

SNOHOMISH COUNTY PFD MEETING MINUTES
OCTOBER 25, 2018

Board Members Present:

Steve Shelton, President, District #3
Tim Menzies, District #1
Debbie Burton, District # 5
On conference call - Bruce Gandal, District #2

Interested Parties Present:

Grant Dull & George Sherwin, Lynnwood Convention Center/PFD
Joe McIalwain & Matt Keller, Edmonds Center for the Arts/PFD
Corey Margolis & Rick Hontz, Angel of the Winds Arena Spectra Venue Mgmt/Everett PFD
Kristi Medlen & Kathryn Overby, Boeing/Future of Flight
Michelle Corsi, Snohomish County Prosecutor's Office/Future of Flight

Staff Present:

Brad Cattle, Anderson Hunter Law Firm
Jan Hawley, Snohomish County Finance Department
Sharyl Raines, Snohomish County Finance Department
Shannon Fleming, Snohomish County Public Works

Guests:

Call to Order

Steve Shelton called the meeting to order at 3:08 p.m.
Introductions were made.

Approval Items

Debbie Burton moved to approve the July 19, 2018 minutes with the corrections submitted by Grant Dull of the Lynnwood PFD. Tim Menzies seconded the motion and it passed unanimously.

After review of the Q2 Financials, Q2 vouchers Grant Dull asked if the Tier 2 Allocation for 2019 has been set. It was confirmed that it has and also concurred that the numbers are based on projections so they could indeed rise. Those numbers are looked at in December. Steve asked for a motion to approve, Debbie Burton moved to approve the Q3 Financials and Q3 vouchers for July 2018 through September 2018. Tim Menzies seconded the motion and it passed unanimously.

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Disbursements:

Fund X10

(April through June 2018)

Voucher/warrant numbers: 2003276, 2002917, 2003055, 2002904, 2003196, 2002739 Total
\$186,599.76

Voucher/warrant numbers: 5013503, 2006088, 2006094, 2006231, 2006240, 2006061, 2006004,
2006004, 2006408, 2006387, 2006078, 2006372, 2005908 Total
\$190,729.25

Voucher/warrant numbers: 2009489, 5013707, 2009560, 2009622, 2009553, 2009688, 2009490 Total
\$196,584.76

New Business– Resolution regarding 2027-2041 rebate distribution, Brad Cattle

Steve Shelton provided a brief update on the history of the PFD and explained the role of the Snohomish County PFD Board.

Brad Cattle handed out the resolution regarding the 2027-2041 rebate distribution. He then went on to discuss the Board decision made at the previous meeting regarding tax distributions being consistent with the formula developed for the 2008 Tier 2 allocation. The process of implementing this decision should involve adopting a resolution. This is the first step in accomplishing the implementation. Brad briefly went through the resolution, and explained the term “available revenues” means tax revenues determined by the Board that are available for distribution for consideration for what is necessary to be deducted to pay administrative costs and maintain any reserve.

Because this resolution deals with funds in the future, the term establishes that the percentages [from the Tier 2 formula] will be applied against what is determined to be available revenues by the Board after bills are paid. If a reserve is determined to be necessary, it will be established at a later date and any remainders after that is deducted will be distributed to the PFD’s consistent with the formula. This resolution as establishes that local PFD’s get their share of the available revenues as long as they have outstanding bonds. If those bonds are paid off, then they will drop out of the pool that receives revenue and the remaining local PFD’s that are in the pool will get the relative shares of that remainder – it would be a weighted average to keep things proportionate.

Steve opened the topic for questions. Joe Mclalwain requested clarification on debt outstanding does not have to related to the original project – it’s related to your project but can be new debt issued through 2041. Debbie and Steve both concurred that is their understanding. Steve went on to explain that the challenge is there is now a process to go through with the State – feasibility studies and other hoops that weren’t in the process in the original formation of the organizations – so that’s something to ponder.

Grant mentioned that he thought Mark Greenhouse, an attorney Grant is familiar with, has advised that city PFD’s to always maintain at least one original bond for the duration of the funding. So don’t pay off the last bit of your original debt – refinance it. He’s not sure how that applies to the County level of the PFD. He feels that in terms in the proposed resolution it’s fine, but research should be done into how debt service applies to County PFD’s because this particular PFD funds county projects and it may be necessary that the County not pay off the last bit of original debt before 2041. Steve suggested perhaps this was something for Snohomish County Prosecutor’s office to ponder. Grant further clarified that the County will pay off the last bit of debt for the Future of Flight in 2036 but shouldn’t, as there is a concern that if that debt is paid off the County PFD would not have the ability to fund the remaining PFD’s through 2041. Steve explained that the County PFD contracts with the county directly, so the County PFD Board is a separate entity so the ability for the PFD to collect the funds isn’t related to the

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outstanding debt. The County PFD doesn't have any debt, and the county doesn't have its own PFD for funding the Future of Flight. Steve mentioned that these are all good things to ponder.

Grant mentioned that he thinks this Board is doing the right thing by allowing the reserve amount to change over time, and asked for George about pledging County PFD revenues to pay off debt and being able to sell that debt based on projections, as each PFD will be in a position to need to do. A bond offering statement would say we're getting X% of the total and we're projecting that sales tax increase at X% for X number of years and we don't project that the county PFD will decide to make the entire revenue a reserve, or something like that. Steve concurred that situation would be highly unlikely. He went on to state that the second bullet point on the agenda, Sharyl has projections that will be passed out and go from 2027 – 2041 based on the distribution percentages that have been approved already. The PFD Board's goal is to not retain any reserves. But the Board reserves the right at some point in the future, and perhaps future Board members would have that right. Debbie wanted to clarify that the Board does have the \$250k reserve that is being retained, but there will be nothing in addition to that amount as it stands with this current Board. Steve agreed.

Grant mentioned that the challenge for the City PFD's is that they are going to want to hold up a piece of paper that has County schedule through 2041 and say this is a projection based on what we think the economy will do, but if those projections hold true, this is the distribution that we are committing to give all or some of to bondholders. So it may be helpful to consider, at a future meeting, adopting the projection so that the City PFD's can then take that to the debt community. Debbie stated that she would be comfortable with that since it's a projection. Sharyl said that we would be going over all of this in just a bit so she was hoping to table this and come back to it when we get to that piece of the agenda. Steve concurred, and these were all excellent points that will be revisited.

Steve moved back to the Resolution. Debbie pointed out that the allocation percentages only add up to 99.9% and wanted to make sure that the 0.01% didn't matter, because changing that would skew the projections. Steve clarified that once the projections were reviewed, it would be revealed that everything goes out in the end.

Steve asked for a motion to accept the Resolution. Debbie Burton moved to accept the resolution regarding the 2027-2041 rebate distribution. Tim Menzies seconded. Steve called for a vote, the resolution passed unanimously.

Next Steps, Brad Cattle

Brad Cattle moved onto next steps after adoption of the resolution, taking into consideration Grant's suggestion. What needs to occur to fully implement this resolution is an Inter Local Agreement with each of the local PFD's. Brad will draft a template that each of the local PFD's can look and circulate to their local council. It will be similar to other amendments that have occurred, and that will get this moved forward. He plans to have that out within the next 30 days to get the process started. He does not foresee a lot of debate in the manner in which it's drafted, but he will get that in process so the respective council can provide input. The Agreement should be standardized so that there isn't deviation between the local PFD's, but that is the next step.

Steve mentioned that he has read all of the Inter Local Agreements and they are all a little bit different, but then the ones for Tier 2 got standardized because the concerns about things that didn't happen in the original inter local agreements was in the past. He feels that these new ones will be very simple and straightforward, but there will be opportunity for all PFD's and Councils to look at it and make sure that there is total agreement on the new agreements going forward.

2027-2041 Projections, Sharyl Raines

Sharyl handed out the Draft Snohomish County PFD History and Projection of Financial Revenues and

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Expenditures worksheet. She then emphasized that this is a projection draft. The numbers are based on 3.6% because that has been the true average. Another thing to note is that as of 2027 the reserve allocation stops based on the understanding that this is what the Board had agreed upon in the prior meeting.

Brad asked Grant how it would be useful to rely upon a projection if the Board were to adopt it. Grant responded that he's not really sure, but in the offering statement when debt is sold the projection spreadsheet could be included and may be enough. He does not recall asking the Board to officially adopt a projection in the past. In Tier 1 the Board adopted a firm allocation that was taken to bond buyers. Brad feels that if it's made clear that this is a projection that it should be okay to include.

Steve mentioned that in the previous inter local agreements, the Tier 1 allocations were included. At this point this is interesting but it is still a draft. If a draft is sufficient for your bond council, but if they come back and would like official approval, then the Board would need to tweak the policy regarding reserve. Because specific amounts were pledged to each facility in the original formation of each facility, the reserve was set up in the event that the pledge amount wasn't attainable. It was helpful in the downturn of the economy in 2008 to satisfy the pledge amounts with the reserve. That was its function. The way funds are distributed now, without the reserve, you get the percentage of whatever the tax dollars that come in are. Theoretically the need for the reserve isn't there with the Tier 2 allocation unless a currently unknown purpose arises. At the previous meeting there was discussion about setting up a reserve for granting purposes for special projects, but that was decided against. It was decided that the facilities should receive each dollar that comes in. So even though we have reserved the right as a board to set up a reserve at some point, the possibility of that happening is remote and isn't going to happen with this current board. But we can't predict the future and it might make sense. Steve encourages each PFD to check with your bond councils to see what they need to be confident enough to bond out into the future with these projections. If they need some sort of approval, that can be done at a later date. The rest of the board agreed.

Board Expense reimbursement process, Jan Hawley

Steve explained that the need for this has arisen as the Board would like to take a more active role in lobbying for the facilities for other funding options that may help improve operations. To that end, Board members are being asked to at bare minimum attend the state conference to get a broader PFD picture. Opportunities for the board members to be advocates for the city PFD's are available, and while these things will not cost large amounts of money, it is still PFD business.

Steve thought perhaps adopting the County's reimbursement process might be the best method, which was discouraged as being a bit cumbersome. Jan explained that the County's process is cumbersome and is related to the County travel policies. The Board needs to decide if they want to create their own policy for reimbursements and travel. Sharyl clarified by asking if the Board wanted a policy since this only applies to the Board. Sharyl asked if the Board really wanted a policy or if it would be easier to simply vote on it at the time of the incurred expense. Debbie concurred that the policy she works with at the city level isn't recommended either. Tim asked what other PFD's do or if this was unknown territory. Steve mentioned that there are IRS rules regarding disbursement amounts and Jan added that the County has a per diem which varies based on the city of travel to that is fairly standard. Reimbursement forms that could be used and signed to reimburse Board members for PFD related travel, but a process needs to be determined.

Debbie feels that the Board should come up with their own simplified policies for the PFD to make it easier. Steve stated that they would still need to go through the County Accounts Payable, so it would still need to satisfy the County policies – there has to be bare minimum. Debbie clarified that it's a reimbursement relationship as opposed to an approval authority relationship. Steve asked if this was

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something that should be decided on in this meeting or the next. Tim asked if the decision was if there should be a policy, or the style/content. Debbie agreed with the first question and asked do we want to have a policy? Steve asked if the Board wanted to engage in work for the facilities that would require a policy for reimbursement. He would like to be prepared for that if the opportunities come up. Tim says it doesn't cost anything to have a policy. The decision was made to think about this, and a request was made of the County Finance team to provide a few options that would cover the IRS legal requirements as well as the practices and procedures of the County in order to get the funds back. This will be further reviewed in the next meeting.

State Conference Updater, Attendees

Steve attended for a portion of a day, and wanted to open up the discussion to those who went that wanted to share anything new and shiny or even old but noteworthy. Joe and Grant attended. Grant stated that he was there briefly and so was George. The Lynnwood PFD has a relatively new board member and this was his first conference. Grant's advice to him was to plan on going repeatedly because the real value is in developing a relationship with the other PFD's. Once that relationship has been developed it provides a better position to learn from what they do. In thinking about the travel policy, the logical place for the Board to travel is to this conference and next year it's in Eastern Washington which will involve travel and overnight lodging.

Joe also added that the connections are important because 2041 will happen, and there will be many events and meetings and lobbying to try and continue this program beyond that. He feels that it would be great to continue that coalition across the state and it's important for all PFD's to stay connected. The Snohomish County PFD is really important to the city PFD's, and the program is important statewide, so it is important for PFD Board members to appear at these events.

Steve mentioned that he has been to a couple of the state conferences over the years and he has been impressed by the varieties in size and scope of these regional centers that the state in their wisdom allowed to be created back in 1999 with legislation. One in particular stands out, Spokane is phenomenal. They have multiple facilities and they've been able to get the voters to vote in a .10% sales tax to support them. They are an organization that we all could really learn from. But all the others as well. And being engaged in and watching the lobbying effort take place in Olympia, which was probably a 4 or 5 year effort that came to fruition in 2017, and no one expected it to be that quick. The timing and relationships that played into that was an interesting process to watch happen through the state body. Steve concurs that with Joe and Grant that everyone should attend. But he also feels that there are other opportunities locally and around the state to advocate for facilities as well.

Project Financial Updates

Lynnwood Convention Center – Grant Dull

- Convention Center income statement handout
 - Grant focused the financial picture for just the convention center.
 - The Lynnwood PFD also derives revenue from the retail area on the 13 acre property.
 - The convention center finances is just the operations of the convention center.
 - For the last 5 years the center has finished in the black.
 - This does not mean that any of the center net goes to pay debt or goes to pay capital improvements that are part of the annual process of operating a convention center.
 - This year, through the end of September, the center is almost \$110k in the red on an operating basis.
 - Budget predictions were about \$32k.
 - End of year projections are that the center will be in the black, barely.

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- A major client, a church, was generating rental revenues found another space.
- Small and short term bookings are not as common as they were in the past, which is occurring in other facilities in the region as well.
- Large meetings are still happening, but the smaller ones are not.
- Sales are tracked from one year for the next year, and the graph depicting this shows that bookings made in 2018 for 2019 are much better than past years have been – 18% higher than 2017 and 49% higher than 2016.
- This translates to about \$1.3 million in business already contracted for 2019, which does not include final food and beverage revenues.
- 2019 budget, which is still fluctuating, projects the center finishing about \$30-\$40k in the black which should be around break even.
- This is down from previous years, but is related to operating expenses.
 - Harder to find employees
 - A full time security staff has been hired, as many facilities are finding is needed
 - Upgrades to audio/visual components
- The future looks good, but expenses continue to rise.

Questions:

- Steve Shelton asked about the spike on the graph in August, if that was for a big event.
 - Grant didn't have the details on what that event might be – it could be something that had historically been in another month

Edmonds Center for the Arts – Joe Mclalwain

- Staff update, Q4 2018 events list, sales report, and the 2018-2019 season booklet.
 - The staff update report is something ECA provides for their Board and it is something they will try to include more consistently to the Snohomish County PFD Board and it has a lot of good information from all the departments.
 - The annual gala and auction for fund raising was a successful, record breaking event held on 10/20/18 – early estimates were \$400-\$450k generated.
 - The numbers are still being calculated, but it appears to be in the neighborhood of \$425-\$430k
 - This is up from \$340k last year
 - There were 60 more attendees over last year
 - The first bequest has also come in this year, a \$100k donation that has donor restrictions regarding its use, some of which will go to capital investments.
 - Year end is looking to finish in the black
 - Labor costs have increased
 - Rental business is expanding
 - The 5 year strategic plan is being finished up, expected to be done December 8 when the Edmonds PFD Board meets to ratify that.
 - Implementation will be January 2019
 - Plan will be shared with the Snohomish County PFD when it's finalized
 - A tracking mechanism has been put in place to ensure that the goals and objections of the plan are being met over the next 5 years
 - Applying for a Community Development Block Grant
 - One was received a few years ago to help with the restoration of the women's restroom downstairs
 - This application is help pay for the removal of some accessibility barriers in the auditorium – the sound mixing station is in the center of a space that was

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- intended in part to be ADA accessible – the intention is to move this station to another part of the auditorium to open up more ADA accessible seating
- It is a competitive program and ECA has received this grant in the past, so the chances are slim
- The Edmonds Mayor and City Council are considering in their budget cycle an investment into the ECA operations.
 - This has been a hope for the last 13 years
 - It is currently in the Mayor's budget to provide a \$75k operating grant for 2019
 - Now it goes to the City Council for approval
- Working on finishing the refinancing process that has taken some time.
 - The City of Edmonds has been involved
 - Some contingent loan agreement updates are required
 - A private bank is involved
 - It's a lengthy process with a lot of steps, but the end of the discussion is nearing
 - One of the benefits if this goes through is that a principle payment on the debt will not be required for 2018, allowing for cash reserves to be set aside for future debt payment

Questions:

- Steve asked what the net loss of seating would be with the moving of the sound station.
 - Joe answered it will be somewhere between 5 and 7 seats, or 1% of the total house count.

Angel of the Winds Arena – Corey Margolis

- Financials handout
 - There was an operating loss of \$196k through September.
 - \$300+k better than the same period of 2017
 - This does include a \$250k capital investment received from tenant lease renegotiation
 - Event income is up over \$300k.
 - Silvertips playoff run is the primary driver of this
 - August and September concerts also contribute
 - Utility costs are increases, work is being done to determine the cause and how to resolve.
 - Labor costs are also increasing.
 - District tax revenues are up year to date, an increase of over \$200k.
 - City tax rebates
 - County Tier 2 receipts
 - Admission tax is higher based on paid event attendance
 - District expenses are up \$120k
 - Increased interest expense of \$132k
 - Increase on variable rates of the District's debt
 - Combined total is a net loss of \$30k
 - Up \$350k from the same period last year
 - Projections are to beat budget and come close to the breakeven point for the year.
 - District is reissuing 2017 bonds to extend debt.
 - AA+ rating
 - Many great events since the last meeting.
 - Alice Cooper

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- Shinedown, 18% increase in sales over the last time they were here
- Silvertips Season has started, they've played 6 home games
- Skate America
- Upcoming events
 - Endurocross
 - Disney on Ice
 - Silvertips games
- New website company has been contracted to upgrade the website.
 - Carbonhouse
- New event announcements coming over the next few weeks.
 - A return of Cirque du Soile in April – Crystal
 - Stars on Ice in May

Questions/Comments:

- Steve commented that the arena looked great on television during the Skate America tournament.

Future of Flight – Michelle Corsi for Nickolis Landgraff, Kristi Medlen, & Kathryn Overby

- Financial Summary sent via email.
- Michelle explained that Nick was unable to attend and would be emailing the Q3 financial to the board at a later date.
 - The Institute of Flight has vacated the Future of Flight building.
 - The Boeing lease was signed and are maintaining the facility as a regional center.
- Kathryn Overby confirmed that the lease has been signed.
 - Things have been moving quickly with little to no interruption to the public and ticket sales.
 - The gallery has been cleared.
 - Storage areas have been cleaned and organized.
 - Contracts for services are in place.
 - 13 new employees.
 - One of them is Kristi Medlen who will be the site manager for the Future of Flight facility.
 - Next steps are to update security and access restrictions with the network.
 - Renovation of the offices and add an employee break room.
 - Electrical work, floor repairs and overhead lighting updates in the gallery.
 - Target re-open date is December 15
 - Changes to the gallery will be ongoing over the next 2 years, however
 - The name will stay the same as of right now, but it may be represented as Boeing's Future of Flight.
 - Boeing heritage will be leveraged to demonstrate how aerospace has changed – less of a museum and more of an experience center.
 - Paine Field federalization is also being worked on at this time.
 - The facility currently backs up to the main runway, so costs will increase with this process
 - Some parking will be lost
 - Planes parked in this area for events will cost more now due to security

Questions/Comments:

- Debbie commented that this is really good for our County.

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Steve thanked everyone for the presentations and commended how well these groups have been doing and continue to do.

Steve Shelton adjourned the meeting at 4:35 p.m.

Next meeting: Thursday January 24, 2019 at 3:00pm, Snohomish County Campus 6th Floor



Chairperson Signature

1/24/19
Date

