Tax Increment Financing Project Analysis Review

— Port of Everett —

February 21, 2024

Legislative Building, P.O. Box 40200 Olympia, Washington 98504-0200
(360) 902-9000 • TTY USERS: CALL 711 • FAX (360) 902-9037
www.tre.wa.gov

February 21, 2024

Eric Russell
Chief Financial Officer
Port of Everett
1205 Craftsman Way #200
Everett, WA 98201

Dear Mr. Russell:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the Port of Everett's (the "Port") tax increment financing ("TIF") project analysis, consisting of the draft project analysis dated December 11, 2023, and an Appendix D dated January 26, 2024. OST and Montague DeRose and Associates, the state's municipal advisor, have reviewed the provided materials. Based on our review, which is detailed in the sections to follow, we believe that the Port's project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute"). However, please see our recommendations provided at the end of this letter.

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

Executive Summary

Over the next 10 years, the Port plans to spend an estimated $90.7 million (2023 dollars) on a variety of projects within the Port's proposed tax increment area (the "TIA") to increase economic activity at the destination marina and improve public access to waterfront property. These projects include, but are not limited to, infrastructure improvements, such as electrification, parking and EV charging, waterfront access, renovation and/or expansion to docks, jetties, and boat launches, channel dredging, creation of a new port administration building, public art installations, and various environmental improvements (collectively, the "Public Improvements"). This plan follows the Port's capital investment of over $315 million within the TIA's 460 acres over the last 20 years. The Port projects that tax increment revenues generated by the TIA will finance $12.6 million of the $90.7 million in total project costs through the issuance of Limited Tax General Obligation bonds in December 2024 and December 2025 (the "Bonds"), which will be backed by the full faith and credit of the Port.

Regarding the funding gap of $78.1 million, the Port plans to cover $22.1 million from three sources: grant funding ($12.0 million), intergovernmental agreements with local government partners ($7.0 million), and contributions from private developers ($3.1 million). The Port's project analysis did not identify specific funding sources for the remaining $56.0 million of Public Improvements, but indicated that Port reserves, the sale of Port assets, ongoing Port revenues, or future non-TIA debt issuances are all options. The Port plans to make decisions on funding sources through annual updates to its capital improvement plan and will not incur debt without clearly identifying revenues for debt repayment.

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 Port's draft project analysis dated December 11, 2023 and an Appendix D dated January 26, 2024.

OST's primary goal in our statutorily mandated review is to ensure that the project analysis addresses the topics listed in the TIF statute and that risks to the Port that might result from the implementation of the project are adequately disclosed.

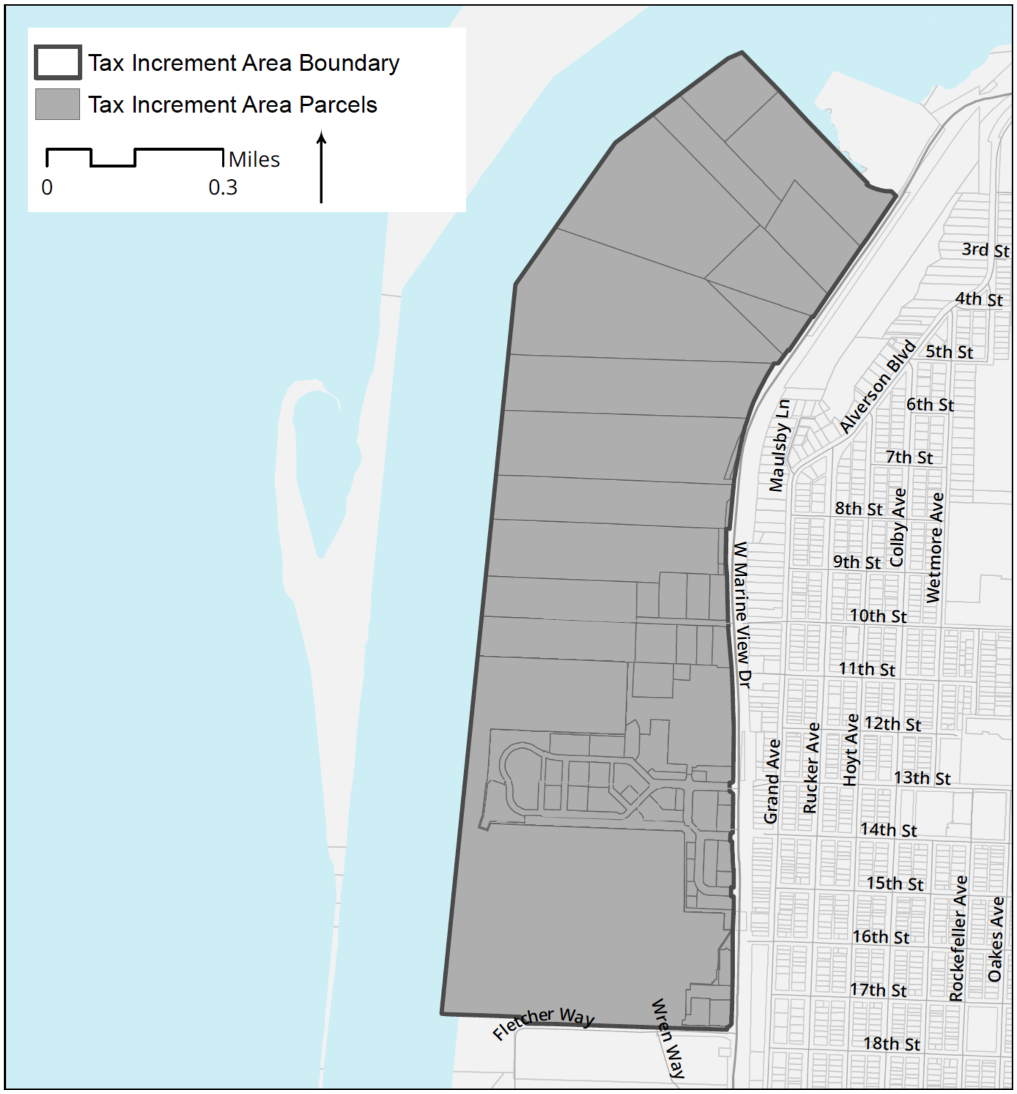
Project Team

Jurisdiction: Port of Everett
County: Snohomish County
Redevelopment Area: Port of Everett TIA
Consultants: Tiberius Solutions LLC Northwest Municipal Advisors K&L Gates (bond counsel)

Proposed Tax Increment Area

The Port's 460-acre TIA will be generally bordered by the Puget Sound Naval Complex to the south, West Marine View Drive/Hwy 529 to the east, the Snohomish River to the north, and Possession Sound to the west. All 239 parcels in the TIA are zoned mixed urban or heavy industrial, with an aggregate market value of $356,019,500 and a total assessed value of $78,144,000 for the 2024 tax year. Excluding rights-of-way totaling 33 acres, the mixed urban parcels compose 57% of the acreage and 30% of the taxable assessed value, while the light industrial parcels compose 43% of acreage and 70% of taxable assessed value.

Figure 1 – Map of Proposed Tax Increment Area



Source: Port of Everett

Impacted Taxing Districts

Six 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 Everett;
(4) City of Everett – EMS Permanent 2001-On;
(5) Port of Everett Maintenance; and
(6) Central Puget Sound Regional Transit Authority.

After the TIA effective date, the levy rate for each of these jurisdictions will be applied to the increased AV within the TIA, with the tax increment revenues remitted to reimburse the Port for debt service on the Bonds and, potentially, to pay for the unfunded Public Improvements.

Not all taxing districts would be impacted by the TIA. The property tax levies for State Schools (Part 1 and 2) and Everett School District No. 2 (Bonds, Capital Projects, and Enrichment levies) would be excluded from the calculation of tax increment revenues.

Project Description

Public Improvements within the TIA

To facilitate private development in the TIA, the project analysis identified four categories of Public Improvements which total $90.7 million (2023 dollars) to be spent over 11 years: Infrastructure Improvements (five projects totaling to $29.9 million); Public Access (11 projects totaling to $35.8 million); Government Services (one project of $10.0 million); and, Environmental Improvements (nine projects totaling to $15.0 million), as shown in Table 1. The project analysis did not detail the funding sources for these 26 projects, nor did it specify which projects would be financed from the Port's $12.6 million issuance of Bonds to be repaid from the tax increment revenues generated by the TIA.

Regarding the funding gap of $78.1 million, the Port plans to source $22.1 million from three sources: grant funding ($12.0 million), intergovernmental agreements with local government partners ($7.0 million), and contributions from private developers ($3.1 million), as shown in Table 2. The Port's project analysis did not provide specific funding sources for the remaining $56.0 million balance, but indicated that Port reserves, the sale of Port assets, ongoing Port revenues, or future non-TIA debt issuances are all options. The Port plans to make decisions on funding sources through annual updates to its capital improvement plan and will not incur debt without clearly identifying revenues for debt repayment.

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

	Estimated Project Cost (2023$)			
Project Category	**Years 1-4**	**Years 5-8**	**Years 9-11**	**Total**
Infrastructure Improvements	$ 29,000,000	$ 900,000	$ -	**$ 29,900,000**
Public Access	$ 31,400,000	$ 4,000,000	$ 400,000	**$ 35,800,000**
Government Services	$ -	$ 10,000,000	$ -	**$ 10,000,000**
Environmental Improvements	$ 3,300,000	$ 7,000,000	$ 4,700,000	**$ 15,000,000**
Total	**$ 63,700,000**	**$ 21,900,000**	**$ 5,100,000**	**$ 90,700,000**

Source: Port of Everett

Table 2 – Estimated Sources for Public Improvements

Source	**Amount (2023$)**
TIA LTGO Bond Proceeds	$ 12,560,000
Grants	$ 11,970,000
Intergovernmental Agreements	$ 6,960,000
Private Contributions	$ 3,080,000
Other Port Resources	$ 56,150,000
Total	**$ 90,720,000**

Source: Port of Everett

Private Development Within the TIA

The project analysis identified nine private development projects either in-process or in-development, plus five projects categorized as speculative. The projects are a mix of commercial (restaurant, office, hotel, and retail), mixed-use residential, and light industrial developments expected to be under construction between 2024 and 2035. The analysis assumed that the residential portion of the three mixed-use developments, which would be mostly multifamily housing, would qualify for the City of Everett's Multifamily Tax Exemption (MFTE) program for an eight-year period. The commercial portion of these mixed-use developments would not be eligible for the MFTE.

In addition to the nine in-process and five speculative projects, there are two existing apartment buildings in the proposed TIA currently receiving eight-year MFTEs. Upon expiration of the MFTE benefits, the assessed value of the residential portion of these buildings will be added back to the tax roll and increase the assessed value in the proposed TIA.

The projection of assessed values and tax increment revenues conservatively assumes that new construction is not added to the tax roll until two years after construction is completed. The assessed values of properties qualifying for the MFTE would not be added to the tax roll until 10 years after construction is complete. The timing and value of projected assessed values within the TIA from private development are presented in Table 3 below. The projected total increase of $545.6 million in nominal dollars is comprised of $68.8 million from the two expiring MFTE exemptions (12.6%), $247.4 million from the nine development projects (45.3%), and $229.4 million from the five speculative projects (42.1%).

Table 3 – Projected Assessed Values from Private Development ($ nominal)

Year on Tax Roll	Expiring MFTE Exemptions	In Process/Have Developer	Speculative	Total
2025	$ -	$ -	$ -	$ -
2026	$ -	$ -	$ -	$ -
2027	$ -	$ 8,500,000	$ -	$ 8,500,000
2028	$ -	$ 12,700,000	$ -	$ 12,700,000
2029	$ 33,700,000	$ 71,500,000	$ -	$ 105,200,000
2030	$ 35,100,000	$ 40,100,000	$ -	$ 75,200,000
2031	$ -	$ -	$ 600,000	$ 600,000
2032	$ -	$ -	$ 73,200,000	$ 73,200,000
2033	$ -	$ -	$ -	$ -
2034	$ -	$ 3,500,000	$ 23,300,000	$ 26,800,000
2035	$ -	$ -	$ -	$ -
2036	$ -	$ 111,100,000	$ -	$ 111,100,000
2037	$ -	$ -	$ -	$ -
2038	$ -	$ -	$ -	$ -
2039	$ -	$ -	$ 54,300,000	$ 54,300,000
2040	$ -	$ -	$ 78,000,000	$ 78,000,000
2041	$ -	$ -	$ -	$ -
2042	$ -	$ -	$ -	$ -
2043	$ -	$ -	$ -	$ -
2044	$ -	$ -	$ -	$ -
2045	$ -	$ -	$ -	$ -
Total	**$ 68,800,000**	**$ 247,400,000**	**$ 229,400,000**	**$ 545,600,000**

Source: Port of Everett

Assessed Value of the TIA

According to the Snohomish County Assessor, as cited in the project analysis, the AV of the parcels within the TIA for the 2024 tax year is $78.1 million, or 0.3% of the Port's total AV of $26.3 billion, which is below the statutory limit of the lesser of $200 million in AV and 20% of the Port's total AV.

The magnitude and timing of real property development in the TIA will drive growth in incremental assessed value and, therefore, will drive growth in tax increment revenues. For the development scenario provided by the Port, the incremental taxable assessed value of the TIA is estimated by assigning market-based improvement prices reflecting the land use, size of the proposed development, and the City's MFTE for qualifying properties.

The Port assumes the TIA base value and the assessed values of newly developed properties will increase by 4.0% annually. This assumption uses long-term historical trends for per-capita personal income growth for Snohomish County as the basis for forecasting appreciation of existing assessed values, and employs forecasts of population growth as the basis for projecting the increase in assessed value for new construction.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2024, with 2025 being the first year in which the Port expects to receive tax increment revenues. The term of the TIA is assumed to be 25 years (the maximum allowed) with 2049 being the final year in which tax increment revenues will be received. The Port assumes a 2024 tax increment base AV of $78.1 million and projected $545.5 million in incremental AV would be added between 2025 and 2049 through private development. The Port projects $22.2 million of tax increment revenues would be collected over the 25-year term of the TIA (see Table 4 – Tax Allocation Revenues).

Under the TIF Statute, only certain regular levies are available to the TIA. Both parts of the state school levy, local school district excess levies, voted bond levies, and levies of districts for bond payments are excluded from the TIA levy rate. The TIA's annual levy rate may change year-to-year based on factors including future incremental increases to AV of the TIA, future AV of the taxing districts, and relevant levy limits. The project analysis calculates the levy rate for each of these jurisdictions and applies the levy rates to the projected incremental AV within the TIA, to calculate the projected tax allocation revenues provided in Table 4.

Table 4 – Tax Allocation Revenues

Tax Year	Assessed Value Total	Assessed Value Base Value	Assessed Value Increment	Levy Rate	Tax Allocation Revenues
2024	$ 78,144,000	$ 78,144,000	$ -	$ 2.625027	$ -
2025	$ 81,269,760	$ 78,144,000	$ 3,125,760	$ 2.550389	$ 7,972
2026	$ 84,520,550	$ 78,144,000	$ 6,376,550	$ 2.477659	$ 15,799
2027	$ 96,375,227	$ 78,144,000	$ 18,231,227	$ 2.407003	$ 43,883
2028	$ 112,921,843	$ 78,144,000	$ 34,777,843	$ 2.338381	$ 81,324
2029	$ 222,662,233	$ 78,144,000	$ 144,518,233	$ 2.271723	$ 328,305
2030	$ 306,752,080	$ 78,144,000	$ 228,608,080	$ 2.207139	$ 504,570
2031	$ 319,640,814	$ 78,144,000	$ 241,496,814	$ 2.144269	$ 517,834
2032	$ 405,582,078	$ 78,144,000	$ 327,438,078	$ 2.083064	$ 682,074
2033	$ 421,805,361	$ 78,144,000	$ 343,661,361	$ 2.023714	$ 695,472
2034	$ 465,526,690	$ 78,144,000	$ 387,382,690	$ 1.965948	$ 761,574
2035	$ 484,147,757	$ 78,144,000	$ 406,003,757	$ 1.909866	$ 775,413
2036	$ 614,582,230	$ 78,144,000	$ 536,438,230	$ 1.855299	$ 995,253
2037	$ 639,165,519	$ 78,144,000	$ 561,021,519	$ 1.802411	$ 1,011,192
2038	$ 664,732,140	$ 78,144,000	$ 586,588,140	$ 1.750914	$ 1,027,066
2039	$ 745,590,774	$ 78,144,000	$ 667,446,774	$ 1.700888	$ 1,135,252
2040	$ 853,375,110	$ 78,144,000	$ 775,231,110	$ 1.652338	$ 1,280,944
2041	$ 887,510,115	$ 78,144,000	$ 809,366,115	$ 1.605191	$ 1,299,187
2042	$ 923,010,519	$ 78,144,000	$ 844,866,519	$ 1.559329	$ 1,317,425
2043	$ 959,930,940	$ 78,144,000	$ 881,786,940	$ 1.514734	$ 1,335,673
2044	$ 998,328,178	$ 78,144,000	$ 920,184,178	$ 1.471415	$ 1,353,973
2045	$ 1,038,261,305	$ 78,144,000	$ 960,117,305	$ 1.429335	$ 1,372,329
2046	$ 1,079,791,757	$ 78,144,000	$ 1,001,647,757	$ 1.388458	$ 1,390,746
2047	$ 1,122,983,427	$ 78,144,000	$ 1,044,839,427	$ 1.348750	$ 1,409,227
2048	$ 1,167,902,764	$ 78,144,000	$ 1,089,758,764	$ 1.310178	$ 1,427,777
2049	$ 1,214,618,875	$ 78,144,000	$ 1,136,474,875	$ 1.272708	$ 1,446,401
Total					**$ 22,216,665**

Source: Port of Everett

Financing Plan for Public Improvements

To fund $13.1 million (nominal dollars) of the proposed Public Improvements, the Port plans to issue $8.6 million and $4.1 million ($12.7 million total) of tax-exempt LTGO Bonds (the "Bonds") in December 2024 and December 2025. As stated in the project analysis, because of their general obligation pledge, the Port 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 Port's baseline structure for the Bonds assumes interest rates as of October 13, 2023, resulting in an average true interest cost of 4.88% for both series, with combined total principal and interest projected at $24.9 million (relative to total projected tax increment revenues of $22.2 million). The interest rates assumed for the Bonds are conservative relative to current market conditions. Using the MMD Index (AAA-rated) as a general measure of tax-exempt interest rates, MMD yields for the 2025-2049 range dropped by an average of 0.84% between 10/13/2023 and 2/7/2024.

The Port plans to have interest-only payments on the Bonds from 2025-2031 to better align debt service payments with anticipated tax increment revenues and to minimize the amount of Port resources used to pay debt service shortfalls from 2025-2031. From 2032-2049, annual principal and interest payments on the Bonds will escalate from $680,000 to $1.4 million.

The Port projects annual deficits between tax increment revenues and debt service averaging $392,000 in the first seven years of repayment, resulting in an accumulated deficit of $2.7 million by 2031, minor annual surpluses and shortfalls from 2032-2049, and an ending shortfall of $2.7 million by 2049. The Port expects to cover these annual shortfalls with its general fund resources. In the Port's adopted 2024 Operating Budget and Capital Budget, projected available cash balances each January 1 from 2024 through 2028 range from $11.4 million in 2024 to $14.4 million in 2028, with an annual average cash balance of $14.0 million. Based on these projected cash balances, the Port appears to have resources adequate to cover the projected cumulative shortfall of $2.7 million.

The Port prepared a slightly more conservative issuance structure for the Bonds using interest rates as of October 13, 2023 plus 0.50%. With this alternate structure, only $12.4 million of the proposed Public Improvements are funded, $0.7 million less than the $13.1 million in the baseline structure for the Bonds. The Port would issue $8.7 million and $3.5 million ($12.2 million total) in December 2024 and December 2025. Total debt service is projected at $25.1 million, slightly higher than the $24.9 million for the baseline structure. With the alternate structure, the Port projects annual deficits between tax increment revenues and debt service averaging $418,000 in the first seven years of repayment, resulting in an accumulated deficit of $2.9 million by 2031, minor annual surpluses and shortfalls from 2032-2049, and an ending shortfall of $2.9 million by 2049. As previously mentioned, the Port expects to cover these annual shortfalls with its general fund resources.

Debt Capacity

Based on the Port's 2024 total assessed value, the Port has $71,714,614 in total non-voted debt capacity (0.25% of 2024 AV). The Port currently has $39,692,671 in outstanding non-voted general obligation debt, leaving sufficient net non-voted debt capacity of $32,021,943 before the $12,695,000 in TIA Bonds are issued in December 2024 and December 2025. After this debt issuance, the Port's non-voted debt capacity would be $19,326,943.

Table 5 – Debt Capacity (2024 and 2025 Issuances)

Assessed Valuation for 2024 Tax Year	$ 28,685,845,768
Non-Voted Debt Capacity (0.25% of AV)	71,714,614
Less: Outstanding Non-Voted Debt	39,692,671
Remaining Non-Voted Debt Capacity	32,021,943
Less: Bonds Proposed (in total)	12,695,000
Projected Remaining Non-Voted Capacity	**$ 19,326,943**
Projected Remaining Non-Voted Capacity (%)	**26.9%**

Projected Debt Service Coverage

Tables 6 and 7 below summarize the total tax increment revenues, revenue shortfalls, and debt service coverage for the baseline and alternate financing structures. For each financing structure, cumulative shortfalls of $2.74 million and $2.90 million, respectively, would need to be covered using the Port's general fund resources.

Table 6 – Tax Allocation Revenues and Debt Service Coverage

Financing Structure	First Year Tax Increment Revenues Exceed Debt Service	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue ($MMs)	Total Projected Debt Service ($MMs)	Projected Maximum Cumulative Shortfall ($MMs)	Total Surplus/ (Shortfall) Through End of TIA ($MMs)	Aggregate Debt Service Coverage Ratio*
Baseline	2037	n/a	$22.22	$24.96	$2.74	($2.74)	0.89x
Alternate	2033	n/a	$22.22	$25.12	$2.90	($2.90)	0.88x

Source: Port of Everett **Note: Aggregate debt service coverage is for the full 30-year proposed term of the Bonds*

Table 7 – TIF Debt Service Coverage

	Baseline Structure for the Bonds					Alternate Structure for the Bonds				
Year	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on TIF Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage
2025	$7,972	$432,000	($424,028)	($424,028)	0.02x	7,972	471,725	(463,753)	(463,753)	0.02x
2026	15,799	634,750	(618,951)	(1,042,979)	0.02x	15,799	659,225	(643,426)	(1,107,179)	0.02x
2027	43,883	634,750	(590,867)	(1,633,846)	0.07x	43,883	659,225	(615,342)	(1,722,521)	0.07x
2028	81,324	634,750	(553,426)	(2,187,272)	0.13x	81,324	659,225	(577,901)	(2,300,422)	0.12x
2029	328,305	634,750	(306,445)	(2,493,717)	0.52x	328,305	659,225	(330,920)	(2,631,342)	0.50x
2030	504,570	634,750	(130,180)	(2,623,897)	0.79x	504,570	659,225	(154,655)	(2,785,997)	0.77x
2031	517,834	634,750	(116,916)	(2,740,813)	0.82x	517,834	659,225	(141,391)	(2,927,388)	0.79x
2032	682,074	679,750	2,324	(2,738,489)	1.00x	682,074	679,225	2,849	(2,924,539)	1.00x
2033	695,472	697,500	(2,028)	(2,740,517)	1.00x	695,472	693,225	2,247	(2,922,292)	1.00x
2034	761,574	759,250	2,324	(2,738,193)	1.00x	761,574	761,475	99	(2,922,193)	1.00x
2035	775,413	777,750	(2,337)	(2,740,530)	1.00x	775,413	776,225	(812)	(2,923,005)	1.00x
2036	995,253	995,000	253	(2,740,277)	1.00x	995,253	994,975	278	(2,922,727)	1.00x
2037	1,011,192	1,011,000	192	(2,740,085)	1.00x	1,011,192	1,012,475	(1,283)	(2,924,010)	1.00x
2038	1,027,066	1,025,250	1,816	(2,738,269)	1.00x	1,027,066	1,028,225	(1,159)	(2,925,169)	1.00x
2039	1,135,252	1,137,750	(2,498)	(2,740,767)	1.00x	1,135,252	1,132,225	3,027	(2,922,142)	1.00x
2040	1,280,944	1,278,500	2,444	(2,738,323)	1.00x	1,280,944	1,279,975	969	(2,921,173)	1.00x
2041	1,299,187	1,300,750	(1,563)	(2,739,886)	1.00x	1,299,187	1,296,400	2,787	(2,918,386)	1.00x
2042	1,317,425	1,315,000	2,425	(2,737,461)	1.00x	1,317,425	1,313,775	3,650	(2,914,736)	1.00x
2043	1,335,673	1,336,500	(827)	(2,738,288)	1.00x	1,335,673	1,332,850	2,823	(2,911,913)	1.00x
2044	1,353,973	1,354,750	(777)	(2,739,065)	1.00x	1,353,973	1,353,350	623	(2,911,290)	1.00x
2045	1,372,329	1,374,750	(2,421)	(2,741,486)	1.00x	1,372,329	1,370,000	2,329	(2,908,961)	1.00x
2046	1,390,746	1,391,250	(504)	(2,741,990)	1.00x	1,390,746	1,387,800	2,946	(2,906,015)	1.00x
2047	1,409,227	1,409,250	(23)	(2,742,013)	1.00x	1,409,227	1,406,475	2,752	(2,903,263)	1.00x
2048	1,427,777	1,428,500	(723)	(2,742,736)	1.00x	1,427,777	1,425,750	2,027	(2,901,236)	1.00x
2049	1,446,401	1,443,750	2,651	(2,740,085)	1.00x	1,446,401	1,445,350	1,051	(2,900,185)	1.00x
Total	$22,216,665	$24,956,750	($2,740,085)		0.89x	22,216,665	25,116,850	(2,900,185)		0.88x

Source: Port of Everett

Key Risks

From OST's review of the project analysis, it appears that the anticipated public improvements and corresponding economic development will provide economic and recreational benefits to the community. Nonetheless, the proposed project comes with certain risks and costs to the Port, 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 Port to pay the full amount of debt service due from Port revenues and resources, regardless of the amount of tax increment revenues generated from the TIA. Because of the project's potential cost to the Port's general fund, it is essential that decision makers understand and accept the project's risks and potential long-term costs in comparison to its benefits.

Project Costs Relative to Identified Fundings Sources: The Port's project analysis did not identify which public improvements would be constructed with the $12.6 million of bond proceeds and $22.1 million of other identified funding sources. The project analysis also did not provide any details or description of the potential funding sources or a plan of finance for the remaining $56.0 million of public improvements. Instead, the project analysis generically indicated that Port reserves, the sale of Port assets, ongoing Port revenues, or future non-TIA debt issuances are funding options. If the Port is unable to secure full funding, or if project costs rise considerably, it could increase the amount of debt or other general fund resources needed to complete the public improvements.

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.

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 are in the permitting process. Delays in permits 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 expected or take longer than anticipated to be reflected on the County's tax rolls. Additionally, the projected assessed value growth within the TIA from private development is $545.6 million; however, $229.4 million (42.1% of the total) is expected to be generated by five projects viewed as speculative in nature. The speculative nature of these projects increases the risk of the actual tax increment revenues coming in below projections.

Interest Rate Risk: The Port will be exposed to interest rate risk until all anticipated bonds are sold. The project analysis assumes interest rates as of October 13, 2023 plus an alternate financing structure with interest rates higher by 0.50%. We note that interest rates have come down since the financing scenarios were drafted.

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

Recommendations

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

1. Prior to approving the TIA, we recommend the Port coordinate closely with the taxing districts impacted by the project, and the County Assessor's Office, to ensure that all parties have an accurate understanding of how the TIA will impact them and provide sufficient time to work through any concerns.
2. Prior to approving the TIA, we recommend that the Port refine its $90.7 million Public Improvements project list. The Port should provide better clarity around which components of the project list will be financed by the initial $12.6 million of bonds and $22.1 million of other identified funding sources, and when and how the remaining components will be constructed and funded.
3. Prior to approving the TIA, we recommend that the Port discuss and establish a policy regarding how much project related debt service it is able and willing to pay from general fund revenues and reserves on an annual basis, to offset projected as well as unanticipated tax increment revenue shortfalls.
4. As the project moves forward, we recommend the Port 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.
5. Given the timeline for public improvements, we recommend the Port revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer