

# TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF WENATCHEE —

JANUARY 31, 2023



**OFFICE OF THE TREASURER**  
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Mike Pellicciotti

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January 31, 2023

Frank J. Kuntz, Mayor  
City of Wenatchee  
301 Yakima Street  
Wenatchee, WA 98801

Dear Mayor Kuntz:

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Wenatchee's (the "City") tax increment financing ("TIF") project analysis provided on October 10, 2022, and supplemental documents (including the North Wenatchee Master Plan (the "Plan"), Wenatchee TIF Funding Analysis, the North Wenatchee Project Analysis Addendum, and written responses to OST questions) provided on November 14, November 28, and December 20, 2022. OST and Piper Sandler, the state's municipal advisor, have reviewed the provided material. Based on our review, which is detailed in the sections to follow, we believe that the City's project analysis, supported by the supplemental documents, 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, the North Wenatchee Master Plan, and other supporting documents submitted by, or communications with, the City. OST has not independently verified the data or its accuracy or performed any feasibility analyses or projections of its own.

### **Executive Summary**

The City's redevelopment strategy is to improve the vacant and damaged parcels along the North Wenatchee Avenue corridor impacted by the 2015 Sleepy Hollow fire. Described in the project analysis as the North Wenatchee Redevelopment, this strategy includes redevelopment of the damaged parcels as well as infrastructure improvements to North Wenatchee Avenue, McKittrick Signature Street, and Confluence Parkway (collectively, the "Public Improvements"), to improve connectivity and encourage private investment in the tax increment area (the "TIA").

As described by the City's project analysis, which is based on the Plan's 2016 estimates, the costs for the Public Improvements are estimated at \$130.2 million; of this, \$112.5 million in federal and state grants have been secured, leaving a funding gap of \$17.7 million. Additional documentation<sup>1</sup> submitted on December 20, 2022, provides updated estimates for the Public Improvements costs (\$140.3 million), secured funding (\$123.7 million), and the unfunded amount (\$16.6 million). This review will reference these updated amounts, and it should be noted that other data described in this analysis, as provided by the City to OST, may not be current.

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<sup>1</sup> Letter from City of Wenatchee to OST, Additional Information Request Regarding North Wenatchee TIF Project Analysis, dated December 20, 2022.

The City does not expect to issue bonds to fund the Public Improvements. Instead, the City expects to close the funding gap with a combination of reserves and interfund loan(s). While some private development is currently under contract or in discussion, the City will be relying on the redevelopment and infrastructure improvements to attract additional private investment. The City expects to reimburse its expenditures, at least partially, with TIF revenue generated by the TIA and future state and federal grants; however, the availability, amount, and timing of grants has not yet been determined.

OST’s primary goal in our statutorily mandated review of the project analysis is to ensure that risks to the City that might result from the implementation of the TIF project are adequately disclosed. Review of the project analysis and other supporting documents found potential risks associated with the Public Improvements that are worth consideration. Most notably, the City expects to fund the \$16.6 million gap with City reserves and interfund loans. While the City explores future state and federal grant options to reduce the City’s commitment, the availability, amount, and timing of such grants will not be known before funding for the Public Improvements is required.

With only \$4.5 million of TIF revenues projected over the life of the TIA, these projections indicate that revenues will be insufficient to fully reimburse the City’s expenditures. In addition, a variety of factors outside of the City’s control could result in less private investment than expected in the TIA, delays in the construction of private development within the TIA, and/or lower-than-expected future assessed values within the TIA. If severe enough, any one of these items could materially impact the tax allocation revenues to be derived from the TIA.

**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 first draft of the City’s project analysis on October 10, 2022, with supplemental information provided by the City on November 14, November 28, and December 20, 2022.

**Project Team**

<b>Jurisdiction:</b> City of Wenatchee	<b>County:</b> Chelan County
<b>Project Title:</b> North Wenatchee Redevelopment	<b>Redevelopment Area:</b> North Wenatchee Avenue, McKittrick Signature Street, and Confluence Parkway
<b>City of Wenatchee:</b> Frank Kuntz, Mayor Brad Posenjak, City Finance Director Laura Gloria, City Exec. Services Director Rob Jammerman, Public Works Director Melonye Quitoriano, Admin. Assistant	<b>Consultants:</b> David Griffiths, Chelan County Treasurer Deanna Walter, Chelan County Assessor Crandall Arambula, PC Urban Advisors Fehr & Peers

## Proposed Tax Increment Area



Source: *North Wenatchee Redevelopment TIF Project Analysis*, City of Wenatchee.

and west of the Columbia River. The area includes parcels on either side of North Wenatchee Avenue (State Route 285), with Hawley Street to the north and Maple Street to the south; an eastern portion of the area is bounded by recreational areas to the north and east, and Walla Walla Avenue to the south. Many parcels are vacant or damaged from the Sleepy Hollow wildfire, which burned 3,000 acres in and around the City, including businesses in the proposed TIA.

Since publication of the Plan in 2016, the boundary for the proposed redevelopment area has reduced in size, mostly due to changes in plans for private development of various sites. The remaining parcels within the Plan area that are not in the proposed TIA do not have any substantial redevelopment value identified by the City at this time.

### Public Improvements Description – Transportation Corridors

Plans for the North Wenatchee Redevelopment include public infrastructure improvements to be paid for by the City. These projects will improve access to the TIA, promoting private investment and public use. The transportation corridor improvements are described as follows, with more details in the City's project analysis:

In 2016, the City procured the North Wenatchee Master Plan, Economic Redevelopment Feasibility Study and Focused Subarea Plan, developed with consultants including Crandall Arambula PC, Urban Advisors, and Fehr & Peers. As described in the Plan, the redevelopment strategy aims to improve the vacant and damaged parcels along the corridor impacted by the 2015 Sleepy Hollow wildfire. The TIA project will include not only redeveloping the damaged parcels into various high-density commercial and residential uses, but also infrastructure improvements to North Wenatchee Avenue, McKittrick Signature Street, and Confluence Parkway to increase transportation connectivity and encourage private investment in the TIA. As stated in the project analysis, the City's goal is to convert these damaged and vacant parcels into a vibrant area that supports private business investment, job creation, and the local economy and tax base. Improving transportation to and around this area for increased circulation and pedestrian access is a key component of the Plan.

The proposed North Wenatchee Redevelopment TIA is in the City of Wenatchee, north of the City's downtown

### Corridor Improvements

- McKittrick ‘Signature Street’: New north-to-south Columbia Street connector
- Confluence Parkway: Arterial road connecting US 2 and North Wenatchee
- North Wenatchee Avenue: Upgrade of the avenue to a boulevard

According to the City’s analysis, improvement of these transportation corridors is critical to increasing public access and attracting private investment within the TIA. The new McKittrick ‘Signature Street’, a north-to-south Columbia Street connection, will provide access to TIA parcels and the waterfront, and will include protected pedestrian and bicycle access. The project is scheduled to go out to bid following the completion of WSDOT’s review early in 2023. Confluence Parkway, an arterial road parallel to North Wenatchee Avenue, will connect US 2 and North Wenatchee and is currently in pre-design, with construction expected to begin in late 2024. Boulevard treatment is planned for North Wenatchee Avenue to promote retail and commercial development, with construction planned to start in 2025. Design improvements for all three corridors include elements of landscaping, streetscaping, and lighting.

The City estimates the cost of TIA public improvements at \$140.3 million, of which \$123.7 million is funded. As noted above, these amounts differ from the project analysis submitted with the original request for the City’s TIF review, and instead are based on updated amounts communicated to OST on December 20, 2022. Approximately \$8.2 million of the \$16.6 million funding gap is related to the Confluence Parkway project, for which \$83 million of the City’s \$92 million Infrastructure for Rebuilding America (INFRA) award was allocated. Other funding sources for the Public Improvements include \$5.5 million in Federal Surface Transportation funds, \$16 million in Connecting Washington funds, and other BNSF and local funds. As shown in Table 1, the Confluence Parkway project is also receiving a \$4 million Public Works Trust Fund loan.

**Table 1: Sources and Uses, North Wenatchee Redevelopment  
Tax Increment Area Public Improvements**

Project	Funding Source	Total Project Cost	Secured Funding	Funding Gap
McKittrick Signature Street/Columbia Street	Federal Surface Transportation Funds, local funds (MPO and WSDOT Local Programs)	\$ 9,200,000	\$ 6,745,581	\$ 2,454,419
North Wenatchee Avenue at Maiden Lane	\$16m from Connecting Washington Funds	\$ 22,500,000	\$ 16,541,549	\$ 5,958,451
Confluence Parkway South Including McKittrick Underpass	\$83m INFRA award, BNSF and local funds, \$ 4m Public Works Trust Fund Loan	\$ 108,589,195	\$ 100,387,085	\$ 8,202,110
		\$ 140,289,195	\$ 123,674,215	\$ 16,614,980

Source: Letter from City of Wenatchee to OST, Additional Information Request Regarding North Wenatchee TIF Project Analysis, dated December 20, 2022.

Future grants which the City identified may be pursued include the state’s Freight Mobility Strategic Investment Board (FMSIB) grant program, the federal Strengthening Mobility and Revolutionizing Transportation (SMART) and Advanced Transportation Technology and Innovation (ATTAIN) grant programs, and the state’s Reconnecting Communities pilot program. While the City may be able to apply

for the FMSIB grant in 2023, the other programs are not expected to accept applications until 2024 or 2025.

### **Projected Private Development in the TIA**

The project analysis states that the TIA is expected to be privately developed over a 5- to 15-year period, with the establishment of large retailers in the early years attracting additional private development over the remaining time. The project analysis describes several private developments that are in progress, including a large specialty grocery chain that has signed a letter of intent with the City and is scheduled to begin construction in 2023, and a sporting goods store, with construction on the purchased property pending until completion of the planned transportation corridor improvements. The City expects these large retailers to serve as “anchor tenants” for the TIA and to attract private development to the remaining vacant parcels. Other developments that are currently in discussion include a hotel and a multi-family housing development.

The City owns a large portion of the property in the proposed TIA and has enlisted a real estate broker specializing in retail negotiations to sell the parcels for redevelopment. Originally purchased using its general fund, the City will be reimbursed when the parcels are sold. Once redevelopment is completed, the TIA is expected to contain a mix of high-density uses, including retail, hotel, commercial, light industrial, flex employment, and office spaces, with the bulk of the projected value anticipated from residential units. According to the project analysis, the TIA is zoned as a business district and all proposed uses are consistent with applicable zoning and development standards. As the redevelopment area is currently a mix of vacant and damaged parcels, the area will need significant infrastructure improvements in order for the planned private development to take place.

### **Assessed Value of Proposed TIA**

The total 2022 taxable assessed valuation of the proposed TIA is \$19.7 million, which is less than the statutory limitations of the lesser of \$200 million and 20% of the City’s total assessed valuation of \$4,402,820,511 (the AV of the proposed TIA is equal to 0.45% of the City’s total valuation).

The City owns a large portion of the property within the TIA, and this City-owned property currently has an assessed value of zero. The City is presently marketing this property to be sold for development; once sold, it will be assessed at market value. The timing of the sale of the City’s property could impact TIF revenues. For example, if the City’s property is sold to private parties prior to the formation of the TIA, it may increase the base value of the TIA before it is officially formed, thereby reducing the amount of the TIF revenues that could have been produced by the TIA if the property was sold after the formation date.

Based on 2016 estimates described in the Plan, the projected value of private development in the TIA is estimated to be \$234.7 million, as shown in Table 2. To mitigate risk, the City used a conservative approach to estimate that the redevelopment will add \$50 million to its assessed valuation at the time it is added to the tax rolls; however, as described above, the actual timing of development could significantly impact the amount of added assessed valuation and therefore the potential TIF revenues.

**Table 2: Projected Assessed Value of Private Development**

<b>Private Development</b>	<b>Projected Value<sup>1</sup></b>
Hotel	\$ 16,150,000
Retail / Commercial	31,500,000
Light Industrial	10,475,000
Flex Employment	15,750,000
Office	12,500,000
Residential	148,275,000
<b>Total</b>	<b>\$ 234,650,000</b>

1. Projected value from 2015 estimates used in North Wenatchee Master Plan.

Source: North Wenatchee Redevelopment TIF Project Analysis, City of Wenatchee.

The current TIF Statute limits increment value to increases in the value of real property. Therefore, the assessed value of any portion of the private development categorized as personal property would not be included in the increment value. Given the nature of the proposed private development, it is likely that the value of the real property portion of such development will be significantly greater than the assumed \$50 million increment value.

### **Tax Allocation Revenue Projections**

The project analysis estimates that redevelopment of the parcels and transportation corridors will take 5 to 15 years. TIF revenues would be collected over a 25-year period, beginning in 2024 until expiration of the TIA 25 years after establishment. The City used a conservative approach in calculating TIF revenues to help insulate against potential risks, such as portions of the private investments that may not be captured as assessed value, changes in assessed value, or decreasing tax levy rates over time. A 1.4% assessed value inflation rate was used for the calculation of TIF revenues, as shown in Table 3. The City met with the Chelan County Assessor in October and confirmed that TIF revenue collections would begin with the 2024 tax year.

Approximately \$4.5 million in TIF revenues is projected to be generated over the 25-year period of the TIA, increasing from about \$19,831 in 2024 and flattening to about \$211,143 in 2035, when development of the parcels is expected to be finished. The analysis accounts for the total taxable assessed valuation for tax year 2022 of the proposed TIA (\$19.7 million) as well as the projected value of private development in the TIA of \$234.7 million. The City estimates that this private development will increase assessed value by over \$70 million from the initiation of the TIA through its expiration in the 25th year.

**Table 3: North Wenatchee Area Estimated Increment Revenues**

Year	Cumulative Assessed Value	AV Inflation	AV of New Construction	TIF Increment	Total TIF Increment Revenue
2023	19,740,983			-	-
2024	24,938,393	1.0%	5,000,000	5,197,410	19,831
2025	35,187,777	1.0%	10,000,000	15,446,794	58,350
2026	38,891,532	2.0%	3,000,000	19,150,549	71,617
2027	46,669,363	2.0%	7,000,000	26,928,380	99,697
2028	58,069,444	3.0%	10,000,000	38,328,461	140,485
2029	59,811,527	3.0%		40,070,544	145,401
2030	61,605,873	3.0%		41,864,890	150,393
2031	72,837,990	2.0%	10,000,000	53,097,007	188,835
2032	74,294,750	2.0%		54,553,767	192,076
2033	75,037,698	1.0%		55,296,715	192,745
2034	75,788,075	1.0%		56,047,092	193,407
2035	81,545,955	1.0%	5,000,000	61,804,972	211,143
2036	82,361,415	1.0%		62,620,432	211,790
2037	83,185,029	1.0%		63,444,046	212,430
2038	84,016,879	1.0%		64,275,896	213,063
2039	84,857,048	1.0%		65,116,065	213,689
2040	85,705,619	1.0%		65,964,636	214,309
2041	86,562,675	1.0%		66,821,692	214,923
2042	87,428,302	1.0%		67,687,319	215,530
2043	88,302,585	1.0%		68,561,602	216,131
2044	89,185,611	1.0%		69,444,628	216,725
2045	90,077,467	1.0%		70,336,484	217,313
2046	90,978,241	1.0%		71,237,258	217,896
2047	91,888,024	1.0%		72,147,041	218,472
2048	92,806,904	1.0%		73,065,921	219,042
			50,000,000		4,465,294

Source: Wenatchee TIF Funding Analysis, City of Wenatchee.

The City should be aware that it is possible for the TIA to sunset prior to the stated 25-year term. The TIF Statute states that the apportionment of tax allocation revenues must cease when the tax allocation revenues are no longer necessary or obligated to pay public improvement costs. In the event that grants and other funding are sufficient to pay for all of the identified public improvements, or tax allocation revenues prove to be more than sufficient to repay the City for its contribution to fund the public improvements, the TIA would cease prior to the expected 25-year term. In this situation the City would have been completely repaid for any funding contribution made for the public improvements; therefore, it is not a financial risk to the City, but rather a factor that should be recognized as the City proceeds with its plan for the TIA.

### Financing for Public Improvements

The City does not expect to issue debt in connection with the Public Improvements.

A \$4 million Public Works Trust Fund loan is being utilized by the City to fund a portion of the Confluence Parkway project.



## City of Wenatchee Financials

According to the City, its most recent audited financial statements, as of December 31, 2021, show that \$18 million of cash is available in the General Fund, along with an additional \$58 million in cash and investments across all other City funds. An additional \$1.9 million in banked property tax levy capacity is also available to support the City's cash flow needs for the Public Improvements.

While the City has indicated a willingness to use reserves and interfund loans to cover the \$16.6 million Public Improvements funding gap, and resources are adequate to cover this amount upfront, there is a risk that the City would not receive full reimbursement using TIF revenues alone (only \$4.5 million estimated over the 25 year life of the TIA). Moreover, spending down City reserves and fund balances reduces the City's liquidity and financial flexibility, increasing risk in the event of economic turmoil. Additionally, there is an opportunity cost of deploying these funds towards the project instead of keeping them invested. If the entire \$16.6 million is funded by an interest-free interfund loan, repaid over 25 years from TIF revenues, the City would forego some amount of interest earnings.

## Permits

The City indicates that the zoning of the parcels in the TIA is compatible with the planned private development. However, the developments will still need to go through the permitting process. While we are not aware of any specific issues that might delay this process there is always a possibility of a delay related to environmental issues or some other regulatory concern. Given that some of the parcels will be changing over from prior industrial use, this risk could be more prevalent than in other development situations.

## Key Risks to the City

From our review of the project analysis and supporting documents, it is clear the redevelopment project and corridor improvements would provide significant benefit to the City and region. Nonetheless, the TIA comes with certain risks. Most notably, the City expects to fund the \$16.6 million funding gap for the Public Improvements with City reserves and interfund loans, which would decrease the City's liquidity and financial flexibility. The City is also exploring future state and federal grant options to reduce the City's commitment; however, the timing and amount of these grants cannot yet be determined. With only \$4.5 million of TIF revenues projected over the life of the TIA, it can be expected that TIF revenues will be insufficient to fully reimburse the City's expenditures. While the City has indicated that it is prepared to fully fund the \$16.6 million funding gap entirely from reserves, if necessary, City leadership will need to make the policy determination if such an approach is appropriate.

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

Grant Funding: The City has indicated its intention to pursue several additional grants to cover the \$16.6 million funding gap. Should these grant awards not be obtained, the City would be dependent on its reserves and interfund loans to fully fund the shortfall, with TIF revenues unlikely to fully repay the City. As some of these potential grant awards are several years from requesting applications, this may remain an unknown factor for an extended time.

Economic Conditions: The timing and amount of TIF revenues could be negatively impacted by a downturn in economic conditions. The anticipated development is multi-faceted with commercial, mixed-use, and residential components, and a variety of economic factors could

negatively impact the timeline and ultimate demand for development. This could jeopardize the rate and scale of private development, thereby reducing potential tax allocation revenues.

Construction Delays: Any setback or hinderance to the development within the TIA could negatively impact TIF revenues. This could include the cost of the improvements themselves, financial or market conditions, or some unforeseen change in developers' abilities or willingness to complete the expected private developments.

Assessed Valuations: As private developments are completed, TIF revenues could be less than anticipated if the actual assessed values do not track projections. If assessed valuations come in lower than expected, projected tax allocation revenues would be reduced. This risk may be mitigated due to the City's use of conservative estimates in its calculations.

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

Dated Information: The City's project analysis is based on information from the North Wenatchee Master Plan, which is dated as of October 2016. Given changes in economic conditions since 2016, the City should carefully review the master plan, ensure the information remains relevant, and communicate any changes or differences to stakeholders.

Risk Summary: The general impact to the City, if any of the risk factors outlined above are realized and tax increment revenues are lower than expected, could be the inability of the City to reimburse itself as expected. Unless actual tax increment revenues received are significantly higher than conservative estimates, it is also unlikely that that the City would ever be fully reimbursed from TIF revenues.

## **Recommendations**

To help ensure the long-term financial success of the project and to minimize risk, we recommend the City carefully monitor the risks identified and consider the following measures:

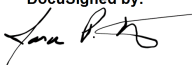
1. Based on our understanding of the project, the City expects to, at least initially, fund the \$16.6 million funding gap for the Public Improvements from internal resources. We recommend that the City carefully discuss with leadership and stakeholders how much risk exposure is appropriate and how much the City is willing to advance the project from internal resources, given the uncertainty of grant awards and insufficient tax allocation revenues to fully reimburse the City.
2. Based on projections, which are intended to be conservative, TIF revenues will be insufficient to fully reimburse the City. The City should discuss how much it is willing to fund out of pocket, in terms of interfund loans or draws upon reserves, to move the project forward. The City should also discuss how it will repay interfund loans should grant proceeds and tax allocation revenues be insufficient to fully repay the loans.
3. As the project moves forward, coordinate closely with the Chelan County Assessor's Office to help ensure that the tax allocation revenue projections match the County's assessment process and are as realistic as possible.

Thank you for the opportunity to review the City's North Wenatchee Redevelopment TIF 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

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Jason Richter  
Deputy Treasurer