x	546,120	232,876	(1,356,309)	1.43x	574,558	204,438	(1,760,556)	1.36x
15	778,996	518,382	260,614	(700,875)	1.5x	546,120	232,876	(1,123,433)	1.43x	574,558	204,438	(1,556,118)	1.36x
16	778,996	518,382	260,614	(440,261)	1.5x	546,120	232,876	(890,557)	1.43x	574,558	204,438	(1,351,680)	1.36x
17	778,996	518,382	260,614	(179,647)	1.5x	546,120	232,876	(657,681)	1.43x	574,558	204,438	(1,147,242)	1.36x
18	778,996	518,382	260,614	80,967	1.5x	546,120	232,876	(424,805)	1.43x	574,558	204,438	(942,804)	1.36x
19	778,996	518,382	260,614	341,581	1.5x	546,120	232,876	(191,929)	1.43x	574,558	204,438	(738,366)	1.36x
20	778,996	518,382	260,614	602,195	1.5x	546,120	232,876	40,947	1.43x	574,558	204,438	(533,928)	1.36x
21	778,996	518,382	260,614	862,809	1.5x	546,120	232,876	273,823	1.43x	574,558	204,438	(329,490)	1.36x
22	778,996	518,382	260,614	1,123,423	1.5x	546,120	232,876	506,699	1.43x	574,558	204,438	(125,052)	1.36x
23	778,996	518,382	260,614	1,384,037	1.5x	546,120	232,876	739,575	1.43x	574,558	204,438	79,386	1.36x
24	778,996	518,382	260,614	1,644,651	1.5x	546,120	232,876	972,451	1.43x	574,558	204,438	283,824	1.36x
25	778,996	518,382	260,614	1,905,265	1.5x	546,120	232,876	1,205,327	1.43x	574,558	204,438	488,262	1.36x
Total	$ 14,769,607	$ 12,864,342	$ 1,905,265		1.15x	$ 13,564,280	$ 1,205,327		1.09x	$ 14,281,345	$ 488,262		1.03x

[1] Totals may not foot due to rounding

Source: City of North Bend

Key Risks

From OST's review of the project analysis, it appears that the proposed public improvements and the corresponding plan of finance are reasonably well developed. Nonetheless, the proposed project comes with certain risks and concerns, which we attempt to summarize below:

Initial Assessed Valuation & Statutory Compliance: According to the values provided in Appendix A of the project analysis, the total initial value of the TIA appears to be $209.14 million. If our understanding is correct, this would exceed the statutory maximum assessed valuation of $200 million.

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. If tax increment revenues are insufficient to make a full debt service payment, as projected in the early years of each financing scenario, the City will be required to make the payment from other sources of funds.

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.

Private Development 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 in the City's tax rolls.

Construction Delays: While the project analysis does not provide a specific timeline for the public improvements, delays in constructing either the public improvements or the private developments could impact the TIA's assessed value, potentially reducing tax increment revenues.

Escalation of Project Costs: Inflation could have a significant impact on the cost and timeline of delivering the public improvements, potentially delaying the private developments, which could impact the TIA's assessed value, 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.

Interest Rate Risk: The City will be exposed to interest rate risk until its anticipated bonds are sold. The project analysis assumes an interest rate of 4% in the low growth scenario, which we note is currently below market rate for 25-year debt.

Risk Summary: The general impact to the City 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 City's other revenues and reserves to pay the debt service 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 the unanticipated costs and risks associated with the project, we recommend the City consider the following measures:

1. We recommend updating the AV figures in the project analysis to reflect 2025 actuals and confirming with the County Assessor that the initial AV of the increment area is below the $200 million threshold established in the TIF Statute.
2. Prior to approving the TIA, we recommend the City coordinate closely with the County Assessor and County Treasurer's office to ensure that all parties have an accurate understanding of the assessment, levy, and apportionment process, and timeline and to provide sufficient time to work through concerns.
3. Prior to approving the TIA, we recommend the City coordinate closely with the impacted taxing districts 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.
4. While we believe references to Snohomish County and North County Regional Fire Authority are an error, we recommend updating page 32 of the project analysis to clarify the list of impacted taxing districts.
5. We recommend correcting the typos in the first three lines of Figure 7 of the project analysis to accurately reflect "SR-202" to avoid confusion about what projects are eligible to be funded with TIF revenues.
6. We recommend updating the project analysis to reflect a June 1 effective date for the TIA, as defined in the TIF Statute (currently listed as July 1).
7. We recommend correcting the text on page 11, or the colors in Figure 3 of the project analysis to clarify which parcels are included in the TIA.
8. We recommend including a table in the project analysis similar to Table 6 of this review to clearly show how projected tax increment revenues compare to debt service costs. More specifically, for the first eight years of the TIA, tax increment revenues are projected to be insufficient to fully pay debt service.
9. Prior to issuing bonds, we recommend that City leadership discuss and establish a policy regarding how much debt service it is able and willing to pay from City general revenues and reserves on an annual basis, to offset projected as well as unanticipated tax increment revenue shortfalls.
10. We recommend using the 5.0% interest rate scenario as the baseline for planning purposes, as the 4.0% interest rate scenario is below current market rates.
11. Based on guidance provided by the Government Finance Officers Association, we recommend the City consider hiring a municipal advisor for this project to ensure responsible fiscal management. Municipal advisors have a fiduciary obligation to represent the City's financial interests by providing expert analysis on revenue projections, debt structuring, and risk assessment, and valuable insight and assistance to the City throughout the financing process.

Thank you for the opportunity to review the City's project analysis. Based upon the information provided to date in connection with these projects, this concludes our review. If there are material changes in the scope, timing, or cost of the projects, please let us know. We wish the City all the best with its projects.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer