WASHINGTON STATE CONVENTION CENTER EXPANSION:

BUILD-OUT & OPERATING FEASIBILITY

Prepared for:

Washington State Department of Commerce

May 24, 2018

E. D. Hovee & Company, LLC

Economic and Development Services

Washington State Convention Center Expansion: Build-Out & Operating Feasibility

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Photos courtesy of the Washington State Convention Center.

FEASIBILITY REPORT OVERVIEW

The Washington State Convention Center Public Facilities District (WSCC PFD) is planning an approximate $1.7 billion expansion with an additional facility (the Addition) proposed for construction beginning June 2018 in downtown Seattle. When completed, the nearly 1.5 million square foot facility will add 434,000 square feet of event space – more than doubling the event capacity of the existing WSCC convention facility situated one-half block away.

Washington state statute (RCW 36.100.025) requires that an independent feasibility study be performed prior to the issuance of any net new indebtedness or development of a PFD owned or operated facility. This feasibility study, prepared for the Washington State Department of Commerce, addresses statutory requirements to "examine the potential costs to be incurred by the public facility (facilities) district and the adequacy of revenues or expected revenues to meet these costs."

In November 2015 a Phase 1 independent feasibility study was completed to address land acquisition and associated financing feasibility. This Phase 2 report covers build-out and operating feasibility – including updates to the prior Phase 1 review. What follows are summary observations from this independent feasibility report.

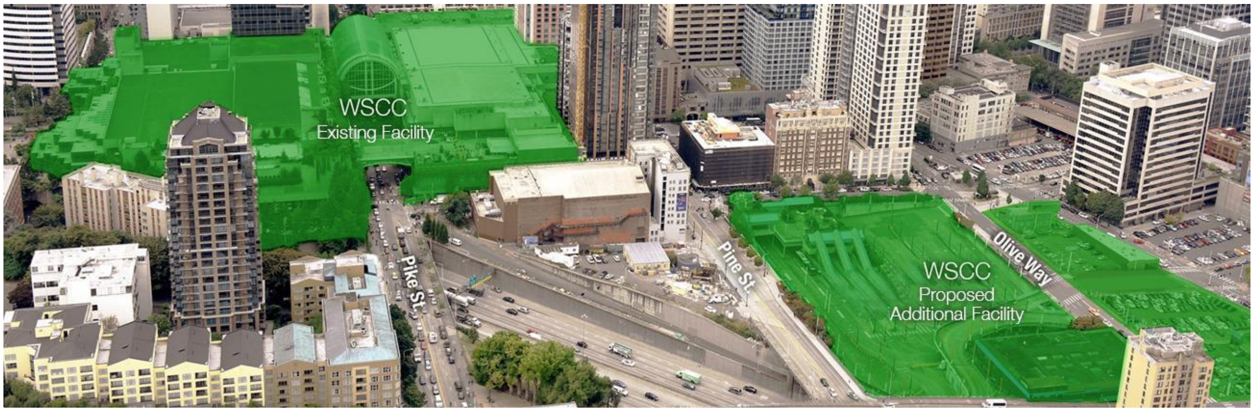
WSCC ADDITION OVERVIEW

The proposed WSCC Addition is to be located on an approximately 7.7-acre downtown Seattle site bounded by 9th and Boren Avenues, Pine and Howell Streets. When complete, the new multi-level Addition building will include:

- 154,000 square foot exhibition hall – constructed as contiguous below-grade space
- 100,000 square foot flex hall
- 120,000 square feet of meeting rooms
- 60,000 square foot ballroom
- Another 1,047,000 square feet of support space – including 20,000 square feet of ground floor retail and restaurants, added pre-function and lobby areas, structured parking for 700-750 added vehicles and on-site loading together with off-site marshalling yard for efficient freight access

Site acquisition has been completed, subject to a July 25, 2017 King County Purchase and Sales Agreement (KC-PSA) planned for closing prior to start of construction. A portion of the site has been operated as a bus entrance point for the Downtown Seattle Transit Tunnel (DSTT), the operation of which will cease with full dedication of DSTT operations to light rail transit use. A subsequent Temporary Joint Use Agreement (TJUA), dated February 20, 2018, provides further clarity to ensure continuity of Metro bus operations on the site until the DSTT termination date.

WSCC Existing & Proposed Addition Facilities



Source: WSCC web site: www.wscc.com/proposed-additional-facility. Photo credit – Steve Shelton Images.

Total site acquisition and related costs are estimated at $329.1 million. This is an increase of $69.3 million from the $259.8 million cost estimate as of the 2015 Phase 1 feasibility report. Increased cost is attributable to the site-related $60 million portion of a $93 million public benefits package plus other site-related costs determined after issuance of the Phase 1 report.

The site footprint for the below-grade portion of the WSCC Addition includes two blocks to the north of Olive Way for which the above-grade area will not be needed. Development rights for the above-grade space are planned to be sold for construction of a 29-story (approximately 400 unit) apartment tower and a 16-story (500,000 square foot) office building. Proceeds will be used as one source of funding for the Addition construction cost.

WSCC also is beginning to plan for renovation of the now 30-year old existing WSCC facility with project costs preliminarily estimated to be in the range of +/- $100 million. Funding for this renovation has not yet been determined and will be considered in the future separately from the Addition project as currently planned.

Construction of the WSCC Addition is anticipated to begin June 2018 followed by issuance of Series 2018 bonds in July. Remaining bond financing is planned for 2020 and the expansion facility is targeted for opening the third quarter of 2021.

INSTITUTIONAL ARRANGEMENTS

What is now the WSCC PFD was first established as a public non-profit corporation by the Washington State Legislature in 1982, wholly owned by the State of Washington. Construction of initial facilities was completed in 1988 and the center has been subsequently expanded twice. In 2010, the Legislature authorized the transfer of the WSCC together with all facilities and assets to a new independent public facilities district (PFD). The new district also was responsible to transfer funds to refinance and defease all debt related to the WSCC.

A variety of operational and non-operating revenue sources are available to PFDs in Washington state. Revenue sources that have been used for capital purposes with the WSCC are limited to what are termed as the Regular Lodging Tax comprising a 7.0% tax levied in Seattle and 2.8% rate elsewhere in King County.

WSCC also receives a 2.0% Additional Lodging Tax in Seattle which is rebated to the State of Washington to the extent that funds are not required by the PFD for bonded debt service. What amounts to a credit backstop has never been used and this authorization expires in 2029.

The 2018 Legislature authorized and Washington's governor has signed into law an Extended Lodging Tax. This legislation extends the 7.0% City of Seattle and 2.8% King County lodging taxes to previously exempt lodging establishments of less than 60 rooms. Full collections are expected by state fiscal year 2020. While this source may serve as added credit enhancement, it has not yet been fully factored into revenues available for debt coverage due to uncertainty of revenues and inapplicability for determining debt capacity with Series 2018 bonds.

The principal guiding document governing WSCC financial commitments is Resolution 2010-12, adopted by the WSCC board in November 2010. The resolution outlines an eight-step priority ordering of payment (or flow of funds) from available lodging tax revenues – effectively prioritizing payment of senior and then subordinate bonded indebtedness ahead of other existing or potential uses of lodging tax revenues.

Currently proposed are two amendments to the resolution, to be made in conjunction with the KC-PSA – including an amendment to more clearly prioritize payment of a subordinate King County note. Depending on whether these amendments are approved, WSCC could be required to conduct one or two additional stress tests before issuing additional bonded indebtedness beyond what is currently anticipated for the Addition project. These stress tests, if required, do not affect the 2018 debt financing and are not part of this independent feasibility review.

Development Cost & Financing

Development cost of the WSCC Addition is estimated at $1.732 billion with uses and sources of funds summarized as follows.

Uses of Funds. Major components of development cost can be differentiated between $1.136 billion in construction cost (or 66% of project budget), $329 million (19%) in land and related costs, and $267 million (15%) in other project costs:

- Of the **construction** budget, $930 million represents a maximum allowable construction cost (MACC) fixed price contract with the Clark/Lewis as a joint venture contractor. Non-MACC costs of $206 million cover other construction related items as for early construction, change order contingency, co-development, transit-related construction, transit facility related relocation, tenant allowances, permitting and sales tax.

- **Land and related** costs include $243 million for site acquisition, $60 million as part of a WSCC-funded public benefits package and $26 million for other site related costs.
- **Other project costs** include $92 million for architecture/engineering, $42 million for project administration, $38 million in financing costs and debt reserves, over $3.6 million for leasing and market cost, and $51 million for varied miscellaneous costs.

Contingency (including construction change order contingency) is about 5% of project cost.

Sources of Funds. Sources can be distinguished between approximately $1.354 billion (or 78% of project cost) in debt financing with more than $377 million (22%) representing equity contributions:

- Of the **debt financing**, $1.213 billion will occur as bonded indebtedness, currently planned as $1.045 billion in Series 2018 senior and subordinate bonded debt, with the remaining $168 million as Series 2020 senior and subordinate debt – and with bond repayment extending to 2058. King County will carry a subordinate note in the amount of $141 million for the remainder of debt financing – with payments extending to 2048.
- What can be considered as **equity contributions** includes $270 million of WSCC cash payments (with $264 million projected to be paid prior to bond issuance), $38+ million from sale of co-development rights, $23 million in King County reimbursements, $20+ million in project investment income, $20 million with release of a 2010 debt service reserve, and $5 million from sale of surplus property after construction completion.

Adequacy of Funding for Debt Service. Capacity for debt repayment is determined through an Additional Bonds Test (ABT). Critical to the ABT calculation is the estimate of lodging tax revenues received in 12 consecutive months of the preceding 24 months leading up to bond issuance. Regular Lodging Tax revenues received during the trailing 12-month period must be at least 1.75 times the annual debt service for senior pledge bonds going forward.

Because two bond issues are planned – in 2018 and 2020 – the ABT calculations will be made twice. There should be additional bond capacity at the time of the 2020 issue provided that Regular Lodging Tax revenues increase in the two years after the initial bond placement. A limited portion of Extended Lodging Tax revenue will also be fully available by 2020.

The ABT test for subordinate bonded debt *when combined* with senior debt is set at a lower threshold by agreements involving WSCC, the State of Washington and King County at 1.25x through 2029 and at 1.15x thereafter. The proposed bond financing has been structured to maximize debt capacity for the WSCC Addition, though not including the Extended Lodging Tax.

As forecast by Public Financial Management (PFM) for WSCC, there clearly should be adequate revenue capacity for the 2018 issue (since lodging tax revenues into early 2018 are now known). Bonding capacity would also be adequate with the final senior and subordinate bond issue in September 2020 provided that lodging tax revenues increase at an average annual rate of 5.0% through this period – a rate which is below recent lodging tax growth (since 2011).

With this base case analysis, lodging tax revenues should be adequate to cover not only payment on bonded debt, but also to cover other existing and planned uses of Regular Lodging Tax revenues – including payment of the King County subordinate note, WSCC reserve deposits, entitlements and Washington State Department of Transportation (WSDOT) lease expense, and lodging marketing transfer. However, the non-operating margin from all existing and proposed uses of Regular Lodging Tax funds may be relatively narrow, at only 3-8% of total Regular Lodging Tax resources – through about 2025 (and then again temporarily in 2030).

To better evaluate the reasonableness of the base case, this independent feasibility review includes a stress test scenario. For purposes of comparison, the stress test assumes a hypothetical re-play of the extreme conditions from the Great Recession of the last decade. As *worst-case* timing, this replay would start as early as 2019 with lodging tax revenues dropping by 20% the next two years of 2020-21 – as earlier occurred from 2008-10.

If conditions of the stress test scenario were to occur, WSCC could be placed in the position of:

a) Not being able to fully issue additional bonds in the amount of approximately $168 million in 2020; and
b) Not being able to fully fund non-bond obligations that represent lower priority uses of lodging tax resources.

Series 2018 senior and subordinate bonded debt payments should be fully funded even through a severe recession, but payments toward the King County subordinate note, WSCC reserve deposits, entitlements/WSDOT lease, and marketing transfer likely could not all be fully paid from Regular Lodging Tax resources alone – but lead to a cumulative shortfall for these other non-bonded debt uses estimated at up to a $76 million deficit over five years.

Operating Budget

With this independent feasibility report, a separate but related review has been conducted of operating revenues and expenses. Consistent with WSCC financials (recently re-stated), WSCC operating revenues generally have exceeded expenses – with positive **net operating income** experienced in all but one year since 2011. The WSCC board's policy is for operating revenues to fully cover expenses – without need for subsidy from non-operating sources of revenue.

While not as pivotal to the direct operating portion of this Phase 2 feasibility review, non-operating revenues and expenses are of importance to current and future capacity for additional debt and or other operating priorities of WSCC. The difference between total assets and liabilities equals WSCC **net position** (or equity value), approximating $427 million as of year-end 2017. WSCC's net position includes over $108 million as unrestricted funds – a source of capital available to support planned facility expansion or other priorities as consistent with WSCC board direction.

Net position has increased by $216 million since 2011 – with $52 million (24%) of the gain in net position occurring in the past year from 2016-17. Enhancement of WSCC's net position is attributable primarily to increases in Regular Lodging Tax as non-operating revenue received in recent years.

On behalf of WSCC in 2015 and again in 2018, HVS Convention, Sports & Entertainment Facilities Consulting (HVS) has prepared preliminary operating projections for a new Addition facility. With this **base case** analysis as prepared for WSCC, HVS projects operating deficits for the year of opening and the following year – totaling a combined two-year deficit of $3.1 million. The expanded facility is then projected to return to operating profitability – with $1.6 million of net income as of stabilized (2024) utilization.

With this feasibility review, E. D. Hovee has identified and evaluated two **stress test scenarios** based on a review of five comparable facility expansions in the western U.S. – WSCC's first expansion together with similar facility expansions in Spokane, Portland, Denver, and (possibly) San Francisco. This experience indicates that reduced profitability (or an increased operating deficit) is often an outcome with facility expansion – over some or all of the next three years to stabilized operations. San Francisco's Moscone Center expansion has been accompanied by a shift to operating subsidy – with greater priority placed on event capture and facility utilization.

The two operating stress test scenarios evaluated are termed as:

- **High Performance** – reflects the experience of four comparables *excluding* San Francisco coupled with WSCC operating experience from 2011-16 with revenue increases outpacing expenses. With this scenario, WSCC would experience operating deficits over about six years starting the year before opening with a cumulative $9.6 million deficit realized before returning to operating profitability by about 2027.
- **Low Performance** – based on the experience of all five comparables *including* San Francisco coupled with WSCC operating experience over the longer 2001-16 time frame where expenses increased more rapidly than revenues. With this *worst-case* situation, operating deficits would be experienced immediately but unevenly through about 2024, then with deficits ever widening if expense growth continues to exceed revenue growth. The annual operating deficit could reach $4.4 million by 2030 – with a much larger cumulative deficit approaching as much as $34 million over the full 2021-30 time period.

WSCC's board has adopted a policy that calls for operating adjustments, as needed, to assure that operating expenses are covered by operating revenues. Assuming that favorable business conditions continue and that the current WSCC policy is maintained, a moderate to high performance outcome should be more likely than the alternative of a low performance outcome as experienced by some West Coast comparables.

RISK FACTORS & MITIGATION

Based on the foregoing review, this report identifies and evaluates risk factors that could affect WSCC build-out and operating feasibility. Risks addressed and options for mitigation relate to:

- **Capital cost risks** – as the potential for construction delay/cost overruns and uncertainty regarding non-debt related funding during construction
- **Financing & debt repayment risks** – related to adequacy of projected lodging revenues and capital market requirements
- **Operating budget risks** – including the possibility of a short-term operating loss, unbalanced revenue mix, and potential transition from operating surplus to deficit
- **Institutional risks** – related to KC-PSA closing and capacity to fulfill priority WSCC obligations

Regular Lodging Tax revenues from the City of Seattle and King County yield a payment source well suited to repay bonded indebtedness plus lower priority subordinate debt and non-debt WSCC obligations. Long-term, continued regional economic and visitor growth can be expected to result in lodging tax revenue gains that far exceed the amounts required to pay for bonded indebtedness and related non-operating uses through to scheduled bond retirement in 2058.

If there is a financial risk, it likely emerges at the time of the remaining WSCC Addition bond financing planned for 2020. While adverse conditions are currently not expected near term, WSCC could be vulnerable to a potential economic downturn in the 2019-25 time frame – due to narrow non-operating margins estimated at 3-8% of total lodging tax resources.

Even with what might be perceived as unlikely but clearly adverse scenarios, there are multiple options to consider as possible mitigation measures. These include use of available WSCC reserves, extended use of Additional Lodging Tax backstop resources (up to 2029), application of the now approved Lodging Tax Extension from smaller lodging establishments, interim financing with delay of Series 2020 financing, and/or deferral of non-priority obligations.

From an operating perspective, maintenance of the current policy to fully support operating expenses from direct facility revenues best avoids competition for tax revenue sources now allocated to non-operating uses. If incurred, short term operating losses occurring with Addition start-up to stabilized utilization appear manageable with existing and planned reserves. If necessary, longer term deficits might be offset, at least in part, as Regular Lodging Tax revenues increase to levels well ahead of WSCC debt and other non-operating obligations by the 2030s.

While no mitigation option would be without consequences, project risks could be addressed by policy choices of the WSCC board in cooperation with funding and resource partners when and if needed. An alternate path forward would be to further clarify the priority flow of funds in advance of what may be viewed as unlikely yet possible future debt-related and/or operating funding shortfalls.

REPORT ACRONYMS

The following is a list of acronyms used on multiple occasions throughout this report:

AAGR	Average Annual Growth Rate
ABT	Additional Bonds Test
BABs	Build America Bonds
BAN	Bond Anticipation Note
CCC	Colorado Convention Center
CFR	Code of Federal Regulations
CPC	Community Package Coalition
CPS	Convention Place Station
CSL	Convention and Sports Leisure
DOR	Department of Revenue
DSCR	Debt Service Coverage Ratio
DSTT	Downtown Seattle Transit Tunnel
F&B	Food and Beverage
FAR	Floor Area Ratio
FFE	Furniture/Fixtures/Equipment
FY	Fiscal Year
GC/CM	General Contractor/Construction Manager
GDP	Gross Domestic Product
HVS	HVS Convention, Sports & Entertainment Facilities Consulting
IRMA	Independently Registered Municipal Advisor
KC-PSA	King County Purchase and Sales Agreement
MACC	Maximum Allowable Construction Cost
MMD	Municipal Market Data
MUP	Master Use Permit
NOI	Net Operating Income
OCC	Oregon Convention Center
OCIP	Owner Controlled Insurance Program
PFD	Public Facilities District
PFM `	Public Financial Management
PwC	Price Waterhouse Coopers
SCC	Spokane Convention Center
SEC	Securities and Exchange Commission
TJUA	Temporary Joint Use Agreement
TPSS	Transit Power Substation
VCC	Vancouver Convention Centre
VCCEP	Vancouver Convention Centre Expansion Project
WSCC	Washington State Convention Center
WSDOT	Washington Department of Transportation

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I. INTRODUCTION

The Washington State Convention Center Public Facilities District (WSCC PFD) is planning an approximate $1.7 billion expansion to accommodate a new Additional Facility on a 7.7-acre footprint proximate to the existing WSCC. On behalf of the Washington State Department of Commerce (Commerce) and in cooperation with the WSCC PFD, the economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee) has conducted a two-phase independent feasibility review pursuant to RCW 36.100.025.[1]

PURPOSE OF FEASIBILITY REVIEW

The purpose of the feasibility review is to examine the potential costs and the adequacy of revenues or expected revenues to meet costs incurred by the WSCC PFD associated with:

- **Phase 1** acquisition of multiple land parcels adjacent to the current WSCC campus upon which to develop expanded facilities coupled with debt issuance for partial funding of required site assembly
- **Phase 2** construction and development including operating plans for the expanded facility together with debt issuance to fund project build-out of the proposed Additional Facility (or Addition)

This report addresses Phase 2 objectives related to build-out and operating financing feasibility. A separate report was previously prepared in November 2015 covering Phase 1 land acquisition and financing feasibility – albeit with subsequent updates noted in this report. As directed by state statute, the preparer of this report is to exercise independent professional judgment in conducting these financial feasibility reviews.

STATE OF WASHINGTON ROLE & STATUTORY AUTHORITY

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

> (1) An independent financial feasibility review under this section is required to be performed prior to any of the following events:
>
> (a) The formation of a public facilities district under this chapter;
>
> (b) The issuance of any indebtedness, excluding the issuance of obligations to refund or replace such indebtedness, by a public facilities district under this chapter; or
>
> (c) The long-term lease, purchase, or development of a facility under this chapter.
>
> (2) The independent financial feasibility review required by this section must be conducted by the department of commerce through the municipal research and services center under RCW 43.110.030 or under a contract with another entity under the authority of RCW 43.110.080. The review must examine the potential costs to be incurred by the public facility [facilities] district and the adequacy of revenues or

expected revenues to meet those costs. The cost of the independent financial feasibility review must be borne by the public facility [facilities] district or the local government proposing to form a public facility [facilities] district.

(3) The independent financial feasibility review, upon completion, must be a public document and must be submitted to the governor, the state treasurer, the state auditor, the public facility [facilities] district and participating local political subdivisions, and appropriate committees of the legislature.

This Phase 2 review is prepared pursuant to sections (1) (b-c) of the above noted statute.

WSCC Background

In 1982, by action of the Washington State Legislature, the Washington State Convention Center (WSCC) was established as a public non-profit corporation, wholly owned by the State of Washington. Construction of the initial WSCC facility was begun in 1985 with the first scheduled event occurring in 1988.

WSCC Facility Expansions

Since the initial opening in 1988, the WSCC facility has been expanded three times to date – in 1992, 2001 and 2010. The most significant expansions have involved:

- Approximate doubling of exhibit space plus added lobby area in 2001
- Opening of a conference center with added meeting room capacity in 2010

As planned, this next phase of WSCC expansion is expected to again more than double the current complement of usable exhibit, meeting and banquet space as a *companion building* to complement the existing convention facility. Construction is currently planned to begin in June 2018 with the completed Addition opening in 2021.

PFD Authority

In 2010, the Legislature authorized the transfer of the WSCC non-profit – including all WSCC facilities and assets – to an independent public facilities district (PFD). As is further detailed by this report's Section III discussion of Institutional Arrangements, PFDs have taxing authority including allocation of lodging tax, admissions and parking tax. There is also provision for consideration of property tax and added sales and use tax authority, subject to voter approval. In the event of any new debt financing, the primary source of WSCC principal and interest repayment is expected to come from special excise lodging tax revenues not yet allocated for repayment of bonded indebtedness previously incurred.

As with the initial development of the WSCC, the current WSCC PFD has authority to acquire land including financing of same for new or expanded convention center facilities. The WSCC PFD similarly has authority subject to funding availability to construct, equip, operate and maintain both existing and planned additional convention facilities.

APPROACH TO FEASIBILITY REVIEW

This report has been prepared for Commerce by the independent economic and development consulting firm E. D. Hovee & Company, LLC (E. D. Hovee or EDH).[2] A brief profile of the firm, as report preparer, is provided by Appendix A to this report.

Scope of Work

The WSCC PFD is proceeding to issue a subordinate note as a partial source of payment for completing site acquisition – the subject of a Phase 1 evaluation completed in 2015. WSCC is also planning to issue additional bonded debt as a substantial source of funding for Phase 2 construction of the WSCC Additional Facility.

Initial work on this Phase 2 independent review commenced in late 2015. Subsequent work progress was extended by agreement of WSCC and Commerce with resulting refinements to the scope of work. Work steps over the duration of this independent feasibility review have included:

- Review of background documents as provided by WSCC and Commerce – as with revisions to development cost and funding affecting both Phase 1 site acquisition and Phase 2 construction
- Review of the existing statutory and interagency agreements – related to capital and operating funding between the WSCC PFD and funding partners
- Review of project cost and financing – with primary focus on capacity to repay debt consistent with anticipated tax revenues under base case and stress test conditions
- Review of operating budget projections including evaluation of western state comparable facilities – with resulting base case and stress test scenarios considered
- Identification of potential project risks – together with associated options for mitigation

As noted, site acquisition and related costs have changed as a result of negotiations since completion of the November 2015 Phase 1 report. These changes and their implications are covered by this current Phase 2 report document.

Documents Reviewed

Documents reviewed are listed by Appendix B and also by End Notes to this report. Included are documents provided by Commerce together with information from WSCC and other sources as readily available, including pertinent email correspondence with WSCC and its designees.[3]

Limited independent 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 by WSCC and associated designees including a review of potentially comparable facilities. The assistance of Commerce and WSCC with provision of background information, follow-up to questions and draft report review, is gratefully acknowledged.

SEC Compliance

Based on requirements of the U.S. Securities and Exchange Commission effective in late 2014, there is additional documentation that is required with respect to SEC's Final Rule regarding Registration of Municipal Advisors (17 CFR Parts 200, 240 and 249). For purposes of this feasibility review, compliance is documented pursuant to the exemption provisions of §240.15Ba1-1(d)(3)(vi) stipulating that:

- The preparer of this report has obtained a written representation that the WSCC PFD is represented by, and will rely on the advice of, an independent registered municipal advisor (IRMA). This documentation is provided by Appendix C to this report.
- Disclosures are made within the draft and final reports transmitted to Commerce as required by Paragraph B to the above referenced Code of Federal Regulations (CFR) section. Consistent with this requirement, the preparer E. D. Hovee & Company, LLC is disclosing to Commerce and the WSCC PFD that E. D. Hovee is not a municipal advisor and is not subject to the fiduciary duty set forth in section 15B (c)(1) of the Act [15 U.S.C. 78o-4(c)(1)] with respect to the municipal financial product or issuance of municipal securities. With the final report, E. D. Hovee is also providing a copy of the report and this disclosure to the independent registered municipal advisor.

  Due to the representation from the obligated entity (per Appendix C), E. D. Hovee is clearly stating that it is not a municipal advisor with respect to the municipal financial product or issuance of municipal securities. This disclosure is made to allow the WSCC PFD and Commerce to assess material incentives and/or conflicts of interest that this preparer may have in connection with municipal advisory activities.

Report Organization

This WSCC build-out and operating feasibility report is organized to cover the following topics:

- WSCC addition overview
- Institutional arrangements
- Development cost and financing
- Operating budget
- Risk factors and mitigation
- Summary observations

Much of the information with this introductory section and subsequent review of WSCC build-out plans parallels documentation provided with the earlier Phase 1 report. Also included with this Phase 2 report are seven appendices – covering a profile of E. D. Hovee as project preparer, listing of documents reviewed, IRMA/SEC compliance, comparable facilities review, supplemental WSCC data, state Department of Revenue methodology, and financial schedules.

II. WSCC ADDITION OVERVIEW

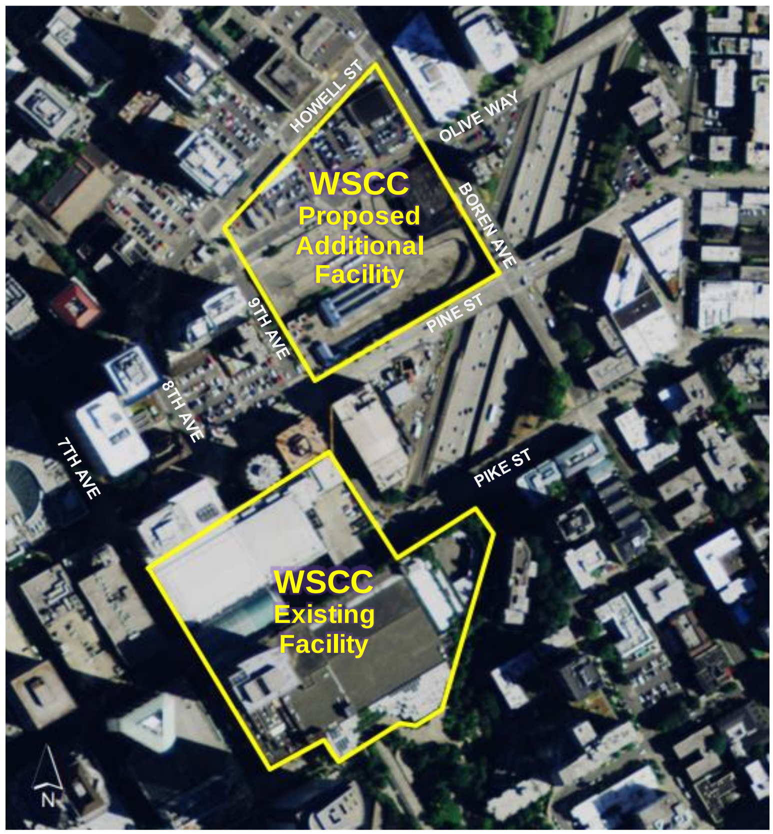
This build-out and operating feasibility report begins with an overview of the WSCC expansion plan and associated site requirements. Topics covered by this overview discussion are existing and planned downtown Seattle WSCC sites, summary of the WSCC Additional Facility plan, site acquisition, co-development opportunities, existing WSCC renovation, and project timeline.

EXISTING & PLANNED WSCC SITES

As depicted by the aerial photo:

- The **existing WSCC facility** is located on a site extending from 7th Avenue to 9th Avenue and the I-5 freeway, and from mid-block between Pine and Pike streets to approximately Union Street.
- The **WSCC proposed additional facility** is planned to be located just to the north on a site bounded by 9th and Boren Avenues, Pine to Howell Streets.

WSCC Existing & Addition Facility Sites



Sources: King County GIS, LMN Architects, Esri

The properties are nearly but not quite contiguous. The site for the additional facility is about ½ block from the outer perimeter of the existing WSCC property.

The major pedestrian connection between the two facilities is expected to occur via 9th Avenue. Due to site configuration and proximity, there will be the opportunity to market the new facility both as a **companion facility** to the existing WSCC – with capacity to serve more groups – and as a **single combined facility** to serve larger conventions and trade shows than is currently possible.

WSCC ADDITIONAL FACILITY PLAN

The WSCC Addition is proposed to comprise approximately 1.481 million square feet of gross floor area that involves more than a doubling of existing exhibit, meeting and banquet space together with associated common areas, freight loading bays and on-site structured parking.

Of the 1.481 million square feet of added building area, close to 30% (434,000 square feet) comprises event space. A 154,000 square foot exhibition hall is being located below grade to achieve what will be a competitively sized footprint for major events. A separate flex hall together with meeting rooms and a new 60,000 square foot ballroom will be situated on Levels 5-10 of the WSCC Addition.

Other uses include 20,000 square feet of street-level retail, lobbies and related facilities which can also provide pre-function and spillover capacity, additional structured parking, and common area for support to major public event spaces.

WSCC Addition Development Program

Building Level(s)	Space Use	Total Area (Sq Ft)
Event Space		
B2	Exhibition Hall	154,000
L5-7	Flex Hall	100,000
L8-9	Meeting Rooms	120,000
L10	Ballroom	60,000
	Subtotal Event Space	**434,000**
Other Spaces		
L2	Retail	20,000
L2-4	Parking	227,000
All	Lobbies, Concourses & Registration	232,000
All	Circulation	154,000
Miscellaneous	Storage	40,000
	Back of House/Front of House Support	178,000
	Exterior	33,000
	Mechanical, Electrical, Plumbing	110,000
	Unconditioned Areas	53,000
	Subtotal Other Spaces	**1,047,000**
Total Building Area		**1,481,000**

Sources: Pine Street Group (PSG) and LMN Architects.
Development program is subject to further refinement.

Comparison of WSCC Existing & Proposed Additional Facilities

Existing Facility (As Expanded 2010)

The current WSCC includes 1.5 acres of landscaped plaza connecting to 5 acres of city park with central gallery open to public; core facilities are:

- 205,700 sq ft of heavy-load exhibit space
- 57,000 sq ft of meeting rooms
- 45,000 sq ft of ballroom space
- 70,000 sq ft added multi-use space with the adjoining Conference Center
- 414,000 sq ft total rentable space including pre-function areas
- Three loading dock areas with 23 covered bays
- 1,600 spaces in two parking garages
- Built partly over the I-5 freeway with skybridge to adjoining Conference Center

Additional Facility (2021 Completion)

The proposed additional facility would comprise nearly 1.5 million square feet (sq ft of gross floor area including an estimated:

- 254,000 sq ft of new exhibition/flex space
- 120,000 sq ft of meeting rooms
- A 60,000 sq ft ballroom
- Added pre-function, lobby & common areas
- On-site foot loading area together with off-site marshalling yard for efficient freight access
- Structured parking for 700-750 added vehicles
- Street-level retail & restaurants
- Development encompassing four contiguous blocks (including development below grade connecting each block)

Building Concept

As conceived by WSCC and the design team, the Addition building will be stacked in multiple levels of modular, multi-function spaces accommodating a wide range of uses and event types. As stated by the project web site:[4]

> *The design of the WSCC Addition prioritizes efficiency, connections with the surrounding neighborhoods, open and engaging public spaces, and a unique experience that embodies Seattle's special qualities. The Addition will support all the functional needs of a state-of-the-art convention space while integrating mixed-use developments to enrich the urban diversity of the site. The Addition will also be a leader in sustainability, and will seek LEED Silver certification.*

WSCC Addition Floor Plans (by Level)

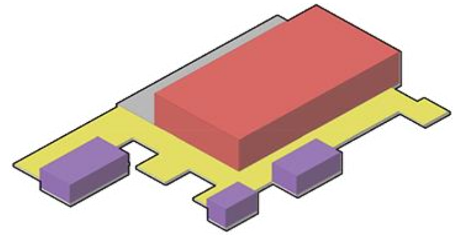
Ballroom Level

Approx 60,000 sq ft ballroom

Added pre-function lobby areas

Meeting rooms

Access to daylight & views

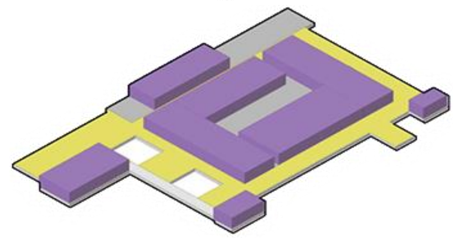


Meeting Room Level

Approx 50,000 sq ft meeting rooms

Added pre-function/lobby areas

Flexibility, access to daylight & views



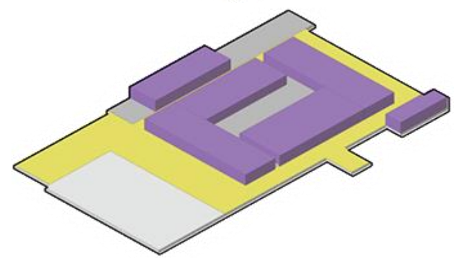
Meeting Room Level

Approx 60,000 sq ft meeting rooms

Added pre-function lobby areas

Flex space

Flexibility, access to daylight & views



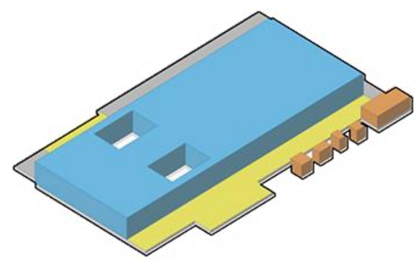
Flex Hall/Retail

Approx 100,000 sq ft contiguous flex space

Added pre-function lobby areas

Street level activation

Long span, visual connection to Exhibition Hall, daylight views/access



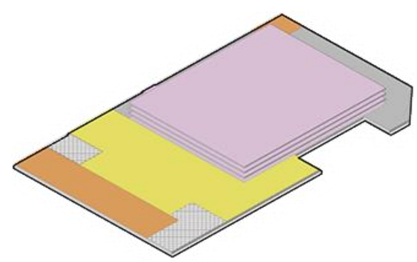
Main Lobby/Retail/Parking

Entry lobby and mixing zone

Street level retail/activation

Parking for 700-750 cars

Partially below grade

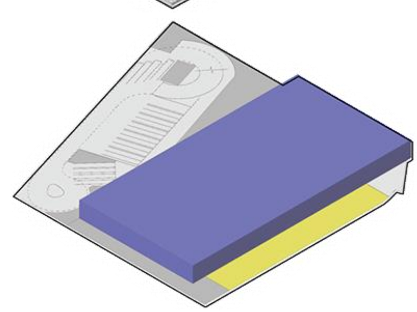


Exhibition Hall (below grade)

Approx. 150,000 sq ft contiguous exhibition space

Added pre-function/lobby areas

Visual connection to flex hall, daylight access, loading docks adjacent



Source: LMN Architects

With its downtown Seattle location, the Addition is situated within the Retail Core and Denny Triangle neighborhoods and in proximity to South Lake Union west of the I-5 corridor, transitioning to Capitol Hill and First Hill to the east. For convention and conference attendees, the site is readily accessible by the freeway/street network and public transit. Proximity to Pike and Pine Streets provides a direct linkage to the waterfront – and to major destinations including the Pike Place Market, Westlake, and the immediately adjoining Paramount Theater.

The site of the Addition project has served since 1990 as the entrance to the downtown Seattle transit tunnel (DSTT) – providing below grade transit access along a 1.3-mile corridor. Modified in 2005 to accommodate light rail as well as buses, on-site bus operations will cease as the tunnel converts to exclusively serve Seattle's expanding light rail transit system.

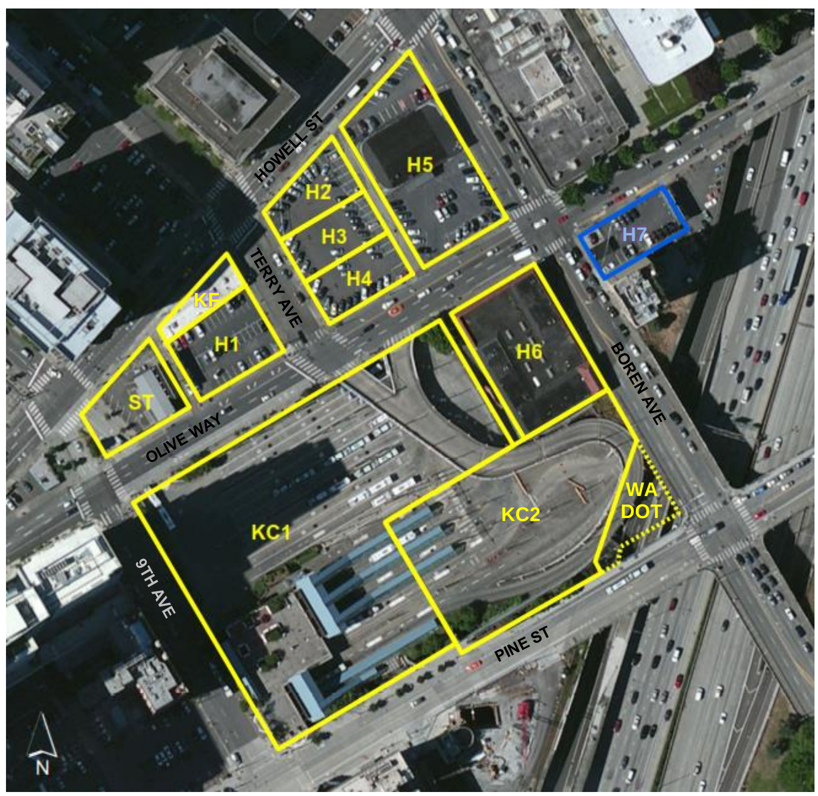
With this transition, the Addition has also been designed to enhance the pedestrian experience by adding new retail frontage, sidewalks, landscaping and lighting to the equivalent of four city blocks. Pedestrian connections will be improved on Pike and Pine Streets between downtown and Capitol Hill, and on Boren and 9th Avenues.

SITE ACQUISITION

As described by the 2015 Phase 1 Land Acquisition and Financing Feasibility report, the full WSCC footprint site comprises over 334,000 square feet (7.7 acres) of site area. This includes tax lots, adjoining alleys, WSDOT air rights over the I-5 freeway, and subsurface rights below the Olive Street and Terry Avenue rights-of-way.

Properties purchased represent over 278,000 square feet (6.4 acres) of the site area – including a portion of the Honda property that will be surplused as not required for WSCC use. As of the 2015 Phase 1 feasibility report, the budget for site acquisition including rights-of-way use and related costs was estimated at $260 million.

Site Acquisition for WSCC Addition



Note: Prior ownership of parcels acquired by the WSCC are denoted as: H1-7 Seattle Honda, KC1-2 King County, KF Kolias Family, ST Sound Transit, and WADOT Washington State Department of Transportation.

Sources: King County GIS, Pine Street Group LLC, ESRI, and E. D. Hovee.

King County Purchase & Sale Agreement

A King County Purchase and Sale Agreement (KC-PSA) is dated July 25, 2017 but not expected to be closed until just prior to start of WSCC Addition construction. As buyer, WSCC will pay King County $161,010,940 including $20 million upon closing, with the remaining balance financed by a promissory note and with payments extending over 30 years to 2048.

Interest rate on the note is 1.0% per year for the first six years and 4.25% thereafter. The note will be subordinated to bond financing for Addition construction. Early or accelerated payment is precluded prior to 2035 except by future mutual agreement of the parties.

The KC-PSA contains provisions for WSCC commitment to maintain the Regular Lodging Tax through repayment of the subordinate note. WSCC may issue additional debt for existing convention center renovation within one year following completion of the Addition subject to meeting debt coverage requirements. Thereafter, WSCC may not issue added first priority bonds or subordinate debt unless King County consent is provided. WSCC has also agreed to:

- Participate in the city's incentive zoning for added development rights
- Provide affordable housing funding
- Removal or deaccession of existing public DSTT artwork
- Commit to an art budget with the Addition
- Provide interim DSTT access and use including payment by King County until Metro ceases DSTT operations (as of a date to be determined)
- Relocate and replace the Transit Power Substation (TPSS)
- Provide temporary bus layover space during construction
- Cooperate with King County in transfer of a WSDOT lease or property interest to WSCC
- Use a project labor agreement including utilization of apprentices and local hiring preferences during project construction

As required by the KC-PSA, WSCC and King County entered into a separate supplemental Temporary Joint Use Agreement (TJUA) dated February 20, 2018 "to ensure the continuity of Metro operations on the Property and Metro access to the DSTT until the DSTT Termination Date." Among its provisions, the TJUA provides for WSCC provision of a dirt and structure ramp and revised curb cuts to provide interim access to the DSTT, a King County bus layover loop, and bus temporary and permanent layover space.

The TJUA also provides for King County Metro buses to cease operations in and out of the DSTT no earlier than September 2019 unless the project's Master Use Permit (MUP) is issued by July 1, 2018 and WSCC notifies King County by September 30, 2018 that it needs to take control of the property by March 2019. However, WSCC will not be able to undertake construction that would adversely impact interim access and associated bus operations until the County notifies WSCC that it may proceed.

Updated Land-Related Budget

Since completion of the 2015 Phase 1 feasibility report, the WSCC has continued negotiations with owners of parcels for which purchase was not yet completed. Further site and design planning has identified other site-related costs ranging from addressing impacts to adjoining uses to the need to prepare for current and future marshalling demands.

Also included with the current updated land-related budget are the WSCC agreed-to costs associated with a public benefits agreement. The combined impact of these changes has been to increase the total land-related budget from $259.8 million (as estimated in 2015) to $329.1 million (the current amount). This equates to an upwards adjustment of $69.3 million (27%) for land acquisition and related expense.

WSCC Addition Land-Related Budget Revisions

Cost Element	Estimated Property Cost		Change		Comments
	Phase 1-2015	Phase 2-2018	$	% of Tot	
On-Site Property Purchases	$243,739,000	$242,860,000	($879,000)	-1.3%	Includes increased per square foot costs for later land & alley purchases plus capitalized WSDOT lease cost offset by reduced cost for over/under street rights
Public Benefits	$5,000,000	$59,950,000	$54,950,000	79.3%	See separate detailed list; includes King County Affordable Housing contribution with both Phase 1 & Phase 2 estimates
Other Site-Related Costs	$11,062,000	$26,274,000	$15,212,000	22.0%	Added costs for off-site marshalling yard, environmental costs net of reimbursements, third-party payments, entitlements, co-development FAR, condemnation/relocation, title and closing cost partially offset by removal of contingency set-aside and and land carry.
Total Land & Related Costs	**$259,801,000**	**$329,084,000**	**$69,283,000**	**100.0%**	

Sources: Pine Street Group LLC and E. D. Hovee. As of March 2018.

Of the major grouping of site-related cost elements depicted by the above chart:

- The total cost of on-site **purchases dropped** somewhat (by less than $1 million), with increased per square foot prices for later acquisitions more than offset by reductions to previous estimates for WSCC purchase of over/under street development rights.
- Negotiated **public benefit** costs attributable to the land-related portion of the WSCC project have increased from a $5 million allocation to King County for affordable housing in 2015 to a total package cost of almost $60 million to the Addition project – accounting for the major share of land-related Addition budget revisions.
- Increasing cost is also noted for a range of **other site-related** line items – with a total combined increase estimated at $15.2 million. The initial 2015 Phase 1 budget also

included a contingency line item as part of other site related costs (of just over 4% of total land and related costs) – now removed as site-related costs are essentially fully determined.

A remaining contingency is that a King County Purchase and Sale agreement (KC-PSA) is not expected to close until just prior to starting construction on the WSCC site. WSCC representatives indicate that previously negotiated costs associated with the agreement are not expected to change prior to closing.

Public Benefits

Elements of the public benefits agreement negotiated with a grouping of organizations known as the Community Package Coalition (CPC) include line items (depicted by the chart below) that total just over $93 million. Of this amount, close to $60 million is to be funded directly as part of the WSCC land budget for the Addition project.

Public Benefits & WSCC Land Budget

CPC Agreements (in Various Documents)	Total Value	In WSCC Land Budget
Affordable Housing Funding	$30,000,000	$9,000,000
Freeway Park Association Funding	$10,000,000	$10,000,000
Bicycle Master Plan Funding - Pike / Pine	$10,000,000	$10,000,000
Bicycle Master Plan Funding - 8th Avenue	$6,000,000	$6,000,000
Terry Avenue Promenade Funding	$4,000,000	-
Lid I-5 Study Funding	$1,500,000	$1,500,000
Olive Way Safety Improvements Funding	$500,000	$500,000
Subtotal	$62,000,000	$37,000,000
Additional WSCC Public Benefits		
Pike-Pine Renaissance: Act 1 Funding	$10,000,000	$10,000,000
Public Open Spaces & Improvement Beyond Code	$8,100,000	-
Public Benefit Art	$1,850,000	$1,850,000
Historic Building Lighting	$1,000,000	$1,000,000
9th Avenue R.O.W. Improvements	$600,000	$600,000
Olive Way R.O.W. Improvements	$200,000	$200,000
Subtotal	$21,750,000	$13,650,000
King County & Incentive Zoning Housing		
Affordable Housing Funding from KC Land Sale	$5,000,000	$5,000,000
Affordable Housing Funding from Incentive Zoning	$4,300,000	$4,300,000
Subtotal	$9,300,000	$9,300,000
Total	$93,050,000	$59,950,000

Source: Pine Street Group (PSG) as of May 2018.

Other public benefit expenditures are anticipated but not directly part of the WSCC land-related budget for the Addition project. Included are added investments with separate funding for the Terry Avenue Promenade, public open spaces and improvements beyond code, and additional affordable housing payments.

Costs associated with an added $21 million (previously $20 million) for affordable housing beyond what is covered by the land budget were originally deferred to payments from WSCC lodging tax revenues in 2028 and 2030 as part of the PFM prepared Addition finance plan. With recent 2018 Legislative passage of an Extended Lodging Tax (described in Section III of this report), these costs are now planned for earlier payment in 2019. The $8.1 million in costs for public open spaces and improvement beyond code are included in the construction budget. Terry Avenue Promenade funding is deferred to 2030.

Other Site-Related Costs

Other site-related costs are estimated at $26.3 million (per the chart to the right).

Two line items totaling $5.9 million are costs related to co-development opportunities for above-grade site area not needed for the WSCC Addition. These are the Affordable Housing for Incentive Zone payment (per public benefits noted on the prior page) and FAR costs (with other site-related costs).

Other Site-Related Costs
(As Part of WSCC Land Budget)

Description	Cost Estimate
Marshalling Yard	$8,311,000
Environmental Net of Reimbursements	$7,060,000
Third-Party Payments	$6,800,000
Entitlements	$3,411,000
FAR Costs	$1,600,000
Easements, Condemnation, Closing and Other Miscellaneous Costs	$1,096,000
Land Carry (Revenue) Net of Costs	($2,004,000)
Total Other Site Related Costs	**$26,274,000**

Sources: Pine Street Group (PSG) as of May 2018.

Phase 1 Feasibility Report Update

The 2015 Phase 1 *Land Acquisition & Financing Feasibility* report noted the possibility and risk that WSCC site acquisition costs could exceed the $260 million amount previously estimated. As determined by the Washington State Department of Commerce, consideration then could be given to issuing a supplemental or revised Phase 1 report.

Commerce and WSCC have agreed that this Phase 2 report serves the purpose of the required update, obviating the need for a separate supplemental Phase 1 report. This also is appropriate as the financing for Phase 1 is now rolled into the financing for the full Phase 2 build-out of the Addition. In effect, this Phase 2 report now addresses the combined effects of both site acquisition as well as impending WSCC Addition construction and build-out.

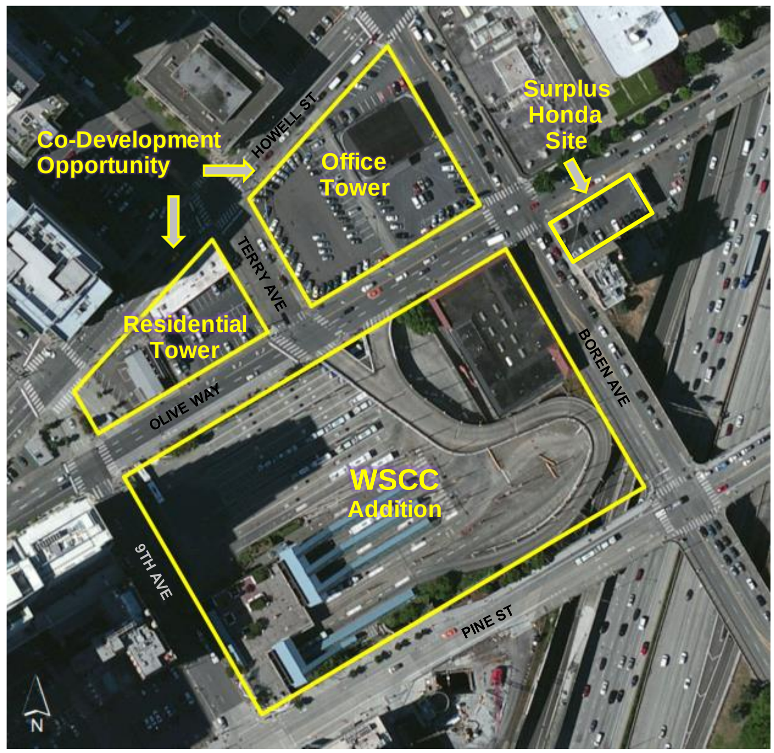
CO-DEVELOPMENT OPPORTUNITIES

The full superblock (of approximately 4.8 acres) bounded by 9th Avenue, Boren Avenue, Olive Way and Pine Street will be owned and developed exclusively for the expanded convention center. This superblock will serve as the site for the new exhibit hall, meeting rooms, flex hall, banquet, lobby and pre-function facilities together with structured parking.

The Addition project also includes a 154,000 square foot exhibition hall and loading dock which will be built below grade. The site footprint for this below-grade portion of the project will include the two blocks to the north of Olive Way for an underground loading dock.

Since only the below-grade portions of these two blocks are needed for the Addition project, above-grade space will become available for future development. This new development can create added activity supporting the urban aesthetic of the WSCC and also generate revenue to defray a portion of the Addition's development cost.

WSCC Addition Co-Development Opportunities



Sources: King County GIS, Pine Street Group LLC, Esri, and E. D. Hovee.

As previously noted with the Phase 1 land acquisition and financing feasibility report, a 7,200 square foot property on the east side of Boren Avenue was included as part of the Cassieford/Honda multi-parcel acquisition but will not be required for long-term WSCC use. This site is expected to be surplused and sold upon project completion.

Co-Development Uses

For planning purposes and the SEPA process, a 29-story apartment tower planned for 400 units is indicated for the western block from 9th Avenue to Terry and a 16-story office, 500,000 square foot office building for the eastern block from Terry to Boren. WSCC has designed the blocks with LMN Architects and is taking them through the entitlement process to about 75-80% construction documents, ready for purchase refinements and to vest under the 2016 energy code.

Marketability is enhanced by what has been a strong Seattle area economy together with continuing core area investment. The site is well situated to attract both resident and office tenant interests – due to proximity to the resurgent Denny Triangle neighborhood, to downtown's retail/entertainment core, and to the transit hub at Westlake – offering access to light rail, streetcar and Monorail service.

Co-Development Process

WSCC plans to proceed with requests for proposals to sell the two project sites after the start of Addition construction by late June 2018. A web site already provides preliminary information to prospective purchasers (http://www.wsccaddition.com/co-development). Construction could then start in about mid-2020 and finish in early 2022.

WSCC anticipates that the purchaser(s) will gain either fee ownership or a condominium interest in what will amount to a vertical subdivision (with WSCC below grade and private development above). WSCC's contractor and development manager are prepared to provide services to the winning proposers, though their participation is not required of the eventual purchaser(s).

Funding Implications

Successful sale of development rights is of material importance to WSCC both as a source of funding for Addition construction and with respect to transaction timing. Completion of property sales transactions currently is planned to occur by about year-end 2018. This becomes a potentially material financial transaction for WSCC as cash flow from the sale would be transferred into the development funding program shortly thereafter.

WSCC has incurred and is budgeting expenditures to make the above ground development for the two blocks north of Olive Street feasible and market-ready. WSCC expenditures total an estimated $23.4 million for purchase of programmed floor area ratio (FAR) development rights, preliminary design, utility system connections, structure support and streetscape to serve above-grade development and associated permitting, leasing/marketing and legal costs.

WSCC anticipates sale of development rights to generate a minimum of $38.4 million for the two co-development sites plus another $5 million for sale of a surplus Honda parcel after completion of Addition construction. If realized, this will result in a net financial benefit to WSCC of approximately $20 million (excluding land cost recovery).

With a $15 million value of "air cube" rights assumed as part of the minimum sales price, WSCC also achieves approximately 35% recovery of the cost to purchase property on which no above-ground WSCC construction is anticipated. This is intended as a conservative estimate of the proceeds that may be realized. If co-development generates revenue to WSCC above the minimum threshold amount targeted, this would represent further supplemental funding capacity for the Addition project or other future WSCC investments.

Existing WSCC Renovation

WSCC is also considering renovation of the now 30-year old existing facility first completed in 1988. Project costs are preliminarily estimated in the range of +/- $100 million. Renovation could be initiated subsequent to completion of the Addition – or possibly just before Addition completion, depending on a range of considerations including funding availability.

While the current and projected revenues from hotel/motel taxes appear sufficient to service the future bonds for the Addition, the WSCC PFD believes that the renovation of the existing and now somewhat dated Center will be necessary to best meet the overall goals of the PFD. Funding for the renovation of the existing Center and ongoing capital needs is anticipated to involve revenue from current sources. This is expected to occur after funding the Addition together with potential added revenue as might result from now approved legislation removing the prior exclusion for lodging facilities with of 60 rooms or less.

Planned renovation of the existing facility is outside the scope of this independent feasibility review. If funded with debt financing, this future project improvement will be subject to an additional, separate independent review as may be determined by Commerce and WSCC.

Anticipated Project Timeline

Important milestones anticipated from 2017/2018 through to opening of a new expansion facility are outlined as follows:

- **2017/2018** – Obtain permit approvals
- **2018** – Begin structural construction work (June) and issue Series 2018 bonds (July)
- **2019** – Close Convention Place Station; continue construction with exterior enclosure
- **2020** – Complete construction exterior enclosure and finishes
- **2021** – Anticipated WSCC expansion facility opening (3rd quarter)

III. INSTITUTIONAL ARRANGEMENTS

The history of the Washington State Convention Center (WSCC) and scope of financings have been accompanied by an increasingly complex set of institutional arrangements. These arrangements are documented in varied forms – including Washington state statutory authority coupled with interagency agreements involving multiple jurisdictions and associated financing commitments. These arrangements have been modified over time – most recently as the WSCC prepares for construction and operation of the Addition facility.

This independent financial review focuses on topics most pertinent to debt funding and operations of the Addition in conjunction with existing WSCC facilities. Topics addressed with this report are the formation and authority of the WSCC PFD, revenue sources, and pertinent interagency commitments.

PFD Formation & Authority

By action of the Washington State Legislature, a non-profit corporation wholly owned by the State of Washington was established in 1982. In 2010, the Legislature authorized the transfer of the WSCC non-profit to an independent public facilities district (PFD).[5] All facilities and assets were transferred to the newly created PFD. The District also was responsible to transfer funds to refinance and defease all outstanding state debt previously issued for the WSCC.

Based on action of the 2010 Legislature (RCW 36.100.040), King County formally created the WSCC PFD in July 2010 to "acquire, own and operate a convention and trade center" together with the other powers set forth for a public facilities district by state statute.[6] County-sponsored PFDs are authorized to "acquire, construct, own, remodel, maintain, equip, reequip, repair, and operate" a range of sports, entertainment, and convention facilities – including financing by "loan, guarantee, or other financing agreement."

PFDs have taxing authority that includes allocation of lodging tax, admissions and parking tax. There is also provision for consideration of property tax and added sales and use tax authority, subject to voter approval. Further statutory provisions pertinent to this Phase 2 feasibility review distinctive to counties with a population of 1.5+ million include the following:

- Authority to contract with the Seattle-King County convention and visitors bureau (Visit Seattle) for convention center marketing
- Provision for receipt of Regular Lodging Tax (or special excise) tax revenues from Seattle and the remainder of King County at the rates of 7.0% and 2.8%, respectively
- Authority to access an Additional Lodging Tax of 2.0% (as part of an existing state-shared sales tax credit for hotels of 60+ rooms) within the City of Seattle, if needed for bonded debt repayment but not extending beyond July 1, 2029, subject to repayment to the state for any amounts so applied plus accrued interest[7]

- Authorization to acquire, including by condemnation, property or property rights for purposes of the district subject to approval by the county legislative body

REVENUE SOURCES

Principal sources of funds available to WSCC for operating and/or capital purposes are operating revenues, lodging tax revenues and financial reserves.

Operating Revenues

Operating revenues represent sources of income derived from direct management and operation of WSCC facilities. Key sources of revenue include food services, building rent, parking, facility services, and retail leases. These sources are dedicated by policy of the WSCC board for payment of direct operating expenses – including payments for contracted facility services. As of 2017, the WSCC accounting framework format has been revised to re-allocate marketing revenues and expenses from operations to non-operational revenues and expenses.

Any remaining net surplus operating revenue may be used for funding of the operating reserve or other lawful purposes of WSCC. The board of the WSCC PFD has an adopted policy to fully support operating expenses from operating revenues and to make necessary adjustments as directed by the board. Any expense line item that goes over the budget number by more than $100,000 is to be approved by the board.

Experienced Based Lodging Tax Revenues

To date, lodging tax revenues on properties of 60 or more rooms have been used primarily to pay for non-operating expenses related to WSCC debt service and marketing expense:

- The Washington State Department of Revenue (DOR) collects the **Regular Lodging Tax** (also known as special excise lodging taxes) of 7.0% in Seattle and 2.8% elsewhere in King County on behalf of the PFD. The principal use of Regular Lodging Taxes is to pay for debt service (or other capital funding) and replenish any draws from the common reserve. Approximately 16.67% of the Regular Lodging Tax is currently allocated for marketing expense for external destination marketing (through Visit Seattle) and internal marketing (by WSCC personnel).[8]
- Subsequent to the now completed transfer of WSCC assets to the WSCC PFD, the primary continuing financial interest of the state involves the annual transfer of the 2.0% **Additional Lodging Tax** to the state to the extent not required by the PFD for debt service. To date, this source has not been required for debt repayment – even through the period of the Great Recession. Use of this potential financial resource also is not currently planned by WSCC with funding as proposed for the Addition project – though this backstop resource remains potentially available, if needed, through July 1, 2029.

A more detailed listing of priority uses of available lodging tax revenues is provided by WSCC adopted Resolution 2010-12 as may be further clarified with other interagency agreements.

Lodging Tax Extension

On March 23, 2018, Washington's Governor signed into law a legislatively approved Extended Lodging Tax. Passed as SSHB 2015, this legislation extends the 7.0% City of Seattle and 2.8% King County lodging taxes to previously exempt lodging establishments of less than 60 rooms (excluding hostels or other lodging properties in a town of less than 300 residents).

For properties of less than 60 rooms, the legislation distinguishes between short-term rentals and other establishments. The term "short-term rental" is defined to mean a lodging use that is not a hotel or motel in which a dwelling unit, or portion thereof, is made available to guest(s) for a fee and for fewer than 30 consecutive nights. Examples would include properties made available through on-line services such as Airbnb and VRBO.

Within the City of Seattle, these short-term rentals are currently subject to a short-term rentals tax first enacted in 2017. As long as this tax is in place, WSCC is precluded from collecting the Extended Lodging Tax from these units.

The distribution of the Extended Lodging Tax to be collected by the WSCC is as follows:

Within the Seattle City Limits:

- All revenues from the 7% tax on short-term rentals within the City will be paid to the City if the current short-term rental tax is repealed. If not repealed, the separate tax goes to the City – so either way no net proceeds are available to the WSCC.[9]
- Revenues from the 7% tax on other premises with less than 60 lodging units will be shared equally by the WSCC PFD and King County.

Outside Seattle (the rest of King County):

- The City of Seattle will not receive revenues from the tax.
- All of the 2.8% tax on short term rentals and other premises with fewer than 60 units will be shared equally by the WSCC and King County.

In effect, WSCC will receive net new Extended Lodging Tax revenues from in-city properties not defined as short-term rentals and will split 50/50 revenues generated from the rest of King County. When available starting January 1, 2019, the WSCC share of these revenues will serve as additional resources to pay principal and interest on all First Priority Bonds and Subordinate Priority WSCC obligations and to pay other WSCC PFD costs. In addition, the legislation also expands the State 2% sales tax credit within the City to certain premises under 60 units, adding to the revenue that is available to pay principal and interest on all First Priority Bonds and Subordinate Priority WSCC obligations and to repay the State for use of these funds.

Due to the newness of the tax with implementation yet to come and uncertainty as to revenues to be collected, this tax has not been included with PFM projections of lodging tax revenues available to service current and anticipated debt. In effect, the Extended Lodging Tax revenues will become an additional source of credit enhancement and revenue above and beyond what has been documented to date for the anticipated 2018 and 2020 bond issues. Currently planned is that the added funding to WSCC may support added debt capacity to facilitate payment of Affordable Housing commitments earlier than previously anticipated.

Financial Reserves

Excess revenues are applied to year-end non-operating fund balances as PFD reserves, as the WSCC board may deem appropriate. Financial reserves are available on both a restricted and unrestricted basis. Restricted assets are intended to cover liabilities based on bond covenants and contractual arrangements. Restricted accounts include:

- Bond interest and principal accounts – for payment of existing 2010 bonded debt plus any debt planned with the Addition project or funding of other future capital expense
- Common (or debt service) reserve account – set as determined by debt covenants to fund existing debt payments or increased future debt with Addition financing (with restricted resources to be utilized in meeting debt service obligations before applying unrestricted resources)
- Retainage accounts – as for assurance of completed contractor obligations
- Operating reserve account – set by the WSCC board of directors based on 100 days of budgeted operating expenses (per Resolution 2010-16)

In addition to restricted reserve accounts, the WSCC may accumulate other financial reserves which are unrestricted. This can occur with receipt of operating and/or non-operating lodging tax revenues that exceed WSCC annual operating and capital funding obligations. Other potential sources of non-operating funds may include enactment of tax sources not currently authorized, investment interest earnings, insurance recoveries, sale of surplus property and third-party capital contributions.

The WSCC board of directors (by Resolution 2012-6) authorized $4 million (subsequently adjusted by the consumer price index) to annually fund capital improvement projects. Since the uses of these funds are not externally restricted, they are reflected in the unrestricted portion of the district's annual statement of net financial position.

In addition to scheduled capital improvements, unrestricted reserves may be used for other purposes as determined by the board and as consistent with its interagency commitments. For example, surplus reserves have been applied recently to provide up-front cash contributions for the Addition project in advance of and in addition to funding anticipated from debt financing.

INTERAGENCY COMMITMENTS

A guiding document governing WSCC financial commitments is Resolution 2010-12, adopted by the WSCC board on November 12, 2010, occurring after the 2010 Washington state legislature authorized transfer of facility ownership from the State of Washington to what was then the newly created WSCC Public Facilities District (WSCC PFD). These commitments are expected to be modified as may be needed for the Addition financing in conjunction with a finalized King County Purchase and Sale Agreement (KC-PSA).

Flow of Funds

As adopted, Resolution 2010-12 stipulates that: "All Lodging Tax Revenues shall be disbursed to make the following payments in the following order of priority:"

- *First,* for upcoming interests on existing and any additional first priority bonds (which are not a general obligation of the State of Washington or any political subdivision of the state)
- *Second,* for payment of principal of the bonds
- *Third,* to maintain common (debt service) reserve requirements
- *Fourth,* for debt service on subordinate priority WSCC obligations
- *Fifth,* to fund a reserve account for subordinate priority WSCC obligations
- *Sixth,* to make annual payments and loan repayments owed to the State of Washington
- *Seventh,* to pay operating expenses of the WSCC and to fund an operating reserve account (set at not less than 100-days of budgeted operating expenditures)
- *Eighth,* to make payment on any other outstanding bonds or other WSCC obligations – or for "necessary additions, betterments, improvements and repairs to or extension and replacements of the WSCC or for any other lawful District purposes."

WSCC also has covenanted to make payments for the first to seventh priorities in each fiscal year prior to utilizing lodging tax revenues for eighth priority purposes. It is noted that this priority listing has changed and may further change with added amendments to the initial 2010 Resolution.

By Resolution 2016-18 (dated September 27, 2016), the WSCC board committed to enter into a **First Amendment** at or before closing of the KC-PSA that would: a) renumber the Eighth as the Ninth priority; and b) to add a new Eighth priority "to pay the Obligations as and when due." The effect of this Amendment will be to place payment of the subordinate King County note (related to land acquisition) ahead of yet further subordinated bonding or other obligations that the District might make for future facility improvements or other lawful District purposes.

Subsequently, a **Second Amendment** has been proposed with the KC-PSA, the purpose of which will be to make this new "as and when due" obligation the seventh priority – ahead of funding the WSCC operating reserve from available lodging tax revenues. With a Second Amendment also proposed to be adopted at or before closing of the KC-PSA, what was the seventh priority in the 2010 resolution will become the eighth priority and then eighth will become the ninth priority.

If adopted, the combined effect of the First and Second Amendments will be to prioritize payment of the King County subordinate note ahead of all other WSCC payments funded from lodging tax revenues – except for senior and subordinated bonded indebtedness paid at the first through fifth priority levels including reserve requirements for bonded debt and required payments to the state of Washington (for rebate of the 2.0% Seattle Additional Lodging Tax). The resolution will not affect the separate flow of WSCC funds from non-lodging tax sources – as with operating revenues generated from WSCC facilities.

Section 15 of the 2010 WSCC resolution also stipulates that the District is not to issue any additional first priority (or unsubordinated) bonds unless Regular Lodging Tax revenues during the "base period" prove to be at least 175% of annual debt service in each year following issuance of any additional first priority bonds covering both existing and proposed first priority debt to be issued. The base period is defined as any consecutive historical 12-month period out of the 24-month period preceding the data of issuance of additional first priority bonds. This is, in effect, the 1.75x Additional Bonds Test (ABT) for debt coverage that will also be applied with the proposed added first priority debt for construction of the WSCC Addition.

WSCC is authorized to issue revenue bonds or other obligations subordinate to first priority debt that also represent a charge on lodging tax revenues – but junior to the payments to be made for first priority bonds. Per Section 21, the bond resolution is subject to amendment without the prior consent of an applicable percentage of bond holders "provided that such modifications shall not materially and adversely affect the rights of any First Priority Bondowners or that such modifications shall not take effect until all then Outstanding First Priority Bonds are no longer Outstanding ..."

Financing Plan Agreement

Subsequent to the 2010-12 WSCC bond resolution, WSCC and King County also have made added Financing Plan agreements as part of Exhibit D-1 to the pending KC-PSA. As proposed, this agreement includes provisions that:

- WSCC anticipates two bond issues – with at least 50% of the bonds issued in 2017-18.
- At closing of the first issue, WSCC will meet a minimum 1.25x debt service coverage ratio (DSCR) on first priority and subordinate priority debt combined through 2029 – the last year for any WSCC claim on additional tax revenues as a back-stop credit resource.
- The ABT coverage ratio may drop to 1.15x for each fiscal year from 2030 on – reflecting less credit enhancement with loss of any WSCC claim to Additional Lodging Tax revenues for credit enhancement after 2029 – offset by what are then expected to be increased Regular Lodging Tax revenues.
- Similar ABT coverage ratios based on historical lodging tax revenues will apply to any later bond issue (as is currently planned for 2020). The King County subordinate note is not included as part of the ABT coverage calculations.
- Later issue short-term debt with a maturity of not more than 5 years may be considered subject to the requirements of the earlier Washington state transfer agreement and maintenance of first issue coverage requirements.

- At the time of the first issue, WSCC will also conduct a “stress test” to confirm that there is sufficient financial capacity for the later issue. The test is to be based on WSCC’s estimated development budget, the debt service coverage ratio (DSCR) required, and estimates of lodging tax revenues and debt service. Lodging tax revenues will be estimated based on actual revenue growth over the prior 36 months and information from lodging tax consultant CBRE (formerly PKF). Interest rates will be based on the most recent 5-year average from the 30-year AAA municipal market data (MMD) index plus credit spread determined for WSCC. The stress test will further assume lodging tax revenues that are 5% below historical and CBRE estimates. If lodging tax revenues are not sufficient to meet the required 1.25x and 1.15x DSCR’s, WSCC and King County will explore alternative financing methods.
- Lodging tax revenues should equal or exceed the development budget of uses, using a cash flow analysis across the projected time period of development.
- If WSCC is unable to amend the 2010 Bond Resolution per Section 18.1(c) of the pending KC-PSA, WSCC must further satisfy additional conditions with an added stress test based on projected operating conditions. This further stress test would involve comparing cumulative operating losses over the first 10 years of operation based on a 35% increase in operating revenue from 2015, indexed for inflation. With this provision, WSCC would need to show that the lodging tax projection is sufficient to cover this added stress test amount. If this amendment is implemented, WSCC would subordinate the time-limited 100-day operating reserve to payment of obligations to King County. Marketing payments to Visit Seattle (or any similar organization) would also be made subordinate to the payment of King County obligations.

Financing Contingency Plan

A separate Exhibit D-2 to the KC-PSA lists additional financing options that could be used by WSCC to create more debt capacity, if needed. Options listed by the Exhibit include possible:

- Modification of bond issuance structure – increasing annual debt service beyond 2029 if lodging tax growth is less than projected
- Lengthening debt maturity – now planned to be extended to the 40 year statutory limit
- Considering put bonds – a long term debt but with 3-5 year resets for potential reduced interest cost
- Capital appreciation bonds – providing ability to capture added revenues beyond 2029
- Bond anticipation notes (BANs) – as a short term, relatively cost-effective alternative with ability to convert to long-term debt when revenues allow and being on parity with King County subordinate note obligations

The next section of this independent feasibility report addresses development cost and financing (Section IV), followed by an operating budget review (Section V). The adequacy of existing agreements and contingency planning to date is then further reviewed with Section VI to this report.

IV. DEVELOPMENT COST & FINANCING

As stipulated by state statute, this independent feasibility study "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 overall development cost together with anticipated debt and equity financing.

This review of development cost and financing begins with an overview discussion of sources and uses of financing. This is followed by more focused attention on debt financing and then sources and adequacy of revenues to repay current and anticipated WSCC debt.

SOURCES & USES OF FUNDING

As of November 2017, total development cost is estimated at $1.73 billion as the all-in cost for site acquisition, construction and full build-out of the new WSCC additional facility (the Addition). The project is proposed to be funded primarily (78%) from issuance of debt with the remainder (22%) from what are appropriately considered as contributed or equity sources.

The chart on the next page provides a summary listing of sources and uses of funding for the WSCC Addition project. Further line item detail is provided by Appendix G to this report. What follows is an overview discussion of the funding plan (sources of funds) and development budget (uses of funds).

Funding Plan (Sources)

As noted, sources of funding include both debt and equity financing:

- **Debt financing** is estimated at $1.35 billion (78% of project cost). Of this amount, $1.21 billion will involve bonding $740 million with 2018 and 2020 issues of senior pledge bonds and $473 million with 2018 and 2020 issues of subordinate bonded debt.

  The remaining $141 million of debt is in the form of a subordinate note payable to King County – related to purchase of the Convention Place Station (CPS) site. The amount of the note is $5.9 million less than initially estimated with the 2015 Phase 1 independent feasibility report.

- **Equity funding** exceeds $377 million. The largest single source of equity or contributed funding is estimated at $270 million in cash contributions from available WSCC reserves. This amount includes $264 million expected to be expended prior to 2018 bond issuance (including amounts already paid) for pre-construction and land-related expenses. The remainder will be paid as needed to balance with actual project costs not funded from other debt or equity sources.

  Other contributed sources are expected to include sale of co-development rights ($38.4 million), King County reimbursements (totaling $23.3 million), project fund investment income ($20.5 million), release of a 2010 debt service reserve ($20.0 million) if replaced by a surety bond, and sale of surplus property at construction completion ($5.0 million).

Summary Sources & Uses for WSCC Addition Build-Out

Description	Estimated Amount	Comments
Sources of Funds		
Debt Financing		
Subordinated CPS Note	$141,011,000	Per King County purchase & sale agreement (KC-PSA), to close prior to start of Addition construction
2018 Senior Lien Bonds	$625,233,000	Per Bond Proceeds Summary as prepared by Public Financial Management (PFM) on behalf of WSCC, November 20, 2017
2018 Subordinate Lien Bonds	$419,533,000	
2020 Senior Lien Bonds	$114,869,000	
2020 Subordinate Lien Bonds	$53,543,000	
Debt Financing Subtotal	**$1,354,189,000**	
Equity Funding		
WSCC Cash Contribution	$270,193,000	Including $177 million paid to date, remainder as needed to balance with project cost
Release of 2010 DSR	$19,975,000	Per PFM with shift to debt service reserve (DSR) surety
KC Metro reimbursement	$4,000,000	For interim access to Downtown Seattle Transit Tunnel
Other KC reimbursements	$19,342,000	For transit power substatin (TPSS), comm room, layover & NEPA reimbursement
Sale of Surplus Property	$5,000,000	For portion of Seattle Honda site acquisition not needed post-completion of Addition construction
Sale of Co-Development Rights	$38,411,000	Minimum expectation to recover WSCC cost with sale anticipated in 3rd quarter, 2018
Project Fund Investment Income	$20,495,000	Applied during construction before drawdowns
Equity Funding Subtotal	**$377,416,000**	
Total Funding Sources	**$1,731,605,000**	
Uses of Funds		
Land & Related Costs	$329,084,000	Includes on-site purchases, public benefits funding, and other site-related costs
Architecture & Engineering	$91,929,000	For LMN Architects, project consultants, insurance, testing/expenses and feasibility studies
Construction	$1,135,884,000	Covers Addition, co-development, transit/KC, tenant allowance, utility, permit & sales tax costs
Leasing & Marketing	$3,645,000	Includes retail leasing commissions together with advertising , promotion & outreach pre-opening
Financing	$37,857,000	For debt service reserve, financing fees, and net carry (of operating losses to breakeven)
Miscellaneous	$50,856,000	For utility/connecton fees (WSCC & co-development), insurance, legal/accounting, operating startup, KC funding, art, and furniture/fixtures/equipment
Project Administration	$42,350,000	Development fees & reimbursements per Development Management Agreement (DMA)
Contingency	$40,000,000	Addition project contingency in addition to change order contingency item with construction budget
Total Uses of Funds	**$1,731,605,000**	

Sources: Pine Street Group (PSG) & Public Financial Management (PFM), November 2017. All estimates rounded.[10]

Development Budget (Uses)

As indicated by the chart on the previous page, the $1.73 billion development budget (or uses of funds) is comprised of the following major categories of expense:

- **Land and related costs** (as previously detailed) are estimated at just over $329 million, accounting for just under one-fifth (19.0%) of the total project budget.
- **Architecture and engineering** including related consulting, feasibility and testing services are estimated at $91.9 million (5.3% of total project budget).
- **Construction** which includes allocated costs for co-development, transit facility relocation, utility, permit and sales tax expenses as well as hard construction cost for the WSCC Addition totals $1.136 billion (65.6% of total budget).
- **Leasing & marketing** including commissions for on-site retail leases together with pre-opening marketing of the additional facility are estimated at $3.6 million (0.2%).
- **Financing** which covers debt service, financing fees, and the net carry of operating losses (to a point of anticipated Addition operating breakeven after opening) is estimated at a combined total of $37.9 million (2.2%).
- **Miscellaneous** costs cover such items as utility connection fees, insurance, legal/accounting, operating startup, King County funding, art, and furniture/fixtures/ equipment (FFE) totaling $50.9 million (2.9%).
- **Project administration** is comprised of development fees and reimbursements to the Pine Street Group (PSG) and related organizations per an approved Development Management Agreement as amended, totaling an estimated $42.35 million (2.4%).
- **Project contingency** allocated is $40 million (or 2.3% of the total budget). When combined with a $46.5 million change order contingency included with the construction estimate, total contingency set-aside is approximately $86.5 million (for a combined 5.0% of the total WSCC Addition project budget).

Cost Recapture. WSCC also notes two adjustments to the total $1.73 billion development budget that should serve to reduce the final net outlay as a result of cost recapture. As indicated by the Sources of Funds statement with the chart on the prior page, King County cost reimbursements are noted as totaling $23.4 million. And sale of co-development rights and surplus land will yield an estimated $43.4 million – with sale of co-development rights possibly occurring as early as September 2018. Together these items can be viewed as reducing the net adjusted budget outlay to $1.66 billion.

Budget Contingencies. An item of importance for this review involves consideration of the extent to which identified costs items are fixed or remain variable and subject to change. Land-related expense plus 30% of construction costs under a maximum allowed construction cost contract (MACC) are already fixed – together accounting for close to $610 million (or 35%) of the $1.73 billion WSCC Addition budget. By the time that construction begins, 70% of the MACC costs will be fixed including most of the riskier subcontract amounts – together with land comprising over $980 million (or 57%) of the project budget as relatively fixed.[11]

While the previously approved purchase and sale agreement with King County (KC-PSA) is not expected to close until just before construction starts, the negotiated price is not expected to change. All other land transactions are now closed.

Items remaining open are two easement agreements allowing King County access to the property after closing and an art agreement – both of which are expected to be finalized before closing. Also left open is the possibility that unless WSCC's 2010 bond resolution is modified to subordinate operating reserves to the King County subordinate note, an additional stress test addressing projected operating conditions will need to be completed by WSCC.

As noted, the construction budget has been negotiated as a maximum allowable construction cost (MACC) with contractor Clark/Lewis – a joint venture of Clark Construction and Lease Crutcher Lewis. As the general contractor/construction manager (GC/CM) for the WSCC Addition, the MACC contract is at a fixed price (with 30 % of the MACC currently fixed and 70% to be set in place by the time that construction gets underway). Post construction defects are to be covered under the WSCC owner-controlled insurance program (OCIP) policy.

Of the remaining 43% of the project budget, there is a mix of cost items that could be viewed as relatively fixed versus variable. Non-construction cost items identified as being most subject to change include a portion of the pre-opening advertising budget (used as needed), net carry of operating losses to breakeven, utility and connection fees, building start-up expense and the reimbursement portion of project administration. Together, the current cost estimates for these items account for about 2% of the total project's capital budget.

There appears to be relatively little risk of significant impact to the development budget from non-land and non-construction related cost items. There is some risk if the amounts or timing of receipts from sale of co-development rights are less than or occur substantially later than anticipated, if the King County transaction becomes subject to added negotiation prior to closing, and/or if unforeseen construction issues emerge that exceed the combined available contingency of $86.5 million (or 5% of total project budget). Potential options for risk mitigation are further discussed in Section VI of this independent feasibility report.

DEBT FINANCING

Approximately $1.2 billion of the $1.7 billion project budget (or 70%) is anticipated to be funded with issuance of senior (or first priority) bonds together with subordinate bonds. Of this amount, approximately 86% is expected to be raised with the 2018 bond issuance, with the remaining 14% issued in 2020. An estimated 61% is planned as senior and 39% as subordinate debt. As detailed by the chart the following page:

- Approximately $3.2 billion will be paid out in principal and interest payments through 2058 (as the last year for debt repayment) – including an estimated $455 million (or 14% of the total) as payments on previously incurred debt (through 2040) *plus* $2.76 billion (86%) as payments for new debt incurred with development of the WSCC Addition.

- The annual debt service payment increases from just under $20 million per year in 2017 (with repayment of existing senior debt) to nearly $67 million in 2019 (including issuance of new debt), and then to a range of about $82+/- million per year from 2030-31 through 2057, scaling back to close-out with a partial year payment in 2058.

This structure maximizes front-loaded debt repayment as supported by lodging tax revenues, with added debt service payments later as needed to cover all bond related project costs.

Repayment of WSCC Bonded Debt to Expansion Build-Out (as Proposed)

Fiscal Year	Senior Pledge				Subordinate Pledge			Total
	Existing Debt	Series 2018	Series 2020	Senior Lien Total	Series 2018	Series 2020	Subordinate Lien Total	Permanent Debt Service
2018	$19,966,331	$11,648,750	--	$31,615,081	$7,913,958	--	$7,913,958	$39,529,039
2019	$19,956,926	$27,957,000	--	$47,913,926	$18,993,500	--	$18,993,500	$66,907,426
2020	$19,944,426	$27,957,000	--	$47,901,426	$18,993,500	--	$18,993,500	$66,894,926
2021	$19,937,671	$27,957,000	$5,340,250	$53,234,921	$18,993,500	--	$18,993,500	$72,228,421
2022	$19,922,692	$27,957,000	$6,075,250	$53,954,942	$19,130,000	$2,403,750	$21,533,750	$75,488,692
2023	$19,909,487	$27,957,000	$6,088,500	$53,954,987	$19,132,750	$2,453,750	$21,586,500	$75,541,487
2024	$19,893,887	$27,957,000	$6,104,250	$53,955,137	$19,130,125	$2,451,250	$21,581,375	$75,536,512
2025	$19,880,206	$27,957,000	$6,117,250	$53,954,456	$19,132,125	$2,453,750	$21,585,875	$75,540,331
2026	$19,862,529	$27,961,875	$6,132,500	$53,956,904	$19,133,625	$2,451,000	$21,584,625	$75,541,529
2027	$19,845,168	$27,981,125	$6,129,750	$53,956,043	$19,129,750	$2,448,250	$21,578,000	$75,534,043
2028	$19,832,209	$27,994,500	$6,129,750	$53,956,459	$19,130,500	$2,450,500	$21,581,000	$75,537,459
2029	$19,812,506	$28,012,000	$6,132,250	$53,956,756	$19,130,750	$2,452,500	$21,583,250	$75,540,006
2030	$19,790,375	$28,033,375	$6,132,000	$53,955,750	$24,951,250	$2,449,250	$27,400,500	$81,356,250
2031	$19,774,898	$28,048,625	$6,129,000	$53,952,523	$24,954,250	$3,201,000	$28,155,250	$82,107,773
2032	$19,749,703	$28,077,500	$6,128,250	$53,955,453	$24,951,000	$3,200,000	$28,151,000	$82,106,453
2033	$19,729,102	$28,094,875	$6,129,500	$53,953,477	$24,955,625	$3,197,000	$28,152,625	$82,106,102
2034	$19,706,724	$28,120,750	$6,127,500	$53,954,974	$24,952,250	$3,197,000	$28,149,250	$82,104,224
2035	$19,686,422	$28,140,000	$6,127,250	$53,953,672	$24,955,000	$3,199,750	$28,154,750	$82,108,422
2036	$19,661,825	$28,162,625	$6,128,500	$53,952,950	$24,957,750	$3,195,000	$28,152,750	$82,105,700
2037	$19,631,788	$28,193,250	$6,131,000	$53,956,038	$24,954,625	$3,193,000	$28,147,625	$82,103,663
2038	$19,605,166	$28,221,625	$6,129,500	$53,956,291	$24,949,750	$3,193,500	$28,143,250	$82,099,541
2039	$19,580,357	$28,247,750	$6,129,000	$53,957,107	$24,956,750	$3,201,250	$28,158,000	$82,115,107
2040	$19,550,760	$28,276,500	$6,129,250	$53,956,510	$24,954,375	$3,190,750	$28,145,125	$82,101,635
2041	--	$47,827,125	$6,125,000	$53,952,125	$24,951,625	$3,192,750	$28,144,375	$82,096,500
2042	--	$47,824,625	$6,131,250	$53,955,875	$24,957,000	$3,201,500	$28,158,500	$82,114,375
2043	--	$47,828,125	$6,127,250	$53,955,375	$24,954,125	$3,191,500	$28,145,625	$82,101,000
2044	--	$47,824,875	$6,128,250	$53,953,125	$24,956,625	$3,198,500	$28,155,125	$82,108,250
2045	--	$47,827,000	$6,128,750	$53,955,750	$24,957,875	$3,196,500	$28,154,375	$82,110,125
2046	--	$47,826,375	$6,128,500	$53,954,875	$24,956,375	$3,190,750	$28,147,125	$82,102,000
2047	--	$47,824,875	$6,132,250	$53,957,125	$24,955,500	$3,196,250	$28,151,750	$82,108,875
2048	--	$47,824,125	$6,129,500	$53,953,625	$24,953,500	$3,192,250	$28,145,750	$82,099,375
2049	--	$47,825,500	$6,130,250	$53,955,750	$24,958,375	$3,199,000	$28,157,375	$82,113,125
2050	--	$47,825,250	$6,129,000	$53,954,250	$24,953,250	$3,190,750	$28,144,000	$82,098,250
2051	--	$47,824,500	$6,130,500	$53,955,000	$24,951,250	$3,198,000	$28,149,250	$82,104,250
2052	--	$47,824,125	$6,129,250	$53,953,375	$24,955,000	$3,199,750	$28,154,750	$82,108,125
2053	--	$47,824,750	$6,130,000	$53,954,750	$24,952,250	$3,196,000	$28,148,250	$82,103,000
2054	--	$47,826,750	$6,127,250	$53,954,000	$24,955,625	$3,196,750	$28,152,375	$82,106,375
2055	--	$47,825,375	$6,130,750	$53,956,125	$24,957,500	$3,196,500	$28,154,000	$82,110,125
2056	--	$47,825,625	$6,129,750	$53,955,375	$24,955,375	$3,195,000	$28,150,375	$82,105,750
2057	--	$47,827,125	$6,129,000	$53,956,125	$24,956,500	$3,197,000	$28,153,500	$82,109,625
2058	--	$20,500,000	$33,453,000	$53,953,000	$10,250,000	$3,192,000	$13,442,000	$67,395,000
Total	$455,231,158	$1,462,450,250	$259,320,000	$2,177,001,408	$926,924,458	$111,503,000	$1,038,427,458	$3,215,428,866

Source: Public Financial Management, Inc. *Addition Project Finance Plan – Base Case,* December 27, 2017.

Sources & Adequacy of Revenues

This report now proceeds to discussion of revenue sources and adequacy – starting with lodging tax revenues currently and prospectively available to WSCC. This is followed by a more focused review on the Additional Bonds Test (ABT) used to determine the amount of bonded debt supported by proven lodging tax revenues. This includes review of the resulting adequacy of revenues anticipated to service existing bonded debt combined with issuance of added bonds to fund WSCC Addition construction and related development costs.

Lodging Tax Revenues Available to WSCC

This review of available revenues involves discussion of lodging tax revenues historically collected – together with projections of future tax revenues through the period of Addition debt repayment. A 2014 *Lodging Tax Forecast* prepared by PKF Consulting USA (now CBRE) has served as a primary information source for projecting lodging tax revenues potentially available for debt service to the WSCC PFD. Also considered with this review is separate lodging tax forecasting conducted by the State of Washington Department of Revenue (DOR) as well as more recently updated projections provided by Public Financial Management (PFM).

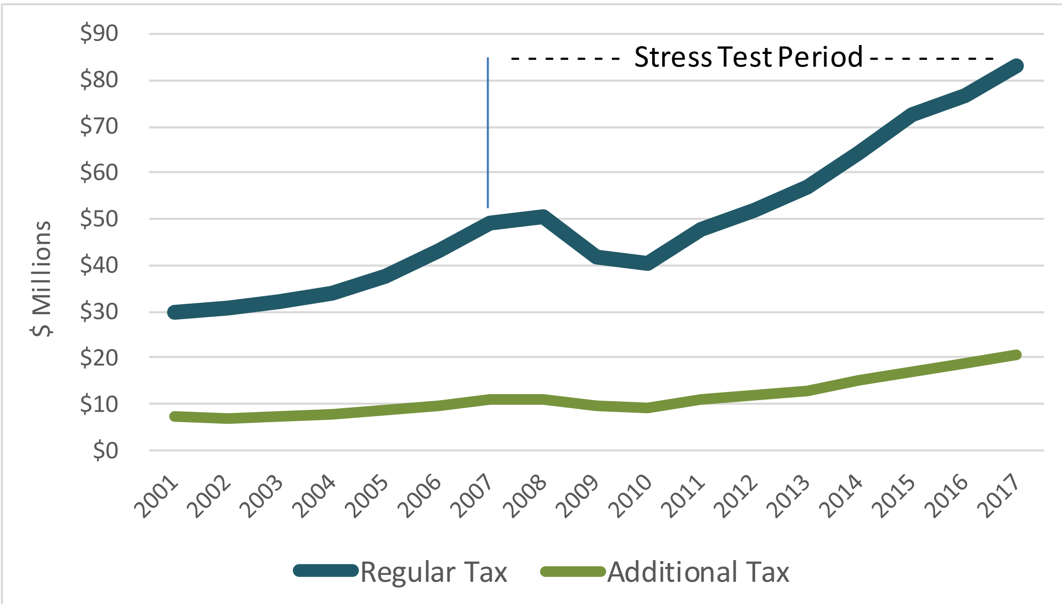
Lodging Tax Review. As previously described with discussion of institutional arrangements, lodging taxes are the primary revenue sources that have been relied on for repayment of bonded indebtedness for WSCC capital projects – both historically and as currently proposed:

- What is termed as the **Regular Lodging Tax** comprises special excise lodging taxes collected at the rate of 7.0% in Seattle and 2.8% elsewhere in King County by the Washington State Department of Revenue (DOR) on behalf of the PFD. While a portion of this funding has been made available for payment of the King County note as well as marketing and reserve deposits, payment of bonded debt has the priority claim on these revenues. This is the primary (if not only) source of funding for debt service payments anticipated with existing and planned issuance of WSCC debt financing.
- What is termed as the **Additional Lodging Tax** of 2.0% constitutes an existing state-share sales tax credit for hotels of 60+ rooms in the City of Seattle. Subsequent to the now completed transfer of WSCC assets to the WSCC PFD, this tax has been made available as a backstop resource for credit enhancement and bonded debt repayment, if needed, but not extending beyond July 1, 2029. Any uses by WSCC (if needed for debt service) are subject to repayment to the state including accrued interest. WSCC has regularly transferred these funds back to the state with no further outstanding WSCC obligation, to date.

As illustrated by the graph on the following page, Regular Lodging Tax collections are estimated at $83.3 million for 2017. The Additional Lodging Tax accounts for another $20.9 million. Regular tax revenues (from Seattle and King County) have increased from less than $30 million since 2001 when the then-new WSCC exhibit space was first opened – a gain of 179%. Additional tax revenues (limited to Seattle) have increased even more rapidly – up by 187% from $7.3 million in 2001 to $20.9 million in 2017.

Regular Lodging Tax revenues increased at an average annual growth rate (AAGR) of 6.6% over this time period. This is a slower AAGR than the annually compounded 10%+ rate of revenue increase experienced earlier in the 1990s. The regular tax AAGR is also somewhat below the annually compounded 6.8% growth rate indicated for the Additional Lodging Tax from 2001-17.

WSCC Lodging Tax Revenue History (2001-17)



Source: Washington State Department of Revenue (DOR).

As indicated by the graph, Regular Lodging Tax revenue changes have not been uniform over this most recent 16-year period. Since 2001, three distinct phases of revenue change are noted:

- A period of strong revenue growth from 2001-07 – averaging nearly 9% per year but peaking out at annual increases of about 14% from 2005-06 and again from 2006-07
- Effects of the Great Recession become apparent from 2007-08 with revenues stalling out – then dropping by a combined 20% from 2008-10
- Subsequent economic recovery with Regular Lodging Tax revenues more than doubling the next seven years from 2010-17 – increasing at a rate averaging nearly 11% per year (ahead of what was experienced in the 1990s)

For this feasibility review, the two recent phases of recession followed by recovery are of greatest interest for the purposes of a lodging tax revenue stress test and resulting evaluation of capacity to service debt. In effect, a **stress test** covering the period associated with the worst economic downturn since the Great Depression/World War II era serves to model capacity to repay debt in the relatively unlikely event of similar extreme downturns in the years ahead.

While the downturn is significant, the overall 10-year experience from recession to recovery is positive. An overall 5.4% AAGR is noted for the entire pre- to post-recession period of 2007-17.

Alternative Lodging Tax Forecasts. Looking ahead, several sources are available as possible reference points for projecting Regular Lodging Tax revenue – as the primary financial resource available to repay WSCC bonded indebtedness.

The chart to the right compares four alternative forecasts of lodging tax revenues, all focused on 2018 and 2020 when WSCC Addition bond issues are planned. Forecasts are compared with the Additional Bonds Test (ABT) debt capacity estimated as of an assumed March issuance date (currently extended to July 2018):

Regular Lodging Tax Forecast Comparisons (2018/20)

Forecast (Date)	2018	2020	Comments
Annual Payment Totals			**Annual Change (AAGRs)**
PKF (June 2014)	$85,095,000	$97,642,000	9.0% 2014-18, 4.7% 2018-20, 4.9% 2020-43
PFM (December 2017)	$88,289,000	$97,338,000	8.2% 2014-18 slowing to 6.0% in 2018, 5.0% 2019-22, 4.0% 2023-58
DOR (November 2017)	$84,291,501	$91,169,689	6.9% 2014-18 but slowing to 1.9% in 2018, 4.0% in 2019 & 2020, no forecast beyond CY 2020.
Stress Test (January 2018)	$85,206,000	$68,438,000	7.0% 2014-18, -10.4% 2018-20, 5.3% over 10-year business cycle
ABT Debt Capacity as of Issuance Date			**Added Notes**
PFM (December 2017)	$83,900,000	$95,200,000	Based on 12-month trailing lodging tax revenue average (for 12 months prior to issuance)
Issuance Date*	3/15/18	9/15/20	

* Note: 2018 bond issuance is now likely extended from March to July, meaning that the revenue capacity for issue may be greater than indicated above. ABT estimates are based on revenues for 12 months to the time of bond issuance.
Sources: PKF/CBRE, PFM, DOR, and E. D. Hovee.

- A 2014 *Lodging Tax Forecast* prepared by PKF Consulting USA (now CBRE) served as a primary source for projecting lodging tax revenues potentially available for debt service to the WSCC PFD – particularly with **Phase 1** debt anticipated for site acquisition. Factors pivotal to the PKF/CBRE revenue forecast have included evaluation of future additions to hotel room inventory, increases in average daily room rates (ADRs), and lodging tax rates (expected to remain as-is).

  Note: While CBRE is in the process of updating the 2014 lodging tax projections, more current information is not available as of the date of this feasibility report. This is not a significant issue for Series 2018 bonding since debt is determined by recent historical lodging tax receipts for which information is already available. The update will be more pertinent for the remaining Series 2020 issue - primarily if and to the degree that CBRE forecasts might turn out to come in at less than what PFM has projected as of late 2017.
- As of December 2017, PFM has prepared updated estimates of annual Regular Lodging Tax revenues through the term of anticipated 2018 and 2020 bond issues – as a **Phase 2 base case** forecast with repayment extending through 2058. Revenues are forecast to increase at an annual rate of 5.0% per year through 2022 (similar to the earlier PKF projection), slowing to an average 4.0% annual growth rate thereafter.

- The Washington Department of Revenue (DOR) and PFM draw their forecasts from the same historical data but, unlike PFM, the DOR forecasts indicate substantial slowing of revenues in 2018 and a growth rate that is 1% point below that of PFM to 2020 when the second bond issue is planned. A review of the **DOR methodology** is provided with Appendix F.
- A **stress test** scenario is framed to model a repeat of the Great Recession and subsequent recovery, with revenue slowing in 2018 (as with DOR), then dropping by 20%+ in the next two years pending subsequent recovery. The result of this scenario would be greatly reduced revenue as of 2020, as a hypothetical recession trough year and the year planned for final WSCC Addition bond issuance.

ABT capacity is calculated for any 12 consecutive months of the 24 months immediately prior to the month of bond issuance. Since the 2018 issue was planned for March/April, the period for the calculation likely would comprise the first three months of 2018 plus nine previous months in 2017. As a result, the ABT requirement is somewhat below all four forecast estimates of revenues for the 2018 calendar year. *Note:* Delay of bond issuance to July 2018 may change these calculations, as more months in 2018 may be considered.

Because actual revenues are known for the majority or all of the months on which the ABT estimate will be calculated, there is little likelihood that changed revenues into 2018 will detrimentally affect financing capacity with the planned 2018 senior and subordinate debt issues – totaling $1.044 billion of bond financing. If revenues into 2018 continue to increase, the result could somewhat enhance debt capacity.

More at risk is the $168 million in added bonded debt to be issued in 2020. Under DOR projections of slower revenue growth, revenues could come in about 4% less than the amount of tax revenue needed to fully fund the 2020 remaining debt. With the more extreme stress test of a hypothetical deep recession in 2019-20 (similar to 2007-09), debt capacity for remaining debt could be as much as 28% below what is needed to support the remaining $168 million in financing needed for completion of the WSCC addition.

Additional Bonds Test (ABT)

Bonded debt is to be issued subject to coverage requirements in the form of an Additional Bonds Test (ABT). For **senior bonds**, annual Regular Lodging Tax in 12 consecutive months of the prior 24 months up to the date of bond issuance is to be at least 1.75 times (or 175% of) the annual amount of each of the subsequent bond payments through the full period of bond repayment. Selection of the most favorable 12 consecutive months is pivotal to determining maximum bonding capacity.

ABT supported debt is recalculated when a new bond is issued, as when the 2018 issue is supplemented with added bonding in 2020. If lodging tax revenues increase through 2020, allowable debt likely increases. Conversely, if lodging revenues were to drop, the ability to issue added bonded debt could be jeopardized.

The ABT ratio for **senior *and* subordinate bonds** is 1.25x through 2029. This drops to 1.15x for 2030-58 – with the effect of increasing supportable annual payments in the last 28 years of debt repayment. Bond structuring is carefully tailored to stay within calculated ABT limits.

Likelihood of Less than Base Conditions. A question considered is whether and to what extent DOR or stress test scenarios may be unduly conservative. Clearly, both scenarios can be avoided if lodging tax revenues continue to experience growth rates similar to what has occurred since the Great Recession of 2007-09.

At WSCC request, this report includes a review of the **DOR forecast methodology**, described in Appendix F. Like many economic models, the DOR methodology appears to be overly conservative on the upside portion of the business cycle, but too optimistic on the downward (recession) side.[12] The DOR methodology performs well when considered over the full business cycle. The model performs at its best in the more moderate portions of the cycle, as when transitioning from a period of rapid to slower economic growth.

The **stress test model** represents an intentionally conservative scenario that can be viewed as realistically possible and experienced based, but also as a less likely outcome over the forecast period than the base case. There appears to be general agreement among nationally recognized economic forecasters that, while growth has been sub-par by comparison with other economic up-cycles, this period of renewed economic growth is longer than generally experienced. The question is not whether an economic recession will occur but, rather, when and how deep?

Forecasters identify several macroeconomic scenarios associated with declining gross domestic product (GDP) and employment – in some cases starting as early as 2018 and by many within the next 3-5 years.[13] Few expect a recession to be as severe as what was experienced a decade past – albeit with the greatest vulnerability being external threats as with dramatic shifts in energy availability/pricing, increasing trade barriers, or potential military conflict.

Effect of Lodging Tax Extension. The Washington State Department of Revenue (DOR) has forecast that extension of the lodging tax to establishments of less than 60 rooms will yield an estimated $5.828 million in added tax revenue by the state fiscal year (FY) 2019, the first partial year of tax collections. Revenues are forecast to increase to $18.358 million in FY 2020, then increase by 5% annually through 2023.

WSCC will receive 50% of revenues *after first deducting* for the share of revenues on short-term rentals to be paid to the City of Seattle. Because of the newness of the legislation and uncertainty as to specific sources of revenue, no official projections of net revenue allocations between the City of Seattle, King County and WSCC are currently available.

Visit Seattle and PSG have preliminarily estimated that the Extended Lodging Tax allocated to WSCC most likely may be in the range of $1.5-$1.6 million per year – less than 10% of the gross lodging tax projection for 2020. This added extended tax revenue stream will become available to support added debt and/or as additional security for repayment of bonded indebtedness.

Due to the uncertainty of the revenues, this potential added pledge is not yet included in ABT calculations made by PFM. In any event, the extended tax revenue available to WSCC likely will represent a less than 2% addition to the PFM Regular Lodging Tax revenues of $97.3 million previously forecast to be available in 2020 – a relatively minor debt coverage enhancement.

Base Case Lodging Tax Revenues to Repay WSCC Indebtedness

Regular Lodging Tax revenues have been and can be expected to be applied to debt service repayment in three ways for existing and additional proposed WSCC facilities:

- **Repayment of senior pledge bonded indebtedness for the existing WSCC facility** – based on defeasance and refinancing with transfer of the WSCC from state-held non-profit to public facility district (PFD) status including additional capital funding for facility improvements
- **Additional bonded debt financing for construction and build-out of the WSCC Addition** – covering added senior and subordinate debt placements planned for 2018 and 2020
- **Repayment of debt anticipated with a subordinate note to King County to cover a portion of site acquisition expense** – covering King County properties purchased plus associated transaction costs

This Phase 2 build-out and operating feasibility evaluation focuses on capacity to repay existing and planned bonded debt. This is the debt that addressed by ABT coverage requirements for bond underwriting.

Per the KC-PSA agreement and associated documentation, repayment of the King County note is subordinate to bonded debt and not included as part of the ABT coverage calculations. However, this feasibility review also addresses anticipated capacity of the lodging revenue stream to cover the King County note as well as other non-debt related uses that are already in place or planned for allocation of available lodging tax funds.

Existing Debt Repayment. In November 2010, the WSCC PFD issued revenue bonds in the original amount of $314,652,701 – for purposes to:

- Finance the transfer of the WSCC from the State to the newly created PFD
- Provide capital funds for convention center renovations
- Also provide funds for a common reserve set at one year of net bond payments

Bond repayment on this existing debt is scheduled to occur through 2040. As of year-end 2017, the outstanding balance of the bonds is approximately $279.1 million. Remaining debt service payments from 2018-40 are estimated at $455.2 million.

Planned Debt for WSCC Addition. As detailed by the chart on the next page, WSCC anticipates issuance of approximately $1.213 billion via bonded debt placements in 2018 and 2020.

An estimated 86% of project bonding is expected to occur with bonds issued in July 2018 – with the remaining 14% of bond financing planned for September 2020. Approximately 61% is comprised of senior pledge debt with the remaining 39% as subordinate bonded debt.

WSCC Addition Bonded Debt Financing (2018/20)

	Senior Bonded Debt		Subordinate Bonded Debt		Total Added
	Series 2018	Series 2020	Series 2018	Series 2020	Bond Debt
Sources of Bond Financing					
Bond Par Amount	$560,250,000	$106,805,000	$379,870,000	$48,075,000	$1,095,000,000
Reoffering Premium	64,983,235	8,064,202	39,663,414	5,467,659	118,178,510
Total Sources	**$625,233,235**	**$114,869,202**	**$419,533,414**	**$53,542,659**	**$1,213,178,510**
Uses of Bond Financing					
Uses:					
Costs of Issuance	$2,430,688	$720,714	$1,752,617	$406,225	$5,310,244
DSR Surety Premium	1,339,000	153,250			$1,492,250
DSR Deposit			24,950,000	3,199,000	$28,149,000
Project Fund Proceeds (net)	619,032,859	113,274,524	391,078,180	49,531,209	1,172,916,772
Total Uses	**$625,233,235**	**$114,869,202**	**$419,533,414**	**$53,542,659**	**$1,213,178,510**

Source: PFM, *WSCC Addition Project Finance Plan – Base Case,* December 27, 2017.

Interest rates reflect current Municipal Market Data (MMD) information, adjusted upward by 25 basis points for the 2018 and 75 basis points for the 2020 placements. Bond yields are projected to be at 3.65% for 2018 senior and 3.78% for 2018 subordinate debt. Anticipated rates increase to an estimated 4.05% for senior and 4.25% for subordinate debt issued in 2020.

Debt service payments (both principal and interest) for the Addition financing are estimated at a cumulative total of $2.76 billion through the period to debt retirement in 2058. When combined with existing debt, annual payments on bonded debt are anticipated to be in the range of $66.9 million per year in 2019-20 (pro-rated in 2018), increasing to about $75.5 million per year from 2022-29 (when WSCC access to the Additional Lodging Tax ends), and then to about $82.1 million annually from 2031-2057 (the year before the final debt payment).

As indicated by this schedule, debt payment capacity changes over time in response to when bond financings occur, together with associated minimum ABT coverage requirements. This includes access to added funding capacity (as minimum ABT coverage ratios on combined senior and subordinate bonds are reduced after 2029, to offset the loss of the security pledge represented by the Additional Lodging Tax).

King County Note. The King County CPS acquisition note is anticipated to close at the negotiated amount of $141.01 million. Repayment is subordinate to bonded debt financing.

From 2018-2023, interest-only payments will be payed based on 1.00 % annual interest rate. Starting in 2024, the note will be amortized at a 4.25% annual interest rate, with the final note payment made in 2048. Annual payments are increased over time, reflecting greater capacity resulting from higher Regular Lodging Tax revenues consistent with historical tax collections.

As noted, interest only payments of about $1.4 million per year are made through 2023. Payments increase to $6.7 million in 2024 as the King County subordinate note begins to be amortized, escalating over time to a final payment approaching $13.7 million in 2048.

Base Case Repayment Mechanics. Available lodging tax resources are expected to be applied to make payments in the following general order of priority:

- Bonded indebtedness with highest priority to payment of senior existing and planned bonded debt – followed by subordinate bonds
- Payment of debt service reserves – as required for senior and subordinate bonded debt
- Rebate of Additional Lodging Tax revenues to the State of Washington unless needed for debt service on bonds (through 2029) – with no need to support debt service to date
- Payment on the King County subordinate note – per the terms of the KC-PSA
- WSCC operating reserves – per WSCC board policy (shown with debt reserve payments)
- Payment of entitlement and WSDOT lease obligations (a relatively minor item except in 2028 and 2030 when major entitlement-related payments have been planned) – plus the more substantial marketing transfer for internal WSCC and external Visit Seattle marketing (consistent with past practice at 16.67% of Regular Lodging Tax revenues) and the WSCC-board determined capital reserve (as part of debt reserve payments).

Any remaining Regular Lodging Tax revenue after these obligations are met is considered as net surplus. To the extent that an annual cash surplus (or deficit) materializes each year, that amount is *added to* or *subtracted from* the prior year's Unrestricted Cumulative Surplus.

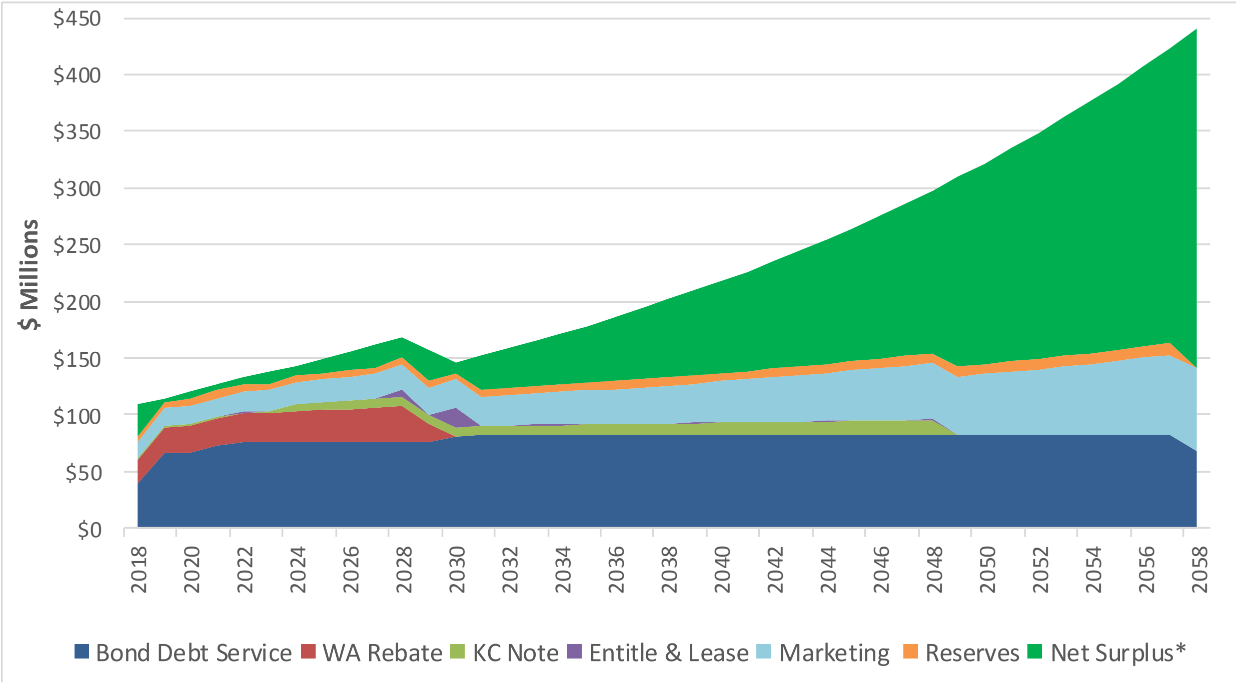
Based on the 2010 WSCC bond resolution (as may be amended), surplus lodging tax funds may be used for "necessary additions, betterments, improvements and repairs to or extension and replacements of the WSCC or for any other lawful District purposes."

Base Case Uses of Lodging Tax Revenues. Per PFM projections and as illustrated by the graph on the following page, base case projections of Regular Lodging Tax revenues indicate that funding should be adequate to cover both bonded and subordinate debt payments together with other non-operating related uses over the full period of debt repayment to 2058.

For this to occur, there are three years when lodging tax revenues are planned to be augmented in order to fully cover all debt and related uses – in 2018 with the initial debt issuance and again in 2021 and 2022. This augmented contribution totals an estimated $82.6 million, to be funded from cash anticipated to be available with existing WSCC reserves.

As of year-end 2017, WSCC had $180.9 million in total current assets including $72.3 million in unrestricted cash and cash equivalents. An estimated $108 million of the WSCC's total net position of $427 million is unrestricted.

Base Case Uses of Regular & Additional Lodging Tax Revenues (2018-58)



* Note: Achieving a positive net surplus is dependent on a $76.1 million construction contribution from existing reserves in 2018 and a $6.0 million contribution in 2021. The net surplus calculation noted above includes this augmented contribution. A smaller construction contribution of just over $420,000 is also anticipated in 2022.

Source: PFM, *WSCC Addition Project Finance Plan – Base Case,* December 27, 2017. Estimates subject to revision.

As depicted by the above base case graph:

- There is a planned revenue drop-off occurring from 2029-30 as Additional Lodging Tax revenues will no longer be available to WSCC; this is essentially offset *dollar for dollar* by a similar reduction in reimbursement (or rebate) payments to the State of Washington.
- The net surplus margin is relatively narrow at 3-8% of total lodging tax revenues (even with contributions as noted from reserves), especially from 2019-25 and again in 2030; after 2030 the margin represented by net surplus widens appreciably.

ABT Debt Service Coverage. Debt service coverage measures the relationship (or ratio) between lodging tax revenues available for debt service *versus* principal and interest payments made. The Additional Bonds Test (ABT) is applied as the primary test of debt coverage used for determining debt capacity with both senior and subordinate bonded debt.

As earlier described, ABT is *calculated as* existing Regular Lodging Tax revenue (excluding Seattle's 2.0% Additional Lodging Tax) *divided by* bonded debt service payments. The ABT test is based on actual historic revenue of any consecutive 12 months of the prior 24 months at the time of any future proposed debt. This is most likely the most recent 12 months assuming continued revenue increases – to achieve maximum debt financing capacity.

As detailed by Appendix G, two ABT calculations are noted – one for senior debt only and the other for senior and subordinate bonded indebtedness combined:

- The 2018 issue of **senior bonded debt** combined with existing debt achieves a projected ABT ratio of just over 1.75x– the minimum anticipated for bond underwriting and as required by the KC-PSA. With a supplemental debt issue planned for 2020, ABT is recalculated and calibrated to come in at just over 1.76x – also exceeding the minimum coverage requirement over the duration of debt repayment to 2058. *Note:* If WSCC's estimated share of Extended Lodging Tax is included and debt service remains as projected by PFM, 2020 ABT goes from 1.76x to about 1.78x.
- When **senior and subordinate bonded debt** are combined, ABT comes in at 1.25x in 2019-20 – increasing to 1.26x through 2029 – just above the minimum requirement of 1.25x. From 2030-58, debt coverage is at close to 1.16x through to 2058 – above the adjusted post-2029 minimum threshold of 1.15x. *Note:* If WSCC's estimated share of the Extended Lodging Tax is added, estimated year 2020 ABT increases from 1.25x to nearly 1.28x. These ABT estimates are subject to further refinement, for example, if debt is increased to cover Affordable Housing payments made in 2019 rather than 2028/30.

While the ABT coverage ratios provide a relatively thin margin for error (above the required minimum), this is not an item of major concern as the numerator in the calculation (of lodging tax revenue 12 months up to bonding) is fixed as of the date of bond issuance. Required annual bond payments serve as the denominator in the ABT coverage ratio) as shown by the formula:

ABT Coverage = Actual Lodging Tax (12 months prior) / Debt Service Payment (annually)

In effect, the debt repayment structure has been calibrated to come close – but not below – the required minimum. This is to maximize the total debt that can be financed.

Once fixed using the ABT formulation, actual future revenues are of little consequence for the purpose of the ABT calculation as the underwriting process has been completed. However, as a practical matter to the agency issuing debt, it is still important to assure that lodging tax revenues will actually prove adequate to make required principal and interest payments each year until the debt is fully retired.

Total DSCR. Ascertaining the actual year-by-year capacity to repay debt is possible with use of a traditional debt service coverage ratio (DSCR). This is calculated as lodging tax revenues for a particular year divided by the total bonded debt service payment for that same year.

So long as the DSCR exceeds 1.00x and payment of bonded debt takes first claim on lodging tax revenues, revenues will be adequate to exceed required debt service:

- With the base case analysis, DSCR ratios on **senior debt** ranges from 2.28x in 2019 to as much as start 3.58x in 2058 – meaning that in 2058 Regular Lodging Tax revenues are forecast to be 3.58 times what is needed to make the last payment on senior bonded indebtedness.

- DSCR ratios on all **senior and subordinate bonded debt** using Regular *plus* Additional Lodging Tax revenues available to WSCC also are more than adequate through debt repayment, ranging from 1.63x in 2019 to 2.87x in 2058 – with no need to utilize Additional Lodging Tax revenue to repay debt through the availability period to 2029.

Base case lodging tax revenues appear to be more than adequate to cover not only bonded debt obligations, but to also fund other current and planned lower priority uses. These other uses include annual rebates of the additional tax to the State of Washington (through 2029), payments on the King County subordinate note, entitlement and WSDOT lease costs, WSCC capital and operating reserve deposits, and a continued 16.67% marketing transfer.

However, as noted, the net surplus margin is relatively narrow at 3-8% of total lodging tax revenues during the initial years of debt repayment, from about 2019-25 -- then again temporarily in 2030. It is also possible that the base case net surplus margin may be improved by another 1-2 percentage points with application of WSCC's share of the 2018 approved Extended Lodging Tax – available in full by Washington State's FY 2020.

If the Extended Lodging Tax is used to increase project debt payments by an amount sufficient to provide for a 2019 rather than 2028/30 Affordable Housing payments, this could have the effect of improving the otherwise narrow 2030 net surplus margin. Depending on the structure of the added debt or other form of payment, there likely would be a lesser boost to net margin for the 2019-25 period than if the Extended Lodging Tax were not committed to added WSCC debt. The precise net effect is not yet determinable, pending finalization of debt financing planned for 2018 and 2020.

Stress Test Considerations

The base case revenue forecast appears more than adequate to cover existing plus added bonded debt for the WSCC Addition. The base case also appears adequate to cover lower priority current and planned uses of lodging tax revenues – albeit with WSCC reserve fund contributions programmed for 2018, 2021 and 2022 in a combined amount of $82.6 million.

This feasibility review includes an alternative stress test scenario addressing the question: *What might be the financial implications if a sudden and severe downturn similar to the 2007-09 Great Recession and ensuing 2008-10 lodging tax downturn were to be re-experienced?*

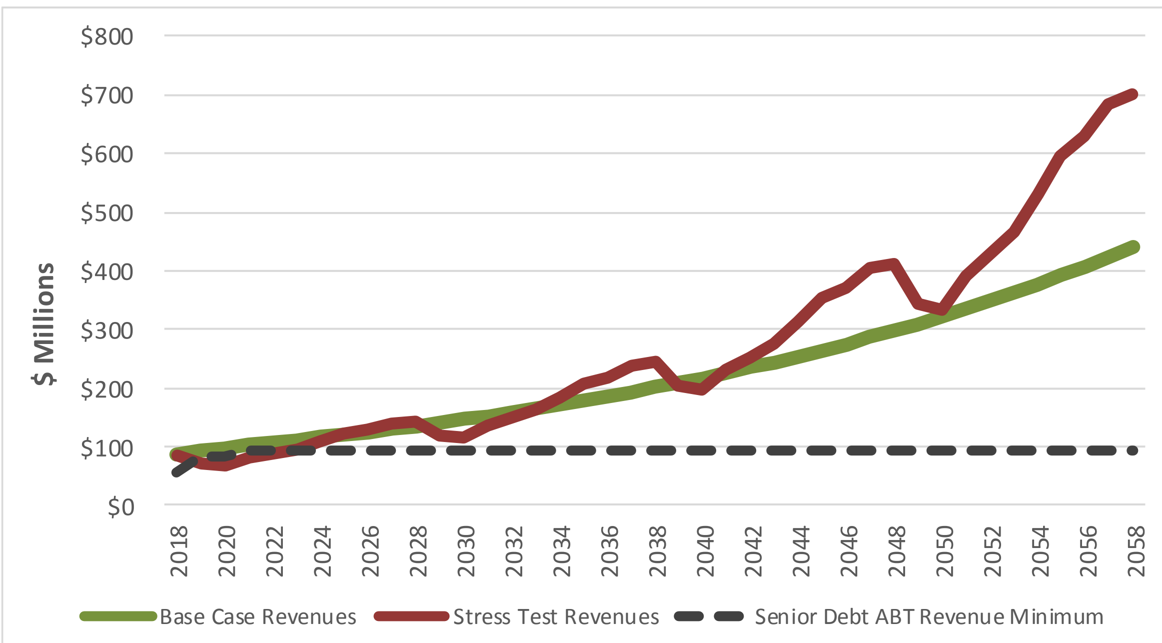
The **stress test** models a repeat of the 2007-09 recession, with lodging tax revenue growth slowing in 2018, then dropping by 20%+ the following two years pending subsequent recovery. The result is substantially reduced revenue as of 2020 – the hypothetical recession trough year. This pattern is then repeated in 10-year cycles through the period of debt repayment to 2058.

As illustrated by the graph on the following page, base case revenues exceed the ABT minimum revenue needs throughout the term of debt repayment. However, while even the cyclical experience-based stress-test model proves to generate greater revenue over a long-term time horizon, a severe economic recession could prove problematic early on.

Even if a severe recession were to materialize in the near-term, WSCC would appear to have Regular Lodging Tax revenues more than adequate to remain above the 1.75x ABT requirements for Series 2018 senior bonded debt. Lodging tax revenues would also be more than adequate to meet the 1.25x near term ABT for bonded senior and subordinate debt combined.

With this stress test scenario, the challenge is not about meeting bonded debt coverage requirements but about revenues dropping to a point where there might be shortfalls in other current and planned uses of Regular Lodging Tax revenues – for the subordinate note, reserve deposits, entitlement and WSDOT lease costs, and/or marketing transfer. It could also prove difficult to issue the remaining Series 2020 bonds on the schedule currently anticipated as needed to fully close out financing for the Addition project.

Stress Test – Regular Lodging Tax Revenues vs Senior ABT Minimum (to 2058)*



* Note: Annual senior debt repayment capacity is estimated at $83.8 million in 2018-19, increasing to $94.4 million per year through the duration of debt repayment to 2058. At lower coverage ratios, debt capacity with senior and subordinate bonded debt is also estimated at $94.4+/- million from 2022-58.
Not factored into this projection are possible effects associated with inclusion of the Extended Lodging Tax.

Source: PFM, *WSCC Addition Project Finance Plan – Base Case,* December 27, 2017, and E. D. Hovee.

Capacity to Underwrite 2020 Supplemental Bonded Debt. With modeled Regular Lodging Tax revenue slowing in 2018, followed by a 20% revenue decline in 2019-20, lodging tax revenues could prove inadequate to support additional bonding of the final debt issuance as is currently anticipated to occur in 2020. Issuance of supplemental long-term bonding on a similar ABT basis would need to be delayed until revenues recovered, not just back to 2018 levels but to a higher level that supports added debt beyond what was initially issued in 2018.

Base case projections indicate a Regular Lodging Tax ABT revenue base of $83.9 million with a previously planned March 2018 issue and annual ABT revenues projected to increase to $95.2 million by the time of supplemental bonding currently targeted for September 2020. With the stress test scenario of a major economic contraction, hypothetical 2020 revenues could fall to $68.4 million. If the experience of the last recession were fully re-played, revenues would subsequently increase back to more than the targeted $95.2 million ABT threshold by about 2023 – allowing for a supplemental bond issue delayed by 3-4 years to 2023-24.

As detailed in Section VI to this report, a range of mechanisms might be considered to fund this temporary gap – securing the added debt capacity needed to complete long-term financing of the WSCC Addition. Assumed is that WSCC should be able to secure interim funds, if needed, at up to an annual cost roughly equivalent to the incremental debt service with a 2020 supplemental bond issue.

Capacity to Fund Debt & Other Uses of Regular Lodging Tax Revenues. If a significant economic downturn like the stress test scenario were to occur in the next 3-5 years, WSCC would appear to have adequate Regular Lodging Tax revenue to fully fund existing and new bonded debt obligations. However, it likely would not prove possible to fully fund both bonded debt and other anticipated uses from then available Regular Lodging Tax revenues.

In 2019 and 2020, payments on existing plus 2018 bonded debt are expected to be about $66.9 million per year. This increases to the $75-$76 million range by 2022 – whether with the 2020 bond issue as planned or with interim interest-only financing pending delayed completion of long-term financing.

With bonded debt service representing the primary priority for use of Regular Lodging Tax revenues, it likely would not be possible to fully fund these other obligations until economic recovery was well underway. Over a 5-year period (extending from 2019-24 with this hypothetical stress test), the funding gap could build to a cumulative total of about $76 million, assuming that other use obligations were to be met in some fashion as currently projected. This equates to a temporary funding gap (or subsidy requirement) over this 5-year period averaging just over $15 million per year.

This funding gap might be addressed through a range of measures – possibly including some combination of funding from reserves as available, deferred payments or reduced spending in the interim, extended access to Additional Lodging Tax resources, and a possible interim credit facility. These options are further discussed with Section VI to this report.

Reserves as Buffer to Recession. As of year-end 2016, WSCC had total assets of $696 million versus liabilities of $321 million, resulting in a positive net position of $375 million. Of this $375 million amount, over $102 million was identified as unrestricted – including $37.7 million in cash and cash equivalents.

As of year-end 2017, WSCC's total net position had increased by $52 million to $427 million – primarily due to the value of construction in progress (as part of the overall Addition capital budget). As noted, of the $427 million ending year net position, $108 million is unrestricted including $72 million in cash and cash equivalents.

Prior to 2017, WSCC has made cash contributions to the Addition project totaling $130.6 million. An estimated $57 million was spent in 2017 with $76 million noted for early 2018 plus an estimated $19.6 million in first year bond payments later in 2018 with Series 2018 debt.

The combined effect of construction contributions and anticipated new debt and related payments is forecast by PFM to reduce the available WSCC unrestricted cumulative surplus from about $80 million in 2017 to $31.5 million by year end 2018. Under continued base case conditions, the unrestricted surplus would again start to increase to the $40+/- million range by 2020-21, then begin increasing more rapidly to exceed $100 million by 2027.

With the stress test scenario, reserves would not build-back to this level. In effect, reserves alone could not fully offset the cumulative deficit likely incurred over a 5-year stress test period. Of the estimated $76 million funding gap that could materialize with the stress test from 2019-23 and after paying planned WSCC construction contributions for the Addition project, WSCC's unrestricted WSCC's cumulative surplus might cover an amount up to about $28 million. This would leave a 5-year cumulative deficit of $54 to be funded from other sources.

Stress Test Effect on Lodging Tax Sources/Uses
& Cumulative WSCC Surplus (Deficit) Through 2023

Year	Net Regular Lodging Tax Surplus (Deficit)	WSCC Addition Construction Contributions	Unrestricted Cumulative Surplus (Deficit)	Comments
Pre-2018	--	--	$80,000,000	Per PFM
2018	$24,580,059	($76,142,057)	$28,438,002	Revenues $3.1M less than base case with stress test
2019	($17,465,938)	--	$10,972,064	Net revenues *equals* Regular Lodging Tax *minus* bonded and other debt, entitlement and WSDOT lease costs, marketing transfer, and reserve deposits
2020	($22,804,394)	--	($11,832,330)	
2021	($17,839,589)	($6,000,000)	($35,671,919)	
2022	($13,090,082)	($421,370)	($49,183,371)	
2023	($4,840,193)	--	($54,023,564)	

Source: PFM base case projections adjusted to stress test scenario by E. D. Hovee

The calculations above do not take into account the revenues associated with the Additional Lodging Tax which are currently rebated back to the State of Washington. As of 2018, this revenue source is projected by PFM to yield approximately $20.8 million. With stress test conditions of a less than 19% reduction in Additional Tax Revenues (a slightly more moderate reduction than for Regular Lodging Tax revenues), this backstop source could drop to about $17 million per year at the trough of a major economic downturn.

If Additional Lodging Tax revenues were made available to backstop other uses of the Regular Lodging Tax in addition to securing bonded debt, this deficit could be offset with temporary application of about 3-4 years from this supplemental Additional Lodging Tax funding source – depending on whether funds from the unrestricted cumulative surplus were also applied. Any payments made from the Additional Lodging Tax would then be repaid back to the state with interest during the ensuing period of economic recovery.

Effects of Adverse Economic Conditions - Longer Term. Repeat recessions, even if of the same relative magnitude as the 2007-09 event and hypothetical early 2020s re-run, are not expected to pose the same level of concern in the out-years of debt repayment. This is because each recovery is associated with revenue gains that substantially outweigh the prior revenue losses. In effect, the primary challenge suggested by this independent feasibility report lies in the capacity to provide a buffer adequate to withstand adverse economic events that might conceivably materialize in the near term – through about the mid-2020s.

Revenue Adequacy

Two conclusions are suggested from this discussion of sources and adequacy of revenues:

- Under **base case** conditions of lodging tax revenue growth, there appears to be more than ample revenue available to support current and planned bonded indebtedness together with continued payments for lower priority uses of Regular Lodging Tax revenues.
- Under **stress test** conditions of substantially declining revenues in the 2019-21 period, it could prove difficult to complete long-term bond and subordinate debt financing for the WSCC Addition as scheduled and to fully meet non-debt obligations reliant on Regular Lodging Tax revenues. This would certainly be the case with an economic event similar to the Great Recession when lodging tax revenues dropped by 20% in two years.

  Due to relatively tight tax revenue funding margins of just 3-8% through about 2025, it could also prove difficult to fulfill all payments reliant on the lodging tax even in the event of a lesser economic downturn – as with the earlier dot-com related event involving a nearly 12% lodging tax revenue downturn as experienced in 2001.

Addressing the financial implications of a possible albeit unlikely downturn with the 2020 final debt issue could prove challenging. However, mitigation options are potentially available in the event that these conditions materialized – as noted above and further discussed with Section VI of this report.

V. OPERATING BUDGET

Among major U.S. convention centers, WSCC stands out as a facility where annual operating income typically exceeds operating expense without the need for on-going subsidy support. To date, WSCC's operating budget has been viewed as essentially revenue neutral, neither contributing to nor detrimentally affecting the PFD's ability to repay debt from lodging tax resources.

Going forward, there are two ways that WSCC annual operations conceivably could affect debt repayment capacity with facility expansion as proposed:

- If WSCC expansion serves to increase overall facility utilization and revenues more than expenses, it is conceivable that a consistent net surplus could serve as an added source of funding for future debt repayment. However, WSCC to this point has not looked to operating surpluses as a source for debt repayment. Funding support of capital projects might occur indirectly, for example, out of unrestricted cash and cash equivalents.
- Conversely, if the Addition increases overall WSCC expenses more than revenues by amounts sufficient to create on-going operating deficits, the operating losses could jeopardize funding allocations currently planned to support debt service. While likely not a major issue with temporary short-term losses, this could become a more prominent challenge if operating deficits were to materialize in the future on a continuing basis. This would occur, for example, if Addition operations were to result in operating expense increases substantially above growth in incremental revenues received.

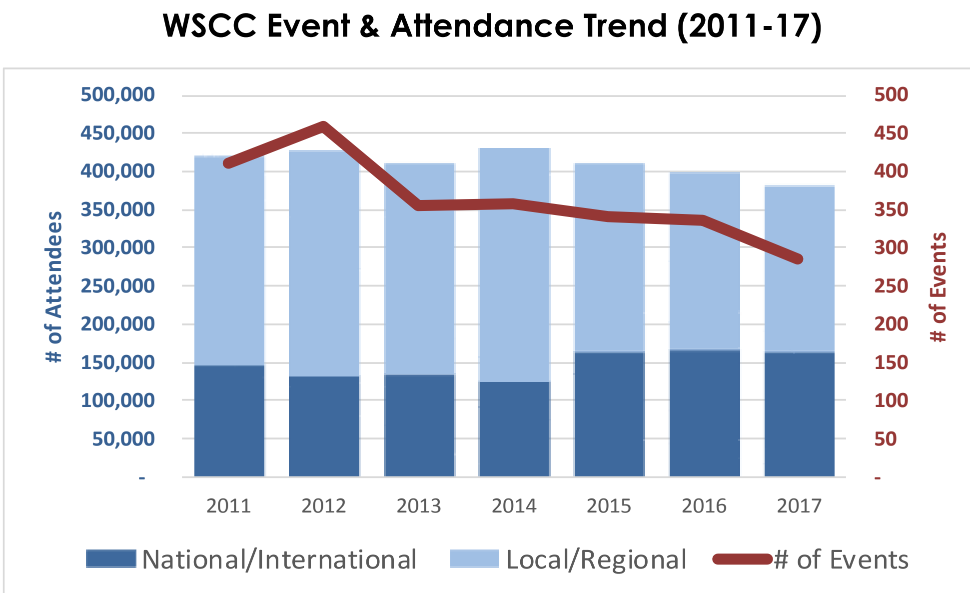
This portion of the building and operating feasibility review focuses on the potential utilization, revenue and expense implications for the planned Addition in the context of combined WSCC operations. Discussion begins with a review of facility utilization and then recent operating revenue and expense history for the WSCC as currently configured.

This is followed by review of operating results associated with prior WSCC facility expansions and other comparable western U.S. facility expansions. The base case represents the most recent projections of HVS Convention, Sports & Entertainment Facilities Consulting, as updated for WSCC in 2018. An alternative stress test scenario is derived from review of historical WSCC revenue and expense trends coupled with the experience of other potentially comparable western U.S. convention center expansions.

EVENT & ATTENDANCE TREND

Before considering operating revenue and expense, it is useful to briefly review WSCC event and attendance trends. Information for this discussion is provided for the time period of 2011 (the first full calendar year of WSCC PFD operations) up to 2017 (the most recent year). As depicted by the graph on the next page, the number of events hosted by WSCC has declined in recent years – from a peak level of 459 events in 2012 to 285 in 2017 (a 38% reduction).

Despite hosting fewer events, attendance peaked a couple of years later – in 2014 at 432,000 attendees. Total attendance then declined by 11% from 2014-17.



Source: WSCC, Annual Reports and 2017 data provided by WSCC.

This shift has occurred as WSCC is purposely transitioning to focus more on national and international gatherings to further the District's mission of generating economic impact for the region.

The proportion of total attendance generated from national and international events dropped from 35% of all attendees in 2011 to 29% in 2014. Over the next three years, the national and international share bounced back to a new peak level of 43% of WSCC attendance as of 2017.

The 285 events hosted by WSCC in 2017 consisted of 51 national/international and 234 local/regional events. National and international meetings tend to draw more participants (averaging 3,250 attendees per event) as compared with local/regional events (averaging less than 930 per event).

Of particular note is that the WSCC revenues have performed well despite fewer events and attendees. From 2011-17 revenues *per event* have nearly doubled. When measured on a *per attendee* basis, revenues have increased by 46%.

Sales tax revenues generation by WSCC events from 2012-16 have increased by more than 54% from $17.1 million in 2012 to $26.3 million in 2016. Based on published annual reports for 2012-16, attendee spending has also increased by close to 33% from just under $263 million to $348 million over the same 5-year period.

Accounting Format

In 2010, WSCC opened a new conference center on the north side of Pine Street across from the existing WSCC. The facility was also transitioned from state ownership to the WSCC PFD and budgeting changed from a July-June fiscal year to a January-December calendar basis. Audited statements cover depreciation and amortization; operating statements exclude these charges.

Subsequently, in 2017 the format for the operating statement was further changed to remove marketing from both the income and expense sides of the operating statement. External and in-house marketing is now shown with non-operating income and expense. WSCC management indicates that this change in accounting format was made to better align operating revenues to expenses, to more clearly focus on how building operations are performing from year-to-year.

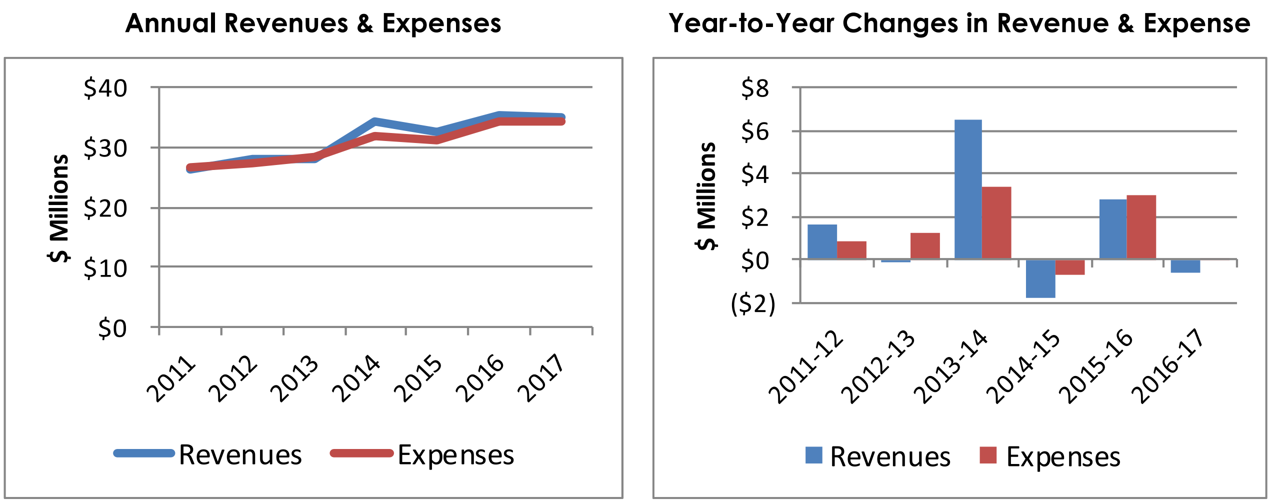
This re-stated format has had the effect of reducing net income results. For example, net operating income for 2015 was indicated at $2.242 million with the prior accounting format, reduced by nearly $800,000 to $1.447 million for 2015 with the accounting re-statement.

What has generally been a surplus of additional hotel funds for marketing/sales goes to the fund balance after the Visit Seattle contract is paid and the WSCC marketing & sales expenses are subtracted. This surplus has been realized every year for the last seven years and could be used to help cover operating losses, other expenses or debt service, if needed.

WSCC Operating Revenue & Expense History

With a new accounting framework in effect as of 2017, WSCC has restated operating income and expense to the new format – as a consistent reporting framework for the years 2011-17.

WSCC Operating Revenues & Expense Experience (2011-17)



Sources: WSCC and E. D. Hovee, from Miller & Miller, P.S. Financial Statements and Independent Auditor's Report.
All statements have been re-stated to match the current 2017 WSCC accounting format.

The two graphs above compare WSCC operating income and expense trends. The *left-hand* graph illustrates total operating revenues versus expenses which generally appear to closely parallel each other – but somewhat obscuring significant year-to-year variations. The *right-hand* graph provides a clearer depiction of year-to-year changes in revenues versus expense and resulting net operating income (NOI) for each year starting 2011.

As of 2017, revenues on operations came in at $34.96 million. This was close to $650,000 above operating expenses of $34.31 million. Operating revenues for 2017 were 1.7% below 2016 results while expenses increased by 0.2%. As a result, net operating income dropped by more than half from $1.32 million in 2016 to the less than $650,000 figure noted for 2017.

Overall, from 2011-17, revenues have increased by an estimated 33% – above the 29% overall increase in WSCC operating expenses (excluding depreciation). Revenues have held their own or increased every year since 2011 except for 2015 and 2017. Expenses have increased every year except from 2014-15.

This overall experience somewhat obscures more uneven changes in expenses and revenues when considered on a year-to-year basis. The strongest year of activity recently was in 2014 – with revenues up by $6.5 million and expenses increasing by only $3.4 million. The second strongest year was 2016 – but with expense gains slightly outpacing revenue increases. For four of the last six years, expenses have out-paced revenues (offset primarily by the strong revenue performance of 2014).

Net operating income (equal to revenues *less* expenses) has improved from an operating deficit indicated at $167,000 in 2011 to a peak positive net of nearly $2.5 million in 2014, dropping back to just under $1.3 million as of 2016 – and then to less than $650,000 for 2017.

WSCC operates on a relatively narrow operating net income margin (with net operating revenues averaging just 2.6% of total revenues from 2011-17). Even small variations in income and/or expense can have large effects on the overall operating bottom line – as indicated by the apparent change from 2016-17. Over the 7-year period from 2011-17, net operating income has been as high as 7.2% of total operating revenue (in 2014) and as low as -2.2% (in 2013).

Year-to-year NOI fluctuations can be expected – sometimes for no significant discernable reason and at other times due to changes in external market or internal operating conditions. The most recent independent auditor's report cites competitive factors as a consideration with 2017 results, as described by the insert box below.

It is also useful to review the distribution of revenues and expenses in more detail. For this added discussion, comparisons made are for 2017 and 2011 – for which income and expenses have been re-stated by WSCC to match annual audited results, by major line item category.

Independent Auditors 2017 Operating Review

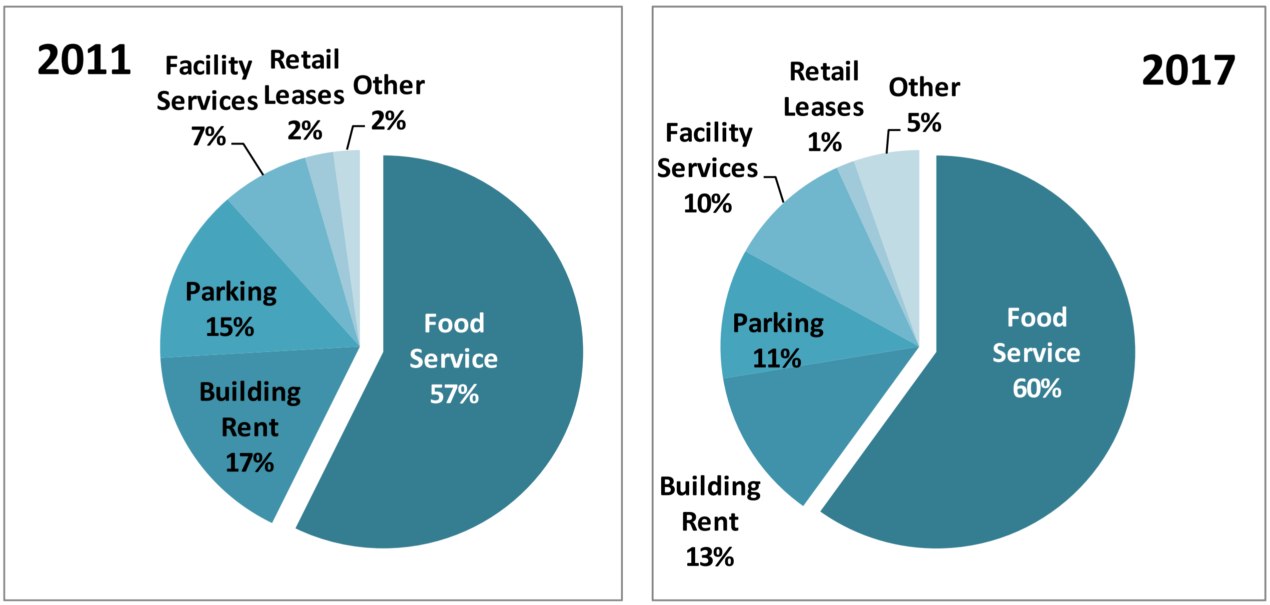
Operations revenues have decreased from 2016 to 2017. The District's largest annual event consolidated with its other events across the country and moved to Las Vegas. This resulted in slightly reduced revenues in Building rent and Food services. Parking, Facility services, Retail leases and Other revenues all exceed 2016 revenues. Related operating expenses increased one percent.

- Excerpted from Miller & Miller, *P. S., Washington State Convention Center Public Facilities District Financial Statements and Independent Auditor's Report for the Years Ended December 31, 2017 and 2016.*

Distribution of Revenues

Sources of revenue are compared for 2011 and 2017 by the following *pie chart* graphs. Food service increasingly represents the **dominant source** of WSCC operating revenue – increasing from 57% of operating revenues in 2011 to 60% in 2017 (and up to as much as 62% in 2016). Reported food service revenues increased by close to $5.85 million from 2011-17, accounting for 68% of the $8.59 million increase in total operating revenues since 2011.[14]

% Distribution of Operating Revenues (2011/17)



Source: WSCC operating statements, re-stated to match 2017 format.[15]

Other sources of revenue which have **increased** – both in the dollar value of revenues and as a share of total revenues – include facility services and other/miscellaneous revenues. Taken together, these other sources have increased from about 9% of WSCC operating revenues in 2011 to 15% as of 2017.

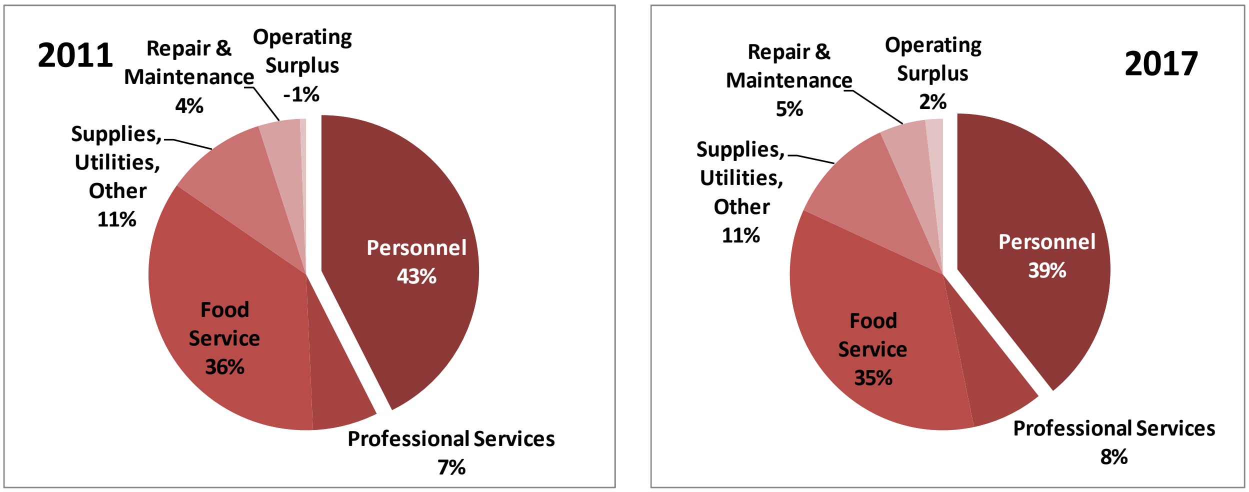
Parking and retail lease revenues have **declined** both in dollar terms and as a proportion of overall operating revenues. Parking revenues have declined from 15% to 11% of operating revenues over this 6-year period. Retail leases have gone from about 2.3% to 1.5% of the revenue total.

Building rents have remained **relatively flat** in dollar terms – albeit declining from 17% to between 12-13% as a share of total operating revenues. In effect, operating revenue strength is increasingly focused on food and facility related services. Taken together, the other sources which are becoming less important have gone from one-third to less than one-quarter of WSCC operating revenues in a 5-6 year period. As noted by WSCC management, the distribution of revenues is predominately driven by event need and type of events utilizing the Center. When there is strong food & beverage revenue, discounts are given on rent for space utilized, thereby often reducing facility rental income even as food & beverage revenues increase.

Distribution of Expenses

As with revenues, the distribution of WSCC operating expenses also has shifted in recent years. As of 2017, personnel (including salaries, wages and employee benefits) represent **the single largest category of expense** – but declining from 43% of operating revenues in 2011 to 39% in 2017.

Distribution of Operating Expenses – as % of Operating Revenues (2011/17)



Note: For purposes of discussion, some expense line items from the financial statement have been combined.[16]

Source: WSCC operating statements, re-stated to match 2017 format.

As the personnel share of expense has declined, food service has become comparatively more prominent – albeit dropping slightly from 36% to 35% of operating revenues over the last seven years. Taken together, personnel and food services accounted for close to three quarters (74%) of operating expense as of 2017.

Supplies/utilities are holding relatively constant while the proportion of operating revenue going to professional services and repair and maintenance has increased somewhat since 2011. WSCC management has noted that the proportion dedicated to repair and maintenance may well be reduced with the Addition – especially in Year +1 after opening as warranties will be in place. This savings is reflected in updated HVS operating projections for the Addition facility.

With the above graphics, operating surplus (or NOI) is shown as the **residual line item** in the distribution of expenses relative to revenues. In 2011, operating revenues represented a net deficit equal to about 1% of facility revenues – with no other operating deficits experienced subsequently except in 2013 with a deficit at 2.2% of operating revenue. The peak year for an operating surplus was 2014 – at 7.2% of operating revenue. The operating margin has declined in each of the three subsequent years to 1.9% of revenues as of 2017.

Expenses have increased across all categories since 2011. Food service has accounted for $2.8 million (or about 36%) of the $7.8 million increase in operating expenditures experienced from 2011-17.

Marketing/Non-Operating Revenues & Expenses

While not as pivotal to the direct operating portion of this Phase 2 feasibility review, non-operating revenues and expenses are of importance to the current and future capacity for additional debt and/or other operating priorities of the WSCC. These non-operating line items include:

Marketing/Non-Operating Revenues:

- Regular Lodging Tax committed to marketing – estimated at $13.9 million in 2017 (based on an allocation equal to 16.67% of applicable lodging tax receipts)
- Regular Lodging tax reserved for capital expense and debt service – of $69.7 million as of 2017 (set equal to the 83.33% balance of total available lodging tax receipts)
- Interest and investment income – $1.3 million
- Build America Bonds (BABs) subsidy – $6.1 million (initially set as an interest subsidy of 35% from the U.S. government, currently set and projected through 2040 at 32.69%)

Marketing/Non-Operating Expenses:

- Marketing expense – totaling $13.1 million in 2017, split approximately 91% to Visit Seattle external destination marketing and 9% for in-house WSCC marketing
- Interest expense (net of BABs subsidy) – $11.6 million (lowest amount from 2011-17)
- Other expenses as for loss on disposal of assets and non-operating interest – $1.3 million

From 2011-17, lodging tax revenues allocated for marketing have increased by 73% with marketing expenses up by 84%. Non-operating expenses have declined by 29% - primarily due to reduced interest expense.

Financial data for 2017 indicates that Regular Lodging Tax collections were up by 8.4% over 2016 – indicative of continuing strong local visitor growth. Visit Seattle marketing expense increased by close to 9%; from 2016-17 WSCC in-house marketing expense increased by nearly 17%. These net changes in expenses for 2017 are directly related to anticipated needs for marketing and selling the new headquarters hotel and WSCC Addition up through opening to stabilized use.

Change in Net Position

Change in the WSCC's net position is defined as operating revenues less expenses (including depreciation) plus (or minus) the net change in marketing together with nonoperating revenues and expenditures. Taken together, WSCC revenues from all sources – operating, marketing and non-operating – have increased by 54% in the six years from 2011-17. By comparison, total WSCC expenses have increased by only 20% – resulting in an increase in net income (or net position) approaching $32 million over this seven-year period.

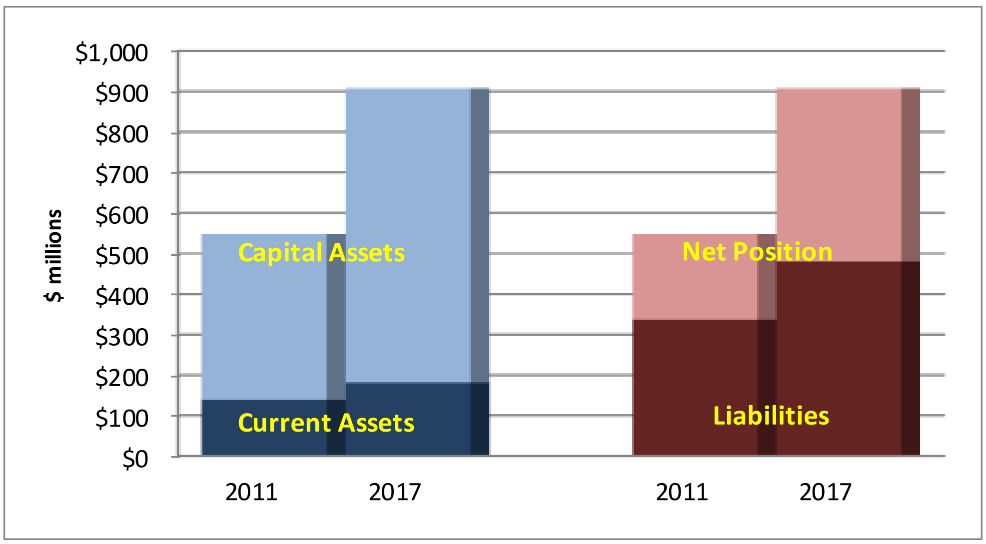
As noted, depreciation and amortization are shown as an operating expense with WSCC's audited financial statements. Because this expense reflects more significantly on capital and balance sheet resources (and with depreciation as a non-cash expense), it has been excluded from WSCC's annual report statement of revenue and expenses (as is the case with this review). As of 2017, depreciation and amortization expenses are estimated at $13.4 million – close to a 39% increase from what was a less than $9.7 million line item in 2011.

Enhancement of WSCC's net position is attributable primarily to increases in Regular Lodging Tax revenue received in recent years. What amounts to effective cash flow may be applied by the WSCC board for a range of purposes – as for allocation to operating reserves and capital funding including repayment of current and future debt. Currently anticipated is that the major use of this growing surplus will be to provide funding support for planned WSCC expansion – notably in the form of cash contributions for the Addition project.

Balance Sheet

WSCC's balance sheet (termed as a statement of net position) for 2011 and 2017 is illustrated by the chart to the right.

WSCC Assets & Liabilities (2011/17)



Source: WSCC, Financial Statements and Independent Auditor's Report

As of 2017, WSCC had **total assets** estimated at $907 million. This includes current and other assets (as with cash equivalents, investments and receivables) at $181 million plus capital assets (including land and buildings less depreciation) estimated at a value of $726 million.

From 2011-17, WSCC's asset value increased by an estimated $359 million (or by 26%), with capital assets representing 88% of the net gain in WSCC asset value. Close to 60% of the gain in asset value occurred in the last year from 2016-17 – in large part from completion of the approved Convention Place Station (CPS) land purchase from King County (at $161 million). Closing on the KC-PSA is expected to occur in 2018 prior to start of the Addition construction.

Construction work in progress in 2017 is shown as adding another $48.2 million in capital asset value. This net increase (consistent with GAAP accrual accounting) includes:

- $42.8 million in architect, contractor, and PSG project management payments
- $18.0 million in payments for affordable housing, capitalized interest and other Addition-related expenditures
- *Offset by* $12.6 million in reduced capital improvements spending and a King County receivable for reimbursement

Liabilities total $480 million as of 2017 – increasing 42% since 2011. Current liabilities (as for payables and the current portion of long-term debt) account for 14% of the total. Non-current liabilities account for the remaining 86%, primarily comprising bonds and notes payable.

In the past year from 2016-17, WSCC liabilities have increased by $159 million – primarily due to added debt related to the purchase of King County's CPS site for the WSCC Addition. This shows up in the form of added bonds and notes payable (as noncurrent liabilities). It also shows up in the current portion of long term debt with $20 million to be paid against the sales prices plus $5 million for affordable housing required at closing (and allocated as part of current liabilities).

The difference between total assets and liabilities equals WSCC **net position** (or equity value), approximating $427 million as of year-end 2017. Net position has increased by $216 million since 2011 – with $52 million (24%) of the gain in net position occurring in the past year from 2016-17.

Improving net cash flow represents the amount by which operating *plus* non-operating revenues have exceeded operating and non-operating expenses in recent years.

The 2017 year-ending estimate of $427 million as WSCC's net position includes:

- An estimated $304 million as the net investment in capital assets (in excess of debt and accumulated depreciation)
- Approximately $15 million in funds restricted for debt service and operating reserve
- Over $108 million as unrestricted funds including capital available to support planned facility expansion or other priorities as consistent with WSCC board direction

The dominant share of the year-over-year improvement in WSCC's net financial position can be attributed to non-operating income that is well in excess of non-operating expense – primarily the non-operating portion of lodging tax revenues. For example, WSCC's net income (from all sources) went from $45.8 million in 2016 to $52.2 million in 2017, a gain of over $6.4 million.

An estimated 84% of this improvement can be attributed to a $5.4 million increase experienced from 2016-17 in the non-operating share of Regular Lodging Tax revenues. The approximately $108 million in unrestricted reserves (including $72 million in cash and cash equivalents) together with continuing increased net income is expected to serve as a primary source for repayment of new debt to be issued for build-out of the WSCC Addition in the years ahead.

WSCC management has indicated that over $46 million was spent on the Addition project in 2017. Despite this expenditure, cash reserves actually increased from about $38 million in 2016 to over $72 million as of year-end 2017. To date, cash flow is described by WSCC management as remaining "positive and strong."[17]

Implications for WSCC Expansion

WSCC operating experience generally has been positive over a multi-year period – including two major facility expansions to date. Since 1999, there have been only three years year when WSCC experienced an operating deficit (FY 2001-02 per the pre-2017 accounting format and 2011 and 2013 with the re-stated accounting format).

The 2001-02 economic downturn corresponded with convention and tourism effects of the 9/11 terrorism attacks with 2011/13 coming in the aftermath of the Great Recession. In both cases, the convention business bounced back, with subsequent years stronger than before.

However, several factors identified from this review of operating revenue and expense indicate potential cause for caution going forward:

- **Strong revenue performance in recent years has been largely driven by rapid gains in food service.** Without these gains, it is unlikely that WSCC could have sustained a pattern of continued positive net operating income. WSCC management expects this trend to continue with the Addition facility, consistent with the current mix of business achieved over the last 10 years.

  Emphasizing food and beverage revenues has been an intentional strategy utilized for bidding on business and marketing to the type of event activity offering this potential benefit stream. However, the effects of this reliance are of particular note with the 2017 loss of a major event leading to a decline in food revenues and associated reduction in net operating income for the year.
- **From 2011-17, revenues from building rent, parking and retail leases have trended flat to declining.** This trend makes WSCC more vulnerable to operating losses if food service income is not sustained. However, the year-to-year change in parking and retail lease revenue changes turned positive in 2017, reversing the longer term trend.

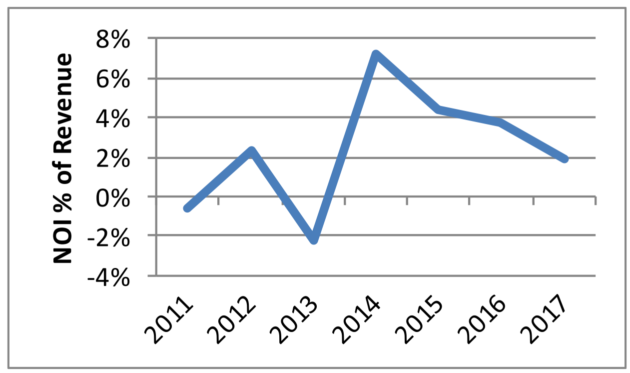
  Per WSCC management and consistent with national convention trends, achieving a turn-around in building rents may prove more challenging – as competitive convention centers often discount rental rates to attract meeting and exhibit events. On the upside, if food and beverage revenues were to experience longer term difficulty, WSCC could be expected to negotiate for higher rental fees to offset the food and beverage loss.

- **While net operating income (NOI) has generally been positive, the year-to year pattern has been somewhat erratic.** With the new accounting framework, NOI peaked at $2.5 million in 2014, dropping to half that amount in 2016 – then declined again in 2017. NOI has averaged only 2.6% of operating revenue – peaking at over 7% in 2014 – but dropping back to 3.7% in 2016 and to 1.9% in 2017.

  WSCC operates with a policy to avoid operating losses but competes in a market setting where competitive facilities may subsidize operations to partially offset expenses. Public subsidy is often justified at competing centers as in San Francisco – in the interest of generating economic benefits including added employment, jobs and spending community-wide. For WSCC, year-to-year volatility in operating margins may prove manageable, provided that the longer term competitive pressure is not toward reduced operating profitability.

- **Thinner margins suggest that the operating model of WSCC going forward may be more vulnerable.** If recent experience is not stabilized or reversed, the result could be reduced cushion to absorb one-time shocks or longer term adverse trends in expenses and/or revenues for the post-Addition years ahead.

  WSCC Net Operating Income as % of Revenue (2011-17)

  Source: WSCC and annual financial statements.

  While percentage gains in operating revenues have slightly outpaced expense increases since 2011 with current management, the longer-term history going back to 2001 indicates an underlying trend of expenses outrunning income by 0.34% points per year. While relatively minor on a year-to-year basis, this underlying disparity may serve to undermine operating sustainability over a long-term horizon – potentially to 2030 and then beyond to debt repayment.

WSCC management notes that thin operating margins can be expected as a continuing challenge of the competitive environment in which the facility operates. Close monitoring of operations has been part of the management process annually in the determination of annual budgets and marketing needs – as well as assessing options for curtailing expenditures if needed at the direction of the WSCC Board.

While continued operating profitability remains a pivotal WSCC objective, this feasibility review considers the potential implications of alternative future outcomes – especially with respect to the relationship between operating performance and debt service capacity. The potential implications of these factors are considered on a combined basis with forward looking operating scenarios for WSCC expansion – as now follow.

Operating Scenarios with WSCC Expansion

The scope of work for this independent feasibility review calls for operating projections that will reflect a baseline scenario consistent with existing WSCC PFD-provided projections. Also covered are stress test scenarios based on review of operating trends and projections together with results of comparables research for similar facility expansions in the western U.S.

Base Case Scenario

The base case scenario is predicated on a *Financial Operations Analysis* as initially prepared for WSCC by HVS Convention, Sports & Entertainment Facilities Consulting, in November 2015, subsequently updated as of April 25, 2018. The stated purpose of the HVS initial study and update has been "to assess WSCC addition plans and provide projections of demand and financial operations."

HVS Analysis Approach. In conducting its 2015 and updated 2018 assessments, HVS took steps including review of design concept plans together with analysis of historical WSCC attendance and financial data as well as review of comparable facilities performance. This data has been utilized by HVS to prepare 10-year attendance and financial projections reflecting implementation of the WSCC Addition.

Reporting of income and expense has been organized by HVS using a proprietary accounting format that is now more similar to but not the same as the new 2017 WSCC accounting format. Averaged across the 2011-17 time period, WSCC revenues are approximately 99% of HVS estimated revenues and almost 100% of expenses (albeit with greater variation noted for 2017). While the HVS line item categorization differs from that of WSCC, overall revenue/expenditure observations can be considered as often nearly the same whether reported in the HVS or WSCC format, albeit with some variances noted.

Key assumptions and conclusions noted with the 2018 HVS update are summarized as follows:

Methodology & Assumptions:

- 2017 is used by HVS as a base year from which attendance and financial projections are made, assuming that the Addition facility opens in the third quarter of 2021.
- Initial phase-in of operations and marketing is expected to result in stabilized demand by the fourth year of opening the WSCC addition (or by about 2024).
- As there is no standardized set of accounting principles for the U.S. convention center industry, historical income and expense data as provided by WSCC have been restated by HVS into categories used by the firm for comparable analyses conducted nationwide (though overall revenue / expenditure totals generally reflect WSCC results).
- HVS forecasts operating income and expense separately for the existing facility and proposed Addition; to this is added undistributed non-event revenue and expenses allocated to both the existing and planned facility locations on a combined basis.

- Pre-opening start-up costs of $1.844 million are allocated to the 2021 opening year – less than the $2.224 million figure previously estimated by HVS in 2015.
- As in 2015, inflation with this HVS update has been forecast at a rate of 2.5% per year for both revenues and expenses. While HVS projections do not explicitly factor in City of Seattle minimum wage provisions, this adjustment is not expected to have a major impact as WSCC wages are already over $15 per hour for most employees.[18]
- WSCC management notes that HVS has made an explicit early year downward adjustment for repair and maintenance expense as might be associated with a new facility (including initial year warranty provisions).
- HVS excluded the portion of operating income identified as lodging tax for marketing from its income analysis and excluded the external portion of marketing services (by Visit Seattle) from its expense analysis – as an accounting methodology that now aligns more closely with WSCC's 2017 revamped format. However, WSCC's accounting now also removed in-house marketing, which makes WSCC estimates of operating expenses (and revenues) somewhat less than is estimated by HVS – especially in 2017 with initial ramp-up in preparation for advance marketing of the Addition facility.

Observations:

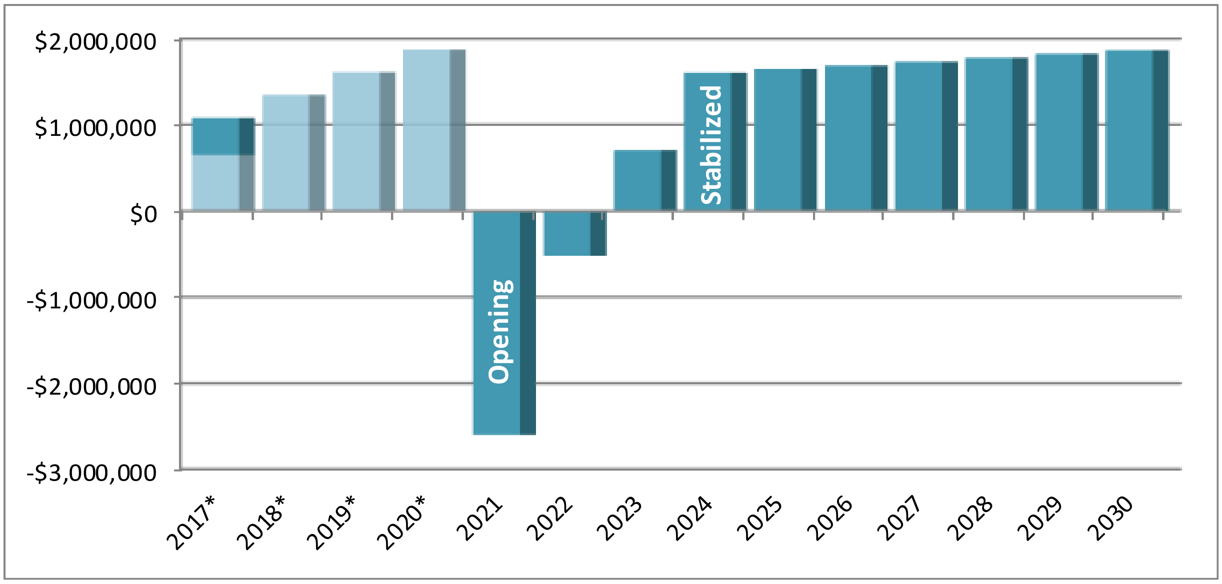
- Expanded facilities have been forecast by HVS to result in a 70% stabilized year increase in the number of events and a 61% increase in attendance as compared with historic facility utilization.
- Revenues and expenses both increase at rates that allow WSCC to generate positive net income through 2031 – except with the opening year and the second year of operation for which operating losses are forecast.
- The HVS report concludes that facility expansion will generate added demand for WSCC:

> The proposed WSCC addition should allow the facility to accommodate a variety of new events, including those which could not book the venue due to scheduling conflicts and larger events that require more function space than currently offered by the WSCC. The addition should allow the venue to expand its existing client base, accommodate other regional and local groups, and attract a greater share of national and international conventions and conferences.

HVS Base Case Forecast. This independent feasibility review reports results of the base case (and stress test) projections as re-formatted to exclude the lodging tax allocations and marketing expense as consistent with current WSCC audited financial reporting. What is most pivotal for this operating review is the effect of the expansion project on net operating income.

Net operating income as forecast with the updated 2018 HVS analysis is depicted by the chart on the next page. HVS estimates assume that the Addition opens the 3rd quarter of 2021 and that stabilized operations are achieved as of 2024 – with 2.5% per year inflationary increases in revenues and expenses thereafter. Estimates cover both the existing facility and Addition on a combined basis. Year-by-year revenue/expense projections are provided with Appendix G.

WSCC Base Case - Net Operating Income Scenario (2017-30)



* Note: 2017 results (shown in lighter shading) reflect net income of close to $650,000 as reported in the WSCC accounting framework. After adjustments including added allocation for in-house marketing, HVS adjusts the 2017 net income figure up to approximately $1.1 million – albeit with no similar adjustments in 2015-16. HVS forecasts cover the 2021 period (from opening) to 2030.
The intervening 2018-20 period is estimated by E. D. Hovee based on the HVS premise of trending from prior year results – and provides comparability of analysis with the subsequent stress test scenario.

Source: HVS 2018 and E. D. Hovee.

With this base case scenario, HVS forecasts an operating loss of $2.6 million in the 2021 opening year. This result includes an HVS estimated $1.844 million in pre-opening expense. Pre-opening costs are associated with staffing, utilities, building maintenance, and other general administrative costs. HVS has estimated that these costs amount to one-quarter of annual fixed costs for these services in preparation for opening – allocated as of the 2021 opening year.

The next full year of operations post opening (2022) is associated with a projected deficit of less than $525,000. Thereafter, HVS projects that combined operations from the existing and new facilities return to a position of operating profitability. By 2024 (with stabilized operations), net income is estimated at a positive $1.6 million annual level. Subsequent year results are then driven by inflating revenues and expenses at a constant 2.5% per year.

An initial 2-year combined operating deficit of $3.1 million is more than offset by ensuing revenue increases. From 2021-30, cumulative net income surplus is estimated at $9.7 million.

This base case projection recognizes that year-to-year results may vary from projections that show smooth growth over time. Local and national economic conditions can affect convention business in unpredictable ways and event demand is often cyclical. HVS recommends "interpreting the financial projections as a mid-point of a range of possible outcomes and over a multi-year period rather than relying on projections for any one specific year."

Stress Test Scenarios

Alternative stress test scenarios are based on historical WSCC operating trends and projections together with results of research for comparable facility expansions. Stress testing provides alternative results that might reasonably be expected if this expansion proved to perform similarly to other reasonably comparable West Coast facility expansions – including a previous WSCC exhibit space expansion.

An objective of this feasibility review is to consider the financial capacity of WSCC to withstand operating conditions that could be viewed as adverse but within the range of reasonableness based on the expansion experience of the comparables considered. Of particular importance is the need to assure that even in the event of adverse conditions, capacity for continued operations and full payment of bonded indebtedness is not impaired.

Comparables Research. As detailed by Appendix D to this report, the pre- and post-expansion experience of several western U.S. comparables has been reviewed in terms of operating income, expenses and attendance for the following facilities:

- WSCC Expansions – 2001 doubling of exhibit space and new conference center in 2010
- Spokane Convention Center (SCC) – 2006 exhibit hall expansion
- Oregon Convention Center (OCC) – 2003 exhibit hall expansion in Portland
- Vancouver Convention Centre (VCC) – 2009 West Building completion
- Colorado Convention Center (CCC) – 2004 expansion of the Denver center
- San Francisco Moscone Center (Moscone) – 2003 Moscone West facility completion
- Phoenix Convention Center – with recent expansions in 2006 and 2009

From this review, the first WSCC expansion together with facility investments in Spokane, Portland, and Denver were selected as the comparables most pertinent to what is planned with the WSCC Addition. While not comparable in terms of recent WSCC experience, San Francisco's experience is also instructive as a facility for which generating business and maintaining market share appears to be viewed as a greater priority than limiting operating subsidies. As further described below, these alternative sets of 4-5 facility comparables frame a stress test review focused on experience-based changes in operating revenues pre- and post-expansion.

The 2nd WSCC expansion of 2010 is less directly comparable because it was focused on conferencing capability rather than exhibit space. The VCC expansion of 2009 has proven challenging to interpret due to project completion in conjunction with the 2010 Winter Olympics and accounting anomalies together with strong post-expansion financial performance (unlike the other comparables evaluated). Phoenix is excluded due to lack of complete information and because two facility improvements occurred too close in time to clearly separate and distinguish the effects of each expansion.

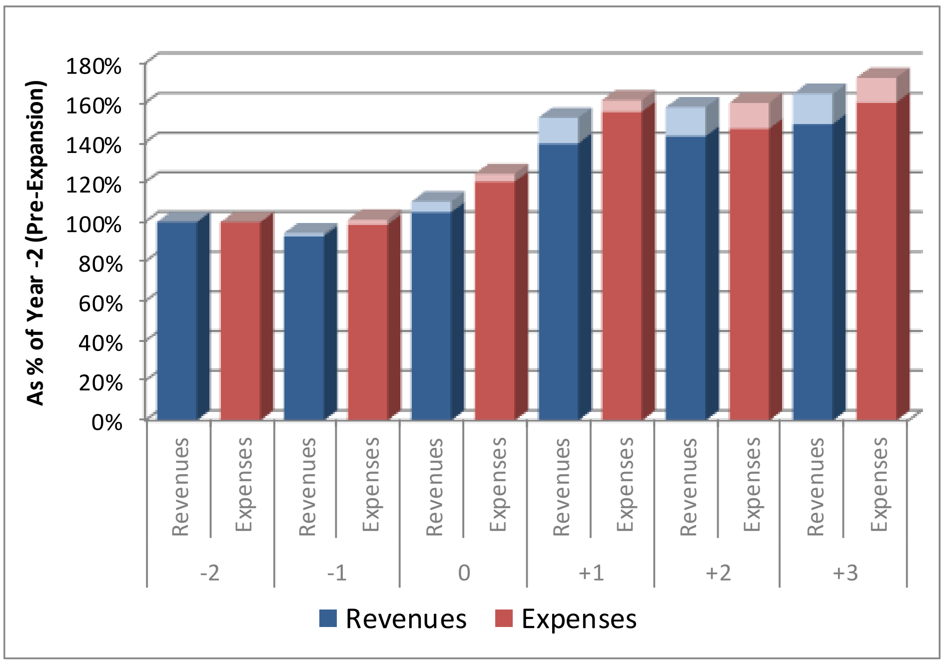
Year-to year changes in revenue pre- and post-expansion for the selected comparable expansions are averaged as depicted by the graph on the following page:

- The revenue versus expense experience of the selected facilities is averaged over a 6-year period extending from Year -2 (two years before expansion opening) to Year 0 (as the year of opening) to Year +3 (three years after expansion).
- To standardize the comparison, all years are compared to the experience of Year -2 (as the 100% base). For example, a year +3 revenue indicator of 150% would mean that facility revenues as of three years post-expansion averaged 150% the amount of revenues experienced two years prior to expansion (i.e., a 50% increase).
- Recognizing the somewhat different project objectives with expansion of San Francisco's Moscone Center, the averaged experience of WSCC (first expansion), the Spokane Convention Center, Oregon Convention Center, and Colorado Convention Center is indicated by the *darker* shaded portions of the bars in the graph below. The effects of adding San Francisco's Moscone Center are indicated by the added *lighter* shading at the top of each bar (increasing the averages for both added revenues and expenses).

With four core facilities, average revenues at Year +3 post-expansion were 65% greater than experienced two years pre-expansion. Average expenses increased by 73% over this same time period. The 6- year increase in facility expenses outpaced revenues by 8% points.

When San Francisco is included, the averages are adjusted to a 49% increase in revenues versus 60% increase in expenses – with expense growth exceeding revenues by 11% points.

Selected Comparables Average Experience (Year-Year Change Pre-/Post- Expansion, Year -2 = 100%)



Note: Selected centers are WSCC (2001), OCC, VCC, and Denver (darker shading). Light shading above indicates the effect of including San Francisco's Moscone Center as part of facility averaging.

Source: Compiled by E. D. Hovee. See Appendix D for added detail.

While the year-by-year timing of impacts vary somewhat by facilities, these averages are comparable to the overall 6-year experience of the prior 2001 WSCC exhibit hall expansion.

Consistent with HVS forecasting, the typical experience for the selected comparables appears to be that expenses move up sharply in the first-year post-expansion. Revenues often build more gradually, peaking by about Year +3 (as representing stabilized operations).

Over the course of the full six years (from Year -2 to Year +3), expenses for these facilities have tended to increase by more than revenues.[19] If not abated in subsequent (post-stabilization) years, the net result may be reduced net operating income or increased need for on-going operating subsidy.

Experience varies by facility. While the greatest revenue gains are noted as of Year +3 for WSCC (2001) as well as San Francisco and Denver, the strongest revenue gains were realized in the first year after expansion for Spokane and the second year after for Portland. Expense growth peaked the first year after expansion for Spokane and San Francisco, the second year for Portland, and the third year for WSCC (2001) and Denver. For all comparables considered (except Portland), the increase in expenses was greater than the gain in revenue over the six-year period evaluated (although Portland continued to experience operating deficits).

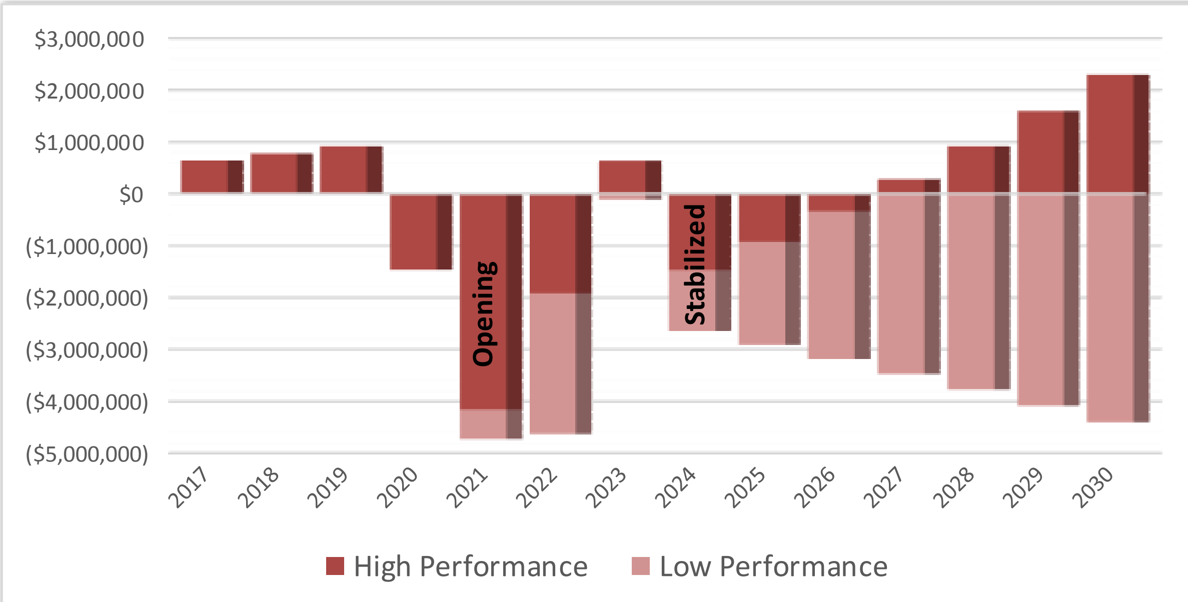
Stress Test Application. With this feasibility report, the experience of these comparables are applied as the basis for stress test scenario testing for planned WSCC expansion. Key steps taken with this stress test application are essentially two-fold:

- The overall 2017-30 forecast period for WSCC is separated into three time segments – starting with 2017 WSCC audited income/expense results extrapolated based on 2011-17 trends forward to **2017-19**, the period of **2020-24** (Year -2 to Year +3) when the results of the comparables experience are applied to the combined WSCC facility, and from **2025-30** subsequent to initial stabilized operations with application of the HVS 2.5% inflation factor adjusted for the actual realized differential in WSCC experience of revenue versus expense growth.
- From 2021 (the year of opening) to 2030, the stress test is further separated into two sub-scenarios – termed as high performance versus low performance. A **high performance** scenario is based on the four comparables of WSCC's 1st expansion, SCC, OCC, and CCC and further assumes that the trend of 2011-16 where WSCC revenues outpaced expenses – with a 0.94% per year average spread to the positive – applies post stabilization from 2025-30.[20]

  In contrast, a **low performance** scenario adds in the experience of San Francisco's Moscone Center and also assumes that the WSCC longer-term 2001-15 history where expenses exceeded revenues by an annual average 0.34% spread to the negative is again asserted post-stabilization with expanded WSCC facilities.[21]

Results of this stress test and associated scenarios are provided in a format similar to the base case scenario – as depicted by the graph on the following page. As with the base case, the year of opening is associated with a substantial operating deficit – as much as $4.2-$4.7 million if the experience of comparables is replicated with the WSCC planned addition. This is greater than the HVS base case projected opening year operating deficit of $2.6 million.

WSCC Stress Test - Net Operating Income Scenarios (2017-30)



Notes: Data for 2017 reflects audited actual results. 2017-19 conditions reflect an extrapolation consistent with revenue/expense of 2011-16 WSCC experience. 2019 (Year -2) to 2021 (opening) to 2024 (Year +3) results are based on comparables experience – involving expansion of four facilities (with high performance) to five facilities (with low performance). Year 2025 to 2029 outcomes are consistent with the HVS assumption of an overall 2.5% per year inflation rate but adjusted to reflect either recent WSCC experience from 2011-16 (high performance with revenues outpacing expenses) or the longer term experience of 2001-15 (poor performance with expenses increasing more rapidly than revenues).

Sources: E. D. Hovee based on review of WSCC operating experience and selected comparables review.

Unlike the base case, the switch to a deficit position begins earlier in these scenarios, potentially by the year prior to opening. The risk of a pre-opening deficit is greater if the level of construction disruption proves unacceptable for some previously or potentially booked events.

The year-to-year pattern of net operating income to stabilization by about 2024 may also be more uneven. The experience of comparables suggests that considerable deficits may be experienced for the year of opening and the subsequent year, followed by some correction with expenditure reduction prior to stabilization. While the timing may vary depending on circumstances unique to each comparable, some unevenness can be expected in the start-up years as operations adapt to the requirements and market appeal of the expanded facility.

What happens next is projected to follow the longer-term trend of revenues versus expenses. If WSCC is able to effectively replicate the operating experience of 2011-16 – where revenue growth outpaced expense increases by close to one percentage point per year, the operating deficit quickly gets whittled back – from a $1.5 million shortfall in 2024 to break-even by 2026-27. More active management response aimed toward increased utilization or tighter expense management might lead to a more rapid reduction in the deficit – as consistent with WSCC board policy to operate at net break-even or better.

Post-stabilization, the financial path that the expanded facility follows will be tied to the longer-term pattern of revenue versus expenditure growth. In a **high performance** scenario as revenue growth outpaces expenditures (as experienced by WSCC from 2011-16), a combined facility may bounce back to as much as a $2.3 million operating surplus by 2030.

Conversely, a *worst-case* **low performance** scenario potentially emerges if long-term revenue gains underperform expense increases – as appears to have been the overall historical WSCC experience from 2001-15. Extrapolating this trend forward would result in an ever-widening deficit – potentially reaching an annualized shortfall approaching $4.4 million by 2030.

From opening in 2021 to 2030, the cumulative 10-year deficit could range from as little as $3.1 million with a high performance scenario to a cumulative deficit approaching $34 million with a low performance scenario. The high performance outcome could result in a cumulative net operating surplus by about 2032 with interim deficits likely addressed from existing WSCC resources. A low performance scenario with on-going deficits would pose a more substantial challenge, particularly if the operating deficits were to persist beyond the 2030 forecast period.

SUMMARY NOTES

To summarize, this operating trend and forecast review has identified and quantified effects of alternative scenarios in terms of potential operating outcomes with planned WSCC expansion:

- A **base case scenario** reflecting HVS projections for WSCC – indicating that WSCC could experience a combined deficit of $3.1 million the first two years of operation – followed by return to operating profitability thereafter.
- A **stress test scenario** consistent with WSCC's operating experience outcomes of comparable expansions in Seattle (2001), Spokane, Portland, Denver and (possibly) San Francisco suggests that the initial deficit could be deeper and longer lasting than projected with the base case scenario. Under a **high performance** version of the stress test, WSCC would experience operating deficits over about a 6-7 year period starting the year before opening with a cumulative $9.6 million deficit realized before returning to sustained profitability by about 2027. With a **low performance** outcome, WSCC could face an annual operating deficit reaching as much as $4.4 million by 2030 – with an even larger cumulative deficit approaching $34 million over the full 2021-30 time period.

As described by Appendix D, the track record of convention center pro forma projections has often been less than stellar – with revenue growth not meeting projections and expenses ahead of forecast. Added caution is noted due to the long-term trend of WSCC expense increases tending to outpace revenues. This is offset by a strong WSCC record in recent years whereby revenue growth has exceeded expense gains – albeit with year-to-year fluctuations.

Three inter-related risk factors are identified with this feasibility review – unbalanced revenue mix, operating expense growth exceeding revenue gains, and potential transition from a position of operating surplus to deficit. There are reasonable options for identifying, addressing and mitigating adverse operating impacts – as outlined in the next section of this report.

VI. RISK FACTORS & MITIGATION

Based on the foregoing review, this report identifies and reviews risk factors that could affect WSCC build-out and operating feasibility including:

- **Capital cost risks** – as the potential for construction delay/cost overruns and uncertainty regarding non-debt related funding during construction
- **Financing & debt repayment risks** – related to adequacy of projected lodging tax revenues and capital market risks
- **Operating budget risks** – potentially including short-term operating loss, unbalanced revenue mix, and potential long-term transition from operating surplus to deficit
- **Institutional risks** – for KC-PSA closing and capacity to fulfill priority WSCC obligations

Each of these overall risk factors is described, in turn. Potential options for risk mitigation are identified for each risk factor considered.

CAPITAL COST RISKS

As noted, key components of risk that could affect project capital cost are site acquisition finalization, construction delay/cost overruns and receipt of non-debt related funding during construction.

Construction Delay / Cost Overruns

Any construction project runs the risk of delay and/or cost overruns – whether for reasons due to project oversight or to unforeseen factors beyond the control of project management and contractors. These unforeseen factors could range widely, covering such items as final costs anticipated with provisions of the KC-PSA, unforeseen site conditions, short supplies or increased prices for required construction materials, other conditions requiring change orders, and correction of post-construction defects.

These risks may be magnified for the WSCC Addition due to the complexity of the project including permitting, staging of construction across street rights-of-way and assuring a smooth transition from previous transit usage of the site. However, these risks now appear to be more effectively mitigated with the TJUA agreement finalized in February 2018, to ensure continuity of Metro bus operations and access to the transit tunnel until the DSTT termination date.

Two specific remaining risks are noted that could have the effect of creating project delay:

- Appeal of the Master Use Permit (MUP) which could delay the project for up to six months – affecting site mobilization and early site work
- Challenges with providing continued bus service and access that could yet have the effect of delaying DSTT closure – although project work-arounds have been considered in the event that closure is delayed [22]

Either of these delays likely would have associated project cost impacts. While WSCC will be reimbursed for 80% of DSTT access costs, WSCC will be responsible for 20% plus any amounts over a maximum King County reimbursement of $4 million. With completion of the TJUA, layover payments are now to be fully reimbursed by King County up to $5.5 million – with any overages a WSCC responsibility but potentially open for further discussion with King County. The potential for TPSS and communications room cost overruns are less of an issue for WSCC as 100% of cost is to be reimbursed by King County.

The Addition construction budget includes provisions for change orders and other contingencies equating to about $86.5 million (or 5.0% of the WSCC Addition project budget). If contingency allocations prove inadequate, WSCC would need to look to other sources to cover any remaining funding gap.

Mitigation Options. Based on its GC/CM contract with Clark/Lewis as general contractor, the WSCC has negotiated a fixed price or maximum allowable construction contract (MACC). At present, approximately 30% of the MACC is fixed and 70% is expected to be fixed at the start of construction.

Post-construction defects are to be covered under the WSCC owner-controlled insurance policy. However, this is not expected to fully address costs that may associated with project delays or unforeseen conditions beyond the control of the GC/CM contractor.

In the event of construction-related cost increases that are outside the current responsibility of the contractor, measures that might considered include:

- Early closing of the KC-PSA and/or added provisions, if needed, to more fully lock in WSCC cost and responsibility caps – particularly for items related to transit operations including DSTT interim access and bus layover
- Utilization of unrestricted WSCC reserve funds, to the extent available, for cash contributions to cover construction cost funding shortfalls
- Negotiating for delays or extended payment on project costs that might be deferred without impeding construction – as for scheduled payments to public agency project partners (primarily King County) and/or project development fees – pending future receipt of supplemental post-construction funding to cover deferred payments and accrued interest
- Short-term borrowing pending finalization of long-term bond financing (planned for 2020) – as with bond anticipation notes

Receipt of Non-Debt/Non-WSCC Related Construction Funding

The month-by-month construction budget includes $86.7 million to be received from sources other than bond proceeds, associated interest, and WSCC cash contributions. Of the $86.7 million, $81.7 million – including nearly $42 million from King County and related agency reimbursements plus $39.7 million from the sale of development rights – has been noted for receipt by an estimated date of September 2018 – now more likely the end of this calendar year. This $81.7 million in 2018 reimbursements equates to 16% of the more than $525 million in project related costs planned with 2018 expenditures.

Assuming that King County and related agency reimbursements occur on schedule, this leaves $39.7 million in anticipated revenue from the sale of development rights that may be more at risk for reasons that could include: a) not securing a buyer by year-end 2018; and/or b) obtaining a purchase commitment for development rights (air rights) at a monetary value below the figure estimated. However, the development rights figure budgeted is viewed by WSCC as relatively conservative, meaning that a transaction at or above the budgeted value should be possible given adequate time and exposure to prospective purchasers.

If the sale of development rights is delayed, near-term cash flow for the Addition project should not be unduly jeopardized due to availability of anticipated proceeds from Series 2018 bond issuance. Longer term, this could become problematic if a purchase transaction is not completed by a 2021 time frame as construction nears completion and/or if Series 2020 bonding were to be delayed due to deteriorating economic conditions.

Mitigation Options. Measures that might be considered to address possible reimbursement risks are similar to those noted with construction delay and cost overruns, including:

- Final *lock in* of the KC reimbursement schedule as part of the KC-PSA – especially reimbursements planned for 2018 – much of which has now been addressed with TJUA finalization in early 2018
- Access to available WSCC cash reserves or other interim funding sources, if needed to offset delays or reductions in proceeds from sale of development rights (especially if accompanied by delays that require finalization of long-term financing to be extended beyond 2020)

FINANCING & DEBT REPAYMENT RISK

Risk factors that could affect project and debt repayment include lodging tax revenues that prove inadequate to support debt service and coverage requirements, capital market risks, and WSCC backstop capacity.

Adequacy of Lodging Tax Revenues to Support Debt

As described in Section IV of this feasibility report, the historical additional bonds test (ABT) used to define bonding capacity indicates that, barring unforeseen circumstances, there should be adequate capacity to issue $1.045 billion in bonded indebtedness for the WSCC Addition as anticipated for July 2018. This conclusion assumes that interest rates materialize substantially as forecast by PFM in the November-December 2017 time period.

Since actual lodging tax receipts are now largely available for a 12-month trailing receipts test extending into 2018, the ABT calculation likely can be configured to exceed prior PFM projections. Even a sharp and sudden downturn in lodging tax receipts immediately preceding the mid-2018 planned bond issuance should not jeopardize planned bonding capacity. An adverse outcome for the Series 2018 senior and subordinate bonded debt issues seems highly unlikely.

Greater uncertainty is associated with the $168 million of bonded debt planned for issuance in 2020. If lodging tax revenues increase as currently forecast by PFM (averaging 5% annual gains), then the planned 2020 issuance of remaining long-term debt should materialize as planned. However, the net surplus margin demonstrating WSCC capacity to fund all debt and other planned obligations is relatively narrow at 3-8% of total lodging tax revenues through to 2025.

If an extreme but plausible stress test involving a major economic contraction were to play out with up to an approximate 20% decline in 2019-20 revenues, full funding of the remaining indebtedness could fall short of meeting new ABT tests based on 12-month revenues preceding the fall 2020 bond issue – although outcomes would be affected by the precise timing of the decline in the 24 months prior to Series 2020 bond issuance. One result could be to delay a supplemental bond issue by 3-4 years to 2023-24. Assuming interim financing at an annual cost similar to what might be expected with Series 2020 permanent financing, debt service on existing and planned debt likely could be maintained largely as currently planned.

With a major economic downturn, Regular Lodging Tax revenues likely would not prove adequate to also fully cover other non-bond existing and planned uses of the Regular Lodging Tax – including full payments toward the King County subordinate note, WSCC reserve deposits, entitlements and lease payments, and marketing transfer. Choices would be required for alternative funding or curtailment of payments made toward one or more of these lower priority obligations.

Under these hypothetical stress test conditions, only $47.4 million out of a total of $123.4 million in obligations from lodging tax revenues (excluding bonded debt) could be funded over a five-year deficit period. Approximately $76 million could remain unfunded – a figure averaging over $15 million per year for five years. In effect, there could either be a 62%/5-year funding shortfall for these non-bond payments, or this amount would need to be offset from other sources to maintain full funding for the non-bond uses of Regular Lodging Tax revenues.

Even with a shorter, less severe recession as with the 2001 dot-com bust, lodging revenues could fall by 10-12% in a single year, exceeding the current planned 3-8% excess capacity of current lodging tax revenues versus uses to about 2025. While less extreme than a 20% Great Recession scenario, a 10% revenue drop likely would result in at least a temporary shortfall in the ability to fully cover all lower priority payments, unless offset by available reserves.

Mitigation Options. A range of measures might be considered if lodging tax revenues shrink or do not grow between the time of the initial 2018 bond placement and currently planned 2020 supplemental issue. Implementation of these options would vary depending on WSCC board policy and interagency discussions. Options to handle a near term 2020 shortfall in needed capital might be to:

- **Delay the supplemental bond issue 3-4 years** until lodging tax revenues have recovered to a level adequate to finish out long-term debt financing of the WSCC Addition, fund the $168 million 2020 capital need for project completion by issuing short term debt, or provide for an interim facility such as bond anticipation notes with interest and principal or perhaps interest-only payments in the interim. With a stress test condition as experienced with the Great Recession, this approach might need to be accompanied by as much as a 60-65% reduction in non-bond uses of lodging tax revenues, by some combination of measures such as:
  - ✓ Prioritizing payments per the payment priorities with the 2010 bond resolution or as amended, likely resulting in reductions to marketing transfer and operating or capital reserve deposit payments (which may run the risk of violating bond covenants and/or other existing commitments – whether explicit or implied)
  - ✓ Funding at least a portion of these deficiencies (totaling up to $76 million over about 5 years) to the extent that WSCC reserves are available
  - ✓ Arriving at some alternate method of non-bonded debt priority payment scheduling as with payment deferral or bridge loan from King County or other project partners
  - ✓ Agreement to reduce tax rebates of the Additional Lodging Tax to the state on an interim basis and with subsequent repayment with interest – as needed to offset temporary funding deficiencies with non-bond uses of Regular Lodging Tax revenues not covered by other sources (per availability of rebate funding through 2029)
  - ✓ Application of the now approved Extended Lodging Tax for lodging properties of less than 60 rooms including short term rentals – as now authorized – although the WSCC allocation cannot be expected to serve as a significant offset in the event of a major funding shortfall
- **Avoid the risk of inadequate 2020 capacity by pre-funding** the remaining $168+/- million of planned Series 2020 bonding as part of the 2018 initial bond issue. Added funding capacity would need to come from one or more supplemental funding sources as with:
  - ✓ Inclusion of Extended Lodging Tax funding to increase debt capacity (though the absence of a demonstrated revenue track record could preclude ABT as the applicable test of added debt capacity – at least near-term)
  - ✓ WSCC capital reserves, to the extent not previously committed
  - ✓ Supplemental subordinate debt by King County or other public agency partners (including deferred interest)
  - ✓ Temporarily deferring tax rebates of Additional Lodging Tax revenues to the State of Washington for an interim period pending ABT capacity to complete remaining project financing including repayment of state of Washington obligations (as provided by RCW 36.100.040)

Capital Market Risks

Capital market risks relate to the willingness of bond buyers to purchase the Series 2018 and then the Series 2020 placements in the amounts and at the interest rates currently projected. The most significant of these risks is associated with the possibility that long-term interest rates rise above what has been projected by PFM in what has been a relatively stable interest rate environment. While short-term rates have risen in recent months, the yield curve has flattened with long-term municipal bond rates as planned for WSCC remaining more stable to date.

Current pricing assumes bond yields of 3.65%/3.78% for senior/subordinated debt in 2018 and at rates of 4.05%/4.25% in 2020. This reflects the WSCC's bond ratings of Aa3 with Moody's and A+ with Standard and Poor's – as noted with 2017 audited financial statements.

Higher interest rates would have the effect of reducing borrowing capacity for a given amount of historically proven lodging tax revenues. The risk of unforeseeable rate and associated economic changes is greater for the Series 2020 than for the Series 2018 issue – with associated potential for interest rates reaching above current projections by 2020.

With the Federal Reserve indicating more upward pressure on rates to dampen the risk of inflation, rates over the next two years could increase more rapidly and higher than previously anticipated. Upward pressure on long-term rates could become more apparent if bond investors begin to view increasing inflation as a long-term as well as short-term probability.

Mitigation Options. Appropriate measures to take in the event of increasing interest rates or unforeseen bond marketability issues will depend on the timing and extent of rate changes at the time of planned bond offering and issuance:

- If rates were to increase appreciably by the time of a now anticipated July Series 2018 bond issue, possible responses could be to reduce the size of the 2018 issue (with resulting added need in 2020) or provide additional credit enhancement (as with direct addition of the state Additional Lodging Tax rebate to the Regular Lodging Tax to facilitate higher ABT capacity to 2029).
- If 2018 rates prove manageable as expected but then increase more than expected in 2020, options could include interim financing as with bond anticipation notes or delaying the 2020 issue pending a final supplemental issue when best supported by further lodging tax revenue gains over a more extended 2021-25 timeframe. WSCC may also consider purchasing an interest rate cap to mitigate interest rate risk on the planned 2020 bond issue.

Operating Budget Risks

Based on the operating trends and forecast review with this report, three inter-related operating risk factors are identified together with associated options for mitigation. These risk factors relate to the potential for short-term operating losses, unbalanced revenue mix, and longer-term transition from a position of operating surplus to deficit.

Short-Term Operating Loss

A short-term operating loss extending for two to five years should be viewed as a reasonably possible outcome during the time period centered around opening of the expanded WSCC facility. With the HVS **base case** scenario, a 2-year operating deficit reaching a cumulative total of $3.1 million is projected.

Based on the experience of comparable western U.S. convention facility expansions reviewed for this report, a longer **stress test** period of up to five years of short-term operating losses also should be viewed as a distinct possibility. Based on this review, the pivotal immediate years for contingency planning to provide financial reserve capacity appear to begin the year before opening (Year -1) extending through to what is typically viewed as stabilized utilization (Year +3) by 2024. If the average experience of the comparables were to be borne out, the cumulative 5-year net deficit of the expanded facility to cover could reach to between $8.4 million (with a high performance scenario) to as much as $13.6 million (with a low performance scenario).

Based on a 2015 HVS recommendation coupled with management direction, the capital budget for the Addition includes a $2.2 million project start-up cost allocation. Another $2.0 million is identified in the capital budget for net carry (of operating losses) to break-even.

The PFM calculated required operating reserve is estimated at $9.2 million for 2017 – increasing with the base case to $15.1 million by 2021 (opening year). If combined, these resources total an estimated reserve capacity of $13.4 million using what is already allocated – increasing to a total $19.3 million capacity by opening year (if fully funded and not utilized for operating shortfalls prior to opening). If drawn down as needed, these allocations would appear to be more than adequate to cover even the stress test low performance scenario's cumulative deficit of $13.6 million through to at least a 2024 stabilized utilization year.

Mitigation Options. Based on existing operating reserve and capital budget allocations, WSCC should be well positioned to address start-up costs and short-term operating losses at least through the period of project stabilization (2024). Whether and to what extent further action is warranted post-2024 will depend on whether WSCC facilities subsequently experience revenue gains outpacing expenses, moving back toward the WSCC board's policy of sustained break-even operations.

Beyond break-even, a longer-term option would be to consider a *better than break-even* return policy target of operating profitability (or NOI as a % of total revenues). This would provide added cushion in the event of future cyclical shortfalls or other unforeseen adverse revenue/expense events.

Unbalanced Revenue Mix

As quantified with the operating trends review in this report, WSCC has become increasingly dependent on food and other facility related services in recent years. These sources have increased from 66% of operating revenues in 2011 to 75% as of 2017. Other sources of operating revenue – building rent, parking and retail leases – have correspondingly declined as a proportion of total revenue (albeit with parking and retail leases showing some signs of turn-around in 2017):

- **Food service** revenues are influenced by the mix of WSCC business – with multi-day conferences and local banquet events tending to generate the most revenue. Food service revenues can show considerable year-to-year variability with up-years followed by declines. Food service revenues have increased by an average of 7.8% per year since 2011 – with the largest jump of 34% noted in 2014 due in large part to one show, declining somewhat in 2015, rebounding in 2016 and then declining again in 2017.

  While trade shows are associated with a lower food service revenue profile compared with corporate conventions, HVS forecasts that the Addition should result in a greater number of "higher impact" conventions, conferences and corporate events placing yet more emphasis on food and beverage revenues as a major driver of continued revenue growth.
- **Building rental** income has been flat to negative with 0.3% average annual revenue decline experienced from 2011-17. While this might be indicative of a shift toward a less profitable mix of facility utilization, it is more likely that this trend reflects competitive market pressure from comparable facilities also feeling the need to be aggressive in discounting or moderating rates to attract convention and meeting business.

  Rental rate softness during a period of continued economic growth is somewhat surprising. In effect, there are few signs of reversing a trend that could become more problematic in the event of an economic slowdown or recession.
- **Parking revenues** represent a mix of convention related and public use. Revenues have trended flat to down in recent years but increased by close to 4% from 2016-17.

  What has been a relatively stable business in years past could become less stable in the years ahead due to changes ranging from transit patronage to ride-sharing and emerging autonomous vehicle technology. Taken together, these existing and emerging trends all suggest perhaps more active yield management serving WSCC and vicinity area monthly and commuter parking interests.
- **Retail leases** have been associated with a rather sharp nearly 3% per year average revenue decline from 2011-17. This indicates a challenge not only with retail space in the existing building but also a potential source of concern with retail space planned for the new Addition – although street-oriented retail with the Addition may prove to have higher business tenant appeal. Retail space now contributes only 1.5% of overall WSCC facility revenue.
- **Facility services** revenue has increased at a rate averaging more than 11% per year from 2011-17. Combined with **other revenues** that have grown by 22% per year, these specialized and often technology-forward services likely represent continued opportunity in the years ahead. Staying with or ahead of the competition depends, in large part, on continued facility improvements – including the modernization considered for the existing WSCC facility as the Addition is successfully launched.

Mitigation Options. Options to address these revenue-side risks are potentially two-fold:

- **Conduct more detailed evaluation** of issues affecting building rental, parking and retail lease operations. Best case, this could lead to strategies to stabilize or reverse adverse revenue trends in advance of opening the expanded WSCC facility.
- **Scale back operating revenue projections** with an expanded facility. Refinements to base case projections may be warranted to the extent that the building rent, parking and retail lease revenue issues are not correctible over the next 3-5 years. Tempering of revenue projections may also be warranted if it is determined that continued strong growth of food service and/or facility revenues is less likely in the years up to and immediately following 2021 Addition completion.

Transition from Operating Surplus to Deficit

Specific issues to address on the revenue side of net operating income (NOI) are essentially as outlined above. No similar specific concerns have been identified with respect to individual expense line items as part of this review. On the positive side, personnel expenses have been pared from 43% to 39% of facility revenues since 2011.

A broader question is whether revenue growth can continue to exceed expense increases – as has occurred from 2011-16 under WSCC current management. Or alternatively, will WSCC return to a longer-term pattern whereby expenses outpace revenues – as occurred over a period of WSCC history dating from 2001-15?

To date, WSCC facilities have been designed and operated on the premise of being able to obtain and sustain positive (if modest) net operating surpluses year after year. Based on industry trends and the experience of western U.S. comparables (including Spokane, Portland, Denver, and San Francisco) as well as WSCC's past expansion experience, this model may become more difficult to sustain after major facility expansions – especially for added exhibit space.

As with San Francisco's Moscone Center, sustained operating deficits are entirely possible if WSCC facility expense gains outpace revenue increases over a sustained period beyond stabilized operations (in 2024). As illustrated by the low performance stress test scenario, the cumulative 2021-30 deficit could increase to as much as $34 million in 10 years unless expenses are curtailed to the point to allow for return to break-even and then to sustained revenue performance that exceeds the rate of expenditure increase.

While it is possible that some facilities may fare better, as experienced by the Vancouver BC Convention Centre, it is reasonable to be prepared for a downside outcome – as represented by the stress test scenarios with this review. And while it is possible that a convention center may eventually transition back from a post-expansion operating deficit to surplus, this outcome should not be viewed as assured.

A pattern of expenses increasing more rapidly than revenues also represents the long-term experience for WSCC (since 2001). Revenue gains have outpaced operating experiences overall from 2011-17, although this does not appear to have been the case in four of the six most recent years. In effect, the strong positive revenue experience of two very strong years has outweighed the comparatively mediocre revenue/expense experience of the other four years.

A factor of considerable benefit to competitiveness of the WSCC Addition involves the construction of the 1,260 room Hyatt Regency at 808 Howell Street. Under construction and planned to open in the fall of 2018, the new lodging property is billed as the largest hotel north of San Francisco – and an important contributor to prospective WSCC market capture.

Whether an adverse outcome reflecting the stress test scenario or more favorable results occur will be influenced by factors specific to the WSCC and Seattle-Puget Sound market as well as across a broader national and international horizon:

Factors Specific to WSCC & Seattle-Puget Sound Market:

- Operating expenses that ramp up more quickly than revenues – especially in conjunction with the opening of expanded convention and meeting facilities
- Competitive factors ranging from availability and cost of convention activity together with supporting hotel facilities (including the new Hyatt Regency hotel proximate to the Addition) – all affecting the attractiveness of Seattle/King County venues as compared to alternatives available regionally, nationally and globally
- Design or operational features of existing and expanded facilities that either enhance or impede scaling operating expenses up or down to match actual changes in expanded WSCC space utilization (or event attendance)

Factors Affecting the Broader U.S. / Global Market:

- Changing attraction of the WSCC facility for national and international events predicated on the quality of the Addition, Seattle business vitality, and/or group meeting costs
- Advent of economic recession prior to stabilized utilization of the combined expanded WSCC facility (with stabilized utilization typically expected to occur about 3-4 years after construction completion)
- More rapid expansion of convention and trade show space nationally than can be supported by demand growth needed to maintain efficient operating levels – thereby placing downward pressure on WSCC utilization and rate structure

Mitigation Options. The WSCC has an existing policy to operate at or above break-even, making adjustments to meet this target as directed by the WSCC board. If the experience of the Addition is similar to other comparable western U.S. facility expansions, this policy target may prove challenging to maintain – not only by the time of stabilized utilization but potentially longer term as well. Additional supportive options are noted for consideration to the extent warranted as follows:

- Operate the building Addition and/or reconfigure existing space making it more possible to maximize variable versus fixed expense – including an option for portions of existing or additional WSCC facilities to be closed off, if needed, during periods of low utilization.
- Based on operating experience from Addition opening to stabilization, consider whether and to what extent policies regarding break-even sustainability and a 100-day operating reserve remain valid or warrant revision.
- If break-even operations do not appear sustainable longer term, consider alternative sources of funding including possible use of future surplus lodging tax revenues when there is sufficient surplus in excess of existing committed uses – together with possible refinements to the bond resolution stated flow of funds priorities but maintaining bonded debt repayment as top priority uses.
- If existing facilities and the Addition can be marketed and managed to achieve early profitability, set a policy target for a sustainable positive operating margin (as a % of revenue) to better buffer against future economic cycles and unforeseen events.

INSTITUTIONAL RISKS

With its 2010 bond resolution, the WSCC board articulated a priority of payment obligations from use of Regular Lodging Tax revenues. Further steps to clarify and refine this priority sequence may be taken in conjunction with amendments as are being proposed by King County to the bond resolution.

Remaining institutional risks indicated with this independent feasibility review are essentially two-fold: uncertainty related to KC-PSA finalization, and capacity to fulfill all priority WSCC obligations in the event of a significant economic downturn over the next 3-7 years.

KC-PSA Closing

The King County Purchase and Sale Agreement (KC-PSA) dated July 25, 2017 is expected to close just prior to start of construction. This includes agreement on the purchase price, down payment and subordinate note for debt payments – all of which has been agreed to and included with the KC-PSA. Associated with the KC-PSA is the Temporary Joint Use Agreement (TJUA) between WSCC and King County, dated February 20, 2018.

The KC-PSA together with the TJUA covers a range of other provisions that affect project schedule and funding – as with provisions for temporary bus layover, TPSS and communications room replacement, affordable housing funding, and WSCC board action on two amendments to the 2010 bond resolution regarding the priority order of payments from available lodging tax revenues. While not affecting the primary priority placed on repayment of bonded indebtedness, the proposed amendments to the 2010 bond resolution could affect prioritization of other lodging tax uses, including KC note repayment, WSCC operating and capital reserves, WSDOT lease and entitlement payments, and marketing transfer – as well as placing one or two additional stress test requirements on WSCC.

If future revenues prove inadequate to fully cover payment of all lodging tax funded priorities, specific provisions of an amended bond resolution, when adopted, will affect which payments are prioritized ahead of others. While there are no indications, at present, of other modifications anticipated to the KC-PSA, this remains a possibility up to the date of closing – as evidenced by a pattern of continued negotiations over the last several years.

Mitigation Options. Much though not all of the remaining uncertainty over the KC-PSA and its financial implications is now addressed with the TJUA and will be more fully resolved when the KC-PSA transaction is closed together with WSCC board action on related 2010 bond resolution amendments.

Also noted is that provisions for temporary bus layover including approval by the Seattle Department of Transportation are expected to occur prior to closing of the KC-PSA. If approval is not reached prior to closing, WSCC has agreed to assist King County with securing alternative locations that will achieve City approval.

Closing of the KC-PSA is anticipated to occur before the start of project construction (and prior to issuance of bond financing).

Capacity to Fulfill All Priority WSCC Payment Obligations

Stress test analysis with this independent feasibility review indicates that the time period over which WSCC may be most vulnerable to funding shortfalls is from about 2019-25, both for debt and operational funding. A worst-case scenario would occur if a severe economic recession were to be experienced over the 2019-23 period coupled with short term, pre-stabilization operating deficits just after opening, especially from 2021-22.

While considerable policy guidance is provided by the 2010 WSCC bond resolution and proposed amendments, there is a potential remaining conundrum that may not yet be fully addressed, specifically: *How should use of available lodging tax revenues be prioritized between all obligated uses in the event of concurrent shortfalls in available lodging tax and operating revenues?*

The clear and most important answer for the statutory purpose of this review is that payment of bonded senior, subordinate debt and associated bonded debt service reserves continues to take precedence over all other funding priorities (as the first through fifth priorities specified by the 2010 bond resolution); sixth comes the additional tax rebate payment to the State of Washington (unless consideration would be given to temporary suspension to fulfill non-debt as well as debt payment obligations).

If two proposed amendments are approved in conjunction with KC-PSA finalization, the next priorities would be payment of the KC subordinate note (as the new seventh priority), then use of lodging tax funding for the operating reserve (as new eighth priority). Use of any remaining lodging tax revenues for other lawful WSCC purposes follows (as the new ninth priority).

A combined debt and operating funding shortfall could prove problematic in two key respects:

- Priority of funding for entitlements and WSDOT lease vis-à-vis marketing transfer payments, capital reserves, and offsets to operating deficits (if not covered by pre-existing reserves)
- Inability to access Additional Lodging Tax funding to support non-bonded debt obligations as a financial backstop to fully pay the subordinate KC note, reserve requirements, entitlements and WSDOT lease, marketing transfer and/or operating deficit – that might otherwise go partially or wholly unfunded in the event of a significant economic downturn

Mitigation Options. Options potentially available for more concretely determining the flow of funds in the event of a combined funding shortfall could include:

- Leaving the bond resolution statement of payment priorities as-is or with already proposed amendments – meaning that the WSCC board would defer further priority determinations for items not yet clearly covered by the amended bond resolution until and unless such time as further action became necessary
- Further amending the bond resolution to provide more detailed line item prioritization of all current and proposed uses of lodging tax proceeds including potential operating deficits (which might be possible within the new 9^{th} priority)
- Considering negotiations with the State of Washington to provide capacity for allocation of Additional Lodging Tax resources to not only support payment of bonded debt with Regular Lodging Tax capacity but also to cover other lodging tax revenue funded obligations – subject to further WSCC bond resolution and state approvals (but without affecting the 2029 sunset provision or WSCC requirement to repay with interest any interim borrowing of Additional Lodging Tax resources)

VII. SUMMARY OBSERVATIONS

This independent feasibility review focuses on the financial capacity of the WSCC PFD to fully fund bonded debt and other uses of Regular Lodging Tax Revenues – at least to the time of full bond repayment by 2058. Viewed over a 40-year period, WSCC appears to be in good position to fulfill these obligations together with opportunities for facility enhancement before 2058.

Regular Lodging Tax revenues from the City of Seattle and King County yield a payment source well suited to repay bonded indebtedness plus lower priority subordinate debt and non-debt WSCC obligations. Long-term, continued regional economic and visitor growth can be expected to result in lodging tax revenue gains that far exceed amounts required to pay for bonded indebtedness. Unlike many convention centers, WSCC generally operates at an operating surplus, without the need to draw on lodging tax or other non-operating fund resources.

If there is a financial risk, it likely emerges at the time of the remaining WSCC Addition bond financing planned for 2020. While adverse conditions are currently not expected near term, WSCC could be vulnerable to a potential economic downturn in the 2019-25 time frame – due to narrow non-operating margins estimated at 3-8% of total lodging tax resources.

The most significant and reasonably plausible event that could jeopardize full funding of payment obligations would be an economic downturn as with the Great Recession of the last decade or even the earlier dot-com bust. If a recession were to materialize, starting in 2019 and bottoming out in 2020-21, WSCC could be placed in the position of: a) not being able to issue remaining bonds of approximately $168 million as planned for 2020; and b) not being able to fully fund non-bond obligations as lower priority uses of lodging tax resources.

Payments on current and Series 2018 bonded debt should be fully funded even with a severe recession, but payments for the King County subordinate note, reserve deposits, entitlements/ WSDOT lease, and/or marketing transfer might not be fully payable solely from Regular Lodging Tax revenues – for a cumulative *worst-case* shortfall of up to $76 million over 5 years.

A near-term deep recession could coincide with poor operating results for an expanded WSCC. As experienced by similar western U.S. facility expansions, WSCC could go from a net operating surplus to a cumulative net deficit position of up to $13-14 million over 5 years from 2020-24.

Even with unlikely but adverse scenarios, there are multiple options to consider as possible mitigation measures. These include potential use of WSCC reserves, interim application of Additional Lodging Tax resources to backstop the full range of Regular Lodging Tax uses as well as to pay bonded debt (up to 2029), use of Extended Lodging Tax revenues now authorized on establishments of up to 60 rooms, interim financing if Series 2020 bonding is delayed, and/or deferral of non-priority obligations. While no option would be without consequences, project risks could be addressed by WSCC board policy choices in cooperation with funding partners when and if needed. An alternate path forward would be to further clarify the priority flow of funds in advance of what may be viewed as unlikely yet possible future funding shortfalls.

APPENDIX A. PREPARER PROFILE

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

Since 1984, E. D. Hovee has provided consulting services for a wide range of public agency, non-profit and private clients primarily in the Pacific Northwest states of Washington and Oregon. Assignments conducted have included market and feasibility studies, economic impact analyses, independent feasibility reviews, and strategic business development planning – covering a diverse set of industrial, commercial, residential, tourism-destination, event and related major capital investment projects.

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

- Preparation of the Phase 1 land acquisition and financing feasibility report for WSCC expansion (completed in advance of this Phase 2 evaluation)
- Completion of two separate independent reviews of overall financial feasibility and the operating budget for Spokane Convention Center expansion and for INB Performing Arts Center improvements on behalf of the Washington State Department of Commerce
- Other assignments on behalf of Washington state PFDs including potential regional center projects for the Tri-Cities (two-county) PFD, economic restructuring of Wenatchee hotel-motel tourism funding for marketing and event/conference facilities, Vancouver Hilton Hotel and conference center, Clark County Sleep Country Amphitheater, and Cowlitz County expo/conference center
- Non-PFD related event facility assessments for the Oregon Convention Center, Portland Expo Center, Walla Walla Marcus Whitman Hotel feasibility, Skamania Lodge market analysis and development proposal, Oregon Trail Interpretive Center, Portland Center Stage due diligence review, and Eola Hills Conference Center feasibility (Salem, OR)
- Other related market and financial feasibility assignments including brownfield property reuse (Washington State Department of Ecology), Pearl District and South Waterfront mixed use due diligence analyses (Portland), and transit-oriented development impact analyses (Portland, SeaTac, Boise, Reno, Santa Ana, San Antonio, Oklahoma City, and Guadalajara Mexico)

Prior to forming an economic and development consulting practice, firm principal Eric Hovee served as Economic Development Coordinator for the City of Portland and in a similar capacity for the City of Vancouver, Washington. He was responsible for initial market analysis leading to development of the Oregon Convention Center and preliminary planning for a Vancouver Conference Center.

APPENDIX B. DOCUMENTS REVIEWED

Documents reviewed for the Phase 1 independent financial feasibility review of the WSCC PFD expansion project are as listed with the Phase1 Land Acquisition & Financial Feasibility report, Appendix B, dated November 2015 (as cited below). Principal additional documents reviewed for this Phase 2 Build-Out and Operating Feasibility report include the following:

ERFC, "2012 Economic and Revenue Forecast Council (ERFC) Revenue Model Review Part Two: Forecast Error Analysis."

E. D. Hovee & Company, LLC, *Washington State Convention Center Expansion: Land Acquisition & Financing Feasibility,* prepared for the Washington State Department of Commerce, November 2015.

HVS Convention, Sports & Entertainment Facilities Consulting, *Financial Operations Analysis Update: Washington State Convention Center,* April 25, 2018.

King County, "Purchase and Sale Agreement (Convention Place Station, Seattle, Washington)," as revised June 22, 2017 and dated July 25, 2017.

King County and WSCC, "Temporary Joint Use Agreement," dated February 20, 2018.

Miller & Miller, P.S., *Washington State Convention Center Public Facilities District: Financial Statements and Independent Auditor's Report,* for the years ended December 31, 2017 and prior years.

Pine Street Group (PSG)*, WSCC Addition – Financial Plan*, November 21, 2017.

Public Financial Management (PFM), *WSCC at Convention Place: Addition Project Finance Plan – Base Case,* November 19, 2017 (as revised December 27, 2017).

Web site review of comparable U.S. convention centers, up through January 2018.

Washington State Department of Revenue, Research & Fiscal Analysis, Convention Center Forecast (VARS files), May 2015.

Washington State Department of Revenue (DOR), Research and Fiscal Analysis, "Non-General Fund Tax Sources – Revenue Forecast," November 2017.

WSCC and Pine Street Group, *Development Management Agreement,* March 12, 2015 (with subsequent amendments).

WSCC *Annual Reports,* as available through the WSCC web site, through 2016.

Additional documentation including email correspondence with WSCC and its designees pertinent to the substance of this Phase 2 review is cited separately in the narrative body or end notes to this report. Other email correspondence and web-based information as for the comparable facilities review is not specifically cited.

APPENDIX C. IRMA COMPLIANCE

The PFM Group
Financial & Investment Advisors

1200 Fifth Avenue
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Fred R. Eoff
eofff@pfm.com
206-858-5370

August 27, 2015

Chip Firth
Chief Financial Officer
Washington State Convention Center
800 Convention Place
Seattle, WA 98101-2350

Re: Municipal Advisor Regulatory Matters

Chip:

This letter is provided in acknowledgement that Public Financial Management, Inc. (PFM) is currently engaged by the Washington State Convention Center (WSCC) in the capacity of financial advisor for its issuance of debt, as well as any related general matters for which the WSCC may request our advice or assistance.

In that capacity we have familiarized ourselves with WSCC policies and appropriate Washington statutes and federal regulations which bear on your activities. We acknowledge and affirm that Public Financial Management understands and accept the fiduciary nature of our responsibilities and advice provided to you.

The Securities and Exchange Commission (SEC) has adopted a rule defining the term "municipal advisor (MA) and which may limit the manner in which underwriters and other professionals interact with issuers such as the WSCC. As this rule goes into effect, WSCC may receive requests from underwriters and others seeking affirmation that WSCC is separately represented by an independent registered municipal advisor (IRMA).

We affirm that PFM is fully registered as a municipal advisor with both the Securities and Exchange Commission and the Municipal Securities Rulemaking Board and is "independent" within the meaning of the SEC's final rule. Should PFM no longer meet these criteria we will so advise WSCC in writing. This affirmation of representation will run concurrent with our current engagement agreement with WSCC and will expire on August 31, 2018.

Fred Eoff, Director, is the primary party at PFM responsible for our work with WSCC. In the course of our work with WSCC, Fred Eoff may utilize other parties employed by PFM for specific tasks. At no time will parties other than those employed by PFM be utilized in any capacity unless specifically disclosed and approved by WSCC.

Sincerely,

Public Financial Management

F.R. Eoff

Fred Eoff
Director

APPENDIX D. COMPARABLE FACILITIES

While previous WSCC expansion experience serves as a useful indicator of potential prospects with future expansion, it is also instructive to look to the experience of other west coast convention facilities that have undertaken similar expansions.

This Phase 2 WSCC PFD build-out and operating feasibility report has been scoped to include a review of the operating experience of potentially comparable convention center facility expansions. This appendix provides the results of research that has involved comparing the operating experience of WSCC with other western U.S. facility expansions – both pre- and post-expansion.

The comparable facilities review is intended to provide perspectives regarding both short-term and longer-run attendance and financial outcomes that might be of importance with planned WSCC expansion to the downtown Seattle site bounded by 9th and Boren Avenues, Pine to Howell Streets. The experience of other facility expansions serves as a point of reference in the discussion of projected revenues and expenses as part of the full Phase 2 build-out and operating feasibility review. Most specifically, this review is being utilized to inform base case and stress test scenarios that might affect the operating and/or financing capacity associated with the WSCC expansion.

Research for comparable facilities assessment has been conducted based primarily on information publicly available. This has been supplemented by additional information provided courtesy of personnel with the facilities reviewed. Initially prepared in 2016, this review has been updated to reflect significant changes for the facilities considered in the last two years.

Facilities Evaluated

As WSCC has already been involved with two major expansions, prior experience with the WSCC facility represents a useful starting point for this comparables review. It is also instructive to consider the experience of other western U.S. convention facilities that have undertaken similar expansions.

Facility expansions considered as potential comparables are:

- Prior WSCC Facility Expansions – notably the 2001 doubling of exhibit space followed by the opening of a new conference center in 2010.
- The Spokane Convention Center (SCC) – 2006 exhibit hall expansion
- The Oregon Convention Center (OCC) – 2003 exhibit hall expansion
- Vancouver Convention Centre (VCC) – 2009 West Building completion
- San Francisco Moscone Center (Moscone) – 2003 Moscone West facility completion
- Denver’s Colorado Convention Center (CCC) – 2004 expansion to double facility capacity

Centers to review were determined based on proximity as part of the most immediate competitive set of facilities to WSCC – coupled with availability of historical attendance, building facility and operating income/expense information. To the extent that historical information was available and provided by the centers reviewed, comparisons also have been made between forecasts of increased utilization versus actual experience.

Except for Spokane, all of the centers reviewed are part of the competitive set of centers identified previously in a market analysis conducted for WSCC by Convention Sports & Leisure International (CSL). While drawing more from a smaller regional market, Spokane is of interest for its location in the second largest city in Washington state, also managed by a public facilities district in a venue that has experienced two recent expansions.[23]

The operating experience of facilities in these six cities – both pre- and post-expansion – is considered separately for each facility, in turn. Each comparable is reviewed in terms of facility profile and description of expansion(s) together with attendance and financial results pre- and post-expansion. This analysis addresses attendance and revenue/expense history for the period from two years prior to three years post-expansion.[24]

PRIOR WSCC FACILITY EXPANSIONS

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

Today, the WSCC comprises 205,700 square feet of heavy-load exhibit space, 45,000 square feet of ballroom area, and 57,000 square feet of meeting space plus an additional 70,000 square feet of multi-use space in the Conference Center together with supplemental function space. Taken together, the total WSCC (including Conference Center) encompasses 414,000 square feet of function space situated on both sides of Pike Street between 7th and 9th Avenues in downtown Seattle. Partially constructed over the Interstate 5 freeway, the center includes four distinct lobbies and an on-site kitchen with culinary personnel.

Lodging tax forecast analysis conducted by PKF/CBRE for PFM and WSCC in 2014 indicated that there were over 13,900 hotel rooms in Seattle as of 2013 – with another nearly 3,700 rooms planned for construction through 2018. More recent information with WSCC's *2016 Annual Report* indicates that: "The combination of successful WSCC operations and the draw of Seattle as a travel destination has spurred the development of some 3,000 planned hotel guest rooms in the next three years."

While there is no single headquarters hotel, the Sheraton Hotel on a block adjoining current WSCC facilities provides 1,236 guestrooms and 27 luxury suites. Of importance for WSCC expansion is construction now underway on a 1,260 room Hyatt Regency hotel at 808 Howell Street – immediately proximate to the proposed WSCC Addition – opening the fall of 2018.

The Washington State Convention Center (WSCC) has expanded twice since its initial opening – doubling its exhibit space in 2001 and then opening the adjoining conference center in 2010. Each of these expansions is considered, in turn.

2001 WSCC Exhibit Space Expansion

In July of 2001, the first major WSCC expansion was completed, resulting in the approximate doubling of exhibit space plus added lobby area. Historic financial records have been reviewed for two years prior to the 2001 expansion, the year the expanded facility opened, and three subsequent years. Also noted is that the opening of the expanded space occurred in July of 2001 – just after the end of the 2001 Washington state fiscal year (denoted as Year 0 with the summary chart below).

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

WSCC Revenue / Expense History with 2001 Exhibit Hall Expansion

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

Note: Revenues and expenses are based on the pre-2017 WSCC accounting format.

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

In the three years *after expansion*, revenues gradually ramped up – slowly at first but increasing by nearly $4 million over opening year figures as of Year +3 (FY 2004) – close to a 25% increase in three years. Convention center attendance declined somewhat prior to opening. There was no substantial immediate attendance increase the year after opening. However, by Year +3 post-expansion, attendance had increased by 16% as compared with opening year conditions.

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

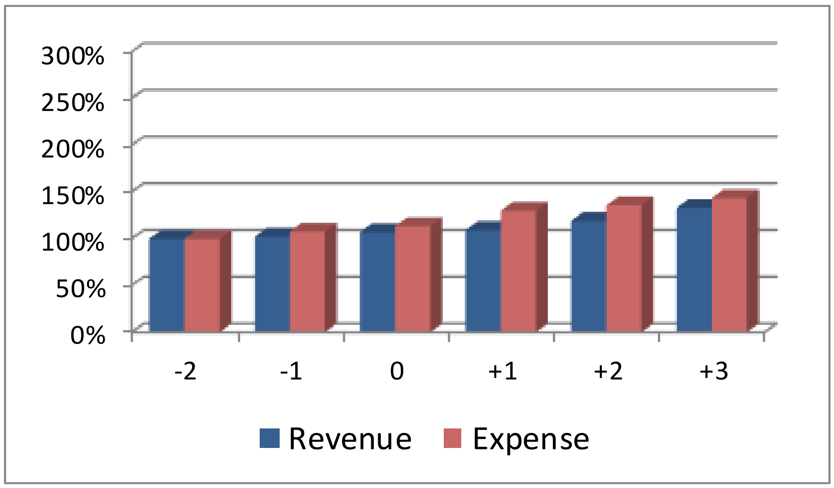
Initially, WSCC expenses ramped up quickly, increasing by about $2 million (15%) in just the first year and by 26% over three years after expansion. Net income went negative in the first year after the expansion as expenses clearly outpaced income growth, but then rebounded back up to about pre-expansion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

When viewed over the full range of this 6-year history, attendance three years after the expansion was only 4% above what was experienced two years pre-expansion. WSCC annual income was 33% above what was realized prior to expansion. Operating expenses increased by a more substantial 44%. Net income was 28% below pre-opening levels.

Revenue/Expense Trend. In addition to considering changes in overall facility revenues and expenditures, it is useful to also review changes relative to the period starting just before facility expansion. To standardize this comparison with other comparable facilities, subsequent year results are noted as a % of income and expense trends in relation to experience two years prior to expansion completion (Year -2). With this graph (and similar analyses for other comparables), all results are benchmarked to two years prior to opening of the expansion facilities, essentially so that (Year -2 = 100%) for both revenues and expenses.

As illustrated by the graph to the right, revenues realized as of three years post-expansion had increased to 133% of the revenues generated two years prior to expansion. Expenses increased more rapidly to 144% of Year -2 results – albeit with the gap between revenue and expense change narrowing somewhat after the first couple of years post-expansion.

WSCC Revenue / Expense Trend with 2001 Expansion (Year -2 = 100%)



Source: E. D. Hovee as compiled from WSCC/WSCTC related annual financial reports.

Comparison with Pre-Expansion Projections. With both WSCC expansions, it has been possible to compare forecast utilization, income and expense pre-opening versus what actually occurred. In 1994, an *Expansion Development Study* was prepared for the Washington State Convention & Trade center by Coopers & Lybrand.[25] At the time, the analysis was predicated on a potential 88,000-123,000 square foot expansion (or approximate doubling) of exhibit space together with a 23,000-33,000 square foot expansion of added meeting/ballroom space.

The 1994 forecast analysis assumed a 2000 opening year with mature year occupancy by 2002. Actual opening occurred a year later than initially anticipated.

The Coopers & Lybrand expansion study included forecasts of added events, utilization days and square footage utilized but with no direct estimates of incremental facility attendance. Revenues were forecast in five-year increments for 1997 (pre-opening), 2002 (stabilized utilization) and 2007 (five years later).

In the first five years (to normalized stabilization), actual revenues and expenses both increased more slowly than forecast by Coopers & Lybrand. The pre-expansion forecast was for revenues to increase more rapidly than expenses, whereas the opposite result occurred with expenses rising faster than revenues. The result was that while the Coopers study forecast an approximate $470,000 improvement in net operating income (NOI) over five years, convention center NOI actually declined by about $1.65 million.

For the subsequent five-year period (post-stabilized income), actual revenue growth slightly outpaced expenses – but by a reduced net spread than forecast. In short, the pre-construction income-expense forecast proved overly optimistic compared with what actually occurred – especially in the first five years of the forecast through stabilized utilization.

2010 WSCC Conference Center Addition

A second major WSCC expansion was completed in July 2010, with addition of a conference center comprising 18 new meeting room and multi-purpose spaces totaling 71,000 square feet. In this case, there are three annualized accounting periods of revenue/expense history available for review both pre- and post-expansion – as well as for the year of expansion completion.

Specifically noted is the added complication of the WSCC moving from a July-June fiscal year to a January-December calendar fiscal year starting in 2011, occurring with the transition from Washington State to WSCC PFD ownership and operation. What is termed as the FY 2011 "stub" represents the last six months of 2010 (or what would have been the start of the 2010-11 fiscal year). For comparability, revenues for this 6-month "stub" period are annualized.

Pre-/Post-Expansion Financial Results. Operating results are a bit less straightforward with this second WSCC expansion – in part due to what appears to be the effects of the economic recession and ensuing delayed recovery. Also noted is that with pre-PFD operations, food service revenues were reported in terms of net rather than gross revenue.

Operating income and expenses remained somewhat flat through at least the first six months after opening of the new conference center, but then picked up sharply for the full calendar year 2011. As noted, this jump reflected both increased facility utilization/attendance and changed accounting practices to account for gross rather than net food service revenues – as occurred with the transition to PFD management.

Attendance in Year +2 (2011) was up by 8% over opening year counts, continuing to increase through Year +3 – though remaining below pre-recession levels. Through 2011-12, income increased more sharply than expenses – allowing net income to rebuild to near what was experienced in FY 2008-09 but not yet back to the stronger pre-recession results of FY 2007.

WSCC Revenue / Expense History with 2010 Conference Center Expansion

	Years Before / After Facility Completion					
Metric	-2	-1	0	+1	+2	+3
Year	**FY 2008**	**FY 2009**	**FY 2010 (July)**	**FY 2011 Stub***	**2011**	**2012**
Income	$24,989,171	$25,562,405	$22,026,248	$23,714,674	$34,443,770	$36,768,969
Expense	($23,192,773)	($23,179,964)	($21,882,040)	($23,385,384)	($33,692,958)	($35,085,483)
Net Income	$1,796,398	$2,382,441	$144,208	$329,290	$750,812	$1,683,486
Attendance	482,768	430,771	390,282	319,834	420,313	428,220

* Note: FY 2011 Stub covers July-December 2010, with results annualized (multiplied by two).
Pre-calendar 2011, food service revenues were reported in net rather than gross terms, with expenses excluded.
Also noted is that income and expense for 2011 are revised as restated with 2012 financial reporting.

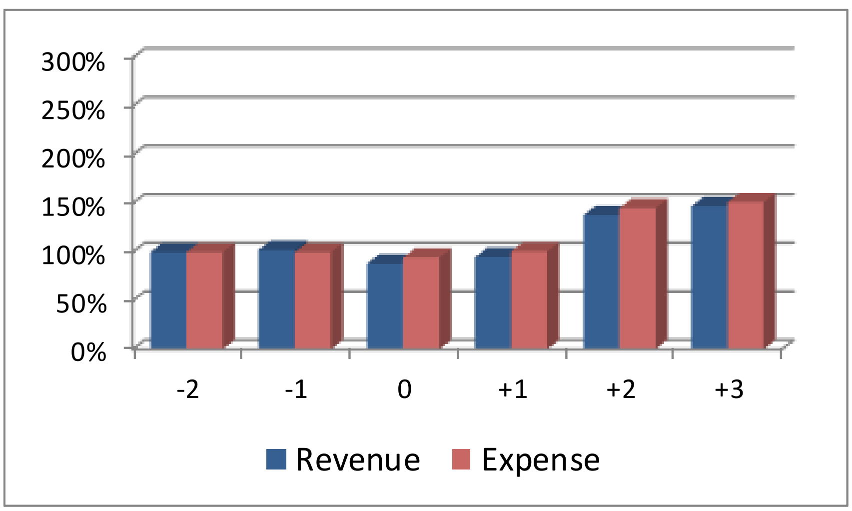
Source: WSCC Annual Reports, as compiled by E. D. Hovee & Company, LLC.

Over six years of pre- to post-expansion experience, attendance increased by about 21%. Annual income for WSCC by the third-year post-expansion was 47% above what was realized two years prior to expansion. As with the earlier expansion, operating expenses increased faster than revenue, in this case by 51%. Even with some rebound by the third-year post-expansion, net income was 6% below what was experienced two years pre-expansion.

As an added note, due to the change in WSCC accounting methodology, the net income figure appears to be the best *bottom-line* measure of post-expansion experience to date. Net income was as high as $4.7 million in FY 2007 (at 18% of gross revenue), dropping back to near break-even point just prior to opening of the conference facility, and then finishing at Year +3 post-expansion close to $1.7 million (or 5% of gross revenue) as of 2012.

Revenue/Expense Trend. Unlike the first expansion where expenses ramped up more quickly the first two years before revenues caught up, with this second expansion revenues and expenses moved up concurrently, but with revenue growth lagging behind expenses. Within three years of expansion, revenues had increased by 47% above levels experienced two years pre-expansion. Expenses were up by 51%.

WSCC Revenue / Expense Trend with 2010 Expansion (Year -2 = 100%)



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

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

The year of opening coincided with the deepest part of the recession for the Pacific Northwest, in terms of employment. As noted, a portion of the post-expansion boost also reflects changes in WSCC accounting practices implemented in 2011 (Year +2).

Changing Composition of WSCC Operating Expenses. WSCC does not publish detailed operating expense data with its annual reports. However, previous discussion with WSCC management (conducted as part of a 2013 Spokane PFD evaluation) was helpful in describing the experience of the two WSCC facility expansions, notably:

- Based on prior experience, WSCC management has anticipated that increases in expenses typically can be expected to outpace revenues with facility expansion – with revenues catching back up over a 3-5 year period. This appears to be more the case for adding exhibit space than conferencing capability. The 2010 Conference Center appears to be associated with more rapid revenue gains, also attributable in part to recovering economic conditions.
- While utility expense has increased somewhat with expansion, the largest share of added cost has been associated with labor expense. The degree to which this is viewed as a variable versus fixed expense depends, in part, on facility labor agreements. WSCC negotiates with multiple unions, so much of the labor requirement has been locked in, at least short-term. There is greater variability with on-call staffing.
- WSCC design (with multiple lobbies and expectations for public access) limits the degree to which existing facility operating costs could be scaled back in the event of a major attendance or revenue downturn. To the extent that the planned next phase WSCC expansion allows for temporary closure during down times (also used for maintenance), variable costs may be better matched to utilization.[26]
- Marketing 1-2 years ahead of completion also may prove instrumental in facilitating demand with opening of an expanded facility. Once the project is permitted, the facility can start selling the added space. However, even then, how the "building reacts" will not be fully known until completion – with the first few months after opening needed before the expanded facility operations can be expected to be fully functional.

Comparison with Pre-Expansion Projections. As with the initial WSCC expansion in 2001, a market and financial feasibility analysis was conducted in 2007 – in this case by the firm Convention, Sports & Leisure International (CSL). The analysis was prepared in advance of the acquisition of space for the conference facility brought on line in 2010. The CSL report provided estimates of incremental event activity, attendance and revenue-expense changes from an average FY 06 / FY 07 baseline to stabilized (year 3) operations post-opening.

All estimates were reported independent of assessing other potential changes in facility utilization of the new addition. Estimates also were reported in 2006 dollars and so did not address inflation – although this is likely to have been of lesser significance due to recessionary effects prior to and immediately after conference center opening.

Conference Center attendance forecast by CSL with stabilized operations was a relatively modest 15,190 added attendees – for a WSCC attendance increase of 3%. Realized attendance over the six-year period (from Year -2 to Year +3) actually declined by more than 11% - with 2012 attendance not yet recovered to pre-recession levels.

Both revenues and expenses increased rapidly during this time frame. Combined WSCC revenues over this six-year period increased by 33% while expenses were up by 44%.

While CSL had forecast that incremental conference center revenues would increase more rapidly than expenses, the reverse situation occurred – with WSCC expenses increasing at a higher rate than revenues. The result was that while CSL projected a $1.4 million improvement in net operating income, the net figure actually dropped by about $1 million from Year -2 to Year +2 but getting back to within about $100,000 of pre-expansion performance by Year +3 (2012).

In summary, WSCC's experience with both the 2001 and 2010 expansions proved to be different than what was projected prior to opening – at least with respect to net operating income. With both expansions, operating expenses increased more rapidly than income – counter to what was projected. However, the 2010 conference center experience is likely not as directly applicable to what might be expected going forward. This is for two reasons:

- The 2010 expansion was primarily for added conferencing space which has a higher revenue and expense profile than for exhibit space which is a more significant component of the prior 2001 and planned 2021 facility expansions.
- The time frame surrounding the opening of the 2010 expansion involved a significantly more pronounced recession than what was experienced with the first expansion in 2001 or what might be reasonably expected in 2021 – at least with respect to attendance.

Updated Outlook

In retrospect, the timing of the second WSCC expansion proved fortuitous – coming at a time of continued economic recovery and renewed convention demand. As of 2012 (the third year after expansion), WSCC was benefitting from increased group business, as with medical and construction-related as well as corporate conferences again willing to spend more, particularly for food and beverage services.

Attendance peaked in 2014 at over 431,500 – dropping to 382,725 in 2017. However, revenues have increased since 2014 – peaking at $35.6 million in 2016 – though the 2014 operating profitability figure of $2.5 million in 2014 has yet to be exceeded.

Of considerable importance has been the construction of a 1,260 room Hyatt Regency hotel at 808 Howell Street – situated cater-corner to the proposed WSCC Addition. Planned for opening in the fall of 2018, the added lodging will provide the amenities and convenience to serve functions anticipated of a headquarters hotel.

SPOKANE CONVENTION CENTER

As Washington state's second largest city, Spokane competes for state-wide and regional conventions with WSCC, but is not as directly part of the larger competitive set with which Seattle competes nationally. However, Spokane is of interest as the state's first PFD and largest city after Seattle with convention facilities that also have been substantially expanded. The Spokane Convention Center (SCC) has gone through two major expansions – the first of which provides a long enough track record from which to assess results.

Current Facility & Prior Expansions

SCC currently comprises over 200,000 square feet of multi-use meeting space including:

- 120,000 square feet of exhibit space
- Three ballrooms totaling 50,000 square feet
- Over 27,000 square feet of dedicated meeting space
- A 270-seat theater (with access to an adjoining 2,700-seat Performing Arts Center)

The SCC facility was most recently expanded in 2015 – adding 20,000 square feet of exhibit space, a new ballroom and additional meeting rooms together with hotel skywalk and riverfront restoration improvements. Because the 2015 expansion was completed too recently to allow for an effective post-expansion review, this review focuses on the earlier expansion completed in June 2006 – with addition of the 100,160 square foot Group Health Exhibit Hall.

2006 Group Health Exhibit Hall Expansion

As occurred with WSCC's first expansion, the first major SCC expansion was focused on adding exhibit space. And as with the 2001 WSCC expansion, it was possible to obtain comparable records covering only two years of SCC pre-expansion experience.[27]

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

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

	Years Before / After Facility Completion					
Metric	**-2**	**-1**	**0**	**+1**	**+2**	**+3**
Year	**2004**	**2005**	**2006 (June)**	**2007**	**2008**	**2009**
Income	$2,468,430	$2,289,987	$3,164,924	$3,926,058	$3,761,125	$3,698,122
Expense	($2,148,345)	($2,090,419)	($3,247,360)	($4,405,662)	($3,645,649)	($3,780,535)
Net Income	$320,085	$199,569	($82,435)	($479,604)	$115,477	($82,413)
Attendance	234,602	202,736	214,189	291,211	269,373	271,437

Source: SPFD Year End Reports as compiled by E. D. Hovee.

In the three years after this addition of exhibit space, average annual SCC revenues increased by 17% (as compared with Year 0 of expansion completion). Average annual expenses were up by 16%. Attendance was up by 27%, indicating more rapid gains in market capture than in accompanying revenue or expense growth.

SCC attendance had declined in the two years prior to opening. The largest jump in attendance (and revenues) occurred in the first year after opening – with subsequent softening of the convention market leading into the period of the Great Recession.

Both revenues and expenses peaked in 2007, the first full year after facility expansion, although this experience appears to have been partially skewed by major national sports events in that year.[28] Expenses in this initial post-expansion year were up more than revenues, resulting in an operating deficit approaching $0.5 million.

For the next two years of 2008 and 2009, the recession appears to have led to a modest (4-6%) reduction in gross income. Operating expenses were pared back significantly (by about 17%) in 2008, making possible a small surplus of $0.1 million, albeit followed by a modest operating deficit of less than $0.1 million in 2009 (Year +3).

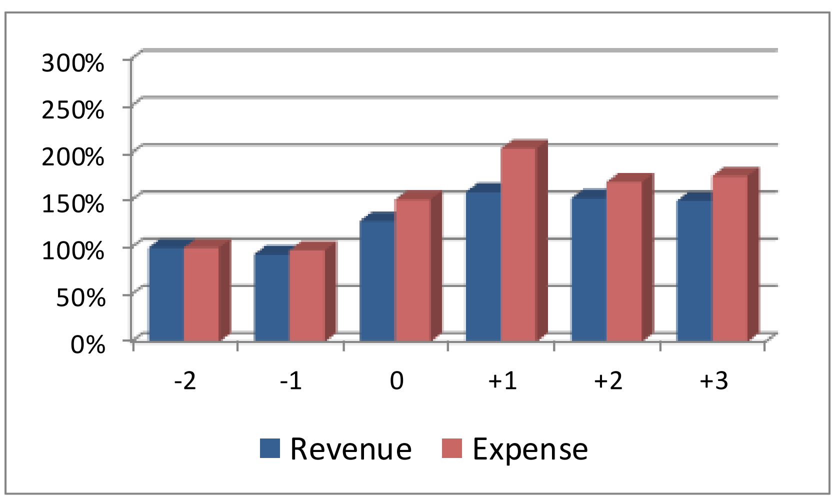
Overall, meeting attendance increased by 16% in the six years extending from two years before expansion to three years post-expansion. Operating revenues were up by 50%. However, average annual expenses increased by 76%, resulting in a negative net income swing of about $400,000 – from a position of net operating surplus to deficit.

Revenue/Expense Trend. As with the two WSCC expansions, it is possible to evaluate revenue and expense trends by year, relative to a base year (two years prior to expansion).

SCC revenues increased rapidly the first year after expansion, jumping to 159% of pre-expansion levels. Revenues than tapered off the next two years.

Expenses increased even more dramatically, more than doubling pre-expansion expense levels within the first year after facility expansion. Expenses were then pared back the next two years – but still increasing more rapidly than revenues.

SCC Revenue / Expense Trend with 2006 Expansion (Year -2 = 100%)



Source: SPFD Year End Reports, compiled by E. D. Hovee.

As a result of this rebalancing, the facility deficit was back to near break-even by three years after the 2006 SCC expansion.

Comparison with Pre-Expansion Projections. Forecasts of potential attendance growth were initially made in a feasibility projection prepared by PricewaterhouseCoopers (PwC) in 1997 and then updated in 2000. [29] The *low estimate* from the feasibility study was for 1997-2000 expansion attendance of 227,000 (as a 1997-2000 stabilization projection). This compared to what was described as pre-expansion average attendance figure of 132,000 (predicated on information then available).

Actual opening attendance as of the year of opening (July 2006) was 214,189 – about 6% below the earlier opening year projections. However, in each of the two following years, attendance averaged about 270,000 – 19% above the earlier low forecast number.

In this instance as well as with other facility reviews, a challenge with comparing projections with realized experience lies with the time lapse between the date of the forecast analysis and resulting opening. In Spokane's case, the initial forecasts were made about a decade in advance of the opening of the expanded facility. The reality was that during the intervening time, attendance was already on the increase – reaching 234,000 in 2004 (two years prior to opening the expanded facility).

To address this timing gap between the date of the forecast and expanded facility opening, another way of looking at the earlier projection would be by comparing the *attendance increase* projected versus realized. The PwC forecast of 227,000 was 95,000 above the pre-expansion average of 132,000. The realized Year +2/3 actual attendance of 270,000 turned out to be approximately 51,000 above the Year -1/2 actual attendance of 219,000. This comparison indicates that the Group Health exhibit space expansion clearly led to increased attendance, though not with as much of an increase as had been projected as much as a decade earlier.

Updated Outlook

Post-2009 (Year +3) after the 2006 Group Health exhibit hall expansion), the SCC was affected by operating deficits in the aftermath of the Great Recession. The SCC went from an operating surplus in 2008 to a deficit that increased from $100,000 in 2009 to a peak deficit of nearly $950,000 deficit in 2013. Revenues have since picked up appreciably, so that 2016 resulted in a deficit reduced back down to the $100,000 range.

For the Spokane PFD, convention center facility deficits have been offset by net operating income surpluses derived from the two other facilities under the auspices of PFD – the Spokane Arena and INB Performing Arts Center. While SCC financial performance has proven to be challenging, facility attendance has continued to improve in recent years, going from about 270,000 in 2008-09 to over 426,650 in 2016. A new 716 guest room Davenport Grand Hotel opened in mid-2015 directly across from the street and linked by a skybridge into the SCC – with a further convention facility expansion also completed in 2015.

The Spokane PFD is currently undertaking a $20+ million bond-funded renovation to the adjoining INB Performing Arts Center – as the first major renovation to this facility since its initial construction for Expo 74. Renovation is scheduled for May to November 2018.

OREGON CONVENTION CENTER

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

OCC Facility Profile

OCC comprises close to 374,000 square feet of sellable meeting space including 255,000 square feet in exhibit halls, two ballrooms approaching a combined 60,000 square feet, and 59,000+ square feet of additional meeting room space.

OCC is located on the east side of the Willamette River, directly across from downtown Portland near the intersection of the Interstate 5 and Interstate 84 freeways. MAX light rail and a recently opened streetcar line provide convenient transit access to downtown and the Portland International Airport.

The bulk of the hotel inventory that serves the convention center is located primarily on the west side of the Willamette River. Metro has completed negotiations with a developer/ operator team for a 600-room headquarters hotel situated immediately across the street from the OCC. Completion is anticipated by late 2019.

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

Because MERC facilities are embedded within the larger regional government entity of Metro, financial accounting is not handled in a manner that is as readily accessible for comparison with other similar regional event facilities. With the objective of providing an *apples-to-apples* comparison with the other comparables, revenues compiled are those for business type activities.[30] Also noted is that with expanded facilities in operation by April 2003, about three-quarters of FY 2003 (Year 0) results represent experience prior to expanded space availability and one-quarter post-expansion.

Pre-/Post-Expansion Financial Results

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

OCC Revenue / Expense History with 2003 Convention Center Expansion

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

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

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

Even though the expanded facility did not open until about three-quarters of the way through FY 2003, Year 0 attendance and revenues rebounded to levels experienced two and three years earlier. Revenues were up by another 54% within two years of opening, well above the 21% gain in attendance over this two-year period – before dropping back somewhat in the third post-expansion year.

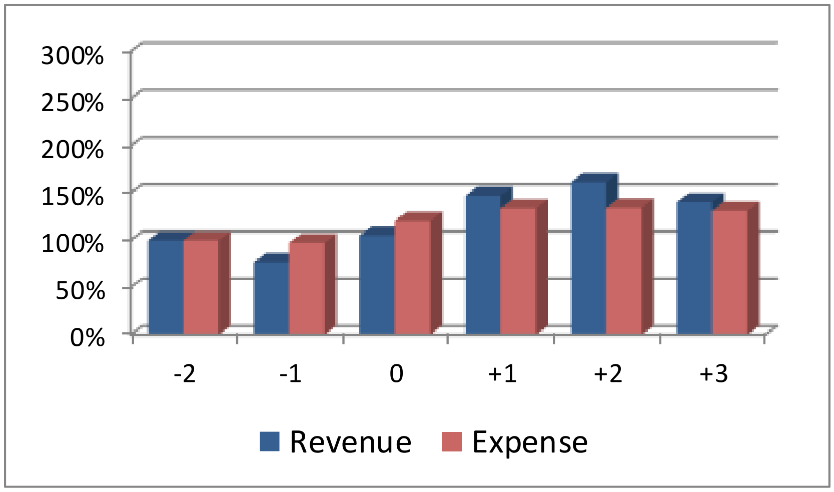
As with the WSCC and Spokane expansions that also involved added exhibit space, expenses began to ramp up even in advance of opening – increasing by 24% the year of opening (compared to the year prior) and by another 11% the year after opening, then stabilizing.

Negative effects to the bottom line were experienced earlier for the OCC than WSCC and SCC. Operating deficits essentially doubled from three years prior to the year of the completed expansion, then dropped back because of increased attendance and utilization – coupled with FY 2004 staffing reductions.[31]

When viewed over the period of the six-year history noted above, it is noted that attendance increased by 12% (though peaking the second year after expansion). Annual facility income at three years post-expansion proved to be more robust – about 41% higher than was the case two years pre-expansion. Expenses increased at a more moderate pace, up by 31%.[32]

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

OCC Revenue / Expense Trend with 2003 Expansion (Year -2 = 100%)



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

Revenue/Expense Trend. Unlike the other comparables, the OCC experienced a drop in revenues the year before opening. In part, this was due to construction disruption including temporary loss of parking.

In the year of opening, the expanded facility was accompanied by a substantial 21% increase in expenses versus only a 5% increase in revenues – as compared with two years before the expansion. Subsequently, revenues picked up. Three years after construction, facility revenues were up by 41% over pre-expansion levels – well exceeding the 31% increase in expenses experienced over the same six-year period. However, because the base (Year -2) level of expenses was considerably above revenues, the net deficit actually increased somewhat.

Comparison with Pre-Expansion Projections. Contact was made with OCC to determine availability of market feasibility studies conducted prior to the 2003 exhibit space expansion. OCC personnel were unable to locate pertinent archived studies from this pre-expansion period as a basis for comparing projected versus actual experience.[33]

Updated Outlook

With Year +2 post-expansion attendance peaking at about 700,000 in 2005, OCC subsequently experienced declining attendance through the Great Recession. Operating deficits have increased substantially, recently ranging from $8-$12 million annually as compared with deficits of $3-$6 million annually pre-expansion.

Post-recession, OCC attendance has rebounded - back to a 633,000 with 74 events in 2015 – before dropping back somewhat to 624,500 attendees and 70 events in 2017. Facility utilization peaked at 58% in 2016, declining to the upper end of a more normal range at 48% utilization of facility capacity in 2017.

While financially challenged, OCC has proven itself to be a versatile facility – even without a headquarters hotel to date. For example, the OCC hosted the USA Track and Field (USATF) Championships and International Association of Athletics Federation (IAAF) World Indoor Championships in March 2016.

Further strengthening of facility utilization, especially for non-local events, likely will be closely linked to construction and opening of a headquarters hotel – as OCC is located on the opposite side of the Willamette River from where most of the core area hotel inventory is situated.

Construction of a 600-room Hyatt Regency Hotel directly north of the Oregon Convention Center began in August 2017, with completion expected by late 2019. The headquarters hotel will be located on the MAX light rail line with access both west to downtown Portland and east to the Portland International Airport. As a public-private partnership involving funding support from Metro (as OCC owner), remaining project litigation was settled in early 2016.

In 2018, the OCC also moved ahead to freshen the appearance of the convention center with a $35 million renovation project. The renovation is intended to give the grounds an updated look by redesigning an entry/event plaza, adding canopies at major building entrances, and making other facade and interior improvements.

VANCOUVER CONVENTION CENTRE

As the closest major metro area to Seattle, Vancouver BC's Convention Centre represents a facility of comparable size to WSCC. VCC operates with two proximate but physically separate facilities – as is being considered by WSCC. However, the circumstances of Vancouver's expansion are considerably different than those of the other comparables considered.

VCC Facility Profile

The Vancouver Convention Center (VCC) comprises over 466,500 square feet of meeting space including 310,000+ square feet of exhibit halls, 70,000 square feet of ballroom area, with 85,000 square feet of added meeting room space.

Facility History. VCC occupies a former brownfield site on the Vancouver Harbour – with about 14 acres on land and 8 acres over water. Primary facilities were developed in two phases:

- In 1986, the Canada Pavilion was opened for the World's Fair Expo; in 1987 this (East Building) space was repurposed as the Vancouver Convention and Exhibition Centre – with facilities focused on exhibition and ballroom space.
- In April 2009, opening of the West Building increased the size of the total complex by about three-fold to its current configuration – its first year serving as the International Broadcast Centre for the 2010 Winter Olympics and 2010 Winter Paralympics.

The two buildings are linked via an underground connector reaching around an inlet separating the two structures. Also connecting to the centre is the Fairmont Pacific Rim hotel. Organizationally, VCC is part of the BC Pavilion Corporation (PavCo), a provincial crown corporation of the Ministry of Transportation and Infrastructure.

2009 VCC Expansion. VCC West is a three-level structure that encompasses over 220,000 square feet of ground level exhibition space with a second level of ballroom and both second and third levels of meeting room and pre-function areas. Constructed as the world's first LEED Platinum certified convention facility, the newer West structure also is home to what has been described as Canada's "largest living roof."[34] This 2009 expansion is the source of the VCC pre- and post-expansion review considered in more detail as follows.

Pre-/Post-Expansion Results

As noted, the opening year experience of VCC West is considerably different from that of other facilities because the facility was essentially used at the time of opening as an Olympics venue, reverting to long-term planned use for convention purposes starting in the first full year of operations (FY 2011). This creates an anomalous attendance situation in the year of opening. Also noted is that attendance information is not reported by PavCo in terms of total numbers of attendees, but rather as non-resident delegate days.

VCC Revenue / Expense History with 2009 Convention Centre Expansion

	Years Before / After Facility Completion					
Metric	-2	-1	0	+1	+2	+3
Year	FY 2008	FY 2009	FY 2010 (April)	FY 2011	FY 2012	FY 2013
Income	$17,427,000	$22,394,000	$43,802,000	$37,847,000	$45,512,000	$40,605,000
Expense	($26,144,000)	($37,621,000)	($47,041,000)	($40,374,000)	($47,487,000)	($43,367,000)
Net Income	($8,717,000)	($15,227,000)	($3,239,000)	($2,527,000)	($1,975,000)	($2,762,000)
Attendance	147,119	126,799	156,571	427,000	535,000	347,632

Notes: PavCo operates on an April 1 – March 30 fiscal year.
Attendance data provided in published reports is for non-resident delegate days.
Financial data prior to FY 2011 has been revised from earlier reports per the 2011-12 annual report.[35]

Source: B.C. Pavilion Corporation Annual Reports, as compiled by E. D. Hovee.

Leading up to the new facility, VCC non-resident delegate days (as a proxy for attendance) dropped to just over 125,000 the year prior to opening – and is indicated at less than 160,000 during the Olympic year of West Building opening. Combined facility non-resident delegate days then increased more than 3-fold to 535,000 within two years after opening, before dropping back to less than 350,000 in the third year after expansion completion.

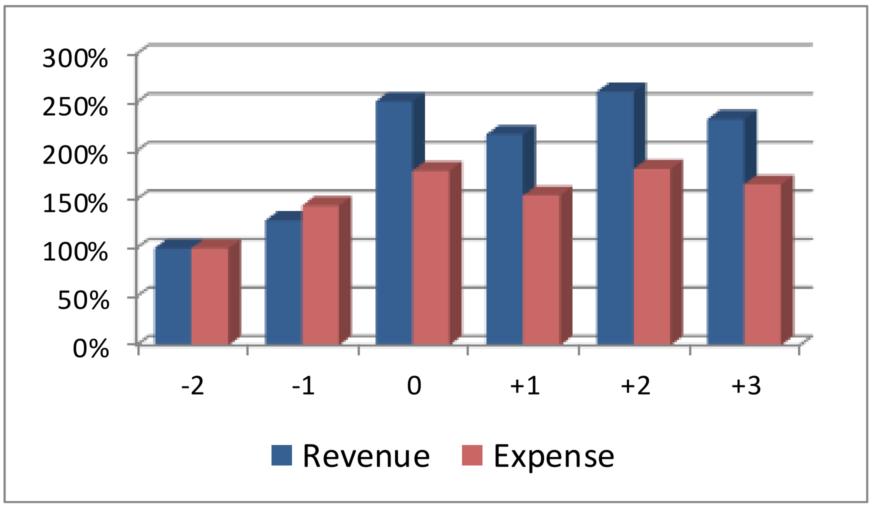
Revenues virtually doubled the Olympic year of expansion completion and remained strong the three years following expansion. Expenses also increased but less dramatically than revenues, thereby setting the stage for subsequent operating deficit reductions post-expansion. Much of the expense increase occurred the year prior to opening – with significant added outlays as for staffing and business development as well as other operating expenses.

When viewed over six years, it is noted that both non-resident utilization and income at three years following expansion were more than double the revenues of pre-expansion operations while expenses were up by 66%. Consequently, VCC's annual operating deficit was reduced from an amount approaching $9 million two years pre-expansion (and $15 million the year before) to less than $2.8 million per year as of the third-year post-expansion.

The first two years after opening were associated with reductions in per non-resident delegate day revenues and expenses. Revenues and expenses were maintained at near Olympic year levels but spread across a greater non-resident delegate base. By Year +3, per user income and expense again increased due to reduced non-resident delegate day activity (in FY 2013).

Revenue/Expense Trend. The VCC experience differs from that of other facilities, due largely to the anomalous nature of the (Year 0) 2010 Winter Olympics. This opening year is associated with large jumps in revenues and expenses albeit with lesser change in reported attendance (which VCC reports only for non-residents delegate days – a different measure of utilization than for the other facilities profiled).

VCC Revenue / Expense Trend with 2009 Expansion (Year -2 = 100%)



Source: B.C. Pavilion Corporation Annual Reports, as compiled by E. D. Hovee.

The year of opening, facility revenues more than doubled what had been experienced earlier. Expenses also increased, but at a slower pace than revenues – allowing the deficit to shrink to about the $2-$3 million range all three years after opening.

While revenue and expense results are somewhat uneven following expansion, by the Year +3 revenues had settled in at 2.3 times pre-expansion levels, with expenses increased to just 1.7 times the comparable Year -2 figure.

Provincial Review. A distinctive aspect of financial review for the VCC project occurred with the *Review of the Vancouver Convention Centre Expansion Project: Governance and Risk Management* report issued by the Office of the Auditor General of British Columbia in October 2007. This report was completed prior to 2009 opening of VCC West in response to a request from the board Chair of the Vancouver Convention Centre Expansion Project Ltd (VCCEP).

A major concern pre-opening was with project cost escalation coupled with the tight timeline for completion in advance of the 2010 Winter Olympics. The auditor general's report offered three observations intended to assist VCCEP in the management of future capital projects:

- Initial funding commitments were not based on detailed project budgets which left the project vulnerable to substantial cost revisions later as project design advanced
- Inflationary pressures and scope changes also made cost estimating more difficult

- Hurried completion led to a procurement strategy leaving VCCEP with all significant risks

These observations relate primarily to construction budgeting which is of importance to WSCC and this independent feasibility review. The auditor general's report also included a more generalized comment that: "VCCEP used appropriate governance and project management frameworks, but aspects of formal project reporting have been incomplete."

Status reports showed only actual commitments and forecast project costs relative to the most current approved budget, rather than showing total estimated costs to complete the project. In effect: "The status reports also did not provide the readers with a clear understanding of the significant risks, the range of possible outcomes, and the strategies to deal with them." The resulting effect was that reporting "painted a rosier picture than was actually the case."

Stronger VCCEP management performance was noted for the coordination of facilities planning for post-opening operating needs. Even though an operator for the new facility had not yet been determined, VCCEP took steps to coordinate with PavCo as operator of the existing nearby East building. In addition, VCCEP engaged consulting services to address design considerations that would have operational impacts.

Comparison with Pre-Expansion Projections. No information has been provided by VCC regarding market feasibility studies conducted prior to the 2003 exhibit space expansion. As with the 2010 WSCC conference space addition, VCC experience is not viewed as being directly comparable or pertinent for estimating potential stress conditions for the planned 2021 WSCC expansion. In addition to lack of prior forecast data, this is for several added reasons:

- Unlike the other comparables, utilization is measured in terms of non-resident delegate days rather than total attendance (which would skew the analysis relative to other comparables if the mix of resident versus non-resident usage changes over time).
- Financial statements prior to FY 2011 (Year +1) were subsequently restated by PavCo, increasing reported pre-expansion operating losses considerably.
- The VCC experience is substantially affected by opening year utilization for the 2010 Winter Olympics which renders this less useful as a basis for evaluating experience with a more typical convention center expansion.
- VCC also appears to have experienced substantially different and more positive results than the other west coast centers noted. While presenting optimism for a best-case outcome, this experience is not as useful for evaluating stress conditions under what might occur with more typical, less favorable circumstances.

Updated Outlook

VCC non-resident utilization dropped to 304,000 delegate days as of FY 2014, then rebounded to 421,000 in FY 2015 – still more than 20% below peak year counts in FY 2012 (Year +3). However, VCC's net income position has further improved – going from a net deficit position of $2.8 million in FY 2013 to net operating surplus of $2.6 million as of FY 2015.[36]

SAN FRANCISCO MOSCONE CENTER

Of the western U.S. comparables reviewed for this evaluation, San Francisco's Moscone Center is the largest. First opened in 1981, Moscone Center has since experienced two major expansions with another expansion planned for 2018.

Moscone Profile

Moscone Center currently comprises more than two million square feet of building area, including 700,000+ square feet of exhibit space, up to 106 meeting rooms (with 260,000+ square feet), and 123,000 square feet of pre-function lobbies. The largest contiguous exhibit area comprises over 260,000 square feet of column-free space; over 167,000 square foot of ballroom area is also available.

Total site area covers approximately 20 acres on three large downtown blocks south of Market. With no specific headquarter hotel property, Moscone is nonetheless served by multiple nearby hotels in San Francisco's South of Market Area (SOMA) district.

Facility History. Facility additions completed and planned have involved the:

- Moscone North expansion of approximately 300,000 square feet completed in 1992
- Moscone West free-standing expansion of an added 300,000 square feet of exhibit hall and meeting space in 2003
- Additional expansion, now underway, adding another 305,000+ square feet of functional area

Developed and owned by the City and County of San Francisco, Moscone is privately managed by SMG and booked by the San Francisco Travel Association which serves as the City's convention and visitor's bureau. While able to serve large combined events, Moscone West appears to have been initially marketed independent of the larger nearby North/South facility. More recent experience indicates increasing though somewhat bumpy utilization of the West property in combination with other Moscone facilities.

2003 Moscone Expansion. The focus of this discussion is on the experience of the 300,000 square foot Moscone West expansion of 2003 in terms of effects to attendance, operating revenue and expense. As with the current proposed WSCC expansion, Moscone West is physically separated from existing facilities – diagonally across Fourth Street from Moscone South and about ½ block from Moscone North. The newer Moscone West facility is situated on three floors with a ground floor exhibit hall plus two upper levels providing divisible flexible swing/meeting space together with basement level and loading dock area.

Pre-/Post-Expansion Results

The addition of Moscone West has supported dramatically increased attendance but with what appears to be negative effects to the combined facility's bottom line.

Moscone Revenue / Expense History with 2003 Convention Center Expansion

Metric	Years Before / After Facility Completion -2	-1	0	+1	+2	+3
Year	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Income	$64,003,000	$55,697,000	$53,480,000	$56,332,000	$54,075,000	$56,604,000
Expense	($56,360,000)	($49,974,000)	($58,978,000)	($74,490,000)	($53,543,000)	($62,306,000)
Net Income	$7,643,000	$5,723,000	($5,498,000)	($18,158,000)	$532,000	($5,702,000)
Attendance	839,390	744,746	747,832	937,440	819,843	1,046,272

Notes: Accounting for Moscone occurs as part of the annual City/County budget and appropriations process.
Revenues included dedicated tax sources but not other intergovernmental transfers.
Moscone expenses have been adjusted to exclude expenses to San Francisco Mayor's office.

Source: City and County of San Francisco Final Consolidated Budget and Annual Appropriation Ordinance, various years, as compiled by E. D. Hovee.

Two years prior to expansion, the existing Moscone Center served just under 840,000 attendees. Attendance was reduced to the 750,000 level the following two years – including the year that Moscone West opened. Subsequent to completion, usage moved up to a new plateau – exceeding one million attendees by the third-year post-expansion.

However, for Moscone increased attendance does not appear to have translated to increased income (at least for the years evaluated). Reported post-expansion revenues remain below what was experienced previously.

Facility expenses did increase by 18% the year of opening and by more than 25% the following year – before dropping back thereafter. The result has been that net income has gone from a reported positive NOI of $7.6 million two years prior to expansion to a deficit peaking at over $18 million the first year after opening. This was followed by a small net surplus the following year, returning to a deficit approaching $6 million by the 3rd year post-expansion.

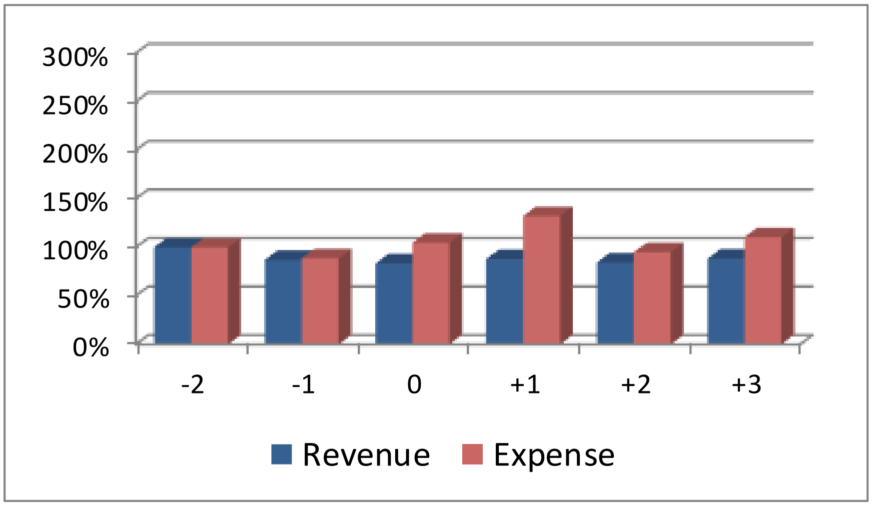
As of FY 2006 (Year +3), just over one-third (34%) of facility expenses were covered by rents and concessions together with charges for services. Remaining expenses including deficits (offset by transfers into the Convention Facilities Fund) are funded by the City/County of San Francisco via sources including General Fund and Tourism Improvement District (TID) hotel assessments.

When considered over the full six-year period, it is noted that as of three years post-expansion, attendance is up by 25% as compared with the experience two years pre-expansion. Over this time frame, expenses have increased by 11% while income has declined by 12%. The resulting swing in average annual net income from two years pre- to three years post-expansion has been a negative $13 million.

Revenue/Expense Trend. Results reported for San Francisco's Moscone Center indicate the least relative impact from expansion of the comparable facilities reviewed.

Three years after opening, center revenues were only 88% of what was reported two years before the expansion. Expenses came in at 111% of pre-expansion levels. Expenses increased by a substantial 32% in the first year after opening but were reduced the following two years.

Moscone Revenue / Expense Trend with 2003 Expansion (Year -2 = 100%)



Source: B.C. Pavilion Corporation Annual Reports, as compiled by E. D. Hovee.

Minimal financial impact has occurred despite a significant 25% increase in attendance over the 6-year period considered. This indicates an overall reduced level of income per attendee – potentially due to competitive factors, a possible shift in the overall mix of business, and/or in Moscone financial objectives.

Comparison with Pre-Expansion Projections. As with OCC, pre-expansion forecast files for Moscone West are no longer readily available, due in part to the relocation of convention center offices. However, correspondence with Moscone management indicates that the addition has been viewed as an "outstanding success" for the City and County of San Francisco.

Moscone West went from about attendance averaging just over 271,000 or 25% of total combined facility attendance in the first two years of operation to 36% utilization of all Moscone facilities by the third-year post-expansion. Added notes provided by facility management are that:

> What we have experienced is that the intention or Moscone West when it was conceived was to act as a standalone facility to balance the hotel room occupancy between events in Moscone North and South and West. The intention was for events to be taking place in one building while an event was moving in or out of the other buildings. Over the years what has happened is that a number of our events have grown to require use of all three facilities North, South and West.[37]

The City's willingness to underwrite substantially increased deficits to bring added business may make this a less direct comparable to WSCC which has the objective of operations being fully paid by facility revenues. The appropriateness of using Moscone as a WSCC comparable is further discussed at the conclusion of this appendix.

Updated Outlook

As of FY 2016-17, Moscone West hosted 45 events (or 766 use days) – with attendance at 443,000 and 70% use day occupancy (up somewhat from 65% the year of opening). Total attendance is down slightly in the last two years – with fewer events and utilization down from a reported 84% in FY 2014-15.

Combined Moscone Center utilization for FY 2016-17 comes in at 1.02 million attendees. This is little changed from the experience in FY 2006 (three years after the last completed expansion). Combined use day occupancy for all facilities is at 49% - with lesser 42% utilization for older North/South buildings than the 70% figure indicated for Moscone West.

Moscone Center is currently underway with a $551 million expansion – adding another 305,000+ square feet of functional area, including new exhibition space, new meeting room and pre-function space, new ballroom space, and support areas. The expansion site involves a limited portion of Moscone North and Moscone South, with about half of the work being done underground to better connect existing facilities. Completion is planned for year-end 2018.[38]

Viewed as important for attracting larger conventions and reducing lost meeting business, the current expansion project involves a partnership in which two-thirds of the costs are planned to be covered by an assessment on hotel rooms. The remaining one-third is being paid through the City's general fund – a significant portion of which is derived from hotel tax and convention revenue.

DENVER'S COLORADO CONVENTION CENTER

Opened in 1990 and expanded in 2004, the Colorado Convention Center is promoted as one of the most practical and *user-friendly* meeting facilities in the U.S. An additional expansion is currently being planned.

CCC Facility Profile

The Colorado Convention Center (CCC) currently offers 584,000 square feet of contiguous exhibit space on one level – together with 63 meeting rooms totaling 92,000 square feet, the 50,000 square foot Mile High Ballroom and separate 35,000 square foot Four Seasons Ballroom plus a 5,000 seat Bellco Theatre.

Facility History. The initial step toward a convention center occurred in 1969 with construction of an exhibition facility called Currigan Hall. Subsequently, in the 1980s a master plan was completed in preparation for future center expansions:

- In 1990, the city added what is now known as the Colorado Convention Center adjacent to Currigan Hall.
- In 2004, Currigan Hall was removed and the CCC was doubled to its current size – but designed with future capability to go vertical.

Pre-/Post-Expansion Results

As experienced with San Francisco's Moscone Center, CCC expansion has been accompanied by substantially increased facility usage, but at the apparent expense of the facility's bottom line.

CCC Revenue / Expense History with 2004 Convention Center Expansion

	Years Before / After Facility Completion					
Metric	**-2**	**-1**	**0**	**+1**	**+2**	**+3**
Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Income	$5,926,211	$6,254,800	$5,978,660	$11,522,854	$11,766,666	$13,929,749
Expense	($7,271,137)	($7,452,357)	($8,142,401)	($12,870,541)	($14,571,637)	($17,449,398)
Net Income	($1,344,926)	($1,197,557)	($2,163,741)	($1,347,687)	($2,804,971)	($3,519,649)
Attendance	555,339	569,599	571,797	927,145	824,835	904,991

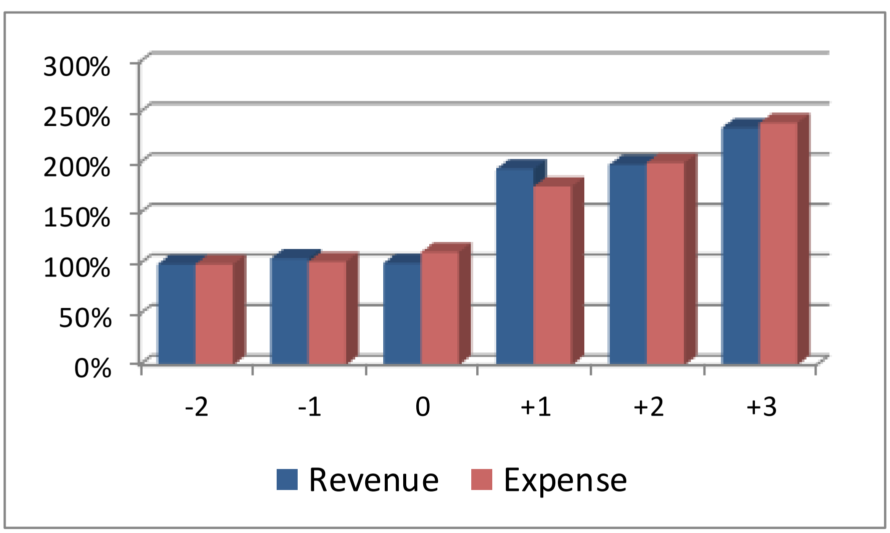
Source: Denver Arts & Venues, City and County of Denver.

Three years prior to opening, CCC experienced a nearly 700,000 attendance year in 2001. Facility utilization then dropped the next three years up to the 2004 opening of the expanded facility to a range of 555,000 to 572,000 attendees per year. The next year attendance jumped by 62% to over 927,000 before settling back to 825,000 and then 905,000 attendees in the second and third years after opening, respectively.

Operating income nearly doubled (increasing by 93%) the year after opening, then increased by another 21% the next two years despite reduced attendance. Expenses increased more rapidly – so that net income went from roughly a negative $1+ million range in the two years before opening to a deficit of over $2 million the year of opening. Results further deteriorated to a $3.5 million operating deficit three years after opening. Only in the first year after opening did net income improve temporarily to near the deficit levels of the years just before expansion.

Revenue/Expense Trend. Both revenues and expenses more than doubled with the expanded CCC facility. From Year -2 to Year +3, revenues were up by 135% -- not keeping pace with a 140% increase in expenses. As of three years post-expansion, CCC

CCC Revenue / Expense Trend with 2004 Expansion (Year -2 = 100%)



Source: City and County of Denver, as compiled by E. D. Hovee.

revenues were at 235% of Year -2 results – more than doubling. While revenues outpaced expenses in the first year after opening, by three years after opening expenses were up to 240% of pre-expansion levels.

The result is that the operating deficit increased by $2+ million above what was experienced pre-expansion.

Comparison with Pre-Expansion Projections. No feasibility study information has been obtained that addresses anticipated attendance and financial outcomes in advance of facility expansion in 2004.

Updated Outlook

As with other convention centers, CCC experienced declining utilization due to the Great Recession occurring just after stabilized post-expansion utilization. With subsequent recovery, attendance continued to increase, finally again passing the 900,000 mark first realized three years after the 2004 expansion – a decade later in 2014. As of 2016, convention center patronage had increased by another 5% to over 967,500 attendees.

Since the early part of this decade, an important long-term goal of Arts & Venues Denver has been to find innovative ways to increase revenue and reduce expenses to shrink the center's on-going operating deficit which was holding in the $2.5 - $3 million range. As of 2015, operating revenues had increased to $24.5 million versus $26.7 million in expenditures – resulting in a somewhat reduced operating deficit of $2.2 million.

Based on a 2014 feasibility study, in November 2015 Denver voters approved a measure to spend what was initially estimated at $104 million (since increased to $233 million) to expand the Colorado Convention Center. With design work initiated in 2016, the expansion is currently planned at about 250,000 square feet to include 85,000 square feet of meeting and ballroom space, 100,000+ square feet of new pre-function and service space that will also include a 50,000 square foot outdoor terrace to be located on the roof of the existing center -- offering mountain and downtown views. Also included are technology upgrades and three lobby renovations in the existing structure.

Funding is planned to come from voter approved permanent extensions of 1.75% portions of the city 's car rental and lodging taxes that had been due to expire in 2023. A new 1% surcharge tax on lodging stays in midsize and large hotels (over 50+ rooms) has also been proposed. Construction is targeted to get underway in late 2019. [39]

Summary Notes

Each of the facility expansions profiled has been accompanied by individualized circumstances which can serve to constrain comparability and overall conclusions. The timing of completion relative to broad economic cycles also has impacted facility-specific outcomes.

WSCC's first expansion occurred amid a more difficult economy than the second expansion which opened just as the market was beginning to recover from the Great Recession. The Oregon Convention Center, Moscone West and San Francisco all came on line in 2003 as the economy was improving; Spokane's new exhibit hall opened three years later as the economy was headed into recession. Vancouver's West early experience was complicated by initial year usage for the 2010 Winter Olympics. Also noted are variations in accounting practices between and within facilities over the pre- and post-expansion time frames considered.

Overall Observations. Despite these limitations, two summary observations can be drawn from this review of comparable pre- and post-expansion experience:

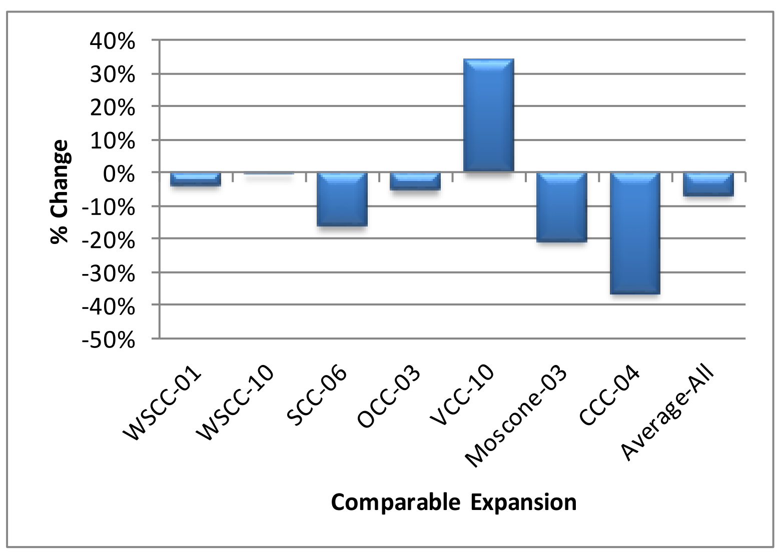
- **There does not appear to be a clear correlation between the size of convention center expansion relative to the resulting increase in on-site convention activity.** For all facility expansions considered, the percentage increase in facility exhibit and meeting space (square footage) has generally exceeded the resulting proportional change in meeting attendance – at least for the three years following expansion completion. A notable exception is found with the Vancouver Convention Centre – although results are affected by expansion completed for the 2010 Winter Olympics.

  Except for CCC's 2004 and WSCC's 2010 expansion, the increase in meeting space has also exceeded percentage gains in facility income and expense. Despite greatly increased usage, CCC's deficit increased post-expansion.

  WSCC's 2010 expansion was focused on improved conference center capability. In this case, despite limited total attendance change to date, WSCC facility revenue growth has proportionately outpaced the increase in building space (reflecting a shift to higher value conferencing as well as changed accounting practices).

- **For all expansions profiled except Vancouver's VCC, the increase in facility expense has outpaced gains in revenue – resulting in reduced net operating income than was the case pre-expansion.** As depicted by the graph to the right, net income as a share of pre-construction facility revenue dropped by 7% when averaged across all expansions considered.

Pre- to Post-Expansion Average Change in Net Income by Comparable Facility *



Source: E. D. Hovee as compiled from convention facility financial reports.

Denver's Colorado Convention Center expansion is associated with the most severe 37% erosion in net income as a share of pre-expansion gross income – followed by Moscone Center in San Francisco. As points of comparison, WSCC experienced a negative 4% swing with its 2001 expansion and virtually no swing with the later 2010 expansion. OCC and SCC experienced negative 5% and 16% negative changes, respectively. Vancouver is the only one of the comparables for which net income appears to have increased relative to pre-expansion gross revenue.

In conclusion, it can reasonably be expected that attendance, income and expenses all will increase with a convention center facility expansion – as is anticipated with the WSCC Addition. Experience indicates that expense increases typically outpace revenue growth for as much as 3+ years following a completed expansion.

Whether short- or longer-term, the ability to maintain or improve bottom line net income results is dependent on taking aggressive measures to achieve cost efficiencies and/or added revenue per attendee associated with by a facility expansion. Otherwise the negative swing in net income can prove substantial, especially in the year of new facility opening as well as subsequent years post-expansion.

Stress Test Implications. Results of this review are incorporated into operational stress test modeling conducted with Section V to this report. Of the comparables considered, all but two are incorporated into a composite stress test model formulation:

- The Vancouver Convention Centre is excluded because of unique circumstances related to the 2010 Winter Olympic which created a major revenue increase with facility expansion for that event – a situation not likely repeated elsewhere.
- The second WSCC expansion of 2010 is also excluded because its focus was on expansion of meeting and conferencing space rather than exhibit space which is a major feature of the WSCC Addition.

WSCC management recommended consideration of the Phoenix Convention Center as a possible comparable. Upon review, this facility's experience was excluded – primarily because two expansions occurred in short succession – three years apart (in 2006 and 2009). The close time proximity of these expansions makes it difficult to clearly distinguish effects of the first from the second expansion. Also problematic was the lack of data needed for a full comparison to the other facilities reviewed. The appropriateness of including San Francisco's Moscone's Center also has been questioned – due to the City's apparent willingness to fund operating deficits.

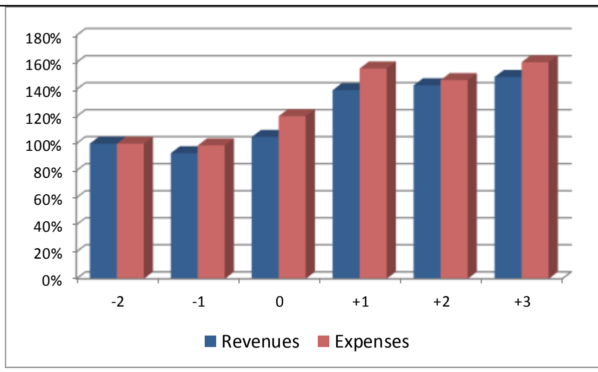
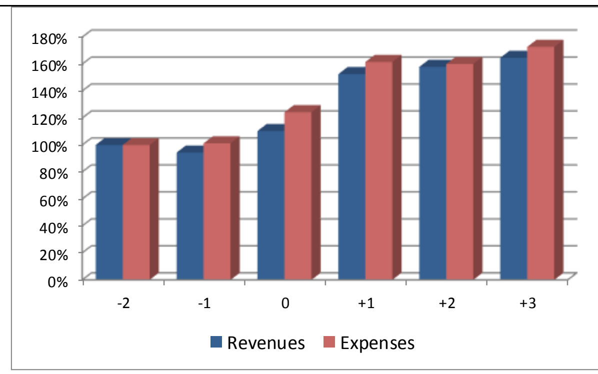
Comparables for Stress Test Review. The resulting comparables selected as most applicable for utilization with review of the WSCC Addition project are:

- The first WSCC Facility Expansions – involving the 2001 doubling of exhibit space opening of a new conference center in 2010

- Spokane Convention Center – 2006 exhibit hall expansion
- Oregon Convention Center – 2003 exhibit hall expansion in Portland
- Colorado Convention Center – 2004 doubling of the Denver center
- San Francisco Moscone Center – 2003 Moscone West facility completion (an optional choice as further discussed below)

The graphs below portray the average change in revenues expenses averaged across all five comparables (shown by the graph *to the left*) and for all facility expansions except Moscone (shown by the graph *to the right*). Results are expressed as a percentage of revenues and expenses as of two years prior to expansion opening (Year -2).

Average Revenue / Expanse Trend for Selected Facilities
(Years from Pre- and Post-Opening, Year -2 = 100%)

Average of 5 Comparables (w/Moscone)	Average of 4 Comparables (w/o Moscone)
	

Source: E. D. Hovee, from comparables analysis.

For all five comparables combined (including Moscone), revenues as of three years after expansion (Year +3) averaged 149% of Year -2 revenues, i.e., 49% higher. Expenses rose even more, by 60%. In effect expense growth outpaced revenue increases by 11% points.

If Moscone is excluded from the analysis, revenues for the four other facility expansions increased by an average of 65% from Year -2 to Year +3. This indicates more rapid revenue growth (without Moscone) than when the San Francisco facility is included in the comparison. Expenses also increased substantially, by 73%. However, the gap by which expense growth exceeded revenue gains is narrowed from 11% points (with Moscone) to 8% points (when Moscone is removed from the comparison).

The inclusion of Moscone as a valid comparable for purposes of considering potential implications with the WSCC Addition would have the effect of increasing the potential subsidy that WSCC might need to fund from non-operating sources. Excluding Moscone on the basis of potential non-comparability would imply a reduced future potential subsidy requirement for WSCC.

WSCC management suggests that Moscone does not constitute a useful comparable. This is because the City and County of San Francisco appear to be willing to fund increased subsidy offsets as a means to generate added convention business with continuing facility expansion. This funding commitment runs counter to the policy of the WSCC board which is to adjust operations as needed so that any on-going operating subsidy is not required:

- **Exclusion** of Moscone is appropriate if it is assumed that the current WSCC policy will be continued into the future – through the duration of debt repayment for existing facilities and the Addition.
- Conversely, **inclusion** of Moscone as a comparable may be more applicable as part of a *worst-case* stress test – predicated on either a market necessity to underwrite an increased deficit and/or due to potential change in policy direction by a future WSCC board and management.

The approach taken with the Section V Operating Budget portion of this independent feasibility report describes and illustrates the outcomes associated with each of these two alternate stress test scenario situations.

APPENDIX E. SUPPLEMENTAL WSCC DATA

This appendix provides supplemental information to better profile three important aspects of current WSCC operations:

- Recent WSCC convention and meeting activity
- National benchmarking with comparable facilities
- Lost and waived business opportunity due to inadequate facilities

RECENT WSCC CONVENTION & MEETING ACTIVITY

WSCC meeting, trade show and other event bookings are generally handled in two ways:

- **Visit Seattle** (via contract with WSCC) is responsible for booking long-lead time events 14 months or more in advance of the event date.
- **WSCC** handles events booked within 14 months of the event date.

In conjunction with its 2018 update of prior (2015) operating projections, HVS has also evaluated facility bookings – both by Visit Seattle and WSCC. As depicted by the charts below, Visit Seattle and WSCC have contributed similarly to facility attendance, but with Visit Seattle increasing its share in 2017.

Attendance & Net Revenues from Event Bookings (2016-17)

Source: WSCC and HVS

With respect to net revenues, Visit Seattle accounts for about three-quarters of the net revenue total from events. This is because Visit Seattle takes responsibility for higher value conventions, conferences and trade shows that often are booked years in advance of the event. Convention and trade show events account for the majority of this revenue.

By comparison, WSCC is responsible for filling in the events calendar with shorter lead times, including a more diverse mix of local consumer shows, meetings, banquets, and special events.

The Visit Seattle generated events tend to yield substantially more revenue when considered on a per attendee basis – as with attendees to a national convention or trade show. The more locally focused WSCC generated events perform slightly better when revenues are measured based on per square foot of space utilized.

Overall, both event attendance and net revenue declined by about 3% from 2016-17 – whether measured in total dollars or on a per attendee or per square footage basis. Rental, parking and food/beverage revenues decreased. Income related to other services increased.

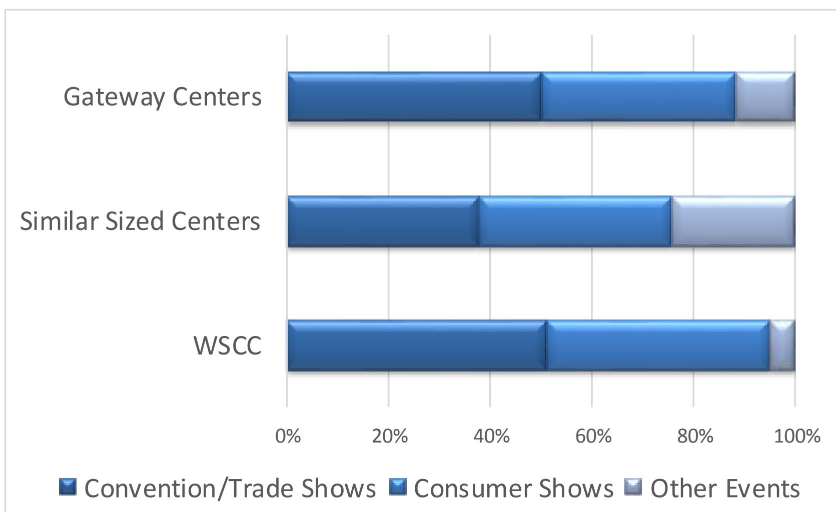
NATIONAL BENCHMARKING

It is useful to set WSCC's operating and market profile in the context of other similarly sized and situated facilities nationally. Information provided by WSCC to industry consultant PWC as well as by others makes two types of comparisons possible for:

- Other similarly sized centers – in the range of 200-500,000 square feet of exhibit space (WSCC is at the smaller end of this size spectrum with 205,700 square feet)
- Gateway markets – as centers located in metro areas with 30,000+ hotel rooms and 100,000+ square feet of exhibit space.

The graph to the right compares the mix of convention/trade show, consumer show and other events for WSCC vis-à-vis other similarly sized and gateway centers. As of 2016, Just over half of WSCC's Exhibit Hall attendance came from convention and trade show events, with close to 40% from consumer shows and a minor portion from other events.

Comparative Mix of Exhibit Hall Attendance (2016)



Source: WSCC and PWC 2016 Convention Center Report.

WSCC compares most closely with other gateway centers having extensive lodging inventory. Other similar sized centers tend to be more reliant on *other events* to offset smaller shares of convention and trade show activity.

With respect to other performance metrics, WSCC:

- Has typical attendance of over 4,000 per convention and 11,000 for consumer shows – a figure that compares well with similar sized centers but only about half that of gateway market centers.
- Performs with significantly lower levels of annual exhibit hall attendance than is the case for the comparables considered.
- Operates at higher levels of exhibit hall and ballroom occupancy.
- Operates with rental rates and food and beverage revenues that are below the similarly sized and gateway comparables.
- Conversely, experiences rental as well as food and beverage revenues that exceed the norm for consumer shows.
- Operates at lower level of staffing than comparables – due in large part to contracting for services including catering/concessions, AV and telecommunications services, electrical and utilities provision.

Of the benchmark indicators considered, high levels of utilization appear supportive of the need for more space, creating opportunity for WSCC to move to the upper echelon of mid-sized convention centers nationally. However, while experiencing a strong mix of convention and trade show activity, rental rates and income are not as strong as might be expected for a major urban exhibit facility.

WSCC Lost Business Opportunity

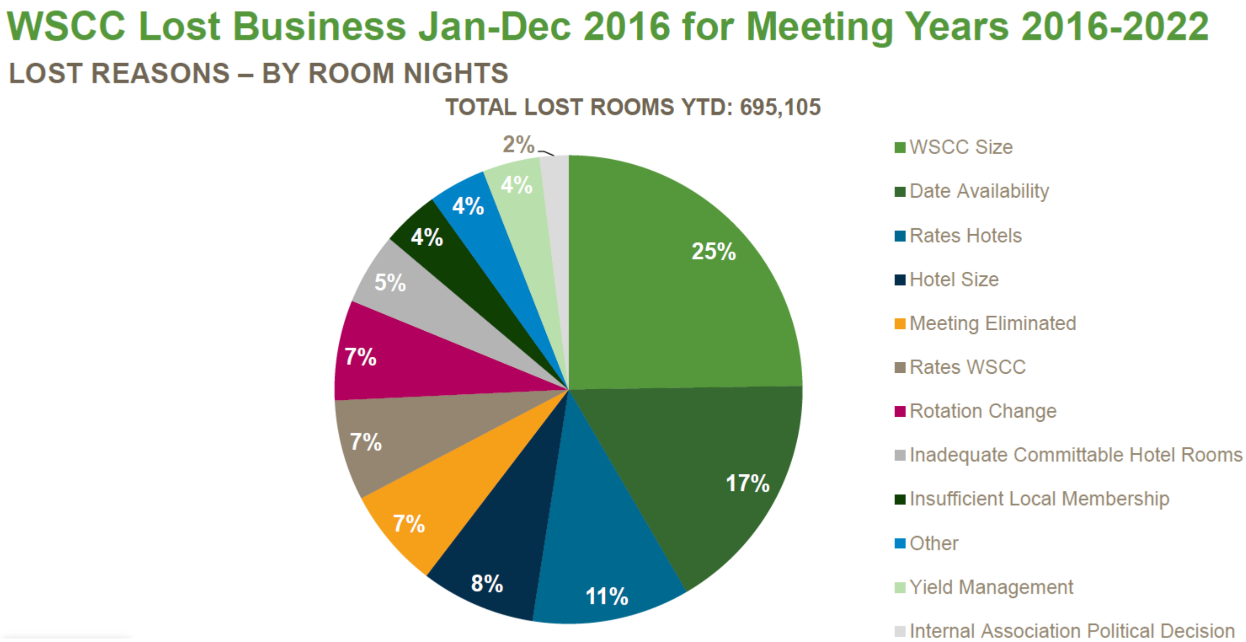
As part of their marketing responsibilities, Visit Seattle and WSCC track business that is lost to the convention facility. Data regarding the reasons for and patterns of lost business activity are useful as a basis for assessing opportunities potentially available with an expanded facility as currently planned.

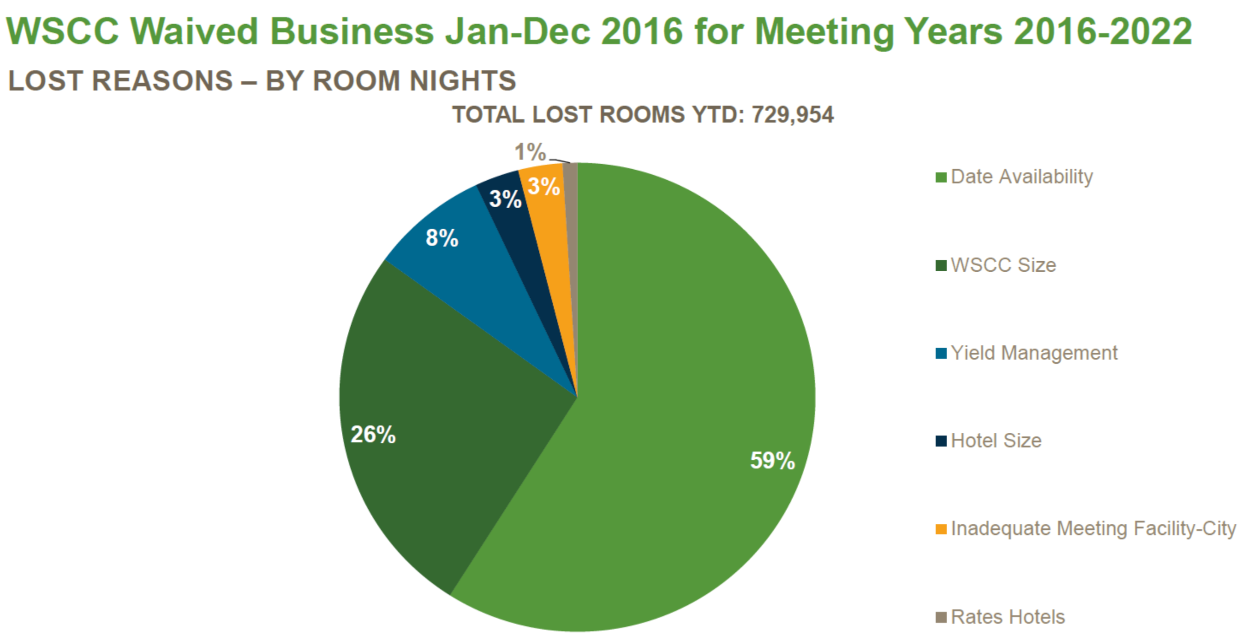
Funding of both internal and external marketing comes from a combined 16.67% allocation of Regular Lodging Tax revenue. Based on financial restatements as of 2017, funding and expenses associated with this marketing transfer have been shifted from operating to non-operating revenues and expenses.

Visit Seattle tracks two types of missed WSCC business opportunity:

- **Lost** – representing business that Seattle bid on, but was not awarded
- **Waived** – for business that want Seattle to bid, but for which Visit Seattle was unable to bid (for varied reasons)

The graphs on the following page depict lost and then waived business for the January-December period of 2016, affecting bookings for meeting years extending from 2016-22. The primary metric used by Visit Seattle for lost and waived business is room nights of lodging.





Source: Visit Seattle, revised as of December 31, 2016.

In 2016, WSCC information indicates that meetings at the existing facilities accounted for an estimated 311,000 room nights at area hotels. Visit Seattle estimates that WSCC lost over 695.000 room nights and was forced to waive another 730,000 room nights of business that might have otherwise considered meeting at WSCC facilities over the period to 2022:

- An estimated 42% of lost room nights is reported as being due to inadequate size of WSCC facilities and limited date availability. These factors account for an even higher 85% of waived business opportunities.

- Hotel size and/or rates have been cited as responsible for 19% of lost business and 4% of waived business.
- A range of other factors accounted for 39% of lost business and 11% of waived business activity – including meeting elimination, WSCC or hotel rates, rotation changes, inadequate committable hotel rooms or meeting facilities city-wide, insufficient local membership, yield management and internal association political decisions.

Taken together, just the factors of inadequate WSCC facility size and limited date availability account for more than 900,000 room nights of lost business opportunity -– essentially representing more than two years of added potential but lost booking opportunity. The combination of lost and waived business is business that could have met in Seattle but was not pursued, largely because of inadequate facilities and booking dates available.

Creating added space also increases booking options and increased market capture. Appropriately marketed and managed, both factors should bode well for the Addition.

Solving these issues does not necessarily mean that the all lost business would come to WSCC in the future. But without the added facility capacity, this would continue to represent a measure of business for which WSCC likely would not effectively compete.

Competitive factors related to WSCC size and data availability represent issues aimed to be addressed with an expanded facility. Having a companion exhibit and meeting facility will serve to both accommodate large events for which WSCC is not currently adequately sized and free up dates for more small-to-mid size events during heavily booked seasons of the year.

APPENDIX F. DOR FORECAST REVIEW

The funding of land acquisition and subsequent construction of an additional facility is dependent, in large measure, on the adequacy of lodging tax revenues to repay debt that has been and will be incurred by the WSCC. The tax revenues most directly available for debt repayment are the 7.0% lodging tax in the City in Seattle together with a 2.8% lodging tax throughout the rest of King County – together known as Regular Lodging Tax.

While there is an additional 2.0% lodging tax (as part of an existing state-shared sales tax credit) within the City of Seattle potentially available as a backstop resource through mid-2029, the 7.0%/2.8% mechanism is the primary, if not only, funding source anticipated. Because debt repayment is primarily on future rather than past or present lodging tax receipts, forecasting future revenue streams is of considerable importance in reviewing WSCC capacity to repay added debt, albeit from two distinct perspectives:

- To address the requirements of the Additional Bonds Test (ABT) – focused only on actual lodging tax receipts in the 1-2 years prior to bond issuance (currently anticipated for issues in 2018 and 2020)
- Secondarily, to review the likelihood that future lodging tax revenues will prove adequate to cover not only bonded debt but also other existing and planned uses of these revenues

PURPOSE OF DOR FORECAST REVIEW

In conducting the 2015 Phase 1 Land Acquisition and Financing Feasibility report, two alternative lodging tax revenue reports were reviewed:

- A Lodging Tax Forecast prepared by PKF Consulting USA (now CBRE) for WSCC in 2014 – currently being updated for Phase 2 issuance of debt for the planned WSCC addition
- On-going forecasting of 7.0%/2.8% WSCC revenues by Washington State Department of Revenue (DOR) – typically covering a period that may extend for 3-5 years being the most recent date for which actual tax revenues are known

For the Phase 1 land acquisition and Phase 2 build-out report, this independent review involved use of WSCC-provided projections of lodging tax revenues as a base case. The base case relied on PKF/CBRE analyses, most recently as adjusted by PFM. In addition, the Phase 1 review involved preparation of a *stress test* scenario which references the DOR forecast. WSCC management has expressed concern that DOR projections may be unduly conservative, especially based on recent WSCC facility management and lodging tax revenue experience.

Consequently, the purpose of this appendix is to review the methodology taken by DOR with its WSCC lodging tax projections as well as actual lodging tax revenue experience as compared to DOR financial model outputs. This review also is intended to assist in determining whether and in what way to utilize DOR projections with stress test scenarios for WSCC debt repayment or to consider a modified or alternate stress test forecast mechanism.

This review was initially prepared in October 2016 with lodging tax data as then available through 2015. It reflects modeling, actual revenues and forecast outputs of DOR as available at the time. The remainder of this analysis includes minor edits made in response to comments received but essentially remains as previously prepared.

The Appendix discussion begins by describing the DOR revenue forecast methodology and then reviewing the performance of the DOR model vis-à-vis actual lodging tax revenue experience, followed by concluding observations and recommendation for refined stress test evaluation.

DOR Revenue Forecast Methodology

Among its responsibilities, DOR provides revenue forecasts for a range of selected non-general fund local taxes. Separate DOR forecasts are prepared for the jurisdictions and programs involving the WSCC PFD 7.0%/2.8% Seattle/King County lodging taxes, Seattle 2.0% lodging tax credited against state sales tax, statewide 2.0% lodging tax (also credited against state sales tax), football stadium, regional transit authorities, county enhanced 911 telephone tax, rural counties 0.9% local sales tax, regional centers 0.033% sales tax credit, regional theaters state sales tax credit, annexation services, health sciences and services, hotel benefit zones, local infrastructure financing tool (LIFT), and local revitalization financing (LRF).

Each DOR forecast is prepared using a statistical forecasting process custom designed for the revenue source in question. Based on detailed modeling information provided by DOR in 2015, the WSCC 7.0%/2.8% projection has been prepared using a methodology driven by national forecasts for three variables – leisure and hospitality employment, consumer sentiment index, and personal income. Data is lagged by six months, meaning that changes in these three national variables would be expected to affect WSCC lodging tax revenues with an approximate 6-month delay. At the time of this methodology review, DOR forecasts covered a time frame through FY 2019 (or June 2019).

Using linear trend/regression analysis, DOR has calibrated the model based on actual monthly data on WSCC lodging tax revenues since mid-1999. The DOR model provided in 2015 (for the Phase 1 WSCC review) was calibrated from actual revenue experience through April 2015. The regression model indicates a coefficient of determination (R^2) of nearly 0.95, meaning that about 95% of the variation of lodging tax revenues is explainable by the three national variables indicated above.

After running an initial statistical trend analysis, two additional steps are taken by DOR to reduce the errors between modeled outputs and actual results:

- Monthly totals are seasonally adjusted based on experience from mid-2000 to 2014/15 (the latest time period for data then available).

- A second seasonal correction factor is calculated based on the remaining error between monthly predicted versus actual lodging tax outcomes – again using monthly averages over the 2000-14/15 period.

The DOR May 2015 revenue forecast serves as the basis for this review. As of May 2015, forecasts of future monthly lodging tax revenue provided using this modeling process were through FY 2019 (or June 2019).

FORECAST REVIEW

From DOR's forecast model, it has been possible to review model performance in terms of predicted (or modeled) lodging tax revenues vis-à-vis actual monthly outcomes. For purposes of this review, the following additional adjustments have been made:

- Rather than showing monthly results, lodging tax revenues have been aggregated to annualized totals. As might be expected, there is significantly less variation between modeled and actual results for annualized rather than monthly revenue data.
- While DOR data are compiled for a July - June fiscal year, monthly data also are re-aggregated to fit with the calendar year accounting format used by WSCC.
- A starting point of 2001 (the earliest year of full DOR forecast model calibration) fits well with the use of 2001 as the start of the current business cycle (for inflation estimates). Application of a 2001-15 time frame also is consistent with the historic data set utilized for much of the operating review with this build-out and operating feasibility report.
- Finally, actual data was included with the last eight months of 2015 for which lodging tax revenues were not known when the modeling information was provided by DOR in May 2015. This adjustment allowed for inclusion of complete 2015 calendar year results. However, model parameters were not adjusted (or re-calibrated) to reflect this added eight months of experience.

Annualized Comparison Results

A comparison of actual versus modeled results for each year from 2001-15 2015 is provided by the chart on the following page. When averaged over the full 15 years of this time series comparison, modeled results come remarkably close (to within 0.1%) of predicting actual 7.0%/2.8% WSCC lodging tax revenues. However, there are more significant differences when variations on considered on a year-by-year basis.

- For example, in 2009 (near the trough of the Great Recession), actual lodging revenues were 8.5% less than what the DOR model would have predicted.
- Conversely, in 2015, lodging tax revenues were 7.2% more than the DOR modeled value.
- Even these seemingly moderate percentage deviations can have significant monetary impacts to WSCC funding. In 2009, lodging tax revenues were $3.9 million less than what the DOR model would have predicted. As of 2015, DOR revenues were $4.9 million more than what the DOR model would indicate.

In total, over this 15 year period there are seven years when the DOR model would have overestimated and seven years when DOR would have underestimated WSCC lodging tax revenues – with one year at essentially no difference. On a cumulative basis, actual lodging tax revenues received over 15 years came to about $365,000 (0.1%) above DOR predicted values.

WSCC Lodging Tax Forecast Review (2001-15)

	WSCC 7.0%/2.8% Lodging Tax Revenues			
Year	Actual	Modeled	Actual - Modeled	% Difference
2001	$29,872,779	$31,802,000	($1,929,221)	-6.1%
2002	$30,830,690	$31,633,900	($803,210)	-2.5%
2003	$31,941,612	$32,677,100	($735,488)	-2.3%
2004	$34,020,327	$36,078,600	($2,058,273)	-5.7%
2005	$37,884,929	$40,020,700	($2,135,771)	-5.3%
2006	$43,322,713	$43,326,300	($3,587)	0.0%
2007	$49,208,300	$47,512,800	$1,695,500	3.6%
2008	$50,339,560	$49,511,200	$828,360	1.7%
2009	$41,944,342	$45,855,200	($3,910,858)	-8.5%
2010	$40,433,109	$43,200,300	($2,767,191)	-6.4%
2011	$47,572,482	$45,629,900	$1,942,582	4.3%
2012	$52,090,075	$50,358,500	$1,731,575	3.4%
2013	$56,914,341	$55,961,900	$952,441	1.7%
2014	$64,503,631	$61,830,400	$2,673,231	4.3%
2015	$72,646,714	$67,761,900	$4,884,814	7.2%
Total	$683,525,604	$683,160,700	$364,904	0.1%
Yearly Avg	$45,568,374	$45,544,047	$24,327	0.1%

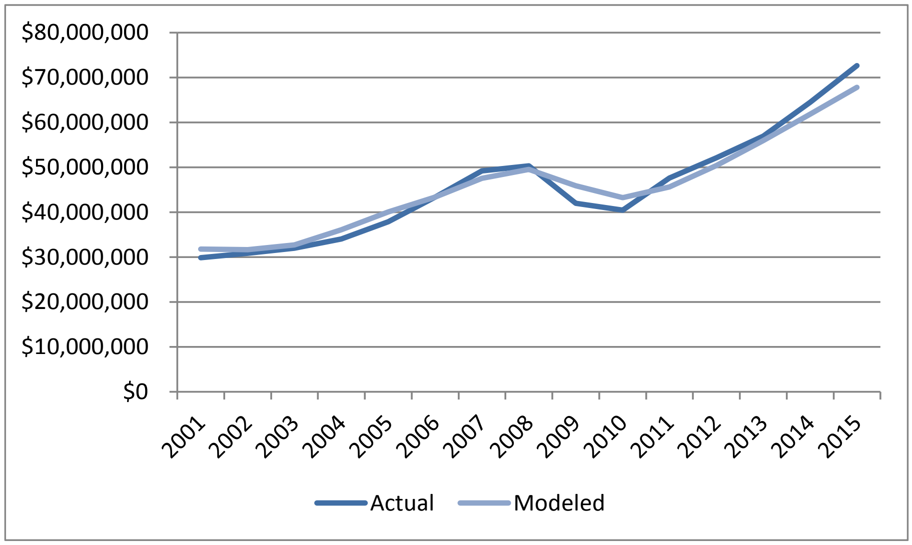
Note: For purposes of this review, all monthly data is aggregated provided on a calendar year basis as currently used by WSCC rather than a fiscal year basis as reported by DOR.

Source: Washington Department of Revenue per May 2015 DOR forecast, as compiled by E. D. Hovee & Company, LLC with E. D. Hovee adjustment to reflect actual revenues through the end of calendar year 2015. Data is for the WSCC PFD 7.0% City of Seattle / 2.8% King County lodging tax, DOR fund 01P006.

Trends Illustrated

The correspondence between actual versus modeled outcomes can also be graphically illustrated – as shown by the first chart on the right. Overall, lodging tax revenues appear to track reasonably well with predicted (modeled) outcomes. However, while catching turns in the market, it appears that the DOR model did not fully capture the depth of the 2009-2010 downturn. And more recent DOR projections were tracking below the upturn in revenues experiences starting about 2011.

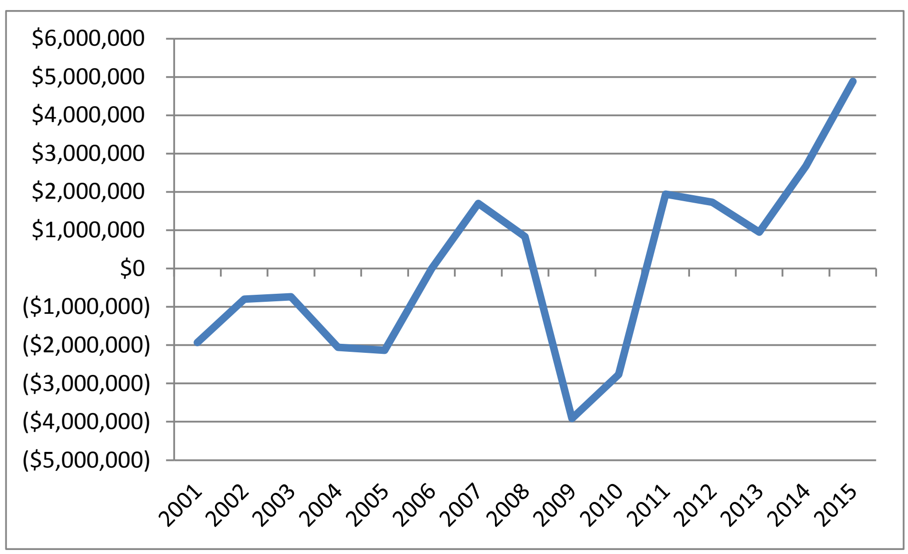
Actual vs. Modeled 7.0%/2.0% WSCC Revenues (2001-15)



Source: Washington State DOR, as compiled and updated by E. D. Hovee & Company, LLC.

Another way of looking at changes over the last 15 years is by considering the *year-to-year* swings in WSCC lodging tax revenues. A somewhat more volatile picture appears with the second graph showing actual results deviating by as much as $4 - $5 million in a given year from DOR modeled values.

Actual less Modeled WSCC Lodging Taxes (2001-15)



Source: Washington State DOR, as compiled and updated by E. D. Hovee.

While much of this variation is related to the overall business cycle, a case might also be made that some portion of the most recent upswing in revenues may be associated with current management of WSCC (now in place since transfer of ownership and operations to the PFD).

Review Caveats

The following added caveats are noted with this review:

- An important limitation with this retrospective modeling process is that performance is evaluated in terms of actual values for the three national variables of hospitality employment, consumer sentiment, and personal income – rather than forecasts made of these national variables in advance. To the extent that there are significant differences between predicted versus actual outcomes of these national variables, the resulting predictive value may vary significantly from what is indicated with this retrospective review. This may be an issue in the future if predicted values for the three national indicators prove to be well off-target, especially with respect to market turns.
- Because the DOR model is constructed to function on a rolling basis (updated as needed), it would be possible to recalibrate the model even now, for example, with the added 8 months of WSCC lodging tax data available when this review was first prepared. A separate test run conducted for this review served to increase the *bullishness* of the DOR model somewhat, reflecting the addition of eight added months of strong lodging revenue performance. With respect to the overall 15-year period, this adjustment had the effect of changing actual *versus* modeled results from a positive $365,000 to a negative $950,000 – meaning that the model more recently would be overestimating rather than underestimating performance (but still by less than 0.1% over the full 15-year time frame).
- Unfortunately, for purposes of long-term bond financings over a multi-year period, the DOR model provides only relatively short-term forecasts (through FY 2019 as of the time of receiving the 2015 prepared forecast dataset), making use of this model less useful than would be ideal for longer term lodging tax revenue forecasting. With the Phase 1 land acquisition review, this short-term issue was addressed in the stress test case by extrapolating the overview observation that DOR forecast revenues (from 2013-18) were just 59% of the then-PKF (now CBRE) projection over the full forecast horizon of debt repayment.

  Because DOR has been further off the mark in the current up-cycle, this 59% (DOR/PKF) discount factor could have the effect of proving overly conservative over the full business cycle. However, there is as yet no CBRE projection that explicitly addresses a down market as a means to calibrate what might be a more appropriate business cycle discount.

More on EFRC / DOR Forecast Error Analysis

This review does not include any DOR assessment of its WSCC lodging tax forecast reliability. However, it has been possible to also review the 2012 *Forecast Revenue Analysis* that was forwarded by the Economic and Research Forecast Council (ERFC) to the Department of Commerce – a document providing an evaluation of forecast accuracy of major Washington state tax sources (retail sales, B&O, use, public utility, and retail excise tax revenues) conducted for the 2009-11 biennium.

The ERFC analysis covered forecast errors related to "(i) model construction issues and (ii) errors in forecasting right-hand side economic variables." It is the item (ii) for right-hand side independent national variables used to forecast state revenues that is of primary interest for this discussion of WSCC revenue projections.

The ERFC analysis found that the November 2008 forecast of 2009-11 biennium revenues over-estimated actual receipts by 22%. Nearly 83% of this state revenue forecast error was due to the challenge of reliably forecasting underlying national economic conditions, notably missing the abrupt turn in the economy leading into the Great Recession. When actual 2011 data is fed into the model (after the fact), the forecast error is reduced from 22% to just 4%. The analysis conclusion is that "the gains to revenue forecasting accuracy due to improved model specification are likely to be outweighed by the difficulties in predicting economic turning points."

If the experience of EFRC/DOR with respect to major state tax sources holds for lodging tax revenues, the result would be that forecast errors are likely to be greatest just in *advance of* a major economic turning point. In other words, the 2009 DOR modeled 8.5% overestimate of WSCC-related lodging tax likely would be substantially amplified if comparison was made to pre-2009 forecasts of "right-hand side" national independent variables rather than to *after the fact* actual national experience for the three independent variables used.

Even this limitation need not be overly concerning over a full economic cycle if the extent of a forecast overestimate on the downside is offset by a similar forecast underestimate on the upside of the business cycle. In effect, there is less reason to be concerned with the size of the error on the upside or downside than if the ERFC/DOR models proved to be biased toward a greater error with the downside than the upside, or vice versa – as a systemic bias could serve to substantially affect the average annual growth rate (AAGR) associated with longer term revenue projections.

SUMMARY

The DOR lodging tax forecast model appears to serve a useful purpose as an alternate check on WSCC-PKF (CBRE)/PFM projections of future lodging tax. Based on experience since 2001, the DOR model appears to over-estimate 7.0%/2.8% WSCC lodging tax revenues during the down portion of the business cycle while underestimating revenues during the up-portion of the cycle.

Over the full business cycle, the DOR forecast model appears to yield predictions within just 0.1% of actual results. This assumes that future forecasts of the three national indicators also prove reliable. To the extent that the forecasts of the three independent model variables deviate from actual results, utility of the forecast model may be impaired, especially with respect to catching (in advance) impending turning points in the national economy.

As noted, this is not so much an issue if the national forecast errors balance out over the up- and down-portions of the business cycle. However, the utility of DOR model could be further called into question if there proved to be a systemic or cyclical bias in the forecasting of the independent variables – with greater forecast errors on one side than the other side of the business cycle.

With this review, no additional information has been provided by DOR as to the forecasting accuracy of the national variables for leisure and hospitality employment, consumer sentiment index, and personal income. Consequently, it has not been possible to reach any specific conclusion as to the utility of the three independent variables being used by DOR with the lodging tax model.

Notwithstanding these concerns, there appears to be value in continuing to reference DOR as an alternative to the WSCC-PKF/CBRE lodging tax forecast. DOR serves as an independent source with an established lodging tax forecast methodology that appears similar to the approach ERFC/DOR takes with forecasting other state general fund and non-general fund tax revenues. As a state agency, DOR also serves in a capacity that is useful to address the objective of the PFD independent financial feasibility review legislation (RCW 36.100.025) to assess "the adequacy of revenues or expected revenues" revenues to meet costs associated with issuance of added indebtedness.

For purposes of this independent feasibility review, DOR lodging tax modeling continues to be utilized as one (but not necessarily the only or primary) input to stress test modeling for the independent review of Phase 2 WSCC build-out and operating feasibility. As with the Phase 1 analysis, it is useful to assess the conditions under which WSCC debt service capacity could be jeopardized by utilizing a stress test or other comparison forecasts, rather than relying solely on a WSCC-PKF (CBRE) or PFM single point projection.

After further review, the stress test utilized with this Phase 2 build-out and operating feasibility report is based primarily on the experience of the Great Recession followed by subsequent recovery (i.e., the 10-year period from 2007-17).

Looking to the future beyond this impending WSCC Addition debt financing, there may be value in further discussing with ERFC/DOR: a) the forecast reliability or issues associated with the underlying national variables used by DOR in its forecast model; and b) the possible utility of securing a longer term DOR-based lodging tax forecast.

APPENDIX G. FINANCIAL SCHEDULES

On the following pages are provided supplemental financial schedules covering:

- WSCC Addition Budget (Uses and Sources of Funding – 2 pages)
- WSCC Net Financial Position – Assets & Liabilities (2011-17)
- WSCC Schedule of Changes in Net Position – Income & Expense (2011-17)
- WSCC Summary ABT & Project Debt Coverage (Base Case 2018-58)
- WSCC Summary ABT & Project Debt Coverage (Stress Test Scenario 2018-62)
- WSCC Base Case & Stress Test Operating Projections (2021-30)

WSCC Addition Development Budget (Uses of Funding)

BUDGET (USES)	Estimated Amount	% of Cost	Comments
Land & Related Costs			Added details with KC Purchase & Sale Agreement (PSA)
Land purchase	$322,477,000	18.6%	Agreement w/KC to close before construction starts
Affordable Housing (KC)	$5,000,000	0.3%	Added $5 million affordable housing w/land purchase
Land carry	($2,004,000)	-0.1%	Parking & Kolias property revenue before construction
Entitlements	$3,411,000	0.2%	Includes permits plus legal & EIS consultants
Title and closing costs	$200,000	0.0%	Estimated cost of legal & closing for KC-PSA
Land Subtotal	$329,084,000	19.0%	Increased 27% from Phase 1 reported $259,800,772
Architectural & Engineering			
A&E (Basic Services)	$55,313,000	3.2%	Typically A&E basic plus consultant fee @ 7% of cost
LMN Consultants & other services	$14,984,000	0.9%	Consultants to LMN as lead A/E firm
Owner consultants	$9,589,700	0.6%	Consultants hired directly by owner
Co-development	$6,513,000	0.4%	A&E required for obtaining permits w/co-development
Reimbursables	$1,306,000	0.1%	Includes A&E, owner & related printing + travel expense
Project insurance policy	$765,000	0.0%	Owner's professional liability + A/E/subconsultant cost
Testing and inspections	$2,650,000	0.2%	As required during construction
Feasibility costs	$808,000	0.0%	Pre-2015 for prelim. design, market, financing studies
Architectural & Engineering Subtotal	$91,928,700	5.3%	
Construction			
Construction costs	$936,600,000	54.1%	$930M MACC fixed price contract, ~30% cost committed
Early construction costs	$8,267,000	0.5%	Skanska Hunt cost prior to termination of agreement
Required change order contingency	$46,500,000	2.7%	5% of Clark/Lewis cost of $930,000,000
Co-development costs	$6,900,000	0.4%	Cost of foundations, sidewalks and landscaping
Transit related construction	$5,988,000	0.3%	Cost of ramp
TPSS & Comm Room	$17,124,000	1.0%	KC facilities relocation & layover/ROW improvements
Tenant allowance	$10,650,000	0.6%	Based on square footage of space & unit cost allowance
Utility rebates	($200,000)	0.0%	From providers including PSE and SCL
Permits & other charges	$5,747,000	0.3%	Building permit amount fixed, others are estimates
WSST (3.6% - local share)	$35,034,200	2.0%	On construction costs and change order contingency
WSST (6.5% - state share)	$63,274,250	3.7%	On construction costs and change order contingency
Construction Subtotal	$1,135,884,450	65.6%	
Leasing & Marketing			
Retail leasing commissions	$210,000	0.0%	Retail areas of $10/sf on 21,000 sf retail space
Advertising, promotion, & outreach	$3,435,000	0.2%	$1.5 million identified costs, remainder is contingency
Leasing and Marketing Subtotal	$3,645,000	0.2%	
Financing			
Net carry (operating losses to breakeven)	$2,000,000	0.1%	Added operating cost allowance prior to break-even
Other Financing costs	$470,000	0.0%	HVS operating, PKF lodging tax, Commerce reports
Financing fees	$7,237,605	0.4%	Includes cost of issuance & DSR surety premium
Debt service reserve	$28,149,000	1.6%	Per PFM Bond Proceeds Summary, 11/20/17
Financing Subtotal	$37,856,605	2.2%	
Miscellaneous			
Utility & connection fees	$6,059,372	0.3%	Based on utility company estimates, subject to change
Co-development utility & connection fees	$3,000,000	0.2%	To provide base for utilities above, subject to change
Builders risk & OCIP insurance	$13,060,000	0.8%	Provided by insurance consultant Parker Smith & Feek
Legal & accounting	$2,475,000	0.1%	Contracts w/Foster Pepper, Hendricks Bennett, & others
Building start-up	$2,200,000	0.1%	Based on HVS and WSCC management input
King County funding	$562,000	0.0%	Reimburseable costs incurred by KC prior to transaction
Art	$4,600,000	0.3%	Per KC-PSA D9, section 18.3(a)
Furniture, fixtures, & equipment	$18,900,000	1.1%	Per detailed estimate provided by FF&E consultant.
Miscellaneous Subtotal	$50,856,372	2.9%	
Project Administration			
Development Fees	$20,000,000	1.2%	PSG development fee per DMA.
Development Reimbursements	$22,350,000	1.3%	PSG cost of employees, for current staff to end of 2021
Project Administration Subtotal	$42,350,000	2.4%	
Contingency	$40,000,000	2.3%	W/construction @ 5.0% of budget, 6.2% w/o land
Total Development Budget (Uses)	**$1,731,605,000**	100.0%	Before KC reimbursement & co-development/land sale

WSCC Addition Development Budget (Funding Sources & Reconciliation)

BUDGET (SOURCES)	Estimated Amount	% of Cost	Comments
Debt Financing			
Subordinated CPS Note	$141,010,940	8.1%	Per KC-PSA, to close before construction start
2018 senior lien bonds	$625,233,235	36.1%	Per PFM Bond Proceeds Summary 11/20/2017
2018 subordinate lien bonds	$419,533,414	24.2%	Per PFM Bond Proceeds Summary 11/20/2017
2020 senior lien bonds	$114,869,202	6.6%	Per PFM Bond Proceeds Summary 11/20/2017
2020 subordinate lien bonds	$53,542,659	3.1%	Per PFM Bond Proceeds Summary 11/20/2017
2021 subordinate lien bonds		0.0%	Placeholder in event of changed bond allocation
Financing proceeds subtotal	$1,354,189,450	78.2%	
Equity Funding			
WSCC cash contribution	$270,192,709	15.6%	Includes $177M to date, remainder to balance w/cost
Release of 2010 DSR	$19,975,000	1.2%	Per PFM with shift to DSR surety
KC Metro reimbursement	$4,000,000	0.2%	For interim access to Downtown Seattle Transit Tunnel
TPSS, Comm Room, Layover & NEPA reimb	$19,342,000	1.1%	Transit Power Substation, Comm Room, layover, NEPA
Sale of surplus property	$5,000,000	0.3%	7,193 sf site @ ~$700/sf value & construction finish
Sale of development rights (co-development)	$38,410,700	2.2%	Minimum expectation to recover cost, sale in Q3 2018
Project fund investment income	$20,495,470	1.2%	During construction before drawdowns as needed
Subtotal	$377,415,879	21.8%	
	-		
Total Funding Sources	**$1,731,605,000**	100.0%	
Funding deficit	-		Uses & sources balance per WSCC cash contribution
Co-development Reconciliation			
Base Amount	$15,000,000	0.9%	For condo interest or "air cube" rights above WSCC
Incremental Costs:			
FAR/incentive zoning	$5,900,000	0.3%	$1.6M FAR cost + $4.3M zoning for affordable housing
Architectural & Engineering	$6,670,700	0.4%	Includes reimbursables, miscellaneous & LMN costs
Construction	$6,900,000	0.4%	Per estimate from Clark/Lewis
Permits	$800,000	0.0%	Estimated building permit cost for co-development sites
Leasing & Marketing	$40,000	0.0%	Primarily retail leasing commissions
Legal	$100,000	0.0%	Estimated costs for condo or air space agreements
Utility connections	$3,000,000	0.2%	100% of co-development cost above
Total Incremental Costs	$23,410,700	1.4%	Added cost for permit-ready co-development above
Total Base and Incremental Costs	$38,410,700	2.2%	Costs incurred plus base land value
Estimated Net Sales Proceeds of Co-developmen	$38,410,700	2.2%	Co-development only; excludes future surplus land sale
Potential Other Funding Sources			
Surety on DSR - 2010 & 2018 Senior Bonds	-	0.0%	Not currently identified
Surety on DSR - 2018 Subordinate Bonds	$24,950,000	1.4%	Per PFM
Surety on DSR - 2020 Senior Bonds	-	0.0%	Not currently identified
Surety on DSR - 2020 Subordinate Bonds	$3,199,000	0.2%	Per PFM
Additional co-development proceeds	$5,000,000	0.3%	In event that co-development proceeds exceed "cost"
Marshalling Yard debt	$4,980,000	0.3%	Could borrow @ 60% of value on cost of $8.3M
	$38,129,000	2.2%	
KC Stress Test requirement	$35,000,000	2.0%	For KC note, per Exhibit D to KC-PSA

Source: Pine Street Group, updated as of March 2018.

WSCC Net Financial Position – Assets & Liabilities (2011-17)

Line Item	2011	2012	2013	2014	2015	2016	2017
Assets							
Current and Other Assets	$139,256,531	$169,559,915	$185,267,893	$165,980,401	$178,311,931	$171,211,243	$181,270,801
Capital Assets	$408,866,558	$399,943,705	$452,869,843	$452,131,144	$474,004,249	$524,825,961	$726,085,081
Total Assets	**$548,123,088**	**$569,503,620**	**$638,137,737**	**$618,111,545**	**$652,316,180**	**$696,037,204**	**$907,355,882**
Liabilities							
Current Liabilities	$22,736,670	$28,806,692	$81,792,405	$34,136,861	$36,784,271	$42,061,139	$67,669,212
Noncurrent Liabilities	$314,747,177	$308,267,701	$301,587,786	$293,580,000	$286,450,000	$279,135,000	$412,625,940
Total Liabilities	**$337,483,846**	**$337,074,393**	**$383,380,191**	**$327,716,861**	**$323,234,271**	**$321,196,139**	**$480,295,152**
Net Position							
Net invested in Capital Position	$131,065,755	$114,908,901	$122,997,437	$176,416,374	$203,267,729	$257,982,529	$303,604,628
Restricted	$8,273,832	$10,987,507	$21,210,318	$17,542,276	$16,663,513	$14,394,398	$14,994,204
Unrestricted	$71,434,865	$106,532,819	$110,549,791	$96,436,034	$109,150,668	$102,464,138	$108,461,898
Total Net Position	**$210,774,452**	**$232,429,227**	**$254,757,546**	**$290,394,684**	**$329,081,910**	**$374,841,065**	**$427,060,730**

Source: E. D. Hovee, per WSCC and Miller & Miller, P.S. financial statements, as re-formatted.

WSCC Schedule of Changes in Net Position – Income & Expense (2011-17)

Line Item	2011	2012	2013	2014	2015	2016	2017
Operating Revenues							
Building Rent	$4,441,649	$4,778,169	$4,793,622	$4,616,158	$4,398,715	$4,563,699	$4,363,947
Food Service	$15,097,453	$15,915,988	$15,693,512	$21,089,242	$19,673,485	$22,005,777	$20,949,997
Parking	$3,794,496	$3,901,212	$3,775,712	$3,926,927	$3,618,471	$3,588,648	$3,723,747
Facility Services	$1,874,392	$2,061,014	$2,311,036	$2,882,359	$2,986,364	$3,218,654	$3,547,743
Retail Leases	$600,766	$642,568	$674,638	$589,322	$521,279	$495,965	$510,214
Other	$565,190	$681,846	$711,715	$1,354,524	$1,511,486	$1,683,471	$1,866,049
Total Operating Revenues	**$26,373,946**	**$27,980,797**	**$27,960,235**	**$34,458,532**	**$32,709,800**	**$35,556,214**	**$34,961,697**
Operating Expenses							
Salaries & Wages	$7,012,350	$7,115,445	$7,298,378	$7,778,504	$7,828,450	$8,183,258	$8,505,409
Employee Benefits	$4,367,248	$4,431,319	$4,385,255	$4,578,486	$4,773,908	$5,038,470	$5,216,785
Professional & Other Services	$1,790,275	$1,871,993	$2,168,491	$2,533,132	$2,571,813	$2,524,676	$2,620,474
Food Service	$9,450,160	$9,388,942	$9,630,399	$11,848,914	$10,512,122	$12,967,020	$12,253,134
Supplies	$553,779	$511,928	$501,497	$560,412	$576,759	$597,246	$584,990
Utilities	$2,177,575	$2,334,856	$2,593,396	$2,737,809	$2,711,915	$2,790,347	$3,102,999
Repair & Maintenance	$1,140,926	$1,453,768	$1,676,335	$1,607,505	$1,968,144	$1,770,592	$1,703,191
Depreciation & Amortization	$9,688,816	$10,706,415	$10,738,022	$11,798,208	$12,571,219	$13,218,878	$13,448,391
Other Administrative & Contingency	$49,263	$231,765	$323,050	$328,643	$319,884	$360,115	$327,266
Total Operating Expenses	**$36,230,392**	**$38,046,431**	**$39,314,823**	**$43,771,614**	**$43,834,214**	**$47,450,603**	**$47,762,639**
w/o Depreciation & Amortization	*$26,541,576*	*$27,340,016*	*$28,576,801*	*$31,973,405*	*$31,262,995*	*$34,231,725*	*$34,314,248*
Net Operating Income	**($9,856,446)**	**($10,065,634)**	**($11,354,588)**	**($9,313,081)**	**($11,124,414)**	**($11,894,390)**	**($12,800,942)**
w/o Depreciation & Amortization	($167,630)	$640,781	($616,566)	$2,485,127	$1,446,805	$1,324,489	$647,449
Marketing Revenues							
Lodging tax for Marketing	**$8,069,824**	**$8,788,172**	**$9,497,334**	**$10,923,374**	**$12,194,605**	**$12,863,089**	**$13,944,123**
Non-Operating Revenues							
Lodging tax - Regular	$40,339,492	$43,930,310	$47,475,270	$54,603,587	$60,958,399	$64,300,007	$69,705,450
Build America Bonds subsidy	$6,756,482	$6,756,483	$6,219,342	$6,266,637	$6,263,260	$6,167,877	$6,077,141
Interest & Investment Income	$528,074	$737,967	$806,716	$410,692	$508,520	$1,174,492	$1,337,620
Subtotal Non-Operating Revenues	**$47,624,048**	**$51,424,760**	**$54,501,328**	**$61,280,916**	**$67,730,179**	**$71,642,375**	**$77,120,211**
Marketing Expenses							
Visit Seattle, Outside Marketing	$6,820,020	$7,038,118	$8,058,563	$9,284,615	$10,415,378	$10,973,623	$11,940,816
In-house Marketing	$331,362	$707,350	$634,558	$673,146	$983,680	$1,016,655	$1,188,809
Subtotall Marketing Expenses	**$7,151,382**	**$7,745,468**	**$8,693,121**	**$9,957,761**	**$11,399,058**	**$11,990,278**	**$13,129,625**
Non-Operating Expenses							
Interest Expense	$16,700,504	$19,901,306	$19,724,021	$16,700,504	$16,057,662	$14,153,153	$11,569,690
Other Expense	$1,364,174	$845,750	$1,898,614	$1,364,174	$2,656,423	$708,490	$1,344,412
Subtotal Non-Operating Expenses	**$18,064,678**	**$20,747,056**	**$21,622,635**	**$18,064,678**	**$18,714,085**	**$14,861,643**	**$12,914,102**
Total Income & Expenses							
Total All Income	$82,067,818	$88,193,729	$91,958,897	$106,662,822	$112,634,583	$120,061,679	$126,026,031
less All Expenses	($61,446,452)	($66,538,955)	($69,630,579)	($71,794,053)	($73,947,357)	($74,302,524)	($73,806,366)
Net Income *(Change in Net Position)*	**$20,621,366**	**$21,654,774**	**$22,328,319**	**$34,868,770**	**$38,687,226**	**$45,759,155**	**$52,219,665**
Net Position							
Net Position - Beginning	$255,525,914	$210,774,452	$232,429,227	$255,525,914	$290,394,684	$329,081,910	$374,841,065
Net Position - Ending	**$276,147,280**	**$232,429,226**	**$254,757,546**	**$290,394,684**	**$329,081,910**	**$374,841,065**	**$427,060,730**

Source: E. D. Hovee, per WSCC and Miller & Miller, P.S. financial statements, as re-formatted.

WSCC Summary ABT & Project Bonded Debt Coverage (Base Case 2018-58)

Fiscal Year	Regular Lodging Tax	Additional Lodging Tax	Total Tax Revenues	Total Senior Lien Debt	Total Second Lien Debt	Total All Debt	Senior Lien ABT	Total Debt ABT	Senior Lien Debt Coverage	Total Debt Coverage
2018	***$83,900,000***	$20,819,610	$104,719,610	$31,615,081	$7,913,958	$39,529,039	265.4%	212.2%	331.2%	264.9%
2019	$87,336,000	$21,860,591	$109,196,591	$47,913,926	$18,993,500	$66,907,426	175.1%	125.4%	227.9%	163.2%
2020	***$95,200,000***	$22,953,620	$118,153,620	$47,901,426	$18,993,500	$66,894,926	175.2%	125.4%	246.7%	176.6%
2021	$98,662,000	$24,101,301	$122,763,301	$53,234,921	$18,993,500	$72,228,421	178.8%	131.8%	230.6%	170.0%
2022	$107,315,647	$25,306,366	$132,622,013	$53,954,942	$21,533,750	$75,488,692	176.4%	126.1%	245.8%	175.7%
2023	$111,608,272	$26,318,621	$137,926,893	$53,954,987	$21,586,500	$75,541,487	176.4%	126.0%	255.6%	182.6%
2024	$106,800,000	$27,371,366	$134,171,366	$53,955,137	$21,581,375	$75,536,512	176.4%	126.0%	248.7%	177.6%
2025	$120,715,000	$28,466,220	$149,181,220	$53,954,456	$21,585,875	$75,540,331	176.4%	126.0%	276.5%	197.5%
2026	$125,544,000	$29,604,869	$155,148,869	$53,956,904	$21,584,625	$75,541,529	176.4%	126.0%	287.5%	205.4%
2027	$130,566,000	$30,789,064	$161,355,064	$53,956,043	$21,578,000	$75,534,043	176.4%	126.0%	299.0%	213.6%
2028	$135,789,000	$32,020,626	$167,809,626	$53,956,459	$21,581,000	$75,537,459	176.4%	126.0%	311.0%	222.2%
2029	$141,221,000	$16,650,726	$157,871,726	$53,956,756	$21,583,250	$75,540,006	176.4%	126.0%	292.6%	209.0%
2030	$146,870,000	--	$146,870,000	$53,955,750	$27,400,500	$81,356,250	176.4%	117.0%	272.2%	180.5%
2031	$152,745,000	--	$152,745,000	$53,952,523	$28,155,250	$82,107,773	176.5%	115.9%	283.1%	186.0%
2032	$158,855,000	--	$158,855,000	$53,955,453	$28,151,000	$82,106,453	176.4%	115.9%	294.4%	193.5%
2033	$165,209,000	--	$165,209,000	$53,953,477	$28,152,625	$82,106,102	176.4%	115.9%	306.2%	201.2%
2034	$171,817,000	--	$171,817,000	$53,954,974	$28,149,250	$82,104,224	176.4%	116.0%	318.4%	209.3%
2035	$178,690,000	--	$178,690,000	$53,953,672	$28,154,750	$82,108,422	176.4%	115.9%	331.2%	217.6%
2036	$185,838,000	--	$185,838,000	$53,952,950	$28,152,750	$82,105,700	176.5%	115.9%	344.4%	226.3%
2037	$193,272,000	--	$193,272,000	$53,956,038	$28,147,625	$82,103,663	176.4%	116.0%	358.2%	235.4%
2038	$193,272,000	--	$193,272,000	$53,956,291	$28,143,250	$82,099,541	176.4%	116.0%	358.2%	235.4%
2039	$193,272,000	--	$193,272,000	$53,957,107	$28,158,000	$82,115,107	176.4%	115.9%	358.2%	235.4%
2040	$193,272,000	--	$193,272,000	$53,956,510	$28,145,125	$82,101,635	176.4%	116.0%	358.2%	235.4%
2041	$193,272,000	--	$193,272,000	$53,952,125	$28,144,375	$82,096,500	176.5%	116.0%	358.2%	235.4%
2042	$193,272,000	--	$193,272,000	$53,955,875	$28,158,500	$82,114,375	176.4%	115.9%	358.2%	235.4%
2043	$193,272,000	--	$193,272,000	$53,955,375	$28,145,625	$82,101,000	176.4%	116.0%	358.2%	235.4%
2044	$193,272,000	--	$193,272,000	$53,953,125	$28,155,125	$82,108,250	176.4%	115.9%	358.2%	235.4%
2045	$193,272,000	--	$193,272,000	$53,955,750	$28,154,375	$82,110,125	176.4%	115.9%	358.2%	235.4%
2046	$193,272,000	--	$193,272,000	$53,954,875	$28,147,125	$82,102,000	176.4%	116.0%	358.2%	235.4%
2047	$193,272,000	--	$193,272,000	$53,957,125	$28,151,750	$82,108,875	176.4%	115.9%	358.2%	235.4%
2048	$193,272,000	--	$193,272,000	$53,953,625	$28,145,750	$82,099,375	176.4%	116.0%	358.2%	235.4%
2049	$193,272,000	--	$193,272,000	$53,955,750	$28,157,375	$82,113,125	176.4%	115.9%	358.2%	235.4%
2050	$193,272,000	--	$193,272,000	$53,954,250	$28,144,000	$82,098,250	176.4%	116.0%	358.2%	235.4%
2051	$193,272,000	--	$193,272,000	$53,955,000	$28,149,250	$82,104,250	176.4%	116.0%	358.2%	235.4%
2052	$193,272,000	--	$193,272,000	$53,953,375	$28,154,750	$82,108,125	176.4%	115.9%	358.2%	235.4%
2053	$193,272,000	--	$193,272,000	$53,954,750	$28,148,250	$82,103,000	176.4%	116.0%	358.2%	235.4%
2054	$193,272,000	--	$193,272,000	$53,954,000	$28,152,375	$82,106,375	176.4%	115.9%	358.2%	235.4%
2055	$193,272,000	--	$193,272,000	$53,956,125	$28,154,000	$82,110,125	176.4%	115.9%	358.2%	235.4%
2056	$193,272,000	--	$193,272,000	$53,955,375	$28,150,375	$82,105,750	176.4%	115.9%	358.2%	235.4%
2057	$193,272,000	--	$193,272,000	$53,956,125	$28,153,500	$82,109,625	176.4%	115.9%	358.2%	235.4%
2058	$193,272,000	--	$193,272,000	$53,953,000	$13,442,000	$67,395,000	176.4%	141.3%	358.2%	286.8%

Note: **Highlighted** cells indicate base years as benchmarks for ABT debt coverage calculations.
Regular lodging tax data from 2018-2015 is adjusted to dates of issuance which was targeted as March 2018 for initial offering and September 2020 for subsequent later phase bonds. The 2018 issue is currently planned for July.
Excluded from bonded debt is the King County subordinate note.

Source: Public Financial Management, Inc., *Addition Project Finance Plan – Base Case*, Revised December 27, 2017.

WSCC Summary ABT & Project Bonded Debt Coverage
(Stress Test Scenario 2018-62)

Fiscal Year	Regular Lodging Tax Forecast	Additional Lodging Tax	Total Tax Revenues	Total Senior Lien Debt	Total Second Lien Debt	2020 BAN Interest	Total All Debt	Senior Lien ABT	Total Debt ABT	Senior Lien Debt Coverage	Total Debt Coverage
2018	***$85,206,168***	$20,819,610	$106,025,778	$31,615,081	$7,913,958		$39,529,039	265.4%	212.2%	335.4%	268.2%
2019	$70,996,184	$17,628,692	$88,624,875	$47,913,926	$18,993,500		$66,907,426	175.1%	125.4%	185.0%	132.5%
2020	$68,438,227	$17,033,774	$85,472,001	$47,901,426	$18,993,500	$2,105,148	$69,000,074	175.2%	125.4%	178.4%	123.9%
2021	$80,522,533	$20,071,153	$100,593,686	$47,894,671	$18,993,500	$8,420,593	$75,308,764	175.2%	125.4%	210.0%	133.6%
2022	$88,169,140	$22,129,295	$110,298,435	$47,879,692	$19,130,000	$8,420,593	$75,430,285	175.2%	125.2%	230.4%	146.2%
2023	$96,334,829	$24,217,277	$120,552,106	$47,866,487	$19,132,750	$8,420,593	$75,419,830	175.3%	125.2%	251.9%	159.8%
2024	$109,180,677	$27,764,815	$136,945,491	$47,850,887	$19,130,125	$6,315,445	$73,296,457	175.3%	125.3%	286.2%	186.8%
2025	$122,963,890	$31,341,068	$154,304,958	$53,177,456	$19,132,125		$72,309,581	200.8%	147.7%	290.2%	213.4%
2026	$129,562,006	$35,024,599	$164,586,605	$53,899,654	$21,537,375		$75,437,029	198.1%	141.6%	305.4%	218.2%
2027	$140,981,329	$38,692,182	$179,673,511	$53,914,793	$21,583,500		$75,498,293	198.1%	141.5%	333.3%	238.0%
2028	$144,222,378	$39,558,582	$183,780,960	$53,930,959	$21,581,750		$75,512,709	198.0%	141.4%	340.8%	243.4%
2029	$120,170,155	$20,570,463	$140,740,618	$53,941,756	$21,584,500		$75,526,256	198.0%	141.4%	260.9%	186.3%
2030	$115,840,485	--	$115,840,485	$53,956,250	$27,402,250		$81,358,500	197.9%	131.3%	214.7%	142.4%
2031	$136,294,724	--	$136,294,724	$53,953,273	$27,402,500		$81,355,773	197.9%	131.3%	252.6%	167.5%
2032	$149,237,589	--	$149,237,589	$53,956,953	$27,401,500		$81,358,453	197.9%	131.3%	276.6%	183.4%
2033	$163,059,065	--	$163,059,065	$53,956,227	$27,408,125		$81,364,352	197.9%	131.3%	302.2%	200.4%
2034	$184,802,312	--	$184,802,312	$53,959,474	$27,401,500		$81,360,974	197.9%	131.3%	342.5%	227.1%
2035	$208,132,170	--	$208,132,170	$53,955,422	$28,156,000		$82,111,422	197.9%	130.1%	385.7%	253.5%
2036	$219,300,328	--	$219,300,328	$53,952,700	$28,157,750		$82,110,450	198.0%	130.1%	406.5%	267.1%
2037	$238,628,999	--	$238,628,999	$53,954,538	$28,151,625		$82,106,163	197.9%	130.1%	442.3%	290.6%
2038	$244,114,890	--	$244,114,890	$53,954,291	$28,146,750		$82,101,041	197.9%	130.1%	452.4%	297.3%
2039	$203,403,416	--	$203,403,416	$53,955,357	$28,156,500		$82,111,857	197.9%	130.1%	377.0%	247.7%
2040	$196,074,893	--	$196,074,893	$53,955,760	$28,149,375		$82,105,135	197.9%	130.1%	363.4%	238.8%
2041	$230,696,318	--	$230,696,318	$53,958,125	$28,144,625		$82,102,750	197.9%	130.1%	427.5%	281.0%
2042	$252,603,778	--	$252,603,778	$53,954,125	$28,150,500		$82,104,625	197.9%	130.1%	468.2%	307.7%
2043	$275,998,402	--	$275,998,402	$53,957,125	$28,155,375		$82,112,500	197.9%	130.1%	511.5%	336.1%
2044	$312,801,638	--	$312,801,638	$53,954,125	$28,147,375		$82,101,500	197.9%	130.1%	579.8%	381.0%
2045	$352,290,418	--	$352,290,418	$53,952,000	$28,150,625		$82,102,625	198.0%	130.1%	653.0%	429.1%
2046	$371,193,960	--	$371,193,960	$53,957,625	$28,157,875		$82,115,500	197.9%	130.1%	687.9%	452.0%
2047	$403,910,216	--	$403,910,216	$53,952,125	$28,147,000		$82,099,125	198.0%	130.1%	748.6%	492.0%
2048	$413,195,792	--	$413,195,792	$53,952,375	$28,152,000		$82,104,375	198.0%	130.1%	765.9%	503.3%
2049	$344,286,394	--	$344,286,394	$53,954,250	$28,154,875		$82,109,125	197.9%	130.1%	638.1%	419.3%
2050	$331,881,929	--	$331,881,929	$53,953,750	$28,144,000		$82,097,750	197.9%	130.1%	615.1%	404.3%
2051	$390,483,135	--	$390,483,135	$53,956,750	$28,147,500		$82,104,250	197.9%	130.1%	723.7%	475.6%
2052	$427,564,324	--	$427,564,324	$53,953,625	$28,147,250		$82,100,875	197.9%	130.1%	792.5%	520.8%
2053	$467,162,728	--	$467,162,728	$53,955,000	$28,151,250		$82,106,250	197.9%	130.1%	865.8%	569.0%
2054	$529,456,930	--	$529,456,930	$53,955,750	$28,146,375		$82,102,125	197.9%	130.1%	981.3%	644.9%
2055	$596,296,760	--	$596,296,760	$53,955,875	$28,155,500		$82,111,375	197.9%	130.1%	1105.2%	726.2%
2056	$628,293,431	--	$628,293,431	$53,954,875	$28,155,125		$82,110,000	197.9%	130.1%	1164.5%	765.2%
2057	$683,669,895	--	$683,669,895	$53,957,125	$28,152,500		$82,109,625	197.9%	130.1%	1267.1%	832.6%
2058	$699,386,924	--	$699,386,924	$26,627,250	$13,446,750		$40,074,000	401.1%	266.5%	2626.6%	1745.2%
2059	$582,748,922	--	$582,748,922	$6,130,750	$3,196,500		$9,327,250	1742.0%	1145.0%	9505.3%	6247.8%
2060	$561,752,773	--	$561,752,773	$6,129,750	$3,195,000		$9,324,750	1742.3%	1145.3%	9164.4%	6024.3%
2061	$660,942,837	--	$660,942,837	$6,129,000	$3,197,000		$9,326,000	1742.5%	1145.2%	10783.9%	7087.1%
2062	$723,707,509	--	$723,707,509	$33,453,000	$3,192,000		$36,645,000	319.3%	291.4%	2163.4%	1974.9%

Note: **Highlighted** cells indicate base years as benchmarks for subsequent ABT debt coverage calculations.
Also shown are assumed BAN payments with short-term borrowing of $168 million at 5% interest-only payments.
Regular lodging tax projections are adjusted with this stress test to reflect a repeated Great Recession cycle from 2018-62 including an assumed date of March 2018 initially targeted with the Series 2018 initial offering, then extended to 2024 for a subsequent final Addition bond issue.
Excluded from bonded debt is the King County subordinate note.

Source: E. D. Hovee. Adapted from PFM base case per stress conditions and PFM., *Addition Project Finance Plan – Base Case*, as revised December 27, 2017.

WSCC Base Case & Stress Test Operating Projections (2021-30)

Base Case Scenario

Operating Budget	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues	$43,557,000	$56,224,000	$62,255,000	$66,435,000	$68,096,000	$69,798,000	$71,544,000	$73,332,000	$75,166,000	$77,045,000
Expenses	($46,156,000)	($56,747,000)	($61,547,000)	($64,829,000)	($66,449,000)	($68,110,000)	($69,813,000)	($71,557,000)	($73,345,000)	($75,179,000)
Net Operating Income	($2,599,000)	($523,000)	$708,000	$1,606,000	$1,647,000	$1,688,000	$1,731,000	$1,775,000	$1,821,000	$1,866,000

Base Case Methodology Notes: HVS forecasts attendance increases with expanded WSCC facilities and associated changes to operating revenue and expense. HVS does not directly include operating income/expense projections for the period 2018-2020 (pre-opening). Initial start-up costs are allocated to the 2021 opening. Inflation is forecast at an annual rate of 2.5% for both revenues and expenses. HVS accounting format is similar but not identical to WSCC accounting format.

Source: HVS.

Stress Test Scenarios

Operating Budget	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
High Performance (without Moscone and with 2011-17 revenue/expense spread)										
Operating Revenues	$41,736,000	$57,699,000	$59,733,000	$62,278,000	$64,127,000	$66,030,000	$67,990,000	$70,008,000	$72,086,000	$74,226,000
Operating Expenses	($45,888,000)	($59,614,000)	($59,093,000)	($63,748,000)	($65,043,000)	($66,365,000)	($67,713,000)	($69,089,000)	($70,493,000)	($71,925,000)
Net Operating Income	($4,152,000)	($1,915,000)	$640,000	($1,470,000)	($916,000)	($335,000)	$277,000	$919,000	$1,593,000	$2,301,000
Low Performance (with Moscone and 2001-15 revenue/expense spread)										
Operating Revenues	$39,710,000	$52,817,000	$54,178,000	$56,513,000	$57,830,000	$59,177,000	$60,556,000	$61,967,000	$63,411,000	$64,888,000
Operating Expenses	($44,435,000)	($57,447,000)	($54,286,000)	($59,158,000)	($60,738,000)	($62,360,000)	($64,025,000)	($65,734,000)	($67,489,000)	($69,291,000)
Net Operating Income	($4,725,000)	($4,630,000)	($108,000)	($2,645,000)	($2,908,000)	($3,183,000)	($3,469,000)	($3,767,000)	($4,078,000)	($4,403,000)

Stress Test Methodology Notes: Stress test revenues/expenses as forecast from 2018-20 are estimated but not shown for comparability with the HVS forecast. Estimates as of the 2021 opening year through 2024 (stabilized utilization) – as well as for 2019 and 2020 pre-opening years – are based on the operating income and expense experience averaged across selected comparable facilities expansions. From 2025-30, projections reflect the HVS inflation rate adjusted for the WSCC historical gap between increases in operating revenues versus expense.

A **high performance** scenario reflects comparables experience of (WSCC 2001, SCC 2006, OCC 2003, and CCC 2004) expansions extrapolated to 2024. Operating forecasts from 2025-30 reflect continuation of the observed spread between WSCC revenues and expenses as experienced from 2011-16.

A **low performance** scenario reflects the comparables experience of the four facilities noted above plus Moscone 2003, applied to WSCC through 2024. Operating forecasts from 2025-30 reflects return to a longer term observed spread between WSCC revenues and expenses as experienced from 2001-15.

Source: E. D. Hovee.

END NOTES

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[1] Throughout this report, the terms WSCC and WSCC PFD are used interchangeably. Use of the term WSCC generally refers to the site or physical facility of the Washington State Convention Center. The terms WSCC PFD and PFD are intended to refer to the in-place legal entity and governance of the WSCC.

Similarly, the proposed expansion project may be referred to as the Additional Facility or the Addition. The Washington State Department of Commerce is referred to as Commerce.

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

[3] This independent feasibility review relies on representations made by WSCC and its designees from documents publicly available and on email correspondence for more detailed or current information than may be otherwise available. As planning and construction preparations are not yet completed, information is subject to change without notice from the preparer of this report.

[4] Information on the Addition is from the web site: www.wsccaddition.com,

[5] The 2010 Convention Center Act was adopted by the state Legislature as Substitute Senate Bill 6889. Statutory authority for public facilities districts created by counties in Washington state are covered by RCW 36.100. Included with the statute are provisions specific to counties of 1.5 million residents or more.

[6] King County Ordinance 16883 which created the WSCC PFD was passed by the Metropolitan King County Council on July 19, 2010. This ordinance was pursuant to Substitute Senate Bill 6880 which authorized the creation of the WSCC PFD by King County and the transfer of assets and liabilities from the nonprofit corporation previously established by the Washington State Legislature in 1982 to design, construct, promote and operate the Washington State Convention Center.

[7] Provision for WSCC use of the 2.0% Seattle-based Additional Lodging Tax has not been invoked as a source of payment to date but is intended as a financial backstop resource and means to achieve favorable debt service coverage. This is also referred to as a 2.0% state shared transient lodging tax, credited against state sales tax.

[8] Statutory authority for allocation of the special excise lodging tax for marketing with operations versus the state convention and trade center account was provided by RCW 67.40.090. This legislation was repealed with creation of the WSCC PFD in 2010, replaced by provisions associated with RCW 36.100 governing public facility districts. With the 2.0% Additional Lodging Tax allocation excluded from the calculation, the marketing portion is set at approximately 16.67% of the 7.0% City of Seattle and 2.8% King County lodging tax revenues.

[9] While it is as yet unclear as to whether the City of Seattle will repeal the short-term rentals tax, this would seem likely because the Extended Lodging Tax option would appear to be more favorable to the City.

[10] There are minor differences between the PSG development budget which is shown and the PFM prepared statement of base case sources and uses. The differences are primarily with respect to WSCC contributed cash, core project budget and debt reserve including net carry costs, with a resulting funding surplus of over $226,000 with PFM estimates versus balanced budget with PSG estimates. The overall difference is relatively insignificant at 0.005% of project cost. Estimates of debt financing by source are identical for PFM and PSG.

[11] Major cost items such as steel, concrete, enclosure, demolition and shoring, vertical transportation, fire protection and mechanical/electrical/plumbing (MEP) are in the 70% figure of fixed costs by start of construction. The remaining 30% consists primarily of interior finishes and landscaping.

12 Actual cash regular lodging revenues of $83.3 million for 2017 proved to be more than $600,000 (or 0.7%) higher that the 2017 forecast of $82.7 million prepared by DOR as of November 2017.

13 As an example, the *U.S. Macroeconomic Outlook Alternative Scenarios* (December 2017) prepared by Moody's Analytics identifies several scenarios that could be associated with declining GDP and employment – starting anywhere between 2018 and 2020. The chance of a next cycle recession (most likely starting about 2020) over the next five years has been estimated at 10%.

14 Prior to the transfer of the convention center from the State of Washington to the WSCC PFD, food service revenues were booked net of expenses. Current accounting covers the significantly higher amount of gross (as compared with net) food revenues. Food service expenses are also now also shown as an expense line item.

15 Gross food service revenues and food expenses are shown in the WSCC financial statement. Three other subcontractors provide telecommunications, audio/visual, and electrical/air/water/drain services for which WSCC receives a specified percentage of revenues, recorded with as facility services revenue.

16 From the audited financial statements, salaries and wages have been combined with employee benefits into an overall personnel line item. Supplies, utilities and other administrative and contingency categories have been combined into a single category.

17 Per email correspondence with Chip Firth, WSCC Chief Finance Officer, January 23, 2018.

18 The minimum hourly wage in Seattle was boosted for most workers to $11 per hour in April 2015, with the minimum increasing to $15 per hour by 2021. By comparison, the statewide wage minimum as of 2016 was $9.46 per hour. In discussion of projected expenses, HVS analysis indicates that the "WSCC provided salaries and benefits data on existing WSCC operations and projected the additional staff costs required to operate the proposed addition." All WSCC employees currently make over $15 per hour except for a small group of on-call part-time workers at $14.10 currently but will be over the $15 threshold by 2020 or sooner.

19 The HVS base case forecast begins with a projection of increased attendance with expanded WSCC facilities. Event-related revenues are then projected using a model based on event attendance, event length and floor area utilization. Operating and undistributed expenses are calculated primarily as a % of related operating revenue variables plus pre-opening costs.

Rather than being driven by explicit forecasts of added facility attendance, the stress test scenario is derived directly from the average operating income and expense experience of selected comparable facilities.

20 From 2011-16 (using re-stated WSCC audited financial results), the rate of revenue growth averaged 6.16% per year versus an annual expense growth rate of 5.22% -- for a positive 0.94% point annualized spread of revenue above expense increases.

21 From 2001-15, WSCC revenues increased at rate averaging 2.33% per year as compared with an expense growth rate of 2.67% annually – meaning that expenses outpaced revenues by an average of 0.34% per year. Revenue and expense information for this period is provided using the pre-2017 WSCC accounting format.

22 As noted, possible sources of delay could occur with construction of interim ramps, DSTT closure and/or relocation of bus service per the adopted TJUA. The impacts of a possible delay in DSTT termination beyond March 2019 have not been evaluated in detail but, if required, could involve some project construction delay with a potential cost impact in the range of $10 million. While this expenditure is not anticipated as part of the current project budget, if required the funds could be provided from the budget contingency allocation.

23 This report builds on a similar review of comparable facilities prepared by E. D. Hovee & Company, LLC for the Washington State Department of Commerce *Spokane Convention Center Operating Budget Review,* May 30, 2013 – covering facilities in Spokane, Seattle and Portland. The current report updates prior information and expands the set of comparables to include facility expansions in San Francisco, Denver, and Vancouver, BC.

24 Data for three years prior to expansion was not available for all comparables, so the review of comparables experience was focused on the time period from two years pre- to three years post-expansion.

25 The *Washington State Convention & Trade Center Expansion Development Study* (Volume I Market, Facility Program, Financial and Economic Impact Analysis) was prepared by Coopers & Lybrand, December 23, 1994.

26 The Oregon Convention Center is cited as an example of a facility designed so that portions of space not in use may be closed off at times of reduced convention activity.

27 For the Spokane PFD, comparable records are not available for 2003 (the third year prior to expansion), as the PFD assumed operations from the City of Spokane on September 1, 2003 (so any prior SPFD financial results would only be for a partial year).

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

29 Pre-expansion experience projections for the 2006 Spokane expansion is provided by *Vision 2020: The Plan for Expansion of the Spokane Convention Center – Master Plan Report,* produced for the Spokane Public Facilities District, March 17, 2009. At page 35, this report references earlier attendance "low estimate' projections from a *1997 Feasibility Study for the Expansion of the Spokane Convention Center prepared by INTEGRUS Architecture/LMN/Price Waterhouse*, September 2007, updated in July 2000 by Pricewaterhouse Coopers.

30 OCC business type activities are considered as excluding such line items as balance transfers, donations, government contributions, and tax revenue sources. Expense figures are noted for personnel and materials and services, excluding interfund transfers, capital outlays, and debt service.

31 OCC staffed up in anticipation of the 2003 expansion, not being quite sure of what the additional on-site staff needs would fully entail. This included a graveyard shift. FY 2004 layoffs resulted in about 21 fewer positions on-site (a 16% reduction) due to concerns with rapidly increased operating expense. The OCC went from 131.80 positions in FY 2003 down to 120.62 in FY 2004. With continuing staffing reductions over time, the facility operated with about 110 FTE positions as of 2013.

32 With the exception of VCC, OCC's reported experience is a bit unusual, with average income for the three years post-expansion indicated as having increased more rapidly than expenses. However, the reported income increase is tempered by prior revenue drop-off with substantial construction disruption, including loss of parking prior to completion of facility expansion.

33 Per email exchange with Matt Pizzuti, Deputy Director, Oregon Convention Center, May 16, 2016.

34 Source of Vancouver Convention Centre facility information is: www.vancouverconventioncentre.com.

35 With the B.C. Pavilion Corporation *Annual Report – April 1, 2011 to March 31, 2012,* costs and revenues of Corporate Services were reallocated allocated to the VCC and BC Place. Prior year results from FY 2008 to FY 2011 were adjusted by the 2012 report to reflect this change. E. D. Hovee & Company, LLC similarly adjusted FY 2007 to also reflect changes not shown with the 2012 B.C. Pavilion reported revisions.

36 Per BC Pavilion Corporation, *2014/15 Annual Service Plan Report.*

37 Per email correspondence with Dick Shaff, Vice President/General Manager, Moscone Center, May 17, 2016.

38 Moscone facility space/utilization data and information regarding expansion plans is from the web site www.moscone.com, as of January 2018.

39 Colorado Convention Center annual attendance data is from www.denver.org, with information regarding expansion plans from www.denverconvention.com, as of May 2018. Also from the Denver Post, "Denver approves key contracts to kick off the Colorado Convention Center's rooftop expansion," February 12, 2018.