INDEPENDENT FINANCIAL FEASIBILITY REVIEW

Provided to:

Washington State Department of Commerce

Pursuant to RCW 36.100.025

Regarding:

Proposed Asotin County Public Facilities District

Asotin County, Washington

Asotin County Family Aquatic Center

Dated June 26, 2013

SDM ADVISORS INC
FINANCIAL CONSULTING FOR PUBLIC ENTITIES

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Proposed Asotin County Public Facilities District

Executive Summary

This review is provided to comply with provisions of RCW 36.100.025, which requires an independent financial feasibility review prior to "…formation of a public facilities district" or " the long-term lease, purchase or development of a facility" under Chapter 36.100 RCW. The scope of this review is intended to gauge the potential costs and the adequacy of expected revenues to meet the costs relating to the proposed Asotin County Public Facilities District.

This feasibility review is in part prospective in context as documentation related to formation of the PFD, transfer of the assets of the Asotin County Aquatic Center from the County to the proposed Asotin PFD and matters potentially impacting ongoing operations of the PFD have not been developed by the County as of the date of this review. As such, certain key factors bearing on financial feasibility remain to be finalized pending formation of the proposed PFD.

The facility proposed to be owned and operated by the PFD is an existing Aquatic Center (the "Aquatic Center) in unincorporated Asotin County near the City of Clarkston. The center was initially conceived as a self-supporting facility, but has failed to meet operating expectations. The County has contributed lodging taxes, as well as proceeds from a local option sales and use tax to facility operation, but it continues to struggle financially. The intention of the formation of the PFD is to access authority for a voter-approved 2/10 of 1% sales and use tax available to public facilities districts, subject to voter approval. Without approval of this 2/10 of 1% sales and use tax, there does not appear to be a benefit of a PFD.

Subsequent to the formation of the PFD voters were to approve a 2/10 of 1% sales and use tax we believe the added revenue would be approximately $500,000 per year. This additional revenue stream, based on a preliminary budget prepared by the County, appears to be sufficient to support staffing to allow expanded operating hours, provide for funding of reserves, and provide sufficient administrative and operational support.

Given the prospective nature of this review, we have assumed certain policy decisions and actions relating to the formation documents, and budget guidance. In particular, we believe the operation of the Aquatic Center by a PFD will be beneficial only if the 2/10 of 1% tax is approved by the voters.

Without the added revenue from the proposed 2/10 of 1%, the operation of a PFD could introduce additional financial and practical risks, including potential inefficiencies of a separate entity, with oversight by an appointed Board.

Proposed Asotin County Public Facilities District

Overview

Asotin County (the "County") has proposed the formation of the Asotin County Public Facilities District ("Asotin PFD") for the purpose of transferring ownership and operations of the existing Asotin County Family Aquatic Center (the "Aquatic Center") and accessing a new tax source available to public facilities districts. Currently, the Aquatic Center is owned by the County with all funding, staffing and administrative requirements being provided by the County.

This review is provided to comply with provisions of RCW 36.100.025, which requires an independent financial feasibility review "prior to the formation of a public facilities district" or "prior to the long-term lease, purchase or development of a facility" under Chapter 36.100 RCW. The scope of this review is intended to gauge the potential costs and the adequacy of prospective revenues to meet the costs relating to the proposed Asotin PFD.

The purpose of the review is to "examine the potential costs to be incurred by the PFD and the adequacy of revenues or expected revenues to meet those costs." The independent financial feasibility review, upon completion, must be a public document and must be submitted to the governor, the state treasurer, the state auditor, the public facility district, and participating local political subdivisions, and appropriate committees of the legislature.

This feasibility review is in part prospective in context as documentation related to formation of the PFD, transfer of the assets of the Aquatic Center from the County to the proposed Asotin PFD and matters potentially impacting ongoing operations of the PFD have not been developed by the County as of the date of this review. As such, certain key factors bearing on financial feasibility remain to be finalized pending formation of the proposed PFD.

Background

The purpose of the proposed Asotin PFD is outlined in a statement prepared by the County's Aquatics Director, which says among other things:

> "It is the intention of the Asotin County Board of County Commissioners to pursue the formation of a Public Facilities District to take over ownership and operation of the Asotin County Family Aquatic Center…."

The Aquatic Center is located in unincorporated Asotin County near the City of Clarkston, the largest city in the County, and was opened in July 2004. It is a public facility with an indoor natatorium containing an 8 lane lap pool, therapy pool, child play water area and large capacity hot tub. The outside area contains the Lagoon Waterpark with two high-speed body water slides, a giant tube-ridden water slide, lazy river, wave pool, other play features and picnic areas. The Aquatic Center also contains a fully equipped fitness center with weight machines, free weights and aerobic exercise machines.

Construction of the Aquatic Center was funded from proceeds of $6,720,000 of voter approved unlimited tax general obligation ("UTGO") bonds issued by the County in three series, together with proceeds of $2,300,000 of limited tax general obligation ("LTGO") bonds later issued by the County, and $491,250 of grant funding from the State of Washington. The details of the debt issuance are provided in the following table:

Issue	*Amount*	*Date of Issue*	*Final Maturity*	*Resolution*
UTGO Bonds, 2001	$2,450,000	12/20/2001	12/1/2026	No. 01-73
UTGO Bonds, 2002	3,550,000	1/23/2002	12/1/2023	No. 02-06
UTGO Bonds, 2003	720,000	4/3/2003	12/1/2027	No. 03-08
LTGO Bonds, 2003B	2,300,000	12/17/2003	12/1/2033	No. 03-46

The three series of UTGO bonds were refinanced in March 2006 and the LTGO bonds were refinanced in February 2013. Both refinancings were completed to lower interest rates and achieve reductions in annual debt service over the life of the debt.

Remaining debt service on the outstanding bonds is summarized in the following table:

General Obligation Debt Service

Year	*Unlimited Tax GO Debt*	*Limited Tax GO Debt*
2013	$ 420,130	$ 99,036
2014	445,055	132,386
2015	473,850	126,626
2016	500,850	130,914
2017	526,050	130,154
2018	555,050	128,834
2019	587,450	127,514
2020	623,050	131,194
2021	656,650	129,388
2022	703,250	127,581
2023	741,988	125,775
2024	868,003	127,800
2025	932,500	129,650
2026	987,640	131,325
2027	754,000	132,825
2028	0	129,150
2029	0	131,000
2030	0	127,700
2031	0	129,400
2032	0	129,800
2033	0	130,000
Totals	$9,635,250	$2,645,351

The UTGO bonds are secured by a pledge of an excess property tax levy, which can be levied without limitation as to rate or amount and, therefore, do not represent an expense to be covered by operating revenue of the Aquatics Center. The LTGO bonds are a general obligation of the County, and therefore are to be paid from the County's General Fund or other legally available monies. To date, debt service on the LTGO bonds has been paid from other County funds, and has not been treated as an expense charged to the Aquatics Center, which is operated as a department or enterprise of the County.

In 2002 the County retained Gremmer & Associates Consulting Engineers as lead contractor for a project team given the assignment of recommending a preferred site and facility design for the Aquatic Center. Gremmer & Associates subsequently retained the services of William L. Haralson & Associates, Inc. to prepare a market and financial feasibility study for the proposed facility. That report, completed in July 2002, contained operating revenue and expense projections indicating the Aquatic Center would be self-supporting. No tax revenues or debt service costs were assumed in the Haralson feasibility study, other than the voter-approved excess property tax to be used exclusively for payment of UTGO bonds. In the years following opening of the Aquatic Center, net operating revenue proved to be well short of projections in the feasibility study. A comparison of original projections from the feasibility study to subsequent actual operating results indicates the greatest deviation from projections was to operating expenses, particularly the categories for wages and benefits, and utilities.

The following table summarizes operating revenues and expenses for 2007, which was the last year projected in the feasibility report, to actual results shown in financial statements for the Aquatic Center provided by the County.

	Year Ending December 31, 2007	
	As Projected in Feasibility Report	Actual
Revenues:		
Admissions	$296,900	$294,909
Food & Beverage Concessions	88,600	36,376
Merchandise	11,800	13,035
Lockers	8,900	5,017
Other	0	2,746
Totals	$406,200	$352,083
Operating Expenses:		
Wages/Benefits – Management	$ 22,300	$ 72,753
Wages/Benefits – Pool	125,200	235,745
Wages – Concessions	17,700	9,396
FICA/Retirement	13,200	3,085
Workers Comp	5,700	3,030
Utilities	30,900	172,201
Repair & Maintenance	22,900	33,682
Operating Supplies	42,300	58,375
Concession Supplies	26,600	30,256
Merchandise Supplies	0	8,445
Marketing	14,300	36,067
Other	57,200	44,230
Totals	$378,300	$707,265

The County represents that ongoing operating shortfalls have necessitated cuts to staffing, preventative maintenance and hours of operation in an effort to reduce the loss and that this significantly reduced the Aquatic Center's ability to serve the community.

In 2007 the Board of County Commissioners enacted Resolution 07-26 which imposed a county-wide 3/10 of 1% local option sales tax under RCW 82.14.030, to provide a supplemental funding source for maintenance and operations of the Aquatic Center. Subsequently, the City of Clarkston "opted-in" for collection of this tax for all taxable retail sales within the City, which significantly reduced the revenue thereafter collected by the County.

In 2008 the City of Clarkston contributed $240,000 from the local option sales tax collected within the City, to the County, in support of Aquatic Center operations. In response to economic declines and budgetary challenges, Clarkston reduced their contribution to $160,000 in 2009 and continued this contribution level through 2011. Clarkston eliminated contributions commencing in 2012.

Aquatic Center comparative financial results for fiscal years 2010 through 2012 are provided in the following table. As discussed above, the Clarkston revenue contribution declined from $160,000 in 2010 and 2011 to -0- in 2012. It can also be noted that the fund began 2010 with a negative balance.

	Fiscal Years Ending December 31		
	2010	***2011***	***2012***
Revenues			
Membership fees	$121,981	$134,789	$151,900
Daily Admissions/Events	155,362	158,631	143,073
Swim Lesson Fees	21,498	18,309	21,081
Swim Team Fees	6,899	2,365	5,311
Water Aerobics & Classes	31,343	35,587	31,363
Lockers & Equipment Rentals	5,263	5,375	4,764
Room & Lane Rentals	46,723	42,538	38,446
Retail & Concession Sales	16,493	19,324	12,591
Miscellaneous	1,955	1,053	13,125
Sales Tax Collections	27,927	30,585	29,528
Lodging Tax Revenue	26,250	26,250	26,250
County Sales & Use Tax Receipts	273,598	269,864	277,864
City of Clarkston Tax Transfer	160,000	160,000	0
Total Revenues	$895,292	$904,531	$755,296
Expenses			
Salaries – Administrative	$ 87,992	$ 93,898	$131,983
FICA	27,191	29,027	28,151
Retirement	6,522	8,776	9,134
Medical/Dental Insurance	21,840	25,387	26,259
Office Expenses	60,424	84,610	64,732
Wages - Pool	268,274	285,028	242,112
Supplies	60,063	67,701	50,172
Utilities	159,627	172,417	161,782
Maintenance	43,174	47,967	29,104
Sales Tax Remittance	33,627	33,225	34,151
Miscellaneous	1,379	3,719	4,577
Total Expenses	$770,113	$851,755	$782,157
Operating Surplus (Deficit)	$125,179	$ 52,776	$ (26,861)
Beginning Fund Balance	$ (76,385)	$ 48,794	$101,570
Ending Fund Balance	$ 48,794	$101,570	$ 74,709

Potential Costs and Financial Risks

As noted earlier, this feasibility review is in part prospective in context as documentation related to formation of the PFD, transfer of the assets of the Aquatic Center from the County to the proposed Asotin PFD and matters potentially impacting ongoing operations of the PFD have not been developed by the County as of the date of this review. As such, certain key factors bearing on financial feasibility remain to be finalized pending formation of the proposed PFD.

A. Sales and Use Tax Revenue

1. Existing County Sales and Use Tax Pursuant to RCW 82.14.030

Sales and use tax revenue attributable to the original 3/10 of 1% local option sales tax on all taxable retail sales and uses within the County, *except within the City of Clarkston*, was $277,864 in 2012 which was a slight gain of 2.9% over 2011. Retail sales and use data is not available for 2013.

The County has historically transferred all revenue from the 3/10 of 1% sales and use tax revenues to the Aquatics Center fund. Conversations with the Board of County Commissioners indicate their intent to continue this practice. This commitment is not yet documented by definitive formation and transfer agreements. Ongoing financial viability of the proposed PFD would be impacted negatively if these sales and use tax transfers were interrupted. In recent years the County has also transferred $26,250 of its receipt of lodging tax revenues to the Aquatics Center but this transfer is not anticipated to be continued if the PFD is successful in achieving approval of its own proposed sales and use tax.

2. Proposed Sales and Use Tax for PFD Pursuant to RCW 82.14.048

Following formation of the proposed PFD, it is anticipated that the PFD board will place a proposition on the ballot at the earliest opportunity requesting approval of a 2/10 of 1% tax on taxable retail sales within the County, including the City of Clarkston, pursuant to RCW 82.14.048. We assume the County would stipulate during formation that the PFD is to impose the tax, and promptly call for an election.

The County has been provided an estimate from the Washington State Department of Revenue that this tax will generate approximately $550,000 of annual revenue. We believe $500,000 is a more reliable projection for budgetary purposes based on actual taxable retail sales and use data for 2010 through 2012, the three most recent years for which full year data is available. The table below summarizes historical taxable retail sales statistics and estimates of the revenue which would have been generated had the 2/10 of 1% tax been in place.

	Taxable Sales/Use Activity By Calendar Year		
	2010	***2011***	***2012***
Asotin County (unincorporated)	$ 33,961,626	$ 33,682,914	$36,171,074
City of Clarkston	215,034,551	218,837,834	215,251,633
City of Asotin	5,442,299	5,665,267	5,428,662
Taxable Retail Sales	$254,438,476	$258,186,015	$256,851,369
Implied Revenue @ 2/10 of 1%	$ 508,877	$ 516,372	$ 513,703

The additional 2/10 of 1% sales and use tax has not yet been submitted to County voters for approval. This cannot occur until after the PFD is formed, a PFD board of directors is appointed, and the PFD Board of Directors takes formal action to place the proposition on the ballot. Ongoing financial viability of the proposed PFD would be impacted negatively if this additional sales and use tax revenue were not available. We assume the County would establish the PFD with the condition that if the sales and use tax proposition fails, the PFD will be extinguished and the assets would remain with County.

B. Costs and Risks Relating to Operation of the Aquatic Center

The County has prepared a preliminary budget which indicates total revenue, including additional tax revenue from the proposed 2/10 of 1% sales and use tax, would be sufficient to support existing operations and provide budgetary capacity for increases in staffing and expanded operational hours. While we believe these projections are reasonable and are produced by personnel who are experienced with historical operational costs of the Aquatic Center there is no assurance these projections will prove to be accurate.

It is important that the proposed PFD (and County) carefully consider impacts of making staffing and operational changes, to ensure the added revenue provides the financial relief desired. Some of these risks can be mitigated if the County requires in the PFD formation documents that provisions are made for establishment of reserves, prior to making significant staffing and operational changes.

One notable concern is the administrative, legal, insurance, human resource and benefit coverage for the Aquatic Center operation is currently provided by the County. It is unknown whether those services can continue to be provided by the County on an ongoing basis or if the County will be willing to do so. The cost of providing all of those services independently has not been determined and poses an operational cost risk to the proposed PFD. This question should be addressed prior to formation of a PFD, to ensure there are not unexpected operational costs, which would reduce the overall benefit of the proposed formation of the PFD.

Summary and Conclusions

1) The Aquatic Center is a completed and operational facility providing indoor and outdoor swimming and water related recreational activities to area residents.
2) The Aquatic Center is owned and operated by the County but ownership and operational control is proposed to be transferred to a new public facilities district to be formed by the County.
3) No additional debt issuance is contemplated for the Aquatic Center, and the County has represented that no additional debt or capital improvements are required to maintain or expand operations as proposed.
4) The County has previously issued both unlimited tax and limited tax general obligation bonds to fund construction of the Aquatics Center.
    a. The UTGO bonds are fully secured by an excess property tax levy, without limitation as to rate or amount, and pose no financial burden on the general operating budget of the County.
    b. The LTGO bonds are a general obligation of the County and thus a matter of budgetary focus. To date, the County has not charged debt service on these bonds against Aquatic Center operations. Assuming the prospective agreements between the County and the proposed PFD legally document that this liability remains with the County, this debt service should also pose no financial burden on financial operations of the proposed PFD, but will continue to be an obligation of the County
5) If the voters approve a 2/10 of 1% sales and use tax, as proposed relative to the formation of the PFD, we believe a reasonable projection of added revenue to be approximately $500,000 per year, which appears to be sufficient to support expanded operating hours, provide for funding of reserves, and provide increased staffing, administrative and operational support.
6) Without the added revenue from the proposed 2/10 of 1% sales and use tax, the operation of a PFD could introduce additional financial and practical risks, including potential inefficiencies of a separate entity, with oversight by an appointed Board.

7) Given the prospective nature of this review, we have assumed certain policy decisions and actions relating to the formation documents, and budget guidance. In particular, the operation of the facility by a PFD will be beneficial only if the 2/10 of 1% sales and use tax is approved by the voters, and the County continues to transfer to the PFD revenues from receipt of the existing 0.3% sales and use tax Additionally, it may be important for the County to continue to provide administrative and benefit support services to the PFD as the cost of obtaining them separately is unknown and it is reasonable to assume those costs may be significantly higher if it were necessary for the PFD to obtain them independently.

Documents Related to the Review

In conducting this review, we examined the following documents:

- RCW 36.100.025, which includes requirements for this review.
- Statement of purpose and intention to form a Public Facilities District to assume of the Asotin Aquatics Center, written by the County's Aquatic Manager.
- Portions of the following official statements relating to debt issued by Asotin County to provide construction financing of the Aquatic Center, or refunding of the original issuance.
    - Unlimited Tax General Obligation Bonds 2001 dated 12/7/2001
    - Unlimited Tax General Obligation Bonds, 2002 dated 1/11/2002
    - Unlimited Tax General Obligation Bonds, 2003 dated 3/17/2003
    - Limited Tax General Obligation Bonds, 2003B dated 12/4/2003
    - Unlimited Tax General Obligation Refunding Bonds, 2006 dated 3/1/2006
    - Limited Tax General Obligation Refunding Bonds, 2013 dated 1/17/2013
- Minutes of the Asotin County Commissioners meetings (January 3, 2011 - April 15, 2013).
- Financial statements for the Aquatic Center for the years 2007 through 2012 provided by the County.

Website Links for Relevant Information

Asotin County Family Aquatic Center
http://www.theaquaticcenter.org

MRSC – information on public facilities districts
http://www.mrsc.org/subjects/econ/ed-pfd.aspx

Asotin County's website
http://www.co.asotin.wa.us/

State Auditor – 2011 Audit for Asotin County
http://www.sao.wa.gov/auditreports/auditreportfiles/ar1008307.pdf