November 3, 2023

Pat Reay, Executive Director
Port of Walla Walla
310 A. Street
Walla Walla Regional Airport
Walla Walla, WA 99362

Dear Mr. Reay:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the Port of Walla Walla's (the "Port") tax increment financing ("TIF") project analysis, consisting of the initial project analysis dated July 14, 2023, additional written responses to OST questions provided on September 19, 2023, and a revised project analysis dated October 4, 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 Port's revised project analysis, supported by supplemental communications, 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 and communications as noted above. 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 Port's proposed Burbank/Wallula Gap tax increment area ("TIA") is to fund a portion of the cost of developing the Burbank Industrial Park, Burbank Business Park, Dodd Road Industrial Park, Stearns Kelly Site, and Wallula Gap Business Park. The TIA is expected to include extensions and improvements to water and sewer systems, roads and highways, rail, sidewalks and lighting, pedestrian access, and high dock and barge slips. Additional elements include public administration annex buildings, property acquisitions, renewable energy projects, security improvements, and a public safety facility.

As described in the Port's project analysis, the costs for the public improvements are estimated to be $260 million. To finance the public infrastructure improvements, the Port intends to issue four series of Limited Tax General Obligation ("LTGO") bonds, which will be backed by the full faith and credit of the Port. These bond financings are expected to provide $70 million in project funds. Projected net TIF revenues, after accounting for debt service payments, are projected to provide an additional $30.3 million, leaving a funding gap for the public improvements of approximately $159.7 million.

The Port plans to issue bonds only after sufficient increment revenue data is available to more accurately determine the amount of proceeds needed and the amount of bonds that TIF revenues can support. The Port's projections show higher than 1.0x coverage in every year the proposed bonds are outstanding (see Tables 7 and 8). However, should tax allocation revenues be insufficient to pay the debt service on the

LTGO bonds, the full faith and credit pledge would require the Port to pay the remaining debt service due on the bonds from the Port's general revenues and reserves.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) of the TIF Statute requires that prior to the adoption of an ordinance authorizing the creation of a TIA, the local government proposing the TIA must provide a project analysis to OST for review. Upon completing the review, OST must provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the first draft of the Port's project analysis on July 14, 2023, with a revised project analysis provided by the Port to OST on October 4, 2023.

Project Team

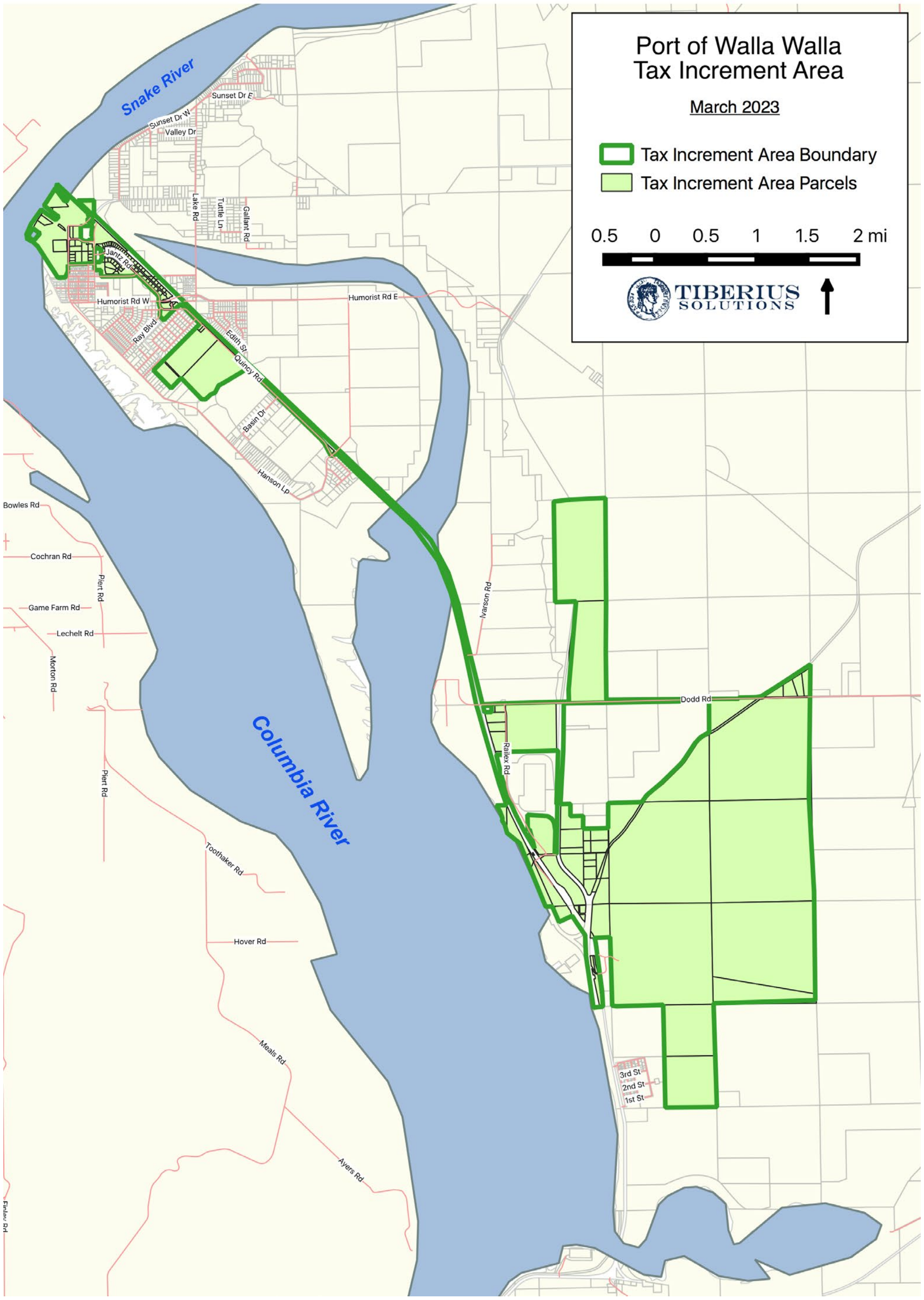
Jurisdiction: Port of Walla Walla	**County:** Walla Walla County
Project Title: Burbank/Wallula Gap TIA	**Redevelopment Area:** The TIA includes properties in the Attalia Urban Growth Area, and portions of the nearby Burbank Urban Growth Area, covering 5,877.2 acres.
Port of Walla Walla: Pat Reay, Port Administrator Paul Gerola, Economic Development Director	**Consultants:** Nick Popenuk, Principal – Tiberius Solutions, LLC Justin Monwai, Senior Vice President – Piper Sandler & Co. Cynthia Weed, Bond Counsel – K&L Gates LLP

Proposed Tax Increment Area

The Port's proposed TIA includes 188 tax lots across 5,877 acres in Walla Walla County along the Columbia River, just outside of the Tri-Cities (see Figure 1). The area includes properties in the Attalia Urban Growth Area (specifically the Wallula Business Park) and portions of the nearby Burbank Urban Area. Of the total TIA, 4,973 acres are currently vacant or developable land. The land is predominately zoned Industrial Agriculture – Heavy, Industrial Agriculture – Mixed, and Industrial/Business Park.

The taxable assessed valuation ("AV") of the TIA in 2023 is $12,776,360, compared to a total market value of $47,589,810. The AV of the TIA represents 0.14% of the total AV of the Port ($9,272,358,525), which is less than the statutory limitation of the lesser of $200 million of AV or 20% of the Port's total AV. According to the project analysis, the boundary represents areas that include both planned private developments and significant future speculative development that would not occur without the infrastructure improvements funded by the TIA. The Port's project analysis includes a list of parcels in the proposed TIA; it should be noted that this list totals 5,195 acres, while the body of the project analysis describes a total of 5,877 acres.

Figure 1 – Map of Proposed Tax Increment Area



Source: Tiberius Solutions with data from the Walla Walla County Assessor's Office.

Six taxing districts with regular property tax levies would be directly impacted by the TIA. These districts (or levies) are: (1) County Current Expense, (2) Fire District #5, (3) Port of Walla Walla, (4) County Public Works General Fund, (5) Rural Library General Fund, and (6) EMS Levy. The levy rate for each of these jurisdictions will be applied to the increased AV within the TIA and remitted to the Port to pay debt service on Port-issued bonds and potentially other eligible expenses. The Port identifies in its analysis that the TIA increment value is estimated to be greater than 20% of the current AV for Fire District #5, increasing to 38.9% by 2049. Per RCW 39.114.020(5), this would require the Port to establish a mitigation plan with Fire District #5 to address level of service issues in the TIA.

Project Description

Public Improvements Within the TIA

To facilitate the construction of some of the private development, and to encourage future, speculative private development in the TIA, the project analysis identifies the buildout of three industrial/business parks. These projects are expected to be partially funded through a combination of LTGO bond proceeds and other available Port resources. A specific timeline for the developments was not provided in the report. In response to OST's questions, the Port confirmed there is no commitment to a specific timeline for the public improvements, given the magnitude of the speculative private development that may occur. The project analysis acknowledges that, per RCW, construction would need to begin no later than five years after the formation of the TIA. The three industrial/business parks described in the analysis, and their associated public improvements, are:

- **Burbank Industrial Park and Burbank Business Park:** Expansion and improvements to water and sewer systems, roads and highways, rail, sidewalks and lighting, pedestrian access, other utilities, and high docks and barge slips. Also includes public administration annex buildings, property acquisitions, renewable energy projects, other utility extensions and relocations, and security improvements.
- **Dodd Road Industrial Park and Stearns Kelly Site:** Expansion and improvements to water and sewer systems, roads and highways, and rail, as well as other utility extensions and improvements, property acquisitions, renewable energy projects, and security improvements.
- **Wallula Gap Business Park:** Expansion and improvements to water and wastewater systems, roads and highways, rail, lighting, and other utilities, as well as a public safety facility, property acquisitions, renewable energy projects, other utility extensions and relocations, and security improvements.

The total projected cost for the public improvements associated with the above projects is $260 million. A summary of the cost for each of the elements is shown in Table 1.

Table 1 – Public Improvements (2023 $)

Project	**Estimated Cost (2023$)**
Burbank Industrial Park & Burbank Business Park	$ 55,150,000
Dodd Road Industrial Park & Stearns Kelly Site	$ 59,350,000
Wallula Gap Business Park	$ 145,500,000
Total	**$ 260,000,000**

Source: Port of Walla Walla.

Private Development Within the TIA

The project analysis identifies seven known private developments either currently taking place, or expected to take place, within the TIA:

1) Warehouse/Distribution – $13.0 million (under construction)
2) Electrical Contractor – $2.2 million (under construction)
3) Metal Fabrication – $3.2 million (under construction)
4) Building Contractor Lot 149 – $1.7 million (permits obtained)
5) Residential Project – $498.8 million (permit applications not yet submitted)
6) Confidential Industrial Development – $101.3 million (letter of intent signed)
7) Confidential Industrial Development – $300.3 million (letter of intent signed)

The total improvement value of the projects is estimated at $920.5 million. Most of these projects are expected to be completed by 2027, with some of the residential projects extending to 2033. A summary of the projected value and the expected year in which the private improvements will be added to the tax roll is shown in Table 2.

Table 2 – Summary of Estimated Private Development (2023 $)

Year Built	Year on Tax Roll	Improvement Value
2023	2025	$ 18,300,000
2024	2026	$ 51,600,000
2025	2027	$ 49,900,000
2026	2028	$ 49,900,000
2027	2029	$ 451,400,000
2028	2030	$ 49,900,000
2029	2031	$ 49,900,000
2030	2032	$ 49,900,000
2031	2033	$ 49,900,000
2032	2034	$ 49,900,000
2033	2035	$ 49,900,000
Total		**$ 920,500,000**

Source: Port of Walla Walla.

In response to OST questions regarding the timing of development in the TIA, the Port stated that “all of the development included in the forecast of future tax allocation revenue are expected to occur prior to completion of any of the public improvements identified in the Project Analysis Report.” However, the revised project analysis identifies that, in order for the projected residential projects to be completed, wastewater capacity must be expanded. Additionally, water system and roadway improvements will be needed for private development projects 6 and 7 described above. The project analysis states that the Port has the necessary resources to construct these projects without relying on indebtedness related to the TIA, although costs may be reimbursed through a TIA-related bond issuance.

In addition to the known developments, the Port expects significant speculative development to occur as a result of the public improvements. However, no speculative development was described or included in the increment revenue projections. We note that RCW 39.114.020(1)(j)(iii) (commonly called the "but for" requirement) requires the Port to make a finding that the projected private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements.

Assessed Value of the TIA

The AV of the TIA for the 2023 tax year is approximately $12.8 million, below both statutory limits of $200 million in AV and 20% of the Port's total AV of $9.3 billion ($1.9 billion). The TIA's 2023 AV represents 0.14% of the Port's total assessed valuation.

Since the TIA is largely undeveloped, the known private developments are the primary generator for the increase in the base AV in the area. Over the long term, the Port assumes the TIA base value and the AV of newly developed properties will increase by 4% annually. This assumption uses long-term historical trends for per capita personal income growth in Walla Walla County as the basis for forecasting appreciation of existing AV, and employs forecasts of population growth as the basis for projecting the increase in AV from new construction. New construction is projected to grow 0.5% from 2023 to 2026, 0.4% from 2026 to 2030, 0.3% from 2030 to 2035, 0.2% from 2035 to 2044, and 0.1% from 2044 to 2049.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2024, and 2025 will be 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 as the final year in which tax increment revenues will be received. The Port estimates the 2024 tax increment base AV at $13.3 million and estimates $2.5 billion in additional AV will be added between 2025 and 2049 through new construction and appreciation. The Port projects $122.6 million in total tax increment revenues will be collected over the 25-year term of the TIA (see Table 3 – Tax Allocation Revenues). No alternative development scenario was provided, as the entirety of the project revenue is based on the known private developments, with no speculative development included.

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 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 applied the levy rates to the incremental AV within the TIA.

Table 3 – Tax Allocation Revenues (Nominal $)

Tax Year	Assessed Value Total	Assessed Value Base Value	Assessed Value Increment	Levy Rate	Tax Allocation Revenues
2023	$ 12,776,360	$ 12,776,360	$ -	$ 5.155930	$ -
2024	$ 13,287,414	$ 13,287,414	$ -	$ 5.007909	$ -
2025	$ 32,887,831	$ 13,287,414	$ 19,600,417	$ 4.865853	$ 95,373
2026	$ 90,031,750	$ 13,287,414	$ 76,744,336	$ 4.729555	$ 362,967
2027	$ 149,735,612	$ 13,287,414	$ 136,448,198	$ 4.738581	$ 646,571
2028	$ 214,071,732	$ 13,287,414	$ 200,784,318	$ 4.607252	$ 925,064
2029	$ 771,882,334	$ 13,287,414	$ 758,594,920	$ 4.501669	$ 3,414,943
2030	$ 865,865,414	$ 13,287,414	$ 852,578,000	$ 4.405470	$ 3,756,007
2031	$ 966,132,128	$ 13,287,414	$ 952,844,714	$ 4.296571	$ 4,093,965
2032	$ 1,073,034,794	$ 13,287,414	$ 1,059,747,380	$ 4.189555	$ 4,439,870
2033	$ 1,186,943,863	$ 13,287,414	$ 1,173,656,449	$ 4.159838	$ 4,882,221
2034	$ 1,308,248,801	$ 13,287,414	$ 1,294,961,387	$ 4.056120	$ 5,252,518
2035	$ 1,437,359,024	$ 13,287,414	$ 1,424,071,610	$ 3.953106	$ 5,629,506
2036	$ 1,494,853,385	$ 13,287,414	$ 1,481,565,971	$ 3.851150	$ 5,705,732
2037	$ 1,554,647,520	$ 13,287,414	$ 1,541,360,106	$ 3.750016	$ 5,780,125
2038	$ 1,616,833,421	$ 13,287,414	$ 1,603,546,007	$ 3.651188	$ 5,854,848
2039	$ 1,681,506,758	$ 13,287,414	$ 1,668,219,344	$ 3.630536	$ 6,056,530
2040	$ 1,748,767,028	$ 13,287,414	$ 1,735,479,614	$ 3.535715	$ 6,136,161
2041	$ 1,818,717,709	$ 13,287,414	$ 1,805,430,295	$ 3.441555	$ 6,213,488
2042	$ 1,891,466,417	$ 13,287,414	$ 1,878,179,003	$ 3.349631	$ 6,291,206
2043	$ 1,967,125,074	$ 13,287,414	$ 1,953,837,660	$ 3.259909	$ 6,369,332
2044	$ 2,045,810,077	$ 13,287,414	$ 2,032,522,663	$ 3.172353	$ 6,447,879
2045	$ 2,127,642,480	$ 13,287,414	$ 2,114,355,066	$ 3.163546	$ 6,688,859
2046	$ 2,212,748,179	$ 13,287,414	$ 2,199,460,765	$ 3.079572	$ 6,773,398
2047	$ 2,301,258,106	$ 13,287,414	$ 2,287,970,692	$ 2.996104	$ 6,854,999
2048	$ 2,393,308,430	$ 13,287,414	$ 2,380,021,016	$ 2.914709	$ 6,937,069
2049	$ 2,489,040,767	$ 13,287,414	$ 2,475,753,353	$ 2.835351	$ 7,019,629
Total					**$ 122,628,261**

Source: Port of Walla Walla.

Financing Plan for Public Improvements

The private developments are largely expected to be completed by 2027, prior to construction of the public improvements. To fund a portion of the proposed public improvements, the Port plans to issue four series of LTGO Bonds (the "Bonds") over a period of 14 years, totaling $67.4 million of par and generating $70.0 million in project funds for the public improvements. As stated in the project analysis, because of its general obligation pledge, the Port will be required to ensure the timely payment of all debt service due on the Bonds from available resources, regardless of the amount of tax increment revenues generated. A summary of the plan of finance provided by the Port is included in Table 4.

Table 4 – Estimated Terms of Indebtedness (Nominal $)

	Loan A	Loan B	Loan C	Loan D	Total
Issuance Date	12/1/25	12/1/28	12/1/34	12/1/39	
Final Maturity	12/1/45	12/1/38	12/1/49	12/1/49	
Par Amount	$ 3,870,000	$ 19,215,000	$ 20,440,000	$ 23,905,000	**$ 67,430,000**
Project Proceeds	$ 4,000,000	$ 20,000,000	$ 21,000,000	$ 25,000,000	**$ 70,000,000**
True Interest Cost	4.99%	4.19%	4.46%	3.91%	

Source: Port of Walla Walla.

The Port assumed interest rates as of May 3, 2023, plus a 1% cushion. Each series is issued with varying terms, resulting in different true interest costs as shown in Table 4. Total debt service among the four series is estimated to equal $92.3 million, and each is expected to be structured with level debt service.

Debt Capacity

Based on the Port's 2023 total assessed value of $9,272,538,525, the Port has $23,181,346 in total non-voted debt capacity (0.25% of 2023 AV). The Port currently has $265,448 of outstanding non-voted general obligation debt with a final maturity of 2025, prior to the issuance of TIA related debt. The Port's current AV is insufficient to cover the entirety of the plan of finance. However, growth in the TIA, over the assumed 14-year life of the plan of finance, is projected to produce sufficient capacity. Accordingly, this calculation will need to be reviewed on a transaction-by-transaction basis.

Table 5 – Debt Capacity (Aggregate)

Assessed Valuation for 2023 Tax Year	$ 9,272,528,525
Non-Voted Debt Capacity (.25% of AV)	23,181,346
Less: Outstanding Non-Voted Debt	265,448
Remaining Non-Voted Debt Capacity	22,915,898
Less: Financing Proposed (in total)	67,430,000
Projected Remaining Non-Voted Capacity	**$ (44,514,102)**
Projected Remaining Non-Voted Capacity %	**-204.12%**

Source: Port of Walla Walla.

Staggering the timing and size of the bond issues is expected to allow the Port to issue bonds within the constraints of its debt capacity. The first issuance (Loan A), scheduled to take place in 2025, is the smallest of the four series of bonds expected to be issued ($3.9 million of par). The Port has sufficient capacity for the first issuance of TIA-related debt.

Table 6 – Debt Capacity (2025 Issuance)

Assessed Valuation for 2023 Tax Year	$ 9,272,538,525
Non-Voted Debt Capacity (.25% of AV)	23,181,346
Less: Outstanding Non-Voted Debt	265,448
Remaining Non-Voted Debt Capacity	22,915,898
Less: Financing Proposed (Loan A)	3,870,000
Projected Remaining Non-Voted Capacity	**$ 19,135,898**
Projected Remaining Non-Voted Capacity %	**82.55%**

Included in the project analysis was a capacity analysis over time for the four series of bonds (see Table 7 – Debt Capacity Over Time), which shows remaining capacity following each proposed bond issuance. The capacity analysis does not include financing projects unrelated to the TIA or unanticipated capital needs the Port may encounter over the next 25 years, which could further reduce the non-voted debt capacity. The available capacity may be a factor in the eventual timing of the subsequent bond issuances.

Table 7 – Debt Capacity Over Time

Year	Taxable AV	Debt Limit	Outstanding Principal	Remaining Capacity
2023	$ 9,272,358,525	$ 23,180,896	$ -	$ 23,180,896
2024	$ 9,689,550,777	$ 24,223,877	$ -	$ 24,223,877
2025	$ 10,144,351,555	$ 25,360,879	$ 3,870,000	$ 21,490,879
2026	$ 10,656,270,592	$ 26,640,676	$ 3,750,000	$ 22,890,676
2027	$ 11,180,687,697	$ 27,951,719	$ 3,625,000	$ 24,326,719
2028	$ 12,256,653,807	$ 30,641,635	$ 22,710,000	$ 7,931,635
2029	$ 13,320,998,999	$ 33,302,497	$ 21,040,000	$ 12,262,497
2030	$ 13,943,796,457	$ 34,859,491	$ 19,290,000	$ 15,569,491
2031	$ 14,583,633,721	$ 36,459,084	$ 17,455,000	$ 19,004,084
2032	$ 15,253,339,660	$ 38,133,349	$ 15,525,000	$ 22,608,349
2033	$ 15,954,247,593	$ 39,885,619	$ 13,500,000	$ 26,385,619
2034	$ 16,687,787,297	$ 41,719,468	$ 31,815,000	$ 9,904,468
2035	$ 17,455,453,112	$ 43,638,633	$ 28,640,000	$ 14,998,633
2036	$ 18,163,508,234	$ 45,408,771	$ 25,300,000	$ 20,108,771
2037	$ 18,901,213,757	$ 47,253,034	$ 21,795,000	$ 25,458,034
2038	$ 19,669,780,668	$ 49,174,452	$ 18,115,000	$ 31,059,452
2039	$ 20,470,500,310	$ 51,176,251	$ 40,640,000	$ 10,536,251

Source: Port of Walla Walla.

Projected Debt Service Coverage

The plan of finance displayed in the project analysis is structured in a way that limits general fund exposure to debt service. The Port calculates sufficient tax increment revenue coverage in every year that bonds are outstanding. The TIA's projected revenues produce an estimated 1.09x coverage in 2026 for the relatively small first issuance, which is the lowest level of estimated coverage through the life of the TIA.

While debt capacity may be a primary consideration for the timing of the subsequent bond issuances, increment revenues are also a factor. The first year of debt service for Loan B results in coverage of 1.21x, Loan C results in 1.17x, and Loan D results in 1.13x coverage, with coverage increasing in the years between each issuance. Tables 7 and 8 summarize the total tax increment revenues and debt service coverage for the proposed financings.

While the Port demonstrates sufficient debt service coverage for its anticipated financings, there is still a $159.7 million funding gap between the $260 million projected total cost of the public improvements and the $100.3 million amount projected to be generated from the combination of bond proceeds and surplus increment revenues. It is unclear how this difference will be funded.

Table 7 – Tax Allocation Revenues and Debt Service Coverage

First Year Tax Increment Revenues Exceed Debt Service[1]	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	Total Surplus/ (Shortfall) ($MMs)	Average Debt Service Coverage Ratio
2026	N/A	$122.628	$92.303	$0	$30.326	1.33x

Source: Port of Walla Walla.

Table 8 – TIF Debt Service Coverage

Year	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC
2025	$ 95,373	$ -	$ 95,373	$ 95,373	0.00x
2026	362,967	332,500	30,467	125,840	1.09x
2027	646,571	331,500	315,071	440,911	1.95x
2028	925,064	330,250	594,814	1,035,725	2.8x
2029	3,414,943	2,824,500	590,443	1,626,168	1.21x
2030	3,756,007	2,821,000	935,007	2,561,175	1.33x
2031	4,093,965	2,818,500	1,275,465	3,836,640	1.45x
2032	4,439,870	2,821,750	1,618,120	5,454,760	1.57x
2033	4,882,221	2,820,250	2,061,971	7,516,731	1.73x
2034	5,252,518	2,819,000	2,433,518	9,950,249	1.86x
2035	5,629,506	4,794,125	835,381	10,785,630	1.17x
2036	5,705,732	4,800,375	905,357	11,690,987	1.19x
2037	5,780,125	4,797,400	982,725	12,673,712	1.2x
2038	5,854,848	4,796,125	1,058,723	13,732,435	1.22x
2039	6,056,530	2,311,050	3,745,480	17,477,915	2.62x
2040	6,136,161	5,420,900	715,261	18,193,176	1.13x
2041	6,213,488	5,422,200	791,288	18,984,464	1.15x
2042	6,291,206	5,424,925	866,281	19,850,745	1.16x
2043	6,369,332	5,418,575	950,757	20,801,502	1.18x
2044	6,447,879	5,418,175	1,029,704	21,831,206	1.19x
2045	6,688,859	5,422,950	1,265,909	23,097,115	1.23x
2046	6,773,398	5,087,125	1,686,273	24,783,388	1.33x
2047	6,854,999	5,088,875	1,766,124	26,549,512	1.35x
2048	6,937,069	5,090,125	1,846,944	28,396,456	1.36x
2049	7,019,629	5,090,375	1,929,254	30,325,710	-
Total[1]	$ 122,628,260	$ 92,302,550	$ 30,325,710		

Source: Port of Walla Walla.

Key Risks to the Port

From OST's review of the project analysis, it appears that the private developments will benefit the Port and the greater region. Nonetheless, the project and plan of finance come with certain risks to the Port, which we attempt to summarize below:

Legal Risk: The TIF Statute includes what is commonly referred to as the "but for" requirement, which requires the local government to make a finding that the private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements. While the revised project analysis submitted to OST addresses the need for public improvements for a portion of the developments, in additional communications, the Port stated that "Infrastructure within the TIA is sufficient to accommodate construction of these known projects, and thus, they are not dependent upon completion of public improvements that are planned to be funded with tax allocation revenues." While the speculative development mentioned in the report may not occur without the public improvements, these developments are unknown and not factored into the revenue projections. The above statement from the Port could bring into question compliance with the "but for" requirement of the TIF Statute.

Mitigation Plan with Taxing Districts: The TIF Statute states that if the project analysis indicates that a tax increment area will impact at least 20% of the AV in a fire protection district or regional fire protection service authority, or the fire service agency's annual report demonstrates an increase in the level of service directly related to the increment area, the local government must negotiate a mitigation plan with the fire protection district or regional fire protection service authority to address level of service issues in the increment area.

The Port identifies that a mitigation plan will be required on behalf of Fire District #5. However, the project analysis implies this process has not begun. Given the expected increase in the level of service that will be expected from the Fire District, the eventual mitigation plan could have a material impact on the revenue projections included in the report. Additionally, the countywide EMS levy is distributed to the regional fire districts for EMS service. This results in potentially two of the six levies included in the tax increment revenue projections being impacted by the mitigation plan for Fire District #5. We encourage the Port to proactively work with the impacted taxing districts to finalize a mitigation plan prior to moving forward with its TIA.

Debt Capacity: The Port does not currently have the debt capacity to issue the entire amount of bonds specified in the plan of finance without the expected improvements. The Port acknowledges that capacity constraints could result in slower than expected growth.

Unfunded Costs: A sizable portion of the proposed public improvements is currently unfunded, with no clear indication of how these projects will be financed.

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: The bulk of private development (in terms of expected property value) are not yet permitted. Delays in permits for these projects 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 assessed value could be negatively impacted by a downturn in the economy. A variety of economic factors could negatively impact the timeline and ultimate demand for development, jeopardizing the rate and scale of private development, potentially reducing tax increment revenues.

Assessed Valuations: As private developments are completed, 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.

Interest Rate Risk: The Port is exposed to interest rate risk until its bonds are sold. The project analysis assumes interest rates as of May 3, 2023, plus a 1.00% cushion. However, between May 3, 2023, and October 12, 2023, tax-exempt interest rates rose by an average of 0.92% in the 2025-2049 maturity range expected for repayment of the Bonds, eroding almost the entirety of the cushion included in the plan of finance.

While its plan of finance is relatively conservative, the general impact to the Port from any of the risk factors outlined above could potentially be lower than projected tax increment revenues, resulting in a decreased ability to fund the public improvements and facilitate the expected growth in the TIA. Regarding potential legal risks, the Port's approach to interpretation of the TIF Statute's "but for" requirement could be called into question.

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. We recommend that the Port consult with legal counsel to ensure that the requirements of the TIF Statute, specifically, the "but for" requirement, are being met based on the expected private development.
2. Prior to approving the TIA, we recommend that the Port coordinate closely with the other 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 while establishing a mitigation plan for Fire District #5.
3. Prior to constructing any public improvements, the Port should consider working with its bond counsel to pass a reimbursement resolution to allow for eligible project costs to be reimbursed from future bond issuances.
4. As the project moves forward, we recommend that the Port coordinate closely 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. The Port's interest rate assumptions for its planned bond issuances are no longer conservative. We recommend that the Port consider using more conservative interest rate assumptions.

6. Given the extended timeline for public improvements, the Port should revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

7. The project analysis states the TIA is predominantly zoned Industrial Agriculture and Industrial/Business Park, but does not mention being zoned for residential. Given a significant portion of the private development consists of residential construction, it's recommended that the Port confirms the zoning code for all parcels in the TIA and includes reference to these in the project analysis.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer

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