

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:00 p.m. January 30, 2019
City Hall – City Council Briefing Center

AGENDA

- 1) Election of Chairperson
 - Motion
- 2) Minutes of the December 5, 2018 & January 22, 2019 Meetings
 - Motion
- 3) Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – November 2018
 - Motion
 - f. Schedule of Investments – December 2018
 - Information
 - g. Monthly Cash Reconciliation
 - Information
 - h. Other Business
 - (1) SB 5240 Update
 - (2) Investment Advisory Committee Update
 - (3) Annual Board Agenda
- 4) Spokane Regional Emergency Communications (SREC)
 - Motion
- 5) City of Spokane Bond Rating
 - Information
- 6) Other Business
- 7) Next Meeting – **Wednesday February 27, 2019 at 12:00 p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
December 5, 2018

The regular monthly meeting was called to order at 12:17 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Coster, Mike Cavanaugh, Jim Tieken, Candace Mumm, and J.D. Morscheck, Dean Kiefer

Absent: Brian Brill

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Jayson Davidson, Brian Loescher, Joe Cavanaugh, Bob Olson, Adam Miles, Jon Barnhart, Richard Czernik, and John Bjork

Hyas Group, 2018 3rd Quarter Investment Performance Report

Mr. Davidson reviewed the Third Quarter 2018 performance report with the Board. Mr. Davidson discussed broad economic and market related issues, as well as recent bouts of global market volatility. The Portfolio posted a quarterly return in-line with the policy benchmark and continues to remain above the benchmark year-to-date. The following funds will remain on watch status: MFS Blended Research Core, Jackson Square Large Cap Growth, Vanguard Mid Cap Growth, and OrbiMed Partners. Mr. Davidson did note, however, that the MFS Blended Research Core posted 5-year performance numbers that were above the median peer and was thus in technical compliance as of quarter-end.

Hyas Group recommended placing Sterling Mid Cap Value be put on watch for performance in violation of investment policy parameters.

Jim Tieken moved and Mike Cavanaugh seconded the motion to place Sterling Mid Cap Value on watch status for poor performance. The motion passed unanimously.

Candace Mumm left the meeting at 1:23 p.m.

Hyas Group recommended removing the non-performance related watch status for the OrbiMed suite of products. This watch designation was placed as a result of a senior personnel departure. It was applicable to all OrbiMed products and was placed on top of the performance driven, quantitative watch for the OrbiMed Partners product.

Jim Tieken moved and Dean Kiefer seconded the motion to remove OrbiMed Opportunities I & II from watch status. The motion passed unanimously.

Mr. Davidson presented a Hyas Group comparison of several index fund alternatives. The Board gave consideration to the expenses, tracking error, securities lending and tracking benchmarks associated with each of the alternatives. Hyas Group recommended

replacing the Vanguard products. The lone exception to this transition will be in the Emerging Markets category. The Vanguard option will remain in that category as Hyas felt the index methodology and broader securities exposure for that Fund to be more attractive than the Fidelity alternative.

Mike Cavanaugh moved and Jim Tieken seconded the motion to replace the Vanguard products except the Vanguard Emerging Markets fund with Fidelity Investments. The motion passed unanimously.

Mr. Davidson and the Board engaged in a brief discussion regarding the rationale for continuing to fund the MFS Blended Research product in lieu of a larger allocation to the passive, index option available through Vanguard. Hyas Group will be prepared to provide additional analysis and background for the next meeting and the Board may more formally take up a decision to transition.

Mr. Davidson informed the Board of a recently announced portfolio manager retirement that impacted the Hotchkis & Wiley Large Cap Value Fund. Sheldon Lieberman will officially retire by the end of 2018. Given that this retirement, and the ensuing succession, has been planned for over the past several years, no action was recommended. The portfolio will maintain its remaining three managers, each of which have been with the product for at least 10 years.

Mr. Davidson briefed the Board on several implementation and termination related items that were pending after the second quarter meeting. The American Beacon Flexible Bond Fund has been fully liquidated from the SERS portfolio. Proceeds from the liquidation were reinvested as directed. The ABS Emerging Markets Portfolio Strategic Fund and the Contrarian Capital Fund I and Contrarian Emerging Markets Fund have all been implemented and funded. It should be noted that a portion of the Contrarian Emerging Markets Fund allocation has been funded from the traditional equity categories while a \$3 million redemption from the OrbiMed Partners product is pending. Once the proceeds have been received, the traditional equity categories will be rebalanced.

For future meetings, Hyas Group will look to develop a summary document that outlines the watch status managers, action timing and rationale for the watch decisions.

Minutes of the October 31, 2018 Meeting

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the minutes of the October 31, 2018 meeting as presented. The motion passed unanimously.

Director's Report
Service Retirements

| <i>Name</i> | <i>Age</i> | <i>Retirement Date</i> | <i>Years of Service</i> | <i>Option</i> |
|-------------------|------------|------------------------|-------------------------|---------------|
| Terry S. Savage | 63 | 11/05/2018 | 18.0 | ST |
| Brenda L. Corbett | 66 | 12/05/2018 | 22.3 | ST |
| Paul A. Traynor | 62 | 01/08/2019 | 25.5 | E |
| Shawn C. Pray | 58 | 01/03/2019 | 29.4 | A |
| Shao-Zen Chang | 67 | 02/02/2019 | 16.7 | D |

Dean Kiefer moved and Mike Cavanaugh seconded the motion to approve the service retirements as presented on the November Retirement Transaction Report. The motion passed unanimously.

Withdrawals for November 2018

| <i>Name</i> | <i>Years of Service</i> | <i>Termination Date</i> |
|----------------------|-------------------------|-------------------------|
| Jonathan C. Williams | 8.9 | 02/04/2016 |
| John P. Brennan | 1.3 | 09/22/2017 |
| Emily E. Maiani | 1.9 | 02/16/2018 |
| Jocelyn Q. Sullivan | 0.4 | 04/20/2018 |
| Melody A. Reinken | 0.7 | 05/01/2018 |
| Timothy G. Shell | 0.7 | 09/07/2018 |
| Jesse D. Jones | 0.6 | 09/07/2018 |
| Raymond E. Lunceford | 1.2 | 09/20/2018 |
| Tina J. Franklin | 2.6 | 10/05/2018 |

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the requests for withdrawal as presented on the November Retirement Transaction Report. The motion passed unanimously.

Deaths

| <i>Name</i> | <i>Date Retired</i> | <i>Age</i> | <i>Date of Death</i> | <i>Information</i> |
|------------------|---------------------|------------|----------------------|---------------------|
| Carol K. Taylor | 06/04/2010 | 85 | 10/17/2018 | No Further Benefits |
| Peggy A. Edwards | 11/04/2003 | 80 | 10/25/2018 | No Further Benefits |
| Evelyn L. Lund | 01/01/2011 | 91 | 10/25/2018 | No Further Benefits |

Death information provided to the Board for review.

Expenditure Summary Report – October 2018

The Expenditure Summary Report was presented to the Board and discussed.

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the November 2018 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – October 2018

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on October 31, 2018 was \$295.5 million with an estimated rate of return of -4.6% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

There being no other business, the meeting adjourned at 1:46 p.m.

Phillip Tencick, Retirement Director

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
January 22, 2019**

The Special Board Meeting was called to order at 3:33 p.m. in the Council Briefing Center at City Hall.

Present: Mike Coster, Jim Tieken, Dean Kiefer, Brian Brill, Candace Mumm, and J.D. Morscheck

Absent: Mike Cavanaugh

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Joe Cavanaugh, Bob Olson, Natalie Hilderbrand, Adam Miles, and Brian McClatchey

SB5240

Senate Bill 5240 was introduced on January 16, 2019 and is scheduled for public hearing in the Senate Committee on Ways & Means on January 23, 2019. The Bill would authorize the City Councils of the three First-Class Cities to enter into agreements authorizing the Washington State Investment Board (WSIB) to invest the funds of the first-class cities' retirement systems. This agreement would be irrevocable and the first-class cities would have one non-voting member on the Board once all three cities adopted the option. This Bill is similar to SB5116 that was also sponsored by Senator Carlyle in 2017. A draft letter to Senators Carlyle, Braun, and Billig was presented and discussion ensued.

Jim Tieken moved and Dean Kiefer seconded the motion to send Mr. Tencick to testify at the committee hearing in opposition to the bill and deliver the signed letters as written. The motion passed unanimously.

SERS Board Meeting Times

Mr. Tencick asked the Board due to scheduling conflicts with the conference rooms, if the Board was willing to move the meeting start time to 12:00 p.m. Discussion ensued and the Board agreed to move the start time of the meetings to 12:00 p.m. and keep the date as the last Wednesday of each month with the exception of the combined November and December Board meeting that is scheduled on the first Wednesday in December.

There being no other business, the meeting adjourned at 4:05 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

January 2019

Retirements

| | Name | Age | Retirement Date | Years of Service | Department | Option |
|----|------------------------|------------|------------------------|-------------------------|----------------------------------|---------------|
| 1 | Andrew E. Worlock | 56 | 01/01/2019 | 18.4 | Planning Services | E |
| 2 | Jean M. Dart | 64 | 01/01/2019 | 10.5 | Library | ST |
| 3 | Brian L. Rose | 65 | 01/12/2019 | 12.5 | Fleet Services | ST |
| 4 | Don R. Arndt | 69 | 01/12/2019 | 11.1 | Development Services Center | E |
| 5 | Albert M. Thompson | 67 | 02/01/2019 | 12.0 | Advanced Wastewater Treatment | ST |
| 6 | Donna A. Smith | 70 | 02/02/2019 | 13.1 | Public Defender | E |
| 7 | Timothy J. Coles | 67 | 02/02/2019 | 34.1 | Development Services Center | E |
| 8 | Janet L. Davey | 67 | 02/08/2019 | 18.2 | Sewer Maintenance | ST |
| 9 | Linda G. Shafer | 67 | 02/09/2019 | 10.1 | Municipal Court Combined | E |
| 10 | Linda L. Hendrix | 62 | 02/14/2019 | 21.1 | Communications Center | B |
| 11 | Ellen Hung | 50 | 04/01/2019 | 12.3 | Treasurer | ST |
| 12 | Lee Ann Reid | 67 | 04/05/2019 | 19.6 | Hearing Examiner | D |
| 13 | Deborah Y. Bisenius | 65 | 04/06/2019 | 26.4 | Environmental Programs | ST |
| | Retirements YTD | 8 | | | | |
| | 2018 Total Retirements | 71 | | | | |

Withdrawals

| | Name | Years of Service | Department | Termination Date |
|---|----------------------|-------------------------|----------------------------|-------------------------|
| 1 | Heather L. Lowe | 5.1 | Human Resources | 07/22/2016 |
| 2 | Mary M. Reinbold | 0.1 | Parking Meter Revenue Fund | 06/29/2018 |
| 3 | Patrick B. Wanberg | 0.3 | Engineering Services | 08/24/2018 |
| 4 | David M. Christenson | 0.5 | Golf | 11/21/2018 |
| 5 | Robert S. Oberst | 4.1 | Council | 11/21/2018 |
| 6 | Misty A. Smiley | 4.5 | My Spokane | 12/03/2018 |

Vesting

| | Name | Department | Years of Service |
|---|----------------------|-----------------------------|-------------------------|
| 1 | Michael D. Froemming | Development Services Center | 13.6 |

Deaths

| | Name | Date Retired | Age | Date of Death | Information |
|---|-------------------|---------------------|------------|----------------------|---------------------|
| 1 | Deloris J. Ellis | 09/07/1985 | 95 | 12/22/2018 | No Further Benefits |
| 2 | Karen S. Thornton | 01/12/2017 | 64 | 12/23/2018 | No Further Benefits |
| 3 | Gregory A. Smith | 02/02/2013 | 71 | 12/25/2018 | No Further Benefits |
| 4 | Howard J. Brendel | 03/26/1983 | 92 | 12/30/2018 | No Further Benefits |
| 5 | Roy C. Butts | 01/01/2014 | 84 | 01/01/2019 | E Option Continues |

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2018 EXPENDITURE SUMMARY REPORT
NOVEMBER 30, 2018

| | 2017 ACTUAL | 2018 BUDGET | NOVEMBER ACTUAL EXPENDITURES | 2018 ACTUAL YTD EXPENDITURES | VARIANCE | PERCENTAGE USED |
|--|-------------------|-------------------|------------------------------------|------------------------------------|-------------------|--------------------|
| OPERATING EXPENDITURES | | | | | | |
| Departmental Salaries | 272,809.13 | 290,564.00 | 21,288.00 | 244,313.18 | 46,250.82 | 84.1% |
| Departmental Benefits | 78,628.12 | 86,250.00 | 6,663.22 | 75,311.32 | 10,938.68 | 87.3% |
| Reserve for Budget Adjustment | - | 10,000.00 | - | - | 10,000.00 | 0.0% |
| Administrative Income | (19,374.47) | (10,000.00) | - | (17,378.84) | 7,378.84 | |
| Postage/Supplies/Other | 4,680.88 | 9,950.00 | 159.73 | 2,108.93 | 7,841.07 | 21.2% |
| State Audit Charges | 10,669.62 | 15,000.00 | 1,130.62 | 9,666.48 | 5,333.52 | 64.4% |
| Contractual Services | 139,186.91 | 175,000.00 | 1,080.00 | 122,080.06 | 52,919.94 | 69.8% |
| Travel | 10,968.76 | 15,000.00 | 427.22 | 6,941.03 | 8,058.97 | 46.3% |
| Registration/Schooling | 15,980.00 | 15,000.00 | - | 8,575.00 | 6,425.00 | 57.2% |
| Other Dues/Subscriptions/Membership | 1,886.00 | 2,500.00 | 1,143.60 | 1,709.60 | 790.40 | 68.4% |
| Other Miscellaneous Charges | 708.66 | 1,300.00 | 55.00 | 609.48 | 690.52 | 46.9% |
| Amortization | 17,649.00 | - | - | - | - | |
| TOTAL OPERATING EXPENDITURES | 533,792.61 | 610,564.00 | 31,947.39 | 453,936.24 | 156,627.76 | 74.3% |
| INTERFUND EXPENDITURES | | | | | | |
| Interfund - Centralized Purchasing | - | 378.00 | - | 378.00 | - | 100.0% |
| Interfund - Centralized Accounting | 2,346.92 | 2,078.00 | - | 2,077.60 | 0.40 | 100.0% |
| Interfund - IT Phones | 1,514.36 | - | - | - | - | |
| Interfund - Risk Management | 760.00 | 790.00 | 197.50 | 790.00 | - | 100.0% |
| Interfund - Worker's Compensation | 104.00 | 109.00 | 27.25 | 109.00 | - | 100.0% |
| Interfund - Reprographics | 7,596.07 | 4,500.00 | 465.80 | 7,389.91 | (2,889.91) | 164.2% |
| Interfund - IT | 13,756.33 | 16,171.00 | 1,354.16 | 13,522.39 | 2,648.61 | 83.6% |
| Interfund - IT Replacement | 2,772.00 | 2,066.00 | 172.17 | 1,721.70 | 344.30 | 83.3% |
| Interfund - My Spokane | 435.90 | 1,532.00 | 383.00 | 1,532.00 | - | 100.0% |
| TOTAL INTERFUND EXPENDITURES | 29,285.58 | 27,624.00 | 2,599.88 | 27,520.60 | 103.40 | 99.6% |
| TOTAL ADMINISTRATIVE EXPENDITURES | 563,078.19 | 638,188.00 | 34,547.27 | 481,456.84 | 156,731.16 | 75.4% |

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2018 EXPENDITURE SUMMARY REPORT
NOVEMBER 30, 2018

| | 2017 ACTUAL | 2018 BUDGET | NOVEMBER ACTUAL EXPENDITURES | 2018 ACTUAL YTD EXPENDITURES | VARIANCE | PERCENTAGE USED |
|---|-----------------------------|-----------------------------|------------------------------------|------------------------------------|----------------------------|--------------------|
| PENSIONS | | | | | | |
| Pensions-Annuity Benefit Payments | 24,852,639.62 | 27,000,000.00 | 2,231,619.22 | 23,965,400.60 | 3,034,599.40 | 88.8% |
| Pensions-Disability Payments | 125,328.48 | 140,000.00 | 10,444.04 | 114,884.44 | 25,115.56 | 82.1% |
| Pensions-Survivor Annuity Benefits Payments | 1,913,816.49 | 2,100,000.00 | 169,803.84 | 1,810,872.80 | 289,127.20 | 86.2% |
| TOTAL PENSIONS | <u>26,891,784.59</u> | <u>29,240,000.00</u> | <u>2,411,867.10</u> | <u>25,891,157.84</u> | <u>3,348,842.16</u> | 88.5% |
| Refunds | 551,908.36 | 1,000,000.00 | 98,392.34 | 452,194.23 | 547,805.77 | 45.2% |
| TOTAL EXPENSES | <u><u>28,006,771.14</u></u> | <u><u>30,878,188.00</u></u> | <u><u>2,544,806.71</u></u> | <u><u>26,824,808.91</u></u> | <u><u>4,053,379.09</u></u> | 86.9% |
| INVESTMENT EXPENSE* | | | | | | |
| Advisory Technical Service | 449,836.97 | 500,000.00 | 62,230.69 | 367,363.03 | 132,636.97 | 73.5% |

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments
December 31, 2018

1/24/2019

| | Type | | Allocation | | |
|--|--------------------------|-----------------------|---------------|---------------|--------------|
| | | | Target | Current | Diff. |
| Cash Held by Treasurer | Cash | \$ 108,124 | | | |
| US Bank | Short-term Inv | 24,864 | | | |
| Total Cash | | 132,988 | 0.0% | 0.0% | 0.0% |
| Sterling Capital | Total Return | 23,898,706 | | | |
| Total Total Return | | 23,898,706 | 10.0% | 8.5% | -1.5% |
| Hotchkis & Wiley | High Yield - Mutual Fund | 11,491,293 | | | |
| Total High Yield | | 11,491,293 | 5.0% | 4.1% | -0.9% |
| Polar | LLC | 6,708,294 | | | |
| American Beacon | Mutual Fund | - | | | |
| Castine Capital II | Ltd Partnership | 7,162,894 | | | |
| Post Limited Term High Yield | Ltd Partnership | 6,013,411 | | | |
| Rimrock Low Volatility | Ltd Partnership | 9,869,620 | | | |
| Total Absolute Return | | 29,754,219 | 8.0% | 10.6% | 2.6% |
| Total Capital Preservation | | 65,277,206 | 23.0% | 23.3% | 0.3% |
| Hotchkis & Wiley | LC Value - Mutual Fund | 13,595,216 | | | |
| Jackson Square | LC Growth - Mutual Fund | 14,398,382 | | | |
| MFS Heritage | LC Core | 12,959,766 | | | |
| Vanguard S&P 500 Index | LC Core - Mutual Fund | 9,916,898 | | | |
| Total US Large Cap | | 50,870,262 | 21.0% | 18.1% | -2.9% |
| Sterling | MC Value | 3,934,337 | | | |
| Vanguard MC Growth | MC Growth - Mutual Fund | 3,486,515 | | | |
| Vanguard MC Index | MC Core - Mutual Fund | 3,569,354 | | | |
| Champlain | SC Core | 5,493,718 | | | |
| Phocas | SC Value - Mutual Fund | 3,326,052 | | | |
| Bridge City | SC Growth | 4,995,054 | | | |
| Vanguard SC Index | SC Core - Mutual Fund | 780,462 | | | |
| Total US Small/Mid Cap | | 25,585,492 | 11.0% | 9.1% | -1.9% |
| Total US Equities | | 76,455,754 | 32.0% | 27.2% | -4.8% |
| Artisan | SMID Value - Mutual Fund | 19,388,191 | | | |
| Euro Pacific | LC Blend - Mutual Fund | 19,042,803 | | | |
| Vanguard International | LC Index - Mutual Fund | - | | | |
| Total International Large Cap | | 38,430,994 | 15.0% | 13.7% | -1.3% |
| Trivalent | SC Value - Mutual Fund | 10,600,384 | | | |
| Total International Small/Mid | | 10,600,384 | 4.0% | 3.8% | -0.2% |
| Vanguard EM Index | EM - Mutual Fund | 1,065,084 | | | |
| ABS Emerging Markets | Ltd Partnership | 7,515,379 | | | |
| Berens | Ltd Partnership | 936,212 | | | |
| Total Emerging Markets | | 9,516,675 | 3.0% | 3.4% | 0.4% |
| Total International Equities | | 58,548,053 | 22.0% | 20.9% | -1.1% |
| Weatherlow Offshore | Ltd Partnership | 15,490,815 | | | |
| Royalty Opportunities I | Ltd Partnership | 3,131,687 | | | |
| Royalty Opportunities II | Ltd Partnership | 2,866,533 | | | |
| Total Long Biased | | 21,489,035 | 7.0% | 7.7% | 0.7% |
| Metropolitan Real Estate Partners | Ltd Partnership | 200,819 | | | |
| Morrison Street Fund IV | LLC | - | | | |
| Morrison Street Fund V | LLC | 3,985,918 | | | |
| Morrison Street Debt Opportunities | LP | 4,139,770 | | | |
| Morgan Stanley Prime | LLC | 7,322,492 | | | |
| Principal (REITs) | REITs | 9,723,771 | | | |
| Total Real Estate | | 25,372,770 | 9.0% | 9.0% | 0.0% |
| Contrarian Capital Fund I | Ltd Partnership | 9,058,690 | | | |
| Beach Point | Ltd Partnership | 10,322,051 | | | |
| Total Opportunistic Credit | | 19,380,741 | 7.0% | 6.9% | -0.1% |
| Contrarian EM Credit | LLC | 5,999,679 | | | |
| OrbiMed II | Ltd Partnership | 8,192,679 | | | |
| Total Special Opportunities | | 14,192,358 | 0.0% | 5.1% | 5.1% |
| Total Cash and Investments | | \$ 280,715,917 | 100.0% | 100.0% | 0.0% |
| | Monthly Pension | \$ (2,520,713) | | | |
| | As of November 30, 2018 | \$ 295,712,849 | | | |
| | Estimated Rate of Return | -4.3% | | | |
| Abs. Return and Total Return FI | Thesis 2017.1 | 53,652,925 | 18.0% | 19.1% | 1.1% |
| High Yield and Opp Credit | Thesis 2017.2 | 30,872,034 | 12.0% | 11.0% | -1.0% |
| Equity and Special Situations | Thesis 2017.3 | 149,196,165 | 54.0% | 53.1% | -0.9% |

Cash Recon - Dec 18

| Date | Transactions | Sources | Uses | Balance |
|-------------------|---|---------------------|-----------------------|---------------------|
| 11/29/2018 | Beginning Balance | | | 1,413,829.31 |
| 11/30/2018 | Sale - Jackson Square Large Cap Growth | 1,110,000.00 | | 2,523,829.31 |
| 11/30/2018 | November Pension Payments | | (2,510,915.81) | 12,913.50 |
| 12/3/2018 | Interest | 1,004.81 | | 13,918.31 |
| 12/6/2018 | Distribution - Morrison Street IV | 343,003.38 | | 356,921.69 |
| 12/10/2018 | Payroll Contributions | 728,894.44 | | 1,085,816.13 |
| 12/17/2018 | Purchase - EuroPacific | | (500,000.00) | 585,816.13 |
| 12/17/2018 | Purchase - Artisan International | | (500,000.00) | 85,816.13 |
| 12/17/2018 | Distribution - Royalty Opps II | 259,740.26 | | 345,556.39 |
| 12/20/2018 | Commission Recapture | 10.94 | | 345,567.33 |
| 12/21/2018 | Distribution - Royalty Opps I | 24,930.51 | | 370,497.84 |
| 12/24/2018 | Payroll Contributions | 702,008.98 | | 1,072,506.82 |
| 12/26/2018 | Clash Action Settlement | 162.51 | | 1,072,669.33 |
| 12/31/2018 | Dividend - Morgan Stanley Prime Real Estate | 71,468.54 | | 1,144,137.87 |
| 12/31/2018 | Sale - Sterling Core Fixed Income | 1,400,000.00 | | 2,544,137.87 |
| 12/31/2018 | December Pension Payments | | (2,520,414.29) | 23,723.58 |
| 12/31/2018 | Ending Balance | 4,641,224.37 | (6,031,330.10) | 23,723.58 |

Upcoming

Cash Recon - Jan

| Date | Transactions | Sources | Uses | Balance |
|------------------|---------------------------------------|---------------------|-----------------------|---------------------|
| 1/1/2019 | Beginning Balance | | | 23,723.58 |
| 1/2/2019 | Interest | 1,140.45 | | 24,864.03 |
| 1/3/2019 | Partial Redemption - OrbiMed Partners | 5,000,000.00 | | 5,024,864.03 |
| 1/4/2019 | Accrued Dividends | 59.10 | | 5,024,923.13 |
| 1/7/2019 | Payroll Contributions | 731,228.42 | | 5,756,151.55 |
| 1/14/2019 | Purchase - Principal REIT | | (1,000,000.00) | 4,756,151.55 |
| 1/14/2019 | Purchase - Fidelity S&P 500 | | (1,000,000.00) | 3,756,151.55 |
| 1/14/2019 | Purchase - Hotchkis&Wiley High Yield | | (1,000,000.00) | 2,756,151.55 |
| 1/14/2019 | Purchase - Sterling Core Fixed Income | | (1,000,000.00) | 1,756,151.55 |
| 1/18/2019 | Return Pension Payment | 1,254.01 | | 2,757,405.56 |
| 1/22/2019 | Payroll Contributions | 750,735.02 | | 2,506,886.57 |
| 1/23/2019 | Ending Balance | 6,484,417.00 | (4,000,000.00) | 2,508,140.58 |
| | <u>Upcoming</u> | | | |
| 1/31/2019 | January Pension Payments | | (2,449,700.63) | |
| 2/4/2019 | Payroll Contributions | 750,000.00 | | |
| 2/7/2019 | Capital Call - Royalty Opps II | | (375,000.00) | |

**Spokane Employees' Retirement System (SERS)
Investment Advisory Committee Minutes
January 24, 2019**

The Investment Advisory Committee (IAC) meeting was called to order at 10:35 am on January 24, 2019 in the City Hall Retirement Office via a conference call. The committee met in accordance with Washington State RCW 35.39.080 and .090 and submits the following report.

Present: Gavin Cooley, Gene Fitzpatrick, and Phillip Tencick
Absent: Brian Brill, and Dean Kiefer
Guests: Jayson Davidson and Brian Loescher from Hyas Group

2018 Market Update

Mr. Davidson reviewed broad economic data and the major market indices for the fourth quarter of 2018. Economic data remains largely positive, with modest GDP growth, continued strong employment, and mild inflation. Market volatility returned in the quarter. Monetary policy took center stage in December as the Fed raised interest rates despite markets signaling concerns about future growth. Equity markets saw a major sell-off in December following the rate rise. Bond markets eked out a positive return for the year despite continued pricing pressure from the Fed's interest rate increases throughout the year.

Investment Manager Actions

Mr. Davidson highlighted the investment activities from 2018:

Watch List as of January 1, 2018

- Jackson Square Large Cap Growth – Performance
- Berens Global Value – Personnel
- Vanguard Mid Cap Growth – Performance
- OrbiMed – Multi-Products – Personnel/Performance
- MFS Blended Research – Performance

4th Quarter Performance Review Meeting – February 28, 2018

- Redeemed Berens Global Value (Effective June 30,2018)

1st Quarter Performance Review Meeting – May 30, 2018

- No action taken

2nd Quarter Performance Review Meeting – August 29, 2018

- Terminate American Beacon Flexible Bond Fund
- Add Vanguard Emerging Market (Stock) Index
- Add ABS Emerging Markets Strategic
- Add Contrarian Capital Fund
- Add Contrarian Emerging Markets

3rd Quarter Performance Review Meeting – December 5, 2018

- Terminate Vanguard Institutional Index
- Terminate Vanguard Mid Cap Index
- Terminate Vanguard Small Cap Index
- Terminate Vanguard Developed International Index

- Add Fidelity 500 Index
- Add Fidelity Mid Cap Index
- Add Fidelity Small Cap Index
- Add Fidelity Developed International Index
- Sterling Mid Cap Value placed on watch list

Watch List as of December 31, 2018

- Jackson Square Large Cap Growth – Performance
- Vanguard Mid Cap Growth – Performance
- OrbiMed Partners – Performance
- MFS Blended Research – Performance
- Sterling Mid Cap Value - Performance

There being no other business, the meeting adjourned at 11:19 am.

Respectfully submitted,
Phillip Tencick

DRAFT

Annual SERS Board Agenda - 2019

| Board Meeting | Topic |
|---------------|--------------------------------|
| January | Annual Agenda - Staff |
| February | Performance Review - Hyas |
| March | |
| April | Valuation - SageView |
| May | Performance Review - Hyas |
| June | Audit Report - Moss Adams |
| July | |
| August | Performance Review - Hyas |
| September | |
| October | |
| December | Performance Review, IPS - Hyas |

| | |
|---------------|---|
| Ad Hoc | Asset Allocation (2016) Public Disclosure Exemption (2016) Actuary RFP (2016) Consultant RFP (2016) Audit RFP (2016) Cash Overlay (2016) Rule of 90 Implemenation (2017) SB 5160 - City Plan Transfer Option (2017) Monthly Payment Processing to US Bank (2017) Experience Study (2017) Credit Search (2017) Cash/Liquidity Reporting (2017) Board Member Search (2017) Castine Strategy Transition (2018) Credit Search - Contrarian (2018) Emerging Markets Search - ABS (2018) Special Situation Search - Contrarian (2018) Index Provider Search - Fidelity (2018) SB 5240 City Plan Transfer Option Absolute Return Search Real Estate Fund Search |
|---------------|---|

| Research Agenda | |
|-----------------------|---|
| Investments | Asset Allocation (2016) Opportunistic Credit Primer (2016) Allocation Implementation Searches (2016) OrbiMed Partners Manager Review (2017) Fees vs. Alpha Analysis (2017) Risk Factor Analysis (2017) Manager Review - Bridge City (2018) Manager Review - Dimensional (2018) Index Provider Primer (2018) EM Equity Primer (2018) Active Risk Budgeting (with JD) Manager Reviews Asset Class Reviews Wharton's Choice |
| Governance | Fiduciary Duty (2016) Ethics in Practice (2017) Sustainability (2017) Plan Design Benchmarking (2017) Board Rules (2018) ESG Review (2018) Open Meeting Training (2018) Bond Rating Improvements Ogoing Due Diligence Review |
| Administrative | Payment processing (2016) Participant/Demographic Analysis (2018) Total Retirement Value |
| Long-Term | Plan design and risk with improved funding |



**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM**
808 W. SPOKANE FALLS BLVD.
SPOKANE, WASHINGTON 99201-3324
509.625.6330
FAX 509.625.6861
www.spokanesers.org

RE: Spokane Regional Emergency Communications (SREC) participation in SERS

Summary: The SERS Board has been petitioned to allow city employees who are currently members of SERS to retain their membership upon transfer to SREC.

Discussion:

There are currently 36 employees who are members of SERS and are expected to transfer to SREC in or around July 2019. There are 21 employees from Police Radio Dispatch who are represented by Local 270 and 15 employees from Fire Communications who are represented by Local 29.

The bargaining units for these employees have requested that their members be provided the ability to remain members of SERS until they retire.

SREC has formally requested that the City petition the SERS Board to allow these members to remain in SERS after they become SREC employees. The City formally requested that these employees are allowed to retain their membership provided that employee and employer contributions continue. Both letters are included in the Board Packet.

The City believes that there will be negligible impact on the funding status of the Plan as a result of this proposal.

Staff analysis concludes that there will be a neutral to slightly positive impact if the members are retained in the plan (see Exhibit 1). The participants included in this proposal have a better funded position than the remaining population of active SERS participants. While average service times are similar for both groups, the dispatch population has a larger proportion of participants in the subsequent Rule of 75/80/90 tiers of the plan, which are all funded at >100%. Additionally, with a younger average age, they are further from retirement, which provides for a longer contribution period to fund their retirement. If the current funding level for the dispatch population is maintained, the higher average salary would provide a surplus to the overall plan. With such a small sample, the actual impact has a greater chance of deviating from overall plan expectations, but retaining the dispatch population would benefit the plan.

SERS has previously allowed city employees to continue participation in SERS when the Public Facilities District (Public Facilities District) was established. That agreement did not require those employees to abide by the retirement eligibility requirements for other SERS members. PFD members were eligible to retire from SERS while continuing to work for the PFD. This increased the actuarial value of the expected benefit for these employees since they retired earlier than average and maintained the improved mortality associated with those who work longer.

Exhibit 1 – Comparison of Dispatch Employees and Remaining SERS Active Employees

| | | SERS Active Population | | Dispatch | |
|--------------------------------|---------------|-------------------------------|---------------|-----------------|---------------|
| | | <u>N</u> | <u>%</u> | <u>N</u> | <u>%</u> |
| Tier | Total | 1445 | 100% | 36 | 100% |
| | 5/50 | 712 | 49% | 14 | 39% |
| | Rule 75 | 301 | 21% | 14 | 39% |
| | Rule 80 | 282 | 20% | 6 | 17% |
| | Rule 90 | 150 | 10% | 2 | 6% |
| Eligibility | Total | 1445 | 100% | 36 | 100% |
| | Unvested | 508 | 35% | 11 | 31% |
| | Vested | 937 | 65% | 25 | 69% |
| | Eligible | 465 | 32% | 5 | 14% |
| Demographics | | <u>Mean</u> | <u>Median</u> | <u>Mean</u> | <u>Median</u> |
| | Age | 47.5 | 48.4 | 41.2 | 38.0 |
| | Service | 11.2 | 9.8 | 10.3 | 8.2 |
| | Salary | \$ 66,085 | \$ 65,181 | \$ 86,364 | \$ 84,987 |
| | Contributions | \$ 61,638 | \$ 47,883 | \$ 71,744 | \$ 48,968 |
| Estimated Funding Ratio | Total | 113% | | 122% | |

Spokane Regional Emergency Communications (SREC)

1620 N Rebecca St, Spokane, WA 99217 (509) 532-8923

RECEIVED

OCT 1 2018

Mayor's Office
City of Spokane

October 3rd, 2018

Mr. David Condon, Mayor
City of Spokane
808 W Spokane Falls Blvd.
Spokane, WA 99201

Dear Mayor Condon,

As you know, the area's emergency communications systems are being integrated into SREC. As part of SREC's ongoing effort to provide pay and benefits for City employees that are as good or better than they are today, we have noted there would be a significant impact for City employees making the transition to SREC if they had to leave the Spokane Employees' Retirement System (SERS).

Although by default SREC employees will be members of the Washington State Public Employees Retirement System (PERS), if approved by the Spokane City Employee's Retirement Board and then codified by Council, City employees would have the option to remain in SERS after they become SREC employees.

Please consider this letter a formal request to initiate the steps necessary to allow City employees who transition to SREC the option to remain in SERS. Settling this important issue would help facilitate a smooth transition.

Please contact me if you have any additional question or need any further information.

Sincerely,



Jeff Tower
HR Manager



CITY OF SPOKANE
808 W. SPOKANE FALLS BLVD.
SPOKANE, WASHINGTON 99201-3327
509.625.6250

December 4, 2018

Michael Coster, Board Chair
Spokane Employees' Retirement System
808 W. Spokane Falls Blvd
Spokane, WA 99201

Dear Mr. Coster,

Efforts are underway to integrate the area's emergency communications systems into Spokane Regional Emergency Communications (SREC). As a result, City employees assigned to Police Radio Dispatch and Fire Communications will have the opportunity to transition to SREC, and become employees of SREC. It has been estimated the integration would occur around July 2019. We anticipate there to be significant impact to City employees making the transition to SREC as a result of their discontinued participation in the Spokane Employees' Retirement System (SERS). The City has met with the bargaining units representing the employees of Police Radio Dispatch (Local 270) and Fire Communications (Local 29) regarding impact bargaining, and both bargaining units have asked that their members be provided the ability to remain members of SERS until they retire from the new entity. Upon receiving this request from the bargaining units, our bargaining team communicated the request to the SREC leadership for their consideration.

SREC has made a formal request to the City to petition the SERS Board to provide the ability for current, non-uniformed City employees assigned to Police Radio Dispatch and Fire Communications to have the option to remain in SERS after they become SREC employees. There are approximately twenty-one (21) employees in the Police Radio Dispatch workgroup, and approximately sixteen (16) non-uniformed employees in the Fire Communications workgroup.

The City would therefore petition the SERS Board to take such actions needed to allow those current members of the retirement system to continue to be members in good standing so long as they are employed by SREC and the required contributions from both the employer and employee are continued. This is with the understanding that only those employees that are currently employed by the City of Spokane and are hired by SREC, at the time of integration, be included in this proposal.

While we understand that an action of this sort may, in fact, impact the actuarial assumption, we believe that this impact would be negligible and could be assumed by the system with little or no impact.

We would appreciate the Board's concurrence on this issue.

Sincerely,



David A. Condon
Mayor

Attachments: Letter from SREC

CC: Theresa Sanders, City Administrator
Christine Cavanaugh, Human Resources Director
Meghann Steinolfson, Labor Relations Manager
Beth Kennar, Summit Law
Brian Schaeffer, Fire Chief
Craig Meidl, Police Chief
Joe Cavanaugh, Local 270 President
Natalie Hilderbrand, Staff Representative
Randy Marler, Local 29 President

RatingsDirect®

Summary:

Spokane, Washington; General Obligation

Primary Credit Analyst:

Chris Morgan, San Francisco (1) 415-371-5032; chris.morgan@spglobal.com

Secondary Contact:

Benjamin P Geare, San Francisco + 1 (415) 371 5047; benjamin.geare@spglobal.com

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Rationale

Outlook

Related Research

Summary:

Spokane, Washington; General Obligation

Credit Profile

US\$69.77 mil unlim tax GO bnds ser 2018 due 12/01/2043

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Spokane, Wash.'s series 2018 unlimited-tax general obligation (UTGO) bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's limited-tax general obligation (LTGO) and UTGO debt outstanding.

Security and use of proceeds

The city's full faith and credit, including the obligation to levy ad valorem property taxes without limitation as to rate or amount, secures the city's unlimited-tax GO bonds, including the series 2018. The city's limited-tax GO bonds are subject to statutory limitations that include a limit on annual property tax revenue growth without a voter override and a limit on the city's levy rate of \$3.60 per \$1,000 of assessed value. Because the tax base supporting both limited- and unlimited-tax GO bonds is the same and because we view the city's property tax revenue as lacking limitations on fungibility, we have rated both types of debt on parity with our view of the city's general creditworthiness. The city's 2019 general levy rate is projected to be \$3.15.

The city will use the series 2018 proceeds to make library improvements on seven sites throughout the city, including upgrades and facility replacements as part of a plan to update facilities to conform to long-term changes in the types of services libraries provide and to allow for joint uses with the school district, which is also undergoing a facility modernization program.

Credit overview

Spokane continues to benefit, in our view, from its role as the market center for a vast inland economic region and, although its income and wealth profile is lower than that of state peers such as Everett or Tacoma, it is undergoing a surge of development that we think is related, at least in part, to real estate affordability. Voter approval for operating property tax revenue and GO bonds has given the city resources to maintain and improve infrastructure while maintaining services, but we see gathering clouds in its main pension system's low actuarially calculated funded ratio. Combined pension and other postemployment benefit contributions are low relative to total governmental funds expenditures now, but we anticipate they will rise in the long run if the city is to keep up with its pension liabilities. Overall we anticipate the city will continue to show credit stability during our two-year outlook period and beyond, but we could eventually raise the rating if the city's economic indicators converge with those of its coastal peers.

The rating reflects our assessment of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area;

- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 139.8% of total governmental fund expenditures and 32.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 77.1% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Adequate institutional framework score.

Strong economy

Despite its middle-of-the road income and wealth indicators under our criteria, we consider Spokane's economy strong, partly as a result of its role as the market center for a vast area that includes eastern Washington, northern Idaho, western Montana, and southern British Columbia. The city itself serves a population of 220,100 in a broad and diverse metropolitan statistical area. We project the city's per capita effective buying income at 89.4% of the national level, and its 2018 per capita market value stands at \$88,355. Overall, the city's market value grew by 8.9% over the past year to \$19.4 billion, which is the fastest pace to date during the current economic expansion, and the city is tracking a variety of residential and commercial projects throughout the city, leading us to anticipate mid-single-digit market value growth next year. The county unemployment rate averaged 5.4% in 2017, and based on tracking through September 2018 we think this rate could fall below 4.0% this year. Consistent with our credit conditions forecast, which anticipates 2%-3% real GDP growth in the Western U.S. states through 2020, we anticipate that the city's economic indicators will continue to strengthen in some form in the medium term but note that its cyclical economic growth and declines tend to be milder than that of its coastal peers, such as Seattle.

Strong management

We view the city's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights of the city's approach to financial management include:

- A budget formation process that incorporates internal and external analyses of historical and projected revenue and expenditure trends;
- Monthly budget-to-actual financial reporting, including an analysis of tax performance trends;
- A detailed six-year financial forecast--updated annually--that incorporates historical information as well as current economic information to project revenue and expenditures;
- A six-year rolling capital improvement plan, updated annually as part of the budget process, with funding sources identified;

- A formal investment policy coupled with quarterly presentation of holdings and earnings reports to council;
- Lack of a formal debt policy; and
- A formal fund balance policy to maintain a 13.5% reserve with 10.0% of expenditures committed for emergency contingencies and 3.5% for revenue stabilization (amounts are based on analysis of one month's cash and historical revenue volatility, respectively).

Strong budgetary performance

Spokane's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 5.1% of expenditures but a slight deficit result across all governmental funds of 1.3% in fiscal 2017. These figures include our quantitative adjustments to general fund expenditures treat recurring transfers out to nonmajor governmental funds as equivalent to expenditures.

Although we expect general fund net results will moderate from 2017's particularly strong general fund results, consistent with our expectation of economic growth in the medium term, we think the city is positioned to continue post positive general fund results through 2019. The city's general fund revenue structure is diverse, with three prominent tax sources: utility taxes (34% of 2019 budgeted revenues), sales and use taxes (24%) and property taxes (23%).

The city has shown an ability to secure voter support for operations, with approval of a property tax override in 2014 that generates the equivalent of 5% of general fund expenditures for street maintenance and improvements. We think that a statewide change in the education funding system that had the effect of reducing the local aggregate property tax rate has played a role in local voters' approving the \$77 million GO authorization that enabled the city to issue the series 2018 and a concurrent school district approval of \$495 million on GO bonds. This came four years after voters approved the property tax override for streets and a \$64 million bond authorization for parks. An active real estate development environment also provides a revenue boost to the city by giving it one-time sales tax revenue related to new construction and because new construction added to the property tax rolls is not subject to a statutory restriction on property tax revenue growth to 1% per year without a voter override.

Management reports that the city is looking closely at its multiyear projections to ensure it maintains structurally balanced operations. The city is planning to adjust municipal utility rates by 2.9% per year in the coming years to meet enterprise needs, which we think will provide a measure of predictability to the general fund's largest revenue source and management reports that the city is treating any projected revenue growth above the 20-year historical trend as one-time and unavailable for ongoing expenditure growth.

Very strong budgetary flexibility

Spokane's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 24% of operating expenditures, or \$46.5 million, inclusive of our treatment of the city's general fund balance commitment for future revenue fluctuations. Consistent with our view that the city's financial performance is strong, we anticipate this ratio will approximate the 2017 level or grow during the next two years. Management reports that the city has no "banked levy capacity," which is a situation in which the city can increase its property taxes in excess of the state's revenue growth limit of 1% per year excluding new construction. However, we note that in November 2014, city voters approved a 20-year "levy lid lift" to fund street renovations throughout the city; such authorizations are unusual

for cities in the state in our experience.

Very strong liquidity

In our opinion, Spokane's liquidity is very strong, with total government available cash at 139.8% of total governmental fund expenditures and 32.4x governmental debt service in 2017, inclusive of our adjustment to treat the city's investments as equivalent to cash because they primarily consist of short-maturity U.S. agencies and Treasuries held in the city's investment pool. In our view, the city has strong access to external liquidity if necessary given its issuance of GO, special assessment, and utility debt during the past 20 years.

The city has a privately placed 2016 LTGO with \$13.9 million outstanding as of 2017 and has a 2025 final maturity. We do not consider this obligation a material contingent liquidity risk, which we find can be associated with alternative financing, as bond provisions lack acceleration or "most favored nation" provisions.

Very weak debt and contingent liability profile

In our view, Spokane's debt and contingent liability profile is very weak. Total governmental fund debt service is 4.3% of total governmental fund expenditures, and net direct debt is 77.1% of total governmental fund revenue. The series 2018 will fully exercise the city's November 2018 GO authorization and management doesn't expect the city to issue additional governmental debt in the medium term.

Spokane's required pension and actual OPEB contributions totaled 6.1% of total governmental fund expenditures in 2017, with 4.4% representing required contributions to pension obligations and 1.7% representing OPEB payments, which the city meets on a pay-as-you-go basis and which consist of a closed benefit for former safety employees hired prior to a 1977.

In our opinion, a credit weakness is the long-term challenge of funding the city's pension and OPEB liabilities. The single-employer defined benefit plans managed by the city-controlled Spokane Employees' Retirement System (SERS) represents the largest and covers most of the city's nonsafety employees. Two other single-employer plans, Spokane Firefighters' Pension and Spokane Police Relief and Pension, are much smaller and closed. Last, the city's safety employees participate in multiple-employer plans managed by the state's Law Enforcement Officers and Fire Fighters (LEOFF) system, which has a net pension asset and to which the city's must make full contributions using assumptions determined by LEOFF. The city has been increasing the employer and employee contributions to SERS and created new tiers for employees hired starting in 2015 and 2018, but the city's contributions averaging 81% of the actuarially determined contribution on average during the past five years and the system's low funded ratio augur higher contributions, in our view. As reported in the SERS annual financial report, the SERS funded ratio, calculated using the plan fiduciary net position as a percentage of the total pension liability, stood at 67% for 2017, up from a 53% ratio. This reflected a strengthening in the city's contribution approach and a longer amortization period; put together, these changes allowed the SERS actuary to project that the city would no longer exhaust its assets, which, in turn, allowed the actuary to use a higher, nonblended discount rate. SERS' actuarially determined contributions hereafter will use level percentage closed approach that amortizes future gains and losses over 30 years using a 7.5% discount rate while keeping the prior 22-year approach for its liability as of Dec. 31, 2017. Overall, we believe the recent move to a longer amortization period is likely to slow SERS' progress in meeting its liability, but the concurrent decision to increase the employer and employee contributions could partly offset this.

Adequate institutional framework

The institutional framework score for Washington municipalities is adequate.

Outlook

The stable outlook reflects our view that the city's financial performance is likely to continue to benefit from the revenue effects of economic growth and voter support for resources to fund operations and bond-funded capital improvements. This, we think, lessens the risk that the city will need to deploy available reserves for one-time needs, and the city's attention to the risks of overestimating revenue growth trends suggests that it will be able to identify and correct a structural operating imbalance should one develop. We do not anticipate changing the ratings during the two-year outlook period.

Upside scenario

While we view a medium-term positive rating action as unlikely in the absence of a major strengthening in the city's economic profile, we could raise the ratings if multiple factors improved concurrently during the next two years, including continued strengthening in the city's available general fund position, the adoption of a robust debt management policy, and the adoption of a pension funding plan that we thought would rapidly improve the SERS funded ratio without putting strain on the city's budgetary performance or budgetary flexibility.

Downside scenario

Likewise, we think the city's eye toward long-term structural balance and voter support creates the conditions for resiliency in a recession scenario, but we could lower the rating if the city's financial performance and flexibility deteriorate to levels we consider adequate, or if debt or economic scores materially worsen.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 24, 2018
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- The Increasing Cost Of Governmental Pensions: Discount Rate And Contribution Practices, Sept. 27, 2018
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 27, 2018)

Spokane ltd tax GO rfdg bnds ser 2015 due 12/01/2034

| | | |
|-------------------------|-----------|----------|
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
|-------------------------|-----------|----------|

Spokane GO bnds (tax-exempt)

| | | |
|-------------------------|-----------|----------|
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
|-------------------------|-----------|----------|

| Ratings Detail (As Of November 27, 2018) (cont.) | | |
|--|-----------------|----------|
| Spokane GO (AGM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Spokane GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Spokane GO | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Table 14

Assessing The Debt And Contingent Liabilities Score (see paragraphs 78-84)

| | Net Direct Debt As % Of Total Governmental Funds Revenue | | | | |
|---|--|----------|-----------|------------|------|
| Total Governmental Funds Debt Service As A % of Total Governmental Funds Expenditures | <30 | 30 to 60 | 60 to 120 | 120 to 180 | ≥180 |
| < 8 | 1 | 2 | 3 | 4 | 5 |
| 8 to 15 | 2 | 3 | 4 | 4 | 5 |
| 15 to 25 | 3 | 4 | 5 | 5 | 5 |
| 25 to 35 | 4 | 4 | 5 | 5 | 5 |
| ≥35 | 4 | 5 | 5 | 5 | 5 |

A score of 1, 2, 3, 4 and 5 are very strong, strong, adequate, weak and very weak, respectively.

| Qualitative factors with a positive impact on the initial score: | Qualitative factors with a negative impact on the initial score: |
|--|--|
| Overall net debt as a percentage of market value below 3%. | Significant medium-term debt plans produce a higher initial score when included. |
| Overall rapid annual debt amortization, with more than 65% coming due in 10 years. | Exposure to interest-rate risk or instrument provisions that could increase annual payment requirements by at least 20%. |
| | Overall net debt as a percentage of market value exceeding 10%. |
| | Unaddressed exposure to large unfunded pension or OPEB obligations leading to accelerating payment obligations over the medium term that represent significant budget pressure (see paragraph 82). If there is a plan to address the obligations, the final score worsens by one point; otherwise the score worsens by two points. |
| | Speculative contingent liabilities or those otherwise likely to be funded on an ongoing basis by the government representing more than 10% of total governmental revenue. |

For each relevant qualitative factor, the score changes by one point, except for unaddressed exposure to unfunded pension or OPEB obligations which can worsen the final score by two points. The final debt and contingent liabilities score equals the initial score adjusted up or down based on the net effect of the qualitative factors. Metrics equal a cutoff point between two initial scores will equate to the worse score.

| Criteria | Weight | Score | Qualitative |
|-------------------------------|-------------|-------------|---|
| Institutional Framework | 10% | 3 | |
| Economy | 30% | 2 | Upgrade from 3 for regional center, positive trends |
| Management | 20% | 2 | |
| Financial | | | |
| Liquidity | 10% | 1 | Strong access to markets |
| Budgetary Performance | 10% | 2 | |
| Budgetary Flexibility | 10% | 1 | |
| Debt & Contingent Liabilities | 10% | 5 | Downgrade from 3 for funding ratio, meeting ADC |
| Total | 100% | 2.20 | |

| Min | Max | Rating |
|------|------|--------|
| 1.00 | 1.64 | AAA |
| 1.65 | 1.94 | AA+ |
| 1.95 | 2.34 | AA |
| 2.35 | 2.84 | AA- |
| 2.85 | 3.24 | A+ |
| 3.25 | 3.64 | A |
| 3.65 | 3.94 | A- |
| 3.95 | 4.24 | BBB+ |
| 4.25 | 4.54 | BBB |
| 4.55 | 4.74 | BBB- |
| 4.75 | 4.94 | BB |
| 4.95 | 5.00 | B |