
Sufficiency Certification for the Washington Convention and Sports Authority (Trading as Events DC) Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2021

September 28, 2020

A report by the Office of the District of Columbia Auditor



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September 28, 2020

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W., Suite 504
Washington, DC 20004

Letter Report: Sufficiency Certification for the Washington Convention and Sports Authority (Trading as Events DC) Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2021

Dear Chairman Mendelson:

What follows is the Office of the District of Columbia Auditor report, entitled “Sufficiency Certification for the Washington Convention and Sports Authority (Trading as Events DC) Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2021.” Pursuant to D.C. Code § 10-1203.05(b), the District of Columbia Auditor is required to prepare and deliver to the Mayor, Council of the District of Columbia, Chief Financial Officer of the District of Columbia, and the Chairman of the Washington Convention and Sports Authority (WCSA) a certification of the sufficiency of WCSA’s projected revenues and excess reserve to meet its projected expenditures and reserve requirements for the upcoming fiscal year (FY).

This certification letter report explains the Auditor’s determination that the WCSA’s FY 2021 projected revenues and excess reserves are sufficient to meet the requirements of the upcoming fiscal year.

Objective, Scope and Methodology

The objective of this analysis was to determine whether WCSA’s projected dedicated tax revenue, operating revenues, and excess reserves will be sufficient to meet its projected operating and debt service expenditures and reserve funding requirements for FY 2021.

The scope of this analysis included WCSA’s financial records and data for FYs 2017 through 2019 and FY 2020, as of March 31, 2020. Our analysis also included a review of WCSA’s FY 2021 projected revenues, expenditures and reserves.

To accomplish our objective, we conducted a detailed review of WCSA’s FY 2021 projected and historical operating revenues and expenses for the Convention and Meetings and Sports and Entertainment Divisions. This review included an analysis of financial information included in WCSA’s audited financial

statements for FY 2017 through FY 2019, WCSA's FY 2020 internal financial reports (variance reports) as of March 31, 2020, and WCSA's FY 2020 and FY 2021 budgets revised as of May 1, 2020, as approved by the WCSA Board of Directors. We also analyzed trends in events booked at WCSA, and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's projected FY 2021 non-operating revenues, non-operating expenses, and excess reserves.

In compliance with the D.C. Code § 10-1203.05(b)¹ the Auditor conducted a sufficiency review to determine if WCSA's FY 2021 projected revenues and excess reserves were sufficient to meet WCSA's projected expenditures and reserve requirements. This sufficiency review was not conducted as an audit.

By statute,² ODCA's Sufficiency Review is due by July 15 of each year. Because of the impact of the COVID-19 pandemic on the District's economy and WCSA's scheduled events for FY 2020 and FY 2021, WCSA developed a revised financial plan for the remainder of FY 2020 and FY 2021 using an updated revenue estimate provided by the Office of the Chief Financial Officer (OCFO) on April 24, 2020. The OCFO's April estimates reflect the unprecedented shutdown of the District and national economies to combat the COVID-19 virus. The revised FY 2020 budget assumes that no events would take place during the second half of FY 2020. The revised FY 2021 budget assumed that no events will take place for the first quarter of FY 2021 and only some scheduled events would take place for the remaining three quarters, or nine months, of FY 2021.

To complete the FY 2021 Sufficiency Certification, ODCA used WCSA's revised FY 2020 and FY 2021 budgets as of May 1, 2020. Therefore, it was anticipated that this year's ODCA sufficiency review would be delayed and ODCA so notified WCSA on April 3, 2020, and the D.C. Council on May 1, 2020³.

¹ D.C. Code § 10-1203.05(b) states: "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 from the following: (1) The taxes imposed pursuant to §§ 47-2002.02 and 47-2202.01 and transferred to the Authority by the Mayor pursuant to §§ 47-2002.03 and 47-2202.02, 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, excluding from such estimate any amounts relating to any surtax imposed pursuant to subsection (c) of this section; (2) The projected operating revenues of the Authority for such upcoming fiscal year contained in the most recent multiyear financial plan of the Board submitted pursuant to § 10-1202.06(g); and (3) Any amounts on deposit in any reserve fund or account (other than any debt service reserve fund or account for indebtedness of the Authority), which are in excess of the required minimum balance for such fund or account, as certified by the Authority, to meet the sum of (i) projected operating and debt service expenditures and reserve requirements (other than amounts included in clause (ii) below) of the Authority for the upcoming fiscal year contained in the most recent multiyear financial plan of the Board submitted pursuant to § 10-1202.06(g), and (ii) any amounts required, as certified by the Authority, to restore any reserves relating to indebtedness of the Authority to their required minimum balance.

² D.C. Code § 10-1203.5(b)

³ The D.C. Auditor notified the Chairman of the Council on May 1, 2020, that she would not complete the certification for FY 2021 by the mandated due date. "According to WCSA's CFO, the Office of the Chief Financial Officer (OCFO) will issue an updated quarterly revenue estimate at the end of April 2020 that will incorporate the financial impacts of COVID-19, and WCSA will develop a revised financial plan for the remainder of FY2020 and FY 2021 using that estimate. WCSA confirmed there will be delays in providing ODCA with documents needed for our sufficiency certification, but informed ODCA, after consulting with Bond Council, that a delayed sufficiency certification will not have a negative impact."

Throughout this sufficiency review, ODCA evaluated and discussed in detail with WCSA personnel the impact of COVID-19 on WCSA's operations. Because of COVID-19, WCSA closed its event sites and canceled scheduled events for the second half of FY 2020 and the first quarter of FY 2021. ODCA's FY 2021 sufficiency certification assumes that WCSA would be operating for three quarters (nine months) of FY 2021. As of August 13, 2020, however, it was still unknown whether WCSA events scheduled for the second quarter of FY 2021 and beyond would take place or whether there would be further cancellations. It is clear, though, that COVID-19 has had a substantial impact on WCSA's revenues. It is anticipated that COVID-19 will continue to have a substantial impact on WCSA's revenues in FY 2021, although the exact extent of that financial impact remains unknown.

ODCA nevertheless took the steps to complete this sufficiency review and certifies that WCSA's total projected revenues and excess reserve estimate for FY 2021 are sufficient to cover its projected expenditures. Given that dedicated taxes represent approximately 63% of total WCSA revenue, it is reasonable to anticipate that WCSA will meet its revenue projections for FY 2021. According to the OCFO's April 24, 2020, revenue estimate, \$63.14 million in dedicated tax revenue was projected for FY 2020. As of March 31, 2020, WCSA received 78.16% of the dedicated tax estimate, or \$49.35 million in dedicated tax revenue. As of June 30, 2020, WCSA's receipt of dedicated tax revenue continued to increase to 93.94% of the dedicated tax estimate, or \$59.31 million in dedicated tax revenue. WCSA's dedicated tax revenue likely will meet or exceed the OCFO's FY 2020 projections. If the receipts of dedicated tax revenue continue in this manner during the pandemic in FY 2021, it is reasonable to anticipate that WCSA will meet its dedicated taxes estimate for FY 2021.

In an interview with ODCA on August 6, 2020, Chief Financial Officer Jeffrey S. DeWitt said the April forecast was "still a reasonable estimate with regard to the Convention Center" and that "data for any changes that would need to be made for the overall District revenue picture won't be known until September" when District property taxes are due. He said the Convention Center revenues had been running slightly ahead of the April forecast though clearly not where they have been historically. "Revenues for hospitality, particularly hotels, are a bit better than we forecast in April."

Therefore, although the full economic impact of COVID-19 on the District and WCSA is difficult to anticipate and revenue and expense figures may change as FY 2020 closes and throughout FY 2021, WCSA has been taking COVID-19 into account when revising its budget, making its event plans, and conducting its operations such that its projected revenue and excess reserve estimates seem reasonable even in light of COVID-19.

To conduct the sufficiency review, the Auditor relied on representations and other financial information provided by WCSA officials and dedicated tax revenue information provided by the OCFO to determine the reliability and sufficiency of WCSA's projected revenues for FY 2021.

The Auditor notes that revenue, reserve, and expense estimates are based on information that can change rapidly, especially in the context of COVID-19, resulting in revisions to estimates after the Auditor's certification. Consequently, the Auditor does not guarantee the validity of revenue, reserve, and expense estimates.

The Auditor here certifies that the revenue estimate, expense estimate, and excess reserve estimate at the time of certification, as presented in Figure 5, appeared sufficiently supported and achievable by WCSA. Additionally, the validity and accuracy of the Auditor's sufficiency analysis and calculations are

predicated upon the extent to which WCSA officials fully disclosed and provided the Auditor with reliable and accurate information regarding WCSA's operating and non-operating revenue, operating and capital improvement expenses, debt service and marketing contract costs, and other expenses relevant to the Auditor's sufficiency certification, and OCFO officials provided sound estimates of dedicated tax revenues for the upcoming fiscal year.

This report was drafted, reviewed, and approved in accordance with the standards outlined in ODCA's Audit Policies and Procedures.

Overview of the Components of the Sufficiency Review

WCSA's sufficiency calculation consists of WCSA's projected revenues, expenditures and excess reserves. An overview of each area reviewed is documented below.

Revenue

Operating Revenue

WCSA has two Divisions that generate operating revenue: The Conventions and Meetings Division, which includes the Walter E. Washington Convention Center and Carnegie Library, and the Sports and Entertainment Division, which includes RFK Stadium, The Fields at RFK Campus, Festival Grounds at RFK Campus, Skate Park at RFK Campus, DC Armory, Nationals Park, Gateway DC, Entertainment and Sports Arena, and R.I.S.E Demonstration Center. WCSA's operating revenues include revenue generated from conventions and meetings, sports events, entertainment events, advertising and sponsorships, and office and retail space rentals. WCSA's FY 2021 operating revenue estimate is \$21.79 million and accounts for 15% of the total FY 2021 projected revenue. Figure 1 presents WCSA's FY 2021 projected operating revenues per WCSA's FY 2021 budget.

Figure 1: WCSA's FY 2021 Projected Operating Revenues

Revenue Category	FY 2021 Projected Operating Revenue
Convention & Meetings Division	\$17,290,807
Sports and Entertainment Division	\$4,503,845
Total Operating Revenue	\$21,794,652

Non-Operating Revenue

WCSA receives non-operating revenue from dedicated taxes, interest income, Tax Increment Financing (TIF), an IRS subsidy, lease income, a District transfer for Destination DC, and Ball Park Maintenance Fees. According to WCSA, FY 2021 is the first year that the Ball Park Maintenance fees and capital expenditures were included in WCSA's budget. The District allocates \$1.5 million annually to WCSA toward the cost of maintaining the stadium.

WCSA is projected to receive 62.72% of its FY 2021 projected revenue from dedicated taxes received from the District. WCSA receives 4.45% of the gross receipts from hotel room payments, and 1% of the

gross receipts from payments for restaurant meals, alcoholic beverages consumed on the premises, and automobile rental or leasing charges.⁴ The OCFO provides the dedicated tax revenue projection to WCSA. According to the OCFO's quarterly revenue estimate, as of April 24, 2020⁵ the FY 2021 dedicated tax revenue estimate from these sources is \$93.15 million, which includes an annual transfer from the District for Destination DC,⁶ a private non-profit that provides marketing services for the District. The transfer amount for Destination DC for FY 2021 is projected to be \$3.7 million. WCSA receives TIF revenues, lease payments, and an IRS subsidy as a result of the Marriott Marquis hotel financing. TIF revenues are collected from a portion of the sales and use taxes and property taxes generated by the hotel.

To finance the hotel project, WCSA issued Build America Bonds and Recovery Zone Economic Development Bonds. These taxable bonds provide an IRS subsidy through a refundable tax credit on the total coupon interest payable to investors. The Build America Bonds have a refundable tax credit equal to 35% and the Recovery Zone Economic Development Bonds have a refundable tax credit equal to 45%. During FY 2021, the projected non-operating revenue from TIF revenues, IRS subsidy and the District ground lease for the hotel are projected to total \$22.65 million. Figure 2 presents WCSA's FY 2021 projected non-operating revenues according to WCSA's FY 2021 budget.

Figure 2: WCSA's FY 2021 Projected Non-Operating Revenues

Revenue Category	FY 2021 Projected Non-Operating Revenue
Dedicated Taxes	\$89,444,000
Interest Income	\$3,711,518
TIF Revenue – Hotel	\$16,000,000
District Ground Lease Payment (Hotel)	\$4,212,863
IRS Subsidy – Hotel bonds	\$2,432,990
District Transfer to DDC Marketing	\$3,701,000
Ballpark Maintenance Fee	\$1,500,000
Total Non-Operating Revenue	\$120,812,796

Expenses

Operating Expenses

WCSA's operating expenses include staff salaries, professional/contractual services, utility costs, subsidies and transfers, and the cost of equipment and supplies. As provided in Figure 3, WCSA's FY 2021 operating expense projection is approximately \$69.76 million.

⁴ See D.C. Code §§ 47-2002.02 and 47-2002.03.

⁵ The OCFO quarterly estimate, provided on April 24, 2020, was used by WCSA to formulate the FY 2021 approved budget.

⁶ Destination DC is designated as the WCSA's primary contractor to: (i) market and sell meetings and conventions for the Walter E. Washington Convention Center and District hotels; (ii) market and promote the District as a destination; and, (iii) increase revenue to the District and WCSA by maximizing sales of hotel rooms and restaurant meals.

Figure 3: WCSA's FY 2021 Projected Operating Expenses

Expense Category	FY 2021 Projected Operating Expenses
Convention & Meetings Division	\$54,671,504
Sports and Entertainment Division	\$15,088,744
Total Operating Expenses	\$69,760,248

Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism, debt service payments and possessory interest tax.⁷ As provided in Figure 4, WCSA's FY 2021 non-operating expense projection is \$64.51 million.

Figure 4: WCSA's FY 2021 Projected Non-Operating Expenses

Expense Category	FY 2021 Projected Non-Operating Expenses
Marketing Fund	\$10,643,836
Debt Service	\$49,799,251
Transfer to DDC Marketing	\$3,701,000
Possessory Interest Tax	\$366,660
Total Non-Operating Expenses	\$64,510,747

Excess Reserves

The Amended and Restated Master Trust Agreement requires WCSA to establish and maintain certain funds and sub-accounts, in connection with WCSA's issuance of bonds. The establishment and funding of the various required funds and sub-accounts ensures that WCSA will have funds available for the repayment of bond principal and interest. Balances remaining in the various required funds and sub-accounts, after deducting the minimum balance requirements, represent WCSA's excess reserve. WCSA has the authority to use its excess reserve to cover projected operating and debt services expenditures and reserve requirements.

During this year's sufficiency review, we received bank statements for 12 operating accounts that ODCA had not requested in previous years. The March 31, 2020, balances for these 12 accounts totaled \$17,969,818.55. ODCA determined that the operating accounts would be included in the sufficiency calculation. Based on supporting documentation provided by WCSA, we determined that four of the accounts totaling \$7,704,233.14 were restricted. The remaining eight accounts totaling \$10,265,585.41 were not restricted and that amount was included in our calculation of the total excess reserves.

⁷ In the District, government-owned real property used for governmental purposes is exempt from taxation. See D.C. Code § 47-1002(2). Even though the Entertainment and Sports Arena (ESA) is owned by the District, it is leased for business purposes that are non-governmental uses and, therefore, is not exempt from taxation. See D.C. Code § 47-1005.01(b). Therefore, according to D.C. Code § 2-1215.02(24)(C), it is subject to a possessory interest tax by the District.

Results of the Auditor's Examination

We conducted detailed analysis over each component of WCSA's FY 2021 sufficiency calculation presented in Figure 5 (page 9). Noted below are key observations based on our review.

Convention and Meetings Division

For FYs 2017 through 2019, the Walter E. Washington Convention Center consistently exceeded its operating revenue projections. As of March 31, 2020, the Walter E. Washington Convention Center collected 85% of its FY 2020 projected operating revenue and will likely meet its revenue projections due to monthly lease payments for leasing Carnegie Library and the Plumber's Building. WCSA generates lease revenue from leasing the Plumbers building⁸ to the owners of the Marriott Marquis hotel. In addition, WCSA has retail options on the ground level of the Convention Center building around its perimeter. Lease agreements have been executed with nine retailers, all with either 5-year or 10-year terms, creating a strong revenue stream for the Division.

Effective August 9, 2017, WCSA entered into an agreement with Apple, Inc. to lease the Carnegie Library building. Apple had its grand opening at the Carnegie Library on May 11, 2019. The FY 2021 rental revenue for the building is expected to be \$816,605. Carnegie Library, is also home to the DC History Center, which hosts the Kiplinger Research Library, three galleries and a museum store, all owned and operated by the 125-year-old Historical Society of Washington, DC.

As noted above, the advent of COVID-19 impacted the remainder of FY 2020's revenue and expenditures and already is projected to impact revenues and expenditures for FY 2021. In March 2020, the District government implemented several public health measures to combat the spread of COVID-19. As a result, retail tenants experienced severe financial losses and requested rent relief from WCSA. WCSA decided to waive and/or defer rent for some tenants based on their ability to operate during the pandemic. WCSA waived rent for at least two months for all tenants and deferred rent for two months for most tenants, with the deferred payments to be repaid without interest over a year beginning January 2021. The total amount waived was \$122,952.23 and the total amount deferred was \$93,393.78.

"City-wide events" are a category of convention center business that includes conventions, meetings, and trade shows that are international, national or regional in nature, and have a significant economic impact on the hotel community, with a minimum of 2,500 room nights on peak.⁹ In FY 2020, 10 city-wide events that took place before mid-March had a marked impact on operating revenues, and the Division is looking forward to a projected 11 city-wide events for FY 2021. COVID-19, however, forced the cancellation of nine other city-wide events in FY 2020 and seven city-wide events already have been cancelled for FY 2021. The full impact on FY 2021 has yet to be determined as 11 city-wide events are still scheduled for later in the year and it is unknown whether they will take place in some form or be postponed or canceled. In an effort to generate revenue, as of August 6, 2020, WCSA had scheduled two virtual events for FY 2021. One of the events will be a hybrid with the option of virtual or in person attendance with a limited capacity.

⁸ The Marriott Marquis hotel incorporates the site's original historic Samuel Gompers AFL-CIO headquarters, known as the "Plumbers Building."

⁹ Peak room nights refer to the nights during an event when most rooms are occupied by those in attendance.

The Division's projections of operating revenue for FY 2020 and FY 2021 appear reasonable if WCSA is able to hold some events during the last three quarters of FY 2021, as mentioned above.

WCSA's Sports and Entertainment Division

The Sports and Entertainment Division has been challenged to meet its overall revenue projections in recent years. For the current year, as of March 31, 2020, the Sports and Entertainment Division had collected 85% of its FY 2020 projected operating revenue. Because COVID-19 delayed the sufficiency certification, ODCA requested an updated June 30, 2020, variance report that shows additional building rental and miscellaneous revenue was collected. The Division already has exceeded its FY 2020 projected operating revenues with 102.1% of the FY 2020 operating revenue having been collected.

The Sports and Entertainment Division's total Operating Revenues for FY 2021 are expected to increase by \$1.58 million or 53.9% compared to FY 2020. The projected increase assumes the Division will operate for nine months of FY 2021 after operating for only six months in FY 2020. The Division's FY 2021 operating revenue estimate is \$4.5 million, an increase of 53.9% from FY 2020 projections. Considering SED's historical revenue collections, the FY 2021 revenue estimate may be optimistic. With multiple properties at its disposal for use as event venues, SED has the flexibility to offer a variety of options to potential customers looking to host events in DC. SED's arena and festival-style destinations such as the new Entertainment and Sports Arena (ESA), Robert F. Kennedy Memorial Stadium (RFK), the Festival Grounds at RFK, DC Armory, Gateway DC, the R.I.S.E. Demonstration Center, and the Fields at RFK Stadium. The venues boast options for events that attract different sized audiences and use of indoor and outdoor spaces. After opening June 8, 2019, the Fields at RFK allowed WCSA to generate revenue during the pandemic with the outdoor venue able to generate revenue by hosting summer camps.

The Division's ability to meet its FY 2021 revenue projections of \$4.5 million will be dependent on its ability to schedule events and generate revenue given current circumstances.

Conclusion

Based upon a comparative analysis of WCSA's projected revenues and excess reserve, the Auditor determined that WCSA's projected revenues and excess reserve should be sufficient to cover its expenditures and reserve requirements for FY 2021. In making this determination, the Auditor took into account the already-known impact of COVID-19 on FY 2020 and the first quarter of FY 2021, as well as the as-yet unknown impacts on the remainder of FY 2021.

As stated above, the Auditor only certifies that the revenue estimate, expense estimate, and excess reserve estimate at the time of certification, as shown in Figure 5 below, appeared sufficiently supported and achievable by WCSA.

The Auditor's analysis indicated that WCSA's projected FY 2021 revenues and excess reserve should exceed expenditures by approximately \$59.53 million. The excess reserve calculation assumes WCSA will be operating with at least some events taking place for the last three quarters (nine months) of FY 2021. Figure 5 presents WCSA's FY 2021 sufficiency calculation.

Figure 5: Fiscal Year 2021 Sufficiency Calculation *(in millions)*

Category	Amount	
Revenues		
Dedicated Tax Estimate	89.44	
0.3% Additional hotel tax	3.70	
TIF Revenue Estimate	16.0	
IRS Subsidy Estimate	2.43	
Operating Revenue Estimate	21.80	
Lease Payments	4.21	
Interest Income Estimate	3.71	
Subtotal Revenues		\$ 141.30
Reserves		
Beginning cash balance over the required minimum reserves	83.51	
Sum of Projected FY 2021 revenues and Excess Reserve Estimate		\$ 224.80
Expenditures		
Debt Service	49.80	
Operating Expenditures	69.76	
Marketing Agencies	10.64	
Projected 0.3% Additional Hotel Taxes to DDC	3.70	
Transfer to the District - Excess TIF	1.00	
Possessory Interest Tax	0.37	
Re-opening DC Market	3.00	
Capital Improvement Exp	27.00	165.27
Sum of Projected FY 2021 Expenditures		
Projected Revenue and Excess Reserve Estimate Over Projected Expenditures (End of Fiscal Year)		59.53

Source: WCSA Cash and Investment Manager

Auditor's Certification

Based upon the Auditor's analysis of information provided by the Washington Convention and Sports Authority (WCSA) and the Office of the Chief Financial Officer (OCFO), as of the date of this certification, September 28, 2020¹⁰, WCSA's total projected revenues and excess reserve estimate for FY 2021 are sufficient to cover its projected expenditures. WCSA's FY 2021 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$59.53 million which assumes operations for three quarters, or nine months, of FY 2021.

We believe this constitutes a reasonable basis for the Auditor's sufficiency certification.

Sincerely yours,



Kathleen Patterson
District of Columbia Auditor

Cc: Betsy Cavendish, EOM
Gregory O'Dell, Events DC
Henry Mosely, Events DC

¹⁰ The D.C. Auditor notified the Chairman of the Council on May 1, 2020, that she would not complete the certification for FY 2021 by the mandated due date because according to WCSA's CFO, the Office of the Chief Financial Officer (OCFO) will issue an updated quarterly revenue estimate at the end of April 2020 that will incorporate the financial impacts of COVID-19, and WCSA will develop a revised financial plan for the remainder of FY2020 and FY 2021 using that estimate. "WCSA confirmed there will be delays in providing ODCA with documents needed for our sufficiency certification, but informed ODCA that a delayed sufficiency certification will not have a negative impact on WCSA."