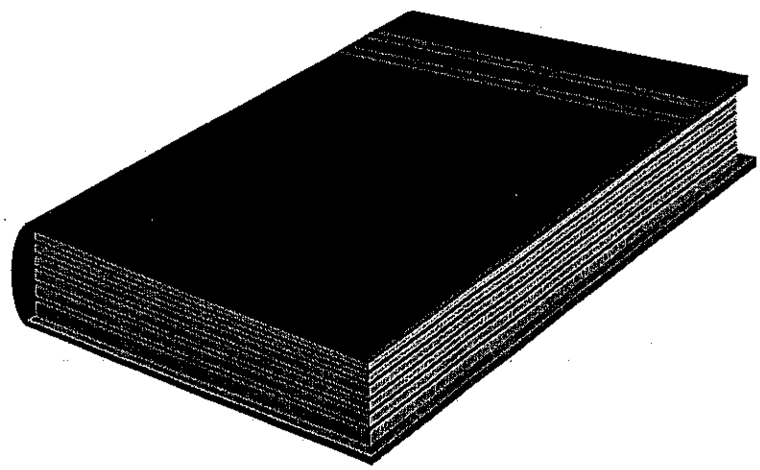
APPENDIX B
TAX ALLOCATION FEASIBILITY STUDY



City of Post Falls

Tax Allocation Feasibility Study
For
Watson and Associates

May 14, 2001

Tax Allocation Financing Feasibility Study For Watson and Associates

Table of Contents

Appendices

Tax Allocation Feasibility Study for the Watson and Associates Project

Executive Summary

The use of the Tax Allocation Financing Provision in the proposed Urban Renewal District is feasible under the existing taxing laws. The improvements, which will be financed in four Projects via the Urban Renewal Project, can be paid for with revenues resulting from the increased tax base.

The project developers, Watson and Associates, have created a unique method for satisfying the need of the Post Falls Urban Renewal Board for guarantees that the development's growth will generate sufficient revenue to service the bonded indebtedness. This method is to not issue bonds until there has been enough investment in the Urban Renewal District to pay for the bonds. In this way, the City of Post Falls will be assured that there will be a sufficient amount of tax revenues to pay for all expenses related to the Urban Renewal Plan. It also insures that the investment necessary to foster new industrial development will be in place. Since a significant amount of infrastructure investment has already been made to assist the development of retail space, this investment will attract building development and thus provide a tax base for expansion of the industrial portion of the Urban Renewal District.

The Urban Renewal Plan calls for four Projects. The following table shows the dollar amount of improvements that are to be made with TAF Financing.

TABLE 1
SUMMARY OF INFRASTRUCTURE INVESTMENT

Improvement Project		Cost
Project I Improvements	$	884,200
Project II Improvements		1,061,095
Project III Improvements		999,172
Project IV Improvements		1,758,360
Total Project Cost	$	4,702,827

Source: Watson and Associates

To finance these improvements, new investment must be made in the project to generate the required tax revenues. The following table shows the amount of investment necessary to service bond debt for 7, 10 and 20 year terms. Since the Tax Allocation Bonds will not be sold until the investment is in place, the risk to the City of Post Falls is negligible.

TABLE 2
INVESTMENT REQUIRED TO SERVICE SEVEN-YEAR BONDS

	Project I	Project II	Project III	Project IV
Baseline Investment	$ 5,306,095	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	12,565,590	2,513,900	-	22,474,650
Total Investment	$ 17,871,685	$ 7,819,995	$ 5,306,095	$27,780,745
Cumulative Investment	$ 17,871,685	$20,385,585	$20,385,585	$42,860,235

Source: Business Planning Consultants, Inc.

Ten-year and twenty-year bonds have also been considered. The following table shows investment required to service debt at these terms.

TABLE 3
INVESTMENT REQUIRED TO SERVICE TEN-YEAR BONDS

	Project I	Project II	Project III	Project IV
Baseline Investment	$ 5,306,095	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	9,530,600	1,906,700	-	17,046,300
Total Investment	$ 14,836,695	$ 7,212,795	$ 5,306,095	$22,352,395
Cumulative EXPO Investment	$ 14,836,695	$ 16,743,395	$ 16,743,395	$33,789,695

Source: Business Planning Consultants, Inc.

TABLE 4
INVESTMENT REQUIRED TO SERVICE TWENTY-YEAR BONDS

	Project I	Project II	Project III	Project I
Baseline Investment	$ 5,306,095	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	6,115,690	1,223,500	-	10,938,40
Total Investment	$ 11,421,785	$ 6,529,595	$ 5,306,095	$ 16,244,495
Cumulative Investment	$ 11,421,785	$ 12,645,285	$ 12,645,285	$ 23,583,685

Source: Business Planning Consultants, Inc.

The "Added TAF Investment To Service the Bond" amount becomes a "trigger" to activate the sale of bonds to begin construction of the needed industrial property infrastructure improvements. This investment will be created by new development on the Watson site. New development can be from retail stores, service businesses or industrial uses. Since the infrastructure has already been built throughout much of the Watson site, this investment in buildings and equipment can come without significant additional improvements.

Methodology

Tax allocation financing is a method of providing revenue for economic development projects in urban renewal areas. As part of an urban renewal plan, a revenue tax allocation financing provision is approved. Within the urban renewal area, a tax allocation area is created. Within the tax allocation area, a base assessment roll is established which is equal to the assessment rolls for all classes of taxable property as of January 1st of the year the urban renewal plan is adopted. As new investment increases the assessed value within the tax allocation area, the increase in tax revenues is allocated to paying off bonds issued for public improvements. By using this form of financing, local taxing districts make a short-term sacrifice in receipt of added tax revenues in exchange for a long-term tax revenue increase due to added investment in the urban renewal area. This is partly mitigated by caps on increases in spending for tax districts. However, the beneficiaries are taxpayers. With added revenues and a ceiling on increased spending, the result for taxpayers is a reduction in the levy rate and decreased taxes.

To determine the feasibility of a tax increment financing provision for improving the Watson property, the first task was to list all properties by parcel number. Then, for each parcel within the taxing area, the number of acres, market value by category and exemptions were listed.

With a complete inventory of properties and their existing market values, a baseline projection of tax revenues was created. This projection assumed that growth trends would continue as they have in the past with no sudden increase in investment activity in the area. An 8% growth rate was used. This forecast provides an understanding of what tax the taxing districts from the tax allocation area can expect revenue if no project is completed.

Next, a projection of tax revenue was prepared assuming that a tax allocation provision is approved. This projection assumes a "freeze" on the amount of revenue each taxing district (except for School District 273) will receive while the bonds are being paid. It also shows the tax increases that will result when the bonds are paid and the entire tax revenue amount is allocated to reduce tax levy rate.

Determination of feasibility will be made by the City of Post Falls in their action to either approve or disapprove the urban renewal plan and the tax allocation provision. However, a statement of feasibility has been prepared which indicated whether a tax allocation provision is financially feasible. That statement affirms that the tax allocation provision is financially feasible.

Baseline Projection

The fist step in preparing the baseline projection is to determine the actual investment that has been made in the Urban Renewal District. The following table shows the investment in the Urban Renewal District.

TABLE 5
BASE VALUATION OF THE URBAN RENEWAL DISTRICT

	GROSS VALUATION	LESS EXEMPTIONS	NET VALUATION
Parcel Number	Land	Building	Total
P-000-006-1300	$ 1,312,578		$ 1,312,578
P-000-005-3905	$ 1,260		$ 1,260
P-7300-001-001-0			$ -
P-2220-001-001-0	$ 182,580		$ 182,580
P-2220-001-002-0	$ 205,936		$ 205,936
P-2220-001-003-0	$ 173,190		$ 173,190
P-2220-001-004-0	$ 157,487		$ 157,487
P-2220-001-005-0	$ 120,744		$ 120,744
P-2220-001-006-0		$ 137,205	$ 137,205
P-2220-001-007-0	$ 151,490		$ 151,490
P-2220-001-008-0	$ 207,926		$ 207,926
P-2220-001-009-0	$ 172,132		$ 172,132
P-2220-002-001-0	$ 337,709		$ 337,709
P-2220-002-002-0	$ 259,503		$ 259,503
P-2220-003-001-0		$ 315,577	$ 315,577
P-2220-003-002-0		$ 188,643	$ 188,643
P-2220-003-999-0	$ 1,000		$ 1,000
P-2220-001-001-0	$ 328,792		$ 328,792
P-2220-001-002-0			$ -
P-2224-001-001-0	$ 186,181		$ 186,181
P-2224-001-002-0	$ 237,182		$ 237,182
P-2224-001-003-0	$ 332,457		$ 332,457
P-2224-001-004-0	$ 182,403		$ 182,403
P-2224-001-005-0	$ 190,380		$ 190,380
P-2224-001-006-0	$ 334,595		$ 334,595
P-2224-001-007-0	$ 230,570		$ 230,570
E-SN-P-000-06-001			$ -
Total	$ 5,306,095		$ 5,306,095

Source: Watson & Associates

Should the Urban Renewal Area be formed, all added investment would be allocated to paying for new infrastructure improvements once the bonds are authorized.

The baseline projection evaluates the growth of the area as if the tax allocation project was not built. The existing base of $5,306,095 is the starting-point for this growth estimate. The baseline projection provides a realistic view of the growth trends, investment levels and other growth factors in the area. Since the Urban Renewal Project is not dependent upon projections (new growth will be in-place prior to issuing bonds) the baseline projection is merely for comparing growth in the tax base with growth resulting from the Urban Renewal District investment. To prepare the baseline projection, we have used average commercial development growth rates for the past several years (3.5%). The following table shows the projected growth in investment in the Urban Renewal Area.

TABLE 6
BASELINE PROJECTION OF THE URBAN RENEWAL TAX BASE

Year	Valuation
2000	5,306,095
2001	5,491,808
2002	5,684,022
2003	5,882,962
2004	6,088,866
2005	6,301,976
2006	6,522,546
2007	6,750,835
2008	6,987,114
2009	7,231,663
2010	7,484,771
2011	7,746,738
2012	8,017,874
2013	8,298,499
2014	8,588,947
2015	8,889,560
2016	9,200,695
2017	9,522,719
2018	9,856,014
2019	10,200,975
2020	10,558,009
2021	10,927,539
2022	11,310,003
2023	11,705,853
2024	12,115,558
2025	12,539,602
2026	12,978,488

Source: Business Planning Consultants, Inc.

This table demonstrates that growth in the Urban Renewal Area would be relatively slow; sufficient investment in the Urban Renewal District to finance the first level of improvements would not be in place in the foreseeable future. With new investment made in the Urban Renewal District, this rate of growth will accelerate.

Tax Allocation Area

The tax allocation area covers the Watson Project of about 200 acres of property. This area does not include rights of way but does include about 8 acres of public ownership.

Rates of growth were measured for the Tax Allocation Area. This area's land and improvement values were projected for the term of the longest proposed bonding period. This projection period provides a good understanding of the financial feasibility and impact during and after the bonding period.

Tax Revenue Projections

Without the improvements that result from the tax allocation project, tax revenues generated from the area are estimated as follows:

TABLE 7

BASELINE TAX REVENUE PROJECTION

2000 – 2020

Year	Tax Revenue
2000	90,293
2001	93,454
2002	96,725
2003	100,110
2004	103,614
~~2005~~	~~107,240~~
2006	110,994
2007	114,878
2008	118,899
2009	123,061
2010	127,368
2011	131,826
2012	136,440
2013	141,215
2014	146,157
2015	151,273
2016	156,568
2017	162,047
2018	167,719
2019	173,589
2020	179,665
2021	185,953
2022	192,461
2023	199,198
2024	206,170
2025	213,385
2026	220,854

Source: Business Planning Consultants, Inc.

Tax Allocation Project Projection

This projection assumes the improvements are made in the amounts shown in Table 1. This allows the growth to continue and expand to meet market demands.

Urban Renewal District Improvements

Improvements will be thoroughly described in the Urban Renewal Plan. These improvements include curbs and gutters, sidewalks, streets, water and sewer systems, drainage and street trees.

Projection Assumptions

Several assumptions have been made regarding the future. These assumptions are described in the following paragraphs.

Levy Rates

It is assumed that levy rates for all taxing districts affected by the Tax Allocation District will decline remain constant. These rates are shown in the following table.

TABLE 8
LEVY RATES

Taxing Entity	Rate Per $1,000
City of Post Falls	0.005291080
North Idaho College	0.001032544
Kootenai County	0.003315163
Kootenai Hospital District	0.000000000
Kootenai Ambulance District	0.000149333
School District #273	0.005291080
Post Falls Highway District #1	0.000679813
Post Falls Fire District	0.001257913
Total	0.017016926

Coverage Ratio

Several coverage ratios have been applied to the Urban Renewal Project's Tax Increment Revenues. The ratio used is 135% for debt issues. Application of a coverage ratio greater than 100% has the effect of reducing the projected amount of revenue that can be applied to serving the bonds. Coverage ratios are applied to create a margin of safety should tax revenues fall short of expectations.

Personal Property Investment

No value is added for personal property (equipment, fixtures, etc.). This property is also taxed and is subject to the tax increment but has been omitted from the projections to provide an added measure of margin.

School Payments

Tax law assigns a percentage of new tax increment revenues to the school districts. For our projection the amount will be .4% of the total market value of the tax allocation area.

Determination of Required Investment

Since a sufficient amount of investment in the Urban Renewal Area will be required before selling of bonds occurs, we must estimate the amount of investment required to service the bonds. This also assumes a 35% coverage ratio. The following table shows the amount of investment required to service the bonds for Projects I, II, III and IV.

TABLE 9
URBAN RENEWAL DISTRICT INVESTMENT REQUIREMENTS

Bond Term	Cumulative Investment			
	Project I	Project I	Project III	Project I
7 Year	17,871,685	20,385,585	20,385,585	42,860,235
10 Year	14,836,695	16,743,395	16,743,395	33,789,695
20 Year	$ 11,421,785	$ 12,645,285	$12,645,285	$ 23,583,685

Source: Business Planning Consultants, Inc.

You will note that the total investment required for all four Projects is obtained at the second Project of the project. At that point there is sufficient investment in the project to service the debt of all four Projects and further investment is not necessary to generate the tax revenue required to service the debt.

Improvement Financing

The interest rates established for the repayment of the bonds will be according to the municipal bond market standards at the time the bonds are issued. This project anticipates an interest rate of 6.0%.

Fiscal Impact on Taxing Districts and Taxpayers

The fiscal impact on taxing districts will be to increase available revenue to the districts by collection of forgone taxes and a reduction in the levy rate applied to the valuation of their property.

Limits on Budget Increases

Limits are placed on the increase in budget a taxing district can spend even with a substantial increase in the tax base. This limitation on receipt of additional revenue is partially mitigated by the collection of "Foregone Taxes"; taxes which the district has a right to collect but has not. These taxes, which would normally be collected during the tax increment financing period, may be collected after the bonds have been paid, assuming the law remains the same. The amount of foregone taxes for any given year can be obtained by requesting the *Dollar Certification of Budget Request to Board of County Commissions L-2,* for the year in question.

Taxing districts can recover foregone taxes if they have a sufficient source of tax revenues. The Urban Renewal Project can create these sources of additional tax revenue.

Levy Rate Reduction

Idaho State law limits the increase in budgets of each taxing district and there is a limit on the amount of foregone taxes a district can collect. However, the result of an increased tax base is a decrease in the levy rate for each taxing district. This reduces taxes for each individual taxpayer within the taxing district.

Feasibility of Tax Increment Financing of Improvements

As a result of this analysis, the feasibility of using the Tax Allocation Financing Provision for improvements on the Watson project are positive given the assumptions included in this report. Since investment will be in place prior to the issuing of bonds, the City of Post Falls and the Urban Renewal Board face very little risk. This risk is further mitigated by a very large coverage ratio and by not including personal property as part of the investment totals. Unless significant property damage occurs on the site after the bonds have been issued, the availability of sufficient revenues to service the debt is guaranteed.

The impact on taxing districts is also likely to be positive. While there is a limit on the increase in budgets of the taxing districts, forgone taxes can be used to increase district activity to accommodate the new growth.

Taxpayers could also experience a reduction in levy rates and their tax bill as investment in the taxing districts increases without a proportionate increase in taxing district budgets.

APPENDIX 1

TAX ALLOCATION FUND PROJECTION

Watson Urban Renewal Project
Tax Allocation Financing Projection
Seven Year Bonds

ASSUMPTIONS	Project	Project II	Project III	Project IV
Infrastructure Project Amount	$ 884,200	$ 1,061,095	$ 999,172	$ 1,758,360
Bond Interest Rate	6.0			
Bond Term	7	Years		
Tax Rate	0.017016926			
INVESTMENT				
Baseline Investment	$ 5,306,09	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	12,565,59	2,513,900	-	22,474,650
Total Investment	$ 17,871,68	$ 7,819,995	$ 5,306,095	$27,780,745
Cumulative Investment	$ 17,871,68	$20,385,585	$20,385,585	$42,860,235
REVENUE				
Baseline Tax Revenue	$ 90,29	$ 90,293	$ 90,293	$ 90,293
TAF Tax Revenue at 35% Coverage Ratio	158,39	190,079	190,079	314,984
Total	248,68	280,372	280,372	405,277
EXPENSES				
District Baseline Revenue Allocation		-	-	
	90,29	90,293	90,293	90,293
	90,29	90,293	90,293	90,293
Annual Debt Service	158,39	190,079	178,987	314,984
	15,15	14,274	25,119	
Total Expenses	248,68	280,373	269,280	405,277
TAF FUND BALANCE	(0	(0)	11,092	(0)

Watson Urban Renewal Project
Tax Allocation Financing Projection
Ten Year Bonds

ASSUMPTIONS	Project 1	Project 2*	Project 3	Project 4
Infrastructure Project Amount	$ 884,200	$ 1,061,095	$ 999,172	$ 1,758,360
Bond Interest Rate	6.0%			
Bond Term	10 Years			
Tax Rate	0.017016926			
INVESTMENT				
Baseline Investment	$ 5,306,095	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	9,530,600	1,906,700	-	17,046,300
Total Investment	$ 14,836,695	$ 7,212,795	$ 5,306,095	$ 22,352,395
Cumulative EXPO Investment	$ 14,836,695	$ 16,743,395	$ 16,743,395	$ 33,789,695
REVENUE				
Baseline Tax Revenue	$ 90,293	$ 90,293	$ 90,293	$ 90,293
TAF Tax Revenue at 35% Coverage Ratio	120,134	144,169	144,169	238,905
Total	210,428	234,462	234,462	329,198
EXPENSES				
District Baseline Revenue Allocation				
Schools	-	-	-	-
Other Districts	90,293	90,293	90,293	90,293
Total District Revenue Allocation	90,293	90,293	90,293	90,293
Annual Debt Service	120,134	144,169	135,755	238,905
Debt Service Reserve	99,917	15,159	14,274	25,119
Total Expenses	210,428	234,462	226,049	329,198
TAF FUND BALANCE	0	(0)	8,413	0

* Assumes Project 1 debt service is still being paid.

Watson Urban Renewal Project
Tax Allocation Financing Projection

Twenty Year Bonds

	Project 1	Project 2*	Project 3	Project 4
ASSUMPTIONS				
Infrastructure Project Amount	$ 884,200	$ 1,061,095	$ 999,172	$ 1,758,360
Bond Interest Rate	6.0%			
Bond Term	20 Years			
Tax Rate	0.017016926			
INVESTMENT				
Baseline Investment	$ 5,306,095	$ 5,306,095	$ 5,306,095	$ 5,306,095
Added TAF Investment To Service the Bond	6,115,690	1,223,500	-	10,938,400
Total Investment	$ 11,421,785	$ 6,529,595	$ 5,306,095	$ 16,244,495
Cumulative EXPO Investment	$ 11,421,785	$ 12,645,285	$ 12,645,285	$ 23,583,685
REVENUE				
Baseline Tax Revenue	$ 90,293	$ 90,293	$ 90,293	$ 90,293
TAF Tax Revenue at 35% Coverage Ratio	77,089	92,511	92,511	153,302
Total	167,382	182,805	182,805	243,596
EXPENSES				
District Baseline Revenue Allocation				
Schools	-	-	-	-
Other Districts	90,293	90,293	90,293	90,293
Total District Revenue Allocation	90,293	90,293	90,293	90,293
Annual Debt Service	77,089	92,511	87,112	153,302
Debt Service Reserve	12,631	15,159	14,274	25,119
Total Expenses	167,382	182,805	177,406	243,595
TAF FUND BALANCE	0	0	5,399	0

* Assumes Project 1 debt service is still being paid.