

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF LAKEWOOD —

MARCH 12, 2024



March 12, 2024

John Caulfield
City Manager
City of Lakewood
6000 Main St. SW
Lakewood, WA 98499

Dear Mr. Caulfield:

This letter confirms the Office of the State Treasurer’s (“OST”) receipt and review of the City of Lakewood’s (the “City”) tax increment financing (“TIF”) project analysis dated December 27, 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”).

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 the property acquisition and development of a Central Park in downtown Lakewood. The public improvements are expected to encourage private retail, commercial, and multi-family housing (including senior housing) development and/or redevelopment within the City’s downtown core. The private developments are expected to add 230,000 square feet (“SF”) of retail space, 100,000 SF of commercial tenant improvements, and 1,532 residential units, equaling a total market value of \$260 million in the base scenario.

As described in the City’s project analysis, the total cost of the TIF-related public improvements is estimated to be \$17 million. To finance the Central Park project, 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 \$15 million of the \$17 million estimated cost of the project. It is expected that the remaining \$2 million will come from a contribution from the City’s Opportunity Fund.

Our review of the project analysis found potential risks worth consideration. A discussion of these risks, 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 sponsor any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the City’s project analysis on December 27, 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 to disclose key risks to the City that may result from the implementation of the project.

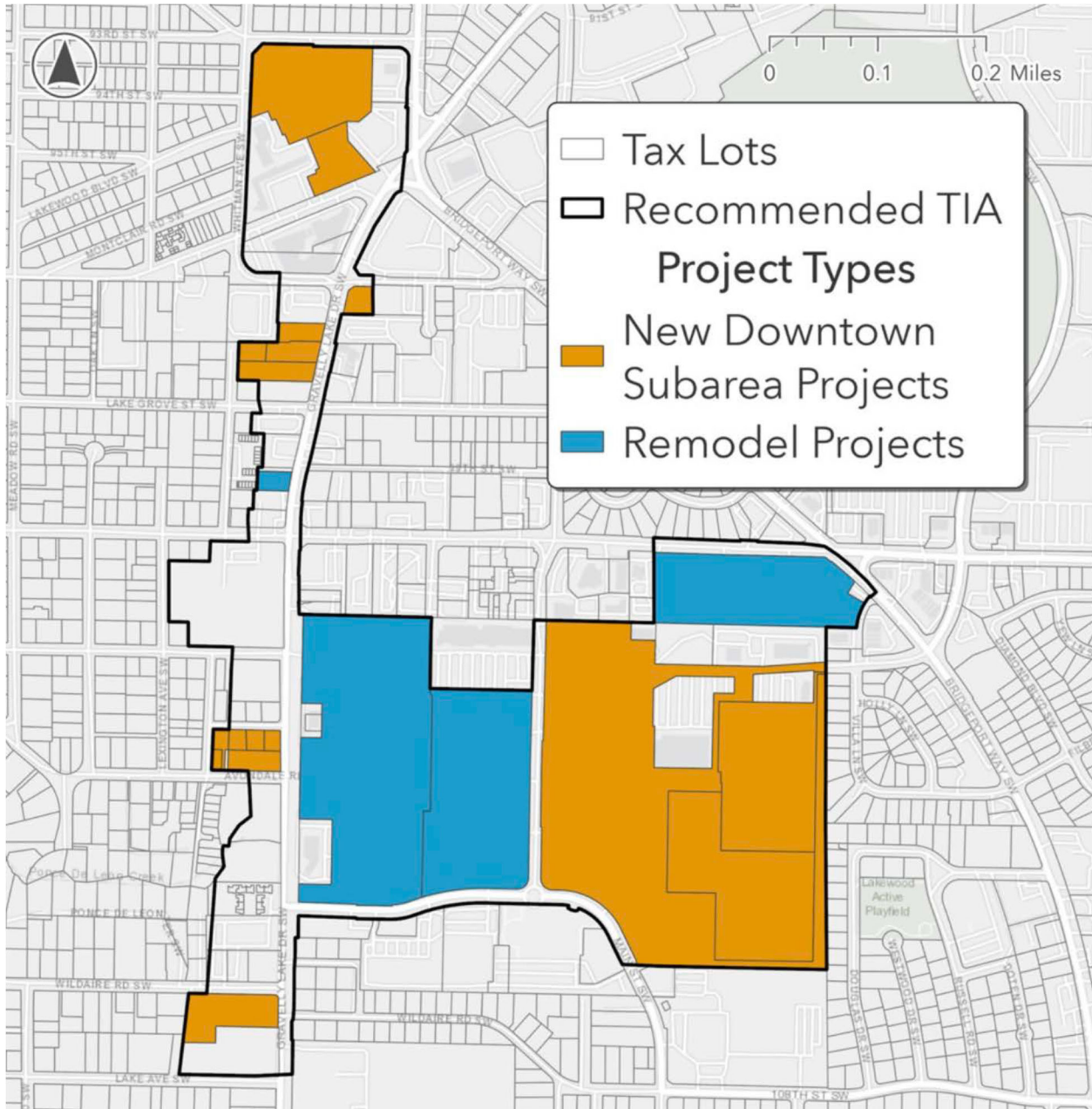
Project Team

<p>Jurisdiction: City of Lakewood</p>
<p>County: Pierce County</p>
<p>Redevelopment Area: Downtown Lakewood</p>
<p>Consultants: Stowe Development & Strategies, LLC ECONorthwest Foster Garvey PC (bond counsel) Northwest Municipal Advisors (municipal advisor)</p>

Proposed Tax Increment Area

The City’s proposed TIA includes 131 acres in downtown Lakewood (see Figure 1). The TIA boundary was selected by the City to include areas that are expected to be redeveloped over time as a result of the public improvements. The bulk of the TIA consists of Lakewood Towne Center, an auto-oriented shopping center. The public improvements are expected to take place in this section of downtown Lakewood. The TIA also includes a portion of the Colonial District, which includes colonial style commercial buildings, and to a lesser degree the East District, which is also a large, auto-oriented commercial center including smaller strip-commercial properties.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Lakewood

Impacted Taxing Districts

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

- (1) Pierce County Current Expense;
- (2) Port of Tacoma General Fund;
- (3) Pierce County Flood Control Zone District;
- (4) Sound Transit;

- (5) City of Lakewood General Fund;
- (6) EMS Regular Levy;
- (7) Fire District #21; and
- (8) Pierce County Library District.

The levy rate for each of these jurisdictions will be applied to the increased assessed valuation (“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.

While the project analysis lists Fire District #21 as the impacted taxing district, the City is served by Pierce County Fire District #3 (d/b/a West Pierce Fire & Rescue). For clarity, West Pierce Fire & Rescue’s Station #21 (as opposed to Fire District #21) is located in Lakewood. While it appears the levy rate included for the Fire District in the analysis is correct, we recommend the City review its revenue projections for the Fire District to ensure that the appropriate levy rate is being applied.

The TIF Statute requires a mitigation plan if at least 20% of a regional fire protection district’s AV is expected to be impacted. The City stated in the project analysis that less than 20% of the West Pierce Fire & Rescues AV is expected to be impacted by the TIA. From our review, it appears that the aggregate AV amount provided in the project analysis for the West Pierce Fire & Rescue District of \$5,577,808,275 may be incorrect. Per the Pierce County Assessor’s 2023 assessments for the 2024 tax year, the aggregate AV for West Pierce Fire & Rescue appears to be equal to \$18,498,641,063. We recommend that the City double check this value to ensure that there is no requirement for a mitigation plan.

Project Description

Public Improvements Within the TIA

The City has been planning for land use and public improvements for its downtown since at least 2018, when City Council approved the Downtown Plan, with a focus of developing the Central Business District into an urban area with civic amenities, walkable streets, and a mix of uses. The entire Downtown Plan includes 315 acres. The proposed TIA consists of 131 of the 315 acres included in the Downtown Plan.

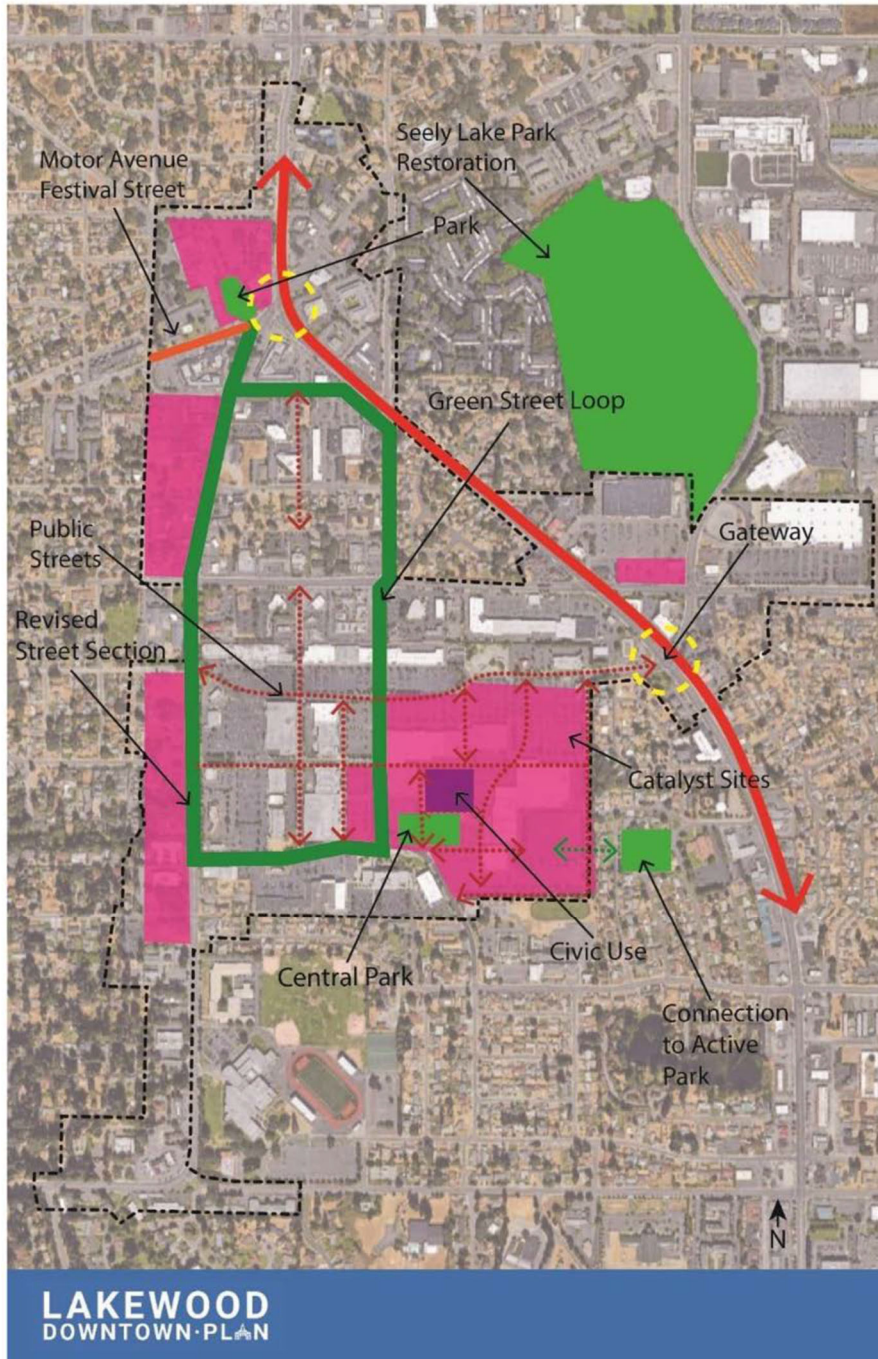
While the entire Downtown plan includes six different elements, the public improvements included as part of the TIA to facilitate the private developments are the **Central Park** project:

- **Central Park:** A new urban park of between two to four acres is proposed just north of City Hall to serve as the main gathering space for the community and to include a variety of features and programming (see Figure 2 – Downtown Plan Vision).

The total project cost is estimated to be \$17 million, of which \$4 million will be used for property acquisition and \$13 million for park amenities, such as grass, restrooms, a water feature/splash facility, benches, and play features. The City expects to contribute \$2 million from the City Opportunity Fund, with the remaining \$15 million supported through tax increment revenues. Specific timelines for the public improvements were not provided, however the financing schedules imply that the acquisition would take place in 2026 with construction starting in 2029. The TIF Statute requires that the construction of the public improvements begins within 5-years from formation of the TIA. Assuming a June 1, 2024 effective date, this would require construction of the Central Park to begin no later than June 1, 2029.

The TIF Statute also (39.114.020(2)(b)) states that the project analysis requires a statement as to the property within the TIA that the local government intends to acquire. We note that the parcel the City intends to acquire was not defined in the project analysis.

Figure 2 – Downtown Plan Vision



Source: City of Lakewood

Private Development Within the TIA

The project analysis identifies 12 potential private development projects that could be developed within the TIA. The City provided three development scenarios for the projects, with the “Moderate” scenario designated as the most likely outcome and baseline. The project analysis did not provide any additional context into the expected private developments other than what is highlighted in each table, such as whether any have already begun the permitting process.

The Conservative scenario is expected to generate a market value of \$212.5 million across four projects. The Moderate scenario adds a multi-family senior housing project and additional tenant improvements, totaling a market value of \$260.0 million. The Aggressive scenario adds three multi-family, two retail/commercial, and additional tenant improvements to those included in the Conservative and Moderate scenarios, totaling a market value of \$521.6 million. A summary of the projects can be viewed in Table 1, below.

Table 1 – Summary of Private Developments

Development Scenario	Project Name	Product Type	Units/SF	Value per Unit/SF	Start	Build-Out/Years	Market Value
Conservative	Alliance Residential*	Multi-family	420	\$ 300,000	2024	2	\$ 126,000,000
	KITE Mixed Use	Multi-family**	250	300,000	2025	2	75,000,000
	KITE Mixed Use	Retail/Commercial	20,000	325	2025	2	6,500,000
	Tenant Improvements***	Retail/Commercial	50,000	100	2025	10	5,000,000
Total							\$ 212,500,000
Moderate	Senior Housing	Multi-family	150	\$ 300,000	2025	2	\$ 45,000,000
	Tenant Improvements***	Retail/Commercial	25,000	100	2025	10	2,500,000
Total (including Conservative Scenario)							\$ 260,000,000
Aggressive	Durr/Brooks	Multi-family	150	\$ 300,000	2028	2	\$ 45,000,000
	Petersen	Multi-family	162	300,000	2025	2	48,600,000
	Former QFC	Multi-family	400	300,000	2027	2	120,000,000
	KITE Lakewood Town Center	Retail/Commercial	100,000	325	2028	2	32,500,000
	Target Expansion	Retail/Commercial	10,000	325	2028	2	13,000,000
	Tenant Improvements	Retail/Commercial	25,000	100	2025	10	2,500,000
Total (including Conservative and Moderate Scenarios)							\$ 521,600,000

*Multi-family 8-yr tax exemption expected

**Includes 50-Town Homes

***Conservative and Moderate scenarios represent 50% and 75% of total tenant improvements, respectively

Assessed Value of the TIA

According to the project analysis, the 2023 taxable AV of the TIA was \$191,585,840, representing 1.75% of the City’s total AV of \$10,952,642,723. These figures are close to, but within the statutory size limit (equal to the lesser of \$200 million in AV and 20% of the City’s total AV). According to the Pierce County Assessors’ website, the City’s AV for 2024 is increasing to \$11,150,721,653. However, the City did not provide 2024 AV of the TIA, so OST is unable to confirm if the AV of the TIA will be under the \$200 million statutory threshold for 2024.

Given the relatively high current AV of the proposed TIA and the increase in AV citywide, prior to approval of 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 to ensure that the size of the TIA will not need to be reduced, in order to remain below the \$200 million threshold.

We note that in the project analysis' discussion of the "But-For-Requirement", the City included a table that demonstrates expected AV growth between the three scenarios as well as a "No TIF" scenario, which the City estimates would capture 60% less development overall (it is unclear which scenario this is in comparison to). Curiously, despite starting with a lower AV in the TIA in 2024, the "No TIF" scenario ends up with greater AV growth than the Conservative scenario. It is unclear why the starting AV in 2024 is lower in the "No TIF" scenario than in the other three scenarios, as it appears that the "Alliance Residential" project, scheduled to start in 2024, is going to happen in advance of any TIF related construction or acquisitions taking place.

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 by statute) with 2049 being the final year in which tax increment revenues will be received. The City estimates a 2024 tax increment base AV of \$191.6 million and estimates \$769.8 million in additional AV will be added between 2025 and 2049 through new construction. It is unclear if appreciation or speculative development was included in the analysis in addition to the expected new developments. We recommend clarifying this point in the City's project analysis.

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 Port 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 the 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 summarized in Table 2.

The City projects that in the Moderate scenario, \$33.5 million of tax increment revenues will be collected over the 25-year term of the TIA (see Table 2 – Tax Allocation Revenues). This compares to \$45.1 million and \$21.2 million in the Aggressive and Conservative scenarios, respectively.

The project analysis notes that the Alliance Residential project, which is expected to begin construction in 2024, is expected to be subject to an 8-year multi-family tax exemption. However, it is not clear whether this exemption has been factored into the TIA's revenue projections. Based on the information provided, it appears that the AV growth projected to be generated from this project is not being excluded from projections for the 8-year period. Our understanding is that the Alliance Residential project represents approximately 48% of the total expected market value projected to be generated from the private developments in the Moderate growth scenario. As such, we would expect to see a large step-up in revenues in year nine, when the exemption expires. However, the revenue projections in Table 4 don't show a material bump up in year nine. We recommend that the City review the exemption associated with the Alliance Residential Project to determine if adjustments to the TIA's revenue projections are needed. If such adjustments are warranted, it could represent a material change to the revenue projections.

Table 2 – Tax Allocation Revenues

Year	Aggressive	Moderate	Conservative
1	\$ 168,000	\$ 168,000	\$ 168,000
2	508,000	424,000	423,000
3	683,000	513,000	511,000
4	904,000	732,000	519,000
5	1,263,000	1,019,000	589,000
6	1,414,000	1,097,000	662,000
7	1,510,000	1,111,000	671,000
8	1,609,000	1,126,000	680,000
9	1,630,000	1,141,000	689,000
10	1,723,000	1,228,000	770,000
11	1,883,000	1,351,000	888,000
12	1,969,000	1,401,000	932,000
13	2,061,000	1,487,000	942,000
14	2,211,000	1,602,000	979,000
15	2,291,000	1,646,000	1,017,000
16	2,315,000	1,663,000	1,027,000
17	2,340,000	1,680,000	1,038,000
18	2,364,000	1,698,000	1,049,000
19	2,389,000	1,716,000	1,060,000
20	2,414,000	1,734,000	1,071,000
21	2,439,000	1,752,000	1,082,000
22	2,465,000	1,770,000	1,094,000
23	2,491,000	1,789,000	1,105,000
24	2,517,000	1,808,000	1,117,000
25	2,543,000	1,827,000	1,128,000
Total	\$ 46,104,000	\$ 33,483,000	\$ 21,211,000

Source: City of Lakewood#

Financing Plan for Public Improvements

To fund a portion of the proposed public improvements, the City plans to issue two series of LTGO Bonds (the “Bonds”), one in 2026 and the other in 2029. As stated in the project analysis, because of the 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 base financing scenario assumed project fund deposits of \$2 million in 2026 and \$13 million in 2029. Both series utilize 5% interest rates and level debt service. A summary of the two issuances is included in Table 3, below.

Table 3 – Estimated Financing Scenarios##

	Issue 1	Issue 2	Total
Issuance Date	2026	2029	-
Final Maturity	2045	2048	2048
Project Proceeds	2,000,000	13,000,000	15,000,000
Total Debt Service	3,209,700	20,863,080	24,072,780
Interest Rates	5.00%	5.00%	-#

Source: City of Lakewood

The City's debt service estimates assume a 20-year amortization per series, with the final maturity of Issue 2 occurring one year prior to the final year of the increment area (2049). We would note, extending the final maturity of Issue 2 to the final year of the increment area (2049) could help reduce annual debt service payments thereby potentially reducing any revenue shortfalls.

Debt Capacity

Based on the City's 2023 total AV, the City has \$164,289,641 total non-voted debt capacity (1.5% of 2023 AV). Per the project analysis, the City has \$16,437,639 of outstanding non-voted general obligation debt, resulting in \$147,852,002 in remaining capacity. The City projects to have \$132,852,002 of remaining non-voted debt capacity after the issuance of TIA related debt, or 80.86% of total non-voted capacity.

Table 4– Debt Capacity (2025 Issuance)

Assessed Valuation for 2023 Tax Year	\$ 10,952,642,723
Non-Voted Debt Capacity (1.5% of AV)	164,289,641
Less: Outstanding Non-Voted Debt*	16,437,639
Remaining Non-Voted Debt Capacity	147,852,002
Less: Financing Proposed (in total)	15,000,000
Projected Remaining Non-Voted Capacity	132,852,002
Projected Remaining Non-Voted Capacity %	80.86%

Projected Debt Service Coverage

Tax increment revenue is projected to be sufficient to cover debt service for Issue 1 in all years, in each of the three scenarios.

When Issue 2 is included, only the Aggressive scenario shows sufficiency in all years.

The Moderate scenario projects annual shortfalls ranging from \$184,639 to \$62,639 (\$524,195 in total) after Issue 2 debt service begins in 2029 through 2033. However, because of the surpluses before 2029, the Moderate scenario does not develop a cumulative shortfall.

An alternative scenario that assumes a bond structure with five years of interest-only payments was also presented in the "Financial Mitigation" section for the Moderate scenario. This scenario pushes the annual shortfall out five years, with annual deficiencies of \$217,134 to \$44,134 in 2034 through 2036. This strategy lowers the amount of the total shortfall to \$355,402 over the three-year period while increasing total debt service costs by \$1.29 million.

The Conservative scenario projects annual shortfalls for 17 years, beginning in 2029, with a cumulative shortfall of \$2.86 million.

We note that the text of the project analysis states on page 24 that “the Aggressive Development Scenario includes one year of deficits...”. We recommend reviewing this statement as it does not match the data provided in Table 16 of the project analysis.

Table 5 – Tax Allocation Revenues and Debt Service Coverage

Scenario	First Year Tax Increment Revenues Exceed Debt Service	Years of Shortfall	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue (\$MMs)	Total Projected TIF Debt Service (\$MMs)	Projected Maximum Cumulative Shortfall (\$MMs)	Total Surplus/ (Shortfall) Through End of TIA (\$MMs)	Aggregate Debt Service Coverage Ratio*
Aggressive	2026	0	N/A	\$46.10	\$24.07	N/A	\$22.03	1.92x
Moderate	2026, 2034	5	N/A	\$33.48	\$24.07	N/A	\$9.41	1.39x
Moderate (5-Years of Interest Only)	2026, 2037	3	N/A	\$33.48	\$25.36	N/A	\$8.12	1.32x
Conservative	2026, 2046	17	N/A	\$21.21	\$24.07	\$4.18	(\$2.86)	0.88x

Source: City of Lakewood

*Note: Aggregate debt service coverage is for the full 25-year proposed term of the TIA

Table 6 – TIF Debt Service Coverage

Year	Aggressive Scenario					Moderate Scenario					Moderate Scenario (Interest Only)					Conservative Scenario				
	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	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2025	\$ 168,000	\$ -	\$ 168,000	\$ 168,000		\$ 168,000	\$ -	\$ 168,000	\$ 168,000		\$ 168,000	\$ -	\$ 168,000	\$ 168,000		\$ 168,000	\$ -	\$ 168,000	\$ 168,000	
2026	508,000	160,485	347,515	515,515	3.17x	424,000	160,485	263,515	431,515	2.64x	424,000	100,000	324,000	492,000	4.24x	423,000	160,485	262,515	430,515	2.64x
2027	683,000	160,485	522,515	1,038,030	4.26x	513,000	160,485	352,515	784,030	3.2x	513,000	100,000	413,000	905,000	5.13x	511,000	160,485	350,515	781,030	3.18x
2028	904,000	160,485	743,515	1,781,545	5.63x	732,000	160,485	571,515	1,355,545	4.56x	732,000	100,000	632,000	1,537,000	7.32x	519,000	160,485	358,515	1,139,545	3.23x
2029	1,263,000	1,203,639	59,361	1,840,906	1.05x	1,019,000	1,203,639	(184,639)	1,170,906	0.85x	1,019,000	750,000	269,000	1,806,000	1.36x	589,000	1,203,639	(614,639)	524,906	0.49x
2030	1,414,000	1,203,639	210,361	2,051,267	1.17x	1,097,000	1,203,639	(106,639)	1,064,267	0.91x	1,097,000	750,000	347,000	2,153,000	1.46x	662,000	1,203,639	(541,639)	(16,733)	0.55x
2031	1,510,000	1,203,639	306,361	2,357,628	1.25x	1,111,000	1,203,639	(92,639)	971,628	0.92x	1,111,000	842,685	268,315	2,421,315	1.32x	671,000	1,203,639	(532,639)	(549,372)	0.56x
2032	1,609,000	1,203,639	405,361	2,762,989	1.34x	1,126,000	1,203,639	(77,639)	893,989	0.94x	1,126,000	842,685	283,315	2,704,630	1.34x	680,000	1,203,639	(523,639)	(1,073,011)	0.56x
2033	1,630,000	1,203,639	426,361	3,189,350	1.35x	1,141,000	1,203,639	(62,639)	831,350	0.95x	1,141,000	842,685	298,315	3,002,945	1.35x	689,000	1,203,639	(514,639)	(1,587,650)	0.57x
2034	1,723,000	1,203,639	519,361	3,708,711	1.43x	1,228,000	1,203,639	24,361	855,711	1.02x	1,228,000	1,445,134	(217,134)	2,785,811	0.85x	770,000	1,203,639	(433,639)	(2,021,289)	0.64x
2035	1,883,000	1,203,639	679,361	4,388,072	1.56x	1,351,000	1,203,639	147,361	1,003,072	1.12x	1,351,000	1,445,134	(94,134)	2,691,677	0.93x	888,000	1,203,639	(315,639)	(2,336,928)	0.74x
2036	1,969,000	1,203,639	765,361	5,153,433	1.64x	1,401,000	1,203,639	197,361	1,200,433	1.16x	1,401,000	1,445,134	(44,134)	2,647,543	0.97x	932,000	1,203,639	(271,639)	(2,608,567)	0.77x
2037	2,061,000	1,203,639	857,361	6,010,794	1.71x	1,487,000	1,203,639	283,361	1,483,794	1.24x	1,487,000	1,445,134	41,866	2,689,409	1.03x	942,000	1,203,639	(261,639)	(2,870,206)	0.78x
2038	2,211,000	1,203,639	1,007,361	7,018,155	1.84x	1,602,000	1,203,639	398,361	1,882,155	1.33x	1,602,000	1,445,134	156,866	2,846,275	1.11x	979,000	1,203,639	(224,639)	(3,094,845)	0.81x
2039	2,291,000	1,203,639	1,087,361	8,105,516	1.9x	1,646,000	1,203,639	442,361	2,324,516	1.37x	1,646,000	1,445,134	200,866	3,047,141	1.14x	1,017,000	1,203,639	(186,639)	(3,281,484)	0.84x
2040	2,315,000	1,203,639	1,111,361	9,216,877	1.92x	1,663,000	1,203,639	459,361	2,783,877	1.38x	1,663,000	1,445,134	217,866	3,265,007	1.15x	1,027,000	1,203,639	(176,639)	(3,458,123)	0.85x
2041	2,340,000	1,203,639	1,136,361	10,353,238	1.94x	1,680,000	1,203,639	476,361	3,260,238	1.4x	1,680,000	1,445,134	234,866	3,499,873	1.16x	1,038,000	1,203,639	(165,639)	(3,623,762)	0.86x
2042	2,364,000	1,203,639	1,160,361	11,513,599	1.96x	1,698,000	1,203,639	494,361	3,754,599	1.41x	1,698,000	1,445,134	252,866	3,752,739	1.17x	1,049,000	1,203,639	(154,639)	(3,778,401)	0.87x
2043	2,389,000	1,203,639	1,185,361	12,698,960	1.98x	1,716,000	1,203,639	512,361	4,266,960	1.43x	1,716,000	1,445,134	270,866	4,023,605	1.19x	1,060,000	1,203,639	(143,639)	(3,922,040)	0.88x
2044	2,414,000	1,203,639	1,210,361	13,909,321	2.01x	1,734,000	1,203,639	530,361	4,797,321	1.44x	1,734,000	1,445,134	288,866	4,312,471	1.2x	1,071,000	1,203,639	(132,639)	(4,054,679)	0.89x
2045	2,439,000	1,203,639	1,235,361	15,144,682	2.03x	1,752,000	1,203,639	548,361	5,345,682	1.46x	1,752,000	1,435,959	316,041	4,628,512	1.22x	1,082,000	1,203,639	(121,639)	(4,176,318)	0.9x
2046	2,465,000	1,043,154	1,421,846	16,566,528	2.36x	1,770,000	1,043,154	726,846	6,072,528	1.7x	1,770,000	1,252,450	517,550	5,146,062	1.41x	1,094,000	1,043,154	50,846	(4,125,472)	1.05x
2047	2,491,000	1,043,154	1,447,846	18,014,374	2.39x	1,789,000	1,043,154	745,846	6,818,374	1.71x	1,789,000	1,252,450	536,550	5,682,612	1.43x	1,105,000	1,043,154	61,846	(4,063,626)	1.06x
2048	2,517,000	1,043,154	1,473,846	19,488,220	2.41x	1,808,000	1,043,154	764,846	7,583,220	1.73x	1,808,000	1,192,809	615,191	6,297,803	1.52x	1,117,000	1,043,154	73,846	(3,989,780)	1.07x
2049	2,543,000	-	2,543,000	22,031,220		1,827,000	-	1,827,000	9,410,220		1,827,000	-	1,827,000	8,124,803		1,128,000	-	1,128,000	(2,861,780)	
Total ¹	\$ 46,104,000	\$ 24,072,780	\$ 22,031,220		1.92x	\$ 33,483,000	\$ 24,072,780	\$ 9,410,220		1.39x	\$ 33,483,000	\$ 25,358,197	\$ 8,124,803		1.32x	\$ 21,211,000	\$ 24,072,780	\$ (2,861,780)		0.88x

¹ Totals may not foot due to rounding

Source: City of Lakewood, ECONorthwest

General 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 City. Nonetheless, the proposed project comes with certain risks and costs to the City, 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.

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.

Escalation of Project Costs: Given the timeline for the construction of the public improvements, inflation could have a material impact on the cost of these projects.

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

Permits: It is unclear where the private developments 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.

Economic Conditions: Growth in the TIA's AV 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.

Interest Rate Risk: The City will be exposed to interest rate risk until its bonds are sold. The 5% interest rate assumption included in the analysis is generally conservative and helps to mitigate this risk.

Legislative Risk: From time to time the State Legislature amends State Statute. It is possible that an amendment to the TIF Statute could reduce or limit the amount of revenues generated by the TIA.

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.

Concerns With the Project Analysis

Multi-Family Tax Exemption: The project analysis identified at least one project (Alliance Residential), expected to begin construction in 2024, that will be subject to an 8-year multi-family tax exemption. It is unclear if this exemption is factored into the City's project analysis. As Table 2 (above) does not show a significant step-up in revenue in the 9th year after the formation of the TIA, it appears that the

exemption is not factored into the TIA's revenue projections. If this is true, it can be expected that factoring the exemption into projections will materially reduce the TIA's projected revenues, as the Alliance Residential project makes up just under 50% of the total expected market value to be added by the private developments.

Impacted Fire District: The project analysis appears to have conflicting information about the impacted fire district. If the incorrect fire district was included in the project analysis, calculations involving fire district AV and levy rates may need to be revisited.

Fire District AV: The project analysis appears to list the aggregate AV for the West Pierce Fire & Rescue as \$5,577,808,275. However, the Pierce County Assessor's 2023 assessments appear to provide an aggregate AV of \$18,489,641,063. We recommend that the City double check this value for accuracy.

But For Requirement: In the project analysis' "But-For-Requirement" section, the included projections show the Conservative scenario generating less tax increment growth than if the City elects to not form the proposed TIA. The section also shows the "No TIF" scenario having a lower starting AV in 2024 than what is used in the other three scenarios. If our review is correct, we recommend correcting these assumption errors to help improve the City's but-for analysis.

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 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.
2. Prior to approving the TIA, we recommend that the City review and clarify whether the 8-year multi-family tax exemption is factored into the revenue projections contained in the project analysis. If not, we suggest amending the projections and resubmitting the project analysis for OST review.
3. 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, including assumptions related to any tax-exemptions and fire district assessed valuations, with the County Assessor's office and legal counsel. 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.
4. Prior to approving the TIA, we suggest that the City clarify whether appreciation or speculative development was included in tax increment revenue projections in addition to the expected new developments.
5. 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.

6. 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.
7. Given the timeline for public improvements, we recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections, while being mindful of the 5-year construction initialization requirement for the TIA as defined in Statute.
8. The project analysis did not identify the specific parcel that the City intends to acquire as part of the public improvements. The TIF Statute requires the project analysis include "a statement as to the property within the increment area, if any, that the local government may intend to acquire." As such, we recommend that the City update the project analysis to include this information.
9. We recommend amending Figure 19 in the project analysis to clarify why the "No TIF" scenario is expected to outpace the growth of the "Conservative" scenario.
10. We recommend that the City review and clarify why the 2024 assessed value shown in Figure 19 of the project analysis is projected to be lower in the "No TIF" scenario compared to the other scenarios, as real 2024 AV should be final for the current year.

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, projections, 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