

\$120,700,000 Tacoma, Washington Series 2A Revenue BANs; Series 2B Limited Tax General Obligation BANs Series C Revenue BANs (Taxable Commercial Paper)

\$51,900,000 Tacoma, Washington Series Limited Tax General Obligation Bonds, 2004 \$32,975,000 Tacoma, Washington Convention Center and Parking Revenue Bonds, Series 2004

Tacoma struggled for years to overcome its reputation as a polluted, industrial city with entrenched crime problems linked to economic stagnation in its downtown core. Recent efforts by the City to change its status produced noticeable results. Since the mid-1990's, key cultural and educational facilities have been built or restored in downtown Tacoma, including the new Tacoma Art Museum, the restoration of the historic theater district, the State History Museum, the internationally funded Museum of Glass and the recently created Tacoma campus for the University of Washington. All have changed the landscape and image of downtown.

The Challenge – The City knew that its existing convention center was inadequate to effectively compete for regional convention and meeting business or to provide any significant economic benefit. Second, a downtown parking shortage was not being met by the existing parking system. There was a need for a comprehensive parking strategy that would finance rehabilitation and expansion of existing municipal parking facilities. Finally, the City needed to protect its debt capacity and credit rating. Future capacity was needed for a number of important municipal public safety and neighborhood projects and upgrade of its credit rating had been a long-term priority for the City Council.

The City set up two working groups to study the financial feasibility of creating a new Regional Convention Center and a comprehensive parking plan. Working separately, these groups were unable to identify adequate funding sources to complete each ambitious list of projects without encumbering a substantial portion of the City's LTGO debt capacity. This jeopardized the City's ability to finance its other priority needs. The City was actually drafting final documents to issue fixed rate LTGO Bond Anticipation Notes ("BANs") to fund construction for the Convention Center when it learned that the financing might actually undermine the City's current credit rating.

The Solution -- A new approach was needed. Working with its financial advisor, **Leora Consulting Group** and other consultants on the project – Property Counselors, TDA Inc. and Regional Financial Advisors, Inc.- the City came up with a new strategy that included:

New Repayment Sources - The team identified and quantified new or overlooked sources that could be pledged for revenue debt, conserving LTGO capacity. Those included Public Facility District ("PFD") sales tax rebate payments -- a new source created by the State legislature for tourist related projects. Tacoma and three other local jurisdictions formed a PFD shortly after the legislation became law. Additionally, the City adopted an ordinance that formally established its Parking System as a separate enterprise that could independently set rates at more competitive, market based levels. Previously, City parking had been run on a "break-even" basis, keeping rates artificially low and actually discouraging private development. With these two actions, the City was able to successfully leverage its resources to support more than \$45 million of revenue debt -- the first successful, publicly sold debt in Washington that included a PFD revenue pledge. LTGO debt was still required but the City Council voted to implement the maximum level of hotel-motel taxes.

Strategic Resource Deployment – A joint Convention Center/Parking working group developed the new funding approach. Project related revenues were deployed more efficiently to provide the appropriate level of credit support for each project element. Schedules for debt and construction were fully integrated to better manage cash flow and achieve substantial savings on duplicative expense. A new spirit of cooperation resulted in the parking system fine-tuning its list of projects and integrated its project

budgets and with that of the convention center, eliminating several construction and funding conflicts.

Commercial Paper for Construction Debt - The combined list of project costs totaled \$120.7 million to be spent over seven years. This made commercial paper an attractive, cost-effective financing tool for the period the projects were being developed, constructed, and in early operation. Long-term debt - **\$51.9 million insured LTGO and \$32,975,000 of insured, revenue bonds** – was issued in July of 2004 to take-out the commercial paper. The use of commercial paper through construction reduced borrowing costs during a critical period for all of the projects. Bank of America, was selected to provide the letter of credit. Bank of America had worked with the City on numerous projects and had an in-depth understanding of the credit that was very beneficial. Lehman Brothers and J.P. Morgan were selected as co-dealers for the commercial paper. Issuing commercial paper was a relatively new innovation for a Washington issuer, previously only a handful of the state's largest, most sophisticated tax-exempt issuers had made use of this instrument.

Conclusion - This spirit of cooperation and renewed focus on financial management also produced additional benefits, when the City's general obligation credit rating was raised from a A1 to a Aa- by Standard and Poor's and a concurring AA- rating from Fitch Ratings.