



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 2016

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A Report by the Office of the District of Columbia Auditor
Kathleen Patterson, District of Columbia Auditor

The Honorable Phil Mendelson, Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 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 2016

Dear Chairman Mendelson:

Included herein is the Office of the District of Columbia Auditor’s 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 2016.” Pursuant to D.C. Code §10-1203.05 (b), the District of Columbia Auditor shall 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 their projected expenditures and reserve requirements for the upcoming fiscal year (FY).

This certification letter report sets forth the Auditor’s determination that the WCSA’s FY 2016 projected revenue and excess reserve is sufficient to meet the requirements of the upcoming fiscal year.

Objectives, Scope and Methodology

The objective of this analysis was to determine whether WCSA’s FY 2016 projected revenues and excess reserve will be sufficient to meet WCSA’s FY 2016 projected expenditures and reserve requirements.

The scope of this review included WCSA’s financial records and data for FYs 2012 through 2014 and FY 2015, as of March 2015. Our review also included a review of WCSA’s FY 2016 projected revenues, expenditures and reserves.

To accomplish our objective, we conducted a detailed review of WCSA’s FY 2016 projected revenues and expenses for each division including Convention and Meetings and Sports and Entertainment. We reviewed WCSA’s audited financial statements for FY 2012 through FY 2014, WCSA’s FY 2015 internal unaudited financial statements, as of March 31, 2015 and WCSA’s FY 2015 and FY 2016 budget, as approved by the WCSA Board of Directors. We also performed detailed analyses of WCSA’s historical and projected revenues and expenditures, analyzed trends in events booked at WCSA and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's FY 2016 non-operating revenues, non-operating expenses, and excess reserve.

In compliance with the D.C. Official Code, Section §10-1203.05 (b)¹ the Auditor conducted a sufficiency review to determine if WCSA's FY 2016 projected revenues and excess reserve were sufficient to meet WCSA's projected expenditures and reserve requirements.

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 Office of the Chief Financial Officer (OCFO) to determine the reliability and sufficiency of WCSA's projected revenues for FY 2016.

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, 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: (a) WCSA officials fully disclosed and provided the Auditor with reliable and accurate information regarding WCSA's revenue, operating and capital improvement expenses, debt service and marketing contract costs, and other expenses relevant to the Auditor's sufficiency certification; and (b) Office of the Chief Financial Officer (OCFO) officials provided sound estimates of dedicated tax revenues for the upcoming fiscal year.

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.

Results of the Auditor's Examination

We reviewed WCSA's revenues, expenditures, and excess reserves to determine the reasonableness of WCSA's FY 2016 projections. The results of our analysis are documented below.

Revenue

Operating Revenue

WCSA has two divisions that generate operating revenue, the Conventions and Meetings division (which includes Carnegie Library) and the Sports and Entertainment divisions. WCSA's operating revenues include revenue generated from conventions and meetings, sports events, entertainment events, parking, advertising, and sponsorships. WCSA's FY 2016 operating revenue estimate is \$26.2 million and accounts for 15.5 percent of the total FY 2016 projected revenue.

Figure 1 presents WCSA's FY 2016 estimated operating revenues per WCSA's FY 2016 budget.

Figure 1

WCSA's FY 2016 Estimated Operating Revenues

Revenue Category	FY 2016 Projected Revenue
Convention and Meetings Division	\$19,432,672
Sports and Entertainment Division	5,529,634
Carnegie Library	1,200,000
Total Operating Revenue	\$26,162,306

Non-Operating Revenue

WCSA receives non-operating revenue from dedicated taxes, Tax Increment Financing (TIF) revenue, an IRS subsidy, lease income, a District transfer to Destination DC, and interest income.

WCSA is projected to receive 68.8 percent of their FY 2016 projected revenue from Dedicated Taxes received from the District. 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 the premises, and automobile rental charges. The Chief Financial Officer (CFO) provides the dedicated tax revenue projection to WCSA. According to the CFO's quarterly revenue estimate, as of December 2014², the FY 2016 dedicated tax revenue estimate is \$116.5 million.

WCSA receives TIF revenues, lease payments and an IRS subsidy, as a result of the Marriott Marquis Headquarters' Hotel financing. The funds generated from these revenue categories are used to fund the debt service on the bonds.

WCSA receives the TIF revenues from a portion of the sales and use and property taxes generated by the Marriott Marquis Headquarters Hotel. The TIF revenue estimates were calculated during a Market Study

² The CFO quarterly estimate, provided on December 30, 2014, was used by WCSA to formulate the FY 2016 approved budget.

conducted when the WCSA Series 2010 bonds were issued. The hotel opened May 2014 and during FY 2014 WCSA collected \$4.13 million in TIF revenue. The projected TIF revenue for FY 2015 is \$16.7 million and \$17.8 million in FY 2016.

WCSA generates lease revenue from leasing the Plumber’s building³ to the owners of the Marriott Marquis Headquarters Hotel. The projected lease payment is \$2.4 million in FY 2016.

The projected IRS subsidy is \$2.6 million. To finance the Convention Center hotel project, WCSA issued Build America Bonds. Build America Bonds provide a subsidy through a refundable tax credit paid in an amount equal to 35 percent of the total coupon interest payable to investors on these taxable bonds.

WCSA also receives a \$3.1 million⁴ transfer from the District that is paid directly to Destination DC⁵, a private non-profit that operates as the WCSA’s promotional arm.

Figure 2 presents WCSA’s FY 2016 estimated non-operating revenues per WCSA’s FY 2016 budget.

Figure 2

WCSA’s FY 2016 Estimated Non-Operating Revenues

Revenue Category	FY 2016 Projected Revenue
Dedicated Taxes	\$116,542,000
Interest Income	700,000
TIF Revenue – Hotel	17,771,000
IRS Subsidy – Hotel bonds	2,627,673
Lease Payment – Plumber’s Building	2,369,000
District Transfer to DCC Marketing	3,114,592
Total Non-Operating Revenue	\$143,124,265

Expenses

Operating Expenses

WCSA’s operating expenses include personal services, professional/contractual services, utility costs, and the cost of equipment and supplies.

As provided in Figure 3 below, WCSA’s FY 2016 operating expense projection is \$49.9 million.

³ The Marriott Marquis Headquarters’ Hotel incorporates the site’s original historic Samuel Gompers AFL-CIO headquarters, known as the "Plumbers Building,"

⁴ During the District’s budget process, the FY 2016 District Transfer was reduced to \$3.1 million which represents an \$885,408 or 22.1 percent decrease from the FY 2015 approved amount of \$4 million.

⁵ 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 2016 Estimated Operating Expenses

Expense Category	FY 2016 Projected Expenses
Convention and Meetings Division	\$40,659,121
Sports and Entertainment Division	8,156,322
Carnegie Library	1,042,139
Total Operating Expenses	\$49,857,582

Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism and debt service payments.

Figure 4 presents WCSA's FY 2016 estimated non-operating expenses per WCSA's FY 2016 budget.

Figure 4

WCSA's FY 2016 Estimated Non-Operating Expenses

Expense Category	FY 2016 Projected Expenses
Marketing Fund	\$19,789,310
Debt Service	51,528,599
Total Non-Operating Expenses	\$71,317,909

Excess Reserves 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, 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.

Conclusion

Noted below are key observations that were noted during our review of WCSA's FY 2016 projected revenues, expenses and excess reserves.

Convention and Meetings Division

For FYs 2012 through 2014, the Convention and Meetings Division has met and exceeded its operating revenue projection. For FY 2014, actual operating revenue exceeded budget by approximately 3 percent. As of March 31, 2015, the Division has collected 56.6 percent of its FY 2015 approved budget.

We conclude that the Division is on track to meet its FY 2015 operating revenue projection. Given the trend of being able to meet or exceed revenue projections over the past several fiscal years, it appears reasonable that the Division will meet its FY 2016 operating revenue projection.

WCSA's Sports and Entertainment Division

During FYs 2012 through 2014 the Sports and Entertainment Division did not meet its revenue projection. During FY 2014, the Division generated \$4.7 million in revenue, \$793,000 or 15 percent less than projected.

As of March 2015, the Sports and Entertainment division has generated 33 percent of its FY 2015 projected revenue of \$5.5 million.

Based on the analysis conducted, we are not able to conclude that the Division will meet its FY 2016 revenue projection. The Division has not met its revenue projections in prior years and its FY 2015 year to date collections suggest that they are not on pace to meet the FY 2015 revenue projection. Similar to last year, WCSA has redirected its focus to the Festival Grounds at RFK and is looking to explore additional opportunities at the DC Amory to obtain additional revenue.

Although the Division's ability to meet its FY 2016 revenue projection of \$5.5 million is not assured, its ability to effectively manage expenses should compensate for any FY 2016 revenue shortfall. During FY 2012 to 2014, actual expenses were under budget.

Carnegie Library

In FY 2014, operating revenue was \$1.1 million, an increase of \$137,000 when compared to FY 2013. The increase in revenue was due to an increase in Carnegie Library operations, which hosted additional large events in FY 2014. Despite the increase in revenue, actual revenues still fell short of the FY 2014 projection by \$378,000.

Carnegie Library event bookings were placed on hold during the end of FY 2014 and beginning of FY 2015 in anticipation that the Spy Museum would relocate there. After months of meetings and revisions with the District of Columbia's Historic Preservation Review Board (HPRB), along with various federal and local agencies, WCSA withdrew its plans for the proposed redevelopment of the historic Carnegie Library to house the Spy Museum.

With only a few years of full operation, and limited activity in which to assess the reasonableness of the Carnegie Library revenue projection, it is difficult to determine if the FY 2016 revenue projection of \$1.2 million is reasonable. However, based on our analysis we believe that Carnegie Library's FY 2016 revenue projection may be attainable with increased marketing efforts by WCSA.

In conclusion, based on our review of WCSA's FY 2016 revenue and expense estimates, we determined that WCSA's FY 2016 projected revenues and excess reserves are sufficient to meet its FY 2016 projected expenditures and reserve requirements.

Figure 5 presents WCSA's FY 2016 sufficiency calculation.

Figure 5

Fiscal Year 2016 Sufficiency Calculation

<u>Category</u>	<u>Amount</u>
Revenues (Estimate)	
Dedicated Tax (December 2014 estimate)	\$116.5
TIF Revenue	17.8
IRS Subsidy	2.6
Lease Payment	2.4
Operating Revenue	26.1
District Transfer	3.1
Interest Income	<u>0.7</u>
Subtotal Revenues	\$169.2
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Reserves (Estimate)	
Excess reserves	<u>\$48.8</u>
Sum of Projected FY 2016 Revenues and Excess Reserve Estimate	\$218.0
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Expenditures (Estimate)	
Debt Service	\$51.5
Operating Expenditures	49.9
Marketing Agencies	19.8
Capital Improvement Expenditures	<u>8.5</u>
Sum of Projected FY 2016 Expenditures	\$129.7
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WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	<u>\$88.3</u>

Source: WCSA Cash and Investment Manager

Auditor's Certification

Based upon the Auditor's analysis of information provided by the WCSA and OCFO, as of the date of this certification, July 15, 2015, WCSA's total projected revenues and excess reserve estimate for FY 2016 are sufficient to cover its projected expenditures. WCSA's FY 2016 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$88.3 million. This, we believe, constitutes a reasonable basis for the Auditor's sufficiency certification.

Sincerely,



Kathleen Patterson
District of Columbia Auditor