Tax Increment Financing Project Analysis Review

– City of Blaine –

May 16, 2023

Office of the Treasurer
State of Washington
Mike Pellicciotti

May 16, 2023

Michael Harmon, City Manager
City of Blaine
435 Martin
Blaine, WA 98230

Dear Mr. Harmon,

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Blaine's (the "City") revised tax increment financing ("TIF") project analysis, provided on February 28, 2023. OST and Piper Sandler, the state's municipal advisor, have reviewed the provided material. Based on our review, which is detailed in the sections to follow, we believe that the City's updated project analysis, supported by the supplemental documents, generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute").

Please note, 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 or its accuracy or performed any feasibility analyses or projections of its own.

Executive Summary

The proposed Tax Increment Area ("TIA") includes the area designated as "East Blaine" and is comprised of 833 acres. The TIA represents key areas that are expected to be redeveloped over time as a result of infrastructure improvements that are to be partially funded through the state's TIF program. The objective of the TIA, as described by the City's project analysis, is to provide support to encourage private development in the East Blaine area.

The City's project analysis provides a high-level overview of the public improvements to be constructed, with a total cost estimate of approximately $14 million. These improvements are projected to be completed in 2024. According to the project analysis, the City plans to contribute $3.5 million upon completion and conveyance of the improvements from the developers to the City, with key developers being responsible for all other costs necessary to design and complete the public improvements. Standards of design and construction and the cost paid to the developers upon conveyance are expected to be set by binding agreement between the City and the developers.

The project analysis includes three development program scenarios ('Baseline', 'Alternative 1', and 'Alternative 2') to help assess potential risk based on different levels of private development within the TIA.

To finance the $3.5 million contribution from the City toward the cost of public infrastructure improvements, the City intends to issue Limited Tax General Obligation ("LTGO") bonds, which will be backed by the full faith and credit of the City. Should tax allocation revenues be insufficient to fully pay the debt service on the LTGO bonds, the full faith and credit pledge would require the City to pay the remaining debt service due on the bonds from the City's general revenues or reserves. As demonstrated below in Figures 7 and 8, the projections contained in the project analysis indicate that in each of the assumed development program scenarios, the City will be required to pay some portion of the debt service due on the LTGO bonds from general revenues in the early years due to projected shortfalls in tax allocation revenues.

In our review of the project analysis, one of our primary goals is to ensure that risks to the City are adequately disclosed. As we describe further below, in this proposed TIA, the primary risk to the City is lower-than-expected tax allocation revenues, which could be caused by delays in construction of the private development within the TIA or other factors that lead to lower-than-expected future assessed values in the TIA.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) 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. OST must complete the review within 90 days of receipt of the project analysis. 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 project analysis (dated February 27, 2023) on February 28, 2023, and the City provided an updated project analysis to OST on April 12, 2023.

Project Team

In completing their project analysis, the City received consultation from Stowe Development & Strategies and ECONorthwest. A full list of the East Blaine project team, including city staff and consultants is included in the project analysis.

Proposed Tax Increment Area

The TIA includes the area designated as "East Blaine" and is comprised of 833 acres with the boundaries as follows: western at N Harvey Rd, eastern shared with the City limits (just west of W 31st Pl), southern at H Street, and northern at the US/Canadian border (see Figure 1). According to the project analysis, the TIA represents key areas that are expected to be redeveloped over time, as the result of the infrastructure improvements to be funded in part through the state's TIF program.

The assessed valuation ("AV") of the TIA in 2023 is approximately $29,585,577 (about 1.2% of the City's total 2022 AV), which is less than the statutory limitations of the lesser of $200 million AV and 20% of the City's total AV ($1,666,106,322 in 2022).

Figure 2 shows a list of parcels included in the proposed TIA.

Figure 1 – Map of Proposed Tax Increment Area

Source: City of Blaine

Figure 2 – Summary of TIF Parcels

Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value
410133010124	$134,000	$350,635	$484,635
410133013217	$144,000	$112,071	$256,071
410133013276	$70,000	$124,525	$194,525
410133016172	$156,000	$329,730	$485,730
410133017012	$176,592	$376,451	$553,043
410133017024	$156,000	$0	$156,000
410133017038	$156,000	$490,370	$646,370
410133017053	$178,817	$391,237	$570,054
410133021075	$184,470	$410,261	$594,731
410133037124	$0	$4,314	$4,314
410133045203	$181,456	$462,694	$644,150
410133049036	$197,005	$546,631	$743,636
410133064284	$227,250	$0	$227,250
410133066247	$240,880	$237,930	$478,810
410133068148	$216,973	$539,124	$756,097
410133068180	$178,800	$728,077	$906,877
410133076217	$177,079	$0	$177,079
410133083036	$198,332	$171,472	$369,804
410133100205	$87,084	$0	$87,084
410133119036	$188,332	$0	$188,332
410133169036	$1,298	$0	$1,298
410133196099	$5,950	$0	$5,950
410133200284	$1,819	$0	$1,819
410133203201	$5,846	$0	$5,846
410133280033	$196,960	$354,426	$551,386
410133297100	$230,000	$624,467	$854,467
410133310033	$197,005	$8,292	$205,297
410133335202	$5,760	$0	$5,760
410133347101	$199,035	$1,144,202	$1,343,237
410133350040	$205,603	$949,125	$1,154,728
410133366290	$418,250	$0	$418,250
410133377100	$200,000	$346,026	$546,026
410133385038	$195,752	$404,440	$600,192
410133409038	$198,332	$43,849	$242,181
410133411100	$190,000	$0	$190,000
410133423178	$288,750	$0	$288,750
410133442258	$312,750	$0	$312,750
410133444038	$198,332	$516,892	$715,224
410133444100	$200,000	$690,928	$890,928
410133541113	$591,750	$0	$591,750
410133543223	$636,750	$0	$636,750
410134031162	$278,750	$0	$278,750
410134036078	$423,000	$0	$423,000
410134050034	$178,246	$0	$178,246
410134066279	$186,960	$0	$186,960
410134075066	$198,100	$505,393	$703,493
410134086176	$224,250	$0	$224,250
410134092066	$198,496	$347,902	$546,398
410134114242	$374,250	$0	$374,250
410134116065	$244,750	$0	$244,750
410134150070	$188,415	$0	$188,415
410134178188	$395,750	$0	$395,750
410134183109	$574,750	$0	$574,750
410134185030	$188,415	$0	$188,415
410134227221	$615,500	$0	$615,500
410134285286	$187,860	$0	$187,860
410134287199	$1,000,193	$0	$1,000,193
410134364199	$988,750	$0	$988,750
410134376287	$615,250	$0	$615,250
410134464203	$1,000,000	$0	$1,000,000
410134469076	$5,578	$0	$5,578
410135030070	$1,886	$0	$1,886
410135050041	$729	$0	$729
410135070195	$1,000,000	$0	$1,000,000
410135070285	$378,000	$0	$378,000
410135085040	$200,000	$589,129	$789,129
410135085100	$190,000	$0	$190,000
410135114064	$218,094	$0	$218,094
		Total	$29,585,577

Source: ECONorthwest, 2023

Project Description

Public Improvements within the TIA

In order to encourage the anticipated private development in the TIA, the City has identified the infrastructure improvement projects, shown in Figure 3 below, that would support and help advance private redevelopment in the East Blaine TIA. These public improvements are expected to be funded initially by private developers and are anticipated to be completed in 2024. After completion, the City is expected to contribute $3.5 million, funded through the issuance of LTGO bonds.

Figure 3 – Summary Public Improvements within East Blaine TIA

ELECTRICAL		
3-phase Power to Harvey Road Tank	$	550,000
Power from Harvey Tank to Grandis Int.	$	925,000
	$	**1,475,000**
SEWER		
Sewer Harvey Road to Grandis	$	1,420,000
	$	**1,420,000**
WATER		
Harvey Road Water Booster Pump Station	$	1,750,000
Pressure Zone Changes	$	406,000
Well Field Booster Pump Station	$	1,500,000
Water Main Harvey Road to Grandis	$	560,000
	$	**4,216,000**
ROADWAY		
Harbor Hills Parkway - Jerome to Harvey	$	1,430,000
Harbor Hills Parkway - Harvey to Grandis West	$	2,550,000
Harbor Hills Parkway - Grandis West to H Street	$	1,900,000
D/E and Alan Street Realignment	$	750,000
	$	**6,630,000**
TOTAL:	**$**	**13,741,000**

Source: City of Blaine

Private Development Within the TIA

The project analysis includes three development program scenarios to help assess potential risks, based on different levels of private development. Generally, it appears development is expected to begin in 2024 and continue through at least 2031. These combined developments are projected to provide 1,442 residential homes and 50,000 square feet of commercial space when complete. Figure 4 shows the development plan for the Baseline development scenario, which is the most aggressive scenario in terms of private development and occupancy, and subsequent tax allocation revenue. Tax allocation revenues for the Baseline scenario are projected to total nearly $52.5 million over the life of the TIA (Figure 8 below). More conservative scenarios identified as Alternative 1 and Alternative 2 are described below, with more detail available in the City's project analysis.

Alternative 1: Uses the Baseline scenario and doubles the build-out/years (absorption) on all development while reducing commercial development by 50%. Tax allocation revenues for Alternative 1 are projected to total approximately $48.9 million.

Alternative 2: Uses the Baseline scenario and reduces all residential development by 25%, delays all development by 2-years, doubles the build-out/years (absorption) on all development, and reduces commercial development by 75%. Tax allocation revenues for Alternative 2 are projected to total approximately $33.3 million.

Figure 4 – Baseline Development Scenario

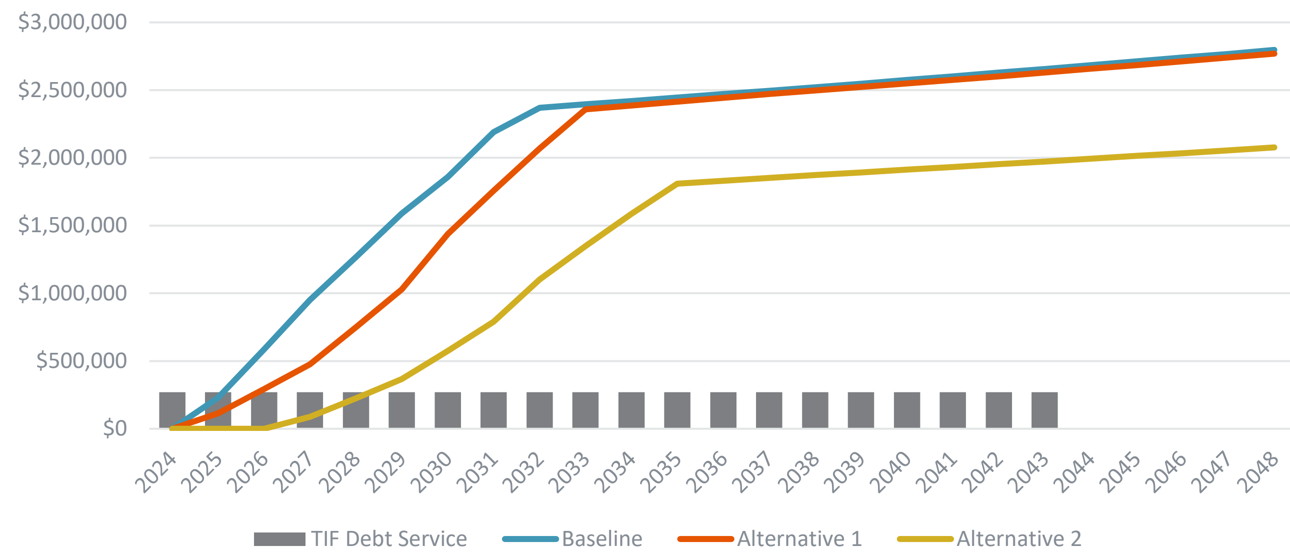
East Harbor Hills	Value Per Unit	Number of Units/Sqft	Start Year	Build-Out/Years	
Apartments (3-story)	$250,000	150	2025	4 years	$37,500,000
Single Family	$500,000	150	2025	4 years	$75,000,000
Affordable - manufactured	$150,000	150	2025	4 years	$22,500,000
SUB-TOTAL					**$135,000,000**
Grandis Pond	**Value Per Unit**	**Number of Units/Sqft**	**Start Year**	**Build-Out/Years**	
Single Family - Dev Area 1	$500,000	387	2024	3 years	$193,500,000
Single Family - Dev Area 2	$500,000	120	2027	2 years	$60,000,000
Multi-Family - Dev Area 2	$350,000	128	2027	2 years	$44,800,000
Commerical - Dev Area 2	$325	50,000	2027	5 years	$16,250,000
Single Family - Dev Area 3	$500,000	252	2029	2 years	$126,000,000
Single Family - Dev Area 4	$500,000	30	2030	1 years	$15,000,000
Single Family - Dev Area 5	$500,000	75	2031	1 years	$37,500,000
SUB-TOTAL					**$493,050,000**
TOTALS					**$628,050,000**

Source: Stowe Development & Strategies, 2023; working with the City of Blaine and key property owners.

Tax Allocation Revenue Projections

The project analysis indicates that the City will begin receiving tax allocation revenues in 2025. In the Baseline development scenario, revenues are forecast to be $229,000 in 2025 and increase to nearly $2.8 million in 2048 (totaling $52,499,000 over the 25-year life of the TIA). Annual revenues for the Alternative 1 development scenario are approximately 50% of the Baseline scenario through 2027, gradually growing to roughly equal to Baseline by 2033. Revenue for the Alternative 2 development scenario is delayed until 2027, at which point it is approximately 9% of the Baseline scenario. Alternative 2 revenues are approximately 20% - 50% of Baseline revenues through 2035 after which they stabilize at approximately $74% of Baseline revenue.

Figure 5 – Cumulative Tax Allocation Revenue Projections



Source: City of Blaine

Financing Plan

The public improvement projects will be constructed by private developers and conveyed to the City upon completion. The total cost of the improvements is estimated to be approximately $14 million. The cost paid to the developers upon conveyance—as well as standards of design and construction—are expected to be set by binding agreement between the City and the developers. The City anticipates issuing $3.5 million of non-voter approved LTGO debt in mid-2024 to fund its share of the proposed infrastructure projects. As stated in the project analysis, the City will need to service that debt with available resources regardless of whether the anticipated private development occurs, or assessed values increase, within the TIA. The City acknowledges that tax allocation revenues early in the TIA period (through 2025 in the Baseline scenario, through 2027 in Alternative 1, and through 2028 in Alternative 2) are projected to be insufficient to service the debt issued for the public improvements. The debt is currently expected to be structured with level annual payments based on an assumed true interest cost of 4.50%.

The project analysis discusses the possibility of adjusting the timing and amount of debt issued based on development activity (i.e., delaying issuance, backloading debt, and/or use of capitalized interest). As such, it is possible that the City's issuance plans could change to align to progress in the development. Additionally, the City expects that debt service costs not covered by tax allocation revenues will be shared equally between the City and key developers, as to be described in the final agreement between the City and the developers.

Debt Capacity

Per the project analysis, the City has a total 2022 assessed value of $1,666,106,322, with $24,991,595 in total non-voted debt capacity (1.5% of 2022 AV). The City reports having $798,830 outstanding non-voted debt, leaving non-voted debt capacity of $24,192,765 remaining before the proposed $3,500,000 financing.

Figure 6 – Debt Capacity

2022 Assessed Valuation for 2023 Collections	$1,666,106,322
Non-Voted Debt Capacity (1.5% of AV)	24,991,595
Less: Outstanding Non-Voted Debt	-798,830
Remaining Non-Voted Debt Capacity	24,192,765
Less: Proposed Financing	-3,500,000
Projected Remaining Non-Voted Capacity	**$20,692,765**
Projected Remaining Non-Voted Capacity %	**82.80%**

Source: City of Blaine

Projected Debt Service Coverage

All development scenarios project modest shortfalls in tax allocation revenues in the early years and substantial surpluses in the later years. For the Baseline scenario, coverage levels are below 1.00x in 2024 and 2025 but grow to exceed 2.00x in year 2026 and beyond, with an average annual coverage of 7.18x. Figures 7 and 8 below describe the projected tax allocation revenues, annual surpluses and deficits, and debt service coverage for the three development scenarios.

Figure 7 – Tax Allocation Revenues and Debt Service Coverage

Development Program	First Year Tax Allocation Revenues Exceed TIF Debt Service[1]	Year That Allocation Revenues Fully Reimburse Debt Service Shortfalls	Total Projected Tax Allocation Revenue	Total Projected TIF Debt Service	Projected Maximum Cumulative Shortfall	Total Surplus/ (Shortfall)	Average Debt Service Coverage Ratio
Baseline	2026	2026	$52,499,000	$5,400,000	($311,000)	$47,099,000	7.18x
Alternative 1	2026	2028	$48,937,000	$5,400,000	($425,000)	$43,537,000	6.55x
Alternative 2	2029	2032	$33,288,000	$5,400,000	($1,037,000)	$27,888,000	4.28x

Figure 8 – TIF Debt Service Coverage

	Baseline					Alternative 1					Alternative 2				
Year	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2024	-	270,000	(270,000)	(270,000)	0.00x	-	270,000	(270,000)	(270,000)	0.00x	-	270,000	(270,000)	(270,000)	0.00x
2025	229,000	270,000	(41,000)	(311,000)	0.85x	115,000	270,000	(155,000)	(425,000)	0.43x	-	270,000	(270,000)	(540,000)	0.00x
2026	586,000	270,000	316,000	5,000	2.17x	293,000	270,000	23,000	(402,000)	1.09x	-	270,000	(270,000)	(810,000)	0.00x
2027	950,000	270,000	680,000	685,000	3.52x	475,000	270,000	205,000	(197,000)	1.76x	88,000	270,000	(182,000)	(992,000)	0.33x
2028	1,267,000	270,000	997,000	1,682,000	4.69x	749,000	270,000	479,000	282,000	2.77x	225,000	270,000	(45,000)	(1,037,000)	0.83x
2029	1,590,000	270,000	1,320,000	3,002,000	5.89x	1,030,000	270,000	760,000	1,042,000	3.81x	366,000	270,000	96,000	(941,000)	1.36x
2030	1,858,000	270,000	1,588,000	4,590,000	6.88x	1,437,000	270,000	1,167,000	2,209,000	5.32x	576,000	270,000	306,000	(635,000)	2.13x
2031	2,189,000	270,000	1,919,000	6,509,000	8.11x	1,758,000	270,000	1,488,000	3,697,000	6.51x	791,000	270,000	521,000	(114,000)	2.93x
2032	2,370,000	270,000	2,100,000	8,609,000	8.78x	2,069,000	270,000	1,799,000	5,496,000	7.66x	1,103,000	270,000	833,000	719,000	4.09x
2033	2,395,000	270,000	2,125,000	10,734,000	8.87x	2,358,000	270,000	2,088,000	7,584,000	8.73x	1,349,000	270,000	1,079,000	1,798,000	5.00x
2034	2,420,000	270,000	2,150,000	12,884,000	8.96x	2,386,000	270,000	2,116,000	9,700,000	8.84x	1,588,000	270,000	1,318,000	3,116,000	5.88x
2035	2,445,000	270,000	2,175,000	15,059,000	9.06x	2,414,000	270,000	2,144,000	11,844,000	8.94x	1,810,000	270,000	1,540,000	4,656,000	6.70x
2036	2,471,000	270,000	2,201,000	17,260,000	9.15x	2,443,000	270,000	2,173,000	14,017,000	9.05x	1,830,000	270,000	1,560,000	6,216,000	6.78x
2037	2,496,000	270,000	2,226,000	19,486,000	9.24x	2,471,000	270,000	2,201,000	16,218,000	9.15x	1,851,000	270,000	1,581,000	7,797,000	6.86x
2038	2,522,000	270,000	2,252,000	21,738,000	9.34x	2,497,000	270,000	2,227,000	18,445,000	9.25x	1,872,000	270,000	1,602,000	9,399,000	6.93x
2039	2,548,000	270,000	2,278,000	24,016,000	9.44x	2,523,000	270,000	2,253,000	20,698,000	9.34x	1,893,000	270,000	1,623,000	11,022,000	7.01x
2040	2,575,000	270,000	2,305,000	26,321,000	9.54x	2,549,000	270,000	2,279,000	22,977,000	9.44x	1,913,000	270,000	1,643,000	12,665,000	7.09x
2041	2,602,000	270,000	2,332,000	28,653,000	9.64x	2,576,000	270,000	2,306,000	25,283,000	9.54x	1,932,000	270,000	1,662,000	14,327,000	7.16x
2042	2,629,000	270,000	2,359,000	31,012,000	9.74x	2,602,000	270,000	2,332,000	27,615,000	9.64x	1,953,000	270,000	1,683,000	16,010,000	7.23x
2043	2,656,000	270,000	2,386,000	33,398,000	9.84x	2,629,000	270,000	2,359,000	29,974,000	9.74x	1,973,000	270,000	1,703,000	17,713,000	7.31x
2044	2,684,000	-	2,684,000	36,082,000		2,657,000	-	2,657,000	32,631,000		1,993,000	-	1,993,000	19,706,000	
2045	2,712,000	-	2,712,000	38,794,000		2,684,000	-	2,684,000	35,315,000		2,014,000	-	2,014,000	21,720,000	
2046	2,740,000	-	2,740,000	41,534,000		2,712,000	-	2,712,000	38,027,000		2,035,000	-	2,035,000	23,755,000	
2047	2,768,000	-	2,768,000	44,302,000		2,741,000	-	2,741,000	40,768,000		2,056,000	-	2,056,000	25,811,000	
2048	2,797,000	-	2,797,000	47,099,000		2,769,000	-	2,769,000	43,537,000		2,077,000	-	2,077,000	27,888,000	
Total[1]	52,499,000	5,400,000	47,099,000		7.18x	48,937,000	5,400,000	43,537,000		6.55x	33,288,000	5,400,000	27,888,000		4.28x

1. Total row for debt service coverage reflects average coverage ratio.
2. Assumes interest rate of 4.50%.

Source: City of Blaine

City of Blaine Financials

The City indicates that for the past six years it has averaged $4 million in General Fund reserves that were not allocated to another operating or capital expense, and that these unallocated funds would be available to pay debt service, should tax allocation revenues be insufficient. The City has indicated a willingness to use reserves to cover shortfalls between tax allocation revenues and debt service, which are projected to range from $311,000 to $1.037 million in the development scenarios. However, there is risk that tax allocation revenues may grow slower than projected, requiring increased support and negatively impacting the City's ability to reimburse itself for these expenditures. Moreover, spending down City reserves for this purpose would reduce the City's liquidity and financial flexibility, limiting its ability to respond to future cashflow needs.

Key Risks to the City

From our review of the project analysis, it appears that the project has the potential to provide benefit to the City and region. Nonetheless, the project comes with certain risks to the City, primarily related to the construction timeline for public improvements and private development within the TIA and the sufficiency of actual tax allocation revenues to repay LTGO bonds that the City expects to issue to finance its portion of the public infrastructure improvements. Additionally, the project appears to be reliant on developers' buy-in up front to fund the initial public improvement costs.

During years with revenue shortfalls, the City will be required to pay any difference between debt service due and tax allocation revenues received from general City revenues. While the City plans to reimburse itself for such debt service payments made from general City revenues using tax allocation revenue, it is important for decision makers to be aware of the potential magnitude and timing of such payments and reimbursements and to appropriately budget for them. Additionally, since the TIF legislation limits the ability to collect tax allocation revenues to a period of 25 years, delays could potentially reduce the overall amount of tax allocation revenues that would be received by the City. Additional factors that could impact tax allocation revenues are described below:

> *Escalation of Project Costs:* While the City estimates public improvements will be completed in 2024, inflation could still have an impact on the projected cost of these projects. The project analysis shows cost inflation assumptions for the projects of approximately 4.00% - 5.00% per annum. This assumption provides the City with very little flexibility to accommodate higher-than-expected escalation of construction costs. For reference, according to Mortenson's Third Quarter 2022 report, construction cost inflation for Seattle was 9.3%, year over year.
>
> *Economic Conditions*: The project's projected tax allocation revenues could be negatively impacted by a downturn in the economy. A variety of economic factors could negatively impact the demand for and timeline of the development, jeopardizing the rate and scale of private development and reducing potential tax allocation revenues.
>
> *Construction Delays*: Any setback or delay in the private developers' ability to complete their projects could negatively impact tax allocation revenues. Whether related to building permits, environmental considerations, the cost of the improvements themselves, or some unforeseen change in developers' abilities to complete both the public improvements on behalf of the City or

the anticipated private developments, the City will remain responsible for repaying the LTGO bonds issued for the project, once issued.

Assessed Valuations: As private developments are completed, tax allocation revenues may be less than anticipated if the assessed value projections are less than expected or take more time to fully hit the tax rolls than is currently projected. If assessed valuations come in lower than or later than expected, projected tax allocation revenues could be reduced.

Interest Rate Risk: The City is exposed to interest rate risk until its bonds are sold. The key assumption of a 4.5% interest rate for the LTGO bonds offers a slight cushion to current market conditions. However, in the event that interest rates rise to levels in excess of this assumption, debt service will exceed the amounts assumed in the project analysis.

Risk Summary: The general impact to the City from any of the risk factors outlined above could be lower than expected tax allocation revenues and a greater reliance on the City's general revenues and reserves to pay the debt service on the LTGO bonds issued to fund public improvements in the TIA. Shortfalls in tax allocation revenues will require the City to apply general fund revenues or reserves toward repayment of the bonds, reducing its ability to allocate those funds to other projects or operations. If severe enough, this could result in the City not being fully reimbursed for debt service payments made from general City funds. However, these risks appear to be largely mitigated by the City limiting its financial risk through the public improvement cost sharing provisions and its expected ability to allocate one-half of any financial gap between debt service and tax allocation revenues to key developers, to be determined in the final agreement between the City and the developers. As such, the City's $3.5 million contribution appears to be conservatively structured.

Recommendations

To help ensure the long-term financial success of the project and to minimize risk, we recommend the City continuously monitor the risks identified and consider the following measures.

1. We recommend that the City determine how much risk exposure is appropriate for the project and how much potential debt service costs it is willing to cover to advance the project through years of tax allocation revenue shortfalls.

2. Prior to approving the TIA, we recommend that the City coordinate closely with other 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 each taxing district's property tax revenues.

3. Based on the City's willingness to cover potential debt service, we recommend the City consider budgeting for and setting aside funds to cover potential tax increment revenue shortfalls.

4. As the project moves forward, coordinate closely with the Whatcom County Assessor's Office to ensure that the tax allocation revenue projections match the County's assessment process and are as realistic as possible.

5. The City's interest rate assumptions contain only a small amount of cushion compared to current market conditions. We recommend that the City consider using somewhat more conservative interest rate assumptions.

6. We recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

Thank you for the opportunity to review the East Blaine Tax Increment Financing 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 the project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer