



**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 2014**

July 15, 2013

**Audit Team:**

Toya Murphy, Analyst

Patrick McCray, Senior Financial Auditor

Amy Wu, Financial Auditor

A Report by the Office of the District of Columbia Auditor  
Yolanda Branche, D.C. Auditor



## Office of the District of Columbia Auditor

014:13:TM:PM:AW:cm

The Honorable Phil Mendelson, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Ave., 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 2014

Dear Chairman Mendelson:

According to 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 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 2014 revenue sufficiency.

### **Objectives, Scope and Methodology**

The objective of this analysis was to determine whether WCSA's FY 2014 projected dedicated tax revenues, operating revenues, and excess reserve will be sufficient to meet WCSA's FY 2014 projected expenditures and reserve funding requirements.

We reviewed WCSA's financial records and data for FYs 2010 through 2012 and FY 2013, as of March 2013. Our review also included a review of WCSA's FY 2014 projected revenues, expenditures and reserves.

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 a review on a test basis of evidence supporting WCSA's projections of FY 2014 revenues, expenditures, and

excess reserve. The Auditor believes that this review provides a reasonable basis for the Office of the District of Columbia Auditor's (ODCA) FY 2014 revenue sufficiency certification statement. To accomplish our review objectives, the Auditor:

1. Reviewed applicable minutes of the WCSA Board of Directors;
2. Interviewed WCSA personnel;
3. Reviewed WCSA's audited financial statements for FY 2010 through FY 2012 and WCSA's FY 2013 internal unaudited financial statements, as of March 31, 2013;
4. Reviewed WCSA's FY 2014 budget, as approved by the WCSA Board of Directors;
5. Performed detailed analyses of WCSA's historical and projected revenues, expenditures and reserves;
6. Analyzed WCSA's pending claims or judgments;
7. Analyzed trends in events booked at WCSA; and
8. Reviewed available tourism data for FYs 2011 through 2013.

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 2014.

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 3, 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:

- On the **conventions and meetings** front, WCSA's multi-year investment of time and resources into global convention sales yielded its first dividend as the United States welcomed the return of the International AIDS Conference. The conference generated an estimated \$27 million in economic activity for the District of Columbia and its attendees created tens of thousands of hotel room nights during mid-July, a need period for the city's hoteliers. WCSA also hosted the National Education Association's quadrennial Washington, DC convention over the Independence Day holiday, filling many of the District's hotels during an otherwise

slow week. In total, the Convention Center hosted 15 citywide meetings during the year that created an estimated \$257 million in direct spending. The year also saw the reopening of the historic Carnegie Library at Mount Vernon Square as a special-events venue.

- WCSA continued to promote the District as a **sports and entertainment** destination during the fiscal year, bringing heavyweight boxing back to the District for the first time in nearly two decades with HBO's Capital Showdown last December. WCSA also hosted its second AT&T Nation's Football Classic as part of a long-term strategy to create demand for its venues. Also at the Stadium/Armory campus, WCSA completed the Maloof Skate Park and opened it to the public in May and made a significant investment in restroom and other renovations at RFK and the Armory. Overall, WCSA hosted over 711,915 attendees at 80 events on the campus during the year.
- WCSA continued to make targeted investments in some of the District's marquee **special events** during the year. The largest was the Centennial Celebration of the National Cherry Blossom Festival, which expanded to five weeks in 2012 due, in part, to WCSA's increased financial support. The Festival had an estimated attendance of 1.5 million people and generated approximately \$167 million in economic impact for the year. WCSA also provided support to the championship Washington Kastles professional tennis team, whose stadium, an anchor for redevelopment and outdoor activation of the District's Southwest Waterfront, attracted more than 15,000 spectators to 7 matches, generating \$2.68 million in economic activity. Recognizing the importance of driving tourism throughout the city, WCSA also sponsored the DC Jazz Festival, which featured more than 80 performances at a wide range of clubs, restaurants, hotels, and galleries across the District's diverse neighborhoods through the Festival's "Jazz in the 'Hoods" program.

## **Background**

The Washington Convention Center Authority (WCCA) was established effective 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).

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. WCSA also has administrative jurisdiction and all rights and obligations over Carnegie Library at Mount Vernon Square and 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 an expanded portfolio of venues.

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, 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 WCSA's enabling legislation, three public Board members shall be individuals from the hotel industry, restaurant industry and organized labor. The remaining six members must possess expertise in municipal finance, business finance, economic development, construction, sports, entertainment, or tourism. The daily management of WCSA is under the direction of a President and Chief Executive Officer (CEO) who is appointed by WCSA's Board.

## Auditor's Analysis

We reviewed WCSA's revenues (operating revenue and dedicated taxes), expenses, and excess reserve fund to determine the reasonableness of WCSA's FY 2014 projections.

### Revenue

#### *Operating Revenue*

WCSA has two divisions that generate operating revenue: the Conventions and Meetings (which includes Carnegie Library) and the Sports and Entertainment divisions. WCSA's operating revenues include meetings, sports events, parking, advertising, sponsorship, and ancillary operations. WCSA's FY 2014 operating revenue estimate is \$25.4 million.

#### *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 the premises, and automobile rental charges. This revenue is classified as non-operating revenue for WCSA and is included in WCSA's annual budget. The District's CFO provides the dedicated tax revenue projection to WCSA. According to ORA, as of June 2013, the FY 2014 dedicated tax revenue estimate is \$111.8 million.

### Figure 1

#### WCSA's FY 2014 Estimated Operating Revenues and Dedicated Taxes

Revenue Category	FY 2014 Budget
Convention and Meetings Division <sup>1</sup>	\$ 18,652,380
Sports and Entertainment Division	5,236,104
Carnegie Library	1,500,000
Dedicated Taxes (Non-Operating Revenue)	111,874,000
<b>Total Operating Revenue and Dedicated Taxes</b>	<b>\$137,262,484</b>

<sup>1</sup> Convention and Meetings Division FY 2014 revenue projection, this amount excludes the Carnegie Library FY 2014 revenue projection.

## Operating Expense

WCSA's operating expenses include personal services (staff), professional/contractual services, utility costs, the cost of equipment and supplies, and payments to the District. Non-operating expenses include debt service payments and payments to marketing agencies to promote conventions and tourism in the District. As provided in Figure 2 below, WCSA's FY 2014 operating expense projection is \$46.2 million.

**Figure 2**  
**WCSA's FY 2014 Estimated Operating Expenses**

<b>Expense Category</b>	<b>FY 2014 Budget</b>
Convention and Meetings Division <sup>2</sup>	\$ 37,191,549
Sports and Entertainment Division	7,986,993
Carnegie Library	998,000
<b>Total Operating Expenses</b>	<b>\$ 46,176,542</b>

## 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.

## Conclusion

Based on our review we concluded the following:

- For FYs 2010 to 2012, the Convention and Meetings Division met and exceeded its operating revenue projection by an average of \$ 820 thousand or 4.8% over the three year period.
- The WCSA's Convention and Meetings Division currently has 80 events scheduled for FY 2013, with projected revenue of \$16.8 million.
- The Convention and Meetings and Sports and Entertainment Division's expenses have historically been under budget. WCSA has demonstrated its ability to effectively manage its operating expenses.

<sup>2</sup> Convention and Meetings Division FY 2014 expense projection, this amount excludes the Carnegie Library FY 2014 expense projection.

## **Other Observations**

During our review we noted that: (1) ORA's FY 2014 Dedicated tax projection is \$111.8 million, an increase of 9.9% from FY 2013; (2) WCSA's Sports and Entertainment Division shows improvement with new bookings; (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 2014 is unknown; and (4) WCSA's excess reserve balance could decrease as a result of Board approved initiatives. However, we believe these observations should not affect WCSA's ability to cover its FY 2014 projected expenditures and reserve requirements. Details of our observations are detailed in the following paragraphs.

### **Dedicated Tax Revenue Projections**

The dedicated tax revenue projections are developed by ORA. To develop the dedicated tax projection, ORA reviews various economic trends in the hospitality industry in this area including occupancy, hotel room rates and expected convention activity. The projection is updated quarterly based on the most current information available. For FY 2012, the WCSA received \$101.0 million in dedicated tax revenue. The FY 2013 dedicated tax projection is \$101.8 million. As of March 31, 2013, WCSA has received \$46.0 million in dedicated tax revenue. For FY 2014, the dedicated tax revenue is projected to be \$111.8; an increase of 9.9% from FY 2013. ORA noted that the dedicated tax revenue projections increased due to the positive economic trends. WCSA has met their dedicated tax estimate in FY 2010 to FY 2012. Based on ORA's ability to accurately project the dedicated tax amount in prior years, it is estimated that WCSA will meet or exceed the projected dedicated tax revenue for FY 2014.

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

During FY 2011 and FY 2012, the WCSA's Sports and Entertainment Division did not meet its revenue projection. As of March 2013, WCSA has generated 41% of the FY 2013 revenue projection of \$5.56 million.

The Sports and Entertainment division has redirected its focus to the Festival Grounds at RFK, which now has a certified 5k course. As a result, they have acquired new business for FY 2013 and FY 2014. The Sports and Entertainment division has additional events planned for FY 2013 and FY 2014 to include various 5k races and concerts.

Therefore, the Sports and Entertainment division is growing and should meet its FY 2014 projection of \$5.24 million.

### **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 hosted its first event at the Carnegie Library in February 2012 and generated \$152,464 in revenue during FY 2012. For FY 2013, WCSA's Carnegie Library revenue projection is \$1.3 million, with \$ 488,876 in revenue generated through April 2013. For FY 2014, WCSA's Carnegie Library revenue projection is \$1.5 million. We had a limited amount of information

available to assess WCSA's ability to generate \$1.5 million in revenue in FY 2014 due to the following factors: (1) events held at Carnegie Library are booked on a month to month basis; therefore, a detailed events schedule was not available for FY 2014 and (2) the Carnegie Library is a new venue for WCSA. As a result, it is unknown if WCSA will generate \$1.5 million in FY 2014.

### **Excess Reserve**

WCSA has projects, totaling \$32.2 million, which have been approved by the Board that are not included in the FY 2014 sufficiency calculation:

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. Carnegie Library - \$4 million to pay the remaining balance for the purchase Carnegie Library.
3. 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 its overall revenue enhancement strategy.
4. Capital Budget carryover of \$14 million.

If WCSA completes the projects listed above in FY 2013 or FY 2014, the projected excess reserves would decrease relative to the amount of the project. If all of the projects listed above are completed in FY 2014, WCSA's projected excess reserve balance would be sufficient to cover all of the projects.

Notwithstanding the other observations noted above, it is projected that WCSA's projected revenues and excess reserve will exceed expenditures in FY 2014. WCSA's FY 2014 projected revenues and excess reserve are projected to exceed expenditures by approximately \$64.8 million. Figure 3 presents WCSA's FY 2014 sufficiency calculation.

**Figure 3**  
**Sufficiency Calculation of WCSA's Projected Revenues and Excess Reserve to Meet Projected Expenditures and Reserve Requirements For Fiscal Year 2014 - (millions)**

<u>Category</u>	<u>Amount</u>
<b>Revenues (Estimate)</b>	
FY 2014 Dedicated Tax (June 2013 estimate)	\$111.8
FY 2014 Operating Revenue	25.4
FY 2014 Interest Income	<u>1.0</u>
<b>Subtotal of Projected FY 2014 Revenues</b>	<b>\$138.2</b>
<hr/>	
<b>Reserve (Estimate)</b>	
Excess reserve	<u>\$ 59.7</u>
<b>Sum of Projected FY 2014 Revenues and Excess Reserve Estimate</b>	<b>\$197.9</b>
<hr/>	
<b>Expenses (Estimate)</b>	
Debt Service	\$36.3
Operating Expenditures	46.2
Marketing Agencies	15.6
Capital Improvement Expenditures	<u>35.0</u>
<b>Sum of Projected FY 2014 Expenditures</b>	<b>\$133.1</b>
<hr/>	
<b>WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures</b>	<b><u>\$64.8</u></b>

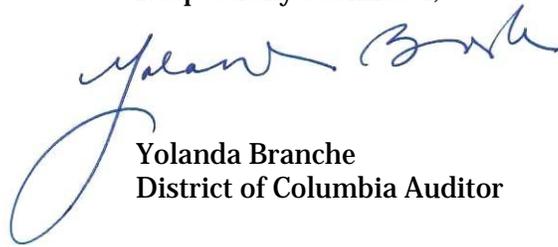
**Source: WCSA Cash and Investment Manager**

Based on our review of WCSA's FY 2014 sufficiency estimate, we determined that WCSA's FY 2014 projected revenues and excess reserves are sufficient to meet its FY 2014 projected expenditures and reserve requirements.

## **Auditor 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 2014 are sufficient to cover its projected expenditures. WCSA's FY 2014 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$64.8 million. This, we believe, constitutes a reasonable basis for the Auditor's sufficiency certification.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Yolanda Branche", is written over a large, stylized blue ink flourish that extends downwards and to the left.

Yolanda Branche  
District of Columbia Auditor