



Office of the District of Columbia Auditor

016:12:TM:AW:cm

**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 2013**

July 12, 2012

Audit Team:

Toya Murphy, Analyst

Amy Wu, Financial Auditor

Yolanda Branche, District of Columbia Auditor



016:12:TM:AW:cm

The Honorable Phil Mendelson, Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W. Suite 402
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 2013

Dear Chairman Mendelson:

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 WCSA's 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 2013 revenue sufficiency.

OBJECTIVE, TIME FRAME, AND METHODOLOGY

The objective of this analysis was to determine whether WCSA's FY 2013 projected dedicated tax revenues, operating revenues, and excess reserve will be sufficient to meet WCSA's FY 2013 projected expenditures and reserve funding requirements.

We reviewed WCSA's financial records and data for FYs 2009 through 2011 and FY 2012, as of May 2012.

The sufficiency review was 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 WCSA's projections of FY 2013 revenues, expenditures, and excess reserve. The Auditor believes that this review provides a reasonable basis for ODCA's FY 2013 revenue sufficiency certification statement.

To accomplish our review objectives, the Auditor:

- (a) reviewed applicable minutes of the WCSA Board of Directors;
- (b) interviewed WCSA personnel;
- (c) reviewed WCSA's audited financial statements for FY 2009 through FY 2011 and WCSA's FY 2012 internal unaudited financial statements, as of May 31, 2012;
- (d) reviewed WCSA's FY 2013 budget, as approved by the WCSA Board of Directors;
- (e) performed detailed analyses of WCSA's historical and projected revenues, expenditures, and reserves;
- (f) analyzed WCSA's pending claims or judgments;
- (g) analyzed trends in events booked at WCSA; and
- (h) reviewed available tourism data for FYs 2010 through 2012.

The Auditor relied on dedicated tax revenue information provided by the Office of Revenue Analysis (ORA) and representations and other financial information provided by WCSA officials to determine the reliability and sufficiency of WCSA's projected revenues for FY 2013.

The Auditor notes that revenue, reserve and expense estimates are based on information that can change rapidly, thus resulting in revisions to estimates after the Auditor's certification. Consequently, the Auditor does not, and cannot, guarantee the validity of revenue, reserve and expense estimates. The Auditor only certifies that the dedicated tax revenue estimate, operating revenue estimate, expense estimate, and excess reserve estimate at the time of certification, as presented in Figure 1, 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: (a) ORA officials provided sound estimates of dedicated tax revenues for the upcoming fiscal year; and (b) WCSA officials fully disclosed and provided the Auditor with reliable and accurate information regarding WCSA's operating revenue, operating and capital improvement expenses, debt service and marketing contract costs, and any other expenses relevant to the Auditor's sufficiency certification.

AGENCY ACCOMPLISHMENTS

WCSA provided the Auditor with the following list of accomplishments:

- In May 2011, the Authority assumed administrative control of the Carnegie Library, designating the Library as the future home of the city's new state-of-the-art Visitors Center and an ideal venue for special-events programming. Events DC reopened the Carnegie Library after the completion of renovations in March 2012. As a complement to the Convention Center, the Carnegie Library operates as a unique special events venue, while Events DC develops other opportunities for creating economic impact in the local community. The Historical Society of Washington, DC continues to reside at the Library, where it operates its renowned Kiplinger Research Library and present exhibits as well as other programming.
- In June 2011, the WCSA unveiled Events DC, a new brand designed to elevate the organization's visibility, create a unified marketing presence for the destination and more clearly communicate the Authority's offerings to the marketplace.
- In September 2011, the Authority launched its first, fully owned-and-operated sports event, the AT&T Nation's Football Classic, bringing nearly 18,500 football fans together to watch Howard University and Morehouse College reignite their Historically Black Colleges and Universities gridiron rivalry at RFK Memorial Stadium. In addition to the football game, people also enjoyed free educational and social events around Washington, DC. The game generated a \$3.4 million in economic impact to the District.

BACKGROUND

The Washington Convention Center Authority was established September 28, 1994. Effective October 1, 2009, WCCA merged with the D.C. Sports and Entertainment Commission (DCSEC) to create the Washington Convention and Sports Authority.

WCSA owns and manages the Walter E. Washington Convention Center (Convention Center), and the Stadium Armory Campus. The Stadium Armory Campus includes the Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds. Additionally, WCSA is the owner and landlord of the Nationals Park.

Effective June 22, 2011, WCSA adopted Events DC as its 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. The Events DC brand reflects WCSA's broader mission and expanded portfolio of venues resulting from the merger with DCSEC in October 2009.

WCSA is currently governed by an 11 member Board of Directors (Board). The Board consists of the District of Columbia CFO and another District government official designated by the Mayor. The CFO and Mayoral designee serve as ex-officio voting members with four-year terms. Additionally, nine public members, which 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 hotel industry, restaurant industry and organized labor, and the remaining six members must possess expertise in economic development, construction, tourism, municipal finance, or business finance. The daily management of WCSA is under the direction of a Chief Executive Officer and General Manager who is appointed by WCSA's Board.

Auditor’s Analysis

We reviewed WCSA’s revenues (dedicated taxes and operating revenue), expenses, and excess reserve fund to determine the reasonableness of WCSA’s FY 2013 projections.

Dedicated Taxes

WCSA receives 4.45 percent of the District’s 14.5 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. This revenue is classified as non-operating revenue for WCSA, and is included in WCSA’s annual budget. ORA provides the dedicated tax revenue projection to WCSA. According to ORA, as of December 2011, the FY 2013 dedicated tax revenue estimate is \$101.8 million.

Operating Revenue

WCSA has two main divisions that generate operating revenue, the Convention and Meetings Division and the Sports and Entertainment Division. During FY 2012, WCSA expanded its Convention and Meeting Division to include events held at the Carnegie Library. As provided in Table 1 below, WCSA’s FY 2013 operating revenue estimate is \$26.9 million.

Table 1 – WCSA’s FY 2013 Estimated Operating Revenues

Revenue Category	FY 2013 Budget
Convention and Meetings Division	\$ 19,777,217
Sports and Entertainment Division	\$ 5,907,698
Carnegie Library	\$ 1,198,000
Total Operating Revenues	\$ 26,882,915

Operating Expense

WCSA's operating expenses include personal services (staff), contractual services, utility costs, the cost of equipment and supplies, as well as miscellaneous costs. Non-operating expenses include debt service (interest payments on the bonds that were issued to construct the convention center) and payments to marketing agencies to promote conventions and tourism in the District. As provided in Table 2 below, WCSA's FY 2013 operating expense projection is \$47.5 million.

Table 2 – WCSA's FY 2013 Estimated Operating Expenses

Expense Category	FY 2013 Budget
Convention and Meetings Division	\$ 37,542,299
Sports and Entertainment Division	\$ 8,373,632
Carnegie Library	\$ 1,568,947
Total Operating Expenses	\$ 47,484,878

Excess Reserve Fund

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 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, represents WCSA's "excess reserve". WCSA has the authority to use its excess reserve to cover projected operating and debt services expenditures and reserve requirements. Based on the FY 2013 sufficiency calculation, see Figure 1, WCSA will rely on the excess reserve to cover projected expenditures. Projected expenditures are estimated to exceed projected revenues by \$ 6.4 million.

Conclusions

Based on our review we concluded the following:

- The WCSA has met their dedicated tax estimate in FY 2009, FY 2010 and FY 2011 and WCSA is on track to meet the FY 2012 estimate. The FY 2013 dedicated tax estimate is \$101.8 million, an increase of 1.3% over the FY 2012 estimate of \$100.5 million.
- For FYs 2009 to 2011, the Convention and Meetings Division met and exceeded its operating revenue projection by an average of \$1.48 million or 8.7%, over the three year period.
- The WCSA's Convention and Meetings Division currently has 80 events scheduled for FY 2013, with projected revenue of \$18.9 million.
- Expenses for the Convention and Meetings and Sports and Entertainment Divisions have historically been under budget. WCSA has demonstrated its ability to effectively manage its operating expenses.

Other Observations

During our review we noted that: (1) WCSA's Sports and Entertainment Division did not meet its revenue projections for FY 2010 and FY 2011, (2) WCSA's excess reserve balance decreased primarily as a result of initiatives approved by the Board of Directors (3) WCSA's new venue, the Carnegie Library, is a new revenue source; therefore WCSA's ability to generate the projected revenue for the Carnegie Library in FY 2013 is unknown. However, we believe these observations should not affect WCSA's ability to cover its FY 2013 projected expenditures and reserve requirements. Our observations are detailed in the following paragraphs.

WCSA's Sports and Entertainment Division

During FY 2010 and FY 2011 the WCSA's Sports and Entertainment Division did not meet its revenue projection. Table 3 presents the Sports and Entertainment Division's actual revenue for fiscal years 2010 and 2011.

Table 3 - WCSA's Sports and Entertainment Division's Projected Revenue compared to Actual Revenue

	Projected Revenue	Actual Revenue
Fiscal Year 2010	\$ 3,989,000	\$ 3,437,000
Fiscal Year 2011	\$ 5,320,000	\$ 4,963,000

The WCSA's Sports and Entertainment division's FY 2013 revenue projection is \$5.9 million, approximately 3 percent of WCSA's FY 2013 revenue and excess reserve estimate. WCSA's Sports and Entertainment division currently has \$ 3.7 million in projected event related revenue scheduled for FY 2013. In April 2011, the WCSA's Sports and Entertainment Division hired a Director of Sales and Sponsorship. This position had been vacant for eight months. The Sports and Entertainment Division anticipates that filling this position will aid WCSA in attracting new business to meet its FY 2013 revenue projection.

Excess Reserve

As a result of initiatives approved by the Board of Directors that were deferred until FY 2013, WCSA's excess reserve balance decreased. The Board set aside excess reserve funds to fund the following projects that total \$38.5 million in FY 2013:

1. Baseball Academy - \$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 to Armory;

4. FY 2013 Capital Budget - \$14.4 million;
5. Pedestrian Tunnel – \$2.5 million for the underground connector between Walter E. Washington Convention Center and the new hotel; and
6. Consumer Show- \$4 million. WCSA is exploring the acquisition of a consumer show to be hosted at the Walter E. Washington Convention Center as part of the overall revenue enhancement strategy.

Carnegie Library

On May 5, 2011, WCSA and the District of Columbia entered into a Memorandum of Understanding (MOU) which gave WCSA administrative jurisdiction and all rights and obligations over the Carnegie Library based on the terms and conditions set forth in the MOU. WCSA occupies 80% of the Carnegie Library. The Carnegie Library will serve as a special events venue and showcase WCSA's versatility by hosting galas, weddings, receptions, holiday parties and press events. The Carnegie Library opened for events related business in April 2012 and generated \$27,693 in revenue, as of May 2012. For FY 2013, the revenue projection for the Carnegie Library is \$1,198,000, with \$360,745 in potential business currently scheduled. Due to the following factors: (1) WCSA has only three months of revenue data in FY 2012, (2) the Carnegie Library is a new venue for WCSA and (3) WCSA has scheduled 30% of the FY 2013 projected revenue as of June 2012, the Auditor had a limited amount of information available to assess WCSA's ability to generate \$1,198,000 in revenue in FY 2013. WCSA hired a Sales Manager in April 2012, who will work to attract new business to Carnegie Library. The WCSA Sales Manager will help increase the number of events held at Carnegie Library.

Notwithstanding these items, WCSA's projected revenues and excess reserve will exceed expenditures in FY 2013. WCSA's FY 2013 projected revenues and excess reserve are projected to exceed expenditures by approximately \$35.8 million. Figure 1 presents WCSA's FY 2013 sufficiency calculation.

Figure 1

**Sufficiency Calculation of WCSA's Projected Revenues and Excess Reserve
to Meet Projected Expenditures and Reserve Requirements
For Fiscal Year 2013
(millions)**

<u>Category</u>	<u>Amount</u>
Revenues (Estimate)	
FY 2013 Dedicated Tax (December 2011 estimate)	\$101.8
FY 2013 Operating Revenue	26.9
FY 2013 Interest Income	<u>1.6</u>
Subtotal of Projected FY 2013 Revenues	\$130.3
<hr/>	
Reserve (Estimate)	
Excess reserve	<u>\$ 42.2</u>
Sum of Projected FY 2013 Revenues and Excess Reserve Estimate	\$172.5
<hr/>	
Expenses (Estimate)¹	
Debt Service	\$36.1
Operating Expenditures	47.5
Marketing Agencies	14.5
Capital Improvement Expenditures	<u>38.6</u>
Sum of Projected FY 2013 Expenditures	\$136.7
<hr/>	
WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	<u>\$35.8</u>

Source: WCSA Cash and Investment Manager

Based on our review of WCSA's FY 2013 sufficiency estimate, we determined that WCSA's FY 2013 projected revenues and excess reserves are sufficient to meet WCSA's FY 2013 projected expenditures and reserve requirements.

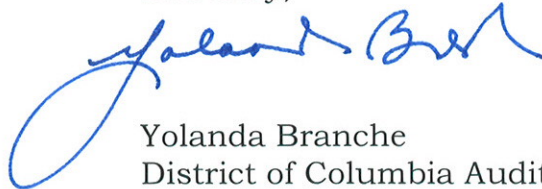
¹ When compared to the FY 2012 sufficiency calculation it is noted that during FY 2013, WCSA is projected to make a payment of \$47 million to the Headquarters Hotel project and \$1 million will be set aside to continue to operate the Opportunity Fund. During FY 2013, these payments will be made from WCSA's restricted reserve funds, therefore the payments projected for FY 2013 are not included in the FY 2013 sufficiency calculation.

Sufficiency Certification for WCSA's Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for FY 2013

AUDITOR'S CERTIFICATION

Based upon the Auditor's 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 2013 are sufficient to cover its projected expenditures. WCSA's FY 2013 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$35.8 million. This, we believe, constitutes a reasonable basis for the Auditor's sufficiency certification.

Sincerely,

A handwritten signature in blue ink, appearing to read "Yolanda Branche". The signature is fluid and cursive, with a large loop at the beginning.

Yolanda Branche
District of Columbia Auditor