Tax Increment Financing Project Analysis Review

– City of Pasco –

September 23, 2022

Office of the Treasurer
State of Washington
Mike Pellicciotti

September 23, 2022

Dave Zabell, City Manager
City of Pasco
525 N 3rd Ave
Pasco WA 99301

Dear Mr. Zabell:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Pasco's (the "City") tax increment financing ("TIF") final project analysis provided on September 6, 2022. OST and Piper Sandler, the state's municipal advisor, have reviewed the provided material. Based on our review, which is provided in the sections to follow, we believe the City's project analysis meets the requirements of RCW 39.114 (the "TIF Statute").

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

Executive Summary

Based on our review of the City's project analysis, it appears that the Broadmoor Development (the "Project") is well situated to help meet increased demand for housing and commercial services in Pasco and the growing Tri-Cities region.

In our review of the project analysis, one of our primary goals is to ensure that risks to the City are adequately disclosed. As we describe further below, in this development, the primary risk to the City is lower-than-expected tax allocation revenues as a result of delays in the construction of the private development within the Tax Increment Area ("TIA"), or future assessed values in the TIA not matching projections.

As with any large-scale development, there is a risk that a variety of factors could result in construction delays or lower-than-expected assessed values. Such delays or reduced values, if severe enough, could materially impact the tax allocation revenues expected to be derived from the Project.

To finance the public infrastructure improvements, the City intends to issue Limited Tax General Obligation ("LTGO") Bonds, which will be backed by the full faith and credit of the City. In the event that tax allocation revenues are insufficient to fully pay the debt service on the LTGO Bonds, the full faith and credit pledge would require the City to pay the remaining debt service due on the bonds from the City's general revenues. As shown in Tables 3 and 4, the projections contained in the project analysis indicate that in each of the development scenarios, the City will be required to pay some portion of the debt service due on the LTGO Bonds from general revenues, especially in early years, due to projected shortfalls in tax allocation revenues.

More specifically, in the Aggressive Development Program, the projections indicate that the City will be required to pay a portion of the debt service due on the LTGO Bonds from 2024 to 2027, and then will be fully reimbursed from tax allocation revenues by 2034. In the Moderate Development Program, it is expected that the City will be required to pay a portion of the debt service due on the LTGO Bonds from 2024 to 2030, and then will be fully reimbursed from tax allocation revenues by 2040. However, in the Conservative Development Program, the projections show that the City will be required to pay a portion of the debt service due on the LTGO Bonds in every year, and the City will never be fully reimbursed for these expenditures.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, RCW 39.114.020 requires that prior to the adoption of an ordinance authorizing the creation of a TIF project area, the local government proposing the TIF project area must provide a project analysis to OST for review. OST must complete the review within 90 days of receipt of the project analysis. Upon completing the review, OST must promptly 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 July 22, 2022.

Project Overview

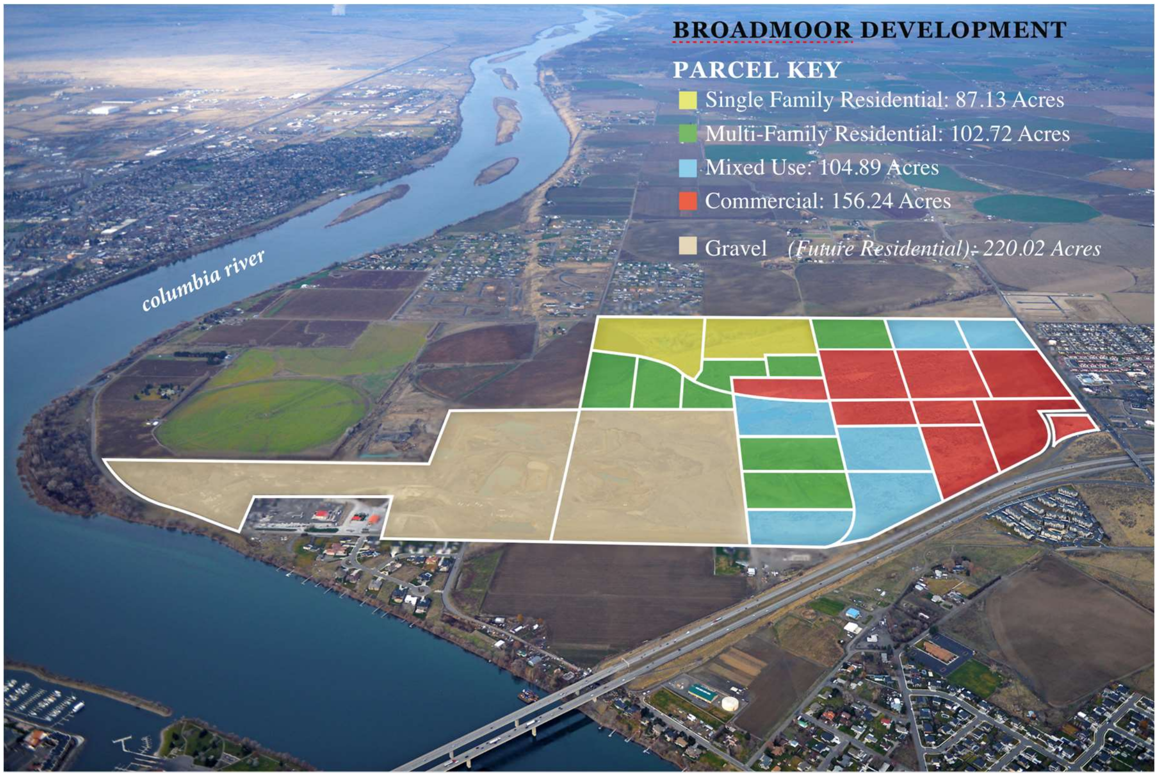
Issuing Jurisdiction: City of Pasco	**County:** Franklin County
Project Title: Broadmoor Development	**Development Team:** Broadmoor Properties, LLC (property owner), Marcus & Millichap, Inc., PBS Engineering and Environmental Inc.
Municipal Advisor: Northwest Municipal Advisors	**Bond Counsel:** Foster Garvey P.C.
Bond Underwriter: D.A. Davidson	**Consultants:** Stowe Development & Strategies, LLC, ECONorthwest, Gordon Thomas Honeywell Governmental Affairs

In 2017, the City started planning for the Project by developing a master plan for a 1600-acre site, which is situated in the geographical center of the Tri-Cities region. The City is planning to designate 671 acres of this area as a TIA. At completion, the Broadmoor Development is expected to include single family residential, multi-family residential, mixed-use, and commercial properties. The Broadmoor Development is currently vacant land (except for an operating gravel pit), and as such, needs significant infrastructure improvements, such as roads and utilities, in order for the planned development to take place.

The total cost for the TIA infrastructure improvements is estimated to be between $71 million and $84 million. The City expects to issue tax-exempt LTGO Bonds to fund approximately $33 million to $39 million of these improvements. For the purposes of the TIF project analysis and this review, the assumed LTGO Bonds issuance is $39 million. According to the project analysis, the developer(s) will be funding and constructing approximately $39 million to $45 million of public infrastructure improvements.

Tax Increment Area

The proposed TIA includes the entire Broadmoor Development site of approximately 671 acres. With the exception of 220 acres consisting of the gravel and sand operation parcels, the entire site is vacant. The assessed valuation of the TIA in 2022 is approximately $30 million, which is less than the statutory limitations of $200 million and 20% of the City's total assessed valuation of $8,065,205,983 (it is equal to 0.37% of the City's total valuation).



Source: Broadmoor TIF Project Analysis, City of Pasco

Public Project Description and Timeline

Plans for the Broadmoor Development include public infrastructure improvements to be paid for by the City, spread over approximately 29.3 acres of land. These planned public infrastructure improvement projects in the TIA include arterial street construction; water, sewer, stormwater infrastructure; and interstate ramp and intersection improvements. The improvements are broken into the following categories and sub-components and detailed more completely in the City's project analysis:

Corridors

- Sandifur Parkway – Bedford Street to Proposed Road 108
- Broadmoor Boulevard – Interstate 182 to Burns Road
- Road 108 – Harris Road to Sandifur Parkway

Interstate Associated Improvements

- Interchange Improvements - Interstate 182 at Road 100

Intersections

- Burns Road / Broadmoor Boulevard
- Buckingham Drive / Broadmoor Boulevard
- Sandifur Parkway / Broadmoor Boulevard
- Extended Sandifur Parkway / Proposed Road 108
- Extended Sandifur Parkway / Proposed Road 103
- Road 108 / Road 103

The City-funded public infrastructure improvements are currently in the design stage with the $39 million cost estimate based on a 30% design level. According to the project analysis, the projects are expected to go to bid late in 2022 or early 2023, with construction beginning in March of 2023, and completion expected by October 2023.

In addition to the City's plans for the public infrastructure improvements described above, the owner of the Broadmoor Development and/or future developers in the TIA will privately fund and construct additional public infrastructure improvements. The privately funded infrastructure improvements are expected to cost between $39 million and $45 million. The project analysis indicates that these privately funded and developed improvements will be completed concurrently with the private development on each parcel. It is important to note that to the extent the development projects are delayed we would expect that some portion of the privately funded infrastructure improvements would also see a similar delay, potentially having a negative impact on tax allocation revenues.

Private Development Timeline

The private development timeline varies depending on each scenario. Generally, development is expected to begin in 2023 and continue through at least 2030. The development programs vary greatly in their size and absorption rates. The table below summarizes the key development assumptions of the three programs provided in the report. The City has identified the Moderate Development Program as the most likely to occur.

Table 1

	Aggressive Development Program	Moderate Development Program	Conservative Development Program
Multi-Family Unit Absorption Rate	300 units per year for 16 years, starting in 2023	150 units per year for 25 years, starting in 2023	150 units per year for 8 years, starting in 2023
Commercial Development	Starting in 2024 Completed in 2030	Starting in 2025 Most completed by 2031	Starting in 2024 Most completed by 2030
Single Family Home Absorption Rate	60 homes per year in a 4-year build-out	40 homes per year in a 6-year build-out	60 homes per year in a 4-year build-out
Final Year of Development	*Not indicated*	*Not indicated*	No Development after 2030
Gross Development Area	Reduced by 25% to account for internal circulation, open space, and landscaping		

Permits

At this point in time, our understanding is that there are no permits in place for the construction expected to take place in the Broadmoor Development. The City's consultant, Stowe Development & Strategies, is confident that developers will be successful in getting the required permits, as they expect that the proposed private development will be permitted consistent with the permitting jurisdiction's applicable zoning and development standards. While we have no reason to doubt this assessment, it should be noted that unforeseen delays in permits could negatively impact construction of the residential, commercial, and mixed-use properties within the TIA, which in turn could negatively impact the amount and/or timing of the tax allocation revenues the City expects to use to pay debt service on the bonds.

Financing Structure

The City anticipates issuing LTGO non-voted tax-exempt bonds to pay for its portion of the public infrastructure projects in an amount not to exceed $39 million. According to the project analysis, the City anticipates issuing the debt in late 2022 or early 2023 to coincide with the public infrastructure and private development timelines.

The City plans to structure the LTGO Bonds with level debt service amortized over 25-years, with a 10-year par call. The City does not currently expect to capitalize interest during the early years of the financing when tax allocation revenues alone are not expected to be sufficient to cover debt service. Instead, the City plans to pay any difference between debt service and tax allocation revenues from general City revenues.

According to the project analysis, the City plans to reimburse itself for any feasibility studies, including engineering design work, that occurred prior to the expected adoption of the Ordinance designating a TIA in October 2022. The City also plans to reimburse itself for any general City revenues that are needed to meet the City's debt service payments associated with the TIF Infrastructure, to the extent sufficient tax allocation revenues are available for such reimbursement.

Tax Allocation Revenue Projections

The construction of the planned private developments in the TIA is expected to begin in 2023 and continue through at least 2030, with the assessed values beginning to hit the tax rolls in 2025 and continuing to grow thereafter at different rates and varying timeframes depending on the development program. The project analysis assumes that the assessed value of new construction is recognized one year after completion. The City's consultants indicated that they have confirmed with the Franklin County Assessor's Office that this is a reasonable assumption that is consistent with the Office's property assessment practices.

Through a combination of new construction and assessed value growth, the assessed value in the TIA is projected to grow from approximately $30.0 million in 2022 to between approximately $1.0 billion and $2.8 billion in 2048 (depending on the development program).

Table 2

Incremental Assessed Value – Tax Year

	2023	2028	2033	2038	2043	2048
Aggressive	$0	$1,146,690,000	$2,080,970,000	$2,386,540,000	$2,570,980,000	$2,769,680,000
Moderate	$0	$774,450,000	$1,681,750,000	$2,002,550,000	$2,173,350,000	$2,341,320,000
Conservative	$0	$546,280,000	$825,400,000	$889,190,000	$957,910,000	$1,031,940,000
No TIF	$0	$323,500,000	$348,500,000	$375,440,000	$404,450,000	$435,710,000

Source: Broadmoor TIF Project Analysis, City of Pasco

The project analysis indicates that the City will begin receiving tax allocation revenues in 2025. In the Aggressive Development Program scenario revenues are forecast to be $680,000 in this initial year. These revenues are projected to then increase substantially each year as new construction occurs through completion. After 2030 revenue growth as a percentage decreases to just under 3% in 2032 before falling to 1% in 2035 and remaining at approximately 1% growth per year thereafter. Revenue growth for the Moderate Development Program follows the same relative pattern: large increases through 2032, an almost 6% increase in 2033, and roughly 1% increases thereafter. The pattern for revenue growth in the Conservative Development Program sees revenue growth leveling out earlier at 1% in the year 2032 as no new development is assumed past 2030.

Projected Debt Service Coverage

It is important to note that the tax allocation revenue projections provided in the project analysis show debt service coverage below 1.00x until 2028 in the Aggressive Development Program and until 2031 in the Moderate scenario. Under the Conservative scenario tax allocation revenues never reach a sufficient amount to fully cover debt service. During the period where tax allocation revenues are insufficient the City will be required to fund the TIF debt service deficit with general City revenues or other City resources.

Depending on the pace and final features of the completed private development, the amount of debt service shortfalls the City would be required to fund varies greatly.

- In the Aggressive Development Program, the City will be required to fund debt service shortfalls in years 2024 through 2027 with general City revenues and is fully reimbursed in 2034.
- In the Moderate Development Program, the debt service shortfalls extend from 2024 to 2030 and the City is fully reimbursed in 2040.
- For the Conservative Development Program, debt service shortfalls will need to be funded with general City revenues in every year bonds are outstanding, and the City will never be fully reimbursed by tax allocation revenues.

The tables below summarize the total tax allocation revenues, revenue shortfalls and debt service coverage of the three potential development programs.

Table 3

Development Program	First Year Tax Allocation Revenues Exceed TIF Debt Service	Year that TIF Revenues Reimburse Shortfall	Total Projected TIF Revenue	Total Projected TIF Debt Service	Projected Maximum Shortfall	Total Surplus/ (Shortfall)	Total Debt Service Coverage Ratio
Aggressive	2028	2034	$91,890,000	$65,750,000	($6,060,000)	$26,140,000	1.40x
Moderate	2031	2040	$78,320,000	$65,750,000	($9,220,000)	$12,570,000	1.19x
Conservative	Never	Never	$45,180,000	$65,750,000	($20,570,000)	($20,570,000)	0.69x

Table 4

Aggressive

Year	Tax Allocation Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2023					
2024	0	2,630,000	(2,630,000)	(2,630,000)	0.00x
2025	680,000	2,630,000	(1,950,000)	(4,580,000)	0.26x
2026	1,480,000	2,630,000	(1,150,000)	(5,730,000)	0.56x
2027	2,300,000	2,630,000	(330,000)	(6,060,000)	0.87x
2028	2,790,000	2,630,000	160,000	(5,900,000)	1.06x
2029	3,160,000	2,630,000	530,000	(5,370,000)	1.20x
2030	3,580,000	2,630,000	950,000	(4,420,000)	1.36x
2031	3,860,000	2,630,000	1,230,000	(3,190,000)	1.47x
2032	3,970,000	2,630,000	1,340,000	(1,850,000)	1.51x
2033	4,050,000	2,630,000	1,420,000	(430,000)	1.54x
2034	4,100,000	2,630,000	1,470,000	1,040,000	1.56x
2035	4,140,000	2,630,000	1,510,000	2,550,000	1.57x
2036	4,180,000	2,630,000	1,550,000	4,100,000	1.59x
2037	4,220,000	2,630,000	1,590,000	5,690,000	1.60x
2038	4,270,000	2,630,000	1,640,000	7,330,000	1.62x
2039	4,310,000	2,630,000	1,680,000	9,010,000	1.64x
2040	4,350,000	2,630,000	1,720,000	10,730,000	1.65x
2041	4,400,000	2,630,000	1,770,000	12,500,000	1.67x
2042	4,440,000	2,630,000	1,810,000	14,310,000	1.69x
2043	4,490,000	2,630,000	1,860,000	16,170,000	1.71x
2044	4,530,000	2,630,000	1,900,000	18,070,000	1.72x
2045	4,580,000	2,630,000	1,950,000	20,020,000	1.74x
2046	4,620,000	2,630,000	1,990,000	22,010,000	1.76x
2047	4,670,000	2,630,000	2,040,000	24,050,000	1.78x
2048	4,720,000	2,630,000	2,090,000	26,140,000	1.79x
Total[1]	91,890,000	65,750,000	26,140,000		1.40x

Moderate

Year	Tax Allocation Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2023					
2024	0	2,630,000	(2,630,000)	(2,630,000)	0.00x
2025	380,000	2,630,000	(2,250,000)	(4,880,000)	0.14x
2026	760,000	2,630,000	(1,870,000)	(6,750,000)	0.29x
2027	1,370,000	2,630,000	(1,260,000)	(8,010,000)	0.52x
2028	1,880,000	2,630,000	(750,000)	(8,760,000)	0.71x
2029	2,300,000	2,630,000	(330,000)	(9,090,000)	0.87x
2030	2,500,000	2,630,000	(130,000)	(9,220,000)	0.95x
2031	3,030,000	2,630,000	400,000	(8,820,000)	1.15x
2032	3,350,000	2,630,000	720,000	(8,100,000)	1.27x
2033	3,540,000	2,630,000	910,000	(7,190,000)	1.35x
2034	3,590,000	2,630,000	960,000	(6,230,000)	1.37x
2035	3,650,000	2,630,000	1,020,000	(5,210,000)	1.39x
2036	3,700,000	2,630,000	1,070,000	(4,140,000)	1.41x
2037	3,760,000	2,630,000	1,130,000	(3,010,000)	1.43x
2038	3,810,000	2,630,000	1,180,000	(1,830,000)	1.45x
2039	3,870,000	2,630,000	1,240,000	(590,000)	1.47x
2040	3,930,000	2,630,000	1,300,000	710,000	1.49x
2041	3,970,000	2,630,000	1,340,000	2,050,000	1.51x
2042	4,010,000	2,630,000	1,380,000	3,430,000	1.52x
2043	4,050,000	2,630,000	1,420,000	4,850,000	1.54x
2044	4,090,000	2,630,000	1,460,000	6,310,000	1.56x
2045	4,130,000	2,630,000	1,500,000	7,810,000	1.57x
2046	4,170,000	2,630,000	1,540,000	9,350,000	1.59x
2047	4,220,000	2,630,000	1,590,000	10,940,000	1.60x
2048	4,260,000	2,630,000	1,630,000	12,570,000	1.62x
Total[1]	78,320,000	65,750,000	12,570,000		1.19x

Conservative

Year	Tax Allocation Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2023					
2024	0	2,630,000	(2,630,000)	(2,630,000)	0.00x
2025	270,000	2,630,000	(2,360,000)	(4,990,000)	0.10x
2026	640,000	2,630,000	(1,990,000)	(6,980,000)	0.24x
2027	970,000	2,630,000	(1,660,000)	(8,640,000)	0.37x
2028	1,360,000	2,630,000	(1,270,000)	(9,910,000)	0.52x
2029	1,800,000	2,630,000	(830,000)	(10,740,000)	0.68x
2030	1,870,000	2,630,000	(760,000)	(11,500,000)	0.71x
2031	1,950,000	2,630,000	(680,000)	(12,180,000)	0.74x
2032	1,970,000	2,630,000	(660,000)	(12,840,000)	0.75x
2033	1,990,000	2,630,000	(640,000)	(13,480,000)	0.76x
2034	2,010,000	2,630,000	(620,000)	(14,100,000)	0.76x
2035	2,030,000	2,630,000	(600,000)	(14,700,000)	0.77x
2036	2,050,000	2,630,000	(580,000)	(15,280,000)	0.78x
2037	2,070,000	2,630,000	(560,000)	(15,840,000)	0.79x
2038	2,090,000	2,630,000	(540,000)	(16,380,000)	0.79x
2039	2,110,000	2,630,000	(520,000)	(16,900,000)	0.80x
2040	2,130,000	2,630,000	(500,000)	(17,400,000)	0.81x
2041	2,160,000	2,630,000	(470,000)	(17,870,000)	0.82x
2042	2,180,000	2,630,000	(450,000)	(18,320,000)	0.83x
2043	2,200,000	2,630,000	(430,000)	(18,750,000)	0.84x
2044	2,220,000	2,630,000	(410,000)	(19,160,000)	0.84x
2045	2,240,000	2,630,000	(390,000)	(19,550,000)	0.85x
2046	2,270,000	2,630,000	(360,000)	(19,910,000)	0.86x
2047	2,290,000	2,630,000	(340,000)	(20,250,000)	0.87x
2048	2,310,000	2,630,000	(320,000)	(20,570,000)	0.88x
Total[1]	45,180,000	65,750,000	(20,570,000)		0.69x

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

Source: City of Pasco

Debt Capacity

Based on the City's total 2022 assessed value of $8,065,205,983, the City has $120,978,089 in total non-voted debt capacity (1.5% of 2022 AV). The City currently has $23,920,000 outstanding non-voted debt, leaving sufficient net non-voted debt capacity of $97,058,089 before the proposed $39,000,000 financing.

Table 5

	2021 Assessed Valuation for 2022 Collections	$8,065,205,983
	Non-Voted Debt Capacity (1.5% of AV)	120,978,090
Less:	Outstanding Non-voted Debt	(23,920,000)
	Current Net Non-Voted Debt Capacity	97,058,090
Less:	Financing (proposed)	(39,000,000)
	Projected Remaining Non-voted Capacity	**$58,058,090**
	Projected % of Non-voted Capacity Remaining	**48.0%**

Source: Broadmoor TIF Project Analysis, City of Pasco

Interest Rate Assumptions

The debt service figures included in the project analysis assume interest rates for the TIA project bonds of 4.50% for an issuance in late 2022 or early 2023, with maturities ranging from 2024 through 2048. The project analysis assumes a debt structure with level debt service, and that the bonds will be sold on a tax-exempt basis.

While the 4.50% assumption appears to include some cushion compared to current market conditions, interest rates are expected to continue rising over the near- to mid-term as the Federal Reserve continues to battle inflation. A recent survey of market participants conducted by Bloomberg indicated that a majority of economists expect that the Federal Open Market Committee will increase short-term interest rates by an additional 1.25% by the end of 2022, when the City anticipates that it will sell the bonds for the TIA public improvements.

Given the current level of interest rates, increased market volatility, inflation levels at 40-year highs, and the market's expectation for higher interest rates going forward, we encourage the City to maintain conservative assumptions and monitor interest rates carefully as it moves forward with the Project. As increases in interest rates will translate to higher debt service costs for the proposed bonds, interest rates will remain a risk factor for the City until the bonds are sold.

City of Pasco Financials

The City provided Table 6 below, summarizing its historical financial performance and highlighting the cash balance available to ensure the payment of debt service. As indicated in the footnote to Table 6, the available cash balance consists of amounts from three City funds that would be considered to be generally available in order to make debt service payments should tax allocation revenues prove insufficient to cover all of the debt service on the proposed LTGO Bonds. The available cash balance has grown significantly over the past five years from $22.6 million in 2017 to $57.6 million in 2021. The available cash balance is budgeted to drop to $45.7 million by the end of 2022.

As shown in Tables 3 and 4, all three development programs indicate significant periods when projected tax allocation revenues will not be sufficient to meet annual debt service requirements. Under the Conservative

Development Program scenario there is a projected cumulative shortfall of TIF revenues compared to debt service of $20.6 million. In the event of a temporary or long-term tax allocation revenue shortfall, the City will need to rely on some combination of existing revenues, new non-property tax revenues generated from the TIA, or cash balances to fund debt service payments associated with the bonds.

Table 6

OFFICE OF THE TREASURER REPORT*	2017 Total	2018 Total	2019 Total	2020 Total	2021 Total	2022 - Budgeted Total
Beginning Cash Available for Debt Service	22,484,159	22,586,901	26,838,971	54,039,616	52,289,555	57,645,923
Operating Revenue Available for Debt Service						
Operating Revenue	49,705,779	53,049,409	60,596,166	62,236,539	73,795,716	82,493,491
Operating Expenditures	46,216,719	47,712,016	48,680,035	50,994,626	56,654,356	71,289,394
Operating Income (Loss)	3,489,060	5,337,393	11,916,131	11,241,913	17,141,360	11,204,097
Total Revenue Available for Debt Service	25,973,219	27,924,294	38,755,102	65,281,529	69,430,915	68,850,020
Debt Service (General Obligation)						
GO Debt Obligation	1,183,106	1,167,300	1,298,413	2,377,995	1,893,922	3,780,250
TIF GO Debt Obligation	-	-	-			
Total Debt Service	1,183,106	1,167,300	1,298,413	2,377,995	1,893,922	3,780,250
Other Inflows (Outflows)	(3,386,318)	(1,067,056)	15,023,991	(13,104,639)	(11,784,992)	(23,121,950)
Ending Cash Available for Debt Service	22,586,901	26,857,238	53,779,093	52,176,890	57,645,923	45,728,070

Footnotes:
Report includes financial information for City's General Fund, Economic Development Fund, and Capital Improvement Fund (Real Estate Excise Taxes).
General Fund includes minimal level of grant revenues that are offset by corresponding expenses in the same year.

Source: Broadmoor TIF Project Analysis, City of Pasco

Key Risks to the City

From our review of the project analysis, it appears that the Project is well-conceived and will provide significant benefit to the City and region. Nonetheless, the Project comes with certain risks to the City, primarily related to the sufficiency of projected tax allocation revenues to repay LTGO Bonds that the City expects to issue to finance certain public infrastructure improvements.

During years with shortfalls, the City will be required to pay any difference between debt service due and tax allocation revenues received from general City revenues. While the City plans to reimburse itself for such debt service payments made from general City revenues, it is important for decision makers to be aware of the potential magnitude and timing of such payments and reimbursements. In addition, since the TIF legislation limits the ability to collect tax allocation revenues to a period of 25 years, delays could also reduce the overall amount of tax allocation revenues that would be received by the City, limiting the City's ability to be fully reimbursed.

On a granular level, some of the various factors that could impact tax allocation revenues include permits, interest rates, economic conditions, delays in construction, and future demand for/assessed value of the property within the TIA.

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

Interest Rate Risk: The City is exposed to interest rate risk until its bonds are sold. The key assumption of a 4.5% interest rate for the LTGO Bonds offers a small amount of cushion compared to current market conditions. Current market sentiments generally expect continued increases in interest rates, which could produce debt service on the City's bonds that exceeds the amounts assumed in the project analysis.

Economic Conditions: The timing of tax allocation revenues could be negatively impacted by a downturn of economic conditions. The planned development is multi-faceted with commercial, mixed-use, multi-family residential, and single-family residential components, and a variety of economic factors could negatively impact the timeline and ultimate demand for development, jeopardizing the rate and scale of private development and reducing potential tax allocation revenues.

Construction Delays: Any setback or hinderance to the private developers' capacity for completing construction projects could negatively impact tax allocation revenues. Whether the cost of the improvements themselves or some unforeseen change in the developers' ability to complete both their public improvements and private developments, the City will remain responsible for repaying the LTGO Bonds issued for the Project, once issued.

Assessed Valuations: As private developments are completed, tax allocation revenues may be less than anticipated if the assessed value projections do not track projections. If assessed valuations come in lower than expected, projected tax allocation revenues would be reduced.

Risk Summary: The general impact to the City, if any of the risk factors outlined above are realized and tax allocation revenues end up being lower than expected, could be the requirement that the City apply some amount of its general revenues or reserves towards the repayment of the LTGO Bonds, reducing the City's ability to allocate those funds to other projects or operations. Depending on the actual tax allocation revenues received, it is possible that the City may not be fully reimbursed from tax allocation revenues for such general fund expenditures.

Recommendations

The Broadmoor Development is a significant long-term and large-scale project. To help ensure the long-term financial success of the Project and to minimize risk, we recommend the City carefully monitor the risks identified and consider the following measures.

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

2. Given the general obligation pledge of the bonds, and the potential requirement for the City to cover some amount of debt service costs from general revenues and reserves, we recommend the City consider budgeting for and setting aside funds to cover potential tax allocation revenue shortfalls.

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

4. The City's interest rate assumptions contain only a small amount of cushion compared to current market conditions. We recommend that the City consider using somewhat more conservative interest rate assumptions, especially if the issuance of the bonds extends into 2023.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer

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Attachment A: Broadmoor Development TIA Timeline