

Events DC Sufficiency Certification for Fiscal Year 2024

January 17, 2024

A report by the Office of the District of Columbia Auditor



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The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W.
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Washington, DC 20004

Letter Report: Events DC Sufficiency Certification for Fiscal Year 2024

Dear Chairman Mendelson:

What follows is the Office of the District of Columbia Auditor report, entitled **Events DC Sufficiency Certification for Fiscal Year 2024**. Pursuant to D.C. Code § 10-1203.05(b), the District of Columbia Auditor is required to prepare and deliver to the Mayor, the Council of the District of Columbia, the 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 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 2024 projected revenues and excess reserves are sufficient to meet the requirements of the upcoming fiscal year.

Objective, Scope, and Methodology

The objective of this analysis was to determine whether WCSA's fiscal Year (FY) 2024 projected revenues and excess reserves will be sufficient to meet the FY 2024 projected expenditures and reserve requirements.

The scope of this analysis included WCSA's financial records and data for FY's 2020 through 2022 and FY 2023, as of March 31, 2023. Our analysis also included a review of WCSA's FY 2023 (April through September) and FY 2024 projected revenues, expenditures, and reserves.

To accomplish our objective, we conducted a detailed review of WCSA's FY 2024 projected and FY 2020 to FY 2023 historical operating revenues and expenses for the Conventions and Meetings and Sports and Entertainment Division. This review included analysis of financial information included in WCSA's audited financial statements for FY 2020 through FY 2022, WCSA's FY 2023 internal financial reports as of March 31, 2023, WCSA's FY 2023 and FY 2024 budgets approved by the WCSA Board of Directors, as well as

Office of the Chief Financial Officer (OCFO) revenue estimates from February 2023. We also analyzed trends in events booked at WCSA and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's projected FY 2024 non-operating revenues, non-operating expenses, and excess reserves.

In compliance with D.C. Code § 10-1203.05(b)¹ the Auditor conducted a sufficiency review to determine if WCSA's FY 2024 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,² ODCA's Sufficiency Review is due by July 15 of each year. In 2022, WCSA was the target of a ransomware attack that resulted in the encryption and loss of detailed financial data. The loss of these financial records was such that at the end of the FY2022 audit cycle, WCSA's independent auditor, McConnell & Jones, LLP, was unable to express an opinion on WCSA's financial statements as of September 30, 2022. Following the ransomware attack and data loss, WCSA engaged the services of a forensic accounting firm to recover the lost financial records. As of July 2023, WCSA could not produce audited financial statements. For this reason ODCA notified the D.C. Council and WCSA on July 7, 2023, that it was unlikely ODCA would complete the sufficiency certification by the mandated due date.

WCSA produced updated FY2022 financial statements in July 2023 and McConnell & Jones rendered an unqualified opinion on November 15, 2023.

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 2024.

We note that revenue, reserve, and expense estimates are based on information that can change rapidly, 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.

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

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).

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

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 retail space rentals. WCSA's FY 2024 operating revenue estimate is \$30.53 million and accounts for 14% of the total FY 2024 projected revenue. Figure 1 presents WCSA's FY 2024 projected operating revenues per WCSA's FY 2024 budget.

Figure 1: WCSA's FY 2024 Projected Operating Revenues

Revenue Category	FY 2024 Projected Operating Revenue
Conventions & Meetings Division	\$24,001,322
Sports and Entertainment Division	\$6,525,477
Total Operating Revenue	\$30,526,799

Source: WCSA

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 68.94% of its FY 2024 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.³ The OCFO provides the dedicated tax revenue projection to WCSA. According to the OCFO's quarterly revenue estimate, as of February 28, 2023, the FY 2024 dedicated tax revenue estimate is \$145.46 million. The annual transfer for Destination DC (DDC),⁴ a private nonprofit that provides marketing services for the District, is projected to be \$28.26 million for FY 2024.

WCSA also receives TIF and lease payments.⁵ 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. The FY 2024 TIF revenue amount is projected to be \$13.51 million. Figure 2 presents WCSA's FY 2024 projected non-operating revenues.

Figure 2: WCSA's FY 2024 Projected Non-Operating Revenues

Revenue Category	FY 2024 Projected Non-Operating Revenue
Dedicated Taxes	\$145,456,000
Interest Income	\$6,252,305
District Transfer to Destination DC	\$28,264,000
TIF Revenue	\$13,505,930
Total Non-Operating Revenue	\$193,478,235

Source: WCSA

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 2024 operating expense projection is \$105.34 million.

³ See D.C. Code §§ 47-2002.02 and 47-2002.03.

⁴ 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.

⁵ As of FY2021, Events DC considers TIF Revenue that is available for Events DC's budget to be Hotel Contribution Reimbursement.

Figure 3: WCSA's FY 2024 Projected Operating Expenses

Expense Category	FY 2024 Projected Operating Expenses
Conventions & Meetings Division	\$80,224,728
Sports and Entertainment Division	\$25,112,777
Total Operating Expenses	\$105,337,505

Source: WCSA

Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism, debt service payments, and possessory interest tax.⁶ As provided in Figure 4, WCSA's FY 2024 non-operating expense projection is \$82.43 million.

Figure 4: WCSA's FY 2024 Projected Non-Operating Expenses

Expense Category	FY 2024 Projected Non-Operating Expenses
Marketing Fund	\$22,278,404
Business Development	\$1,000,000
Transfer to Destination DC - Marketing	\$28,264,000
Debt Service	\$29,689,790
Possessory Interest Tax	\$202,529
Projected Excess cash transfer to the District from Excess TIF	\$1,000,000
Total Non-Operating Expenses	\$82,434,723

Source: WCSA

⁶ 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.

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 2024 sufficiency calculation presented in Figure 5 (page 8). Noted below are key observations based on our review.

Conventions and Meetings Division

For FYs 2020 through 2022, the Walter E. Washington Convention Center consistently exceeded its operating revenue projections. As of March 31, 2023, the Walter E. Washington Convention Center had collected 48.36% of its FY 2023 projected operating revenue and was assumed to be likely to meet its revenue projections due to the number of events scheduled for the remainder of the fiscal year.

"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.⁷ In the first half of

FY 2023, eight city-wide events were held at the Convention Center, during the second half of the year an additional 11 city-wide events were scheduled for a total of 19 city-wide events in FY 2023. As of July, Events DC projected a total of 19 city-wide events for FY 2024.

WCSA has retail lease tenants on the ground level of the Convention Center building around its perimeter. Lease agreements have been executed with 12 retailers, all with either five-year or 10-year terms.

The Division's projections of operating revenue for FY 2024 appear reasonable.

⁷ Peak room nights refer to the nights during an event when most rooms are occupied by those in attendance.

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, 2023, the Sports and Entertainment Division had collected 39% of its FY 2023 projected operating revenue. The number of events expected to be held during FY 2024 has increased slightly, in part because of the interest in hosting events on the RFK festival grounds.

SED's total operating revenues for FY 2024 are expected to be slightly higher than FY 2023, with an increase in the number of events expected. Considering SED's historical revenue collections, the conservative revenue estimate for FY 2024 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 2024 revenue projection of \$6.5 million will be dependent not only on hosting events, but also on generating revenue at these events.

Conclusion

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 2024.

As stated above, the Auditor only certifies that the revenue estimate, expense estimate, and excess 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 2024 revenues and excess reserve should exceed expenditures by approximately \$221.15 million. Figure 5 presents WCSA's FY 2024 sufficiency calculation.

Figure 5: Fiscal Year 2024 Sufficiency Calculation (*in millions*)

CATEGORY	AMOUNT
Revenues	
Dedicated Tax Estimate	145.46
0.3% Additional hotel tax	28.26
TIF Revenue Estimate	13.51
Operating Revenue Estimate	30.53
Interest Income Estimate	6.25
Subtotal Revenues	\$ 224.01
Reserves	
Beginning cash balance over the required minimum reserves	214.05
Sum of Projected FY 2024 Revenues and Excess Reserve Estimate	\$ 438.05
Expenditures	
Debt Service	29.69
Operating Expenditures	105.34
International Marketing and Partnership Agreements	22.28
Projected 0.3% Additional Hotel Taxes to DDC	28.26
District Payment and Possessory Interest Tax	1.20
Business Development	1.00
Capital Improvement Expenditures	29.14
Sum of Projected FY 2024 Expenditures	\$ 216.91
Projected Revenue and Excess Reserve Estimate Over Projected Expenditures (End of Fiscal Year)	\$ 221.15

Source: WCSA Cash and Investment Manager

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, January 9, 2024, WCSA's total projected revenues and excess reserve estimate for FY 2024 are sufficient to cover its projected expenditures. WCSA's FY 2024 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$221.15 million.

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

Sincerely yours,



Kathleen Patterson
District of Columbia Auditor

cc: Betsy Cavendish, Executive Office of the Mayor
Angie Gates, Events DC
Henry Mosley, Events DC

About ODCA

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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