

**WASHINGTON STATE CONVENTION CENTER
PUBLIC FACILITIES DISTRICT**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Washington State Convention Center Public Facilities District
Seattle, Washington

Report on the Financial Statements

Miller & Miller

We have audited the accompanying statements of net position of the Washington State Convention Center Public Facilities District (the "District") as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A Hauser Jones
& Sas Company

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As disclosed in the notes to these financial statements, the COVID-19 pandemic has caused substantial harm to the operating and nonoperating tax revenues received in 2020. Convention events have been cancelled and lodging tax revenues have been severely reduced. While this event does not change the valuations of assets and liabilities reported in the 2020 financial statements, this event will continue to have a substantial impact on the District's operations until restrictions implemented by the State of Washington have been fully lifted.

MILLER & MILLER P.S.

Miller and Miller, P.S.

Bellevue, Washington
May 28, 2021

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

OVERVIEW

The Washington State Convention Center Public Facilities District (the “District”) presents the Management’s Discussion and Analysis (MD&A) of its financial activities for the tenth full year of operations in 2020. The MD&A focuses on significant financial issues, provides an overview of the District’s financial activity and highlights operation changes in the District’s financial position.

The accompanying financial statements present the activities of the District. The District was created on July 19, 2010, by King County (Ordinance 16883), pursuant to Substitute Senate Bill 6889, which authorized the creation of the public facilities district by King County and the transfer of assets and liabilities from the nonprofit corporation, established by the Washington State Legislature in 1982, to design, construct, promote, and operate the Washington State Convention Center. Prior to its formation, the District was an agency of the State of Washington, and its activities were reported in the Comprehensive Annual Financial Report (CAFR) of Washington State. RCW 36.100.010 authorized King County to create the District that is coextensive with the boundaries of the county. A public facilities district is a municipal corporation, an independent taxing “authority” within the meaning of Article VII, section I of the State Constitution.

The District is a municipal corporation governed by a nine-member board of directors (the “Board”) which establishes and approves policy and budgets. Three members of the Board are appointed by the Governor of the State, three members of the Board are nominated by the County Executive subject to confirmation by the County Council, and three members of the Board are nominated by the mayor of the City of Seattle subject to confirmation by the City Council. One of the Governor’s appointments and one of the County’s appointments must represent the lodging industry in the District, and one of the City’s appointments must represent organized labor. Members of the Board serve four-year terms.

ABOUT OUR BUSINESS

The District operates a world-class convention center that generates significant regional economic activity by attracting conventions, tradeshow, and other events to the State of Washington. The District generates event-related revenue primarily from the sale and use of meeting and exhibition space, the sale of services that support the use of that space, such as electricity, water/drain, audio/video and telecommunications (together such services are referred to herein as “Facility Services”), and sale on food and beverage at the facility.

The District also operates three separate public parking garages in downtown Seattle totaling 1,598 spaces. The garages are all top-tier parking facilities in the heart of Seattle, providing access to multiple freeway ramps and accessible parking for events, commuters, nearby residents, and tourists alike. The garages generate revenue as a result of parking fees and electric vehicle charging stations.

The District’s business was materially affected by COVID-19. COVID-19 is a global pandemic that has been declared a national and public health emergency for the United States and a state of emergency for Washington State. On March 18, 2020, the Governor issued a proclamation suspending interest on tax payments including lodging taxes, and subsequently issued several extensions of the suspension. On March 23, 2020, the Governor issued a statewide “Stay Home, Stay Healthy” proclamation, requiring individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions for essential businesses. Since May 31, 2020, the State has been following phased re-opening and recovery plans.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

The Convention Center hosted 212 events in the fiscal year ended on December 31, 2019, drawing 369,204 attendees and generating more than 317,743 room nights as well as 350,172 room nights in 2018 and 329,039 room nights in 2017. The vast majority of national meetings and other events scheduled at the Convention Center during the fiscal year that ended December 31, 2020 were cancelled due to the COVID-19 public health restrictions. Prior to public health mandates shutting down operations, the Convention Center booked 173 events with an estimated 277,000 attendees. The number of events hosted by the Convention Center declined in recent years as the marketing focus transitioned more on national and international gatherings as compared to statewide or regional events:

TABLE: CONVENTION CENTER EVENTS

<u>Year</u>	<u>Number of Events</u>	<u>Number of Attendees</u>
2016	335	397,856
2017	285	382,725
2018	245	410,780
2019	212	369,204
2020	30	94,885

Source: The District.

FINANCIAL HIGHLIGHTS

The District’s 2020 operating and nonoperating revenues were materially affected by COVID-19 and both declined 75% from the prior year. Management adjusted to the pandemic by reducing operating expense 41%, reducing marketing expense 63% and reducing total staffing from 224 to 58. Management switched its focus from a customer experience to maintenance, preservation and securing the facility. At the same, the Summit Building construction project continued.

- A. Net position decreased by approximately \$53 million from 2019 to 2020. The decreased net position is the result of COVID-19 restriction impacts on both operating and nonoperating revenue. The loss of revenue forced the use of unrestricted investments to meet debt service payments which made up the majority of the decline.
- B. Total operating revenues declined 75%. Building rent revenue fell 82%. Food service revenues grossed just under \$5 million from \$23.1 million in the prior year. Facility services such as electric, conductivity and audio/visual generated revenue amounted to less than \$1 million. Parking revenue only declined 45% due to management’s ability to pivot parking operations from supporting events to providing essential service staff at the nearby Virginia Mason Hospital. Compared to 2019, the 2020 marketing loss increased by more than \$10.3 million due to the loss of lodging tax revenues as the result of COVID-19.
- C. To better match revenues and expenses, management made the difficult decision to furlough and rightsized the staff to match the needs during the pandemic. Staff levels shrunk to 58 full-time equivalents in 2020 from 224 in 2019.
- D. Nonoperating revenue decreased approximately \$72 million from 2019 to 2020 due to the reduced lodging tax collection as the result of COVID-19 and the Governor’s “Stay Home, Stay Healthy” proclamation.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- E. On March 23, 2018, the Governor signed into law Chapter 245, 2018 Laws and the Board of Directors approved Resolution 2018-3 to modify collections of the Lodging Tax. Effective January 1, 2019, Regular and Additional Lodging Tax were extended to lodgings with 60 units or fewer and to Web-based units (Airbnb, VRBO, HomeAway, etc.). Total tax from the resolution generated \$1.9 million for 2020.
- F. Noncurrent bond and notes payable increased because Lodging Tax Revenues were acutely affected by the COVID-19 pandemic. As a result, the District applied Additional Lodging Tax Revenues to pay a portion of the debt service on First Priority Bonds and Subordinate Priority WSCC Obligations (incurring a Repayment Deficiency Loan to the State). Consistent with RCW 36.100.040(6), the Transfer Agreement further provides that in any State fiscal year during which the District is unable to pay to the State all or any portion of the annual repayment amount, the deficiency is deemed to be a "Repayment Deficiency Loan" from the State to the District for the purpose of assisting the District in paying principal and interest on obligations it issues or incurs. On July 1, 2020, the District applied \$14,250,838 in Additional Lodging Tax Revenues to the interest payment due on July 1, 2020, representing an unexpected incurrence of additional debt.
- G. In June 2020, S&P Global Ratings downgraded its rating to BBB+ from AA- on Washington State Convention Center Public Facilities District's previously issued series 2010B and 2018 lodging-tax bonds. S&P Global Ratings also downgraded its rating to BBB from A- long-term and underlying ratings on the District's series 2018 subordinate lodging-tax bonds. Then in December, Moody's Investor Service lowered its rating on both the 2010B and 2018 lodging tax bonds to A1 from Aa3 and the subordinate lodging tax bonds to Baa3 from A3.
- H. The District made its last principal payment on revenue bonds series 2010A in July 2014. The District made its sixth principal payment on its bond series 2010B in July 2020. As of December 31, 2020, the remaining bond series 2010B is just under \$256 million. Both bond series were issued November 2010, for the purpose of defeasance of state debt, support capital improvements and funding a common reserve.
- I. The District purchased Cyber, Business Interruption, and Terrorist insurance in 2019.
- J. In 2020, the District continued its cashless payment strategy by implementing an automatic parking access and management solution to operate the three garages with limited staff and 100% cashless payment system.
- K. For the last eight years the District invoiced all services provided by subcontractors and/or the District. The subcontractors are reimbursed by the District for their portion of the sales. Aramark, the food service provider, has a management contract with the District whereby all invoices are billed through the District. Aramark is reimbursed for expenses they incurred, plus a management fee. Services provided by subcontractors are reflected both as operating revenues and operating expenses in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The operations of the District are grouped into one business type fund for financial reporting purposes. The District's accounting demonstrates legal compliance and financial management over transactions related to certain functions or activities.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows (on pages 13 through 16) provide information about the activities and finances of the District as a whole.

The Statement of Net Position

The Statement of Net Position reports information about the District as a whole and about its activities in a way that helps communicate the financial condition of the District. This statement includes assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

The District's net position is the difference between assets and liabilities. The District does not report deferred inflows or outflows in the Statement of Net Position, because it has no items that qualify for such classification. Net position is one way to measure the District's financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial condition is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the District's funding structures and the condition of the District's operating assets, to assess the overall financial health of the District.

The Statement of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position show the District's income and expenses during the period. All revenues earned and expenses incurred during the years ended December 31, 2020 and 2019 are reported in the District's financial statements.

The District's operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operation in a given year. Marketing revenues and expenses are reported separately from operating revenues and expenses.

The Statement of Cash Flows

The District categorizes cash inflows and outflows into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities and 4) cash flows from investing activities.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

FINANCIAL ANALYSIS

Condensed Comparative Statement of Net Position

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>	<u>2018</u>	<u>Percentage Change</u>
ASSETS					
Current and other assets	\$ 552,310,725	\$ 954,829,027	-42%	\$ 1,147,242,607	-17%
Capital assets	<u>1,465,212,167</u>	<u>1,134,900,811</u>	29%	<u>883,009,462</u>	29%
Total assets	<u>2,017,522,892</u>	<u>2,089,729,838</u>	-3%	<u>2,030,252,069</u>	3%
LIABILITIES					
Current liabilities	89,708,222	111,232,040	-19%	70,813,311	57%
Noncurrent liabilities	<u>1,480,765,444</u>	<u>1,478,838,241</u>	0%	<u>1,489,429,491</u>	-1%
Total liabilities	<u>1,570,473,666</u>	<u>1,590,070,281</u>	-1%	<u>1,560,242,802</u>	2%
NET POSITION					
Net invested in capital position	294,956,126	324,154,168	-9%	282,841,727	15%
Restricted	5,332,072	16,411,367	-68%	14,512,557	13%
Unrestricted	<u>146,761,028</u>	<u>159,094,022</u>	-8%	<u>172,654,983</u>	-8%
Total net position	<u>\$ 447,049,226</u>	<u>\$ 499,659,557</u>	-11%	<u>\$ 470,009,267</u>	6%

Current and other assets decreased approximately \$403 million from 2019 to 2020 due to the use of bond proceeds on Summit Building construction costs and the use of cash to meet debt service and support operating losses attributable to the loss of lodging tax revenues and cancellation of events. From 2018 to 2019, current and other assets decreased approximately \$193 million due to Summit Building construction costs and decreases in investment interest rates.

Capital Assets increased approximately \$331 million from 2019 to 2020 due to the Summit building site work including in construction in progress, net of current year depreciation and other capital asset additions and disposals. Capital Assets increased by \$252 million from 2018 to 2019 due to the Summit building site work including in construction in progress, net of the Hudson Pacific Properties \$20.5 million earnest money: net of current year depreciation and the result of other capital asset additions and disposals.

Current liabilities decreased approximately \$22 million from 2019 to 2020 due to the impacts for COVID-19 and the Governors "Stay Home and Stay Healthy" proclamation. The pandemic and proclamation slowed progress on the expansion project, decreased payroll liabilities due to smaller number of staff and greatly reduced the collection due to other jurisdictions. Current liabilities increased approximately \$41 million from 2018 to 2019 due to large increases in accrued amounts due to the expansion project and due to the collection of Lodging Tax on 60 units or fewer and Web-based units (Airbnb, VRBO, HomeAway, etc.) and owed to the State of Washington, King County and City of Seattle.

Net investment in capital assets decreased from 2019 to 2020 due to additional debt taken on related to the Summit Building construction project and a decrease in available funds related to the Summit Building construction project, offset by additional capital asset additions related to the Summit Building construction project. The change in net position - investment in capital assets also reflects the net effects of other capital asset additions and disposals, bond principal payments, and depreciation on capital assets. This balance increased from 2018 to 2019 due to growth of the Summit Building construction project and payments of public benefits. The change in net position - investment in capital assets also reflects the net effects of asset additions and disposals, bond principal payments, and depreciation on capital assets.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

Comparative Schedule of Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>	<u>2018</u>	<u>Percentage Change</u>
OPERATING REVENUES					
Building rent	\$ 760,840	\$ 4,263,280	-82%	\$ 3,992,177	7%
Food service	4,950,410	23,085,555	-79%	26,320,728	-12%
Parking	2,147,140	3,897,330	-45%	3,783,815	3%
Facility services	738,069	3,535,662	-79%	4,000,813	-12%
Retail leases	370,107	823,020	-55%	716,152	15%
Other	312,671	1,493,929	-79%	1,579,687	-5%
Total operating revenues	<u>9,279,237</u>	<u>37,098,776</u>	-75%	<u>40,393,372</u>	-8%
MARKETING REVENUES					
Lodging tax for marketing	<u>2,920,579</u>	<u>15,403,241</u>	-81%	<u>14,976,875</u>	3%
NONOPERATING REVENUES					
Lodging tax - regular	18,384,474	76,997,207	-76%	74,866,406	3%
Lodging tax - extended	906,446	1,917,849	-53%	-	0%
Build America Bonds subsidy	5,779,726	5,887,519	-2%	5,988,725	-2%
Interest and investment income	<u>10,771,244</u>	<u>22,872,370</u>	-53%	<u>13,672,902</u>	67%
Total revenues	<u>48,041,706</u>	<u>160,176,962</u>	-70%	<u>149,898,280</u>	7%
OPERATING EXPENSES					
Salaries and wages	5,203,787	9,183,908	-43%	9,023,526	2%
Employee benefits	3,344,588	5,336,639	-37%	5,283,711	1%
Professional and other services	1,692,993	2,882,570	-41%	2,752,081	5%
Food service	2,343,728	13,761,125	-83%	14,063,741	-2%
Supplies	342,985	585,662	-41%	630,204	-7%
Utilities	1,912,187	3,272,140	-42%	3,150,868	4%
Repair and maintenance	1,500,428	1,840,827	-18%	1,692,183	9%
Depreciation and amortization	14,079,938	13,995,164	1%	13,791,941	1%
Other administrative and contingency	<u>118,868</u>	<u>376,795</u>	-68%	<u>376,940</u>	0%
Total operating expenses	<u>30,539,502</u>	<u>51,234,830</u>	-40%	<u>50,765,195</u>	1%
MARKETING EXPENSES					
Visit Seattle, outside marketing	4,393,251	13,119,423	-67%	12,757,257	3%
In-house marketing	<u>925,117</u>	<u>1,127,169</u>	-18%	<u>1,380,462</u>	-18%
Total marketing expenses	<u>5,318,368</u>	<u>14,246,592</u>	-63%	<u>14,137,719</u>	1%
NONOPERATING EXPENSES					
Interest expense	63,983,868	64,469,549	-1%	36,617,777	76%
Other expense	<u>810,299</u>	<u>575,701</u>	41%	<u>5,429,052</u>	-89%
Total expenses	<u>100,652,037</u>	<u>130,526,672</u>	-23%	<u>106,949,743</u>	22%
CHANGE IN NET POSITION	(52,610,331)	29,650,290	-277%	42,948,537	-31%
NET POSITION					
Beginning of year	<u>499,659,557</u>	<u>470,009,267</u>	6%	<u>427,060,730</u>	10%
End of year	<u>\$ 447,049,226</u>	<u>\$ 499,659,557</u>	-11%	<u>\$ 470,009,267</u>	6%

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

Operating revenues have decreased from 2019 to 2020 due to the impacts of the COVID-19 pandemic on lodging activity and the Governor's subsequent statewide "Stay Home, Stay Healthy" proclamation which required individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions for essential businesses. Operating revenues decreased from 2018 to 2019 due mainly to the mix of convention events in that food service and facility services were not required for the type of events held during 2019 as compared to 2018. Fiscal 2018 operating revenues were the strongest in its thirty-year history.

Other nonoperating revenue decreased from 2019 to 2020 due to the impacts of the COVID-19 pandemic on lodging activity and the Governor's subsequent statewide "Stay Home, Stay Healthy" proclamation. Other nonoperating revenue increased from 2018 to 2019 due to an increase in Lodging Tax revenue and the broadening of the Extended Lodging Tax base to include web-based options such as Airbnb and VRBO.

Other nonoperating expenses decreased from 2019 to 2020 due to management taking a conservative investment profile and moving investments into Washington's Local Government Investment Pool (LGIP). Furthermore, the disbursement of 2018 bond proceeds resulted in less assets being available to generate income. Other nonoperating expenses increased from 2018 to 2019 due to more funds being available from the 2018 bond issuance in 2019 and a more favorable interest rate environment.

Capital Assets

The following schedule is a summary of the District's investment in capital assets as of December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital assets, not being depreciated			
Land	\$ 321,485,455	\$ 321,485,455	\$ 313,878,484
Construction in progress	891,317,217	550,286,174	293,814,711
Total capital assets, not being depreciated	<u>1,212,802,672</u>	<u>871,771,629</u>	<u>607,693,195</u>
Capital assets, being depreciated			
Buildings and improvements	462,261,396	459,397,129	458,463,339
Other improvements and art collection	12,331,594	12,331,594	12,262,373
Machinery/equipment/furniture/fixtures	14,677,192	14,436,365	14,431,124
Total capital assets, being depreciated	<u>489,270,182</u>	<u>486,165,088</u>	<u>485,156,836</u>
Less accumulated depreciation for:			
Buildings	(220,813,780)	(208,900,624)	(197,019,774)
Other improvements and art collection	(4,718,071)	(3,949,467)	(3,233,056)
Machinery/equipment/furniture/fixtures	(11,328,836)	(10,185,815)	(9,587,739)
Total accumulated depreciation	<u>(236,860,687)</u>	<u>(223,035,906)</u>	<u>(209,840,569)</u>
Total capital assets, being depreciated, net	<u>252,409,495</u>	<u>263,129,182</u>	<u>275,316,267</u>
Total capital assets	<u>\$ 1,465,212,167</u>	<u>\$ 1,134,900,811</u>	<u>\$ 883,009,462</u>

Capital Assets increased from 2019 to 2020 due to increases in Summit Building construction project spending plus other capital asset additions, offset by current year depreciation and disposals. Additional information regarding capital assets is provided in Note 5 to the financial statements.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

DEBT ADMINISTRATION

In June 2020, S&P Global Ratings downgraded its rating to BBB+ from AA- on Washington State Convention Center Public Facilities District's previously issued series 2010B and 2018 lodging-tax bonds. S&P Global Ratings also downgraded its rating to BBB from A- long-term and underlying ratings on the District's series 2018 subordinate lodging-tax bonds. In December 2020, Moody's Investor Service lowered its rating on both the 2010B and 2018 lodging tax bonds to A1 from Aa3 and the subordinate lodging tax bonds to Baa3 from A3.

As of December 31, 2020, the District had \$1.481 billion in long term outstanding debt and \$10.2 million in the current portion of long-term debt. As of December 31, 2020, the District's outstanding debt was \$1.491 billion. In August 2018, the District issued debt for the construction of the Summit building in the amounts of \$648.2 million (2018 First Priority Bonds) and \$434.4 million (2018 Subordinate Priority Bonds) generating aggregate issuance of \$1.083 billion. The debt issued by the District in November 2010, was used to defease the District's debt to the state, provide for capital funding for improvement of the Convention Center, and fund a common reserve. The 2018 Bond issue replaced all common reserve funds with surety bonds. Additional information regarding long-term debt is provided in Note 6 to the financial statements.

The District has property and casualty insurance through Liberty Mutual Insurance Company of Massachusetts as follows through November 30, 2021: in excess of \$500 million of total coverage for its facilities and operations which includes, among other events, earthquake, flood, and terrorism coverage, subject to the limitations and terms of the policies. The total combined maximum deductible is \$200,000.

The District utilized the services of Parker, Smith and Feek for the placement of its Builder's Risk insurance and an Owner's Controlled Insurance Program ("OCIP") in connection with the Summit Building construction project. The OCIP primary liability coverage is provided by Lloyd's of London. Excess liability coverage is provided by thirteen insurance companies, layered to provide the coverage comprising the program. All of the insurance carriers are rated "A" or better by the A.M. Best & Company and include Allied World National Assurance Company, Westchester Surplus Lines Ins. Co., Berkley National Insurance Co., Great American Ins. Co. of New York, Sompo-Endurance American Ins. Co., Starr Indemnity & Liability Company, Markel-Evanston Ins. Co., Chubb-ACE Property & Casualty Insurance Company, Liberty-Ohio Casualty Ins. Co., AXIS Surplus Ins. Co., Liberty Insurance Underwriters Inc., Scottsdale Insurance Co., and Colony Insurance Co.

The OCIP is effective from May 22, 2018, through November 22, 2021, which the District will extend to the Summit Building construction project's completion (plus six years under the Washington statute of repose), with a program limit of \$300 million. The primary OCIP liability limits include \$2 million occurrence, \$4 million general aggregate, and \$4 million products-completed operations aggregate. The general aggregate limit on the primary liability reinstates once at 18 months. Deductibles are \$50,000 per occurrence and \$500,000 in the aggregate per policy period.

The Builder's Risk policy is provided by Lloyd's of London for a three-year construction period which the District will extend to the Addition Project's completion. The policy insures risk of direct physical loss or damage unless excluded, with a physical damage limit of \$1,127,120,000. Earth movement (including earthquake and volcanic action) coverage is included with a limit of \$200 million. Flood, named storm and windstorm coverage is included with limits of \$1,199,131,085. The policy addresses the soft costs (\$37,800,000 limit) and loss of rents (\$34,211,085 limit) associated with a delay in completion for a two-year indemnity period.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

ECONOMIC FACTORS

Lodging Tax Revenues are affected by economic activity, particularly tourism activity. With the exception of the downturns during the Great Recession and as a result of the COVID-19 pandemic, Lodging Tax Revenues have grown year to year, from a low annual increase of 2.85% to a high annual increase of 16.80%. Regular Lodging Tax Revenues have grown at a 9.3% compound annual growth rate from 2010 to 2019. The Great Recession from approximately 2008 to 2010 decreased revenues by 7.04% in 2009 and 11.37% in 2010. The COVID-19 pandemic affected Lodging Tax Revenues much more acutely. Regular Lodging Tax Revenues decreased by 76% in 2020 as compared to 2019 (on an accrual basis). The timing of recovery from the COVID-19 pandemic is uncertain, and the District expects Pledged Lodging Taxes may not recover to 2019 levels until 2024.

Any future slowdown or decrease in the level of tourist activity (including convention activity) in the District is likely to result in slowed growth or a reduction in Lodging Tax Revenues. Web-based units represent a new entrant into the lodging market with a short history of tax collections and may have unanticipated effects on the lodging industry and Lodging Tax Revenues. There can be no assurance a future recession, pandemic or other significant local or national events will not again have a materially negative impact on Lodging Tax Revenues.

Changes or fluctuations in the attractiveness of Seattle as a tourist and convention destination may also adversely affect the level of Lodging Tax Revenues and Convention Center bookings. Such factors that may affect tourism and convention activity include public safety, the walkability of downtown Seattle, homelessness in downtown Seattle and other factors that may affect Seattle's national and international reputation as a place to visit. The District has established a Task Force to help with communicating the needs of safety and civility of the downtown core and how this will affect bookings of events and attendance which then relate to job and economic impact created for the region before the COVID-19 pandemic to the District's elected officials both in the City of Seattle and King County. The District is involved with several community groups (Downtown Seattle Association, Chamber of Commerce, Visit Seattle) and neighborhood associations to focus on recovery from the COVID-19 pandemic and restoring a vibrant downtown attractive to business, conventions and visitors to the City. These will be ongoing conversations throughout 2021 and 2022.

Washington State's economy is relatively dependent on export-oriented industries, and may be affected by factors affecting international trade, including tariffs. Other factors beyond the control of the District which also may adversely affect the level of Lodging Tax Revenues in the future include the availability of affordable air service to the Seattle metropolitan area. Reductions in air service or increases in the price of such service may occur due to the poor health of the airline industry in general, increases in jet fuel costs or other factors.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

Public Health

The impact the COVID-19 pandemic is having and will have on commerce, financial markets, the District and the Puget Sound region is significant, and the nature of the impact is likely to evolve over the next several years. The District cannot predict the duration and extent of the COVID-19 public health emergency, the occurrence of future public health emergencies, or quantify the magnitude of the impact on the District and regional economy or on the other revenues and expenses of the District. The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus and its variants and the emergence of new variants; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions which governmental authorities may take to contain or mitigate the outbreak; (v) the development, efficacy and distribution of medical therapeutics and vaccinations and the efficacy of therapeutics and vaccines to emerged and new variants; (vi) additional or changed travel restrictions; (vii) the impact of the outbreak on the local or global economy, or on the tourism and convention sector generally; (viii) whether and to what extent the Governor may order additional public health measures; (ix) restoration of public perception of the safety and necessity of travel for personal and business needs, and (x) the impact of the outbreak and actions taken in response to the outbreak on District revenues, expenses and financial condition. Prospective investors should assume the restrictions and limitations instituted related to the COVID-19 pandemic may continue, the current upheaval to the national and global economies and financial markets may continue and/or be exacerbated at least over the near term, and the recovery may be prolonged. Additional pandemics, and other public health emergencies, may occur and may occur with greater frequency and intensity given trends in globalization.

FINANCIAL CONTACT

The District's financial statements are designed to provide users with a general overview of the District's finances and to demonstrate accountability to the taxpayers, investors, creditors, and customers of the District. If you have questions about the report, please contact the District's administrative offices at 206-694-5000. The District's financial statements can be accessed at its website: www.wscc.com.

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
STATEMENTS OF NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 76,404,002	\$ 68,872,013
Restricted cash and cash equivalents	266,295,077	134,912,046
Investments	69,693,070	80,385,690
Restricted investments	104,748,526	555,566,210
Restricted investments interest receivable	654,990	1,669,648
Receivables, net	10,856,262	16,625,290
Due from other governments	2,359,167	11,793,886
Prepayments and other current assets	673,754	822,964
Total current assets	<u>531,684,848</u>	<u>870,647,747</u>
NONCURRENT ASSETS		
Investments	20,595,900	40,501,600
Restricted investments	-	43,596,144
Other noncurrent assets	29,977	83,536
Total noncurrent assets	<u>20,625,877</u>	<u>84,181,280</u>
CAPITAL ASSETS		
Land	321,485,455	321,485,455
Buildings and improvements	462,261,396	459,397,129
Machinery/equipment/furniture/fixtures	14,677,192	14,436,365
Other improvements and art collection	12,331,594	12,331,594
Accumulated depreciation	(236,860,687)	(223,035,906)
Construction in progress	891,317,217	550,286,174
Total capital assets	<u>1,465,212,167</u>	<u>1,134,900,811</u>
Total assets	<u>2,017,522,892</u>	<u>2,089,729,838</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	28,173,745	39,099,726
Retainage-payable from restricted assets	11,964,091	7,390,329
Salaries, benefits, and taxes payable	469,931	1,163,051
Unearned revenue and deposits payable	1,849,353	2,558,411
Due to other governments	3,515,662	17,847,947
Interest payable	33,169,020	33,145,600
Current portion of bonds and note payable	10,203,577	8,685,000
Other	362,843	1,341,976
Total current liabilities	<u>89,708,222</u>	<u>111,232,040</u>
NONCURRENT LIABILITIES		
Bonds and notes payable, less current portion	1,480,630,884	1,478,664,057
Other	134,560	174,184
Total noncurrent liabilities	<u>1,480,765,444</u>	<u>1,478,838,241</u>
Total liabilities	<u>1,570,473,666</u>	<u>1,590,070,281</u>
NET POSITION		
Net investment in capital assets	294,956,126	324,154,168
Restricted:		
Restricted for debt service	2,604,366	6,117,690
Restricted for operating reserve	2,727,706	10,293,677
Unrestricted	146,761,028	159,094,022
Total net position	<u>\$ 447,049,226</u>	<u>\$ 499,659,557</u>

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Building rent	\$ 760,840	\$ 4,263,280
Food service	4,950,410	23,085,555
Parking	2,147,140	3,897,330
Facility services	738,069	3,535,662
Retail leases	370,107	823,020
Other	312,671	1,493,929
Total operating revenues	<u>9,279,237</u>	<u>37,098,776</u>
OPERATING EXPENSES		
Salaries and wages	5,203,787	9,183,908
Employee benefits	3,344,588	5,336,639
Professional and other services	1,692,993	2,882,570
Food service	2,343,728	13,761,125
Supplies	342,985	585,662
Utilities	1,912,187	3,272,140
Repair and maintenance	1,500,428	1,840,827
Depreciation and amortization	14,079,938	13,995,164
Other administrative and contingency	118,868	376,795
Total operating expenses	<u>30,539,502</u>	<u>51,234,830</u>
OPERATING LOSS	<u>(21,260,265)</u>	<u>(14,136,054)</u>
MARKETING REVENUES		
Lodging tax for marketing	2,920,579	15,403,241
MARKETING EXPENSES		
Visit Seattle, outside marketing	4,393,251	13,119,423
In-house marketing	925,117	1,127,169
Total marketing expenses	<u>5,318,368</u>	<u>14,246,592</u>
INCOME (LOSS) FROM MARKETING	<u>(2,397,789)</u>	<u>1,156,649</u>
TOTAL NET OPERATING AND MARKETING LOSS	<u>(23,658,054)</u>	<u>(12,979,405)</u>
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	18,384,474	76,997,207
Lodging tax - extended	906,446	1,917,849
Interest and investment income	10,771,244	22,872,370
Interest expense	(63,983,868)	(64,469,549)
Build America Bonds subsidy	5,779,726	5,887,519
Loss on disposal of assets	(371,664)	(358,778)
Other expenses	(438,635)	(216,923)
Total nonoperating revenues (expenses)	<u>(28,952,277)</u>	<u>42,629,695</u>
CHANGE IN NET POSITION	<u>(52,610,331)</u>	<u>29,650,290</u>
NET POSITION		
Beginning of year	<u>499,659,557</u>	<u>470,009,267</u>
End of year	<u>\$ 447,049,226</u>	<u>\$ 499,659,557</u>

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 14,339,207	\$ 38,599,117
Receipts from governments	12,355,298	15,019,788
Payments to suppliers	(47,423,033)	(38,541,105)
Payments to employees	(9,241,495)	(14,513,036)
Payments to or receipt from others, net	-	26,843
Net cash provided (used) by operating activities	(29,970,023)	591,607
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating portion of lodging taxes received	19,290,920	78,238,957
Lodging tax received to be paid to state	12,393,568	34,328,662
Portion of lodging tax paid to state	(12,475,015)	(28,927,718)
Nonoperating revenues and expenses	(5,757,003)	(216,801)
Purchase of other noncurrent assets	-	(26,974)
Net cash provided by noncapital financing activities	13,452,470	83,396,126
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets, net	(312,419,321)	(243,145,700)
Interest and principal paid on capital debt	(74,725,882)	(68,306,010)
Payment to acquire land	-	(7,599,657)
Build America Bonds subsidy received	5,779,726	5,887,519
Net cash used by capital and related financing activities	(381,365,477)	(313,163,848)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	12,216,259	23,484,703
Investment fees	(4,514)	(4,498)
Investment purchases	(139,633,239)	(676,851,132)
Investment maturities	664,219,544	898,392,390
Net cash provided by investing activities	536,798,050	245,021,463
NET CHANGE IN CASH AND CASH EQUIVALENTS	138,915,020	15,845,348
CASH AND CASH EQUIVALENTS		
Beginning of year	203,784,059	187,938,711
End of year	\$ 342,699,079	\$ 203,784,059
CASH AND CASH EQUIVALENTS AS REFLECTED IN THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 76,404,002	\$ 68,872,013
Restricted cash and cash equivalents	266,295,077	134,912,046
Total cash and cash equivalents in the statement of net position	\$ 342,699,079	\$ 203,784,059

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (23,658,054)	\$ (12,979,856)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	14,079,938	13,995,164
Bad debt expense	35,515	-
Changes in operating assets and liabilities:		
Accounts receivable	5,733,513	1,028,190
Due from other governments - operating portion	9,434,719	(383,453)
Operating accounts payable	(38,695,856)	(408,958)
Prepayments	202,769	(170,420)
Salaries, benefits, and taxes payable	(693,120)	(13,196)
Unearned revenue and deposits payable	(709,058)	472,604
Other operating liabilities	(1,018,757)	(948,468)
Net cash provided (used) by operating activities	\$ (35,288,391)	\$ 591,607
 SCHEDULE OF NONCASH INVESTING, CAPITAL, NONCAPITAL, AND RELATED FINANCING ACTIVITIES		
Capital assets acquired by increases in accounts payable	\$ 32,343,637	\$ 26,225,059
Reimbursement of capital included in receivables	\$ -	\$ 175,138
Change in fair value of investments	\$ 425,843	\$ 2,297,709

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements present the activities of the Washington State Convention Center (WSCC) Public Facilities District (the “District”). The District was created on July 19, 2010 by King County Ordinance 16883, pursuant to Substitute Senate Bill 6889, which authorized the creation of the public facilities district by King County and the transfer of assets and liabilities from the nonprofit corporation, established by the Washington State Legislature in 1982, to design, construct, promote and operate the Washington State Convention Center. Prior to July 19, 2010, the District was an enterprise fund of the State of Washington, and its activities were reported in the Comprehensive Annual Financial Report (CAFR) of Washington State.

The District is an independent governmental entity, and all of its activities are accounted for in the records of the District. All liabilities incurred by the District are required to be satisfied exclusively from the assets, credit and property of the District. The District’s reporting cycle is the 12-month calendar period from January 1 through December 31.

In November 2010, the District issued bonds in the amount of \$314,652,701. The proceeds were distributed on November 30, in accordance with the Official Statement for the bonds and the Transfer Agreement between the state and the District as follows: to the District for capital improvements (\$21.4 million), to the state to defease Convention Center debt (\$270.9 million), to an external fiscal agent to establish the common reserve (\$19.5 million) and to fund bond issue costs (\$2.7 million).

As of December 31, 2010, the District recorded the assets of the enterprise fund of the State of Washington, including all capital assets and a receivable from the state, in the amount of \$53.2 million, which was transferred to the District on January 4, 2011. The District also recorded all of the liabilities of the state’s corporation, with the exception of the long-term debt, which was defeased with the bond issue discussed in the above paragraph.

The District sold Bonds at the purchase price of \$1,082,583,084 during August 2018. The purchase price for the 2018 First Priority Bonds was \$648,151,581 (representing the aggregate principal amount of the 2018 First Priority Bonds, plus the original issue premium of \$51,057,434 and less the Underwriters’ Discount of \$1,695,853). The purchase price for the 2018 Subordinate Priority Bonds was \$434,431,503 (representing the aggregate principal amount of the 2018 Subordinate Priority Bonds, plus the original issue premium of \$30,772,965 and less the Underwriters’ Discount of \$1,146,461). Proceeds are to finance a portion of the costs to construct the Summit Building. The Summit Building will add nearly 1.5 million square feet of gross floor area to the Convention Center, more than doubling the existing Convention Center exhibit, meeting, and banquet space. The Summit Building will include a 155,000 square foot exhibition hall, 100,000 square foot flex hall, 125,000 square feet of meeting rooms and a 60,000 square feet ballroom.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units

The Washington State Convention Center Art Foundation, a 501(c)(3) tax exempt organization, was formed to support the public art program of the WSCC. The Art Foundation’s Board of Directors is appointed by the Chair of the WSCC Board of Directors Art Committee and approved by the WSCC Board of Directors. While the WSCC Board of Directors has the ability to control which art is displayed at any point in time, it does not direct the operation of the Art Foundation. The WSCC is entitled to the assets of the Art Foundation only upon its dissolution. The Art Foundation has no employees. As such, WSCC staff provides insignificant administrative services to the Art Foundation. The total assets of \$641,918 as of December 31, 2020, as well as total revenues of \$1,477 and total expenses of \$175 for the year then ended related to the Art Foundation are considered insignificant to the WSCC. In addition, there are no transactions between the two entities for the years ended December 31, 2020 and 2019. As such, the Art Foundation is not included in the WSCC’s financial statements as either a blended or a discretely presented component unit.

Basis of Accounting and Presentation

The District uses the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of when the related cash is received or disbursed. Amounts received but not earned at year-end are reported as unearned revenues. Earned but unbilled revenues are accrued. Amounts disbursed but not owed at year-end are reported as pre-paid expenses. Amounts owed, but for which the District has not yet been invoiced, are accrued.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates particularly susceptible to significant change in the near term relate to the depreciable lives of capital assets.

Summary of Significant Accounting Policies

Policy for Defining Operating and Nonoperating Revenues/Expenses

Operating revenues/expenses are distinguished from nonoperating revenues/expenses based on their relationship to the primary purpose of the District, which is operating a convention center. The operating revenues of the District result from event rentals, related event fees, food service, parking and retail leases. The operating expenses relate directly or indirectly to the generation of the operating revenues and include salaries and benefits, professional services, food service, depreciation, supplies, utilities, maintenance, advertising and other administrative expenses.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Policy for Defining Operating and Nonoperating Revenues/Expenses (Continued)

The District relies on four contractors to provide specific event services for clients. Rates charged for all contractor services are approved by the District. Aramark has a management contract with the District and is the exclusive food and beverage provider within the center. The District recognizes in its financial statements gross food service revenues and food service expense. Revenues from the other three contractors are recorded as Facility Services under Operating Revenues. Edlen is the exclusive electrical and air/water/drain provider for the District. The District receives in the range of 30% to 36% of the revenue generated by Edlen and retains the remaining revenues and all expenses. Smart City provides exclusive telecommunication, data and internet services. Generally, the District receives 34% of the gross revenues and Smart City retains the remaining revenue and covers all expenses. LMG is the preferred audio-visual provider. Generally, LMG pays the District 20% to 25% commission depending on the service or rented equipment provided.

For fiscal 2020 and all comparable years the District reports marketing revenues and expenses separately from the operating category. Marketing revenues and expenses are located on the Statement of Revenues, Expenses and Changes in Net Position between operating and nonoperating. Marketing revenue is a dedicated portion of the lodging tax that supports national and international marketing by Visit Seattle on the District's behalf. In-house marketing supports advertising and marketing for events in the building and local/regional marketing.

The District receives nonoperating revenues from lodging taxes and interest and investment income. Its nonoperating expenses are mainly debt service interest payments and loss on disposal of assets. Prior to 2018, the District reports its interest expense net of capitalized interest on the Summit Building construction project. The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period* for its 2018 financial statements. This GASB statement requires that interest costs during construction be expensed. As such, the District no longer capitalizes interest costs as an addition to capital assets. The District separately reports its subsidy from the U.S. Federal government on its Build America Bonds in nonoperating revenues.

Policy for Applying Financial Accounting Standards Board (FASB) Pronouncements Issued After November 30, 1989

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* provides a codification of private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to be followed in the financial statements of proprietary fund types. The District has adopted provisions of GASB Statement No. 62.

As required by the Governmental Accounting Standards Board (GASB) the District adopted GASB Statement number 63 *Deferred Outflows and Inflows of Resources and Net Position* and implemented GASB Statement number 65 *Items Previously Reported as Assets and Liabilities* in 2012. The District has no items required to be reported as deferred outflows or deferred inflows.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Policy for Defining Cash Equivalents

It is the District’s policy to invest temporary cash surpluses. Cash includes the following:

- Cash on hand.
- Cash on demand deposit with financial institutions.
- Cash in management pools (e.g., the Local Government Investment Pool) that are similar to demand deposits.

Cash equivalents include highly liquid investments with the following characteristics:

- Readily convertible to known amounts of cash.
- Mature in such a short period of time that their values are effectively immune from changes in interest rates.

The District considers all investments, originally purchased with a three-month term or less, to be cash equivalents.

Policy for Application of Restricted Versus Unrestricted Resources

The District applies all restricted resources to eligible expenses prior to applying unrestricted resources. For example, the District’s debt covenants restrict certain resources for debt service and capital improvements, and the District applies these restricted resources to debt service and capital improvements first, before using unrestricted assets. Were there to be insufficient restricted resources for debt service and capital improvements, the District would compensate for any insufficiency with unrestricted resources.

Budgetary Information

Scope of Budget

The District adopts an annual operating budget by board action no later than December 31. It adopts budgets for the debt service requirements of individual debt issues. It adopts capital projects budgets for specific projects for a three-year period. Each year’s annual operating budget is developed based on economic projections. The Board adopts a contingency amount, within which management can control spending variances.

Capital Bond budget funding carries forward until projects are completed and/or funding is exhausted.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Information (Continued)

Scope of Budget (Continued)

The Board of Directors approved Resolution number 2012-6, a Capital Improvement Project Funding Program. Annually \$4 million adjusted by the prior year's consumer price index will be dedicated to annually fund approved capital improvement projects. Unspent funds will carry-forward, but capital improvement projects must be approved annually.

The Board of Directors approved Resolution number 2010-16 that requires the establishment of an annual operating reserve based on 100 days of operating budgeted expenses. The 2019 Operating Reserve was funded in January 2019 to \$10,022,170. In December 2019, the budget was amended by Resolution number 2019-19 and the Operating Reserve was increased to \$10,293,677. During 2020, the District expended much of the reserve on operations to make up for lost revenues as a result of the COVID-19 pandemic. The balance of the Operating Reserve was \$2,727,706 as of December 31, 2020.

In January 2019, the Board of Directors approved by motion to update the Summit Project Financial Plan to \$1,948,385,000.

Amending the Budget

The District prepares a monthly comparison of budgeted amounts to actual amounts. It can amend its operating budget only by board action. Capital budgets are monitored throughout the length of the specific projects, and budgets are modified by board action. In July 2020, the Board of Directors approved a revised budget for 2020 to reflect circumstances related to the COVID-19 pandemic.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents (see Note 3)

It is the District's policy to invest all temporary cash surpluses. At December 31, 2020 and 2019, the District had \$76,404,002 and \$68,872,013, respectively in short-term residual investments of surplus cash reported as unrestricted cash and cash equivalents.

Investments (see Note 4)

It is the policy of the District to invest all public funds in accordance with governing federal, state and local statutes. The District updated its investment policy in 2016 to incorporate the new State of Washington regulations. The certification of excellence for investment policies was awarded by the Washington Public Treasurers' Association to the District. The District's objectives are to ensure safety of the principal, to maintain an investment portfolio that is sufficiently liquid to meet all operating requirements, debt payments and capital purchases and to achieve a market rate of return taking into account risk constraints.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Investments (see Note 4) (Continued)

The District maintained current and non-current restricted investments with external fiscal agents, which are presented on the Statement of Net Position as current restricted investments in the amount of \$104,748,526 and \$555,566,210 as of December 31, 2020 and 2019, respectively. There were no noncurrent restricted investments as of December 31, 2020; however, noncurrent restricted investments amounted to \$43,596,144 as of December 31, 2019. Current restricted investments arise from the 2018 financing of First Priority and Subordinate Bonds reserved for construction expenditures that are due within one year. The 2010B bond Common Reserve was replaced with a Surety Bond in August 2018. Current and non-current unrestricted investments are \$90,288,970 and \$120,887,290 as of December 31, 2020 and 2019, respectively. All investments are reported at fair value as reported by the external fiscal agent.

Receivables

Receivables consist of the following components:

Customer accounts receivable consist of amounts owed by private organizations for goods and services and leased retail space and are presented net of an estimate of uncollectible accounts.

Restricted Interest receivable consists of amounts owed by financial institutions on the District's investments.

Due to/from Other Governments

Due from other governments is mainly composed of Lodging Tax collected by the hotels and earned in last two months of the fiscal year but paid to the District by the State of Washington in the first two months of the following year. Due to other governments consists primarily of the portion of additional lodging tax revenues payable to the State of Washington, City of Seattle and King County.

Inventories

The District does not carry any significant inventories. It expenses operating supplies and small tools when purchased.

Restricted Assets and Liabilities

The District restricts certain resources based on bond covenants, board requirements and contractual arrangements. The following restrictions pertain to:

- Operating Reserve Account
- Bond Interest and Principal Accounts
- Retainage Accounts

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Capital Assets (see Note 5)

Capital assets include land, buildings, building improvements, machinery and equipment, furniture and fixtures, art collections and construction in progress. Assets are capitalized if the initial investment is \$5,000 or greater and have an estimated useful life of more than one year. Groups of capital assets may be capitalized even if their individual costs are less than \$5,000 and subsequent additions to the group are likewise capitalized. Capital assets are recorded at cost. Costs of additions or improvements are capitalized if they increase the useful life of the asset. Routine repair and maintenance costs are expensed when incurred.

Capital assets in service are depreciated over their useful lives using the straight-line method. The following useful lives are used in recording depreciation expense:

<u>Assets</u>	<u>Useful Lives (Years)</u>
Buildings	50
Building Improvements	4 – 15
Equipment – Heating/Air Conditioning	13
Vehicular Equipment	13
Equipment – Furniture	2 – 10
Equipment – Communications	10
Equipment – Data Processing	4 – 10
Vehicles and All Other Equipment	5
Art Collections	Not depreciated

GASB Statement number 89, Accounting for Interest Cost Incurred before the end of a Construction Period suspends paragraphs 5-22 of GASB 62, which the District followed from 2014 through 2017.

During the years ended December 31, 2020 and 2019, the District did not capitalize interest in accordance with GASB Statement No. 89.

Compensated Absences

The District compensates employees for vacation and sick leave. All such leave is accrued when earned and reduced when used. Vacation leave for administrative staff may be accumulated to a maximum of 240 hours on the employee’s anniversary date. Vacation leave for union staff may be accumulated to:

<u>Years of Hours Worked</u>	<u>Maximum Accumulated Hours</u>
1 – 4	96
5 – 8	120
9 – 10	128
11 – 13	136
Max	160

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Compensated Absences (Continued)

Sick leave for all staff may be accumulated to a maximum of 720 hours, with excess up to 96 hours payable at 25% annually. Part-time staff may accumulate vacation and sick leave, using a pro-rata formula based on 2080 hours annually. Upon retirement, termination or death, unused vacation leave is payable in full and unused sick leave is forfeited.

Unearned Revenue and Deposits Payable

The District collects certain money in advance, primarily customer deposits for future events. Until earned, these collections are presented as unearned revenue and deposits payable.

Restricted and Unrestricted Net Position

The District's net position is presented as net investment in capital assets, restricted and unrestricted. Restricted net position excludes capital assets, net of related debt, but includes other assets on which there are externally imposed legal restrictions. Unrestricted net assets include all other net assets. Additional details regarding the classification of net position are provided in Note 12.

Prior-Year Comparative Data

The current period, January 1, 2020 through December 31, 2020, is the eleventh year of operating revenues and expenses reported by the District. Comparative data for the period of January 1, 2019 through December 31, 2019 are reported in the financial statements.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on previously reported net position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related or contractual provisions.

NOTE 3 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The District's cash and cash equivalents are held in multiple financial institutions and are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a pool administered by the Washington State Public Deposit Protection Commission (PDPC).

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants’ balances in the LGIP are not subject to interest rate risk. In accordance with GASB 40 guidelines, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the U.S. government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP’s name. The fair value of the District’s pool investments is determined by the pool’s share price. The District has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The LGIP is not rated and is disclosed in the financial statements as a cash equivalent.

As of December 31, 2020 and 2019, cash and cash equivalents include:

<u>Financial Institution</u>	<u>2020</u>	<u>2019</u>
US Bank	\$ 47,632,988	\$ 53,958,022
Local government investment pool	295,056,091	149,816,037
Petty cash/change funds	10,000	10,000
Total	<u>\$ 342,699,079</u>	<u>\$ 203,784,059</u>

NOTE 4 – INVESTMENTS

In accordance with the District’s investment policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, U.S. Treasury and Agency Securities, Bankers’ Acceptances, Bonds of Washington State and any local government in Washington State which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency and the State Investment Pool (which is a 2a7-like pool).

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1 inputs are quoted prices in active markets for identical assets. These valuation inputs are considered most reliable.
- Level 2 inputs are quoted prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other observables. These valuation inputs are considered to be reliable.
- Level 3 inputs are significant unobservable inputs and are considered to be the least reliable.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 – INVESTMENTS (CONTINUED)

Fair Value Measurement (Continued)

The District has the following recurring fair value measurements as of December 31, 2020:

U.S. Government Treasury of \$73,815,711 and Federal Government Agencies of \$85,876,747, are valued using quoted prices in an active market for identical assets (Level 1 inputs). Corporate Commercial Paper of \$29,264,096 are valued using quoted prices in an active market for identical assets (Level 1 inputs). Foreign Issues of \$6,080,942 are valued using quoted prices in an active market for identical assets (Level 1 inputs). The District holds no investments that require valuation using Levels 2 or 3 inputs.

As of December 31, 2020, the District had the following investments measured at fair value (in thousands). The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the District’s investment portfolio as of December 31, 2020:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>		<u>% of Total Portfolio</u>	<u>Ratings</u>	
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>		<u>S&P</u>	<u>Moody’s</u>
Federal Home Loan Bank	\$ 80,819	\$ 60,084	\$ 20,735	41.44%	AA+	AAA
Treasury Notes	73,815	73,815	-	37.85%	AA+	AAA
Foreign Issues	6,081	6,081	-	3.12%	A+	AA2
Federal National Mortgage Assoc.	5,058	5,058	-	2.59%	AA+	AAA
Commercial Paper	29,264	29,264	-	15.00%		
Total	\$ 195,037	\$ 174,302	\$ 20,735	100.00%		
Percentage of Total Portfolio		89.37%	10.63%	100.00%		

As of December 31, 2019, the District had the following investments measured at fair value (in thousands). The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the District’s investment portfolio as of December 31, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>		<u>% of Total Portfolio</u>	<u>Ratings</u>	
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>		<u>S&P</u>	<u>Moody’s</u>
Treasury Notes	\$ 563,821	\$ 500,020	\$ 63,801	78.30%	AA+	AAA
Federal Home Loan Bank	107,993	87,696	20,297	15.00%	AA+	AAA
Federal National Mortgage Assoc.	26,891	26,891	-	3.73%	AA+	AAA
Treasury Bills	10,219	10,219	-	1.42%	AA+	AAA
Commercial Paper	11,126	11,126	-	1.55%		
Total	\$ 720,050	\$ 635,952	\$ 84,098	100.00%		
Percentage of Total Portfolio		88.32%	11.68%	100.00%		

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To mitigate this risk, the District limits the maturity of any single security to five years, in accordance with its investment policy. To achieve its financial objective of ensuring liquidity most investments have shorter maturities. As detailed in the chart above, 89% of the investments mature in 2021 and remaining 11% of the investments mature in one to five years.

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 – INVESTMENTS (CONTINUED)

Fair Value Measurement (Continued)

Credit Risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations. To mitigate this risk, the District ensures that it adheres to the credit standards as defined in its investment policy. The Moody and S&P rating (if available) are provided in the charts above.

Concentration of Credit Risk is the risk of loss attributed to the percentage of a government's investment in a single issuer. To mitigate this risk, the District ensures that it maintains portfolio diversification as defined in its investment policy.

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside counterparty. To mitigate this risk, the District ensures that investments are held in safekeeping at a qualified financial institution in the District's name as defined in its investment policy.

NOTE 5 – CAPITAL ASSETS

The capital assets and related changes during the years ended December 31, 2020 and 2019 are reflected in the following charts:

<u>Asset Class</u>	<u>January 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2020</u>
Land	\$ 321,437,565	\$ -	\$ -	\$ 321,437,565
Land development	47,890	-	-	47,890
Construction in Progress (CIP)	550,286,174	344,709,398	(3,678,355)	891,317,217
Capital assets, not depreciating	<u>871,771,629</u>	<u>344,709,398</u>	<u>(3,678,355)</u>	<u>1,212,802,672</u>
Building and improvements	459,397,129	3,437,528	(573,261)	462,261,396
Other improvements, art	12,331,594	-	-	12,331,594
Machinery, equipment, FF&E	14,436,365	240,827	-	14,677,192
Capital assets, depreciating	<u>486,165,088</u>	<u>3,678,355</u>	<u>(573,261)</u>	<u>489,270,182</u>
Less A/D:				
Buildings	(208,900,624)	(12,114,753)	201,597	(220,813,780)
Other improvements, art	(3,949,467)	(768,604)	-	(4,718,071)
Machinery, equipment, FF&E	(10,185,815)	(1,143,021)	-	(11,328,836)
Total A/D	<u>(223,035,906)</u>	<u>(14,026,378)</u>	<u>201,597</u>	<u>(236,860,687)</u>
Net capital assets, depreciating	<u>263,129,182</u>	<u>(10,348,023)</u>	<u>(371,664)</u>	<u>252,409,495</u>
Total capital assets	<u>\$ 1,134,900,811</u>	<u>\$ 334,361,375</u>	<u>\$ (4,050,019)</u>	<u>\$ 1,465,212,167</u>

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Asset Class	January 1, 2019	Increases	Decreases	December 31, 2019
Land	\$ 313,837,908	\$ 7,599,657	\$ -	\$ 321,437,565
Land development	40,576	7,314	-	47,890
Construction in progress (CIP)	293,814,711	258,603,122	(2,131,659)	550,286,174
Capital assets, not depreciating	<u>607,693,195</u>	<u>266,210,093</u>	<u>(2,131,659)</u>	<u>871,771,629</u>
Building and improvements	458,463,339	1,306,681	(372,891)	459,397,129
Other improvements, art	12,262,373	106,993	(37,772)	12,331,594
Machinery, equipment, FF&E	14,431,124	717,985	(712,744)	14,436,365
Capital assets, depreciating	<u>485,156,836</u>	<u>2,131,659</u>	<u>(1,123,407)</u>	<u>486,165,088</u>
Less: Accumulated depreciation				
Buildings	(197,019,774)	(12,021,762)	140,912	(208,900,624)
Other improvements, art	(3,233,056)	(742,537)	26,126	(3,949,467)
Machinery, equipment, FF&E	(9,587,739)	(1,165,125)	567,049	(10,185,815)
Total accumulated depreciation	<u>(209,840,569)</u>	<u>(13,929,424)</u>	<u>734,087</u>	<u>(223,035,906)</u>
Net capital assets, depreciating	<u>275,316,267</u>	<u>(11,797,765)</u>	<u>(389,320)</u>	<u>263,129,182</u>
Total capital assets	<u>\$ 883,009,462</u>	<u>\$ 254,412,328</u>	<u>\$ (2,520,979)</u>	<u>\$ 1,134,900,811</u>

The increase in Construction in progress (CIP) for 2019 is net of \$20,550,000 in receipts from developers to pay for their involvement in the expansion project.

NOTE 6 – NOTES AND BONDS PAYABLE

Activity for notes and bonds payable are as follows during the years ended December 31, 2020 and 2019:

Description	Maturity	Interest Rates	Balance December 31 2019	Additions	Reductions and Amortization	Balance December 31 2020	Amount Due Within One Year
Series 2010B Bonds	July 1, 2040	3.92% - 6.79%	\$ 263,860,000	\$ -	\$ (8,005,000)	\$ 255,855,000	\$ 8,280,000
King County CPS Note	July 1, 2058	4.25%	141,010,940	-	-	141,010,940	-
Series 2018 First Priority Bonds	July 1, 2058	5.00%	598,790,000	-	(305,000)	598,485,000	325,000
Series 2018 Subordinate Priority Bonds	June 30, 2048	1.00% - 4.25%	404,805,000	-	(375,000)	404,430,000	395,000
Washington State Deficiency Note	June 30, 2030	3.70%	-	14,250,838	-	14,250,838	1,203,577
			<u>1,408,465,940</u>	<u>14,250,838</u>	<u>(8,685,000)</u>	<u>1,414,031,778</u>	<u>10,203,577</u>
Unamortized Bond Premiums			78,883,117	-	(2,080,434)	76,802,683	-
Total Bonds and Notes Payable			<u>\$ 1,487,349,057</u>	<u>\$ 14,250,838</u>	<u>\$ (10,765,434)</u>	<u>\$ 1,490,834,461</u>	<u>\$ 10,203,577</u>
Description	Maturity	Interest Rates	Balance December 31 2018	Additions	Reductions and Amortization	Balance December 31 2019	Amount Due Within One Year
Bonds 2010B	July 1, 2040	3.92% - 6.79%	\$ 271,615,000	\$ -	\$ (7,755,000)	\$ 263,860,000	\$ 8,005,000
King County CPS Note	July 1, 2058	4.25%	141,010,940	-	-	141,010,940	-
2018 First Priority	July 1, 2058	5.00%	598,790,000	-	-	598,790,000	305,000
2018 Subordinate Priority	June 30, 2048	1.00% - 4.25%	404,805,000	-	-	404,805,000	375,000
			<u>1,416,220,940</u>	<u>-</u>	<u>(7,755,000)</u>	<u>1,408,465,940</u>	<u>8,685,000</u>
Unamortized Bond Premiums			80,963,550	-	(2,080,433)	78,883,117	-
Total Bonds and Notes Payable			<u>\$ 1,497,184,490</u>	<u>\$ -</u>	<u>\$ (9,835,433)</u>	<u>\$ 1,487,349,057</u>	<u>\$ 8,685,000</u>

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Revenue bonds and notes payable debt service requirements to maturity are as follows as of December 31, 2020:

Year	Notes Payable		Bonds Payable		Less BABs Subsidy	Total
	Principal	Interest	Principal	Interest		
2021	\$ 1,203,577	\$ 1,937,390	\$ 9,000,000	\$ 64,429,150	\$ (5,652,886)	\$ 70,917,231
2022	1,248,109	1,892,858	9,360,000	63,911,093	(5,495,301)	70,916,759
2023	1,294,289	1,846,678	9,790,000	63,289,332	(5,304,633)	70,915,666
2024	2,119,594	6,381,645	10,240,000	62,639,269	(5,105,530)	76,274,978
2025	2,405,406	6,298,944	10,710,000	61,959,635	(4,897,660)	76,476,325
2026 - 2030	16,976,794	29,811,410	67,330,000	298,468,667	(21,034,190)	391,552,681
2031 - 2035	17,931,892	26,275,765	111,165,000	271,448,133	(14,274,132)	412,546,658
2036 - 2040	29,727,153	21,521,638	140,095,000	234,132,542	(5,884,295)	419,592,038
2041 - 2045	45,469,143	13,942,253	177,500,000	190,839,750	-	427,751,146
2046 - 2050	36,885,821	3,211,651	226,545,000	141,799,500	-	408,441,972
2051 - 2055	-	-	284,320,000	84,014,000	-	368,334,000
2056 - 2058	-	-	202,715,000	18,289,800	-	221,004,800
Total	<u>\$ 155,261,778</u>	<u>\$ 113,120,232</u>	<u>\$ 1,258,770,000</u>	<u>\$ 1,555,220,871</u>	<u>\$ (67,648,627)</u>	<u>\$ 3,014,724,254</u>

As discussed in Note 13, Congress' BABs subsidies were originally 35%, sequestration measures have reduced to 32.69%. Effects of future subsidy reductions through 2040 have been reflected in the debt service to maturity in the above maturity chart. This chart assumes that the BABs subsidy will remain 32.69% through maturity.

The District began capitalizing interest costs on the Summit Building construction project in 2014 per FASB Statement Number 34. Statement Number 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* was approved and implemented in 2018. Statement Number 89 starting in 2018 discontinued the practice of capitalization of interest costs on construction projects. In addition, it does not allow restating prior period statements to change prior capitalized interest costs. Total interest cost, during 2018 with approximately half year of the King County note, and 2018 Priority and Subordinate bonds was \$31,597,393. Total Capitalized Interest beginning in 2014 through 2017 is \$17,578,572.

Bonds Payable

The District issued revenue bonds in November 2010 in the original amount of \$314,652,701. The debt service is supported by the Lodging Tax, pursuant to RCW 36.100.040(4). This debt issue had three purposes:

1. Finance the transfer of the Washington State Convention Center from the state to the District.
2. Provide capital funds for renovations of the convention center.
3. Provide funds for a Common Reserve.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Bonds Payable (Continued)

In August 2018, the District issued bonds for the purchase price of \$1,082,583,084, net of underwriter discount issuing revenue bonds. The par amount for the aggregate issuance of the 2018 First Priority Bonds and 2018 Subordinate Priority Bonds was \$1,003,595,000.

	Priority Bonds		Aggregate Issuance
	2018 First	2018 Subordinate	
Par Amount	\$ 598,790,000	\$ 404,805,000	\$ 1,003,595,000
Plus: Net Original Issue Premium	51,057,434	30,772,964	81,830,398
Less: Underwriters' Discount	(1,695,853)	(1,146,461)	(2,842,314)
Total Purchase Price	<u>\$ 648,151,581</u>	<u>\$ 434,431,503</u>	<u>\$ 1,082,583,084</u>

The District issued revenue bonds to finance a portion of the Summit Building, an addition adjacent to the Convention Center located on an approximately 7.7-acre site bordered by Pine and Howell Streets and Ninth and Boren Avenues. The District has obtained a debt service reserve insurance policy in connection with its 2018 bond issuance that covers both the 2010 bonds and the 2018 bonds. To the extent that the District is not able to make debt service payment to bond holders from Lodging taxes, the insurance policy will pay for the debt service and will convert the amount of the debt service payment, not paid by the District, but paid by the insurance policy to a liability owed to the insurance company. As such, bond holders are protected for payment of their amount due under this insurance policy.

Notes Payable

The District and King County Purchase and Sales Agreement for the Convention Place Station (CPS) property was finalized on July 25, 2017. The purchase price was \$161,010,940 and was paid as follows:

- \$20 million cash at closing.
- The balance of the Purchase Price was paid by the District at closing with a promissory note.
 - ✓ Thereafter closing for a period of 5 years interest only payments shall be due to King County in the amount of \$1,410,109 for a total of six payments.
 - ✓ Year 7 begins payment on a 25-year promissory note with a beginning balance of \$141,010,940.
 - ✓ District paid separate from the purchase price, \$5,000,000 in cash at closing to satisfy the District's affordable housing obligation.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Deficiency Loan

In June 2020, the District used Additional Lodging Tax Revenue pledged to its outstanding bonds to pay of a portion of its June 2020 interest payment and incurred a Deficiency Loan obligation on that date to the State of Washington under RCW 36.100.040(5) and (6). The rate of interest on each Deficiency Loan shall be determined annually for each state fiscal year during which any Deficiency Loan is outstanding. The interest rate on any Repayment Deficiency Loan applicable during a State of Washington fiscal year (which ends on June 30) shall be the average weekly twenty bond general obligation bond buyer index during the immediately preceding state fiscal year plus one percentage point, as determined by the Treasurer (currently 3.7%). Under the terms of the District's Transfer Agreement with the State of Washington, equal payments are due on June 30 over a ten-year term to repay the loan and are included in the debt service requirements to maturity schedule earlier in this note. Based on current projections, the District expects to continue to apply Additional Lodging Tax Revenues to pay a portion of upcoming debt service payments, incurring additional Deficiency Loan obligations to the extent of Additional Lodging Tax Revenues applied.

NOTE 7 – COMPONENTS OF NET POSITION

In accordance with GASB 34, net position is presented on the Statement of Net Position in three categories:

1. Net investment in capital assets
2. Restricted net position
3. Unrestricted net position

Capital assets consist of land, buildings, machinery and equipment, furniture and fixtures, art collections and construction in progress. The related debt is the debt issued to support acquisition and construction of capital assets, reduced for any unspent proceeds. *Restricted assets* are defined as assets that have been restricted by contractual agreement with external parties (e.g., debt covenants) or by law through enabling legislation. Restricted assets are reduced by related liabilities to determine restricted net position. *Unrestricted assets* include assets that have no restrictions placed on them, as well as assets that have been internally restricted (e.g., imposed by the District's Board of Directors).

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COMPONENTS OF NET POSITION (CONTINUED)

The following provides detail of the components of net position as of December 31, 2020:

<u>Category</u>	<u>Assets</u>	<u>Related Liability</u>	<u>Net Position</u>
Capital assets, net of accumulated depreciation	\$ 1,465,212,167	\$ -	
Less: bonds and notes payable	-	(1,490,834,461)	
Plus: unspent proceeds reflected as restricted below	-	320,578,420	
Net position invested in capital assets			<u>\$ 294,956,126</u>
Restricted assets			
Restricted for expansion	320,578,420	(320,578,420)	-
Restricted for debt service under bond covenants	35,773,386	-	-
Interest payable to be paid from restricted assets	-	(33,169,020)	-
Principal payable to be paid from restricted assets	-	-	-
Retainage payable to be paid from restricted assets	11,964,091	(11,964,091)	-
Restricted for debt service	-	-	2,604,366
Restricted for capital improvements	-	-	-
Restricted for operating reserve	2,727,706	-	<u>2,727,706</u>
Restricted net position			<u>5,332,072</u>
Unrestricted			<u>146,761,028</u>
Total net position			<u>\$ 447,049,226</u>

The following provides detail of the components of net position as of December 31, 2019:

<u>Category</u>	<u>Assets</u>	<u>Related Liability</u>	<u>Net Position</u>
Capital assets, net of accumulated depreciation	\$ 1,134,550,307	\$ -	
Less: bonds and notes payable	-	(1,482,455,286)	
Plus: unspent proceeds reflected as restricted below	-	672,059,147	
Net position invested in capital assets			<u>\$ 324,154,168</u>
Restricted assets			
Restricted for expansion	672,059,147	(672,059,147)	-
Restricted for debt service under bond covenants	44,331,245	-	-
Interest payable to be paid from restricted assets	-	(33,145,600)	-
Principal payable to be paid from restricted assets	-	(5,067,955)	-
Retainage payable to be paid from restricted assets	7,390,329	(7,390,329)	-
Restricted for debt service	-	-	6,117,690
Restricted for capital improvements	-	-	-
Restricted for operating reserve	10,293,677	-	<u>10,293,677</u>
Restricted net position			<u>16,411,367</u>
Unrestricted			<u>159,094,022</u>
Total net position			<u>\$ 499,659,557</u>

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 – EMPLOYEE BENEFITS

Defined Contribution Retirement Plans

Before transition to a public facilities district, WSCC as an agency of the State of Washington, participated in a 401(k) defined contribution retirement plan for its employees under the authority of Internal Revenue Code Section 457. It continued its Retirement Contribution Plan. In the transition to a public facilities district, Internal Revenue rules required the funds in 401(k) plans be transferred into the District's 401(a) Plan and the 457 Plan to rollover to the District's 457(b) Plan. All the plans, when WSCC was an agency of the State of Washington and becoming a District, transferred the responsibility for selecting among investment options from the plan fiduciaries to the plan participants as permitted under ERISA 404(c). The defined contribution plans are administered by RBC Wealth Management and are not considered either assets or liabilities of the District.

401(a) – Compensation Deferral Plan

All full-time employees are eligible for this plan upon hire, with the exception of 1) leased employees, 2) union employees, 3) non-resident aliens with no U.S. source income and 4) individuals not eligible based on written agreement. The entry date is the first day of any month. Each employee directs how contributions are to be invested and receives an individual monthly statement of activity.

The District contributed \$223,065 and \$297,135 to the employee 401(a) plan during the years ended December 31, 2020 and 2019, respectively. The District contributes 5% based on the employee's compensation; and may match \$0.50 for each dollar an employee contributes to the employee retirement contribution plan up to 6% of the employee's wages. Vesting in the employer contributions occurs in accordance with the following schedule:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures from non-eligible employees are netted against plan expenses. There were no forfeitures for fiscal years 2020 or 2019.

457 (b) Employee Retirement Contribution Plan

All full-time employees are eligible for this plan upon hire, with the exception of 1) leased employees, 2) union employees, 3) non-resident aliens with no US source income and 4) individuals not eligible based on written agreement. The entry date is the first day of any month. Each eligible employee determines the pre-tax contribution to be withheld from gross wages, with a minimum participation of 1% of compensation and a maximum of \$19,000 or 100% of includible compensation, whichever is less. Employees ages 50 or older, or those within three years of retirement, may contribute an additional \$6,000. Each employee directs how contributions are to be invested and receives an individual monthly statement of activity.

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

Defined Contribution Retirement Plans (Continued)

457 (b) Employee Retirement Contribution Plan (Continued)

Employees vest in the program from inception, and they may receive benefits upon retirement, termination or death. The employee may make a pre-tax contribution to the contribution plan. All full-time non-represented employees are eligible, and 100% vested. Employees contributed \$266,030 and \$348,964 to their 457(b) plan during the years ended December 31, 2020 and 2019, respectively.

All defined contribution pension plans were established by, and can be amended by, the District's Board of Directors.

Health and Welfare

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2020, 281 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run out for all current members. The AWC Trust HCP includes medical, dental, life and vision insurance through the following carriers: Kaiser Permanente, Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, The Standard, and Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

Health and Welfare (Continued)

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 9 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The total commitments under these leases are \$56,182 until the end of the leases in 2024.

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 9 – LEASES (CONTINUED)

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 17 retail leases provided revenue of \$597,841 and \$823,020 during the years ended December 31, 2020 and 2019, respectively. Lease contract terms will expire within one to four years for many of the retail tenants. It is not known if options to extend terms will be exercised, but negotiations are ongoing at this time with some retail tenants. Based on enforceable contracts on December 31, 2020, future minimum rental payments required for five succeeding years are as follows:

Year	Lease Revenue
2021	\$ 416,510
2022	251,471
2023	151,185
2024	13,461
Total	\$ 832,627

Retail spaces, separate and apart from the convention center facilities have never been recorded separately from the convention center facilities. As such, the original cost, accumulated depreciation and net carrying value of the leased assets are not available to be reported.

During 2020, the District agreed to forgive certain rental amounts under tenant leasing agreements in response to the COVID-19 pandemic. This forgiveness is expected to continue on a monthly basis until the relevant governmental authorities allow for reopening of businesses in downtown Seattle. To the extent such reopening occurs within a monthly rental period, the forgiven rent shall be prorated accordingly.

Capital Leases

The District entered into a capital lease for radio equipment valued at \$252,706 during the year ended December 31, 2019. The future minimum payments under the lease are as follows.

Year Ending December 31,	Principal	Interest	Total
2021	\$ 39,624	\$ 11,022	\$ 50,646
2022	42,131	8,515	50,646
2023	44,797	5,849	50,646
2024	47,632	3,014	50,646
Total	174,184	28,400	202,584
Less: current portion	(39,624)	(11,022)	(50,646)
Long term portion	\$ 134,560	\$ 17,378	\$ 151,938

The long-term portion of this lease agreement is reflected as “other” noncurrent liabilities and the current portion is included in the “Other” noncurrent liability classification.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 – LEASES (CONTINUED)

Other Leasing Agreements

The District earns lease revenue from real property acquired for the Summit Building construction project. These lease terms are month to month. Leases end when pre-construction work begins on designated property. Revenue from these leases is included in other nonoperating revenues and was \$13,494 in 2020 and \$13,165 in 2019.

The District entered into a lease agreement during the year ending December 31, 2019, to support the Summit Building construction project. These lease payments will be capitalized as a part of the Summit project during the construction period. Future lease commitments are as follows:

<u>Year</u>	<u>Prime Property Fund (Construction Office)</u>	<u>WSDOT</u>	<u>Total</u>
2021	\$ 275,873	\$ -	\$ 275,873
2022	18,348	-	18,348
2023	-	-	-
2024	-	463,483	463,483
Total	<u>\$ 294,221</u>	<u>\$ 463,483</u>	<u>\$ 757,704</u>

NOTE 10 – RISK MANAGEMENT

General Liability Insurance

The District has property and casualty insurance through Liberty Mutual Insurance Company of Kentucky through November 30, 2021, as follows: \$566 million in total coverage for its facilities and operations including earthquake, flood and terrorism coverage. The total combined maximum deductible is \$200,000.

Employee Dishonesty Insurance

The District maintains a blanket bond for employee dishonesty, with a current coverage limit of \$1,000,000, with a \$10,000 deductible. There were no claims against this policy in 2020 or 2019.

Liability Insurance

The District maintains insurance through Associated Industries Insurance Company (Alliant “SLIP” program) for the following liability categories (aggregate limit): General (\$10,000,000), Stop Gap (\$10,000,000), Auto (\$10,000,000), Umbrella (\$5,000,000), and Management (\$3,000,000). A \$10,000 deductible generally applies to these coverages.

There were no settlements exceeding insurance coverage in 2020 or 2019.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 – RISK MANAGEMENT (CONTINUED)

Builder’s Risk Insurance

The District maintains insurance and an Owner’s Controlled Insurance Program (OCIP) in connection with the Summit Expansion project. The OCIP primary liability coverage is provided by Lloyd’s of London. Excess liability coverage is provided by 13 insurance companies, layered to provide the coverage comprising the program. All of the insurance carriers are rated “A” or better by the A.M. Best & Company.

The OCIP is effective from May 22, 2018, through November 22, 2021, which the District will extend to the Summit Building construction project’s completion (plus six years under the Washington statute of repose), with a program limit of \$300 million. The primary OCIP liability limits include \$2 million occurrence, \$4 million general aggregate, and \$4 million products-completed operations aggregate. The general aggregate limit on the primary liability reinstates once at eighteen months. Deductibles are \$50,000 per occurrence and \$500,000 in the aggregate per policy period.

The Builder’s Risk policy is provided by Lloyd’s of London, for a three-year construction period which the District will extend to the Summit Building construction project’s completion. The policy insures risk of direct physical loss or damage unless excluded, with a physical damage limit of \$1,127,120,000. Earth movement (including earthquake and volcanic action) coverage is included with a limit of \$200 million. Flood, named storm and windstorm coverage is included with limits of \$1,199,131,085. The policy addresses the soft costs (\$37,800,000 limit) and loss of rents (\$34,211,085 limit) associated with a delay in completion for a two-year indemnity period.

There were no settlements exceeding insurance coverage in 2020 or 2019.

NOTE 11 – COMMITMENTS AND CONTIGENCIES

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but were based on available information, management believes it is probable that the District will be assessed a liability. In the opinion of management, the District’s insurance policies are adequate to pay all known or pending claims.

Capital Projects

The proceeds of \$21,435,000 from the November 2010 debt issue are restricted for capital improvements and must be expended within a 36-month period to avoid arbitrage requirements. However, interest earned on funds not spent within the 36-month period is significantly under the original bond rates. Therefore, an arbitrage calculation for the Internal Revenue Service is not necessary.

Common Reserve Fund of \$19,521,016 was funded from the 2010AB Bond sale to be held by the Trustee. The Common Reserve requirement was to cover the maximum annual debt service on the bonds. In August 2018, a Surety bond replaced the Common Reserve and the funds were spent by the District in October. As confirmed by BLX (an Arbitrage firm), there is no arbitrage liability.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 11 – COMMITMENTS AND CONTIGENCIES (CONTINUED)

Freeway Park

In February 1997, the District entered into a 30-year lease agreement with the city of Seattle for the 665-stall Freeway Park garage. Under this agreement, The District paid debt service on the \$1.3 million of city bonds outstanding at the time, and the final debt service payment was made in June 2002. In accordance with the lease agreement, a capital reserve account, not to exceed \$500,000, with annual maximum payments of \$20,000, was set up. Final capital reserve payment to bring the capital reserve account to \$500,000 was made in 2018. The District is responsible for all repairs and maintenance.

WSDOT Leases

On February 4, 1986, WSCC entered into a 66-year lease agreement with the Washington State Department of Transportation (WSDOT). WSDOT has assigned the remainder of the lease from WSCC to the District. Under this agreement, the WSCC leases airspace and other real property. In 1984, Shorett & Riely appraised the leased airspace and determined its value was \$12,869,000. Additionally, it was determined qualifying site penalties were valued at \$10,722,983 and qualifying rent credits were valued at \$5,631,358. The payment of rent by the District may be satisfied by payments in cash or by rental credits. After the first 15 years of the lease and every 10 years thereafter, the lease shall be reviewed. In fiscal 2013, the lease payments came up for review, and with an updated appraisal in fiscal 2014, the Department of Transportation and the District agreed that the value of the rent credits more than offset annual rent. The rent cannot increase by more than 30% for any review period. For the first 25 years, the qualifying site penalties and the qualifying rent credits have offset annual rent.

In July 2018, the District entered into a 66-year lease agreement with the WSDOT which expires June 30, 2084. Agreement allows the District to build the southeast corner of the Summit Building adjacent to Boren Avenue and Pike Street over the I-5 freeway express lane ramp. It is anticipated WSDOT rent credits will off-set lease payments through 2024. Annual lease payments are \$475,000. Annual increases are based on CPI. Every fifteen years the payments are adjusted to reflect the current market rate.

Expansion-Related Commitments

In connection with the convention center Summit Building construction project, the District has entered into various contracts for property development, project management, architectural, engineering and construction activities. Total commitments under these agreements total approximately \$626 million as of December 31, 2020.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 11 – COMMITMENTS AND CONTIGENCIES (CONTINUED)

Pending Lodging Excise Tax Removal of Exemption for Premises with Fewer Than Sixty Lodging Units

House bill 2015 and companion Senate bill 5850 passed the 2018 legislative session. The lodging excise tax bill modifies the lodging excise tax to remove the exemption for premises with fewer than sixty lodging units and to tax certain vacation rental, short-term home sharing arrangements and other compensated use or occupancy of dwellings. Revenues from this bill are shared with the City of Seattle and King County. The District remitted to the City of Seattle all short-term rental funds collected in the City of Seattle. After the City of Seattle receives their funds, the District remits to King County 50% of the funds received from this bill. The funds received from this legislation by the City of Seattle are earmarked for community-initiated equitable development and affordable housing programs. King County funds must be used to support affordable housing programs. The Department of Revenue collections in 2020 are as follows; the District \$300,891, King County \$300,891 and City of Seattle \$1,012,823. Total short-term rental funds collected for 2020 for all three governments totaled \$1,614,605. The Department of Revenue collections in 2019 are as follows; the District \$1,746,711, King County \$1,746,711 and City of Seattle \$9,401,720. Total short-term rental funds collected for 2019 for all three governments totaled \$12,895,142.

NOTE 12 – ARBITRAGE

The 2010B Bonds are not “qualified tax-exempt obligations” due to the Build America Bonds subsidy, which the District receives to offset interest expense. The proceeds of this bond issue must be expended within 36 months to avoid arbitrage requirements. However, interest earned on funds not spent within the 36-month period is significantly under the original bond rates.

The remaining Project Fund Deposit for building improvements of \$21,435,000 was expensed by the end of July 2015. BLX Group LLC prepared an arbitrage analysis and rebate calculation for the District. BLX Group LLC concluded that no payment to the Internal Revenue Service was necessary nor was filing of the Form 8038-T needed.

NOTE 13 – INFREQUENT EVENTS

Build America Bonds

The District made an irrevocable election to have Section 54AA of the Internal Revenue Code of 1986, apply to 2010B Bonds so that the 2010B Bonds are treated as “Build America Bonds” (BAB). Under this treatment the District has received an interest subsidy of 35% from the US Treasury. The District believed this subsidy would be intact for the life of the bonds outstanding.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended in 2012, certain automatic reductions took place as of March 1, 2013. These required reductions of 8.9% to refundable credits under section 6431 of the Internal Revenue Code applicable to certain qualified bonds. The sequester reduction is applied to section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the Service which results in a payment to such issuer on or after March 1, 2013. The sequestration current subsidy rate is 32.69%. This sequestration rate is expected through 2040.

**WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 13 – INFREQUENT EVENTS (CONTINUED)

Build America Bonds (Continued)

BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress sequestration measures for 2019 was \$392,763. The original 2019 annual BAB subsidy was \$6,334,901 less actual BAB subsidy received of \$5,942,138. For 2020, the BAB subsidy received was \$5,779,726.

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 28, 2021, the date which the financial statements were available to be issued.

As a result of the COVID-19 pandemic, economic uncertainties arose during the year which continue to have a negative impact on income and Lodging Tax revenues which were expected by the District. The Governor of the State of Washington issued a proclamation which canceled events and closed the building for convention events on March 24, 2020, a closure which has extended beyond year-end.

In April 2021, the District issued bonds (2021 Junior Notes) for the purchase price of \$377,618,333, plus net original issue premium of \$37,773,315 and net of underwriter discount of \$1,654,982. The par amount of the bonds was \$341,500,000. The proceeds from the bonds will be used to enable completion of the Summit Building construction project. The bonds will be repaid over a period of ten years.