

ORDINANCE NO. 2023-02

AN ORDINANCE, of the City of Wenatchee designating the North Wenatchee Avenue Tax Increment Financing Area, fixing the boundaries thereof, and providing for related matters.

WHEREAS, the Washington State Legislature, during its 2021 legislative session, enacted Engrossed Substitute House Bill 1189 as Chapter 207, Laws of 2021, titled “AN ACT Relating to tax increment financing” and codified as RCW 39.114 (the “TIF Act”), which authorizes local governments, including cities, to carry out tax increment financing of public improvements needed to support vital private economic development projects; and

WHEREAS, the purpose of this ordinance is to designate an increment area that will enable the City of Wenatchee to carry out a tax increment financing of the public improvements needed to serve that increment area and the resulting private development within that increment area, all in compliance with the requirements of the TIF Act as more particularly described in this ordinance.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WENATCHEE DO ORDAIN as follows:

SECTION I

Definitions

Capitalized terms used in this ordinance shall have the meanings set forth in this Section I. The uncapitalized terms “public improvement costs,” “regular property taxes”

and “tax allocation revenues” used in this ordinance shall have the meanings provided for those terms by RCW 39.114.010, as the context requires.

(a) “City” means the City of Wenatchee, Washington.

(b) “Code” means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

(c) “County” means Chelan County, Washington.

(d) “Finance Director” means the Director of Finance of the City.

(f) “Increment Area” means the parcel of land within the North Wenatchee Avenue that is designated by Section II of this Ordinance as the “North Wenatchee Avenue Tax Financing Increment Area.”

(g) “Projection Analysis” means the City’s TIF Area Project Analysis – North Wenatchee Avenue submitted to the Washington State Treasurer on October 10, 2022, as supplemented by additional information requested by and provided to the Office of State Treasurer, for its review and comment.

(h) “Treasurer’s Review Letter” means the letter to the City from the Office of State Treasurer dated January 31, 2023, summarizing its review of and providing comments and recommendations with respect to the Project Analysis for consideration by the City.

SECTION II

Designation of Increment Area

The City designates the area described on Exhibit “A” attached hereto as the North Wenatchee Avenue Tax Increment Financing Area. In making this designation, the City takes note of the facts that the Increment Area (i) is the only increment area designated by the City under the TIF Act, (ii) is located within the boundaries of the City, (iii) does not include the City’s

entire territory, and (iv) does not have an assessed value on the date of this ordinance greater than the lesser of \$200,000,000 or twenty percent (20%) of the total assessed value of taxable property within the City of \$4,402,820,511. The assessed value of the proposed increment area is equal to 0.45% of the City's total assessed valuation.

SECTION III

Sunset Date of the Increment Area

The sunset date of the Increment Area is (i) December 31, 2048, which is the date not later than 25 years after the first year (calendar year 2024) in which tax allocation revenues will be collected on taxable property within the Increment Area (the "outside sunset date"), or (ii) if earlier, the date ("an early sunset date") on which the City certifies to the County Treasurer that all public improvement costs to be paid or reimbursed with tax allocation revenues derived from the Increment Area have been fully paid, including but not limited to reimbursements to the City for principal and interest payments required to be made by the City from revenue sources other than tax allocation revenues on general obligation bonds issued to finance the portion of public improvement costs that are intended to be paid and retired, in whole, from tax allocation revenues, as authorized by RCW 39.114.060(1).

SECTION IV

Identification of Public Improvements to be Financed

The public improvements to be financed consist of the following infrastructure improvements to be owned by the City and located within or outside of and serving the Increment Area:

A. McKittrick “Signature Street” – a new McKittrick Street grade separated underpass connection between North Wenatchee Avenue and Confluence Parkway.

This signature street will:

(i) Provide a new signalized intersection at McKittrick Street with improved access to adjacent parcels that will attract new commercial development and redevelopment.

(iii) Be designed as a complete street, including pedestrian friendly sidewalks and a protected bikeways.

(iv) Induce new drive-by traffic thereby increasing visibility necessary for creating development interest for existing “backwater” sites east of the BNSF rail line.

(v) Provide an alternative commuting route. This roadway will minimize traffic congestion on the existing busy North Wenatchee Avenue and provide a release valve for future traffic along Confluence Parkway.

(vii) Create and connect a new north to south Columbia Street connection including upgrading utilities to support adjacent development.

(viii) Specifically, the McKittrick Street extension and grade separation is critical for access to the developable property and opening opportunities for redevelopment. The McKittrick Street extension would provide access that is limited today, supporting existing businesses, enabling new business locations and strengthening the district as an employment address; establish a visible gateway from one of Wenatchee’s most traveled arteries.

B. Confluence Parkway – An arterial roadway and parallel route to North Wenatchee Avenue. Confluence Parkway will:

(i) Establish a new landscaped and tree-lined entry for auto and truck traffic from US2 into North Wenatchee.

(ii) Increase visibility, access and create an attractive setting for development.

(iii) Improve regional mobility for through traffic and relieve traffic congestion on North Wenatchee Avenue.

C. North Wenatchee “Boulevard Gateway” – Boulevard treatment of North Wenatchee Avenue enhances the character of this auto-dominated arterial. This boulevard enhanced street will:

(i) Include a landscaped median, lighting, and other streetscape elements that establish this segment of the corridor as a destination and a setting for new street-oriented development.

(ii) Enhance this location as a destination for street oriented commercial and retail development.

SECTION V

No Issuance of Bonds Intended to Finance the Public Improvement Costs

The City does not intend to issue bonds to finance any portion of the public improvement costs.

SECTION VI

Increment to Take Effect on June 1, 2023

The tax increment for the Increment Area designated in Section II of this Ordinance shall take effect on June 1, 2023.

SECTION VII

Deadline for Commencement of Construction of Public Improvements

The City expects that construction of the public improvements identified in Section IV of this Ordinance will commence in the summer of 2023. In no event will construction of those public improvements commence later than December 31, 2027, the date five (5) years from the date of adoption of this Ordinance, unless that deadline is extended for good cause.

SECTION VIII

Required Findings by the City Council

Based upon the Project Analysis, the Council finds that:

- (a) The public improvements proposed to be paid or financed with tax allocation revenues are expected to encourage private development within the Increment Area, and to increase the assessed value of real property within the Increment Area;
- (b) The private development that is anticipated to occur within the Increment Area as a result of the proposed public improvements will be permitted consistent with the applicable zoning and development standards of the City, which is the permitting jurisdiction for the Increment Area;
- (c) The private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements; and

(d) The increased assessed value of taxable property within the Increment Area that could reasonably be expected to occur without the proposed public improvements would be less than the increase in the assessed value estimated to result from the proposed private development with the proposed public improvements. The assessed value of property in the Increment Area as certified by the County Assessor, estimated increase due to the Increment Area, and estimated tax revenues to be generated are as follows:

- i) Total taxable assessed valuation for most recent tax year (2022) = \$19,740,983;
- ii) Estimated increase due to TIF based on known projects = \$50,000,000; and
- iii) Estimated Tax Revenues (local) to be generated = ±\$178,000/year or \$4,465,295 over 25 years.

SECTION IX

Preparation and Consideration of Project Analysis

As required by RCW 39.114.020(2), the City has caused to be prepared by staff the Project Analysis to describe and analyze, among other matters, the factors and considerations listed in that statute. The City Council takes note of the conclusion expressed in the Treasurer's Review Letter that the City's Project Analysis meets the requirements of RCW 39.14.020. In its consideration and adoption of this Ordinance, the City Council has reviewed and considered, among other things, the Project Analysis and the Treasurer's Review Letter, including the "Risk Factors" and "Recommendations" noted in the Treasurer's Review Letter.

SECTION X

Impact on Chelan County Fire Protection District No. 1

The Increment Area is currently included in the Chelan County Fire Protection District No. 1. The City has concluded that it will not be necessary to negotiate a mitigation plan with the District under RCW 39.114.020 (5).

SECTION XI

Public Briefings Held by the City

As required by RCW 39.114.020(7)(a), the City has held two public briefings for the community regarding the public improvements needed to serve the Increment Area. These public briefings were held on October 3, 2022 at 9 a.m. at City Hall, and October 4, 2022 at 5 p.m. at City Hall, and announced to the public at least two weeks prior to the date each briefing was held by publishing notice in the Wenatchee World, a legal newspaper of general circulation in the City and the greater Chelan County area, and by posting information on the City's website and on all of its social media sites. Each public briefing included a description of the Increment Area, the public improvements proposed to be financed with tax allocation revenues derived from the Increment Area, and a detailed estimate of tax revenues for the participating local governments and taxing districts, including the amounts allocated to the public improvements serving the Increment Area. The City also has provided additional briefings for elected and administrative officials of the County, the Wenatchee Valley Fire District, and the NCW Library District.

SECTION XII

Publication of Notice and Delivery of Ordinance

Designating Increment Area

Both prior to and following the adoption of this Ordinance, the City has published, and will publish, in the *Wenatchee World*, a legal newspaper of general circulation within the jurisdiction of the City, a notice that describes the public improvements, describes the boundaries of the Increment Area, and identifies the location and times where this Ordinance and other public information concerning the public improvements may be inspected. Following the adoption of this Ordinance, the City will deliver a certified copy of this Ordinance to the County Treasurer, the County Assessor, and the governing body of each taxing district within which the Increment Area is located.

SECTION XIII

General Authorization and Ratification

The appropriate officers of the City are severally authorized to take such actions and to execute such documents as in their judgment may be necessary or desirable to carry out the tax increment financing of the public improvement serving the Increment Area contemplated in connection with this Ordinance. All actions taken prior to the effective date of this Ordinance in furtherance of the purposes described in this Ordinance and not inconsistent with the terms of this Ordinance are ratified and confirmed in all respects.

SECTION XIV

Severability

The provisions of this Ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having

run, finds any provision of this Ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this Ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

SECTION XV

Effective Date of this Ordinance

This Ordinance shall take effect thirty (30) days from and after its passage and publication as provided by law.

PASSED BY THE CITY COUNCIL OF THE CITY OF WENATCHEE, at a regular meeting thereof, this 23rd day of February, 2023.

CITY OF WENATCHEE, a Municipal Corporation

By: Frank J. Kuntz
FRANK J. KUNTZ, Mayor *Pro Tem*
Jose Cuevas

ATTEST:

By: Tammy Stanger
TAMMY STANGER, City Clerk

APPROVED:

By: Danielle R. Marchant
DANIELLE R. MARCHANT
City Attorney



I certify that this is a true and correct copy of Ordinance No. 2023-02, passed by the City Council on February 23, 2023.

Tammy Stanger
Tammy Stanger, City Clerk



CITY COUNCIL AGENDA REPORT

TO: Frank Kuntz, Mayor
City Council

FROM: Laura Gloria, Executive Services Director
Mayor's Office

MEETING DATE: February 23, 2023

I. SUBJECT

Ordinance No. 2023-02 of the City of Wenatchee designating the North Wenatchee Avenue Tax Increment Financing Area

II. ACTION REQUESTED

Motion requested for the City Council adopt Ordinance No. 2023-02 of the City of Wenatchee designating the North Wenatchee Avenue Tax Increment Financing Area, fixing the boundaries thereof, and providing for related matters.

III. OVERVIEW

The City of Wenatchee currently owns several vacant parcels within the proximity of North Wenatchee and McKittrick Avenue; this area is generally known as the North Wenatchee Redevelopment Area. In 2016, the City of Wenatchee procured an Economic Redevelopment Feasibility Study and Focused Subarea Plan (Plan) for North Wenatchee Avenue. The intent of this report was to create a redevelopment strategy for the vacant and damaged parcels along this corridor that were impacted by the Sleepy Hollow Fire of 2015. These studies identified challenges and opportunities and a variety of infrastructure improvements that would be necessary to maximize redevelopment; the Plan specifically notes that without public investment, the redevelopment goals are not feasible. While the City has been successful in bringing in a significant amount of resources, there is still a need for public infrastructure funding to support redevelopment in this area.

Engrossed Substitute House Bill 1189 was adopted in July of 2021 and allows local governments to designate tax increment financing (TIF) areas and use the tax allocation revenues to pay public improvement costs. Staff has identified a proposed North Wenatchee TIF area that will support implementation of the Plan and redevelopment of the North Wenatchee Avenue Redevelopment Area. The City is required to implement a variety of steps as noted below per House Bill 1189 in order to establish a TIF district.

- The public agency proposing a TIF must prepare a project analysis: A North Wenatchee TIF District Project Analysis was drafted and submitted to the Washington Office of the State Treasurer in October of 2021. The Project Analysis has been reviewed by the OST.

- The public agency must hold two public briefings solely on the TIF project prior to adoption of an ordinance authorizing the creation of the increment area: The City held two public briefings, a morning session on October 3, 2022 at 9am and an evening session on October 4, 2022 at 5pm.
- The public agency must adopt an ordinance designating an increment area within its boundaries and describing the public improvements: If adopted, Ordinance 2023-02 will designate the increment area.

IV. FISCAL IMPACT

The Estimated Average Annual TIF Property Tax Revenue is estimated to be approximately \$4,465,294 and is based on the average of the total TIF Increment Revenue over the 25-year period. This estimate is based on an assessed value of new construction at \$50 million dollars. This is the City's best estimate based on anticipated development but is subject to market conditions and could increase or decrease therefore changing the annual impact to the taxing agencies.

VI. REFERENCE(S)

1. Ordinance 2023-02
2. North Wenatchee TIF Project Analysis
3. OST Review of Project Analysis

VII. ADMINISTRATIVE ROUTING

Tammy Stanger, City Clerk
Rob Jammerman, Public Works Director
Brad Posenjak, Finance Director



Office of the Mayor, Frank J. Kuntz
(509) 888-6200 Phone
(509) 888-3636 Fax
Wenatchee City Hall
301 Yakima Street, 3rd Floor
P.O. Box 519
Wenatchee, WA 98807-0519
Website: www.wenatcheewa.gov

October 10, 2022

Mike Pellicciotti
Washington State Treasurer
PO Box 40200
Olympia, WA 98504-0200

Ref: TIF Area Project Analysis Review Request– North Wenatchee Redevelopment

Mr. Pellicciotti,

The City of Wenatchee's Tax Increment Financing (TIF) Project Team is grateful for the opportunity to submit the attached TIF area project analysis for North Wenatchee Tax Increment Financing area to the Treasurer's Office.

Engrossed Substitute House Bill 1189 requires a Project Analysis be submitted to the Treasurer's Office for review and comment. The attached package meets the requirements set forth in 1189 in terms of the contents of a Project Analysis.

The City of Wenatchee requests the Treasurer's Office commence the 90-day review process. Our staff is prepared to meet and discuss the contents of this submittal as necessary to support your review.

Please feel free to contact me if you have any questions, thank you for your time.

Sincerely,

A handwritten signature in blue ink, appearing to read "Frank J. Kuntz", is written over a light blue circular stamp.

Frank J. Kuntz, Mayor
City of Wenatchee

Introduction:

In 2016, the City of Wenatchee procured an Economic Redevelopment Feasibility Study and Focused Subarea Plan for North Wenatchee Avenue. The intent of this report was to create a redevelopment strategy for the vacant and damaged parcels along this corridor that were impacted by the Sleepy Hollow Fire of 2015. The North Wenatchee Master Plan (Plan) developed a framework for returning the vacant properties to productive use supported by market demand and highest and best use of the area.

The Plan identified challenges and opportunities and a variety of infrastructure improvements that would be necessary to maximize redevelopment in this area along McKittrick Street, North Wenatchee Avenue and new Confluence Parkway. The Plan specifically notes that without public investment, the redevelopment goals are not feasible. While the City has been successful in bringing in a significant amount of resources, there is still a need for infrastructure funding to support redevelopment in this area.

Since the 2016 report, the City has made significant efforts in realizing the goals of the Plan including:

- City purchased ±9 acres of property along North Wenatchee Avenue. Additionally, the City has entered into a marketing contract with commercial real estate broker to market the property to interested buyers.
 - City currently has interest from one large national grocery store and a branded hotel
- The following funding has been secured to fund infrastructure in this area:
 - City was awarded \$92 million INFRA award for McKittrick & Miller Underpass, Confluence Parkway South
 - \$85 million is allocated in the Move Ahead Washington package for Confluence Parkway North
 - City was awarded \$5.5 million in Federal Surface Transportation Funds for North Wenatchee Avenue and McKittrick Street Traffic Signal and Urban Street Improvements
 - \$16 million in Connecting Washington funds are allocated for North Wenatchee Avenue improvements in and supporting the TIF area.

Urgency: The City is currently under several deadlines to deliver the infrastructure to this redevelopment area including federal guidelines, Connecting WA funding deadlines, and contracts with private property owners.

A. Objectives for the TIF Area:

- a) Convert vacant, damaged property into vibrant, active private businesses that support the local economy and tax base
- b) Develop high density developments that will serve the community past the TIF sunset date
- c) Attract substantial private investment
- d) Improve corridor, circulation and pedestrian connectivity to major activity nodes
- e) Support a diversity of uses where residents, families and visitors will want to come to do business, shop, eat, play, live and relax

B. What portion of the TIF Area does the agency own?

- a) See Attachment 1 (Map of TIF area with parcel ownership information)

C. Duration of TIF:

- a) 25 years

D. Description of expected private development:

- a) The Plan provides a build-out concept with a 5-15 year snapshot of redevelopment within the North Wenatchee Avenue area that is realistic and economically feasible. The Plan’s implementation strategy is based on the principle that public dollars must be spent on projects that leverage significant private investment and spark widespread sustainable reinvestment; for every \$1 of public expenditure over \$6 of private investment is projected.

Land Use	Area	2015 Projected Value
Hotel	50,000	\$16,150,000
Retail/Commercial	125,000	\$31,500,000
Light Industrial	140,000	\$10,475,000
Flex Employment	120,000	\$15,750,000
Office	50,000	\$12,500,000
Residential	850 units	\$148,275,000
	Expected Private Development Total	\$234,650,000

E. Description of public improvements, costs, estimated bonds:

The Plan identified the below infrastructure projects as the game changing public investment that will stimulate significant private investment by implementing safe, direct and convenient access to the available properties in this area. Thereby increasing visibility and drive-by traffic to attract new development, support existing businesses, and redistribute traffic congestion along North Wenatchee Avenue.

- McKittrick ‘Signature Street’— a new McKittrick Street grade separated underpass connection between North Wenatchee Avenue and Confluence Parkway. This signature street will:
 - Provide a new signalized intersection at McKittrick Street with improved access to adjacent parcels by creating a north to south Columbia Street connection including upgrading utilities to support adjacent development
 - Be designed as a complete street, including pedestrian friendly sidewalks and a protected bikeway
 - Induce new drive-by traffic thereby increasing visibility necessary for creating development interest for existing ‘backwater’ sites east of the BNSF rail line.
 - Provide an alternative commuting route. This roadway will minimize traffic congestion on the existing busy North Wenatchee Avenue and provide a release valve for future traffic along Confluence Parkway
 - Act as a gateway to the waterfront and provide an attractive setting for adjacent development. The street will include special landscaping, lighting, and other streetscape elements that will signal that this street is a place worthy of investment
 - Specifically, the McKittrick Street extension and grade separation is critical for access to the developable property and opening opportunities for redevelopment. The McKittrick Street extension would provide access that is limited today, supporting existing businesses, enabling new business locations and strengthening the district as an employment address; establish a visible gateway from one of Wenatchee’s most traveled arteries

- Confluence Parkway— An arterial roadway and parallel route to North Wenatchee Avenue. Confluence Parkway will:
 - Establish a new landscaped and tree-lined entry for auto and truck traffic from US2 into North Wenatchee
 - Increase visibility, access and create an attractive setting for development
 - Improve regional mobility for through traffic and relieve traffic congestion on North Wenatchee Avenue

- North Wenatchee ‘Boulevard Gateway’— Boulevard treatment of North Wenatchee Avenue enhances the character of this auto-dominated arterial. This boulevard enhanced street will:
 - Include a landscaped median, lighting, and other streetscape elements that establish this segment of the corridor as a destination and a setting for new street-oriented development
 - Enhance this location as a destination for street oriented commercial and retail development.

Infrastructure	Cost	Funded	Unfunded
McKittrick Signature Street/Columbia Street	\$9,200,000	\$5,500,000	\$3,700,000
Confluence Parkway	\$97,961,858	\$87,961,858	\$10,000,000
North Wenatchee Avenue at Maiden Lane	\$23,000,000	\$19,000,000	\$4,000,000
		Funding Gap	\$17,700,000

- a) Assessed value of property in TIF Area as certified by the County Assessor, estimated increase due to TIF Area, and estimated tax revenues to be generated:
 - i) Total taxable assessed valuation for most recent tax year (2022) = \$19,740,983.
 - ii) Estimated increase due to TIF based on known projects = \$50,000,000
 - iii) Estimated Tax Revenues (local) to be generated= ±\$220,000/year or \$4,465,294 over 25 years.

- b) Estimate of job creation and private investment expected to result from TIF:
 - i) A minimum of 100 full-time jobs will be added within the first ten years to include hospitality, grocery, and retail employees.
 - ii) Approximately \$234 million in private capital investment based on the Plan calculations.

F. Impacts and mitigation to address:

- a) Affordable Housing
 - i) No existing residential units are present on the site, nor will any be lost due to the development of any of the Projects.
 - ii) The North Wenatchee Master Plan area is currently zoned North Wenatchee Business District. All of the proposed uses are consistent with applicable zoning and development standards.
 - iii) The proposed redevelopment will provide neighborhood retail services and retailers to support access to services for future households.
 - iv) Based on location and the surrounding land use activities, there appears to be no adverse impact on affordable housing.

- b) Local Business Community
 - i) Based on a Retail Recruitment Plan created by Retail Strategies in 2020 identified a total market surplus of \$2,525,750,160. Specifically, there is a loss in business due to a lack of services and retail and commercial stores in Wenatchee and as such, more people purchase goods outside of the area. The report identified this North Wenatchee Redevelopment Area as a Focus Recruitment Zone 1, prioritizing development at this location due to its access and proximity to other retail supporting services and goods. The redevelopment of this area would allow Wenatchee to gain the market surplus while also bringing more consumers to the market for other local vendors and merchant.

- c) Local School Districts
 - i) The school district's share of the tax increment from this project is preserved for the school district.

- d) Local Fire Service
 - i) Based on the tax increment revenue projections, the increment area will not impact the fire protection service authority above the 20% threshold nor increase the level of service directly related to the increment area.

G. Additional Information

- a) City Financing Team and Available Consultants:
 - i) Bond Attorney- Pacifica Law Group
 - ii) Financial Advisor – Northwest Municipal Advisors
 - iii) Tax Increment Consultant- None retained
 - iv) Underwriter – DA Davidson
 - v) City Finance Director – Brad Posenjak
 - vi) City Executive Services Director – Laura Gloria
 - vii) Chelan County Treasurer – David Griffiths
 - viii) Chelan County Assessor – Deanna Walter
 - ix) Credit Rating Agency - S&P Global Credit Agency

- b) Tax Increment Revenue Projections and Analysis
 - i) The City's Finance Director, Brad Posenjak, performed an analysis of property taxes that would be available for collections for the TIF area using an estimation of the increase in property value. The total investment for North Wenatchee redevelopment area based on the

Plan is over \$234 million dollars. We have used a conservative estimated assessed value increase of \$50 million dollars to account for investment that may not be captured as assessed value and to provide insulation of decreasing tax levy rates over time.

- ii) The Finance Director used a present value calculation for the proposed yearly collections, with a 25-year term, and a conservative 1.4% assessed value inflation rate.

North Wenatchee Area			
Estimated Increment Revenues			
Year	Cumulative Assessed Value	AV of New Construction	Total TIF Increment Revenue
2023	19,740,983		-
2024	24,938,393	5,000,000	19,831
2025	35,187,777	10,000,000	58,350
2026	38,891,532	3,000,000	71,617
2027	46,669,363	7,000,000	99,697
2028	58,069,444	10,000,000	140,485
2029	59,811,527		145,401
2030	61,605,873		150,393
2031	72,837,990	10,000,000	188,835
2032	74,294,750		192,076
2033	75,037,698		192,745
2034	75,788,075		193,407
2035	81,545,955	5,000,000	211,143
2036	82,361,415		211,790
2037	83,185,029		212,430
2038	84,016,879		213,063
2039	84,857,048		213,689
2040	85,705,619		214,309
2041	86,562,675		214,923
2042	87,428,302		215,530
2043	88,302,585		216,131
2044	89,185,611		216,725
2045	90,077,467		217,313
2046	90,978,241		217,896
2047	91,888,024		218,472
2048	92,806,904		219,042
		50,000,000	4,465,294

- c) Application of projected tax increment funds will be used to reimburse the City and fund infrastructure expenditures including engineering, permitting, right of way, utility relocation and

construction for the corridors within and supporting the TIF district including but are not limited to McKittrick Street, Columbia Street, North Wenatchee Avenue and Confluence Parkway.

d) Expected financing structure

i) The City does not plan to issue bonds for this scope of work. The City will spend down reserves or utilize interfund borrowing to implement the work. The TIF district will allow the proposed improvements to move forward as planned without funding delays or interruptions and reimburse any internal borrowing. The City is well-versed in issuing debt and has a team of bond counsel, underwriter, and bond advisor that can assist if necessary. Additionally, other federal and state funds needed for the project are appropriated and will be made available according to the development schedule for each project.

e) Risk strategy related to project non-completion or shortfalls in projected revenues

i) The City is choosing to fund this scope of work internally in order to expediate the improvements, if there is a future shortfall in needed funds, the general fund will cover this expense.

ii) The City has taken a conservative approach to determining the assessed valuations and potential tax increment district revenue in order to guard against any decreases in collections.

North Wenatchee Redevelopment TIF Area

Legend

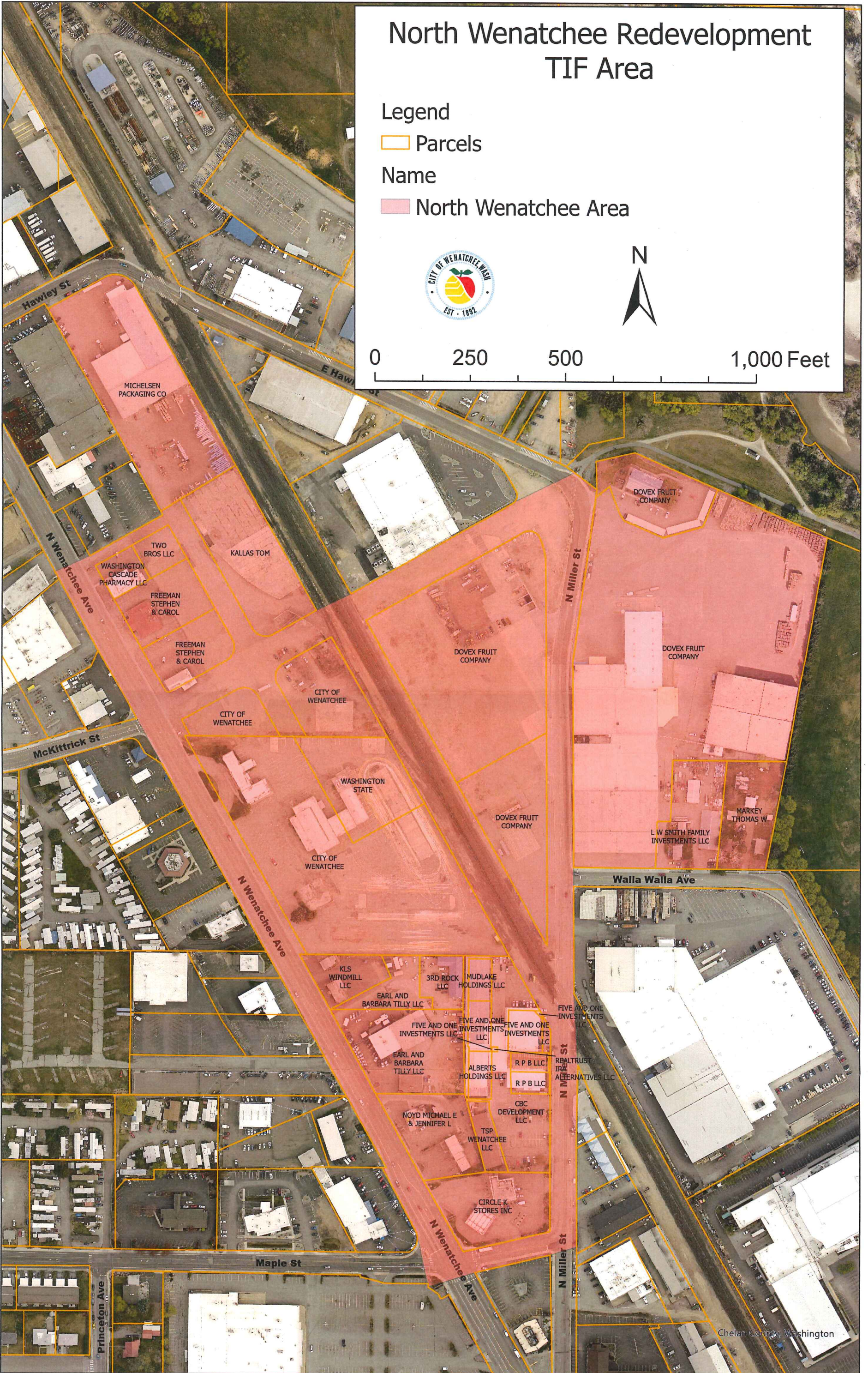
 Parcels

Name

 North Wenatchee Area



0 250 500 1,000 Feet



TAX INCREMENT FINANCING PROJECT ANALYSIS REVIEW

— CITY OF WENATCHEE —

JANUARY 31, 2023



OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti

OFFICE OF THE TREASURER
STATE OF WASHINGTON
Mike Pellicciotti



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 documentation¹ 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.

¹ 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

Jurisdiction: City of Wenatchee	County: Chelan County
Project Title: North Wenatchee Redevelopment	Redevelopment Area: North Wenatchee Avenue, McKittrick Signature Street, and Confluence Parkway
City of Wenatchee: Frank Kuntz, Mayor Brad Posenjak, City Finance Director Laura Gloria, City Exec. Services Director Rob Jammerman, Public Works Director Melonye Quitoriano, Admin. Assistant	Consultants: 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

Private Development	Projected Value¹
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
Total	\$ 234,650,000

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:

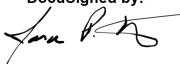
1. Based on our understanding of the project, the City expects to, at least initially, fund the \$16.6 million funding gap for the Public Improvements from internal resources. We recommend that the City carefully discuss with leadership and stakeholders how much risk exposure is appropriate and how much 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

DocuSigned by:

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Jason Richter
Deputy Treasurer