



**OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

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015:06:CTA:SDG:gk

Letter Report: Certification of the Sufficiency of the  
Washington Convention Center Authority's Projected  
Revenues and Excess Reserve to Meet Projected  
Operating and Debt Service Expenditures and Reserve  
Requirements for Fiscal Year 2007

**July 14, 2006**



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The Honorable Linda W. Cropp, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Ave, NW, Suite 504  
Washington, D.C. 20004

Re: **Letter Report:** Certification of the Sufficiency of the Washington Convention Center Authority's Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2007

Dear Chairman Cropp and Members of the Council of the District of Columbia:

Pursuant to Section 305 (b) of the "Washington Convention Center Authority Act of 1994," (the Act), D.C. Law 10-188,<sup>1</sup> as amended, D.C. Code, 2001 Ed. § 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 Center Authority (WCCA) a certification of the sufficiency of WCCA's projected revenues and excess reserve to meet its projected expenditures and reserve requirements for the upcoming fiscal year (FY). This certification letter report sets forth the Auditor's determination of the sufficiency of WCCA's projected revenues and excess reserve to meet its projected FY 2007 expenditures and reserve requirements. The sources of revenues and excess reserve were:

1. taxes imposed pursuant to D.C. Code, 2001 Ed. § 47-2002.02 and § 47-2202.01, which are estimated by the Office of the Chief Financial Officer's (OCFO) Office of Revenue Analysis (ORA) and transferred to WCCA by the Mayor from the Office of Tax and Revenue (OTR);

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<sup>1</sup>See Section 305 (b), the Washington Convention Center Authority Act of 1994, as amended, D.C. Law 10-188, D.C. Code, 2001 Ed. § 10-1203.05 (b).

2. WCCA's projected operating revenues; and
3. amounts in any reserve fund or account (other than debt service reserve fund or account for indebtedness) which exceed the required minimum balance for such fund or account, as certified by WCCA.

Based upon a comparative analysis of WCCA's projected revenues and excess reserve, the Auditor has determined that WCCA's projected revenues and excess reserve should be sufficient to cover its expenditures and reserve requirements for FY 2007 barring any unforeseen events that would adversely impact revenues and expenditures.

The Auditor's analysis indicated that WCCA's projected FY 2007 revenues and excess reserve should exceed expenditures by approximately \$25.18 million. Therefore, the Auditor hereby certifies that WCCA's projected FY 2007 total revenues and reserve balance of \$134.2 million should be sufficient to meet projected expenditures and reserve requirements of \$109.02 million for FY 2007.

#### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of this analysis was to determine whether WCCA's projected dedicated tax revenues, operating revenue, and excess reserve will be sufficient to meet WCCA's projected operating and debt service expenditures, reserve requirements, and capital improvement expenditures for FY 2007.

In preparing this certification, the Auditor: (a) reviewed applicable District of Columbia laws;<sup>2</sup> (b) interviewed WCCA and ORA staff; (c) confirmed dedicated tax transfer amounts with OTR; (d) reviewed WCCA's audited financial statements for FY 2001 through FY 2005 and WCCA's FY 2006 internal unaudited financial statements as of April 30, 2006; (e) reviewed WCCA's FY 2007 budget as approved by its Board of Directors; and (f) performed detailed analyses of WCCA's historical and projected revenues and expenditures.

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<sup>2</sup>The Auditor reviewed Section 305 (b) of the "Washington Convention Center Authority Act of 1994," D. C. Law 10-188, as amended, D. C. Code, 2001 Ed. § 10-1203.05 (b); the "Washington Convention Center Authority Financing Amendment Act of 1998, D. C. Law 12-142; and D. C. Code, 2001 Ed. § 47-2002.01 and § 47-2002.01.

The Auditor also reviewed WCCA's projected capital improvement expenditures because they are also funded by operating revenues and dedicated taxes. WCCA receives revenues primarily from two sources, dedicated taxes and general operations (booking events such as conferences and trade shows). WCCA's expenditures, both operating and capital, are paid from the same pool of revenues. Thus, in order to adequately assess the sufficiency of WCCA's projected revenues and excess reserve to meet its operating and capital improvement expenditures and reserve requirements for an upcoming fiscal year, the Auditor must consider WCCA's planned capital improvement expenditures for that year. Accordingly, we will continue to include projected capital improvement expenditures as part of the annual sufficiency analysis. The Auditor recommends that the Council consider updating current legislation to require the inclusion of projected capital improvement expenditures in the Auditor's sufficiency analysis.<sup>3</sup>

In determining the reliability and sufficiency of WCCA's projected revenues for FY 2007, the Auditor relied on dedicated tax information provided by ORA and OTR and other financial information provided by WCCA officials. In determining the soundness of WCCA's projected expenditures and debt service requirements for FY 2007, the Auditor relied, in part, on information provided by WCCA's Chief Financial Officer (CFO).

The sufficiency review was performed as required by statute and conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The review was also 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 an examination, on a test basis, of evidence supporting WCCA's projections of FY 2007 revenues, expenditures, and excess reserve. The examination included such other procedures as deemed necessary and appropriate under the circumstances. The Auditor believes that this review provides a reasonable basis for the FY 2007 sufficiency certification statement.

The Auditor notes that estimates are based on information that can, and often does, change rapidly thus resulting in revisions to the estimates after the Auditor's certification. Consequently, the Auditor does not, and cannot, guarantee the validity of the estimates and only certifies that the dedicated tax revenue estimate, operating revenue estimate, and excess reserve estimate, at the time of certification, appeared sufficiently supported and achievable by WCCA. Additionally, the validity

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<sup>3</sup>This recommendation was also presented in the Auditor's Letter Report: Certification of the Sufficiency of the Washington Convention Center Authority's Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2006.

and accuracy of the Auditor's sufficiency analysis and calculation are predicated upon the extent to which: (a) ORA officials have provided sound estimates of dedicated tax revenues for the upcoming fiscal year; and (b) WCCA officials have fully disclosed and provided reliable and accurate information to the Auditor regarding WCCA's operating and capital improvement expenses, debt service and marketing contract costs, and any other expenses relevant to the Auditor's sufficiency certification.

## **BACKGROUND**

The Act, effective September 28, 1994, as amended, established the Washington Convention Center Authority as an independent corporate instrumentality of the District of Columbia government to facilitate the construction of a new convention center and for various other purposes.<sup>4</sup> Section 1202.02 (b) of the D. C. Code provides:

*Notwithstanding any other provisions of this act, the general purpose of the Authority is to acquire, construct, equip, maintain, and operate the New Convention Center, in whole or in part, directly or under contract, and engage in other activities as it deems appropriate to promote trade shows and conventions, or other events, closely related to activities of the New Convention Center, and to maintain and operate the Existing Convention Center until such time as the New Convention Center is completed and opened for operation.*<sup>5</sup>

WCCA is governed by a nine-member Board of Directors (Board). Currently, the Board consists of the CFO of the District of Columbia and another District government official designated by the Mayor.<sup>6</sup> Both serve as ex-officio voting members with four-year terms. Additionally, seven 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 WCCA's enabling legislation, two public Board members shall be individuals from the hospitality industry and organized labor, and the remaining five members must possess expertise in economic development, construction, tourism, municipal finance, or business finance. The daily management of WCCA is under the direction of a General Manager who is appointed by WCCA's Board.

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<sup>4</sup>See Section 202, the Washington Convention Center Authority Act of 1994, as amended, D. C. Law 10-188, D. C. Code, 2001 Ed. § 10-1203.05 (b).

<sup>5</sup>The new Washington Convention Center opened in April 2003. In July 2004, WCCA and District officials signed a lease agreement granting WCCA the exclusive right to use the old convention center site. WCCA agreed to use the leased premises solely to raze and demolish the old facility in order to build and operate a public parking lot. The parking lot was constructed in 2005 and became operational in January 2006.

<sup>6</sup>Since December 2004, the official designated by the Mayor has been the City Administrator. Prior to that time, the Deputy Mayor for Economic Development served in this capacity.

In accordance with D.C. Code, 2001 Ed. § 10-1203.07, WCCA receives 4.45% of the District's 14.5% sales and use tax on hotel room charges, and 1% of the District's 10% sales and use tax on restaurant meals, alcoholic beverages consumed on the premises, and automobile rental charges. These sales and use taxes are referred to as dedicated tax revenues.

Dedicated tax payments are collected through a lockbox arrangement established by the District OCFO's Office of Finance and Treasury (OFT) with Wachovia Bank, formerly First Union Bank. The lockbox arrangement, which is governed by a collections agreement, was established for the collection, segregation, and the immediate transfer of dedicated taxes to the Trustee for WCCA. In accordance with the collections agreement, the following four accounts were established under the lockbox arrangement: (1) Transfer Account; (2) Exceptions Account; (3) WCCA Dedicated Account; and (4) the District Account. The District is required to keep the lockbox arrangement in place for as long as WCCA has outstanding bonds. WCCA's outstanding bonds will mature on October 1 of each year between 2006 and 2028.

Tax receipts deposited into the WCCA Dedicated Account are assigned to, pledged to, and received daily by a trustee bank.<sup>7</sup> The trustee bank then deposits these funds in the WCCA Revenue Account for WCCA's use in accordance with the Master Trust Agreement.<sup>8</sup>

In accordance with the Master Trust Agreement, WCCA was required to establish certain funds and sub-accounts, referred to as pledged funds, at the time bonds were issued. (See Appendix I for the funds and accounts established in accordance with the Master Trust Agreement). The establishment and funding of these various funds and sub-accounts ensures that monies are available for the repayment of bond principal and interest. The flow of dedicated taxes through the lockbox to other funds and accounts established by the Master Trust Agreement are presented in Appendix II.

WCCA is required to maintain minimum balances in the Operating and Marketing Reserve Account, Senior Debt Service Fund, Senior Debt Service Reserve Account, Rebate Fund, Redemption Fund, and the Capital Renewal and Replacement Fund. Any balance remaining in these accounts, after deducting the minimum balance requirements, represents WCCA's excess reserve. The Rebate Fund and the Redemption Fund, although required to be established, have not been activated because they are not presently needed.

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<sup>7</sup>Bank of New York is the trustee bank. It is the depository for the bond proceeds and receives daily deposits of dedicated tax revenues from the WCCA Dedicated Account.

<sup>8</sup>The Master Trust Agreement provides for the deposit of dedicated tax revenue into the revenue account and their subsequent transfer to other funds and accounts including the revenue stabilization account, operating and marketing reserve fund, and others outlined in the agreement.

## RESULTS OF ANALYSIS

### THE WASHINGTON CONVENTION CENTER AUTHORITY'S FY 2007 PROJECTED REVENUES AND EXCESS RESERVE APPEAR SUFFICIENT TO COVER PROJECTED EXPENDITURES AND RESERVE REQUIREMENTS

WCCA's FY 2007 projected revenues from dedicated taxes and operating revenue, and projected excess amounts in reserve accounts are estimated to total approximately \$134.2 million. This includes \$78.25 million in dedicated tax revenue,<sup>9</sup> \$16.1 million in operating revenue, and \$39.85 million in excess reserve funds. The Auditor notes that WCCA's receipt of dedicated taxes may be delayed if OTR does not reconcile and transfer dedicated sales tax receipts in a timely manner. For example, in mid-May 2006, OTR experienced problems in distributing tax receipts to several different funds, including the Baseball Fund, WCCA Fund, and Tax Increment Financing Funds. As a result, WCCA experienced a three-week delay in receiving \$3.7 million in dedicated tax transfers needed to cover its operating expenses. Furthermore, the Auditor has noted the risk of delayed transfers from the Exceptions Account<sup>10</sup> in previous reports including the FY 2006 sufficiency certification report dated September 27, 2005.<sup>11</sup>

WCCA's FY 2007 projected operating and debt service expenditures and reserve requirements are estimated to total approximately \$80.26 million and include: \$36.2 million for debt service, \$9.53 million for payment to marketing agencies, and \$34.53 million for operating expenses. The Auditor also included projected capital improvement expenditures for purposes of the sufficiency calculation. According to WCCA's CFO, FY 2007 capital improvement expenditures are estimated to total approximately \$5.41 million. In addition, WCCA's CFO estimates that an additional \$23.35 million will be necessary to replenish the excess reserve estimate<sup>12</sup> to its projected

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<sup>9</sup>See letter dated June 2, 2006 from the District's Chief Financial Officer to the Washington Convention Center Authority's (WCCA) Chief Financial Officer, containing the OCFO's certification of estimated dedicated tax transfers to WCCA for FY 2006 through FY 2010.

<sup>10</sup>The Exceptions Account is a temporary holding account for the deposit of sales tax returns and payments with problems, referred to as "unclean" returns, until they can be analyzed, properly researched, and the problem(s) resolved.

<sup>11</sup>See also the Auditor's Report entitled, "Analysis of the Office of the Chief Financial Officer's Exceptions Account for Fiscal Years 2003 and 2004, as of June 2004," dated September 30, 2004.

<sup>12</sup>WCCA's excess reserve estimate reflects the sum of the amounts deposited in excess of the minimum reserve balances in the Operating and Marketing Reserve Account, the Revenue Stabilization Account, the Operating Account, the Capital Renewal and Replacement Fund, and the Senior Debt Service Account as certified by WCCA's Chief Financial Officer by letter dated June 16, 2006. The actual excess reserve balance for FY 2005 was \$18.3 million. The excess reserve estimate for FY 2006 is \$16.5 million. See Appendix II for the sources and uses of the reserve funds after debt service requirements have been satisfied.

FY 2007 ending balance. WCCA's projected operating, capital improvement, and debt service expenditures of \$85.67 million and the additional \$23.35 million necessary to increase the excess reserve estimate to its projected balance in FY 2007 total \$109.02 million.

The Auditor's analysis indicates that WCCA's revenues and excess reserve estimate appear sufficient to cover projected operating and debt service expenditures, reserve requirements, and capital improvement expenditures for FY 2007. In fact, WCCA's FY 2007 revenues and excess reserve are projected to exceed expenditures by approximately \$25.18 million. The use of the \$25.18 million projected excess revenue and excess reserve over projected expenditures is restricted in accordance with the Master Trust Agreement.<sup>13</sup>

Table I presents the sufficiency calculation of WCCA's projected revenues and excess reserve to meet projected expenditures and reserve requirements for FY 2007.

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<sup>13</sup>In accordance with the provisions of the Master Trust Agreement, the dedicated tax receipts and all monies and investment obligations are pledged as security for the bonds.



**TABLE I**

**Sufficiency Calculation of WCCA's Projected Revenues and Excess Reserve to Meet Projected Expenditures and Reserve Requirements for Fiscal Year 2007  
(in millions)**

<u>Category</u>	<u>Amount</u>
<b>Revenues</b>	
FY 2007 Dedicated Tax Estimate	\$78.25
FY 2007 Operating Revenue Estimate	<u>16.10</u>
Subtotal Revenues	\$94.35
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<b>Reserve</b>	
Excess Reserve Estimate	<u>\$39.85</u>
<b>Sum of Projected FY 2007 Revenues and Excess Reserve Estimate</b>	<b>\$134.20</b>
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<b>Expenditures</b>	
Debt Service	\$36.20
Operating Expenditures	34.53
Marketing Agencies	9.53
Capital Improvement Expenditures	5.41
Reserve Requirements <sup>14</sup>	-0-
Restoration of Reserves Related to Debt	<u>-0-</u>
<b>Sum of Projected FY 2007 Expenditures</b>	<b>\$85.67</b>
<hr/>	
Estimated FY 2007 Increase in Excess Reserve	\$23.35*
<b>Sum of Projected FY 2007 Expenditures and Increase in Excess Reserve</b>	<b><u>\$109.02</u></b>
<b>Projected Revenue and Excess Reserve Estimate Over Projected Expenditures</b>	<b><u>\$25.18</u></b>

Sources: WCCA's FY 2007 Budget Submission and Supporting Documentation, and the OCFO's FY 2007 dedicated tax revenue estimate.

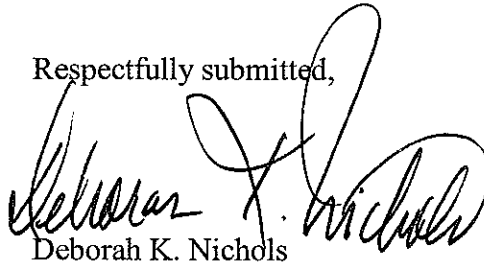
\*The excess reserve estimate for FY 2007 is \$39.85 million. Because the excess reserve estimate for FY 2006 is \$16.5 million, the difference of \$23.35 million represents an increase in the FY 2007 balance which will be funded from WCCA's FY 2007 dedicated tax revenues.

<sup>14</sup>D.C. Law 10-188, as amended, did not define "reserve requirements." In the absence of a definition and for purposes of this sufficiency review, the Auditor interprets "reserve requirements" to include amounts necessary to establish and fund new reserves and to restore existing reserves, excluding reserves related to indebtedness, to their required minimum balances.

**AUDITOR'S CERTIFICATION**

Based upon the Auditor's analysis of information provided by WCCA and ORA, as of the date of this certification, WCCA's total projected revenues and excess reserve estimate of \$134.2 million for FY 2007 appear sufficient to cover its projected operating and debt service expenditures, reserve requirements, and projected capital improvement expenditures totaling \$109.02 million. According to the Auditor's calculation, WCCA's FY 2007 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$25.18 million. These factors taken as a whole constitute a reasonable basis for the Auditor's sufficiency certification. Therefore, the Auditor hereby certifies that, as of the date of this certification, WCCA's projected revenues and excess reserve should be sufficient to meet projected expenditures and reserve requirements for FY 2007.

Respectfully submitted,



Deborah K. Nichols  
District of Columbia Auditor

# **APPENDICES**

## APPENDIX I

The Master Trust Agreement entered into requires special funds and accounts be created by the WCCA concerning 1998 Bonds. The Master Trust Agreement established the following special fund accounts.

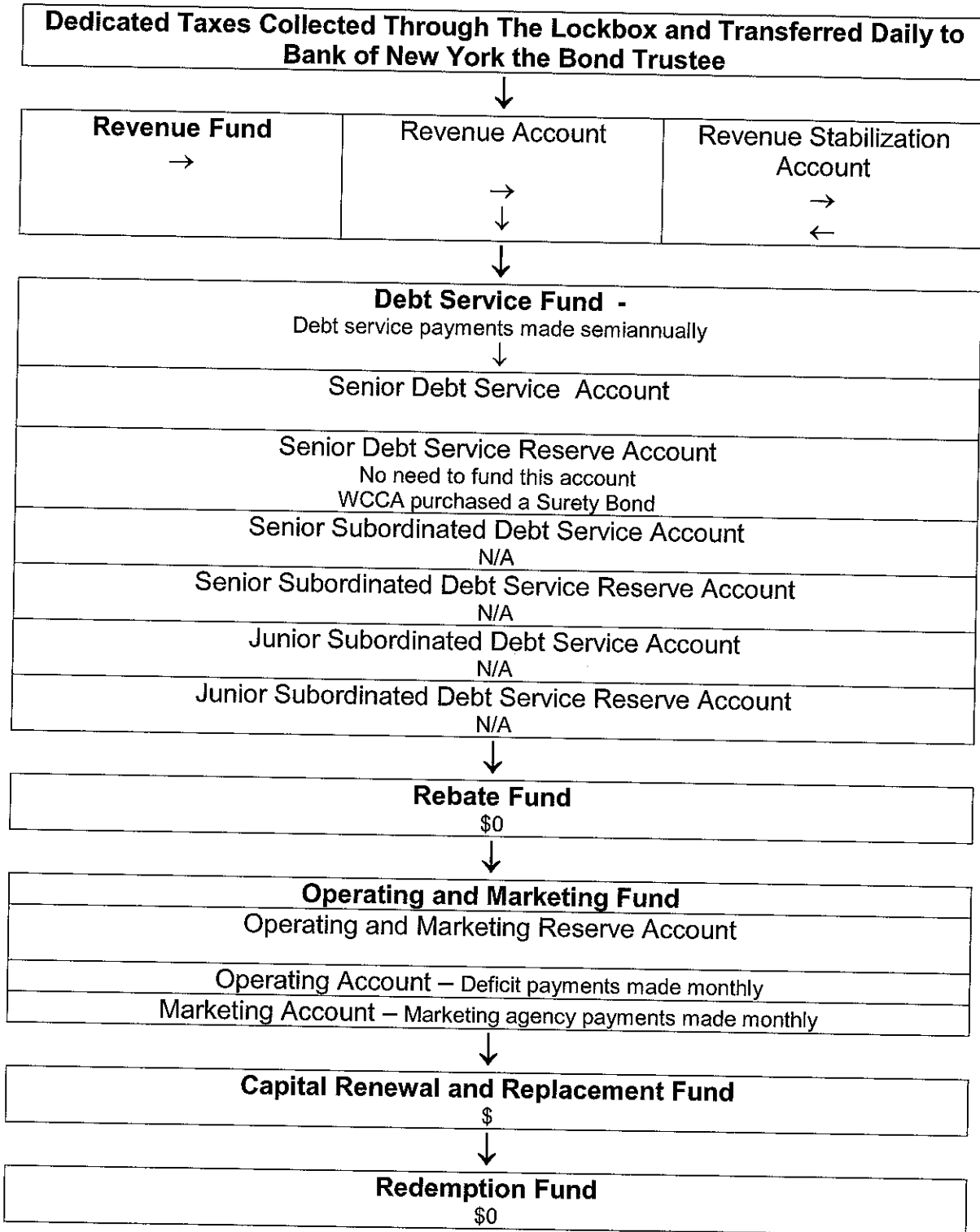
Name of Fund	Description/ Fill Up Mechanics/ Comments	Projected Balance at September 30, 2007	Maximum Balance Permitted by Council Resolution	Required Minimum Balance
<b>Revenue Fund</b> 1.) Revenue Account	Dedicated taxes due the WCCA are transferred to the Revenue Account from the WCCA Pledged Account within two days of receipt.	\$0	N/A	N/A
2.) Revenue Stabilization Account	The Revenue Stabilization account is used to offset the seasonal fluctuations in revenues. The Authority may transfer funds to and from this account to the Revenue Fund, if all other funds are funded at their required levels.	\$3,302	3 times the annual operating and marketing budgets combined with the Operating & Marketing Reserve Account balance.	No Minimum
<b>Senior Debt Service Fund</b> 1.) Senior Debt Service Account	Use to pay principal and interest payments. Amounts transferred to this fund equal the annual debt service on the 1998 bonds due in that year.	\$33,922,152	No maximum limit stated. Funds are transferred out of this account semi- annually.	Depending on the year between \$26,000,000 - \$36,200,000.
2.) Senior Debt Service Reserve Account	Use to pay principal and interest payments. 10% percent of the 1998 bonds outstanding calculated in accordance to the internal revenue code or 125% of the average annual requirements for payment of the principal and interest on the bond during the then current and future fiscal year. The Debt Service Reserve Account requirement may be satisfied by the purchase of a credit facility. The Authority purchased a Surety Bond at the time of issuance to cover this requirement.	\$0	No maximum limit stated.	\$52,446,000 = 10% of 1998 Bonds outstanding.

## APPENDIX I

Name of Fund	Description/ Fill Up Mechanics/ Comments	Projected Balance at September 30, 2007	Maximum Balance Permitted by Council Resolution	Required Minimum Balance
3.) Senior Subordinated Debt Service Account	No Senior subordinated debt issued	N/A	N/A	N/A
4.) Senior Subordinated Debt Service Reserve Account	No Senior subordinate debt issued	N/A	N/A	N/A
<b>Junior Subordinated Debt Service Fund</b> 1.) Junior Subordinated Debt Service	No Junior subordinated debt issued	N/A	N/A	N/A
2.) Junior Subordinated Debt Service Reserve Account	No Junior subordinated debt issued	N/A	N/A	N/A
<b>Rebate Fund</b>	Amount on deposit in the Rebate Fund are used to make payments to the US Treasury in the event of a rebate being due on the 1998 Bonds. Rebate Payments are due every five years.	\$0	N/A	WCCA is required to maintain an amount equal to the rebate liability in the then current fiscal year. First payment due in 2003.
<b>Operating &amp; Marketing Fund</b> 1.) Operating & Marketing Reserve Account	Establish a reserve to pay Marketing expenses on the Marketing Services Contracts and to pay WCCA's annual operating deficit.	\$32,509,458	3 times the annual Operating and Marketing expense budgets combined with the Revenue Stabilization Account Balance.	\$20,000,000
2.) Operating Account	Used to pay operating deficit of the existing convention center. Cash transferred out monthly.	\$1,150,288	N/A	N/A
3.) Marketing Account	Used to pay monthly marketing contracts. Cash transferred out monthly.	\$1,379,198	N/A	N/A
<b>Capital Renewal &amp; Replacement Fund</b>	Cash accumulates to pay the cost of capital improvements to the facility or additions as required.	\$31,214,596	\$37,000,000 or 5% of costs of project.	\$15,000,000 or 2% of costs of project.
<b>Redemption Fund</b>	Cash accumulates in the Redemption Fund for purchase, defeasance or redemption of outstanding bonds before or at maturity.	\$0	Filled only when all other buckets are full during each semi-annual period.	Follows flow of funds priority each year.

**APPENDIX II**

**Flow of Funds – How Tax Revenue Flows into the Indenture**



**APPENDIX II**

**Flow of Funds – All Funds Pledged to Debt Service in Case of Insufficient Revenues**

