

Events DC Revenue Sufficiency Certification for Fiscal Year 2025

July 15, 2024

A report by the Office of the District of Columbia Auditor



Audit Team

Will Singer, Assistant Deputy Auditor for Finance

Julie Lebowitz, Deputy Auditor



Office of the District of Columbia Auditor

Kathleen Patterson, District of Columbia Auditor

www.dcauditor.org

July 15, 2024

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

Letter Report: Events DC Revenue Sufficiency Certification for Fiscal Year 2025

Dear Chairman Mendelson:

What follows is the Office of the District of Columbia Auditor report, entitled **Events DC Revenue Sufficiency Certification for Fiscal Year 2025**. Pursuant to D.C. Code § 10-1203.05(b), the District of Columbia Auditor is required to prepare and deliver to the Mayor, the Council of the District of Columbia, the Chief Financial Officer of the District of Columbia, and the Chairman of the Washington Convention and Sports Authority (WCSA), an annual 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 2025 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 Events DC's projected FY 2025 revenues from dedicated taxes and operations, plus excess amounts held in reserve, will be sufficient to meet its projected FY 2025 expenditures including operating costs, debt service, and any required deposits to reserves. This revenue sufficiency review was not conducted as an audit.

The scope of this analysis included WCSA's financial records and data for FYs 2021 through 2023 and FY 2024, as of March 31, 2024. Our analysis also included a review of WCSA's FY 2024 (April through September) and FY 2025 projected revenues, expenditures, and reserve balances.

To accomplish our objective, we conducted a detailed review of WCSA's actual and projected operating revenues and expenses for the Conventions and Meetings Division and Sports and Entertainment Division. This review included analysis of financial information included in WCSA's audited financial statements for

FY 2021 through FY 2023, WCSA's FY 2024 internal financial reports as of March 31, 2024, and WCSA's FY 2024 and FY 2025 budgets approved by the WCSA Board of Directors. We confirmed that Events DC's budgeted projections of dedicated tax revenues are consistent with the February 2024 revenue estimate issued by the Office of the Chief Financial Officer (OCFO). We also analyzed trends in events booked at WCSA facilities, reviewed WCSA's non-operating revenues and non-operating expenses, and obtained clarifying information from WCSA personnel.

ODCA relied on representations and other financial information provided by WCSA officials. Information on account balances was obtained from account statements prepared by outside financial institutions, including the bond trustee having custody of certain accounts.

ODCA independently verified the required minimum balance of each reserve account based on our review of the Master Trust Agreement, supplemental trust agreements, and other documents prepared in connection with Events DC's outstanding bonds. We also identified additional account balances that are restricted by contracts relating to Events DC's bonded indebtedness and other financial obligations, and thus should not be treated as "excess" for purposes of our revenue sufficiency determination.

We note that revenue, reserve, and expense estimates are based on information that can change rapidly, which means there is the possibility of revisions to estimates after the Auditor's certification. Consequently, the Auditor does not guarantee the validity of revenue, reserve, and expense estimates.

Additionally, the validity and accuracy of the ODCA 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 that OCFO officials provided sound estimates of dedicated tax revenues for the upcoming fiscal year.

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.

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, expenses, 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 the 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 retail space rentals. WCSA's FY 2025 operating revenue estimate is \$31.84 million and accounts for 12.3% of the total FY 2025 projected revenue (including TIF revenue and revenue designated for Destination DC). Figure 1 presents WCSA's FY 2025 projected operating revenues per WCSA's FY 2025 budget.

Figure 1: WCSA's FY 2025 Projected Operating Revenues

Revenue Category	FY 2025 Projected Operating Revenue
Conventions & Meetings Division	\$24,983,657
Sports and Entertainment Division	\$6,859,515
Total Operating Revenue	\$31,843,172

Source: WCSA. Amounts rounded to whole dollars.

Non-Operating Revenue

WCSA receives non-operating revenue from dedicated tax collections (a portion of which is transferred to Destination DC), interest income, and tax increment financing (TIF) sources. Revenues from the Destination DC tax and TIF sources are not included in Events DC's FY 2025 budget; the Destination DC tax is budgeted separately in the Marketing Fund, and TIF revenues are applied directly as provided in the supplemental trust agreement relating to Events DC's Series 2021A Bonds and Series 2021B Bonds.

Of these sources, dedicated taxes transferred for use by WCSA represent 64.8% of the FY 2025 projected total revenues. These taxes consist of additional sales taxes imposed by the District in amounts equal to 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; automobile rental or leasing charges; and spirit or malt liquors, beers, and wines sold by certain alcoholic beverage licensees.¹ The OCFO provides the dedicated tax revenue projection to WCSA. According to the OCFO's quarterly revenue estimate, as of February 29, 2024, the FY 2025 dedicated tax revenue estimate is \$167.22 million. The annual transfer for Destination DC (DDC),² a private nonprofit that provides marketing services for the District, is projected to be an additional \$31.22 million in FY 2025.

¹ See D.C. Official Code §§ 47-2002.02 and 47-2002.03.

² Destination DC is designated as 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.

WCSA also receives TIF revenue.³ TIF revenues are collected from a portion of the sales and use taxes and property taxes generated by the Marriott Marquis HQ/Convention Center hotel. The FY 2025 TIF revenue amount is projected to be \$13.88 million. Figure 2 presents WCSA's FY 2025 projected non-operating revenues.

Figure 2: WCSA's FY 2025 Projected Non-Operating Revenues

Revenue Category	FY 2025 Projected Non-Operating Revenue
Dedicated Taxes	\$167,219,000
Interest Income	\$13,958,764
1.3% Tax for Destination DC	\$31,224,000
TIF Revenue	\$13,877,884
Total Non-Operating Revenues	\$226,279,648

Source: WCSA. Amounts rounded to whole dollars.

Expenses

Operating Expenses

WCSA's operating expenses include staff salaries, professional/contractual services, utility costs, and the cost of equipment and supplies. As provided in Figure 3, WCSA's FY 2025 operating expense projection is \$112.59 million.

Figure 3: WCSA's FY 2025 Projected Operating Expenses

Expense Category	FY 2025 Projected Operating Expenses
Conventions & Meetings Division	\$85,622,873
Sports and Entertainment Division	\$26,971,044
Total Operating Expenses	\$112,593,917

Source: WCSA. Amounts rounded to whole dollars.

³ As of FY 2021, Events DC considers TIF Revenue that is available for Events DC's budget to be Hotel Contribution Reimbursement.

Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism, debt service payments, community grants, and possessory interest tax.⁴ As provided in Figure 4, WCSA's FY 2025 non-operating expense projection is \$88.98 million.

Figure 4: WCSA's FY 2025 Projected Non-Operating Expenses

Expense Category	FY 2025 Projected Non-Operating Expenses
Transfer to Marketing Fund	\$23,752,903
Community Grants	\$885,000
Debt Service	\$31,915,754 ⁵
Possessory Interest Tax	\$202,529
Subtotal	\$56,756,186
1.3% Tax for Destination DC	\$31,224,000
Projected Excess TIF Revenue to be Transferred to the District ⁶	\$1,000,000
Total Non-Operating Expenses	\$88,980,186

Source: WCSA. Amounts rounded to whole dollars.

Excess Reserves

The Amended and Restated Master Trust Agreement requires WCSA to establish and maintain certain funds and accounts in connection with WCSA's issuance of bonds. The establishment and funding of the various required funds and accounts ensures that WCSA will have funds available for the repayment of bond principal and interest. Balances remaining in the various required funds and accounts, after deducting the minimum balance requirements and other amounts restricted by debt obligations, represent WCSA's excess reserve.

-
- 4 In the District, government-owned real property used for governmental purposes is exempt from taxation. D.C. Official Code § 471002(2). Even though the Entertainment and Sports Arena (ESA) is owned by the District, a portion of it is leased for business purposes that are non-governmental uses and, therefore, is subject to possessory interest tax under D.C. Official Code § 471005.01(b).
- 5 Of this amount, \$26,536,254 (representing debt service on the 2018A Bonds, 2018B Bonds, and 2021C Bonds) is budgeted to be paid from dedicated taxes. The remaining \$5,379,500 (representing debt service on the 2021A Bonds and 2021B Bonds) is not identified in the budget but is expected to be paid from TIF revenues. The 2021A Bonds and 2021B Bonds are payable from TIF revenues and may be paid from dedicated taxes only if an insufficient amount of TIF revenue is available.
- 6 Allocation on disposition of TIF revenue is based on a provision in the Seventh Supplemental Trust Agreement by and between WCSA and the Bank of New York Mellon, as trustee.

In addition, some funds are excluded from excess reserves because they are restricted by contractual arrangements that are not related to bonded indebtedness. WSCA's Capital Reserve Fund is restricted because it receives the District's annual contribution of \$1.5 million toward the cost of maintaining the baseball stadium (and these receipts also are not considered as non-operating revenues for purposes of this report). WSCA's New Stadium Construction Account holds approximately \$671,000 remaining from construction of the baseball stadium; this money is designated in WSCA's financial statements as Due to District Government. The Academy Improvements Account holds funds that WSCA receives from the District and transfers to the Washington Nationals Youth Baseball Academy pursuant to a ground lease. WSCA also holds approximately \$145,000 restricted funds remaining from the construction at Kenilworth Park of a soccer field that was jointly funded by the District's Department of Parks and Recreation, the Washington Nationals, and the federal government.

Results of the Auditor's Examination

We conducted detailed analysis over each component of WSCA's FY 2025 sufficiency calculation presented in Figure 5 (page 8). Noted below are key observations based on our review.

Conventions and Meetings Division

For FYs 2021 through 2023, the Walter E. Washington Convention Center consistently exceeded its operating revenue projections. As of March 31, 2024, the Walter E. Washington Convention Center had collected 48.23% of its FY 2024 projected operating revenue, exceeding its budgeted projection for the first half of FY 2024 by \$1.04 million (10%). Total expenses for the first half of FY 2024 were under budget by approximately 1%.

"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 at the peak.⁷ Ten city-wide events were held at the Convention Center during the first half of FY 2024, and as of March 31, 2024 an additional nine city-wide events were booked (one tentatively) for the second half of FY 2024. As of June 2024, Events DC had booked 18 city-wide events (one tentatively) for FY 2025.

WSCA has retail lease tenants on the ground level of the Convention Center building around its perimeter. Lease agreements that have been executed with 12 retailers will be in effect for the duration of FY 2025.

The Division's projections of operating revenue for FY 2025 appear reasonable.

WSCA's Sports and Entertainment Division

The Sports and Entertainment Division (SED) has experienced revenue volatility in recent years, reflected in significant variances (both positive and negative) between budgeted and actual revenues during the

⁷ Peak room nights refer to the nights during an event when most rooms are occupied by those in attendance.

FY 2021-2023 period. During the first half of FY 2024 (as of March 31, 2024), SED had collected less than one-third (31.88%) of its FY 2024 projected operating revenue. Much of the underperformance during the first half of FY 2024 is due to far lower-than-expected revenues from advertising and sponsorships, which is the second-leading source of revenue in the FY 2024 and FY 2025 budgets. Events DC is currently in contract negotiations that have taken longer than anticipated, and upon their completion Events DC will revisit its estimate of SED revenues from advertising and sponsorships.

Further, SED has made exactly the same projections of event bookings for the April-September period in FY 2024 and 2025. These projections anticipate an increase in the number of events and revenues compared to actual results during the first half of FY 2024; the projections for the first half of FY 2025 anticipate fewer events held and less revenue collected than actual figures from the first half of FY 2024. Thus, the SED event projections are more like placeholder figures than a forecast based on specific bookings.

Given these observations, ODCA is unable to conclude that SED is reasonably likely to collect the amount of revenue assumed in the FY 2025 budget. However, because SED's operating revenues represent only 2.7% of Events DC's projected revenues in FY 2025 (including all budgeted amounts, tax revenues designated for Destination DC, and TIF revenue), ODCA concludes that this limitation will not materially impair Events DC's FY 2025 budget or the sufficiency of revenues to pay debt service and fund reserves at required minimum balances.

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 2025.

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, appeared sufficiently supported and achievable by WCSA.

ODCA's analysis indicated that WCSA's projected FY 2025 revenues and excess reserve should exceed expenditures by approximately \$215.23 million. Figure 5 presents WCSA's FY 2025 sufficiency calculation.

Figure 5: Fiscal Year 2025 Sufficiency Calculation

CATEGORY	AMOUNT
Revenues	
Dedicated Tax Estimate	167,219,000
1.3% Additional hotel tax	31,224,000
TIF Revenue Estimate	13,877,884
Operating Revenue Estimate	31,843,175
Interest Income Estimate	13,958,764
Subtotal Revenues	\$ 258,122,823
Reserves	
Beginning cash balance over the required minimum reserves	200,486,992
Sum of Projected FY 2025 Revenues and Excess Reserve Estimate	\$ 458,609,815
Expenditures	
Debt Service	31,915,754
Operating Expenditures	112,593,916
International Marketing and Partnership Agreements	23,752,903
Projected 1.3% Additional Hotel Taxes to DDC	31,224,000
Projected Cash Transfer to the District from Excess TIF	1,000,000
Community Grants	885,000
Possessory Tax	202,529
Capital Improvement Expenditures	41,805,000
Sum of Projected FY 2025 Expenditures	\$ 243,379,102
Projected Revenue and Excess Reserve Estimate Over Projected Expenditures (End of Fiscal Year)	\$ 215,230,713

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, July 15, 2024, WCSA's total projected revenues and excess reserve estimate for FY 2025 are sufficient to cover its projected expenditures and debt obligations. WCSA's FY 2025 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$215.23 million.

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

Sincerely yours,



Kathleen Patterson
District of Columbia Auditor

cc: Betsy Cavendish, Executive Office of the Mayor
Angie Gates, Events DC
Henry Mosley, Events DC

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

Office of the District of Columbia Auditor
1331 Pennsylvania Avenue, N.W.
Suite 800 South
Washington, DC 20004

202-727-3600
odca.mail@dc.gov
www.x.com/ODCA_DC
www.dcauditor.org



Information presented here is the intellectual property of the Office of the District of Columbia Auditor and is copyright protected. We invite the sharing of this report, but ask that you credit ODCA with authorship when any information, findings, or recommendations are used. Thank you.

