Tax Increment Financing Project Analysis Review

– Port of Ridgefield –

March 15, 2024

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March 15, 2024

Randy Mueller
Chief Executive Officer
Port of Ridgefield
101 Mill Street, Suite 100
Ridgefield, WA

Dear Mr. Mueller:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the Port of Ridgefield's (the "Port") tax increment financing ("TIF") project analysis, consisting of the initial project analysis dated December 18, 2023. OST and Piper Sandler & Co., the state's municipal advisor, have reviewed the provided materials. Based on our review, which is detailed in the sections to follow, we believe that the Port's project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute"). However, please see our recommendations provided at the end of this letter.

Please note that this review is based on the information, projections, and assumptions provided by the Port and its consultants in the project analysis. OST has not independently verified the data or its accuracy or performed any feasibility analyses or projections of its own.

Executive Summary

The purpose of the Port's proposed tax increment area (the "TIA") is to encourage private development within the TIA by funding a portion of the cost of public improvements in the subareas of (i) NE 179th Street and NE 219th Street interchanges with Interstate-5 and (ii) the City of Ridgefield's waterfront.

According to the Port, for private development to occur in the TIA, the Port must complete many significant public improvement projects including improvements to transportation, wastewater, water, power, and life and safety infrastructure. The cost of these projects is estimated to be $62 million in 2023 dollars. The Port intends to finance $16.96 million of the public improvement costs through the issuance of LTGO bonds (the "Bonds") in 2029, 2033, and 2036, which will be backed by the full faith and credit of the Port. An estimated additional $5 million in project costs is expected to come from tax increment revenue projected to be in excess of debt service costs on the Bonds. The Port expects to fund the approximately $40 million balance of the project costs through other sources which will be identified in the future, such as Port funds, federal and state grants, and other similar resources.

Our review of the project analysis found potential risks worth consideration. A discussion of these risk considerations, as well as other factors that could impact tax increment revenue projections are included later in this review.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) of the TIF Statute requires that prior to the adoption of an ordinance authorizing the creation of a TIA, the local government proposing the TIA must provide a project analysis to OST for review. Upon completing the review, OST must provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the first draft of the Port's project analysis on December 18, 2023.

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 to the Port that might result from the implementation of the project are adequately disclosed.

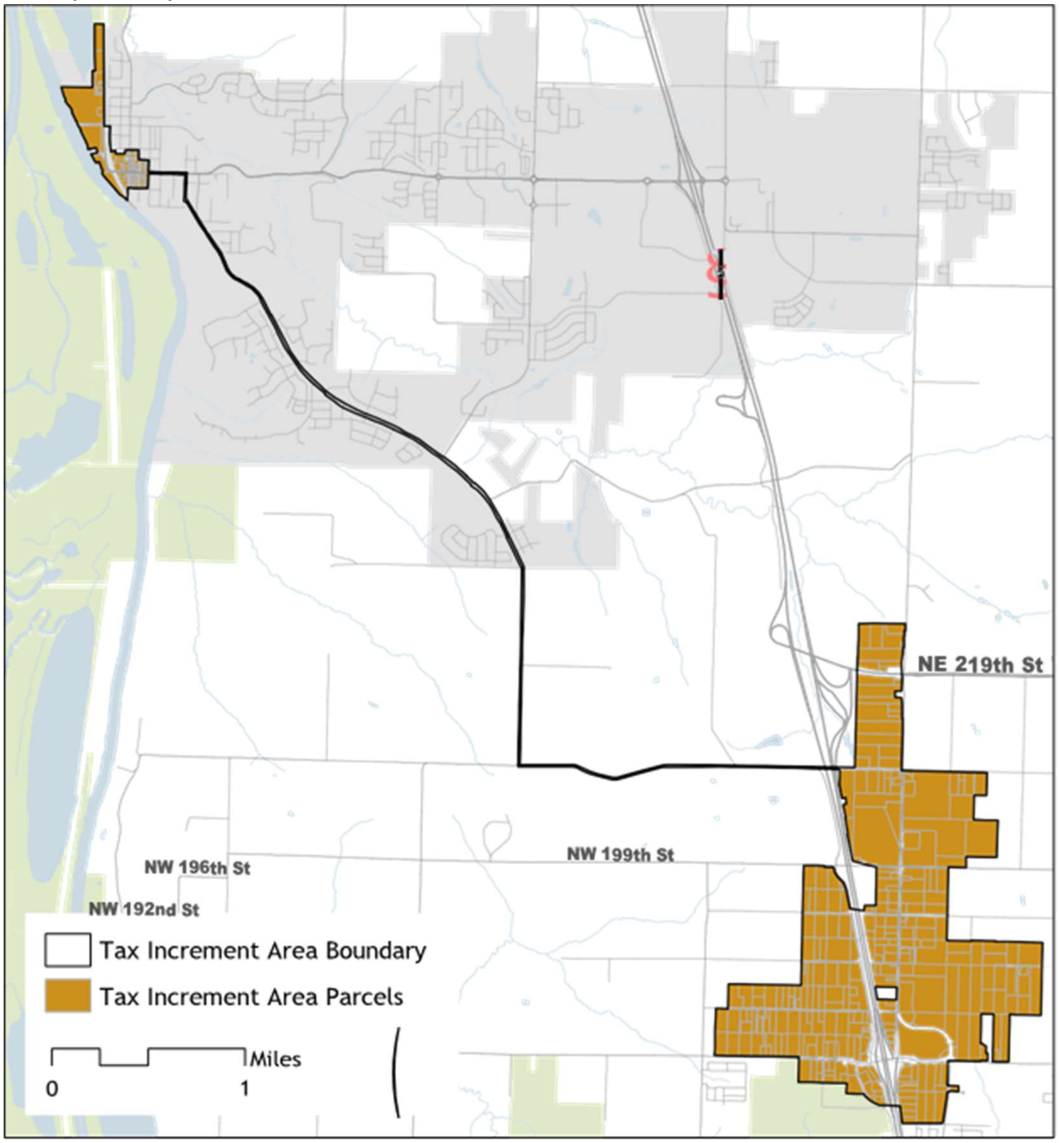
Project Team

Jurisdiction: Port of Ridgefield
County: Clark County
Redevelopment Area(s): (i) NE 179th Street and NE 219th Street interchanges with Interstate-5 and (ii) the city of Ridgefield's waterfront
Consultants: Tiberius Solutions LLC K&L Gates (bond counsel) Hilltop Securities Inc. (Financial Advisor) Johnson Economics Elain Howard Consulting SERA Design and Architecture, Inc.

Proposed Tax Increment Area

The Port's proposed TIA includes 538 parcels expected to be redeveloped across 1,282 acres in two subareas. The larger subarea is focused on the NE 179th Street and NE 219th Street interchanges with Interstate-5. The smaller subarea is focused on the City of Ridgefield waterfront. The two subareas are connected via public right of way that includes Pioneer Street, NW 31st Avenue, and NW 209th Street. According to the project analysis, the tax year 2024 taxable assessed valuation ("AV") of the TIA is \$198,036,238, representing 2.5% of the total 2024 AV of the Port (\$8,064,364,154). While these figures remain within the statutory size limit (equal to the lesser of \$200 million in AV and 20% of the Port's total AV) the AV of the proposed TIA is very close to the statutory maximum.

Figure 1 – Map of Proposed Tax Increment Area



Source: SERA Architects with data from the Clark County Assessor's Office per Port of Ridgefield

Impacted Taxing Districts

There are 11 taxing districts with regular property tax levies that will be directly impacted by the TIA. These districts are:

1. County Current Expense
2. County Conservation Futures
3. Clark County Roads & Diversion
4. Fort Vancouver Regional Library
5. Metropolitan Park District
6. Clark-Cowlitz Fire Rescue
7. Clark-Cowlitz Fire Rescue EMS
8. Port of Ridgefield
9. Fire District 6 General
10. Fire District 6 EMS
11. City of Ridgefield

The levy rate for each of these jurisdictions will be applied to the increased AV within the TIA and remitted to reimburse the Port for debt service on Port-issued bonds and to potentially pay other eligible public improvement costs. It should be noted that the TIF Statute requires a mitigation plan if at least 20% of the regional fire protection district's AV is expected to be impacted. However, the Port identifies in its analysis that less than 20% of the AV of the Fire Districts within the TIA is expected to be impacted by the TIA.

Project Description

Public Improvements Within the TIA

To facilitate the private developments in the TIA, the project analysis identifies a variety of potential projects that may be funded by the TIA including, Rebuilding the Ridgefield Waterfront, Community Enhancements & Mitigation, and New Small Business Facilities. The projects are estimated to cost $62 million. Of this total, $16.96 million is expected to be funded through bond proceeds, $5 million from tax increment revenue on a cash basis, and the remaining $40 million from other sources, which will be identified in the future and may be a combination of Port funds, federal and state grants, and other similar resources. The public improvements, as described in the project analysis, are:

A. Rebuilding the Ridgefield Waterfront. Specific activities may include:

- **Infrastructure.** Upland and in-water improvements, including demolition, grading, complete streets, utility work, parking facilities, docks, EV charging, and brownfield mitigation.
- **Park.** Planning and construction of a waterfront park and accessory infrastructure on the Ridgefield Waterfront.
- **Multipurpose Public Parking Lot**. To accommodate overflow boat launch parking, kayakers, and visitors to the downtown, Overlook Park, Splash Pad, Waterfront Park, and Ridgefield National Wildlife Refuge.
- **Building One**. Planning and construction of a multistory mixed-use building with office, retail, and community spaces on the Ridgefield waterfront, along with accessory parking,

street, and utility work.

- **Day Docks.** New docks on Lake River for public use, incorporating facilities for Clark-Cowlitz Fire Rescue and Clark County Sheriff's Office.

B. **Community Enhancements & Mitigation. Specific activities may include:**

- **Downtown Small Business Facilities.** Public facility planning, construction, and renovation, brownfield mitigation, street and parking improvements.
- **Railroad Avenue Facility.** Pedestrian bridge, parking facilities, and EV charging.
- **Voluntary Mitigation.** Contributions to future fire stations, public library facilities, city and county parks, and other public facilities as voluntary mitigation to impacted taxing jurisdictions.

C. **New Small Business Facilities. Specific activities may include:**

- **Southern Port District Business Facilities.** Site acquisition, streets, utilities, public facility construction, parking facilities, and contribution to the planning and construction of freeway interchange improvements.

Table 1 summarizes the estimated cost and timing for each of these public improvements. The Port expects construction of public improvements to begin in 2029 and take place through 2049.

Table 1 – Public Improvements to be Funded with TIA Revenues and Other Sources

Project	Year of Construction	Total Project Cost (2023 $)	TIA Funding Share (2023 $)
A. Rebuilding Ridgefield Waterfront			
Infrastructure	2029	$ 10,000,000	$ 5,000,000
Park	2029	$ 10,000,000	$ 2,000,000
Multipurpose Public Parking Lot	2030	$ 2,000,000	$ 1,000,000
Building One	2036	$ 9,000,000	$ 4,500,000
Day Docks	2038	$ 4,000,000	$ 1,000,000
B. Community Enhancements and Mitigation			
Downtown Small Business Facilities	2033	$ 3,000,000	$ 1,000,000
Railroad Avenue Facility	2044	$ 10,000,000	$ 1,500,000
Voluntary Mitigation	2034	$ 8,000,000	$ 1,000,000
C. New Small Business Facilities			
Southern Port District Business Facilities	2049	$ 6,000,000	$ 5,000,000
Total		$ 62,000,000	$ 22,000,000

Source: Port of Ridgefield

Private Development Within the TIA

The project analysis does not identify any specific private development projects. Instead, market analysis was completed to identify speculative future development opportunities based on current market conditions, and assuming the list of TIA public improvements are completed. The total value of the speculative development is estimated to be $598 million in 2023 dollars and $1.3 billion in nominal dollars.

The value of this speculative private construction is forecast to be completed evenly over a 20-year period from 2028 through 2047 and come on the tax rolls with a two-year delay in years 2030 through 2049, shown in table 2 below.

Table 2 - Summary of Estimated Private Development, Proposed Port of Ridgefield TIA

Taxable Assessed Value of Speculative New Construction Added to TIA Each Year		
Year on Tax Roll	Added AV in 2023 $	Added AV in Nominal $
2030	$29,900,000	$40,300,000
2031	29,900,000	42,400,000
2032	29,900,000	44,500,000
2033	29,900,000	46,800,000
2034	29,900,000	49,200,000
2035	29,900,000	51,700,000
2036	29,900,000	54,300,000
2037	29,900,000	57,100,000
2038	29,900,000	60,000,000
2039	29,900,000	63,100,000
2040	29,900,000	66,300,000
2041	29,900,000	69,700,000
2042	29,900,000	73,200,000
2043	29,900,000	77,000,000
2044	29,900,000	80,900,000
2045	29,900,000	85,000,000
2046	29,900,000	89,400,000
2047	29,900,000	93,900,000
2048	29,900,000	98,700,000
2049	29,900,000	103,700,000
Total	$598,000,000	$1,347,200,000

Source: Johnson Economics

Assessed Value of the TIA

According to the Clark County Assessor, as cited in the project analysis, the AV within the TIA for the 2024 tax year is $198,036,238, representing 2.5% of the total 2024 AV of the Port ($8,064,364,154). While it remains within the statutory size limit (equal to the lesser of $200 million in AV and 20% of the Port's total AV) the AV of the proposed TIA is very close to the statutory maximum.

Much of the new construction forecast to occur in the proposed TIA is predicated on the Port providing the public improvements identified in their report. In addition to increases in assessed value from new construction, all property values in the proposed TIA are estimated to increase by 4.5% per year from appreciation. Table 3 summarizes the forecast total growth in assessed value in the TIA from new construction and appreciation. The total assessed value of real property in the proposed TIA is forecast to grow from $198 million in 2024 to $2.6 billion in 2049, the final year the proposed TIA would be eligible to receive tax allocation revenue.

A second scenario provided assumes the public improvements identified in this report are not completed. In this scenario, the forecasted present value of the private development decreases from $598 million to $297 million, a 50% decrease. According to the project analysis, the private development forecast in this analysis would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements.

Table 3-Assessed Value Forecast, Proposed Port of Ridgefield TIA (Nominal $)

Tax Year	Prior Year	Appreciation of Existing Property	New Construction	Total
2024				$198,036,238
2025	$198,036,238	$8,911,631	-	206,947,869
2026	206,947,869	9,312,654	-	216,260,523
2027	216,260,523	9,731,724	-	225,992,247
2028	225,992,247	10,169,651	-	236,161,898
2029	236,161,898	10,627,285	-	246,789,183
2030	246,789,183	11,105,513	$40,315,225	298,209,921
2031	298,209,921	13,419,446	42,371,302	354,000,669
2032	354,000,669	15,930,030	44,532,238	414,462,937
2033	414,462,937	18,650,832	46,803,382	479,917,151
2034	479,917,151	21,596,272	49,190,355	550,703,778
2035	550,703,778	24,781,670	51,699,064	627,184,512
2036	627,184,512	28,223,303	54,335,716	709,743,531
2037	709,743,531	31,938,459	57,106,837	798,788,827
2038	798,788,827	35,945,497	60,019,286	894,753,610
2039	894,753,610	40,263,912	63,080,270	998,097,792
2040	998,097,792	44,914,401	66,297,364	1,109,309,557
2041	1,109,309,557	49,918,930	69,678,529	1,228,907,016
2042	1,228,907,016	55,300,816	73,232,133	1,357,439,965
2043	1,357,439,965	61,084,798	76,966,973	1,495,491,736
2044	1,495,491,736	67,297,128	80,892,288	1,643,681,152
2045	1,643,681,152	73,965,652	85,017,795	1,802,664,599
2046	1,802,664,599	81,119,907	89,353,701	1,973,138,207
2047	1,973,138,207	88,791,219	93,910,740	2,155,840,166
2048	2,155,840,166	97,012,807	98,700,189	2,351,553,162
2049	2,351,553,162	105,819,892	103,733,898	2,561,106,952

Note: Dollar values in this summary exhibit may differ than other exhibits in the report due to rounding Source: Tiberius Solutions

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2024, with 2025 being the first year in which the Port expects to receive tax increment revenues. The term of the TIA is assumed to be 25-years (the maximum allowed) with 2049 being the final year in which tax increment revenues will be received. The Port estimates a 2024 tax increment base AV of $198.036 million and estimates $598 million (in 2023 dollars) in additional AV will be added between 2025 and 2049 from new construction. In addition to increases in assessed value from new construction, all property values in the proposed TIA are estimated to increase by 4.5% per year from appreciation, resulting in a total increment value of $2.36 billion in 2049. Annual tax allocation revenues are expected to be $34,000 in 2025, increasing to $4.6 million in the TIA's final year in 2049. Total tax allocation revenue over 25 years is projected to equal $45.8 million (see Table 4 – Tax Allocation Revenues).

Under the TIF Statute, only certain regular levies are available 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 AV of the TIA, future AV of the taxing districts, and relevant levy limits. The project analysis calculated the levy rate for each of these jurisdictions and applied 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 Allocation Revenues,

Tax Year	Total	Base Value	Increment	Blended Levy Rate	Tax Allocation Revenues
2024	$198,036,238	$198,036,238	-	-	-
2025	206,947,868	198,036,238	$8,911,630	$3.82	$34,014
2026	216,260,522	198,036,238	18,224,284	3.69	67,260
2027	225,992,246	198,036,238	27,956,008	3.57	99,770
2028	236,161,897	198,036,238	38,125,659	3.45	131,567
2029	246,789,183	198,036,238	48,752,945	3.43	166,986
2030	298,209,921	198,036,238	100,173,683	3.31	331,820
2031	354,000,670	198,036,238	155,964,432	3.20	499,574
2032	414,462,937	198,036,238	216,426,699	3.10	670,356
2033	479,917,150	198,036,238	281,880,912	3.00	844,262
2034	550,703,776	198,036,238	352,667,538	2.90	1,021,393
2035	627,184,511	198,036,238	429,148,273	2.89	1,240,099
2036	709,743,529	198,036,238	511,707,291	2.79	1,430,002
2037	798,788,824	198,036,238	600,752,586	2.70	1,623,356
2038	894,753,607	198,036,238	696,717,369	2.61	1,820,444
2039	998,097,789	198,036,238	800,061,551	2.53	2,021,370
2040	1,109,309,554	198,036,238	911,273,316	2.44	2,226,243
2041	1,228,907,013	198,036,238	1,030,870,775	2.45	2,526,988
2042	1,357,439,962	198,036,238	1,159,403,724	2.37	2,748,727
2043	1,495,491,733	198,036,238	1,297,455,495	2.29	2,974,253
2044	1,643,681,150	198,036,238	1,445,644,912	2.22	3,204,312
2045	1,802,664,597	198,036,238	1,604,628,359	2.14	3,439,024
2046	1,973,138,203	198,036,238	1,775,101,965	2.07	3,678,505
2047	2,155,840,162	198,036,238	1,957,803,924	2.09	4,097,301
2048	2,351,553,159	198,036,238	2,153,516,921	2.02	4,359,321
2049	2,561,106,949	198,036,238	2,363,070,711	1.96	4,625,105
Total					$45,882,052

Financing Plan for Public Improvements

To finance the public improvements, the Port anticipates issuing three series of LTGO Bonds. The Port assumes the three series of bonds will be issued in 2029, 2033, and 2036. The total principal amount of the Bonds is estimated to be $19.8 million, generating $17 million in funding for projects. The Bonds are assumed to be structured to be fully repaid by 2049, the last year of the TIA.

The estimated financing assumptions are shown in Table 5. The Port assumed that the debt will be tax-exempt, used interest rates as of December 6, 2023, and structured the bonds with increasing debt service through 2040, followed by approximately level debt service for years 2041-2049. The Port assumes that interest is capitalized for the first 36 months of each issuance, with the total amount of proceeds allocated to capitalized interest equaling approximately $2.6 million. The total debt service is projected to be $29.86 million.

Table 5. Estimated Terms of Indebtedness for Proposed Port of Ridgefield TIA Public Improvements (Nominal $)

	2029 Series	2033 Series	2036 Series	Total
Closing Month	June 2029	June 2033	June 2036	
Taxable Status	Tax Exempt	Tax Exempt	Tax Exempt	
Bond Rating	BBB	BBB	BBB	
True Interest Cost	5.09%	5.12%	5.18%	
Par Amount	$10,300,000	$2,800,000	$6,700,000	$19,800,000
Estimated Project Cost (2023$)	$8,939,929	$2,311,575	$5,706,854	$16,958,358

Source: Hilltop Securities

The Port provided an alternate scenario that assumes that the Bonds are non-rated, compared to the assumed BBB rating in the baseline scenario. In this scenario, the Port only funds $8.9 million of the proposed Public Improvement project costs. Total debt service is projected at $17.4 million, which the Port anticipates would be covered by TIA revenue.

Debt Capacity

The Port is constrained by the statutory capacity for non-voted general obligation indebtedness. Table 6 shows the calculated statutory authority for non-voted general obligation indebtedness for the Port in 2024, estimated to be $20,160,910. As of November 30, 2023, the Port has $471,880 of outstanding non-voted general obligation indebtedness, resulting in $19,689,030 of remaining debt capacity. The proposed $19.8 million in debt is greater than the current debt capacity of the Port based on 2024 assessed value; therefore, some limited growth in assessed value will be required in order to fully enact the financing plan.

Table 6 – Debt Capacity

2023 Assessed Valuation for 2024 Collections	$8,064,364,154
Non-Voted Debt Capacity (0.25% of AV)	20,160,910
Less: Outstanding Non-Voted Debt	-471,880
Remaining Non-Voted Debt Capacity	19,689,030
Less: Financing Proposed	(19,800,000)
Projected Remaining Non-Voted Capacity	**($110,970)**
Projected Remaining Non-Voted Capacity %	**-0.55%**

Projected Debt Service Coverage

For the baseline analysis, the project analysis projects tax allocation revenues to be sufficient to cover debt service payments for the Bonds. Due to the use of capitalized interest, no tax allocation revenue would be needed for debt service payments until 2032. The minimum debt service coverage ratio for the Bonds is projected to be 1.25x in 2032 but reaches over 2.08x in the final year of debt service, 2049. The average debt service coverage ratio from 2032 to 2049 is 1.54x. The proposed debt service schedule results in $16.02 million of tax allocation revenues above and beyond what is needed for debt service payments.

The alternate scenario reflects lower projected tax allocation revenues and assumes that the Bonds only produce $8.9 million for public improvements. As with the baseline scenario, it shows that no other funds beyond tax allocation revenues would be required to cover debt service payments for the Bonds. The minimum debt service coverage ratio for the alternate scenario is 1.25x in 2035 but reaches over 2.22x in the final year of debt service, 2049. The average debt service coverage ratio from 2032 to 2049 is 1.61x. The remaining $10.54 million of tax allocation revenues could be used for direct public improvement costs.

Table 7 – Tax Allocation Revenues and Debt Service Coverage

Scenario	First Year Tax Increment Revenues Exceed Debt Service	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue ($MMs)	Total Projected TIF Debt Service ($MMs)	Projected Maximum Cumulative Shortfall ($MMs)	Total Surplus/ (Shortfall) Through End of TIA ($MMs)	Aggregate Debt Service Coverage Ratio*
Baseline	2025	N/A	$45.88	$29.86	N/A	$16.02	1.54x
Alternate	2025	N/A	$27.94	$17.40	N/A	$10.54	1.60x

Source: Port of Ridgefield

Table 8 – Tax Allocation Revenues and Debt Service Coverage Detail

Year	Baseline					Conservative				
	TIF Revenues	TIF Aggregate Net Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Revenues	TIF Aggregate Net Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2024										
2025	34,014	-	34,014	34,014	N/A	34,014	-	34,014	34,014	N/A
2026	67,260	-	67,260	101,274	N/A	67,260	-	67,260	101,274	N/A
2027	99,770	-	99,770	201,044	N/A	99,770	-	99,770	201,044	N/A
2028	131,567	-	131,567	332,611	N/A	131,567	-	131,567	332,611	N/A
2029	166,986	-	166,986	499,597	N/A	166,986	-	166,986	499,597	N/A
2030	331,820	-	331,820	831,417	N/A	264,642	-	264,642	764,239	N/A
2031	499,574	-	499,574	1,330,991	N/A	363,411	-	363,411	1,127,650	N/A
2032	670,356	534,750	135,606	1,466,597	1.25x	463,367	368,513	94,854	1,222,504	1.26x
2033	844,262	674,750	169,512	1,636,109	1.25x	564,570	448,513	116,057	1,338,561	1.26x
2034	1,021,393	812,750	208,643	1,844,752	1.26x	667,082	528,913	138,169	1,476,730	1.26x
2035	1,240,099	988,500	251,599	2,096,351	1.25x	795,473	634,425	161,048	1,637,778	1.25x
2036	1,430,002	1,110,875	319,127	2,415,478	1.29x	904,209	720,838	183,371	1,821,149	1.25x
2037	1,623,356	1,297,125	326,231	2,741,709	1.25x	1,014,395	810,026	204,369	2,025,518	1.25x
2038	1,820,444	1,267,875	552,569	3,294,278	1.44x	1,126,178	818,176	308,002	2,333,520	1.38x
2039	2,021,370	1,615,125	406,245	3,700,523	1.25x	1,239,620	983,600	256,020	2,589,540	1.26x
2040	2,226,243	1,777,325	448,918	4,149,441	1.25x	1,354,785	1,083,100	271,685	2,861,225	1.25x
2041	2,526,988	2,019,026	507,962	4,657,403	1.25x	1,527,257	1,220,100	307,157	3,168,382	1.25x
2042	2,748,727	2,195,501	553,226	5,210,629	1.25x	1,650,766	1,316,900	333,866	3,502,248	1.25x
2043	2,974,253	2,224,376	749,877	5,960,506	1.34x	1,776,005	1,210,300	565,705	4,067,953	1.47x
2044	3,204,312	2,222,738	981,574	6,942,080	1.44x	1,903,288	1,212,000	691,288	4,759,241	1.57x
2045	3,439,024	2,221,900	1,217,124	8,159,204	1.55x	2,032,684	1,210,700	821,984	5,581,225	1.68x
2046	3,678,505	2,221,601	1,456,904	9,616,108	1.66x	2,164,258	1,211,400	952,858	6,534,083	1.79x
2047	4,097,301	2,221,575	1,875,726	11,491,834	1.84x	2,400,456	1,208,800	1,191,656	7,725,739	1.99x
2048	4,359,321	2,226,564	2,132,757	13,624,591	1.96x	2,543,178	1,207,900	1,335,278	9,061,017	2.11x
2049	4,625,105	2,226,039	2,399,066	16,023,657	2.08x	2,687,818	1,208,400	1,479,418	10,540,435	2.22x
Total[1]	45,882,052	29,858,395	16,023,657		1.44x	27,943,039	17,402,604	10,540,435		1.49x

Source: Port of Ridgefield

Key Risks

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

Development Assumptions: The project analysis does not provide any information related to specific private development. The private development discussed in the project analysis is speculative in nature which carries risk. It is also unclear how the public improvements described will encourage the private development that is projected. Additionally, construction of the public improvements is not expected to begin for five years, while the majority of the planned improvements will not be constructed until years 10-20 of the 25-year term of the TIA. To whatever extent private development is prompted by these public improvements, it is likely that it would not actually occur until such improvements are close to completion or completed. Working with developers to identify specific private development and the required public improvement projects related to this development will help reduce risk to the Port.

Project Costs Relative to Identified Fundings Sources: The Port's project analysis did not identify which specific public improvements will be constructed with the $17 million of bond proceeds and $5 million of TIA revenue. The project analysis also did not provide any details or description of the potential funding sources or a plan of finance for the remaining $40 million of public improvements. Instead, the project analysis generically indicated that Port funds and federal and state grants are funding options. According to the Port's 2017-2022 annual financial statements, it consistently has had a net operating deficit, even when taking into account the revenue from its annual property tax levy. Therefore, it seems unlikely that Port revenues would be a significant source of funding for the public improvements. While federal and state grants may be available as a project funding source to some extent, there is no evidence provided in the project analysis to suggest that funding will be available in the amount and on the timeline required to fill the identified project shortfall. If the Port is unable to secure full funding, or if project costs rise considerably, it could increase the amount of debt or other general fund resources needed to complete the public improvements.

General Obligation Pledge: The LTGO Bonds expected to be issued in connection with the Port's plan of finance will obligate the Port to pay the full amount of debt service due from Port revenues and resources, regardless of the amount of tax increment revenues generated from the TIA. Because of the project's potential cost to the Port'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.

Plan of Finance Assumptions: The plan of finance assumes the Port will be issuing the maximum amount of debt allowable by statute, leaving it with zero non-voted debt capacity , without future increases in the Port's AV. Additionally, the Port will be exposed to interest rate risk until its bonds are sold. The project analysis assumes interest rates as of December 6, 2023. However, the Port did not include any cushion for planning purposes with the first issuance anticipated in 2029, 5 years away. Borrowing costs that come in higher than planned could result in lower-than-expected bond proceeds or increased pressure on the Port's available revenues.

Debt Structure: The Port's financing plan assumes that net debt service is structured to increase in years 2032 through 2041 to mirror expected growth in tax increment revenues. If growth within the TIA is delayed and tax increment revenues fall short of projections, this structure will put stress on the Port to fund the shortfall with other Port resources. Additionally, all interest cost in the first three years of each bond issue is expected to be capitalized, as the projected tax increment revenues are not sufficient to pay debt service in these years. However, the approximately $2.6 million in bond proceeds that will be needed to fund this capitalized interest may not be the most efficient way to utilize the Port's debt capacity.

Escalation of Project Costs: With an unclear timeline for the construction of the public improvements, inflation could have a significant impact on the cost of these projects. The projected $40 million project cost shortfall is based on 2023 dollars. With the construction period projected to occur between 2029 and 2049 construction cost inflation may significantly increase the current project funding shortfall.

Construction Delays: Any delay in private development construction timelines could reduce the amount of tax increment revenues produced by the TIA and increase the cost of the public improvements.

Permits: It is unclear if there are any identifiable private projects. Delays in permits for projects could negatively impact the construction of the private developments within the TIA, potentially reducing the amount of tax increment revenues generated by the TIA.

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

Assessed Valuations: As private developments are completed, the actual assessed values related to these developments 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.

Risk Summary: The general impact to the Port 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 Port's general revenues and reserves to pay the debt service due on the Bonds issued to fund the public improvements, reducing the Port's ability to allocate those funds to other projects or operations.

Additionally, the Port would be left with zero non-voted capacity, severely limiting the Port's financing options should unforeseen needs, outside of the proposed projects, arise.

Recommendations

To help ensure the financial success of the project, and to minimize unanticipated costs and risks, we recommend the Port consider the following measures:

1. Prior to approving the TIA, we recommend the Port coordinate closely with the taxing districts impacted by the project, and the County Assessor's Office, to ensure that all parties have an accurate understanding of how the TIA will impact them and provide sufficient time to work through any concerns.
2. Prior to approving the TIA, we recommend that the Port discuss and establish a policy regarding how much debt service it is able and willing to pay from Port general revenues and reserves on an annual basis, to offset unanticipated tax increment revenue shortfalls.
3. With a $40 million funding shortfall for the public improvements, identifying specific sources of funding outside of tax increment revenues will be helpful. It is recommended to provide a more detailed plan for closing the funding gap and how these funding mechanisms or sources would impact the Port's financials.
4. Due to the difference between the public improvement costs and the current available funding, prior to approving the TIA, we recommend that the Port identify specific private development projects and carefully prioritize the public improvements that will encourage private development.
5. As the Port continues to develop its plan of finance, we suggest including an interest rate cushion in its bond financing scenarios.
6. Given the timeline for public improvements, we recommend the Port revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections. This would provide a more accurate picture of the amount of the projected funding shortfall.
7. The report discusses AV growth rates of 4.5% and 4.2%, it is recommended that the Port revisit the project analysis and ensure these rates are consistent or provide some explanation for the use of different assumptions.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer