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Certification Review of the Sufficiency of the Washington Convention Center Authority's Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2002

July 24, 2001



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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 and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2002

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

Pursuant to Section 305(a) of D.C. Law 10-188, as amended, entitled the "Washington Convention Center Authority Act of 1994," the District of Columbia Auditor must prepare and deliver to the Mayor, Council, Chief Financial Officer of the District of Columbia, and Chairman of the Washington Convention Center Authority (WCCA) a certification of the sufficiency of WCCA's projected revenues and excess reserve of \$155.9 million for the upcoming fiscal year to meet its projected expenditures and reserve requirements of \$81.9 million. This certification review sets forth the Auditor's determination of the sufficiency of WCCA's projected revenues and excess reserve for fiscal year 2002 from the following sources:

- ◆ taxes imposed pursuant to D.C. Code, Sections 47-2002.2 and 47-2202.1, which are estimated by the Office of Tax and Revenue (OTR) and transferred to WCCA by the Mayor;
- ◆ WCCA's projected operating revenues; and
- ◆ amounts in any reserve fund or account (other than any debt service reserve fund or account for indebtedness) which exceed the required minimum balance for such fund or account, as certified by WCCA.

By facsimile dated June 13, 2001, OTR provided to WCCA a revised fiscal year 2002 dedicated tax revenue estimate of \$65,340,000. Additionally, by letter dated July 11, 2001, WCCA's Chief Financial Officer (CFO) certified "the projected reserve fund excess of the required minimum balance for September 30, 2002, to be \$81,650,404." The \$81,650,404 consists of a \$68.2 million excess reserve estimate to be achieved by September 30, 2001, and an additional \$13.4 million which is estimated to be contributed in fiscal year 2002.

Based upon a comparative analysis of WCCA's projected revenues and excess reserve, the Auditor has determined that WCCA's projected revenues and excess reserve should be sufficient to cover its expenditures and reserve requirements for fiscal year 2002. The Auditor's analysis of WCCA's projected revenues and excess reserve indicated they are projected to exceed expenditures by approximately \$74 million in fiscal year 2002. Therefore, the District of Columbia Auditor hereby *certifies* that WCCA's projected fiscal year 2002 total revenues and reserve balances of \$155.9 million should be sufficient to meet projected expenditures and reserve requirements of \$81.9 million for fiscal year 2002.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether projected dedicated tax revenues, operating revenue, and the excess reserve will be sufficient to meet WCCA's projected operating and debt service expenditures and reserve requirements for fiscal year 2002.

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.

The Auditor met with WCCA's Chief Financial Officer (CFO) regarding operating revenues, excess reserve amounts, and expenditure projections for fiscal year 2002. The Auditor also met with officials in the District's OTR concerning the fiscal year 2002 dedicated tax revenue estimate. The Auditor reviewed WCCA's audited financial statements for the fiscal years ending September 30, 1998, 1999, and 2000, as well as background information contained in a consultant's report on dedicated taxes, to determine the reasonableness of the projected dedicated tax revenues to be received by WCCA in fiscal year 2002.

In determining WCCA's projected operating and debt service expenditures and reserve requirements for fiscal year 2002, the Auditor relied upon financial information prepared by WCCA's Chief Financial Officer. In determining the sufficiency of WCCA's revenues for fiscal year 2002, the Auditor relied upon dedicated tax information provided by OTR.

BACKGROUND

The Washington Convention Center Authority Act of 1994 (the Act), D.C. Law 10-188, effective September 28, 1994, as amended, 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 act, 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.

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.

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 the Trustee for WCCA. In accordance with the collections agreement, the following four accounts were established under the lockbox arrangement: (1) Transfer Account; (2) Exceptions Account; (3) WCCA Dedicated Account; and (4) the District Account. The District is required to keep the lockbox arrangement in place for 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 bank.¹ The trustee bank then deposits these funds in the WCCA Revenue Account for WCCA's use in accordance with the Master Trust Agreement.² The flow of dedicated taxes collected through the lockbox to other funds and accounts established by the Master Trust Agreement is presented in Appendix I.

Status of Litigation Between Shaw Coalition (Jenkins) v. WCCA

At the time of the D.C. Auditor's last sufficiency report dated July 14, 2000, a citizen's group known as the "Shaw Coalition" had filed lawsuits against the Washington Convention Center Authority and the District of Columbia government to force the return of a portion of dedicated tax revenue already received by WCCA.

According to WCCA's General Counsel, the lawsuits have since been dismissed in the Federal District Court and the Superior Court. Further, the General Counsel indicated that the United States Court of Appeals for the District of Columbia Circuit and the District of Columbia Court of Appeals have ruled "in-favor of WCCA." The Auditor notes that, with the dismissal of the lawsuits, it appears that the potential return of approximately \$35 million in dedicated tax revenues has been extinguished.

¹ 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.

² The Master Trust Agreement provides for the deposit of dedicated tax revenue into the revenue fund and their subsequent transfer to other funds and accounts including the revenue stabilization account, operating and marketing fund, and others as outlined in the agreement.

Roof Collapse at the New Convention Center

On April 17, 2001, there was a partial collapse of the roof under construction at the new convention center. According to engineering reports provided to the Auditor, a steel beam (roof truss) was erected out of sequence and was not properly braced. As a result, the steel beam collapsed during a windstorm that occurred on April 17, 2001. The collapse of the first steel beam created a domino effect which caused other steel beams to collapse within the immediate area.

The Auditor did not conduct an in-depth review of the roof collapse, however, this matter was discussed with WCCA's Managing Director of Development, General Counsel, CFO, and others to obtain an understanding of this event, and to discuss its fiscal impact on projected expenditures in the upcoming fiscal year. According to WCCA officials, it appears likely that the expenses associated with the partial roof collapse will be covered by WCCA's Wrap-Up Insurance Program which includes the builder's risk policy.³ Further, WCCA officials indicated that "to the extent some costs are not covered by the carrier [builder's insurance policy], these costs will be charged to either the steel subcontractor or Clark/Smoot's contingency." WCCA officials further asserted that:

- ◆ WCCA's total out-of-pocket expenses associated with this event are \$10,000 to cover an insurance deductible;
- ◆ WCCA has received an advance of approximately \$500,000 from its insurer to establish an account to cover the initial costs associated with clean-up and repair;
- ◆ WCCA estimates that it will cost \$6 to \$8 million to fully correct the roof collapse; and
- ◆ WCCA has directed its construction manager to "work around the incident and to develop a recovery plan." According to WCCA officials, the roof collapse is expected to have little impact on the Contractor meeting the March 31, 2003 construction completion date.

³WCCA maintains insurance coverage under a master policy "Wrap-Up Program" for all of the contracting parties including the construction manager and all subcontractors. As holder of the policy, the insurance deductible of \$10,000 is to be paid by WCCA.

FINDINGS

THE WASHINGTON CONVENTION CENTER AUTHORITY'S FISCAL YEAR 2002 PROJECTED REVENUES APPEAR SUFFICIENT TO COVER PROJECTED OPERATING AND DEBT SERVICE EXPENDITURES AND RESERVE REQUIREMENTS

WCCA's fiscal year 2002 projected revenues from dedicated taxes, operating revenue, and excess amounts in reserve funds are estimated to total approximately \$155.9 million. WCCA's fiscal year 2002 projected operating expenditures, debt service expenditures, and reserve requirements are estimated to total approximately \$81.9 million. Based upon an analysis of revenue and expenditure projections, which included a review of information from both WCCA and the Office of Tax and Revenue, WCCA's revenues appear sufficient to cover projected operating and debt service expenditures and reserve requirements. In fact, WCCA's fiscal year 2002 revenues and excess reserve are projected to exceed expenditures by approximately \$74 million. The use of the \$74 million projected revenue and excess reserve is restricted in accordance with the terms of the Master Trust Agreement.⁴

Table 1 presents the sufficiency calculation of WCCA's projected revenues and excess reserve to projected operating and debt service expenditures and reserve requirements for fiscal year 2002.

⁴ In accordance with the provisions of the Master Trust Agreement, the dedicated tax receipts and all moneys and investment obligations are pledged as security for the bonds.

TABLE I
Sufficiency Calculation of WCCA's Projected Revenues and Excess Reserve to
Projected Expenditures and Reserve Requirements for Fiscal Year 2002
(in millions)

<u>Category</u>	<u>Amount</u>
Revenues	
FY 2002 Dedicated Tax Estimate	\$65.3
FY 2002 Operating Revenue Estimate	<u>9.0</u>
Subtotal Revenues	\$74.3
Reserve	
Excess Reserve Estimate	<u>81.6*</u>
Sum of Projected FY 2002 Revenues	
and Excess Reserve Estimate	\$155.9
Expenditures	
Debt Service	\$26.0
Operating Expenditures	24.5
Marketing Agencies	8.0
Equity Contribution	10.0
Reserve Requirements ⁵	-0-
Restoration of Reserves Related to Debt	<u>-0-</u>
Sum of Projected FY 2002 Expenditures	\$68.5
Estimated FY 2002 Increase in Excess Reserve	<u>13.4**</u>
Sum of Projected FY 2002 Expenditures and	
Increase in Excess Reserve	<u>\$81.9</u>
Projected Revenue and Excess Reserve	
Estimate Over Projected Expenditures	<u>\$74.0</u>

Sources: WCCA's FY 2002 Budget Submission and Supporting Documentation dated February 6, 2001, OTR's fiscal year 2002 revised dedicated tax revenue estimate.

*WCCA's excess reserve estimate reflects amounts deposited in excess of the respective minimum reserve balances. See Appendix II for the sources and uses of the reserve funds after the debt service requirements have been satisfied.

** The \$13.4 million, if realized, will be used to increase the excess reserve estimate from \$68.2 million in fiscal year 2001 to the projected \$81.6 million in fiscal year 2002. In Table I, this amount is deducted as it is already included in the dedicated tax revenue estimate of \$65.3 million.

⁵ D.C. Law 10-188, as amended, 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.

WCCA's Operating Revenue Projected to Decrease Slightly in Fiscal Year 2002

WCCA has projected a \$500,000, or approximately 5.27%, decrease in its operating revenue to \$9 million in fiscal year 2002 from \$9.5 million in fiscal year 2001. The decline, according to WCCA officials, is largely attributed to a reduction in event bookings at the existing convention center in anticipation of the completion of the new convention center. Over the last three fiscal years, the number of events held at the existing convention center have steadily declined due, in part, to the anticipated opening of the new convention center.

Table II presents WCCA's operating revenue and the number of events held at the convention center during fiscal years 2000 and 2001, through June 30, 2001, and the projected events for fiscal year 2002.

TABLE II
WCCA's Operating Revenue and Events
Fiscal Years 1999 through 2002 Projected

Fiscal Year	Events Projected	Actual Number of Events	Operating Revenue	Increase/ (Decrease) Over Prior Fiscal Year
2000	52	116	\$10,075,000	
2001 Projected	73	97*	\$9,500,000	(\$575,000)
2002 Projected	44		\$9,000,000	(\$500,000)

Source: WCCA's FY 2002 Budget Submission and Supporting Documentation

* WCCA hosted 97 events and collected \$8.4 million in operating revenues through the 3rd quarter of fiscal year 2001.

In fiscal year 2000, WCCA hosted 116 events, which included 64, or 123%, more events than projected. This was attributed to a 40% increase in the number of national events held at the Convention Center during fiscal year 2000.

Through the third quarter of fiscal year 2001, WCCA hosted 97 events and collected approximately \$8.4 million in operating revenue. The \$8.4 million represents approximately 89% of the \$9.5 million fiscal year 2001 projected operating revenue estimate.

In fiscal year 2002, the transition year between close-out of the existing convention center and the opening of the new convention center, WCCA projects it will hold 44 events and generate approximately \$9 million in operating revenue. To offset the expected decline in events, WCCA officials indicated that they plan to increase their efforts to recruit and book single and multi-day

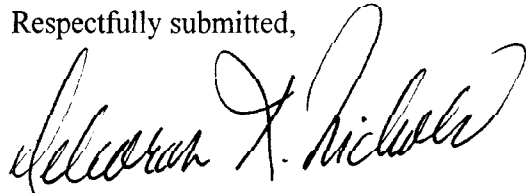
local events. WCCA officials expect this effort, as well as other efforts, to enable them to meet their fiscal year 2002 operating revenue estimate. Should WCCA officials be unable to generate the fiscal year 2002 operating revenue estimate of \$9 million, a transfer could be made from the operating and marketing reserve account pursuant to the Master Trust Agreement to cover the shortfall.

CONCLUSION AND CERTIFICATION

Based upon the Auditor's analysis of information provided by WCCA and OTR, WCCA's total projected revenues and estimated excess reserve estimate of \$155.9 million for fiscal year 2002 appear sufficient to cover its projected operating and debt service expenditures and reserve requirements totaling \$81.9 million.

According to the Auditor's calculation, WCCA's fiscal year 2002 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$74 million. Therefore, the District of Columbia Auditor hereby *certifies* that WCCA's projected revenues and excess reserve should be sufficient to meet projected expenditures and reserve requirements for fiscal year 2002.

Respectfully submitted,

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

Deborah K. Nichols

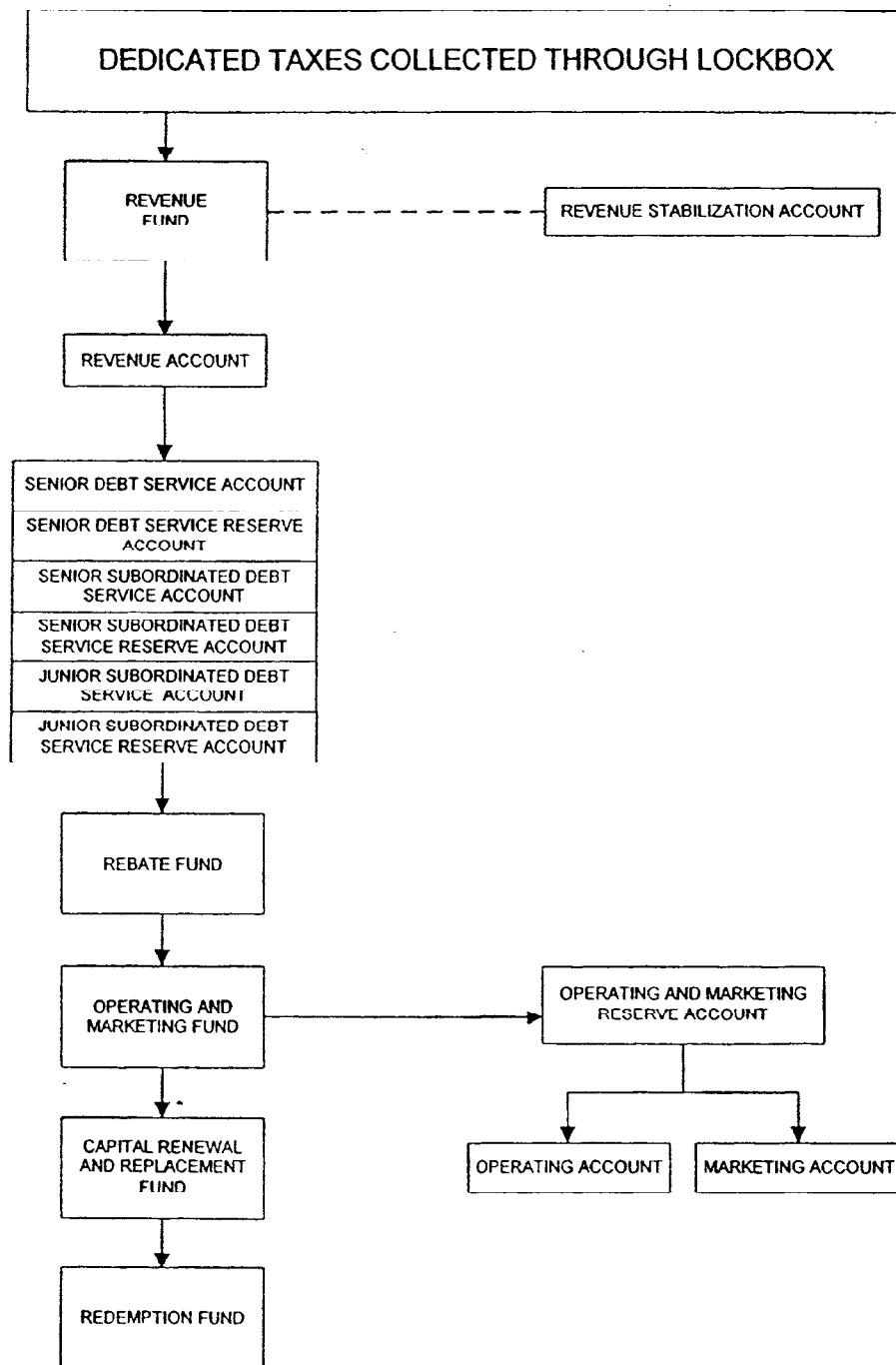
District of Columbia Auditor

APPENDICES

Flow of Funds

The Master Trust Agreement provides for Revenues deposited into the Revenue Account from the Lockbox Account to be transferred to other Funds and Accounts as set forth in the chart and described in the text below.

FLOW OF FUNDS
From Lockbox to Other Funds and Accounts



Source: WCCA's official statement dated September 1, 1998

APPENDIX II

Funds and Accounts Established in Accordance with the Master Trust Agreement: Projected Balances at September 30, 2002

Name of Fund	Description/Fill-up Mechanics	Projected Balance at September 30, 2002	Maximum Balance Permitted Per Council Resolution	Minimum Balance Required Before Surtax Triggered
Revenue Fund a. Revenue Account	Dedicated taxes due WCCA are deposited by the Trustee into the Revenue Account from the WCCA pledged account within two days of receipt.	\$190,429.77	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.	\$63,597,155.01	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.	\$14,045,667.52	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

Name of Fund	Description/Fill-up Mechanics	Projected Balance at September 30, 2002	Maximum Balance Permitted Per Council Resolution	Minimum Balance Required Before Surtax Triggered
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.	\$48,033,248.99	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.	\$16,316,357.22	\$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.	\$5,800,000.00	Filled only when all other accounts are full during each semi-annual period.	Follows flow of funds priority each year.

Source: WCCA's CFO