

# FINANCIAL FEASIBILITY REVIEW FOR SPOKANE PFD SPORTSPLEX PROJECT



Prepared for:

**Washington State  
Department of Commerce**

**May 29, 2018**

**E. D. Hovee & Company, LLC**

Economic and Development Services



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# Financial Feasibility Review for Spokane PFD Sportsplex Project

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May 29, 2018

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*Note:* Cover photos are from the *Feasibility Study: Spokane Regional Sportsplex*, as prepared by Sports Facilities Advisory, LLC (SFA) for the Spokane Public Facilities District (SPFD), November 2015.

# AT-A-GLANCE SUMMARY

The Spokane Public Facilities District (SPFD) is planning to finance and construct a \$42 million indoor sports complex (or Sportsplex) just north of downtown Spokane. The Sportsplex is anticipated to include a multi-purpose fieldhouse and possible icehouse to attract tournaments while also serving local community needs – complementing existing SPFD facilities of an arena, convention center and performing arts center. This independent financial feasibility review has been conducted (pursuant to state statute) for the Washington State Department of Commerce. Summary observations follow.

**Feasibility of Issuing New Indebtedness.** As with other recent SPFD projects, the Sportsplex will be developed through a design-build (D-B) process allowing for facility program refinements to meet project budget needs even into construction. Uncertain at this time is whether funding will be adequate to construct the icehouse as part of the initial project. Planned sources of funding include \$25 million in Spokane County Bonds, \$11 million in SPFD cash contributions, \$5 million from the City of Spokane, and \$1 million proposed from the state’s capital budget (to be advanced with next year’s Legislative session).

SPFD will be responsible to repay the Spokane County bonds from already available tax revenue sources. When combined with current obligations, conservative projections indicate that revenues will be more than adequate to fully repay the bonds over a 24-year period through 2041. It would take a 22% downturn in SPFD tax revenues relative to actual 2017 revenue (at least double the revenue drop associated with the Great Recession of 2007-09) before SPFD repayment ability would be jeopardized.

Capital cost risks are minimized with a D-B process that can be driven to meet project budget requirements. While there is interest rate risk (in a rising rate environment), SPFD’s revenue base should be more than adequate to adjust to any reasonably foreseeable rate change in the months ahead.

**Sustained SPFD Development Feasibility.** The three existing SPFD venues have positive net operating income that has averaged \$1.3 million per year from 2004-16 – with a \$2.2 million year in 2016. A Sportsplex operating budget pro forma indicates that the new facility could operate at a cumulative 5-year deficit of over \$763,000 – but reaching profitability by about the 6<sup>th</sup> year of operation.

These operating projections should be viewed with caution as there is no comparable facility currently on the west coast and due to uncertainty about the icehouse which is forecast to be a major contributor to operating revenues. However, the Lodging Tax Allocation Committee (LTAC) has allocated \$5 million of a 1.3% lodging tax that can be used as a guarantee for the County loan and an additional \$750,000 set-aside for the initial 5 years of operating losses. There is no similar continuing backstop after 5 years.

While the SPFD will own and operate the Sportsplex, the Spokane Sports Commission will be primarily responsible for the sales, marketing and scheduling of the facility. Also expected is that the majority of programs will be outsourced or rental events rather than run internally by SPFD facility staff – including sponsor arrangements. Long-term operating viability will be dependent on this working partnership. Feasibility risks include the potential for weak Sportsplex start-up and/or continuing deficits, limited SPFD financial capacity for added debt financing, and a need to expand beyond current City/County partnerships to more actively involve new non-profit partners locally and internationally.

**To summarize,** the Sportsplex offers a unique opportunity to reinvigorate a well-deserved reputation for bringing the world back to Spokane’s doorstep – as experienced 44 years ago with Expo ’74. The primary challenges lie with framing the financial platform needed for short- and long-term operating sustainability and then engaging non-governmental partners with the capacity to achieve maximum sports performance, training, entertainment and innovation.

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# I. INTRODUCTION

The Spokane Public Facilities District (SPFD or District) is planning to finance and construct a \$42 million indoor sports complex (the Sportsplex) on the north bank of the Spokane River. The project is situated east of the SPFD-owned Veterans Memorial Arena, adjoining Riverfront Park and proximate to the SPFD-owned Spokane Convention Center and INB Performing Arts Center in downtown Spokane south of the river. The economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee) has conducted this independent financial feasibility review for the Washington State Department of Commerce (Commerce).

## PURPOSE OF INDEPENDENT FEASIBILITY REVIEW

The purpose of this report is to review the potential costs to be incurred by the SPFD with Spokane County issuance of an estimated \$25 million in bond proceeds, the capacity to repay debt financing and operating costs for the Sportsplex project and for all SPFD facilities combined. 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 sections (1)(b)-(c) of the above noted statute.

## SPFD AUTHORITY & PLANNED PROJECT DESCRIPTION

The Spokane Public Facilities District 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 has ownership in and operates three event venues:

- **Spokane Veterans Memorial Arena** – a 273,000 square foot multi-purpose center that seats up to 12,500, located on the north side of downtown Spokane, opened in 1995. The arena is situated just west of the proposed site for the Sportsplex project.
- **Spokane Convention Center (SCC)** – encompassing a 100,000 square foot exhibit hall, with a 270 seat theater and 164,000 square feet of space for meetings, trade shows, banquets, and community and sporting events in downtown Spokane adjacent to the Spokane riverfront.  
Initially constructed for the 1974 World’s Fair (Expo ‘74) and converted to the SCC in 1975, the convention center was expanded in 1989 with the facility then named as the Washington State Agricultural Trade Center. Additional expansions of the SCC were approved in 2002 and 2012 under the auspices of the SPFD.
- **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. Formerly known as the Opera House, the Sportsplex was originally constructed for Expo ‘74. A \$22.3 million INB renovation by the SPFD is currently underway.

The SPFD has also entered into agreements with Spokane County and the City of Spokane Valley (or the Valley City) for three Regional Center Projects including expansion of the Convention Center (referenced above), Fair & Expo Center improvements (a facility operated by Spokane County), and construction of the Mirabeau Point project (owned and operated by the Valley City).

### Planned Improvements

As proposed by the Spokane Sports Commission and SPFD, the Spokane Sportsplex is currently planned as a facility comprising approximately 180,000 square feet of building area – designed with maximum flexibility to accommodate a wide variety of sports and events. As described by a project web-site, key elements of the Sportsplex facility have been planned to include:<sup>1</sup>

#### *Multi-Purpose Fieldhouse:*

- Flexible multi-sport space
- 200-meter, 6-lane indoor hydraulic banked track
- Capacity to fit up to 17 volleyball courts

- Up to 10 basketball courts
- Up to 21 wrestling mats

*Icehouse:*

- NHL-sized ice sheet

This facility program likely will be refined depending on financial capacity of the \$42 million budget target to cover currently planned uses. Most notably, the proposed icehouse is of lower priority than fieldhouse uses and might not be built with the first phase if the total facility program cannot be funded within the current \$42 million budget cap.

## Location

As illustrated by the aerial view below, the potential North Bank site for the Sportsplex project is situated just north of Riverfront Park – on the west side of Washington Street and just east of the Spokane Arena. Downtown Spokane is situated on the south side of the Spokane River.

### Sportsplex Project Site Area



Source: SPFD.

Not shown but situated less than one mile east on the south side of the Spokane River are the two other existing venues of the SPFD – the Spokane Convention Center and INB Performing Arts Center.

## Facility Purposes

The Sportsplex facility is planned to serve two primary purposes, specifically to:

- Host large tournaments that generate tourism
- Serve as a practice and competition venue for local sports groups and community programming

## 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 major portion of operating expenses for all three existing facilities, with additional revenue support, if needed, from some tax revenue sources. The primary sources of funding that have been used to pay debt service on some or all facility projects comprise tax revenue sources directly available to SPFD, 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 (not planned for Sportsplex funding)
- A portion of the City of Spokane 2.0% hotel/motel tax and all of the additional City 1.3% hotel/motel tax approved by the City of Spokane in 2012 (with only a limited portion of the 1.3% tax made available to support Sportsplex funding).

This review also addresses the adequacy of user fees coupled with surplus revenues from the convention center, performing arts center, and arena as well as the future Sportsplex project to cover operating costs that might be reasonably anticipated with facility construction as currently proposed.

## ANALYSIS APPROACH

This analysis has been prepared for Commerce by the independent economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee).<sup>2</sup> A brief profile of the firm as report preparer is provided by Appendix A.

**Scope of Work.** The purpose of this report is to conduct an “independent financial feasibility review” for Commerce on behalf of the Spokane Public Facilities District, pursuant to RCW 36.100.025. The review must examine the potential costs and the adequacy of revenues or expected revenues to meet the costs to be incurred by the Spokane PFD. This independent feasibility review of the SPFD project comprises two phases:

- A first phase review of the financial feasibility of the District issuing new indebtedness – focused on capacity to repay anticipated project cost with added bonded indebtedness.
- A second phase comprising a review of the financial feasibility of the District developing the project – for short- and long-term sustainability of capital and operating resources.

This report addresses both phases of the independent feasibility review.

**Documents Reviewed.** A listing of documents reviewed as part of this independent feasibility study is provided by Appendix B to this report. Included are documents as initially provided by Commerce and SPFD at the outset of this assignment together with other materials obtained during the course of this review.

No additional independent document research has been conducted for this assignment, outside of materials provided via Commerce, information already available to E. D. Hovee, and any added information provided as a result of 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.** A major focus of this review is to review the project's capital cost and associated documentation. This is followed by a review of the sources and adequacy of revenues to meet debt service requirements – including a baseline scenario consistent with existing SPFD provided projections and alternative scenarios including possible stress test conditions.

A broader review of SPFD-wide feasibility includes focus on the adequacy of operating revenues to repay operating expenses. Adequacy is addressed in terms of operating revenues of the Sportsplex project as a stand-alone venue and with combined revenues of the SPFD as a public entity that owns and operates three existing event venues in addition to the proposed new Sportsplex.

Also reviewed is the adequacy of existing agreements related to capital and operating funding between the SPFD and its funding and operating partners. Both the debt financing and overall feasibility reviews are accompanied by consideration of project and operating risks including measures that might be considered for mitigation or added financial backstop, as appropriate.

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

- **Feasibility of issuing new indebtedness** – including review of the design-build process and construction costs, capital funding and debt-related risk factors and mitigation.
- **Sustained SPFD development feasibility** – addressing overall SPFD operating revenues and expenses, a Sportsplex operating pro forma for the first five years of operation, SPFD financial capacity, institutional arrangements and flow of funds, and project development risks together with associated options for mitigation.

Included with the report are five appendices – providing a profile of E. D. Hovee & Company, LLC as project preparer, listing of documents reviewed, statement of IRMA compliance, summary of Sportsplex event opportunities, and SPFD institutional arrangements.

## II. FEASIBILITY OF ISSUING NEW INDEBTEDNESS

As stipulated 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:

- **Design-build construction** – including the process for facility construction together with preliminary capital cost documentation and anticipated project scheduling.
- **Capital funding** – beginning with a summary of sources and uses of funding with focus on debt repayment and tax revenue history, followed by base case and alternative tax revenue scenarios.
- **Debt related risk factors and mitigation** – related to capital costs and debt repayment.

Each of these topics is considered, in turn.

### DESIGN-BUILD CONSTRUCTION

Pursuant to RCW 39.100.300, SPFD is planning to use a design-build (D-B) process to design and build the Sportsplex project. As detailed by Appendix E to this feasibility review, D-B is a process allowing for design and construction services to be contracted by a public agency such as SPFD to a single entity, typically known as the design-build contractor. When executed appropriately, the D-B process can serve to minimize costs and risks and reduce the delivery schedule by overlapping the design and construction phases of the development project.

SPFD has previously utilized the D-B method of construction with renovation of the INB Performing Arts Center (now underway) – as well as with the prior renovation of the Spokane Veterans Memorial Arena and 2013 expansion of the Spokane Convention Center. An important feature of the D-B process for Sportsplex construction will be the ability to select project features and substitute facility program scope between different aspects of the project based on considerations of use, cost and scheduling objectives as provided by the D-B project team.

### Capital Cost Documentation

Recognizing that the project budget will evolve over the course of the D-B process even after construction gets underway, a preliminary capital budget for the proposed \$42 million project has been prepared – as detailed by the chart on the following page. As noted, these costs are preliminary and will be refined over the course of the design-build project – both before and possibly even during construction.

Refinement of the facility program and associated budget is expected to take place during an approximate 120 day validation period, currently planned to occur between August and December 2018. As has occurred with the INB renovation, the SPFD board may be presented with options to exceed the current budget maximum – subject to also committing added funding as may be required.

## Preliminary Sportsplex Project Development Budget

#	Project Budget Item	Estimate (Preliminary)	Comments
<b>Site-Related Costs</b>			
1	Bond Cost		
2	Pre-2017 Development Cost	\$150,000	
3	Site Acquisition Cost	\$1,000,000	
4	Soils Report/Geotechnical Services		D-B expense
5	Wetlands Consultant		
6	Site/Field Survey-Topography Map		D-B expense
7	Traffic Study	\$35,000	
8	Environmental / HazMat Oversight Mgmt	\$35,000	SEPA checklist, ACM surveys
	<b>Site-Related Cost Subtotal</b>	<b>\$1,220,000</b>	
<b>VAM Services/Other Fees/FF&amp;E Budget</b>			
9	Project/Construction Management	\$150,000	
10	Cultural Resources Consultant		
11	Feasibility/Performa Consultant	\$10,000	
12	Commissioning Consultant		D-B scope
13	NREC plan examiner/Inspection	\$3,000	
14	Building Dept Plan Review	\$96,000	As % of building permit
15	Building Permit Costs	\$160,000	\$32M x .005% = \$160,000
16	AHJ Coordination	\$8,000	
17	Public Outreach Program	\$15,000	
18	Project Education	\$35,000	
19	Legal Fees	\$40,000	
20	Dispute Resolution Consultant		
21	Testing-Special Inspections	\$55,000	
22	Travel, Meals, Mtg Expenses	\$15,000	
23	Advertising, Professional	\$41,000	
24	Health District Plan Review & Inspection	\$1,000	
25	Builders Risk Insurance	\$20,000	
26	DB Team Honorarium	\$5,000	
27	FF&E (Includes WSST)	\$100,000	
28	Art Work		
29	Owner Management Reserve (OMR)		included in line 34
30	WSST on DB Cost @ 8.8%	\$3,100,242	Washington State Sales Tax
31	Unforeseen Contingency		included in line 34
32	Owner Contingency (5% of DB Cost per RCW 39.10.320.1.a)	\$1,761,501	5% of D-B cost per RCW 39.10.320.1.a)
	<b>Soft Cost Subtotal</b>	<b>\$5,615,743</b>	Excluding site-related costs Including WSST & owner contingency
<b>Design-Build Costs</b>			
33	Payment & Performance Bond	\$300,000	
34	Hard Cost	\$19,038,735	
35	Field & Sports Equipment Cost	\$9,804,942	
36	Furniture, Fixtures & Equipment Cost	\$1,471,668	
37	Construction "Soft Cost"	\$4,539,680	
38	Geotech/Survey/Cx	\$75,000	
39	<b>DB Cost Total</b>	<b>\$35,230,025</b>	
40	<b>Total Project Budget</b>	<b>\$42,065,768</b>	Estimated as of August 1, 2017
	<b>Round to:</b>	<b>\$42,000,000</b>	Current SPFD budget target

Source: Hill International, as of August 1, 2017. Budget is preliminary and subject to revision.

## Project Schedule

As depicted by the chart to the right, the current schedule calls for the D-B process to get underway with a Request for Qualifications issued late May 2018. A design-build firm or team would be selected with notice to proceed (NTP) by mid-August.

Date of bond issuance is not yet determined but will

depend on finalization of an Interlocal Agreement with the City and another Joint Agreement with the City's Parks Department. Substantial completion of construction is planned for mid-September 2020 with close-out by year-end 2020. This schedule could be affected by possible:

- Delay in securing remaining property parcels required for a viable project site.
- Reconciliation of desired program with budget targets – during the validation phase.
- Delays in securing full project funding – whether for the current or a revised budget – as outlined by the discussion of capital funding which now follows.

## CAPITAL FUNDING

The following discussion of capital funding covers sources and uses of funding for the entire project, with a subsequent separate statement of sources and uses for the proposed Spokane County bond. This is followed by review of planned sources of debt repayment, tax revenue history, base case and alternative debt funding scenarios.

### Sources and Uses of Project Funding

Proposed sources and uses of funding are as listed by the following summary chart. As currently proposed, \$25 million (or nearly 60%) of the \$42 million in capital funding for construction of the Sportsplex project is planned to come from debt financing in the form of general obligation bonds issued by Spokane County – and with bond repayment from tax sources directly available to SPFD. The remaining \$17 million is proposed to be provided from a variety of contributed local and state public agency sources.

## Sportsplex Project Development Schedule

Design-Build Milestones	Anticipated Date
PRC Presentation	24-May-18
D-B RFQ Advertisement	25-May-18
RFQ Issued	25-May-18
Statement of Qualifications Due	8-Jun-18
Short-List Announced	13-Jun-18
RFP Issued	18-Jun-18
Proprietary Meeting	28-Jun-18
Last Day to Request Contract Change	12-Jul-18
D-B Proposals Due	19-Jul-18
Selection of Design-Builder/SPFD Board Approval	8-Aug-18
Anticipate NTP	10-Aug-18
Validation Phase (120 calendar days)	8/10/2018 -12/10/2018
Execute GMP Amendment	18-Dec-18
Substantial Completion	14-Sep-20
Close Out Complete	15-Dec-20

Note: Schedule is preliminary and subject to change.

Source: SPFD.

## Sportsplex Project Sources & Uses of Funds

Description	Estimate	Comments
<b>Sources of Funds</b>		Per SPFD as of March 1, 2018
Spokane County Bonds	\$25,000,000	Repayments to be from available SPFD tax revenues
SPFD Cash Contribution	\$10,000,000	Bond reserves to be replaced by surety in hand
City of Spokane	\$5,000,000	Per City Parks & Recreation Letter of Understanding (LOU)
SPFD Cash Contribution	\$1,000,000	Per Section 2 of the District-County Joint Resolution
State Capital Budget	\$1,000,000	Proposed as 2019-20 state capital budget request
<b>Total Sources</b>	<b>\$42,000,000</b>	
<b>Uses of Funds</b>		Per Hill International cost estimated, August 1, 2017
Design-Build Costs	\$35,200,000	For construction hard/soft, FFE, bonding & geotech cost
Site & Soft Costs	\$6,800,000	Excludes construction soft cost estimate
<b>Total Uses</b>	<b>\$42,000,000</b>	Estimates rounded to nearest \$100,000

Sources: SPFD and Hill International.

**Sources of Project Funding.** For debt and contributed funding, added notes regarding the key project sources include the following:

- **\$25 million bond funding with 2018 issuance of Spokane County limited tax general obligation (LTGO) bonds** – subordinate to existing parity debt and on a par with other existing subordinate debt. Repayment is proposed to be from existing available SPFD sources, notably the county-wide sales tax and lodging tax. These bonds also will be backed by a \$5 million pledge of the SPFD’s Lodging Tax Allocation Committee (LTAC) which advises SPFD for allocation of the 1.3% lodging taxes collected in the City. The LTAC lodging tax is currently pledged to the District’s 2013A bonds and the County loan for the Convention Center completion project but has never yet been needed for debt service. In effect, the Sportsplex pledge would add a new potential commitment of the LTAC funds.
- **\$10 million cash contribution from SPFD bond reserves** – will occur as the reserves are replaced by a surety purchased by the District (based on a surety offer currently in hand). The surety will also be funded out of the existing SPFD reserve fund.<sup>3</sup> Best case, this may yield as much as a \$10.35 million cash contribution to the Sportsplex project – above the \$10 million currently indicated with the Sources of Funds itemization.
- **\$1 million cash contribution from SPFD loan reserves** – cash available if the County releases the District from the reserve account requirement for the 2013 County loan – to be confirmed with completion and execution of an Interagency Agreement with Spokane County.
- **\$5 million in the form of a City of Spokane cash contribution** – as initially approved by a January 11, 2018 Letter of Understanding (LOU) between the SPFD, City of Spokane and City of Spokane Park Board. The LOU is not legally binding until such time as a legally binding interagency agreement is approved by the same public agency partners.

- **\$1M from a State Capital budget funds request** – being proposed as part of request for funding with a supplemental appropriation in the state’s 2019-20 capital budget to be considered by the 2019 Legislature. *Note:* this was originally proposed at a level of \$2 million – but reduced to \$1 million pending Spokane County release of the District from a reserve account requirement from a prior 2013 County loan.

Sources of funding are subject to adoption of separate interagency agreements between SPFD and Spokane County and between SPFD and the City of Spokane.

**Uses of Project Funds.** Project uses are matched to the development budget. Approximately \$35.2 million (or 84%) of the project’s \$42 million budget are for design-build costs with \$6.8 million (16%) for other site and soft costs. As noted, line item amounts may be revised during the D-B process subject to the current \$42 million budget maximum target.

## Sources & Uses of Spokane County Bond Funding

A separate sources and uses statement has been prepared by Northwest Municipal Advisors for the SPFD, focusing on the \$25 million Spokane County LTGO bond. As detailed by the chart to the right, bond proceeds represent the combination of the stated par amount and estimated premium.

Uses of funds include the \$25 million allocated to the project fund plus estimated delivery date expenses and additional proceeds potentially remaining after bond issuance. While the \$25 million project fund target is currently fixed, other line item amounts may vary as of the delivery date.

The coupon rate based on the par amount is indicated at 6.00%. The all-in true interest yield to maturity is estimated at just under 4.97%. This yield estimate takes into account the underwriter’s discount and costs of issuance.

### Spokane County Bonding Sources & Uses

Description	Estimate
<b>Sources of Funds</b>	
<i>Bond Proceeds:</i>	
Par Amount	\$22,135,000.00
Premium	\$3,151,214.45
<b>Total Sources</b>	<b>\$25,286,214.45</b>
<b>Uses of Funds</b>	
<i>Project Fund Deposits:</i>	
Project Fund	\$25,000,000.00
<i>Delivery Date Expenses:</i>	
Cost of Issuance	\$171,168.75
Underwriter's Discount	\$112,201.55
<i>Other Uses of Funds:</i>	
Additional Proceeds	\$2,844.15
<b>Total Uses</b>	<b>\$25,286,214.45</b>

Notes: Assumed for a May 1, 2018 delivery date. Based on SPFD 2017 interest rates + 1.00%.

Source: NMA, preliminary as of February 15, 2018.

## Sources of Debt Repayment

In addition to potential cost, RCW 36.100.025 (2) requires the independent feasibility review to address the adequacy of revenues or expected revenues to support project costs. Recognizing

that user revenues are dedicated to payment of operating expenses, tax revenues are identified as the sole anticipated source of repayment of any indebtedness associated with facility-related capital improvements. As is further detailed by Appendix E to this report, SPFD has existing access to the following tax revenue sources for repayment of existing bonded indebtedness:

- **Sales/Use Tax** – imposed at the rate of 0.1%
- **Hotel/Motel Tax** – at the rate of 2.0%.
- **State Credit Sales/Use Tax** – at the rate of 0.033%.  
(with authorization extended by the 2017 State Legislature for 15 added years to 2042).
- **First City Hotel/Motel Tax** – the first \$360,000 levied by the City of Spokane in each year as part of a 2.0% lodging excise tax.
- **Second City Hotel/Motel Tax** – added 1.3% lodging tax levied by the City of Spokane.

The first three sources are collected for the geography of the SPFD boundaries which are conterminous with Spokane County. The latter two sources are collected only within the boundaries of the City of Spokane.

Based on direct statutory authority and interlocal cooperative agreements, SPFD has pledged all five tax sources to repayment of Series 2013A bonds. The District's Lodging Tax Allocation Committee (LTAC) which allocates the 1.3% lodging taxes collected by the City is pledged to support repayment of the 2013A bonds and the County loan but these funds have not yet been needed to cover actual debt service payments.

SPFD has pledged only the first three tax revenue sources (but not the City hotel/motel taxes) to repayment of Series 2013B and subsequent Series 2017 bonds. These are limited recourse bonds, paid only from SPFD taxes plus accounts from which other funds may be deposited to also backstop debt payments. Operating revenues are available to also support debt repayment after operating expenses are paid.

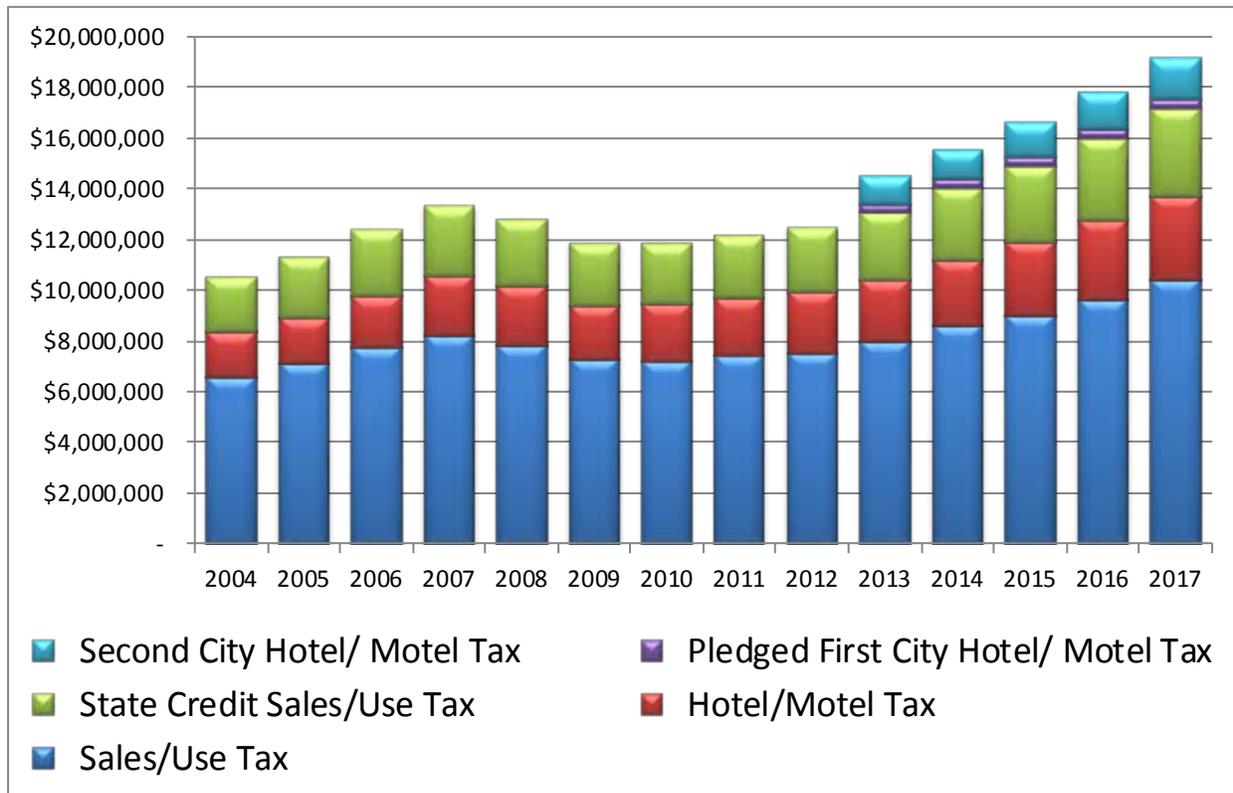
While all five sources serve as means of repayment for one or more existing debt issues, only the revenues of the sales/use tax and hotel/motel tax will be specifically pledged to repayment of the Spokane County \$25 million Sportsplex bond – as stipulated by a joint resolution of Spokane County and the SPFD. In addition, the LTAC has pledged \$5 million of the 1.3% lodging tax as a guarantee for the County loan that can be accessed anytime during the term of the loan and an additional \$750,000 as a set aside (at \$250,000 per year) for the initial 5 years of operational losses. If additional operating subsidy is required, this could occur via additional LTAC and/or SPFD board allocation or from other resources as may determined by the SPFD board.

Debt service coverage ratios are calculated as the sum of tax revenues from all pledged sources *divided by* annual debt service payments. As a composite measure of repayment capacity, all five sources are applied on a combined basis as part of the overall debt service coverage ratio (DSCR) as relates to both existing and proposed parity and subordinate debt.

## Tax Revenue History

As a starting point for evaluating SPFD’s full debt service repayment capacity, it is useful to begin by reviewing the history of the varied tax revenues sources available to SPFD. As illustrated by the following graph, from 2004-17 total pledged revenues have increased from \$10.5 million in 2004 to \$19.1 million in 2017.

SPFD Tax Revenue History (2004-17)



Source: SPFD and NMA.

Over this 13-year time period, tax revenues available to SPFD from these five sources have increased by 82%. Part of this increase is due to the inclusion of city tax revenues starting in 2013 (and not anticipated for use with Sportsplex debt financing except as a backstop resource).

Excluding the city sources, revenues available from county-wide sources over this full 13 year time period have increased by 63%. This equates to an annual growth rate averaging 3.9% per year. In effect, pledged county-wide tax revenues currently available to the SPFD have increased by an average of more than \$515,000 per year.

Other observations from this review of recent tax revenue history are noted as follows:

- Of the county-wide tax resources, hotel/motel taxes have tended to increase the most rapidly. From 2013-17, hotel/motel tax revenues have increased at a rate averaging

8.3% per year. By comparison, sales/use tax and state credit resources have increased at somewhat slower but still robust rates of just under 7% per year.

- In-city, the second hotel-motel tax has experienced the most rapid growth in recent years – up by more than 9% per year from 2013-17.
- Over the full 2004-17 time frame, there have been only two years when combined tax revenues declined. From 2007-08, county-wide revenues declined by 3.6%, dropping even more rapidly by another 7.5% the following year (of 2008-09).
- The two county-wide tax sources that will be pledged to repayment of 2018 Sportsplex bonds – the sales/use and hotel/motel taxes – accounted for \$13.7 million of the \$19.1 million (or 72%) of all tax revenues sources available to SPFD. These two sources have experienced revenue gains averaging an additional \$416,000 per year from 2004-17.

Over the time period of 2004-12, the debt service coverage ratio (DSCR) for Spokane’s prior or current bonded debt has ranged from 1.39 times the annual debt payment (in 2004) to 1.72x (in 2012 prior to the 2013 debt restructuring for Convention Center expansion). In the years since, debt coverage has increased each year from 1.53x in 2013 to 1.91x in 2017 – all well above the 1.25x minimum combined DSCR required just prior to any scheduled debt payments with issuance of Series 2017 bonding for INB renovation.<sup>4</sup> Debt service coverage subsequent to Series 2017 bonding would be forecast at 1.74x for 2018 (for parity debt using 2017 revenues), reduced to 1.43x with inclusion of all subordinate including planned Sportsplex debt.

## 2018 Base Case SPFD Debt Funding Scenario

The independent municipal financial advisory firm Northwest Municipal Advisors (formerly A. Dashen and Associates) has prepared a preliminary debt repayment schedule for SPFD. As summarized by the chart on the following page, debt service payments are identified for:

### *Existing Bonded Debt:*

- Series 2013A bonds –outstanding principal of \$42.3 million and payments through 2043
- Series 2013B bonds – outstanding principal of \$80.6 million and payments through 2033
- Series 2017 bonds – outstanding principal of \$18.5 million with payments through 2041

### *Existing Subordinate Debt:*

- City of Spokane Valley Mirabeau Point – \$4.9 million remaining, payments through 2033
- Spokane County Fairgrounds - \$9.7 million remaining debt, payments through 2033
- \$15 Million Spokane County Loan - \$13.8 million remaining, payments through 2043

### *Proposed Subordinate Debt for Sportsplex:*

- Spokane County LTGO Bonds - \$22.1 million principal, payments through 2041

In sum, the principal balance for existing and proposed SPFD debt is \$191.8 million as of 2018.

### SPFD Current & Planned Debt Service (2018-43)

Year	Pledged Revenues*	Parity Bonds	Subordinate Lien Bonds	\$25 Million County Bonds	Total Debt Service	Balance for Other Purposes	Average Expenses**	Balance After Expenses	Debt Service Coverage***
2018	\$19,118,521	\$10,968,624	\$1,652,325	\$774,725	\$13,395,673	\$5,722,848	\$1,846,011	\$3,876,837	1.43
2019	\$19,118,521	\$10,943,950	\$1,963,075	\$1,328,100	\$14,235,125	\$4,883,396	\$1,882,931	\$3,000,465	1.34
2020	\$19,118,521	\$10,939,950	\$1,851,575	\$1,328,100	\$14,119,625	\$4,998,896	\$1,920,590	\$3,078,307	1.35
2021	\$19,118,521	\$10,940,700	\$1,909,325	\$1,328,100	\$14,178,125	\$4,940,396	\$1,959,002	\$2,981,395	1.35
2022	\$19,118,521	\$10,940,450	\$1,957,025	\$1,328,100	\$14,225,575	\$4,892,946	\$1,998,182	\$2,894,765	1.34
2023	\$19,118,521	\$10,943,700	\$1,826,666	\$1,328,100	\$14,098,466	\$5,020,055	\$2,038,145	\$2,981,910	1.36
2024	\$19,118,521	\$10,939,700	\$2,415,125	\$1,328,100	\$14,682,925	\$4,435,596	\$2,078,908	\$2,356,688	1.30
2025	\$19,118,521	\$10,943,200	\$2,486,675	\$1,328,100	\$14,757,975	\$4,360,546	\$2,120,486	\$2,240,060	1.30
2026	\$19,118,521	\$10,943,200	\$2,561,575	\$1,328,100	\$14,832,875	\$4,285,646	\$2,162,896	\$2,122,750	1.29
2027	\$19,118,521	\$9,919,200	\$2,294,375	\$1,328,100	\$13,541,675	\$5,576,846	\$2,206,154	\$3,370,692	1.41
2028	\$19,118,521	\$9,381,700	\$2,165,325	\$1,328,100	\$12,875,125	\$6,243,396	\$2,250,277	\$3,993,119	1.48
2029	\$19,118,521	\$9,388,200	\$2,163,075	\$1,328,100	\$12,879,375	\$6,239,146	\$2,295,283	\$3,943,863	1.48
2030	\$19,118,521	\$9,382,200	\$2,161,775	\$1,328,100	\$12,872,075	\$6,246,446	\$2,341,188	\$3,905,258	1.49
2031	\$19,118,521	\$9,380,550	\$2,161,525	\$1,328,100	\$12,870,175	\$6,248,346	\$2,388,012	\$3,860,334	1.49
2032	\$19,118,521	\$9,385,050	\$2,166,825	\$1,328,100	\$12,879,975	\$6,238,546	\$2,435,772	\$3,802,774	1.48
2033	\$19,118,521	\$8,161,988	\$1,742,125	\$2,458,100	\$12,362,213	\$6,756,308	\$2,484,488	\$4,271,820	1.55
2034	\$19,118,521	\$8,214,050	\$770,925	\$3,380,300	\$12,365,275	\$6,753,246	\$2,534,178	\$4,219,068	1.55
2035	\$19,118,521	\$8,210,550	\$772,725	\$3,383,100	\$12,366,375	\$6,752,146	\$2,584,861	\$4,167,285	1.55
2036	\$19,118,521	\$8,209,050	\$768,875	\$3,388,100	\$12,366,025	\$6,752,496	\$2,636,558	\$4,115,938	1.55
2037	\$19,118,521	\$8,213,800	\$769,538	\$3,379,700	\$12,363,038	\$6,755,484	\$2,689,289	\$4,066,194	1.55
2038	\$19,118,521	\$8,208,800	\$769,550	\$3,383,200	\$12,361,550	\$6,756,971	\$2,743,075	\$4,013,896	1.55
2039	\$19,118,521	\$8,213,800	\$768,913	\$3,382,400	\$12,365,113	\$6,753,409	\$2,797,937	\$3,955,472	1.55
2040	\$19,118,521	\$8,210,800	\$772,625	\$3,382,000	\$12,365,425	\$6,753,096	\$2,853,895	\$3,899,201	1.55
2041	\$19,118,521	\$8,212,600	\$770,525	\$3,381,400	\$12,364,525	\$6,753,996	\$2,910,973	\$3,843,023	1.55
2042	\$19,118,521	\$5,353,250	\$772,775	-	\$6,126,025	\$12,992,496	\$2,969,193	\$10,023,303	3.12
2043	\$19,118,521	\$5,352,125	\$769,213	-	\$6,121,338	\$12,997,184	\$3,028,577	\$9,968,607	3.12

Notes: \* Includes City lodging tax for 2013 bonds only \*\* Annual 2.0% inflation rate, before reserve payments \*\*\* Calculated before paying SPFD expenses  
 Source: Northwest Municipal Advisors, *Spokane Public Facilities District Summary of Outstanding Debt*, February 2, 2018.

As illustrated by the chart on the previous page:

- **Pledged revenues** are held at the \$19.1 million level of 2017 actual results – as a conservative assumption rather than being increased over time consistent with historically observed lodging tax revenue trends.
- **Parity bonds** represent the sum total of the Series 2013 A/B and Series 2017 bonds, with 2018 debt service of just under \$11 million – reduced over time as various issues reach maturity to a final 2043 payment of \$5.4 million.
- **Subordinate lien bonds** represent the sum total of the Mirabeau Point and Fairgrounds obligations plus payment on a \$15 million Spokane County loan – with 2018 debt service of under \$1.7 million, increasing to a peak of \$2.6 million in 2026, then declining to a 2043 year final payment of less than \$770,000.
- The \$25 million issued as **Spokane County bonds** for the Sportsplex will be associated with a partial year 2018 debt payment estimated at less than \$775,000 – increasing to a more than \$1.3 million per year (interest only) range from 2019-32, then increasing to nearly \$3.4 million per year through to the final payment programmed for 2041.

Taken together, **total SPFD debt service payments** are expected to increase from an estimated \$13.4 million in 2018 to peak annual payments of about \$14.8 million by 2025-26, then decline to \$6.1 million by the time of the last debt payment in 2043.

The **balance for other purposes** is set equal to pledged SPFD tax revenues *minus* annual debt service payments for parity, subordinate lien and the proposed \$25 million Sportsplex bond. This annual balance (or net surplus) is estimated to be just over \$5.7 million in 2018, increasing to \$13.0 million by 2043.

From this initial balance is deducted an additional amount for **average annual expenses** (not covered by operations). Estimated at \$1.85 million for 2018, this figure is intended to cover SPFD administrative costs plus an allocation for capital improvement projects.

The remaining **balance after expenses** represents the adjusted surplus for non-operating funds. This annual surplus is projected to be about \$3.9 million as of 2018, then dropping to about \$2.1 million by 2026, before increasing to the range of \$10 million by 2043 (the last year for current debt payments). For the first eight years, \$250,000 is to be deposited to a debt service reserve. This will have the effect of reducing the balance for other purposes indicated on the chart during that period, offset dollar-for-dollar by a higher cash balance of reserved funds.

The last column of the chart provides an estimate of **debt service coverage** which is calculated as the ratio of pledged revenues divided by total debt service (covering the full complement of debt payments on existing parity (senior lien) bonds, existing subordinate lien bonds, and the proposed \$25 million of county bonds for the Sportsplex project. There is no specific minimum debt service coverage requirement (DSCR) applied to this combination of parity lien and subordinate debt. The minimum practical DSCR would be to not drop below 1.00x, the DSCR at

which pledged revenues are matched by debt expenses – leaving no further margin as the capacity for repayment might then fall into default.

Per the above debt service schedule, DSCRs for the combination of existing parity and subordinate debt *plus* the addition of payments for the \$25 million proposed with the County loan range from a low 1.29x in 2026 to as much as 3.12x by 2043, the last year for payments on the parity bonds. These DSCRs appear more than adequate to repay the combination of existing and proposed debt service.

The calculations provided with this foregoing repayment schedule are conservative in the sense that available revenues are held constant at 2017 actual levels – rather than increasing as has been the case historically. In effect, as a result of future tax revenue growth, resulting DSCRs will be substantially higher – resulting in yet further added cushion between revenues available and required debt payments.

By resolution of Spokane County and the SPFD, the proposed county \$25 million issue will be subordinate to the District’s outstanding parity bonds and on par with the other existing subordinate lien bonds of the SPFD.

Bond payments are scheduled to be made on a semi-annual basis – in June and December of each year. The first semi-annual payment is anticipated to be paid December 1, 2018.

Bond pricing has been anticipated to be at 100 basis points over market rates in place as of the fall of 2017. Coupon rates are noted at 4% for bonds maturing in 2018, 5% for 2019 and 6% for subsequent years. Payments are interest only through 2032, with amortization of the principal amount occurring in the eight years from 2033-41. As noted, the all-in yield to maturity is estimated at just under 4.97%.

## Revenue & Debt Coverage Scenarios

An important part of this report is to review the anticipated adequacy of tax revenues to support existing and proposed debt. Because there are no specific DSCR requirements applied to the proposed Spokane County Sportsplex bond, primary attention is placed on the combination of all parity bond and subordinate debt. This is the approach that Northwest Municipal Advisors (NMA) has taken with its base case bond analysis conducted for the SPFD.

### Coverage for Parity Bonds

This feasibility study does not directly focus on debt coverage for senior lien parity bonds as the proposed Sportsplex debt is to be subordinate to parity bonds and therefore not subject to a minimum DSCR. These senior debt coverage requirements were addressed at the time of prior bond issuances, most recently with the Series 2017 bonds for INB renovation.

Parity bonds are expected to achieve a debt service coverage ratio (DSCR) of 1.25x or better throughout the period of debt service. This ratio is calculated by dividing pledged revenues by required parity bond debt service payments.

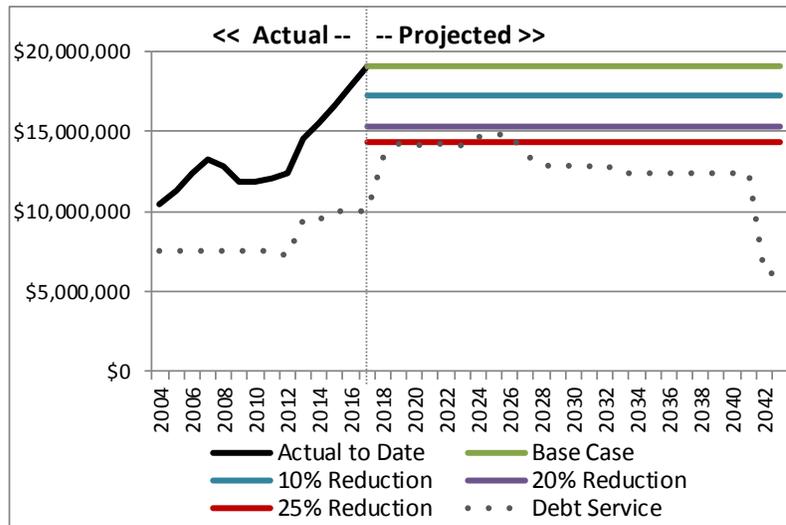
For 2017, this senior debt coverage ratio is 1.91x, well above the required minimum. Through the period of full debt repayment, DSCRs for parity bonds are expected to increase over time from 1.75x in 2018 to 3.57x in 2043 – increasing as various debt issues reach the ends of their respective repayment periods.

**Base Case Review.** As shown by the graph to the right, NMA prepared a base case predicated on SPFD maintaining tax revenues at the level equal to 2017 actual results (shown by the **green** line).

Even if SPFD does not grow revenues in future years, the current revenues lie well above total district debt service payments (shown by the dashed line). Even at a 2026 peak in debt service payments, existing revenues are 29% above payment amounts.

NMA also evaluated potential effects of 10, 20, and 25% reductions in future revenues. Repayment capacity does not become problematic unless SPFD revenues drop by about 23% below 2017 levels.

**SPFD Base Case & Revenue Reduction Scenarios**

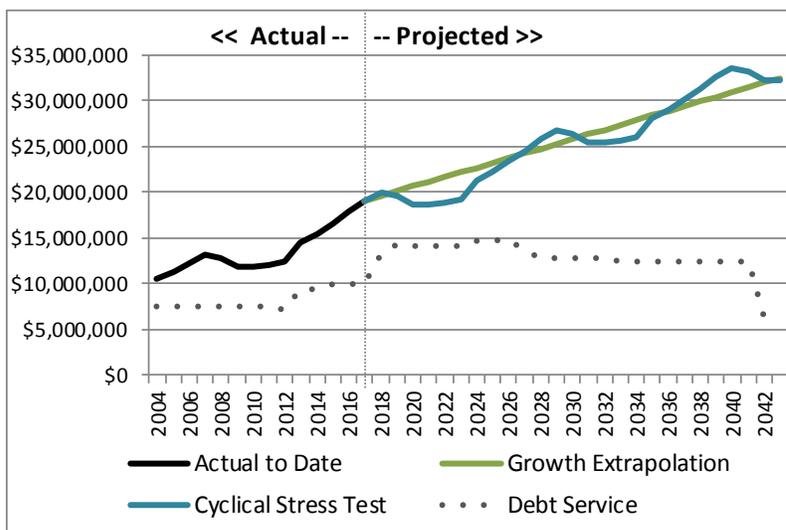


Note: Revenues cover all taxing sources available to SPFD.  
Source: NMA, preliminary as of February 15, 2018.

**Stress Test Scenarios.** As provided with prior independent feasibility reviews, alternative stress scenarios have also been prepared. This second graph illustrates the effects of extrapolating the historic tax revenue growth trend forward to 2043 *vis-à-vis* a stress test assuming a replay of the 2007-09 Great Recession (when SPFD tax revenues dropped by 22% in two years).

With growth extrapolation, there is no point at which revenues show any sign of inadequacy relative to required debt payments. Even with a worst-case cyclical stress test, revenues would have to drop by another 24% below recession year lows (in a hypothetical 2020-21 economic downturn) to jeopardize debt repayment capacity.

**SPFD Stress Test Revenue Scenarios**



Note: Growth extrapolation is a linear projection of 2004-17 experience forward to 2043. Cyclical stress test is a replay of prior cycle experience.  
Source: E. D. Hovee, based on historic WSCC experience.

The conclusion of this review is that SPFD should generate tax revenues that prove more than adequate to cover all existing and currently proposed debt of the SPFD. An economic downturn at least double the severity of the 2007-09 Great Recession would be required to jeopardize repayment of both bonded and subordinate SPFD debt.

## CONSTRUCTION/DEBT-RELATED RISK FACTORS & MITIGATION

Reviewed with this section of the financial feasibility report are risks related to capital cost and debt repayment – together with discussion of potential options for risk mitigation. Potential risks factors identified with this analysis include:

### **Sportsplex Capital Cost Risks:**

- Construction cost escalation above budget
- Post-construction issues

### **Debt Repayment Risks:**

- Debt coverage management
- Interest rate and bond marketability risks

## Capital Cost Risks

As noted above, risk factors associated with project construction include cost escalation above the current \$42 million project budget and resolution of post-construction issues.

***Construction Cost Escalation Above Budget.*** Based on SPFD materials provided, it is clear that the \$42 million project budget is preliminary and will be subject to refinement including possible substantial revisions during the design-build (D-B) and associated architectural design/validation process. One of the advantages cited with the D-B process is to make value engineering judgements during design that meet minimum program requirements but also are subject to a maximum authorized project cost.

As occurred with the INB renovation now underway, SPFD has set a \$42 million budget target maximum for the Sportsplex project. The building program and design will be modified as needed to fit within this budget. From discussion with SPFD representatives, resulting modifications could be potentially significant. There is also the potential that the current capital budget might need to be reduced if a key funding source does not materialize – as is possible with a requested \$1 million investment from the state’s capital budget.

The program element most in question is the icehouse. If the project budget proves inadequate to fund both the fieldhouse and icehouse, it is very possible that the icehouse will not be included with the Sportsplex project – at least as initially developed.

Also in question is the final determination of the project site location required for construction of a viable Sportsplex project together with negotiation and purchase of remaining property parcels. This is further complicated by litigation involving a potentially affected property owner

and the City of Spokane's Parks Department.<sup>5</sup> Depending on the outcome, this could have the effect of delaying the start of construction and increasing project cost.

As also occurred with the INB renovation, it is possible that the SPFD board could opt to increase the project budget to fill a funding gap resulting from project cost in excess of the \$42 million Sportsplex target. If bonds have already been issued, options for funding any overage would be more limited – likely involving either funding from SPFD reserves or looking to non-SPFD contributed funds.

*Options for Mitigation* – To summarize, there are at least two basic options that SPFD might consider to address the potential risk of construction cost escalation above the current budget:

- Hold to the \$42 million budget under all circumstances – deferring desired but lower priority budget-busting program elements to subsequent project phases as added debt or other funding becomes available. Since SPFD appears to have some remaining (though increasingly limited) additional non-voted debt capacity, future added bonding could occur on its own or in combination with improvements to other SPFD facilities.<sup>6</sup>
- Amend the project budget to accomplish selected priority items with initial Sportsplex construction but involving costs in excess of the \$42 million target – provided that funding comes from available SPFD reserves or non-SPFD contributed sources (rather than added debt).<sup>7</sup> Examples of possible contributed sources range from sale of naming rights to a capital campaign for the balance (though this might delay project construction).

***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.

With a D-B contract, it is anticipated that the enhanced warranty or project involvement provided by the design-builder for the performance of the Sportsplex construction will provide greater protection of public funds for issues associated with defective construction or the inability to comply with the warranty.

*Options for Mitigation* – The preferred remedy will be to obtain as much warranty protection with the D-B contract as possible. For issues that are not readily resolved through the design-build arrangement, other options may include:

- Funding of immediately identified repairs via the Sportsplex operating budget to the extent that funds are available.
- To the extent that other issues related to facility use or functionality emerge over time as industry and user requirements change, these can generally be budgeted in advance as part of a second round of Sportsplex capital improvements in the future (as well as through annual funding allocations for routine maintenance and repair).

## Debt Repayment Risks

Potential risk factors typically associated with planned debt repayment include questions related to debt repayment capacity and possible debt marketability. As described below, neither of these appear to be significant risks with Sportsplex funding as currently proposed.

**Debt Coverage Management.** The NMA prepared debt analysis indicates that there should be more than ample revenue to cover both existing SPFD parity bond and subordinate debt plus proposed Sportsplex debt through to the planned retirement of all debt by 2043. This is the case even if SPFD tax revenues do not increase above 2017 actual levels – a conservative projection since revenues have historically risen by an average of close to 4% or more per year since 2004.

Existing parity debt has been issued subject to a minimum 1.25x bond debt service coverage ratio. Projected coverage ratios well exceed the minimums with parity bond DSCRs reaching as much as 1.91x in 2017 (prior to initial payments for INB-related debt).

As a subordinate obligation, there is no specific debt coverage requirement for the Spokane County \$25 million LTGO bond that SPFD would repay. The practical lower limit is a 1.00 DSCR – the minimum that covers the necessary capacity to repay all parity and subordinate debt. With the NMA prepared base case, DSCR's (even with no projected future tax revenue increases) range from a low of 1.34x in 2019 to 1.55x in 2041 when Sportsplex debt is retired.

Even after SPFD debt payments and allocated expenses are deducted from tax revenues and also after accounting for \$250,000 in debt service reserve payments over the first eight years, the minimum annual surplus for SPFD tax revenue funds would still remain above \$2 million per year – for all years except 2025 and 2026.

Based on NMA prepared **revenue reduction scenarios**, it would take an approximately 22% reduction from 2017 revenues before the capacity to make subordinate debt payments would be impaired. Even with an historically unprecedented 25% reduction in SPFD tax revenues, the funding deficit would occur over just three years (from 2024-26) with a cumulative 3-year deficit of just over \$1.25 million. As noted, a 22% reduction in revenues would be essentially double the 11% drop in tax revenues that the SPFD experienced during the Great Recession from 2007-09.

The added **stress test** prepared with this independent feasibility review further confirms the extreme unlikelihood of required payments exceeding tax revenues available to SPFD to fund debt repayment. Unlike NMA, the stress test assumes a long-term revenue growth pattern consistent with historic trends but with a replay of the Great Recession about every 11 years. With this stress test, revenues remain 30% or more above amounts required to pay existing plus Sportsplex debt obligations.

**Options for Mitigation** – Due to the extremely low odds of even a temporarily less than 1.00 DSCR (or breakeven) scenario, no remedial action is suggested at this time other than possible

clarification of any remaining waterfall or flow of fund questions (per the next section of this report). In the very unlikely event that a temporary default was to materialize, SPFD could consider:

- Short-term financial adjustments as through application of reserves to supplement debt repayment capacity on a short term or interim basis.
- Arranging to temporarily forego full payments on subordinate debt to Spokane County – with the deficiency to be made up post-recession together with accrued interest.

**Interest Rate & Bond Marketability Risks.** Described here are two inter-related factors, notably the risks that:

- Interest rates for the Spokane County LTGO may go above the current NMA target rates; and
- Marketability of bonds based on perceived credit risk for Spokane County (most directly) and SPFD (indirectly).

While minimal in recent years, **interest rate risk** is of increasing potential concern for long-term as well as short-term debt. From a pragmatic perspective, the risk increases the longer the time period between the date of this report and the time of bond issuance.

LTGO bonds currently are anticipated to be issued by Spokane County at an average coupon rate of 6.00% with an all-in true interest cost yield of approximately 4.97% to maturity. While short-term rates have risen in recent months, the yield curve has flattened with long-term municipal bond rates (as planned for Spokane County) remaining more stable to date.

However, with the Federal Reserve indicating more upward pressure on rates to dampen the risk of inflation, long-term rates through the remainder of 2018 and into 2019 could yet increase more rapidly and higher than previously anticipated. Upward pressure on long-term rates would become more apparent if bond investors begin to view increasing inflation as a long-term as well as short-term probability. Rates could also be affected by external events as with increasing federal deficits, a ramp up in energy prices, international tensions and trade disputes.

As noted, **credit risk** pertains most directly to Spokane County as the direct borrower but also indirectly to the perceived credit-worthiness of SPFD – and in turn back to the potential cost of bonded debt. Overall, both the County and the District would appear to be in reasonably good and stable position for marketability of added debt.

As of August 2010 (and continuing), Moody’s Investor Services has assigned an Aa2 LTGO bond rating to Spokane County. This is a rating deemed to be of high quality and subject to very low credit risk. With its 2010 rating, Moody’s has cited “the county’s continuing role as an important regional economic center, its stable, satisfactory financial position, and manageable debt level.” Standard & Poor’s (S&P) has assigned a corresponding AA “very strong” rating.<sup>8</sup>

While of less direct significance since it is not the direct borrower, SPFD's bond rating is worth noting, in part due to its recent 2017 INB-related bond issue and updated bond ratings. In recent years, SPFD has received some form of a Moody's A rating, judged to be of upper-medium grade and subject to low credit risk. In preparation for the successful placement of Series 2017 Bonds, the District was upgraded from A2 to A1 by Moody's; S&P again continued its A+ rating (equivalent to the Moody's A1 rating)."

As "credit strengths", Moody's has cited Spokane's position as a regional cultural and economic hub together with improving revenue collections. Credit challenges noted have been a weak additional bonds test, traditionally modest maximum annual debt service coverage, and lack of monthly segregation of revenue.

With its continued A+ rating, S&P cited the District's requirement to pledge multiple revenue streams and adequate maximum annual debt service (MADS) coverage for the (previous) Series 2011 issue and good coverage for the (current) Series 2013A, 2013B and 2017 issues. Partly offsetting these strengths has been the "potential for volatility in hotel/motel tax revenue because of the narrowness of the economic activity underlying such revenue." S&P also foresees possible risk to tax revenue growth due to market share gains for "home sharing" services such as Airbnb since the SPFD (District-wide) hotel/motel tax applies only to hotels with 40+ rooms.<sup>9</sup>

*Options for Mitigation:* In the event of materially adverse changes in interest rate and/or other terms of bonding by time of issuance, potential options are essentially two-fold:

- Accept a debt structure that might involve higher annual debt payments – as there appears to be adequate tax revenue capacity to handle some measure of increased payments, if necessary.
- Set a maximum acceptable payment schedule as a means to negotiate, if needed, for better debt terms – or alternatively to reduce project scope and costs to a level supported by an acceptable debt structure.

The determination of which option to pursue and the form or extent of financial restructuring that is most appropriate (if any) could be expected to be made jointly by Spokane County and the SPFD Board in conjunction with input from rating agencies and bond underwriters.

### III. SUSTAINED SPFD DEVELOPMENT FEASIBILITY

The preceding first phase review of the SPFD proposed Sportsplex project has focused on the specific question of the financial feasibility of the District issuing new indebtedness. This second phase now takes a broader view of other factors that might affect the financial feasibility of the SPFD developing the project. These additional factors involve both short- and long-term financial considerations not only for the Sportsplex but the multiple venues of the District.

This discussion of sustained SPFD development feasibility covers the following topics:

- **Operating sustainability** – for the Sportsplex project individually and in conjunction with all three District venues including a review of facility operating revenues versus expenses – also consideration of base case and alternative operating scenarios.
- **Financial capacity** – involving review of SPFD financial position and debt capacity.
- **Institutional capacity** – based on intergovernmental arrangements and flow of funds for operations and debt service.
- **Project development risks and mitigation** – focused on potential operating revenue versus expense, balance sheet, and institutional risks.

The approach taken with this second phase review involves summarization of information taken from a variety of sources (as detailed in Appendix B). As with the debt service analysis for which projections have been prepared on behalf of SPFD, pro forma financial forecasts have been prepared for the first five years of the Sportsplex (though not for other existing SPFD facilities).

In addition, the complexity of such factors as intergovernmental arrangements combined with the relative newness of the Sportsplex concept nationally has led this discussion to focus on *big picture* considerations that could imperil the long-term sustainability of the Sportsplex or all SPFD facilities combined if left unaddressed.

#### SPFD OPERATING SUSTAINABILITY

This broader sense of short- and long-term feasibility begins with a review of operations for the existing SPFD facilities of the arena, convention center and performing arts center. This review provides the context for discussing implications of introducing the Sportsplex as a new facility addition to the District's current venue portfolio. Anticipated revenues and expenses of a Sportsplex are considered on their own for this new facility, then broadened to encompass the Sportsplex's contribution to overall SPFD operating viability.

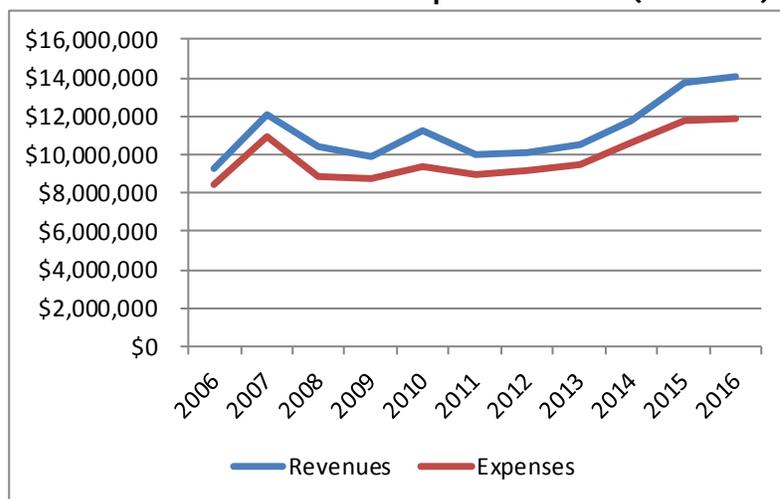
As with the debt review, base case projections are provided together with consideration of *less than break-even* operating results. To the extent practical, the assumptions and methodology applied with this operating review parallels the analysis provided with the debt financing review.

## SPFD Operating Revenues & Expenses

As detailed by the table on the following page, as of 2016 (the most recent year for which SPFD audited financial data is available), SPFD’s three operating facilities generated \$14.1 million in operating revenue versus \$11.9 million of expense, for an operating profit of \$2.2 million:

- **SPFD revenues** have increased by 52% since 2006 – equating to a 4.3% average annual growth rate (AAGR). Operating revenues declined by nearly 18% from 2007-09, a more severe downturn than noted with the approximate 11% drop in SPFD tax revenues.
- **Expenses** tend to track revenues, but with less volatility than noted for year-to-year revenues. From 2006-16, a 41% increase in expenses is noted – up by a 3.5% AAGR (below the rate of revenue increase).

**SPFD Facilities Revenue/Expense Trend (2006-16)**



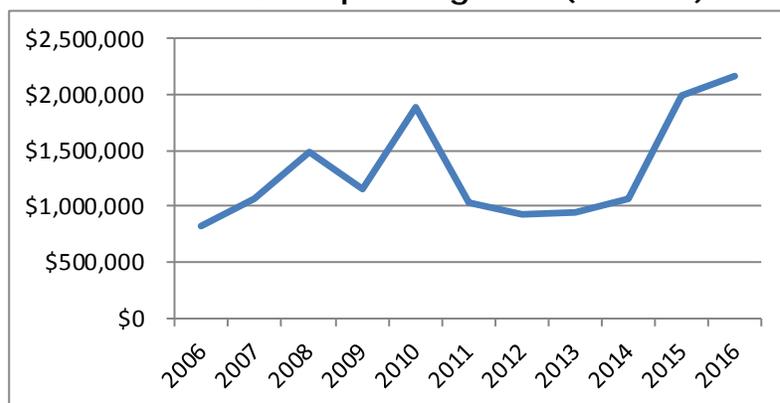
Note: Revenues/expenses adjusted to exclude 2006-07 INB repairs.  
Source: SPFD Annual Reports.

## SPFD Operating Profit

The pattern of operating profitability varies year-to-year but is up overall by 161% since 2006.

- Profitability was not severely affected during the Great Recession, because declining revenues were largely matched by reductions in expenses.
- The years 2015-16 have been particularly strong for SPFD. As of 2016, operating profits equate to more than 15% of revenues (versus low years of 2006-07 and 2012-13 at about 9%).

**SPFD Facilities Operating Profit (2006-16)**



Note: Operating profit adjusted to exclude 2006-07 INB repairs.  
Source: SPFD Annual Reports.

## SPFD Facility Operating Revenues & Expenses (2006-16)

SPFD Facility	2006*	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>INB Performing Arts Center (Unadjusted)</b>											
Revenues	\$3,033,844	\$4,326,149	\$1,431,590	\$1,636,367	\$1,148,442	\$1,505,013	\$1,447,598	\$1,374,838	\$1,394,530	\$1,429,718	\$1,552,915
Expenses	\$2,539,946	\$3,955,085	\$786,435	\$899,521	\$815,907	\$961,742	\$881,776	\$822,973	\$878,889	\$854,282	\$800,575
Operating Profit	\$493,899	\$371,064	\$645,155	\$736,846	\$332,534	\$543,270	\$565,822	\$551,864	\$515,641	\$575,437	\$752,340
<b>Spokane Convention Center</b>											
Revenues	\$3,164,924	\$3,926,058	\$3,761,125	\$3,698,122	\$3,250,484	\$3,216,130	\$3,547,089	\$3,517,710	\$4,426,206	\$5,363,087	\$5,875,069
Expenses	\$3,247,360	\$4,405,662	\$3,645,649	\$3,780,535	\$3,932,956	\$3,874,163	\$4,284,236	\$4,465,956	\$5,215,646	\$5,850,276	\$5,998,974
Operating Profit	(\$82,435)	(\$479,604)	\$115,477	(\$82,413)	(\$682,472)	(\$658,032)	(\$737,147)	(\$948,246)	(\$789,440)	(\$487,190)	(\$123,905)
<b>Spokane Arena</b>											
Revenues	\$4,977,490	\$6,994,672	\$5,181,499	\$4,603,230	\$6,827,413	\$5,267,974	\$5,122,246	\$5,589,179	\$5,905,136	\$6,937,907	\$6,639,987
Expenses	\$4,557,306	\$5,814,868	\$4,461,817	\$4,106,478	\$4,592,938	\$4,114,929	\$4,027,778	\$4,238,829	\$4,559,942	\$5,038,891	\$5,095,070
Operating Profit	\$420,184	\$1,179,805	\$719,682	\$496,752	\$2,234,475	\$1,153,045	\$1,094,469	\$1,350,349	\$1,345,194	\$1,899,015	\$1,544,917
<b>Combined Statement of Operations (Unadjusted)</b>											
Revenues	\$11,176,259	\$15,246,879	\$10,374,214	\$9,937,719	\$11,226,339	\$9,989,117	\$10,116,933	\$10,481,727	\$11,725,872	\$13,730,712	\$14,067,971
Expenses	\$10,344,611	\$14,175,614	\$8,893,901	\$8,786,534	\$9,341,801	\$8,950,834	\$9,193,790	\$9,527,758	\$10,654,477	\$11,743,449	\$11,894,619
Operating Profit	\$831,648	\$1,071,265	\$1,480,313	\$1,151,185	\$1,884,538	\$1,038,283	\$923,143	\$953,968	\$1,071,395	\$1,987,263	\$2,173,352
As % of Revenues	7.4%	7.0%	14.3%	11.6%	16.8%	10.4%	9.1%	9.1%	9.1%	14.5%	15.4%
<b>Combined Statement of Operations (Adjusted)</b>											
Revenues	\$9,265,071	\$12,056,868	\$10,374,214	\$9,937,719	\$11,226,339	\$9,989,117	\$10,116,933	\$10,481,727	\$11,725,872	\$13,730,712	\$14,067,971
Expenses	\$8,433,423	\$10,985,603	\$8,893,901	\$8,786,534	\$9,341,801	\$8,950,834	\$9,193,790	\$9,527,758	\$10,654,477	\$11,743,449	\$11,894,619
Operating Profit	\$831,648	\$1,071,265	\$1,480,313	\$1,151,185	\$1,884,538	\$1,038,283	\$923,143	\$953,968	\$1,071,395	\$1,987,263	\$2,173,352
As % of Revenues	9.0%	8.9%	14.3%	11.6%	16.8%	10.4%	9.1%	9.1%	9.1%	14.5%	15.4%

\* Note: For 2006-2007, the INB Performing Arts Center revenue/expense line items included significant allocations for repairs and maintenance. Added revenue requirements were covered by a \$1.91 million transfer from the R&R transfer fund in 2006 and a \$3.19 million transfer in 2007.

Source: SPFD, from Annual Reports. Comparable 2017 financial results are not yet available for SPFD facilities as of the date of this report.

The SPFD’s portfolio of three distinct operating venues appears to have served as a means to cushion against a more volatile pattern of operating performance than when considered facility-by-facility. SPFD has been fortunate in that a poor performance in a particular year by one or two facilities is often offset by the other(s).

For example, poor operating performances of the INB and the convention center from 2006-07 and again in 2009-10 were offset by strong revenue gains at the same time with the arena. The opposite situation occurred from 2010-11 when reduced profitability of the arena was partially offset by improved profitability of the performing arts center.

The convention center has tended to operate at a deficit while the arena and INB consistently experience an operating profit. However, overall SPFD profitability has been boosted in recent years as the convention center operating deficit has been reduced from about \$950,000 in 2013 to less than \$125,000 in 2016.

## SPORTSPLEX OPERATING PRO FORMA

In 2015, a preliminary operating pro forma was prepared as part of the *Feasibility Study: Spokane Regional Sportsplex* report prepared by consulting firm Sports Facilities Advisory, LLC (SFA) for SPFD. The initial SFA 5-year operating pro forma was later updated in July 2017.

As summarized by the following chart, SFA has projected Year 1 gross operating revenues of less than \$1.4 million – increasing by nearly 50% to a Year 5 estimate of over \$2.0 million. Cost of goods sold equates to an average 30% of operating revenues – leading to a Year 1 gross margin figure of less than \$1.0 million, increasing to more than \$1.4 million by Year 5.

### Sportsplex Revenue & Expense Projections (First Five Years of Operation)

Description	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenues</b>	\$1,368,400	\$1,576,400	\$1,838,900	\$1,914,900	\$2,034,200
Cost of Goods Sold	(\$412,500)	(\$480,600)	(\$564,300)	(\$585,600)	(\$611,900)
Gross Margin	\$955,900	\$1,095,800	\$1,274,600	\$1,329,300	\$1,422,300
% of Revenue	70%	70%	69%	69%	70%
<b>Operating Expenses</b>	\$1,275,200	\$1,320,600	\$1,370,700	\$1,414,200	\$1,460,600
<b>EBITDA*</b>	(\$319,300)	(\$224,800)	(\$96,100)	(\$84,900)	(\$38,300)
% of Revenue	-23%	-14%	-5%	-4%	-2%

\* Note: EBITDA refers to earnings before interest, tax, depreciation and amortization.

Source: SFA, July 2017.

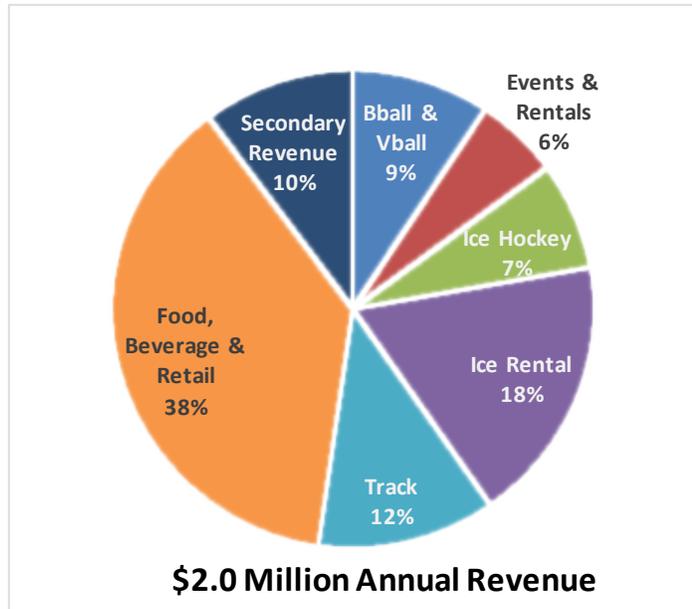
Projected expenditures increase more slowly – from less than \$1.3 million in Year 1, up by 15% to a Year 5 estimate of \$1.4-\$1.5 million. With revenues rising more quickly than expenditures, the EBITDA operating deficit narrows – from less than \$320,000 in Year 2 to a near breakeven deficit of \$38,000 by the fifth year of operations. The cumulative 5-year deficit is projected at about \$763,000 – equating to an average deficit of over \$150,000 per year.

## Sources of Revenue

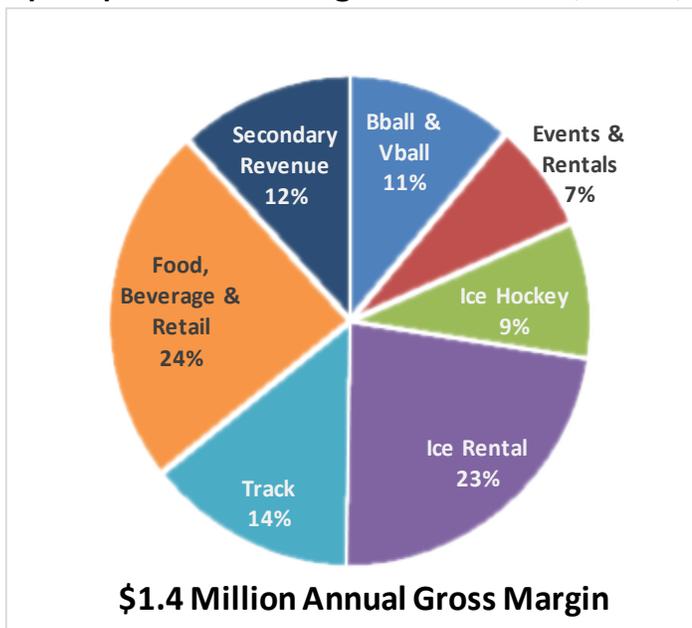
In addition to overall projections, it is useful to review the projected distributions of revenues and expenditures. The following charts illustrate the expected distribution of revenues as of Year 5 – a time period that should reflect full ramp-up to stabilized operations. Two pie charts are presented – each offering an important perspective:

- The first chart illustrates the percentage distribution of **top-line revenues** before the cost of goods sold is taken into account. Of the major revenue categories, food, beverage and retail accounts for the largest share at 38% of the total. Ice-related activity represents 25% of top-line revenue with fieldhouse sports 21%. Events, rentals and secondary revenues (including sponsorships) account for a remaining 16%.
- This next chart illustrates the distribution of **gross margin** after cost of goods sold are taken into account. While cost of goods sold averages 30% across all revenue-generating activities, there are differences depending on the revenue generator under consideration. As cost of goods sold account for 56% of food, beverage, and retail revenues, the net contribution of this ancillary activity remains important but is less significant than when presented in terms of top-line revenues. Other sources become of greater significance when considered in terms of a gross margin effect on the facility's bottom line.

**Sportsplex Revenue Distribution (Year 5)**



**Sportsplex Gross Margin Distribution (Year 5)**



Note: Gross margin equals revenues *minus* cost of goods sold.

Source: SFA, July 2017.

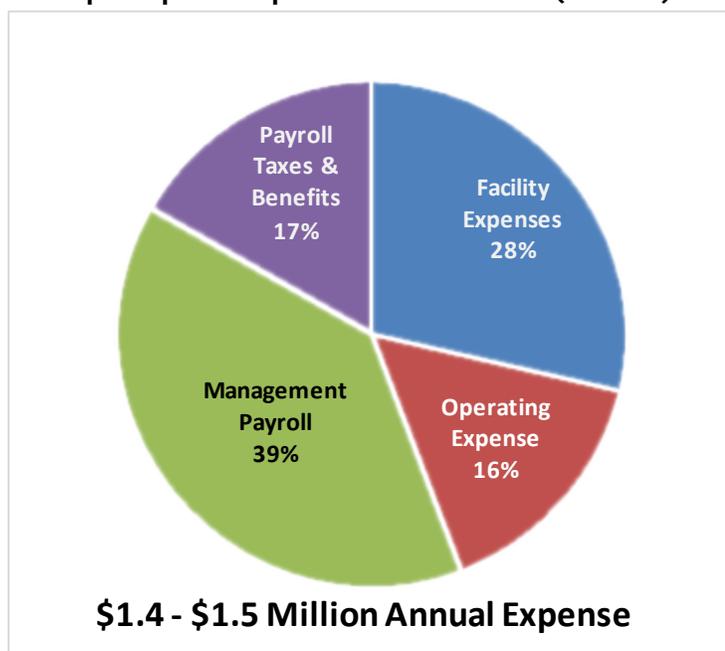
## Distribution of Expense

As with revenues, it is also possible to evaluate the anticipated distribution of facility expenses, as depicted by the following chart:

- Over half (56%) of projected expense is to cover **payroll expense** including taxes and benefits. Not included with expenses are event costs that may be absorbed by an event sponsor. This has the effect of reducing expenses below what would otherwise occur if SPFD staff provided services for all events – ranging from ticketing to custodial.
- The remaining 44% of expense covers **facility and operating expenses**. Facility expenses include items ranging from grounds maintenance to facility maintenance and repairs, janitorial and safety supplies, and utility expense.

Other operating expenses cover such items as accounting, insurance, legal, equipment, office supplies, computer/internet and travel/education costs. Also included is a general advertising category but with no allocation for tournament business development – as a function to be assumed separately by the Spokane Sports Commission.

Sportsplex Expense Distribution (Year 5)



Notes: Gross margin equals revenues *minus* cost of goods sold. Non-management/administrative salaries are not shown with this chart but are considered a direct expense as cost of goods sold.

Source: SFA, July 2017.

## Reasonableness of Sportsplex Operating Projections

Review of operating projections for the Sportsplex project is different from that which has been conducted for other SPFD venues – notably the convention center and INB performing arts center. With venues previously considered for added debt financing, independent feasibility reviews were conducted for already functioning facilities for which there are clear operating histories.

This is not the case for the proposed Sportsplex project which will represent a new addition to the SPFD facility portfolio. As a new venue, there is no established local or regionally similar performance history on which to base a review of future operating prospects. Consequently, primary reliance for operating projections is placed on the SFA's financial projections.

Challenges with reviewing the reasonableness of SFA projections are several-fold:

- There is a very limited base of comparable experience on which to draw. As noted by SFA's 2015 feasibility study, the Spokane Sportsplex will be only the 10<sup>th</sup> facility in the U.S. to feature a 200-meter indoor hydraulically banked track and the first such facility on the west coast. In effect, this will be a more speculative venture than a facility for which there are longstanding comparables, locally and regionally as well as nationally.
- For the comparables that were reviewed by SFA, no detailed information is provided in the SFA feasibility report as to individual operating revenue and expense experience. Rather, the "revenue and expense assumptions are based on SFA's experience, proprietary methodology for forecasting the performance of sports tourism facilities in specific markets, and a conservative projection of revenue and economic impact-generating opportunities."<sup>10</sup> Unfortunately, without more detailed information for the comparables, it is difficult to reach any definitive conclusions about the reasonableness of the resulting SFA operating income and expense projections for this Spokane project.
- There is clear potential upside to Spokane becoming the first west coast indoor sports venue with a hydraulically banked track. However, the SFA report acknowledges that this early competitive advantage could be eroded if another world-class indoor track facility is developed elsewhere in the Pacific Northwest or on the west coast.
- While all the track comparables are located outside the west coast, SFA does inventory court and ice facilities located locally and regionally. Among the conclusions drawn are that the number of regional facilities capable of hosting court-based tournaments and events are limited. An icehouse could complement an existing local facility with added draw for larger tournaments but might detrimentally spread the existing Spokane area market too thin for locally generated training and league play.
- It is not yet determined if the project's capital budget will allow for development of both a multi-purpose fieldhouse and icehouse. If both components of the Sportsplex are not developed concurrently but the icehouse is deferred, the operating pro forma (as now prepared) will be substantially altered – especially as the pro forma shows a greater contribution of revenue and gross margin from icehouse than fieldhouse utilization.
- The degree to which operating revenues and expenses are internal or external to the SPFD's operating pro forma has yet to be fully determined. As noted by SFA, it appears that the majority of programs "will be developed as 'outsourced' or rental programs rather than being run internally by facility staff."<sup>11</sup> The Spokane Sports Commission and local sports/event organizations could serve to remove much of the operating responsibility from SPFD; however, specific arrangements and their operating pro forma implications have yet to be more fully determined.
- Conversely, SFA notes that supporting services such as food and beverage and retail will "be run internally by facility staff to capitalize on the full opportunity to generate revenue through spending by visitors and users of the forecasted rental events and programs." Not clear at this point is whether and to what extent SPFD might benefit from in-house operations versus contracting with an outside vendor.

Recognizing these uncertainties, SPFD’s Lodging Tax Allocation Committee (LTAC) has pledged \$5 million from the City of Spokane 1.3% lodging tax as a debt service guarantee and an additional \$750,000 as a set aside (at \$250,000 per year) for the first 5 years of SFA-projected operating losses. If additional operating subsidy is required, this could occur via additional LTAC and/or SPFD board allocation or other resources determined by the SPFD board.

Based on the uncertainties identified, providing for a healthy operating reserve appears to be a prudent measure taken by SPFD and the LTAC. There are two follow-up questions that this independent feasibility review addresses:

- What level of deficit could the Sportsplex potentially sustain without jeopardizing overall operating viability for all SPFD venues combined?  
*and*
- What happens if deficits persist after the first five years?

The first of these questions is addressed with the following discussion. The second question is addressed subsequently with review of potential operating mitigation options.

### A Sustainable Sportsplex Deficit?

The answer to the question of how large an on-going Spokane Sportsplex operating deficit could be sustained without jeopardizing all SPFD operations depends on what level of operating profitability SPFD maintains for its existing three venues going forward. As shown by the chart to the right, from 2006-16, SPFD’s operating profit has averaged more than \$1.3 million per year – ranging from a low of \$830,000 (in 2006) to as much as \$2.2 million (2016).

A Sportsplex deficit could be covered (just barely) with average SPFD-wide operating profit as experienced from 2006-16 – and more readily by the peak year surplus experienced by SPFD in 2016. This assumes that non-management wages are fully variable, flexing up and down with revenues.

In short, the case could be made that SPFD could cover much or possibly all of a worst-case Sportsplex operating deficit – at least for an interim period pending alternative arrangements. However, this approach could also greatly reduce the SPFD’s operating cushion. Potential options for mitigation are suggested with the final section to this report.

**SPFD Profit Capacity to Cover Sportsplex Expense (Illustrative)**

Sportsplex/SPFD Variable	Estimate
Year 1 Sportsplex Operating Expense	\$1,275,000
<b>SPFD Operating Profit</b>	
Average Annual (2006-16)	\$1,320,000
Low Year (2006)	\$830,000
High Year (2016)	\$2,170,000
<b>SPFD Profit as % of Sportsplex Expense</b>	
Average Annual (2006-16)	104%
Low Year (2006)	65%
High Year (2016)	170%

Notes: Operating expenses exclude non-management salaries which are part of cost of goods sold.

Source: E. D. Hovee.

## SPFD FINANCIAL CAPACITY

A final step taken in this broad-based review of project development feasibility involves consideration of SPFD's overall financial capacity – as has been reported with District financial statements and with respect to statutorily available remaining debt capacity.

### Financial Statements

The most recent financial statement information currently available (covering the 2012-16 time period) is provided by the Preliminary Official Statement for the 2017 INB bond issue. For this feasibility review and the earlier 2017 INB Performing Arts Center feasibility report, financial statements have been reviewed with respect to annual income statements and balance sheets.

**Annual Income Statements.** It is noted that SPFD financial statements differ somewhat from the review of district revenues and expenses as provided by the District's Year End Reports (as summarized with the foregoing operating discussion). A primary difference is that the financial statements combine multiple fund accounts while the Year End reports include results only for the direct operating income and expense account.<sup>12</sup> Financial statements also include depreciation while the Year End statements exclude this non-cash item.

These most recent financial statements showed SPFD experiencing a \$6.4 million operating loss versus a \$2.2 million operating profit based on the *2016 Year End Report*. Year-to-year changes in operating income or profit have also varied somewhat depending on the accounting system referenced. For example, the SPFD financial statement indicates that operating losses increased from 2013-15, then decreased from 2015-16. By comparison, the Year End Reports indicate increasing year-to-year operating profit gains each of the three years from 2013-16.

Financial statement results are improved when non-operating revenues and expenses together with capital contributions are considered. After a negative year in 2013, the net position of the District has improved each of the three years from 2014-16. As of year-end 2016, SPFD net position was \$53.2 million - \$4.9 million above the low year of \$48.3 million in 2013.<sup>13</sup>

**Balance Sheet Review.** From 2012-16, total assets of the District increased from \$198.8 million to \$225.5 million – a \$26.7 million increase. However, cash and cash equivalents declined by \$7.5 million from 2012-16, reflecting a \$13.3 million negative cash swing between 2012-13 – followed by improvements to the District's cash position in the last three years.

Since 2012, deferred outflows of resources have been reduced by \$6.6 million (primarily related to closing out a Series 2003 Swap) while liabilities increased by \$18.5 million to \$182.7 million as of 2016. Liabilities spiked by \$36.5 million from 2012-13 but then were subsequently reduced year-by-year through 2016. Total unfunded pension liability accounted for an estimated \$2.6 million (or 1.4%) of total liabilities as of year-end 2016 – appearing on the Statement of Net Position for the first time in 2015.

The net result has been a relatively small \$1.6 million increase in total net position from 2012-16, though a more substantial \$4.9 million gain when compared with the 2013 trough year.

**Combined Implications.** Coming out of the recession of the last decade, the SPFD appears to have maintained an overall positive financial condition in recent years – albeit with some significant year-to-year variation in operating income and net financial condition. The year ending 2016 (the last for which information is currently available) represents improvement over 2012 conditions – whether measured by operating profit (income) or by year-end net position.

Tax revenues have been consistently strong in recent years – increasing each year since 2010. Other operating revenue and expense streams have shown more variability in recent years – suggesting the need for a continued cushion to reduce the risk of unexpected shocks to net operating revenues.

Perhaps the best gauge to operating sustainability is provided by the SPFD Year End Report (excluding non-cash depreciation expense). Since 2006, there have been two years when the District achieved operating profit (as a percentage of revenues) above 15% – in 2010 and again in 2016. In no year has operating profit dropped below 7% (using unadjusted data). The biggest one-year swing was a minus 6-7 percentage points in operating profit from 2010-11.

As was noted with the 2017 INB feasibility review, aiming for an annual target operating profit in the range of +/- 10% could serve to reduce District risk and provide added cushion against future adverse economic or financial operating conditions. This added cushion could prove to be especially important if all three existing venues plus a new fourth venue were to experience a major downturn in the same year.

## SPFD Debt Capacity

Without the approval of District voters, state statute provides that the SPFD may incur debt in the aggregate amount of up to 0.5% of taxable valuation of property within the District. With 60% voter approval, total indebtedness (including non-voted debt) may increase to 1.25% of assessed valuation. Since there is no voted debt, the current limit is 0.5% of valuation.

As of January 1, 2017, the 0.5% limit in non-voted debt for the District was reported at just over \$212 million. Existing indebtedness against the non-voted limit includes the Series 2013 A/B bonds (\$123.7 million combined) plus Regional Center Projects via Interlocal Agreement (\$14.9 million) and a subordinate note to Spokane County (\$14.1 million), leaving remaining capacity for non-voted debt of up to an added \$59.3 million. From this would be deducted the approximately \$18.5 million in added debt (par amount) with Series 2017 bonding issued for INB renovations.

Based on advice from the SPFD's bond counsel, the \$25 million of planned Sportsplex bonding (by Spokane County) will count against the District's debt capacity. Consistent with the 2017 Official Statement showing debt capacity, this would leave about \$15 of remaining non-voted debt capacity, a remaining cushion of just 7% of the non-voted limit. This assumes that the \$25

million in bonds are issued at par and that taxable assessed valuation is not increased. Over time, the non-voted capacity can be expected to increase incrementally as county-wide assessed values increase and as debt balances are reduced with on-going repayment.

## INSTITUTIONAL ARRANGEMENTS & FLOW OF FUNDS

Financial planning for the Sportsplex project is built on a foundation of institutional and funding arrangements extending back to Expo '74 and initial development of venues now owned by the SPFD – the arena, convention center and performing arts center. These arrangements have been further refined with SPFD debt issues – most recently in 2013 and 2017 – as further described by Appendix E to this report.

With the proposed Sportsplex project, these institutional commitments will be further adjusted to address the requirements of a new venue. For SPFD, pivotal interagency partners historically have involved the governmental jurisdictions of the City of Spokane and Spokane County. A new partner is of importance for this facility initiative – the non-profit Spokane Sports Commission. The roles and the commitments important to the success of each of these partnerships with SPFD are outlined for each of these parties, in turn.

### City of Spokane

A current outline of the SPFD/City partnership for the Sportsplex project is provided by a Letter of Understanding (LOU) between the SPFD and City of Spokane Parks and Recreation Department dated January 11, 2018. The LOU provides a statement of intent regarding “the lease and development of the North Bank Site for the construction and operation of a regional indoor sports complex (Sportsplex) and associated parking ...”

Key provisions of the LOU include the following:

- The City and Parks would work with SPFD to finalize North Bank siting of the Sportsplex and associated 300-space parking garage (no longer planned). As with other portions of the LOU, an exhibit to the letter describes and identifies the site area planned but does not represent a legally binding City commitment to a specific site area “until such time as legally binding documents are created.”
- Parks will lease the site to SPFD for 30 years to develop and maintain the Sportsplex facility – at a rental rate of \$1 per year.
- The Sportsplex has been planned to consist of a multi-use sports field house and associated parking garage and may include an icehouse for team and similar purposes other than family recreational skating.
- SPFD will be responsible for managing the design, permitting, and construction of the Sportsplex.

*Note:* the negotiated LOU indicated that SPFD would construct a 300-space parking garage to be funded by Parks. A parking structure is no longer planned but a surface parking lot will be separately funded and developed by Parks.

- SPFD will be responsible for operation and maintenance of the Sportsplex; City Parks will be responsible for operation and maintenance of the parking lot.
- Beginning in the 6<sup>th</sup> year of operation, any net operating profits from the Sportsplex will be distributed 80% to SPFD and 20% to Parks.
- Parks and SPFD will engage the Sports Commission and obtain a commitment to provide personnel and resources to market, license and program use of the facility; a joint use committee will be formed to develop a Joint Use Agreement.
- A Joint Use Agreement (to be negotiated) will accommodate Parks' and public use of Sportsplex facilities subject to the primary purpose of the facility to host large tournament-style events and (if an icehouse is developed) team ice use.
- Parks will reimburse SPFD for conversion costs and any event-specific security expenses that exceed normal operations but will not be charged rent for facility use.
- SPFD will commit no less than \$25 million in 2018 to repayment of Spokane County bonds, backed in part by a \$5 million LTAC pledge that could be available to pay debt service, if needed, as well as \$750,000 allocated to cover projected operating losses.
- The City will approve an ordinance committing \$5 million toward construction; Parks (through the Park Board) will commit up to \$7 million in reimbursement funds toward construction of on-site at-grade parking and access, demolition cost on Park property, construction of new public restroom and park maintenance storage facilities.  
*Note: this \$7 million is not part of the sources and uses statement as it is not a direct responsibility of the SPFD but of Parks.*
- The City/Parks will be responsible for conveying its properties to SPFD clear of liens, encumbrances and claims of title – and for structure demolition and environmental clean-up of designated properties; SPFD will assume responsibility for environmental mitigation, structure removal and other needs related to construction for other portions of the Sportsplex site.
- Final naming of the Sportsplex facility is subject to change, as for recognition of sponsor naming rights.
- Parks and SPFD will each contribute up to \$300,000 for design and related services through the project validation phase of the D-B process.
- Project design will involve a public input process and site design will include pedestrian connections from the Sportsplex to Riverfront Park; Parks will have the right to approve the final design of the Sportsplex exterior facade and related improvements.

The LOU will be superseded and implemented through an Interlocal Agreement (and other agreements as may be necessary) to finance, develop and construct the Sportsplex and associated parking facilities. Preliminary design and associated agreements are intended to be finalized for all documents including the Joint Use Agreement by the end of 2018.

## Spokane County

A separate interagency agreement is anticipated between the SPFD and Spokane County, via a joint resolution of the parties – focused on anticipated County bond funding of \$25 million in LTGO debt for the Sportsplex project. The draft resolution anticipates construction of a Regional Center that will include basketball courts, volleyball courts, an indoor track, associated meeting rooms, locker rooms, public areas, office space and concession areas – but with no explicit mention of an icehouse.<sup>14</sup>

Key provisions of this resolution (approved by both boards) are summarized as follows:

- Spokane County will issue LTGO bonds and loan the proceeds of the bonds of up to \$25 million plus issuance costs to SPFD for the purpose of completing the Sportsplex project.
- SPFD will pledge revenues from the District’s hotel-motel tax and sales and use tax to repayment of the 2018 County Loan; this pledge will be subordinate to the pledge of these revenues to first lien (parity) bonds but is on parity with the County’s 2012 subordinate note and obligations of the District to make payments to the County and Valley City pursuant to a 2003 Regional Center Interlocal Agreement.
- SPFD will establish a \$2 million reserve fund to be funded in the amount of \$250,000 annually for 8 years beginning the year that the 2018 County bonds are issued; this reserve fund will be pledged solely to repayment of the 2012 subordinate note and the proposed 2018 County loan.
- Final 2018 bond maturity will be no later than 25 years from date of issuance.
- With the 2018 issuance, Spokane County will release SPFD of \$1 million currently held by the County to secure the 2012 subordinate note; this amount will be applied by SPFD to construction of the Sportsplex project.
- SPFD will replace its current debt service reserve fund in the amount of \$10.969 million with a reserve fund facility of which not less than \$10.350 million will be applied to Sportsplex acquisition and construction (anticipated to be with purchase of a surety offsetting \$10+ million in reserves).
- SPFD will enter into a binding agreement with the City and Park board for a 30 year site lease and into an agreement with the City for an unconditional obligation to donate \$5 million for the Sportsplex project.
- SPFD will take steps to ensure that County bonds are tax exempt and not considered private activity bonds.
- Prior to the issuance of additional bonds (after the 2018 Sportsplex issue) that involves a further pledge of hotel-motel or sales-use tax revenues, SPFD will first certify that the adjusted tax revenue is at least equal to 1.50 times the maximum annual debt service (as calculated to include additional bonds and other first lien parity obligations proposed to be issued or incurred), or first obtain written permission of the County to a less than 1.50 DSCR.

- Future additional obligations having a lien on pledged revenues subordinate to first lien and subordinate lien obligations may occur as long as there is no right of acceleration on such obligations.

As noted, the joint resolution has been approved by the governing boards for Spokane County and the SPFD although it is not certain that the agreement has yet been fully executed.

## Spokane Sports Commission

As described in Appendix E to this report, SPFD has a longstanding partnership with Spokane County and the City of Spokane related to the funding, development and operation of SPFD facilities. A new and non-governmental partner is identified as pivotal to the successful operation of the proposed Sportsplex project – the Spokane Sports Commission.

The Spokane Regional Sportsplex is a concept and project that has been proposed jointly by the Spokane Sports Commission and Spokane Public Facilities District (SPFD). The Spokane Sports Commission is a non-profit coalition of regional government, businesses and volunteers organized to recruit and develop sports events. As stated on the Sportsplex web site:

The Spokane Sports Commission continues to actively recruit, retain and facilitate sports events for the Inland Northwest. These efforts help our region realize the economic, social and community-development benefits of sports. To secure premium events in the future, we rely on quality facilities that support a winning environment for sports events and community activities. A new multi-purpose sports complex will allow our community to secure new events for our region as well as help alleviate ongoing demand for additional sports venues in our community.

While the SPFD will own and operate the Sportsplex, the Spokane Sports Commission will be primarily responsible for the sales, marketing and scheduling of the facility. As noted by the LOU between the City and SPFD, it is anticipated that City Parks and the SPFD will work with the Sports Commission as part of a joint use committee to develop a joint use agreement detailing the arrangements for marketing, licensing and programming Sportsplex use. It is anticipated that this agreement would also include specification of personnel and resources that will be committed by the Sports Commission to fulfill these purposes.

Somewhat unclear is specification of the timeline for completing this joint use agreement. However, it is clear (as from the listing of possible Sportsplex event opportunities provided with Appendix D), that the Sports Commission is moving forward with the type of preliminary planning that will be important to development of a mutually supportable Joint Use Agreement. The listing identifies a total of 200+ statewide high school, national collegiate and other governing boards together with adaptive sports and ice sports events that the full Sportsplex complex would be capable of hosting – together with their respective economic impacts to the Spokane area.

While not explicitly stated with the City Parks/SPFD LOU, the terms of the agreement could be construed as targeting an end of 2018 time frame for completing at least the preliminary framework of a Joint Use Agreement. This timeline would be consistent with an important objective of the LOU – with the statement that: “It is intended that the preliminary design and validation phase of the Sportsplex, parking structure, all identified amenities and associated final agreements be completed by the end of 2018.” *Note:* a surface lot is now planned to be constructed instead of a parking structure.

## SPFD PROJECT DEVELOPMENT RISKS & MITIGATION

Reviewed with this final section of the financial feasibility report are risks related to operating funding, overall SPFD financial capacity, and institutional arrangements, outlined as follows:

### **Operating Risks:**

- Weak Sportsplex start-up performance
- Long-term operating deficits
- Impact to SPFD-wide operating profitability

### **Financial Capacity Risks:**

- Flat net financial position
- Reduced debt capacity for future projects

### **Institutional Risks:**

- Payment priorities with worst-case operating and debt service funding shortfalls
- Framing new non-governmental institutional partnerships

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

## Operating Risks

As noted, three operating risks are identified as potentially impacting Sportsplex operating and overall SPFD venue operating viability. These are risks of weak Sportsplex start-up performance, potential for longer-term operating deficits, and broader potential impacts to SPFD-wide operating profitability.

***Weak Sportsplex Start-Up Performance.*** The Sportsplex 5-year operating pro forma projects an operating deficit of nearly \$320,000 the first year of operation, reduced to a less than \$40,000 deficit by the fifth year. The cumulative deficit over 5 years would total just over \$763,000.

This level of deficit should be readily absorbed, if necessary, by the LTAC commitment to set aside \$750,000 as a means to offset projected operating deficits over the first five years of Sportsplex operation. If 5-year cumulative deficits exceed what SFA has project, the LTAC (as

advisory to SPFD) and the SPFD board could be placed in the position of determining additional resources to fund the added operating shortfall.

Due to availability of tax revenue receipts well in excess of debt service payments, it is very unlikely that the LTAC pledge will be required to also support debt service. Due to the current uncertainties regarding operating requirements and funding, the risk of a greater than projected operating shortfall appears to be considerably more likely than that of a debt service payment deficiency.

In effect, if the LTAC debt pledge were to be combined with the \$750,000 current set aside for projected operating loss, as much as 85% of the forecast \$6.8 million in cumulative operating expense could be supported (as a maximum potential LTAC contribution). This combined approach would likely require approval by the SPFD board (with LTAC review) – whether made at the time that more extensive shortfalls became evident or as an advance commitment.

There are several factors that could influence operations more or less favorably in the first few years after opening:

- The pace of operational ramp-up will greatly affect the start-up year bottom line. For example, if the deficit remains in the \$300,000 +/- range over the full five years, the 5-year deficit associated with start-up could easily double to about \$1.5 million – also becoming a factor of concern for long-term sustainability on an on-going basis.
- Even more significant may be the question of what happens to operating revenues versus expense if the icehouse is not built as part of the initial Sportsplex complex. The pro forma suggests that the icehouse will generate more direct event revenues than the fieldhouse – meaning that non-inclusion of this facility use component could have an outsize effect on overall Sportsplex deficits, as well.
- Other factors that will affect start-up include strength of the marketing team, pre-opening bookings, appeal of a new facility for tournaments vis-à-vis current and potential new west coast competition, the interplay of local use versus non-local tournament events, and ability to control expenses at or below projection.

*Options for Mitigation* – Despite considerable uncertainty and resulting variability about the revenues and expenditures that will actually materialize, the options for mitigating short-term adverse results appear to be fairly good – at least in the near term. Options to consider could include:

- More detailed operating pro forma analysis to determine the effect that not proceeding with the icehouse would likely have on operating revenues and expenses.
- Fundraising to offset a portion of the early-year operating deficit – perhaps involving major sports-related donors including potential for naming rights or special drives as for challenge or matching contributions – important to start early on by creating a culture of giving for longer term facility sustainability.

- Use of some portion of current SFPD-wide operating surpluses (recently averaging \$1.3 million per year) to offset start-up losses beyond the current LTAC \$750,000 operating subsidy allocation.
- Worst-case potential capacity to absorb as much as 85% of 5-year Sportsplex operating expense from a combined up to \$5.75 million LTAC pledge – in further combination with expense reduction reflecting sub-par facility utilization.

**Long-Term Operating Deficit.** From a financial perspective, the main difference between the first five years and subsequent Sportsplex performance will be the future absence of the LTAC funding backstop made available early-on. If the SFA pro forma projections hold, the Sportsplex facility should be in good position to be operating in a net surplus mode by Year 6 and thereafter.

The factors that affect operating performance long-term will be much the same as will drive performance in the early years – with one added caveat. The record of strong or weak performance early on likely will have a substantial bearing on what happens thereafter.

Performance above expectation from the start will build momentum for continued success. Conversely, a poor start will negatively affect longer term prospects, sponsorship and community support – calling for a major turnaround.

**Options for Mitigation** – While the choice of the best option(s) may vary depending on the severity of an on-going deficit, the menu can be expected to include such choices as:

- Setting in place a program for sustained contributions as with a Sportsplex endowment, local to international sponsorships, annual payments for naming rights, and challenge grants.
- Authorization to apply the portion of the \$5 million in LTAC funds pledged but not spent in 5 years to successive year deficits if needed – and/or to request supplemental LTAC support.
- Dedicating a portion of the surplus SPFD-wide operating profit as a cross-subsidy to offset on-going Sportsplex deficits (as currently happens with the convention center).
- Considering SPFD capacity to contribute a portion of otherwise surplus tax revenues to on-going Sportsplex operations (likely involving a significant shift in SPFD policy and potentially reducing funding capacity for future SFPD capital projects).
- Paring the core expense budget back by steps that might involve greater use of part-time labor, volunteer/event sponsor support and labor, outside shared or donated marketing support, and/or building capability to *go dark* on days of non-use.
- Closing the Sportsplex and converting the facility to an alternate use – as a last resort in the event that other options prove to be not viable.

**Impact to SPFD-Wide Operating Profitability.** Over 11 years, SPFD’s combined facility operating profit has increased from \$830,000 in 2006 to nearly \$2.2 million in 2016 – averaging

about \$1.3 million per year over the full time period. The average SPFD profit of \$1.3 million is about the same as the Year 1 Sportsplex operating expenses.

One of the options noted above to offsetting a long-term Sportsplex operating deficit would involve use (or dedication) of surplus revenues from other profitable SPFD venues – notably the arena and performing arts center. The math suggests that recent operating surpluses, on average, could be enough to support up to the general level of full Sportsplex operating expense – likely also covering the effects of inflation in future years.

If the level of operating subsidy required were to greatly exceed the typical range of profitability of the SPFD portfolio of venues, the operating viability of the District could be correspondingly compromised. Other impacts could include:

- Reduced ability (or financial cushion) for SPFD to withstand economic downturns in future years.
- Removing the opportunity (suggested by this and previous SPFD independent feasibility reviews) for the District to set a positive profitability target (above breakeven) as a means to further strengthen its balance sheet and be more financially resilient through the full economic cycle.
- Potential impact to future bond ratings – exacerbating an existing rating agency concern that SPFD revenues are too narrowly focused and vulnerable to economic downturn.

*Options for Mitigation* – Potential options for consideration might include:

- Policy commitment to not subsidize the Sportsplex basis from SPFD revenues – at least not on an on-going basis.
- Consideration of a maximum level of subsidy support (if needed) – predicated on first setting a minimum annualized target rate of operating profit for the full SPFD portfolio.

## Financial Capacity Risks

From this review, it may be that financial capacity risks, while not imperiling SPFD viability, could constrain financial and facility options in the future. This discussion largely mirrors earlier delineation of potential financial risks as outlined with the 2017 feasibility review for the INB renovation.

Two specific risks were noted previously and now – continuing flat net financial position and reduced debt capacity for future projects.

***Flat Net Financial Position.*** As noted, the net financial position of the District declined by \$3.3 million (or by 6%) from 2012-13. The net position has recovered since to \$53.2 million as of 2016 – a net 3% gain over 2012 conditions. However, cash and cash equivalents have declined by 28% over this four year period. Undetermined at this time is the extent to which SPFD’s financial position changed in the last year (from 2016-17).

If continued, this uneven pattern with relatively small gain in net position and reduced cash availability may limit SPFD's financial flexibility in the years ahead. Over time, this trend effectively reduces the capacity to address unforeseen conditions or to take advantage of discretionary opportunities (as for further Sportsplex or other SPFD facility investments).

*Options for Mitigation* – The primary option would be to rebuild the District's cash and/or net financial position in the years ahead. The best opportunity comes if completion of recent convention center expansion, INB renovation, and planned Sportsplex improvements prove to generate sustained added financial returns – as so far appears to be the case since the February 2015 completion of the convention center expansion.

**Reduced Debt Capacity for Future Projects.** While the \$18.485 million in Series 2017 Bonds issued (par amount) took less than 9% of SPFD's bonded indebtedness capacity, this combined with other existing debts has left just over \$41 million (or 19%) of the District's \$212 million non-voted debt limit as remaining available (based on January 1, 2017 calculations).

The \$25 million in added subordinate debt (par amount) proposed with the Sportsplex would appear to reduce the remaining SPFD remaining debt capacity to a range of +/- \$15 million – with as little as 7% of SPFD's non-voted debt capacity remaining. Over time, this will be at least partially offset by increases in the District's assessed valuation, providing extra headroom for added debt capacity.

This capacity constraint will greatly limit further capital projects that involve added debt financing, at least near term – pending pay down of existing debt – even though there is still substantial tax-supported payment (but not debt limit) capacity. This constraint also potentially puts the SPFD in a vulnerable position if a major facility emergency were to arise – as with need to make unforeseen significant repairs or building renovations.

Some additional flexibility will be provided with repayment of the Series 2013B bonds in 2033. However, the loss of the State Credit Sales/Use Tax in 2042 will remove this source of funding for added debt thereafter, unless the sunset date for the credit is further extended by future action of the Washington State Legislature. In addition, the SPFD's authority to impose the Sales/Use Tax and the Hotel/Motel Tax is currently slated to terminate in 2043.

A final challenge lies with approximately \$29 million in debt split nearly evenly between outstanding payments based on the Regional Center Projects Interlocal Agreement and Subordinate Note to Spokane County. While subordinated, these debts have accounted for 14% of the District's current non-voted debt capacity.

*Options for Mitigation* – Several options may be available to increase SPFD funding capacity and flexibility – especially in the out-years as the SPFD non-operating surplus (after expenses) increases to the \$4+ million range per year after 2028. The following options – some complementary and others competing – may include any or some combination of actions to:

- Look for funding sources beyond existing tax revenues and operating funds – as with voter measures – as a means to fund future SPFD facilities or major improvements to existing venues.
- Increase operating profit from existing venues – capitalizing on convention center, performing arts center and Sportsplex investments to enhance the District’s net financial position.
- Prioritize paying down subordinated debt and the interlocal agreements as surplus tax revenues or net operating profits allow – going above and beyond guaranteed debt payments when possible.
- Increase the proportion of capital improvements funded from surplus cash rather than added debt – especially for the near term.
- Secure legislative authorization for continued state credit sales/use tax beyond 2042 – better assuring continued financial support for PFD modernization and new facility investments both locally and statewide.

## 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 existing interagency relationships and associated flow of funds were articulated in considerable detail with the SPFD 2017 Series Bond resolution and official statement – as also described by Appendix E to this feasibility report.

While there appears to be greater clarity regarding financial responsibilities and waterfall arrangements than in the past, there may still be some potential for as-yet unresolved risk. Remaining potential risks relate primarily to payment priorities with worst-case operating and debt service shortfalls.

The addition of a Sportsplex venue to the SPFD portfolio further builds on existing institutional partnerships with Spokane County and the City of Spokane. More so than with other existing facilities, the Sportsplex also depends on successfully framing new working relationships with non-governmental partners – most notably the Spokane Sports Commission. The long-term operating viability of the Sportsplex will depend on the success of this relationship as well as with other sports-related partners locally, regionally and internationally.

***Payment Priorities with Worst-Case Operating & Debt Service Shortfalls.*** As noted with the 2017 INB renovation feasibility study, even with detailed provisions of the bond resolution and official statement, there remains some potential uncertainty over funding responsibility in the event that a worst-case operating scenario were to coincide with a period of debt service constraints. For example, if there were to be a debt service shortfall, it does not appear that priority would necessarily be given to curtailing operating expenses as needed to support needed debt payments.

This concern has been at least partially mitigated by availability of a \$1 million reserve for the existing Spokane County subordinate note – though that is proposed to be removed to support Sportsplex funding. However, this is more than offset by a planned \$2 million reserve for the proposed \$25 million Spokane County Sportsplex bond plus a \$5 million LTAC pledge.

As indicated by the 2017 Official Statement for the Series 2017 bonding with INB renovation, prior to issuance of any additional bonds, SPFD must obtain either prior written consent of the County or a certificate showing that the adjusted tax revenue is at least equal to all annual debt service of the District including prior bonds, Regional Center payments and the subordinate note – in effect assuring a combined bonded and subordinated DSCR of 1.00 or better.

This is essentially the primary test being applied for assessment of funding capacity to now also support proposed Sportsplex debt. With this proposed issue, NMA-prepared debt schedules serve to address the adequacy of combined coverage for parity and subordinate debt projects including previously funded Regional Center projects.

Based on SPFD tax revenue and operating revenue/expense history, the convergence of worst-case operating and debt service shortfalls would appear to be extremely unlikely – without historical precedent. And a debt service shortfall appears to be much less likely (due to high coverage anticipated under all reasonable scenarios) than a short-term SPFD operating deficit. Consequently, greater priority may be suggested to provide added backstop resources for an operating than debt service shortfall.

*Options for Mitigation:* Taking action to address remaining questions regarding payment priorities could prove useful to tie up a potential loose end and also important in the event that SPFD pursues another bond issue subsequent to the Sportsplex issue. Options available for consideration could include:

- Leaving existing interagency agreements in place essentially as-is, addressing specific issues only on an as needed basis with the SPFD board and interagency partners as they may arise now or in the future.
- Allocating reserves or target profitability margins beyond what are currently in place for operations or debt service – in effect as a “rainy day fund” (of particular importance for SPFD operating budgets).
- Consider amending the 2017 SPFD bond resolution to further clarify the flow of funds for repayment of SPFD indebtedness (whether bonded or otherwise) – with respect to the flow of funds for use of District operating surplus revenues (an item previously noted with the 2017 INB feasibility report).

***Framing New Non-Governmental Institutional Partnerships.*** The most consequential new partnership envisioned with the Sportsplex will be with the non-profit Spokane Sports Commission. The Sports Commission will be responsible for the sales, marketing and scheduling of the new facility. The institutional arrangement created is expected to take the form of a joint use agreement between SPFD and the Sports Commission.

Other subsidiary relationships can be expected with a range of other partners – local and non-local event sponsors, athletic associations, and corporate sponsors. Based on discussions with SPFD management, the District may well have a useful model for how these partnerships can be structured by drawing on the experience of the Spokane Arena.

Risks associated with framing and then implementing this partnership include:

- Non-governmental interests – as private non-profit organizations may have objectives, organizational structures and institutional capacities which are not as well defined, stable or developed as is more typically the case with long-standing governmental jurisdictions.
- Funding capacity – with non-profits often not having the advantages of tax resources or a deep funding base, especially if this project requires a substantial step up in terms of staffing, management and budget requirements.
- Timing – notably the need to proceed quickly to frame the relationship including clear definition of organizational, funding and on-site responsibilities together with appropriate accounting and reporting mechanisms (and then to proceed with initial marketing and advance bookings well ahead of facility opening).

*Options for Mitigation* – Three primary items are noted for consideration:

- Proceeding to create an initial joint use agreement or letter of understanding (LOU) between SPFD and the Spokane Sports Commission – together with other interagency agreements to be completed and fully executed by the end of 2018 and prior to bond issuance.
- Completing a full detailed joint use agreement to align with the start of construction – providing time for initial marketing and bookings to commence well in advance of opening.
- In conjunction with the joint use agreement, preparing a more detailed marketing and bookings plan to be put into place in cooperation with interested local and non-local event sponsors.

## Combined Risk & Mitigation Summary

A final question addressed by this report is whether the combination of construction/debt related risk factors serve to compound District risks or are largely independent of broader SPFD feasibility considerations. A review of the factors considered suggests that these factors have independent effects that may be inter-related but largely without compounding or intensified cumulative effects:

*Construction/Debt Related-Risks:*

- Provided that bond funding does not materially vary from the current \$25 million target, **capital cost** risks of potential cost escalation and post-construction issues should not

affect debt issuance or repayment but, if experienced, more likely would involve securing added funding support from existing reserves.

- Barring major short term external events, **debt repayment** risks related to coverage and interest rate/bond marketability are not expected to have any substantive detrimental effect on capacity for repayment due to substantial coverage ratios indicating a strong surplus of tax revenues above and beyond required debt service payments – coupled with solid bond ratings of both Spokane County and the SPFD.

*SPFD Project Development Risks:*

- **Operating** risks appear to be greater than the potential for a default on debt service and relatively modest for SPFD’s existing three venues – but more substantial for a new and largely untested Sportsplex venue that could require operating support short- and possibly long-term.
- **Financial capacity** has been previously identified and remains a potential concern if SPFD investments do not pay off in added operating profit and net financial position – primarily in terms of reduced future investment capability but with no direct threat to ongoing SPFD sustainability over any reasonably foreseeable time horizon.
- **Institutional risks** are not of any immediate concern based on long-standing intergovernmental cooperation with the City and County of Spokane – but will be critically important to address with the non-profit Spokane Sports Commission and supporting organizations to assure successful marketing, bookings, management of the Spokane Sportsplex.

On balance, the Spokane Public Facilities District appears to have performed as well or better than might be expected through the most recent economic cycle. The SPFD has invested for continued convention center and INB Performing Arts Center vitality. As a result, the District is now well poised for construction of a new and pioneering venue with the proposed Sportsplex project.

The Sportsplex offers a unique opportunity to reinvigorate a well-deserved reputation for bringing the world back to Spokane’s doorstep – as experienced 44 years ago with Expo ’74. The capital funding and organizational resources to execute facility development appear to be well in hand. The primary challenges lie with framing the financial platform needed for short- and long-term operating sustainability and then engaging non-governmental partners with the capacity to achieve maximum sports performance, training, entertainment and innovation.

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 for the Spokane Public Facilities District by the economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee).

Since 1984, E. D. Hovee 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.

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

- October 2017 submittal of a *Spokane Public Facilities District INB Performing Arts Center Independent Financial Feasibility Review* for a \$22 million renovation, now underway.
- Prior completion of the February 2013 *Spokane Public Facilities District Independent Financial Review* on behalf of the Washington State Department of Commerce for capital funding of then planned Spokane Convention Center (SCC) expansion, followed by May 2013 submittal of an operating budget review for the SCC.
- November 2015 review of land acquisition and financing feasibility for expansion of the Washington State Convention Center in Seattle on behalf of the state's Department of Commerce, followed by a 2018 Phase 2 review evaluation of facility build-out.
- Other assignments on behalf of Washington State PFDs including potential regional center projects for the Tri-Cities (two-county) PFD, economic restructuring of the Wenatchee hotel-motel tourism funding for marketing and event/conference facilities, Vancouver Hilton Hotel and conference center, Clark County 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), business case for the 2016 USATF/IAAF indoor world track and field championships in Portland, feasibility evaluation for a Vancouver/Clark County minor league and multi-use baseball stadium, and transit oriented development impact analyses (Portland, SeaTac, Boise, Reno, Santa Ana, Anaheim, San Antonio and Oklahoma City).

## APPENDIX B. DOCUMENTS REVIEWED

Documents reviewed as part of this independent feasibility evaluation of the Sportsplex project for the Washington State Department of Commerce and Spokane Public Facilities District (SPFD) have included the following:

City of Spokane Parks & Recreation Department and SPFD, *Letter of Understanding: Lease and Development of North Bank Park Property for a Sportsplex and Associated Parking Structure*, January 11, 2018.

E. D. Hovee & Company, LLC, *Spokane Public Facilities District INB Performing Arts Center Independent Financial Feasibility Review*, prepared for Washington State Department of Commerce, October 30, 2017.

Hill International, Sportsplex Design Build Project: Authorized Budget, Update 8/18/2017.

Moody's Investors Service, *Spokane Public Facilities District, WA: New Issue, Credit Opinion*, October 9, 2017.

Northwest Municipal Advisors, *Spokane Public Facilities District: Summary of Outstanding Debt*, February 2, 2018 (together with supplemental documentation).

S&P Global Ratings, *Summary: Spokane Public Facilities District, Washington; Sales Tax*, October 6, 2017.

SFA Sports Facilities Advisory, *Feasibility Study: Spokane Regional Sportsplex*, prepared for Spokane Public Facilities District, November 2015.

SFA/SFM, *Spokane Sportsplex – Full Model: Five-Year Operating Pro Forma*, prepared for SPFD, July 2017.

SPFD, *Application for Project Approval to Use the Design-Build (D-B) Alternative Contracting Procedure*, as prepared in draft form for the State of Washington Capital Projects Advisory Review Board (CPARB), Project Review Committee (PRC), undated.

SPFD, Notice of Retention of Independent Registered Municipal Advisor, prepared by Kevin Twohig, CEO, SPFD, August 1, 2017.

SPFD, "A Resolution of the Spokane Public Facilities District Providing for the Issuance of its Hotel/Motel Tax and Sale/Use Tax Bonds, Series 2017 ...," FP Draft 8/18/17 and update draft of 9/5/17, formalized as adopted Resolution No. 17-02.

SPFD, *Sportsplex Proposed Financing Plan Updated Sensitivity Analysis*, powerpoint prepared for Spokane County, February 27, 2018.

SPFD, various worksheet files with financial and tax revenue history, also email correspondence with follow-up response to information requests and questions of E. D. Hovee and Washington State Department of Commerce.

SPFD, *Year End Report*, 2016 and selected prior years.

Spokane County and SPFD, Joint Resolution regarding an agreement of Spokane County to issue LTGO bonds for construction of the Sportsplex facility, April 17, 2018.

Spokane Sports Commission, *SportsPlex Events*, memorandum prepared for Stephanie Curran – CEO, SPFD by Eric Sawyer – CEO, Spokane Sports Commission, May 4, 2018.

# APPENDIX C. IRMA COMPLIANCE

SPOKANE VETERANS MEMORIAL ARENA

SPOKANE CONVENTION CENTER

INB PERFORMING ARTS CENTER



SPOKANE  
PUBLIC FACILITIES  
DISTRICT

August 1, 2017

## Notice of Retention of Independent Registered Municipal Advisor

By publicly posting the following written disclosure, the Spokane Public Facilities District ("the District") intends that market participants receive and use it for purposes of the independent registered municipal advisor ("IRMA") exemption to the Securities and Exchange Commission ("SEC") Municipal Advisor Rule.

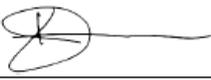
The District has retained an independent registered municipal advisor. The District is represented by and will rely on its municipal advisor, Northwest Municipal Advisors ("NWMA"), to provide advice on proposals from financial services firms concerning the issuance of municipal securities.

The following individuals, each of whom have been employed by NWMA for at least two years prior to the date of this letter, are the Associated Individuals of NWMA for its representation of District: Alan Dashen, Scott Bauer, and Malinda Okerlund.

This representation letter may be relied upon until August 1, 2019 and so long as this letter is posted on the District's website.

Sincerely,

Spokane Public Facilities District

By  \_\_\_\_\_

Its CEO \_\_\_\_\_

WEST 720 MALLON AVENUE SPOKANE WASHINGTON 99201 P 509.279.7000 F 509.279.7050 spokanepfd.org

# APPENDIX D. SPORTSPLEX EVENT OPPORTUNITIES



714 N Iron Bridge Way #202  
Spokane, WA 99202  
[www.spokanesports.org](http://www.spokanesports.org)

TO: Stephanie Curran, CEO  
Spokane Public Facilities District

FROM: Eric Sawyer, CEO  
Spokane Sports Commission

DATE: May 4, 2018

RE: SportsPlex Events

As you know, the primary objective of the SportsPlex is to be a tournament and event facility designed to generate an economic impact for the regional economy from non-local visitors. This sports-tourism model will attract athletes, coaches, and their fans generating revenue for the facility while creating an economic impact through their direct spending in the community.

As a unique, multipurpose venue, the facility will transition between indoor track & field to court-based sports and a wide array of indoor sports. When not used for events, it will also serve the local community as a sports and recreation facility for local programs. In addition, the ice arena will blend ice-sport tournaments with the demand for additional ice to serve the community needs.

It's important to note, the following data is consistent with the findings outlined in the 2016 Sports Facilities Advisory, LLC study. They concluded the SportsPlex was viable because of its ability to generate a significant economic impact while limiting the required ongoing operational subsidy.

The Spokane Sports Commission has researched and identified over 200-event options based on the scope and design concept of the proposed SportsPlex. Our process included direct contact and interviews with National Governing Bodies of Sport (NGB's), local sports organizations, WIAA high school athletics, and regional Collegiate Athletic Conferences and Universities.

In addition, we've hosted a number of sport-executives in Spokane to showcase the project's downtown location while outlining its capabilities. The President of USA Track & Field, Athletic Director's from WSU, EWU, Gonzaga University, and Conference Executives from NWAC, Big Sky Conference, and WIAA have been in our community. This outreach has facilitated awareness of the project and produced interest in learning more around the SportsPlex's scope from other national sports organizations. Simply stated; the word is out.

The following list is a sample of the (200+) events the SportsPlex will be capable of hosting and their estimated economic impact.

Events	* Est. Econ. Impact
<b>COLLEGIATE</b>	
NCAA Indoor Track & Field Championships	\$ 3,200,000
NCAA Regional Volleyball Championships	1,100,000
NJCAA National Volleyball Championships	990,000
NCAA Conference(s) Indoor Track & Field Championships	2,800,000
NCAA Indoor Track & Field Invitational(s)	675,000
NJCAA National Wrestling Championships	2,000,000
NCAA National Wrestling Championships	2,300,000
NWAC Volleyball Championships	610,000
National Collegiate Badminton Championships	510,000
NIRSA National Basketball Championships	770,000
Collegiate Table Tennis Championships	823,000
<b>WIAA (HS)</b>	
State Volleyball Championships	1,320,000
State Wrestling Championships	2,000,000
State Cheer Championships	970,000
<b>NATIONAL GOVERNING BODIES</b>	
USA Track & Field Indoor National Championships	7,500,000
USA Track & Field Indoor Junior Nationals	3,500,000
IAAF Masters Indoor World Championships	2,500,000
USA Gymnastics Section Championships	1,750,000
USA Volleyball National Qualifying Tournament	5,900,000
USA Wrestling Cadet National Championships	2,100,000
USA Badminton Team Trials	1,300,000
USA Judo Senior National Championships	1,500,000
USARS Indoor Speed Roller Sports	10,000,000
<b>ADAPTIVE SPORTS</b>	
Quad Rugby National Championships	775,000
Wheelchair Basketball National Championships	3,550,000
State & Regional Special Olympics	323,000
WSF Indoor Track & Field National Championships	1,300,000
<b>ICE SPORTS</b>	
USFSA Syncro National Championships	6,000,000
USFSA PNW Sectional Qualifier	1,100,000
USA Hockey Youth Qualifier	775,000
<b>200+ Events Total Potential Impact</b>	<b>\$ 254,000,000</b>

\* The economic impact figures are based on standard industry spending formulas that estimate the direct daily spending habits of sports-visitors traveling from a distance that require a hotel stay.

# APPENDIX E. INSTITUTIONAL ARRANGEMENTS

This appendix summarizes statutory and institutional agreements of importance for the planned 2018 bond issuance, construction and operation of the Sportsplex project in conjunction with existing SPFD venues. This summary is updated from a similar review provided with a February 2013 Independent Financial Feasibility Review conducted for convention center expansion – together with materials from the SPFD 2017 Preliminary Official Statement and 2017 bonds resolution.<sup>15</sup>

## STATUTORY AUTHORITY & INSTITUTIONAL AGREEMENTS

This discussion begins with a summary review of state enabling authority followed by review of agreements between the Spokane Public Facilities District (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. In July 2017, the State Legislature extended the term for which the District may impose the State Credit Sales/use Tax to 40 years from 25 years – or until February 1, 2042.

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 District 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, Washington State International Agricultural Trade Center, and Opera House (now INB Performing Arts Center) to the SPFD.

Also in August 2003, Spokane County entered into a Regional Center Projects Interlocal Agreement for collaborative development of three Regional Center projects: a) expansion of the Convention Center by SPFD; b) improvements to the Fair & Expo Center owned and operated by Spokane County; and c) construction of the Mirabeau Point Project owned and operated by the Valley City.

The SPFD 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 Interlocal Cooperation Agreement with the City of Spokane (as amended) provides funding support via a portion of the City 2.0% hotel/motel tax and an added 1.3% in-city hotel/motel tax effective January 1, 2013. A more detailed description of the current status of funding sources available to the SPFD is provided at the conclusion to this Appendix.

***Institutional Agreements with 2013 Financing.*** Two SPFD Interlocal agreements were pivotal to the 2013 Series A/B 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 and Regional Center Projects.

- 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 maximum (as a 1.3% increase) for purposes of funding to supplement April 17, 2012 voter support of the SPFD countywide "Staying Competitive, Creating Jobs Projects" of ballot Measure One. Also agreed was that revenues from the City lodging tax increase that would not be required to make SPFD debt payment or to contribute to the reserve/contingency fund would be used for tourism promotion and other tourism related facilities.

In conjunction with the County and City agreements, the SPFD also agreed to establish a \$1 million reserve fund to secure payment of the Subordinate Note, to be fully funded over a four-year period.

***Institutional Agreements with 2017 INB Renovation Financing.*** Series 2017 bonding was accompanied by an SPFD bond resolution which took a significant step in defining funds and accounts and clarifying the flow of funds for operating, debt service and other capital funding purposes. The flow of funds chart and associated discussion provided by this Appendix is largely reliant on the provisions of the 2017 resolution.

Among other provisions, the 2017 SPFD bond resolution incorporated earlier stipulations of the 2003 Interlocal Agreement between the SPFD, Spokane County and the City of Spokane Valley for Regional Centers projects and the 2012 resolution of Spokane County for the SPFD Subordinate Note. Taken together, these agreements provide the following prioritized sequence application of surplus tax revenues to pay obligations for regional center projects, second, to pay Arena reimbursement obligations, and, third to pay the Subordinate Note.

The 2017 resolution also took steps to assure that the tax revenue sources on which debt service payments rely will remain in place through the period of bond and other subordinate debt repayment – both for existing and planned debt.

## **SPFD DESIGN BUILD AUTHORITY & EXPERIENCE**

As with other recent projects, SPFD is planning to use a design-build process to construct the Sportsplex project. At its most basic, the concept can be described as follows:

Design-build (or design/build, and abbreviated D–B or D/B accordingly) is a project delivery system used in the construction industry. It is a method to deliver a project in which the design and construction services are contracted by a single entity known as the design–builder or design–build contractor. In contrast to "design-bid-build" (or "design-tender"), design-build relies on a single point of responsibility contract and is used to minimize risks costs for the project owner and to reduce the delivery schedule by overlapping the design phase and construction phase of a project.<sup>16</sup>

Pursuant to RCW 39.100.300:

(1) Subject to the requirements in RCW 39.10.250, 39.10.270, or 39.10.280, public bodies may utilize the design-build procedure for public works projects in which the total project cost is over ten million dollars and where:

- (a) The construction activities are highly specialized and a design-build approach is critical in developing the construction methodology; or
- (b) The projects selected provide opportunity for greater innovation or efficiencies between the designer and the builder; or
- (c) Significant savings in project delivery time would be realized.

Related statutory provisions include:

- Public agency certification for design-build contracting subject to approval by the state Project Review Committee for a period of three years, subject to subsequent renewal (RCW 39.10.270 /280).
- Provision for reasonable budget contingencies of not less than 5%, personnel with expertise and experience in management similar projects, dispute resolution procedures, state board review/approval, and incentive payments to contractors as for early completion or cost savings (RCW 39.10.320).

SPFD has previously used the D-B method – with a \$4 million renovation of the Spokane Veterans Memorial Arena, a \$55 million convention center expansion project, and the 2018 renovation of the INB Performing Arts Center now underway.<sup>17</sup> A D-B feature of importance is the ability to select features and substitute scope between different aspects of the project based on consideration of cost and schedule certainty as determined by the D-B project team.

## SPFD CAPITAL & OPERATING REVENUE SOURCES

SPFD relies on multiple tax revenue sources primarily to pay debt service expense – and also if needed to support operating expense. Understanding the capacity of these revenue streams and their interrelationships is important to this assessment of funding adequacy for debt repayment – for the Sportsplex in the context of the full portfolio of SPFD venues.

As a starting point for a prior 2012-13 review of convention center expansion, subsequent 2017 bonding for INB renovations, and now for this current review of proposed Sportsplex construction, the overall structure of SPFD facility capital and operating funding has been summarized – as outlined by the chart on the following page. While the details of funding vary between the Sportsplex project, Spokane Convention Center, and Spokane Arena, the overall structure is useful for understanding SPFD-wide funding capabilities and responsibilities.

Although not all revenue sources are directly available for funding all facilities, taken together they constitute a pool of resources that is important for SPFD facilities on a combined basis. Organized by revenue source, the overview chart serves as a basis for conducting this independent financial feasibility review.

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

Revenue Source	Comments
<b>Tax Revenues</b>	<b>Available for Capital Improvements/Debt Repayment</b>
<b>SPFD Hotel/Motel Tax (2.0%)</b>	Voter approved county-wide in 1990, extended in 2002 to finance Regional Center Projects and most recently (in April 2012) to 2043. Series 2003, 2011, 2013 and 2017 bonds were secured by a lien on SPFD hotel/motel tax (plus SPFD sales and use tax) revenues. <b>This revenue source is planned to be made available for 2018 Spokane County Sportsplex bond repayment.</b>
<b>SPFD Sales &amp; Use Tax (0.1%)</b>	Voter approved countywide in 1991, extended in 2002 and most recently (in April 2012) to 2043. State statute allows up to a 0.2% rate, subject to voter approval. Series 2003, 2011 2013, and 2017 bonds are secured by a lien on sales and use tax (plus SPFD hotel/motel tax) revenues. <b>This revenue source is planned to be made available for 2018 Spokane County Sportsplex bond repayment.</b>
<b>SPFD/State Sales &amp; Use Tax Rebate (0.033%)</b>	Initial authorization for PFDs created before July 31, 2002 was for state sales tax credit/rebate within the District, expiring in 2027. Extended by 2017 Legislature to an SPFD end date of February 1, 2042. 2003, 2013 and 2017 bonds have been secured by this tax as well as SPFD sales/use and hotel/motel taxes. <b>This revenue source is not pledged for 2018 Spokane County Sportsplex bond repayment.</b>
<b>First City of Spokane Hotel/Motel Tax (2.0%)</b>	Portion of 2.0% H/M funds (\$360,000 annually) was allocated to repayment of Convention Center debt (now repaid) by City/SPFD agreement. Currently pledged for debt service on SPFD Series 2013A bonds and subordinate County loan to the SPFD, a right that terminates with final payment of the Series 2013A Bonds. <b>This revenue source is not pledged for 2018 Sportsplex bond repayment.</b>
<b>Second City of Spokane Hotel/Motel Tax (1.3%)</b>	This source was made available for 2013A bond repayment for SCC expansion and 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 sunsets in 2043. <sup>18</sup> Excess funds not needed for debt service are available for tourism marketing and facility development. SPFD's right to receive City Hotel/Motel Taxes terminates upon final payment of Series 2013A bonds and the Subordinate Note. <b>Up to \$5 million of this resource is pledged by LTAC to support Sportsplex debt and an added set-aside of \$750,000 is available for 5-year operating support.</b>
<b>SUMMARY NOTE</b>	The first three of these tax revenue sources are pledged to secure payment of the Series 2013A, 2013B, and 2017 Bonds; the first two only are pledged for 2018 Spokane County Sportsplex bonds. The First and Second City of Spokane Hotel/Motel taxes are pledged as additional security to the repayment of the Series 2013A bonds and Subordinate Note with \$5 million of the Second City tax pledged to Sportsplex debt repayment. <i>Added Note:</i> When combined with other forms of sales/use tax, the combined lodging taxes are not to exceed a 12% total rate.
<b>Operations</b>	<b>As Current Sources of Funding Operations</b>
<b>User Revenues</b>	Includes facilities rentals, concessions, catering, parking and other fee-related revenues associated with existing SPFD activities. With the Sportsplex, this will be expanded to include Sports Commission and other non-PFD user responsibilities.
<b>Tax Revenues</b>	Includes Admission Tax and part of the First City hotel/motel 2.0% tax to offset SCC deficits; will add \$750,000/5-year LTAC support for Sportsplex operating deficits.

## FLOW OF FUNDS

In 2013, independent financial feasibility reviews were conducted related to debt issuance and operations, respectively, for the then planned \$65 million expansion of the Spokane Convention Center facility. In discussion of institutional risks, the debt issuance report noted that:

PFD statutory authority coupled with existing agreements between the SPFD and the County, City of Spokane and Valley City 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.

A potential option for mitigation identified in 2013 included review of current interlocal agreements to determine adequacy in the event of a worst-case financial scenario with inadequate funding for the costs of debt repayment and/or operations. Subsequently, considerable effort has been made by the SPFD to clarify both jurisdictional responsibilities and financial waterfall responsibilities in conjunction – most readily apparent with recent issuance of Series 2017 Bonds for INB renovation.

Clear delineation of SPFD and other governmental jurisdiction responsibilities was provided by the SPFD 2017 bond resolution together with the Preliminary Official Statement. The Official Statement also included a detailed description of the anticipated flow of funds related both to debt service and operations.

### Flow of Funds Illustrated

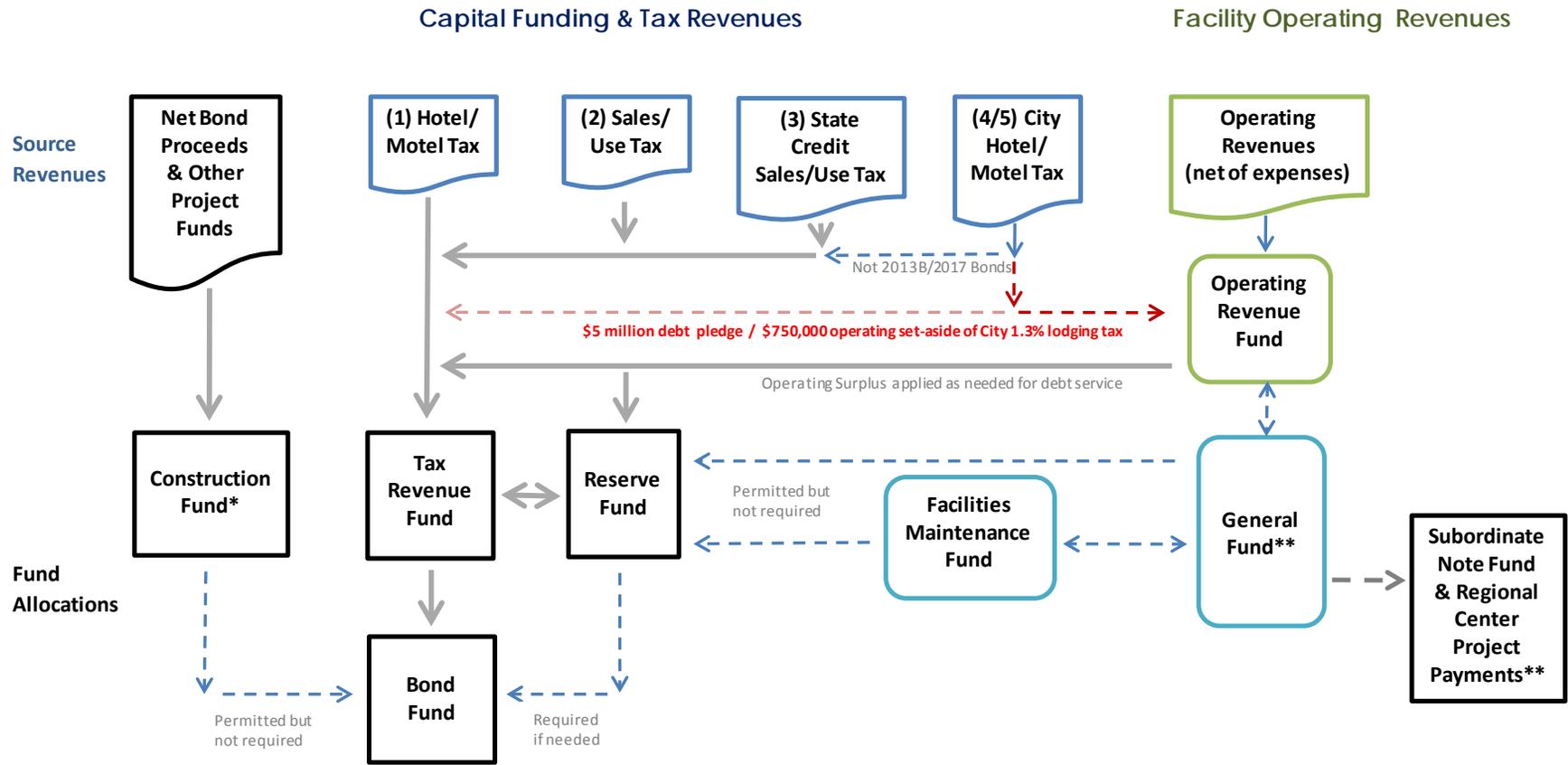
The focus of this discussion is on steps taken with last year's issuance of Series 2017 Bonds to clarify the institutional and financial framework between the cooperating jurisdictions. An emphasis of the 2017 and this 2018 review is on the financial *waterfall* (or flow of funds) for payment of debt service together with distribution of project positive cash flows (or losses).

As illustrated by the chart on the following page, there are three overall funding tracks related to the revenue sources considered:

- Net bond proceeds and other project funds deposited to a **Construction Fund** used to pay costs of the Sportsplex construction project.
- Hotel/motel, sales/use and state credit sales/use taxes placed in a **Tax Revenue Fund**.
- Operating revenues of venues (net of expenses) to an **Operating Revenue Fund**.

*Note:* This chart is essentially the same as provided with the 2017 INB feasibility review – except for the **red-line** addition of the \$5 million / 5-year LTAC Sportsplex allocation (with primary focus on operating revenue support).

# Flow of Capital & Operating Funds Illustrated (2018 Update)



Notes: \* Separate from the Construction Fund with Series 2017 bonds was an Insurance and Condemnation Proceeds Fund (not shown in the diagram) from which payments by insurers or defaulted contractor sureties might be deposited to pay for the repair, reconstruction, or replacement of District facilities. SPFD has reserved the right to adopt a supplemental resolution to permit amounts in this fund to be transferred to the Bond Fund to retire bonds. Also not shown is a Projects Fund, supported by the General Fund for budgeted capital projects, with unspent funds returned to the General Fund at year-end. \*\*See added discussion regarding General Fund and other Regional Center debt repayment

Source: E. D. Hovee. This chart is for illustrative purposes only and is not intended to provide a detailed description of fund uses and contingencies.

## Key Steps in Flow of Funds

Key steps illustrated by the flow of funds chart include the following:

- Tax revenue funds are transferred to the SPFD **Bond Fund** in the amounts needed to make scheduled semi-annual bond payments. The general order of priority is for first call from the county-wide hotel/motel tax, then from sales/use tax, then state credit sales/use tax, and finally the first City hotel/motel tax (up to \$360,000) and second City hotel/motel tax  
Not all sources are available to all projects; some are limited to specific projects – as earlier described. For example, the second City hotel/motel tax allocation has been available only as security for the Series A 2013 bonds and 2012 County loan plus now limited availability of \$5 million as a pledge to support debt and an additional \$750,000 to offset the initial five years of projected Sportsplex project operating losses.<sup>19</sup>
- As needed, excess tax revenues are allocated to the **Reserve Fund**. Monthly tax fund balances are deposited into the Reserve Fund in an amount needed to equal the Reserve Fund Requirement – defined based on considerations related to maximum annual debt service and applicable debt coverage – together with any Reserve Fund Facility draws.<sup>20</sup> Any shortfalls in the Reserve Fund from tax revenue sources are required to be made up by any available Operating Revenue Fund surplus, or can also be made up with available Facilities Maintenance Fund or General Fund resources.
- The **Operating Revenue Fund** is drawn from revenue accounts of the performing arts center, convention center, arena, and now the Sportsplex. The fund is positioned to dispense surpluses in any of several directions. As operating surpluses are available, the first claim is to offset shortfalls in the Bond Fund not met from tax revenue sources and then deficiencies in the Reserve Fund.
- After any required deposit into the Bond, Reserve, or Operating Reserve funds, the 2017 Resolution requires the District to deposit remaining Operating Revenue Fund and tax surplus funds into a **General Fund**, to be applied in the following order of priority:<sup>21</sup>
  - 1) Surplus operating revenues may be used “for any lawful purpose of the District” (which may include payment of debt service on outstanding indebtedness).
  - 2) Special note for surplus hotel/motel and sales/use taxes collected before January 1, 2018 to be deposited first, if needed, into the Subordinate Note Fund and, second, for any lawful SPFD purpose (no longer applicable).
  - 3) Surplus state credit sales use taxes collected before February 1, 2027 and surplus hotel/motel taxes and sales/use taxes for Regional Centers collected after December 31, 2017 to be applied:  
*First*, to Fair & Expo Center and Mirabeau Point payments as defined in a Regional Center Projects Interlocal Agreement;  
*Second*, to pay Arena Reimbursement Obligations stipulated in the same agreement;  
and  
*Third*, to the County, the Valley City and the District per added provisions.

- 4) Starting in 2018, funds from surplus hotel/motel taxes and sales use taxes (that are not Regional Center taxes) to be used, *first*, (if needed) for deposit into the Subordinate Note Fund and *second*, for any lawful purpose of the District. With addition of the Sportsplex, up to \$5 million of the 1.3% City lodging tax (#5 tax source) may be transferred per LTAC recommendation, as needed, to support debt service payments. An additional \$750,000 is set aside from the 1.3% tax (at \$250,000 per year) to offset projected Sportsplex operating deficits over the first five years of operations.
  - 5) Money in the General Fund constituting surplus City hotel/motel taxes is to be used, *first*, (if needed) for deposit into the Subordinate Note Fund and *second*, as provided in the City Interlocal Agreement.
- As stipulated above, General Fund resources will be deposited into a **Subordinate Note Fund** together with other pre-existing payments per Interlocal Agreement with Spokane County and Valley City for Regional Center Projects.

The Subordinate Note Fund is for repayment by SPFD of \$15 million in bonds issued by Spokane County and loaned to the SPFD to pay a portion of SPFD convention center and related project costs incurred in 2013 – with an estimated \$13.8 million in SPFD debt outstanding as of year-end 2017. The Subordinate Note is a limited obligation of the SPFD, payable from the Hotel/ Motel, Sales/Use and the City Hotel/Motel taxes after payment of principal and interest on the Series 2013 A Bonds, Series 2013 B Bonds, Series 2017 Bonds, and other Additional Bonds and payments owed to the County and Valley City pursuant to the Regional Center Projects Interlocal Agreement.

To date, payments on the Subordinate Note and Regional Center projects have been made as scheduled.

This funding arrangement provides multiple paths to assure repayment of bonded indebtedness. The flow of funds assures that bonded debt repayment is the #1 priority for use of SPFD dedicated tax revenues. Debt repayment is the #2 responsibility from operating revenues (after paying operating expenses).

The General Fund and the Facilities Maintenance Fund may receive and dispense funds in multiple directions, providing added flexibility with securing funds that might be needed as with a temporary shortfall for debt repayment. Construction Fund resources may be diverted to support bonded debt repayment, if needed.

The primary impact of the Sportsplex is that up to \$5 million of the 1.3% in-city hotel-motel tax may be allocated to support debt service expense on an as-needed basis. An added \$750,000 is available to support Sportsplex operating deficits for the first five years after opening. There currently is no provision for continuing this or other operating support after Year 5 specifically dedicated for Sportsplex operations.

# END NOTES

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- <sup>1</sup> Facility information is from the web site: [www.spokanesportsplex.org](http://www.spokanesportsplex.org). The website was created in tandem by the Spokane Sports Commission and Spokane Public Facilities District (SPFD).
- <sup>2</sup> Information for this independent financial review has been obtained from sources generally deemed to be reliable. However, E. D. Hovee does not guarantee the accuracy of information provided by third party sources, and information is subject to change without notice. Observations and findings made with this report are those of E. D. Hovee. They should not be construed as representing the opinion of other parties prior to express approval, whether in whole or in part.
- <sup>3</sup> As of May 2018, SPFD has close to \$10.969 million in the debt service reserve fund. The cost of the surety to replace the cash balance is estimated at \$576,000 (or 5.25%). Allowing for other expenses (including legal and financial advisor), the Spokane County/SPFD joint resolution states that not less than \$10.35 million will be allocated to the Sportsplex. If other expenses prove to be higher than anticipated, the District will pay the difference from other SPFD funds.
- <sup>4</sup> A 1.25 debt service coverage ratio (DSCR) was noted as a condition precedent to issuing additional bonds, not an on-going requirement. However, DSCR was forecast through 2043 as part of the Official Statement.
- <sup>5</sup> Discussion of site-related legal issues is provided in an article in *The Spokesman-Review* by Kip Hill, "Sportsplex plans get OK from state regulators as legal wrangling plays out with property owner," May 29, 2018.
- <sup>6</sup> An added caveat lies with the current planned expiration of the recently extended State Credit Sales/Use Tax which will now sunset in 2042 (15 years beyond the initial legislative authorization). This source accounts for about 18% of SPFD tax revenue (including pledged City revenues). However, after 2041 most existing debt obligations together with planned Series 2017 Bonds will have been fully repaid. There will be two years of remaining Series 2013A bond payment through 2043.
- <sup>7</sup> As of year-end 2016 (the most current date for which audited financial statements are available), the District had an estimated \$19.6 million in unrestricted cash and cash equivalents – a portion of which might be allocated to a project such as the Sportsplex in the event of budget add-ons including possible contingencies discovered during construction. The reserves estimate should first be updated to year-end 2017 or current status, in particular recognizing that reserves were committed in 2017 to extra INB renovation-related costs.
- <sup>8</sup> Ratings for Spokane County bonds exceed the minimum requirements of the *Investment Policy, November 2007* for the Spokane County Investment Pool, page 9. For investments by the County, municipal bonds "must have a long-term rating on settlement date of AA- or better by S&P or Aa3 or better by Moody's."
- <sup>9</sup> The 2018 Legislature extended lodging taxes in Seattle and King County to hotels of less than 60 rooms including AirBnB and similar short term rentals.
- <sup>10</sup> Source is the SFA 2015 feasibility study, page 4. As is also noted by SFA (page 62), the pro forma analysis aims to "summarize all revenue and expenses for the facility using the aforementioned format to establish operational targets that result in high-performing facilities and best-in-class results."
- <sup>11</sup> Source is the SFA 2015 feasibility study, page 22.
- <sup>12</sup> With respect to revenues, a key difference between SPFD's Financial Statements and Year End Report occurs with how lodging tax revenues are allocated. The Financial Statements (as noted with the Preliminary Official Statement) include all of the City's 1.3% lodging tax as operating income. By comparison, the 2016 Year End report allocates approximately \$371,000 to the operating statement for the three SPFD venues with \$1.1 million allocated to non-operating funds.

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For expenses, two differences are noted. For 2016, approximately \$3.6 million of operating expenses is allocated to funds other than the operating fund. A second difference is that \$6.1 million in depreciation is shown as an expense with SPFD financial statements but not included (since depreciation is a non-cash expense) with Year End Report accounting.

- <sup>13</sup> Email correspondence with SPFD is useful to identify several non-recurring items that have affected District Fund balances in recent years. Specific items from 2012 forward are noted as follows:
- 2012 - Retroactively implemented GASB 53 for Derivative's in relation to the swaption transaction that the SPFD entered into in 2005.
  - 2012 – Borrowed \$15m from County for Measure One for SCC-related expansion project.
  - 2013 – Sale of land at below market value to secure the construction of an attached convention center headquarters hotel, allowing SPFD event venues to host larger conventions.
  - 2013 – Issued \$45m in 2013A bonds for Measure One project.
  - 2013 – Refunded 2003 bonds with 2013B bonds and terminated the swaption.
  - 2014-15 - County and City Valley refinanced debt on with the SPFD makes payments, resulting in prior period adjustments.
  - 2013-16 - Spent the \$60m from bond proceeds and County loan on Measure One projects (buildings, FF&E, building repairs and maintenance (expense) and minor equipment (expense) to outfit the new convention center addition.
  - 2015 – Implemented GASB 68 for pension liabilities.
- <sup>14</sup> The SPFD/County approved joint resolution clearly specifies that the project will include a fieldhouse but is silent as to whether or under what conditions an icehouse will also be constructed as part of the Sportsplex project. This indicates the primary priority give to the fieldhouse.
- <sup>15</sup> This discussion is not intended as a legal analysis; E. D. Hovee makes no representations to be construed as a legal opinion. Further questions regarding this overview should be addressed to qualified legal counsel.
- <sup>16</sup> Source is Wikipedia, <https://en.wikipedia.org/wiki/Design%E2%80%93build>, as of May 2018.
- <sup>17</sup> SPFD also has used the related General Contractor/Construction Manager (GC/CM) alternate public works contract delivery system with an earlier convention center expansion project in 2005-06.
- <sup>18</sup> The 1.3% added in-city hotel/motel tax was effective January 1, 2013.
- <sup>19</sup> SPFD has received the first \$360,000 of the proceeds of the First City Hotel/Motel Tax pursuant to the City Interlocal Agreement after application of the proceeds of the First City Hotel/Motel Tax to payments by the District to the Spokane Regional Convention and Visitors Bureau (Visit Spokane) in an amount equal to 55 percent of such proceeds and five percent of such proceeds to the Spokane Regional Sports Commission, net of \$100,000 (adjusted for inflation to \$113,329 as of 2017 in accordance with the provisions of the City Interlocal Agreement) reserved by the City.
- <sup>20</sup> Upon issuance of Series 2017 Bonds for INB renovations, SPFD was required to provide for the Reserve Fund, defined as the lesser of: (1) the Maximum Annual Debt Service on the Series 2013A bonds, the Series 2013B Bonds, the Series 2017 Bonds and any Additional Bonds for any calendar year; (2) 125 percent of the Average Annual Debt Service; or (3) with respect to the Series 2017 Bonds, 10 percent of the proceeds.
- <sup>21</sup> Email correspondence from the SPFD accountant indicated that the General Fund had a cash balance of approximately \$12 million as of September 30, 2017, increasing through year end as the bond fund was then fully funded for 2017 with all SPFD tax revenue since mid-August deposited to the General Fund. A previously used \$2 million Operating Reserve Fund has been inactive since 2011 as funding was withdrawn to go into a debt service reserve fund in 2011 when the rating on the bond surety fell below the required minimum. While SPFD has since considered re-opening this fund, the determination to date has been that the District would use General Fund resources if this supplemental funding proved to be needed.