SPOKANE PUBLIC FACILITIES DISTRICT
INDEPENDENT FINANCIAL FEASIBILITY REVIEW

Prepared for:

Washington State
Department of Commerce

February 5, 2013

E. D. Hovee & Company, LLC

Economic and Development Services

Spokane Public Facilities District (SPFD) Independent Financial Feasibility Review

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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 a $65 million expansion of the Spokane Convention Center (SCC) together with other related SPFD improvements. On behalf of the SPFD, the economic and development consulting firm E. D. Hovee & Company, LLC (EDH) has conducted this independent financial feasibility review (pursuant to RCW 36.100.025) for the Washington State Department of Commerce (Commerce). Summary observations from this report are noted as follows.

Project Capital Cost. Of $65 million in projected capital improvements, $50 million is planned to be funded through issuance of bonds by the SPFD; $15 million has been funded via a loan to the SPFD from Spokane County. With costs of issuance and debt service reserve, total cost is estimated at $68.3 million.

Project Revenue Sources. *Financial Plan* analysis conducted for the SPFD indicates that pledged hotel/motel and sales/use tax revenues should be adequate to fund required debt service through the term of the financing (to 2043) with all funding scenarios considered, although debt coverage ratios may fall somewhat short of a 1.25 coverage requirement in the event of a flat revenue scenario post-2033.

With this independent financial analysis, an additional *worst-case* scenario has also been prepared. In the event that another economic downturn were to materialize on the scale experienced by SPFD from 2007-10, the cumulative amount by which project reserves could fall short of debt coverage requirements could increase to a range of $2.5-$3.3 million prior to economic recovery.

Institutional Arrangements. PFD statutory authority coupled with existing agreements between the SPFD and the County and City of Spokane are multi-layered and somewhat confusing due to multiple revisions made over time. While these agreements appear to represent a generally adequate set of understandings when revenues are sufficient to cover existing and planned obligations, it is less clear that the existing agreements would prove adequate if revenues proved unable to meet the combination of operating needs together with SPFD debt and local jurisdiction debt payment requirements.

Risk Factors & Mitigation. Potential risk factors identified with this feasibility review relate to:

- **Capital Cost Risks –** as for construction cost escalation and post-construction issues
- **Debt Repayment Risks –** as for debt coverage management, headquarters hotel development, cost and uncertainty of Swaption resolution, bond rating issues, and external interest rate shock
- **SPFD Operating Risks –** as might affect debt repayment due to effects of future short-term operating deficits and/or long-term decline in operating profitability
- **Institutional Risks –** as noted with respect to a need for clear payment priorities (to funding partners) in the event of sub-par revenue performance and ongoing reserve fund management

While the SPFD currently appears to have adequate cash reserves (as of year-end 2012) to address both debt repayment and operating risks, two possible *optional approaches* are suggested for additional consideration with management of potential short- and long- term risks associated with financing, construction and operation of expanded SCC facilities:

Option A – As Needed Adjustments Negotiated with Project Underwriting – with financing and risk management adjustments in response to questions and suggestions as may be raised by project financial advisors, bond underwriters and/or participating City/County funding partners.

Option B – Proactive Risk Management Strategy with Project Funding Partners – as a more deliberate approach involving an explicit SPFD risk management/financial reserve strategy, restructuring of the 2013 bond issue and/or re-working of existing agreements with City/County funding partners.

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I. INTRODUCTION

The Spokane Public Facilities District (SPFD) is planning to undertake a $65 million expansion of the Spokane Convention Center (SCC) together with other related SPFD improvements.[1] On behalf of the SPFD, the economic and development consulting firm E. D. Hovee & Company, LLC (EDH) has conducted this independent financial feasibility review for the Washington State Department of Commerce (Commerce).

Purpose of Feasibility Review

The purpose of this financial review is to examine the potential costs to be incurred by the SPFD related to issuance of $50 million in new SPFD-issued bonds, acceptance of a $15 million loan from Spokane County, and the adequacy of revenues or expected revenues to meet those costs. 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 evaluation is being prepared pursuant to section (1)(b) of the above noted statute.

SPFD AUTHORITY & PLANNED PROJECT DESCRIPTION

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.

SPFD Facilities. The SPFD currently owns and operates three regional center facilities:

- **Spokane Convention Center (SCC)** – encompassing a 100,000 square foot exhibit hall, 164,000 square feet of space for meetings, trade shows, banquets, and community and sporting events in downtown Spokane adjacent to the Spokane riverfront.
- **INB Performing Arts Center** – a 2,700 seat facility suitable for events including concerts, opera, ballet, Broadway shows, conventions, and lectures located as part of the SCC complex.
- **Spokane Veterans Memorial Arena** – a 273,000 square foot multi-purpose center that seats up to 12,000 situated near downtown Spokane.

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.

SPFD Revenues. SPFD facilities are financed and operated through a combination of user fees and tax revenues. User fees are relied on to cover a portion of operating expenses for all three facilities, with additional revenue support from some tax revenue sources. As detailed by this report, anticipated funding of debt service is totally reliant on tax revenue sources, including:

- Dedicated 2.0% SPFD district-wide hotel/motel tax
- SPFD 0.1% sales and use tax
- SPFD 0.033% sales and use tax rebate
- A portion of the City of Spokane 2.0% hotel/motel tax
- Added City 1.3% hotel/motel tax approved by the City of Spokane in 2012

ANALYSIS APPROACH

This analysis has been prepared for Commerce by the independent economic and development consulting firm E. D. Hovee & Company, LLC (EDH).[2] 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:

Task 1 – Review of background information (as outlined by Appendix B)

Task 2 – Questions for follow-up with SPFD and preparation of report outline

Task 3 – Preparation of draft report (for review with Commerce and SPFD)

Task 4 – Preparation and submittal of this final report
(including revisions based on clarifications and comments as provided by SPFD)

Documents Reviewed. As noted above, a listing of documents reviewed is provided by Appendix B to this report. Included are documents as initially provided by SPFD at the outset of this assignment together with other materials obtained to date.

No additional independent document research has been conducted for this assignment, outside of materials provided via Commerce, information already available to EDH, and any added information provided as a result of Task 2-3 follow-up with the SPFD. 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. The focus of this analysis is, first, to evaluate project capital cost and associated documentation. This is followed by a review of the sources and adequacy of revenues to meet both operating and debt service requirements – including a baseline scenario consistent with existing SPFD provided projections and a worst-case (or stress test) scenario which conceivably could affect scheduled payment of SPFD financial obligations.

Also reviewed with this analysis is the adequacy of existing agreements related to capital and operating funding between the SPFD and funding partners. This is followed by a summary analysis of project and operating risk including measures that might be considered for mitigation or financial backstop, as appropriate.

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

- Project capital cost
- Project revenue sources
- Institutional arrangements
- Risk factors and mitigation

Included with the report are three appendices – providing a profile of EDH as project preparer, listing of documents reviewed, and more detailed projections of SPFD/SCC revenue availability.

II. PROJECT CAPITAL COST

As noted by RCW 36.100.025 (2), the independent financial feasibility review must examine the potential costs to be incurred by the public facilities district. This section of the report addresses capital costs, including proposed sources and uses of capital funds together with more detailed capital cost documentation.

PROPOSED SOURCES & USES OF FUNDS

As of December 2012, cost of financing is estimated by the financial consultant for SPFD at $68.34 million. This includes $65 million in the project fund for facility improvements plus $2.38 million in debt service costs and $0.96 million in bond issuance cost.

Sources and Uses of Funds

Description	SPFD 2013 Bonds	Spokane County	Total All Sources
Project Fund	$50,000,000	$15,000,000	$65,000,000
Debt Service Reserve	$2,380,531	--	$2,380,531
Costs of Issuance	$782,446	$180,040	$962,486
Total All Uses	$53,162,977	$15,180,040	$68,343,017

Source: A. Dashen & Associates, *Hotel/Motel Tax and Sales Use Tax Bonds Series 2013 Financing Plan,* December 10, 2012 (Amended December 17 with Revised Attachment 2).

Of the $65 million in funding secured for project capital improvements:

- $50 million is planned to be funded through the issuance of bonds by the SPFD (also described as 2013 bonds)
- $15 million has been funded via a loan to the SPFD from Spokane County (also described as the County loan)

CAPITAL COST DOCUMENTATION

Documentation of capital cost for SCC and related improvements comes from two sources – a preliminary cost model prepared in conjunction with 2011 conceptual planning followed by an updated 2012 construction cost estimate. Each is briefly considered, in turn.

2011 Cost Estimate. Davis Langdon (an AECOM Company) prepared a *Preliminary Cost Model* in conjunction with the *Spokane Convention Center Concept Design Report,* completed in early 2011. Total cost for a 97,300 square foot building together with site cost and off-site costs (for the north of Centennial Trail/Medallion Line) was estimated at $44,180,000. A project cost multiplier of 40% was applied to the hard construction cost for a total development cost estimated at $61,852,000 – including 15% design contingency and Washington state sales tax.

As noted by the Preliminary Cost Model, pricing assumptions included the following general conditions of construction:

- A start date of June 2012 (since elapsed)
- A construction period of 15 months
- A GC/CM (general contractor/construction manager) procurement process
- No small business set aside requirements
- Contractor payment of prevailing wages
- No phasing requirements
- GC full access to the site during normal business

2012 Updated Cost Estimate. An updated construction cost estimate was prepared for the SPFD completion projects on June 11, 2012. As detailed by the following budget, total project cost is currently estimated at $64.5 million – about $0.5 million less than the current $65 million budget allocation as anticipated with project financing.

2012 SPFD Completion Projects Updated Cost Estimate

Cost Element		Cost Estimate	
Convention Center & Related Improvements			
	Completion Construction Cost	$43,842,000	Note 1
	Owner Contigency @ 5%	$2,192,100	
	FF&E	$250,000	
	Testing	$100,000	
	Architect & Engineering Fees @ 10%	$4,384,200	
	Taxes @ 8.7%	$3,814,254	
	Environmental Allowance	$2,000,000	
	Other Owner Expense	$200,000	
	Subtotal	$56,782,554	
Shenanigans Property		$4,500,000	Note 2
Arena Seating		$3,200,000	Note 3
Total		**$64,482,554**	
Notes:			
1:	Includes Riverbank/Centennial Trail improvements. Also includes 5% MACC contingency, 15% design contingency and GCCM fee. Based on Feb 2011 study.		
2:	Reimbursement of Facilities Maintenance Fund		
3:	As per ALSC estimate		

Source: SPFD, June 11, 2012.

Assessing Project Capital Cost Risk. Based on the information provided, there is no readily available means of directly comparing the two sets of project costs. This is not unusual as estimates were compiled by different parties and reflect project refinements, including effects of inflation over time and the 2012 allocation for the Shenanigans Property. For the purposes of this independent financial feasibility review, what is important is that:

- There is documented evidence of due diligence shown by the preparation of at least two detailed cost estimates covering the range of cost categories that typically could be expected with a project of this type.
- There is a mechanism to address further potential cost increases that may arise by the time the project goes to bid and/or as a result of currently unforeseen project contingencies. These options are further addressed with the Section 5 portion of this report regarding risk factors and mitigation.

III. ADEQUACY OF REVENUE SOURCES

In addition to potential cost, RCW 36.100.025 (2) requires the independent financial feasibility review to address the adequacy of revenues or expected revenues to support project costs. Recognizing that user revenues are 100% dedicated to operating expense, tax revenues have been identified as the sole anticipated sources of repayment of any indebtedness associated with facility-related capital improvements.

On the following pages, this financial feasibility review covers topics including:

- Tax revenue streams available to support SPFD capital investment
- Alternative SPFD prepared funding scenarios
- A worst-case scenario – or “stress test” of revenue adequacy with sub-par performance
- Adequacy of operating revenues – with tax sources as anticipated for debt repayment

Tax Revenue Streams Available to Support SPFD Capital Investment

SPFD relies on multiple tax revenues to pay both operating and capital (or debt service) expense. Understanding the capacity of these revenue streams and their interrelationships is important to this assessment of funding adequacy for debt repayment.

An initial work task identified with this financial feasibility evaluation was to prepare a brief summary of the financing structure of the Convention Center (current and proposed) vis-à-vis other facilities and operations of the SPFD. The following text was reviewed with Commerce and the SPFD, with modifications made based on comments received. This overview has served as a basis for conducting the remainder of the independent financial feasibility review.

Funding of the Spokane Convention Center (SCC) Expansion. EDH’s understanding is that SCC expansion and related SPFD improvements involve an estimated capital expense of $65 million – of which $50 million will be in bonds issued by the SPFD and $15 million via a loan to the SPFD from Spokane County (described as the County loan). Revenue streams (as identified below) will be pledged first to repayment of the SPFD bonds. Boundaries of the SPFD are coextensive with Spokane County. The County loan will be subordinate to repayment for the SPFD bonds.

In addition to the $65 million anticipated capital cost of SCC expansion, the SPFD is creating a reserve fund of $1.5 million, to be funded by the SPFD in six annual increments of $250,000 each. The first $1 million of this fund will be pledged solely to repayment of the County loan. Total costs of financing including the project fund, debt service reserve, and cost of issuance was estimated at $68.3 million (as of December 17, 2012).

Revenue Streams Available to the SPFD for the Spokane Convention Center (SCC). Based on background documents reviewed to date, our understanding of revenue streams available to the Spokane PFD for operations and debt funding of the Spokane Convention Center (SCC) is as outlined by the chart on the following page.

Revenue Streams Available to the SPFD for SCC Debt & Operating Expenses

Revenue Source	Comments
Tax Revenues	**Dedicated to Debt Repayment**
Dedicated SPFD Hotel/Motel Tax (2.0%)	Voter approved in 1991, extended in 2002 and most recently (in April 2012) to 2043 for SCC expansion, trail/riverbank and Arena improvements. 2003 and 2011 bonds are secured by a lien on SPFD hotel/motel tax (plus SPFD sales and use tax) revenues. This revenue source is planned to be made available for 2013 bond repayment.
SPFD Sales & Use Tax (0.1%)	Voter approved countywide in 1991, extended in 2002 and most recently (in April 2012) to 2043 for SCC expansion, trail/riverbank and Arena improvements. State statute allows up to a 0.2% rate, subject to voter approval. 2003 and 2011 bonds are secured by a lien on sales and use tax (plus SPFD hotel/motel tax) revenues. This revenue source is also planned to be made available for 2013 bond repayment.
SPFD/State Sales & Use Tax Rebate (0.033%)	Current authorization for state sales tax credit/rebate with creation of SPFD expires in 2027, legislatively proposed for 10-year extension (but not enacted to date). 2003 bonds are secured by this tax as well as SPFD sales/use and hotel/motel taxes. This revenue source is also planned to be made available for 2013 bond repayment; however, 2013 bonds will not be secured by a lien on revenues from this tax.
City of Spokane Hotel/Motel Tax (portion of 2.0%)	Portion of 2.0% H/M funds ($360,000 annually) allocated to repayment of Convention Center debt (now repaid) by City/SPFD agreement. Currently allocated for pending debt service on proposed 2013 SPFD bonds and County loan.
Added City Hotel/Motel Tax (1.3%)	This revenue source planned to be made available for 2013 bond repayment for SCC expansion together with trail/riverbank and Arena improvements, per terms of a Fourth Amendment to the 2003 Interlocal Agreement between the City and SPFD. The 1.3% incremental tax will sunset in 2043.[3] Excess funds not needed for debt service to be made available for tourism marketing and facility development. *Note:* When combined with other forms of sales/use tax, the combined lodging taxes are not to exceed a 12% total rate. First claim on lodging tax revenues is for $100,000 (adjusted annually by CPI) and retained for City for distribution by the City Lodging Tax Committee. Second claim is for CVB tourism promotion and Regional Sports Commission (combined 60%). Third claim is for SCC improvements – but with debt service potentially superceding CVB/Sports Commission payments.[4] Fourth claim on revenues from the lodging tax increase not needed for payments on SPFD direct or indirect debt obligations or to fund the Reserve and Contingency Fund will be made available for tourism promotion and tourism related facilities.
Operations	**As Current Sources of Funding Operations**
User Revenues	Includes facilities rentals, concessions, catering, parking and other fee-related revenues associated with on-site convention and meeting activity.
Tax Revenues	Includes Admission Tax and a portion of the hotel/motel (lodging) tax, accounting for a combined 28% of SCC revenues in 2011, but with SCC revenues 17% short of expenses (as resulting operating deficit). SCC is the only SPFD facility operating at a deficit and requiring City Lodging Tax operating support, with the SCC deficit offset by operations profits from the Spokane Arena and INB Performing Arts Center. The 1991 SPFD lodging tax is available only for debt service.

With respect to current and planned SPFD indebtedness, our understanding is that:

- **2003 SPFD bonds** are being repaid from the 0.033% state sales/use tax credit *together with* revenues from the 2.0% dedicated SPFD hotel/motel tax and 0.1% sales/use tax. Bond repayment extends through 2033 (with state sales/use tax credit through 2027).
- **2003 County/Valley City bond** repayment is a responsibility of the SPFD, for funding of a Fair and Expo Center project (owned and operated by Spokane County) and the Mirabeau Point project (owned and operated by Valley City). Project funding occurred via limited tax obligation bonds issued by the two owners, with intergovernmental payments from SPFD according to the debt service schedule including the 2003 and more recent 2012 bond issues. Excess revenues as available from the SPFD hotel/motel tax, sales/use tax and state credit sales/use tax sources will be used to make such payments through bond repayment ending for the 2003 bonds in 2033.[5]
- **2011 SPFD refunding bonds** (replacing 2001 bonds) are being repaid from the 2.0% dedicated SPFD hotel/motel tax and 0.1% sales/use tax but with no revenues available from the 0.033% state sales/use tax credit. Full bond repayment is scheduled for 2017.
- **Planned 2013 bonds** for SCC expansion (and related uses) are planned to be repaid from sources including allocation of a $360,000 per year portion of existing City hotel-motel taxes and the 2012 added City hotel/motel tax of 1.3% *together with* voter approved extension of SPFD sales/use tax and hotel/motel tax revenue collections to 2043.
- **Swaption letter of credit** now included (as of a revised December 17, 2012 Attachment 3 financing plan option) as part of the PFD bond repayment program, with Swaption LOC obligations currently estimated at a cumulative total of $9.65 million through 2033. While not clearly specified, it is assumed that source of repayment with this Swaption scenario would be similar to sources anticipated for the planned 2013 bonds.

Alternative SPFD Prepared Funding Scenarios

As specified by the scope of work, this financial evaluation is to include a review of sources and adequacy of sources to meet both operating and debt service requirements. This includes a review of a baseline scenario consistent with existing SPFD provided projections.

The primary documentation relied on for SPFD projections of revenues to service both existing and proposed 2013 bonds for SCC expansion is analysis conducted by A. Dashen & Associates, SPFD financial advisor. An initial *Summary of Financing and Financial Review* for $50 million of hotel/motel tax and sales/use tax bonds dated September 27, 2012 was submitted as Attachment 1 with materials to be considered for this independent financial review.

The A. Dashen *Financing Plan* was updated and revised as of December 10, 2012 (subsequently amended December 17, 2012). This December 17 document serves as the primary source for analysis of revenue adequacy for bond coverage.

Components of A. Dashen Funding Analysis. Key components of the most recent A. Dashen funding analysis are summarized as follows:

- Funding adequacy is evaluated for a **combined set of SPFD obligations** including continued repayment on 2003 bonds (through 2033), Swaption letter of credit (if applicable – also through 2033), 2011 bonds (through 2017), and proposed 2013 bonds of $53.16 million (with debt service repayment programmed from 2013 to 2043).
- Separately evaluated are **County/Valley City bonds** including a 2003 bond issuance (with repayments programmed through 2033) and a proposed $15.18 million County loan (with repayments planned from 2013 through 2043).
- As previously described, **PFD tax revenues** available to support all or varied portions of these existing and proposed debt obligations are the 2.0% dedicated SPFD hotel/motel tax, 0.1% SPFD sales and use tax, 0.033% SPFD/State sales and use tax rebate, a dedicated portion of the City of Spokane 2.0% hotel/motel tax, and added 1.3% City hotel/motel tax.
- Identified with all funding scenarios are planned contributions of **additional reserves** programmed at $250,000 per year (from 2013 through 2018), intended to be used as necessary to pay debt service on the County loan and other related purposes as authorized by interlocal agreements with Spokane County and the City of Spokane.
- The portion of any excess funding not needed for combined SPFD and County/Valley debt service is available for **additional hotel/motel tourism funded projects** – up to a maximum amount of the 1.3% added City hotel/motel tax.
- **Debt service coverage** ratios have been calculated with a) the County/Valley repayments included and b) direct SPFD bonding only (without the County/Valley repayments included). SPFD is required to maintain a coverage ratio of at least 1.25 on its senior lien debt, which excludes the debt payments on the existing County/Valley City bonds and the 2012 County loan (i.e., the option b approach noted above).

Funding Scenario Attachments. With its revised December 17 analysis, A. Dashen has provided four detailed attachments, summarized as follows:

- **Attachment 1** contains projections prepared by the Institute for Public Policy and Economic Analysis (IPPEA) at Eastern Washington University – providing estimates of hotel/motel tax and sales/use tax revenues that the SPFD "could reasonably expect to collect over the terms of the 2013 PFD bonds and the County Loan." With this analysis, sales/use tax revenues are projected to increase at an average annual rate of 2.2% from 2012-43 with hotel/motel tax revenues increasing at an average 3.5% rate over the same time period. Higher rates of revenue growth are generally forecast for the earlier half of the forecast time period, with slower rates of revenue growth anticipated in the out-years.

  However, the IPPEA revenue projections appear unduly optimistic, at least near-term. The December 17 analysis of A. Dashen indicates that 2012 actual sales/use tax receipts could be an estimated 6.7% below and hotel/motel tax receipts 4.0% below the IPPEA projections.[6] As described below (and indicated by Attachments 2-4), A. Dashen appropriately applies more conservative revenue forecasts than are indicated by the Attachment 1 IPPEA projections.

- **Attachment 2** forecasts SPFD revenues and expenses from 2013-43 assuming no increase in hotel/motel or sales/use tax (above 2011 levels), application of 2013 SPFD bond interest rates as provided by the District's bond underwriter, an assumption that the SPFD will continue to be able to pay operating expenses from operating revenues, and that refinancing or terminating the Swaption "will have no effect on annual debt service payments related to the 2003 bonds." In effect, this scenario assumes that the SPFD would pay off the Swaption from available funds (or reserves), rather than enter in to an interest rate swap with no effect on annual debt service payments.

  Based on these assumptions, debt service coverage ratios would remain above the 1.25 minimum through 2033, but then drop below the minimum requirement to a 1.23 coverage ratio through the remaining 10 years of the bond repayment period to 2043. However, over the full 2013-43 time period, tax revenue sources exceed debt service costs, returning a net surplus for SPFD capital and operations in all but eight years – for a multi-year cumulative surplus of nearly $9.7 million by 2043.

- **Attachment 3** is predicated on the same assumptions as Attachment 2, *except that* this scenario assumes that SPFD enters into an interest rate swap, with the "net effect on the District the payment of a letter of credit fee for each year the swap is in place." As estimated by the SPFD swap advisor, the costs of the letter of credit fees through termination in 2033 reach a cumulative multi-year total of $9.65 million.

  As with the Attachment 2, this Attachment 3 scenario is projected to result in a coverage ratio exceeding 1.25 for all years except after 2033, when the ratio drops to 1.23. A one-year drop to 1.24 is also noted early on with this scenario in 2014. While achieving nearly comparable debt coverage performance, this scenario returns a cumulative total of nearly $4.4 million less revenue for hotel/motel tourism projects and $5.3 million less in cumulative SPFD surplus due to the effects of Swaption letter of credit fees than the scenario provided with Attachment 2.

  Of the three scenarios presented, this is viewed as the most conservative option of those presented by A. Dashen with Attachments 2-4. A copy of this scenario is provided with Appendix C to this report. The other scenarios are available with the full A. Dashen report dated December 17, 2012 (as amended).

- **Attachment 4** is predicated on the same assumptions as Attachment 3, *except that* a 1% average annual increase in hotel/motel tax and sales/use tax revenues is assumed – as compared with the no increase scenarios of Attachments 2-3. As noted by A. Dashen, this assumed 1% per year increase is still "significantly lower than the 2.2% sales/use tax and 3.5% hotel/motel annual tax increases estimated in the (IPPEA) study."

  With this changed assumption of relatively modest long-term revenue growth, projected tax revenues exceed debt service expense by a coverage ratio of at least the required minimum of 1.25 throughout the full repayment period from 2013-33. The lowest coverage ratio (1.25) is noted for 2014, with the ratio increasing to 1.65 by 2043. Excess revenues also accumulate to a multi-year total of $30.8 million for other hotel/motel funded tourism projects and $49.8 million in surplus to SPFD capital and operations by 2043.

As indicated by this summary, the Attachment 2-3 scenarios both result in some years (especially post-2033) when debt coverage drops below the 1.25 minimum requirement (to 1.23). The A. Dashen analysis indicates that "this by itself is not significant, and a slight restructuring of the 2013 PFD Bonds can improve this to 1.25 or above." However, no specific recommendations as to the form that this restructuring might take are provided by the A. Dashen report.

While all three scenarios prepared by A. Dashen could be construed as representing variations of baseline SPFD expectations, Attachment 3 (included with Appendix C to this report) is identified as the baseline for further analysis – as the most conservative of the scenarios currently being considered by the District. It is to the comparative consideration of a worst-case (or stress test) scenario that this analysis now turns.

WORST-CASE SCENARIO

In addition to a baseline scenario, the scope of work for this independent financial analysis also calls for preparation of a *worst-case* scenario which conceivably could affect scheduled payment of SPFD financial obligations. The reason for this "stress test" is to evaluate the potential financial ramifications of a scenario which, while perhaps not highly probable, could plausibly occur under circumstances for which there is reasonable historical precedent. In this case, a clear historical precedent is provided by the experience of the recent recession and its aftermath.

Recessionary Effects on SPFD Tax Revenues. For the three direct SPFD tax revenue sources of sales/use, hotel/motel and sales/use tax rebate, the peak revenue year to date was 2007 (with the peak one year later in 2008 for the hotel/motel tax). The trough appears to have been experienced in 2010 (a year beyond the official end of the national recession).

As illustrated by the chart on the following page, SPFD revenue from all three sources dropped by a combined $1.4+ million (or by 10.9%) from 2007-10. From the 2007 peak, sales tax related revenues dropped by between 12-13% (depending on the specific tax mechanism) while SPFD hotel/motel revenues declined more modestly (by less than 3%).

SPFD tax revenues turned the corner in 2011, increasing overall by 1.8% over 2010 – the first uptick since the start of the recession. Based on revised January 2013 estimates, revenues for 2012 are expected to be up by about 2.9% over 2011 conditions.

As this chart illustrates, the post-recession recovery to date has occurred at a relatively modest pace. In the last two years, revenues are up by about 2-3% per year. This is well below the 5-10% range of annual SPFD tax revenue growth experienced pre-recession from 2003-07.

The experience of the 2007-10 time period provides useful and immediately relevant experience for a potential worst-case scenario. In effect, the question is: what would be the financial effects to the SPFD of another recession of the scope and magnitude of what was experienced from 2007-10?[7]

SPFD Direct Tax Revenue Experience (2003-12)

	Reported Revenue Totals				Year by Year % Change			
Year	0.1% SPFD/ Sales/Use Tax	2% SPFD Hotel/Motel Tax	SPFD/State Sales/Use Tax Rebate	Combined SPFD Tax Total	0.1% SPFD/ Sales/Use Tax	2% SPFD H/M Tax	SPFD/State Sales/Use Tax Rebate	Combined SPFD Tax Total
2003	$ 6,173,249	$ 1,593,200	$ 2,041,168	$ 9,807,617	--	--	--	--
2004	6,455,680	1,718,198	2,138,635	10,312,513	4.6%	7.8%	4.8%	5.1%
2005	6,968,895	1,807,771	2,310,460	11,087,126	7.9%	5.2%	8.0%	7.5%
2006	7,618,566	2,004,238	2,525,769	12,148,573	9.3%	10.9%	9.3%	9.6%
2007	8,218,265	2,320,093	2,710,153	13,248,511	7.9%	15.8%	7.3%	9.1%
2008	7,945,302	2,396,517	2,640,653	12,982,472	-3.3%	3.3%	-2.6%	-2.0%
2009	7,288,385	2,180,793	2,425,757	11,894,935	-8.3%	-9.0%	-8.1%	-8.4%
2010	7,176,402	2,259,356	2,374,350	11,810,108	-1.5%	3.6%	-2.1%	-0.7%
2011	7,375,250	2,222,847	2,421,138	12,019,235	2.8%	-1.6%	2.0%	1.8%
2012	7,492,422	2,384,811	2,491,715	12,368,948	1.6%	7.3%	2.9%	2.9%
2007-10	**(1,041,863)**	**(60,737)**	**(335,803)**	**(1,438,403)**	**-12.7%**	**-2.6%**	**-12.4%**	**-10.9%**

Note: 2012 revenues reflect final year end results as provided by SPFD , January 23, 2013.
These updated results are above what was estimated by A. Dashen in December 2012.

Source: A. Dashen & Associates, *Hotel/Motel Tax and Sales Use Tax Bond Series 2013 Financing Plan,* December 10, 2012 (Amended December 17), and SPFD, January 23, 2013.

Worst-Case Scenario Timing & Conditions. While another recession similar to that recently experienced would prove challenging at any time, the financial consequences are likely to be more severe for paying debt obligations near-term rather than in the out years of SPFD bond repayment. This corresponds with the observation by A. Dashen that even “a modest increase in tax revenues provides significantly more coverage in the long term.”

The A. Dashen Financial Plan analysis goes on to note that:

> The primary potential downside for the District would be a decrease in tax revenues over the next several years, which could result in inadequate cash flow to pay the County loan and debt service on the County/Valley City Bonds. If declines continued for some time, the District would not be able to pay debt service on the other District obligations.

Consequently, for illustrative purposes this analysis presents a *worst-case analysis* that might be expected if another economic downturn similar to that of 2007-10 were to be experienced and if the downturn were to begin as early as 2014. Conditions assumed with this stress test are that:

- Revenues from the three dedicated SPFD revenue sources decline by 10.9% combined over the three year period of 2014-17 – albeit with individual sources declining in a pattern similar to that experienced in the last downturn from peak to trough.
- After the recession, revenues from these three sources recover over the ensuing two years in a pattern similar to 2011-12, followed by 1% annual revenue growth thereafter.

- Other financial resources available for SPFD from City of Spokane hotel/motel revenues (notably the 1.3% allocation assumed at a constant amount of $892,000 annually and the portion of the City 2% allocation capped at $360,000) continue to be made available at amounts as currently planned.

Stress Test Results. Results of this *worst-case* stress test analysis are illustrated by the chart on the next page. Added spreadsheet detail is provided by Appendix C.

As depicted, with a *hypothetical recession* starting in 2014, debt coverage could fall short of the 1.25 minimum requirement starting almost immediately, dropping to as low as 1.14 before beginning to improve after about three years – assuming that the pattern of recession and subsequent recovery followed that of the 2007-12 SPFD experience. If the pace of recovery proved relatively tepid, it is conceivable that debt coverage ratios of 1.25+ might not be achieved until about 2022.

The amount by which SPFD tax revenues fell short of debt coverage requirements could also build relatively quickly – beginning with a less than $100,000 coverage shortfall in the first year, increasing to a range of $800,000-$900,000 each of the two succeeding years. As illustrated by the chart on the next page, the *cumulative amount* of the multi-year coverage shortfall could increase to about $2.5 million by 2021 (the year before DCR gets back to the minimum with this scenario). The cumulative shortfall would go even higher to $4.0 million, but for the $1.5 million in additional reserves provided for with $250,000 contributions from 2013-18.

This shortfall assumes that excess surplus in 2013 is applied to subsequent year shortfall(s). If this surplus were not available but was expended as for tourism promotion, the amount of the cumulative debt coverage shortfall could increase to about $3.3 million, based on a cumulative indicated allocation of over $860,000 to hotel/motel funded tourism projects in 2013-14 (but assuming that the $1.5 million reserve is fully funded as currently planned).

Stress Test Effects with Delayed Recession. The financial consequences of another recession on a par with the 2007-10 tax revenue downturn would be more challenging the earlier that this recession occurred. This is because there is less intervening time for revenues with continuing economic recovery to build up, creating higher coverage ratios as a better buffer against a future recession. There would also be less time to build up reserves, especially if revenues had been increasing (even at a modest pace) prior to the next economic downturn.

However, a revenue downturn comparable to 2007-10 could still prove damaging even if the next significant recession were delayed until later in this decade or even into the decade of the 2020s. This longer term vulnerability is greatest if:

- SPFD revenue growth goes into a no-growth mode (similar to the A. Dashen prepared Attachment 3 scenario) over a prolonged period prior to the recession.
- Pre-recession funding for tourism projects leaves the SPFD with no surplus as a cushion against a future recession (as is also illustrated by the Attachment 3 scenario).

Worst-Case Stress Test Results (with Hypothetical Recession Starting 2014)

YEAR	Annual % Change	Comparison of SPFD Tax Revenues & Debt Service			Debt Coverage Analysis DCR	Shortfall Calculation		
					w/o County / Valley			
Year	Direct SPFD Tax Revenues	Direct SPFD Tax Revenues	Total Tax Revenues	Total PFD Debt Service	SPFD Only Coverage	Revenue Need @ 1.25 DCR	Surplus / (Shortfall)*	Cum Surplus/ (Shortfall)
2013	--	$ 12,019,235	$13,271,235	$ 9,952,112	1.33	$ 12,440,140	$ 1,081,095	1,081,095
2014	-1.9%	11,785,404	13,046,324	10,681,806	1.22	13,352,258	(55,934)	1,025,161
2015	-8.4%	10,797,212	12,067,141	10,513,631	1.15	13,142,039	(824,898)	200,263
2016	-0.7%	10,726,061	12,005,089	10,509,981	1.14	13,137,477	(882,387)	(682,124)
2017	1.7%	10,911,331	12,199,550	10,508,606	1.16	13,135,758	(686,208)	(1,368,333)
2018	3.0%	11,234,710	12,532,211	10,501,463	1.19	13,126,828	(344,618)	(1,712,950)
2019	1.0%	11,347,057	12,653,933	10,466,575	1.21	13,083,219	(429,286)	(2,142,236)
2020	1.0%	11,460,527	12,776,872	10,427,738	1.23	13,034,672	(257,800)	(2,400,036)
2021	1.0%	11,575,133	12,901,041	10,389,325	1.24	12,986,656	(85,615)	(2,485,651)
2022	1.0%	11,690,884	13,026,451	10,345,275	1.26	12,931,594	94,857	(2,390,794)
2023	1.0%	11,807,793	13,153,116	10,304,962	1.28	12,881,203	271,913	(2,118,881)
2024	1.0%	11,925,871	13,281,047	10,257,125	1.29	12,821,406	459,641	(1,659,241)
2025	1.0%	12,045,129	13,410,257	10,211,088	1.31	12,763,859	646,398	(1,012,843)
2026	1.0%	12,165,581	13,540,760	10,155,550	1.33	12,694,437	846,322	(166,521)
2027	-14.0%	10,460,562	11,845,893	8,764,750	1.35	10,955,937	889,956	723,435
2028	-4.9%	9,951,226	11,346,810	8,298,302	1.37	10,372,878	973,933	1,697,368
2029	1.0%	10,050,738	11,456,678	8,253,618	1.39	10,317,023	1,139,655	2,837,023
2030	1.0%	10,151,246	11,567,645	8,207,335	1.41	10,259,168	1,308,477	4,145,500
2031	1.0%	10,252,758	11,679,722	8,158,218	1.43	10,197,773	1,481,949	5,627,449
2032	1.0%	10,355,286	11,792,919	8,106,273	1.45	10,132,841	1,660,078	7,287,526
2033	1.0%	10,458,838	11,907,248	8,250,536	1.44	10,313,170	1,594,078	8,881,605
2034	1.0%	10,563,427	12,022,720	8,802,305	1.37	11,002,881	1,019,840	9,901,444
2035	1.0%	10,669,061	12,139,348	8,802,305	1.38	11,002,881	1,136,467	11,037,911
2036	1.0%	10,775,752	12,257,141	8,802,305	1.39	11,002,881	1,254,260	12,292,171
2037	1.0%	10,883,509	12,376,113	8,802,305	1.41	11,002,881	1,373,232	13,665,403
2038	1.0%	10,992,344	12,496,274	8,802,305	1.42	11,002,881	1,493,393	15,158,795
2039	1.0%	11,102,268	12,617,636	8,802,133	1.43	11,002,666	1,614,971	16,773,766
2040	1.0%	11,213,290	12,740,213	8,800,750	1.45	11,000,938	1,739,275	18,513,042
2041	1.0%	11,325,423	12,864,015	8,803,750	1.46	11,004,688	1,859,327	20,372,369
2042	1.0%	11,438,678	12,989,055	8,803,500	1.48	11,004,375	1,984,680	22,357,049
2043	1.0%	11,553,064	13,115,346	8,804,250	1.49	11,005,313	2,110,033	24,467,082
		343,689,397	387,079,802	291,290,176		364,112,720	24,467,082	

* Note: Surplus / (shortfall) calculations include addition of $250,000 annually for 6 years through 2018.

Source: E. D. Hovee & Company, LLC. For illustrative purposes only. See Appendix C for added detail.

Conversely, the SPFD would be in a much better position to weather a future major recession if there was even relatively modest revenue growth experienced over several years prior to the next recession event. For example, with the A. Dashen prepared 1% revenue growth scenario (of Attachment 4), the cumulative surplus increases to the $3.3 million range by about 2020-21.

This is the approximate amount indicated as providing an adequate buffer to maintain a 1.25 debt coverage ratio through another 2007-10 type of revenue downturn, even with prior allocations for tourism projects. If hotel/motel funding of tourism projects were deferred or scaled back prior to achieving this level of cumulative surplus, the time frame for achieving this cumulative additional reserve level could be considerably shortened.

Potential mitigation options for addressing these *stress-test* identified risk factors are covered in the final section of this report.

ADEQUACY OF OPERATING REVENUES

The scope of work for this independent financial review is aimed to address adequacy of revenues to meet both operating and debt service projections. While the primary focus of the analysis is on debt service requirements, some review of operating history is useful because the capacity to dedicate identified SPFD tax revenue sources solely or primarily to debt repayment is dependent on the concurrent ability of the convention center and other facilities to operate without need to substantially increase operational reliance on hotel/motel tax or look to sales/use tax funding support.

As noted by the A. Dashen prepared Financial Plan, a pivotal assumption of all funding scenarios is that "the District will continue to be able to pay operating expenses from operating revenues." A concluding note added to the final (December iterations) of the Financial Report elaborates further as follows:

> Although not expected given the operating history of the District, if operating expenses were not covered by operating revenues in future years, this also would have a negative effect on the District's financial performance.

There are two resulting questions that this financial review is aimed to address in preliminary fashion:

- What trends with SPFD 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 would be the potential effect on debt service capacity?

Each of these questions is addressed in turn. Further elaboration as to potential mitigation is provided in the last section of this report.

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 together with financial results are depicted for each individual facility and combined operations for the years 2007-11 by the following chart.

SPFD Facility Operating Revenue & Expense History (2007-11)

SPFD Facility		2007	2008	2009	2010	2011
Spokane Convention Center						
	Revenues	$3,926,058	$3,761,125	$3,698,122	$3,250,484	$3,216,130
	Expenses	$4,405,662	$3,645,649	$3,780,535	$3,932,956	$3,874,163
	Operating Profit	($479,604)	$115,477	($82,413)	($682,472)	($658,032)
INB Performing Arts Center						
	Revenues	$4,326,149	$1,431,590	$1,636,367	$1,148,442	$1,505,013
	Expenses*	$3,955,085	$786,435	$899,521	$815,907	$961,742
	Operating Profit	$371,064	$645,155	$736,846	$332,534	$543,270
Spokane Arena						
	Revenues	$6,994,672	$5,181,499	$4,603,230	$6,827,413	$5,267,974
	Expenses	$5,814,868	$4,461,817	$4,106,478	$4,592,938	$4,114,929
	Operating Profit	$1,179,805	$719,682	$496,752	$2,234,475	$1,153,045
Combined Statement of Operations						
	Revenues	$15,246,879	$10,374,214	$9,937,719	$11,226,339	$9,989,117
	Expenses	$14,175,614	$8,893,901	$8,786,534	$9,341,801	$8,950,834
	Operating Profit	$1,071,265	$1,480,313	$1,151,185	$1,884,538	$1,038,283
	As % of Revenues	7.0%	14.3%	11.6%	16.8%	10.4%

* Note: 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.
Source: SPFD, *2011 Year End Report.*

Observations from this financial history that are pertinent to this review are summarized as follows:

- Excluding 2007 when major INB repairs were undertaken, combined operations have generated revenues in the range of $10-$11 million per year. Expenses have 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.[8]
- 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 two years for which complete financial results are available (2010-11). This is due, in part, to SPFD's re-allocation of the Arena admission tax from the SCC to the Arena starting in 2010.[9]

- While SPFD tax revenues increased in 2011, operating revenues for SCC (and the Spokane Arena) have not increased above 2010 results. SCC operating revenues in 2011 remained 18% below revenues realized five years earlier in 2007. Also noted is that the Arena benefitted from major events boosting overall SPFD revenues in 2007 and 2010.[10]
- Finally, it is noted that while final financial results for 2012 are not yet available, operating profits for all SPFD facilities as of the end of November 2012 (unadjusted for bonuses) were 1-2% below similar YTD experience of 2011.

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. Over the last five years, the District has been able to maintain an operating profit of at least $1 million each year (including payment of discretionary bonuses).

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 2011 financial results as an example, the SCC deficit would have to nearly triple (going from $658,000 to about $1.7 million) before the self-sufficiency of all SPFD operations would be jeopardized.

However, this analysis also indicates that 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 in each of the next two years. This 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.
- 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, facilities 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 recent prolonged national economic recovery 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.

IV. INSTITUTIONAL ARRANGEMENTS

To this point, this feasibility review report has focused on economic and financial indicators for SPFD debt issuance. However, institutional arrangements may also be of importance in assessing both short- and long-term financial feasibility.

The scope of work for this assessment calls for the evaluation of adequacy of existing legal agreements related to capital and operating funding. This is of particular importance to an organization like SPFD which is responsible for well-established facilities combined with more complex funding and operating arrangements between multiple jurisdictions than is typical for other PFDs and associated facilities elsewhere in the state.

This section of the report summarizes statutory and institutional agreements of importance for the planned 2013 bond issuance followed by discussion of adequacy of existing agreements.[11]

STATUTORY AUTHORITY & INSTITUTIONAL AGREEMENTS

This discussion begins with a summary review of state enabling authority followed by analysis of agreements between the SPFD and its institutional and funding partners.

Statutory Authority. Within the State of Washington, statutory authority for the creation and operations of the Spokane Public Facilities District (SPFD) is provided by RCW 36.100 for countywide PFDs. Pursuant to the more detailed provisions of RCW 36.100.300:

> (1) A public facilities district is authorized to acquire, construct, own, remodel, maintain, equip, reequip, repair, and operate (a) sports facilities, entertainment facilities, convention facilities, including without limitation any convention and trade center transferred from a public nonprofit corporation under RCW 36.100.230(1), or regional centers as defined in RCW 35.57.020, and (b) for districts formed after January 1, 2000, recreational facilities other than ski areas, together with contiguous parking facilities. The taxes that are provided for in this chapter may only be imposed for these purposes, including without limitation implementing any redemption, prepayment, or legal defeasance of outstanding obligations under RCW 36.100.230(3)(a).
>
> (2) A public facilities district may enter into agreements under chapter 39.34 RCW for the design, financing, acquisition, development, construction, reconstruction, lease, remodeling, alteration, maintenance, equipping, reequipping, repair, operation, or management of such facilities and may enter into contracts under chapter 39.34 RCW where any party to the contract provides and operates such facilities for the other party or parties to the contract. A public facilities district may enter into agreements under chapter 39.34 RCW that will assist a public facilities district in the financing of all or any part of a district facility on such terms as may be determined by agreement between the respective parties, including without limitation by a loan, guaranty, or other financing agreement.

Institutional Background. The SPFD was created in 1989 to determine the feasibility of developing a new multi-purpose community center for the City and County of Spokane. Boundaries of the District are coterminous with those of Spokane County.

The SPFD obtained voter approval for a hotel/motel tax in 1990 and for a sales/use tax in 1991 to finance and construct the Spokane Arena. In 1999, the Washington State Legislature adopted RCW 82.14.390, allowing for a 0.033% portion of the State sales and use tax to be credited or rebated to Public Facilities Districts to be used for "regional center" projects consistent with state statute.

The SPFD began collecting proceeds of the sales/use tax rebate to assist in funding the development of the Spokane Convention Center (SCC) together with commitments to a Fair and Expo Center Project and the SPFD commitment to the Mirabeau Point Project. The SPFD subsequently obtained voter approval in 2002 to extend hotel/motel and sales/use tax authority to fund the Regional Center projects.

In August 2003, the City of Spokane and the SPFD entered into an Interlocal Cooperation Agreement providing for SCC and related parking expansion together with transfer of two-thirds of the SCC, Opera House (now INB Performing Arts Center), and Washington State International Agricultural Trade Center to the SPFD.

The SPFD also has statutory authority for other tax and use fees including an ad valorem property tax subject to prior voter approval. Property tax funding approval is not currently in place for SPFD project funding support.

In addition to these direct SPFD tax revenue sources, the SPFD has agreements with the City of Spokane for funding support via a portion of the City 2.0% hotel/motel tax and an added 1.3% hotel/motel tax effective January 1, 2013. A more detailed description of the current status of funding sources available to the SPFD is provided by Section III to this report.

Recent Institutional Agreements. Two recent SPFD Interlocal agreements are pivotal to planned 2013 bond issuance:

- On October 9, 2012, the **Spokane County** Board of Commissioners approved a joint resolution with the SPFD Board of Directors whereby the County would loan the proceeds of County bonds in the amount of $15 million plus issuance costs for the purpose of making proposed SCC and related SPFD riverfront and Arena improvements – with repayment subordinate to current and planned SPFD bonded indebtedness.
- Effective October 11, 2012 as authorized by the City Council, the **City of Spokane** entered into Amendment No. 4 to an Interlocal cooperation agreement (originally dated August 20, 2003) with the SPFD to increase the City's hotel/motel lodging excise tax to the statutory minimum (as a 1.3% increase) for purposes of funding support to supplement April 17, 2012 voter support of the SPFD countywide "Staying Competitive, Creating Jobs Projects" of ballot Measure 1. Also agreed was that revenues from the City lodging tax increase not required to make SPFD debt payment or to contribute to the

reserve/contingency fund will be used for tourism promotion and other tourism related facilities.

As part of both the County and City agreements, the SPFD also agreed to establish a $1.5 million reserve fund, to be fully funded over a six-year period. The Joint Resolution with Spokane County indicates that the Reserve Fund is to be pledged solely to the repayment of the County loan provided that, once $1 million has accumulated in the fund, the SPFD may at its discretion use the excess for other lawful District purposes. The City agreement appears to read somewhat differently, indicating that the SPFD may raise "additional amounts in subsequent years as may be necessary to maintain said Fund at $1,500,000."

ADEQUACY OF EXISTING AGREEMENTS

Statewide PFD statutory authority is coupled with existing agreements between the SPFD and the County and City of Spokane which are multi-layered and may be somewhat confusing due to multiple revisions made over time. However, the combination of enabling legislation and interlocal agreements appear to represent a generally adequate set of understandings that should prove workable in the event that tax and facility use revenues are sufficient to:

a) Maintain minimum debt coverage requirements for direct SPFD bonding;
b) Service the debt on existing County/Valley bonds and County loan; and
c) Fully fund facility operations without requiring use of tax revenues otherwise planned for debt repayment.

Use of SPFD financial reserves could serve to address some or all of these contingencies to the extent that there is District discretion to re-allocate reserves toward these or other potential funding shortfalls. It is less clear that the existing agreements would prove adequate if any or some combination of the above three conditions were not able to be met through the period to 2043 of full debt repayment and if reserves were not available to fill the gap.

As one example, the SPFD at its discretion may use its sales and use tax proceeds to fund either bond repayment or facility operations, subject to bond requirements. This would be a potential tax revenue source that the SPFD could look to in the event that existing revenues proved inadequate to cover operations in the future. A resulting question is whether support of SPFD operations would take precedence over or be subordinate to repayment of the County loan.

As a second example, the current agreements with the City and County may prove inadequate in the event that the SPFD aimed to utilize reserve funds over $1 million to pay for projects not viewed as consistent with the City agreement to maintain a minimum $1.5 million reserve fund balance. Agreements related to the reserve fund also may be suggested for revision and clarification in the event that decisions are made to increase the reserve fund above the current $1.5 million target as a means to better hedge against future economic downturns.

These risk factors and potential options for mitigation are considered in the final section to this report, which now follows.

V. RISK FACTORS & MITIGATION

Reviewed with the final section of the financial feasibility report are risks related to capital funding, operating funding, and institutional risks – together with discussion of potential options for risk mitigation. Potential risks factors identified with this analysis include:

Capital Cost Risks:

- Construction cost escalation above budget
- Post-construction issues

Debt Repayment Risks:

- Debt coverage management
- Headquarters hotel development
- Cost & uncertainty of Swaption resolution
- Bond rating issues
- External interest rate shock

SPFD Operating Risk:

- Short-term operating deficit
- Long-term decline in operating profitability

Institutional Risks:

- Payment priorities with sub-par revenue performance
- Reserve fund management

Each of these risk factors together with options for mitigation is described, in turn.

CAPITAL COST RISKS

As noted above, risk factors associated with project construction include cost escalation above the current $65 million capital budget and resolution of post-construction issues.

Construction Cost Escalation Above Budget. As of December 2012, project capital cost is estimated at just under $64.5 million. This is only about $0.5 million less than the current $65 million budget allocation as anticipated with project financing (excluding cost of bond issuance and debt service reserve). In effect, a cost increase of just 1% would put the project over budget.

In response to a question of how cost overruns (as from higher than anticipated construction bids or change orders during construction) might be addressed, SPFD management has indicated that:

> The budget has significant contingency funds included and the delivery method will be a fixed price agreement with a Design-Build team that will take most of the financial risk. The District is experienced with value-engineering programs should this be necessary.[12]

The SPFD has, in fact, previously taken similar action when construction costs exceeded expectations. For example, the *Vision 2020* report notes that when the Group Health Exhibition Hall was constructed in 2006, added meeting facilities were not constructed at the time due to "unusual construction cost inflation during this time."

Options for Mitigation – Potential options that might be considered to address this construction cost risk factor include:

- No action at present – but with construction cost overrun issues to be addressed by the SPFD board and management at the time they materialize as has occurred previously, consistent with best industry practices.
- Taking action in advance of bond issuance and construction contracts – to prioritize portions of the project that might be deferred or delayed and/or allocation of added construction contingency reserve funds.

Prioritization of items that might be deferred or value engineered could take on greater importance to the extent that this advance consideration is viewed as also useful for addressing downstream objectives related to management of debt coverage risks.

Post Construction Issues. A second capital cost risk relates to issues that might arise subsequent to completion of construction – potentially ranging from defects in the completed project to facilities that do not perform to expectation or as needed to meet user requirements and preferences.

Options for Mitigation – Remedies that might be reasonably expected depend on whether the cause of the project deficiency is ultimately viewed as the responsibility of a contract vendor or the SPFD:

- If discovered within an appropriate time period, issues related to construction defects generally should be addressable as through enforcement of contract provisions with the design-build team.
- To the extent that issues related to facility use functionality emerge over time as industry and user requirements change, these can generally be budgeted in advance as part of future modernization or facility improvement plans (as well as through funding allocations for routine maintenance and repair).

While perhaps not essential, it could prove useful for the SPFD to detail policies and/or management practices for addressing both cost escalation and post construction issues as part of the $50 million bond official statement.

DEBT REPAYMENT RISKS

Potential risk factors associated with planned debt repayment include questions related to debt coverage management, cost and uncertainty of Swaption resolution, headquarters hotel development, interest rate risk, and bond rating issues.

Debt Coverage Management. The current A. Dashen prepared projections of SPFD revenues and expenses indicate that there could be some minor issues with achieving the minimum 1.25 bond coverage ratio minimum if revenues proved to be static over time, especially in out years beginning about 2033. These concerns appear obviated with even relatively modest revenue growth of 1% per year as provided with Attachment 4 by A. Dashen.

The A. Dashen prepared Financial Plan does provide a cautionary note regarding the potential downside of a decrease in tax revenues over the next several years that could result in inadequate cash flow to cover all debt service – with the County loan and County/Valley City bonds being the first to be affected. While the Financial Plan does not provide estimates to quantify the potential effects of declining revenues, the EDH supplemental analysis with this review serves to quantitatively illustrate potential financial effects in the event of another economic downturn similar to that experienced by SPFD from 2007-10.

Another major recession of this magnitude could reduce debt coverage to as low as 1.14, not recovering to a 1.25 minimum level for as long as six years thereafter. The potential severity would be greatest if an economic downturn were to occur in the near-term rather than later in the debt repayment schedule (over which time the coverage factor had increased above the 1.25 minimum threshold and added financial reserves had accumulated).

Options for Mitigation – While the SPFD currently appears to have adequate cash reserves to address debt coverage risks (as further described with discussion of bond rating issues), options potentially available for consideration as added short- or long-term mitigation could involve:

- Limiting corrective actions to minor debt restructuring as needed to demonstrate 1.25 coverage ratio capacity over the term of the $50 million hotel/motel tax and sales/tax bonds consistent with the current Financing Plan. This could include adding $228,000 annually to the Attachment 2-3 scenarios as suggested in December 2012 by A. Dashen to reflect estimated projected increases in 2012 as compared to 2011 on which these two no-growth scenarios were based. This cushion could be increased from the December $228,000 figure to about $350,000 based on preliminary tax revenues as provided by SPFD as of January 2013 with 2012 year-end tax revenue results.
- Explicit allocation of a portion of available SPFD cash reserves to serve as added contingency in the event of a future year debt service coverage deficiency.[13]

- More substantial debt restructuring to also address a stress tested (or worst-case) revenue scenario – possibly involving some combination of actions as for reduced bonding amount, phasing of planned improvements, and/or increased reserve fund.

Determination of which option to pursue and the form of financial restructuring that is most appropriate could be expected to be made by the SPFD Board in conjunction with input from rating agencies and bond underwriters.

Headquarters Hotel Development. While Spokane currently has about 2,500 overnight lodging rooms in the downtown area, the 2009 SPFD *Vision 2020* report concluded that "the current hotel inventory is insufficient for convention demand." A more recent November 30, 2012 *Spokane Convention Center Hotel Development Proposal Review and Analysis* report prepared by Conventional Wisdom (CW) Corp and C.H. Johnson Consulting (CHJC) observes that "a new headquarters (HQ) hotel may be the single greatest improvement currently available for marketing Spokane as a (convention) destination." The report also references a private proposal for a 550-700 room HQ hotel that may be currently in discussion.

The CW/CHJC report indicates that, with SCC expansion and a new HQ hotel, SPFD annual revenues would be increased by approximately $496,000 while incremental expenses would be marginal. To date, similar pro forma projections have not been made for SCC incremental revenue in the event of SCC expansion but without a new HQ hotel. However, based on its facility operations experience, SPFD does not expect expenses to increase dramatically out of line with incremental revenues as expenses are almost fully variable.

As currently planned, the SCC expansion is not contingent on securing an HQ hotel commitment. Facility expansion is expected to proceed if plans for a new hotel project do not materialize.[14]

If HQ hotel development is secured, debt service and repayment capacity is improved – above what is indicated by the A. Dashen and EDH prepared revenue and expense scenarios. However, at the current time, there are two distinct risk factors related to SPFD debt repayment associated with the possibility that a new HQ hotel is not secured: a) Spokane's appeal as a competitive conference and convention destination may be diminished over time despite added convention space but without complementary, quality, proximate major lodging inventory; and b) some added SCC operating expense may be created even if not matched by commensurate revenue gains.

Options for Mitigation – Options potentially available for addressing these questions could include either or both of:

- Pro forma financial analysis as needed to more clearly identify prospective incremental SCC utilization, revenues and expenses in the absence of a hotel commitment.
- More explicit linking of an HQ hotel commitment to SCC single or multi-phase expansion.

It may also prove useful to address HQ hotel development plans and implications in conjunction with the 2013 bond underwriting process and official bond statement.

Cost & Uncertainty of Swaption Resolution. In 2005, the SPFD entered into a swap option (Swaption) with Lehman Brothers under which Lehman paid $9.1 million for rights to call the Districts 2003 Bonds. On July 3, 2013, Lehman has the right to request that the SPFD enter into a swap for the remaining term of the 2003 bonds (through 2033). If exercised, the SPFD would pay a fixed interest rate on a notional amount of approximately $74.6 million and receive a variable rate of interest based on a percentage of the one month LIBOR rate.

Based on analysis prepared by A. Dashen, there are three choices that the SPFD can make on disposition of the Swaption:

Passive Option A – Enter into the swap in 2013

Passive Option B – Pay off the Swaption in 2013

Active Option – Pay off the swap early

The passive options may prove advantageous to the SPFD if interest rates were to increase significantly and by avoiding additional borrowing now. The active option offers the prospective advantage of a substantially lower cost to pay off the Swaption and for improved bond ratings (discussed further below).

Separately, the December 17, 2012 Financial Plan indicates that:

> Depending on how and if the agreement is terminated, the debt service payments related to the 2003 Bonds could be higher or lower than the amounts shown herein (with Attachments 2-4). Further if the Swaption is terminated, the District may need to borrow additional funds.

While a detailed analysis of Swaption alternatives is beyond the specific scope of this financial review, the outcome may have a material effect on financing feasibility of planned SCC and related SPFD improvements, as reflected in the recently completed A. Dashen prepared Financial Plan.

Attachment 3 of the Financial Plan illustrates the effects of the SPFD entering into the interest rate swap (i.e., Passive Option A). The net effect is the payment of a letter of credit fee for each year the swap is in place. The estimated cumulative cost of this fee to the SPFD through 2033 is estimated at $9.65 million. While reducing the net surplus through 2043, inclusion of this cost does not materially affect debt coverage, with the exception that one added year of sub-par debt coverage ratio is noted for 2014 (as compared with Attachment 2). SPFD management has indicated that the Attachment 3 analysis includes a "conservative approach to the swap."[15]

Options for Mitigation – At this point, two primary options appear available for consideration:

- Proceed to enter into the swap in 2013 with a current cumulative cost estimate of $9.65 million incurred over 21 years. SPFD verification of this as a maximum amount for resolution of the Swaption issue would be useful prior to issuance of the 2013 bonds.
- Alternatively, proceed to pay off the Swaption prior to 2013 bond issuance as a means for an improved bond rating.

Reaching an early conclusion prior to the 2013 bond issuance in consultation with bond underwriters likely will be useful for improved bond marketability and terms.

Bond Rating Issues. In conjunction with the Official Statement for the 2011 bonds, bond ratings were issued in by Standard and Poor's (S&P) and Moody's Investor's Service (Moody's).

On December 7, 2011, S&P assigned an A+ rating to the bond issuance, and maintained the S&P A+ underlying rating on the District's outstanding hotel/motel tax bonds and sales and use tax bonds. The agency stated its outlook for the SPFD as "stable." Positive factors cited were strong coverage ratios for the 2011 bonds (at 1.56), the District's "large and diverse economic base," and adequacy of legal provisions. However, the ratings report also noted that "credit strengths are offset in part by our view of the potential that pledged revenues will be volatile."

On December 13, 2011, Moody's downgraded its rating for both the 2003 and 2011 SPFD revenue bonds from A1 to A2. A "negative outlook" was also assigned by Moody's. Agency strengths cited were the sizeable and more stable economic base of Spokane County coupled with generally sound revenue trend despite some declines. Summary challenges cited were coverage ratios that would be "somewhat thin" as a result of recent revenue declines and the "interest rate swap agreement with near-term market access and counterparty risk."

Like S&P, Moody's cited what would appear to be a satisfactory 1.56 debt coverage on the 2003/11 bonds, but noted that the State sales tax credit/rebate is not available for the 2011 bonds, creating a "somewhat weaker pledge as compared to the Series 2003 bonds." This is at least partially offset by strong cash reserves. As of December 31, 2011, (unaudited) financial statements indicate that SPFD has $21.9 million of cash and cash equivalents – a cash position that had increased from $19.6 million in 2010.

As of year-end 2012, the SPFD cash balance was at close to $35.8 million. This included $6.4 million in partially discretionary general fund reserves, $5.8 million in budgeted or committed reserves (notably facilities maintenance and operating fund contingencies), and $23.6 million of non-discretionary reserves (including $15 million allocated to the construction fund). Excluding the construction allocation, other year-end 2012 cash reserves are estimated at $20.8 million.

The major factor noted by Moody's that could improve the rating upward in the future would be a trend of "significant growth" in SPFD pledged revenue sources. Factors that could move the rating downward would be "further deterioration" in revenues and coverage and/or "extraordinary costs" with resolution of the Swaption, especially to the extent that this might lead to somewhat higher SPFD debt service costs in the future.

Options for Mitigation: While SPFD estimates now indicate that pledged (tax) revenues will be up by about 2.9% over 2011, this rate of revenue growth remains below the projections previously made by IPPEA and may not meet the standard of "significant growth" cited by Moody's. Consequently, options available with the planned 2013 issue of $50 million of SPFD debt would appear to include:

- Proceeding with bond issuance as currently planned albeit with possible minor restructuring to address coverage issues noted by A. Dashen – but at the risk of a continued negative rating or further downgrading by at least one major ratings agency.
- Considering a more significant restructuring of the 2013 planned bond financing – possibly involving some combination of actions as for reduced bonding amount, phasing of planned improvements, increased project reserve fund, and/or other form of credit enhancement.

As with overall questions of debt service management, determination of which option to pursue and the form or extent of financial restructuring that is most appropriate could be expected to be made by the SPFD Board in conjunction with input from rating agencies and bond underwriters.

External Interest Rate Shock. An assumption provided with the December 2012 Financial Plan is that "interest rates on the 2013 PFD Bonds are estimated based on rates provided by the District's bond underwriter." Upward pressure on interest rates may result from SPFD-related factors including debt coverage, resolution of the Swaption issue, and bond rating. Interest rate risk is also possible from external national or global factors over which the SPFD has no control.

Potential external risks include changing position of the Federal Reserve regarding quantitative easing, especially if inflationary conditions are perceived on this horizon, or inability to resolve continuing *fiscal cliff* issues pertaining to the debt ceiling and/or long-term deficit reduction.

Options for Mitigation – While there is little that a local entity can do to influence interest rates, the best options are ones of market timing:

- To the extent possible, it is likely advantageous to be in the bond market sooner rather than later to stay ahead of external events that could cause an upward tick from low rates currently available.
- In the event that rates were to move in a significantly adverse direction threatening the adequacy of debt coverage, the District would have the option of deferring or scaling back the size of a 2013 SPFD bond issue.

SPFD Operating Funding Risks

As described in Section III to this report, somewhat different potential operating funding risks (especially as might impinge on debt service capacity) are noted for short-term versus long-term consideration.

Short-Term Operating Deficit. The primary short-term risk materializes if the SPFD were to experience two to three back-to-back negative years in which operating profits as a share of revenue continued to drop, as between 2010-11. This is viewed as a relatively unlikely outcome given appropriate management oversight and assuming the SPFD's ability to generally manage expenses in variable fashion (in line with revenue changes). Also noted is that the SPFD currently appears to have more than adequate cash reserves notably including $6.4 million in partially discretionary general fund reserves to address potential future short-term operating deficits, even if prolonged over a 2-3 year period.

Options for Mitigation – The primary option suggested would include continued active monitoring of operating revenue versus expenditures as occurs with the SPFD monthly *Dashboard Report.* More significant operational changes could be suggested if operating profits are demonstrated as continuing to deteriorate for the full 2012 year and into 2013.

Long-Term Decline in Operating Profitability. As previously described in Section III, a potentially greater risk factor is that SPFD revenues do not rebound to pre-recession levels, but continue to trend flat to downward over a multi-year period. With the SCC, this could occur if the convention market nationally and regionally does not fully recover to pre-recession levels and/or if Spokane as a venue choice proves less attractive than in the past, for example, due to lack of a HQ hotel as may be needed for improved image and room block capability.

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

- As with short-term operating revenue variability, a primary option for addressing potential risk of a longer term operating profit decline is through continued active monitoring of operating revenue and expenditure trends coupled with more active feedback sought from SCC's existing meeting customers including lost business as to changes in industry-wide or local competitive factors.
- A more pro-active option would involve conduct of an updated market analysis for SCC together with at least 5-year operating projections with and without a new HQ hotel. This could be accompanied by a strategic action plan with revenue and/or expense measures taken, as needed, to address identified issues or challenges.

INSTITUTIONAL RISKS

Institutional risks are those related to mutual understandings and legal agreements between the SPFD and its funding partners for operations and debt service. These partners include Spokane County and the Cities of Spokane and Spokane Valley. Because repayment of the County/Valley bonds (including the added $15 million County loan) are subordinate to SPFD bonded indebtedness, these Interlocal commitments are only of indirect consequence for the planned 2013 SPFD bond, but may more directly affect understandings related to payments between local jurisdiction funding partners.

Two Interlocal institutional risks are of potential concern – payment priorities with sub-par revenue performance and reserve fund management.

Payment Priorities with Subpar Revenue Performance. As described in Section IV of this report, PFD statutory authority coupled with existing agreements between the SPFD and the County and City of Spokane are multi-layered and may be somewhat confusing due to multiple revisions made over time. While these agreements appear to represent a generally adequate set of understandings that should prove workable in the event that tax and facility use revenues remain adequate to cover existing and planned obligations, it is less clear that the existing agreements would prove adequate if future year revenues became insufficient to meet the full range of requirements for operating funding together with SPFD debt and local jurisdiction debt repayment.

This is particularly the case with tax revenue streams being allocated for multiple purposes and/or with multiple jurisdictions. The primary question is what the order of precedence would be for operational and debt repayment of specific tax revenue sources in the event of a combined revenue shortfall.

Options for Mitigation: Options available for consideration could include:

- Leaving existing agreements in place essentially as-is and addressing specific issues only on an as needed basis as they may arise now or in the future.
- Taking a more comprehensive approach now to rewrite all existing agreements (and amendments) into an updated single master document clearly specifying the *waterfall structure* for distribution of positive cash flows (or losses) allocated with different priorities to participating jurisdictions and associated user fee plus tax revenue sources. This rewrite might most appropriately occur in conjunction with final action on the planned 2013 SPFD bond issuance.

Reserve Fund Management. A related question is how to address potentially conflicting understandings between the SPFD and funding partners over reserve fund utilization and replenishment, whether in the event of short- or long-term future revenue shortfalls or if the parties decided to increase the amount of the project reserve fund as an improved hedge against a future economic recession.

Options for Mitigation: Suggested would be review of provisions of current Interlocal agreements to determine adequacy in the event of a worst-case scenario. Document revisions might be made case-by-case or as part of a single master waterfall structure agreement between the SPFD and its funding partners. The appropriate mechanisms for agreement restructuring could be determined in consultation with participating jurisdictions, bond counsel, the 2013 SPFD bond underwriter, and pertinent ratings agencies.

Risk Mitigation Summary

While the SPFD currently appears to have adequate cash reserves (as of year-end 2012) to address both debt repayment and operating risks, this financial review suggests two added *overall optional approaches* to consider for management of potential short- and long-term risks associated with financing, construction and operation of expanded SCC facilities. These options may involve as needed adjustments negotiated at the time of project underwriting and/or a more proactive risk management strategy in cooperation with project funding partners.

Option A – As Needed Adjustments Negotiated with Project Underwriting. With this approach, the SPFD would proceed to financial underwriting and bond issuance at the earliest opportunity, consistent with the recently completed Financial Plan. Risk management adjustments would be made on an as needed basis, in response to questions and suggestions raised by project financial advisors, bond underwriters and/or participating City and County funding partners.

Advantages of this approach include ability to get to market more quickly and lock in continuing low interest rates, while still taking remedial risk management steps as deemed most critical to successful bond placement.

Disadvantages include added potential risk for downstream construction, debt repayment and/or operating issues not currently anticipated. While some issues might be readily addressed in the future as they arise, others could prove more daunting, especially in a situation of future cyclical or longer lasting economic downturn.

Option B – Proactive Risk Management Strategy with Project Funding Partners. With this option, the SPFD would take a more deliberate approach to prepare a comprehensive risk management and financing strategy in advance of 2013 bond issuance. This ideally would occur in consultation with all funding partners – including financial advisors, bond counsel, underwriters, and City / County participants with tax revenue and/or loan support.

Potential elements of this approach might include:

- SPFD risk management strategy – providing all-in-one documentation of questions related to construction cost management, funding cap on outlays for Swaption resolution, advance allocation of reserves as needed to address Swaption and worst-case scenario contingencies, financial pro forma for SCC expansion with and without HQ hotel investment, and short/long-term facility operating risk management.
- Restructuring of the planned 2013 bond issue – to address such items as debt coverage adequacy in the event of worst-cast revenue conditions, HQ hotel contingencies, potential project phasing, expanded reserve fund and/or other credit enhancement measures.
- Re-working of existing agreements with existing City/County funding partners – as a master agreement with clearly specified waterfall structure for distribution of project positive cash flows (or losses) and maintenance/release of reserve fund allocations.

Follow-up. E. D. Hovee & Company, LLC appreciates the opportunity to prepare this independent financial feasibility 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 feasibility report document.

APPENDIX A. PREPARER PROFILE

This independent feasibility review has been conducted on behalf of the Washington State Department of Commerce (Commerce) for the Spokane Public Facilities District (SPFD) 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:

- Assignments on behalf of Washington State PFDs including potential regional center projects for the Tri-Cities (2-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

Documents that have been reviewed as part of this independent feasibility evaluation have included the following:

As initially provided by SPFD to the Department of Commerce:

Attachment 1 – A. Dashen & Associates, *Summary of Financing and Financial Review,* September 27, 2012.

Attachment 2 – Eastern Washington University, Institute for Public Policy and Economic Analysis, *A Look at Projected Public Revenues to the Spokane Public Facilities District in the Years 2034-2043,* May 22, 2012.

Attachment 3 – Spokane County Resolution No 12-0807, Spokane Public Facilities District Resolution No. 12-04, Joint Resolution adopted by the Board of County Commissioners, October 9, 2012.

Attachment 4 – City Council Memorandum and Ordinance C34918, approving Amendment No. 4 to Interlocal Cooperation Agreement with SPFD pursuant to April 17, 2012 voter passage of Measure 1 to increase the rate of the Hotel/Motel Lodging Excise Tax.

Supplemental Documents Provided by SPFD to Commerce through January 2013 (Listed Chronologically):

Standard & Poor's, *Ratings Direct on the Global Credit Portal, Summary: Spokane Public Facilities District; Sales Tax,* December 7, 2011.

Moody's Investors Service, "Rating Action: Moody's Downgrades Spokane Public Facilities District Revenue Bonds to A2 from A1, Rating Outlook is Negative" (Summary Report), December 13, 2011.

Barclays Capital, *Official Statement: Spokane Public Facilities District Hotel/Motel Tax and Sales/Use Tax Refunding Bonds,* December 13, 2011.

Washington State Auditor's Office, *Accountability Audit Report: Spokane County Public Facilities District, January 1, 2010 through December 31, 2010*, Issue date January 30, 2012.

Washington State Auditor's Office, *Financial Statements Audit Report: Spokane County Public Facilities District, January 1, 2010 through December 31, 2010*, issue date January 30, 2012.

Brittany Garwood, CPA, CGFM Accountant, *Spokane Public Facilities District Annual Financial Report For the Year Ended December 31, 2011* (unaudited), May 22, 2012.

Eastern Washington University, Institute for Public Policy and Economic Analysis, *A Look at Projected Public Revenues to the Spokane Public Facilities District in the Years 2034-2043,* May 22, 2012.

Spokane Public Facilities District Completion Projects, *Budget – Convention Center Completion Construction Cost (summary sheet),* June 11, 2012.

Conventional Wisdom Corp and C.H. Johnson Consulting, *Spokane Convention Center Hotel Development Proposal Review and Analysis,* November 30, 2012.

SPFD, *Dashboard Report for Month Ending November 30, 2012.*

Memorandum to Spokane PFD Board of Directors from A. Dashen & Associates regarding "Summary of Methods for Addressing the Interest Rate Swaption," received December 2012.

A. Dashen & Associates, *Hotel/Motel Tax and Sales Use Tax Bonds Series 2013 Financing Plan,* December 10, 2012 (Amended December 17 with Revised Attachment 2).

SPFD, Tax Revenue Summary (through January 2013) and Fund Summary (as of December 31, 2012)

Other Related Documents Reviewed To Date (Listed Chronologically):

Facilities 2000 Working Group, *Recommendations Regarding Public Assembly Facilities in Spokane County,* February 28, 2001.

ALSC Architects and Conventional Wisdom for SPFD, *Vision 2020: The Plan for Expansion of the Spokane Convention Center,* March 17, 2009.

Correspondence from Conventional Wisdom, a Rider Levett Bucknall Company, to Spokane Convention Center Executive Director Mr. Kevin Twohig regarding "Revenue and Expenditure Implications of Expansion." February 3, 2011.

LMN + ALSC, *Spokane Convention Center Concept Design Report,* February 22, 2011
Note: This design report includes a preliminary cost model prepared by David Langdon, an AECOM company dated January 24, 2011.

Spokane Public Facilities District, *2011 Year End Report.*

Moody's Analytics Scenario Assumptions, December 2012.

Web site pages from www.spokanepfd.org, as of December 3, 2012.

APPENDIX C. SPFD / SCC REVENUE AVAILABILITY

On the following pages are provided two worksheets:

- Attachment 3 from the *$50 million in Hotel/Motel Tax and Sales/Use Tax Bonds, Series 2013 Financing Plan* as prepared for the SPFD by A. Dashen & Associates and as amended December 17, 2013. Three funding scenarios were provided by the A. Dashen analysis with three attachments. The following attachment represents the most conservative option provided – no revenue growth coupled with Swaption letter of credit.
- EDH prepared Worst-Case Revenue, Debt Service & Coverage Calculations – reflecting the combination of the A. Dashen Attachment 3 scenario coupled with a revenue downturn starting in 2014, similar to the downturn experienced by the SPFD from 2007-10, with subsequent recovery modeled on 2011-12 experience, and with 1% revenue growth thereafter. Note that this worksheet has been revised as of January 2013 to reflect year-end 2012 tax revenues above what were previously forecast on a preliminary basis in December 2012 by A. Dashen.

SPFD Attachment 3 Revenue, Debt Service & Coverage Calculations

SPOKANE PUBLIC FACILITIES DISTRICT

ATTACHMENT 3
SWAPTION SCENARIO WITH LOC
NO INCREASES IN REVENUES
10-Dec-12

SOURCES AND USES OF FUNDS	PFD	County
Project Fund	$ 50,000,000	$ 15,000,000
Debt Service Reserve	2,380,531	-
Costs of Issuance	782,446	180,040
Total	$ 53,162,977	$ 15,180,040

ANNUAL GROWTH RATE	0.00%

YEAR	PFD TAX REVENUES						PFD BONDS					COUNTY/VALLEY BONDS		TOTAL BONDS	ADDITIONAL RESERVE	H/M TOURISM	SURPLUS/ DEFICIT	DEBT SERVICE COVERAGE	
Year	Sales/Use Taxes	Hotel/Motel Taxes	Sales/Use Rebate	Additional Hotel/Motel Taxes	Additional City Lodging Taxes	Total Tax Revenues	2003 Bonds	Swaption Letter of Credit	2011 Bonds	2013 Bonds	Total PFD Debt Service	2003 County/ Valley Bonds	2012 County Bonds	Total All Debt Service	Additional Reserve *	Funds for Tourism Projects	Balance for PFD Capital & Operations	w County/ Valley	w/o County/ Valley
2013	$ 7,375,250	$ 2,222,847	$ 2,421,138	$ 892,000	$ 360,000	$13,271,235	$ 4,485,531	$ 183,431	$ 3,060,500	$ 2,222,650	$ 9,952,112	$ 1,113,483	746,522	$11,812,117	$ 250,000	642,000	$ 567,118	1.12	1.33
2014	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	4,485,906	750,050	1,830,900	3,614,950	10,681,806	1,123,683	771,825	12,577,314	250,000	443,921	-	1.06	1.24
2015	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	4,491,881	746,200	3,056,500	2,219,050	10,513,631	1,138,408	772,625	12,424,664	250,000	596,571	-	1.07	1.26
2016	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	4,486,581	742,050	3,059,500	2,221,850	10,509,981	1,156,983	773,025	12,439,989	250,000	581,246	-	1.07	1.26
2017	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	4,485,856	737,750	3,060,750	2,224,250	10,508,606	1,169,183	773,025	12,450,814	250,000	570,421	-	1.07	1.26
2018	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,549,013	733,200	-	2,219,250	10,501,463	1,265,113	772,625	12,539,200	250,000	482,035	-	1.06	1.26
2019	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,549,775	697,800	-	2,219,000	10,466,575	1,336,363	771,825	12,574,763	-	696,473	-	1.06	1.27
2020	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,549,038	660,450	-	2,218,250	10,427,738	1,414,863	770,625	12,613,225	-	658,010	-	1.05	1.27
2021	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,551,225	621,100	-	2,217,000	10,389,325	1,488,263	774,025	12,651,612	-	619,623	-	1.05	1.28
2022	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,550,475	579,550	-	2,215,250	10,345,275	1,556,563	773,775	12,675,612	-	595,623	-	1.05	1.28
2023	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,551,213	535,750	-	2,218,000	10,304,962	1,644,763	777,775	12,727,500	-	543,735	-	1.04	1.29
2024	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,547,575	489,550	-	2,220,000	10,257,125	1,721,688	770,775	12,749,587	-	521,648	-	1.04	1.29
2025	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,548,988	440,850	-	2,221,250	10,211,088	1,790,538	773,275	12,774,900	-	496,335	-	1.04	1.30
2026	7,375,250	2,222,847	2,421,138	892,000	360,000	13,271,235	7,549,300	389,500	-	2,216,750	10,155,550	1,868,088	769,775	12,793,412	-	477,823	-	1.04	1.31
2027	7,375,250	2,222,847	604,517	892,000	360,000	11,454,614	6,527,650	335,350	-	1,901,750	8,764,750	1,598,581	770,525	11,133,856	-	320,758	-	1.03	1.31
2028	7,375,250	2,222,847	-	892,000	360,000	10,850,097	5,991,825	288,450	-	2,018,027	8,298,302	1,469,131	770,275	10,537,708	-	312,389	-	1.03	1.31
2029	7,375,250	2,222,847	-	892,000	360,000	10,850,097	5,996,238	244,350	-	2,013,031	8,253,618	1,463,169	774,025	10,490,812	-	359,285	-	1.03	1.31
2030	7,375,250	2,222,847	-	892,000	360,000	10,850,097	5,994,225	197,800	-	2,015,310	8,207,335	1,469,644	771,525	10,448,503	-	401,594	-	1.04	1.32
2031	7,375,250	2,222,847	-	892,000	360,000	10,850,097	5,994,350	148,700	-	2,015,168	8,158,218	1,467,825	773,025	10,399,068	-	451,029	-	1.04	1.33
2032	7,375,250	2,222,847	-	892,000	360,000	10,850,097	5,995,825	96,950	-	2,013,498	8,106,273	1,462,950	773,275	10,342,498	-	507,599	-	1.05	1.34
2033	7,375,250	2,222,847	-	892,000	360,000	10,850,097	4,412,147	31,763	-	3,806,627	8,250,536	1,050,000	772,275	10,072,811	-	777,286	-	1.08	1.32
2034	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,305	8,802,305	-	770,925	9,573,230	-	892,000	384,867	1.13	1.23
2035	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,305	8,802,305	-	772,725	9,575,030	-	892,000	383,067	1.13	1.23
2036	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,305	8,802,305	-	768,875	9,571,180	-	892,000	386,917	1.13	1.23
2037	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,305	8,802,305	-	769,538	9,571,843	-	892,000	386,254	1.13	1.23
2038	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,305	8,802,305	-	769,550	9,571,855	-	892,000	386,242	1.13	1.23
2039	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,802,133	8,802,133	-	768,913	9,571,046	-	892,000	387,051	1.13	1.23
2040	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,800,750	8,800,750	-	772,625	9,573,375	-	892,000	384,722	1.13	1.23
2041	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,803,750	8,803,750	-	770,525	9,574,275	-	892,000	383,822	1.13	1.23
2042	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,803,500	8,803,500	-	772,775	9,576,275	-	892,000	381,822	1.13	1.23
2043	7,375,250	2,222,847	-	892,000	360,000	10,850,097	-	-	-	8,804,250	8,804,250	-	769,212	9,573,462	-	892,000	384,635	1.13	1.23
	228,632,750	68,908,257	34,500,449	27,652,000	11,160,000	370,853,456	131,294,616	9,650,593	14,068,150	136,276,817	291,290,176	29,769,275	23,902,085	344,961,536	1,500,000	19,975,402	4,416,519		

NOTES:

1. This spreadsheet does not include operating revenues and expenses related to the operation and maintenance of the SPFD facilities. To the extent that operating revenues are not adequate to cover expenses and capital improvements, all or a portion of the surplus tax revenues will be required.
2. The "Additional Reserve" column reflects an additional reserve is assumed funded up to $1.5 million over a six year period. This reserve can be used, if necessary to pay debt serviceon the County Bonds.
3. The "H/M Tourism" column reflects the "additional hotel/motel taxes" authorized by City that are available after paying the other costs as shown. During periods of sufficient revenues all of the additional hotel motel taxes collected would be available for tourism.

Source: A. Dashen & Associates, Hotel/Motel Tax and Sales Use Tax Bonds Series 2013 Financing Plan, December 10, 2012 (Amended December 17).

EDH Worst-Case Revenue, Debt Service & Coverage Calculations

SPOKANE PUBLIC FACILITIES DISTRICT

EDH WORST CASE ANALYSIS
SWAPTION SCENARIO WITH LOC
NEW RECESSION, THEN 1.0% /YR GROWTH
Revised 30-Jan-13

SOURCES AND USES OF FUNDS	PFD	County
Project Fund	$50,000,000	$ 15,000,000
Debt Service Reserve	2,380,531	-
Costs of Issuance	782,446	180,040
Total	$53,162,977	$ 15,180,040

ANNUAL GROWTH RATE 1.00%
(after 2018)

YEAR	PFD TAX REVENUES						PFD BONDS				
Year	0.1% Sales/Use Taxes	2.0% Hotel/Motel Taxes	0.033% Sales/Use Rebate	Added 1.3% City H/M Taxes	Portion of 2% City H/M Taxes	Total Tax Revenues	2003 Bonds	Swaption Letter of Credit	2011 Bonds	2013 Bonds	Total PFD Debt Service
2013	$ 7,375,250	$ 2,222,847	$2,421,138	$ 892,000	$ 360,000	$13,271,235	$ 4,485,531	$183,431	$3,060,500	$ 2,222,650	$ 9,952,112
2014	7,130,287	2,296,068	2,359,050	900,920	360,000	13,046,324	4,485,906	750,050	1,830,900	3,614,950	10,681,806
2015	6,540,755	2,089,386	2,167,070	909,929	360,000	12,067,141	4,491,881	746,200	3,056,500	2,219,050	10,513,631
2016	6,440,259	2,164,656	2,121,146	919,028	360,000	12,005,089	4,486,581	742,050	3,059,500	2,221,850	10,509,981
2017	6,618,710	2,129,677	2,162,944	928,219	360,000	12,199,550	4,485,856	737,750	3,060,750	2,224,250	10,508,606
2018	6,723,863	2,284,852	2,225,995	937,501	360,000	12,532,211	7,549,013	733,200	-	2,219,250	10,501,463
2019	6,791,101	2,307,701	2,248,255	946,876	360,000	12,653,933	7,549,775	697,800	-	2,219,000	10,466,575
2020	6,859,012	2,330,778	2,270,737	956,345	360,000	12,776,872	7,549,038	660,450	-	2,218,250	10,427,738
2021	6,927,602	2,354,086	2,293,444	965,908	360,000	12,901,041	7,551,225	621,100	-	2,217,000	10,389,325
2022	6,996,878	2,377,627	2,316,379	975,567	360,000	13,026,451	7,550,475	579,550	-	2,215,250	10,345,275
2023	7,066,847	2,401,403	2,339,543	985,323	360,000	13,153,116	7,551,213	535,750	-	2,218,000	10,304,962
2024	7,137,516	2,425,417	2,362,938	995,176	360,000	13,281,047	7,547,575	489,550	-	2,220,000	10,257,125
2025	7,208,891	2,449,671	2,386,567	1,005,128	360,000	13,410,257	7,548,988	440,850	-	2,221,250	10,211,088
2026	7,280,980	2,474,168	2,410,433	1,015,179	360,000	13,540,760	7,549,300	389,500	-	2,216,750	10,155,550
2027	7,353,790	2,498,909	607,863	1,025,331	360,000	11,845,893	6,527,650	335,350	-	1,901,750	8,764,750
2028	7,427,327	2,523,898	-	1,035,584	360,000	11,346,810	5,991,825	288,450	-	2,018,027	8,298,302
2029	7,501,601	2,549,137	-	1,045,940	360,000	11,456,678	5,996,238	244,350	-	2,013,031	8,253,618
2030	7,576,617	2,574,629	-	1,056,400	360,000	11,567,645	5,994,225	197,800	-	2,015,310	8,207,335
2031	7,652,383	2,600,375	-	1,066,964	360,000	11,679,722	5,994,350	148,700	-	2,015,168	8,158,218
2032	7,728,907	2,626,379	-	1,077,633	360,000	11,792,919	5,995,825	96,950	-	2,013,498	8,106,273
2033	7,806,196	2,652,643	-	1,088,410	360,000	11,907,248	4,412,147	31,763	-	3,806,627	8,250,536
2034	7,884,258	2,679,169	-	1,099,294	360,000	12,022,720	-	-	-	8,802,305	8,802,305
2035	7,963,100	2,705,961	-	1,110,287	360,000	12,139,348	-	-	-	8,802,305	8,802,305
2036	8,042,731	2,733,020	-	1,121,389	360,000	12,257,141	-	-	-	8,802,305	8,802,305
2037	8,123,159	2,760,351	-	1,132,603	360,000	12,376,113	-	-	-	8,802,305	8,802,305
2038	8,204,390	2,787,954	-	1,143,929	360,000	12,496,274	-	-	-	8,802,305	8,802,305
2039	8,286,434	2,815,834	-	1,155,369	360,000	12,617,636	-	-	-	8,802,133	8,802,133
2040	8,369,299	2,843,992	-	1,166,922	360,000	12,740,213	-	-	-	8,800,750	8,800,750
2041	8,452,992	2,872,432	-	1,178,592	360,000	12,864,015	-	-	-	8,803,750	8,803,750
2042	8,537,521	2,901,156	-	1,190,377	360,000	12,989,055	-	-	-	8,803,500	8,803,500
2043	8,622,897	2,930,168	-	1,202,281	360,000	13,115,346	-	-	-	8,804,250	8,804,250
	232,631,554	78,364,342	32,693,501	32,230,404	11,160,000	387,079,802	131,294,616	9,650,593	14,068,150	136,276,817	291,290,176

YEAR	COUNTY/VALLEY BONDS		TOTAL BONDS	ADDITIONAL RESERVE	H/M TOURISM	SURPLUS/ DEFICIT	DEBT SERVICE COVERAGE		Annual % Change
Year	2003 County/ Valley Bonds	2012 County Bonds	Total All Debt Service	Additional Reserve *	Funds for Tourism Projects	Balance for PFD Capital & Operations	w County/ Valley	w/o County/ Valley	Direct SPFD Tax Revenues
2013	$ 1,113,483	746,522	$11,812,117	$ 250,000	642,000	$ 567,118	1.12	1.33	--
2014	1,123,683	771,825	12,577,314	250,000	219,011	-	1.04	1.22	-1.9%
2015	1,138,408	772,625	12,424,664	250,000	-	(607,523)	0.97	1.15	-8.4%
2016	1,156,983	773,025	12,439,989	250,000	-	(684,899)	0.97	1.14	-0.7%
2017	1,169,183	773,025	12,450,814	250,000	-	(501,264)	0.98	1.16	1.7%
2018	1,265,113	772,625	12,539,200	250,000	-	(256,989)	1.00	1.19	3.0%
2019	1,336,363	771,825	12,574,763	-	79,170	-	1.01	1.21	1.0%
2020	1,414,863	770,625	12,613,225	-	163,647	-	1.01	1.23	1.0%
2021	1,488,263	774,025	12,651,612	-	249,428	-	1.02	1.24	1.0%
2022	1,556,563	773,775	12,675,612	-	350,839	-	1.03	1.26	1.0%
2023	1,644,763	777,775	12,727,500	-	425,616	-	1.03	1.28	1.0%
2024	1,721,688	770,775	12,749,587	-	531,459	-	1.04	1.29	1.0%
2025	1,790,538	773,275	12,774,900	-	635,357	-	1.05	1.31	1.0%
2026	1,868,088	769,775	12,793,412	-	747,347	-	1.06	1.33	1.0%
2027	1,598,581	770,525	11,133,856	-	712,037	-	1.06	1.35	-14.0%
2028	1,469,131	770,275	10,537,708	-	809,102	-	1.08	1.37	-4.9%
2029	1,463,169	774,025	10,490,812	-	965,866	-	1.09	1.39	1.0%
2030	1,469,644	771,525	10,448,503	-	1,056,400	62,742	1.11	1.41	1.0%
2031	1,467,825	773,025	10,399,068	-	1,066,964	213,690	1.12	1.43	1.0%
2032	1,462,950	773,275	10,342,498	-	1,077,633	372,788	1.14	1.45	1.0%
2033	1,050,000	772,275	10,072,811	-	1,088,410	746,028	1.18	1.44	1.0%
2034	-	770,925	9,573,230	-	1,099,294	1,350,197	1.26	1.37	1.0%
2035	-	772,725	9,575,030	-	1,110,287	1,454,031	1.27	1.38	1.0%
2036	-	768,875	9,571,180	-	1,121,389	1,564,572	1.28	1.39	1.0%
2037	-	769,538	9,571,843	-	1,132,603	1,671,667	1.29	1.41	1.0%
2038	-	769,550	9,571,855	-	1,143,929	1,780,490	1.31	1.42	1.0%
2039	-	768,913	9,571,046	-	1,155,369	1,891,222	1.32	1.43	1.0%
2040	-	772,625	9,573,375	-	1,166,922	1,999,915	1.33	1.45	1.0%
2041	-	770,525	9,574,275	-	1,178,592	2,111,148	1.34	1.46	1.0%
2042	-	772,775	9,576,275	-	1,190,377	2,222,403	1.36	1.48	1.0%
2043	-	769,212	9,573,462	-	1,202,281	2,339,602	1.37	1.49	1.0%
	29,769,275	23,902,085	344,961,536	1,500,000	22,321,329	18,296,938			

NOTES:

1. This spreadsheet does not include operating revenues and expenses related to the operation and maintenance of the SPFD facilities. To the extent that operating revenues are not adequate to cover expenses and capital improvements, all or a portion of the surplus tax revenues will be required.
2. The "Additional Reserve" column reflects an additional reserve is assumed funded up to $1.5 million over a six year period. This reserve can be used, if necessary to pay debt serviceon the County Bonds.
3. The "H/M Tourism" column reflects "additional hotel/motel taxes" authorized by City available after paying other costs as shown. During periods of sufficient revenues all of the addited hotel motel taxes collected would be available for tourism.
4. The last column with this EDH worst case scenario reflects year-to-year change in combined SPFD direct tax revenues of 2.0% hotel/motel tax, 0.1% sales and use tax, and 0.033% State sales and use tax rebate.

Source: E. D. Hovee & Company, LLC (EDH). As modified from A. Dashen & Associates, Attachment 3-4 Scenarios. For illustrative purposes only.

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 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.

3 The 1.3% added hotel/motel tax was effective January 1, 2013.

4 Specifically noted is that the CVB and Sports Commission payment are by contract with the SPFD. The second use of this revenue would be to make payments on direct or indirect debt obligations.

5 Per email from Kevin Twohig via Brittany Garwood dated January 23, 2013, the Valley City bonds are in the process of being refinanced, so that debt service on this schedule is expected to be reduced.

6 IPPEA forecast 2012 sales/use tax receipts at $7.925 million; the December 17 analysis by A. Dashen indicates that 2012 revenues may come in at $7.391 million – about $0.534 million below the IPPEA projection. IPPEA forecast 2012 hotel/motel tax receipts at $2.478 million; the most recent A. Dashen analysis indicates 2012 revenues may come in at $2.378 million – approximately $0.100 million below the earlier IPPEA projection.

7 As a point of comparison, as of December 2012, *Moody's Analytics* was projecting a baseline scenario of 3.5% real GDP growth for the U.S. economy in 2013, increasing somewhat to 4.4% in 2014. However, Moody's also provides six alternative scenarios, five of which involve GDP growth rates below those of the baseline scenario. These scenarios involve a mild second recession (25% probability), a deeper second recession (10% probability), protracted slump (4%), and below-trend long-term growth scenario (4%). Note that probabilities associated with the deeper recession scenarios are inclusive of probabilities for a milder scenario.

8 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. "

9 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, but with revenues starting in 2010 re-allocated back to the Arena where the tax is generated. This internal allocation has no effect on overall SPFD operating profitability.

10 In 2007 and 2010, the Arena hosted NCAA Men's basketball tournaments together with major ice skating events. The Arena will again host the NCAA Men's tournament in 2014.

11 This discussion is not intended as a legal analysis and EDH makes no representations that are to be construed as a legal opinion. Further questions regarding this overview should be addressed to qualified legal counsel.

12 Per email from Kevin J. Twohig, SPFD Chief Executive Officer to Eric Hovee, E. D. Hovee & Company, LLC with a copy to Jaime Kaszynski, Washington State Department of Commerce, December 24, 2012.

13 This added contingency approach is consistent with January 23, 2013 SPFD email correspondence indicating that: "In the worst cast, the District would use its reserves to make sure that all bond payments were made."

14 Per email from Kevin J. Twohig dated December 24. 2012, as referenced above.

15 Per email from Kevin J. Twohig dated December 24, 2012, as referenced above.