

SPOKANE CONVENTION CENTER OPERATING BUDGET REVIEW



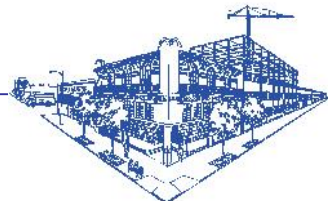
Prepared for:

**Washington State
Department of Commerce**

May 30, 2013

E. D. Hovee & Company, LLC

Economic and Development Services



Spokane Convention Center (SCC) Operating Budget Review

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May 30, 2013

Note: Cover photo is excerpted from Spokane Public Facilities District, 2011 Year End Report.

AT-A-GLANCE SUMMARY

The Spokane Public Facilities District (SPFD) is planning to undertake an approximately \$60 million expansion of the Spokane Convention Center (SCC) together with other related SPFD improvements. At present, the SCC comprises 164,000 square feet of meeting space. Proposed is an approximately 91,500 square foot facility expansion – approximately half of which will serve as directly rentable space.

On behalf of the SPFD, the economic and development consulting firm E. D. Hovee & Company, LLC (EDH) has conducted this independent operating budget review (pursuant to RCW 36.100.025) for the Washington State Department of Commerce (Commerce). This report is conducted as Phase II to a February 2013 financial feasibility evaluation of capital funding for the planned SCC facility expansion. Summary observations from this operating budget review are noted as follows.

SCC Experience with 2006 Expansion. This analysis begins with review of the most recent expansion SCC has experienced to date – the 100,160 square foot Exhibit Hall completed in June 2006. In the three years after this expansion, SCC annualized revenues increased by 60% as compared with two years prior to expansion. Expenses were up by 86% – with just under one-third of the added cost for direct staffing. Average annual revenues increased by \$1.4 million per year versus a \$1.8 million increase in expenses, resulting in a \$400,000 swing in operating profit (from surplus to deficit position).

Comparable Facilities Review. Similar experience is noted with two expansions that have occurred with the Washington State Convention Center (WSCC) in Seattle and with the Oregon Convention Center (OCC) in Portland. In 2001, the WSCC completed its first major expansion with a 40%+ increase in meeting space (primarily exhibit area). WSCC revenues increased by 19% and expenses by 31% on average over the three years post-expansion as compared with two years prior. In 2010, WSCC completed a second expansion; this is viewed as less directly comparable due to the new facility's use primarily as a conferencing center and lack of 3-year post-expansion operating experience to date.

In 2003, the OCC completed a near doubling of its meeting space with added exhibit hall capacity. Over the next three years, income increased by 60% and expenses by 36% as compared with two years prior. However, the reported income increase is tempered by prior revenue drop-off with substantial construction disruption, including loss of parking prior to completion of facility expansion.

Budget Scenarios with SCC Expansion. Adjusting for the varied sizes of the comparable prior expansions relative to current planned SCC expansion, a *base case* scenario indicates an estimated 14% increase in average annual revenues for three years post-expansion as compared with expense increase in the range of 16%. Annual SCC operating deficits could peak at double the pre-expansion deficit. While affected, all three SPFD venues combined would continue to operate at an annual operating profit.

With a *worst case scenario*, revenues would remain essentially flat, consistent with SCC experience of the last four years and 2013 outlook. Expenses could increase by about 20%, similar to WSCC experience benchmarked for relative size of the SCC expansion – potentially tripling the SCC operating deficit. While overall SPFD operations from all three venues would appear to remain profitable for all but one year, operating margins would be substantially reduced – making the SPFD more vulnerable to minor adverse changes in economic or competitive conditions for any of the SPFD venues in the years ahead.

Operating Risk Factors & Mitigation. In addition to mitigation options previously identified with the February independent financial feasibility evaluation, this operating budget review identifies added options including: a) explicit budgeting for increased SCC operating deficits consistent with experience of other facilities; b) active marketing of the SCC from the time that the planned expansion is permitted; c) aiming to keep added facility expenses as close to fully variable as possible to match ebbs and flows of utilization; and/or d) dedicating reserves for combined SPFD operations to address unforeseen contingencies as with a worst case operating scenario.

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I. INTRODUCTION

The Spokane Public Facilities District (SPFD) has been planning to undertake a \$65 million expansion of the Spokane Convention Center (SCC) together with other related SPFD improvements.¹ With project refinements, the amount to be expended on current projects has been reduced to approximately \$60 million, requiring less bonding than originally anticipated.²

On behalf of the SPFD, the economic and development consulting firm E. D. Hovee & Company, LLC (EDH) has conducted this independent operating budget review for the Washington State Department of Commerce (Commerce).

PURPOSE OF FEASIBILITY REVIEW

A Phase I independent financial feasibility evaluation of potential costs and the adequacy of SPFD revenues to repay SPFD-issued bonds anticipated at \$50 million and a \$15 million loan from Spokane County was completed by EDH in February 2013. On May 9, 2013, the SPFD issued bonds in the reduced amount of \$45 million for the construction fund plus an approximate \$2.2 million reserve fund addition.³

This Phase II review focuses on the adequacy of revenues or expected revenues to meet costs of operations with SCC expansion. As directed by state statute, the preparer of this analysis is to exercise independent professional judgment in conducting the financial feasibility review.

STATE OF WASHINGTON ROLE & STATUTORY AUTHORITY

As enacted by the 2012 Washington State Legislature, RCW 36.100.025 requires that:

- (1) An independent financial feasibility review under this section is required to be performed prior to any of the following events:
 - (a) The formation of a public facilities district under this chapter;
 - (b) The issuance of any indebtedness, excluding the issuance of obligations to refund or replace such indebtedness, by a public facilities district under this chapter; or
 - (c) The long-term lease, purchase, or development of a facility under this chapter.

- (2) The independent financial feasibility review required by this section must be conducted by the department of commerce through the municipal research and services center under RCW 43.110.030 or under a contract with another entity under the authority of RCW 43.110.080. The review must examine the potential costs to be incurred by the public facility [facilities] district and the adequacy of revenues or expected revenues to meet those costs. The cost of the independent financial feasibility review must be borne by the public facility [facilities] district or the local government proposing to form a public facility [facilities] district.

- (3) 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 [facilities] district and participating local political subdivisions, and appropriate committees of the legislature.

This Phase II evaluation is being prepared pursuant to section (1)(c) of the above noted statute.

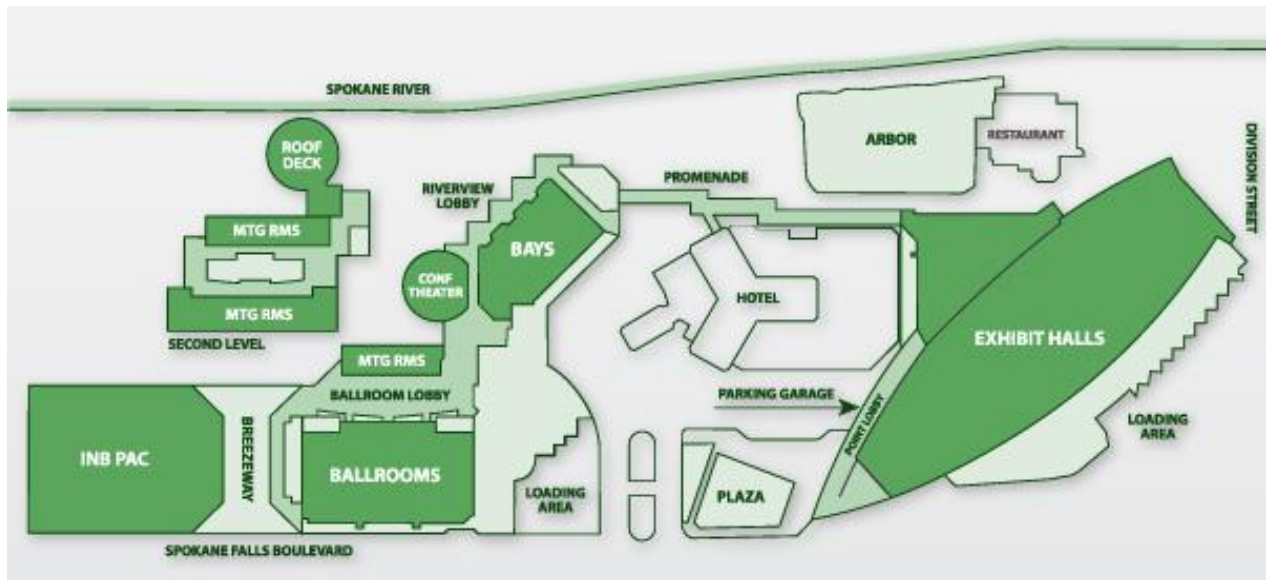
EXISTING & PLANNED FACILITIES

The Spokane Public Facilities District (SPFD) was created as a municipal corporation of the state of Washington by resolution of the Spokane City Council and Spokane County Commissioners in 1989. Boundaries of the District are coterminous with those of Spokane County.

The SPFD currently owns and operates three regional center facilities – the Spokane Convention Center, INB Performing Arts Center, and Spokane Veterans Memorial Arena. The focus of this analysis is the Spokane Convention Center (SCC) which encompasses approximately 164,000 square feet of space for meetings, trade shows, banquets, and community and sporting events in downtown Spokane adjacent to the Spokane riverfront. An initial expansion of the SCC facility occurred in 1989, while the facility was still serving as the Washington State Agricultural Trade Center. In 2002, this expansion was incorporated into the SCC.

Current SCC Facilities. The initial complement of SCC facilities were developed as part of the Expo '74 Washington State Pavilion. Located on a 100-acre Riverfront Park site in downtown Spokane, the pavilion became Spokane's first municipal convention center in 1975.

Current SCC Site Layout



Source: Per SCC website <http://www.spokanecenter.com/generalinfo.php>, as of April 2013.

As currently configured, the SCC comprises 164,000 square feet of meeting space including:

- 25,310 square feet of ballroom space

- 23 meeting rooms totaling 35,732 square feet
- A 270-seat theater
- 100,160 square foot exhibit hall (completed subsequently with a 2006 SCC expansion)

Situated between the ballroom/meeting spaces and the new exhibit hall is the Doubletree Hotel combined with access to the facility parking garage. Access between the banquet/meeting and exhibit areas is provided via an enclosed promenade.

Planned Improvements. As documented by the *Financing Plan* prepared in December 2010 by A. Dashen & Associates for the SPFD:

In 2009 a comprehensive study (“Vision 20/20”) was completed to help the District strategically plan its long-term future. Vision 20/20 outlined a number of initiatives designed to ensure the District continues to be a major economic engine for the Inland Northwest. Completing the Convention Center’s original design in order to stay competitive with the rest of the nation was among the more important recommendations. The District also determined that restoring an extensive section of Spokane River shoreline and adding 700 seats in the Arena would also greatly benefit the region. The District’s Staying Competitive, Creating Jobs proposal received a 56% voter approval in April 2012. The 10 year extension of existing sales and hotel motel taxes authorized by County voters will be used to finance the estimated \$65 million of improvements which will create some 800 local jobs in the coming years. Construction is set to begin in 2013.

The February 2011 Concept design report describes a space program for the expanded facility of approximately 91,500 square feet as comprising:

- 16,250 square feet of added lobby/concourse/registration space
- A 19,650 square feet added exhibition hall
- 24,800 square feet added ballroom and meeting space
- 29,520 square feet support/back of house/vertical circulation space.

Of the added space, approximately one-half will serve as directly rentable space with the other half as circulation and back of the house area. Detailed floor plans for the expanded facility are not yet available as of the time that this operating budget review has been prepared. SCC is currently in the process of selecting a design/builder. Anticipated opening date is January 2015.

SCC and SPFD Revenues. All three SPFD venues are financed and operated through a combination of user fees and tax revenues. User fees are relied on to cover a major portion of operating expenses for all three facilities, with additional revenue support from some tax revenue sources. Current and anticipated funding of debt service is totally reliant on tax revenue sources. The focus of this analysis is on the adequacy of user fees coupled with surplus revenues from the Arena and Performing Arts Center to cover additional operating costs that might be reasonably anticipated with SCC expansion as currently planned.

ANALYSIS APPROACH

This analysis has been prepared for Commerce by the independent economic and development consulting firm E. D. Hovee & Company, LLC (EDH).⁴ A brief profile of the firm, as report preparer, is provided by Appendix A.

Scope of Work. Contracted services with this review involved four tasks, outlined as follows:

- Step 1 – Review of SPFD revenue/expense statements with prior SCC expansion
- Step 2 – Review of pre-/post-expansion experience of other potentially comparable facilities
- Step 3 – Preparation of revenue/expense scenarios with planned SCC facility expansion
- Step 4 – Submittal of draft and final reports with revisions to address questions and comments as received from Commerce and SPFD

Documents Reviewed. Documents reviewed are listed by Appendix B to this report. No additional independent document research has been conducted for this assignment outside of information obtained in conjunction with Step 2 review of other potentially comparable facilities. The assistance of Commerce and SPFD with provision of background information, follow-up to questions, and review of draft report documentation is greatly appreciated.

Methodology Overview. As noted, the Phase I analysis (completed in February 2013) was focused on adequacy of tax revenues to repay indebtedness with SCC facility expansion. The focus of this Phase II analysis is on the adequacy of operating revenues to repay added operating expenses that might be reasonably expected with expansion. Adequacy is addressed in terms of operating revenues of the SCC as a stand-alone venue and operating revenues of the SPFD as a public entity that owns and operates other event venues in addition to the SCC.

Because SPFD has not prepared its own post-expansion operating projections, this report relies on a review of pre- and post-expansion experience with the 2006 completion of the Group Health Exhibit Hall. In addition, the expansion experience of the Washington State Convention Center (WSCC) and the Oregon Convention Center (OCC) is also reviewed. This report is not intended to serve as a market analysis nor as a review of building design and functionality. The methodology and data sources applicable to this review are as provided with each section of the report analysis.

Report Organization. The remainder of this report is organized to cover the following topics:

- SCC experience with previous 2006 expansion
- Comparable facilities review
- Budget scenarios with SCC expansion
- Operating risk factors and mitigation

Included with the report are two appendices – providing a profile of EDH as project preparer and a listing of documents reviewed.

II. SCC EXPERIENCE WITH 2006 EXPANSION

As earlier noted, the Spokane Convention Center (SCC) comprises approximately 164,000 square feet of multi-use meeting space including:

- 25,310 square feet of ballrooms
- 23 meeting rooms totaling 35,732 square feet
- A 270-seat theater (with access to an adjoining 2,700-seat Performing Arts Center)
- 100,160 square foot exhibit hall (completed subsequently with a 2006 expansion)

Over 400 parking spaces are provided below the exhibit halls, with an added 1,100 parking spaces within a two-block radius. On-site technology features include campus-wide wireless access, full building automation, and LEED Silver certification for construction with environmentally-friendly materials and application of energy efficient operations.

REVENUE / EXPENSE HISTORY 2006 GROUP HEALTH EXHIBIT HALL

This analysis begins with a review of the only major expansion the SCC has experienced to date, the June 2006 completion of the 100,160 square foot Group Health Exhibit Hall.

In reviewing the experience of this expansion relative to other comparable facilities, EDH aimed to compile financial records for seven years of operation. This includes three years of operation prior to completion of the expanded facility, the year in which the expanded facility opened (noted by the following charts as Year 0), and the succeeding three years post-expansion.

For Spokane and for other comparables, it was not always possible to readily obtain a complete seven-year financial history. For the Spokane PFD, comparable records are not available for 2003, as the PFD assumed operations from the City of Spokane on September 1, 2003 (so any SPFD financial results would only be for a partial year).

Pre-/Post-Expansion Financial Results. For the six-year time period of 2004-09, SCC actual income, expense and net income figures are noted as depicted by the following summary chart. Of added note is that the expansion was complete in June of 2006, about mid-way through the calendar year.

SCC Revenue / Expense History with 2006 Group Health Exhibit Hall Expansion

Metric	Years Before / After Facility Completion						
	-3	-2	-1	0	+1	+2	+3
Year	2003	2004	2005	2006 (June)	2007	2008	2009
Income	NA	\$2,468,430	\$2,289,987	\$3,164,924	\$3,926,058	\$3,761,125	\$3,698,122
Expense	NA	(\$2,148,345)	(\$2,090,419)	(\$3,247,360)	(\$4,405,662)	(\$3,645,649)	(\$3,780,535)
Net Income	NA	\$320,085	\$199,569	(\$82,435)	(\$479,604)	\$115,477	(\$82,413)
Attendance	NA	264,602	202,736	214,189	291,211	269,373	271,437

Source: SPFD Year End Reports as compiled by E. D. Hovee & Company, LLC.

In the three years after this expansion, average annual SCC revenues increased by 60% as compared with the two years prior to expansion. Average annual expenses were up by 86%.

In the two years for which comparable financial data is available *leading up to the expansion*, SCC revenues were relatively stable, in a range approaching \$2.3-\$2.5 million. Operating expenses came in at about \$2.1 million for both years, leading to positive net income (or operating profit) in the range of \$0.2-\$0.3 million. Also noted is that attendance had declined in the year prior to and leading up to Exhibit Hall opening.

In the year that the *expansion was completed*, revenues increased by close to \$0.9 million (24%); attendance was up by even more (by 36%). Expenses increased by nearly \$1.2 million, leading to a \$300,000 negative swing in net income. However, when considered on a per attendee basis, expenses remained relatively flat (at just over \$15 per attendee).

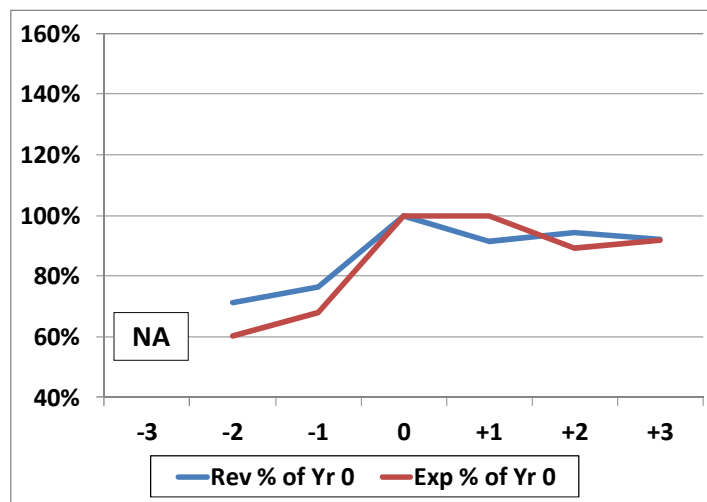
Both revenues and expenses peaked in 2007, the first full year after facility expansion, although this experience may be partially skewed by major national sports events in that year.⁵ Expenses were up more than revenues, resulting in an operating deficit approaching \$0.5 million.

For the next two years of 2008 and 2009, the recession appears to have the effect of a modest (4-6%) reduction in gross income. Operating expenses were pared back significantly (by about 17%) in 2008, making possible a small surplus of \$0.1 million followed by a modest operating deficit of less than \$0.1 million in 2009.

Overall, annual operating revenues for the three years following expansion averaged about \$1.4 million more than prior to the expansion. Expenses were up by \$1.8 million, resulting in a negative net income swing of \$400,000 – from a position of net operating profit to deficit.

Per Attendee Experience. As noted, it is also possible to evaluate revenue and expense trends pre- and post-expansion on a *per attendee* basis, as is illustrated by the following graph.

SCC Revenue / Expense per Attendee (as % of Year 0) – 1st Expansion



Source: SPFD Year End Reports as compiled by E. D. Hovee & Company, LLC.

Both per attendee revenues and expenses increased up to the time of opening, then dropped back somewhat over the next three years. Per attendee expenses adjusted back with about a one year lag as compared with revenues.

In effect, while SCC expansion resulted in substantial added attendance (as described below), both revenues and expenses increased even more rapidly. The SCC experience generally coincides with per attendee patterns for the comparables of the WSCC and OCC addressed later in this report – albeit with some facility-specific variations in timing of added revenues and/or expenses.

Changing Composition of SCC Operating Revenues & Expenses. As a final step in this retrospective analysis, it has also been possible to evaluate detailed revenue and expense line item changes from two years prior to expansion to three years post SCC expansion – a period extending from 2004-09. Detailed tabular results are provided on the following two pages.

Primary observations from this review are summarized as follows:

- Average **attendance** for the three years post-expansion was nearly 58,700 attendees per year higher than for the two years pre-expansion, a 27% increase.
- As noted, average revenues increased by \$1.4 million per year versus a \$1.8 million increase in expenses, resulting in an approximate \$400,000 swing in **net income** (from surplus to deficit position).
- Of the **revenue** line item changes, 32% of the increase was accounted for by facilities revenue – followed by increased contributions from lodging taxes (related to total room nights including activity independent of SCC), ushering revenue and electrical fees. *Note:* A separate incremental contribution to SCC was eliminated in 2007.
- Of the **expense** changes, close to one-third (32%) of added cost was comprised of added salary/wage and associated benefits expense. Another 30% consisted of added expense for minor equipment, contract services and labor, and reimbursed event ushering. Approximately 25% went for added costs associated with insurance, electricity, gas repairs, and maintenance – as perhaps the best indicator of potential added fixed cost.⁶ The remaining 13% was allocated across a variety of other line items. This includes a 6% increase in cost allocation for Convention and Visitors Bureau (CVB) services, a figure based on a formula related to Spokane tourism and lodging tax activity rather than directly to SCC financial performance.

Not directly shown by the attached tables, but readily calculated, are line item changes in revenues and expenses **per attendee**. Overall per attendee annual revenues increased by 25% for the three years post-expansion, as compared with the two years pre-expansion. Per attendee expenses increased more rapidly – by an estimated 46% – over this same time period.

SCC Revenue History with 2006 Group Health Exhibit Hall Expansion

Line Item Description	Average of 2 Years Pre- Expansion	Change from 2 Yrs Pre- to 3 Years Post- Expansion	% of Total Change
Attendance	218,669	58,671	NA
Summary Revenue / Expenses			
REVENUE	\$2,379,209	\$1,415,893	NA
EXPENSES	\$2,119,382	\$1,824,567	NA
OPERATIONS PROFIT/LOSS	\$259,827	(\$408,674)	NA
Revenue Detail			
FACILITIES RENTAL	\$463,629	\$449,264	32%
CONCESSIONS	\$56,667	\$59,821	4%
CATERING	\$240,124	\$132,275	9%
MERCHANDISE	\$1,461	(\$35)	0%
PARKING	\$51,446	(\$23,181)	-2%
BOX OFFICE	\$3,403	(\$2,069)	0%
ADVERTISING CONTRACTS	\$0	\$50,000	4%
AD AGENCY	\$0	\$656	0%
CLEANING	\$0	\$2,482	0%
MISC EVENT REVENUE	\$2,838	\$5,772	0%
USHERING REVENUE	\$0	\$155,782	11%
STAGEHAND REVENUE	\$0	\$2,747	0%
ELECTRICAL FEES	\$0	\$150,011	11%
SET UP FEES	\$49,562	\$55,462	4%
EQUIPMENT RENTAL	\$94,472	\$46,470	3%
PHONE & INTERNET	\$0	\$14,982	1%
TECHNICAL SERVICE	\$19,168	\$3,302	0%
EVENT INSURANCE	\$0	\$978	0%
SHOW PROMOTE REVENUE	\$0	(\$5,822)	0%
FORFEITED DEPOSITS/LIQUIDATED DAMAGES	\$2,350	\$20,808	1%
RECYCLING	\$543	(\$543)	0%
OTHER MISCELLANEOUS	(\$2,574)	\$6,020	0%
CONDO SALARY REIMBURSEMENT	\$0	\$4,238	0%
AR ADMISSION TAX	\$444,592	\$139,480	10%
CC ADMISSION TAX	\$12,490	\$6,079	0%
LODGING TAX	\$647,915	\$326,088	23%
INCREMENTAL CONTRIBUTION	\$261,363	(\$261,363)	-18%
R&R TRANSFER	\$29,759	\$76,191	5%
TOTAL REVENUES	\$2,379,209	\$1,415,893	100%

Source: SPFD Year End Reports as compiled by E. D. Hovee & Company, LLC. Average of two years prior to expansion covers the years 2004-05 and three years post is for 2007-09.

SCC Expense History with 2006 Group Health Exhibit Hall Expansion

Line Item Description	Average of 2 Years Pre- Expansion	Change from 2 Yrs Pre- to 3 Years Post- Expansion	% of Total Change
Expense Detail			
SALARIES & WAGES	\$591,320	\$416,205	23%
BENEFITS & EXPENSE	\$172,930	\$159,730	9%
OFFICE SUPPLIES	\$5,821	(\$218)	0%
CHEMICAL/LAB SUPPLIES	\$3,889	\$5,241	0%
CLOTHING	\$176	\$1,595	0%
OPERATING SUPPLIES	\$33,415	\$49,438	3%
PUBLICATIONS	\$0	\$3	0%
MEALS	\$183	\$78	0%
FUEL	\$87	\$1,205	0%
MINOR EQUIPMENT	\$63,219	\$61,017	3%
PROFESSIONAL SERVICES	\$32,981	(\$10,389)	-1%
CONTRACT SERVICES	\$2,628	\$87,461	5%
CONTRACT LABOR	\$175,340	\$292,068	16%
REIMBURSED EVENT USHERING	\$0	\$113,441	6%
REIMBURSED STAGEHANDS	\$0	\$3,813	0%
ADVERTISING COMMISSIONS	\$0	\$7,500	0%
CONTRACT SERVICES CVB	\$504,949	\$102,805	6%
TELEPHONE	\$14,102	(\$5,170)	0%
CELL PHONE	\$400	\$1,066	0%
POSTAGE	\$1,359	\$619	0%
CABLE TV	\$106	\$1,665	0%
TRAVEL	\$8,698	\$9,983	1%
BUILDING ADVERTISING	\$4,501	\$1,195	0%
ADVERTISING	\$125	(\$125)	0%
OTHER MARKETING	\$718	\$1,804	0%
OPERATING RENTALS	\$3,054	\$1,901	0%
INSURANCE	\$34,340	\$15,059	1%
INSURANCE CLAIMS	\$0	\$9,123	1%
WATER & SEWER	\$19,516	\$7,918	0%
ELECTRICITY	\$182,985	\$208,161	11%
REFUSE	\$15,039	(\$1,159)	0%
GAS	\$60,136	\$84,642	5%
EXTERIOR REPAIRS & MAINTENANCE	\$12,874	\$16,254	1%
BLDG REPAIRS & MAINTENANCE	\$120,987	\$99,133	5%
EQUIP REPAIRS & MAINTENANCE	\$7,576	\$1,224	0%
REPAIR & MAINTENANCE SUPPLIES	\$7,587	\$9,309	1%
DUES, SUBS, MEMBERSHIPS	\$2,007	\$959	0%
REGISTRATION & SCHOOLING	\$4,978	\$1,248	0%
LAUNDRY & SANITATION	\$744	\$1,228	0%
PERMITS, OTHER FEES	\$1,245	\$14,403	1%
PRINTING & COPYING	\$2,157	\$571	0%
BANK CHARGES	\$0	\$5,284	0%
OTHER MISC CHARGES	\$636	\$4,911	0%
RESERVE FOR BUDGET ADJUSTMENT	\$10,410	(\$10,410)	-1%
TAXES	\$16,153	\$52,534	3%
TOTAL EXPENSES	\$2,119,382	\$1,824,567	100%

Market Overview. To date, an independent market analysis has not been prepared for the Spokane Convention Center as part of project planning for expanded facilities. Nor is this operating budget review intended to serve as a market analysis. However, it is useful to briefly summarize key characteristics and trends affecting SCC operating performance.

Based on information provided with annual year end reports, the following attendance characteristics and trends are of note:

- In the two years prior to the 2006 Group Health Exhibit Hall expansion, facility attendance averaged just under 219,000 per year. In the three years after expansion, attendance increased by 27% to average over 277,000 annually.
- The lowest attendance year pre-expansion was in 2005, the year before the Group Health facility was completed. The best year post-expansion (through 2012) was 2007, the year after construction completion (also due to national figure skating events).
- Post-expansion, the low year for attendance was 2011, with about 244,000 attendees; attendance rebounded to approach 285,000 attendees in 2012 (up by 17%).
- Over the last 10 years (from 2003-12), consumer shows have served as the single largest source of facility attendance in eight years. Conventions and trade shows have been the #1 source of attendance in two years – 2003 and 2012. Other types of activities accommodated typically include community events, meetings, sporting events, and entertainment.

SCC also tracks its competitive position relative to other centers in regional markets across the U.S.⁷ As of 2011, the SCC appears to experience an above average number of building events and total attendance together with high per attendee rental revenue for conventions and trade shows and relatively low staffing (due to contracting out of services such as catering and security). SCC also reports higher levels of hotel room nights supported locally from convention center events than for other regional market facilities.

However, the SCC lags other centers in regional markets in terms of exhibit hall events and attendance as well as in exhibit hall/ballroom occupancy, per attendee rental rates for consumer shows, and with overall food and beverage revenue.

Overall, it appears that the 2006 completion of the Group Health Exhibit Hall facilitated a noticeable increase in SCC attendance as well as revenue. The peak year (for both attendance and revenue) was one year later, in 2007. Due to the recession and relatively slow economic recovery, the facility has yet to rebuild back to its pre-recession peak.

2012 attendance has recovered to its highest level since 2007. However, operating expenses were higher and the operating deficit greater than what was experienced in 2011 (a low attendance year). Whether for reasons of an overall sluggish economic recovery or competitive market position, there does not yet appear to be a clearly discernible trend on which to base future operating budget forecasts. This is a topic to which this report returns with Section IV discussion of budget scenarios with SCC expansion.

III. COMPARABLE FACILITIES REVIEW

While previous SCC expansion experience serves as a useful indicator of potential prospects with future expansion, it is also instructive to look to the experience of other Pacific Northwest convention facilities that have either undertaken or are contemplating similar expansions. The primary focus of this comparable facilities review is on two major convention centers that have undergone significant expansions over the last 10-15 years, notably:⁸

- The Washington State Convention Center (WSCC) – which doubled its exhibit space in 2001 and then opened a new conference center in 2010
- The Oregon Convention Center (OCC) – with major facility expansion completed in 2003

WASHINGTON STATE CONVENTION CENTER

What is today known as the Washington State Convention Center (WSCC) originally opened in 1988 as the Washington State Convention and Trade Center as a state agency. WSCC was transitioned to the control of a county-chartered Washington State Convention Center Public Facilities District, with 2011 as the first full year of PFD operation.

WSCC Facility Profile. Today, the WSCC comprises nearly 415,000 square feet of meeting space including 205,700 square feet of heavy-load exhibit space, 45,000 square feet of ballroom area, and up to 61 meeting rooms totaling 57,000 square feet.

Constructed over the Interstate 5 freeway in downtown Seattle, the center includes four distinct lobbies and an on-site kitchen with culinary staff. While there is no single headquarters hotel, the WSCC is directly adjacent to the 1,258-room Sheraton Hotel and the availability of close to 14,000 hotel rooms in the downtown area.

2001 WSCC Exhibit Space Expansion. In July of 2001, the first major WSCC expansion was completed, resulting in the approximate doubling of exhibit space plus added lobby area.

As with the Spokane Convention Center, WSCC financial reports have been reviewed as a basis to evaluate income and expense trends covering up to seven years – including three years before the expansion was completed, the year the expanded facility opened, and three subsequent years. As with the SCC, pre-opening data is readily available only for two years prior to facility expansion.

Also noted is that the opening of the expanded space occurred in July of 2001 – essentially just after the end of the 2001 fiscal year (denoted as Year 0 with the summary chart on the next page).

WSCC Revenue / Expense History with 2001 Exhibit Hall Expansion

Metric	Years Before / After Facility Completion						
	-3	-2	-1	0	+1	+2	+3
Year	FY 1998	FY 1999	FY 2000	FY 2001 (July)	FY 2002	FY 2003	FY 2004
Income	NA	\$14,380,000	\$14,708,000	\$15,390,000	\$15,731,640	\$17,123,233	\$19,154,160
Expense	NA	(\$12,307,000)	(\$13,264,000)	(\$13,964,000)	(\$15,999,913)	(\$16,700,970)	(\$17,661,696)
Net Income	NA	\$2,073,000	\$1,444,000	\$1,426,000	(\$268,273)	\$422,263	\$1,492,464
Attendance	NA	411,949	398,589	369,386	371,865	425,332	427,818

Source: WSCC Annual Reports, as compiled by E. D. Hovee & Company, LLC.

Pre-/Post-Expansion Financial Results. In the *two years leading up* to the expanded facility (essentially including what is noted as Year 0), WSCC revenues were fairly stable in the range of \$14-\$15 million per year. Expenses were in a \$12-\$13 million range, although increasing to about \$14 million in Year 0 leading up to opening of the added exhibit space. Net revenues were in a range of \$1.4-\$2.1 million per year.

In the *three years subsequent to expansion*, revenues gradually ramped up – slowly at first but increasing by nearly \$4 million in Year 3 (FY 2004) compared to Year 0 (FY 2001) – close to a 25% increase in three years. As was the case with Spokane’s exhibit space expansion, convention center attendance declined somewhat prior to opening. Unlike Spokane, there was no substantial attendance increase the year after opening.

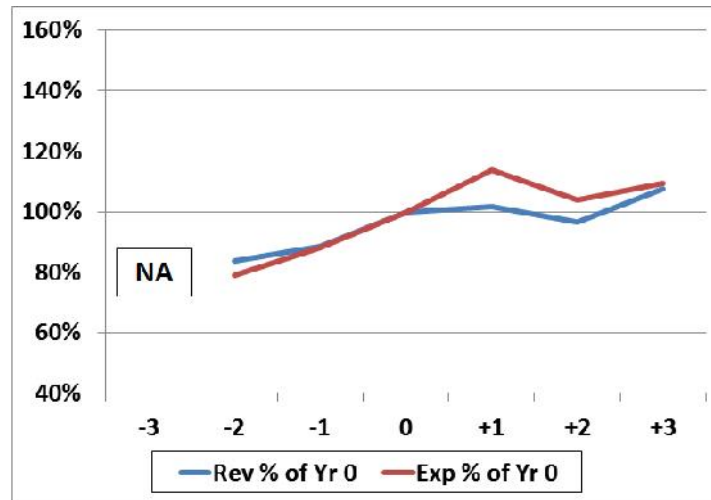
A factor affecting the relatively slow Year 1 (FY 2002) uptick in revenues was a recession coupled with travel-chilling effects of the 9/11 World Trade Center attack. However, attendance the second year after opening was up by 15% as compared to Year 0, with even stronger recovery noted by Year 3 after expansion (FY 2004).

Expenses ramped up much more quickly, increasing by about \$2 million (15%) in just the first year and by 26% over three years. Net income went negative in the first year after the expansion as expenses clearly outpaced income, but then built back up to about pre-expansion levels by Year 3.

When viewed over the full range of this experience, average annual income for WSCC for the three years post-expansion was about 19% above what was realized for the two years prior to expansion. Expense increased by a more substantial 31%.

Per Attendee Experience. As illustrated by the following graph, revenues per attendee increased starting even before completion, then flattened before increasing again in Year 3 post-expansion. Per attendee expenses increased to 14% above Year 0 conditions in the first year, then dropped down in subsequent years.

WSCC Revenue / Expense per Attendee (as % of Year 0) – 1st Expansion



Source: WSCC Annual Reports, as compiled by E. D. Hovee & Company, LLC.

2010 New WSCC Conference Center. The second major WSCC expansion was completed in July 2010, entailing a new conference center comprising 17 new meeting rooms totaling 71,000 square feet.

In this case, there is a full 3+ years of revenue/expense history pre-expansion, but only two years of experience available to report post-expansion. There also is the added complication of the WSCC moving from a July-June fiscal year to a calendar fiscal year starting in 2011, with transition to PFD ownership and operation.

What is termed as FY 2011 “Stub” represents the last six months of 2010 (or what would have been the start of the 2010-11 fiscal year). Revenues for this 6-month period are annualized.

WSCC Revenue / Expense History with 2010 Conference Center Expansion

Metric	Years Before / After Facility Completion						
	-3	-2	-1	0	+1	+2	+3
Year	FY 2007	FY 2008	FY 2009	FY 2010 (July)	FY 2011 Stub*	2011	2012
Income	\$25,664,629	\$24,989,171	\$25,562,405	\$22,026,248	\$23,714,674	\$34,443,770	NA
Expense	(\$20,994,249)	(\$23,192,773)	(\$23,179,964)	(\$21,882,040)	(\$23,385,384)	(\$33,828,168)	NA
Net Income	\$4,670,380	\$1,796,398	\$2,382,441	\$144,208	\$329,290	\$615,602	NA
Attendance	398,555	482,768	430,771	390,282	319,834	420,313	NA

* Note: FY 2011 Stub covers July-December 2010, with results annualized (multiplied by two).

Pre-calendar 2011, food service revenues were reported net rather than gross terms, with expenses excluded.

Source: WSCC Annual Reports, as compiled by E. D. Hovee & Company, LLC.

Pre-/Post-Expansion Financial Results. Operating results are a bit less straightforward with this second WSCC expansion – in part due to what appears to be the effects of economic recession and ensuing recovery. Also noted is that with pre-PFD operation, food service revenues were reported in terms of net rather than gross revenue. This accounting change is a contributing factor to a significant jump in reported income for calendar year 2011.

Operating income appears to have remained somewhat flat through at least the first six months after opening of the new conference center, but then picked up sharply (by 45%) in calendar year 2011. This jump reflects increased facility utilization/attendance and changed accounting practices to account for gross rather than net food service revenues – occurring with the transition to PFD management.

Operating expenses for the 6-month stub transition right after conference center opening appear to be up by about \$1.5 million (or 7% on an annualized basis), but still below expenses of FY 2008 and FY 2009. Expenses then ratcheted up in 2011, increasing by more than \$10 million (also by 45%) over FY 2011 Stub results. The degree to which this is due to changed accounting practices with PFD management versus increased utilization is not readily ascertainable.

In effect, this expense increase (in percentage terms) matches the growth in revenue also experienced. With facility expansion, event attendance was also up in 2011, by 31% compared to FY 2011 Stub results and by 8% compared with FY 2010 (full year) attendance.

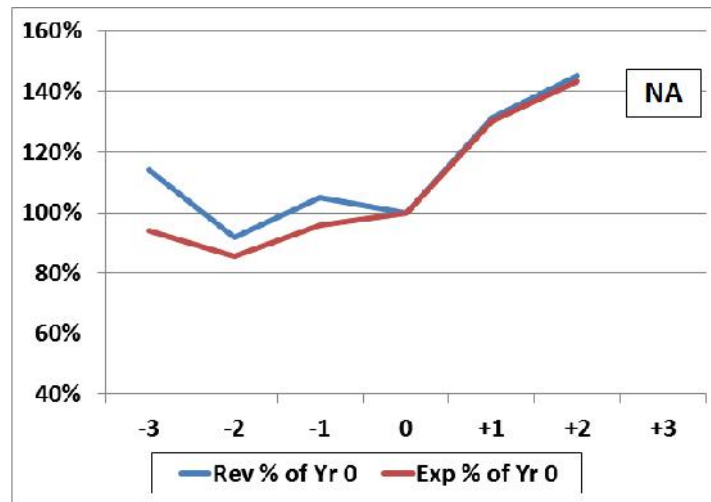
Net income has yet to return to pre-recession levels. Net income was as high as \$4.7 million in FY 2007 (or 18% of gross revenue), dropping back to near breakeven just prior to expansion, and finishing at just over \$0.6 million (or 2% of gross revenue) in calendar 2011. Given the changes that have recently occurred in accounting practices, the net income figure appears to be the best *bottom-line* measure of post-expansion experience to date.

Per Attendee Experience. When considered on a per attendee basis, the experience of this second WSCC expansion is somewhat different than what occurred a decade earlier, as illustrated by the graph on the following page.

Per attendee revenues and expenses both increased rapidly with expansion. Within two years, both revenues and expenses were about 44-45% higher than at Year 0 (on a per head basis). In part, this may be because a conference center is typically associated with a higher level of service and amenity and associated cost than an event using exhibit hall space. However, this boost also reflects changes in accounting practices that were implemented in 2011 (Year 2).

Unlike the first expansion where expenses ramped up more quickly in the first two years before revenues caught up, with this second expansion both revenues and expenses seem to move up at about the same pace.

WSSC Revenue / Expense per Attendee (as % of Year 0) – 2nd Expansion



Note: Post-expansion data is not fully comparable to pre-expansion data due to change in accounting year and food service accounting procedures.

Source: WSSC Annual Reports, as compiled by E. D. Hovee & Company, LLC.

Changing Composition of WSSC Operating Expenses. WSSC does not publish detailed operating expense data with its annual reports. However, discussion with Jeff Blosser, the facility’s President and CEO, was helpful in describing the experience of the two WSSC facility expansions, as well with added insights related to the Oregon Convention Center which Mr. Blosser previously managed:

- From a WSSC management perspective, increases in expenses typically can be expected to outpace revenues with facility expansion – with revenues catching back up over a 3-5 year period. This appears to be more the case for adding exhibit space than conferencing capability. At least in WSSC’s experience, the 2010 Conference Center appears to be experiencing more rapid revenue gains, also attributable in part to recovering economic conditions.
- While utility expense has increased somewhat, the largest share of added cost is associated with labor expense. The degree to which this is viewed as a variable versus fixed expense depends, in large part, on facility labor agreements. For example, WSSC negotiates with nine unions, so much of the labor requirement is fairly locked in, at least short-term. There is greater variability with on-call staffing.
- WSSC design (with multiple lobbies and expectations for public access) limits the degree to which the facility operating costs could be scaled back in the event of a major attendance or revenue downturn. The planned next phase WSSC expansion is being designed in a manner that may allow for temporary closure during down times (also used for maintenance). The Oregon Convention Center also is designed so that portions of the facility could be closed off, if not supported by adequate convention activity.
- Marketing 1-2 years ahead of completion can prove instrumental in facilitating demand with opening of an expanded facility. Once the project is permitted, the facility can start

selling the added space. However, even then, how the “building reacts” will not be fully known until completion – with the first 2-3 months after opening needed before the expanded facility operations can be expected to be fully functional.

Updated Outlook. As noted, the timing of the most recent WSCC expansion has proven fortuitous – coming at a time of continued economic recovery and renewed convention demand. WSCC is benefitting from increased group business, as with medical and construction-related conventions that are again willing to spend more, particularly for food and beverage services.

Looking to the future, WSCC is now planning for further expansion of its exhibit facilities, as well as potential added banquet space. This is in recognition of Seattle’s reported position as having the smallest exhibition capacity of major west coast convention cities.⁹

OREGON CONVENTION CENTER

Opened two years after the WSCC in September of 1990, the Oregon Convention Center (OCC) is owned by Metro – a regional (three-county) government. Together with the separate and longer established Expo Center facility at Delta Park and the Portland Center for the Performing Arts (owned by the City of Portland), all three facilities are managed through an advisory board known as the Multnomah Exposition-Recreation Commission (MERC), which reports to the elected Metro board.

OCC Facility Profile. OCC currently comprises 341,700 square feet of meeting space including 255,000 square feet in exhibit halls, a 34,200 square foot ballroom, and 50 meeting rooms totaling 52,500 square feet.

OCC is located on the east side of the Willamette River, directly across from downtown Portland near the intersection of the Interstate 5 and Interstate 84 freeways. MAX light rail and a recently opened streetcar line provide transit access to downtown and the Portland International Airport. The bulk of the hotel inventory that serves the convention center is located primarily on the west side of the Willamette River. Metro has recently been in negotiations with a hotel development/operator team for an approximately 600-room headquarters hotel that would be immediately adjacent.

2003 OCC Expansion. In April of 2003, OCC completed its only major expansion to date with the addition of 100,000 square feet of exhibit space, a new 35,000 square foot ballroom, and more than 25,000 square feet of added meeting space.

Because MERC facilities are embedded within the larger regional government entity of Metro, financial accounting is not handled in a manner that is as readily accessible for comparison with other similar regional event facilities. With the objective of providing an *apples-to-apples* comparison with the SCC and WSCC, revenues compiled are those for business type activities. These are considered as excluding such line items as balance transfers, donations, government contributions, and tax revenue sources. Expense figures are noted for personnel and materials

and services, excluding interfund transfers, capital outlays, and debt service. Also noted is that with expanded facilities in operation by April 2003, about three-quarters of FY 2003 results represent experience prior to expanded space availability and one-quarter post-expansion.

OCC Revenue / Expense History with 2003 Convention Center Expansion

Metric	-3	-2	-1	0	+1	+2	+3
Year	FY 2000	FY 2001	FY 2002	FY 2003 (April)	FY 2004	FY 2005	FY 2006
Income	\$9,883,000	\$9,454,000	\$7,279,208	\$9,949,796	\$13,925,006	\$15,286,799	\$13,286,717
Expense	(\$13,216,000)	(\$13,768,000)	(\$13,395,350)	(\$16,627,044)	(\$18,455,593)	(\$18,543,416)	(\$18,101,309)
Net Income	(\$3,333,000)	(\$4,314,000)	(\$6,116,142)	(\$6,677,248)	(\$4,530,587)	(\$3,256,617)	(\$4,814,592)
Attendance	556,000	567,000	450,000	577,328	668,911	700,360	633,575

Notes: Reported financial results from FY 2002 forward are from MERC operating fund reports. Revenues and expenses are matched to “business type activities” and exclude offsetting subsidies from tax or other Metro funding sources.

Source: MERC Operating Fund reports, as compiled by E. D. Hovee & Company, LLC.

Pre-/Post-Expansion Financial Results. OCC attendance and revenues both dipped significantly in the year before completion of expanded facilities – though operating expenses remained relatively unchanged. Based on discussion with facility management, it appears that FY 2002 revenues were affected by the downturn in convention activity both regionally and nationally resulting from the 9/11 World Trade Center attack combined with effects of then underway facility construction (including a reduction in available on-site parking).

Even though the expanded facility did not open until about three-quarters of the way through FY 2003, Year 0 attendance and revenues rebounded to levels experienced two and three years earlier. Revenues were up by another 54% within two years of opening, well above the 21% gain in attendance over this two year period – before dropping back somewhat in the third post-expansion year. As with the Spokane and Seattle expansions, expenses ramped up ahead of revenues – increasing by 24% the year of opening (compared to the year prior) and by another 11% the year after opening, then stabilizing.

Resulting increases in operating deficits were experienced earlier for the OCC than Spokane and WSCC, essentially doubling from expense levels three years before completion for the year prior to and year of the completed expansion – then dropping back as a result of increased attendance and utilization. This was coupled with FY 2004 staffing reductions, resulting in about 21 fewer positions on-site (a 16% reduction) due to concerns with rapidly increased operating expense.¹⁰

When viewed over the period of this seven-year history, it is noted that average annual facility income for the three years post-expansion was about 60% higher than for the three years pre-expansion. Expenses increased by an average of 36%.

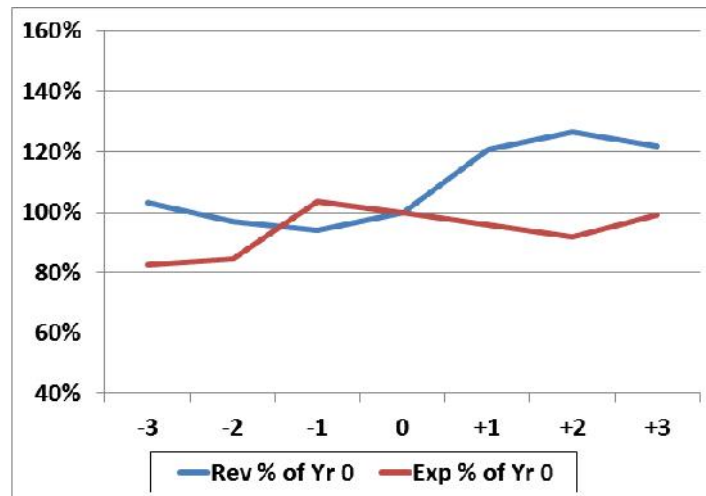
Of the facilities evaluated, OCC’s reported experience is a bit unusual, with average income post-expansion indicated as having increased more rapidly than expenses. However, the reported income increase is tempered by prior revenue drop-off with substantial construction

disruption, including loss of parking prior to completion of facility expansion. If the comparison is instead made to FY 2000-01 (excluding FY 2002) experience, the post-expansion experience comes in at a 47% income gain (rather than 60%).

The OCC historically has operated with a relatively high operating deficit. MERC operations have been supported by lodging tax revenues, offsetting the financial loss that would result without consideration of tax and other Metro funding support. Realizing that added deficits could be incurred with the 2003 facility expansion, the OCC has received added funding support through a Visitor Development Initiative with allocation of Multnomah County’s 2.5% hotel/motel and vehicle rental tax, initially intended for a limited period.

Per Attendee Experience. When viewed from the perspective of per attendee revenues and expenses, the OCC experience appears more favorable. Within the first three years post-expansion, revenues per attendee increased to between 120-130% of Year 0 levels. By comparison, expenditures on a per attendee basis have dropped somewhat below opening year levels (though are higher than what was experienced 2-3 years before the expansion).

OCC Revenue / Expense per Attendee (as % of Year 0)



Source: MERC Operating Fund reports, as compiled by E. D. Hovee & Company, LLC.

Changing Composition of OCC Operating Expenses. For OCC, perhaps the best comparison is between the experience of FY 2001 (before 9/11) and FY 2004 (with initial stabilization post-expansion). Overall expenses increased by 38% over this time period – with personal services (payroll) up by 27% and materials and services (M&S) expenses having increased by 45%.

Of the M&S items, contracted professional services, marketing, operations, property, and food and beverage services accounted for over three-quarters of the expense increase – a \$2.7 million gain over this time frame. Utilities, cleaning, and maintenance and repair services represented about 14% of the increase (of about \$500,000 per year) – as what more likely represents the base increase in fixed operating expense.

Some facility expense may have actually declined, as a result of added efficiencies throughout the building made in conjunction with the expansion. This is illustrated with lighting and control systems, for which substantial efficiencies were realized.

Updated Outlook. OCC is currently experiencing a strong upsurge in convention activity. The outlook for FY 2014 is softer on citywide events, but with more short lead-time bookings (of about 6-8 months in advance) for both local/regional and national group business. As with Spokane, the longer term outlook may be strongly influenced by progress in negotiating development of an adjoining headquarters hotel.

SUMMARY OBSERVATIONS

Several observations can be drawn from this review of WSCC and OCC in comparison with SCC experience:

- There does not appear to be a clear correlation between the size of **convention center expansion relative to the resulting increase in on-site convention activity**. For all three facilities, the percentage increase in facility exhibit space (square footage) has exceeded the resulting proportional change in meeting attendance, income or revenue.
While results are still somewhat premature, the only exception may be with the most recent second phase WSCC expansion focused on improved conference center capability. In this case, despite meager attendance change to date, facility revenue growth has proportionately outpaced the increase in building space (reflecting a shift to higher value conferencing as well as changed accounting practices).
- For all expansions except Portland's OCC, the percentage **increase in facility expense has outpaced gains in revenue** – resulting in reduced net operating income than was the case pre-expansion. OCC's situation is different in that net revenue started dropping in advance of project completion – making the post completion experience appear more positive than would otherwise have been the case.
For SCC and OCC, expenses tended to peak within 1-2 years after expansion before right-sizing back to a more normal pattern. For WSCC's first expansion, expenses kept rising through all three years post-expansion.
- Most of the added cost of operating an expanded facility appears to be what can best be considered as **variable cost** – with ability to flex up or down depending on the level of utilization of the expansion space. While the #1 source of this added cost is associated with personnel, ratcheting back on labor costs may prove challenging in a down market – whether due to labor agreements or a desire to be better prepared for the upturn.
Fixed costs associated with utilities and building maintenance appear to represent only about 15-25% of the increase in base facility cost. Even some of this can be tempered or offset by improved efficiencies with overall building upgrades that occur at the same time as a facility expansion – as occurred with OCC's addition of exhibit halls. Some of the ostensibly fixed cost may also be pared back if, in a major market downturn, portions of the facility are allowed to “go dark” at times of non-utilization.

IV. BUDGET SCENARIOS WITH SCC EXPANSION

Based on the review of SCC operating revenues and expenses together with experience of WSCC and OCC comparables, it is possible to provide a reasonable range of forecast budget scenarios with planned SCC expansion. This analysis begins with a review of SCC operating history. This is followed by preparation of base case and worst case budget forecast scenarios.

SCC OPERATING REVENUE & EXPENSE HISTORY

There are two questions that the February 2013 independent financial feasibility review and this subsequent operating review have been intended to address, with respect to the SCC operating budget and governing organization of the Spokane Public Facilities District (SPFD):

- What trends with SPFD/SCC financial history are most relevant in assessing adequacy of operating revenues sufficient to cover expenses to date?
- Are there conditions by which operating revenues might prove insufficient in the future to cover expenses and what might be the potential effect on overall SPFD operations?

SPFD Facility Operating History. As noted, the SPFD operates the INB Performing Arts Center and Spokane Arena, in addition to the SCC. The revenue and expense history of the three facilities owned and operated by SPFD and resulting operating profits are depicted for each individual facility and combined operations for the years 2007-12 by the following chart.

SPFD Facility Operating Revenue & Expense History (2007-12)

SPFD Facility	2007	2008	2009	2010	2011	2012
Spokane Convention Center						
Revenues	\$3,926,058	\$3,761,125	\$3,698,122	\$3,250,484	\$3,216,130	\$3,547,089
Expenses	\$4,405,662	\$3,645,649	\$3,780,535	\$3,932,956	\$3,874,163	\$4,284,236
Operating Profit	(\$479,604)	\$115,477	(\$82,413)	(\$682,472)	(\$658,032)	(\$737,147)
INB Performing Arts Center						
Revenues	\$4,326,149	\$1,431,590	\$1,636,367	\$1,148,442	\$1,505,013	\$1,447,598
Expenses	\$3,955,085	\$786,435	\$899,521	\$815,907	\$961,742	\$881,776
Operating Profit	\$371,064	\$645,155	\$736,846	\$332,534	\$543,270	\$565,822
Spokane Arena						
Revenues	\$6,994,672	\$5,181,499	\$4,603,230	\$6,827,413	\$5,267,974	\$5,122,246
Expenses	\$5,814,868	\$4,461,817	\$4,106,478	\$4,592,938	\$4,114,929	\$4,027,778
Operating Profit	\$1,179,805	\$719,682	\$496,752	\$2,234,475	\$1,153,045	\$1,094,468
Combined Statement of Operations						
Revenues	\$15,246,879	\$10,374,214	\$9,937,719	\$11,226,339	\$9,989,117	\$10,116,933
Expenses	\$14,175,614	\$8,893,901	\$8,786,534	\$9,341,801	\$8,950,834	\$9,193,790
Operating Profit	\$1,071,265	\$1,480,313	\$1,151,185	\$1,884,538	\$1,038,283	\$923,143

Notes: 2007 INB statement is adjusted for \$3.212 million in repair and maintenance indicated as an expense but not shown on the statement of operating profit. Arena admission tax revenues were shifted from SCC to the Arena starting in 2010; figures shown have not been unadjusted.

Source: SPFD, 2011 and 2012 Year End Reports.

Observations from the facilities' financial history pertinent to this operating budget review are summarized as follows:

- Excluding 2007 when major INB repairs were undertaken, combined operations have generated revenues in the range of about \$10-\$11 million per year. Expenses averaged about \$9 million, resulting in operating profit in the range of \$1-\$2 million annually.
- Operating profit as a percentage of revenues (as adjusted for 2007) has varied from about 7% to nearly 17% of annual revenues. There can be considerable year-to-year variation, as when operating profit went from 16.8% of revenues in 2010 to 10.4% in 2011 – a 6.4% point swing in one year.¹¹
- Like many convention centers, SCC is not financially self-supporting but has (with the exception of 2008) relied on funding support generated by operating profits from the INB and Arena facilities. While there has been some variation from year-to-year, the highest SCC operating deficits were experienced in the last three years. This is due, in part, to SPFD's allocation of the Arena admission tax (of over \$450,000 in 2009) being shifted from the SCC to the Arena starting in 2010.¹²
- While SCC operating revenues were up in 2012 (over 2011), expenses increased more rapidly – with the operating deficit increasing by 12%. For all three SPFD venues combined, operating profit was reduced by over \$100,000 (11%).

Future Adequacy of SPFD Facility Operating Revenues. On balance, SPFD's financial history indicates substantial resilience to remain profitable, even through a significant business downturn in recent years. In five of the last six years, the District has been able to maintain an operating profit of at \$1+ million each year (dropping closer to \$900,000 in 2012).

While the SCC is the only one of the three facilities that generally operates at a financial loss, to date that has not proven to be enough of a drain on the SPFD to jeopardize the net surplus position of all facility operations combined. Using the recently provided 2012 financial results as an example, the SCC deficit would have to more than double (going from \$737,000 to about \$1.7 million) before the self-sufficiency of all SPFD operations would be jeopardized.

However, as was indicated by the earlier February financial feasibility analysis, there are two types of conditions that could threaten the operating self-sufficiency of SPFD facilities:

- The first condition would occur if there were **back-to-back negative years** in which the ratio of operating expenses trended dramatically downward. This type of situation could materialize, for example, if operating profits dropped by an average of another 6.4%+ points over two consecutive years – as occurred between 2010-2011. Similar drops in succeeding years could quickly lead to an operating deficit.

Given the SPFD's general ability to manage expenses in variable fashion (in line with revenue changes), this type of adverse move, while possible in the short-term, seems much less likely to be continued over a longer term basis. A negative year also likely could be offset by existing SPFD reserves – estimated at \$6.4 million in partially discretionary general fund reserves with the February financial feasibility analysis.

- The second condition is potentially **longer term in nature**. This situation could arise, for example, if SPFD revenues do not rebound to pre-recession levels but continue to trend flat or downward over a multi-year period.

Based on recent experience, SPFD venues most vulnerable to a potential long-term downward trend currently appear to be the SCC and Arena. With both facilities, this may be a reflection of cyclical and/or longer term changes in the convention and events market – both nationally and regionally.

In summary, while there are conditions that could erode the capacity of the SPFD to fully fund facility operations from existing revenue sources (without affecting debt funding), these appear to be of relatively low probability or impact, at least near-term. However, the unusually slow, prolonged economic recovery from the past recession combined with limited SPFD operating revenue rebound to date suggest that monitoring operating self-sufficiency should remain a priority, at least to a time when a more established pattern of consistent revenue growth can be clearly demonstrated.

FORECAST BUDGET SCENARIOS

Drawing from review of SCC operations coupled with the WSCC and OCC comparables, EDH has proceeded pursuant to the scope of services for this assessment to prepare **two illustrative scenarios** of the SCC operating budget three years from anticipated expansion completion:

- **A base case analysis** – with operating revenues and expenses forecast based on combined overall experience of expansions by SCC and comparable case study facilities.
- **A worst case analysis** – assuming no added revenue with SCC expansion (above and beyond revenue trends pre-expansion) combined with the upper range of operating cost experience as observed from the SCC, WSCC and OCC reviews.

Scenario Assumptions. Devising a base case or worst case budget scenario appropriate to planned SCC expansion is challenging for several reasons:

- 1) As noted by the previously completed SPFD *Independent Financial Feasibility Review*, “pro forma projections have not been made for SCC incremental revenue in the event of SCC expansion but without a new HQ hotel.” Nor has any detailed **market analysis** to ascertain added attendance and utilization potential been made to date by the SPFD. This review is not intended to serve as market or financial pro forma analysis based on detailed evaluation of potential incremental Spokane convention activity. Rather, the aim is to evaluate what might be reasonably expected based on prior SCC experience, as well as from the experience of the WSCC and OCC comparables.
- 2) **Economic and market conditions** have varied considerably for the facilities evaluated at the times of their respective openings. Seattle’s first WSCC expansion was completed at a time of economic downturn, resulting in not surprising weak attendance growth (but stronger revenue increases).

OCC's expansion opened during a time of slow economic recovery; SCC's prior expansion coincided with a period of more rapid economic growth; and WSCC's most recent expansion hit the market in time to capture resurgence in high value conferencing activity. While not definitive, these varied experiences nonetheless are useful to bracket the range of reasonable base case and worst case market expectations.

- 3) This case study experience can be most reasonably benchmarked to SCC planned expansion operations, if scaled to account for the **size of each facility's expansion** relative to what was on the ground pre-expansion. The first SCC expansion more than doubled on-site square footage of meeting and exhibit space; the OCC expansion was not quite a doubling; and the WSCC first expansion increased meeting space by less than 50%.

The second WSCC expansion increased usable square footage by only about 20%. However, this comparable is excluded because of conferencing orientation, lack of three years of post-expansion history, and substantial shift in accounting practices pre- and post-expansion.

- 4) Finally, there is the question of establishing a clear **base year expectation** on which future projections would be made. Through 2012, there is as yet no definitive SCC trend as a basis from which to estimate starting year (or Year -2) income and expense forecast expectations before planned expansion completion.¹³

In reviewing data from 2009-12, the peak revenue year was 2009 (or 2012 if arena admission taxes are excluded from 2009 SCC revenues). The peak expense year is 2012. For the three years prior to 2012, revenue and expense changes averaged less than 1% per year (with revenues slightly down after removing 2009 arena tax revenues and with expenses slightly up). For 2013, SCC currently expects revenues of about \$3.4 million.¹⁴

Consequently, the base year (Year -2) starting point for the budget forecast is assumed to represent the annual average of revenues versus expenses from 2009-12. The same base year starting point figures are applied to both the base case and worst case budget scenarios. *Note:* assuming that the SCC expansion is completed at the beginning of 2015 (as Year 0), the Year -2 estimate would be that for 2013 now underway.

Base Case Scenario. With an estimated 45,000 square feet of added usable meeting space, the planned SCC expansion will represent an approximate 27% increase to the existing 164,000 square feet of on-site meeting space. When **benchmarked** (or size adjusted) to the currently planned SCC scale of space increase, the following ranges of income and expense changes averaged over three years post-expansion as compared to the pre-expansion year averages are noted as follows:

Prior SCC Expansion (2006):

- Benchmarked revenues up 10%
(average of three years post-expansion as compared to two years pre-expansion)
- Expenses up 15%

WSSC 1st Expansion (2001):

- Revenues up 12%
- Expenses up 20%

OCC Expansion (2003):

- Revenues up 19%
- Expenses up 11%

Average All Three Facility Expansions:

- Revenues up 14%
- Expenses up 16%

The benchmarked experience of **all three facilities averaged together** is applied to the base case SCC budget scenario. Financial results are indicated for two years prior to expansion, the year of expansion, and the following three years consistent with the year-to-year patterns observed for all three facilities combined. As earlier noted, the starting year (Year -2) estimate reflects SCC operating results averaged over the 2009-12 time period.

Also shown with the budget projections are potential bottom line net income implications for all SPFD venues combined – including the Arena and Performing Arts Center, as well as the Convention Center. This base case forecast assumes a continued 1.4% average annual increase in net income for the Arena and Performing Arts Center, as experienced from 2007-12.

Year-by-year resulting base case budget revenues and expenses are as indicated by the following chart.

Base Case SCC Operating Revenue / Expense Budget

	4-Yr Base	Years Before / After SCC Expansion Completion				
	-2	-1	0	+1	+2	+3
Spokane Convention Center						
Revenues	\$3,300,000	\$3,390,000	\$3,600,000	\$3,760,000	\$3,810,000	\$3,850,000
Expenses	\$3,950,000	\$4,580,000	\$4,960,000	\$5,110,000	\$4,710,000	\$4,960,000
Operating Profit	(\$650,000)	(\$1,190,000)	(\$1,360,000)	(\$1,350,000)	(\$900,000)	(\$1,110,000)
Operating Profit (All Facilities)						
SCC	(\$650,000)	(\$1,190,000)	(\$1,360,000)	(\$1,350,000)	(\$900,000)	(\$1,110,000)
Arena + INB	\$1,900,000	\$1,930,000	\$1,960,000	\$1,990,000	\$2,020,000	\$2,050,000
Total	\$1,250,000	\$740,000	\$600,000	\$640,000	\$1,120,000	\$940,000

Note: The starting point revenue and expense figures for Year (-2) are below 2012 actuals but above comparable figures from the three prior years. Assumed is a starting year figure closer to the 4-year average. The 4-year average includes an adjustment, removing the arena admission tax from 2009 SCC revenue results.

Source: E. D. Hovee & Company, LLC. Budget projections are for illustrative purposes only.

With this base case scenario, budgeted **revenues** are expected to increase each year even prior to construction completion. This assumes that the SCC facility continues to be actively marketed and accessible for events throughout the construction period. Revenues continue to increase for each of the following three post-construction years. As noted, average annual revenues for the three years post-construction are estimated to be 14% above the average for the two years pre-opening.

As has generally been experienced in prior SCC and comparable facility expansions, **expenses** can be anticipated to increase ahead of revenues – peaking in about the first year post-construction before being right-sized back to a more normalized level. Average annual expenses for the three years post-expansion are about 16% above the average of the two years pre-expansion.

Net operating losses increase both pre- and post-completion of construction. Base case **annual deficits** peak at between \$1.3-\$1.4 million annually in the year of expansion completion and the year after. By three years after construction, deficits could still be in the range of \$0.9-\$1.1 million per year – well above the pre-expansion deficit figures.

For **all SPFD facilities**, the result is to reduce the combined operating profit from \$1.25 million (in the starting Year -2) to just over \$0.6 million in Year 0, increasing back to between \$0.9-\$1.0 million within three years over post-expansion. With this base case budget scenario, there appears to a reasonable cushion to accommodate the increased SCC deficit across all three SPFD venues.

Worst Case Analysis. Consistent with the definition of a worst case budget scenario as outlined in the scope of services for this assessment, this analysis assumes worst case conditions involving:

- No revenue growth leading up to or after SCC expansion – consistent with the generally flat SCC revenue experience of the last several years, especially 2009-11 time (though assuming no further revenue declines).
- Expense experience of the WSCC first expansion as indicating the highest increase in benchmarked operating costs – up by about 20% for the three years post-expansion as compared with the two years pre-expansion average.
- No change in operating profit in the years ahead for the other SPFD facilities of the Arena and INB Performing Arts Center – reflecting lack of a clear net income (or operating profit) trend, especially over the most recent 2009-12 time period.

Based on these assumptions, year-by-year operating budget projections for the SCC together with SPFD bottom-line implications are as illustrated by the chart on the following page. With this worst case scenario, budgeted SCC **revenues** are indicated as remaining unchanged at about the \$3.3 million per year level in the period leading up to the expansion and up to three years post-completion.

As with the base case, this assumes that the SCC facility continues to be actively marketed and reasonably accessible for events even during the construction period, so that there is no net loss of convention-related revenues. However, this worst case scenario also assumes that there is no appreciable gain in convention activity post-construction – a situation that could occur if the national/regional convention market goes into a no growth mode and/or if Spokane is not able to appreciably change its competitive position even with convention center expansion.

Worst Case SCC Operating Revenue / Expense Budget

	4-Yr Base	Years Before / After SCC Expansion Completion				
	-2	-1	0	+1	+2	+3
Spokane Convention Center						
Revenues	\$3,300,000	\$3,300,000	\$3,300,000	\$3,300,000	\$3,300,000	\$3,300,000
Expenses	\$3,950,000	\$4,580,000	\$5,150,000	\$5,310,000	\$4,900,000	\$5,160,000
Operating Profit	(\$650,000)	(\$1,280,000)	(\$1,850,000)	(\$2,010,000)	(\$1,600,000)	(\$1,860,000)
Operating Profit (All Facilities)						
SCC	(\$650,000)	(\$1,280,000)	(\$1,850,000)	(\$2,010,000)	(\$1,600,000)	(\$1,860,000)
Arena + INB	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000
Total	\$1,250,000	\$620,000	\$50,000	(\$110,000)	\$300,000	\$40,000

Source: E. D. Hovee & Company, LLC. Budget projections are for illustrative purposes only.

In this worst case example, SCC **expenses** are indicated as increasing at the rate experienced similar to the WSCC’s 2001 expansion, adjusted for the relative size of the proposed SCC expansion. As noted with the base case, operating expenses can be anticipated to increase ahead of revenues – and continue to rise post-expansion even without offsetting revenue gains.

Overall average annual expenses for the three years post-expansion are about 20% above the average for the two years pre-expansion. This worst case expense scenario could materialize if SPFD were to ramp up for increased volume of business that does not materialize, and then found it difficult to quickly (and substantially) pare back much of the added cost associated with operating an expanded facility.

With this combination of no revenue growth and rapidly increasing operating expense, **annual deficits** could climb quickly, jumping from current levels in the \$0.6-\$0.7 million per year range to a peak annual deficit exceeding \$2 million the year after opening, before backing off to an estimated \$1.8-\$1.9 million operating loss three years after opening.

For all SPFD facilities combined, the result is to reduce the combined operating profit from about \$1.25 million (in the starting Year -2) to a small deficit of just over \$100,000 the year after opening, then potentially recovering to modest but positive net operating profit by the second and third years after SCC expansion. While combined SPFD operating profits go negative for one year, the operating margin is substantially reduced from what has been experienced by SPFD in recent years. If continued forward beyond three years post-completion, an ongoing positive operating profit that varies from about breakeven to perhaps \$300,000 in the black per year could leave SPFD much more vulnerable to future economic downturns and/or other adverse conditions that might occur with the any of the SPFD’s three event venues.

V. OPERATING RISK FACTORS & MITIGATION

This report concludes with a review of risk factors and mitigation associated with the operating budget scenarios conducted for planned SCC expansion. Considered are risk factors identified with the prior SPFD feasibility review coupled with related and added factors identified with this supplemental operating budget review.

PRIOR SPFD FINANCIAL FEASIBILITY REVIEW

The *SPFD Independent Financial Feasibility Review* of February 2013 assessed overall financial risks related to capital funding, operating funding and institutional risks – together with discussion of potential options for risk mitigation. The previously identified risk factors with capital funding also pertinent to this operating budget review are essentially two-fold:

SPFD Operating Funding Risks:

- *Short-term operating deficit* – a potential concern if the SPFD were to experience two to three back-to-back years in which operating profits continued to drop, as between 2010-11.
- *Long-term decline in operating profitability* – if SPFD revenues do not rebound to pre-recession levels, but continued to trend downward over a multi-year period.

Options for mitigation identified with the earlier February capital funding analysis included continued active monitoring of operating revenues versus expenses and possible preparation of an updated SCC market analysis together with resulting operating income and expense projections with and without a new headquarters hotel.

Institutional Risks:

- *Payment priorities with sub-par revenue performance* – with questions as to the order of precedence for operational and debt repayment in the event of a future combined revenue shortfall.
- *Reserve fund management* – a related issue in the event of short- or long-term revenue shortfalls.

Options for mitigation previously identified included potential restructuring of existing agreements between SPFD, the City of Spokane and Spokane County, to more clearly specify the “waterfall structure” for distribution of future positive cash flows (or losses) to participating jurisdictions. This structure also might be determined in consultation with the SPFD bond counsel, financial underwriters and pertinent rating agencies.

This more in-depth operating budget analysis reinforces the importance of the risk factors and potential options for mitigation as previously identified with the February 2013 independent financial feasibility review. What follows is a supplemental evaluation of related and added risk factors and options for mitigation associated with this operating budget review.

SCC OPERATING BUDGET RISK

The February 2013 financial feasibility review addressed short- and long-term operating risks associated with the entire scope of SPFD operations across the three venues of the SCC, Arena and INB Performing Arts Center. This supplemental operating budget review focuses on operating risks specific to the SCC facility and its proposed expansion.

Two specific risk factors are of potential importance:

- The likelihood that the SCC will generate increased operating deficits even with base case operating budget conditions.
- A worst case scenario which would further exacerbate the SCC budget deficit, potentially threatening overall operating profits and associated funding capacity of all SPFD operations.

Each of these risk factors and associated options for mitigation is considered, in turn.

Base Case SCC Operating Deficits. Prior facility expansions for the SCC, WSCC and OCC all have been accompanied by reduced operating profitability or increased operating deficits – extending one, two and three years beyond the date when the expansion was completed.

Even through 2012, SCC operating profit has yet to recover back to the levels experienced one and two years prior to the 2006 exhibit hall expansion. Net income from Seattle's WSCC did not get back to pre-2001 expansion figures until 2006-07, with two record years before profitability began to again fall off due to the economic recession. While there is limited operating experience to date, the second WSCC expansion completed in 2010 resulted in some modest increase in net income by 2011 – but not back to the levels experienced pre-2001.

Depending on the year of comparison, Portland's OCC experience could be viewed as closest to being positive within three years of facility completion. However, this may be unduly optimistic as significant net income erosion was experienced one and two years even prior to completion of expansion.

The OCC facility did not get to the point of reducing deficits back to what was experienced three years prior to expansion. Nor was this sustained increase in operating deficit unexpected. Added operating deficits were anticipated at the time of OCC expansion and funded through a Visitor Development Initiative with allocation of Multnomah County's 2.5% hotel/motel and vehicle rental tax. While initially described as being of limited duration, these added taxes are still in place to support OCC operating expenses as of 2013.

If prior SCC, WSCC and OCC experience proves applicable to the second SCC expansion, it appears reasonable to expect that SCC operating deficits could essentially double to peak year levels at completion or the year after, reduced somewhat within two and three years after the planned expansion. While further operating deficit reduction is possible after three years, national and regional economic/market conditions can be expected to play as much or even a

more pronounced role with out-year financial results. Competitive results will also likely be affected by the ability for SCC to secure an expanded headquarters hotel.

As a final note, the base case results do not appear to seriously jeopardize overall SPFD operating profitability. There appears to be reasonable operating cushion with Arena and INB Performing Arts Center surpluses to more than offset greater SCC operating deficits. From a starting year SPFD surplus of about \$1.25 million, subsequent year multi-venue operating profits range from about \$0.6 - \$1.1 million.

Options for Mitigation – Two potential options are noted for consideration:

- As previously described with the February independent financial review, a primary option for addressing risks associated with future SCC operating deficits is through continued if not more active monitoring of operating revenues and expenditures, both in the years leading up to and immediately after construction of expanded facilities. While regular monitoring currently occurs with review of monthly updated financial reports, this could be accompanied by management actions to pare variable expenses as needed, in the event that expense increases prove to outpace revenue growth by more than pre-specified target amounts.
- A second and more proactive option for mitigation would be to explicitly budget for a potential doubling of the SCC operating deficit from the time that construction is initiated through to at least three years beyond opening of an expanded facility.

Worst Case Threat to SPFD Operating Profitability. The worst case scenario assumes that revenues remain essentially flat, while operating expenses increase by an average of 20% in the three years after expansion as compared with the two years pre-expansion. This illustrative scenario has the effect of tripling the SCC operating deficit (above starting year conditions) by the first year after opening of an expanded facility.

While overall SPFD operations (from all three venues) would appear to remain profitable for all but one year, the organization’s operating margins are substantially reduced – just above break-even in another two of the five years forecast. This would make the SPFD much more vulnerable to relatively minor adverse economic or competitive conditions that could affect one or more of the three existing venues.

A worst case scenario becomes more likely under conditions that include any or some combination of the following factors:

- Design features with the planned expansion that would hamper operating efficiencies (or make it difficult for unused facilities to “go dark” during periods of low utilization).
- Advent of economic recession prior to stabilized utilization of an expanded SCC facility (expected to take at least three years from construction completion).
- Significant changes in the competitive environment for local, statewide and national events (especially if Spokane is unable to secure expanded and up-to-date headquarters

hotel facilities and/or if substantial improvements are made to other regional convention centers viewed as competitive with the SCC).

- Weak facility utilization during the period of building the expanded SCC space (due to real or perceived construction disruption).
- Difficulty in scaling operating expenses up or down to match actual changes in expanded SCC space utilization (or event attendance).

Options for Mitigation – As with the base case, a primary option for minimizing this worst case risk lies with ongoing income and expense monitoring coupled with ability to rapidly implement management measures to better match changes in operating expenses with facility utilization and revenues. Related measures that also might be considered include:

- Assuring active marketing of the SCC starting from the time that the planned expansion is permitted – to maintain the best possible utilization through the on-site construction period and create the best opportunity for expanded conference activity and incremental revenue capacity within the first year of completion.
- Structuring the expansion operating budget to maximize the portion of added expenses that can be viewed as highly variable rather than fixed. As wages and benefits can be expected to account for the most significant component of added operating expense, the ability to manage supplemental workforce for the ebbs and flows of utilization in an expanded facility will be of particular importance in providing the flexibility needed – especially in the initial start-up phase of expanded operations.
- Dedication of a portion of SPFD reserves to address a worst case SCC operating scenario plus added contingency for Arena and Performing Arts Center operations.

Follow-up. E. D. Hovee & Company, LLC appreciates the opportunity to prepare this independent review on behalf of the Washington State Department of Commerce and the Spokane Public Facilities District. We would be happy to respond to questions that may arise related to any aspect of this operating budget review report.

APPENDIX A. PREPARER PROFILE

This independent feasibility review has been conducted on behalf of the Washington State Department of Commerce for the Spokane Public Facilities District by the economic and development consulting firm E. D. Hovee & Company, LLC (EDH).

Since 1984, EDH has provided consulting services for a wide range of public agency, non-profit and private clients primarily, though not exclusively, in the Pacific Northwest states of Washington, Oregon and Idaho. Assignments conducted have included market and feasibility studies, economic impact analyses, due diligence reviews, and strategic business development planning – covering a diverse set of industrial, commercial, residential, tourism-destination and related major capital investment projects.

EDH has extensive experience working for Washington State-based PFDs, together with specific experience in evaluating convention and related event facilities both in and outside the state of Washington. Representative project assignments have included:

- Completion of the earlier February 2013 *Spokane Public Facilities District Independent Financial Review* on behalf of the Washington State Department of Commerce for capital funding of planned SCC expansion.
- Other assignments on behalf of Washington State PFDs including potential regional center projects for the Tri-Cities (two-county) PFD, economic restructuring of the Wenatchee hotel-motel tourism funding for marketing and event/conference facilities, Vancouver Hilton Hotel and conference center, Clark County Sleep Country Amphitheater, and Cowlitz County expo/conference center.
- Non-PFD related event facility assessments for the Oregon Convention Center, Portland Expo Center, Walla Walla Marcus Whitman Hotel feasibility, Skamania Lodge market analysis and development proposal, Oregon Trail Interpretive Center, Portland Center Stage/Armory Theater due diligence review, and Eola Hills Conference Center market feasibility (Salem, OR).
- Other related market and financial due diligence assignments including WSU campus building reuse and North Foothills brownfield site redevelopment (Spokane), brownfield property reuse (Washington Department of Ecology), Pearl District and South Waterfront mixed use due diligence analyses (Portland, OR), and transit oriented development impact analyses (Portland, SeaTac, Boise, Reno, Santa Ana, San Antonio and Oklahoma City).

Report preparers are Eric Hovee (Principal) and Andrea Logue (Research Coordinator).

APPENDIX B. DOCUMENTS REVIEWED

As part of the Phase I *Spokane Public Facilities District Independent Financial Feasibility Review* completed February 5, 2013, documents reviewed as of that date were listed in an appendix to the report submitted. The following listing identified additional documents that have been reviewed as part of this Phase II operating budget review.

Documents are listed alphabetically by name of author or responsible organization:

C. H. Johnson, *Oregon Convention Center Benchmarking Analysis*, September 2003.

E. D. Hovee & Company, LLC, *Regional Centers Project Review*, as prepared for the Tri-Cities Regional Public Facilities District Board of Directors, June 26, 2012.

Metro, *Comprehensive Annual Financial Report*, various fiscal years (as related to the Oregon Convention Center and facilities of the Metropolitan Exposition-Recreation Commission).

Metropolitan Exposition-Recreation Commission, *Oregon Convention Center Operating Budgets, FY 2002-03 to 2007-08*.

Oregon Convention Center web site: www.oregoncc.org.

Pricewaterhouse Coopers / IAAM, *Convention Center Report*, for years 2008-11.

Spokane Public Facilities District, *2012 Year End Report*.

Spokane Public Facilities District, *Year End Convention Center financial spreadsheets, 2004-09*.

Washington State Convention Center, *Annual Report*, for years 2003-11.

Washington State Convention Center web site: www.wsctc.com .

END NOTES

¹ With this report, the terms District, SPFD and PFD may be used interchangeably – all referring to the Spokane Public Facilities District.

² Of \$60 million in total project funds, approximately \$5 million is to be spent on an Arena seating project with the remaining \$55 million on the SCC expansion. Of the \$55 million, \$5 million was used to reimburse SPFD for the 2010 Shenanigans Restaurant purchase (to be replaced and built upon with the new SCC project). This leaves a net \$50 million SCC project expansion budget. Per email correspondence from Brittany Garwood, SPFD, May 28, 2013.

³ The May 9, 2013 SPFD bond issue was for \$43.985 million at par plus a \$3.551 million net premium less approximately \$0.223 million in underwriter fees, resulting in total sources estimated at \$47.313 million. Uses of funds were identified as \$45.000 million to the SPFD facilities fund, \$2.193 million to a debt service fund, and \$0.120 million in costs of issuance.

⁴ Information for this independent financial review has been obtained from sources generally deemed to be reliable. However, EDH does not guarantee the accuracy of information provided by third party sources.

The observations and findings made with this report are those of the authors. They should not be construed as representing the opinion of any other parties prior to their express approval, whether in whole or in part.

⁵ In 2007, the Arena hosted the NCAA men’s basketball tournament, and the U.S. Figure Skating Championships utilized both the Arena and SCC. SCC attendance for figure skating championship alone was about 18,000.

⁶ An added note is that, prior to the 2006 SCC expansion, vendor electrical hookups were handled by an outside contractor providing convention-related services that SCC facilities did not offer. After the expansion, electrical hookups were brought in-house with a full-time electrician and support staff on SCC payroll that assigns vendor booths and handles electrical, internet, audio visual and related needs.

Along with electrical service, ushering became a new source of revenue to SCC. In effect, net revenue from ushering increased as a result of creating this added or supplemental revenue source.

⁷ SCC utilizes data from confidential benchmarking data compiled by Pricewaterhouse Coopers. Data is reported by size of facility and market category (regional, national or gateway).

⁸ Other convention center facilities that were briefly reviewed as potential comparables, but not formally evaluated in this analysis, include:

- Bellevue Meydenbauer Center – initially constructed in 1993 with subsequent proposed 2003 expansion (which has not proceeded as yet).
- The Greater Tacoma Convention Center – for which a new facility was constructed in 2004 (but with no ready comparison to previously used convention facilities).
- Three Rivers Convention Center in Kennewick – originally opened in 2004 (with potential expansion currently planned). *Note:* Pro forma forecast analysis conducted for the expansion by C.H. Johnson indicates that the operating deficit would increase initially with expansion, then decline to achieve lesser deficits than at present over a 10-year time horizon.
- Yakima Convention Center – initially constructed in 1977 and subsequently upgraded and expanded between 2004-07 (a much smaller facility than is represented by the SCC).

⁹ The *2011 Annual Report: Washington State Convention Center Public Facilities District* notes that: “A larger Convention Center will bring new visitors, stimulate spending throughout our region, and create construction jobs and ongoing employment for workers in the hospitality industry. Each year that this expansion is delayed

means a quarter of a billion dollars in new, direct spending that is going instead to our competitors around the country.”

- ¹⁰ OCC had staffed up in anticipation of the 2003 expansion, not being quite sure of what the additional on-site staff needs would fully entail. This included a graveyard shift. The OCC went from 131.80 positions in FY 2003 down to 120.62 in FY 2004.

With continuing staffing reductions over time, the facility now operates with about 110 FTE positions. Any further adjustment would likely be affected by the outcome of current or future labor contract negotiations.

- ¹¹ Per SPFD email correspondence of January 23, 2013, it is noted that: “On heavy event years, our staff spends most of their time managing events and so little unnecessary R&M (repair and maintenance) is done. On slower event years, our staff takes this opportunity to catch up on R&M projects as well as researching and implementing new technology in all realms of our business/buildings thus spending more money because they have time and energy to do so. Thus revenue is down, but expenses are up. “

- ¹² Between 2007-09, admissions tax revenue allocated to the SCC ranged from just over \$450,000 to close to \$800,000, accounting for 12-20% of SCC operating revenue and 12-18% of SCC operating expense. Through 2009, this improved operating profitability for SCC. Starting in 2010, admissions tax revenue was re-allocated back to the Arena where the tax is generated. This internal allocation has no effect on overall SPFD operating profitability.

- ¹³ With SPFD 2012 Year End Report financial data now available, there is an added year’s experience beyond what was covered by the February 2013 independent financial feasibility analysis.

- ¹⁴ E,mail correspondence from SPFD dated May 13, 2013 in review of the draft operating budget review report indicates that the SCC budgeted revenue forecast for 2013 approximates \$3.1 million while the current revenue forecast is for \$3.4 million based on progress of sales to date.