



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL: 202-727-3600 • FAX: 202-724-8814

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**Letter Report: Sufficiency Certification
for the Washington Convention and Sports
Authority's (Trading As Events DC) Projected
Revenues and Excess Reserve to Meet Projected
Operating and Debt Service Expenditures
and Reserve Requirements
for Fiscal Year 2012**

July 15, 2011



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The Honorable Kwame Brown, Chairman
Council of the District of Columbia
1350 Pennsylvania Ave., N.W. Suite 504
Washington, D.C. 20004

Letter Report: Sufficiency Certification for the Washington Convention and Sports Authority's (Trading As Events DC) Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2012

Dear Chairman Brown:

According to D.C. Code, Section 10-1203.05 (b), the District of Columbia Auditor (Auditor) shall prepare and deliver to the Mayor, Council of the District of Columbia (Council), Chief Financial Officer of the District of Columbia (CFO), 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 sets forth the Auditor's determination of the WCSA's FY 2012 sufficiency.

OBJECTIVE, TIME FRAME, AND METHODOLOGY

The objective of this analysis was to determine whether WCSA's FY 2012 projected dedicated tax revenues, operating revenue, and excess reserve will be sufficient to meet its FY 2012 projected expenditures and reserve requirements.

The time frame associated with this review covered FYs 2008 through 2010 and FY 2011 (to date) financial data.

The sufficiency review was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Consistent with these standards, our review included an examination, on a test

basis, of evidence supporting WCSA's projections of FY 2012 revenues, expenditures, and excess reserve. The examination included such other procedures as deemed necessary and appropriate under the circumstances. We believe that this review provides a reasonable basis for the FY 2012 sufficiency certification statement.

In analyzing the sufficiency of revenues and excess reserves to meet expenditures and reserve requirements, we:

- (a) reviewed applicable Board minutes;
- (b) interviewed WCSA and Chief Financial Officer's Office of Revenue Analysis (ORA) personnel;
- (c) reviewed WCSA's audited financial statements for FY 2008 through FY 2010 and WCSA's FY 2011 internal unaudited financial statements, as of May 31, 2011;
- (d) reviewed WCSA's FY 2012 budget, as approved by its Board of Directors;
- (e) performed detailed analyses of WCSA's historical and projected revenues, expenditures, and reserves;
- (f) analyzed WCSA's financial ratios;
- (g) analyzed WCSA's pending claims or judgments;
- (h) analyzed trends in events booked at WCSA; and
- (i) reviewed available tourism data for FYs 2008 through 2010 and economic indicators to assess trends that will affect the hotel industry in FY 2012, among other analyses.

In determining the reliability and sufficiency of WCSA's projected revenues for FY 2012, we relied on dedicated tax revenue information provided by ORA and other financial information provided by WCSA officials. In determining the soundness of WCSA's projected revenues, expenditures and debt service requirements for FY 2012, we relied, in part, on representations made by WCSA's Chief Financial Officer (CFO).

We note that estimates are based on information that can, and often does, change rapidly thus resulting in revisions to estimates after our certification. Consequently, we do not, and cannot, guarantee the validity of the estimates and only certify that the dedicated tax revenue estimate, operating revenue estimate, and excess reserve estimate at the time of certification, appeared sufficiently supported and achievable by WCSA.

Additionally, the validity and accuracy of our sufficiency analysis and calculation are predicated upon the extent to which: (a) ORA officials have provided sound estimates of dedicated tax revenues for the upcoming fiscal year; and (b) WCSA officials have fully disclosed and provided reliable and accurate information to us regarding WCSA's operating revenue, operating and capital improvement expenses, debt service and marketing contract costs, and any other expenses relevant to our sufficiency certification.

AGENCY ACCOMPLISHMENTS

WCSA provided the Auditor with the following list of accomplishments:

- As announced by Chief Executive Officer Gregory A. O'Dell on June 22, 2011 the Washington Convention and Sports Authority (WCSA) adopted a new name Events DC. This new brand reflects Events DC's broader mission and expanded portfolio of venues resulting from their merger with D.C. Sports and Entertainment Commission in October 2009. Events DC consists of three divisions; Conventions and Meetings, Sports and Entertainment, and Special Events.
- On November 10, 2010, the WCSA broke ground on the much-anticipated Washington Marriott Marquis. The \$520 million, four-star hotel, will be developed by Quadrangle Development Corporation and Capstone Development and will be operated by Marriott International. Of the \$520 million in development cost, the WCSA contributed \$206 million to the project. The hotel will be located at Ninth Street and Massachusetts Avenue, directly adjacent to the Walter E. Washington Convention Center and is scheduled to open in spring 2014.
- On May 5, 2011, WCSA obtained administrative jurisdiction and all of the rights and obligations associated with the Carnegie Library at Mount Vernon Square. WCSA has agreed to pay a total of \$9 million to the District for use of the building, with \$5 million due in FY 2012. The Carnegie Library is currently leased to the Historical Society of Washington, D.C. (HSW). WCSA is currently working with the HSW to renegotiate their current lease to support

WCSA's plans to use the building to benefit District residents, visitors and to expand their current operations.

For their time, information, insight, and cooperation during the audit process, we want to thank the staff of the Washington Convention and Sports Authority including the President and Chief Executive Officer, Chief Financial Officer, General Counsel, Senior Vice President and Managing Director Sports, Entertainment and Special Events Division and Senior Vice President and General Manager Convention Center Operations Division and the respective staff from each division for their hard work in connection with the FY 2012 Sufficiency Certification review. Additionally, we are grateful to WCSA's Cash and Investments Manager, the assigned audit liaison on this project.

BACKGROUND

The Washington Convention Center Authority (WCCA) was established September 28, 1994. Effective October 2009, WCCA merged with the D.C. Sports and Entertainment Commission (DCSEC) to create one organization, the Washington Convention and Sports Authority (WCSA).

WCSA owns and manages the Walter E. Washington Convention Center, and the Stadium-Armory campus which includes Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds. In addition, WCSA serves as the owner and landlord for Nationals Park.

Effective June 22, 2011, WCSA adopted a new name and visual identity as part of its ongoing campaign to attract more events and provide greater economic benefits for the nation's capital. WCSA is now called Events DC.

WCSA is currently governed by an 11 member Board of Directors (Board). The Board consists of the CFO 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, nine public members (who must meet statutorily prescribed criteria) are appointed to four-year terms by the Mayor with the advice and consent of the Council. According to WCSA's enabling legislation, three public Board members shall be individuals from the hospitality industry, restaurant industry and organized labor, and the remaining six members must possess expertise in economic development, construction, tourism, municipal finance, or business finance,

sports and entertainment. The daily management of WCSA is under the direction of a President and Chief Executive Officer (CEO) who is appointed by WCSA's Board.

ANALYSIS

We reviewed four key revenue and expense categories and completed a financial review during our analysis. An overview of each category is noted below.

Dedicated Taxes

- WCSA receives 4.45% of the District's 14.5% sales and use tax on hotel room charges, and 1% of the District's 10% sales and use tax on restaurant meals, alcoholic beverages consumed on the premises, and automobile rental charges.
- This revenue is classified as non-operating revenue for WCSA, and therefore included in their annual budget.
- ORA provides the dedicated tax revenue projection to WCSA.
- We discussed the FY 2012 dedicated taxes with ORA officials.
- Hotel occupancy, average daily rate and revenue per available room all increased through May 2011 as compared with the same period through May 2010.
- Based on our review and analysis of historical information WCSA met their dedicated tax estimate in prior years and WCSA is on track to meet the FY 2011 estimate.

Operating Revenue and Interest Income

- WCSA has two main divisions that generate operating revenue, the Walter E. Washington Convention Center (WEWCC) Division and the Sports, and Entertainment and Special Events (SESE) Division.
- More events are being held at WCSA.

Excess Reserves

- The Amended Master Trust Agreement requires WCSA to establish and maintain certain funds and sub-accounts, referred to as pledged funds in connection with WCSA's

issuance of bonds. The establishment and funding of these various funds and sub-accounts ensures that monies are available for the repayment of bond principal and interest.

- Any balance remaining in these accounts, after deducting the minimum balance requirements, represents WCSA's "excess reserve". WCSA's projected excess reserve for September 30, 2012 is \$10.2 million.

Expenditures

- WCSA's operating expenditures include personal services (staff), contractual costs, occupancy as well as miscellaneous and supplies. WCSA out sources housekeeping, building insurance, and security.
- Non-operating expenditures include debt service (interest payments on bonds issued to construct the WEWCC) and payments to marketing agencies to promote conventions and tourism in the District.

Based on our review of the above revenue, expense and reserve categories, we determined that WCSA's FY 2012 projected revenues and excess reserves are sufficient to meet WCSA's FY 2012 projected expenditures and reserve requirements.

During our review of WCSA's projected revenues and excess reserves we noted the excess reserve balance is decreasing primarily as a result of the following initiatives that are included in WCSA's budgets for FY 2011 and FY 2012:

- (1) Baseball Academy - WCSA would contribute up to \$10.2 million to assist in funding a Baseball Academy with the Nationals Dream Foundation to serve youths in Wards 7 and 8;
- (2) RFK Stadium – \$4.3 million for improvements to RFK stadium;
- (3) Armory – \$3.1 million for improvements at the Armory;
- (4) Debt Service Reserve – approximately \$20 million to fully fund a debt service reserve for insurance purposes;
- (5) Central Plant Payoff – \$8.5 million payoff of liability related to the heating and cooling plant;

- (6) Carnegie Library – \$6.7 million set-aside for capital repairs, and FY 2012 payment to the District for purchase of the library;
- (7) Pedestrian Tunnel - \$2.5 million for the underground connector between Walter E. Washington Convention Center and the new hotel;
- (8) FY 2012 Capital Budget - \$12.2 million; and
- (9) Increased marketing expenses as a result of additional marketing efforts.

We also noted that negotiations on the Carnegie Library might increase WCSA's FY 2012 expenses. Specifically, negotiations on the Carnegie Library are on-going between WCSA and the Historical Society of Washington, D. C. (HSW), which may result in additional costs for WCSA not originally budgeted for in FY 2012. The agreement between the District and WCSA states that the District transfers and assigns to WCSA the rights and obligations under the HSW lease agreement. WCSA is currently renegotiating this lease with the HSW to obtain space for WCSA operations. This space would allow WCSA to generate revenue at the facility. WCSA estimates that it will cost approximately \$900,000 to maintain the facility in FY 2012.

Notwithstanding these items, WCSA's FY 2012 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$10.2 million.

Table I presents the Sufficiency Calculation of WCSA's Projected Revenues and Excess Reserve to Meet Projected Expenditures and Reserve Requirements for Fiscal Year 2012.

TABLE 1

**Sufficiency Calculation of WCSA's Projected Revenues and Excess Reserve
to Meet Projected Expenditures and Reserve Requirements
For Fiscal Year 2012
(millions)**

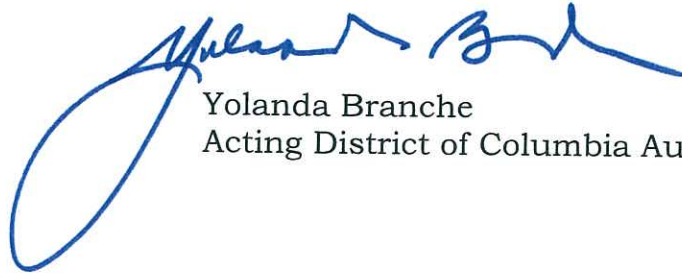
<u>Category</u>	<u>Amount</u>
Revenues (Estimate)	
FY 2012 Dedicated Tax	\$100.5
FY 2012 Operating Revenue	22.4
FY 2012 Interest Income	1.2
Subtotal Revenues	\$124.1
Reserves (Estimate)	
Excess reserves	\$ 29.9
Sum of Projected FY 2012 Revenues and Excess Reserve Estimate	\$154.0
Expenditures (Estimate)	
Debt Service	\$35.8
Operating Expenditures	42.7
Marketing Agencies	14.3
Capital Improvement Expenditures	28.0
Opportunity Fund	1.0
Equity Contribution, Headquarters Hotel	22.0
Sum of Projected FY 2012 Expenditures	\$143.8
WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	<u>\$10.2</u>

Source: WCSA Cash and Investments Manager

AUDITOR'S CERTIFICATION

Based upon our analysis of information provided by WCSA and ORA as of the date of this certification, WCSA's total projected revenues and excess reserve estimate for FY 2012 are sufficient to cover its projected expenditures. WCSA's FY 2012 estimated revenues and excess reserve are expected to exceed WCSA's projected expenditures and reserve requirements by \$10.2 million.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Yolanda Branche', with a large, stylized loop on the left side.

Yolanda Branche
Acting District of Columbia Auditor