

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF CHELAN —

APRIL 25, 2023



OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti

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April 25, 2023

Wade Farris, City Administrator
City of Chelan
PO Box 1669
125 E Johnson Avenue
Chelan, WA 98816

Dear Mr. Farris:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Chelan's (the "City") tax increment financing ("TIF") project analysis initially provided on February 8, 2023, with an updated draft provided on March 30, 2023, along with written responses to OST questions. 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, 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, or communications with the City. 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 City's proposed East Chelan Area tax increment area (the "TIA") is to fund a portion of the cost of further developing its water utility infrastructure. The primary public improvement is the construction of the East Chelan Reservoir and Booster Pump Station; other elements of the project include four water main extensions from the reservoir to the surrounding neighborhoods. These improvements will allow the City to meet the demands of private development and provide redundancy during water emergency shortages.

As described by the City's project analysis, the costs for the public improvements are estimated at \$27,059,100; of this, up to \$16,000,000 is planned to be supported by TIF revenues. To finance the 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. The City expects to issue two series of bonds, one in 2024 for \$9 million, and another in 2028 for \$7 million.

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. As shown in Tables 3 and 4, the projections contained in the project analysis indicate that in each of the development program scenarios, the City will be required to pay some portion of the debt service due on the LTGO bonds from general revenues, especially in early years, due to projected shortfalls in tax allocation revenues.

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. OST is to complete its 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 first draft of the City’s project analysis on February 8, 2023, and an updated project analysis was provided by the City to OST on March 30, 2023.

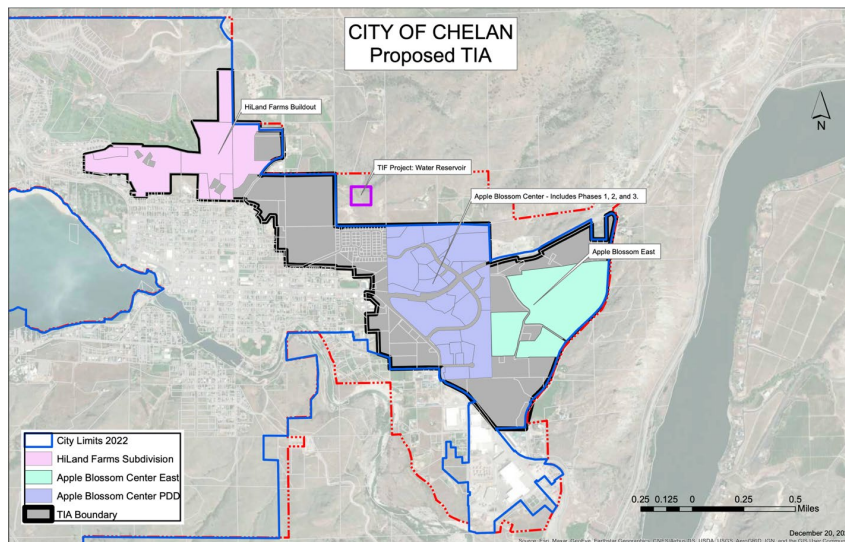
Project Team

Jurisdiction: City of Chelan	County: Chelan County
Project Title: East Chelan Area	Redevelopment Area: East Chelan Area
City of Chelan: Wade Farris, City Administrator Jackie Tupling, Finance Director John Ajax, Community Development Director Jake Youngren, Public Works Director	Consultants: Bob Stowe, Stowe Development & Strategies Morgan Shook, ECONorthwest Lee Marchisio, Foster Garvey PC, Bond Counsel Quentin D. Batjer, Davis Arneil Law Firm, Legal Counsel

Proposed Tax Increment Area

The TIA includes 785 acres within the eastern and northern parts of the City (see Figure 1). The assessed valuation (“AV”) of the TIA in 2022 is approximately \$105,107,085 (about 6.5% of the City’s total AV), which is less than the statutory limitations of the lesser of \$200 million AV and 20% of the City’s total AV (\$1,616,901,616). According to the project analysis, the boundary represents key areas that are expected to be redeveloped over time, as the result of the infrastructure improvements funded by the TIA. Appendix 1 shows a list of parcels included in the proposed TIA.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Chelan

Project Description

Public Improvements Within the TIA

In order to encourage the anticipated private development in the TIA and upgrade the City's water system to meet the expected additional demand of services, the project analysis identifies five infrastructure improvement projects. These projects, described below, are expected to be partially funded with the proceeds of the LTGO bonds to be issued in connection with this TIA, with the balance being funded by available grant, utility, intergovernmental, and capital funds of the City. Construction of the public improvements is expected to begin in 2024. The construction timelines for each element of the public improvements were not provided by the City.

1) The East Chelan Reservoir and Booster Pump Station - \$9,000,000

Construction of a 1 million gallon reservoir and booster pump station located north of Sun Crest.

2) East Chelan Reservoir to Bradley Street Water Main Extension - \$3,439,000

Extend a 16" water main from Bradley Street to No See Um Road, providing the first portion of the water main that will connect the East Chelan Reservoir to the North Shore users.

3) Bradley Street to No See Um Rd Water Main Extension - \$4,398,500

Extend a 16" water main from Bradley Street to No See Um Road, providing the second portion of the water main connection between the East Chelan Reservoir and the North Shore users.

4) Airport Water Main Extension - \$8,701,600

Extend a 16" water main from the eastern edge of the Washington Street pressure zone to the Lake Chelan Airport, enabling long term growth in the TIA from future airport expansion.

5) Isenhart Road Water Main Extension - \$1,520,000

Extend a 12" water main from the Isenhart pressure zone.

Private Development Within the TIA

The project analysis includes five identified development areas: ABC Phases 1, 2, and 3; the HiLand Farms Buildout; and ABC East. These five development areas are privately held by four different property owners. Development timelines are dependent on agreements between the developers and the City, but construction is generally expected to take place between 2024 and 2033. The first of such agreements was approved by City Council, which allows for up to 720 homes to be built along with commercial development within a designated 198-acre site in the TIA. In total, 868 residential units will be built within the proposed TIA, along with 50,000 square feet of winery, live-work businesses/homes, and an additional 8,000 square feet of light industrial space.

The project analysis included three development scenarios to assess potential opportunities and risks within the TIA. The Baseline development scenario represents the full value of potential construction. Alternative 1 reduces the value of all development by 20%, while doubling the expected buildout timeline of the private development. Alternative 2 reduces the value of expected development by 35%, while also including the same lengthened timeline as Alternative 1. A summary of the baseline scenario is included below (Figure 2).

Figure 2 – Baseline Development Scenario for the East Chelan Area

Apple Blossom Phase 1	Value Per Unit	Number of Units	Start Year	Build/Years	Total Value
Apartments (Weidner)	\$233,000	277	2024	24 months	\$64,541,000
Senior Housing	\$300,000	27	2025	18 months	\$8,100,000
Affordable Apts	\$200,000	18	2025	18 months	\$3,600,000
Townhomes	\$400,000	28	2026	18 months	\$11,200,000
Commercial	\$325	22000	2026	12 months	\$7,150,000
Sub-Total					\$94,591,000
Apple Blossom Phase 2					
Apartments	\$233,000	275	2027	18 months	\$64,075,000
Senior Housing	\$325,000	18	2028	12 months	\$5,850,000
Affordable Apts	\$210,000	14	2028	12 months	\$2,940,000
Townhomes	\$425,000	18	2029	12 months	\$7,650,000
Commercial	\$325	25000	2029	12 months	\$8,125,000
Sub-Total					\$88,640,000
Apple Blossom Phase 3					
Senior Housing	\$450,000	20	2030	12 months	\$9,000,000
Affordable Apts	\$225,000	5	2030	12 months	\$1,125,000
Townhomes	\$450,000	20	2031	12 months	\$9,000,000
Commercial	\$325	25000	2032	12 months	\$8,125,000
Sub-Total					\$27,250,000
Hiland Farms Buildout					
Apartments	\$250,000	40	2027	12 months	\$10,000,000
Single Family	\$500,000	28	2024	12 months	\$14,000,000
Single Family	\$550,000	35	2026	12 months	\$19,250,000
Single Family	\$600,000	20	2028	12 months	\$12,000,000
Single Family	\$650,000	25	2030	12 months	\$16,250,000
Sub-Total					\$71,500,000
Apple Blossom East					
Live-Work	\$250,000	100	2028	12 months	\$25,000,000
Winery SF	\$400	10000	2028	12 months	\$4,000,000
Industrial SF	\$175	8000	2030	12 months	\$1,400,000
Sub-Total					\$30,400,000
TOTAL					\$312,381,000

Source: Stowe Development & Strategies, December 2022

Tax Allocation Revenue Projections

The project analysis indicates that the City will begin receiving tax allocation revenues in 2025. In terms of revenue projections, all three development scenarios begin at the same time; however, Alternatives 1 and 2 are proportionally reduced by the assumed slower development rate (2x slower) and percentage of total final development (reductions of 20% and 35%, respectively). In the Baseline development program scenario, revenues are forecast to be \$201,000 in 2025 and increase to over \$1.6 million by 2048 (totaling \$31,019,000 over the entire life of the TIA). Annual revenues for the Alternative 1 development scenario reach \$1.3 million in 2048 (total TIF revenue of \$24,041,000). Revenues in the Alternative 2 development scenario reach \$1.1 million in 2048 (total TIF revenue of \$18,258,000). Full revenue projections are included in Appendix 2.

Financing Plan

The City anticipates issuing \$9 million of debt in 2024 and \$7 million of debt in by 2028 to fund the proposed infrastructure projects. As stated in the project analysis, the City will need to pay debt service with available resources regardless of whether the anticipated private development occurs, or assessed values increase, within the TIA. The City acknowledges, and its projections show, that incremental revenues early in the TIF period may be insufficient to fully pay debt service. The debt is currently expected to be structured with level annual payments based on an estimated true interest cost of 4.50%. Estimated annual debt service payments are shown in Appendix 2.

The project analysis discusses the possibility of adjusting the timing and amount of debt issued based on development activity (i.e. backloading debt, and/or use of capitalized interest). As such, it is possible that the City's issuance plans could change to better reflect the construction progress in the TIA.

Debt Capacity

Based on the City's total 2022 assessed value of \$1,616,901,616, the City has \$24,253,524 in total non-voted debt capacity (1.5% of 2022 AV). The City currently has \$4,140,732 of outstanding non-voted debt, leaving sufficient net non-voted debt capacity of \$20,112,792 before the proposed \$16,000,000 financing.

Table 2 – Debt Capacity

2022 Assessed Valuation for 2023 Collections	\$1,616,901,616
Non-Voted Debt Capacity (1.5% of AV)	24,253,524
Less: Outstanding Non-Voted Debt	(4,140,732)
Remaining Non-Voted Debt Capacity	20,112,792
Less: Financing Proposed	(16,000,000)
Projected Remaining Non-Voted Capacity	\$4,112,792
Projected Remaining Non-Voted Capacity %	16.86%

Source: City of Chelan

Projected Debt Service Coverage

Depending on the pace and final assessed value of the completed private developments, the amount of the shortfalls in tax allocation revenues compared to debt service that that the City will be required to fund varies greatly between the three development program scenarios.

- In the Baseline scenario, the City will be required to fund TIF revenue shortfalls in years 2025 through 2030 with general City revenues, with projections showing that it will be fully reimbursed for these payments by the end of 2042.
- In Alternative 1, the TIF revenue shortfalls extend through 2042.
- For Alternative 2, the TIF revenue shortfalls extend through 2044.

Tables 3 and 4 below summarize the total tax allocation revenues, annual surpluses and deficits, and debt service coverage for the three development program scenarios.

Table 3 – Tax Allocation Revenues and Debt Service Coverage

Development Program	First Year TIF Revenues Exceed Debt Service ¹	Year That TIF Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue	Total Projected TIF Debt Service ¹	Projected Maximum Cumulative Shortfall	Total Surplus/ (Shortfall)	Average Debt Service Coverage Ratio
Baseline	2031	2042	\$31,019,000	\$24,600,000	\$(2,305,000)	\$6,419,000	1.30x
Alternative 1	2042	N/A	24,041,000	24,600,000	(4,831,000)	(559,000)	1.01x
Alternative 2	2044	N/A	18,268,000	24,600,000	(9,402,000)	(6,342,000)	0.77x

1. Debt service figures are sourced to Figure 12 in the City’s project analysis; these figures appear to be rounded from the debt service estimate in Figure 11.

Source: City of Chelan

Table 4 – TIF Debt Service Coverage

Year	Baseline					Alternative 1					Alternative 2				
	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	\$ -	\$ 690,000	\$(690,000)	\$(690,000)	0.00x	\$ -	\$ 690,000	\$(690,000)	\$(690,000)	0.00x	\$ -	\$ 690,000	\$(690,000)	\$(690,000)	0.00x
2025	201,000	690,000	(489,000)	(1,179,000)	0.29x	80,000	690,000	(610,000)	(1,300,000)	0.12x	33,000	690,000	(657,000)	(1,347,000)	0.05x
2026	369,000	690,000	(321,000)	(1,500,000)	0.53x	173,000	690,000	(517,000)	(1,817,000)	0.25x	70,000	690,000	(620,000)	(1,967,000)	0.1x
2027	535,000	690,000	(155,000)	(1,655,000)	0.78x	296,000	690,000	(394,000)	(2,211,000)	0.43x	131,000	690,000	(559,000)	(2,526,000)	0.19x
2028	749,000	1,230,000	(481,000)	(2,136,000)	0.61x	496,000	1,230,000	(734,000)	(2,945,000)	0.4x	223,000	1,230,000	(1,007,000)	(3,533,000)	0.18x
2029	1,106,000	1,230,000	(124,000)	(2,260,000)	0.9x	678,000	1,230,000	(552,000)	(3,497,000)	0.55x	339,000	1,230,000	(891,000)	(4,424,000)	0.28x
2030	1,185,000	1,230,000	(45,000)	(2,305,000)	0.96x	864,000	1,230,000	(366,000)	(3,863,000)	0.7x	469,000	1,230,000	(761,000)	(5,185,000)	0.38x
2031	1,296,000	1,230,000	66,000	(2,239,000)	1.05x	999,000	1,230,000	(231,000)	(4,094,000)	0.81x	599,000	1,230,000	(631,000)	(5,816,000)	0.49x
2032	1,347,000	1,230,000	117,000	(2,122,000)	1.1x	1,064,000	1,230,000	(166,000)	(4,260,000)	0.87x	731,000	1,230,000	(499,000)	(6,315,000)	0.59x
2033	1,398,000	1,230,000	168,000	(1,954,000)	1.14x	1,105,000	1,230,000	(125,000)	(4,385,000)	0.9x	812,000	1,230,000	(418,000)	(6,733,000)	0.66x
2034	1,413,000	1,230,000	183,000	(1,771,000)	1.15x	1,131,000	1,230,000	(99,000)	(4,484,000)	0.92x	879,000	1,230,000	(351,000)	(7,084,000)	0.71x
2035	1,428,000	1,230,000	198,000	(1,573,000)	1.16x	1,143,000	1,230,000	(87,000)	(4,571,000)	0.93x	926,000	1,230,000	(304,000)	(7,388,000)	0.75x
2036	1,443,000	1,230,000	213,000	(1,360,000)	1.17x	1,156,000	1,230,000	(74,000)	(4,645,000)	0.94x	941,000	1,230,000	(289,000)	(7,677,000)	0.77x
2037	1,458,000	1,230,000	228,000	(1,132,000)	1.19x	1,168,000	1,230,000	(62,000)	(4,707,000)	0.95x	951,000	1,230,000	(279,000)	(7,956,000)	0.77x
2038	1,474,000	1,230,000	244,000	(888,000)	1.2x	1,180,000	1,230,000	(50,000)	(4,757,000)	0.96x	962,000	1,230,000	(268,000)	(8,224,000)	0.78x
2039	1,489,000	1,230,000	259,000	(629,000)	1.21x	1,193,000	1,230,000	(37,000)	(4,794,000)	0.97x	972,000	1,230,000	(258,000)	(8,482,000)	0.79x
2040	1,505,000	1,230,000	275,000	(354,000)	1.22x	1,205,000	1,230,000	(25,000)	(4,819,000)	0.98x	982,000	1,230,000	(248,000)	(8,730,000)	0.8x
2041	1,521,000	1,230,000	291,000	(63,000)	1.24x	1,218,000	1,230,000	(12,000)	(4,831,000)	0.99x	992,000	1,230,000	(238,000)	(8,968,000)	0.81x
2042	1,537,000	1,230,000	307,000	244,000	1.25x	1,231,000	1,230,000	1,000	(4,830,000)	1x	1,003,000	1,230,000	(227,000)	(9,195,000)	0.82x
2043	1,553,000	1,230,000	323,000	567,000	1.26x	1,244,000	1,230,000	14,000	(4,816,000)	1.01x	1,013,000	1,230,000	(217,000)	(9,412,000)	0.82x
2044	1,569,000	540,000	1,029,000	1,596,000	2.91x	1,257,000	540,000	717,000	(4,099,000)	2.33x	1,024,000	540,000	484,000	(8,928,000)	1.9x
2045	1,586,000	540,000	1,046,000	2,642,000	2.94x	1,270,000	540,000	730,000	(3,369,000)	2.35x	1,035,000	540,000	495,000	(8,433,000)	1.92x
2046	1,602,000	540,000	1,062,000	3,704,000	2.97x	1,283,000	540,000	743,000	(2,626,000)	2.38x	1,046,000	540,000	506,000	(7,927,000)	1.94x
2047	1,619,000	540,000	1,079,000	4,783,000	3x	1,297,000	540,000	757,000	(1,869,000)	2.4x	1,057,000	540,000	517,000	(7,410,000)	1.96x
2048	1,636,000	0	1,636,000	6,419,000	-	1,310,000	0	1,310,000	(559,000)	-	1,068,000	0	1,068,000	(6,342,000)	-
Total ¹	\$31,019,000	\$ 24,600,000	\$6,419,000		1.3x	\$24,041,000	\$24,600,000	\$(559,000)		1.01x	\$18,258,000	\$24,600,000	\$(6,342,000)		0.77x

1. Total row for debt service coverage reflects average coverage ratio. Excludes year(s) without debt service.

2. Assumes interest rate of 4.50%. Debt service figures are sourced to Figure 12 in the City’s Project Analysis; these figures appear to be rounded from the debt service estimate in Figure 11.

Source: City of Chelan

City of Chelan Financials

The City provided information summarizing the funds available to pay LTGO debt service for the past five years. According to City responses to OST questions, all funds, including enterprise utility funds, are general funds of the City and available for debt service as part of the LTGO pledge. The operating income from 2017 through 2021 was positive in all five years, ranging from \$5.2 million to \$10.5 million. In comparison, the City's TIF debt service projections show maximum annual debt service of \$1,230,00.

The funds identified as ending cash balances available for debt service have totaled between \$8.5 million and \$17.4 million annually. While annual net operating revenues have been positive, available cash decreased in some years due to non-operating outflows. These balance amounts range from 65.6% to 132% of operating expenditures each year. In the most conservative development program scenario, the City projects a cumulative deficit in tax allocation revenues of just over \$6.34 million, or 55.8% of the City's 2021 ending cash balance available for debt service across all funds.

Table 6 – Revenue Available for Debt Service

City of Chelan - Funds available for Debt Service	2017 Total	2018* Total	2019 Total	2020* Total	2021 Total	2022 - Budgeted Total
Beginning Cash Available for Debt Service	12,732,381	14,492,884	14,630,429	14,850,055	18,988,530	24,979,441
Operating Revenue Available for Debt Service						
Operating Revenue	17,999,258	17,397,301	19,894,481	21,143,132	24,536,895	18,775,703
Operating Expenditures	(11,903,520)	(12,188,920)	(12,931,566)	(13,147,260)	(14,004,852)	(15,280,796)
Operating Income (Loss)	6,095,738	5,208,381	6,962,915	7,995,872	10,532,043	3,494,907
Total Revenue Available for Debt Service	18,828,119	19,701,265	21,593,344	22,845,927	29,520,573	28,474,348
Debt Service (General Obligation)	(1,365,720)	(2,928,424)	(2,703,526)	(2,723,406)	(2,385,953)	(2,836,457)
Other Inflows	1,141,617	5,207,820	2,561,177	8,222,845	2,219,450	3,494,907
Other (Outflows)	(5,164,906)	(8,516,902)	(9,726,451)	(7,625,482)	(7,962,843)	(3,840,900)
Ending available fund balance	13,439,110	13,463,759	11,724,544	20,719,884	19,171,777	21,796,991
Nonspendable Restricted for:						
001 Current Expense		1,661			404,637	1,002,044
103 Tourism	745,628	947,928	1,379,561	1,695,904	2,273,141	3,191,896
105 Affordable Housing			6,632	12,835	25,333	55,096
301 Capital Improvements	245,225	415,991	830,964	1,088,993	1,435,242	2,024,356
302 Streets Capital Projects			440,777	150,000	150,000	150,000
310 Parks & Rec Capital	189,794	114,111	583,512	406,797	101,667	35,513
400 Sewer					2,006,869	91,182
401 Water					1,412,401	56,949
Total restricted funds	1,180,647	1,479,691	3,241,446	3,354,529	7,809,290	6,607,036
Ending Cash Available for Debt Service	12,258,463	11,984,068	8,483,098	17,365,355	11,362,487	15,189,955
*Per published audited Report See Accompanying Notes Correction to Beginning Bal during Audit		12,902		-535066		

Source: City of Chelan

While the City has no plans to issue additional LTGO debt outside of the TIF related project, it may choose to issue Utility Revenue Bonds in the future. The City has indicated that its utility funds are enterprises within the general fund and would be available to pay LTGO debt service. As revenue bonds will likely be covenanted to restrict the use of utility revenues to pay revenue bond debt service, the issuance of such revenue bonds could restrict the amount of money available for debt service if there is a TIF revenue shortfall.

In the event of a temporary or long-term tax allocation revenue shortfall, the City's fund balances, or other current capital projects, may be negatively impacted.

Key Risks to the City

From our review of the project analysis, it appears that the project will provide significant 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 within the TIA and the sufficiency of projected tax allocation revenues to repay LTGO bonds that the City expects to issue to finance the public infrastructure improvements.

During years with TIF revenue shortfalls, the City will be required to pay any difference between TIF revenues received and debt service due from general City revenues. While the City plans to reimburse itself for such General Fund support, the alternative scenarios demonstrate that there is a risk that insufficient TIF revenues may make it impossible to fully reimburse the City's General Fund. It is important for decision makers to be aware of the potential magnitude and timing of such payments and reimbursements, and since the TIF legislation limits the ability to collect tax allocation revenues to a period of 25 years, delays could also 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: With an unclear timeline for the construction of each public improvement, inflation could have a significant impact on the cost of these projects. However, this is somewhat mitigated by the inclusion of a 30% contingency in projections. The project analysis shows cost inflation for the projects at 3.00% per annum. According to Mortenson's Fourth Quarter 2022 report, construction cost inflation for Seattle was 6.7% YoY.

Permits: Unforeseen delays in permits could negatively impact the construction of the expected residential, commercial, and mixed-use properties within the TIA. Delays to either the public improvements or the private developments could negatively impact the timing and/or amount of tax allocation revenues.

Development Agreements: At the time that the project analysis was provided to OST, only one development agreement had been entered into with the City. If future development agreements are not to the scale presumed in the project analysis, it will likely have a negative impact on tax increment revenues. The two alternative scenarios account for this to various degrees.

Economic Conditions: The timing of tax allocation revenues could be negatively impacted by a downturn in the economy. The planned development is multi-faceted with commercial, mixed-use, multi-family residential, and office components. Given the diversity in product type, a variety of economic factors could negatively impact the timeline and ultimate demand for 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' abilities to complete construction projects could reduce tax allocation revenues. Whether the cost of the improvements themselves or some unforeseen change in developers' capacities to complete both the public improvements and private developments, the City will remain responsible for

repaying the LTGO bonds issued for the project. Additionally, any delay in the City's ability to complete the public improvements necessary for private developers to close on contracts or initiate private developments exposes the project to risk of delayed timing and/or a reduced amount of tax allocation revenues. Delays in construction are factored into both alternative scenarios.

Assessed Valuations: As private developments are completed, tax allocation revenues may be less than anticipated if the assessed value projections do not materialize 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 would be reduced.

Interest Rate Risk: The City is exposed to interest rate risk until its bonds are sold. Per responses to OST's questions, the City indicated that the 4.50% interest rate for the LTGO Bonds was based on an estimate provided for a similar TIA analysis where the issuer was rated Aaa. While 4.50% may be achievable, there is very little conservatism included using this interest rate.

Debt Capacity: While the amount of debt to be issued wouldn't exceed the legal debt limit, assuming the TIF related LTGO bonds are issued, only 16% of non-voted debt capacity would remain (\$4.1 million). This would significantly limit the City's ability to issue additional LTGO debt in the short term. If an immediate capital need were to materialize, such as in an emergency, the City would have limited ability to address the issue through debt.

Risk Summary: The general impact to the City from any of the risk factors outlined above could be reduced TIF revenues and a greater reliance on its general fund revenues to pay debt service on the LTGO bonds issued to fund the public improvements in the TIA. Negative cashflows during this time will require the City to apply general fund revenues or reserves towards the repayment of the LTGO 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 any debt service payments that were made from its general fund.

Suggested Corrections and Considerations

1. The City should note that on page 7 of the project analysis dated March 30, 2023, the total project cost is different than the various individual elements summed together.
2. OST was unable to reconcile the State Audit Report Summary provided in the City's project analysis to the audited financial statements on the Washington State Auditor's website. Further, the ending cash balances shown in Table 6 (Revenue Available for Debt Service) do not match the following year's beginning balances.

Recommendations

The East Chelan Development Area is a significant long-term and large-scale project. 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:

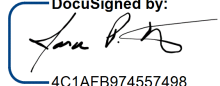
1. We recommend that the City discusses how much risk exposure is appropriate for the project and how much potential debt service costs it is willing to cover to advance the project through years of tax allocation revenue shortfalls.

2. Based on the City's willingness to cover potential debt service costs, we recommend the City considers budgeting for, and setting aside funds to cover, potential tax allocation revenue shortfalls.
3. As the project moves forward, coordinate closely with the Chelan County Assessor's Office to help ensure that the tax allocation revenue projections match the County's assessment process and are as realistic as possible.
4. The City's interest rate assumptions may be too low, especially given current market conditions. We recommend that the City considers using more conservative interest rate assumptions, especially if the issuance of the bonds extends into 2028.
5. We recommend the City revisits public improvement cost projections frequently and utilizes a publicly recognized inflation index to inform inflation projections.
6. We suggest the City carefully considers the covenants it includes in any future revenue bond issuance. As utility revenues are considered available to pay LTGO debt service (per the City responses to OST questions), Revenue bond covenants could further restrict money that would otherwise be available during years of TIF revenue shortfalls.

Thank you for the opportunity to review the City's TIA 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

DocuSigned by:

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Jason Richter
Deputy Treasurer

Appendix 1 – Summary of TIF Parcels

Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value	Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value
272318130050	\$207,564	\$0	\$207,564	272318920490	\$128,520	\$390,625	\$519,145
272318240200	\$105,000	\$122,808	\$227,808	272318920200	\$128,520	\$346,175	\$474,695
272318130025	\$176,366	\$139,373	\$315,739	272318920210	\$128,520	\$339,195	\$467,715
272318607500	\$295,872	\$0	\$295,872	272318920220	\$128,520	\$313,673	\$442,193
272317220100	\$0	\$0	\$0	272318920480	\$128,520	\$351,750	\$480,270
272318440250	\$0	\$0	\$0	272318920470	\$128,520	\$384,280	\$512,800
272317627065	\$63,000	\$348,200	\$411,200	272318920050	\$128,520	\$272,698	\$401,218
272318920420	\$128,520	\$389,598	\$518,118	272318920040	\$128,520	\$277,393	\$405,913
272318920430	\$128,520	\$302,865	\$431,385	272318920030	\$128,520	\$319,608	\$448,128
272318920440	\$128,520	\$291,433	\$419,953	272318920020	\$128,520	\$355,558	\$484,078
272318920450	\$128,520	\$529,153	\$657,673	272318920010	\$128,520	\$375,365	\$503,885
272318920410	\$128,520	\$345,265	\$473,785	272318920240	\$128,520	\$387,695	\$516,215
272318920400	\$128,520	\$555,260	\$683,780	272318210100	\$67,032	\$502,123	\$569,155
272317200050	\$0	\$0	\$0	272318240175	\$92,988	\$234,615	\$327,603
272318440075	\$425,799	\$0	\$425,799	272318240055	\$50,400	\$143,225	\$193,625
272318240205	\$326,532	\$183,478	\$510,010	272318920250	\$128,520	\$399,075	\$527,595
272318240225	\$255,697	\$534,804	\$790,501	272318920260	\$128,520	\$330,328	\$458,848
272318420175	\$71,440	\$366,764	\$438,204	272318920270	\$128,520	\$295,035	\$423,555
272318420174	\$71,438	\$0	\$71,438	272318920290	\$128,520	\$357,018	\$485,538
272318420178	\$0	\$0	\$0	272318920280	\$128,520	\$278,723	\$407,243
272318420173	\$80,150	\$263,244	\$343,394	272318920380	\$128,520	\$329,390	\$457,910
272318420179	\$73,181	\$96,098	\$169,279	272318920390	\$128,520	\$275,800	\$404,320
272318420177	\$73,181	\$127,638	\$200,819	272318920370	\$128,520	\$352,810	\$481,330
272318420180	\$73,181	\$248,918	\$322,099	272318920360	\$128,520	\$276,205	\$404,725
272318430100	\$43,000	\$496,238	\$539,238	272318920660	\$128,520	\$358,605	\$487,125
272319140210	\$65,000	\$145,911	\$210,911	272318920300	\$128,520	\$322,110	\$450,630
272318627005	\$0	\$0	\$0	272318920340	\$128,520	\$527,478	\$655,998
272318920730	\$128,520	\$310,270	\$438,790	272318920680	\$128,520	\$348,493	\$477,013
272318920740	\$128,520	\$315,113	\$443,633	272307440060	\$85,140	\$0	\$85,140
272318920760	\$128,520	\$302,143	\$430,663	272318627045	\$546,242	\$0	\$546,242
272318920590	\$128,520	\$349,560	\$478,080	272318627029	\$0	\$0	\$0
272318920600	\$128,520	\$323,403	\$451,923	272318627035	\$209,088	\$0	\$209,088
272318920610	\$128,520	\$373,685	\$502,205	272318627040	\$431,244	\$851,171	\$1,282,415
272318920620	\$128,520	\$330,545	\$459,065	272212440100	\$39,421	\$0	\$39,421
272318920630	\$128,520	\$352,855	\$481,375	2722124410250	\$0	\$0	\$0
272318920640	\$128,520	\$283,880	\$412,400	272318920330	\$128,520	\$449,753	\$578,273
272318920650	\$128,520	\$0	\$128,520	272317120100	\$109,890	\$404,968	\$514,858
272317200200	\$0	\$0	\$0	272317120165	\$80,052	\$821,420	\$901,472
272317210100	\$0	\$0	\$0	272318920460	\$128,520	\$379,118	\$507,638
272212410050	\$85,602	\$0	\$85,602	272318920230	\$128,520	\$347,565	\$476,085
272318920070	\$128,520	\$307,548	\$436,068	272318920670	\$128,520	\$391,140	\$519,660
272318920060	\$128,520	\$328,863	\$457,383	272212730230	\$81,648	\$0	\$81,648
272318920120	\$128,520	\$297,795	\$426,315	272213512001	\$33,600	\$0	\$33,600
272318920190	\$128,520	\$298,073	\$426,593	272212440050	\$0	\$0	\$0
272318920150	\$128,520	\$453,715	\$582,235	272318130100	\$157,500	\$568,547	\$726,047
272318920160	\$128,520	\$372,538	\$501,058	272318420060	\$150,000	\$0	\$150,000
272318920140	\$128,520	\$305,913	\$434,433	272318420195	\$214,368	\$0	\$214,368
272318920130	\$128,520	\$347,685	\$476,205	272318420070	\$97,152	\$47,266	\$144,418
272318920170	\$128,520	\$356,145	\$484,665	272307320250	\$0	\$0	\$0
272318920180	\$128,520	\$290,253	\$418,773	272212730225	\$0	\$0	\$0
272318420176	\$67,082	\$0	\$67,082	272318627019	\$0	\$0	\$0
272318420181	\$71,438	\$304,230	\$375,668	272318627021	\$0	\$0	\$0
272318420165	\$76,664	\$347,652	\$424,316	272318627030	\$1,973,268	\$14,235,424	\$16,208,692
272318420160	\$87,120	\$205,060	\$292,180	272317220075	\$0	\$0	\$0
272318430050	\$376,358	\$573,016	\$949,374	272318627065	\$496,584	\$3,010,105	\$3,506,689
272318420150	\$0	\$0	\$0	272317627035	\$402,990	\$160,763	\$563,753
272318420100	\$37,800	\$304,491	\$342,291	272317627090	\$174,320	\$61,310	\$235,630

Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value	Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value
272319120060	\$107,500	\$0	\$107,500	272318920320	\$128,520	\$456,888	\$585,408
272318210050	\$71,400	\$264,931	\$336,331	272318920350	\$128,520	\$349,838	\$478,358
272318210025	\$71,400	\$754,185	\$825,585	272318921006	\$128,520	\$363,783	\$492,303
272318430300	\$87,290	\$869,674	\$956,964	272318920540	\$128,520	\$278,863	\$407,383
272318430275	\$129,516	\$847,965	\$977,481	272213512192	\$55,776	\$0	\$55,776
272319120150	\$94,256	\$612,252	\$706,508	272319120070	\$107,500	\$0	\$107,500
272319120100	\$143,276	\$0	\$143,276	272319120050	\$119,282	\$886,609	\$1,005,891
272318430250	\$181,494	\$0	\$181,494	272319120250	\$235,726	\$642,768	\$878,494
272212420050	\$311,360	\$0	\$311,360	272319120300	\$213,839	\$770,483	\$984,322
272317627070	\$54,621	\$172,761	\$227,382	272318920750	\$128,520	\$356,085	\$484,605
272317628010	\$50,421	\$145,633	\$196,054	272318920700	\$128,520	\$298,283	\$426,803
272319120200	\$211,388	\$913,860	\$1,125,248	272318921008	\$128,520	\$381,783	\$510,303
272319140300	\$60,000	\$0	\$60,000	272318920720	\$128,520	\$307,140	\$435,660
272319140050	\$137,900	\$96,984	\$234,884	272318920710	\$128,520	\$363,728	\$492,248
272318920090	\$128,520	\$286,585	\$415,105	272318627009	\$598,514	\$0	\$598,514
272318920100	\$128,520	\$295,778	\$424,298	272318627020	\$0	\$0	\$0
272318920110	\$128,520	\$323,120	\$451,640	272318627016	\$878,170	\$0	\$878,170
272318920500	\$128,520	\$307,080	\$435,600	272318627007	\$1,095,098	\$0	\$1,095,098
272318920510	\$128,520	\$343,173	\$471,693	272318627012	\$0	\$0	\$0
272318920520	\$128,520	\$303,445	\$431,965	272318210200	\$199,752	\$0	\$199,752
272318920550	\$128,520	\$400,393	\$528,913	272318210060	\$120,288	\$0	\$120,288
272318920560	\$128,520	\$0	\$128,520	272317627095	\$65,280	\$26,820	\$92,100
272318920570	\$128,520	\$290,568	\$419,088	272317330050	\$249,599	\$0	\$249,599
272318920580	\$128,520	\$361,240	\$489,760	272318627013	\$0	\$0	\$0
272307430000	\$367,155	\$274,692	\$641,847	272318627015	\$59,913	\$1,318,510	\$1,378,423
272318920530	\$128,520	\$297,583	\$426,103	272318627014	\$0	\$0	\$0
272318627008	\$333,900	\$0	\$333,900	272319110165	\$64,500	\$14,282	\$78,782
272318920690	\$128,520	\$519,058	\$647,578	272319110300	\$43,000	\$0	\$43,000
272318920006	\$128,520	\$386,115	\$514,635	272319110530	\$77,400	\$394,524	\$471,924
272318920005	\$128,520	\$266,195	\$394,715	272319110600	\$43,000	\$171,099	\$214,099
272318920008	\$128,520	\$341,600	\$470,120	272319140140	\$386,226	\$0	\$386,226
272318920009	\$128,520	\$185,470	\$313,990	272319140100	\$86,000	\$0	\$86,000
272318921000	\$128,520	\$197,905	\$326,425	272319110175	\$43,000	\$170,123	\$213,123
272318921001	\$128,520	\$159,065	\$287,585	272319110170	\$43,000	\$140,871	\$183,871
272318627022	\$0	\$0	\$0	272319110160	\$107,500	\$29,182	\$136,682
272318921015	\$0	\$0	\$0	272319110150	\$113,434	\$113,220	\$226,654
272318921005	\$128,520	\$356,090	\$484,610	272318430350	\$326,284	\$265,721	\$592,005
272318627027	\$0	\$0	\$0	272318440100	\$415,562	\$4,695,324	\$5,110,886
272318921004	\$128,520	\$513,113	\$641,633	272319140150	\$128,484	\$890,929	\$1,019,413
272318921007	\$128,520	\$435,770	\$564,290	272319110500	\$186,706	\$0	\$186,706
272318921011	\$128,520	\$359,895	\$488,415	272319110250	\$131,322	\$0	\$131,322
272318921013	\$128,520	\$325,300	\$453,820	272317200025	\$18,563	\$0	\$18,563
272318921012	\$128,520	\$307,678	\$436,198	272319110400	\$107,500	\$162,463	\$269,963
272318921002	\$128,520	\$386,755	\$515,275	272319110525	\$212,764	\$0	\$212,764
272318921003	\$128,520	\$404,078	\$532,598	272318220025	\$169,169	\$0	\$169,169
272318920770	\$128,520	\$299,340	\$427,860	272318430150	\$103,544	\$151,375	\$254,919
272318921014	\$128,520	\$372,793	\$501,313	272318430400	\$0	\$0	\$0
272318921010	\$128,520	\$332,023	\$460,543	272318420167	\$213,108	\$0	\$213,108
272318921009	\$128,520	\$342,800	\$471,320	272318420200	\$0	\$0	\$0
272318920310	\$128,520	\$346,208	\$474,728	272212330000	\$360,605	\$29,620	\$390,225
272318627010	\$1,801,800	\$20,643	\$1,822,443	272318627100	\$6,714,230	\$0	\$6,714,230
272318627060	\$393,129	\$138,207	\$531,336	272307330000	\$606,816	\$101,586	\$708,402
272318627025	\$152,242	\$1,159,187	\$1,311,429	272318920080	\$128,520	\$331,283	\$459,803
272318627070	\$145,926	\$844,521	\$990,447	272307340000	\$275,000	\$2,912	\$277,912
272318627125	\$416,869	\$0	\$416,869	272318220050	\$428,792	\$0	\$428,792
272318627050	\$510,741	\$1,724,748	\$2,235,489	272212310100	\$317,200	\$0	\$317,200
272318627055	\$0	\$0	\$0	272212340100	\$422,400	\$9,080	\$431,480

Source: ECONorthwest, 2023

Appendix 2 – Summary Equal Debt Payments and TIF Revenue Projections

TIF Allocation Revenues	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Baseline													
TIF Revenues	\$0	\$0	\$201,000	\$369,000	\$535,000	\$749,000	\$1,106,000	\$1,185,000	\$1,296,000	\$1,347,000	\$1,398,000	\$1,413,000	\$1,428,000
TIF Debt Service	\$0	\$690,000	\$690,000	\$690,000	\$690,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000
Annual Surplus/Deficit	\$0	(\$690,000)	(\$489,000)	(\$321,000)	(\$155,000)	(\$481,000)	(\$124,000)	(\$45,000)	\$66,000	\$117,000	\$168,000	\$183,000	\$198,000
Cumulative Surplus/Deficit	\$0	(\$690,000)	(\$1,179,000)	(\$1,500,000)	(\$1,655,000)	(\$2,136,000)	(\$2,260,000)	(\$2,305,000)	(\$2,239,000)	(\$2,122,000)	(\$1,954,000)	(\$1,771,000)	(\$1,573,000)

TIF Allocation Revenues	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
TIF Revenues	\$1,443,000	\$1,458,000	\$1,474,000	\$1,489,000	\$1,505,000	\$1,521,000	\$1,537,000	\$1,553,000	\$1,569,000	\$1,586,000	\$1,602,000	\$1,619,000	\$1,636,000
TIF Debt Service	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$540,000	\$540,000	\$540,000	\$540,000	\$0
Annual Surplus/Deficit	\$213,000	\$228,000	\$244,000	\$259,000	\$275,000	\$291,000	\$307,000	\$323,000	\$1,029,000	\$1,046,000	\$1,062,000	\$1,079,000	\$1,636,000
Cumulative Surplus/Deficit	(\$1,360,000)	(\$1,132,000)	(\$888,000)	(\$629,000)	(\$354,000)	(\$63,000)	\$244,000	\$567,000	\$1,596,000	\$2,642,000	\$3,704,000	\$4,783,000	\$6,419,000

TIF Allocation Revenues	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Alternative 1													
TIF Revenues	\$0	\$0	\$80,000	\$173,000	\$296,000	\$496,000	\$678,000	\$864,000	\$999,000	\$1,064,000	\$1,105,000	\$1,131,000	\$1,143,000
TIF Debt Service	\$0	\$690,000	\$690,000	\$690,000	\$690,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000
Annual Surplus/Deficit	\$0	(\$690,000)	(\$610,000)	(\$517,000)	(\$394,000)	(\$734,000)	(\$552,000)	(\$366,000)	(\$231,000)	(\$166,000)	(\$125,000)	(\$99,000)	(\$87,000)
Cumulative Surplus/Deficit	\$0	(\$690,000)	(\$1,300,000)	(\$1,817,000)	(\$2,211,000)	(\$2,945,000)	(\$3,497,000)	(\$3,863,000)	(\$4,094,000)	(\$4,260,000)	(\$4,385,000)	(\$4,484,000)	(\$4,571,000)

TIF Allocation Revenues	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
TIF Revenues	\$1,156,000	\$1,168,000	\$1,180,000	\$1,193,000	\$1,205,000	\$1,218,000	\$1,231,000	\$1,244,000	\$1,257,000	\$1,270,000	\$1,283,000	\$1,297,000	\$1,310,000
TIF Debt Service	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$540,000	\$540,000	\$540,000	\$540,000	\$0
Annual Surplus/Deficit	(\$74,000)	(\$62,000)	(\$50,000)	(\$37,000)	(\$25,000)	(\$12,000)	\$1,000	\$14,000	\$717,000	\$730,000	\$743,000	\$757,000	\$1,310,000
Cumulative Surplus/Deficit	(\$4,645,000)	(\$4,707,000)	(\$4,757,000)	(\$4,794,000)	(\$4,819,000)	(\$4,831,000)	(\$4,830,000)	(\$4,816,000)	(\$4,099,000)	(\$3,369,000)	(\$2,626,000)	(\$1,869,000)	(\$559,000)

TIF Allocation Revenues	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Alternative 2													
TIF Revenues	\$0	\$0	\$33,000	\$70,000	\$131,000	\$223,000	\$339,000	\$469,000	\$599,000	\$731,000	\$812,000	\$879,000	\$926,000
TIF Debt Service	\$0	\$690,000	\$690,000	\$690,000	\$690,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000
Annual Surplus/Deficit	\$0	(\$690,000)	(\$657,000)	(\$620,000)	(\$559,000)	(\$1,007,000)	(\$891,000)	(\$761,000)	(\$631,000)	(\$499,000)	(\$418,000)	(\$351,000)	(\$304,000)
Cumulative Surplus/Deficit	\$0	(\$690,000)	(\$1,347,000)	(\$1,967,000)	(\$2,526,000)	(\$3,533,000)	(\$4,424,000)	(\$5,185,000)	(\$5,816,000)	(\$6,315,000)	(\$6,733,000)	(\$7,084,000)	(\$7,388,000)

TIF Allocation Revenues	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
TIF Revenues	\$941,000	\$951,000	\$962,000	\$972,000	\$982,000	\$992,000	\$1,003,000	\$1,013,000	\$1,024,000	\$1,035,000	\$1,046,000	\$1,057,000	\$1,068,000
TIF Debt Service	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$1,230,000	\$540,000	\$540,000	\$540,000	\$540,000	\$0
Annual Surplus/Deficit	(\$289,000)	(\$279,000)	(\$268,000)	(\$258,000)	(\$248,000)	(\$238,000)	(\$227,000)	(\$217,000)	\$484,000	\$495,000	\$506,000	\$517,000	\$1,068,000
Cumulative Surplus/Deficit	(\$7,677,000)	(\$7,956,000)	(\$8,224,000)	(\$8,482,000)	(\$8,730,000)	(\$8,968,000)	(\$9,195,000)	(\$9,412,000)	(\$8,928,000)	(\$8,433,000)	(\$7,927,000)	(\$7,410,000)	(\$6,342,000)

Source: City of Chelan