



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor
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**“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 2005.”**

July 15, 2004



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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

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 2005

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 10-188,¹ as amended, D.C. Code, 2001 Ed. § 10-1203.05 (b), the District of Columbia Auditor shall prepare and deliver to the Mayor, Council, Chief Financial Officer of the District of Columbia, and the Chairman of the Washington Convention Center Authority (WCCA) a certification of the sufficiency of WCCA's projected revenues and excess reserve for the upcoming fiscal year to meet its projected expenditures and reserve requirements. This certification review sets forth the Auditor's determination of the sufficiency of WCCA's projected revenues and excess reserve to meet its projected expenditures and reserve requirements for fiscal year 2005 from the following sources:

1. taxes imposed pursuant to D.C. Code, 2001 Ed. § 47-2002.02 and § 47-2202.01, which are estimated by the Office of Tax and Revenue (OTR) and transferred to WCCA by the Mayor;
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.

¹See 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).

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 fiscal year 2005 barring any unforeseen events that would adversely impact revenues and expenditures.

The Auditor's analysis indicated that WCCA's projected revenues and excess reserve, as of September 30, 2005, is projected to exceed expenditures by approximately \$5.4 million in fiscal year 2005. Therefore, the District of Columbia Auditor hereby certifies that WCCA's projected fiscal year 2005 total revenues and reserve balance of \$87.2 million should be sufficient to meet projected expenditures and reserve requirements of \$81.8 million for fiscal year 2005.

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, in whole or in part, that the dedicated tax revenue estimate, operating revenue, and excess reserve estimate at the time of certification appeared sufficiently supported and achievable by WCCA. Additionally, the validity and accuracy of the Auditor's sufficiency analysis and calculation are predicated upon the extent to which WCCA officials have fully disclosed and provided reliable and accurate information to the Auditor regarding WCCA's operating expenses, debt service and marketing contract costs and any other expenses relevant to the Auditor's sufficiency certification.

BACKGROUND

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 taxes are collected through a lockbox arrangement established by the District CFO's Office of the Treasurer 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.

Tax receipts deposited into the WCCA Dedicated Account are assigned to, pledged to, and received daily by a trustee bank.² The trustee bank then deposits these funds in the WCCA Revenue Account for WCCA's use in accordance with the Master Trust Agreement.³

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 the 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 ensure that monies are available for the repayment of bond principal and interest. The flow of dedicated taxes collected 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, Capital Renewal and Replacement Fund, and the Revenue Stabilization Account. Any balance remaining in the Operating and Marketing Reserve Account and the Revenue Stabilization Account, after deducting the minimum balance requirements, represents WCCA's excess reserve. Several other funds, such as the Rebate Fund and the Redemption Fund, although required to be established, have not yet been activated because they are not presently needed.

²Bank 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 Account.

³The 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 as outlined in the agreement.

RESULTS OF ANALYSIS

THE WASHINGTON CONVENTION CENTER AUTHORITY'S FISCAL YEAR 2005 PROJECTED REVENUES APPEAR SUFFICIENT TO COVER PROJECTED OPERATING AND DEBT SERVICE EXPENDITURES AND RESERVE REQUIREMENTS

WCCA's fiscal year 2005 projected revenues from dedicated taxes and operating revenue, and projected excess amounts in reserve funds are estimated to total approximately \$87.2 million. This includes \$63.9 million in dedicated tax revenue⁴, \$16.8 million in operating revenue, and \$6.5 million in excess reserve funds. The fiscal year 2005 dedicated tax estimate for WCCA was revised downward by the District's CFO during June 2004. The estimate, which was \$65.1 million as certified by the CFO in February 2004, was decreased by \$1.2 million, or 1.8%. According to Office of Revenue Analysis (ORA) officials, the revised estimate of \$63.9 million reflects collections which have been slightly below the estimate for sales taxes imposed on restaurant meals and hotel room charges. The Auditor notes that collections of dedicated taxes may be impacted by OTR's failure to timely reconcile and transfer sales tax receipts deposited to the Exceptions Account. The Auditor will address issues regarding the Exceptions Account in a separate report.

WCCA's fiscal year 2005 projected operating and debt service expenditures, and reserve requirements are estimated to total approximately \$77 million and include: \$36.2 million for debt service, \$7.8 million for payment to marketing agencies, and \$33 million for operating expenditures. An additional \$4.8 million is necessary to replenish the excess reserve estimate to its projected fiscal year 2005 ending balance. WCCA's projected operating and debt service expenditures of \$77 million and the additional \$4.8 million necessary to increase the excess reserve estimate to its projected balance in fiscal year 2005 total \$81.8 million.

The Auditor's analysis of the sufficiency of WCCA's revenues and excess reserve estimate to cover projected operating and debt service expenditures and reserve requirements for fiscal year 2005 indicates that revenues appear sufficient to cover the expenditures. In fact, WCCA's fiscal year 2005 revenues and excess reserve are projected to exceed expenditures by approximately \$5.4 million. The use of the \$5.4 million projected revenue and excess reserve over projected expenditures is restricted in accordance with the Master Trust Agreement.⁵

⁴The Exceptions Account is characterized as a temporary holding account for deposits of sales tax returns with problems, referred to "unclean" returns, until they can be analyzed and properly researched.

⁵In accordance with the provisions of the Master Trust Agreement, the dedicated tax receipts and all moneys and investment obligations are pledged as security for the bonds.

Table I presents the sufficiency calculation of WCCA's projected revenues and excess reserve to projected operating and debt service expenditures and reserve requirements for fiscal year 2005.

TABLE I
Sufficiency Calculation of WCCA's Projected Revenues and Excess Reserve to
Projected Expenditures and Reserve Requirements for Fiscal Year 2005
(in millions)

<u>Category</u>	<u>Amount</u>
Revenues	
FY 2005 Dedicated Tax Estimate	\$63.9
FY 2005 Operating Revenue Estimate	<u>16.8</u>
Subtotal Revenues	\$80.7
<hr/>	
Reserve	
Excess Reserve Estimate	<u>6.5*</u>
Sum of Projected FY 2005 Revenues and Excess Reserve Estimate	\$87.2
<hr/>	
Expenditures	
Debt Service	36.2
Operating Expenditures	33.0
Marketing Agencies	7.8
Reserve Requirements ⁶	-0-
Restoration of Reserves Related to Debt	<u>-0-</u>
Sum of Projected FY 2005 Expenditures	\$77.0
<hr/>	
Estimated FY 2005 Increase in Excess Reserve	4.8**
Sum of Projected FY 2005 Expenditures and Increase in Excess Reserve	<u>81.8</u>
Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	<u>\$ 5.4</u>

Sources: WCCA's FY 2005 Budget Submission and Supporting documentation, and OTR's fiscal year 2005 revised dedicated tax revenue estimate.

*WCCA's excess reserve estimate reflects amounts deposited in excess of the respective minimum reserve balances in the Operating and Marketing Reserve Account and the Revenue Stabilization Account. The actual excess reserve balance for FY 2003 was \$2.9 million. The excess reserve estimate for FY 2004 is \$1.7 million. See Appendix II for the sources and uses of the reserve funds after debt service requirements have been satisfied.

**The excess reserve estimate for fiscal year 2005 is \$6.5 million. Because the excess reserve estimate for fiscal year 2004 is \$1.7 million, the difference of \$4.8 million, represents an increase in the FY 2005 balance which will be funded from WCCA's FY 2005 dedicated tax revenues.

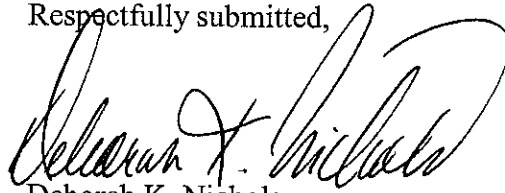
⁶D.C. Law 10-188, as amended, did not define "reserve requirements." In the absence of a definition and for purposes of this sufficiency review, the Auditor interprets "reserve requirements" as the amounts necessary to establish and fund new reserves and to restore existing reserves, excluding reserves related to indebtedness, to their required minimum balances.

CONCLUSION AND 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 estimated excess reserve estimate of \$87.2 million for fiscal year 2005 appeared sufficient to cover its projected operating and debt service expenditures and reserve requirements totaling \$81.8 million.

According to the Auditor's calculation, WCCA's fiscal year 2005 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$5.4 million. Therefore, the District of Columbia 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 fiscal year 2005.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols

District of Columbia Auditor

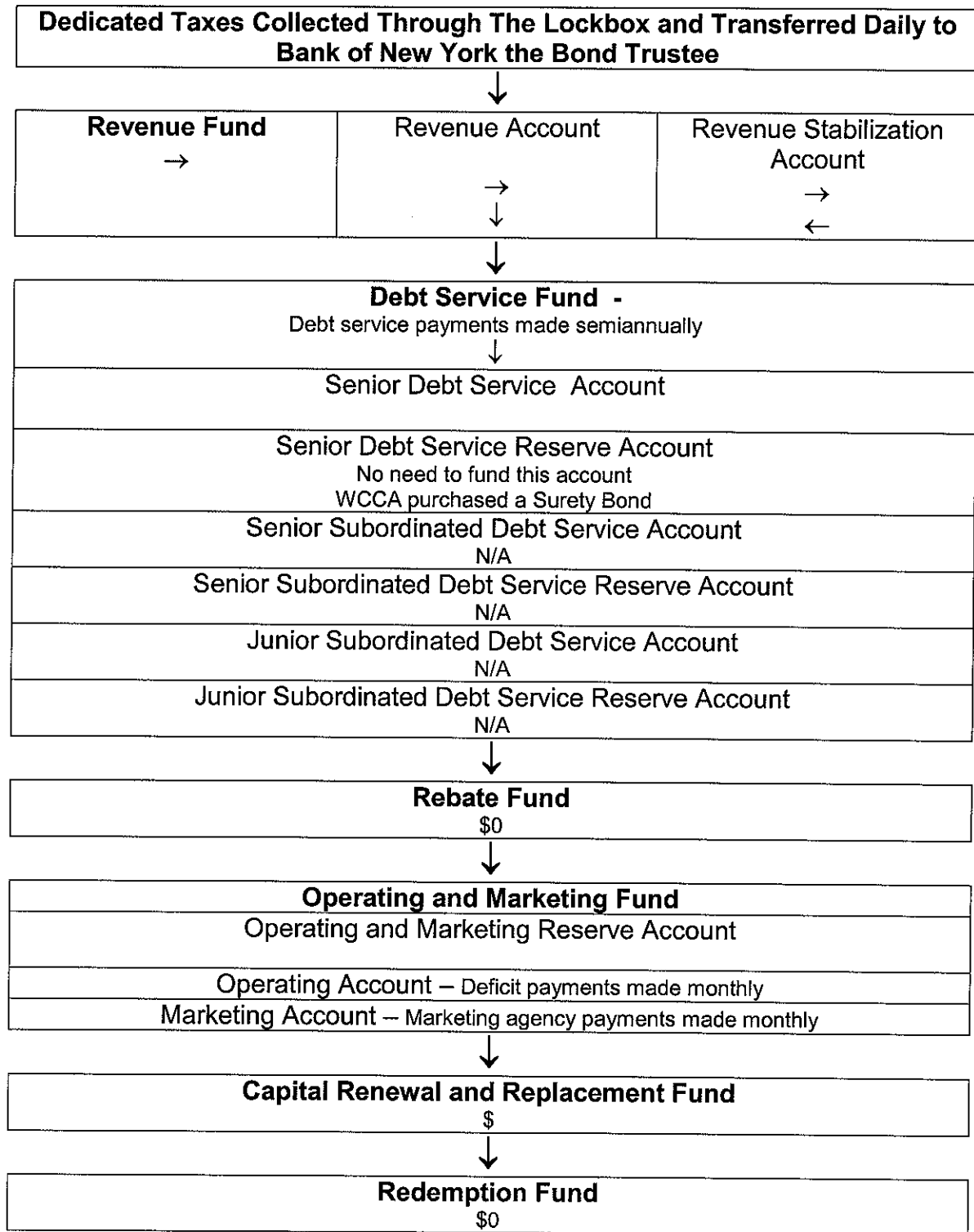
APPENDICES

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, 2005	Maximum Balance Permitted by Council Resolution	Required Minimum Balance
Revenue Fund 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.	\$2,965	3 times the annual operating and marketing budgets combined with the Operating & Marketing Reserve Account balance.	No Minimum
Senior Debt Service Fund 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.	\$25,386,391	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.

Name of Fund	Description/ Fill Up Mechanics/ Comments	Projected Balance at September 30, 2005	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
Junior Subordinated Debt Service Fund 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 issues	N/A	N/A	N/A
Rebate Fund	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.
Operating & Marketing Fund 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.	\$31,534,282	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.	\$65,756	N/A	N/A
3.) Marketing Account	Used to pay monthly marketing contracts. Cash transferred out monthly.	\$233,105	N/A	N/A
Capital Renewal & Replacement Fund	Cash accumulates to pay the cost of capital improvements to the facility or additions as required.	\$15,186,972	\$37,000,000 or 5% of costs of project.	\$15,000,000 or 2% of costs of project.
Redemption Fund	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.

Flow of Funds – How Tax Revenue Flows into the Indenture



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

