

TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF WALLA WALLA —

APRIL 3 , 2024



April 3, 2024

Elizabeth Chamberlain
City Manager
City of Walla Walla
15 North 3rd Avenue
Walla Walla, WA 99362

Dear Elizabeth Chamberlain:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Walla Walla's (the "City") tax increment financing ("TIF") project analysis dated January 12, 2024. OST and PFM Financial Advisors LLC, the state's municipal advisor, have reviewed the provided materials.¹ Based on our review, which is detailed in the sections to follow, we believe that the City's revised project analysis generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute").

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

Executive Summary

The purpose of the City's proposed tax increment area (the "TIA") is to fund a portion of the cost of road improvements serving the TIA. The public improvements are expected to encourage private retail, commercial, and residential developments, and improve city connectivity south of State Route ("SR") 125. Known private developments are expected to add 284,000 square feet ("SF") of retail space, an additional 19.13 acres of commercial pads, and 25-acres of residential development.

As described in the City's project analysis, the total cost of the TIF related public improvements is estimated to be \$31.9 million. The first project, the Myra Road Extension, is the highest priority and is expected to cost \$11.7 million. The proposed plan of finance assumes that \$9.4 million of the Myra Way project will be funded through the issuance of Limited Tax General Obligation ("LTGO") bonds, which will be backed by the full faith and credit of the City. The City does not directly identify how it intends to bridge the \$2.3 million funding gap for the Myra Way project, or the remaining \$20.2 million of additional street improvement projects, other than the stated expectation that the projects will be paid for from "additional funding sources".

Our review of the project analysis found potential risks worth consideration. A discussion of these risks, as well as other factors that could impact tax increment revenue projections, is included later in this review.

¹ *Disclosure:* PFM Financial Advisors LLC ("PFM") has an active financial advisory contract with the City of Walla Walla. However, PFM has not advised the City relating to their proposed Tax Increment Area or any related financing. The PFM team assisting OST with the review of the City's proposed TIA has not worked with the City during previous engagements. The City has utilized another municipal advisory firm for their work relating to the proposed tax increment area.

Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) of the TIF Statute requires that prior to the adoption of an ordinance authorizing the creation of a TIA, the local government proposing the TIA must provide a project analysis to OST for review. Upon completing the review, OST must provide to the local government sponsor any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the City’s project analysis on January 12, 2024.

OST’s primary goal in our statutorily mandated review is to ensure that the project analysis addresses the topics listed in the TIF Statute and to disclose key risks to the City that may result from the implementation of the project.

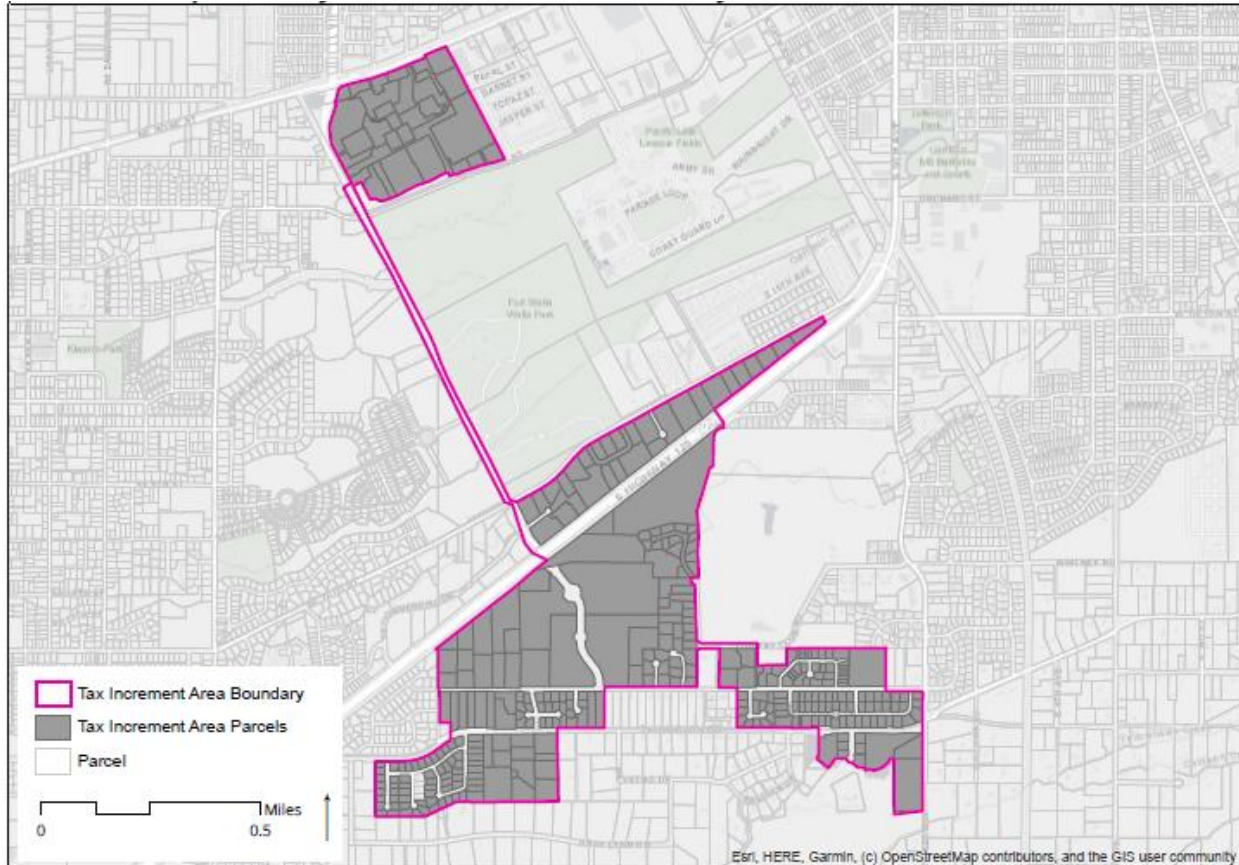
Project Team

<p>Jurisdiction: City of Walla Walla</p>
<p>County: Walla Walla County</p>
<p>Redevelopment Area: Southwest Walla Walla (Myra Road and SR-125)</p>
<p>Consultants: Tiberius Solutions LLC Northwest Municipal Advisors (municipal advisor)</p>

Proposed Tax Increment Area

The City’s proposed TIA includes 364.5 acres of land focused on the intersection of Myra Road and SR-125 and is generally bordered by NW Rose Street to the north, Plaza Way to the east, past Taumarson Road to the south, and Winona Lane to the west (see Figure 1). The TIA is centered around undeveloped land adjacent to the SR-125 and Myra Rd intersection, where Myra Rd ends and is expected to be extended. Of the parcels included in the proposed TIA, 53% of the acreage is zoned Neighborhood Residential, representing 67% of the TIA’s current taxable assessed value (“AV”). Parcels zoned Highway Commercial comprise 44% of the acreage and 26% of the TIA’s AV, and parcels zoned Multi-Family Residential make up the remaining 3% of acreage and 7% of the TIA’s AV. We note that the total acreage listed in the report (mentioned above), does not match the total acreage included in Appendix A of the project analysis (314.1 acres).

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Walla Walla Project Analysis – SERA Architects with data from the Walla Walla County Assessor

Impacted Taxing Districts

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

- (1) City of Walla Walla, Regular
- (2) Port of Walla Walla
- (3) Walla Walla County, Current Expense
- (4) Walla Walla County, Emergency Medical Services

The levy rate for each of these jurisdictions will be applied to the AV within the TIA that is in excess of the base year AV and remitted to the City to pay for and/or reimburse the City for debt service on City-issued bonds, and to potentially fund other eligible public improvement costs on a pay-go basis.

The TIF Statute requires a mitigation plan if at least 20% of the regional fire protection district's AV is expected to be impacted. However, the City operates its own fire department, therefore a mitigation plan is not required.

Project Description

Public Improvements Within the TIA

In order to facilitate the known private developments, the City needs to build out necessary street infrastructure. The City identified five separate road extension/improvement projects, listed in order of priority:

- **Myra Road Extension.** Extends Myra Road South from SR 125 to Taumaron Road.
- **Plaza Way Improvements.** Roadway improvements from Village Way to Taumaron Road.
- **Plaza Way/Taumaron Road Intersection Improvements.** Intersection capacity and safety improvements.
- **Highland Road Improvements.** Roadway improvements from City limits to Plaza Way.
- **Village Way Improvement.** Road improvements from the terminus of Village Way to Plaza Way.

The Myra Road Extension project is the focal point of the public improvements, and is the only element assumed to be financed through City issued bonds supported by increment revenues at the outset of the TIA. The development timeline assumes that the Myra Road Extension will be completed in 2026. The total project costs are estimated to be \$31.9 million (summarized in Table 1, below), of which Myra Way represents \$11.7 million of the total.

Table 1 – Proposed Public Improvements (2024 \$)

Project	Estimated Project Cost (2024 \$)	Priority
Myra Road Extension	\$ 11,700,000	1
Plaza Way Improvements	\$ 9,300,000	2
Plaza Way/Tamaron Road Intersection Improvements	\$ 2,600,000	3
Highland Road Improvements	\$ 4,700,000	4
Village Way Improvements	\$ 3,600,000	5
Total	\$ 31,900,000	

Source: City of Walla Walla

Private Development Within the TIA

The project analysis identifies nine potential private development projects that could be developed within the TIA, including a box grocery store, box retail stores, commercial pads, and housing developments. Table 2 (below) summarizes these known developments. Assuming completion of all nine elements, the estimated improvement costs of the private development is expected to equal \$192.8 million. Construction is expected to begin in 2025, with completion of all private developments by 2032.

Table 2 – Summary of Private Developments (2023 \$)

	Project Description	Assumed Timing		Estimated Improvement Cost (2023 \$)
		COO	On Roll	
Known Private Projects				
Box Grocery Store	Commercial	2027	2028	\$31,000,000
4 Commercial Pads	Commercial	2028	2029	\$11,600,000
4 Commercial Pads	Commercial	2029	2030	\$11,600,000
2 Commercial Pads	Commercial	2031	2032	\$4,200,000
2 Commercial Pads	Commercial	2033	2034	\$26,500,000
Box Store	Commercial	2031	2032	\$18,500,000
Box Store	Commercial	2031	2032	\$36,900,000
Phase 1 Housing - 65% of Total Development	Residential	2027	2028	\$34,100,000
Phase 2 Housing - 35% of Total Development	Residential	2029	2030	\$18,400,000
Total				\$192,800,000

Source: City of Walla Walla

Assessed Value of the TIA

According to the project analysis, the 2024 taxable assessed valuation (“AV”) of the TIA is \$192,767,544, representing 4.4% of the City’s total AV of \$4,423,044,789. These figures are within the statutory size limit equal to the lesser of \$200 million in AV or 20% of the City’s total AV.

Tax Allocation Revenue Projections

The TIA is expected to take effect on June 1, 2024, with 2025 being the first year in which the City expects to receive tax increment revenues. The term of the TIA is assumed to be 25-years (the maximum allowed by statute) with 2049 being the final year in which tax increment revenues will be received. The City estimates a 2024 tax increment base AV of \$192.8 million and estimates \$622.7 million in additional AV will be added between 2025 and 2049 through appreciation of existing property and new construction. Existing property is expected to appreciate by 4% per year. The project analysis states that the 4% growth rate is based on long-term trends in personal income growth for Walla Walla County. The new construction figures consist only of known private developments and does not include any speculative development.

Under the TIF Statute, only certain regular levies are available to the TIA. 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 calculated the levy rate for each of these jurisdictions and applied the levy rates to the projected incremental AV within the TIA to calculate the projected tax allocation revenues provided in Table 3, below.

The City projects that \$17.5 million of tax increment revenues will be collected over the 25-year term of the TIA (see Table 3 – Tax Allocation Revenues).

Table 3 – Tax Allocation Revenues (Nominal \$)

Tax Year	Assessed Value			Levy Rate	Tax Allocation Revenues
	Total	Base Value	Increment		
2024	\$ 192,767,544	\$ 192,767,544		\$ 3.392687	\$ -
2025	\$ 200,478,246	\$ 192,767,544	\$ 7,710,702	\$ 3.299406	\$ 25,441
2026	\$ 208,497,376	\$ 192,767,544	\$ 15,729,832	\$ 3.204693	\$ 50,409
2027	\$ 216,837,271	\$ 192,767,544	\$ 24,069,727	\$ 3.252481	\$ 78,286
2028	\$ 225,510,762	\$ 192,767,544	\$ 32,743,218	\$ 3.159395	\$ 103,449
2029	\$ 289,029,096	\$ 192,767,544	\$ 96,261,552	\$ 3.068608	\$ 295,389
2030	\$ 307,642,956	\$ 192,767,544	\$ 114,875,412	\$ 2.981247	\$ 342,472
2031	\$ 353,406,744	\$ 192,767,544	\$ 160,639,200	\$ 2.895597	\$ 465,146
2032	\$ 367,543,014	\$ 192,767,544	\$ 174,775,470	\$ 2.812745	\$ 491,599
2033	\$ 416,313,183	\$ 192,767,544	\$ 223,545,639	\$ 2.811673	\$ 628,537
2034	\$ 432,965,710	\$ 192,767,544	\$ 240,198,166	\$ 2.731705	\$ 656,151
2035	\$ 470,919,097	\$ 192,767,544	\$ 278,151,553	\$ 2.653134	\$ 737,973
2036	\$ 489,755,861	\$ 192,767,544	\$ 296,988,317	\$ 2.576955	\$ 765,325
2037	\$ 509,346,095	\$ 192,767,544	\$ 316,578,551	\$ 2.502763	\$ 792,321
2038	\$ 529,719,939	\$ 192,767,544	\$ 336,952,395	\$ 2.430707	\$ 819,032
2039	\$ 550,908,737	\$ 192,767,544	\$ 358,141,193	\$ 2.440585	\$ 874,074
2040	\$ 572,945,086	\$ 192,767,544	\$ 380,177,542	\$ 2.370895	\$ 901,361
2041	\$ 595,862,890	\$ 192,767,544	\$ 403,095,346	\$ 2.302636	\$ 928,182
2042	\$ 619,697,406	\$ 192,767,544	\$ 426,929,862	\$ 2.236342	\$ 954,761
2043	\$ 644,485,302	\$ 192,767,544	\$ 451,717,758	\$ 2.171956	\$ 981,111
2044	\$ 670,264,714	\$ 192,767,544	\$ 477,497,170	\$ 2.109424	\$ 1,007,244
2045	\$ 697,075,302	\$ 192,767,544	\$ 504,307,758	\$ 2.128536	\$ 1,073,437
2046	\$ 724,958,314	\$ 192,767,544	\$ 532,190,770	\$ 2.067766	\$ 1,100,446
2047	\$ 753,956,646	\$ 192,767,544	\$ 561,189,102	\$ 2.008177	\$ 1,126,967
2048	\$ 784,114,912	\$ 192,767,544	\$ 591,347,368	\$ 1.950305	\$ 1,153,308
2049	\$ 815,479,508	\$ 192,767,544	\$ 622,711,964	\$ 1.894100	\$ 1,179,479
					\$ 17,531,901

Source: City of Walla Walla, Tiberius Solutions

Financing Plan for Public Improvements

To fund a portion of the proposed public improvements, the City plans to issue one series of tax-exempt LTGO Bonds (the “Bonds”) in January 2025 to finance a portion of the Myra Way Extension project. As stated in the project analysis, because of the general obligation pledge, the City will be required to pay the full debt service due on the Bonds from available resources, regardless of the amount of tax increment revenues generated within the TIA. The base financing scenario assumed a project fund deposit of \$9.4 million, which is less than the expected \$11.7 million cost of the project. The project analysis does not directly identify how the City will bridge the funding gap. The Bonds are expected to be issued with a 25-year final maturity and will utilize a three-year capitalized interest (“CAPI”) period, as well as four additional years of interest-only payments through the expected private development construction period. The use of CAPI and interest-only allows additional time for increment revenues to start being collected, but does raise the overall cost of borrowing for the City. Debt service for the Bonds is structured

to increase annually at the rate of projected increment revenue growth (4%). The City estimates an all-in true interest cost of 4.02%.

Table 4 – Estimated Financing Sources and Uses -Base Case

Bond Sources (Proceeds)	
Par Amount	\$ 9,800,000
Premium	\$ 1,161,423
<i>Total</i>	<i>\$ 10,961,423</i>
Bond Uses	
Capitalized Interest Func	\$ 1,372,000
Cost of Issuance	\$ 147,000
Project Proceeds	\$ 9,442,423
<i>Total</i>	<i>\$ 10,961,423</i>
Closing Month	January 2025
Taxable Status	Tax Exempt
All-In True Interest Cost	4.02%

Source: City of Walla Walla, Northwest Municipal Advisors

The City also provided an alternative conservative scenario in Appendix C of the project analysis. The Bonds were structured the same as they were in the base case (CAPI, interest-only period, 25-year final maturity, with debt service growth at the same rate as the increment revenues), but utilized more conservative interest rates than the base case. As the bonds are being sized to the revenue stream, the increased rates reduce the amount of project funds the City is able to generate from the financing, resulting in an increased reliance on other available resources to fund the public improvements.

Table 5– Estimated Financing Sources and Uses -Alternative Scenario

Bond Sources (Proceeds)	
Par Amount	\$ 9,325,000
Premium	\$ 1,066,231
<i>Total</i>	<i>\$ 10,391,231</i>
Bond Uses	
Capitalized Interest Fund	\$ 1,441,490
Cost of Issuance	\$ 139,875
Project Proceeds	\$ 8,809,866
<i>Total</i>	<i>\$ 10,391,231</i>
Closing Month	January 2025
Taxable Status	Tax Exempt
All-In True Interest Cost	4.52%

Debt Capacity

Based on the City's 2024 total assessed value, the City has \$66,345,672 of total non-voted debt capacity (1.5% of 2024 AV). Per the project analysis, the City has \$7,434,340 outstanding non-voted general obligation debt, resulting \$58,911,332 of remaining capacity. The City of Walla Walla projects to have \$49,111,332 of remaining non-voted debt capacity after the issuance of TIA related debt, or 74.02% of its total non-voted capacity.

Table 6 – Debt Capacity (2025 Issuance)

Assessed Valuation for 2024 Tax Year	\$	4,423,044,789
Non-Voted Debt Capacity (1.5% of AV)		66,345,672
Less: Outstanding Non-Voted Debt*		7,434,340
Remaining Non-Voted Debt Capacity		58,911,332
Less: Financing Proposed (in total)		9,800,000
Projected Remaining Non-Voted Capacity		49,111,332
Projected Remaining Non-Voted Capacity %		74.02%

Projected Debt Service Coverage

As the bonds are structured to maximize the amount of proceeds based on the projected revenue stream, annual debt service and the respective coverage ratios are similar between both scenarios, with the difference being the amount of funds generated for the project.

In both the base case and alternative scenario, increment revenues are not sufficient to meet debt service coverage in the early years. Given the CAPI period, interest payments start coming due in 2028, with sufficient coverage starting in 2032 and 2033 for the base case and alternative scenario, respectively.

The base case shortfall in 2028, the largest single year deficit, is estimated to be \$366,951, with the cumulative shortfall between 2028 and 2031 totaling \$675,144.

The alternative scenario's estimated deficit in 2028 equals \$390,776, with the cumulative shortfall between 2028 and 2031 totaling \$773,070.

In both scenarios, the cumulative shortfall is partially offset by accrued increment revenues in 2025 through 2027, estimated to equal \$156,136, although a cumulative surplus isn't generated until 2049, the last year of the increment area.

Table 7 – Tax Allocation Revenues and Debt Service Coverage

Scenario	First Year Tax Increment Revenues Exceed Debt Service	Years of Shortfall	Year That Tax Increment Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue (\$MMs)	Total Projected TIF Debt Service (\$MMs)	Projected Maximum Cumulative Shortfall (\$MMs)	Total Surplus/ (Shortfall) Through End of TIA (actual)	Aggregate Debt Service Coverage Ratio*
Base Case	2032	4	2049	\$17.53	\$17.53	\$521,008	\$1,500	1.00x
Alternative Scenario	2033	5	2049	\$17.53	\$17.53	\$618,934	\$1,970	1.00x

Source: City of Walla Walla

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

Table 8 – TIF Debt Service Coverage

Year	Base Case					Alternative Scenario				
	TIF Revenues	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	TIF Debt Service	Surplus (Shortfall)	Cumulative Surplus (Shortfall)	TIF DSC	
2025	\$ 25,441	\$ -	\$ 25,441	\$ 25,441		\$ -	\$ 25,441	\$ 25,441		
2026	50,409	-	50,409	75,850		-	50,409	75,850		
2027	78,286	-	78,286	154,136		-	78,286	154,136		
2028	103,449	470,400	(366,951)	(212,815)	0.22x	494,225	(390,776)	(236,640)	0.21x	
2029	295,389	470,400	(175,011)	(387,826)	0.63x	494,225	(198,836)	(435,476)	0.6x	
2030	342,472	470,400	(127,928)	(515,754)	0.73x	494,225	(151,753)	(587,229)	0.69x	
2031	465,146	470,400	(5,254)	(521,008)	0.99x	494,225	(29,079)	(616,308)	0.94x	
2032	491,599	475,400	16,199	(504,809)	1.03x	494,225	(2,626)	(618,934)	0.99x	
2033	628,537	610,160	18,377	(486,432)	1.03x	604,225	24,312	(594,622)	1.04x	
2034	656,151	633,440	22,711	(463,721)	1.04x	628,395	27,756	(566,866)	1.04x	
2035	737,973	715,280	22,693	(441,028)	1.03x	710,975	26,998	(539,868)	1.04x	
2036	765,325	742,800	22,525	(418,503)	1.03x	733,785	31,540	(508,328)	1.04x	
2037	792,321	768,400	23,921	(394,582)	1.03x	759,740	32,581	(475,747)	1.04x	
2038	819,032	792,080	26,952	(367,630)	1.03x	788,575	30,457	(445,290)	1.04x	
2039	874,074	843,840	30,234	(337,396)	1.04x	840,025	34,049	(411,241)	1.04x	
2040	901,361	872,240	29,121	(308,275)	1.03x	867,765	33,596	(377,645)	1.04x	
2041	928,182	898,240	29,942	(278,333)	1.03x	892,855	35,327	(342,318)	1.04x	
2042	954,761	921,840	32,921	(245,412)	1.04x	915,295	39,466	(302,852)	1.04x	
2043	981,111	948,040	33,071	(212,341)	1.03x	940,085	41,026	(261,826)	1.04x	
2044	1,007,244	976,600	30,644	(181,697)	1.03x	966,960	40,284	(221,542)	1.04x	
2045	1,073,437	1,037,280	36,157	(145,540)	1.03x	1,030,655	42,782	(178,760)	1.04x	
2046	1,100,446	1,063,400	37,046	(108,494)	1.03x	1,059,050	41,396	(137,364)	1.04x	
2047	1,126,967	1,091,400	35,567	(72,927)	1.03x	1,083,735	43,232	(94,132)	1.04x	
2048	1,153,308	1,116,040	37,268	(35,659)	1.03x	1,104,710	48,598	(45,534)	1.04x	
2049	1,179,479	1,142,320	37,159	1,500	1.03x	1,131,975	47,504	1,970	1.04x	
Total ¹	\$ 17,531,900	\$ 17,530,400	\$ 1,500		1x	\$ 17,529,930	\$ 1,970		1x	

Source: City of Walla Walla, Northwest Municipal Advisors, Tiberius Solutions

Key Risks

From OST's review of the project analysis, it appears that the anticipated public improvements and corresponding economic development will benefit the City. Nonetheless, the proposed project comes with certain risks, which we attempt to summarize below:

General Obligation Pledge: The LTGO Bonds expected to be issued in connection with the project's plan of finance will obligate the City to pay the full amount of debt service due from City revenues and resources, regardless of the amount of tax increment revenues generated from the TIA. Because of the project's potential cost to the City's general fund, it is essential that decision makers understand and accept the project's risks and potential long-term costs in comparison to its benefits.

Assessed Valuations: As private developments are completed, the actual assessed values will depend on factors considered by the County Assessor's office. Tax increment revenues could potentially be lower than projected if the assessed values of the projects are lower than expected or take longer than anticipated to be reflected on the County's tax rolls.

Project Costs Relative to Identified Fundings Sources: The City's project analysis states the Myra Way Extension Project has an estimated project cost of \$11.7 million, with \$9.4 million financed through the issuance of LTGO bonds. The project analysis did not provide details on or a description of the potential funding sources for the remaining \$2.3 million to complete Myra Way, or how it might finance the remaining \$20.2 million of other street improvement projects. Instead, the project analysis stated that "some of the project costs would need to be paid for by additional funding sources." If the City is unable to secure full funding, or if project costs rise considerably, it could increase the amount of debt or other general fund resources needed to complete the public improvements.

Interest Rate Risk: The City will be exposed to interest rate risk until its bonds are sold. The project analysis states that interest rates were as of January 3, 2024. At the time of this writing, interest rates have increased by roughly 25 basis points, leading to the base case being priced at or below current market rates. As the bond structure included in the plan of finance maximizes proceeds based on the projected revenue stream, a material increase in rates would impact the ability for the proposed finance to generate sufficient proceeds for the Myra Way project.

Escalation of Project Costs: With an unclear timeline for the construction of the public improvements outside of Myra Way, inflation could have a significant impact on the cost of these projects.

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

Permits: It is unclear where the private developments are in the permitting process. Delays in permits for the other projects could negatively impact the construction of the private developments within the TIA, potentially reducing the amount of tax increment revenues generated by the TIA.

Economic Conditions: Growth in the TIA's assessed value could be negatively impacted by depressed economic conditions. A variety of economic factors could negatively impact the demand for development, jeopardizing the timeline, scale, and market value of private development, potentially reducing tax increment revenues.

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

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

Recommendations

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

1. Prior to approving the TIA, we recommend the City discuss and establish a policy regarding how much debt service it is able and willing to pay from City general revenues and reserves on an annual basis, to offset projected, as well as unanticipated, tax increment revenue shortfalls and ensure that the TIA plan of finance is compatible with this policy.
2. Prior to approving the TIA, we recommend the City coordinate closely with the taxing districts impacted by the project, and the County Assessor's Office, to ensure that all parties have an accurate understanding of how the TIA will impact them and provide sufficient time to work through any concerns.
3. Prior to approving the TIA, we recommend the City identify what resources are available to meet the funding gap for the Myra Way project (and other street improvements), and how much additional revenue the City is willing to commit if project costs increase, revenues come in under projections, or interest rates rise, reducing the amount of project funds the City can generate given the current plan of finance.
4. As the project moves forward, we recommend the City coordinate with the County Assessor's Office to help ensure that the tax increment revenue projections match the County's assessment process and are as accurate as possible.
5. We recommend the City use more conservative interest rate assumptions for planning purposes. We note that the project analysis appears to use market rates as of January 3, 2023, which represents below market rates as of this writing.
6. 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, projections, or cost of the project, please let us know. We wish the City all the best with its project.

Respectfully,

Mike Pellicciotti
Washington State Treasurer

A handwritten signature in black ink, appearing to read 'JR', with a long horizontal flourish extending to the right.

Jason Richter
Deputy Treasurer