SPOKANE PUBLIC FACILITIES DISTRICT
INB PERFORMING ARTS CENTER
INDEPENDENT FINANCIAL FEASIBILITY REVIEW

Prepared for:

Washington State
Department of Commerce

October 30, 2017

E. D. Hovee & Company, LLC

Economic and Development Services

Spokane Public Facilities District (SPFD)
INB Performing Arts Center
Independent Financial Feasibility Review

Prepared for:

Washington State Department of Commerce
1011 Plum Street SE
P.O. Box 42525
Olympia, WA 98504-2525
(360) 725-2717

Prepared by:

E. D. Hovee & Company, LLC
P.O. Box 225
2408 Main Street
Vancouver, Washington 98666
(360) 696-9870

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Note: Cover photo is excerpted from *Renovation Study: INB Performing Arts Center,* prepared by Integrus Architecture for the Spokane Public Facilities District (SPFD).

AT-A-GLANCE SUMMARY

The Spokane Public Facilities District (SPFD) is planning a $20 million renovation of the INB Performing Arts Center – anticipated to include auditorium, backstage circulation, lobby, music room, and building system upgrades. The economic and development consulting firm E. D. Hovee & Company, LLC has conducted this independent financial feasibility review (pursuant to state statute) for the Washington State Department of Commerce (Commerce). Summary observations follow.

Feasibility of Issuing New Indebtedness. As a design-build project, $20 million is planned as a maximum budget for INB renovations, funded by an estimated $20.98 million from Series 2017 Bonds, with debt repayment extending through 2041. Bonds are scheduled to be issued in November 2017 with the theater closed for 6 months of renovations from May-October 2018. Project budgets will be refined throughout design and construction portions of the project – possibly with not all project components fully funded. Cost overruns, if any, will be addressed from existing financial reserves of the District.

Pledged **sources of debt repayment** include an existing county-wide 0.1% sales/use tax, 2.0% hotel/motel tax, and 0.033% state credit sales/use tax (recently extended by the Washington State Legislature to 2042). From 2004-16, tax revenues to be pledged have increased by an average of 3.6% per year.

SPFD has conservatively forecasted bond repayment capacity by not relying on future tax revenue growth, despite increases in recent years. This **base case** approach combined with growth extrapolation and **alternative scenarios** conducted for this independent review confirm that debt service coverage should be well above minimum bonding requirements under any reasonable tax revenue projection.

Capital cost risks of cost escalation and post-construction issues likely do not affect debt issuance or repayment but, if experienced, could involve funding support from existing SPFD reserves. Barring major short term external events, **debt repayment** risks related to coverage and bond rating or interest rate shock are not expected to have any substantive detrimental effect on the capacity for repayment due to the large coverage or surplus of tax revenues above and beyond required debt service payments.

Sustained SPFD Development Feasibility. In recent years, INB attendance has declined and then stabilized, offset by increased revenues per attendee. As with debt funding, base case and alternative operating scenarios have been evaluated for the INB facility and for all SPFD venues combined – all of which indicate a minimum expectation of stable to increasing revenues over time.

Operating risks may be greater than the potential for a default on debt service, but modest based on historic experience – albeit with some potential for short-lived challenges in the event of a major economic downturn. **Long-term financial capacity** is a source of 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 threat to ongoing SPFD sustainability over any reasonably foreseeable time horizon. **Institutional** risks similarly do not appear to be of any immediate concern but may be worth addressing to maintain cooperative interagency relationships and provide greater clarity in the unlikely event of any future worst-case operating and debt repayment shortfalls.

On balance, the SPFD appears to have performed as well or better than expected through the most recent economic cycle, has invested for continued convention center vitality, and is now well poised for renovations to the INB Performing Arts Center. The financial feasibility of debt issuance, project development and sustained operations all appear positive. There are potential short- and longer-term risks but these appear manageable based on SPFD experience and capacity to date.

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I. INTRODUCTION

The Spokane Public Facilities District (SPFD or District) is planning to undertake a $20 million renovation of the INB Performing Arts Center (INB) and other Spokane area Regional Center facilities. Located on the Spokane River in downtown Spokane, the INB is adjoined by the companion event venue of the Spokane Convention Center, both serving as Regional Centers operated by SPFD. In cooperation with the SPFD, 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 issuance of an estimated $20.98 million in bond proceeds including $20 million project costs, capacity to repay debt financing and operating costs for the INB facility 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:

- **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 the Opera House, the INB was originally constructed for Expo '74.
- **Spokane Convention Center (SCC)** – encompassing a 100,000 square foot exhibit hall, with 164,000 square feet of space for meetings, trade shows, banquets, and community and sporting events in downtown Spokane adjacent to the Spokane riverfront. The facility was constructed for the 1974 World's Fair (Expo '74) and converted to the SCC in 1975. An initial expansion occurred 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.
- **Spokane Veterans Memorial Arena** – a 273,000 square foot multi-purpose center that seats up to 12,000, situated in downtown Spokane, opened in 1995.

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 noted, the SPFD is conducting a guaranteed maximum price (GMP), flexible scope progressive design-build (D-B) project for the INB Performance Arts Center. As the INB Performing Arts Center was constructed for Expo '74, the facility is in need of major upgrades and improvements in order to be competitive with today's performance venues. The District has blocked out 180 calendar days (May 1 - October 28) for the upgrade work to be completed in 2018. The project has been planned to comprise five major scopes of work:

- **Auditorium accessibility** – including the improvement of Americans with Disability Act (ADA) accessibility and replacement of all seating.
- **Backstage circulation improvements** – including the addition of an elevator and upgrading dressing rooms.
- **Lobby upgrades** – involving the removal of asbestos, ceiling replacement, finish upgrades and lighting enhancements

- **Music Room improvements** – for ADA upgrades and possibly to provide an exterior retractable glass wall.
- **Building System upgrades** – to address needs including possible replacement of the existing curtainwall system, upgrading of electrical and mechanical systems, and roof replacement.

Project budget for all renovation work components is targeted at an amount not to exceed $20 million (excluding costs of bond issuance).

SPFD Revenues

SPFD facilities are financed and operated through a combination of user fees and tax revenues. User fees are relied on to cover a portion of operating expenses for all three facilities, with additional revenue support from some tax revenue sources. The primary source of anticipated funding for debt service comprises tax revenue sources, including:

- Dedicated 2.0% SPFD district-wide hotel/motel tax
- SPFD 0.1% sales and use tax
- SPFD 0.033% sales and use tax rebate
- A portion of the City of Spokane 2.0% hotel/motel tax and all of the additional City 1.3% hotel/motel tax approved by the City of Spokane in 2012 (not planned for INB funding).

This review also addresses the adequacy of user fees coupled with surplus revenues from the convention center and arena as well as the INB Performing Arts Center to cover operating costs that might be reasonably anticipated with INB improvements as currently planned.

ANALYSIS APPROACH

This analysis has been prepared for Commerce by the independent economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee).[1] 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. The focus of this review is, first, to review project 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 – also under both base case and alternative scenario conditions. Adequacy is addressed in terms of operating revenues of the INB as a stand-alone venue and with revenues of the SPFD as a public entity that owns and operates two other event venues in addition to the INB.

Also reviewed is the adequacy of existing agreements related to capital and operating funding between the SPFD and funding partners. Both the debt financing and overall feasibility reviews are accompanied by a summary outline 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 current INB operations, SPFD financial capacity, institutional arrangements and flow of funds, and project development risks and mitigation.

Included with the report are three appendices – providing a profile of E. D. Hovee & Company, LLC as project preparer, listing of documents reviewed, 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 renovation together with preliminary capital cost documentation and construction 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 make improvements to the INB Performing Arts Center. As detailed by Appendix C 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. 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 renovation project.

SPFD has previously used the D-B method of construction with renovation of the Spokane Veterans Memorial Arena and recent 2013 expansion of the Spokane Convention Center. An important feature of the D-B process for INB renovation will be the ability to select project features and substitute scope between different aspects of the project based on considerations of pricing and schedule certainty 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 (on the following page) has been prepared by Hill International, Inc. The hard construction (D-B) components of the budget are based on a 2017 Renovation Study: INB Performing Arts Center initially conducted for SPFD by Integrus Architecture of Spokane. Cost estimating for this study was prepared by Roen & Associates, also of Spokane. Cost estimates were escalated to an assumed construction start date of July 1, 2019 – more than one year later than currently planned for the start of construction.[2]

The most recent preliminary estimates for the project construction budget are 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 during construction.

Preliminary INB Performing Arts Center Improvement Project Budget

#	Budget Item	Preliminary Estimate	Comments
1	Bond Cost		See sources and uses of funds
2	A/E Predesign Document		
3	Site Acquisition Cost		
4	Soils Report/Geotechnical Services		
5	Wetlands Consultant		
6	Site/Field Survey-Topography Map		
7	Traffic Study		
8	Environmental / HazMat Oversight Mgmt		
VAM SERVICES / OTHER FEES / FF&E BUDGET:			
9	DB Advisor	$30,000	
10	Cultural Resources Consultant		
11	Feasibility/Performa Consultant		
12	Commissioning Consultant		D-B scope
13	NREC Inspection	$3,000	
14	Building Dept Plan Review	$51,900	65% of Bldg Permit
15	Building Permit Costs	$86,500	$17.3M x .005% = $86500
16	Water/Sewer Connection Fee		D-B scope
17	Frontage Fee		
18	Electrical Fee Allowance		
19	Public Infrastructure Plan Review/Inspection Fee		
20	Legal Fees	$35,000	
21	Dispute Resolution Consultant		
22	Testing-Special Inspections	$35,000	
23	Other Misc. (advertising, etc.)		
24	Health District Plan Review & Inspection	$1,000	
25	Labor & Industries Electrical Review		D-B scope
26	Builders Risk Insurance		
27	DB Team Honorarium	$10,000	
28	FF&E (Includes WSST)	$100,000	For sound booth gear, security, other?
29	Art Work		
30	Owner Management Reserve (OMR)	$75,000	Soft cost contingency
31	Bond Interest		
	Soft Cost Subtotal	**$427,400**	
32	WSST on DB Cost @ 8.8%	$1,513,554	Includes design fees
33	Unforeseen Contingency		See line 34
34	Owner Contingency	$859,974	5% of DB Cost per RCW 39.10.320.1.a
	WSST / Owner Contingency Subtotal	**$2,373,527**	
	Soft Cost Total	**$2,800,927**	
DESIGN-BUILD COSTS:			
35	Design Fee (8.8)	$1,390,400	Not estimated by Integrus/Roen
36	Auditorium	$2,860,409	Matches earlier Integrus/Roen estimate
37	Backstage Area	$1,224,280	Matches earlier Integrus/Roen estimate
38	Lobby Experience	$3,724,383	Matches earlier Integrus/Roen estimate
39	Music Rooms		Estimated @ $1,738,272 by Integrus/Roen
40	Building Systems	$8,000,000	Estimated @ $12,904,057 by Integrus/Roen
41	**DB Cost Total**	**$17,199,472**	
43	**Total Project Budget**	**$20,000,399**	

Source: Hill International, Inc. for SPFD, as of July 25, 2017.

As indicated by the preliminary budget, recent estimates by Hill International align with the earlier Roen estimates for program components related to the auditorium, backstage area, and lobby experience. The Hill estimate excludes Music Room improvements although it is understood that Music Room ADA improvements remain a project priority. This recent Hill estimate covers only $8.0 million (or 62% of the earlier Roen $12.9 million estimate) for building systems – which had included initial Roen allocations of $5.0 million for curtainwall replacement, $5.3 million for mechanical/electrical and $2.6 million for roof replacement.

In effect, the recent Hill International budget allocated for these items is approximately $6.6 million less than previously estimated for direct construction costs by Integrus/Roen. The current SPFD budget target of $20 million also is based on input from preliminary discussions with three different contractors (in advance of final contractor selection).

In part, the budget also has been limited to $20 million to reflect the amount of work that SPFD believes can be reasonably accomplished during the six months that the INB facility will be closed. A fully updated detailed budget will be developed once the SPFD has a Design-Builder under contract. With the selection of the D-B contractor, costs for all project components will re-evaluated as part of an initial 50-day validation period. D-B authorization is expected to occur after project bonds have been issued.

Construction Schedule

The current schedule for the project includes the following anticipated milestones:

- Issue bonds subsequent to completion of this independent review, award and issue design-build notice to proceed to selected contractor (November 2017).
- Project design phase (to July 2018)
- Construction phase – with 6-month INB closure (May 1, 2018 – October 26, 2018)
- Closeout phase (October 29, 2018 – December 31, 2018)

As indicated by this schedule, the design phase may overlap by about two months with initial portions of on-site construction activity. The timing of May – October is important as this is typically a slower season for INB facility use. This schedule minimizes the disruption including economic effects as compared with scheduling construction over the late fall to spring months. In effect, this renovation schedule is timed to result in the least possible interference with INB events and funding.

CAPITAL FUNDING

As currently proposed, 100% of the funding for renovation of the INB Performing Arts Center is planned to come from debt financing, to be repaid by tax revenues available to SPFD. This capital funding discussion covers sources and uses of funding, together with sources of debt repayment, tax revenue history, base case and alternative debt funding scenarios.

Source & Uses of Funding

Total project funding is estimated by the financial consultant for SPFD at $20.98 million. This includes $20 million in the project fund for facility improvements (as detailed by the construction budget) plus approximately $0.98 million for cost of issuance, AGM surety, and additional proceeds.

Of funding costs, close to 94% goes directly to the project fund – allocated to construction. An estimated 4.6% goes to cost of delivery and other uses of funds – somewhat below the 4.9% portion of SFPD bonds allocated for bond issuance/reserve account funds with a larger $53.2 million issuance as previously planned with 2013 improvements to the Convention Center.[3]

In the event that the final project cost exceeds the $20 million project fund figure, the SPFD has indicated that it would pay the difference from existing District reserves.

INB Renovation
Sources & Uses of Funds

Sources of Funds		
Bond Proceeds:		
	Par Amount	$18,180,000.00
	Premium	$2,798,711.50
	Total Sources	**$20,978,711.50**
Uses of Funds		
Project Fund Deposits:		
	Project Fund	$20,000,000.00
Delivery Date Expenses:		
	Cost of Issuance	$400,000.00
	AGM Surety*	$575,029.88
		$975,029.88
Other Uses of Funds		
	Additional Proceeds	$3,681.62
	Total Uses	20,978,711.50

* Note: Based on 5.25% of reserve amount. Bond amounts are preliminary and subject to revision. SPFD may opt to fund a reserve with cash and/or a reserve fund facility.
Source: Northwest Municipal Advisors, revised estimates as of October 16, 2017.

Sources of Debt Repayment

In addition to potential cost, RCW 36.100.025 (2) requires the independent financial feasibility review to address the adequacy of revenues or expected revenues to support project costs. Recognizing that user revenues are 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 in Appendix C 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 a 2.0% lodging excise tax.
- **Second City Hotel/Motel Tax* –**added 1.3% lodging tax levied by the City of Spokane.

  **Note:* City hotel/motel tax is not planned to be used as a repayment source for Series 2017 bonds. The City tax would continue to be pledged to repay Series 2013A Bonds.

In addition to the above noted tax revenue sources, SPFD may (and with respect to certain sources, is required to) allocate revenues as necessary for scheduled debt repayment. Based on direct statutory authority and interlocal cooperative agreements, SPFD has pledged all five tax sources to repayment of Series 2013A bonds issued in the principal amount of $43.985 million.

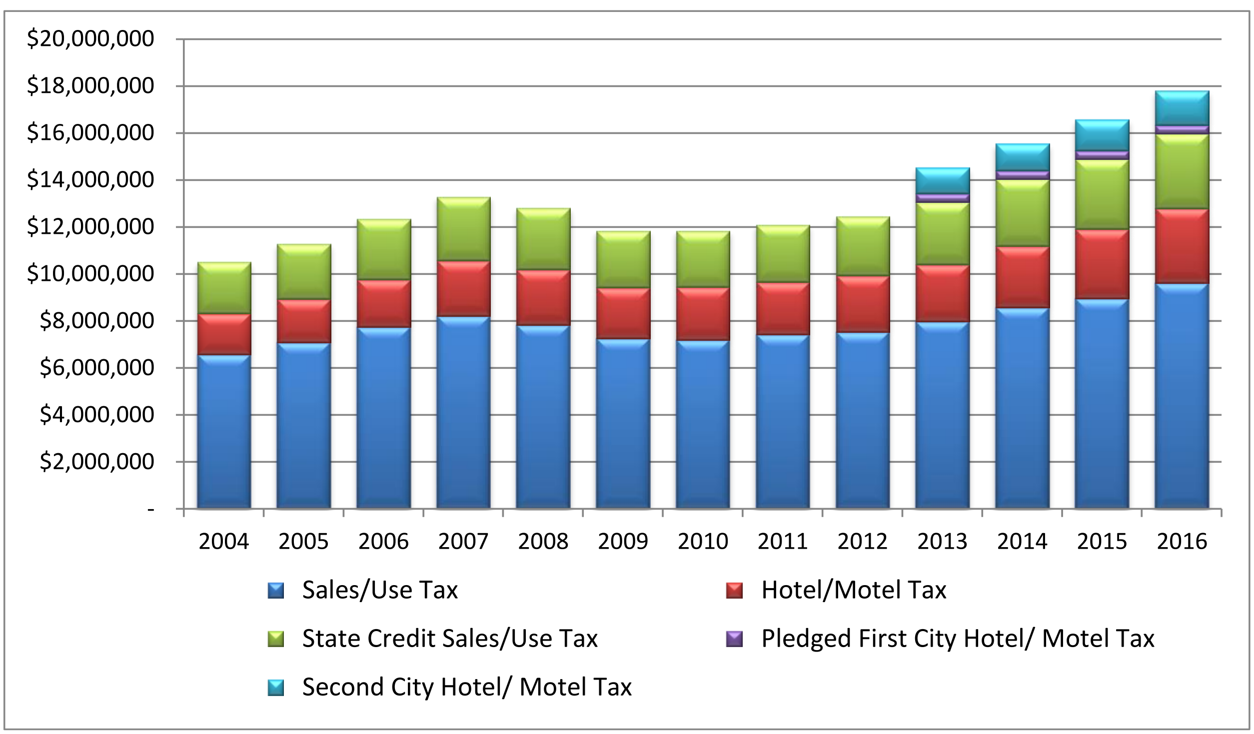
SPFD has pledged only the first three tax revenue sources (but not the City hotel/motel taxes) to repayment of Series 2013B bonds in the principal amount of $83.995 million and for the Series 2017 bonds proposed to be issued in the par amount of $18.180 million. These are limited recourse bonds, paid 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.

Debt service coverage ratios are calculated as the sum of tax revenues from all pledged sources *divided by* annual debt service payments. City hotel/motel taxes comprise 10% of tax revenues but are not pledged as a source of repayment for the Series 2017 bonds. However, coverage is calculated based on all five tax revenue sources for all bond measures on a combined basis.

Tax Revenue History

As a starting point for evaluating SPFD's full debt service capacity, it is useful to begin by reviewing the history of pledged tax revenues in recent years. As illustrated by the following graph, from 2004-16 total pledged revenues have increased from $10.5 million in 2004 to $17.8 million in 2016 – equating to a compound rate of increase averaging 4.5% per year.

SPFD Tax Revenue History (2004-16)



Source: SPFD.

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

- A portion of the SPFD tax revenue growth is attributable to the inclusion of the City hotel/motel tax sources as pledged security for the Series 2013A bonds in 2013. Excluding these new sources of pledged revenues, the underlying growth rate for the first three tax sources pledged since 2004 equates to an annual revenue increase averaging 3.6% per year (calculated as an average annual compound growth rate).
- If the recent year (2013-16) effect of added city lodging taxes are excluded from the analysis, the increase in the three tax revenue sources in place over the last ten years averages to more than a $364,700 incremental revenue gain per year.
- For all tax revenue sources combined, there have been two years of tax revenue decline. From 2007-08, pledged tax revenues declined by 3.6%. From 2008-09, revenues declined by another 7.5%. The following year of 2009-10, tax revenues were essentially flat, with a return to year-over-year revenue growth in subsequent years to present.

Over the time period of 2004-12, the debt service coverage ratio (DSCR) for Spokane's prior or current debt has ranged from 1.39 times the annual debt payment (in 2004) to 1.72 (in 2012 prior to the 2013 debt restructuring for Convention Center expansion). In the years since, debt coverage has increased each year from 1.53 in 2013 to 1.78 in 2016 – all well above the 1.25 minimum combined DSCR required with the planned 2017 bond underwriting.[4]

2017 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 detailed by the chart on the following page, debt service payments are identified for existing bonded debt coupled with planned Series 2017 bonds.

The first debt service payment on the Series 2017 bonds would be made in 2018 with the last payment in 2041. Bond payments are made on a semi-annual basis – in June and December of each year.

With this base case scenario, debt service coverage is calculated based on pledged revenues *divided by* the sum of annual payments for existing bonded service together with 2017 bonds. For purposes of calculating debt service coverage, Northwest Municipal Advisors assumes that future pledged tax revenues will equal actual revenues as received in 2016. This projection is conservative in that achieving a minimum 1.25 DSCR target with the issuance of the Series 2017 Bonds is not dependent on future tax revenue growth.

Per the above debt service schedule, debt service coverage is projected to range from a low of 1.63 in 2018 to a 2.18 DSCR by 2033 – well above a 1.25 DSCR as maximum annual debt service including repayments on current bonded debt together with the planned Series 2017 bonds. As noted by the table on the following page, repayment of existing bonded debt ends in 2043; repayment on the Series 2017 bonds ends in 2041.

SPFD Current & Planned Debt Service (2017-43)

Year	Pledged Revenues	Outstanding Debt Service	2017 Bonds	Total Debt Service	Debt Service Coverage
2017	$17,819,507	$10,014,650	-	$10,014,650	1.78
2018	$17,819,507	$10,018,700	$934,250	$10,952,950	1.63
2019	$17,819,507	$10,019,700	$909,000	$10,928,700	1.63
2020	$17,819,507	$10,015,700	$909,000	$10,924,700	1.63
2021	$17,819,507	$10,016,450	$909,000	$10,925,450	1.63
2022	$17,819,507	$10,016,200	$909,000	$10,925,200	1.63
2023	$17,819,507	$10,019,450	$909,000	$10,928,450	1.63
2024	$17,819,507	$10,015,450	$909,000	$10,924,450	1.63
2025	$17,819,507	$10,018,950	$909,000	$10,927,950	1.63
2026	$17,819,507	$10,018,950	$909,000	$10,927,950	1.63
2027	$17,819,507	$8,994,950	$909,000	$9,903,950	1.80
2028	$17,819,507	$8,457,450	$909,000	$9,366,450	1.90
2029	$17,819,507	$8,463,950	$909,000	$9,372,950	1.90
2030	$17,819,507	$8,457,950	$909,000	$9,366,950	1.90
2031	$17,819,507	$8,456,300	$909,000	$9,365,300	1.90
2032	$17,819,507	$8,460,800	$909,000	$9,369,800	1.90
2033	$17,819,507	$7,237,738	$924,000	$8,161,738	2.18
2034	$17,819,507	$5,349,800	$2,813,250	$8,163,050	2.18
2035	$17,819,507	$5,348,300	$2,813,000	$8,161,300	2.18
2036	$17,819,507	$5,353,550	$2,808,000	$8,161,550	2.18
2037	$17,819,507	$5,354,800	$2,808,250	$8,163,050	2.18
2038	$17,819,507	$5,351,800	$2,813,250	$8,165,050	2.18
2039	$17,819,507	$5,354,300	$2,807,500	$8,161,800	2.18
2040	$17,819,507	$5,349,800	$2,811,250	$8,161,050	2.18
2041	$17,819,507	$5,351,350	$2,808,750	$8,160,100	2.18
2042	$15,693,926	$5,353,250	-	$5,353,250	2.93
2043	$14,631,135	$5,352,125	-	$5,352,125	2.73

Note: The final debt scheduled maturity of Series 2011 bonds is December 1, 2017.
Subsequent payments on existing outstanding debt consist exclusively of payments on Series 2013 A/B bonds.
Pledged tax revenues decline starting in 2042 due to sunsetting of SPFD tax revenue authority.[5]
This schedule does not include payments on subordinated debt. Schedule is subject to revision with bond sale.
Source: Northwest Municipal Advisors as prepared for SPFD, October 16, 2017.

Alternative Tax Revenue Scenarios

In addition to a baseline scenario, this independent financial analysis also has involved the preparation of alternative tax revenue scenarios. These scenarios are useful to determine the degree of risk and potential options for mitigation in the event that tax revenues relied on for debt service vary substantially from the base case projection utilized by SPFD.

To supplement the base case (or bond forecast) scenario, two additional tax revenue scenarios have been prepared for consideration. One scenario involves a more optimistic view of future revenue potential based on observed historic trends. A second stress test adjusts this trend extrapolation to include year-to-year changes in the business cycle based on recent experience.

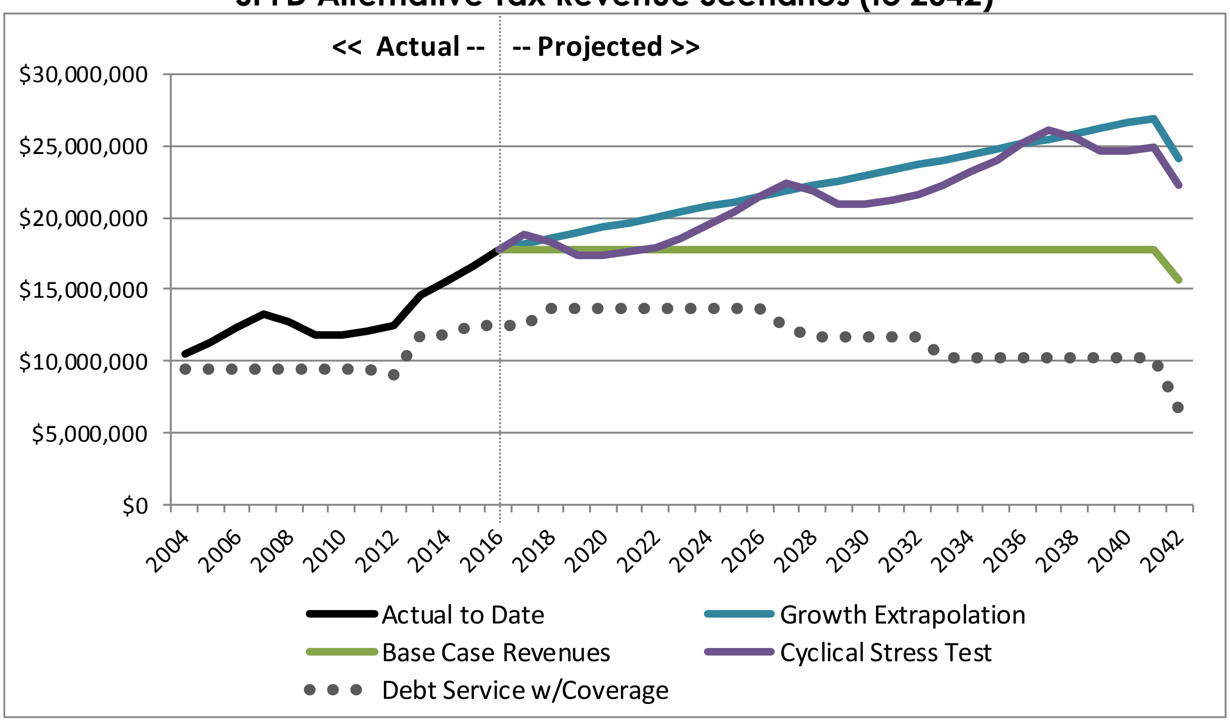
Scenarios Defined. Building from actual revenues as realized through 2016, key features of the alternative scenarios considered are outlined, in turn:

- **Base Case Revenues** – assuming future tax revenues remain as experienced in 2016 going forward through 2041, with no dependence on future revenue growth (as prepared by Northwest Municipal Advisors).
- **Growth Extrapolation** – forecasts future revenue growth based on the tax revenue increase which has averaged over $364,700 per year since 2006 (a trend line excluding the growth bump-up due to more recent inclusion of City hotel/motel tax revenues).
- **Cyclical Stress Test** – to evaluate the implications of another recession similar to what was experienced from 2007-9 – with renewed recession starting in 2018 and carry-forward of this cyclic pattern of observed year-to-year tax revenue variations to 2042.

Each scenario is compared with scheduled debt payments *multiplied by* a 1.25 coverage factor.

Scenario Outcomes. As depicted by the following graph, the base case and both alternative revenue scenarios appear to be more than adequate for debt service (including coverage).

SPFD Alternative Tax Revenue Scenarios (to 2042)



Note: The debt service line is set equal to annual scheduled debt service *multiplied by* a 1.25 coverage factor.
Sources: SPFD, Northwest Municipal Advisors, and E. D. Hovee.

While the **Base Case** scenario prepared for purposes of bond issuance holds tax revenues at 2016 levels with no future year increases, revenues are nonetheless expected to be more than sufficient to assure adequate debt coverage through the period of repayment of all debt to 2042. Debt service coverage increases from 1.63 to 2.18 by 2033 and after, with 2041 as the last payment for Series 2017 Bonds. Coverage is well in excess of a 1.25 DSCR each year over the full repayment term.

The alternative scenarios also indicate that revenues should well exceed a 1.25 DSCR each year:

- The **Growth Extrapolation** scenario (with $364,700 per year average growth) results in tax revenues well in excess of a 1.25 DSCR. The coverage ratio increases from 1.69 in 2018 after debt issuance to 3.30 by 2041, the last payment for 2017 bonds as proposed. The DSCR never drops below 1.63.
- Despite application of future hypothetical cyclical recessions of severity similar to 2007-09 with a second $1.4 million tax revenue decline from 2017-19, then again from 2027-2029 and 2037-39, a **Cyclical Stress Test** also performs well above 1.25. A 1.58 DSCR is the lowest point projected from 2019-20. In effect, the cyclical stress test tracks the long-term trajectory of the growth extrapolation scenario – performing below the extrapolated trend line in off-years but cresting above trendline at the peak of each modeled economic cycle.

Of the scenarios considered, the base case revenue scenario provided by Northwest Municipal Advisors is the most conservative. This is because the base case does not rely on future tax revenue growth, despite a record of long-term tax revenue growth even into a recessionary period and subsequent recovery.

Even the cyclic stress test model based on 2006-16 experience is more conservative than longer term experience based on SPFD-provided records dating back to 1994. While there were two significant cyclical down years from 2006-16, SPFD tax revenues increased every year in the prior twelve years from 1994-2006.[6]

Adverse Conditions Required for Below 1.25 DSCR

Based on this review, there is nothing in SPFD's documented history that would provide any reasonable basis to indicate that debt coverage would drop below a 1.25 DSCR with the Series 2017 Bonds as currently proposed. However, an additional question is addressed by this independent financial feasibility review: *Under what tax revenue conditions might it be conceivably possible for SPFD to fall below a 1.25 debt coverage ratio?*

Two additional scenarios are outlined to illustrate conditions by which a less than 1.25 DSCR, however unlikely, might hypothetically occur. These worst-case scenarios conceivably could occur as the result of:

- **A sudden 1-2 year drop-off in tax revenues** – as with an unprecedentedly severe national recession not experienced for over 70 years (post-World War II). For example, DSCR theoretically could fall below a 1.25 DSCR in 2019 (the year with the highest debt service payment) if base case revenues dropped by just over $4.1 million (or by more than 23%) below the $17.8 million in actual revenues experienced in 2016. This would be double the 11% tax revenue loss experienced with the Great Recession of 2007-09.

- **A more gradual but continuing erosion of tax revenues** – whether due to national conditions of long-term economic malaise or contraction of the Spokane area economy. For example, if baseline tax revenues were to not only remain flat but were to decline by $450,000 each year (relative to the prior year), DSCR could drop below 1.25 on a sustained basis by about 2030. The result is similar to that of the sudden drop-off, but would play out over a longer and more sustained time period – providing greater advance warning to secure back-stop alternatives.

While severe, these adverse scenarios should be viewed as extremely unlikely and outside the realm of any readily comparable experience. To materialize, this level of economic adversity likely would need to occur in the context of much broader Spokane area, regional or national conditions, unprecedented in the post-World War II era.

Although falling below a 1.25 DSCR for bonded does not constitute a default, this condition could mean that SPFD would not be able to remain current on subordinated debt repayment; nor could additional bonds be issued. Depending on the year, a less than 1.25 DSCR for bonded debt could put the SPFD into a position of having inadequate funds to fully pay subordinate debt from tax revenue sources alone.

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:

INB Capital Cost Risks:

- Construction cost escalation above budget
- Post-construction issues

Debt Repayment Risks:

- Debt coverage management
- Bond rating or interest rate shock

Capital Cost Risks

As noted above, risk factors associated with project construction include cost escalation above the current $20 million project budget and resolution of post-construction issues.

Construction Cost Escalation Above Budget. The potential for cost overrun pressure is apparent from the 2017 Integrus prepared *Renovation Study: INB Performing Arts Center.* This report identifies costs (notably associated with music room and building systems) that are $6.6

million (or 42%) above what has now been targeted with a preliminary design-build (D-B) maximum project budget.

One of the advantages cited with the D-B process is to make value engineering judgements during design that meet minimum program requirements subject to a maximum construction cost (in this case $20 million). However, given the degree of difference between the Integrus report and current budget, it is possible that the value design changes required to meet budget will be viewed as not meeting minimum program needs or unduly sacrificing other project objectives. This could result in budget adjustments to a cost above the current $20 million project target.

Another issue associated more with building renovation (as compared with new construction) is the risk that new problems or added cost items will be discovered in the process of demolition and reconstruction. In these situations, the challenge of meeting budget becomes more difficult later in the project as there is less budget and scheduled time remaining. For this project, there is an associated funding risk because bonds will be issued in advance of design completion, limiting options for added debt financing, at least near-term.

Options for Mitigation – For SPFD, there are at least three options that might be considered to address the potential risk of construction cost escalation above the current budget:

- Hold to the $20 million budget under all circumstances – deferring priority items to subsequent renovations. Given the tight 6-month time window available for INB closure, this approach has the added advantage of deferring issues or improvements that could affect planned re-opening of the theater by the end of October 2018.
- Undertake selected priority items with costs exceeding the $20 million limit – provided that funding comes from available SPFD reserves and does not compromise the project schedule. As of year-end 2016, the District has an estimated $19.6 million in unrestricted cash and cash equivalents – a portion of which might be allocated to the project in the event of budget over-runs including contingencies discovered in the renovation process.
- Deferring remaining priority items and/or unforeseen contingencies to a second round of INB Performing Arts Center improvements that might be made with added debt financing at some time in the future. Since SPFD will have remaining non-voted debt capacity, further bonding could occur on its own or in combination with renovations to other SPFD facilities.

  An added caveat lies with the current planned expiration of the State Credit Sales/Use Tax which will sunset in 2042. This currently accounts for about 18% of SPFD tax revenue (including pledged City revenues). However, after 2041 all existing debt obligations together with planned Series 2017 Bonds will have been fully repaid.

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 INB renovation will provide greater protection of public funds for issues with defective construction or the inability to comply with the warranty.

Options for Mitigation – The preferred remedy will be to obtain as much complete 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 INB operating budget to the extent that funds are available.
- To the extent that 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 INB improvements in the future (as well as through annual funding allocations for routine maintenance and repair).

Debt Repayment Risks

Potential risk factors associated with planned debt repayment include questions related to debt coverage management and possible bond rating or interest rate shock.

Debt Coverage Management. The current debt proposal prepared by Northwest Municipal Advisors indicates that there should be more than ample debt service coverage with base case funding conditions. The Base Case is conservative in that future tax revenues for the are not increased consistent with observed historic revenue performance but are held constant at the 2016 realized level. An alternative Growth Extrapolation scenario illustrates that debt capacity is yet further enhanced if historic revenue trends are taken into account.

A cyclical stress test illustrates that even if tax revenues were to experience cyclical variations on a par with what occurred in the last recession, revenues would be more than adequate to service debt at a 1.25 DSCR. Only in the extreme case of revenue declines double those experienced in the Great Recession would difficulties in maintaining 1.25 debt coverage arise.

While there is no recent historical precedent, these adverse conditions would most likely need to occur in conjunction with either a sudden sharp depression-like downturn or significant longer-term deterioration of the U.S. and/or Spokane area economies over the next 25-30 years. These would be extremely adverse conditions – neither of which are scenarios that have been experienced for at least the last 70 years.

While a less than 1.25 DSCR for bonded debt would not by itself constitute default on bonded debt repayment, it likely would make it difficult for SPFD to also continue making payments on subordinated debt payments to Spokane County and the Valley City.

Options for Mitigation – Due to the low odds of a less than 1.25 DSCR scenario, no remedial action is suggested at this time other than clarification of any remaining waterfall or flow of fund questions (per the next section of this report). In the very unlikely event that a default scenario were to materialize, SPFD could consider:

- Short-term financial adjustments as through application of reserves to address at least initial year bond repayment funding deficiencies.
- Longer term substantial debt and/or operational restructuring – as needed in cooperation with local agency partners and similar debt extensions likely occurring concurrently with other major public and private facilities regionally or nationally.

Interest Rate or Bond Rating Risks. Bonds currently are anticipated to be sold at an average coupon rate of 5.00% with an all-in true interest cost yield of approximately 4.265% (assuming bond pricing targeted for October/November 2017) – with average life of 18.6 years for serial bonds and 22.6 years for term bonds with a final maturity date of December 1, 2041.

Tax-exempt bond pricing has been relatively stable in recent months and is expected to remain so under normalized conditions. There are events that could affect marketability and pricing even in the short term – as with international incidents. While health care and tax reduction issues create uncertainty, other domestic issues that could substantially affect bond procing or marketability if left unresolved – as with U.S. budget resolution or lifting of the U.S. debt ceiling – currently appear to be deferred until December 2017.

With previous 2003 and 2011 SPFD bond issues, bond ratings were issued by Standard and Poor's (S&P) and Moody's Investors Service (Moody's). On December 7, 2011, S&P assigned an A+ rating to the bond issuance, maintaining its prior underlying rating on the District's outstanding hotel/motel tax bonds and sales and use tax bonds. The agency stated its outlook for the SPFD as "stable." Positive factors cited were strong coverage ratios for the 2011 bonds (at 1.56), the District's "large and diverse economic base," and adequacy of legal provisions. However, the ratings report also noted that "credit strengths are offset in part by our view of the potential that pledged revenues will be volatile."

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

The major factor noted by Moody's in 2011 that could serve to improve the rating upward in the future would be a trend of "significant growth" in SPFD pledged revenue sources. Factors that could move the rating downward would be "further deterioration" in revenues and coverage and/or "extraordinary costs" with resolution of the Swaption (now since resolved), especially to the extent that this might lead to somewhat higher SPFD debt service costs in the future.

Strong performance with debt coverage in recent years represent clear and positive steps to address these concerns. SPFD debt service coverage ratios went from 1.60 in 2011 to 1.72 in 2012, and dropped to 1.53 in 2013 with bond restructuring and convention center financing together with Swaption resolution. Coverage has improved each subsequent year to a 1.78 DSCR as of 2016.

In preparation for placement of Series 2017 Bonds, the District was recently upgraded from A2 to A1 by Moody's and Standard & Poor's (S&P) has again continued its A+ rating. As "credit strengths", Moody's cites Spokane's position as a regional cultural and economic hub together with improving revenue collections. Credit challenges noted are 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 cites the districts requirement to pledge multiple revenue streams and adequate maximum annual debt service (MADS) coverage for the series 2011 and good coverage for the series 2013A, 2013 and 2017 issues. Partly offsetting these strengths is 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 as the SPFD (District-wide) hotel/motel tax applies only to hotels with 40+ rooms.

The District may fund the Reserve Fund with cash, purchase a surety bond, or may discuss with Spokane County provision of a Reserve Fund Facility.[7] As reflected in the draft Preliminary Official Statement planned for fall 2017 bond issuance, action is being taken to permit the County to provide a Reserve Fund Facility so long as the long-term general obligations of the County are rated at the time such Reserve Fund Facility is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in at least the third highest rating category by Moody's and S&P.

Options for Mitigation: Whether and what form mitigation might take will depend on the nature of any bond sale issue to be addressed (if any materialize). In the event of a substantial bond marketability issue or interest rate shock, options might be to accept higher debt service payments or to postpone the sale – especially as the INB renovations are of a somewhat discretionary nature. Other actions might possibly involve steps such as reduced bonding amount, phasing of planned improvements, increased project reserve fund, and/or other form of credit enhancement.

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 by 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 INB Performing Arts Center renovation 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 District developing the project. These additional factors involve both short- and long-term financial considerations.

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

- **Operating sustainability** – for the INB Performing Arts Center individually and in conjunction with all three District venues including a review of facility operating revenues versus expenses – including 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, 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). Unlike the debt service analysis for which projections have been prepared on behalf of SPFD, no similar documents projecting long-term operating revenues and expenses have been provided by the District.

In addition, the complexity of such factors as intergovernmental arrangements and flow of funds has led to an approach that focuses less on incidental details and more on *big picture* considerations that could imperil the long-term sustainability of SPFD facilities if left unaddressed.

SPFD Operating Sustainability

As noted, this broader view of short- and long-term feasibility begins with a review of operations for INB and the two other SPFD facilities of the convention center and arena. An overview profile of INB utilization is followed by profiling operating revenues and expenses for the INB and all SPFD facilities combined – including INB's contribution to District operating viability.

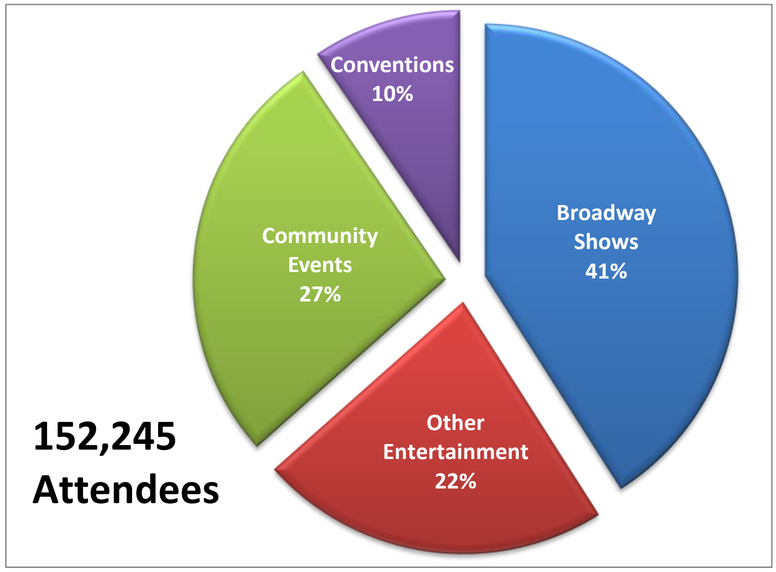
As with the debt review, base case and alternative operating scenarios are provided together with consideration of comparatively unlikely *less than break-even* (or worst-case) operating scenarios. To the extent practical, the assumptions and methodology applied with this operating review parallels the analysis provided with the debt financing review.

INB Profile

Based on data provided by SPFD, the INB in 2016 hosted 61 events over 112 event-days with a total of 152,245 attendees – averaging to approximately 1,360 attendees per event. Utilization of the INB includes the following types of events:

- **Broadway Shows** – with 12 shows accounting for 41% of attendance and a similar share of revenue.
- **Community Events** – 23 events for 27% of attendance.
- **Other Entertainment** – 19 events with 22% of total facility attendance (primarily music related).
- **Conventions** – 7 events comprising 10% of INB attendees (supporting convention center use).

INB Performing Arts Center Attendance (2016)



Source: SPFD.

The mix of events can vary substantially from one year to the next. The most attended performances of 2016 included A Prairie Home Companion, 2Cellos, Beauty and the Beast, The Book of Mormon, Lindsey Stirling and Chris Tomlin Adore Tour – ranging between 2,000-2,600 attendees per event.

INB attendance peaked in the 2004-05 period, (at 262,000 in 2005), then declined by nearly half to less than 134,000 in 2010. Attendance has rebuilt somewhat in recent years, though not yet back to pre-recession levels. A contributing factor was the transition of the Spokane Symphony to the former Fox Theater – with the last INB performance in 2010. Attendance increased to 189,000 in 2014, then dropped back to the 150-160,000 range the last two years.

While attendance appears flat, per attendee revenues to SPFD are increasing – nearly doubling from $5.27 per attendee in 2004 to $10.20 in 2016. While facility rental income is little changed, significant increases are noted for parking, box office, and advertising revenues.

An item of importance to the planned renovation is the scheduling of events around the year. The fall to later spring is the period for most active facility utilization. Renovation is scheduled for May-October 2018 as a less busy time of year with less attendant revenue loss. In 2016, this 6-month period accounted for about 40-41% of facility attendance and revenue.

Implications of shifting utilization for INB operating revenues and expenses are shown by the chart on the following page – including revenue/expense performance for all SPFD venues.

SPFD Facility Operating Revenues & Expenses (2006-16)

SPFD Facility	2006*	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016
INB Performing Arts Center (Unadjusted)											
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
Spokane Convention Center											
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)
Spokane Arena											
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
Combined Statement of Operations											
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%*

* Note: For 2006-2007, the INB 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.

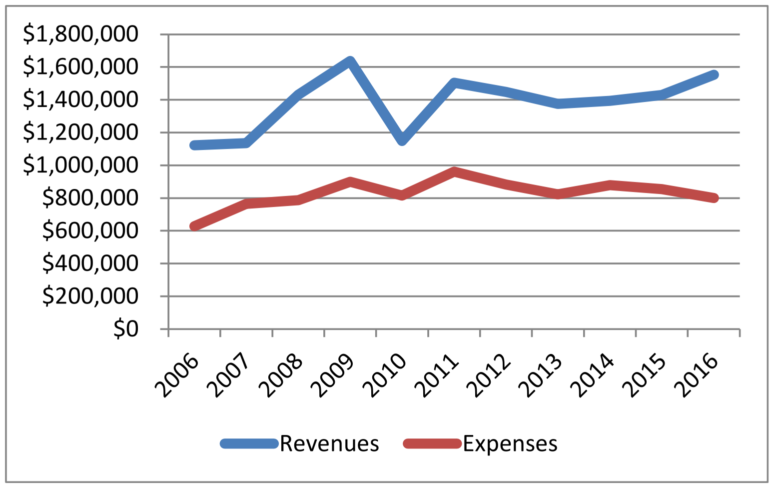
Source: SPFD, from Annual Reports.

INB Operating Revenues & Expenses

As detailed by the table on the prior page, with the exception of one year (2010) when revenue dropped by 30%, the INB Performing Arts Center has largely held its own over the last decade. The following revenue/history covers the 2006-16 time period, with adjustments to exclude extraordinary repair items from revenues and expenses in 2006-07.

- Adjusted **revenues** peaked in 2009 at $1.64 million, then declined by 30% the next year. Revenues rebounded the following year but have plateaued since – yet to return to the 2009 peak.
- **Expenses** tend to track revenues, but with less volatility than is noted for year-to-year revenues.
- Averaged over a multi-year period, INB revenues have tended to increase faster than expenses. Consequently, the INB **operating profit** (defined as revenues *less* expenses) has increased from a low point at 29% of revenue in 2010 to 48% in 2016. Over the full 2006-16 period, operating profit has increased by an average of $25,840 per year.

INB Revenue/Expense Trend (2006-16)



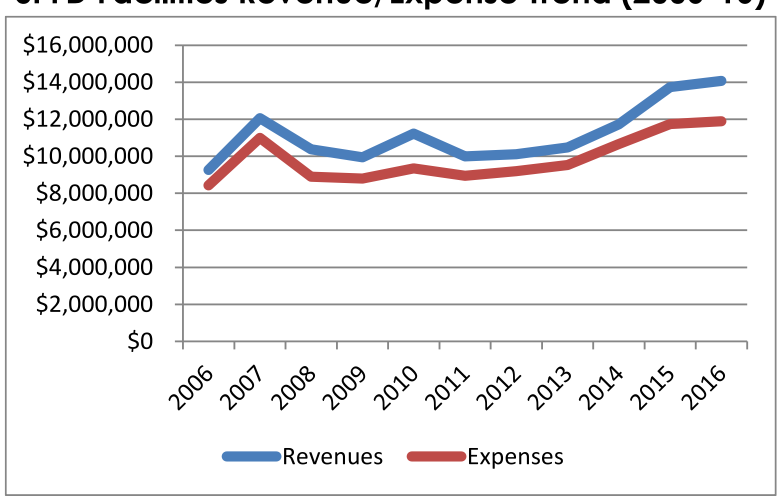
Note: Revenues/expenses adjusted to exclude 2006-07 INB repairs.
Source: SPFD.

Combined SPFD Revenues & Expenses

The combined operations of the INB, Convention Center, and Arena are of importance for overall SPFD operating viability:

- In 2016, SPFD facilities generated $14.1 million **revenue** vs. $11.9 million expense, for an operating profit of $2.2 million. Combined revenues dropped by nearly 18% in two years from 2007-09, briefly recovered in 2010,

SPFD Facilities Revenue/Expense Trend (2006-16)



Note: Revenues/expanses adjusted to exclude 2006-07 INB repairs.
Source: SPFD Annual Reports, covering the combined operations of INB Performing Arts Center, Convention Center and Arena.

then dropped again 2010-11 – with subsequent year revenue increases. As of 2016, combined revenues are nearly 17% above the pre-recession 2007 peak.

- As with the INB, **expenses** for all three SPFD facilities combined generally track revenues, but with a lower overall rate of increase – especially in recent years. Since the pre-recession 2007 peak, SPFD combined operating expenses are up by just over 8% -- less than half the nearly 17% increase in operating revenues.
- As a result, the SPFD combined facility **operating profit** (defined as revenues minus expenses) is up markedly in recent years. After a (perhaps anomalous) one-year spike to nearly 17% of revenue in 2010, the combined facilities operating profit dropped to about 9% of revenue the next two years, but has now worked back up to over 15% of revenue (for an operating profit of nearly $2.2 million) in 2016.[8]

  Considered over a 2006-16 time frame, operating profit for all three facilities combined has increased by an average amount of $134,170 per year. Looking forward, this figure is applied with the growth extrapolation operating scenario to 2042.

INB Contribution to SPFD Operating Viability

While the INB Performing Arts Center contributes a relatively minor 11% to operating revenues of all three SPFD facilities, it accounts for less than 7% of SPFD operating expense. Consequently, the INB contributes a healthy 35% of overall SPFD operating profit (or more than $750,000 out of close to $2.2 million in 2016).[9]

The Spokane Arena contributes the remaining $1.5 million in operating profit, but out of much greater overall revenues of $6.6 million as of 2016. These surpluses are important to offset operating losses that the Spokane Convention Center has experienced for all but one of the last 11 years (all but 2008). However, the net losses of the convention center have been substantially reduced in recent years – from nearly $950,000 in 2013 to less than $125,000 in 2016.

The INB contribution to overall SPFD operating profitability has declined in recent years from 61% in 2012 to 29% in 2015, before rebounding somewhat to 35% in 2016. This has occurred due to slowed growth of INB operating profits compared to more rapid profitability gains with the Arena.

Going forward, INB operating profitability is important to ongoing SPFD operations in two key respects:

- Providing a continuing return on investment for SPFD to offset convention center losses and provide a reasonable buffer for future unforeseen contingencies.
- Minimizing temporary losses that may affect the SPFD bottom line during the 6-month INB closure for renovations.

Both items are incorporated into consideration of alternative operating INB and SPFD-wide operating scenarios which follow.

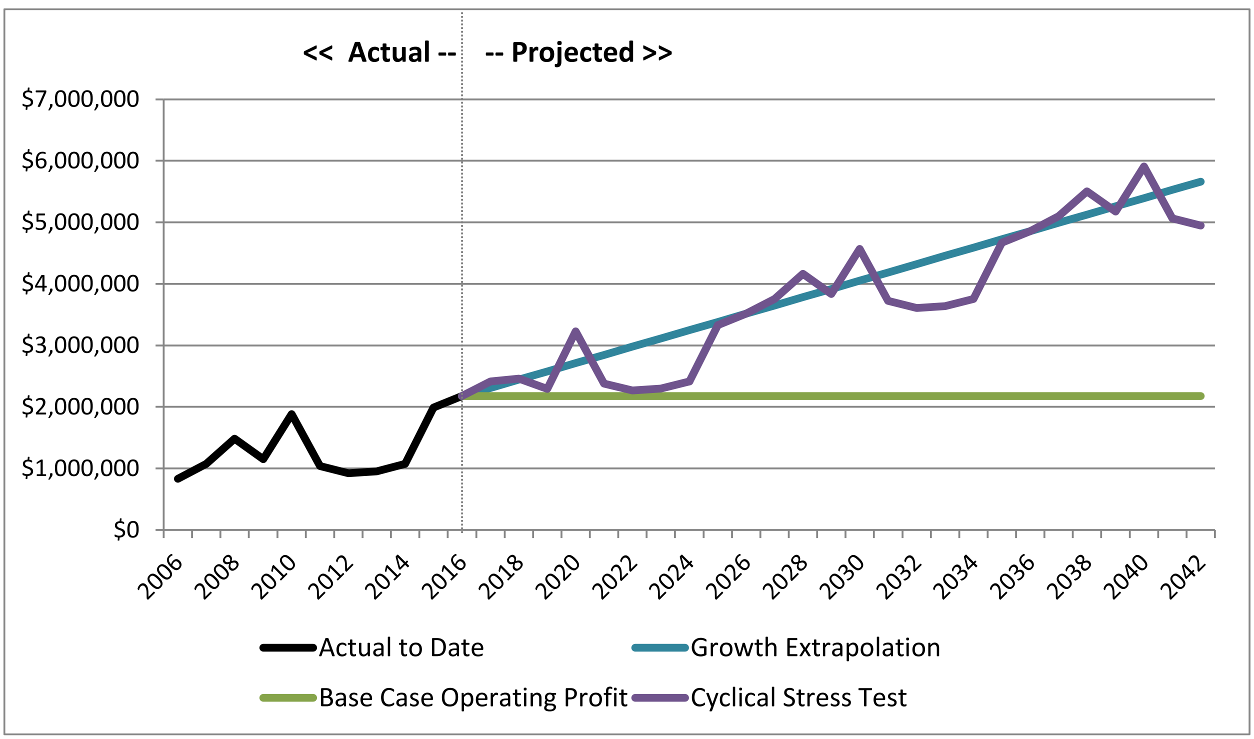
Base Case & Alternative Operating Scenarios

While Northwest Municipal Advisors and SPFD have provided a base case financing plan, no similar projections of INB or other SPFD facility operating revenues and expenses have been provided. As was considered for debt financing, a base case and two alternative operating scenarios have been prepared with this independent feasibility review:

- **Base Case Operating Profit** – assumed to remain at the current 2016 operating profit level of $2.173 million going forward over each of the years from 2017-42 (a similar assumption as provided with the base case tax revenue projection for debt service).
- **Growth Extrapolation** – applying the linear trend of an average annual increase in net operating profit of $134,170 per year (as experienced from 2006-16) forward to 2042.
- **Cyclical Stress Test** – applies the year-to-year changes experienced from 10 years earlier to future years, as a repeat of the 2007-12 uneven and extended recession-related conditions, again experienced from 2017-22 followed by stronger recovery, a cycle repeated through 2042 (as with the approach used for tax revenues for debt service).

  In addition, this cyclical scenario assumes an up to two year decline in INB operating revenues *and* expenses with a potential 40% drop in 2018 (for the 6 slow months for which closure is planned). A further 20% drop in revenues/expenses is applied in 2019 in the event that a full schedule of events does not immediately resume.[10]

SPFD Operating Profit Scenarios (to 2042)



Note: The INB portion of SPFD operating revenue and expenses has been adjusted to exclude 2006-07 repairs.

Sources: Historic actuals from SPFD, alternative scenarios prepared by E. D. Hovee.

With all three scenarios considered, operating profit for all SPFD venues combined remains positive, at $2+ million per year going forward. INB operating profit also remains positive, albeit with some potential variability in 2018 and possibly into 2019 due to 6-month facility closure and subsequent pace of re-bookings. The INB operating profit for 2018 could range anywhere from no change (or even slight positive) to temporary profit reduction in the range of 40% with the stress test scenario as described above.

Due to long-term attendance reductions that have stabilized in recent years, no specific assumptions are made with regards to future INB attendance post-renovation. As has been the case recently, revenue gains and operating profitability may continue to be heavily dependent on achieving increased revenue per patron. A renovated facility with a more contemporary look that also serves to broaden market appeal and patronage could yield added financial benefits beyond what is indicated with the scenarios as outlined above.

Less than Breakeven Scenarios

There is little in the recent history of SPFD facilities to suggest any substantial risk of operating losses in the years ahead. Despite the recession of the last decade, the INB and Arena facilities have experienced operating profits every year over the last decade. The Spokane Convention Center has generally operated at a deficit offset by the other two facilities – but with the center's deficit substantially reduced since completion of an expanded facility in 2013.

While the base case, growth extrapolation and cyclical stress test scenarios all indicate continued positive if not increasing operating profitability, a question similar to what was posed for tax revenues to support debt service can also be asked of operating profits: *Under what conditions might it be conceivably possible for SPFD facilities to operate at less than break-even profitability?*

As with debt service, the implications of both sudden and long-term operating revenue downturns are included with this analysis:

- **A sudden severe 1-2 year drop-off in operating profitability** – is a possibility but viewed as extremely unlikely based on recent experience through a significant recession cycle. Operating profitability typically has a smaller margin for a bad year error than is the case for debt service. SPFD has averaged an operating profit approaching 12% since 2006 – increasing in recent years to over 15% as of 2016. By comparison, tax revenues available to support debt service were 42% greater than was needed to yield 1.25 coverage in 2016.

  A sudden swing from $2.2 million operating profit in 2016 to less than breakeven would require a profitably drop more than double the reduction in operating profit experienced by SPFD from 2010 to 2012 (a swing that occurred late in the last recession cycle). While this level of sudden profitability reduction is possible, it is unlikely given management's capacity to cut non-essential expenses and the possibility that operating difficulties in one facility might be at least partially counterbalanced with other facilities.

- **A more gradual but continuing erosion in SPFD operating profitability** – could occur if expense increases were to consistently outpace revenue gains. This does not appear to be a near term issue – as revenue gains have, on average, outpaced expense increases since 2006 for all three SPFD facilities including the INB Performing Arts Center.

  If this situation were to be reversed, operating profitability could be changed from what is indicated by recent trends. For example, when the stress test is modified so that expenses start outpacing *the change* in revenues by $225,000 more each year, operating profitability hypothetically could shrink to less than breakeven by 2033. However, to the extent that revenue/expense changes reflect variable rather than fixed conditions, it should be possible to begin taking corrective action well in advance of realizing an overall SPFD operating loss.

SPFD Financial Capacity

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

Financial Statements

Financial statement information (covering the 2012-16 time period) is provided by the Preliminary Official Statement. Financial statements have been reviewed with respect to annual income statements and balance sheets.

Annual Income Statements. At the outset, 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). The 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.

With respect to revenues, a key difference 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.

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.

The result is that the financial statements show SPFD operating at 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.[11]

Balance Sheet Review. Since 2012, total assets of the District have 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 have increased by $18.5 million to $182.7 million as of 2016. Liabilities spiked by $36.5 million from 2012-13, and have been subsequently reduced year-by-year through this past year. 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 is a relatively small $1.6 million increase in total net position from 2012-16, though (as noted) 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 last year ending 2016 represents improvement of 2012 conditions – whether measured by operating profit (income) or by year-end net position.

Operating and non-operating tax revenues have been the most consistently positive revenue source – increasing each year since 2012. 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.

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 venues were to experience a major downturn in the same year.

So far, there has not been a time since 2006 when all three venues have experienced a decline in operating profit relative to revenues in the same year. This was an event narrowly missed from 2006-07 and again from 2009-10 when operating profit relative to revenue dropped for the INB and convention center – offset only by a substantial uptick with the arena. And from 2013-14, both the INB and arena experienced a declining operating result relative to revenues, offset by improved operating profitability for the convention center.

Added 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 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. This provides more than adequate capacity for issuance of an estimated $18.18 million in added debt (par amount) with the proposed Series 2017 bond issue.

INSTITUTIONAL ARRANGEMENTS & FLOW OF FUNDS

A summary review of institutional arrangements between the SPFD, Spokane County and the Cities of Spokane and Spokane Valley is provided by Appendix B to this report. The focus of the following discussion is on steps that have been taken with the proposed issuance of Series 2017 Bonds to clarify the institutional and financial framework between the cooperating jurisdictions. A major emphasis of this 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).

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. Suggested as a possible approach was the re-working of existing agreements with City and County funding partners, possibly using "a master agreement with clearly specified waterfall structure for distribution of project positive cash flows (or losses) and maintenance/release of reserve fund allocations."

Current Institutional Arrangements

Considerable effort has been made by the SPFD to clarify both jurisdictional responsibilities and financial waterfall responsibilities in conjunction with the planned issuance of Series 2017 Bonds. Clear delineation of SPFD and other governmental jurisdiction responsibilities is provided by the draft resolution of the SPFD 2017 bond resolution together with the Preliminary Official Statement. The Official Statement also includes a detailed description of the anticipated flow of funds related both to debt service and operations.

Pivotal provisions of the Resolution and/or Official Statement include understandings that:

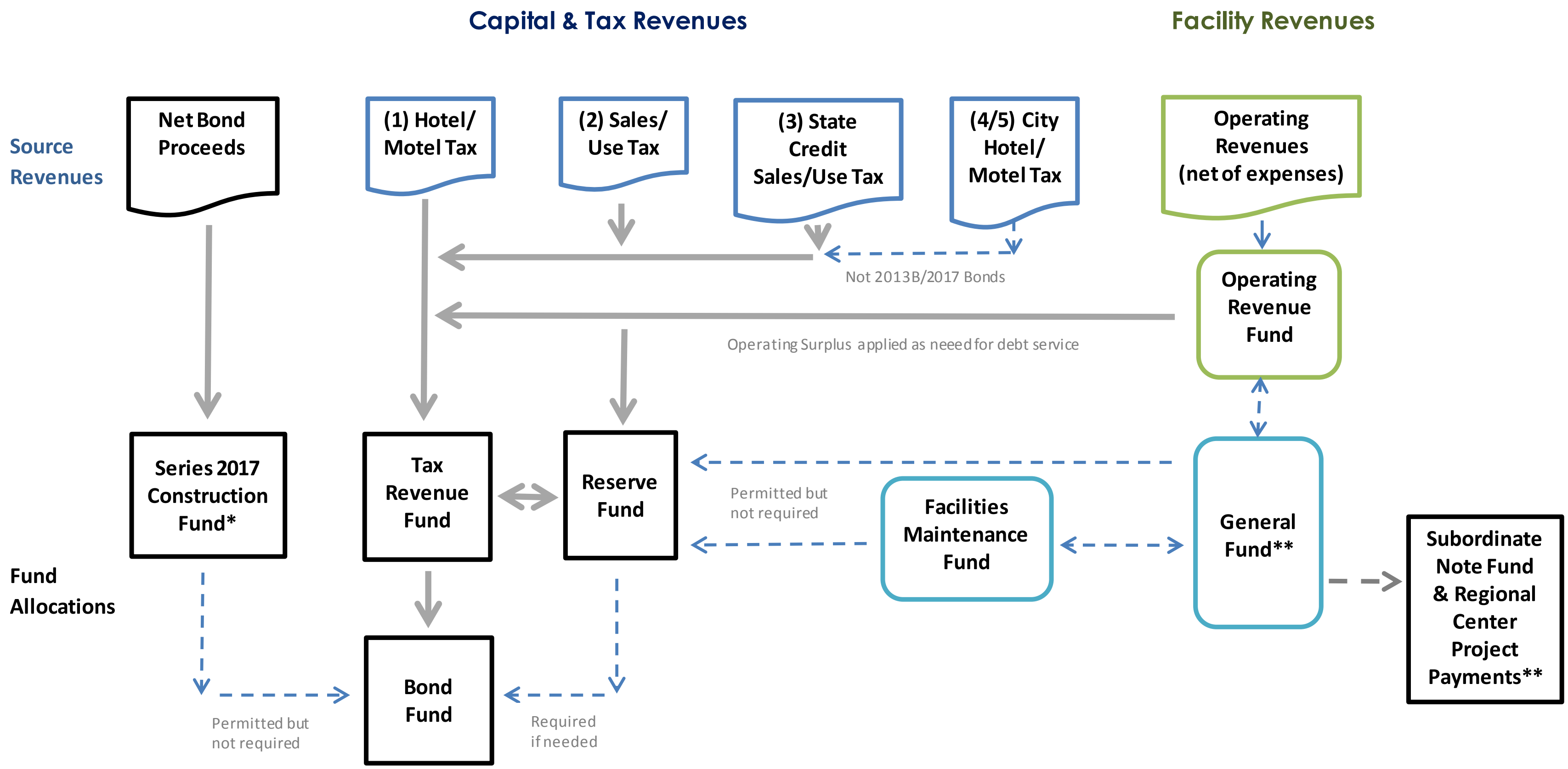
- Pledged assets will include all SPFD hotel/motel, sales/use tax and state credit sales/use tax pledged for repayment of the Series 2017 Bonds on a parity with the Series 2013 Bonds and superior to all other liens and charges.
- The proposed 2017 bonds will not be an obligation of the State, County, city or any other political subdivision of the State other than the SPFD.
- Hotel/motel, sales/use tax and the state credit sales/use tax will not be reduced below current levels over the period of existing and proposed bond repayment (to 2042/2043).
- Payments will be allocated to identified funds in a prioritized sequence for assuring payment of bonded indebtedness and sustaining operations (as described below).
- Conditions are established for issuance of additional bonds (post-2017) to assure continuing capacity for existing and proposed future repayment obligations – including a minimum 1.25 debt service coverage ratio (DSCR) of maximum annual debt service.
- Provisions are also included to cover any event of future default for proceedings that may be brought by registered owners.

Flow of Funds

As noted, the Preliminary Official Statement contains a detailed description of both SPFD funds and the anticipated flow of funds. As illustrated by the chart on the following page, there are three overall funding tracks related to the revenue sources considered:

- Bond proceeds deposited to a **Series 2017 Construction Fund** used to pay costs of the INB renovation project and costs of issuing the Series 2017 Bonds.
- 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.**

Flow of Funds Illustrated



Notes: * Separate from the Series 2017 Construction Fund is 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. See the Preliminary Official Statement for additional information.

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

- Tax revenue funds are transferred to the SPFD **Bond Fund** in the amount needed to make scheduled semi-annual bond payments. The 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 (available only as security for the Series A 2013 bonds).[12]
- 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, 1.25 DSCR, and Series 2017 bond proceeds – plus any Reserve Fund Facility draws. [13] 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 INB, convention center, and arena. 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. Before January 2018, any surplus sales/use taxes are to be deposited into the Subordinate Note Fund and then, if needed, to support operating costs of District facilities.
- After any required deposit into the Bond, Reserve, or Operating Reserve funds, the 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:[14]
  1) Surplus operating revenues may be used "for any lawful purpose of the District" (which may include payment of debt service on the Series 2017 Bonds).
  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.
  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) Funds from surplus hotel/motel taxes and sales use taxes (that are not Regional Center taxes) collected after December 31, 2017 to be used, *first,* (if needed) for deposit into the Subordinate Note Fund and *second,* for any lawful purpose of the District.

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. Regional Center projects have $14.9 million in remaining SPFD debt outstanding**.**

  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 $14.1 million in SPFD debt outstanding as of year-end 2016. 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, proposed 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 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. Also noted is that Series 2017 Construction Fund resources may be diverted to support bonded debt repayment, if needed.

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:
- Shrinking INB financial performance
- Short-term SPFD-wide operating deficit

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
- Repayment of Regional Center and Subordinate Note loans

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

Operating Risks

Two operating risks are identified as potentially impacting SPFD project development feasibility – whether in the near term or over a longer-term time horizon. These are risks associated with shrinking INB financial performance over time or short-term SPFD-wide operating deficit(s).

Shrinking INB Financial Performance. Over the longer term, stable to shrinking audience attendance may impact operating profit of the INB Performing Arts Center if per attendee revenue increases are no longer sufficient to offset what has been stagnant to declining attendance. While INB renovations may well prove to improve audience appeal, this is neither assured nor does it appear to be an explicit objective of the renovation project.

Over time, weak to declining INB operating profit will reduce this facility's ability to help offset convention center operating losses – placing more burden on the arena for financial support or on the convention center for continued reduction in operating losses.

Options for Mitigation – The Integrus Renovation Study references a guiding principle to "update the patron experience." Of particular note is the objective to update the Lobby experience, yielding a "new fresh look worthy of a performing arts center."

An updated facility also provides fresh opportunity to be accompanied by re-positioning venue branding and marketing to recapture lost attendance and draw new audience (as with younger millennials). This could be facilitated by updating INB strategic marketing and/or business plans. If the $20 million project budget proves inadequate to complete all items identified in the Renovation Study, another option could be to prioritize subsequent incremental improvements identified as most desired by current and prospective INB audiences.

Short-Term SPFD-Wide Operating Deficit. Based on the stress test and worst-case scenarios provided with this report, it appears highly unlikely that the SPFD is in any substantial danger of shifting from a position of operating profit to deficit over a sustained period. What appears as the more likely risk is that short-term deficits could arise during an economic recession – especially if all three SPFD venues were to experience substantial revenue downturns concurrently.

While this concurrent downturn has not happened over the period reviewed (dating back to 2006), serious mishap has been avoided in three years when two out of three venues experienced declining profitability – fortunately offset all three times by strong performance from the remaining venue. This speaks to the value of a diverse venue portfolio. However, this good fate cannot be guaranteed – especially in the event of a sharp, major economic recession.

Options for Mitigation – Potential options for consideration might include:

- Setting explicit minimum operating profit targets for all three venues individually or for all three venues as an event facility portfolio; and/or

- Setting aside operating reserves sufficient to handle a worst-case, concurrent three venue operating loss event of potentially 2-3 years duration.

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. Two specific risks are noted – 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 the last four years.

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

Options for Mitigation – As with potential short-term operating issues, the primary option would be to rebuild the District's cash and/or net financial positions in the years ahead. The best opportunity comes if completion of recent convention center and planned INB 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 planned $18.18 million Series 2017 Bond issue (par amount) takes less than 9% of SPFD's bonded indebtedness capacity, this combined with other existing debts will leave just over $41 million (or 19%) of the District's $212 million non-voted debt limit as remaining available. Over time, this will be at least partially offset by increases in the District's assessed valuation, providing headroom for added debt capacity.

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 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 account for 14% of the District's current non-voted debt capacity.

While not fully leveraged, this combination of what appears to be a flat (or uneven) financial condition combined with limited remaining debt capacity may constrain SPFD flexibility to undertake further major repair, improvement or expansion projects over the next 25 years.

As an example, the October 20, 2017 Preliminary Official Statement indicates that:

> The District has been asked to operate a proposed Sportsplex to be built adjacent to the Arena. See Note 10.B in Appendix B – "UNAUDITED 2016 FINANCIAL STATEMENTS." If, the District proceeds with the Sportsplex project, the District may issue Additional Bonds to finance a portion of the cost of its construction. The District does not expect to issue other Additional Bonds within one year after the date of issuance of the Series 2017 Bonds.

Options for Mitigation – Several options may be available to increase SPFD funding capacity and flexibility – especially in the out-years of Series 2017 Bonds repayment through to 2041. These options – some complementary and others competing – may include any or some combination of actions to:

- Look to 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 and INB improvements to enhance the District's net financial position.
- Pay down subordinated debt and the interlocal agreements as a priority as net operating profit allows – going above and beyond guaranteed payments when possible.
- Secure legislative authorization for continued state credit sales/use tax beyond 2042 – to better assure continued financial support for PFD modernization and new facility investments 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 interagency relationships and associated flow of funds are articulated in considerable detail with the planned SPFD 2017 Series Bond resolution and official statement. While there appears to be greater clarity regarding financial responsibilities and waterfall arrangements than in the past, there is still some potential unresolved risk. As yet remaining risks relate to payment priorities with worst-case operating and debt service shortfalls and repayment of Regional Center financing and Subordinate Note loans.

Payment Priorities with Worst-Case Operating & Debt Service Shortfalls. Even with detailed provisions of the bond resolution and official statement, there remains potential uncertainty over funding responsibility in the event that a worst-case operating scenario coincides with a period of debt service shortfalls. 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. However, a short-term deficiency should be at least partially mitigated by availability of a $1 million reserve for the subordinate note.

Based on SPFD tax revenue and operating revenue/expense history reviewed, 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 less likely (due to high coverage anticipated under all reasonable scenarios) than a short-term operating deficit.

However, taking action to address this remaining question might prove useful to tie up a potential loose end and also important in the event that SPFD pursues another bond issue post-2017.

Options for Mitigation: Options available for consideration could include:

- Leaving existing 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 beyond what are currently in place for operations or debt service – in effect as a "rainy day fund."
- Making up-front explicit contingency back-stop arrangements for supplemental or emerging funding needs in the event of significant operating and debt service shortfalls.

Repayment of Regional Center & Subordinate Note Loans. SPFD is current with repayment of existing obligations for Regional Center payments and repayment of a Subordinate Note loan from Spokane County. As noted, the combined balance outstanding is approximately $29 million.

Debt service coverage calculations to this point have excluded effects of the Regional Center and Subordinate Note loans, as these payments are subordinated to repayment of bonded indebtedness. If these payments are included with a more encompassing set of calculations, there still appears to be more than adequate tax revenue to repay both bonded indebtedness and subordinated debt under the tax revenue scenarios as previously described.

With a base case tax revenue scenario (essentially held flat to 2043), the minimum DSCR calculated is 1.32 (as of 2026). With the alternative scenarios of future tax revenue growth, the minimum DSCR realized for bonded and subordinate debt combined is further improved.

As indicated by the Preliminary Official Statement, prior to issuance of any additional bonds, SPFD must obtain either the 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, the proposed 2017 bonding, Regional Center payments and the subordinate note – in effect assuring a combined bonded and subordinated DSCR of 1.00 or better.

However, documentation of the flow of funds as described in the Preliminary Official Statement and draft SPFD bond resolution indicates that operating surpluses may be prioritized for "any lawful purpose of the District," or potentially ahead of payments on the Regional Center and Subordinate note obligations. Consistent with the purpose of the bond resolution, it is noted that this covenant is primarily for the benefit of purchasers of planned Series 2017 bonds and less so for other local and regional funding partners.

The bond resolution also incorporates provisions 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. These agreements provide the following prioritized sequence for surplus tax revenues: first, to pay regional center projects, second, to pay Arena reimbursement obligations, and, third to pay the Subordinate Note.

In effect, the language of the draft 2017 bond resolution and Preliminary Official Statement may imply more of a risk to SPFD payment of Regional Center and Subordinate Note obligations than is actually the case. The prior 2003 and 2012 documents more clearly articulate the priority for repayment of all bonded debt from tax revenue resources ahead of other potential lawful but non-debt related purposes of the District.[15]

Options for Mitigation: Options available for consideration are essentially two-fold:

- Make no change to existing documentation, as SPFD repayment obligations appear to be adequately detailed by prior understandings with the Valley City and Spokane County (and because debt coverage appears more than adequate even when Regional Center and subordinate note obligations are included in DSCR calculations).
- 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 District operating surplus revenues.

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 risk 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:

- **Capital cost** risks of potential cost escalation and post-construction issues likely do not affect debt issuance or repayment but, if experienced, more likely would involve needed funding support from existing reserves.

- Barring major short term external events, **debt repayment** risks related to coverage and bond rating or interest rate shock are not expected to have any substantive detrimental effect on capacity for repayment due to substantial coverage or surplus of tax revenues above and beyond required debt service payments.

SPFD Project Development Risks:

- **Operating** risks may be greater than the potential for a default on debt service but still relatively modest based on historic experience – albeit with some potential for short-lived challenges in the event of a major economic downturn.
- **Financial capacity** is a source of 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 threat to ongoing SPFD sustainability over any reasonably foreseeable time horizon.
- **Institutional risks** similarly do not appear to be of any immediate concern but may be worth addressing to maintain cooperative interagency relationships and provide greater clarity in the unlikely event of any future worst-case operating and/or debt repayment shortfalls.

On balance, the Spokane Public Facilities District appears to have performed as well or better than expected through the most recent economic cycle, has invested for continued convention center vitality, and is now well poised for renovations to the INB Performing Arts Center. The financial feasibility of debt issuance, project development and sustained operations all appear positive. There are potential short- and longer-term risks but these appear manageable based on SPFD experience and capacity to date.

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 and related event facilities both in and outside the state of Washington. Representative project assignments have included:

- 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, being followed by a 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), brownfield property reuse (Washington State Department of Ecology), Pearl District and South Waterfront mixed use due diligence analyses (Portland, OR), and transit oriented development impact analyses (Portland, SeaTac, Boise, Reno, Santa Ana, Anaheim, San Antonio and Oklahoma City).

APPENDIX B. DOCUMENTS REVIEWED

Documents that have been reviewed as part of this independent feasibility evaluation of the INB Performing Arts Center for the Washington State Department of Commerce and Spokane Public Facilities District (SPFD) have included the following:

Preliminary Official Statement Dated October 20, 2017, of the Spokane Public Facilities District (together with review of earlier drafts dated 8/18/17 and 9/5/17).

E. D. Hovee & Company, LLC, *Spokane Public Facilities District Independent Financial Feasibility Review*, prepared for Washington State Department of Commerce, February 5, 2013.

E. D. Hovee & Company, LLC, *Spokane Convention Center Operating Budget Review*, prepared for Washington State Department of Commerce, May 30, 2013.

Hill International, *INB Renovation Design Build Services, Authorized Budget*, Update 7/25/2017.

Integrus Architecture, *Renovation Study: INB Performing Arts Center,* 2017.

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

Northwest Municipal Advisors, *Spokane Public Facilities District Hotel/Motel Tax and Sales/Use Tax Bonds, Series 2017 Preliminary Numbers as of October 16, 2017,* also reviewed earlier draft dated 8/28/17.

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

APPENDIX C. INSTITUTIONAL ARRANGEMENTS

This appendix summarizes statutory and institutional agreements of importance for the planned 2017 bond issuance, construction and operation of a renovated INB Performing Arts Center. 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 draft 2017 Preliminary Official Statement and 2017 bonds resolution. [16]

STATUTORY AUTHORITY & INSTITUTIONAL AGREEMENTS

This discussion begins with a summary review of state enabling authority followed by analysis 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 SPFD subsequently obtained voter approval in 2002 to extend hotel/motel and sales/use tax authority to fund the Regional Center projects.

In August 2003, the City of Spokane and the SPFD entered into an Interlocal Cooperation Agreement providing for SCC and related parking expansion together with transfer of two-thirds of the SCC, 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% 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 Most Recent 2013 Financing. Two SPFD Interlocal agreements were pivotal to the most recent 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 support 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 has 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.

SPFD Design Build Authority & Experience

SPFD is planning to use a design-build process to make improvements to the INB Performing Arts Center. 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.[17]

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). While the District has not applied for agency status with CPARB, it has received specific authority from the PRC to use the D-B project delivery method for the INB Performing Arts Center renovation project.

- 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 of construction – with a $4 million renovation of the Spokane Veterans Memorial Arena and a $55 million convention center completion project.[18] One of the features of the D-B process of importance to the District is the ability to select project features and substitute scope between different aspects of the project based on consideration of pricing and schedule certainty as provided by the D-B project team.

The SPFD Project Committee has assumed responsibility to lead the renovation project. The District has retained Hill International, Inc. which has alternative contract delivery experience including previous management and administration of the D-B process for the recent Convention Center Completion project in 2013.

The Project Committee includes two SPFD board members (including the Chair) together with the CEO and the Project/Operations Manager for the District. Project Committee consultants include the SPFD General Counsel and personnel with Hill International, Inc. Both the Project Committee and consultants have D-B experience.

SPFD Capital & Operating Revenue Sources

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

As a starting point for a prior 2012-13 review of convention center expansion and for this current review of proposed INB renovation, 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 INB Performing Arts Center, Spokane Convention Center, and Spokane Arena, the overall structure is generally applicable to all three facilities.

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
Tax Revenues	**Available for Capital Improvements/Debt Repayment**
SPFD Hotel/ Motel Tax (2.0%)	Voter approved county-wide in 1990, extended in 2002 to finance Regional Center Projects and most recently (in April 2012) to 2043. 2003, 2011 and 2013 bonds were secured by a lien on SPFD hotel/motel tax (plus SPFD sales and use tax) revenues. This revenue source is planned to be made available for Series 2017 Bond repayment.
SPFD Sales & Use Tax (0.1%)	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. 2003, 2011 and 2013 bonds are secured by a lien on sales and use tax (plus SPFD hotel/motel tax) revenues. This revenue source is also planned to be made available for Series 2017 Bond repayment.
SPFD/State Sales & Use Tax Rebate (0.033%)	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 and 2013 bonds have been secured by this tax as well as SPFD sales/use and hotel/motel taxes. This revenue source is planned to be made available for Series 2017 Bond repayment.
First City of Spokane Hotel/Motel Tax (2.0%)	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. **This revenue source is not pledged for Series 2017 Bond repayment.**
Second City of Spokane Hotel/Motel Tax (1.3%)	This revenue source was made available for 2013A bond repayment for SCC expansion together with trail/riverbank and Arena improvements, per terms of a Fourth Amendment to the 2003 Interlocal Agreement between the City and SPFD. The 1.3% incremental tax will sunset in 2043.[19] Excess funds not needed for debt service to be made available for tourism marketing and facility development. The Districts' right to receive City Hotel/Motel Taxes terminates upon final payment of the Series 2013A bonds and the Subordinate Note. **This revenue source is not pledged for Series 2017 Bond repayment.** *Added Note:* When combined with other forms of sales/use tax, the combined lodging taxes are not to exceed a 12% total rate.
SUMMARY NOTE	**The first three of the above tax revenue sources are pledged assets to secure payment of the Series 2013A Bonds, Series 2013B Bonds, and proposed Series 2017 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 only.**
Operations	**As Current Sources of Funding Operations**
User Revenues	Includes facilities rentals, concessions, catering, parking and other fee-related revenues associated with on-site theater, convention center and arena activity.
Tax Revenues	Includes Admission Tax and a portion of the First City hotel/motel 2.0% tax to offset the SCC deficit, which is also offset by operating profits from the INB and arena.

END NOTES

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[1] 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.

[2] The Integrus/Roen cost estimate included general requirements, 20% contingency, 7% general contractor market, and 3% per year escalation from July 10, 2017 estimate to July 1, 2019 start date. Excluded were soft costs such as design fees, permits, testing/inspections, construction change order contingencies, loose fixtures/furnishings and sales tax which are covered by the subsequent Hill International preliminary budget.

[3] Comparison is based on *the SPFD Independent Financial Feasibility Review* for Spokane Convention Center expansion, prepared by E. D. Hovee for the Washington State Department of Commerce, February 2013. Cost of issuance in 2013 was estimated at 1.4% of funds uses in 2013, less than the 1.9% estimate for Series 2017 Bonds. The cost of a reserve account was 3.5% of total uses in 2013, while an AGM surety represents a reduced 2.7% share of uses with the proposed Series 2017 Bonds. Surety policies as from Assured Guarantee Municipal (AGM) may take the place of cash-funded reserves in bond transactions. While shown as purchase of a surety bond, it is noted that the SPFD may fund the Reserve Fund through any of several means, including cash, surety bond, and/or discussion with Spokane County regarding provision of a Reserve Fund Facility.

[4] A 1.25 debt service coverage ratio (DSCR) is noted as a condition precedent to issuing additional bonds, not an on-going requirement. However, DSCR is forecast through 2043 as part of the Preliminary Official Statement.

[5] The SPFD's authority to impose the State Credit Sales/Use Tax currently terminates February 1, 2042. SPFD authority to impose the Sales/Use Tax and the Hotel/Motel tax currently terminates on September 1, 2043.

[6] The state credit sales/use tax was made available in 2003, skewing year to year changes from 2002-03. With this source excluded, revenues from long-standing sales/use and hotel/motel taxes increased from 2002-03.

[7] A preliminary statement of uses of funds by Northwest Municipal Advisors prepared August 28, 2017 indicated funding of a reserve account in the amount of $1,035,611.11. This has been revised with the October 16, 2017 statement to purchase of an AGM surety in the amount of $575,029.88.

[8] The 2010 spike in SPFD operating profit is wholly attributable to the Spokane Arena. Previously, in 2007, Arena surpluses offset weaker financial performances that year from the INB and the convention center. The INB and convention center both reported declining operating profits from 2009-10. Based on email correspondence with the SPFD, in both 2007 and 2010, the Arena hosted three major events: the men's NCAA basketball tournament, USFSA US Figure Skating, and Walking with Dinosaurs – all three as significant events for the arena facility. With the exception of the NCAA events, these are not on a normal rotation for the Spokane Arena. The Arena again hosted the Men's NCAA tournament in 2014 and 2016 and will have it again in 2020. These "mega" events are noted as having a significant positive effect on the SPFD bottom line in the years that they occur – as financial benefits that cannot readily be replicated in other years without similar events.

[9] A major reason for strong historical INB profitability is that the SPFD has no offices in the space, so the facility does not need to be lit, heated, cooled or staffed except for times in preparation or conduct of an event.

[10] Email correspondence with SPFD indicates that no explicit revenue/expense adjustment for the 2018 six-month closure of the INB Performing Arts Center has been made to date. Some events will be shifted to the convention center or moved to alternate times, with little net resulting loss to entire SPFD operations. Costs for some events that may be dislocated are high, so closure may actually improve operating revenue. For this feasibility review, the base case and growth extrapolation scenarios assumes no net gain or loss. The cyclical stress test scenario assumes a more conservative 40% reduction in both revenue and expense in 2018,

followed by a 20% reduction in revenue/expense for 2019 if some events are slow to return. With the cyclical stress test scenario, a 6-month closure could result in a less than 13% drop in SPFD operating profit in 2018.

11 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.

12 SPFD receives 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.

13 Upon issuance of the Series 2017 Bonds, SPFD is 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.

14 Email correspondence from the SPFD accountant indicates that the General Fund has a cash balance of approximately $12 million as of September 30, 2017, increasing through year end as the bond fund is 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.

15 The 2012 Resolution of Spokane County is consistent with the 2003 Interlocal Agreement, but includes a new priority for repayment of the $15 million Subordinate Note authorized in 2012. This Resolution makes repayment of the $15 million County loan subordinate to SPFD issued-indebtedness and to payments previously authorized by the Regional Center Projects Interlocal Agreement.

16 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.

17 Source is Wikipedia, https://en.wikipedia.org/wiki/Design%E2%80%93build, as of September 2017.

18 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.

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