



**OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

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016:07:CTA:CMP:gk

**Letter Report: Certification 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 2008**

July 13, 2007



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The Honorable Vincent C. Gray, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Ave, NW, Suite 504  
Washington, D.C. 20004

Re: **Letter Report:** Certification 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 2008

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

Pursuant to Section 305 (b) of the Washington Convention Center Authority Act of 1994, (Act), D.C. Law 10-188,<sup>1</sup> as amended, D.C. Code § 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 Center Authority (WCCA) a certification of the sufficiency of WCCA'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 sufficiency of WCCA's projected revenues and excess reserve to meet its projected FY 2008 expenditures and reserve requirements. The sources of revenues and excess reserve were:

1. taxes imposed pursuant to D.C. Code § 47-2002.02 and § 47-2202.01, which are estimated by the Office of the Chief Financial Officer's (OCFO) Office of Revenue Analysis (ORA) and transferred to WCCA by the Mayor from the Office of Tax and Revenue (OTR);
2. WCCA's projected operating revenues; and

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<sup>1</sup>See Section 305(b) of the Washington Convention Center Authority Act of 1994, as amended, effective September 28, 1994, (D.C. Law 10-188; D.C. Code § 10-1203.05 (b)).

3. amounts in any reserve fund or account (other than debt service reserve fund or account for indebtedness) which exceed the required minimum balance for such fund or account, as certified by WCCA.

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 FY 2008 barring any unforeseen events that would adversely impact revenues and expenditures.

The Auditor's analysis indicated that WCCA's projected FY 2008 revenues and excess reserve should exceed expenditures by approximately \$51.81 million. Therefore, the Auditor hereby certifies that WCCA's projected FY 2008 revenues and reserve balance of \$171.95 million should be sufficient to meet projected expenditures and reserve requirements of \$120.14 million for FY 2008.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of this analysis was to determine whether WCCA's projected dedicated tax revenues, operating revenue, and excess reserve will be sufficient to meet WCCA's projected operating and debt service expenditures, reserve requirements, and capital improvement expenditures for FY 2008.

In preparing this certification, the Auditor: (a) reviewed applicable District of Columbia laws;<sup>2</sup> (b) interviewed WCCA and ORA staff; (c) confirmed dedicated tax transfer amounts with OTR; (d) reviewed WCCA's audited financial statements for FY 2002 through FY 2006 and WCCA's FY 2007 internal unaudited financial statements as of April 30, 2007; (e) reviewed WCCA's FY 2008 budget as approved by its Board of Directors; and (f) performed detailed analyses of WCCA's historical and projected revenues and expenditures.

The Auditor also reviewed WCCA's projected capital improvement expenditures because they are also funded by operating revenues and dedicated taxes. WCCA receives revenues primarily from two sources, dedicated taxes and general operations (booking events such as conferences and trade shows). WCCA's expenditures, both operating and capital, are paid from the same pool of

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<sup>2</sup>The Auditor reviewed Section 305 (b) of the Washington Convention Center Authority Act of 1994, as amended, effective September 28, 1994, (D.C. Law 10-188; D. C. Code § 10-1203.05 (b)); the Washington Convention Center Authority Financing Amendment Act of 1998, D. C. Law 12-142; and D. C. Code § 47-2002.01.

revenues. Thus, in order to adequately assess the sufficiency of WCCA's projected revenues and excess reserve to meet its operating and capital improvement expenditures and reserve requirements for an upcoming fiscal year, the Auditor must consider WCCA's planned capital improvement expenditures for that year. Accordingly, we will continue to include projected capital improvement expenditures as part of the annual sufficiency analysis. The Auditor continues to recommend that the Council consider updating current legislation to require the inclusion of projected capital improvement expenditures in the Auditor's sufficiency analysis.<sup>3</sup>

In determining the reliability and sufficiency of WCCA's projected revenues for FY 2008, the Auditor relied on dedicated tax information provided by ORA and OTR and other financial information provided by WCCA officials. In determining the soundness of WCCA's projected expenditures and debt service requirements for FY 2008, the Auditor relied, in part, on information provided by WCCA's Chief Financial Officer (CFO).

The sufficiency review was performed as required by statute and conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The review was also performed in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Consistent with these standards, the Auditor's review included an examination, on a test basis, of evidence supporting WCCA's projections of FY 2008 revenues, expenditures, and excess reserve. The examination included such other procedures as deemed necessary and appropriate under the circumstances. The Auditor believes that this review provides a reasonable basis for the FY 2008 sufficiency certification statement.

The Auditor notes that estimates are based on information that can, and often does, change rapidly thus resulting in revisions to the estimates after the Auditor's certification. Consequently, the Auditor does not, and cannot, guarantee the validity of the estimates and only certifies that the dedicated tax revenue estimate, operating revenue estimate, and excess reserve estimate, at the time of certification, appeared sufficiently supported and achievable by WCCA. Additionally, the validity and accuracy of the Auditor's 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

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<sup>3</sup>This recommendation was also presented in the Auditor's Letter Report: Certification 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 2006, issued September 27, 2005; and the Auditor's Letter Report: Certification 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 2007, issued July 14, 2006.

fiscal year; and (b) WCCA officials have fully disclosed and provided reliable and accurate information to the Auditor regarding WCCA's operating and capital improvement expenses, debt service and marketing contract costs, and any other expenses relevant to the Auditor's sufficiency certification.

## **BACKGROUND**

The Act established the WCCA 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.<sup>4</sup> Section 10-1202.02 (b) of the D. C. Code 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.<sup>5</sup>

WCCA is governed by a nine-member Board of Directors (Board). Currently, the Board consists of the CFO of the District of Columbia and another District government official designated by the Mayor.<sup>6</sup> Both serve as ex-officio voting members with four-year terms. Additionally, seven 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 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.

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<sup>4</sup>See Section 202 of the Washington Convention Center Authority Act of 1994, as amended, effective September 28, 1994, (D. C. Law 10-188, D. C. Code. § 10-1203.05 (b)).

<sup>5</sup>The new Washington Convention Center opened in April 2003. In July 2004, WCCA and District officials signed a lease agreement granting WCCA the exclusive right to use the old convention center site. WCCA agreed to use the leased premises solely to raze and demolish the old facility in order to build and operate a public parking lot. The parking lot was constructed in 2005 and became operational in January 2006.

<sup>6</sup>Mr. Gregory Odell, Chief Development Officer, Office of the Deputy Mayor for Planning and Economic Development, serves as the other District official, designated by the Mayor, to serve on WCCA's Board of Directors.

In accordance with D.C. Code § 10-1203.07, WCCA 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. These sales and use taxes are referred to as dedicated tax revenues.

Dedicated tax payments are collected through a lockbox arrangement established by the District OCFO's Office of Finance and Treasury (OFT) with Wachovia Bank, formerly 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. WCCA's outstanding bonds will mature on October 1 of each year between 2006 and 2036.

Tax receipts deposited into the WCCA Dedicated Account are assigned to, pledged to, and received daily by a trustee bank.<sup>7</sup> The trustee bank then deposits these funds in the WCCA Revenue Account for WCCA's use in accordance with the Amended Master Trust Agreement.<sup>8</sup>

In accordance with the Amended Master Trust Agreement, WCCA was required to establish and maintain certain funds and sub-accounts, referred to as pledged funds, at the time bonds were issued. (See Appendix I for the funds and accounts established in accordance with the Amended Master Trust Agreement). 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 flow of dedicated taxes through the lockbox to other funds and accounts established by the Amended Master Trust Agreement are presented in Appendix II.

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<sup>7</sup>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.

<sup>8</sup>See the Amended and Restated Master Trust Agreement dated as of February 1, 2007 (the Amended Master Trust Agreement) as supplemented by a Second Supplemental Trust Agreement dated as of February 1, 2007 (the Second Supplemental Trust Agreement), between the Washington Convention Center Authority (WCCA) and the Bank of New York, as trustee. The Amended Master Trust Agreement provides for the deposit of dedicated tax receipts into the revenue account and their subsequent transfer to other funds and accounts including the revenue stabilization account, operating and marketing reserve fund, and others outlined in the agreement.

WCCA is required to maintain minimum balances in the Operating and Marketing Reserve Account, Senior Debt Service Fund, Senior Debt Service Reserve Account, Rebate Fund, Redemption Fund, and the Capital Renewal and Replacement Fund. Any balance remaining in these accounts, after deducting the minimum balance requirements, represents WCCA's excess reserve. The Rebate Fund and the Redemption Fund, although required to be established, have not been activated because they are not presently needed.

### Series 2007 Bonds

On January 25, 2007, WCCA issued \$492,525,000 in Senior Lien Dedicated Tax Revenue and Refunding Bonds (Series 2007A).<sup>9</sup> Bond proceeds, in addition to other available WCCA funds, were to be used to: (1) pay or refund all of the outstanding series 1998 bonds in the aggregate principal amount of \$480,640,000;<sup>10</sup> (b) refinance a portion of the costs of the Headquarters Hotel Land Acquisition;<sup>11</sup> and (c) pay other costs associated with the Series 2007A bonds.

The interest rate of the Series 2007A bonds ranges from 3.75 % to 5 %. Interest will be paid semi-annually on April 1st and October 1st of each year beginning April 1, 2007 . The Series 2007A bonds will mature on October 1st of each year beginning in 2008 through 2026.

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<sup>9</sup>The Senior Lien Dedicated Tax Revenue and Refunding Bonds, Series 2007A were issued pursuant to the provisions of the Amended Master Trust Agreement, dated as of February 1, 2007.

<sup>10</sup>The Series 1998 Bonds were issued pursuant to the terms of a Master Trust Agreement dated September 1, 1998, by and between WCCA and the Trustee and a First Supplemental Trust Agreement dated September 1, 1998, by and between WCCA and the Trustee. These bonds mature on October 1 in the years 2007 through 2028.

<sup>11</sup>On August 10, 2006, the Authority borrowed \$30.5 million from Wachovia Bank to acquire the property at 901 Massachusetts Avenue, in connection with the planned development and construction of the Convention Center Headquarters Hotel. Interest was due and payable in consecutive quarterly payments beginning September 30, 2006. The principal amount of \$30.5 million was due and payable on June 30, 2007. WCCA used a portion of the Series 2007A bond proceeds to pay the outstanding loan balance of \$30.5 million.

## RESULTS OF ANALYSIS

### THE WASHINGTON CONVENTION CENTER AUTHORITY'S FY 2008 PROJECTED REVENUES AND EXCESS RESERVE APPEAR SUFFICIENT TO COVER PROJECTED EXPENDITURES AND RESERVE REQUIREMENTS

WCCA's FY 2008 projected revenues from dedicated taxes and operating revenue, and projected excess amounts in reserve accounts are estimated to total approximately \$171.95 million. This includes \$86 million in dedicated tax revenue,<sup>12</sup> \$15.84 million in operating revenue, and \$70.11 million in excess reserve funds. The Auditor noted that WCCA's receipt of dedicated taxes may be delayed if OTR does not timely reconcile and transfer dedicated sales tax receipts from the Exceptions Account.<sup>13</sup> The Auditor noted the risk of delayed Exceptions Account transfers in a separate report issued in FY 2004.<sup>14</sup> The Auditor has also noted the risk of delayed Exception Account transfers in FY 2006 and FY 2007 sufficiency certification reports dated September 27, 2005 and July 14, 2006, respectively.<sup>15</sup>

WCCA's FY 2008 projected operating, capital, and debt service expenditures and reserve requirements are estimated to total approximately \$89.88 million and include: \$34.92 million for debt service, \$10.34 million for payment to marketing agencies, \$37.07 million for operating expenses, and \$6.5 million for capital improvement expenditures. Moreover, WCCA's projected expenditures for other costs associated with its central plant (interest expense and financing arrangements) total \$1.05 million. In addition, WCCA's CFO estimates that an additional \$30.26

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<sup>12</sup>See letter dated May 8, 2007 from the District's Chief Financial Officer to the Mayor of the District of Columbia and the Chairman of the Council of the District of Columbia, certifying the District's revenue estimates for FY 2007 to FY 2011. The CFO's certification also presents the OCFO's estimated dedicated tax transfers to WCCA for those fiscal years.

<sup>13</sup>The Exceptions Account is a temporary holding account for deposits of sales tax returns and payments that contain problems or errors. Payments accompanying such returns are held in the Exceptions Account until they can be analyzed, properly researched, and the problem(s) resolved.

<sup>14</sup>See the Auditor's Report entitled, "Analysis of the Office of the Chief Financial Officer's Exceptions Account for Fiscal Years 2003 and 2004, as of June 2004," issued September 30, 2004.

<sup>15</sup>See the Auditor's Report entitled, "Letter Report: Certification 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 2006," issued September 27, 2005. See also the Auditor Report entitled, "Letter Report: Certification 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 2007," issued July 14, 2006.



million will be necessary to replenish the excess reserve estimate<sup>16</sup> to its projected FY 2008 ending balance. WCCA's projected operating, capital improvement, and debt service expenditures of \$89.88 million and the additional \$30.26 million necessary to increase the excess reserve estimate to its projected balance in FY 2008 total \$120.14 million.

The Auditor's analysis indicates that WCCA's revenues and excess reserve estimate appear sufficient to cover projected operating and debt service expenditures, reserve requirements, and capital improvement expenditures for FY 2008. In fact, WCCA's FY 2008 revenues and excess reserve are projected to exceed expenditures by approximately \$51.81 million. The use of the \$51.81 million projected excess revenue and excess reserve over projected expenditures is restricted in accordance with the Amended Master Trust Agreement.<sup>17</sup>

Table I presents the sufficiency calculation of WCCA's projected revenues and excess reserve to meet projected expenditures and reserve requirements for FY 2008.

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<sup>16</sup>WCCA's excess reserve estimate reflects the sum of the amounts deposited in excess of the minimum reserve balances in the Operating and Marketing Reserve Account, the Revenue Stabilization Account, the Operating Account, the Capital Renewal and Replacement Fund, and the Senior Debt Service Account as certified by WCCA's Chief Financial Officer by letter dated July 2, 2007. The actual excess reserve balance for FY 2006 was \$36.8 million. The excess reserve estimate for FY 2008 is \$70.11 million.

<sup>17</sup>In accordance with the provisions of the Amended Master Trust Agreement, the dedicated tax receipts and all monies and investment obligations are pledged as security for the bonds.

**TABLE I**

**Sufficiency Calculation of WCCA's Projected Revenues and Excess Reserve to Meet Projected Expenditures and Reserve Requirements for Fiscal Year 2008  
(in millions)**

<u>Category</u>	<u>Amount</u>
<b>Revenues</b>	
FY 2008 Dedicated Tax Estimate	\$86.00
FY 2008 Operating Revenue Estimate	<u>15.84</u>
Subtotal Revenues	\$101.84
<hr/>	
<b>Reserve</b>	
Excess Reserve Estimate	<u>\$70.11</u>
<b>Sum of Projected FY 2008 Revenues and Excess Reserve Estimate</b>	<b>\$171.95</b>
<hr/>	
<b>Expenditures</b>	
Debt Service	\$34.92
Operating Expenditures	37.07
Marketing Agencies	10.34
Capital Improvement Expenditures	6.50
Other Interest Expense & Financing Arrangements (Central Plant)	1.05
Reserve Requirements <sup>18</sup>	-0-
Restoration of Reserves Related to Debt	<u>-0-</u>
<b>Sum of Projected FY 2008 Expenditures</b>	<b>\$89.88</b>
<hr/>	
Estimated FY 2008 Increase in Excess Reserve	\$30.26*
<b>Sum of Projected FY 2008 Expenditures and Increase in Excess Reserve</b>	<b><u>\$120.14</u></b>
<b>Projected Revenue and Excess Reserve Estimate Over Projected Expenditures</b>	<b><u>\$51.81</u></b>

Sources: WCCA's FY 2008 Budget Submission and Supporting Documentation, and the OCFO's FY 2008 dedicated tax revenue estimate.

\*The excess reserve estimate for FY 2008 is \$70.11 million. Because the excess reserve estimate for FY 2007 is \$39.85 million, the difference of \$30.26 million represents an increase in the FY 2008 balance which will be funded from WCCA's FY 2008 dedicated tax revenues.

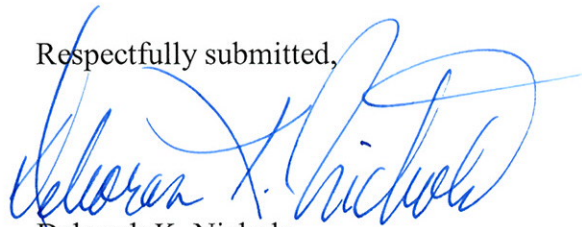
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<sup>18</sup>D.C. Law 10-188, as amended, did not define "reserve requirements." In the absence of a definition and for purposes of this sufficiency review, the Auditor interprets "reserve requirements" to include amounts necessary to establish and fund new reserves and to restore existing reserves, excluding reserves related to indebtedness, to their required minimum balances.

**AUDITOR’S CERTIFICATION**

Based upon the Auditor’s analysis of information provided by WCCA and ORA, as of the date of this certification, WCCA’s total projected revenues and excess reserve estimate of \$171.95 million for FY 2008 appear sufficient to cover its projected operating and debt service expenditures, reserve requirements, and projected capital improvement expenditures totaling \$120.14 million. According to the Auditor’s calculation, WCCA’s FY 2008 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$51.81 million. These factors taken as a whole constitute a reasonable basis for the Auditor’s sufficiency certification. Therefore, the Auditor hereby certifies that, as of the date of this certification, WCCA’s projected revenues and excess reserve should be sufficient to meet projected expenditures and reserve requirements for FY 2008.

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor

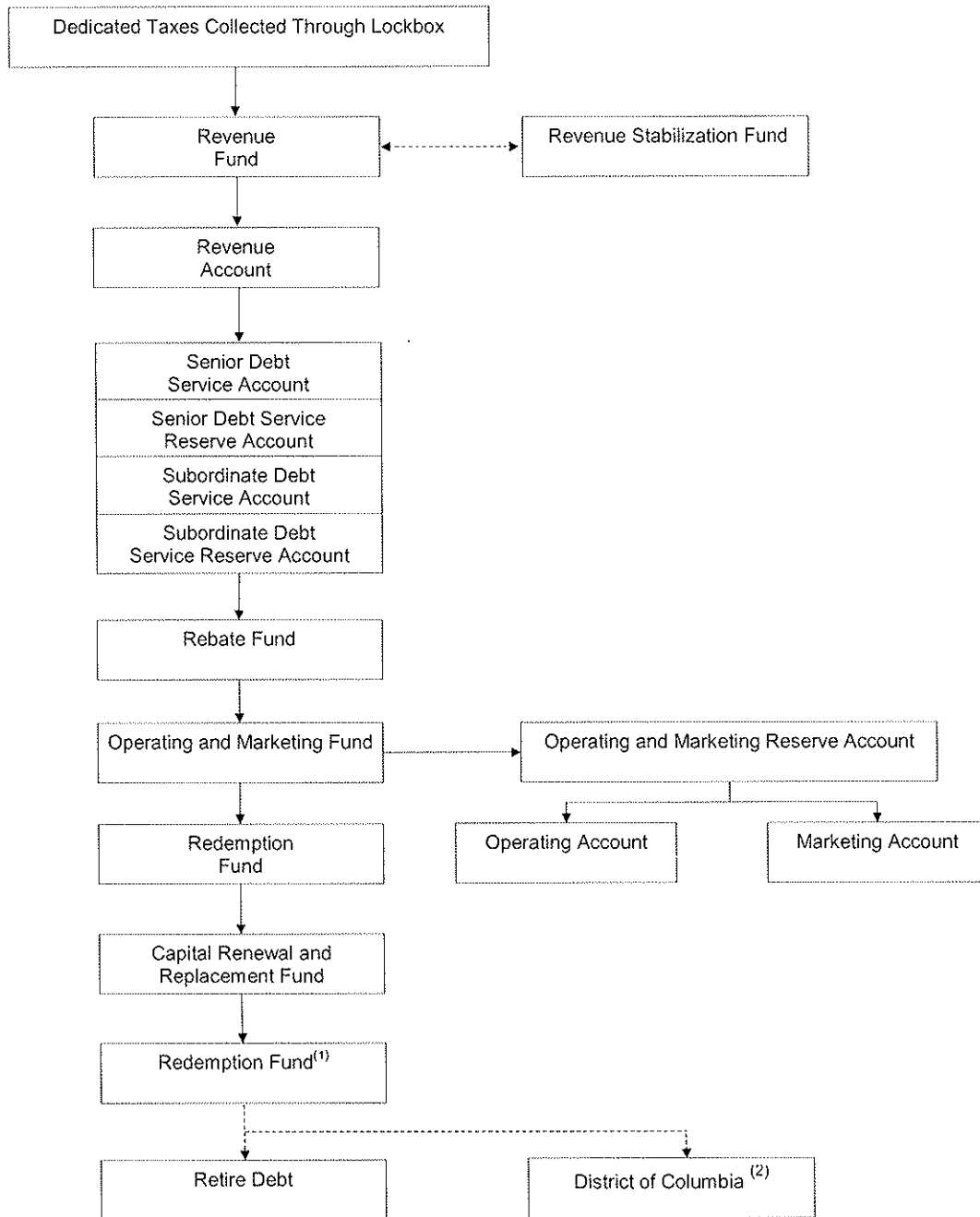
# **APPENDICES**

**Summary of Certain Funds and Accounts  
In the Amended Master Trust Agreement**

	Senior Debt Service Reserve Account	Operating and Marketing Reserve Account	Capital Renewal and Replacement Fund	Revenue Stabilization Account	Redemption Fund
Projected Balance as September 30, 2008	\$65,611,536	\$44,715,496	\$22,476,934	\$3,431	\$0
Minimum Balance Required Before Surtax Triggered	Not applicable	Six months of the budgeted operating and marketing expenses of WCCA, (currently estimated to be \$23,300,000)	2% of Costs of Projects, adjusted for inflation (estimated to be \$17,000,000)	Not applicable	Not applicable
Maximum Permitted Per Amended Master Trust Agreement	Not applicable	1.5x annual operating and marketing budget (combined with Revenue Stabilization Account)	5% of Costs of Projects, adjusted for inflation	1.5x annual operating and marketing budget (combined with O&M Reserve Account Balance)	Not applicable
Fill-up Mechanics	To Minimum Level Required: -Follows flow of funds priority	To Minimum Level Required: -Follows flow of funds priority	To Minimum Level Required: -Follows flow of funds priority	Deposits to Revenue Stabilization Account can be made only after all other Funds and Accounts are fully funded in each semi-annual period	Deposits made from excess at Fiscal Year-end
	Discretionary in Excess of Minimum:	Discretionary in Excess of Minimum:	Discretionary in Excess of Minimum:		
	-Can only be filled on any April 1 or October 1 when all other Funds and Accounts are fully funded	-Can only be filled on any April 1 or October 1 when all other Funds and Accounts are fully funded	-Can only be filled on any April 1 or October 1 when all other Funds and Accounts are fully funded		

Flow of Funds

The Amended 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.



1. For reimbursement obligations and swap termination payments, if any.  
 2. Any excess may flow, at the direction of an Authorized Officer of WCCA, to the General Fund of the District at the end of a Fiscal Year only after debt service requirements are satisfied, reserves are filled to the maximum allowable levels, and WCCA has met its pay as you go capital spending needs.