

Mayor John T. Powers, Jr.
PDA Loan Remarks to Council
July 30, 2001

Thank you for this opportunity to be heard on this important public matter: the PDA's request for an \$800,000 loan from the City's Solid Waste Fund for purposes of paying interest and principal due on bonds issued by The Spokane Downtown Foundation relative to the purchase of the RPS Garage by the Foundation in September of 1998.

Before addressing the merits of the proposed loan, it's important to place it in the context of the overall RPS Development and the status of the financial challenges and disputes that surround the RPS Parking Garage.

First, I'd like to acknowledge that the RPS Development has been an important catalyst in revitalizing the core of downtown Spokane. Our community has benefited from the efforts of so many who have chosen to invest in the heart of our beautiful city in recent years:

- ~~☒~~ The Cowles Family
- ~~☒~~ The Barbieri Family
- ~~☒~~ Wells & CO;
- ~~☒~~ Rob Brewster;
- ~~☒~~ Metropolitan Mortgage

- ~~✘~~ ~~✘~~ Walt and Karen Worthy
- ~~✘~~ ~~✘~~ Joe Dennison
- ~~✘~~ ~~✘~~ Avista Development
- ~~✘~~ ~~✘~~ Hawkins & Edwards
- ~~✘~~ ~~✘~~ Sacred Heart Medical CTR
- ~~✘~~ ~~✘~~ Deaconess Medical Center
- ~~✘~~ ~~✘~~ Wendell Ruegh - K&H
- ~~✘~~ ~~✘~~ District # 81 - LCHS
- ~~✘~~ ~~✘~~ Spokane Symphony and,
- ~~✘~~ ~~✘~~ The CITY – itself – (\$22M HUD 108 Funds, Street Vacation and other infrastructure, New Main Library, Financial and other support of DSP & BID)

And, second, I wish to acknowledge the efforts of the Council to advance settlement discussions. Discussions taking place these past several weeks have been civil and constructive. They give promise to the prospect for achieving a comprehensive mutual resolution of all disputes in lieu of a court ordered disposition of claims and counter claims.

We find ourselves here today because mistakes and errors were made by a number of parties;

Past decisions were often times rushed and based upon unrealistic assumptions; and,

Emotionally charged, polarizing rhetoric and divisive acts have undermined our community's hope and civic trust. We must be professional and civil in our deliberations. We must debate on the

merits of facts and issues at hand and avoid personal attacks. We are about the people's business, the common good..., not individual agendas.

THIS MATTER MUST BE RESOLVED, FULLY, FAIRLY, AND FINALLY ! TO THAT END, I ONCE AGAIN RENEW MY CALL FOR MEDIATION !

I urge ALL parties involved in this public-private partnership development to enter into mediation, in good faith, and without preconditions, in a genuine effort to achieve a resolution that is comprehensive, equitable and long lasting. A resolution that the public will understand and trust. Now is not the time for any party, public or private, to abandon the progress made; or, in any way cast aspersions on the value of or prospects for a negotiated/mediated resolution. We have a duty to the public to keep the discussions alive and continue to work together to resolve this matter.

Now, as to the merits of the proposed loan. The PDA seeks a loan from the Spokane Solid Waste Funds for purposes of assisting the Foundation to make interest and principal payments due it's bondholders. I am compelled to make the following points in support of my request that The Council not approve the PDA's

request :

- (1) The bonds at issue are not the City's obligation.
- (2) Reserves are available to make the payment
- (3) The projected income stream identified to repay the proposed loan could just as easily be earmarked to replenish the bond payment reserve fund.
- (4) The proposed loan is not fully collateralized and does not otherwise meet standard loan underwriting criteria (local banks have declined the credit request).
- (5) The PDA has been unable to repay earlier uncollateralized loans from the city.
- (6) The PDA is unable to meet its current obligations.
- (7) The use of City funds in such a risk filled manner could, in and of itself, be cause for concern in the municipal credit rating community.
- (8) Expert opinions differ on the consequences, if any, that may result from the PDA/Foundation using the reserve funds to make the upcoming bond payments.
- (9) The manner and procedure under which the loan is being considered by the Council tonight may be subject to legal challenge.

As to the arguments that the City's general obligation bonds-credit rating may be affected by the use of reserves established to pay

the Foundation's bond payments, I would remind the council of the following relevant facts:

(1) The bonds in question were not issued by the City, they are not the City's bonds, they were issued by the Foundation.

(2) The City has no obligation to advance funds to cover debt service relevant to the Parking Garage (see Moody's Investors Service Credit Report dated April 9, 2001).

(3) That same April 9 Credit Report indicates that the City's still high ratings recognized that its actions prior to the last years downgrade were the result of the specific controversy surrounding the Parking Garage project itself, and that the City remained in a satisfactory financial position and had displayed no reluctance to honor its other more traditional obligations.

(4) Moody's views the proposed dissolution of the PDA as a direct assault on the garage financing and the bond holders interest and Moody's considers such potential dissolution to be more serious than the actions the City has taken to this point relative to previously declining loan request by the PDA.

(5) It is on this basis that I urge the Council to repeal its earlier ordinance calling for a referendum on dissolving the

PDA. It is important that we put this matter to rest this evening and that the PDA's existence not be held in question.

(6) When the Council last declined to loan money to the PDA, the bond rating agencies had not been fully briefed on the specifics of the City's concern and the merits of the City's claims. Furthermore, certain members of Council and prior administration approached the agencies in a rather antagonistic fashion.

(7) I have personally met with representatives of the municipal credit rating agencies and briefed them on the status of this matter and reviewed the status of the City's overall financial condition. During the course of our discussions, much of the conversation focused on the need to establish reserves within our budget discipline. As a result I have initiated new fiscal policies concerning the City's budget including the establishment of reserves, the limitation sale of assets for purposes of funding the operating budget, the limitation of emergency budget ordinances, and the resolve and will to pursue sound fiscal management decisions. Those decisions are reflected in our recent mid-year budget course correction by restricting hiring and spending.

(8) Furthermore, the agencies are advised that the City has placed all parking meter revenues in a special segregated fund for purposes of being available to resolve this matter or to be held until resolution in the courts.

My administration has been in contact with experts in the industry and has been advised that to make an unsecured loan that does not meet sound credit practices could, in and of itself, be a source of concern for the municipal credit rating agencies.

Finally, as to the risk model presented by Mr. Novak demonstrating that there could be upwards of $\frac{3}{4}$ of \$1M net present value cost to a \$50M roads bond issue in the event there would be further action taken by the credit rating agencies, I would have to say that to provide an unsecured \$800,000, the repayment of which is severely questioned is an equal or greater risk than conjecturing that there may be a $\frac{3}{4}$ of a million dollars loss over twenty years.

For all the reasons cited above, I respectfully request that this Council decline the loan request from the PDA.