Tax Increment Financing Project Analysis Review

– City of Ridgefield –

August 24, 2023

Office of the Treasurer
State of Washington
Mike Pellicciotti

August 24, 2023

Kirk Johnson, Finance Director
City of Ridgefield
230 Pioneer Street, P.O. Box 608
Ridgefield, WA 98642

Dear Mr. Johnson:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Ridgefield's (the "City") tax increment financing ("TIF") project analysis provided on June 1, 2023 ("Project Analysis"). OST and Montague DeRose and Associates, the state's municipal advisor, have reviewed the provided material. Based on our review, which is detailed in the sections to follow, we believe the City's Project Analysis generally addresses the topics listed in section 020(2) 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 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 City envisions the development of Ridgefield as a regional employment center to provide a wealth of living-wage employment opportunities for City residents. The proposed tax increment area (the "TIA"), centered around the intersection of I-5 and SR 501/Pioneer Street, is intended to help the City implement this vision. The 939 acres bounded by the TIA include much of the City's vacant and developable land suitable for commercial and employment land uses.

The City's Transportation Capital Facilities Plan identified a set of transportation infrastructure improvements in the TIA, with a total cost of $95.5 million, which are critical to removing barriers to development. According to the Project Analysis, of the $95.5 million total cost, $24.9 million (26%) will be funded from developer contributions, with $22.5 million (24%) being funded from a mix of grants, traffic impact fees, and other City funds. The balance of $48.1 million (50%) will be financed from the City's issuance of Limited Tax General Obligation Bonds (the "Bonds") in 2024 and 2028. This plan of finance will result in the City utilizing almost all of its non-voted debt capacity.

Should tax allocation revenues be insufficient to fully pay the debt service on the 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 or reserves. The City's base case structure for the Bonds assumes borrowing costs ranging from 3.74% to 4.21% and escalating annual debt service payments of $1.2 million in 2025 to $4.6 million in 2049. Total principal and interest due on the Bonds is estimated to be $79.7 million. The City acknowledged that its projected tax increment revenues are expected to be insufficient to fully cover debt service payments in both the Baseline and the Alternate Development Scenarios, as shown in table 7.

In the Baseline Development Scenario, the City expects that $44.0 million or 55% of the total debt service will be paid with tax increment revenues, with the balance of $35.7 million or 45% being paid from the City's general property tax levy or other City funds. The cost to the City's general fund is projected to average $1.4 million per year from 2025 through 2049.

In the Alternate Development Scenario, which is based on more conservative TIA growth and debt financing assumptions, the City projects that $32.8 million or 40% of the $82.7 million in total debt service will be funded from tax increment revenues, with the balance of $49.9 million or 60% being paid by the City's general fund resources. The cost to the City's general fund is projected to average $2.0 million per year from 2025 through 2049.

Because of the high financial cost of the project to the City's general fund, it is essential that decision makers understand and accept the project's risks and long-term costs in comparison to its benefits.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) 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. 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 City's Project Analysis (dated June 1, 2023) on June 1, 2023.

Project Team

Jurisdiction: City of Ridgefield	**County:** Clark County
Project Title: Pioneer Junction TIA	**Development Areas:** Centered around the intersection of I-5 and SR 501/Pioneer Street. The TIA boundary includes properties as far north as N. 20th Street, east to N. 85th Avenue, south to S. 20th Way, and west to Royle Road.
City of Ridgefield: Kirk Johnson, Finance Director	**Consultants:** Tiberius Solutions LLC Nick Popenuk, Principal PFM Financial Advisors LLC Duncan Brown, Director Matt Schoenfeld, Sr. Managing Director Pacifica Law Group Stacey Crawshaw-Lewis

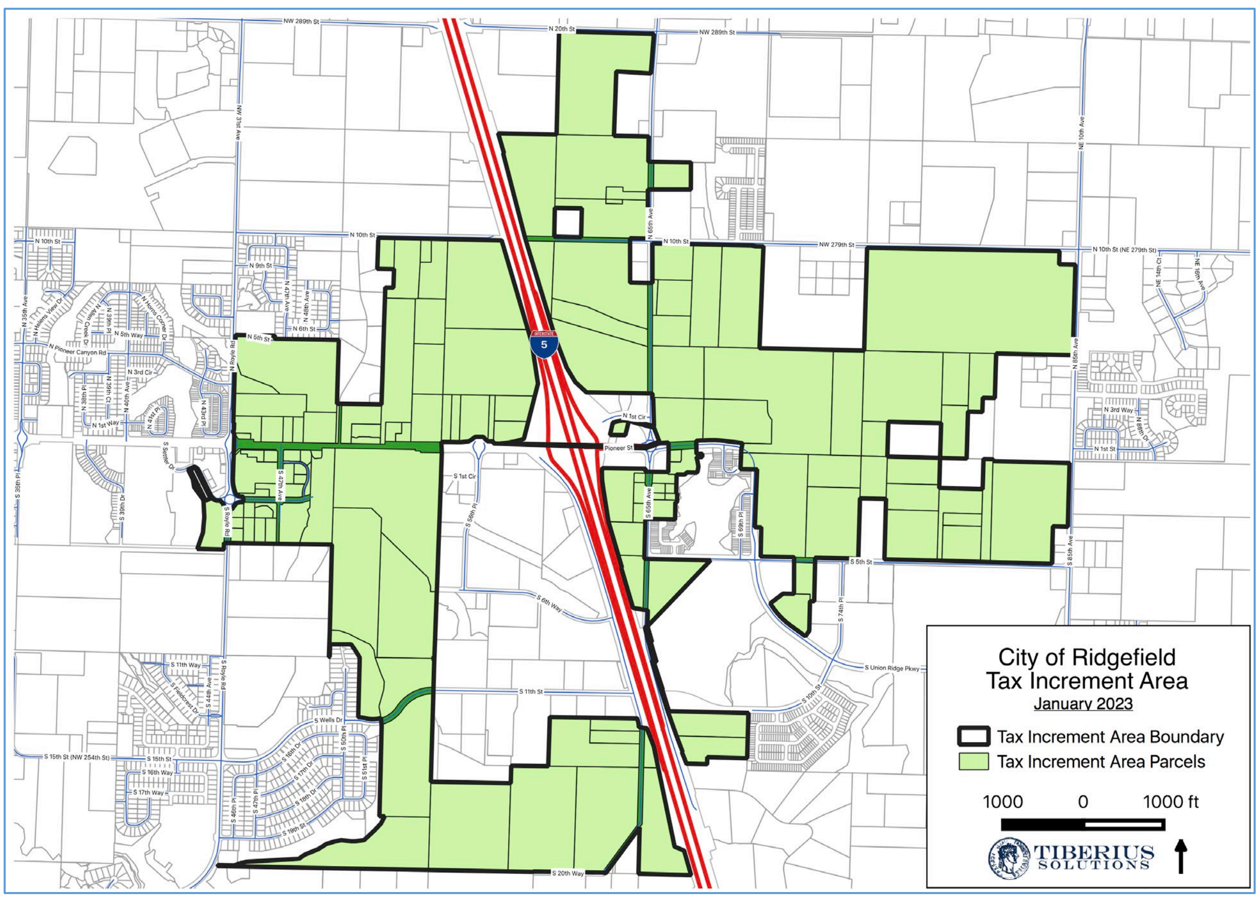
Proposed Tax Increment Area

The Pioneer Junction TIA will be centered around the intersection of I-5 and SR 501/Pioneer Street and encompass 939 acres. The TIA will include much of the City's vacant and developable land suitable for commercial and employment land uses. The City notes that development of this area will ensure the City has a better balance between its population and employment, and that City residents can access a wide range of commercial services without needing to travel elsewhere in the region. Figure 1 below shows the boundary map for the TIA.

In tax year 2023, the 130 parcels within the TIA had total assessed value of approximately $91.0 million relative to total market value of $131.1 million. Parcels in the TIA are zoned Community Commercial, Regional Commercial, or Employment, accounting for7%, 31%, and 62% of the total 939 acres, respectively. Of the $91.0 million total taxable assessed value, 30% is from the Community Commercial parcels, 44% from Regional Commercial parcels, and 26% from Employment parcels.

The taxing districts with property tax levies directly impacted by TIA include: (1) the City of Ridgefield, (2) Clark County Current Expense, (3) Clark County Conservation Futures, (4) Clark-Cowlitz Fire Rescue, (5) Clark-Cowlitz Fire Rescue EMS, (6) Fort Vancouver Library, and (7) Port of Ridgefield. The levy rate for each of these jurisdictions will be applied to the increased assessed valuation within the TIA and remitted to the City to pay debt service on the bonds.

Figure 1 – Map of the Pioneer Junction TIA



Source: City of Ridgefield and Tiberius Solutions

Project Description

Public Improvements within the TIA

The City's Transportation Capital Facilities Plan identifies ten transportation projects in the TIA (the "Public Improvements") which will remove barriers to development. These Public Improvements, costing $95.5 million in total, would result in substantial upgrades to the transportation infrastructure in the area. The City noted that without these critical infrastructure improvements the key transportation corridors in the area lack sufficient capacity to accommodate additional development and will hinder the City from achieving its employment and living wage goals.

According to the Project Analysis, of the $95.5 million nominal total, $24.9 million (26%) will be funded from developer contributions, with $22.5 million (24%) from a mix of grants, traffic impact fees, and other City funds. The balance of $48.1 million (50%) will be financed from the City's issuance of bonds in 2024 and 2028. Table 1 further describes the sources and uses for the Public Improvements.

Table 1 – Sources and Uses of Public Improvements in the TIA ($ millions)

Public Improvement	Nominal Cost	Developer Contributions	Grants, Traffic Impact Fees & Other City Funds	TIF Bonds
Widen Royle Road to a minor arterial (3 lanes)	$5.60	$0.00	$5.60	$0.00
Build N. 5th Street or Pioneer Canyon Drive as an industrial /commercial collector	4.90	4.90	0.00	0.00
Build N. 51st Avenue as an industrial /commercial collector	2.70	2.70	0.00	0.00
Build N. 56th Avenue as an industrial /commercial collector, Pioneer to N. 10th Street	2.10	2.10	0.00	0.00
Build S. 51st Avenue as a minor arterial	7.00	7.00	0.00	0.00
Widen Pioneer Street	35.00	0.00	8.75	26.25
Build a new east-west collector roadway south of Pioneer Street/SR 501	1.90	1.90	0.00	0.00
Build a Regional Stormwater Facility at the I-5 junction	0.90	0.00	0.90	0.00
North-South Connector East of I-5	6.30	6.30	0.00	0.00
Build the 10/11th Street Corridor and I-5 Overcrossing	29.10	0.00	7.27	21.83
Totals	**$95.50**	**$24.90**	**$22.52**	**$48.08**

Source: City of Ridgefield

Private Development within the TIA

Table 2, as prepared by the City, forecasts the baseline scenario of private development projected to occur in the TIA. The City is aware of 21 planned development projects within the TIA, totaling 1.6 million square feet with an anticipated assessed value of $222.8 million in 2023 dollars. Each of these known development projects has begun the process of land use approval from the City and many of these projects have already received full land use approval.

Long-term speculative development in the area requires more substantial infrastructure investments to be made. Specifically, the Pioneer Widening and S. $10^{th}/11^{th}$ Street corridor and I-5 overcrossings are estimated to cost a combined $64.1 million. Without these vital infrastructure improvements, the City is unlikely to be able to approve future development in the area due to an inadequate level of service for transportation facilities in the area. A market analysis identified speculative future development opportunities based on current market conditions, assuming less than half of the properties within the TIA would develop over this timeframe. The projected gain in TIA assessed value from speculative new construction over the 25-year duration of the TIA totals $482.6 million in 2023 dollars. The City's report emphasizes that this speculative future development is unlikely to occur without the Public Improvements the City intends to fund in part with TIA revenues.

Table 2 – Projected Increased Real Property in the TIA (in $ 2023)
Baseline Development Scenario

Year on Tax Roll	Known Development	Speculative Development	Total
2026	$ 5,146,041	$ 18,480,000	$ 23,626,041
2027	$ 36,912,079	$ 18,480,000	$ 55,392,079
2028	$ 137,846,418	$ 18,480,000	$ 156,326,418
2029	$ 42,902,512	$ 18,480,000	$ 61,382,512
2030	$ -	$ 18,480,000	$ 18,480,000
2031	$ -	$ 19,380,000	$ 19,380,000
2032	$ -	$ 19,380,000	$ 19,380,000
2033	$ -	$ 19,380,000	$ 19,380,000
2034	$ -	$ 19,380,000	$ 19,380,000
2035	$ -	$ 19,380,000	$ 19,380,000
2036	$ -	$ 20,320,000	$ 20,320,000
2037	$ -	$ 20,320,000	$ 20,320,000
2038	$ -	$ 20,320,000	$ 20,320,000
2039	$ -	$ 20,320,000	$ 20,320,000
2040	$ -	$ 20,320,000	$ 20,320,000
2041	$ -	$ 21,300,000	$ 21,300,000
2042	$ -	$ 21,300,000	$ 21,300,000
2043	$ -	$ 21,300,000	$ 21,300,000
2044	$ -	$ 21,300,000	$ 21,300,000
2045	$ -	$ 21,300,000	$ 21,300,000
2046	$ -	$ 21,300,000	$ 21,300,000
2047	$ -	$ 21,300,000	$ 21,300,000
2048	$ -	$ 21,300,000	$ 21,300,000
2049	$ -	$ 21,300,000	$ 21,300,000
	$ 222,807,049	**$ 482,600,000**	**$ 705,407,049**

Source: City of Ridgefield

In its analysis, the City prepared an Alternate Development Scenario which retained the anticipated value of the known development projects but reduced the anticipated value of the speculative development projects by 50%, from $482.6 million to $241.3 million (2023 dollars).

Assessed Value of the TIA

The assessed valuation of the TIA parcels for the 2023 tax year is approximately $91.0 million, below both statutory limits of $200 million in assessed valuation and 20% of the City's total assessed valuation of $3.4 billion ($675.8 million). The TIA's 2023 assessed value represents 2.7% of the City's total assessed valuation.

The magnitude and timing of real property development in the TIA will drive growth in incremental assessed value and tax increment revenues. For the two development scenarios provided by the City, the incremental assessed value of the TIA is estimated by assigning market-based improvement prices reflecting the land use and size of the proposed development. The City assumed the TIA base value and the assessed values of newly developed properties both increase by 4.5% annually. This assumption uses long-term historical trends for personal income growth for Clark County as the basis for forecasting appreciation of existing assessed values and employs forecasts of population growth as the basis for projecting the increase in assessed value from new construction.

Tax Increment Revenue Projections

The TIA is expected to take effect on June 1, 2024, with 2025 as the first year the TIA would potentially receive tax increment revenues. The term of the TIA is assumed at 25 years (the maximum allowed) with 2049 as the final year in which the TIA would receive tax increment revenues. The City estimated the 2024 tax increment base assessed value at $95.1 million and prepared the Baseline Development Scenario with $2.4 billion of assessed value added to the TIA between 2024 and 2049. Under the Baseline Development Scenario, $44.0 million of tax increment revenues are projected to be collected over the 25-year term of the TIA. See Table 3 – Tax Allocation Revenues of the TIA (Baseline Development Scenario).

Table 3 – Tax Allocation Revenues of the TIA (Nominal $)
Baseline Development Scenario

Tax Year	Assessed Value Total	Base Value	Increment	Levy Rate	Tax Allocation Revenues
2023	$ 90,973,115	$ 90,973,115		$ 3.683312	$ -
2024	$ 95,066,905	$ 95,066,905	$ -	$ 3.561808	$ -
2025	$ 99,883,585	$ 95,066,905	$ 4,816,680	$ 3.446005	$ 16,598
2026	$ 130,741,483	$ 95,066,905	$ 35,674,578	$ 3.332017	$ 118,868
2027	$ 202,654,200	$ 95,066,905	$ 107,587,295	$ 3.222794	$ 346,732
2028	$ 401,550,909	$ 95,066,905	$ 306,484,004	$ 3.117091	$ 955,338
2029	$ 496,756,849	$ 95,066,905	$ 401,689,944	$ 2.606097	$ 1,046,843
2030	$ 543,847,954	$ 95,066,905	$ 448,781,049	$ 2.520573	$ 1,131,185
2031	$ 595,396,101	$ 95,066,905	$ 500,329,196	$ 2.437314	$ 1,219,460
2032	$ 650,482,290	$ 95,066,905	$ 555,415,385	$ 2.356812	$ 1,309,010
2033	$ 709,320,558	$ 95,066,905	$ 614,253,653	$ 2.278966	$ 1,399,863
2034	$ 772,137,043	$ 95,066,905	$ 677,070,138	$ 2.203690	$ 1,492,052
2035	$ 839,170,638	$ 95,066,905	$ 744,103,733	$ 2.130898	$ 1,585,609
2036	$ 912,267,808	$ 95,066,905	$ 817,200,903	$ 2.060375	$ 1,683,740
2037	$ 990,244,402	$ 95,066,905	$ 895,177,497	$ 1.992192	$ 1,783,365
2038	$ 1,073,391,547	$ 95,066,905	$ 978,324,642	$ 1.926264	$ 1,884,511
2039	$ 1,162,016,690	$ 95,066,905	$ 1,066,949,785	$ 1.862516	$ 1,987,211
2040	$ 1,256,444,479	$ 95,066,905	$ 1,161,377,574	$ 1.800877	$ 2,091,498
2041	$ 1,359,088,793	$ 95,066,905	$ 1,264,021,888	$ 1.741276	$ 2,201,011
2042	$ 1,468,426,797	$ 95,066,905	$ 1,373,359,892	$ 1.683653	$ 2,312,261
2043	$ 1,584,853,066	$ 95,066,905	$ 1,489,786,161	$ 1.627935	$ 2,425,276
2044	$ 1,708,784,135	$ 95,066,905	$ 1,613,717,230	$ 1.574061	$ 2,540,089
2045	$ 1,840,659,674	$ 95,066,905	$ 1,745,592,769	$ 1.521968	$ 2,656,736
2046	$ 1,980,943,723	$ 95,066,905	$ 1,885,876,818	$ 1.471597	$ 2,775,251
2047	$ 2,130,126,000	$ 95,066,905	$ 2,035,059,095	$ 1.422893	$ 2,895,672
2048	$ 2,288,723,271	$ 95,066,905	$ 2,193,656,366	$ 1.375800	$ 3,018,032
2049	$ 2,457,280,790	$ 95,066,905	$ 2,362,213,885	$ 1.330264	$ 3,142,369
Total					**$ 44,018,582**

Source: City of Ridgefield

Acknowledging that the Baseline Development Scenario is an aggressive development plan, the City prepared an Alternate Development Scenario with $1.6 billion of assessed value added to the TIA between 2024 and 2049. Under the Alternate Development Scenario, $32.8 million of tax increment revenues are projected to be collected over the TIA term. See Table 4 – Tax Allocation Revenues of the TIA (Alternate Development Scenario).

Table 4 – Tax Allocation Revenues of the TIA (Nominal $)
Alternate Development Scenario

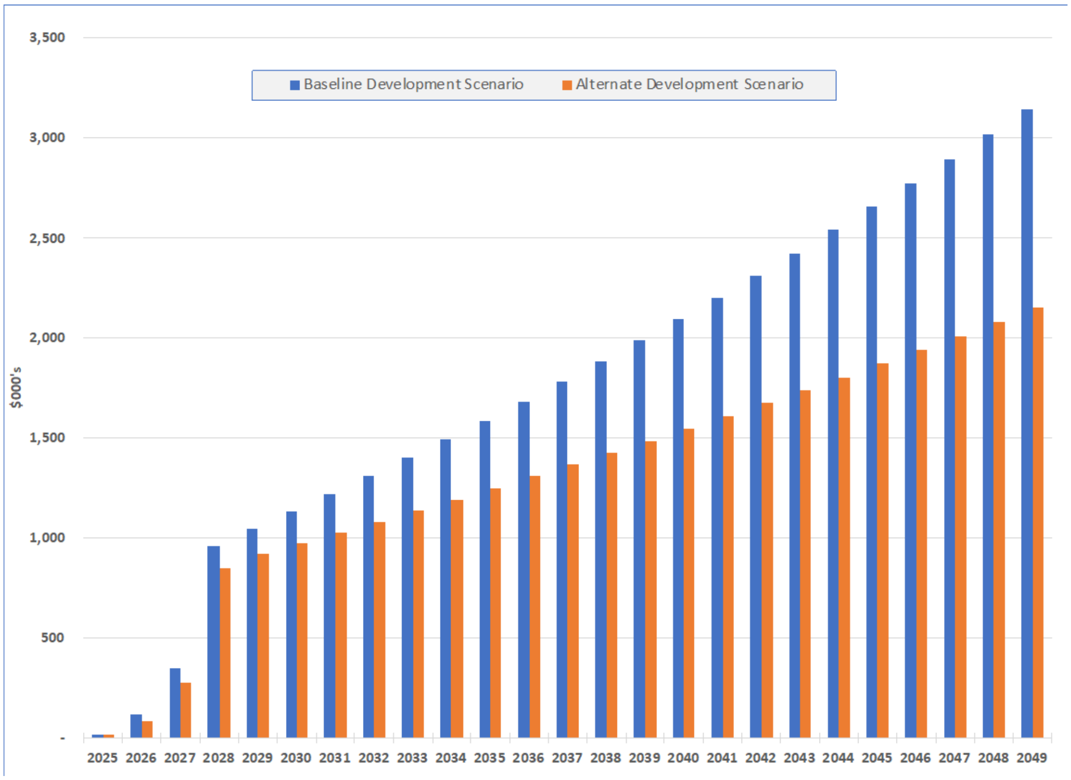
Tax Year	Assessed Value Total	Base Value	Increment	Levy Rate	Tax Allocation
2023	$ 90,973,115	$ 90,973,115		$ 3.683312	$ -
2024	$ 95,066,905	$ 95,066,905	$ -	$ 3.561808	$ -
2025	$ 99,614,250	$ 95,066,905	$ 4,547,345	$ 3.445910	$ 15,670
2026	$ 120,088,262	$ 95,066,905	$ 25,021,357	$ 3.331921	$ 83,369
2027	$ 180,683,089	$ 95,066,905	$ 85,616,184	$ 3.222564	$ 275,904
2028	$ 367,264,871	$ 95,066,905	$ 272,197,966	$ 3.116737	$ 848,369
2029	$ 449,092,032	$ 95,066,905	$ 354,025,127	$ 2.605687	$ 922,479
2030	$ 481,669,698	$ 95,066,905	$ 386,602,793	$ 2.520070	$ 974,266
2031	$ 516,882,329	$ 95,066,905	$ 421,815,424	$ 2.436728	$ 1,027,849
2032	$ 554,288,716	$ 95,066,905	$ 459,221,811	$ 2.356144	$ 1,081,993
2033	$ 594,014,990	$ 95,066,905	$ 498,948,085	$ 2.278223	$ 1,136,715
2034	$ 636,194,195	$ 95,066,905	$ 541,127,290	$ 2.202879	$ 1,192,038
2035	$ 680,966,648	$ 95,066,905	$ 585,899,743	$ 2.130025	$ 1,247,981
2036	$ 729,277,392	$ 95,066,905	$ 634,210,487	$ 2.059447	$ 1,306,123
2037	$ 780,557,146	$ 95,066,905	$ 685,490,241	$ 1.991209	$ 1,364,955
2038	$ 834,975,291	$ 95,066,905	$ 739,908,386	$ 1.925232	$ 1,424,496
2039	$ 892,710,441	$ 95,066,905	$ 797,643,536	$ 1.861441	$ 1,484,766
2040	$ 953,950,930	$ 95,066,905	$ 858,884,025	$ 1.799762	$ 1,545,787
2041	$ 1,019,930,879	$ 95,066,905	$ 924,863,974	$ 1.740127	$ 1,609,380
2042	$ 1,089,917,273	$ 95,066,905	$ 994,850,368	$ 1.682470	$ 1,673,805
2043	$ 1,164,137,081	$ 95,066,905	$ 1,069,070,176	$ 1.626722	$ 1,739,080
2044	$ 1,242,829,589	$ 95,066,905	$ 1,147,762,684	$ 1.572822	$ 1,805,226
2045	$ 1,326,247,046	$ 95,066,905	$ 1,231,180,141	$ 1.520706	$ 1,872,264
2046	$ 1,414,655,344	$ 95,066,905	$ 1,319,588,439	$ 1.470317	$ 1,940,214
2047	$ 1,508,334,740	$ 95,066,905	$ 1,413,267,835	$ 1.421598	$ 2,009,098
2048	$ 1,607,580,603	$ 95,066,905	$ 1,512,513,698	$ 1.374491	$ 2,078,937
2049	$ 1,712,704,216	$ 95,066,905	$ 1,617,637,311	$ 1.328946	$ 2,149,752
Total					**$ 32,810,517**

Source: City of Ridgefield

Under the TIF legislation, only certain regular tax levies are available to the TIA. The taxes applied with regular levies must conform with the constitutional 1% limit as well as the $5.90 aggregate limits. Both parts of the state school levy, local school district excess levies, voted bond levies, and levies of port districts for bond payments were excluded from the TIA levy rate. Based on the 2023 levy rates, an aggregate levy rate of $3.45 would be applied to the TIA in the 2025 first tax year of the Baseline Development Scenario. The TIA annual levy rate may change year to year based on factors including future incremental assessed value of the TIA, future assessed values of the taxing districts, and relevant levy limits. For the two development scenarios, the City's analysis calculated the levy rate for each of these jurisdictions and applied the levy rates to the incremental assessed valuation within the TIA.

The City created a multi-year cash flow model to estimate the tax increment revenues for the two development scenarios; Figure 2 below provides a visual comparison. Collection of tax increment revenues is projected for the 2025-2049 period, with total projected revenues for the Baseline Development and Alternate Development Scenarios at $44.0 million and $32.8 million, respectively. The total increment revenues of the Alternate Development Scenario are equivalent to 75% of the Baseline Development Scenario total.

Figure 2 – Projected Tax Increment Revenues
Baseline and Alternate Development Scenarios



Source: City of Ridgefield

Financing Plan for Public Improvements

The City anticipates issuing a combined $43.4 million of tax-exempt, Limited Tax General Obligation Bonds in July 2024 and in July 2028 to finance the $48.1 million of Public Improvements not funded with developer contributions, grants, traffic impact fees, and other City funds. While the City's cash flow projections anticipate using tax increment revenues generated by the TIA to pay a portion of the scheduled principal and interest on the Bonds, the Bonds will be secured by the full faith and credit of the City.

The City's base case structure for the Bonds assumes borrowing costs ranging from 3.74% to 4.21% and escalating annual debt service payments of $1.2 million in 2025 to $4.6 million in 2049. Total principal and interest on the Bonds is projected at $79.7 million. The City plans to have interest-only payments on the 2024 Bonds through 2031 to better align debt service payments with anticipated tax increment revenues and to minimize the amount of general fund resources the City would need to pay debt service in each year. The City has noted that by waiting to issue part of the Bonds in 2028, it will retain flexibility to adjust a portion of the amount and structure of debt to reflect actual development and collected tax increment revenues during the first few years of the TIA.

As stated in the Project Analysis, because of their general obligation pledge, the City will be required to pay the full debt service due the Bonds with available resources regardless of the amount of tax increment revenues generated within the TIA. The City acknowledged that tax increment revenues are projected to be insufficient to fully cover its debt service payments in both development scenarios.

In the Baseline Development Scenario, the City expects that $44.0 million or 55% of the total debt service will be paid with tax increment revenues, with the balance of $35.7 million, or 45% to come from City funds. The cost to the City's general fund is projected to average $1.4 million per year from 2025 through 2049.

In the Alternate Development Scenario, the City projects that $32.8 million or 40% of the $82.7 million in total debt service will be funded from tax increment revenues, with the balance of $49.9 million or 60% to be covered by City funds. (Debt service is greater in the Alternate Development Scenario due to a 0.50% increase in the assumed borrowing cost.) In this scenario, the cost to the City's general fund is projected to average $2.0 million per year from 2025 through 2049.

OST inquired with the City regarding its plans to budget for and pay the projected expenditure of $1.4 million to $2.0 million per year to cover expected shortfalls in tax increment revenues. The City provided the following details about its approach to mitigate the risks of the general fund being required to cover these expected shortfalls:

1) City Council is aware of the debt service requirements and has prioritized the projects to accomplish the goals stated in their comprehensive plan and the Project Analysis to make Ridgefield a jobs center in North Clark County. They feel the investment in the future of the City is important in the long term.

2) City staff and their federal lobbyist are working with federal legislators to prioritize the overpass project and provide federal funding to reduce the need for the full bond issuance that is assumed in the report.

3) Over the past nine years the City has been increasing its fund balance to build additional reserves for critical infrastructure projects that are proposed in the Project Analysis.

4) The City intends to use both Real Estate Excise Tax and additional general fund dollars from sales taxes generated in the tax increment area to assist in covering debt service if needed.

5) In the event that development does not occur as forecast, the City will delay the second bond issuance planned for the 2028-2029 timeframe.

Debt Capacity

Based on the City's total 2023 assessed value of $3,379,164,060, the City has $50,687,461 in total non-voted debt capacity (1.5% of 2023 AV). The City currently has $19,190,000 in outstanding non-voted debt, leaving sufficient net non-voted debt capacity of $31,497,461 before the proposed $23,870,000 in Bonds are issued in July 2024. The City projects the capacity for non-voted debt will increase to allow for the anticipated issuance of $19,560,000 in Bonds in July 2028, based on 5.9% assumed annual growth in assessed values and the paydown of roughly $4.5 million of outstanding non-voted debt. See Table 5 – Debt Capacity in 2023.

Table 5 – Debt Capacity in 2023

2022 Assessed Valuation for 2023 Collections	$3,379,164,060
Non-Voted Debt Capacity (1.5% of AV)	50,687,461
Less: Outstanding Non-Voted Debt	(19,190,000)
Remaining Non-Voted Debt Capacity	31,497,461
Less: Financing Proposed	(23,870,000)
Projected Remaining Non-Voted Capacity	**$7,627,461**
Projected Remaining Non-Voted Capacity %	**15.00%**

Source: City of Ridgefield

Projected Debt Service Coverage

Tables 6 and 7 below summarize the total tax increment revenues, revenue shortfalls, and debt service coverage for the two development scenarios.

- In the Baseline Development Scenario, the City would be required to fund 45% of scheduled debt service with City general fund dollars due to tax increment revenue shortfalls in each year from 2025 through 2049. The projections do not show the City being reimbursed for this $35.7 million outlay.
- In the Alternate Development Scenario, the City would be required to fund 60% of scheduled debt service with City general fund dollars due to tax increment revenue shortfalls in each year from 2025 through 2049. These projections do not show the City being reimbursed for this $49.9 million outlay.

Table 6 – Summary of Tax Increment Revenue Shortfalls and Average Debt Service Coverage

Development Scenario	First Year Tax Increment Revenues Exceed TIF Debt Service	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected Tax Increment Revenue ($MMs) [1]	Total Projected Debt Service ($MMs)	Projected Cumulative Shortfall ($MMs)	Total Surplus/ (Shortfall) ($MMs)	Average Debt Service Coverage Ratio
Baseline	None	None	$44.019	$79.735	($35.717)	($35.717)	0.49x
Alternate	None	None	$32.811	$82.660	($49.849)	($49.849)	0.36x

1. Projected over the term of repayment of the Bonds, 2025-2049.

Source: City of Ridgefield

Table 7 – Annual Tax Increment Revenue Shortfalls and Average Debt Service Coverage

	Baseline Development Scenario ($Ms)					Alternate Development Scenario ($Ms)				
Year	Tax Increment Revenues	Debt Service on Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage	Tax Increment Revenues	Debt Service on Bonds	Surplus (Shortfall)	Cumlative Surplus (Shortfall)	Debt Service Coverage
2024	0	494	(494)	(494)	0.00x	0	514	(514)	(514)	0.00x
2025	17	1,194	(1,177)	(1,671)	0.01x	16	1,242	(1,226)	(1,740)	0.01x
2026	119	1,194	(1,075)	(2,746)	0.10x	83	1,242	(1,158)	(2,898)	0.07x
2027	347	1,194	(847)	(3,592)	0.29x	276	1,242	(966)	(3,863)	0.22x
2028	955	1,598	(643)	(4,235)	0.60x	848	1,661	(813)	(4,676)	0.51x
2029	1,047	2,547	(1,500)	(5,735)	0.41x	922	2,674	(1,752)	(6,428)	0.34x
2030	1,131	2,630	(1,499)	(7,234)	0.43x	974	2,760	(1,786)	(8,214)	0.35x
2031	1,219	2,723	(1,503)	(8,737)	0.45x	1,028	2,850	(1,822)	(10,036)	0.36x
2032	1,309	2,809	(1,500)	(10,237)	0.47x	1,082	2,939	(1,857)	(11,893)	0.37x
2033	1,400	2,904	(1,504)	(11,741)	0.48x	1,137	3,031	(1,895)	(13,787)	0.37x
2034	1,492	2,993	(1,500)	(13,242)	0.50x	1,192	3,122	(1,930)	(15,717)	0.38x
2035	1,586	3,089	(1,503)	(14,745)	0.51x	1,248	3,220	(1,972)	(17,689)	0.39x
2036	1,684	3,182	(1,499)	(16,244)	0.53x	1,306	3,310	(2,004)	(19,693)	0.39x
2037	1,783	3,283	(1,500)	(17,743)	0.54x	1,365	3,412	(2,047)	(21,740)	0.40x
2038	1,885	3,390	(1,505)	(19,248)	0.56x	1,424	3,511	(2,086)	(23,826)	0.41x
2039	1,987	3,487	(1,500)	(20,748)	0.57x	1,485	3,615	(2,130)	(25,956)	0.41x
2040	2,091	3,595	(1,503)	(22,251)	0.58x	1,546	3,718	(2,173)	(28,129)	0.42x
2041	2,201	3,697	(1,496)	(23,746)	0.60x	1,609	3,832	(2,222)	(30,351)	0.42x
2042	2,312	3,808	(1,496)	(25,242)	0.61x	1,674	3,938	(2,264)	(32,615)	0.43x
2043	2,425	3,922	(1,497)	(26,739)	0.62x	1,739	4,048	(2,309)	(34,924)	0.43x
2044	2,540	4,034	(1,494)	(28,233)	0.63x	1,805	4,165	(2,360)	(37,284)	0.43x
2045	2,657	4,153	(1,496)	(29,730)	0.64x	1,872	4,284	(2,411)	(39,696)	0.44x
2046	2,775	4,272	(1,497)	(31,227)	0.65x	1,940	4,398	(2,458)	(42,154)	0.44x
2047	2,896	4,392	(1,496)	(32,723)	0.66x	2,009	4,522	(2,513)	(44,667)	0.44x
2048	3,018	4,516	(1,498)	(34,221)	0.67x	2,079	4,645	(2,566)	(47,233)	0.45x
2049	3,142	4,638	(1,496)	(35,717)	0.68x	2,150	4,766	(2,616)	(49,849)	0.45x
Total	44,019	79,735	(35,717)		0.49x	32,811	82,660	(49,849)		0.36x

Key Risks to the City

From our review of the project analysis, it appears that the anticipated Public Improvements and economic development will benefit the City. Nonetheless, the financing plan comes with certain risks and costs to the City, primarily related to the insufficiency of projected tax increment revenues to fully repay the Bonds the City expects to issue to finance the Public Improvements.

In short, moving forward with the project is projected to result in a significant long-term cost to the City. In the Baseline Development Scenario, TIF revenues are projected to only cover 49% of the projected debt service, leaving the city with $35.7 million of additional debt service to be paid from general fund revenues between 2025 and 2049. In the Alternate Development Scenario, which is more conservative, TIF revenues are projected to cover only 36% of the projected debt service, leaving the city with $49.9 million of additional debt service to be paid from general fund revenues between 2025 and 2049. Additional risk factors that could further impact tax increment revenues are described below:

> *Escalation of Public Improvement Costs:* With the Public Improvements projected to be completed between 2024 and 2028, inflation could have a significant impact on the cost of these projects, especially recognizing that the City assumed a 3.0% construction cost inflator in its analysis. This 3.0% assumption, compared to more conservative adjustments, does not provide the City with substantive flexibility to weather higher than expected cost escalation.
>
> *Economic Conditions*: Growth in the TIA's assessed value could be negatively impacted by a downturn in the economy. Given the diversity in product type, a variety of economic factors could negatively impact the timeline and ultimate demand for development, jeopardizing the rate and scale of the private development, potentially reducing tax increment revenues.
>
> *Permits*: Unforeseen delays in permits could negatively impact the construction of the expected properties within the TIA. Delays to either the Public Improvements or the private developments could negatively impact the timing and/or amount of tax increment revenues.
>
> *Construction Delays*: Any setback or delay in the private developers' timelines to complete construction projects could reduce tax increment revenues. Similarly, any delay by the City in completing the planned Public Improvements could delay private developers' abilities to close on contracts or initiate private developments, potentially reducing the amount of tax increment revenues.
>
> *Assessed Valuations*: As private developments are completed, tax increment revenues may be lower than projected if the assessed values of the projects are lower than expected or take more time to be reflected in tax rolls than is projected.
>
> *Debt Capacity*: If the TIF related LTGO bonds are issued, only $7.6 million, or 15%, of the City's non-voted debt capacity would remain. While still within the City's legal debt limit, the City's ability to issue additional LTGO debt if a capital need were to materialize would be restricted.
>
> *Interest Rate Risk*: The City is exposed to interest rate risk until the bonds are sold as anticipated in 2024 and 2028. The assumption of a 3.74% to 4.21% interest rate range for the LTGO bonds offers essentially no cushion to current market conditions. In the event interest rates rise to

levels greater than this assumption, debt service will exceed the amounts assumed in the Project Analysis.

Risk Summary: The general impact to the City from any of the risk factors outlined above could be lower than expected tax increment revenues and an even greater reliance on the City's revenues and reserves to pay the debt service on the bonds issued to fund the Public Improvements in the TIA. If tax increment revenues are lower than expected, it will force the City to apply more of its available funds towards the repayment of the bonds, reducing the City's ability to allocate those funds to other projects or operations.

Recommendations

The proposed project will result in the City utilizing almost all of its non-voted debt capacity. Additionally, projections show that the City will be required to make substantial debt service payments throughout the 25-year life of the TIA. Because of the high financial cost of the project to the City's general fund, it is essential that decision makers understand the long-term risks and costs of the project, as well as its benefits. To help ensure the financial success of the project and to minimize unanticipated costs, 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 of its debt capacity should be allocated to the project, especially as its plan of finance will result in 85% of the City's non-voted debt capacity being utilized after the 2024 issuance, and the City will be fully reliant on an increase in its non-voted debt capacity to issue the bonds in 2028 as planned.

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

3. Based on the City's willingness to cover future debt service costs related to the project, we recommend the City conservatively budget for and set funds aside to cover the projected tax increment revenue shortfalls.

4. Prior to approving the TIA, we recommend that the City coordinate closely with 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.

5. As the project moves forward, we recommend that the City 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 realistic as possible.

6. The City's interest rate assumptions include no cushion compared to current market conditions. We recommend that the City consider using more conservative interest rate assumptions for its planned 2024 and 2028 issuances.

7. We recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.

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

Respectfully,

Mike Pellicciotti
Washington State Treasurer

Jason Richter
Deputy Treasurer