

INDEPENDENT FINANCIAL FEASIBILITY REVIEW

Provided to:

Washington State Department of Commerce

Pursuant to SSB 5984

Regarding:

Lewis County Public Facilities District

Lewis County, Washington

Sports Complex and Event Center

Dated September 21, 2012



INDEPENDENT FINANCIAL FEASIBILITY REVIEW
Regarding
Lewis County Public Facilities District

CONTENTS

| | |
|--|---------|
| 1) Executive Summary | Page 1 |
| 2) Overview | Page 2 |
| 3) Background | Page 2 |
| 4) Documents Related to the Review | Page 3 |
| 5) Potential Costs and Financial Risks to the District | |
| A. Sales and Use Tax Revenue | Page 4 |
| B. Lewis PFD Bonds | Page 4 |
| C. Costs and Risk Relating to the Sports Complex | Page 6 |
| D. Costs and Risks Relating to Construction and Operation of the Event Center | Page 7 |
| E. Costs and Risk Relating to the LLC | Page 8 |
| 6) Summary and Conclusions | Page 10 |
| 7) Website Links for Relevant Information | Page 11 |

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Lewis 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 a public facilities district entering into “. . .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 Lewis PFD.

The Lewis County Public Facilities District (“Lewis PFD”) has undertaken a regional center that includes a Lewis County Event Center and Sports Complex (the “Project”). The Project is a partnership among the Lewis PFD, the City of Centralia (the “City”) and the Centralia School District (the “School”), and includes a Sports Complex and Event Center.

The terms of an Interlocal Agreement among the parties specifies that the City and School have primary responsibility for operating the Sports Complex, and the Lewis PFD will own and operate the Event Center. The Sports Complex has been completed and is in operation. The Lewis PFD intends to proceed with construction of the Event Center, to be operated pursuant to a lease with a private operator, an LLC. The Interlocal Agreement sets forth a plan for use of the Sports Complex which includes usage by the LLC for various sport leagues and tournaments.

The Lewis PFD has not secured all of the funding for the project construction, and therefore should consider the various risks of entering into a contract for the construction at this time, or consider phasing of the project. Risks may include potential liability to a contractor for amounts greater than available funds, and potential termination of the Lease relating to facility operation if the facility is not completed and delivered by the dates specified in the Lease.

The LLC that is anticipated to serve as lessee for the Event Center is a newly formed entity operated by a local businessperson. We have not reviewed the financial or operating ability of the LLC, and offer no opinion relative to their qualifications or the feasibility of their business plan. While it is outside of our scope of services to review and evaluate the LLC’s financial projections, it is important that the Lewis PFD review the projections carefully, and determine that the business plan is viable.

Should events lead to termination or non-performance of the Lease with the LLC, the Lewis PFD will be responsible for maintaining the facility, which would likely be non-operational until a replacement lessee is secured, or operating plan developed. If the building is not occupied, it should be expected that the Lewis PFD would have an obligation to insure the building, pay utilities and provide at least minimal maintenance to retain the value of facility.

The Lewis PFD issued Limited Sales Tax Obligation Bonds in 2010, which are secured by sales and use tax revenue. The Lewis PFD and Lewis County entered into a Contingent Loan Agreement relative to the Bonds. Assuming the Lewis PFD complies with the terms and covenants relating to the Bonds, the ability to repay the Bonds would not be adversely impacted by the operating status of the Event Center.

Sales and use tax is the primary revenue source for the Lewis PFD, and is to be used, together with interest earnings, to pay debt service on the Bonds and core operating expenses (i.e. audit, insurance, and basic operating costs). Sales tax revenues to date have slightly exceeded projections included in the Official Statement for the Bonds. While we think the risk is remote, if, for any reason, there is a decline in sales tax revenue that necessitates a loan from the County, we believe it would be a relatively small amount in any given year.

Lewis County Public Facilities District

Overview

The Lewis County Public Facilities District (“Lewis PFD”) has undertaken a regional center that includes a Lewis County Event Center and Sports Complex (the “Project”). The Project is a joint undertaking of the City of Centralia (the “City”), Centralia School District (the “School”) and the Lewis PFD, and includes several Project components and division of responsibilities. Essentially the City and School have primary financial and operating responsibility for the Sports Complex, and the Lewis PFD has primary financial and operating responsibility for the Event Center. Lewis PFD intends to enter into a facility lease with a private limited liability company to manage and operate the Event Center, which will be constructed primarily with Lewis PFD funds and owned by Lewis PFD.

This review is provided to comply with provisions of RCW 36.100.025, which requires an independent financial feasibility review prior to a public facilities district entering into “. . .the long-term lease, purchase or development of a facility” under Chapter 36.100 RCW. 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.

The scope of this review is intended to gauge the potential costs and the adequacy of expected revenues to meet the costs relating to Lewis PFD.

Background

The Lewis PFD was formed by the Lewis County Board of County Commissioners (the “Commission”) on August 13, 2007, by Resolution No. 07-247, for the purpose of:

“acquiring, constructing, owning, operating, maintaining, remodeling, repairing, equipping, reequipping, and/or financing a public facility or projects, with contiguous parking facilities, which may include a regional center located with the county providing for business, recreational, equestrian, rodeo, musical and cultural exhibitions and presentations.”

The Commission appointed the initial members of the Board for Lewis PFD by Resolution No. 07-248, on August 13, 2007. The Lewis PFD held its organizing meeting on August 27, 2007 at which meeting the Board approved By-laws.

The Lewis PFD, by Resolution No. 2007-001 adopted on August 27, 2007, **imposed a sales and use tax** at a rate of 0.033%, pursuant to RCW 82.14.390, which sales tax is credited against the State’s 6.5% general sales tax, and therefore, not an increase to the end user.

In March 2010, the Lewis PFD **entered into an Umbrella Agreement** among the Lewis PFD, the City, the School, and a Washington limited liability company, the Lewis County Event Center LLC. The purpose of the Umbrella Agreement was to outline a joint undertaking for financing, construction and operation of the Project.

In June 2010, the Lewis PFD **entered into an Interlocal Agreement** among the Lewis PFD, the City and the School to jointly proceed with design and construction of the Project. The Interlocal Agreement sets forth a detailed description of the facility, as well as development, funding, and operating agreements. The Interlocal Agreement specified that the PFD would own the Event

Center and lease it to a third-party lessee and the City and the School would manage operation of the Sports Complex, with the responsibilities among the City and School further set forth.

The Lewis PFD and the City **entered into a Ground Lease**, the form of which is dated June 2010. Under the Ground Lease, the Lewis PFD will lease the site on which the Event Center is to be constructed, and is to pay rent, which is the amount of money rent paid by the Lewis PFD's lessee to Lewis PFD that is in excess of "fixed annual rent." Additionally, Lewis PFD is to be responsible for payment of utilities, taxes and other amounts under the lease. The Ground Lease has a stated term of December 1, 2032, and includes extension provisions. There are no provisions for early termination after commencement of construction of the Event Center, although the Ground Lease includes termination provisions in the event of damage or destruction exceeding a specified cost during the last ten years of the lease term. At expiration of the Ground Lease, the project and all improvements will become the property of the City.

By Resolution No. 2010-005, the Lewis PFD **approved the form of a contingent loan agreement** with Lewis County in connection with the District's Bonds (the "CLA") to be issued in 2010. The CLA states that the County will provide loans to the District in amounts sufficient to replenish a Debt Service Reserve Account ("DSRA") to its required balance, in the event the amount on deposit in the DSRA is less than its required balance. In the event loans are provided, the Lewis PFD will be obligated to repay the loans with interest thereon. The CLA will remain in place until the Lewis PFD bonds are retired.

The Lewis PFD **issued Limited Sales Tax Obligation Bonds** ("Bonds") in the amount of \$5,795,000 on October 26, 2010, pursuant to Resolution 2010-007, with a final maturity date of December 1, 2032.

Portions of the overall project representing the Sports Complex, trails and related parking have been completed and are in use.

The Event Center portion of the project was tabled in 2011, and the Lewis PFD now wishes to proceed with the Event Center at this time. The Lewis PFD has negotiated a Lease agreement with the Lewis County Event Center LLC (the "LLC") for operation of the facility upon completion. No feasibility or other similar study has been completed relative to the LLC's operating plan or projected revenues and expenditures.

Documents Related to the Review

In conducting this review, we examined the following documents:

- Substitute Senate Bill 5984, which sets forth requirements for this review.
- Resolution No. 07-247 of the County, for formation of the Lewis PFD
- The By-laws of the Lewis PFD
- The Umbrella Agreement, among the City, the School and Lewis PFD
- The Interlocal Agreement, among the City, the School and Lewis PFD
- The proposed draft Lease agreement, with the LLC
- Copy of Ground Lease between the City and the Lewis PFD dated June 2010
- The estimated project cost and sources ("Project Summary") prepared by Kaufman Construction and dated July 17, 2012
- The CLA dated August 2010, between the Lewis PFD and the County
- Portions of the Official Statement relating to the Lewis PFD's Limited Sales Tax Obligation Bonds, dated October 26, 2010
- State Auditor's Report relating to the Lewis PFD's financial statements for 2010

Potential Costs and Financial Risks to the Lewis PFD

Sales and Use Tax Revenue

Lewis PFD, by Resolution No. 2007-001 adopted on August 27, 2007, imposed a sales and use tax at a rate of 0.033%, pursuant to RCW 82.14.390, which sales tax is credited against the State's 6.5% general sales tax, and therefore, not an increase to the end user. The sales tax is the Lewis PFD's primary source of revenue. At this time, the only additional revenue is interest income, which is a very small portion of revenue.

The following shows the amount of sales tax distributed to the Lewis PFD each year from 2008 through 2012 (through July). Like most other entities in the state of Washington, taxable retail sales in Lewis County declined after 2008. Additionally, the County's taxable retail sales were unusually high in 2008 due to an extraordinary level of capital investment by one large taxpayer in the County, which makes comparison of 2008 distributions to later years misleading.

Lewis County Public Facilities District Sales and Use Tax Distributions

| <u>Year</u> | <u>Amount Distributed</u> |
|-------------|---------------------------|
| 2012 | \$190,219 |
| 2011 | 345,411 |
| 2010 | 339,368 |
| 2009 | 372,489 |
| 2008 | 450,232 |

Source: Washington State Department of Revenue; 2012 data is through July

In the past year the County has added a significant new taxpayer to their base, Richie Brothers Auctions, which may support increased sales and use tax collections in the future, and provide a larger balance for reserves or other requirements.

Lewis PFD Bonds

The District issued \$5,795,000 of Limited Sales Tax Obligation Bonds on October 26, 2010. The Official Statement for the Bonds states that \$5,455,000 was to be used for Project costs, \$247,630 was to be deposited to the DSRA, and the balance (\$92,270) was to be used to pay costs of issuance for the Bonds. Bond proceeds have been used for project components, including the Sports Complex and parking. As of July 2012, the District has an estimated \$4,100,000 of bond proceeds and other funds available for the Event Center.

The Bonds are to be paid from sales tax revenue collected by the Lewis PFD each year. The Official Statement relating to the Bonds included a schedule called "Debt Service Requirements," on Page 15. The following shows the estimated sales tax revenue and uses as set forth in the Official Statement, for the years 2011 through 2016. While the information is taken from the Official Statement, we have reorganized it for easier readability.

The table in the Official Statement displays each year through 2032, and we are showing the first six years only.

| “Debt Service Requirements” as shown in Lewis PFD Bond Official Statement | | | | | | |
|--|-------------------------------------|------------------------------------|----------------------------------|---------------------------------------|--------------------------------|----------------------|
| Year | Projected Sales Tax Collections (1) | Less: Net Debt Service Requirement | Net Sales Tax after Debt Service | Plus: Estimated Interest Earnings (2) | Less: Est. PFD Annual Expenses | Balance for Reserves |
| 2011 | \$339,735 | \$(226,764) | \$112,971 | \$3,931 | \$30,000 | \$ 86,902 |
| 2012 | 349,757 | (206,671) | 143,086 | 5,931 | 30,885 | 118,132 |
| 2013 | 360,075 | (326,671) | 33,404 | 5,931 | 31,796 | 7,539 |
| 2014 | 370,697 | (334,961) | 35,736 | 5,931 | 32,734 | 8,933 |
| 2015 | 381,633 | (347,802) | 33,831 | 5,931 | 33,700 | 6,062 |
| 2016 | 392,891 | (355,063) | 37,828 | 5,931 | 34,694 | 9,065 |

(1) Based on assumed 2.95% annual increase

(2) Estimated interest earnings on Contingency Reserve Fund at an estimated investment rate of 0.5%

The information above indicates that the Lewis PFD intends to use its sales tax revenue plus interest earnings to pay debt service and core operating expenses, and does not anticipate providing for costs of operating the Events Center. This is consistent with all other information we have reviewed, which clearly indicates that the Event Center lessee is expected to provide for all facility operations.

Because the Lewis PFD issued Bonds in late 2010, there has been one full year of actual sales tax collection history (2011) to compare with projections included in the Bond Official Statement. For 2011, the actual Lewis PFD sales and use tax collection was \$345,411, which exceeded by 1.7 percent the projected collections of \$339,735 indicated in the bond official statement. Year to date collections through July 2012 are approximately 2.1 percent ahead of year to date collections for 2011, which suggests sales tax revenue may increase again in 2012.

The Resolution approving the Bonds includes a covenant to expend sales tax revenue for the following purposes in the following order:

- 1) To make deposits into the principal and interest account to pay interest on the bonds;
- 2) To make deposits to the principal and interest account to pay principal on the bonds;
- 3) To pay “Core Operating Expenses” of the Lewis PFD, which are defined as (a) insurance premiums for building insurance, directors and officers insurance and/or other insurance policies deemed to be reasonably necessary by the Lewis PFD, (b) fees and costs associated with audits, and (c) other operating expenses of the Lewis PFD that the Lewis PFD and the County determine to be essential to the continued operation of the Lewis PFD and/or protection of the Lewis PFD and its assets;
- 4) To replenish the DSRA to equal at least the Reserve Requirement, which is an amount equal to 50% of average annual debt service on the Bonds;
- 5) To repay principal of and interest on loans made by the County under the CLA;
- 6) To pay other administrative operating expenses of the Lewis PFD;
- 7) To fund any reserves that the Lewis PFD is required by contract, resolution or otherwise to create and maintain;
- 8) To pay principal and interest on any subordinate obligations
- 9) To provide for costs and reserves for long-term capital repairs, renewals and replacement of the Sports Complex and Event Center, and other lawful purposes.

The Lewis PFD and Lewis County entered into a CLA which states that the County will provide loans to the District in amounts sufficient to replenish a DSRA to its required balance, in the event the amount on deposit in the DSRA is less than its required balance. In the event loans are provided, the Lewis PFD will be obligated to repay the loans with interest thereon. The CLA will remain in place until the Lewis PFD bonds are retired. Should sales tax revenue be insufficient to pay debt service in any year, the Lewis PFD will draw upon its DSRA for such payment, and provide the County with notice of the deficiency in the DSRA created by the draw. This will ensure that funds are available for timely payment to bondholders, although it shifts some financial risk and responsibility to the County. While we think the risk is remote, if, for any reason, there is a circumstance that necessitates a loan from the County, we believe it would be a relatively small amount in any given year.

The Bonds were structured as “Build America Bonds,” with principal payments due in 2013 through 2032. Assuming compliance with certain conditions, Build America Bonds qualify for a direct subsidy from the Federal government equal to 35 percent of interest due each year. (It should be noted that recent public information from the Federal government has indicated that direct subsidies could be reduced by an amount approximating 7.6 percent of the scheduled subsidy amount, in the event across-the-board cuts are directed by the government. In such an event, the Lewis PFD could see a reduction in its expected subsidy of approximately \$8,500 in 2013, which would need to be covered from sales tax revenue or related funds. Because this is early in the Federal budget process, and the topic has broad political and financial interests, it is too early to speculate on the odds of this occurring).

The net debt service (i.e. principal plus interest minus Federal interest subsidy) was structured to increase at a rate of approximately 2.95% each year, and was designed to utilize approximately 90 percent of projected revenue for debt service, with the remaining revenue to be used to pay core operating expenses (as defined above) for Lewis PFD, with any balances held in reserves.

The bond structure is consistent with financing plans developed by many public facilities districts in the State. It assumes that other funding will be available to pay for costs of operating the project. By virtue of the Interlocal Agreement, the City and School are responsible for all maintenance and operation of the Sports Complex. The proposed lease agreement with the LLC contemplates that the LLC will be responsible for operating and maintenance costs for the Event Center. Should the lease be terminated for any reason, this could result in financial challenges for the Lewis PFD. See “Costs and Risks Relating to Construction and Operation of the Event Center,” and “Costs and Risk Relating to the LLC,” below.

Costs and Risks Relating to the Sports Complex

As noted under “Background” above, construction and installation of the Sports Complex and related parking has been completed, with funding provided by the School and the City, as well as Lewis PFD. In accordance with the Interlocal Agreement, the School and the City are jointly responsible for maintenance and operation of the Sports Complex. The Interlocal Agreement includes a commitment of specific times of use by the Lewis PFD’s lessee relative to the Sports Complex, in order to accommodate various sports leagues and tournaments. It appears that there are no significant remaining obligations for the Lewis PFD relating to the Sports Complex.

Costs and Risks Relating to Construction and Operation of the Event Center

As noted under “Background” above, the Interlocal Agreement assigns responsibility for construction and operation of the Events Center to Lewis PFD. It is our understanding that the Lewis PFD reviewed other proposals and plans for a regional center before selecting the current project proposal. The Lewis PFD expected to move forward with the Event Center project, including entering into a Lease Agreement with the LLC, in 2010, which was one reason the Bonds were issued in 2010. Because the project budget exceeded the available funding sources, the Lewis PFD eventually chose not to proceed with the Event Center at that time, and has studied alterations to the facility plan in order to bring costs within budget. During the time from 2011 to 2012, the Lewis PFD canceled a contract with its former contractor and through mediation paid out \$73,129 as set forth in Note 8 of the State Auditor’s Report on Lewis PFD for fiscal year 2010 issued by the State Auditor on February 27, 2012.

Lewis PFD subsequently retained a new contractor, has completed design documents, and reports that it is preparing to go out to bid during September 2012. The facility plan was not reduced or altered significantly, and therefore the total project budget continues to exceed total project funding sources. It is possible that the project budget will increase or decrease based on bids received during the bid process, planned to occur during September 2012. While the Lewis PFD has identified potential sources to fund the estimated \$981,105 difference, this remains an area of risk until that funding is obligated. Without additional funding, the Lewis PFD will not be able to complete the facility as currently planned. Should the Lewis PFD fail to complete the facility as planned, the LLC would have grounds under the Lease to terminate the Lease.

Event Center – Sources and Uses of Funds

| | |
|---|-------------|
| Estimated Project Uses: | |
| Phase I - Building Shell, sitework, tax | \$4,255,632 |
| Phase 2 - Interior construction, tax | 1,071,665 |
| Design fees and Permit fees | 103,808 |
| Total Project Budget | \$5,431,105 |
| Estimated Project Sources: | |
| Available Bond Proceeds | \$4,100,000 |
| LLC Contribution (1) | 350,000 |
| Total Estimated Project Sources | \$4,450,000 |
| Difference (Sources minus Uses) (2) | (\$981,105) |

(1) The LLC Contribution is to be made available and held in escrow prior to the start of construction. See “Costs and Risks Relating to the LLC.”

(2) The project requirements exceed project sources by \$981,105. The Lewis PFD has informed us that they are pursuing additional funding sources, which may not be identified or committed before year end.

Risks relating to construction of the Event Center include:

- 1) It is possible for the Lewis PFD to begin construction with phased construction-related contracts, (i.e. building shell – Phase I; interior – Phase 2), which would ensure that currently available funding will provide for a completed, secure portion of the Event

Center. If the construction-related contracts are not phased, it is possible that the Lewis PFD would have liability to contractors relating to unfinished/unfunded portions of the building.

- 2) If both phases of the project are not completed, the LLC would have grounds to terminate the Lease, in which event, the Lewis PFD would have operating responsibility for the building. If the building is not occupied, it should be expected that the Lewis PFD would have an obligation to insure the building, pay utilities and provide at least minimal maintenance to retain the value of the completed portion. It can be expected that the Lewis PFD would have limited revenue or funds available to pay these expenses. Representatives of Lewis PFD have indicated that they believe they could terminate the Ground Lease with the City, in which case they would have no further obligation for the Event Center maintenance costs, but we do not read the documents that way. We see no no provision for termination of the Ground Lease, except in the case of damage or destruction as summarized on Page 4. If such a provision were included in the Ground Lease, then the City would be agreeing to take on the obligation to maintain the Event Center if Lewis PFD were to terminate the Ground Lease before the end of its term.
- 3) In accordance with Section 7 of the Lease, if the project does not reach substantial completion by a date 90 days after the completion date set forth in the Lease, the Lewis PFD may be responsible to the LLC for additional costs. (See “Costs and Risks Relating to the LLC,” below).

Costs and Risks Relating to the LLC

The Lewis PFD intends to enter into an Event Center Lease Agreement (“Lease”) with the LLC, which was defined above as the “Lewis County Event Center, LLC.” The LLC is a newly formed entity operated by a local businessperson. We have not reviewed information relating to the LLC or its owners or potential partners, and are not providing input on the qualifications of the LLC to serve as lessee, as this is outside of the scope of our services.

The proposed Lease contemplates that the LLC will contribute \$400,000 toward Event Center, of which \$350,000 is to be applied to the cost of constructing the Event Center, and \$50,000 is to be expended by the LLC on certain costs, to be identified in a Proposed Tenant Plan. As described in the proposed form of Lease which we understand to be agreed to by the parties, it contemplates that the LLC will provide an irrevocable letter of credit to secure the \$350,000 contribution toward construction costs. In discussion with representatives of the Lewis PFD, it sounds like the funds will instead be deposited to a bank and held in the form of a bank certificate of deposit (“CD”). It is unclear how the CD would be held, and the operational mechanics of ensuring that the Lewis PFD can draw the funds when required for project costs. The proposed Lease does not contemplate the CD structure, and will presumably be re-drafted to reflect this change. It is important that this language be written to provide Lewis PFD clear ability and authority to draw the funds as required, in order to complete the project timely.

The proposed Lease provides that the LLC can terminate the Lease if the Events Center is not substantially completed within 90 days of a date to be specified in the Lease (Section 7). In the event of such termination, the Lewis PFD may be required to reimburse the LLC for certain out-of-pocket costs and expenses relating to tenant improvements paid by the LLC. Because the budget is initially out of balance (i.e. the Lewis PFD is in the process of identifying and obtaining additional funding sources), the risk that the date for substantial completion may not be met is relatively high.

The amount of rent due under the Lease is based on gross revenue, so will vary depending on the level of success of the Event Center. Based on the revenues projections provided to us, it appears the initial annual lease payment is anticipated to be approximately \$15,000, but the actual amount will be based on actual gross revenue.

We were initially provided with information dated 2009 showing the LLC's projected revenues and expenses. Upon request, we were provided with updated projections dated 9/6/2012. While it is outside of our scope of services to review and evaluate the projections, we believe it is important that the Lewis PFD review the projections carefully, and determine that the business plan is viable. Should the lessee not be financially successful, there is a risk that they will terminate the Lease, or in order to avoid such termination, may call upon the Lewis PFD to modify the terms and responsibilities under the Lease. We are not aware of any feasibility study or review of the business plan having been conducted.

We offer the following observations based on a brief overview of the LLC's projections:

- 1) A significant portion of the revenue in the business plan (i.e. approximately 65 to 70 percent) is attributed to various sports tournaments and leagues, related to the Sports Complex and Event Center. Therefore the bulk of revenue is dependent on the ability to promote and attract leagues and tournaments to the facility throughout the year.
- 2) Approximately 10 percent of the projected revenue is from a Zip Line, which we do not believe is currently a part of the facility or budget. We do understand that the LLC may install a Zip Line in the future, and understand that the cost is expected to be paid by the LLC. It is unclear if the Zip Line revenue will be available for the Event Center once the Zip Line is installed.

The Lease is structured as an absolute net lease, which means the Lewis PFD should incur no costs so long as the Lease is in place, and the LLC complies with its terms. The lessee is responsible for repairs and maintenance of the facility, and the Lease provides for establishment and funding of reserve funds for the building.

Summary and Conclusions

- 1) The Lewis County Regional Center is a partnership among the Lewis PFD, the City and the School, and includes a Sports Complex and Event Center.
- 2) The terms of an Interlocal Agreement among the parties specifies that the City and School have primary responsibility for operating the Sports Complex, and the Lewis PFD will own and operate the Event Center.
 - a. The Sports Complex has been completed and is in operation.
 - b. The Lewis PFD intends to proceed with construction of the Event Center, to be operated pursuant to a lease with a private operator, an LLC.
- 3) The Lewis PFD has not secured all of the funding for the project construction, and therefore should consider the various risks of entering into a contract for the construction at this time, or consider phasing of the project. Risks may include potential liability to a contractor for amounts greater than available funds, and potential termination of the Lease relating to facility operation if the facility is not completed and delivered by the dates specified in the Lease.
- 4) We have not reviewed the financial or operating ability of the LLC, and offer no opinion relative to their qualifications or the feasibility of their business plan.
- 5) Should events lead to termination or non-performance of the Lease with the LLC, the Lewis PFD will be responsible for maintaining the facility, which would likely be non-operational until a replacement lessee is secured, or operating plan developed.
- 6) The Lewis PFD issued Limited Sales Tax Obligation Bonds in 2010, which are secured by sales and use tax revenue.
 - a. Assuming the Lewis PFD complies with the terms and covenants relating to the Bonds, the ability to repay the Bonds would not be adversely impacted by the operating status of the Event Center.
 - b. While we think the risk is remote, if, for any reason, there is a decline in sales tax revenue that necessitates a loan from the County, we believe it would be a relatively small amount in any given year.

Lewis County Public Facilities District

Website Links for Relevant Information

City of Centralia – Sports Complex website

<http://www.cityofcentralia.com/Page.asp?NavID=499>

MRSC – information on public facilities districts

<http://www.mrsc.org/subjects/econ/ed-pfd.aspx>

Lewis PFD's own website

<http://pfd.lewiscountywa.gov/>

Lewis PFD – Resolutions, Agreements, other related documents

<http://pfd.lewiscountywa.gov/records-contracts>

Lewis PFD – Meeting minutes

<http://pfd.lewiscountywa.gov/meeting-minutes-archive>

State Auditor – 2010 Audit for Lewis PFD

<http://www.sao.wa.gov/auditreports/auditreportfiles/ar1007267.pdf>

Lewis PFD Bond Official Statement

<http://emma.msrb.org/EP463619-EP362091-EP759059.pdf>