

# Events DC Sufficiency Certification for Fiscal Year 2023

August 17, 2022

A report by the Office of the District of Columbia Auditor



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August 17, 2022

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 Sufficiency Certification for Fiscal Year 2023**

Dear Chairman Mendelson:

What follows is the Office of the District of Columbia Auditor report, **Events DC Sufficiency Certification for Fiscal Year 2023**. Pursuant to D.C. Code § 10-1203.05(b), the District of Columbia Auditor is required to 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) (trading as Events DC), 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 explains the Auditor's determination that the WCSA's FY 2023 projected revenues and excess reserves are sufficient to meet the requirements of the upcoming fiscal year.

### **Objective, Scope, and Methodology**

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The objective of this analysis was to determine whether WCSA's projected dedicated tax revenue, operating revenues, and excess reserves will be sufficient to meet its projected operating and debt service expenditures and reserve funding requirements for FY 2023.

The scope of this analysis included WCSA's financial records and data for FY's 2019 through 2021 and FY 2022, as of March 31, 2022. Our analysis also included a review of WCSA's FY 2022 (April through September) and FY 2023 projected revenues, expenditures, and reserves.

To accomplish our objective, we conducted a detailed review of WCSA's FY 2023 projected and historical operating revenues and expenses for the Convention and Meetings and Sports and Entertainment Divisions. This review included analysis of financial information included in WCSA's audited financial statements for FY 2019 through FY 2021, WCSA's FY 2022 internal financial reports as of March 31, 2022,

WCSA's FY 2022 and FY 2023 budgets approved by the WCSA Board of Directors, as well as Office of the Chief Financial Officer (OCFO) revenue estimates from February 2022. We also analyzed trends in events booked at WCSA and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's projected FY 2023 non-operating revenues, non-operating expenses, and excess reserves.

In compliance with D.C. Code § 10-1203.05(b)<sup>1</sup> the Auditor conducted a sufficiency review to determine if WCSA's FY 2023 projected revenues and excess reserves were sufficient to meet WCSA's projected expenditures and reserve requirements. This sufficiency review was not conducted as an audit.

By statute,<sup>2</sup> ODCA's Sufficiency Review is due by July 15 of each year. On June 28, 2022, Events DC finalized the sale of the land underneath the Marriott Marquis HQ Hotel (District Ground Lease Payment/Plumber's building) to the owners of the Marriott Marquis Hotel. The proceeds from the sale resulted in a revised sufficiency calculation provided to ODCA after the settlement. ODCA notified the D.C. Council and WCSA on June 29, 2022, that it was unlikely ODCA would complete the sufficiency certification by the mandated due date.

Throughout our review, ODCA evaluated and discussed in detail with WCSA personnel the impact of COVID-19 on WCSA's operations. Because of COVID-19 and related public safety restrictions, WCSA events saw reduced attendance for the first half of Fiscal Year 2022. ODCA's FY 2023 sufficiency certification assumes that WCSA will be operating in a normal fashion, hosting in-person events for the full year.

To conduct the sufficiency review, ODCA relied on representations and other financial information provided by WCSA officials. Information on dedicated tax revenue was provided by outside financial institutions and the OCFO to determine the reliability and sufficiency of WCSA's projected revenues for FY 2023.

We note that revenue, reserve, and expense estimates are based on information that can change rapidly, especially in the context of COVID-19, 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.

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- 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.
- 2 D.C. Code § 10-1203.05(b).

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. 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.

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**

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WCSA's sufficiency calculation consists of WCSA's projected revenues, expenditures, 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 office and retail space rentals. WCSA's FY 2023 operating revenue estimate is \$23.64 million and accounts for 16% of the total FY 2023 projected revenue. Figure 1 presents WCSA's FY 2023 projected operating revenues per WCSA's FY 2023 budget.

Figure 1: WCSA's FY 2023 Projected Operating Revenues

Revenue Category	FY 2023 Projected Operating Revenue
Convention & Meetings Division and Carnegie Library <sup>3</sup>	\$19,491,401
Sports and Entertainment Division	\$4,150,503
<b>Total Operating Revenue</b>	<b>\$23,641,904</b>

### Non-Operating Revenue

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

WCSA is projected to receive 76.08% of its FY 2023 projected revenue from dedicated taxes levied and received by the District. WCSA receives 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.<sup>4</sup> The OCFO provides the dedicated tax revenue projection to WCSA. According to the OCFO's quarterly revenue estimate, as of February 28, 2022, the FY 2023 dedicated tax revenue estimate from these sources is \$114.3 million, which includes an annual transfer for Destination DC (DDC),<sup>5</sup> a private nonprofit that provides marketing services for the District. The transfer amount for DDC for FY 2023 is projected to be \$4.2 million.

WCSA also receives TIF revenues and lease payments.<sup>6</sup> 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.

On June 28, 2022, Events DC finalized the sale of the land underneath the Marriott Marquis HQ Hotel (District Ground Lease Payment/Plumber's building) to the owners of the Marriott Marquis Hotel for a purchase price of \$100,700,000.<sup>7</sup> Because the land sold, the District Ground/WCSA Lease Payments will no longer be made.<sup>8</sup> As mandated by the D.C. Council,<sup>9</sup> "any unobligated proceeds from the sale... shall be set aside for large capital grants to be issued...provided that the proceeds first be used to satisfy the Authority's current liabilities and legally required reserves...". Events DC plans to use proceeds from the sale to satisfy the Authority's current liabilities (approximately \$43.2 million), increase reserves (approximately \$47 million) and provide cultural grants (approximately \$10.5 million).

The non-operating revenue from TIF revenues are projected to total \$10.94 million. Figure 2 presents WCSA's FY 2023 projected non-operating revenues.

3 Beginning in Fiscal Year 2022, Events DC no longer maintains a separate budget for Carnegie Library, but includes any related expenses as a part of the Convention & Meetings Division.

4 See D.C. Code §§ 47-2002.02 and 47-2002.03.

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.

6 As of FY2021, Events DC considers TIF Revenue that is available for Events DC's budget to be Hotel Contribution Reimbursement.

7 Proceeds from the sale were \$100,658,025.

8 Final ground lease payment occurred in June 2022.

9 Section 7193 of the Fiscal Year 2020 Budget Support Act of 2019 (D.C. Law 23-0016, 66 DCR 12631); effective from September 11, 2019.

Figure 2: WCSA's FY 2023 Projected Non-Operating Revenues

Revenue Category	FY 2023 Projected Non-Operating Revenue
Dedicated Taxes	\$110,055,000
Interest Income	\$5,056,553
TIF Revenue	\$10,935,468
District Transfer to DDC Marketing	\$4,247,000
<b>Total Non-Operating Revenue</b>	<b>\$130,294,021</b>

## Expenses

### Operating Expenses

WCSA's operating expenses include staff salaries, professional/contractual services, utility costs, subsidies and transfers, and the cost of equipment and supplies. As provided in Figure 3, WCSA's FY 2023 operating expense projection is approximately \$79.67 million.

Figure 3: WCSA's FY 2023 Projected Operating Expenses

Expense Category	FY 2023 Projected Operating Expenses
Convention & Meetings Division	\$62,924,395
Sports and Entertainment Division	\$16,743,580
<b>Total Operating Expenses</b>	<b>\$79,667,975</b>

### Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism, debt service payments, and possessory interest tax.<sup>10</sup> For FY 2023 WCSA budgeted for business development funds to promote two sports events in anticipation of Washington, D.C., being selected as a host city in future years. Subsequent to the approval of the budget, D.C. was not selected to host the events and the money will be used for other promotional activities. As provided in Figure 4, WCSA's FY 2023 non-operating expense projection is \$56.7 million.

<sup>10</sup> In the District, government-owned real property used for governmental purposes is exempt from taxation. See D.C. Code § 47-1002(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 not exempt from taxation. See D.C. Code § 47-1005.01(b). Therefore, according to D.C. Code § 2-1215.02(24)(C), it is subject to a possessory interest tax by the District.

Figure 4: WCSA's FY 2023 Projected Non-Operating Expenses

Expense Category	FY 2023 Projected Non-Operating Expenses
Marketing Fund	\$17,596,169
Debt Service	\$29,611,498
Transfer to DDC Marketing	\$4,247,000
Possessory Interest Tax	\$202,529
Projected Excess cash transfer to the District from Excess TIF	\$1,000,000
Business Development	\$4,000,000
<b>Total Non-Operating Expenses</b>	<b>\$56,657,196</b>

### Excess Reserves

The Amended and Restated Master Trust Agreement requires WCSA to establish and maintain certain funds and sub-accounts, 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.

The District allocates \$1.5 million annually to WCSA toward the cost of maintaining the baseball stadium. WCSA restricts these funds because every fiscal year these funds are used to pay for ballpark related expenses.

### Results of the Auditor's Examination

We conducted detailed analysis over each component of WCSA's FY 2023 sufficiency calculation presented in Figure 5 (see page 7). Noted below are key observations based on our review.

#### Convention and Meetings Division

For FYs 2019 through 2021, the Walter E. Washington Convention Center consistently exceeded its operating revenue projections. As of March 31, 2022, the Walter E. Washington Convention Center collected 41% of its FY 2022 projected operating revenue and will likely meet its revenue projections due to the number of events scheduled for the remainder of the fiscal year.

As noted earlier, on June 28, 2022, Events DC finalized the sale of the land underneath the Marriott Marquis HQ Hotel (District Ground Lease Payment/Plumbers building)<sup>11</sup> to the owners of the Marriott Marquis hotel, ending lease payments to WCSA, but providing approximately \$90.2 million which WCSA plans to use for current liabilities and increasing reserves. WCSA has retail options on the ground level of the Convention Center building around its perimeter. Lease agreements have been executed with eight retailers, all with either 5-year or 10-year terms.

“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.<sup>12</sup> In the first half of FY 2022, six city-wide and a total of 32 events were held at the Convention Center with attendance lower than pre-pandemic levels. The second half of the fiscal year has at least nine city-wide and a total of 37 events scheduled and expects attendance levels to be higher.

The Division’s projections of operating revenue for FY 2022 and FY 2023 appear reasonable.

### **WCSA’s Sports and Entertainment Division**

The Sports and Entertainment Division (SED) has been challenged to meet its overall revenue projections in recent years. For the current year, as of March 31, 2022, the Sports and Entertainment Division had collected 38% of its FY 2022 projected operating revenue. The number of events expected to be held during FY 2022 is increasing, in part because of interest in holding festivals and other events outdoors.

The Sports and Entertainment Division’s total operating revenues for FY 2023 are expected to be slightly lower than FY 2022, with an increase in the number of events expected. Considering SED’s historical revenue collections, the conservative revenue estimate for FY 2023 seems reasonable. Noting the variety of properties at its disposal for use as event venues, SED continues to offer a number of options to potential customers looking to host events in D.C. The Division’s ability to meet its FY 2023 revenue projection of \$4.1 million will be dependent not only on hosting events, but also on generating revenue at these events.

## **Conclusion**

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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 2023. In making this determination, the Auditor took into account the already-known impact of COVID-19 on FY 2022.

As stated above, the Auditor only certifies that the revenue estimate, expense estimate, and excess

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11 The Marriott Marquis hotel incorporates the site’s original historic Samuel Gompers AFL-CIO headquarters, known as the “Plumbers Building.”

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



reserve estimate at the time of certification, as shown in Figure 5 below, appeared sufficiently supported and achievable by WCSA.

ODCA's analysis indicated that WCSA's projected FY 2023 revenues and excess reserve should exceed expenditures by approximately \$132.75 million. Figure 5 presents WCSA's FY 2023 sufficiency calculation.

**Figure 5: Fiscal Year 2023 Sufficiency Calculation (in millions)**

<b>Category</b>	<b>Amount</b>
<b>Revenues</b>	
Dedicated Tax Estimate	110.06
0.3% Additional Hotel Tax	4.25
TIF Revenue Estimate	10.94
Operating Revenue Estimate	23.64
Interest Income Estimate	5.06
<b>Subtotal Revenues</b>	<b>\$ 153.94</b>
<b>Reserves</b>	
Beginning Cash Balance Over the Required Minimum Reserves	154.25
<b>Sum of Projected FY 2023 Revenues and Excess Reserve Estimate</b>	<b>\$ 308.19</b>
<b>Expenditures</b>	
Debt Service	29.61
Operating Expenditures	79.67
International Marketing and Partnership Agreements	17.60
Projected 0.3% Additional Hotel Taxes to DDC	4.25
Possessory Interest Tax	1.20
Business Development	4.00
Capital Improvement Exp	39.12
<b>Sum of Projected FY 2023 Expenditures</b>	<b>\$ 175.44</b>
<b>Projected Revenue and Excess Reserve Estimate Over Projected Expenditures (End of Fiscal Year)</b>	
	<b>\$ 132.75</b>

Source: WCSA Cash and Investment Manager. Minor differences in subtotals due to rounding.

## 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, August 17, 2022, WCSA's total projected revenues and excess reserve estimate for FY 2023 are sufficient to cover its projected expenditures. WCSA's FY 2023 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$132.75 million.

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

Sincerely yours,

A handwritten signature in blue ink that reads "Kathleen Patterson". The signature is written in a cursive style.

Kathleen Patterson  
District of Columbia Auditor

cc: Betsy Cavendish, Executive Office of the Mayor  
Samuel Thomas, Events DC  
Henry Mosley, Events DC

## About ODCA

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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.

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