



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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District of Columbia Auditor

014:00:SDG:MF:HA

**Certification Review of the Sufficiency of the Washington Convention
Center Authority's Projected Revenues to Meet Projected
Operating and Debt Service Expenditures and
Reserve Requirements for Fiscal Year 2001**

July 14, 2000



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The Honorable Linda W. Cropp, Chairman
and Members of the Council of the
District of Columbia
441 4th Street, N.W. Room 704
Washington, D.C. 20001

Certification Review of the Sufficiency of the Washington Convention Center Authority's Projected Revenues to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2001

Dear Chairman Cropp and Members of the Council of the District of Columbia:

Pursuant to Section 305(a) of D.C. Law 10-188, entitled the "Washington Convention Center Authority Act of 1994," the District of Columbia Auditor must prepare and deliver to the Mayor, the Council, the Chief Financial Officer of the District of Columbia, and the Chairman of the Washington Convention Center Authority (WCCA) a certification of the sufficiency of WCCA's projected revenue for fiscal year 2001. The certification must be prepared and delivered on or before July 15th of each year in which there is outstanding indebtedness issued by WCCA. This certification review sets forth the Auditor's determination of the sufficiency of WCCA's projected revenues from: (1) taxes imposed pursuant to D.C. Code, Sections 47-2002.2 and 47-2202.1; (2) WCCA's projected operating revenues for the upcoming fiscal year; and (3) amounts in any reserve fund or account (other than any debt service reserve fund or account for indebtedness) which exceeds the required minimum balance for such fund or account, as certified by WCCA, to meet its projected expenditures and reserve requirements for fiscal year 2001.

Based upon an analysis of WCCA's projected revenues to expenditures, the Auditor has determined that WCCA's projected revenues should be sufficient to cover its expenditures and reserve requirements for fiscal year 2001. The Auditor's analysis of revenue and expenditure projections, which included information provided by WCCA and the Office of Tax and Revenue, indicated that projected revenues are forecasted to exceed projected expenditures by approximately \$87.2 million in fiscal year 2001. Therefore, the District of Columbia Auditor hereby *certifies* that

WCCA's projected revenues should be sufficient to meet projected expenditures and reserve requirements for fiscal year 2001.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether projected dedicated tax revenues, operating revenue, and revenue generated from excess reserve requirements, if any, are sufficient to meet WCCA's projected operating and debt service expenditures and reserve requirements for fiscal year 2001.

In preparing this certification, the District of Columbia Auditor reviewed D.C. Law 10-188, entitled the "Washington Convention Center Authority Act of 1994," and D.C. Law 12-142, entitled the "Washington Convention Center Authority Financing Amendment Act of 1998," which amended certain provisions of D.C. Law 10-188.

Discussions were held with WCCA officials, including its Chief Financial Officer (CFO), regarding operating revenues, excess reserve amounts, and expenditure projections for fiscal year 2001. Discussions were also held with officials in the District's Office of Tax and Revenue (OTR) concerning their dedicated tax revenue estimate for fiscal year 2001. The Auditor reviewed WCCA's audited financial statements for the fiscal years ending September 30, 1997, 1998, and 1999, in addition to a consultant's report on dedicated taxes, to determine the reasonableness of the projected dedicated tax revenues for fiscal year 2001.

In determining the level of WCCA's operating and debt service expenditures and reserve requirements for fiscal year 2001, the Auditor relied upon financial information prepared by WCCA's Chief Financial Officer. In determining the sufficiency of WCCA's revenues for fiscal year 2001, the Auditor relied upon dedicated tax information provided by the Office of Tax and Revenue, which is responsible for annually estimating WCCA's dedicated tax revenue and reporting the revenue estimate to WCCA on or prior to July 1st of each year.

BACKGROUND

The Washington Convention Center Authority Act of 1994 (the Act), D.C. Law 10-188, effective September 28, 1994, established the Washington Convention Center Authority as an independent corporate instrumentality of the District of Columbia government to facilitate the construction of a new convention center and for various other purposes. Section 202(b) of the Act provides:

Notwithstanding any other provisions of this chapter, the general purpose of the Authority is to acquire, construct, equip, maintain, and operate the new convention center, in whole or in part, directly or under contract, and engage in other activities as it deems appropriate to promote trade shows and conventions, or other events, closely related to activities of the new convention center, and to maintain and operate the existing convention center until such time as the new convention center is completed and opened for operation.

WCCA is governed by a nine-member Board of Directors (Board). Currently, the Board is comprised of the Chief Financial Officer of the District of Columbia and another District government official designated by the Mayor; both serve as ex-officio voting members with four-year terms. Additionally, seven public members (who meet statutorily prescribed criteria) are appointed to four-year terms by the Mayor with the advice and consent of the Council of the District of Columbia. According to WCCA's enabling legislation, two public Board members shall be individuals from the hospitality industry and organized labor, and the remaining five members must possess expertise in economic development, construction, tourism, municipal finance, or business finance. The daily management of WCCA is under the direction of a general manager who is appointed by WCCA's Board of Directors.

In September 1998, WCCA issued \$524 million in Senior Lien Dedicated Tax Revenue Bonds to finance the costs of the new convention center. WCCA's first interest payment on the bonds was due and paid in April 1999. Fiscal year 1999 represented the first year in which WCCA had outstanding indebtedness since its creation in fiscal year 1995 as an independent corporate instrumentality of the District government. Beginning fiscal year 2000, WCCA commenced making interest payments of \$13 million, payable on October 1st and April 1st of each year thereafter until the debt is fully retired. Principal payments on the bonds are not due until October 1, 2003. The principal and interest on the bonds are secured by and payable solely from the dedicated tax receipts and all pledged funds established under the Master Trust Agreement¹.

¹ The Master Trust Agreement provides for the deposit of revenues into the revenue account and their subsequent transfer to other funds and accounts e.g. revenue fund; operating and marketing fund and others, as outlined in the agreement.

WCCA receives a portion of certain District sales and use taxes which are referred to as dedicated tax revenues. Presently, the dedicated tax revenues consist of a 4.45 percent sales and use tax on hotel room charges and 1 percent of the District's 10 percent sales and use tax on restaurant meals, alcoholic beverages consumed on premises, and automobile rental charges. According to WCCA's audited financial statements for the year-ended September 30, 1999, WCCA's dedicated tax receipts totaled \$51 million. Dedicated taxes are collected through a lockbox arrangement established by the Office of the Chief Financial Officer's Office of the Treasurer with First Union Bank. The lockbox arrangement, which is governed by a collections agreement, was established for the collection, segregation, and the immediate transfer of dedicated taxes to WCCA. In accordance with the collections agreement, the following four accounts were established under the lockbox arrangement: (1) Transfer Account; (2) District Tax Concentration Account; (3) WCCA Dedicated Taxes Pledged Account; and (4) the Exceptions Account. The District is required to keep the lockbox arrangement in place as long as WCCA has outstanding bonds. Tax receipts deposited into the WCCA Dedicated Account are assigned to, pledged to, and received daily by a trustee bank². The trustee bank then deposits these funds in the WCCA Revenue Account for WCCA's use in accordance with the Master Trust Agreement. The flow of sales and use tax revenues into and out of the lockbox is presented in Appendix I.

WCCA Is Litigating the Return of Approximately \$35 Million In Dedicated Tax Revenues

A citizen's group known as the "Shaw Coalition" has filed lawsuits against the Washington Convention Center Authority and the District of Columbia to force the return of approximately \$35 million in dedicated tax revenue already received by WCCA. The lawsuits allege that WCCA failed to submit a final financial requirements report and a feasibility analysis as required by D.C. Law 10-188, the Washington Convention Center Authority Act of 1994. The lawsuits further allege that the Council of the District of Columbia's approval of two 90-day emergency acts and a temporary act, which extended the deadline for submission of the reports, was invalid. Additionally, the lawsuits allege that the Mayor of the District of Columbia wrongfully collected dedicated taxes after the temporary and emergency legislation had expired. The \$35 million represents a potential liability that WCCA may be required to address at some future date.

² Bank of New York is the trustee bank. It is the depository for the bond proceeds and receives daily deposits of dedicated tax revenues from the WCCA Dedicated Account.

FINDINGS

THE WASHINGTON CONVENTION CENTER AUTHORITY'S FISCAL YEAR 2001 PROJECTED REVENUES APPEAR SUFFICIENT TO COVER PROJECTED OPERATING AND DEBT SERVICE EXPENDITURES, AND RESERVE REQUIREMENTS

Based upon an analysis of WCCA's projected revenues to expenditures, the Auditor has determined that WCCA's projected revenues will be sufficient to cover its expenditures and reserve requirements for fiscal year 2001. The Auditor's analysis of revenue and expenditure projections, which included information provided by both WCCA and the Office of Tax and Revenue, indicates that projected revenues are forecasted to exceed projected expenditures by approximately \$87.2 million in fiscal year 2001.

The Auditor calculated projected fiscal year 2001 revenues of approximately \$134.6 million. This calculation is based upon WCCA's receipt of revenue from three sources: (1) dedicated taxes from sales and use taxes on hotel room charges, restaurant meals, alcoholic beverages consumed on premises, and automobile rental charges; (2) operating revenue derived from events held at the existing convention center; and (3) excess amounts in reserve funds (other than debt service) that exceed the required minimum balance.

WCCA's fiscal year 2001 projected operating expenditures, debt service expenditures, and reserve requirements are estimated to total approximately \$47.4 million. Of the \$47.4 million, approximately \$26 million, or 54.71 percent, represents projected debt service expenditures, and approximately \$21.3 million, or 45 percent, represents projected operating expenditures. The balance of \$136,183, or approximately .29 percent, is attributed to restoring reserves in order to satisfy a 2 percent minimum balance reserve requirement based on project costs of \$756.8 million³ associated with constructing the new convention center.

In accordance with D.C. Law 10-188, as amended, WCCA is required to certify to: (1) a revenue component, which includes any amount in any reserve fund or account which exceeds the

³The \$756.8 million project cost estimate includes the cost of construction for the new convention center and the costs associated with items which are to be funded through outside sources including utility costs of \$10 million, Metro costs of \$30 million, and vendor provided equipment and services which are estimated to total \$24 million.

required minimum balance for such fund or account; and (2) an expenditure component, which includes any amounts necessary to restore reserves related to WCCA's indebtedness to their required minimum balances. In a letter to the Auditor dated June 27, 2000, WCCA certified to a projected reserve fund excess amount of \$70.3 million and \$136,183 to restore reserves related to indebtedness for fiscal year 2001. The Auditor notes that the \$70.3 million and the \$136,183 were used to calculate the sufficiency of the projected revenues. According to WCCA officials, the \$70.3 million excess reserve projection is based on continued growth in dedicated tax revenues. Since the creation of WCCA, dedicated tax revenues have increased on average 7 percent annually. Based upon a review of dedicated tax revenue collections and WCCA's cash flow projections for fiscal years 2000 and 2001, the \$70.3 million excess reserve fund estimate appears reasonable.

Table I presents the sufficiency calculation including WCCA's projected revenues, operating and debt service expenditures, and reserve requirements for fiscal year 2001.

TABLE I
Sufficiency Calculation of WCCA's Projected Revenues to
Projected Expenditures and Reserves Requirements for Fiscal Year 2001
(in millions)

<u>Category</u>	<u>Amount</u>
Revenue	
FY 2001 Dedicated Tax Estimate	\$54.8 ⁴
FY 2001 Operating Revenue	9.5
Excess Reserve Estimate	<u>70.3</u>
Sum of Projected FY 2001 Revenues	\$134.6
Expenditures	
Debt Service	\$26.0
Operating Expenditures	21.3
Reserve Requirements ⁵	-0-
Restoration of Reserves Related to Debt	<u>.136</u>
Sum of Projected FY 2001 Expenditures	\$47.4
Excess of Projected Revenue Over	
Projected Expenditures	<u>\$87.2</u>

Sources: Government of the District of Columbia's FY 2001 Proposed Operating Budget and Financial Plan
Prepared for the Council, dated March 13, 2000, WCCA, and the Office of Tax and Revenue

⁴The dedicated tax estimate of \$54.8 million was included in the District's FY 2001 Proposed Operating Budget and Financial Plan prepared for the Council, dated March 13, 2000.

⁵D.C. Law 12-142 did not define "reserve requirements." In the absence of a definition and for purposes of this sufficiency review, the Auditor interprets "reserve requirements" as the amounts necessary to establish and fund new reserves and to restore existing reserves, excluding reserves related to indebtedness, to their required minimum balances.

As previously noted, the Auditor's sufficiency calculation for fiscal year 2001 indicates an excess of revenues over expenditures of \$87.2 million. According to WCCA's CFO, the projected revenue excess may be used to fund its remaining \$18 million equity contribution balance⁶ and for future indebtedness related to the bonds.

WCCA's Fiscal Year 2001 Reserve Balances Are Forecasted to Exceed the Minimum Balance Requirements by \$70.3 Million

As noted in the District of Columbia Auditor's sufficiency calculation, WCCA's fiscal year 2001 revenues are projected to exceed expenditures by \$87.2 million. The single largest component of the revenue category is the \$70.3 million excess reserve estimate provided by WCCA. According to WCCA's CFO, the excess reserve represents the balance remaining in the Operating and Marketing Reserve Account and the Revenue Stabilization Account after deducting the minimum balance requirements. In accordance with the Master Trust Agreement, WCCA was required to establish certain funds and sub-accounts, referred to as pledged funds, at the time the bonds were issued. The establishment and funding of these various funds and sub-accounts ensures that monies are available for the repayment of bond principal and interest. The Auditor notes that WCCA currently utilizes the following funds and accounts: the Revenue Stabilization Account; Operating and Marketing Reserve Account; Capital Renewal and Replacement Fund; and the Senior Debt Service Account. WCCA is required to maintain minimum balances in the Operating and Marketing Reserve Account, the Capital Renewal and Replacement Fund, and the Revenue Stabilization Account. Several other funds, such as the Rebate Fund and the Redemption Fund, although required to be established, have not yet been activated because they are not presently needed. Appendix II presents the accounts that were established in accordance with the Master Trust Agreement.

The Auditor notes that the balances in all of the accounts presently utilized by WCCA are projected to continue to increase. The increases are based, in part, on the deposit of dedicated tax revenues and the interest earned from the investment of these funds. WCCA estimates that interest income of approximately \$53 million will be earned from balances in these accounts during the

⁶In accordance with the Master Trust Agreement, WCCA agreed to fund a portion of the new convention center's project costs based on the projection of strong dedicated tax revenue collections. A portion of the \$87.2 million excess of projected revenue over projected expenditures may be earmarked as WCCA's equity contribution.

construction period. The interest income will be a source of funds used to finance the cost of constructing the new convention center.

TIME PERIOD PRESCRIBED UNDER D.C. LAW 10-188, AS AMENDED, DOES NOT ALLOW THE DISTRICT OF COLUMBIA AUDITOR SUFFICIENT TIME TO ADEQUATELY REVIEW REVENUE PROJECTIONS

Pursuant to Section 305(b) of D.C. Law 10-188, as amended, the Office of the District of Columbia Auditor is required to issue its certification of the sufficiency of WCCA revenues for the upcoming fiscal year on or before July 15th of each year in which there is outstanding indebtedness. The law requires the Auditor to prepare and deliver a certification, on or before July 15th of each year, to the Mayor, the Council of the District of Columbia, the Chief Financial Officer, and the Chairman of the Washington Convention Center Authority. Section 305(b) of D.C. Law 10-188, as amended, states that:

On or before July 15 of each year in which there is outstanding any indebtedness issued by the Authority pursuant to this chapter, the District of Columbia Auditor shall prepare and deliver to the Mayor, the Council, the Chief Financial Officer of the District of Columbia, and the Chairman of the Authority a certification relating to the upcoming fiscal year of the District as to the sufficiency of the sum of the projected revenues ...

(1) The taxes imposed pursuant to [D.C. Code, Sections] 47-2002.2 and 47-2202.1... as such tax revenues are estimated by the Office of Tax and Revenue for such upcoming fiscal year, which estimates shall be delivered by the Office of Tax and Revenue to the Authority on or prior to July 1 of such year...

As noted above, the Office of Tax and Revenue is required to submit its estimate of dedicated tax revenue to WCCA on or before July 1st. The submission of the dedicated tax revenue estimate by OTR is a critical component of the Auditor's sufficiency calculation. Because the dedicated tax estimate can be submitted as late as July 1st, this only allows the Office of the District of Columbia Auditor 14 days (including weekends) within which to complete its analysis. The Auditor needs a minimum of 30 days to complete the sufficiency review. This period would permit adequate time for the Auditor to receive the dedicated tax revenue forecast, conduct an analysis, and issue a certification regarding the sufficiency of revenues to cover projected operating and debt service expenditures and reserve requirements related to indebtedness. Further, OTR's submission of the estimate on June 1st would coincide with the Council's budget review and approval process and could be completed before the Council's recess.

RECOMMENDATION

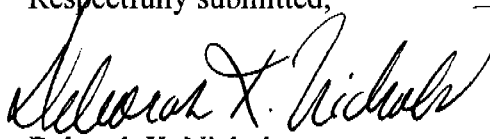
The Council of the District of Columbia consider amending D.C. Law 10-188 to require the Office of Tax and Revenue to deliver its revenue estimate of dedicated taxes to WCCA by June 1st of each year to coincide with the submission of the District's budget to Congress. This would permit sufficient time for the Office of the District of Columbia Auditor to conduct its review and certify the sufficiency of WCCA's revenues to cover operating and debt service expenditures and reserve requirements.

CONCLUSION AND CERTIFICATION

Based upon the Auditor's analysis of information provided by the Washington Convention Center Authority and the District's Office of Tax and Revenue, WCCA's total projected revenues of \$134.6 million for fiscal year 2001 appear sufficient to cover its projected operating and debt service expenditures, reserve requirements, and to restore reserves related to indebtedness to their required minimum balance.

As a result of WCCA officials using the total project cost of \$756.8 million for the construction of the new convention center, WCCA must increase its Capital Renewal and Replacement Fund by \$136,183 during fiscal year 2001. The \$136,183 increase in the Capital Renewal and Replacement Fund in addition to debt service and operating expenditures are projected to total \$47.4 million for fiscal year 2001. According to the Auditor's calculation, WCCA's fiscal year 2001 estimated revenues are expected to exceed its projected operating and debt service expenditures and reserve requirements by \$87.2 million. Therefore, the District of Columbia Auditor hereby *certifies* that WCCA's projected revenues should be sufficient to meet projected expenditures and reserve requirements for fiscal year 2001.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols
District of Columbia Auditor

APPENDICES

APPENDIX I

Flow of District Sales and Use Taxes Into and Out of the Lockbox

- District Sales & Use Taxes Collected
Funds go to First Union Bank (Lockbox Agent)
First Union calculates the appropriate tax percentages
and segregates the money
- Funds flow into the Transfer Account
Funds flow to the District Tax Concentration Account and/or
to the WCCA Dedicated Tax Pledged Account
- Funds that are not matched flow in the Exceptions Account
Reconciliation is performed by OTR and First Union Bank
Funds Flow to the WCCA Dedicated Tax Pledged Account and/or
the District Tax Concentration Account
- Funds flow from WCCA Pledged Account into the Trustee Account at
Bank of New York where they are deposited into the Revenue Account

APPENDIX II

Funds and Accounts Established in Accordance with the Master Trust Agreement: Projected Balances at September 30, 2001

Name of Fund	Description/Fill-up Mechanics	Projected Balance at September 30, 2001	Maximum Balance Permitted Per Council Resolution	Minimum Balance Required Before Surtax Triggered
Revenue Fund				
a. Revenue Account	Dedicated Taxes due to WCCA are deposited by the Trustee into the Revenue Account from the WCCA pledged account within two days of receipt.	\$38,197	N/A	N/A
b. Revenue Stabilization Account	The revenue stabilization account is used to offset the seasonal fluctuation in revenues. WCCA may transfer funds to and from this account to the Revenue Fund, if all other funds are funded at their required levels.	\$48,594,303	3 times the annual operating and marketing budgets combined with the Operating and Marketing Reserve Account balance.	\$10,000,000
Senior Debt Service Fund				
a. Senior Debt Service Account	Used to pay principal and interest payments. Amounts transferred to this fund equal the annual debt service due on the bonds in that year.	\$13,571,664 (deposited each Oct. and April)	No maximum limit stated. Funds are transferred out of this account semi-annually.	Depending on the year, between \$26,000,000-\$36,200,000.
b. Senior Debt Service Reserve Account	Used to pay principal and interest payments. The Debt Service Reserve Account may be satisfied by the purchase of a credit facility (Surety Bond). WCCA purchased a Surety Bond at the time of issuance to cover this requirement.	\$0	No maximum limit stated.	\$52,446,000 = 10% of 1998 Bonds outstanding. (Satisfied by the purchase of a Surety Bond)
c. Senior Subordinated Debt Service Account	No senior subordinated debt has been issued.	N/A	N/A	N/A
d. Senior Subordinated Debt Service Reserve Account	No senior subordinated debt has been issued.	N/A	N/A	N/A

Junior Subordinated Debt Service Fund a. Junior Subordinated Debt Service	No junior subordinated debt has been issued.	N/A	N/A	N/A
b. Junior Subordinated Debt Service Reserve Account	No junior subordinated debt has been issued.	N/A	N/A	N/A
Rebate Fund	Amount on deposit in the Rebate Fund is used to make payments to the U.S. Treasury in the event that a rebate becomes due on the 1998 bonds. Rebate payments are due every five years.	\$0	N/A	WCCA is required to maintain an amount equal to the rebate liability in the then current fiscal year. First payment due in 2003.
Operating and Marketing Fund a. Operating and Marketing Reserve Account	A reserve to pay marketing expenses under marketing services contracts and to pay WCCA's annual operating deficit.	\$51,709,247	3 times the annual operating and marketing expense budgets combined with the Revenue Stabilization Account Balance.	\$20,000,000
b. Operating Account	Used to pay operating deficit of the existing convention center. Cash is transferred out monthly.	N/A	N/A	N/A
c. Marketing Account	Used to pay monthly marketing contracts. Cash is transferred out monthly.	N/A	N/A	N/A
Capital Renewal and Replacement Fund	Cash accumulated to pay the cost of capital improvements or additions for the new convention center as required.	\$15,136,183	\$37,000,000 or 5% of costs of project.	\$15,000,000 or 2% of costs of project.
Redemption Fund	Cash accumulated in the Redemption Fund is for purchase, defeasance, or redemption of outstanding bonds before or at maturity.	\$0	Filled only when all other accounts are full during each semi-annual period.	Follows flow of funds priority each year.

Source: WCCA's CFO