



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 2017

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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 2017

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 2017." 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 2017 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 2017 projected revenues and excess reserve will be sufficient to meet WCSA's FY 2017 projected expenditures and reserve requirements.

The scope of this analysis included WCSA's financial records and data for FYs 2013 through 2015 and FY 2016, as of March 31, 2016. Our analysis also included a review of WCSA's FY 2017 projected revenues, expenditures and reserves.

To accomplish our objective, we conducted a detailed review of WCSA's FY 2017 projected operating revenues and expenses for the Convention and Meetings and Sports and Entertainment divisions. We reviewed WCSA's audited financial statements for FY 2013 through FY 2015, WCSA's FY 2016 internal unaudited financial statements, as of March 31, 2016, and WCSA's FY 2016 and FY 2017 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 2017 non-operating revenues, non-operating expenses, and excess reserves.

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 2017 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 2017.

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 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 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 (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.

Overview of the Components of the Sufficiency Review

WCSA's sufficiency calculation consists of WCSA's project 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 Carnegie Library) and the Sports and Entertainment division. WCSA's operating revenues include revenue generated from conventions and meetings, sports events, entertainment events, parking, advertising, and sponsorships. WCSA's FY 2017 operating revenue estimate is \$28.8 million and accounts for 16.4 percent of the total FY 2017 projected revenue.

Figure 1 presents WCSA's FY 2017 projected operating revenues per WCSA's FY 2017 budget.

Figure 1

WCSA's FY 2017 Projected Operating Revenues

Revenue Category	FY 2017 Projected Revenue
Convention and Meetings Division	\$21,968,292
Sports and Entertainment Division	5,603,648
Carnegie Library	1,200,000
Total Operating Revenue	\$28,771,940

Non-Operating Revenue

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

WCSA is projected to receive 67.9 percent of its FY 2017 projected revenue from dedicated taxes received from the District. WCSA receives 4.45 percent of the gross receipts for the sale or charges for any hotel room charges, and 1 percent of the gross receipts from the sale or charges on restaurant meals, alcoholic beverages consumed on the premises, and automobile rental or leasing charges. The Chief Financial Officer (CFO) provides the dedicated tax revenue projection to WCSA. According to the CFO's quarterly revenue estimate, as of February 26, 2016², the FY 2017 dedicated tax revenue estimate is \$119.1 million.

WCSA receives TIF revenues, lease payments and an IRS subsidy, as a result of the Marriott Marquis Headquarters' Hotel financing. TIF revenues are collected from a portion of the sales and use and

² The CFO quarterly estimate, provided on February 26, 2016, was used by WCSA to formulate the FY 2017 approved budget.

property taxes generated by the hotel. WCSA generates lease revenue from leasing the Plumber’s building³ to the owners of the Marriott Marquis Headquarters Hotel.

To finance the Convention Center hotel project, one of the series of bonds issued was Build America Bonds. The bonds provide an IRS 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. During FY 2017 the projected non-operating revenue from the TIF revenues, lease payments, and IRS subsidy is projected to be \$23.7 million.

WCSA also receives an annual transfer from the District that is paid directly to Destination DC⁴, a private non-profit that provides marketing services for the District. The transfer amount for FY 2017 is projected to be \$3.1 million.

Figure 2 presents WCSA’s FY 2017 projected non-operating revenues per WCSA’s FY 2017 budget.

Figure 2

WCSA’s FY 2017 Projected Non-Operating Revenues

Revenue Category	FY 2017 Projected Revenue
Dedicated Taxes	\$119,100,000
Interest Income	700,000
TIF Revenue – Hotel	18,710,000
IRS Subsidy – Hotel bonds	2,549,354
Lease Income – Plumber’s Building	2,440,070
District Transfer to DDC Marketing	3,114,592
Total Non-Operating Revenue	\$146,614,016

Expenses

Operating Expenses

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

As provided in Figure 3 (next page), WCSA’s FY 2017 operating expense projection is \$61.8 million.

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

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.

Figure 3

WCSA's FY 2017 Projected Operating Expenses

Expense Category	FY 2017 Projected Expenses
Convention and Meetings Division	\$50,548,858
Sports and Entertainment Division	10,073,225
Carnegie Library	1,221,028
Total Operating Expenses	\$61,843,111

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 2017 estimated non-operating expenses per WCSA's FY 2017 budget.

Figure 4

WCSA's FY 2017 Projected Non-Operating Expenses

Expense Category	FY 2017 Projected Expenses
Marketing Fund	\$20,615,825
Debt Service	51,492,840
Total Non-Operating Expenses	\$72,108,665

Excess Reserves

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.

Results of the Auditor's Examination

We conducted detailed analysis over each component of WCSA's FY 2017 sufficiency calculation presented in Figure 5 (page 9). Noted below are key observations based on our review.

Convention and Meetings Division

For FYs 2013 through 2015, the Convention Center met and exceeded its operating revenue projection by approximately 3.5 percent. For FY 2015, actual operating revenue exceeded budget by approximately 3 percent. As of March 31, 2016, the Convention Center has collected 49.6 percent of its FY 2016 projected revenue.

An increase to the total number of FY 2017 city-wide conventions will also have a favorable impact on FY 2017 operating revenue. As of March 31, 2016, a total of 21 citywide conventions are currently scheduled for FY 2017, which is an increase when compared to the 15 citywide events held in FY 2015 and 16 citywide currently booked for FY 2016. City-wide events are 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 on peak.⁵ City-wide events increase the number of individuals visiting the District, ultimately increasing revenue for both WCSA and the District.

Given the trend of meeting or exceeding revenue projections over the past several fiscal years, it appears reasonable that the Division will meet its FY 2017 operating revenue projection.

Carnegie Library, a component of the Convention and Meetings division, generated \$1.1 million in operating revenue in FY 2015, a decrease of \$69,000 when compared to FY 2014. Historically, Carnegie Library has not met its overall revenue projection. Carnegie Library's FY 2017 revenue projection is \$1.2 million, a small component of the overall operating revenue budget.

WCSA's Sports and Entertainment Division

During FY 2014 and FY 2015, the Sports and Entertainment Division did not meet its revenue projection, but lower than projected expenses enabled the division to end both fiscal years with a lower than projected operating deficit. During FY 2015, the Division generated \$5.27 million in revenue, a \$607,000 or 13.0 percent increase when compared to FY 2014.

Based on the analysis conducted, the Division has not met its revenue projections in prior years; however, its FY 2016 year to date collections suggests that the Division should meet its FY 2016 projection. WCSA will continue to focus on utilizing Gateway DC, an outdoor venue located on the grounds of the former St. Elizabeth's campus, in anticipation of generating additional event revenue.⁶ In addition, the WCSA Board of Directors signed a resolution outlining a joint venture between WCSA, the Deputy Mayor for Planning and Economic Development (DMPED) and Monumental Sports and Entertainment to develop and construct a multipurpose training, entertainment and sports complex in

⁵ Peak room nights are referring to the night during an event when most rooms are occupied by those in attendance.

⁶ A Memorandum of Understanding was executed between the Deputy Mayor for Planning and Economic Development and the WCSA President and CEO on September 29, 2015 which permits WCSA to operate Gateway DC as a special events venue.

Ward 8. The agreement stipulates WCSA's financial contribution to the project will be approximately \$27 million and on October 8, 2015, the WCSA Board of Directors approved that contribution to the project. WCSA has set aside funds maintained in WCSA's capital renewal and replacement fund to finance this project. The capital renewal and replacement fund is funded by the dedicated taxes received from a portion of sales tax revenue.

The Division's ability to meet its FY 2017 revenue projection of \$5.6 million will be dependent on its ability to schedule events and generate revenue at the same pace or greater than FY 2016.

Conclusion

Based on the analysis conducted, we reached these conclusions during our review:

1. WCSA's Convention and Meetings division has met or exceeded revenue projections over the past several fiscal years and has a positive outlook for FY 2017;
2. WCSA has demonstrated a historical ability to effectively manage operating expenses; and
3. FY 2017 projections for the non-operating revenue categories, which consist of 83.6 percent of WCSA's overall FY 2017 revenue projection, appear to be reasonable.

Based on these factors, we determined that WCSA's FY 2017 projected revenues and excess reserves are sufficient to meet its FY 2017 projected expenditures and reserve requirements.

Figure 5 (next page) presents WCSA's FY 2017 sufficiency calculation.

Figure 5

Fiscal Year 2017 Sufficiency Calculation

<u>Category</u>	<u>Amount</u> <u>(in thousands)</u>
Revenues (Estimate)	
Dedicated Tax (February 2016 estimate)	\$119.10
TIF Revenue	18.71
IRS Subsidy	2.55
Lease Income	2.44
Operating Revenue	28.77
District Transfer	3.11
Interest Income	<u>0.70</u>
Subtotal Revenues	\$175.38
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Reserves (Estimate)	
Excess reserves	<u>\$78.22</u>
Sum of Projected FY 2017 Revenues and Excess Reserve Estimate	\$253.60
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Expenditures (Estimate)	
Debt Service	\$51.50
Operating Expenditures	61.84
Marketing Agencies	20.61
Capital Improvement Expenditures	<u>13.00</u>
Sum of Projected FY 2017 Expenditures	\$146.95
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WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	\$106.65

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, July 14, 2016, WCSA's total projected revenues and excess reserve estimate for FY 2017 are sufficient to cover its projected expenditures. WCSA's FY 2017 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$106.7 million. This, we believe, constitutes a reasonable basis for the Auditor's sufficiency certification.

Sincerely,



Kathleen Patterson
District of Columbia Auditor

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