STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
1011 Plum Street SE • *PO Box 42525 • Olympia, Washington 98504-2525 • (360) 725-4000*

April 29, 2020

Honorable Jay Inslee
Washington State Governor
PO Box 40002
Olympia, WA 98504-0002

Dear Governor Inslee:

In accordance with RCW 35.57.025(1), the Department of Commerce is electronically submitting the final independent feasibility review for the Skagit Regional Public Facility District project. This review is available at:

Report: https://www.commerce.wa.gov/wp-content/uploads/2020/04/SRPFD-Improvement-Feasibility-Review-Final-3-20-20.pdf

Addendum: https://www.commerce.wa.gov/wp-content/uploads/2020/04/SRPFD-Improvement-Feasibility-Addendum-Finalt-4-28-20.pdf

Commerce's primary role in this process is to contract for an independent review to provide objective and timely analysis of the financial feasibility of the proposed project. The statute further directs Commerce to make the review public upon its completion and submit it to participating local governments, state elected officials and the Legislature.

We hope this review is helpful to the Skagit PFD and participating governments in informing decisions about their project.

Sincerely,

Mark Barkley
Assistant Director, Local Government Division

cc: Duane Davidson, Washington State Treasurer
Pat McCarthy, Washington State Auditor
Marc Estvold, Project Manager, Skagit Regional Public Facilities District
Trisha Logue, Skagit County
Cindy Aden, Washington State Library

Financial Feasibility Review of Skagit Regional Public Facilities District Improvements to McIntyre Hall Performing Arts & Conference Center

Prepared for:

Washington State Department of Commerce

March 20, 2020

E. D. Hovee & Company, LLC

Economic and Development Services

FINANCIAL FEASIBILITY REVIEW OF SKAGIT REGIONAL PUBLIC FACILITIES DISTRICT IMPROVEMENTS TO McINTYRE HALL PERFORMING ARTS & CONFERENCE CENTER

Prepared for:

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March 20, 2020

Note: Cover exterior photo is courtesy of the Hutteball + Oremus Architecture

AT-A-GLANCE SUMMARY

The Skagit Regional Public Facilities District (SRPFD or District) is planning to improve the 700-seat McIntyre Hall Performing Arts & Conference Center in Mount Vernon, Washington, at a cost of $4.5 million, funded in large part by issuance of an estimated $4.0 million in net bond proceeds – with face value (par amount) of new bonds at $3.4 million.

In accordance with state statute, the economic and development consulting firm E. D. Hovee & Company, LLC, has prepared this independent feasibility review for the Washington Department of Commerce on behalf of the District. Key findings of this report follow.

SRPFD Institutional Arrangements. Institutional arrangements of importance to the 2001 initial formation and subsequent ongoing sustainability of the SRPFD include the original charter for the District as amended, interlocal agreements with five participating Skagit County municipalities, ground lease with Skagit Valley College and Management Agreement with Skagit County (much of which has now been superseded by a 2013 Interlocal Agreement). In 2001, the SRPFD board also put in place a state-rebated 0.033% sales-and-use tax that has been used to support debt repayment plus a portion of operating and other facility-related expenses.

As a countywide regional public facilities district involving Skagit County, Skagit Valley College (SVC) and five municipalities, the governance and funding of SRPFD functions represent a reasonably complex intergovernmental framework supported by appropriate documentation. Planned improvements are expected to require prior updating of some agreements – most notably the Interlocal Agreement with Skagit County and a Ground Lease with SVC.

Improvement Cost and Funding. Initially completed in 2004, the Performing Arts & Conference Center (PACC) was funded at a cost of about $18 million, just over half of which was from issuance of bonded debt. Current improvements are anticipated to include replacement of the damaged exterior of the theater (at a cost of $2.5 million), renovation and addition to the facility's commercial kitchen ($1.7 million), and additional smaller improvements (budgeted at up to $300,000) as funding allows.

Initial 2003 Bonds were issued at a par amount of $9.685 million. Planned 2020 Bonds are proposed to be issued with a par amount of $3.400 million. When combined, they should equal $13.085 million. The total amount of existing debt (much of which has been repaid) and new debt should total a cumulative $13.085 million debt cap (or maximum) agreed to by participating jurisdictions in conjunction with initial District formation and initial PACC construction. Existing debt was refinanced in 2013 by Skagit County at a savings in annual debt payments which will end in 2026 when bonds are fully retired.

Planned new debt will be issued in 2020 with repayment starting at the end of this year and extending through 2041. Total annual debt service payments (on both bonds) are estimated to be more than $771,000 in 2020, increasing to $1.002 million in 2026, then dropping with retirement of the 2013 bond to payments ranging from $325,500 to $350,000 per year from 2027 to 2041.

The 2020 Bonds, as Skagit County Limited Tax General Obligations (LTGO) commitments, could be repaid from any legally available source of the County. The PFD's obligation to the County relies solely on District sales tax credit and associated reserves.

Debt Repayment Capacity. Since the primary source of debt repayment available to SRPFD has been the 0.033% sales tax credit rebated to the District, the key question addressed with this review is: **Will District sales tax revenues prove adequate to pay both existing and added debt through the period of debt repayment?**

From 2004 (as the first full year of sales tax collections) to 2019, sales-and-use tax revenues have increased by an average of 3.3% per year to $1.14 million, as of 2019. To date, the only time over which revenues have declined was from 2008-10 (during the Great Recession). Over this three-year period, annual sales tax receipts to the District declined by nearly 24%.

This review has considered the implications of three alternative potential revenue scenarios going forward: a **trended scenario** by which sales tax revenues continue to increase at 3.3% per year, a **flat revenue scenario** with revenues stalling out at 2020 budgeted levels and a **recession scenario** similar to what occurred in 2008-10 (hypothetically repeated from 2024-26). Two primary conclusions emerge from this review:

- All three scenarios provide adequate sales-and-use tax revenue to meet debt service requirements each year through the period of debt repayment. This assumes that sales tax revenues are prioritized to repay the debt even if shortfalls in funding to cover reserves, operating and/or other facility expenses are created as a result.
- Recognizing that sales tax revenues also have been used to cover operating expenses (for example, budgeted at $395,000 for 2020) plus reserve requirements, this review also concludes that only the trended scenario covers debt plus reserve and operating expenses but that the other scenarios could fall short of full funding capacity in 2026-27 with flat revenue or from 2024 to beyond 2028 with the recession scenario.

Project Risks and Mitigation. As illustrated by the following chart, three potential categories of project risk are identified with this review – institutional, construction and debt repayment. Also listed are potential options that might be considered to mitigate these risks.

Type of Risk	Potential Sources of Risk	Potential Options for Mitigation
Institutional risk – for multiple public entities involved with the PFD and need to update interjurisdictional roles	• Need to amend/extend SVC & Skagit County agreements • Unclear responsibility to remedy potential future funding shortfalls	• Short term – extend the ground lease with SVC & interlocal with Skagit County • Long term – plan the transition for future PACC funding/management when all debt is retired as planned in 2041
Improvement cost & funding risk – if improvement costs exceed $4.5 million or funding terms are less favorable than expected	• Construction cost inflation • Unforeseen construction issues and/or schedule delay • Bond funding does not materialize as planned	• Use of existing contingency set-asides • Deferral of smaller improvements • Add local funds or reduce project scope
Debt repayment capacity risk – as with increased cost, economic downturn and/or debt coverage requirement	• Potential economic downturn before 2026 impacting reserve buffer • Temporary inability to fully fund both debt & operating obligations	• Prioritize debt repayment as per existing Interlocal agreement • Clarify backstop responsibilities for reserves & operating expense support • Increase reserves &/or restructure debt service with flatter repayment schedule

These risks may be addressed with District and interlocal action – with initial steps taken as appropriate prior to planned issuance of new debt in 2020 and/or as future conditions warrant. For the scenarios considered, there would appear to be reasonable options for measures that can be taken to assure debt repayment over the term of the new bonded debt as currently planned.

Added Report Note. *It is important to note that the financial estimates provided in this report pre-date the March 2020 intensification of the coronavirus (COVID-19) pandemic nationally and in Washington state, especially in the face of economic effects now being experienced. As of the date of this draft, the short and long-term financial and economic effects nationally and regionally have yet to be determined in any readily quantifiable manner. Depending on the severity and duration of these effects, it is possible that the financial capacity of the District could be affected in a manner not previously anticipated.*

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I. INTRODUCTION

The Skagit Regional Public Facilities District (SRPFD or District) is planning to improve the 700-seat McIntyre Hall Performing Arts Center in Mount Vernon at a total cost estimated at $4.5 million. Of this amount, $4.0 million is anticipated to be funded with limited tax general obligation (LTGO) bonds issued by Skagit County – with repayment to be made by the District.[1]

Purpose of Independent Feasibility Review

The economic and development consulting firm E. D. Hovee & Company, LLC, has been retained by the Washington State Department of Commerce (Commerce) to conduct an "independent feasibility review" for Commerce on behalf of the District, pursuant to RCW 35.57.025.

The purpose of the review is to examine the potential costs and the adequacy of revenues or expected revenues to meet the costs that are proposed to be incurred by the District. As directed by state statute, the preparer of this report is to exercise independent professional judgment in conducting the financial feasibility review.

State of Washington Role and Statutory Authority

As enacted by the 2012 Washington State Legislature, RCW 35.57.025 reads as follows:

> (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 RCW 35.57.020.
>
> (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.

SRPFD FACILITIES

The Skagit Regional Public Facilities District (SRPFD) was created in 2001 for the sole purpose of funding, constructing, owning, operating and maintaining a performing arts and conference center (PACC). Entities participating in District formation included Skagit County together with the incorporated municipalities of Anacortes, Burlington, La Conner, Mount Vernon and Sedro-Woolley. The center is located on property leased from Skagit Valley College in Mount Vernon.

Current Performing Arts & Conference Center Facilities

As noted, the McIntyre Hall Performing Arts & Conference Center is located on the campus of Skagit Valley College (SVC). Construction began in March 2003 and the completed facility opened Nov. 13, 2004 – with "A Wonderful Life" as the first production in December 2004.

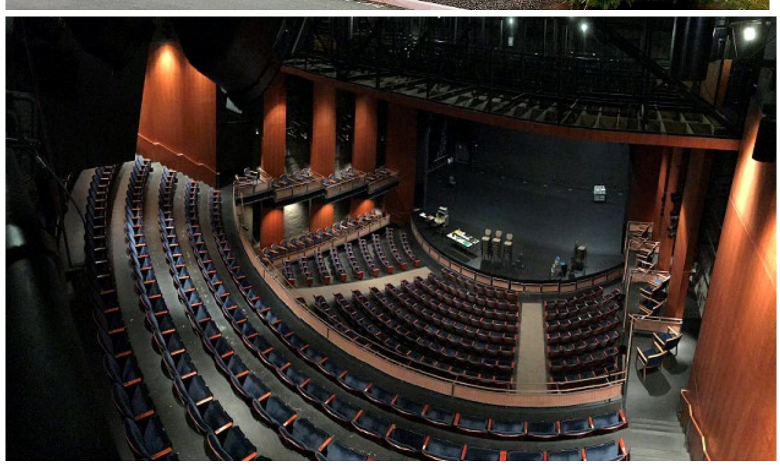
McIntyre Hall serves the Skagit Valley with a 700-seat theater, conference room and support facilities, including catering, marketing, technical support, event planning and ticketing.

The facility has served as home to community arts organizations, including Fidalgo Youth Symphony, Lyric Light Opera, META Performing Arts, Mount Vernon School District, Northwest Ballet Theater, Skagit Opera, Skagit Symphony, Skagit Valley Academy of Dance, Skagit Valley Chorale and Theater Arts Guild.[2]

Constructed at a cost of about $18 million, facility funding was provided about as follows:

- $9 million+ in bonds (47% of the project total)
- $6 million (35%) as a McIntyre Foundation gift
- $3 million (18%) through a Building Campaign with funding from individuals, businesses, grants and in-kind contributions.

Exterior and Interior Images of McIntyre Hall



Source: Photo images courtesy of Hutteball + Oremus Architecture.
See Appendix D for facility floor plans.

Improvement Plan

McIntyre Hall is SRPFD's only regional center facility, constructed with the proceeds of its original bond issue in 2003 and completed in 2004. Now just over 15 years since project completion, the District has determined that the facility is in need of improvements and upgrading to remain viable and attractive as a continuing regional arts center going forward.

The planned project consists of two major elements and several smaller maintenance/safety upgrades:

- **The first element is proposed to involve replacement of the exterior envelope siding on the building.** The current building siding is stucco. Even though the siding was installed to meet industry standards in 2003, there have been leaking problems throughout the building since opening day. The current planned project includes removal of the existing stucco siding; removal and replacement of wet/damaged gypsum wall board and insulation exposed by stucco removal; and the installation of a full-weather barrier, new Cereclad siding and flashings.
- **The second major element of this project is planned to include the renovation and addition to the commercial kitchen in the building.** The current kitchen was designed as a warming/ serving kitchen. With this renovation and expansion, up to 300 meals will be able to be prepared and served on time, greatly expanding the use of the Conference Center and improving quality and safety.
- **An optional third element would be to undertake additional smaller improvements, as funding allows.** SRPFD is considering re-carpeting the conference center, long-term HVAC equipment maintenance requirements and the installation of a hydraulic orchestra pit lift. As noted, these projects are the next level of priority and will be queued up for implementation as funds are available – whether with the 2020 program of improvements or subsequently.

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).[3] A brief profile of the firm as report preparer appears in Appendix A.

Documents Reviewed

A listing of documents reviewed as part of this independent feasibility study appears in Appendix B to this report. Included are documents as initially provided by Commerce and SRPFD 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 Commerce and the SRPFD. The assistance of Commerce and the District with provision of background information, follow-up to questions and review of draft report documentation is greatly appreciated.

Methodology Overview

A major focus of this report is to review the project's capital cost and related documentation. This is followed by a review of the sources and adequacy of revenues to meet debt service requirements.

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

Recent Coronavirus Disease Outbreak and Economic Effects

It is important to note that the financial estimates provided in this report pre-date the March 2020 intensification of the coronavirus (COVID-19) pandemic nationally and in Washington state, especially in the face of economic effects now being experienced. As of the date of this draft, the short and long-term financial and economic effects nationally and regionally have yet to be determined in any readily quantifiable manner. Depending on the severity and duration of these effects, it is possible that the financial capacity of the District could be affected in a manner not previously anticipated.

Report Organization

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

- **SRPFD Institutional arrangements** – including a review of interlocal agreements and authorizations, sales tax funding authorization, and summary of institutional arrangements
- **Improvement cost and funding** – including sources and uses of funds, improvement budget and funding detail, and schedule and management arrangements
- **Debt repayment capacity –** addressing feasibility of issuing new indebtedness in the context of District revenue and capacity to support new debt together with ongoing operating expenses
- **Project risks and mitigation** – associated with institutional, improvement cost/funding and debt repayment capacity

Included with the report are four appendices: a profile of E. D. Hovee & Company, LLC, as project preparer; a list of reviewed documents; statement of independent registered municipal advisor (IRMA) compliance; and illustration of the current floor plan of McIntyre Hall.

II. SRPFD INSTITUTIONAL ARRANGEMENTS

Within the state of Washington, public facility districts can be created by a city, county, or combination of cities and/or counties. SRPFD was created by Skagit County and currently operates as a countywide regional district – involving interlocal agreements between Skagit County and five municipalities within the county (four cities and one town).

This portion of the independent feasibility report is intended to review the institutional arrangements that have been pivotal to the organization and operation of the District to date, including potential refinements to these arrangements as might be needed for further facility improvements as currently planned. Also considered are capital and operating funding responsibilities as consistent with local institutional arrangements and availability of sales-and-use tax funding credited back to local jurisdictions by the state of Washington.

Interlocal Agreements and Authorizations

Institutional arrangements of importance to the initial formation and ongoing sustainability of the SRPFD include the original charter for the District as amended, interlocal agreements with five participating Skagit County municipalities, ground lease with Skagit Valley College and Management Agreement — much of which has now been superseded by a 2013 Interlocal Agreement with Skagit County. Each of these is briefly described, in turn.

SRPFD Charter and Amendments

Documents made available for this review have included the original charter (including County resolution forming the District); amendments from 2002, 2003 and 2004; and County resolutions from 2008 and 2009 regarding the District's board composition.

Initial SRPFD Charter. By resolution 18364 dated Aug. 14, 2001, the Skagit County Board of County Commissioners formed the Skagit Regional Public Facilities District as a municipal corporation and independent taxing district to:

> "… acquire, construct, own, remodel, maintain, equip, reequip, repair, finance and operate (either directly or by contract) a Performing Arts & Conference Center ("PAC") consisting of the following components (all of which shall be included if and to the extent of available funds): a proscenium stage together with fly tower and orchestra pit, with seating (estimated capacity of 700) in opera house configuration and one or two balconies and related lobby space and additional space for a conference facility on property to be leased from the College, including necessary parking."

Additional features of the charter included provisions for:

- Use of sales tax and additional revenue for the District's corporate purposes.

- All liabilities of the District to be satisfied exclusively from the assets and credit of the District.
- Application of sales tax or other revenue to be expended for the payment of debt service and then for the services, projects and activities authorized by the Charter.
- Contracting authority of the District limited to the lesser of $13.085 million or the bond proceeds plus donation on deposit plus other contributed funds.
- No authorization for the District to impose other taxes available to PFDs by state statute without prior approval by the Board of County Commissioners.
- Provision for the charter to be amended only with County Commissioner approval, whether in response to a resolution passed by the District's Board of Directors or on the initiative of the County.
- Provision for future potential dissolution of the District whether by the initiative of the District or County – but requiring approval by the County, with provision for discharge of remaining responsibilities including property disposition.

SRPRD Charter Amendments. Since its initial adoption in 2001, the Charter of the District has been amended on several occasions as follows:

- Skagit County Resolution R20020048, amending the charter to add city approval prior to PFD voted sales tax imposition and limitation of bonding or other debt to no more than $13.085 million, adopted Feb. 19, 2002.
- Skagit County Resolution R20030101, amending additional provisions of the original charter and approving an initial Interlocal Agreement, adopted March 24, 2003.
- Skagit County Resolution R20040143, as *3rd amendment* to the charter – further clarifying that the maximum amount of funding is to include bond proceeds and donations on deposit plus other contributed funds plus added future tax revenues sources including interest income, adopted April 26, 2004.
- Skagit County Resolution R20080258, acknowledging the composition of the current Public Facilities District board and redefining the position designations and term expiration dates of the board members, adopted May 27, 2008.
- Skagit County Resolution R20090274, further redefining the position designations and term expiration dates of the Board positions, Jun. 29, 2009.

The most significant component of these amendments has been to clarify the application of the $13.085 million maximum amount. In effect, this represents a fixed cumulative debt funding maximum not expected to be exceeded with planned inclusion of the new 2020 bonded amount. Other funding sources are outside of this $13.085 cumulative bonded debt limit.

Municipal Interlocal Agreements

As of Dec. 31, 2001, five interlocal agreements (ILAs) were completed by Skagit County with the cities of Anacortes, Burlington, Mount Vernon and Sedro-Woolley, and with the Town of La

Conner – each detailing the jurisdiction's participation in the Skagit Regional PFD. In each case, the five cities have agreed that they will not form a separate PFD that would impose the 0.033% tax, in support of the county-wide regional district.

The only incorporated jurisdictions in without ILAs are the smaller communities of Concrete, Hamilton and Lyman. While there are no specific agreements with these jurisdictions, all of Skagit County is part of the District as the boundaries of the District are coterminous with Skagit County.

Similar agreements were made with each participating jurisdiction – all located within the boundaries of SRPFD as coextensive with the county. The agreements stipulate that each jurisdiction will not create its own PFD if that would involve a reduction to the sales tax of the regional District – so long as general obligation bonds of the District remain outstanding. In the agreement with Sedro-Woolley, an added provision was made that, in any event, the commitment to not form a separate local PFD is currently for no more than 25 years after the first sales tax was initially collected (or through 2026).

For Anacortes, an added provision was that District debt not exceed $13.085 million. Another added provision was made regarding potential future funding allocation in the event that a city-specific PFD was to be formed, but this provision appears to be of no current effect.

Skagit Valley College Ground Lease

In September 2002, SRPFD entered into a ground lease with the Washington State Board for Community and Technical Colleges and the Board of Trustees of Skagit Valley College. By this agreement, SRPFD agreed to lease property on the site of the SVC campus for construction and operation of a Performing Arts & Conference Center (PACC).

The term of the lease is for 30 years, with an annual lease payment to be made of $1 per year. The lease was conditioned on the District beginning construction of the center by Dec. 31, 2003, so that the District would receive 0.033% state sales-and-use tax funding. The lease also referenced a separate Management Agreement between SRPFD and SVC, whereby the college would agree to undertake management responsibilities for the PACC, once completed.

SRPFD is responsible for subsequent modifications, alterations and additions to the PACC facility, subject to SVC approval for projects of over $10,000 in cost. At the end of the lease, the property reverts to SVC with the anticipation that the PACC will continue to be operated by the College, though no formal SVC commitment has been made to date. If requested by SVC as per the terms of the ground lease, the District would be responsible for removing modifications, alterations, additions, or improvements and restoring the premises to their prior condition.

With the proposed new bond financing extended via added bond payments through 2041, the ground lease agreement with SVC will need to be extended to cover at least this new time period of additional bond repayment. This extended lease will also require review with the

Washington State Office of the Attorney General. This process is underway and the lease extension is expected to be approved by the State by about the end of March 2020.

Management Agreement and Amendments

On Sept. 2, 2002, SRPFD entered into an agreement for PACC Management Services with the Skagit Performing Arts Council (SPAC) and Skagit Valley College (SVC). The agreement has been subsequently amended.

Initial Agreement. With this agreement, SVC committed to assume facility management services upon PACC occupancy for a 30-year term or until the facility and premises would revert to the College. Management services were defined to include responsibility for staffing, scheduling/rental activities, rental rates and booking policy, payment of all operating expenses, marketing, and cooperation with user groups. SVC also agreed to manage the PACC as a *Four-Wall House*, meaning that users of the facility would be responsible for all aspects of their production or use, and promotion of their productions or use and for the sale of tickets and associated activities.

As a separate 501(c)(3) non-profit corporation, SPAC committed to engage in annual fund-raising efforts to support the operations and maintenance of the PACC for the benefit of the performing arts in Skagit County.

The 2002 Management Agreement included specific provisions for priority uses of sales tax revenues and all SRPFD revenues. These priorities have been subsequently modified by a 2013 Interlocal Agreement between SRPFD and Skagit County, as described below.

Amendments. The Management Agreement has been subsequently amended, as follows:

- By an Amendment of June 2004 to a prior Memorandum of Understanding dated Jan. 16, 2003, the SRFPD, SVC, Skagit Valley Foundation, and the M.J. McIntyre and Shirley McIntyre Charitable Foundation, SVC agreed to provide specific support services, office space and personnel to the Foundation and Capital Campaign. Also agreed was that, in the event professional fund-raising expertise is required by the PFD, SVC has agreed to work with the PFD to locate and fund that expertise.
- A proposed First Amendment to the agreement considered in 2008 was predicated on SPAC relinquishment of all rights and duties together with revisions to financial, scheduling and rental policy provisions of the initial Management Agreement. However, the SRPFD indicates that there is no record of this amendment being approved.[4]
- A Second Amendment was formally approved by SRPFD, SVC and SPAC over the June-July period of 2018, acknowledging the removal of SPAC from the Management Agreement and providing for amended language of the agreement related to financial, scheduling and rental policy provisions.

Skagit County Interlocal Agreement

By Interlocal Agreement dated Feb. 1, 2013, between Skagit County and the SRPFD, it was agreed that 2003 SRPFD issued limited sales tax obligation bonds would be refunded with a new issue by Skagit County to achieve a debt service savings to the District. By this agreement and associated bond resolution, the District agreed to dedicate sufficient revenues to pay the debt service on the County's 2013 refunding bonds. Skagit County irrevocably pledged its "full faith, credit and resources" to bond repayment. In effect, the County is serving as a financial backstop in the event that future District sales tax revenues and designated reserves prove inadequate to fully cover debt service, whether temporarily or of longer-term duration.

The agreement terminates upon repayment of existing and future debt. It provides for some re-statement of payment priorities involving the Sales Tax and Revenue Stabilization Accounts.

Sales Tax Account. Payment priorities for the Sales Tax Account maintained by the Skagit County Treasurer's office and funded by District sales-and-use tax revenue listed by this new interlocal agreement are:

> *First,* to make deposits to the Interest Account for payment of 2013 bonds and any future Additional bonds.
>
> *Second,* to make deposits into a Principal Account for payment of principal for the same bonds.
>
> *Third,* to pay District Operating Expenses (not including the operating expenses of SVC as facility operator).
>
> *Fourth,* to make required deposits to a Revenue Stabilization Account (to cover the required debt service for each upcoming calendar year).
>
> *Fifth,* to fund the Operating Reserve Account (at a minimum of one-half of operating reserves for each budget year or at least $20,000 per year).
>
> *Sixth,* to fund a Capital Reserve Account (set at an amount of at least one-half of the amount budgeted each year for Capital Reserves as defined in the Management Agreement).
>
> *Seventh,* to make necessary additions, betterments, improvement and repairs to or extension and replacement of the PACC, or for any other lawful District purposes.

District Revenue Account. This is a second account of the District maintained in the office of the County Treasurer – from the proceeds of interest earnings on fundraising and surplus revenues. For so long as there is outstanding bonded indebtedness, District revenues can be used only for the following purposes and in the following order of priority:

> *First,* to pay PACC/SVC operating expenses to the extent not covered by other sources.
>
> *Second,* to make required deposits to the Interest Account.
>
> *Third,* to make required deposits to the Principal Account.
>
> *Fourth,* to pay PFD Operating Expenses.

Fifth, to fund the Operating Reserve Account.

Sixth, to fund the Capital Reserve Account.

Seventh, to make other expenditures as for facility improvements, reimbursement of operators including SVC for operating deficits or other lawful District purposes.

SRPFD expects to request an amendment or affirmation for continuance of its 2013 Interlocal Agreement with Skagit County before the issuance of additional bonds by the County. It is contemplated that the District will be responsible for payment of the debt service of the 2020 County Bond. Bond issuance is currently planned to be completed in the first half of 2020.

SRPFD has asked Skagit County to issue the 2020 Bonds for the benefit of the SRPFD and the Project. As a condition to such issuance, it is understood that the County is requiring an amendment to or re-affirmation of the 2013 Interlocal Agreement (ILA) that will extend the commitments and obligations to both the 2013 and 2020 Bonds.

While the County agreed to issue the 2020 Bonds on behalf of the SRPFD, the parties intend and have agreed that the debt service is to be paid by revenue from the PFD's sales tax collection. Such commitment is being secured by a Revenue Stabilization Account, to better assure that funds will be available for bond payments even in the event of annual revenue shortfalls.

Sales Tax Funding Authorization

Pivotal to the funding capacity of the SRPFD and PACC capital cost has been the availability of the 0.033% portion of sales tax collections county-wide – covering all of incorporated and unincorporated Skagit County. As authorized by RCW 82.14.390, the District by Resolution 01-1 dated Sep. 5, 2001, took action to impose a 0.033% sales-and-use tax as was then available to PFDs for capital projects statewide.

Consistent with the term of state funding available at the time, the District resolution provided that the tax will expire when the bonds for the construction of the PAC are retired, but no more than 25 years after the tax is first collected. As the Legislature has since extended funding period by 15 years, amendment or similar affirmation of this authorization through the 2041 time period will be in order prior to planned issuance of additional 2020 bonding.

Institutional Arrangements Summarized

To summarize, as a regional public facilities district with interlocal agreements involving Skagit County, Skagit Valley College and five municipalities, the governance and funding of SRPFD functions represent a reasonably complex intergovernmental framework – but supported by appropriate documentation:

- **The initial 2001 SRPFD Charter** clearly limits the District to be involved in just one regional center project – the funding, construction and operation of a Performing Arts & Conference Center. The District has fairly broad capabilities consistent with those of other PFDs statewide but with a locally agreed restriction to no taxes except the 0.033% sales-and-use tax rebate coupled with a charter restriction to no more than $13.085 million of cumulative bonded indebtedness.

- **As a regional PFD chartered by Skagit County,** the SRPFD operates via intergovernmental agreements involving five of the incorporated municipalities in Skagit County. With caveats as noted for Sedro-Woolley and Anacortes, these agreements essentially assure that no new local PFD which would be reliant on the 0.033% sales tax credit can be formed prior to debt repayment. These cities have no obligation under the ILAs or other agreement other than not to form a separate PFD that imposes a sales tax.
- **Also in 2001, SRPFD enacted the 0.033% sales tax** based on the Charter and intergovernmental agreements. The sales tax can be collected until bonds for PACC construction are retired, but no later than 25 years (subsequently extended to 40 years) after the time when the tax was first imposed.
- **By a 2002 Ground Lease with Skagit Valley College,** the District is leasing the site on which the PACC has now been constructed. Upon expiration of the lease in 30 years (or later if the lease is extended), the property will revert to the College together with any building or other improvements placed on the site by SRPFD.
- **Also in 2002, SRPFD entered into a Management Agreement** with SVC and the non-profit Skagit Performing Arts Council (SPAC). Under this agreement, the College agreed to provide management services to the PACC for 30 years or until the facility reverts to the College. SPAC agreed to provide fund raising services for the College. By amendment formally approved in 2018, SPAC was removed from the Management Agreement.
- **Most recently, SRPFD entered into a 2013 Interlocal Agreement with Skagit County,** enabling the County to refund the 2003 SRPRD bonds with a new issue by the County at a savings in debt service payments but with the continued obligation of SRPFD to pledge tax collections to make required bond payments. This agreement also restated some payment priority provisions of the earlier Management Agreement but continued provisions for top priority uses of the Sales Tax Account to pay interest and principal on bonded indebtedness. The Interlocal Agreement terminates upon repayment of existing and future bonds.

Due to legislative extension of PFD sales tax availability by the Washington State Legislature for another 15 years beyond the initial 25-year term, there is now the opportunity to incur new indebtedness with repayment terms extended to 2041. This would appear to require amendment of the SRPFD tax resolution, ground lease extension with SVC, and amendment or affirmation for continuation of the current Interlocal Agreement with Skagit County until 2041 or when the new bond issue is fully repaid. Consideration might also be given to formal extension of the Interlocal Agreement with Sedro-Woolley beyond 2026 to assure that a new competing local PFD reliant on the sales tax credit is not formed prior to the 2041 repayment period now anticipated for the new bonds.

III. IMPROVEMENT COST AND FUNDING

As stipulated by RCW 36.100.025 (2), the independent 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. This section of the report addresses:

- **Sources and uses of funds** – as a summary overview of project capital requirements.
- **Improvement budget detail** – including hard construction costs plus associated indirect or soft costs for the project as estimated for the District.
- **Capital funding detail** – focused on sources of funds for the improvement project.
- **Schedule and management considerations** – from design to construction and subsequent continuing operations.

Each of these topics is considered, in turn.

SOURCES AND USES OF FUNDS

Anticipated sources and uses of funds are summarized by the following chart. As noted, project costs (or uses of funds) are estimated at $4.5 million – balanced by an equal amount of funding from sources as identified. Net proceeds of new bonds are estimated at $4.0 million with the face value (or par amount) of new bonds at $3.4 million.

Sources and Uses of Funding for McIntyre Hall Improvements

Description		Estimated Amount	Comments
Sources of Funds			
	Net Bond Proceeds	$4,000,000	Par amount of County bonds, plus original issue premium, less insurance costs - to be repaid by PFD
	Skagit Valley College	$200,000	Participation in kitchen expansion
	Cash Contribution	$300,000	From PFD cash on hand
	Total Estimated Sources	$4,500,000	
Uses of Funds			
	Exterior Envelope Project*	$2,500,000	Replacment of exterior siding
	Kitchen Renovation & Expansion*	$1,700,000	Commercial kitchen renovation
	Miscellaneous Projects	$300,000	Under review as funds allow
	Total Estimated Uses	$4,500,000	

* Note: Portion of design paid in 2019; balance for construction to be paid in 2020.
Note that uses of funds approximate but do not precisely match estimated costs as detailed on the next page, which could reduce the amount available for miscellaneous projects.
Source: SRPFD.

Of the project budget, an estimated 56% of cost is anticipated to be associated with the replacement of the building's exterior envelope, 38% is for the kitchen renovation, with less than 7% (as remaining available) for other miscellaneous improvements, as described below. Of the anticipated sources of funds, 89% represents net proceeds from Skagit County bonding, 4% from Skagit County and 7% as a cash contribution from SRPFD.

IMPROVEMENT BUDGET DETAIL

Provided below is additional detail regarding the estimation of project costs associated with the exterior envelope, kitchen renovation/expansion and potential miscellaneous projects.

Exterior Envelope Project

In an effort to attract as many bidders as possible in an extremely active construction market, SRPFD chose to bid the project in November of 2019, hoping to attract bidders before they are booked up for the summer of 2020. The District indicates it was fortunate to receive four qualified bids and have signed a Letter of Intent to Award with Good News Group Construction. This early award will also give the contractor time to get long lead items ordered (as with the Cereclad siding) to get underway by May 2020.

Including the low bid from Good News Group Construction, the District indicates that it has an overall project budget of $2.55 million. This project budget includes Architectural and Engineering, Washington State Sales Tax (WSST), 25% contingency (set high due to unknowns related to potential water damage), testing and inspections, project management, and all other project related soft costs.

Kitchen Renovation and Expansion

The overall budget for the kitchen portion of this project has been estimated at $1.7 million to $1.8 million, including construction, WSST, Contingency, Architectural and Engineering, testing and inspection, project management, and all other project related soft costs.

Miscellaneous Projects

In addition to these two major undertakings, the PFD is also looking into re-carpeting the conference center, long-term HVAC equipment maintenance requirements and the installation of a hydraulic orchestra pit lift. These projects are the next level of priority and will be queued up for implementation as funds are available – whether in 2020 or subsequently.

CAPITAL FUNDING DETAIL

As part of this independent feasibility review, the District has provided information regarding existing bonded indebtedness, new bonded debt and combined debt repayment schedule.

Existing Bonded Indebtedness

SRPFD is responsible for debt service on the County's 2013 limited tax, general obligation (LTGO) bonds, which were issued to refund the PFD's original 2003 bonds. The repayment of this existing debt is expected to continue through to December 2026.

New Bonded Debt

SRPFD has requested that Skagit County issue bonds on its behalf. As with the 2013 County LTGO bonds, the proposed 2020 County Bonds would be governed by the 2013 Interlocal Agreement (as will be affirmed or amended prior to issuance of 2020 bonds). The District does not have any other identified outstanding debt obligations.

The first scheduled payment on the planned new bonds would occur Dec. 1, 2020. Annual bond payments would be made thereafter, with the last bond payment planned for Dec. 1, 2041.

If the 2020 Bonds are sold in a public sale, a draft disclosure statement and related information will be provided to the rating agency, when available, later in the transaction. As noted, the proposed financing will consist of LTGO bonds issued by Skagit County.

With this financing structure, holders will not have a claim on PFD resources. Rather, under the Interlocal Agreement (as might be amended), the County will require that the District utilize its tax collections to pay debt service. As a result, disclosure documentation is not expected to say much directly about the District, other than describing the uses of bond proceeds.

Combined Debt Repayment Schedule

As detailed by the bond repayment schedule on the following page:

- Payments to retire what remains of **existing debt** are set at close to $648,500 for 2020, increasing each year to over $832,300 in 2026 when the last payment is made.
- The first December 2020 payment on the **new 2020 bonds** is estimated to be just under $88,900, increasing to $170,000 for each of the following years of 2021-26, then further increasing to between about $325,250 to $330,000 in subsequent years (with the amount depending on the year) through to debt retirement in 2041.
- Existing and new debt results in **combined aggregate debt** service payments that start at over $771,350 in 2020, increasing to a peak payment of just over $1.002 million in 2026, then dropping to the $325,250 to $330,000 range in each of the subsequent years. Peak payment occurs in 2026, as that is the last year for payment on the earlier 2013 bonds.
- Also noted is that the 2013 County LTGO Bonds (issued to refund the original SRPFD Bonds) may themselves be redeemed or refinanced at any time beginning Dec. 1, 2022.

From the perspective of the District's financial planning, 2026 represents the year with the maximum anticipated debt service payment obligation. If funding is adequate to get through that period with a reserve surplus, meeting debt obligations in subsequent years should be much more readily achieved.

Bond Repayment Schedule – Existing and New Debt as Proposed

AGGREGATE DEBT SERVICE
Skagit County
Limited Tax General Obligation Bonds, 2020
Preliminary – AA MMD as of 12/2/19 plus 0.5%

Period Ending	2020 Bonds Debt Service	Existing Debt Service	Aggregate Debt Service
12/1/2020	$86,888.89	$684,468.76	$771,357.65
12/1/2021	$170,000.00	$703,118.76	$873,118.76
12/1/2022	$170,000.00	$729,918.76	$899,918.76
12/1/2023	$170,000.00	$754,718.76	$924,718.76
12/1/2024	$170,000.00	$782,518.76	$952,518.76
12/1/2025	$170,000.00	$807,818.76	$977,818.76
12/1/2026	$170,000.00	$832,318.76	$1,002,318.76
12/1/2027	$330,000.00	--	$330,000.00
12/1/2028	$327,000.00	--	$327,000.00
12/1/2029	$328,750.00	--	$328,750.00
12/1/2030	$330,000.00	--	$330,000.00
12/1/2031	$325,750.00	--	$325,750.00
12/1/2032	$326,250.00	--	$326,250.00
12/1/2033	$326,250.00	--	$326,250.00
12/1/2034	$325,750.00	--	$325,750.00
12/1/2035	$329,750.00	--	$329,750.00
12/1/2036	$328,000.00	--	$328,000.00
12/1/2037	$325,750.00	--	$325,750.00
12/1/2038	$328,000.00	--	$328,000.00
12/1/2039	$329,500.00	--	$329,500.00
12/1/2040	$325,250.00	--	$325,250.00
12/1/2041	$325,500.00	--	$325,500.00
Totals	**$6,018,388.89**	**$5,294,881.32**	**$11,313,270.21**

Note MMD is the Municipal Market Data rate for its general obligation yield debt.

Source: Public Financial Management (PFM).
Preliminary as of December 2, 2019.

Schedule and Management Considerations

In addition to project financing, critical components of project implementation involve schedule and management considerations.

Project Schedule

The **financing timeline** is in the process of being developed with a more detailed draft timeline to be provided at a later date. The District's preliminary schedule includes affirmation or amendment of the County/District interlocal in the first quarter of 2020 followed by the adoption of a County Bond resolution in late March and issuance of bonds later in the spring (i.e., May 2020). This timeline is subject to change at any point and for any reason up to the date of sale. The entire transaction is subject to adoption of a bond resolution by the Board of County Commissioners.[5]

As the **construction schedule** planned for the exterior portion of this project is weather sensitive, the complete removal and replacement of building siding is intended to be completed over the period of late spring, summer and early fall – with work scheduled to start May 1, 2020. McIntyre Hall is not scheduled for any events from July through the end of 2020 as construction work is underway.

The kitchen renovation/expansion is currently in the design phase and is scheduled to be bid in March 2020. Construction is estimated to take 7 to 8 months and is also scheduled to start in late spring 2020, running concurrently with the exterior envelope improvements.

As noted, the District expects to request an amendment of its Interlocal Agreement with the County (last amended in 2013), as well as an extension of the ground lease with Skagit Valley College. Both processes are underway and expected to be completed in the first half of 2020, prior to the issuance of bonds.

Project Management

By the terms of the existing 2001 SRPFD Charter, the District is authorized to contract for the construction and the equipping of the PACC. By the terms of the initial 2002 ground lease with Skagit Valley College, the District (as Ground Lessee) agreed to undertake at its sole expense, with the construction of improvements to be in accordance with SVC development standards.

It is assumed with this review that overall responsibility for 2020 planned improvements will remain with SRPFD as overall project manager. In this capacity, the District will manage specific contractors – including a District provided Letter of Intent to award the construction bid for exterior work with Good News Group Construction. This authorization is expected to be continued by extension of the SRPFD ground lease, anticipated to occur before bond issuance.

IV. DEBT REPAYMENT CAPACITY

The feasibility of issuing new bonded debt is dependent on demonstrating adequacy of resources to replace the existing debt and also to finance PACC expansion. As has been the case to date for the SRPFD, the primary source of debt repayment has been the 0.033% sales-and-use tax credit rebated to the District – although County Bonds can draw from multiple sources of repayment in addition to District tax credit revenues if needed.

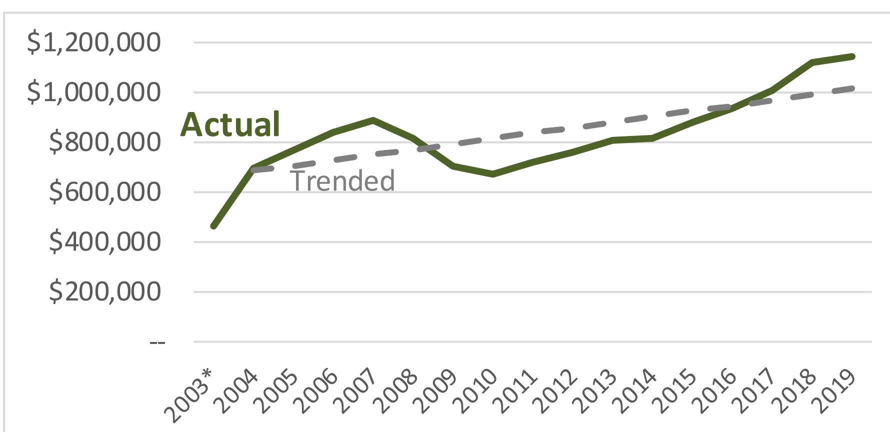
Consequently, a key question addressed with this review is: **Will SRPFD sales tax revenues prove adequate to pay both existing and added debt through the period of debt repayment?**

This review of debt repayment capacity starts with a history of this tax revenue source together with discussion of uses to which this and other incidental SRPFD revenues are allocated. This is followed by consideration of repayment capacity with base case and alternative scenarios (or stress test conditions) of current and on-going tax revenue resources.

PFD Sales Tax Revenue History

As illustrated by the following graph, sales tax revenues to the District have increased from just under $700,000 in 2004 (the first full year of collections) to over $1.14 million as of 2019. On average, revenues have increased by about $29,500 per year (as shown by the dashed trend line). When considered on the basis of a compound average growth rate, sales tax receipts have increased by about 3.3% per year over this 15-year time period.

SRPFD Annual Sales and Use Tax Revenues (2003-19)



* Note: Revenues were collected only 8 months of 2003 with District start-up. Source: SRPFD.

To date, the only time over which revenues have declined was from 2008-10. Over this three year period, sales tax receipts dropped by nearly 24%. As of 2010, annual sales tax revenues to the District were more than $211,000 below what they had been three years earlier in 2007.

Conversely, strong revenue performance has pushed total revenues above the long-term trend in the last three years from 2017-19. However, it is noted that after two strong revenue growth years of 7.8% and 10.6% in 2017 and 2018, respectively, sales tax revenue growth slowed to a 2.2% increase in 2019. *Further erosion of sales tax revenues is possible in 2020, due to economic effects of the coronavirus, the duration and extent of which have yet to be determined.*

Going forward, a key question addressed with this feasibility review is with the implications of a potential future downturn in the economy and associated capacity to address debt. This is a question to which this review now turns.

PFD Revenue Capacity to Support Debt

For SRPFD, primary reliance for repayment of bonded indebtedness is placed on annual funding from sales-and-use tax revenues. This is tempered by two countervailing considerations:

- In the event that sales tax revenues alone were to prove inadequate to make debt service payments in any particular year, the District would have the option of drawing on other revenue resources – including use of funding balances (from excess revenues in prior years), interest on accumulated savings, grants and donations (as available).
- Conversely, based on past and current practice, SRPFD has applied sales tax revenues to not only pay for debt service but also to support other expenses. These expenses include payments for administration and operations (including repair/maintenance and SVC operating deficit support), construction/improvement projects, and payments to reserve accounts.

While these other expenses represent lower priorities for use of sales tax funds than debt service, they nonetheless constitute continuing potential claims against District resources even in years when sales tax revenues alone might prove inadequate to cover both debt and non-debt expense items. Consequently, it is useful to consider the bigger picture representing all budgeted revenues and expenses of the District, required reserves and related contingencies in the event of temporarily curtailed sales tax revenues.

Budgeted Revenues and Expenditures

Line item budgeted revenues and expenses for each of the years 2005-20 are as detailed for the years 2005-20 by the chart on the following page. When considered over this full 15-16 year historical period, **budgeted revenues** have averaged $1.35 million per year (and as much as up to $1.5 million as of 2019).[6]

However, this figure includes some revenues from sources that have been received periodically – not every year – as with donations and bond proceeds and use of fund balance, which is an accumulation of past year (rather than current year) budget surpluses. If these items are excluded, the core recurring budgeted revenue streams of sales/use tax and interest has averaged just under $845,000 per year from 2005-20 – of which tax revenues represent 98% and interest earnings 2%.

SRPFD Budgeted Income-Expense Detail (2005-20)

Source: SRPFD as compiled by E. D. Hovee

Revenue/Expense Line Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue																
Use of Fund Balance	$50,000	$750,000	$256,263	$188,255	$117,900	$494,900	$267,000	$150,000	$16,350	--	--	--	--	--	$411,970	$815,146
Sales and Use Tax	$600,000	$720,000	$800,000	$935,400	$780,000	$696,000	$672,000	$696,000	$750,000	$792,000	$816,000	$870,000	$900,000	$1,008,000	$1,080,000	$1,140,000
Interest	$5,000	$5,000	$50,000	$45,000	$45,000	$10,000	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$3,000	$18,000	$20,000	$40,000
Donations	$350,000	$100,000	$30,000	--	--	--	--	--	--		--	--	--	--	--	--
G.O. Bonds	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	$3,600,000
State Grant for the Arts	$350,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Skagit Valley College Donation to Kitchen Project	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	$200,000
Total Revenue	**$1,355,000**	**$1,575,000**	**$1,136,263**	**$1,168,655**	**$942,900**	**$1,200,900**	**$941,500**	**$848,500**	**$768,850**	**$794,500**	**$818,500**	**$872,500**	**$903,000**	**$1,026,000**	**$1,511,970**	**$5,795,146**
Expenditures																
Debt Service																
Redemption of Long Term Debt	$125,000	$145,000	$188,131	$185,000	$205,000	$230,000	$255,000	$280,000	$310,000	$335,000	$204,719	$395,000	$435,000	$470,000	$505,000	$545,000
Interest on Long Term Debt	$382,025	$379,525	$353,132	$372,140	$367,050	$360,900	$353,425	$344,500	$334,700	$214,769	$370,000	$193,619	$181,769	$168,719	$154,619	$266,496
Total Debt Service	$507,025	$524,525	$541,263	$557,140	$572,050	$590,900	$608,425	$624,500	$644,700	$549,769	$574,719	$588,619	$616,769	$638,719	$659,619	$811,496
Administration	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$30,075	$30,925	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$40,000	$40,000
PFD Extension Project	--	--	--	--	--	--	--	--	--	--	--	--	--	$50,000	--	--
Total Admin Operations	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$30,075	$30,925	$30,000	$30,000	$30,000	$30,000	$30,000	$80,000	$40,000	$40,000
Operations																
Event Support Technician	--	$65,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Operation Deficit Support	--	--	$140,000	$60,515	$67,000	--	$150,000	$75,000	$10,000	$50,000	$50,000	$75,000	$75,000	$150,000	$150,000	$150,000
Facility Renovations, Maintenance & Repair Planning and Design	--	--	--	--	--	--	--	--	--	--	--	--	--	--	$500,000	$100,000
Insurance	--	$35,000	$35,000	$35,000	$35,000	$35,000	$32,000	$32,000	$35,000	$30,000	$30,000	$30,000	$31,000	$32,000	$37,500	$55,000
Repair & Maintenance	--	--	--	--	--	--	--	--	--	$29,781	$27,381	$45,731	$53,281	$104,381	$50,000	$50,000
Miscellaneous Support	--	$10,000	$20,000	$20,000	$20,000	$25,000	--	--	--	$50,000	$62,500	$75,000	$75,000	--	--	--
Total Operations	--	$110,000	$195,000	$115,515	$122,000	$60,000	$182,000	$107,000	$45,000	$159,781	$169,881	$225,731	$234,281	$286,381	$737,500	$355,000
Fund Raising	$15,000	$20,000	$25,000	$30,000	$30,000	$30,000	$30,000	--	--	--	--	--	--	--	--	--
Construction																
Buildings - Exterior Envelope Renovation	$100,000	$100,000	$65,000	$150,000	$50,000	$450,000	$55,000	$50,000	--	--	--	--	--	--	--	$2,550,000
Buildings - Other Improvements			$40,000	$40,000	--	--	$20,000	$20,000	--	--	--	--	--	--	--	$1,800,000
Machinery & Equipment	$452,975	$500,000	$100,000	$150,000	$100,000	--	--	--	$30,000	$30,000	$30,000	--	--	--	$50,000	$50,000
Total Capital	$552,975	$600,000	$205,000	$340,000	$150,000	$450,000	$75,000	$70,000	$30,000	$30,000	$30,000	--	--	--	$50,000	$4,400,000
Start up cost short fall SVC payment (Commencement Deficit)	$120,000	$147,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Ending Fund Balance (Maintenance Reserve)	$50,000	$63,475	$120,000	$60,000	--	--	--	--	--	--	--	--	--	--	--	--
Maintenance Reserve	$60,000	$60,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Change in Revenue Stabilization Account	--	--	$15,000	$16,000	$18,850	$20,000	$16,000	$16,075	$19,150	$24,950	$13,900	$28,150	$21,950	$20,900	$24,851	$188,650
Total End Fund Balance	$110,000	$123,475	$135,000	$76,000	$18,850	$20,000	$16,000	$16,075	$19,150	$24,950	$13,900	$28,150	$21,950	$20,900	$24,851	$188,650
Total Expenditures	**$1,355,000**	**$1,575,000**	**$1,151,263**	**$1,168,655**	**$942,900**	**$1,200,900**	**$941,500**	**$848,500**	**$768,850**	**$794,500**	**$818,500**	**$872,500**	**$903,000**	**$1,026,000**	**$1,511,970**	**$5,795,146**

Over this 2005-20 period, SRPFD **budgeted expenses** have averaged $1.35 million per year, balancing revenues. Of this amount, debt service payments have averaged just over $600,000 per year, with other expenses averaging $753,000 per year. Some of these non-debt expenses are fully or partially discretionary – as for building improvements, equipment, fundraising, or contributions to reserve accounts. There are also some expenses – such as start-up costs incurred in early years of operation – that are not expected to be experienced on a recurring basis.

However, much of the funding for administration and operations – together averaging about $236,000 per year – is less discretionary, generally needing to be paid when incurred. These include expenditures for:

- SRPFD Administration – averaging $42,000 per year (including funding in 2018 for the PFD extension project).
- Insurance – averaging less than $32,500 but budgeted for 2020 at $55,000.
- Repair and Maintenance – averaging $22,000 per year since 2005 but increasing in recent years as the facility ages to $50,000 in each of the last two years (2019-20).
- Less regular but periodic expenditures for facility renovations, event support technician and (unspecified) miscellaneous support – which together have averaged $64,000 per year (albeit with considerable year-to-year variation).
- Operating deficit support – averaging $86,000 per year including $150,000 each of the last three years and paid to SVC to help cover operating deficits of McIntyre Hall.

Of these items, District administration, insurance, and some basic repair and maintenance can be expected to be the most pivotal, regularly recurring expense needs – together totaling a 2020 budget figure of $145,000.

Annual capital expenditures are more discretionary and, in the near term, most likely affected by improvements anticipated with the planned 2020 new bond issue. Payments to SVC also are not a required obligation of the SRPFD as PACC operations are the responsibility of SVC. District payments that have been made to support PACC operations are discretionary and could be reduced or deferred in years when income is not sufficient to provide this support – as occurred previously in 2005, 2006 and 2010.

Reserves

All required reserves are described in the 2013 PFD-County Interlocal Agreement. As noted, these reserve accounts include a revenue stabilization account, operating reserve account and capital reserve account. Based on SRPFD provided information, current balances as of year-end 2018 and then as of Oct. 31, 2019, all equal or exceed required amounts, summarized as follows:

SRPFD Allocated Financial Reserve Balances

Reserve Account	Required Amount		Account Status		Comments
	EOY 2018	10/31/2019	EOY 2018	10/31/2019	
Revenue Stabilization	$659,619	$684,469	$659,619	$684,482	Amount set by agreement with Skagit County
Operating Reserve	$20,000	$20,000	$20,000	$23,631	Minimum of $20,000 by agreement with County
Capital Reserve	$600,000	$600,000	$600,000	$632,140	Amount set by SRPFD Board
Total Reserves	**$1,279,619**	**$1,304,469**	**$1,279,619**	**$1,340,252**	

Source: SRPFD.

The amount of the Revenue Stabilization reserve account is as determined by the 2013 Interlocal Agreement between the SRPFD and Skagit County. The amount to be paid is set equal to the next year's payment of bonded debt service (both principal and interest). This amount varies annually, depending on the scheduled debt service for the upcoming year.

The District makes deposits (or causes the Treasurer to deposit) into the Revenue Stabilization Account on a semiannual basis (in approximately equal amounts on May 15 and Nov. 15 of each year) – so that the balance as of Dec. 31 of each year equals to the Required Debt Service for the upcoming calendar year.[7] This amount will increase with added bond payments.

By the terms of the Interlocal Agreement, the SRPFD board can set the operating reserve at between $20,000 and $60,000. The District's board has complete discretion in setting the amount of the Capital Reserve.

Reserve accounts are typically swept each year, so that any excess reserve funds are transferred to other accounts as needed or to unreserved net cash and investment accounts.

Contingencies for Unexpected Revenue Decline

A question of importance to this independent feasibility review is: **What would be the consequences of an unexpected revenue decline on financial reserves and ability to make debt service payments?**

This question is addressed with consideration of three potential sales tax revenue and associated SRPFD budget scenarios:

- **Trended Scenario** – where sales-and-use tax revenues are forecast to increase by an average of 3.3% per year (the same as the average compound rate from 2004-19).
- **Flat Revenue Scenario** – a more conservative forecast assuming that sales-and-use tax revenues stall out at the $1.14 million amount as budgeted for 2020.
- **Recession Scenario** – assuming that Skagit County were to experience a recession of the severity realized from 2007-10, when tax revenues to SRPFD declined by nearly 24%.

Because the effects of these sales-and-use tax scenarios also depend on other line items in the SRPFD budget, this review evaluates potential implications for unrestricted SRPFD reserves in the context of a complete but hypothetical line item budget as portrayed below. The chart details outputs of these three scenarios when projected to 2026 (the year of highest expected debt service) in comparison with 2019 and 2020. The recession scenario assumes that revenues begin to decline starting in 2022, continuing through 2024, with subsequent recovery as experienced during and subsequent to the sales-and-use tax revenue experience of 2008-10.

SRPFD Allocated Financial Reserve Balances by Revenue Scenario

Revenue/Expense Line Item	Budgeted		2026 Scenarios		
	2019	2020	Trended	Flat Revenue	Recession
Net Cash & Investments (beginning of year)					
Reserve Accounts					
Revenue Stabilization Account	$659,619	$811,496	$1,002,319	$1,002,319	$1,002,319
Operating Reserve	$20,000	$20,000	$20,000	$20,000	$20,000
Capital Reserve	$600,000	$600,000	$600,000	$600,000	$600,000
Total Reserved	$1,279,619	$1,431,496	$1,622,319	$1,622,319	$1,622,319
Unreserved Cash & Investments	$841,631	$566,319	$436,452	($163,272)	($973,456)
Total Net Cash & Investments	**$2,121,250**	**$1,997,815**	**$2,058,771**	**$1,459,047**	**$648,863**
Revenues*					
Sales & Use Tax	$1,141,807	$1,140,000	$1,387,378	$1,140,000	$977,076
Interest	$20,000	$40,000	$40,000	$40,000	$40,000
Total Revenues	**$1,161,807**	**$1,180,000**	**$1,427,378**	**$1,180,000**	**$1,017,076**
Expenditures*					
Debt Service	$659,619	$811,496	$1,002,319	$1,002,319	$1,002,319
Operating Expenses					
Administration	$40,000	$40,000	$40,000	$40,000	$40,000
Operating Deficit Support	$150,000	$150,000	$150,000	$150,000	$150,000
Facility Renovations	$500,000	$100,000	$100,000	$100,000	$100,000
Indsurance	$37,500	$55,000	$55,000	$55,000	$55,000
Repair & Maintenance	$50,000	$50,000	$50,000	$50,000	$50,000
Subtotal Operating Expenses	$777,500	$395,000	$395,000	$395,000	$395,000
Total Expenses	**$1,437,119**	**$1,206,496**	**$1,397,319**	**$1,397,319**	**$1,397,319**
Surplus / (Deficit)					
Before Application of Reserves	**($275,312)**	**($26,496)**	**$30,059**	**($217,319)**	**($380,243)**
Increment to Revenue Stabilization	$151,877	$61,623	$24,500	$24,500	$24,500
Application of Excess Reserves	$123,435	($35,127)	($54,559)	$192,819	$355,743
After Application of Reserves	--	--	--	--	--

* Notes: 2019 sales-and-use tax revenues are as received, all other 2019-20 revenue/expense information are per SRPFD budgets. The recession scenario assumes a recession starting in 2022, with revenue declines through 2024. Sources: SRPFD for 2019-20, E. D. Hovee for 2026. Prepared as of Feb. 2020.

With all 2026 scenarios, interest revenues and operating expenses are set equal to the 2020 SRPFD budget. Debt service is as per the December 2019 preliminary estimate by PFM.

Surplus/deficit information is shown prior to application of reserves with subsequent line items indicating the extent to which reserves are applied to meet revenue stabilization requirements or as offsets to unreserved cash and investments for the subsequent budget year (in years with funding deficits).[8]

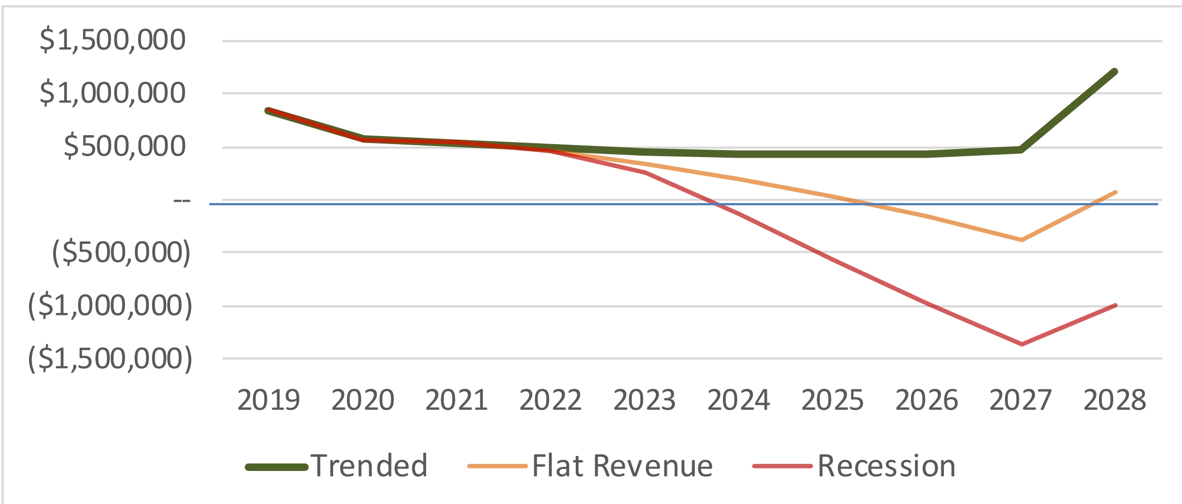
The major difference in assumptions between the trended scenario and subsequent two *stress test* scenarios is with prospective sales-and-use tax revenue:

- With the **trended scenario**, sales-and-use tax revenues continue to increase by an average of 3.3% per year, going from about a projected $1.14 million in 2019 and 2020 to nearly $1.39 million by 2026. However, this approximately $247,000 increase in annual tax revenue is not adequate to fully offset a roughly $343,000 increase in annual debt service payments from 2019 to 2026.
  If current operating expenditures are maintained as is, bridging this funding gap would require some draw down of unreserved cash and investments – from a balance of $842,000 as of early 2019 to about $436,000 by 2026. With debt payments substantially reduced after 2026, reserves would again start to increase fairly rapidly. Throughout this period, there would be more than ample income coupled with reserves to pay both debt and other on-going obligations of the District.
- If tax revenue growth stalls out as was nearly the case from 2018-19 and future revenues are projected forward at an even $1.14 million each year to fund the added debt service together with continuation of existing operating allocations, the outlook becomes more problematic. With this **flat revenue scenario**, SRPFD could run at a deficit every year through 2026 (requiring funding support from unencumbered cash and investment accounts).
  The financial drain could be substantial enough that unreserved cash and investments would shrink to a deficit position by 2025-26 – requiring either curtailment of some non-debt expenses or temporary infusion of funding support from other sources. However, financial recovery would occur relatively quickly with the District coming back to positive cash flow by 2028 as bond payments are substantially reduced from 2027 through to full bond repayment in 2041.
- A 2022-24 **recession** on the order of the Great Recession would have substantially greater impact on SRPFD funding capacity. Cash flow (before application of unencumbered reserves) would be negative every year through 2026. An anticipated cumulative infusion of as much as $973,000 would be required by 2026, peaking out at required support of $1.35 million by 2027 – after which SRPFD could relatively quickly recover financially in subsequent years.
  As with the flat revenue scenario, this shortfall could be covered by reductions in operating expenses, capital expenditures and/or dedicated reserves deposit together with other temporary funding support. Also possible would be restructuring of existing

2013 bonds, which are callable beginning Dec. 1, 2022. The size of the funding gap to be covered would be much greater with an extreme recession scenario than with the flat revenue stress test scenario.

How these three hypothetical scenarios might play out year-by-year is illustrated by the following graph. Shown is the amount of unreserved cash and investments funded (or unfunded) from 2019 to 2028. Negative amounts indicate a cumulative deficit situation requiring either SRPFD non-debt expense reductions or supplemental funding support from currently identified or other potential sources.

SRPFD Unreserved Cash and Investment Balance by Scenario (2019-28)



Note: Balances are estimated as of the first of each year. Assumed with the recession scenario is an economic downturn extending from 2022-24.
Source: SRPFD data for 2019-20 with 2028 scenario projections by E. D. Hovee. Prepared as of Feb. 2020.

As the graph indicates, the **trended scenario** shows minimal adverse impact to SRPFD's capacity to fund debt repayment, committed reserves and full operations through 2027 – followed by potentially substantially gains to fund balances in subsequent years after the 2013 bond is retired. The **flat revenue scenario** is associated with inadequate reserves extending over a short time period of about 2026-27, then quickly rebounding to a positive net balance by 2028.

With the **recession scenario**, the time period of inadequate financial reserves extends longer (from 2024 to beyond 2028) and the amount of supplemental funding support is potentially considerably greater. Also noted is that the timing of a recession will make a difference because the downturn occurs quickly while the recovery might take more time and is also affected by debt reduction not occurring with this scenario until 2027.

A 2022-24 recession results in a maximum cumulative balance shortfall of about $1.35 million. An earlier 2021-23 recession increases the potential shortfall to $1.45 million. And a later 2024-26 recession would reduce the maximum shortfall to less than $1 million. Options for how such shortfalls might be addressed are covered by the next and last section of this report.

V. PROJECT RISKS AND MITIGATION

Reviewed with this final section of the financial feasibility report are risks related to institutional arrangements, improvement cost and funding, and debt repayment capacity. Each of these potential risks is considered, in turn, together with potential options for risk mitigation.

INSTITUTIONAL ARRANGEMENTS

The SRPFD Charter, interlocal agreements with participating cities, Skagit Valley College ground lease, management agreement and interlocal agreement with Skagit County, as amended, have served their purposes well. These institutional arrangements were instrumental to successful District formation, facility construction and ensuing operations, including changes over time.

The existing arrangements anticipated neither additional bonded indebtedness after initial construction nor the extension of state shared sales-and-use tax funding by an added 15 years. Nor did they fully specify how on-going operations and contingencies would be continued once state sales tax funding sunsets (now expected by 2041).

The combination of extended sales tax funding coupled with the need to address on-going maintenance and sustainability of a mature facility suggest several issues that might be useful to address – some before issuance of new bonded indebtedness and others prior to 2041 fulfillment of existing and planned debt repayment. Issues to be considered could include all or some combination of the following:

- Termination of the SRPFD's existing SVC ground lease with the District, which would appear to expire at the end of 2033 – but will need to be extended to cover at least the added period through to new debt repayment at the end of 2041.
- Termination of Sedro-Woolley's obligation to not form a separate local PFD reliant on the 0.033% sales tax beyond 25 years (or 2026) rather than continuing through the full period of any added bond indebtedness. Withdrawal of this payment is viewed as unlikely and, if it did occur, would not be of substantial significance to overall District funding capacity since the withdrawal would occur after the peak year of bonded debt payments.[9]
- The $13.085 million bonded debt limitation for the District – which will be brought to this maximum limit with the par amount of the new bond. This means that there likely will be no flexibility for added bond financing in the event that major building issues or new arts and conference related opportunities arise, pending renegotiation of existing interlocal agreements. However, this would not preclude refinancing of the 2013 bond.
- Absence of a clearly identified fund-raising organization similar to the function that the Skagit Performing Arts Council was intended to perform in the early years of PACC operation. While these functions have been assumed in part by SVC, the Skagit Valley Foundation and McIntyre Charitable Foundation, there appears to be no primary organization (or *arts champion*) identified as the lead entity for future capital or

operational fund-raising – an item that potentially becomes of more significance once sales tax funding support is terminated.

- The 2002 Management agreement prioritized payment of Sales Tax Account funds, first to interest on debt, second to principal payments, third to reserve accounts, fourth to PFD operating expenses and then fifth through ninth for other purposes. The 2013 Skagit County Interlocal Agreement maintained much of this prioritization but with some restatement of payment priorities. Most notably, the 2013 agreement placed payment of District operating expenses as third priority, higher than what is now fourth priority with payments to the Revenue Stabilization Account.

  Skagit County does not have any contractual or other obligation to fund shortfalls except for what is needed to cover any portion of debt service not supported by District sales tax receipts and reserves. Any decision by the County to go beyond debt service funding support would be entirely at the County's discretion. However, if District revenues also fell short temporarily of full funding for SRPFD operating revenues and/or Revenue Stabilization Account payments, the need could arise to consider temporary funding arrangements between the District and County or other sources.

- More generally, while the *waterfall* or payment priorities for distribution of sales tax revenues are specified by the Interlocal Agreement with Skagit County, there is no clear statement of which entities would have primary backstop responsibility for payment of specific priority payments in the event of sales tax funding shortfalls for non-debt related District expenses. In addition to the question regarding payment of SRPFD operating expenses, there appears to be no clear up-front understanding as to ultimate backstop responsibilities for payments (or temporary payment deferrals) related to the Operating Reserve Account, Capital Reserve Account and other typical District expenditures, including possible need for continued SVC operating deficit support.

Options for Mitigation. Potential options to resolve or mitigate these risks can be differentiated between short and long-term measures:

- **Short-term,** the most immediate priority lies with the extension of the PACC ground lease with SVC to 2041. This is an action already anticipated by the District and required by the County to be completed as a condition for issuance of the 2020 bonds. If the Interlocal Agreement with Skagit County is modified to meet bonding requirements, this might also be a good time to review the payment priority for the Revenue Stabilization Account versus operating expenses and to more clearly articulate ultimate backstop payment responsibilities for each of priorities 1-7 in the event of future sales tax funding shortfalls.[10] Revised agreements could include clear stipulation of SVC responsibility to cover on-going PACC operations if discretionary District payments for facility operating support were to be temporarily or permanently suspended in the future.
- **Longer term** and after improvements with the new bonding are successfully completed, it could be worthwhile to begin more active transition planning for long-term PACC funding and management responsibilities once all debt is retired in 2041. Earlier transition planning was suspended when the Legislature extended sales tax funding by

15 years. A resumption of this planning initiative at some point in advance of 2041 appears appropriate with new bond funding for improvements that will become the full property of SVC upon debt retirement and extended lease expiration.

A potential contingency is that the Washington State Legislature could again elect to further extend the sales tax window – as recently occurred. It also appears likely that the District will have excess reserve funds after 2027 that could be used to establish a long-term sinking fund for facility maintenance and improvements post-2041. In any event, the District, SVC, County and all participating cities might be better prepared for these future contingencies by getting an early start on the details of eventual facility transition and on-going sustainability.

Improvement Cost and Funding

Risks associated with improvement costs and associated project funding are essentially two-fold:

- First is the risk that improvement costs could exceed the $4.5 million figure currently budgeted. This is particularly problematic during the current period of high demand for contractors, together with escalating costs of many construction materials. Costs could also increase if unforeseen issues or delays arise or with inflation if the project schedule were to be substantially delayed – whether for reasons of local discretion or factors beyond the control of project participants.
- Second is a risk that project funding does not materialize as currently planned. The greatest risk would be with project bonding if the project could not be underwritten and funded at the $4 million level for added bond indebtedness as now planned, if interest rates were to increase, or if repayment terms and schedule are altered.

Options for Mitigation. While real, these risks should be manageable to the extent that compensating decisions can be made quickly in the event of unforeseen adverse conditions:

- SRPFD has already hedged against the risk of **construction cost overrun** by including a relatively healthy contingency allowance – notably of 25% for the exterior envelope project. Also, $300,000 (6.7%) of the project budget has been allocated for miscellaneous projects which can be eliminated or deferred if necessary to avoid cost overruns. This risk is also reduced if construction is able to get underway relatively quickly – by May 2020, as currently planned. The loss of theater revenues from July to the end of the year (including any potential schedule delays) is one that should be of lesser consequence for the District as SVC is responsible for facility operating expenses.
- With respect to **debt financing**, the risk of a substantial interest rate increase is minimized if bonds can be issued as planned in late spring 2020 – as the Federal Reserve appears committed to stable interest rates for the near term, including a recent rate reduction. If any issue were to arise that would result in debt service payments higher than currently anticipated (especially in the period through 2026), consideration could

be given to increasing local contributions or to reducing project cost as with removal or deferral of smaller optional improvements to a level that allows for the project to proceed.[11]

DEBT REPAYMENT CAPACITY

Risk of funding adequacy to repay current and planned new debt can be considered from two perspectives – repayment of bonded debt and total District financial obligations:

- There should be more than adequate funding capacity to repay debt – if viewed from the standpoint of debt repayment as the pre-eminent financial obligation of the District. In 2020, the first year of added debt, SRPFD projected revenues of $1.18 million is 1.45 times the estimated new scheduled debt obligation of about $811,500. This excess coverage holds even in 2026 when the currently planned debt service payment reaches over $1 million.

  Projected District revenues exceed this amount under all three scenarios considered – whether trended or with the two stress test scenarios of flat revenues or recession. However, in the case of a recession scenario (similar to the Great Recession of just over a decade ago), the surplus drops to less than $15,000. A surplus situation could drop to deficit if the recession were to start earlier than with the 2022 date that has been hypothetically assumed with the recession scenario.

  Conversely, with the trended scenario, the outlook appears to be much more favorable. Projected 2026 revenues of $1.4 million would be 1.42 times the 2026 debt service amount.

- The District's financial capacity is potentially more challenged if considered in the context of both debt and non-debt expenditures. This is potentially the case even this current year, when debt and operating expenses of a budgeted $1.2 million are projected to exceed budgeted revenues by about an estimated $26,500. As previously noted, a 2020 deficit could be amply covered by unrestricted cash and investment reserves of an estimated $566,000.

  However, the financial challenge is magnified in subsequent years. Only with the trended scenario would District revenues exceed expenses – albeit by a relatively thin margin of just over $30,000 in 2026. With both the flat revenue and recession scenarios, year 2026 income would fall short of expenses by an estimated $217,000 (flat revenue scenario) to $380,000 (recession scenario). Unreserved cash and investments also would be negative – by an amount of nearly $1 million with the recession scenario.

Bottom line, if all goes well and sales tax revenues continue to increase as in recent years, there will be a reasonable financial cushion even in a year (2026) with a high debt service payment. However, in a flat or down economy, the District should be able to pay its debt obligation based on the scenarios considered but possibly would not be able to fully fund its other typical year operating, reserve and related expenses.

Options for Mitigation. Consistent with the two types of debt repayment risk as outlined above, there are three sets of mitigation measures that might be considered:

- Because 2026 sales tax revenues should be adequate to cover principal and interest payments for the scenarios that have been considered with this review, the current payment priorities as agreed to by the PFD and County should prove adequate – though potentially barely so in a major recession similar to that of 2007-10. However, the District could be challenged to also maintain the Revenue Stabilization Account at levels agreed to by the County and District. This might be addressed by **temporarily foregoing any un-fundable portion stabilization payment** as with: a) County consideration to subsidize the unfunded amount; and/or b) agreement by the District to bring the stabilization account back to agreed-to levels and repay any temporary subsidy by the County as quickly as subsequent year funds make this possible.
- More challenging might be the question of how to mitigate for potential financial shortfalls that affect both reserve and operating expense payment capacity on a combined basis. As previously noted, one item for possible review is whether the District and County continue to prioritize SRPFD administrative operating expense over the Revenue Stabilization Account. Second would be decisions as to **how to prioritize responsibilities** and/or temporary reductions in payments to operating and capital reserves vis-à-vis other operating expenses, repair and maintenance, and operating deficit support. With memorialization of this prioritization between the parties, it should be possible to identify a strategy that can preserve net cash and investments even in the event of a major economic downturn.
- Another alternative would be to **increase the amount of the revenue stabilization account at least through 2026 and/or re-structure the debt service payment schedule** to avoid or dampen the rapid escalation in payments as currently planned through the mid-2020s. By spreading a higher proportion of payments to the 2030-41 period, there would be more financial cushion with generally increasing sale tax revenues to avoid a near term economic shock. For example, if warranted, debt restructuring could be considered after December 1, 2022 with the optional redemption and/or refinancing of the outstanding 2013 bonds with a resulting more extended repayment schedule.

As appropriate, measures to better assure debt repayment capacity through potential future adverse economic conditions could be taken prior to debt issuance as planned for 2020 and/or deferred to be addressed on an as-needed basis, as future conditions warrant. For the scenarios considered, with continued appropriate SRPFD and County oversight, there would appear to be reasonable options for measures that can be taken to assure debt repayment over the term of the new bonded debt as currently planned.

As noted in this report, the economic conditions and the financial estimates provided with this review pre-date and do not take into account potential effects of the coronavirus pandemic. Depending on the as-yet unknown severity and duration of these effects, it is possible that the financial capacity of the District could be affected in a manner not previously anticipated.

APPENDIX A. PREPARER PROFILE

This independent feasibility review has been conducted on behalf of the Washington State Department of Commerce for the Skagit 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, cultural, tourism-destination and related major capital investment projects.

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

- November 2019 completion of a *Financial Feasibility Review of Yakima Convention Center Expansion,* a project of the Yakima Regional Public Facilities District.
- October 2017 submittal of a *Spokane Public Facilities District INB Performing Arts Center Independent Financial Feasibility Review* for a $22 million renovation, since completed.
- Prior completion of the February 2013 Spokane *Public Facilities District Independent Financial Review* on behalf of the Washington State Department of Commerce for capital funding of the then planned Spokane Convention Center (SCC) expansion, followed by May 2013 submittal of an operating budget review for the SCC.
- November 2015 review of land acquisition and financing feasibility for expansion of the Washington State Convention Center in Seattle on behalf of the state's Department of Commerce, followed by a 2018 Phase 2 review evaluation of facility build-out.
- Other assignments on behalf of Washington State PFDs including potential regional center projects for the Tri-Cities (two-county) PFD, economic restructuring of the Wenatchee hotel-motel tourism funding for marketing and event/conference facilities, Vancouver Hilton Hotel and conference center, Clark County amphitheater, Cowlitz County expo/conference center, and lease extension for the Seattle Mariners stadium.
- 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 market and financial due diligence assignments include WSU campus building reuse and North Foothills brownfield site redevelopment (Spokane), business case for the 2016 USATF/IAAF indoor world track and field championships in Portland, feasibility evaluation for a Vancouver/Clark County minor league and multi-use baseball stadium.

APPENDIX B. DOCUMENTS REVIEWED

Documents reviewed as part of this independent feasibility evaluation of the Convention Center expansion project for the Washington State Department of Commerce and Skagit Regional Public Facilities District (SRPFD) include the following:

- Cities of Anacortes, Skagit, Selah and Union Gap and Town of La Conner, *Interlocal Cooperation Agreement(s) to Form a Public Facilities District,* 2001.
- E. D. Hovee & Company, LLC, *Washington State Convention Center Expansion: Build-Out & Operating Feasibility,* as prepared for the Washington State Department of Commerce, May 24, 2018.
- McIntyre Hall Performing Arts & Conference Center, web site: www.mcintyrehall.org
- S&P Global Ratings, *Summary: Skagit, Washington; General Obligation*, March 21, 2017.
- Skagit County Resolution No 18364 "forming the Skagit Regional Public Facilities District pursuant to RCW 31.100.010 (with Exhibit A Charter of the Skagit Regional Public Facilities District), August 14, 2001. Note: subsequent amendments were made in 2002, 2003, 2004, 2008 and 2009.
- Skagit County and SRPFD, *Interlocal Agreement,* February 1, 2013.
- Skagit Valley College and SRPFD, *Ground Lease … for Skagit Regional Performing Arts & Conference Center Project*, September 2002.
- SRPFD - Marc L Estvold, Executive Project Director, Declaration, December 2019 (stating 1st Amendment was never approved and 2nd Amendment was approved July 2, 2018).
- SRPFD with Skagit Valley College and Skagit Performing Arts Council (SPAC), *Agreement for Performing Arts & Conference Center for Management Services,* September 9, 2002. *Note:* subsequently amended 2008 (not adopted) and 2018 (adopted).
- SRPFD and ALSC Architects, *Exterior Renderings and McIntyre Floor Plans*.
- SRPFD and Skagit County, *Interlocal Agreement,* February 1, 2013.
- SRPFD, *2020 Adopted Budget*, November 14, 2019.
- SRPFD, *Construction Schedule & Estimated Construction Costs,* worksheet files, December 2019.
- SRPFD, Income-Expense historical data and projections and sales tax revenues (various worksheet files), December 2019-January 2020.
- SRPFD, *Information Request Related to Skagit Regional Public Facilities District, PFD Response,* December 4, 2019.
- SRPFD, *Limited Tax General Obligation Bonds 2020 (Preliminary – AA MMD as of 12/2/19 plus 0.5%),* December 3, 2019.
- SRPFD, *A Resolution of the Board of Directors … Taking Action with Respect to the Sales and Use Tax…"* Resolution No. 01-01, 2001.
- SRPFD*, Unaudited Annual Financial Reports*, covering the years 2012-18.

APPENDIX C. STATEMENT OF IRMA COMPLIANCE

Skagit Regional Public Facilities District
PO Box 576
Mount Vernon, WA 98273

March 10, 2020

Mr. Eric Hovee,
E.D. Hovee & Co., LLC

Re: Independent Registered Municipal Advisor Representation

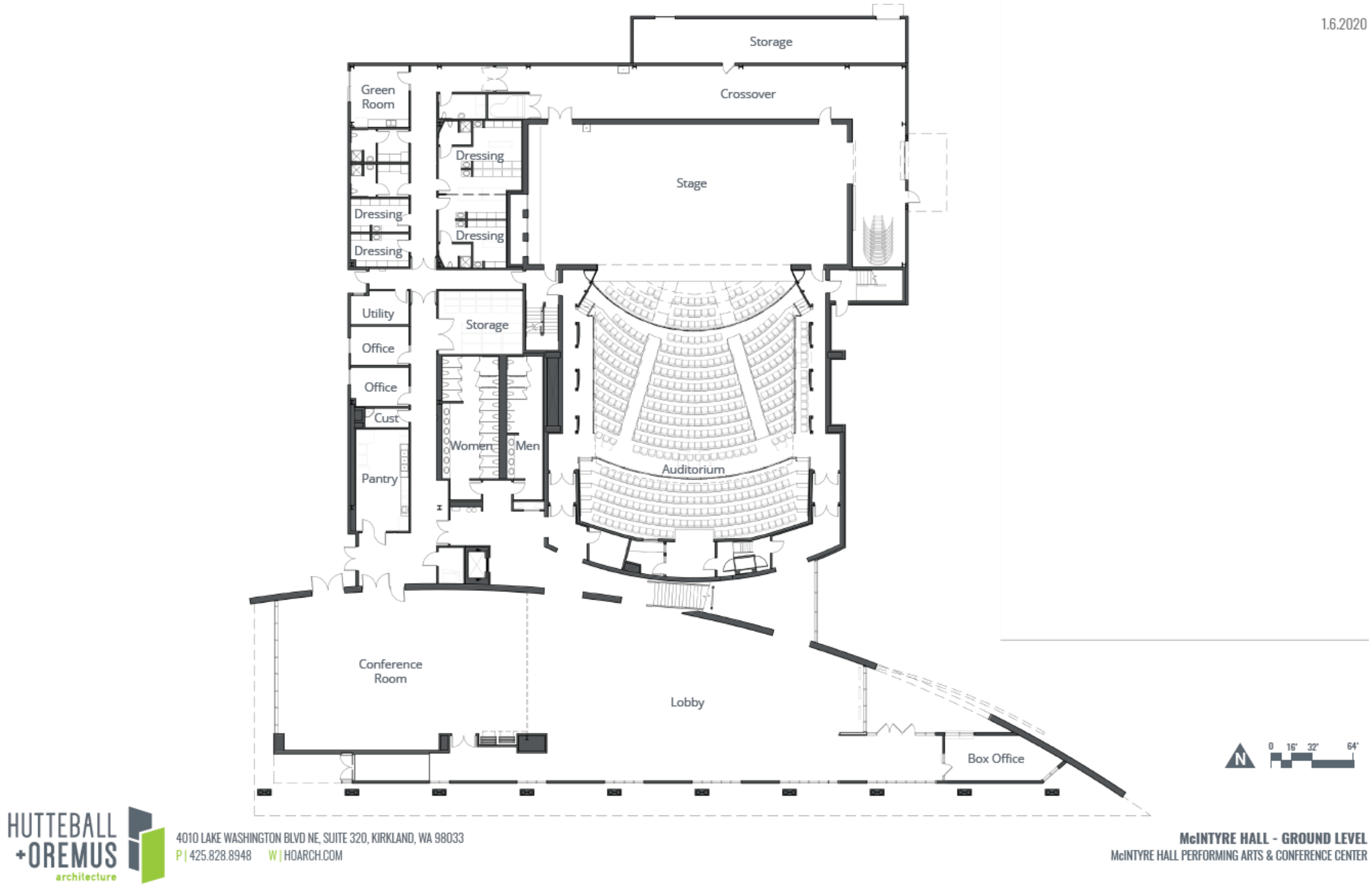
Mr. Eric Hovee

This letter is intended to provide you with certain representations pursuant to Rule 15Ba1-1 (the "Municipal Advisor Rule") of the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. Pursuant to paragraph (d)(3)(vi)(B) of the Municipal Advisor Rule, the Skagit Regional Public Facilities District (the "District") has retained an independent registered municipal advisor. The District is represented and will rely on its municipal advisor, PFM Financial Advisors LLC ("PFM") to provide advice relating to the issuance of municipal securities and municipal financial products. PFM's primary contact for this engagement is Duncan Brown (brownd@pfm.com; 206-858-5367).

You may rely on this letter until December 31, 2020, or until such time as you receive notice from the District.

Marc L. Estvold
Executive Project Director

APPENDIX D. McINTYRE HALL FLOOR PLANS



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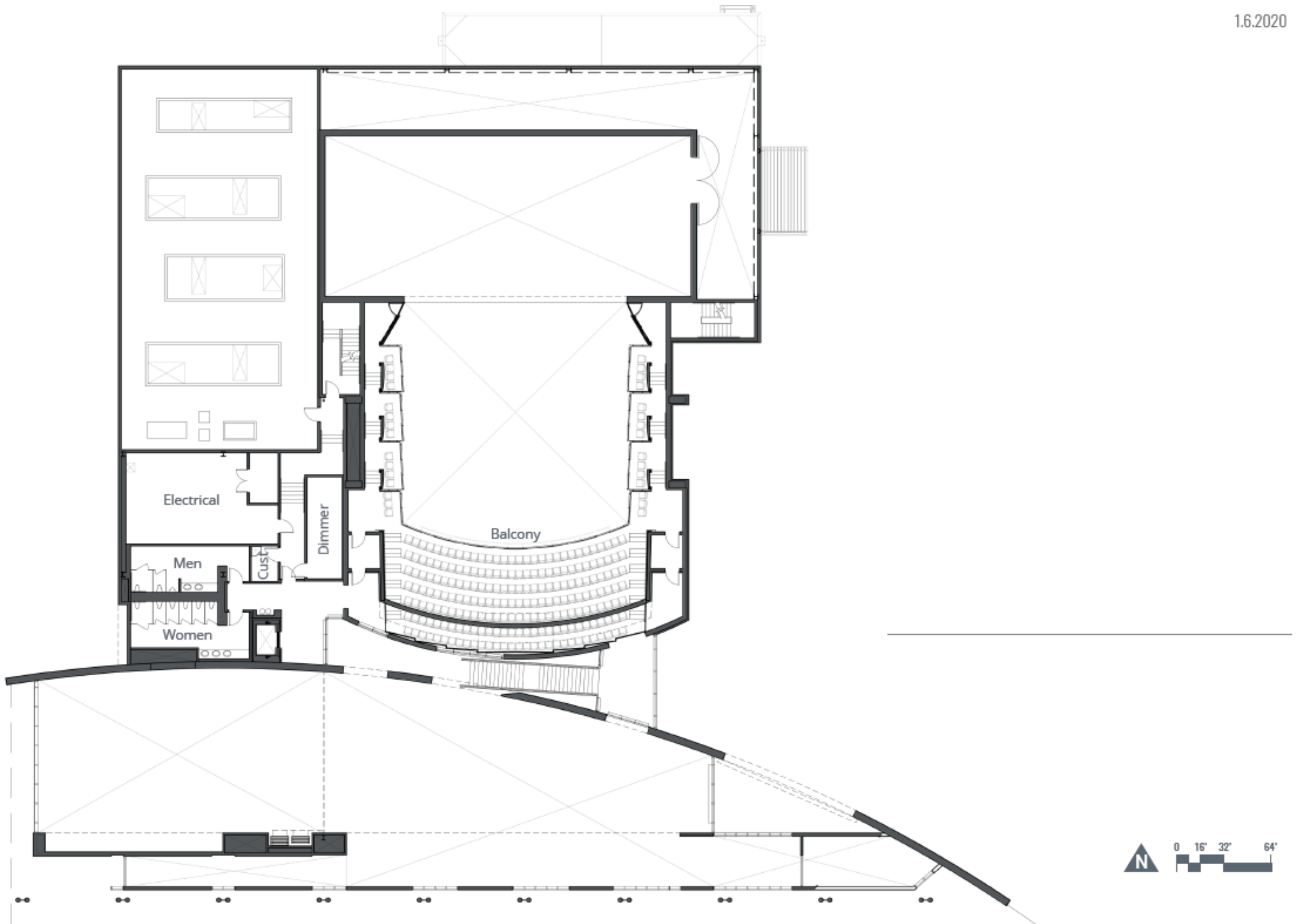

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McINTYRE HALL - BALCONY LEVEL
McINTYRE HALL PERFORMING ARTS & CONFERENCE CENTER

END NOTES

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[1] Throughout this report, the following terms and abbreviations are used interchangeably:

SRPFD and District – abbreviated terms for the Skagit Regional Public Facilities District

SVC – Skagit Valley College

SPAC – Skagit Performing Arts Council

Sales Tax – Sales-and-use tax

PACC – Performing Arts and Conference Center

[2] Information regarding the McIntyre Hall facility is drawn primarily from the web site: www.mcintyrehall.org.

[3] 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. Financial information in this report pre-dates Mar. 2020. 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.

[4] By written declaration of December 17, 2019 of Marc Estvold, SRPFD Executive Project Director, a statement has been provided that the "proposed First Amendment was never approved or executed and therefore does not apply."

[5] Based on input from PFM, It is likely that the new 2020 Bonds might have a standard 10-year call feature. It is possible that a shorter call feature (i.e. 7-8 years) might also be considered, if deemed to be of value to SRFPD.

[6] This review is focused on budget rather than actual revenue/expense information as more line item detail is available with annually approved SRPFD budgets. It is noted that sales/use tax revenues have generally exceeded budget figures – by about 7% over the time period of 2005-18. Over this time period, there are only the three years of 2008-10 when actual receipts came in below projection. This indicates a generally conservative approach to District budgeting, but with the risk of overestimating during a recessionary period.

[7] As of this report, SRPFD indicates that the reserve stabilization amount for 2021 is already set aside.

[8] With the three stress test scenarios considered, it is noted that positive application of excess reserves means that the unreserved amount for the following year is reduced. A negative application means that unreserved amounts in the following year can be increased as a result of excess cash flow in the prior year.

[9] Under current state law, any new PFD would not be eligible for the 0.033% state sales tax credit but would have to look for other allowed (including potential voted) sources of funding. Any potentially competing PFD with a claim on the 0.033% sales tax credit would likely require a change in state enabling legislation.

[10] Consideration also might be given to extend the term of Sedro-Woolley payments to the retirement of all District debt, consistent with the terms of other jurisdiction-specific interlocal agreements. However, this is not a significant item as new PFD formation is not currently anticipated and as this jurisdiction's contributions do not materially affect total sales tax revenues to the District.

[11] As part of this review, there has been discussion as to whether other credit enhancements would be required beyond what is already anticipated. SRPFD has indicated that other provisions as for debt service coverage or higher reserves have not been requested and are not anticipated to be required by either the County or financial underwriters.

Financial Feasibility Review of Skagit Regional Public Facilities District Improvements to McIntyre Hall Performing Arts & Conference Center:

Report Addendum

Prepared for:

Washington State Department of Commerce

April 28, 2020

E. D. Hovee & Company, LLC

Economic and Development Services

FINANCIAL FEASIBILITY REVIEW OF SKAGIT REGIONAL PUBLIC FACILITIES DISTRICT IMPROVEMENTS TO McINTYRE HALL PERFORMING ARTS & CONFERENCE CENTER:

REPORT ADDENDUM

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April 28, 2020

Note: Cover exterior photo is courtesy of the Hutteball + Oremus Architecture

AT-A-GLANCE SUMMARY

This Report Addendum is intended to serve as a supplement to the *Financial Feasibility Review of Skagit Regional Public Facilities District Improvements to McIntyre Hall Performing Arts & Conference Center* report prepared for the Washington State Department of Commerce in consultation with the Skagit Regional Public Facilities District (SRPFD or District).

The primary purpose of this Report Addendum is to address the question of revenue adequacy in the face of an unprecedented pandemic-related economic and associated sales tax revenue downturn. As identified by the full feasibility report, the short- and long-term financial and economic effects nationally and regionally cannot as yet be fully determined in any readily quantifiable manner. What follows is an abbreviated summary of key observations regarding feasibility with this supplemental Addendum.

Supplemental Information. This Addendum has been based on review of new information including:

- A now completed amended **interlocal agreemen**t between Skagit County and the District – together with supporting agency resolutions whereby Skagit County has "pledged its full faith and credit" to make debt payments as scheduled in the event of District sales tax shortfalls.
- SRPFD **stress test** analysis – reflects potential sharp reductions of sales tax revenue in 2020, as reviewed by the District board and followed by re-affirmation of plans to proceed.
- Skagit County **funding capacity** – based on reviews of a bond purchase agreement with North Cascades Bank, non-voted Skagit County bonding capacity, most recent bond rating, historical experience during the most recent economic downturn, and current sales tax funding outlook.

Feasibility Considerations. The following considerations are noted as pertinent to assessing SRPFD and Skagit County commitment and capacity to repay current and planned new bonded indebtedness:

- With an amended interlocal agreement, it is understood that, while SRPFD has the obligation to provide sales tax revenues and reserves for debt repayment, Skagit County is issuing the bond with the explicit stipulation that "If there are shortfalls in PFD revenue, the County remains committed to pay the debt service on the bonds."
- Skagit County has conducted its own stress test analysis involving an even steeper and longer lasting reduction in sales tax revenues than assumed by the District. In the event of a shortfall, the County could either make up the difference from General Fund sources and/or refinance 2013 bonds in 2022 with a more extended payment term.
- Skagit County also has ample non-voted bonding capacity, has been rated by Moody's as having Aa3 investment grade and low credit risk bond rating, and has demonstrated resilience in the face of the Great Recession while maintaining a General Fund surplus.

Of all these considerations, by far the most important is Skagit County's pledge of its full faith and credit to the bond placement with North Cascades Bank and the stated acknowledgement of the County's obligation to pay the debt service. It is understood that both the contractor and bank commitments to proceed are predicated on project commencement by May 1, 2020.

Based on these considerations and assuming the continuation of Skagit County governmental services even through times of national and regional economic crisis, this Report Addendum provides evidence of demonstrated institutional commitment coupled with capacity of current and expected revenues, whether from sales tax or other sources, to meet anticipated project costs.

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I. ADDENDUM INTRODUCTION

On March 20, 2020, a fourth and final draft report addressing the *Financial Feasibility Review of Skagit Regional Public Facilities District Improvements to McIntyre Hall Performing Arts & Conference Center* was submitted to the Washington State Department of Commerce (Commerce) for agency review. This full feasibility report was prepared in consultation with the Skagit County Regional Public Facilities District (SRPFD or District) by the economic and development consulting firm E. D. Hovee & Company, LLC.

The feasibility review addressed plans of SRPFD to improve the 700-seat McIntyre Hall Performing Arts Center in Mount Vernon at a total cost estimated at $4.5 million. Of this amount, $4.0 million is anticipated to be funded with limited tax general obligation (LTGO) bonds issued by Skagit County – with repayment to be made by the District.

ADDRESSING CHANGING CIRCUMSTANCES

Due to previously unforeseen and rapidly changing medical and economic circumstances related to the current COVID-19 pandemic, the March 20 independent feasibility review report was accompanied by the following statement:

> *It is important to note that the financial estimates provided in this report pre-date the March 2020 intensification of the coronavirus (COVID-19) pandemic nationally and in Washington state, especially in the face of economic effects now being experienced. As of the date of this draft, the short and long-term financial and economic effects nationally and regionally have yet to be determined in any readily quantifiable manner. Depending on the severity and duration of these effects, it is possible that the financial capacity of the District could be affected in a manner not previously anticipated.*

Subsequently, questions have been raised in discussions between Commerce and the Office of Financial Management (OFM) as to whether, in the face of changing circumstances, the feasibility report adequately addressed the statutory requirements of RCW 35.57.025. Specifically in question is the requirement that the review address "the adequacy of revenues or expected revenues to meet these (project) costs."

As highlighted by the March full feasibility report, the need for a rapid conclusion is further reinforced by the requirement for SRPFD to complete bond financing and authorize construction to get underway by May 1, 2020. The project was bid to start on May 1. The District advises that if that start date cannot be met, it will lose its ability to hold the project price to the current budget which could affect feasibility of proceeding. The District indicates that it is required to purchase new siding secured by the contractor even if construction work does not proceed as scheduled. The District's current bond commitment from North Cascades Bank is also conditioned on a closing date of May 1.

ADDENDUM PURPOSES

The primary purpose of this Report Addendum is to address the question of revenue adequacy in the face of an unprecedented economic and associated tax revenue downturn. As identified with the full feasibility report, the short- and long-term financial and economic effects both nationally and regionally cannot as yet be fully determined in any readily quantifiable manner.

Consequently, the approach taken with this addendum review is somewhat different than that of the full feasibility review which was based on more stable economic trends and conditions pre-dating the pandemic. Rather than serve as a detailed technical review, this addendum focuses instead on providing supplemental information as has been compiled by the public agencies – SRPFD and Skagit County – that have a direct financial stake in the successful development, funding and operation of the planned facility improvements. This includes additional financial review and due diligence that each organization has conducted on its own over the course of the last several weeks.

This supplemental information has been provided in response to questions and requests posed to SRPFD and Skagit County. Their assistance in providing this information is gratefully acknowledged.

As an independent review, this Report Addendum aims to comment on the adequacy of information received as a reasonable basis for proceeding with the project as previously and currently planned.

ADDENDUM ORGANIZATION

The remainder of this Report Addendum is organized to cover the following topics:

- **Supplemental information** – as provided by SRPFD and Skagit County
- **Feasibility considerations** – based on information provided in the context of an uncertain economic and revenue environment likely extending through 2020 and possibly beyond

Three appendices are provided with this report – a list of additional documents reviewed, the full text of a letter from Skagit County to Commerce dated April 21, 2020, and the bond debt service schedule.

II. SUPPLEMENTAL DOCUMENTATION

Topics covered based on supplemental materials provided include:

- Amended interlocal agreement between SRPFD and Skagit County
- SRPFD stress test analysis
- Skagit County funding capacity

AMENDED INTERLOCAL AGREEMENT

Since 2013, debt funding and repayment arrangements for McIntyre Hall facilities have been governed by an Interlocal Agreement between Skagit County and the SRPFD. The full independent feasibility review report addressed the need for this agreement to be amended or affirmed for continuation through 2041 or when the new planned bond is fully repaid.

A First Amendment to the Interlocal Agreement between the County and District dated March 1, 2020 was fully executed as of March 30. The amendment stipulates that the planned 2020 bonds will be Additional Bonds per the provisions of the 2013 agreement.

Resolution # R20200048 of the Skagit County Board of Commissioners, adopted March 24, authorized the sale of limited tax general obligation (LTGO) bonds in the aggregate principal amount of $3.4 million for the purpose of financing capital improvements to be undertaken by the District. While the bonds are supported by sales and use tax revenues imposed and collected by the District, the resolution provides for the annual levy of taxes, if necessary, by the County to pay the principal and interest on the bonds.

More specifically stated by the resolution (and to be included with a bond purchase contract or official statement) is the commitment that:

> The County hereby irrevocably covenants and agrees with the owner of this bond that it will include in its annual budget and levy taxes annually, within and as a part of the tax levy permitted to counties without a vote of the electorate, upon all the property subject to taxation in amounts sufficient, together with other revenues and money legally available therefor, to pay the principal of and interest on this bond as the same shall become due. The full faith, credit and resources of the County are hereby irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest.

Also attached to the First Amendment is Resolution No. 20-02, earlier approved by the SRPFD Board of Directors on March 18. This resolution requested County issuance of LTGO bonds, provided District approval of the First Amendment and also authorized the execution of an amendment to the existing ground lease with Skagit Valley College (through the State Board for Community and Technical Colleges). The resolution also provides a written commitment of the

District to use proceeds of its sales and use tax pay all debt service related to bonds issued by the County.

The effect of the First Amendment to the Interlocal Agreement is to continue the obligation of the SRPFD to pledge its sales and use tax revenues to the County as the primary (if not only) source of bonded debt repayment. In the event of a temporary or prolonged shortfall in sales tax funding, the First Amendment also commits the County to fill the gap or shortfall from any or all of its available funding resources so that all debt obligations will be fully paid as scheduled. Based on email correspondence from Skagit County, the anticipated source of funding (if needed to pay any shortfall in SRPFD sales tax revenues) is to be the County's General Fund.

PFD Stress Test Analysis

As the first and primary source of debt repayment, the question raised with the full feasibility report and this Addendum is the capacity of the District to repay the bonded indebtedness through to debt retirement in 2041. The feasibility report presented three alternative sales-and-use tax projections – trended, flat revenue, and recession scenarios. The base economic information for all scenarios was from revenue experience through 2019 – prior to emergence of the economic shock now being posed due to the COVID-19 pandemic in the U.S. and globally.

All three scenarios were associated with adequate revenue to meet debt service requirements each year through the period of debt repayment. However, only the trended scenario that was predicated on continued sales tax revenue growth averaging 3.3% per year could also be assured of funding debt *plus* reserve and operating expenses as have typically been incurred. The other two scenarios could fall short of full funding capacity in 2026-27 with flat revenue or from 2024 to possibly beyond 2028 with the recession scenario.

The pandemic presents a new and unanticipated challenge with substantial potential reductions in sales tax revenue earlier than previously expected. Due to the suddenness of economic contraction and timing lags in receipt of sales tax revenue, any short-term forecast scenario at this point in time should be viewed as being subject to a considerable range of variability.

The Washington State Department of Revenue provides updated local tax distribution data – as for sales-and-use tax – on a monthly basis. At this time, the most recent month of data is for March 2020. However, this March data generally is based on January 2020 returns due in February 2020. Consequently, data that reflects downward sales activity taking hold in March and April in line with increasing unemployment is not yet available.

Despite these limitations and subsequent to the March full feasibility report, Skagit County and the SRPFD have again reviewed revenue and expense projections in light of changed circumstances to assess the District's ability to make payments on current obligations as well as the proposed new loan. The District has been assisted in this effort by its financial advisor PFM and legal counsel K&L Gates.

The following chart presents a short-term sales tax revenue scenario that has been prepared by SRPFD staff and shared with District board members. The scenario shows sales tax revenues potentially dropping to as low as 25% of 2019 levels for three months, then ramping back slowly over the remainder of 2020 closer to normal (or to 75% of 2019 levels by the end of 2020).

SRPFD Short-Term Sales Tax Revenue Scenario

Month of sales tax generation	2019 Collection amount	Assumed Amount of 2019	estimated 2020 collection	Month of 2020 collected
Nov	$ 90,196.04	Actual	In line 1	January
Dec	$ 106,576.64	Actual	In line 1	February
Jan	$ 79,724.64	Actual	In line 1	March
Feb	$ 73,249.76	75%	$ 54,937.32	April
March	$ 97,593.41	25%	$ 24,398.35	May
April	$ 93,538.05	25%	$ 23,384.51	June
May	$ 98,143.05	25%	$ 24,535.76	July
			$ -	
June	$ 106,016.42	50%	$ 53,008.21	August
July	$ 100,412.18	50%	$ 50,206.09	September
August	$ 102,249.71	50%	$ 51,124.86	October
			$ -	
September	$ 95,317.78	75%	$ 71,488.34	November
October	$ 97,776.86	75%	$ 73,332.65	December
			$ 426,416.08	For Year

Source: SRPFD, provided as of April 2020.
This analysis is accepted as provided without further review at this time by E. D. Hovee.

The figure of $426,416.08 covers the period for the last 9 months of the year. The first three months are included at 100% of prior year totals. Consequently, the 12-month projection would be $702,913.40. This would appear to be 35% - 38% below 2019 receipts – depending on whether earlier SRPFD or more recent County revenue data is used.

Based on email correspondence, the District has indicated that even with decreased revenues associated with this scenario, the District will be able to meet its financial obligations including payments on the existing 2013 bond, the new loan and reserves. This scenario also indicates that the District can do this without the need to utilize existing reserves.

If revenues prove to be worse than outlined by this scenario, there is a longer-term fallback capability for the County to refinance its 2013 bond in 2022. As noted by the full feasibility report, the 2013 bond is currently scheduled to be paid off in 2026. If refinanced, the bond could be amortized through to 2041, thereby decreasing monthly debt service payments.

Based on these considerations and per email correspondence with the SRPFD, it is understood that the District board met on March 18 and April 15 and both times concluded that it remained committed to move forward with the project.

While this short-term scenario is accepted as provided, this independent feasibility review is not intended to provide further critique or validation as to forecast reliability due to lack of relevant actual sales tax data at this time. Rather, the approach taken with the remainder of this Report Addendum is to focus on back-stop capacity of Skagit County in the event that District revenues prove to be inadequate to fully fund current and planned new debt service, whether of short- or longer-term duration.

Skagit County Funding Capacity

As noted in the full feasibility review, it is Skagit County that is taking out the loan (issuing the debt) on the District's behalf and is ultimately responsible for repayment. As the District has noted in email correspondence, the County takes what is essentially a backstop position seriously as it is the County's credit and resources that are at potential risk.

As a result, it is understood that the County has also re-examined the District's ability to make required payment and has prepared its own scenarios of projected SRPFD sales tax revenues. To assist in this effort, Skagit County has also retained a consultant experienced with public entity bond financing locally and statewide.

A statement of the County's commitment and pledge of "its full faith and credit" to repayment of the bond together with added documentation is provided by a letter dated April 21 to Commerce from Trisha Logue, Skagit County Administrator. This letter and additional documentation have been provided for consideration with this Report Addendum based on request from Commerce and this independent reviewer.

The following topics summarize the documentation provided and reviewed in the context of County capacity to support any gap in sales tax shortfalls if and when needed:

- Documentation of bond purchase contract – with North Cascades Bank
- Review of non-voted bonding capacity – including remaining amount available
- Most recent County bond rating – by Moody's in 2016
- Historical experience in economic downturn – with the Great Recession of 2007-09
- Current financial outlook – focused specifically on SRPFD sales tax funding capacity

Each of these topics is briefly considered, in turn.

Loan Documentation

By letter dated April 17, 2020 to the Skagit County Administrator, North Cascades Bank has provided a bond purchase contract specifying terms and conditions for purchasing a qualified tax-exempt LTGO bond of Skagit County at private placement at a par amount of $3.4 million. The par amount of the bond will bear interest at 5.00% per annum; purchase will be made at a yield to maturity estimated at 2.9455% subject to conditions noted with the purchase contract.

Term of the bond is to December 1, 2041 with bond payments made semi-annually on June 1 and December 1. Closing date is set for May 1 beyond which the purchase contract will terminate without notice, unless extended in writing by the bank.

The County is to provide the bank with its annual financial report together with other information that the bank may reasonably request from time to time. As security, the purchase contract stipulates that:

> The Bond shall be a limited tax general obligation of the County. The County irrevocably covenants and agrees that it will include in its annual budget and levy taxes annually, within and as a part of the tax levy permitted to counties without a vote of the electorate, upon all the property subject to taxation in amounts sufficient, together with other revenues and money legally available therefor, to pay the principal of and interest on the Bond as the same shall become due. The full faith, credit and resources of the County are hereby irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest.

This requirement of the bank as bond purchaser in combination with a similar commitment in the amended Interlocal Agreement (which includes attached resolutions) demonstrates that the planned bond of $3.4 million will be repaid under any reasonable circumstance short of County insolvency. Repayment capacity is as assured as reasonably possible based on current and past County financial management practices as further described below.

Non-Voted Bonding Capacity

Skagit County has provided documentation of its total taxable valuation together with voted and non-voted indebtedness covering the period of 2009-2019, summarized as follows:

- As of 2019, assessed value of Skagit County is just under $21.2 billion.
- Total debt capacity including voted and non-voted debt is set at 2.5% of total assessed value – in an amount of nearly $529 million as of 2019.
- Of most relevance to this review is the non-voted debt limit set at 1.5% of total assessed value – in an amount of $317 million as of 2019. Remaining debt capacity is $282 million (with only 11% of the net debt that is applicable to the limit committed to date).

- From 2009-13, non-voted debt utilized between less than 4% to about 8% of the capacity limitation, then increased to 28.5% in 2014 before dropping back to a 2019 level of 11%.

In effect, Skagit County currently has ample non-voted capacity to assure repayment of some portion or all of the $3.4 million bond in the event of inadequate SRPFD sales tax revenues.

Bond Rating

The most recent bond rating for Skagit County occurred in 2016 with Moody's issuance of an Aa3 rating in connection with a LTGO refunding bond of $7.54 million. As defined by Moody's, obligations that are rated as Aa are investment grade, judged to be of high quality and very low credit risk.

The Aa3 rating was cited as reflecting Skagit County's sizeable tax base, average wealth levels, satisfactory financial operations that lag the median nationally, and modest debt profile.

Credit strengths cited were the County's sizable and stable tax base, solid financial operating history, and modest debt burden. Additional positive factors noted were healthy liquidity, relatively low debt burden, and strong county management.

Credit challenges noted included some modest concentration risk in the ten largest taxpayers and significant long-term liabilities in enterprise funding (as for the solid waste, drainage utility, and jail funds). Skagit Count was also compared with its neighboring metro counties to the south – Snohomish with a somewhat higher Aa2 rating and Seattle rated Aaa.

Specifically noted by Moody's was the mix of revenue sources supporting the county's General Fund – with property taxes at 49%, followed by retail sales-and-use tax at 17% and intergovernmental revenues at 16%. Heavy reliance on sales tax is noted as a source of volatility for the state, less so for counties that are less reliant on this revenue source.

Operating fund reserves were equal to a healthy 31% of operating revenues. Combined debt service on all bonds was nearly 13% of General Fund revenues, but all with identified repayment sources not impacting the General Fund.

Taken together, these factors are positive for added modest County debt funding (if needed) as with the SRPFD project, further reinforced by ample non-voted debt capacity (as described above).

Historical Experience

While the economic effects of the current COVID-19 pandemic are likely to play out differently than those of the Great Recession, this prior experience is nonetheless of note as one potential indicator of Skagit County's economic and financial resilience. The experience of the Great Recession has also served as the basis for a **recession scenario** as one of three alternate sales tax revenue projections considered in the full feasibility review – albeit hypothetically assumed to happen later than the current downturn.

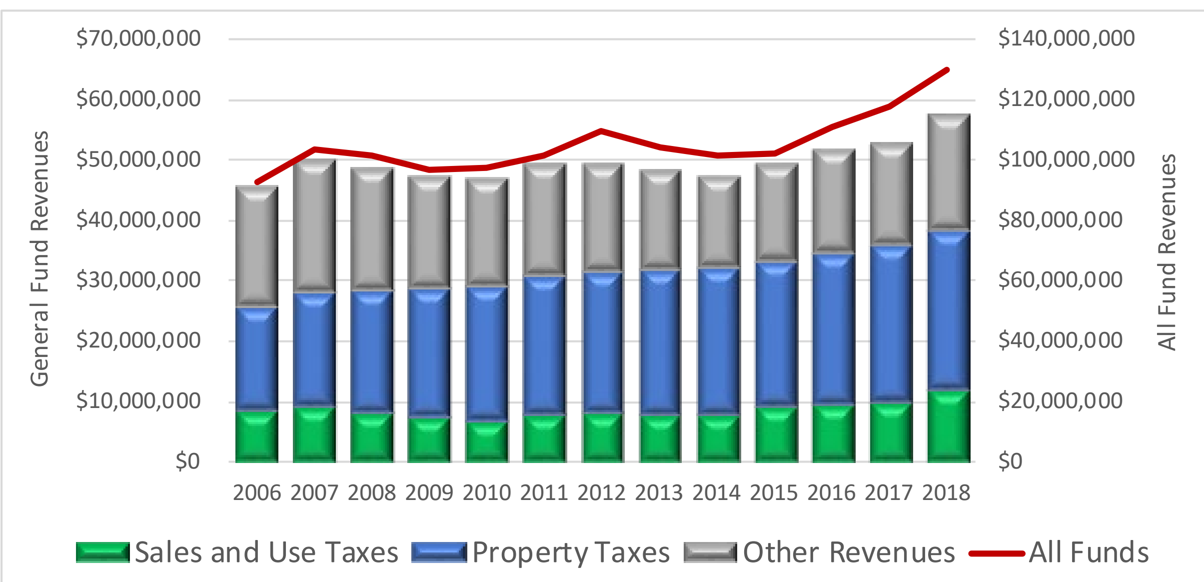
The Skagit County letter attached as Appendix B references this experience, noting that:

> "… the County successfully managed through the recession of 2008-2009. While we made expense and service reductions that were at times painful, we met all obligations and retained a strong General Fund balance that exceeded our target as evidenced in our financial statements. At the same time, despite a 25% reduction in sales tax revenue over 3 years, the PFD was able to make all debt service payments without ever drawing on its RSA (revenue stabilization account) or other reserves."

As part of this Report Addendum, Skagit County revenues have been reviewed over the period of 2006-18 – leading into and then subsequent to the Great Recession. Information is drawn from the Annual Financial Reports of the Washington State Auditor's Office and from Comprehensive Annual Financial Reports of Skagit County. Revenues of both the General Fund and all County funds are considered with this review. In addition to the General Fund, all funds include the County's Mental Health Fund, County Road Fund, and Other Governmental Funds.

General Fund revenues are of primary interest since Skagit County's General Fund is indicated by the County as being the source of backstopping any shortfall in SRPFD sales tax revenues. The more encompassing "all funds" trends are also of note, especially as both property and sales tax revenues are apportioned between funds in varied proportions from year-to-year.

Skagit County General Fund & All Fund Revenues (2006-18)



Sources: Washington State Auditor's Office and Comprehensive Annual Financial Reports of Skagit County.

Revenues from all funds available to Skagit County are more than double what is allocated to the General Fund. While General Fund revenues have increased at a somewhat slower rate than for all funds, the cyclical patterns are roughly comparable. Both General Fund and all fund revenues appear to rise and fall at similar times.

Other observations from this review are noted as follows:

- Overall, General Fund revenues to Skagit County have increased from $45.7 million in 2006 to $57.3 million in 2018 – equating to a compound growth rate of 1.9% per year. Revenues across all funds have increased somewhat more rapidly – by 2.8% annually.
- Both within the General Fund and across all funds, revenue growth has generally outpaced expense growth – resulting in increasing fund balances through 2018. Skagit County's General Fund balance has increased from just over $5 million in 2006 to nearly $20 million as of 2018. The balance across all funds has increased from just under $40 million to over $76 million.
- Across all funds, sales-and-use tax allocations have increased more rapidly overall than property tax revenues – at annual rates of 4.1% and 3.7%, respectively. Within the General Fund, the reverse situation is noted. Other revenue sources have increased more slowly than from sales and property tax sources (actually declining somewhat within the General Fund).
- As noted by the Moody's bond rating, sales tax revenues tend to be more volatile than is the case for property taxes. Sales tax receipts declined across three consecutive years from 2008-10 – dropping by 25% for the General Fund over these three years and by 21 % for all funds combined. During this same time period, property tax revenues continued to increase each year.
- With revenue declines experienced for sales tax and other revenues, Skagit County made expenditure reductions – with the largest cut of 10-11% experienced in 2010 across both the General Fund and for all funds combined.
- Starting in 2014, the General Fund has had little to no exposure to debt service payments. Across all funds, debt service accounts for just 3% of expenditures as of 2018.
- Despite the economic turmoil from 2008-10, the General Fund has experienced an end of year surplus every year from 2006-18. A deficit of over $9 million was realized across all funds in 2009 – with lesser deficits of $1.0 and $1.6 million noted for 2013 and 2014, respectively.
- Coming out of the recession, a strong rebound in sales tax revenue was experienced in 2011. Strong performances are also noted for 2015 and 2018 – especially for the General Fund (with an 18.6% year-over-year increase noted in 2018).
- Overall, both the General Fund and all funds are more reliant on property and sales taxes in 2018 as compared with 2006, less reliant on other revenues. Within the General Fund, property taxes have increased from 38% to 46% of total revenues, with sales tax revenues increasing more modestly from 18% to 20%.

Taken together, this review indicates that Skagit County has demonstrated substantial financial resiliency through the last economic downturn – despite the most serious declines noted for sales-and-use tax. Coming into the current economic crisis, sales tax revenues again can be expected to be most adversely affected, though to a degree and over a time period as yet not readily determined.

If the experience of the last recession is repeated, revenues other than property and sales tax also will be adversely affected. With no more than 20% dependence on sales tax going in, Skagit County will be less vulnerable than would otherwise be the case – provided that property tax collections are maintained throughout the current downturn and that operating expenditures can be pared as needed – giving priority to debt repayment which has been a modest proportion of all County expenditures in recent years.

Current Financial Outlook

In its letter of April 21 to Commerce, Skagit County has provided a 10-year projection of SRPFD sales tax revenues reflecting COVID-19 pandemic conditions over a period of reduced revenues extending to 2025. The assumptions are different and more conservative than those made by SRPFD which have focused only on the current 2020 calendar year.

With the Skagit County scenario, sales-and-use tax revenues are assumed to be only 50% of 2019 base revenues in 2020, increasing to 65% in 2021, 80% in 2022, 90% in 2023, 95% in 2024, and back to 100% by 2025. With this scenario, the combination of existing and proposed new debt payments would exceed sales tax revenues each year from 2020-23. However, the shortfall in current sales tax revenues would be offset by the revenue stabilization account and debt reserve without the need for County General Fund support.

However, this scenario comes within $29,000 of requiring the County to provide supplemental funding to make required debt service payments. In effect, if the revenue impacts prove to be any more adverse than applied with the County scenario, some form of County backstop support likely would be required.

One other observation is noted from the County's analysis. The most important factor affecting sales tax adequacy to fully fund debt repayment is not so much the severity of the current and immediate 2020 impact but, rather, the time period and pace by which subsequent economic and revenue recovery occurs. A recession of short duration will be much more sustainable with sales tax revenues than a period of prolonged economic contraction.

III. FEASIBILITY CONSIDERATIONS

As noted at the outset, the primary purpose of this Report Addendum has been to address the question of revenue adequacy in the face of a potentially unprecedented economic and associated tax revenue downturn. As an independent review, this addendum comments on the adequacy of information previously and more recently provided as a reasonable basis for proceeding with the SRPFD project as planned.

To summarize, the following considerations are noted as pertinent to assessing SRPFD and Skagit County commitment and capacity to repay current and planned new bonded indebtedness:

- As documented by the full independent feasibility review, the institutional capacity for funding, development and operation of the SRPFD's McIntyre Hall Performing Arts & Conference Center has been in place starting with formation of the District in 2001 and with interlocal arrangements subsequently modified as project circumstances have changed. Since completion of the full feasibility report, an amended interlocal agreement has been approved by Skagit County and the District.
- With this amended interlocal and supporting resolutions, Skagit County has "pledged its full faith and credit" to make debt payments as scheduled in the event of District sales tax shortfalls. An amended ground lease with Skagit Valley College has also been approved by the District Board, subject to state board confirmation.
- As indicated by the full feasibility review report in March 2020, it was becoming clear that the COVID-19 pandemic could affect the capacity of the District to repay current and planned debt in a manner not previously anticipated. Subsequently, both the District and Skagit County have conducted further due diligence to assess potential impacts on financial feasibility for the proposed project.
- Both analyses indicate that the District has adequate revenue together with reserves to make initial payments this year. Skagit County also has evaluated longer term implications with a scenario reflecting a near term sharp sales tax revenue decline with potentially slow return to 2019 revenues extending from 2020 to 2025. Even with this scenario, District revenues and reserves could prove adequate without the need for Skagit County funding support.
- However, if revenues fall short of what is assumed by the Skagit County scenario provided with this Report Addendum, the combination of District revenues and reserves would likely prove inadequate to fully cover debt payments by 2023 (or earlier if the recession were to involve a more severe downturn than indicated by the County's funding scenario). In this event Skagit County could be required to provide backstop funding support from its General Fund. Alternatively, if the shortfall does not emerge until after 2021, the shortfall might be addressed by refunding of the current 2013 bond in 2022.

- Based on additional information provided by Skagit County (including the letter attached as Appendix B), the following additional factors are noted as supporting Skagit County's capacity for repayment:
  - ✓ North Cascades Bank has provided a bond purchase contract for execution by May 1 involving repayment provisions consistent with prior projections.
  - ✓ Skagit County has more than ample non-voted bonding capacity to readily cover some portion or all of the new bonded indebtedness, if necessary.
  - ✓ County capacity is also supported by a prior Moody's bond rating (in 2016) of Aa3 investment grade, judged to be of high quality and very low credit risk.
  - ✓ Skagit County has demonstrated resilience in the face of prior economic downturn, most recently exemplified by the Great Recession which adversely affected County revenues from 2008-10 but with the General Fund maintaining an operating surplus throughout.

Of all these considerations, by far the most important is Skagit County's pledge of its full faith and credit to the bond placement with North Cascades Bank and the stated acknowledgement of the County's obligation to pay the debt service. This is further reinforced in the statement provided by the County's letter of April 21 to Commerce that: "If there are shortfalls in PFD revenue, the County remains committed to pay the debt service on the bonds."

Based on these considerations and assuming the continuation of Skagit County governmental services even through times of national and regional economic crisis, this Report Addendum provides evidence of demonstrated institutional commitment coupled with capacity of current and expected revenues, whether from sales tax or other sources, to meet anticipated project costs.

APPENDIX A. ADDED DOCUMENTS REVIEWED

In addition to documents cited by the full feasibility review report, the following additional documents have been reviewed with this Report Addendum:

- Moody's Investors Service, *Skagit County, WA New Issue – Moody's Aa3 to Skagit County, WA's LTGO bonds, Credit Opinion*, May 24, 2016.
- North Cascades Bank, *Bond Purchase Contract (Revised),* April 17, 2020.
- Skagit County and SRPFD, *First Amendment to Interlocal Agreement C20120043,* dated March 1, 2020 (and fully executed March 30, 2020).
- Skagit County, *Comprehensive Annual Financial Report,* report documents covering the years 2010-18.
- Skagit County, Voted and Non-Voted Indebtedness Chart, 2009-19 (provided as worksheet file).
- Trisha Logue, Skagit County Administrator, letter to Angie Hong – Washington State Department of Commerce, April 21, 2020.
- Washington State Auditor's Office, *Financial Statements and Federal Single Audit Report: Skagit County*, reports covering the years 2006-09.

Separate from and in addition to these documents, Commerce and this independent feasibility reviewer have been involved in telephone consultation and e-mail exchanges which also have provided additional information including cross-checking as useful for documentation provided with this Report Addendum.

APPENDIX B. SKAGIT COUNTY LETTER (APRIL 21)

Skagit County Administrative Services
Budget & Finance Department
Trisha Logue, CPA, County Administrator

April 21, 2020

Washington State Department of Commerce
ATTN: PFD Financial Feasibility Review Program
Angie Hong, Contract and Procurement Specialist
1011 Plum St SE
PO Box 42525
Olympia, WA 98504-2525

Dear Ms. Hong,

The Skagit Regional Public Facilities District (the "PFD") recently asked Skagit County to issue debt for the purpose of lending funds to the PFD for certain capital improvements. After performing our own due diligence in early 2020, including review of our own financial models and testing potential revenue scenarios, the County agreed to the PFD's request. Subsequently, the PFD and the County have been impacted by reductions in sales and use tax revenue due to the coronavirus pandemic, which reduction is expected to continue. The County recently revisited our financial modeling and independently reconfirmed our commitment to lend funds to the PFD at this time.

The PFD was formed by the County in 2001 with the expectation it would be a self-supporting entity. The PFD partnered with the Skagit Valley College to allow construction of a performing arts facility on the college campus, for the college to operate the facility, and with the intention the college take ownership of the facility upon termination of the PFD. The County provided credit support to the PFD for its initial financing in 2003 through an agreement to make loans, if needed, to pay debt service. In 2013, the County again provided support to the PFD by refinancing the original bonds with County-issued bonds and loaned proceeds to the PFD, just like the current proposal. As a condition to the credit support in 2003, 2013 and 2020, the County required that the PFD establish certain reserve accounts and use annual sales tax revenue in a particular order of priority that places debt service and core PFD operations first, before any other operating or capital expenditures.

As of March 31, 2020, the PFD has over $700,000 in a revenue stabilization account ("RSA") which is available solely to support debt service payments, and has another nearly $1.3 million

Skagit County Commissioners Administrative Building
1800 Continental Place, Suite 100, Mount Vernon, WA 98273 Phone (360) 416-1300

in its sales tax and capital reserve accounts, both of which are explicitly available to pay debt service. Based on our due diligence, taking into account potential reductions of revenue that we consider to be reasonably conservative and the availability of the RSA, we are confident in the PFD's ability to make required payments for its debt service obligation, even with the impact of the pandemic, and that the County will not be required to use County funds to pay PFD debt.

The County has pledged its full faith and credit to the bond with North Cascades Bank and therefore is obligated to pay the debt service. The bank independently reviewed the County's financial and other information in making the determination they would lend to the County. If there are shortfalls in PFD revenue, the County remains committed to pay the debt service on the bonds. We believe that the risk to the County is mitigated by (a) the availability of an additional $1.3 million of funds in the sales tax and capital reserve account, as referenced above and (b) our ability to refinance the County's 2013 bonds which are callable December 1, 2022, in order to reduce debt service in the years after 2022.

The graphic below shows the analysis and assumptions that support our conclusion, using what we consider to be conservative assumptions. Our best guess is that sales tax revenue in the County for 2020 may be 60% of 2019 levels. It is too early to have a good estimate of expectations for future years, but we do expect sales tax to recover at a faster rate than shown in our modeling below. Even with these conservative assumptions, you can see that we expect PFD sales tax revenue, together with the RSA fund, to be sufficient to provide for core (required) PFD operating costs and debt service.

	Year	Assumption Used For Sales Tax Revenue	Potential Sales Tax Revenue	Budgeted for Required Expenditures (1) (2)	Available for Debt Service	Existing Debt Service	Proposed 2020 Bond Debt Service	Excess (Deficiency) - To (From) RSA Balance (3)	RSA/Debt Service Fund Balance (4)
Projected		% of 2019							$ 707,403
	2020	50%	$ 570,397	$ (118,535)	$ 451,862	$ (684,469)	$ (86,889)	$ (319,495)	387,907
	2021	65%	741,516	(110,000)	631,516	(703,119)	(170,000)	(241,602)	146,305
	2022	80%	912,636	(120,000)	792,636	(729,919)	(170,000)	(107,283)	39,022
	2023	90%	1,026,715	(112,000)	914,715	(754,719)	(170,000)	(10,004)	29,018
	2024	95%	1,083,755	(122,000)	961,755	(782,519)	(170,000)	9,236	38,254
	2025	100%	1,140,795	(114,000)	1,026,795	(807,819)	(170,000)	48,976	87,230
	2026	101%	1,152,202	(124,000)	1,028,202	(832,319)	(170,000)	25,884	113,114
	2027	101%	1,152,202		1,152,202		(328,300)	215,186	328,300
	2028	101%	1,152,202		1,152,202		(328,300)	-	328,300
	2029	101%	1,152,202		1,152,202		(328,300)	-	328,300

Note that the Priority of Payments indicates debt to be paid from sales tax revenue before operating expense, but for practicality it is after operations.

(1) Misc expenses, legal, building insurance and $10,000 biennially for audit

(2) 2020 includes $10,000 for biennial audit; assumes $10,000 required for audit in even numbered years

(3) The RSA required balance as of 12/31 of any year is 100% of the next years debt service. The RSA is intended to provide for debt service shortfalls with the balance to be restored to the required balance in future years.

(4) Balance of RSA Fund is as of March 31, 2020.

It should be noted that the County successfully managed through the recession of 2008-2009. While we made expense and service reductions that were at times painful, we met all obligations and retained a strong general fund balance that exceeded our target as evidenced in our financial statements. At the same time, despite a 25% reduction in sales tax revenue over 3 years, the PFD was able to make all debt service payments without ever drawing on its RSA or other reserves.

We have been asked by the Department of Commerce to provide certain financial and other information so its consultant can update its required feasibility review. That information will be provided separately.

Thank you for the opportunity to address your question regarding the County's review of PFD sales tax capacity and its commitment to payment of the County's debt used for this purpose.

Sincerely,

/s/ Trisha Logue

Trisha Logue
County Administrator

APPENDIX C. BOND DEBT SERVICE SCHEDULE

The following debt service schedule as provided by SRPFD on April 24, 2020 is from the closing document with North Cascades Bank. Annual payments reflect minor variations from what is provided in the full feasibility report and in information as provided in this Report Addendum from Skagit County.

EXHIBIT A

BOND DEBT SERVICE

Skagit County, Washington
(Skagit Regional Public Facilities District)
Limited Tax General Obligation Bond, 2020
****Proposed Final Numbers****

Period Ending	Principal	Coupon	Interest	Debt Service
12/01/2020			99,166.67	99,166.67
12/01/2021			170,000.00	170,000.00
12/01/2022			170,000.00	170,000.00
12/01/2023			170,000.00	170,000.00
12/01/2024			170,000.00	170,000.00
12/01/2025			170,000.00	170,000.00
12/01/2026			170,000.00	170,000.00
12/01/2027	160,000	5.000%	170,000.00	330,000.00
12/01/2028	165,000	5.000%	162,000.00	327,000.00
12/01/2029	175,000	5.000%	153,750.00	328,750.00
12/01/2030	185,000	5.000%	145,000.00	330,000.00
12/01/2031	190,000	5.000%	135,750.00	325,750.00
12/01/2032	200,000	5.000%	126,250.00	326,250.00
12/01/2033	210,000	5.000%	116,250.00	326,250.00
12/01/2034	220,000	5.000%	105,750.00	325,750.00
12/01/2035	235,000	5.000%	94,750.00	329,750.00
12/01/2036	245,000	5.000%	83,000.00	328,000.00
12/01/2037	255,000	5.000%	70,750.00	325,750.00
12/01/2038	270,000	5.000%	58,000.00	328,000.00
12/01/2039	285,000	5.000%	44,500.00	329,500.00
12/01/2040	295,000	5.000%	30,250.00	325,250.00
12/01/2041	310,000	5.000%	15,500.00	325,500.00
	3,400,000		2,630,666.67	6,030,666.67