Tax Increment Financing Project Analysis Review

– City of Arlington –

January 5, 2024

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January 5, 2024

Marc Hayes
Community and Economic Development Director
City of Arlington
238 North Olympic Avenue
Arlington, WA 98223

Dear Mr. Hayes:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Alington's (the "City") tax increment financing ("TIF") project analysis, consisting of the initial project analysis dated June 16, 2023, and an updated project analysis dated November 3, 2023. 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 revised project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute"). However, please see our recommendations provided at the end of this letter.

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

Executive Summary

The purpose of the City's proposed tax increment area (the "TIA") is to fund: a portion of the cost of improvements along the Smokey Point Boulevard corridor; a community recreation facility; and water/sewer capacity Improvements. The public improvements are expected to support private development and/or redevelopment in five identified areas within the City, consisting of primarily industrial/warehouse projects, along with a smaller amount of residential development. The three projects are expected to generate significant job growth in the City, and provide additional housing, specifically for low income residents. The private developments are expected to cover 164.3 acres in the southwest portion of the City.

As described in the City's project analysis, the total cost of the three TIF related public improvements is estimated to be $33.4 million. To finance these three 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, to fund about $28.1 million of project costs. The City expects to fund the balance of the project costs through grants, city reserves, and an interfund loan from the City's water/sewer fund.

In addition to these three projects, the City has identified eight other transportation projects in its Capital Improvement Plan ("CIP"), with a total cost of $73.4 million. These eight transportation projects are located in the TIA and are expected to be funded from other sources, including federal, state and PSRC (Puget Sound Regional Council) grants, and other City 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 City's project analysis on June 16, 2023, with an updated project analysis provided by the City to OST on November 3, 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 City that might result from the implementation of the project are adequately disclosed.

Project Team

Jurisdiction: City of Arlington
County: Snohomish County
Redevelopment Area: Southwest Arlington
Consultants: FCS Group Foster Garvey (bond counsel)

Proposed Tax Increment Area

The City's proposed TIA includes 43 parcels expected to be redeveloped across 164.23 acres in southwest Arlington (see Figure 1). According to the project analysis, the 2023 taxable assessed valuation ("AV") of the TIA is $194,086,300. The 2024 AV is projected to be $199,468,155, representing 4.2% of the total projected 2024 AV of the City ($4,783,952,055). While these figures remain within the statutory size limit (equal to the lesser of $200 million in AV and 20% of the City's total AV) the proposed TIA is very close to the statutory maximum size.

In our review, it appeared that the calculation of the TIA's total AV omits certain parcels. Specifically, it appeared that the calculation, as provided in the Summary of Taxable Assessed Value on page 12 of the project analysis, only included the AV for the 5 areas within the TIA that are expected to be redeveloped. These five areas include:

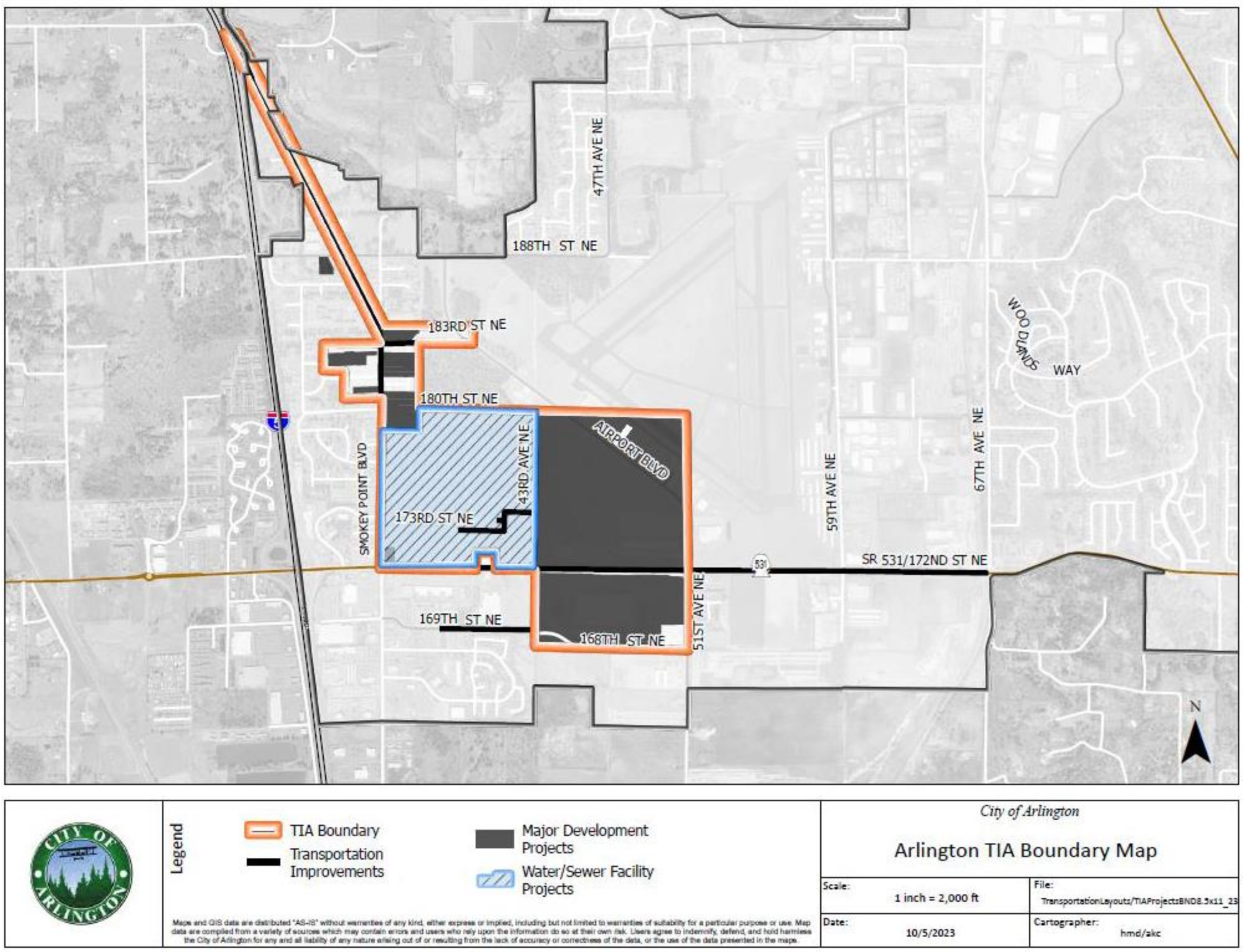
A. Project Roxy ("Amazon fulfillment center")
C. Smartcap Airport Industrial Park ("Smartcap A&B")
D. Smartcap Arlington North Industrial Park ("Smartcap North")

F. Goldstream Venture Partners (“Goldstream”)
I. Smokey Point Blvd. Infill (“Infill”)

From our review of Figure 2, included below, it appeared that parcels located within the TIA, but outside of these five areas, were excluded from the calculation of the TIA’s total AV. Additionally, we note that the total AV of the tax lots provided for the Smartcap North project in Figure 8 do not equal the total amount provided in the summary table on page 12 of the project analysis.

Given these questions, we recommend that the City carefully review its calculations and confirm the assumptions used to calculate the TIA’s total AV with the County Assessor’s Office and legal counsel to ensure that all properties located within the TIA have been accurately included in the total. This is especially important considering how close the proposed TIA is to the $200 million statutory limitation.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Arlington

Impacted Taxing Districts

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

(1) Snohomish County Regular;
(2) Snohomish County Conservation Futures;
(3) City of Arlington;
(4) Hospital District 3 Maintenance;
(5) Sno-Isle Intercounty Rural Library;
(6) North County Regional Fire Expense; and
(7) North County Regional Fire Permanent.

The levy rate for each of these jurisdictions will be applied to the increased AV within the TIA and remitted to reimburse the City for debt service on City-issued bonds and to potentially pay other eligible public improvement costs. It should be noted that the TIF statues requires a mitigation plan if at least 20% of the regional fire protection district's AV is expected to be impacted. However, the City identifies in its analysis that less than 20% of the North County Regional Fire District's AV 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 nine transportation projects, a water/sewer system project, and a community recreation facility. Eight of the transportation projects are expected to be funded by sources other than tax increment revenues. The remaining three projects are expected to be funded primarily from LTGO bond proceeds, and supplemented with grant money, an interfund loan, and other available City resources. The three public improvements, as described in the project analysis, are:

- **Smokey Point Boulevard Corridor:** This project extends from 174th Street to 188th Street and includes design, right of way (ROW) and construction to upgrade a two-lane rural roadway with no pedestrian accommodations to an urban corridor with new roadway and intersection improvements. Approximately $24.39 million of bond proceeds are expected to be needed for the Smokey Point Blvd corridor improvement.
- **Community Recreation Facility**: A new community recreation facility is to be constructed by the City within the TIA (location to be determined). The facility would provide a social and recreational gathering location with a food cart pod to serve as an amenity for local residents and attraction for local businesses and employees within the TIA. This facility is now in design with a total construction cost of $5.2 million. Approximately $3.7 million of bond proceeds are expected to be needed for the Community Facility.
- **Water/Sewer Capacity Improvements:** This includes future water and sewer transmission lines and sanitary sewer service extensions within the TIA to facilitate the conversion of septic tanks to public sanitary sewer service, particularly within under-developed residential districts. The project analysis assumes that an interfund loan would be made from the water and sewer enterprise fund to the TIF fund. Future TIF revenues along with utility rates and hookup fees would be dedicated to paying back these loans over time.

A summary of the cost for the three TIF supported elements is shown in Table 1, with the remaining projects shown in Table 2. A map identifying the location of each project is displayed in Figure 2.

The City provided two project timelines. Scenario A has the Smokey Point Boulevard Corridor improvements expected to begin in April 2025, with completion by October 2028. The water/sewer capacity improvements are expected to begin in January 2028, with completion by December 2029. Finally, the community recreation center project is expected to begin in April 2025, with completion by June 2026. Scenario A appears to align with the plan of finance.

In Scenario B, the Smokey Point Boulevard Corridor improvements are expected to begin in April 2026, with completion by June 2027. The water/sewer capacity improvements are expected to begin in January of 2029, with completion by December by 2030. Finally, the community recreation center project is expected to begin in April 2026, with completion by June 2027.

Table 1 – TIF Supported Public Improvements (In 2024 $)

Map ID	Project Name	Description	Total Cost	Grant Funds	City Reserves	New City Debt	Financing Assumptions
3	Smokey Point Blvd Corridor Project ***(174th St to 200th St)***	Design, ROW and construction to upgrade a two lane rural roadway with no pedestrian facilities to a an urban corridor with new roadway and intersection improvements.	$26,385,443	$0	$2,000,000	$24,385,443	*LTGO bonds*
10	**SW Water/Sewer System Capacity**	Design and construct water/sewer system capacity improvements, connection fee incentives in partnership with City of Marysville.	$1,800,000	$0	$200,000	$1,600,000	*Water & Sewer Enterprise Fund Interfund Loan*
11*	**Community Facility**	Construct new community recreation facility to serve employment center and residents.	$5,200,000	$1,200,000	$300,000	$3,700,000	*LTGO Bonds*
		Total TIF Projects	**$33,385,443**	**$1,200,000**	**$2,500,000**	**$29,685,443**	

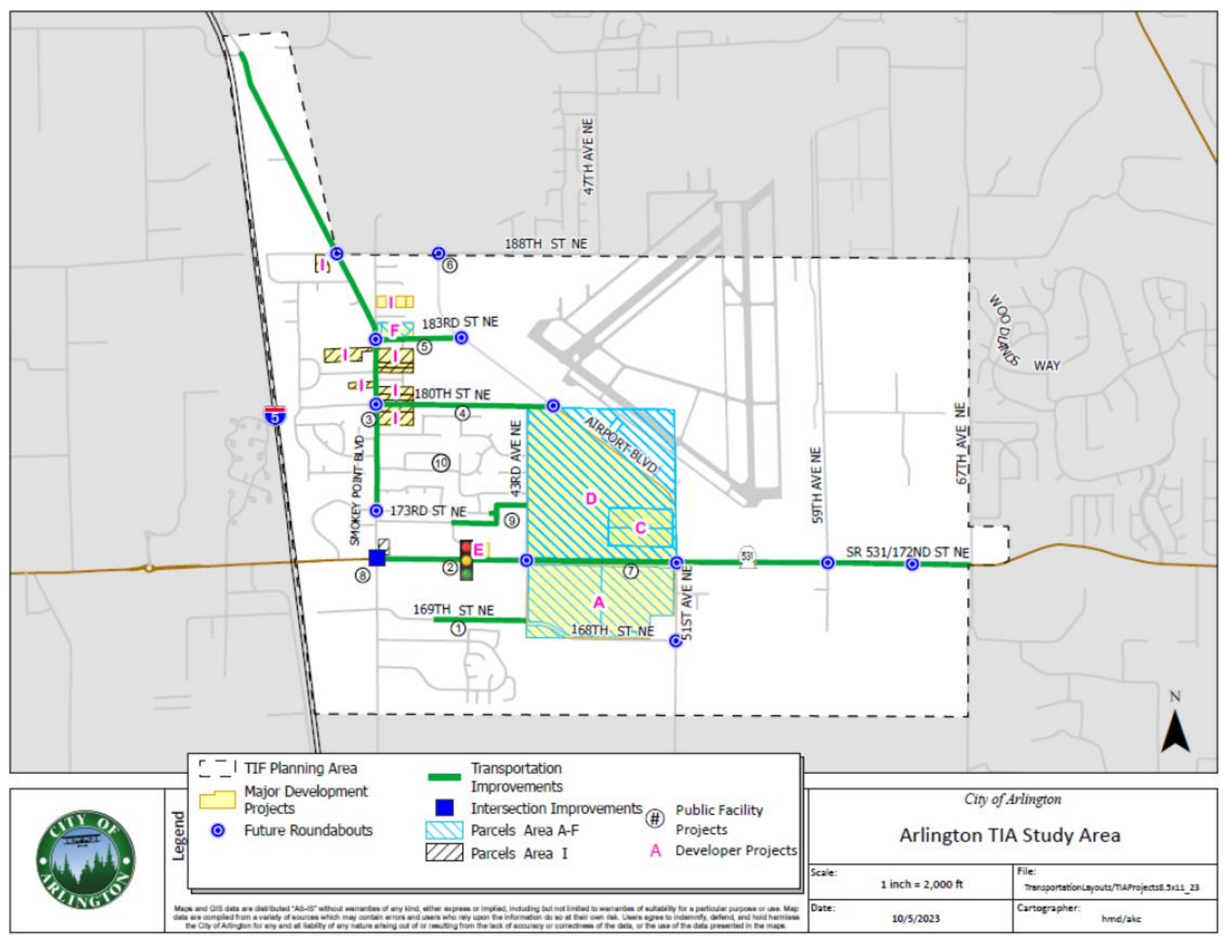
Source: City of Arlington

Table 2 – Public Improvements Supported from Other Resources (In 2024 $)

Map ID	Name	Description	Total Cost	Grant Funds	City Reserves	New City Debt
1	**169th St Connection Project**	Design, ROW, and construction of a two-lane arterial roadway and 12-ft multiuse traill between 43rd Ave and 38th Ave	$4,813,000	$3,900,000	$913,000	$0
2	**40th Ave Intersection Project**	Design, ROW, and construction of a signal at SR-531 (172nd St) and 40th Ave, includes ADA compliant crosswalks, bus pull-outs and a solid nedian between Smokey Point Blvd and 43rd Ave	$2,373,403	$1,233,976	$1,139,427	$0
4	**180th St Connector Project**	Design, ROW and construction of a two lane road and 12-ft multiuse trai connecting Smokey Point Blvd to Airport Blvd, includes constructing a RAB at Airport Blvd.	$7,100,000	$5,000,000	$2,100,000	$0
5	**183rd St Connector Project**	Design, ROW and construction of a two lane road and 12-ft multiuse trai connecting Smokey Point Blvd to Airport Blvd, includes constructing a RAB at Airport Blvd.	$3,200,000	$2,560,000	$640,000	$0
6	**188th & Airport Blvd Roundabout Project**	Design, ROW and construction of a RAB at the 188th St and Airport Blvd intersection, includes connecting 188th St trail from Smokey Point Blvd to Airport Trail	$4,600,000	$3,680,000	$920,000	$0
7	**SR-531 Widening Project**	Widening of SR-531 from 43rd Ave to 67th Ave, project will add two travel lanes seperated by a solid median, multiuse trail, sidewalk, and RAB's at 43rd Ave, 51st Ave, 59th Ave and 67th Ave	$40,200,000	$39,200,000	$1,000,000	$0
8	**173rd Phase 2**	Design, ROW and construction of a two lane road and 12-ft multiuse trail connecting the east end of 173rd Phase 1 at 40th Ave to 43rd Ave and 174th St	$3,150,000	$2,500,000	$650,000	$0
9	**SR-531 & Smokey Point Blvd Intersection Improvements**	Design, ROW and construction to install droplanes to improve vehicle movement and improve pedestrian safety at the SR-531 & Smokey Point Blvd Intersection	$8,000,000	$6,400,000	$1,600,000	$0
		Total	**$73,436,403**	**$64,473,976**	**$8,962,427**	**$0**

Source: City of Arlington

Figure 2 – TIF Public Improvements and Redevelopment Areas



Source: City of Arlington

Private Development Within the TIA

The project analysis identifies five areas to be developed within the TIA (see figure 2, above – note, Developer Project "E" is not described in the report):

A. Project Roxy
C. Smartcap A&B
D. Smartcap North
F. Goldstream
I. Infill

Project A is a 2.8 million square foot Amazon fulfillment center that is under construction and expected to be completed in early 2024. Projects C and D are industrial and warehouse development sites, expected to create 403,453 and 921,465 square feet of space, respectively. Project F is an apartment and mixed-use development (90 dwellings and 6,250 square feet of commercial space). Project(s) I includes 12 separate single-family parcels for housing infill (40 total dwellings expected).

The total taxable value of the five projects at full buildout is estimated to be $969.71 million, representing an AV increase of $770.2 million over the TIA's 2024 estimated AV. The City also provided a 75% buildout scenario, which would result in a $577.7 million increase in taxable value. The project analysis assumes the developments will be completed over the next 5-10 years. No speculative development was included in the analysis. A summary of the private developments is found in Table 3.

Table 3 – Summary of Private Developments

Map ID	Name	Dwelling Units	Industrial SF	Retail/ Commercial SF	Total
A	Warehouse/Dist. Center (Project Roxy)		2,821,987 SF		
D	Smartcap Arlington North Ind. Park (Phase 1)		921,465 SF		
C	Smart Airport Industrial Park (Phase A)		403,453 SF		
F	Gold Stream Venture Partners	90		6,250 SF	
I	Infill	40			
	Total Development	**130**	**4,146,905 SF**	**6,250 SF**	**4,153,155 SF**
	Jobs Supported (jobs)*		**2,488**	**12**	**2,500**
	Notes to Table:				
	Vacancy Allowance		*10.0%*	*5.0%*	*0.0%*
	Occupied SF (by year 10)		*3,732,215 SF*	*5,938 SF*	*4,153,155 SF*
	Avg. Floor Area per Job		*1,500 SF*	*500 SF*	*250 SF*

Source: City of Arlington

Assessed Value of the TIA

According to the Snohomish County Assessor, as cited in the project analysis, the AV of the development sites within the TIA for the 2023 tax year is approximately $194.1 million or 4.2% of the City's total AV, which is below the statutory limit of the lesser of $200 million in AV and 20% of the City's total AV. The City also provided estimates for 2024, with the AV of the development sites estimated to equal $199.5 million or 4.2% of the City's total AV, which remains below the statutory limit of the lesser of $200 million in AV and 20% of the City's 2024 total estimated AV.

As previously mentioned, the description of the methodology used to determine total AV of the TIA, as provided on page 12 of the project analysis, appears to exclude certain parcels. Prior to approving the TIA, we recommend that the City carefully review its calculations and confirm the assumptions used to calculate the TIA's total AV with the County Assessor's office and legal counsel to ensure that all properties located within the TIA have been accurately included in the total.

As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process, especially as the Amazon fulfillment center is expected to be completed in advance of the TIA going into effect.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2024, with 2025 being the first year in which the City 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 City estimates a 2024 tax increment base AV of $199.5 million and estimates $772.2 million in additional AV will be added between 2025 and 2049 through new construction. No assumptions for appreciation or speculative development were included in the analysis. The City projects $54.7 million of tax increment revenues will be collected over the 25-year term of the TIA (see Table 4 – Tax Allocation Revenues). The 75% site buildout scenario projects $41.0 million in tax increment revenues will be collected over the 25-year term, however full, year-by-year collections were not provided for the conservative scenario.

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 City 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

Year	Full Buildout
1	$ 848,918
2	1,091,466
3	1,334,014
4	1,576,562
5	1,819,111
6	2,061,659
7	2,304,207
8	2,425,481
9	2,425,481
10	2,425,481
11	2,425,481
12	2,425,481
13	2,425,481
14	2,425,481
15	2,425,481
16	2,425,481
17	2,425,481
18	2,425,481
19	2,425,481
20	2,425,481
21	2,425,481
22	2,425,481
23	2,425,481
24	2,425,481
25	2,425,481
Total	$ 54,694,595

Source: City of Arlington

Financing Plan for Public Improvements

To fund a portion of the proposed public improvements, the City plans to issue one series of LTGO Bonds (the "Bonds") in late 2024. As stated in the project analysis, because of their general obligation pledge, the City will be required to pay the full debt service due on the Bonds from available resources, regardless of the amount of tax increment revenues generated within the TIA. The City provided two financing scenarios, The first scenario assumes a project fund deposit for the full amount identified in the report ($28.1 million), while the second assumes a lower project fund deposit ($26.1 million). Both scenarios include two sets of cashflows, one assuming high coupons and the other with low coupons. A summary of the scenarios is included in Table 4, below.

Table 5 – Estimated Financing Scenarios

	$28.1 mm Scenario		**$26.1 mm Scenario**	
	High Coupons	Low Coupons	High Coupons	Low Coupons
Issuance Date	12/1/2024	12/1/2024	12/1/2024	12/1/2024
Final Maturity	12/1/2054	12/1/2054	12/1/2054	12/1/2054
Par Amount	26,875,000	28,740,000	24,965,000	26,700,000
Project Proceeds	28,100,000	28,100,000	26,100,000	26,100,000
Total Debt Service	54,847,813	54,171,900	50,949,263	50,322,072
True Interest Cost	4.80%	4.68%	4.80%	4.68%

Source: City of Arlington

The City assumed interest rates as of September 28, 2023, level debt service, and interest only periods through 2027. The City's debt service estimates assume a 30-year amortization, which exceeds the statutory 25-year maximum term of a TIA. The City indicated in the project analysis it intends to transfer increment revenues in excess of debt service payments into a TIF reserve to pay for debt service after the TIA expires. As this novel approach is not specifically contemplated by statute, we advise the City to review its plan of finance with bond counsel to ensure that it is compatible with TIF statutes prior to approving the TIA.

This City also analyzed delaying the issuance of the bonds until year four of the TIA, which would presumably align with the "Scenario B" development timeline for the public improvements referenced above. However, these cashflows were not provided by the City and are excluded from this review.

Debt Capacity

Based on the City's 2023 total assessed value, the City has $69,917,536 in total non-voted debt capacity (1.5% of 2023 AV). Per the 2022 audited financial statements, the City projects to have $14,372,758 of outstanding non-voted general obligation debt (as of fiscal year end 2023), resulting in $55,544,778 in remaining capacity. For calculating the capacity after the issuance of TIA related debt, we assumed the $28.7 million issuance. The City of Arlington projects to have $26,804,776 of remaining non-voted debt capacity after the issuance of TIA related debt.

Table 6 – Debt Capacity (2025 Issuance)

Assessed Valuation for 2023 Tax Year	$	4,661,169,055
Non-Voted Debt Capacity (1.5% of AV)		69,917,536
Less: Outstanding Non-Voted Debt		14,372,758
Remaining Non-Voted Debt Capacity		55,544,778
Less: Financing Proposed (in total)		28,740,000
Projected Remaining Non-Voted Capacity		**26,804,778**
Projected Remaining Non-Voted Capacity %		**38.34%**

Projected Debt Service Coverage

All four of the financing scenarios result in an initial shortfall of revenues compared to debt service. However, with the anticipated future growth of tax increment revenues, coverage is eventually projected to exceed 1.0x. The revenue projections provided by the City are conservative, in that they do not include any speculative development or an inflator to account for AV appreciation in the increment area. The City's projected debt service coverage ratios for each of the four bond scenarios can be seen in Table 8.

OST notes that while the City did include a 75% development scenario in its project analysis, year-by-year increment revenue collections were not included for this scenario. As such, the 75% development scenario is not included in the coverage calculations below.

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)	Uncovered Debt Service, Yrs 25 -30 ($MMs)	Aggregate Debt Service Coverage Ratio*
$28.1 MM – high coupon	2030+	2033	$54.69	$54.85	$1.26	$9.23	($9.39)	1.00x
$28.1 MM – low coupon	2027, 2030+	2032	$54.69	$54.17	$0.99	$9.83	($9.31)	1.01x
$26.1 MM – high coupon	2027, 2029+	2031	$54.69	$50.95	$0.77	$12.46	($8.72)	1.01x
$26.1 MM – low coupon	2027,2029+	2031	$54.69	$50.32	$0.54	$13.01	($8.64)	1.09x

Source: City of Arlington

**Note: Aggregate debt service coverage is for the full 30-year proposed term of the bonds*

Table 8 – TIF Debt Service Coverage

		$28.1MM High Coupon Scenario				$28.1MM Low Coupon Scenario				$26.1MM High Coupon Scenario				$26.1MM Low Coupon Scenario			
Year	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2025	$ 848,918	$ 1,391,638	$ (542,720)	$ (542,720)	0.61x	$ 1,315,050	$ (466,132)	$ (466,132)	0.65x	$ 1,292,738	$ (443,820)	$ (443,820)	0.66x	$ 1,221,763	$ (372,845)	$ (372,845)	0.69x
2026	1,091,466	1,391,638	(300,172)	(842,891)	0.78x	1,315,050	(223,584)	(689,716)	0.83x	1,292,738	(201,272)	(645,091)	0.84x	1,221,763	(130,297)	(503,141)	0.89x
2027	1,334,014	1,391,638	(57,624)	(900,515)	0.96x	1,315,050	18,964	(670,752)	1.01x	1,292,738	41,277	(603,815)	1.03x	1,221,763	112,252	(390,890)	1.09x
2028	1,576,562	1,876,638	(300,076)	(1,200,590)	0.84x	1,860,050	(283,488)	(954,240)	0.85x	1,742,738	(166,176)	(769,990)	0.9x	1,726,763	(150,201)	(541,090)	0.91x
2029	1,819,111	1,877,388	(58,277)	(1,258,867)	0.97x	1,857,800	(38,689)	(992,929)	0.98x	1,745,238	73,874	(696,117)	1.04x	1,726,513	92,599	(448,492)	1.05x
2030	2,061,659	1,876,888	184,772	(1,074,095)	1.1x	1,859,300	202,359	(790,570)	1.11x	1,741,488	320,172	(375,945)	1.18x	1,730,013	331,647	(116,845)	1.19x
2031	2,304,207	1,875,138	429,070	(645,026)	1.23x	1,859,300	444,907	(345,663)	1.24x	1,741,738	562,470	186,525	1.32x	1,727,013	577,195	460,350	1.33x
2032	2,425,481	1,877,138	548,344	(96,682)	1.29x	1,857,800	567,681	222,018	1.31x	1,740,738	684,744	871,268	1.39x	1,727,763	697,719	1,158,068	1.4x
2033	2,425,481	1,877,638	547,844	451,162	1.29x	1,859,800	565,681	787,699	1.3x	1,743,488	681,994	1,553,262	1.39x	1,727,013	698,469	1,856,537	1.4x
2034	2,425,481	1,876,638	548,844	1,000,005	1.29x	1,860,050	565,431	1,353,130	1.3x	1,744,738	680,744	2,234,005	1.39x	1,729,763	695,719	2,552,255	1.4x
2035	2,425,481	1,879,138	546,344	1,546,349	1.29x	1,858,550	566,931	1,920,061	1.31x	1,744,488	680,994	2,914,999	1.39x	1,725,763	699,719	3,251,974	1.41x
2036	2,425,481	1,874,888	550,594	2,096,942	1.29x	1,860,300	565,181	2,485,242	1.3x	1,742,738	682,744	3,597,742	1.39x	1,730,263	695,218	3,947,192	1.4x
2037	2,425,481	1,874,138	551,344	2,648,286	1.29x	1,860,050	565,431	3,050,673	1.3x	1,744,488	680,994	4,278,736	1.39x	1,727,763	697,719	4,644,910	1.4x
2038	2,425,481	1,876,638	548,844	3,197,129	1.29x	1,857,800	567,681	3,618,354	1.31x	1,744,488	680,994	4,959,729	1.39x	1,728,513	696,969	5,341,879	1.4x
2039	2,425,481	1,877,138	548,344	3,745,473	1.29x	1,858,550	566,931	4,185,285	1.31x	1,742,738	682,744	5,642,473	1.39x	1,727,263	698,219	6,040,097	1.4x
2040	2,425,481	1,875,638	549,844	4,295,316	1.29x	1,862,050	563,431	4,748,716	1.3x	1,744,238	681,244	6,323,716	1.39x	1,729,013	696,469	6,736,566	1.4x
2041	2,425,481	1,874,963	550,519	4,845,835	1.29x	1,860,400	565,081	5,313,797	1.3x	1,741,713	683,769	7,007,485	1.39x	1,725,338	700,144	7,436,709	1.41x
2042	2,425,481	1,876,925	548,556	5,394,391	1.29x	1,862,050	563,431	5,877,228	1.3x	1,742,088	683,394	7,690,878	1.39x	1,730,175	695,306	8,132,015	1.4x
2043	2,425,481	1,876,263	549,219	5,943,609	1.29x	1,861,788	563,694	6,440,922	1.3x	1,745,100	680,381	8,371,259	1.39x	1,728,100	697,381	8,829,396	1.4x
2044	2,425,481	1,877,975	547,506	6,491,115	1.29x	1,859,613	565,869	7,006,790	1.3x	1,745,488	679,994	9,051,253	1.39x	1,729,325	696,156	9,525,552	1.4x
2045	2,425,481	1,876,800	548,681	7,039,796	1.29x	1,860,525	564,956	7,571,746	1.3x	1,743,250	682,231	9,733,484	1.39x	1,728,638	696,844	10,222,396	1.4x
2046	2,425,481	1,877,738	547,744	7,587,540	1.29x	1,862,806	562,675	8,134,421	1.3x	1,743,388	682,094	10,415,577	1.39x	1,729,638	695,844	10,918,239	1.4x
2047	2,425,481	1,875,525	549,956	8,137,496	1.29x	1,862,681	562,800	8,697,220	1.3x	1,745,638	679,844	11,095,421	1.39x	1,728,450	697,031	11,615,270	1.4x
2048	2,425,481	1,875,163	550,319	8,687,814	1.29x	1,860,150	565,331	9,262,551	1.3x	1,744,738	680,744	11,776,164	1.39x	1,725,075	700,406	12,315,676	1.41x
2049	2,425,481	1,876,388	549,094	9,236,908	1.29x	1,860,213	565,269	9,827,820	1.3x	1,740,688	684,794	12,460,958	1.39x	1,729,512	695,969	13,011,645	1.4x
2050	-	1,878,938	(1,878,938)			1,862,650	(1,862,650)			1,743,488	(1,743,488)			1,726,325	(1,726,325)		
2051	-	1,877,550	(1,877,550)			1,860,375	(1,860,375)			1,742,613	(1,742,613)			1,729,000	(1,729,000)		
2052	-	1,877,225	(1,877,225)			1,860,175	(1,860,175)			1,743,063	(1,743,063)			1,728,750	(1,728,750)		
2053	-	1,877,700	(1,877,700)			1,861,825	(1,861,825)			1,744,575	(1,744,575)			1,725,575	(1,725,575)		
2054	-	1,878,713	(1,878,713)			1,860,100	(1,860,100)			1,741,888	(1,741,888)			1,729,475	(1,729,475)		
Total[1]	$ 54,694,595	$ 54,847,813	$ (153,218)			$ 54,171,900	$ 522,695			$ 50,949,263	$ 3,745,333			$ 50,322,075	$ 4,372,520		

Source: City of Arlington

Key Risks

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

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

Plan of Finance Assumptions: The City's plan of finance assumes that bonds will be issued with a 30-year final maturity, which exceeds the statutory 25-year maximum term of a TIA. The City indicated that it intends to transfer increment revenues in excess of debt service payments into a TIF reserve to pay for debt service after the TIA expires. As this novel approach is not specifically contemplated by statute, we advise the City to review its plan of finance with bond counsel to ensure that it is compatible with TIF statutes prior to approving the TIA.

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.

Project Costs/Grant Receipts: A sizable portion of the estimated public improvements are expected to be funded with federal and state grants. If the City is unable to secure the full amount of grant funding, or if project costs rise considerably, it could increase the amount of debt or other sources of funds needed to complete the public improvements.

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

Permits: It is unclear where the projects, other than the Amazon facility, are in the permitting process. Delays in permits for the other 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 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 projected or take longer than anticipated to be reflected on the County's tax rolls.

Interest Rate Risk: The City will be exposed to interest rate risk until its bonds are sold. The project analysis assumes interest rates as of September 26, 2023. However, the City did not include any cushion for planning purposes. While we note that interest rates have come down since the financing scenarios were drafted, including an interest rate cushion is considered an industry best practice when planning and budgeting for future debt.

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

Recommendations

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

1. Prior to approving the TIA, we recommend that the City carefully review its calculations and confirm the assumptions used to calculate the TIA's total AV with the County Assessor's office and legal counsel to ensure that all properties located within the TIA have been accurately included in the total. This is important to ensure that the City's TIA is in compliance with statutory requirements limiting the size of the TIA to the lesser of $200 million in AV and 20% of the City's total AV.

2. The City's plan of finance assumes that bonds will be issued with a 30-year final maturity, which exceeds the statutory 25-year maximum term of a TIA. Prior to approving the TIA, we recommend that the City confirm this novel approach with bond counsel to ensure that its plan of finance is compatible with the TIF statutes.

3. Prior to approving the TIA, we recommend the City coordinate closely with the taxing districts impacted by the project, and the County Assessor's Office, to ensure that all parties have an accurate understanding of how the TIA will impact them and provide sufficient time to work through any concerns.

4. Prior to approving the TIA, we recommend that the City discuss and establish a policy regarding how much debt service it is able and willing to pay from City general revenues and reserves on an annual basis, to offset projected as well as unanticipated tax increment revenue shortfalls.

5. As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process and are as accurate as possible. This is particularly important with the Amazon fulfillment center expected to be completed in advance of the TIA going into effect.

6. As the City continues to develop its plan of finance, we suggest including an interest rate cushion in its bond financing scenarios.

7. Given the timeline for public improvements, and the possibility of extending the timeline further in the alterative construction scenario, we recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

8. A TIA becomes effective on June 1, following approval by a local government. In the City's project analysis, this date is often cited as July 1. We suggest amending the project analysis to reflect the actual expected effective date.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer