
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 2022

July 15, 2021

A report by the Office of the District of Columbia Auditor



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July 15, 2021

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W., Suite 504
Washington, DC 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 2022

Dear Chairman Mendelson:

What follows is the Office of the District of Columbia Auditor 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 2022. Pursuant to D.C. Code § 10-1203.05(b), the District of Columbia Auditor is required to prepare and deliver to the Mayor, Council of the District of Columbia, Chief Financial Officer of the District of Columbia (OCFO), 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 2022 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 projected dedicated tax revenue, operating revenues, and excess reserves will be sufficient to meet its projected operating and debt service expenditures and reserve funding requirements for FY 2022.

The scope of this analysis included WCSA's financial records and data for FYs 2019 through 2020 and FY 2021, as of March 31, 2021. Our analysis also included a review of WCSA's FY 2022 projected revenues, expenditures, and reserves.

To accomplish our objective, we conducted a detailed review of WCSA's FY 2022 projected and historical operating revenues and expenses for the Convention and Meetings and Sports and Entertainment Divisions. This review included analysis of financial information included in WCSA's audited financial statements for FY 2019 through FY 2020, WCSA's FY 2021 internal financial reports (variance reports) as of March 31, 2021, WCSA's FY 2021 and FY 2022 budgets approved by the WCSA Board of Directors, as well as the OCFO revenue estimates from December 2020 and May 2021. We also analyzed trends in events booked at WCSA and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's projected FY 2022 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 2022 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.

To provide the most up-to-date analysis in this unprecedented economic landscape and unlike previous ODCA sufficiency reviews, this year we relied on the OCFO's May 2021 Revenue Estimates such as Dedicated taxes and TIF revenues that did not align with the WCSA's board approved budget, which used the December 2020 OCFO Revenue Estimate.

Throughout our review, ODCA evaluated and discussed in detail with WCSA personnel the impact of COVID-19 on WCSA's operations. Because of COVID-19, WCSA closed its event sites and canceled scheduled events for the second half of FY 2020 and the first half of FY 2021. ODCA's FY 2022 sufficiency certification assumes that WCSA will be operating in a normal fashion for the full year based on the District's COVID-19 vaccination rate and general reopening of the District and District businesses.

To conduct the sufficiency review, ODCA relied on representations and other financial information provided by WCSA officials and dedicated tax revenue information provided by outside financial institutions and the OCFO to determine the reliability and sufficiency of WCSA's projected revenues for FY 2022.

We note that revenue, reserve, and expense estimates are based on information that can change rapidly, especially in the context of COVID-19, which means there is the possibility of revisions to estimates after

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.

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 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 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 office and retail space rentals. WCSA’s FY 2022 operating revenue estimate is \$19.40 million and accounts for 13% of the total FY 2022 projected revenue. Figure 1 presents WCSA’s FY 2022 projected operating revenues per WCSA’s FY 2022 budget.

Figure 1: WCSA's FY 2022 Projected Operating Revenues

Revenue Category	FY 2022 Projected Operating Revenue
Convention & Meetings Division and Carnegie Library	\$14,132,719 ²
Sports and Entertainment Division	\$5,267,346
Total Operating Revenue	\$19,400,064

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 69.70% of its FY 2022 projected revenue from dedicated taxes received from 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 spiritous 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 May 14, 2021, the FY 2022 dedicated tax revenue estimate from these sources is \$104.9 million, which includes an annual transfer for Destination DC (DDC),⁴ a private non-profit that provides marketing services for the District. The transfer amount for DDC for FY 2022 is projected to be \$4.5 million.

WCSA also receives TIF revenues and lease payments. TIF revenues are collected from a portion of the sales and use taxes and property taxes generated by the Marriott Marquis.

To finance the hotel project, WCSA issued Build America Bonds and Recovery Zone Economic Development Bonds. State and local governments can issue two general types of Build America Bonds as taxable governmental bonds with federal subsidies for a portion of their borrowing costs. These taxable bonds provide an Internal Revenue Service (IRS) subsidy through a refundable tax credit on the total coupon interest payable to investors. The Build America Bonds have a refundable tax credit equal to 35% of the total coupon interest payable to the issuer and the Recovery Zone Economic Development Bonds have a refundable tax credit equal to 45% of the total coupon interest payable to the issuer.

During FY 2021, Events DC refunded 2010 bonds which provided the IRS subsidy and issued new 2021 bonds. Because the 2010 Bonds have been defeased, Events DC will no longer receive the IRS subsidy

2 Events DC stated the retail space budget for the Conventions and Meetings Division will be revised to reflect the impact of rental waivers. The revised budget should reflect collection for half of FY 2021 (April to September) in the amount of \$342,000.

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.

revenue. The projected non-operating revenue from TIF revenues and the District ground lease for the hotel are projected to total \$18.77 million. Figure 2 presents WCSA's FY 2022 projected non-operating revenues according to WCSA's estimated figures and the OCFO May 2021 Revenue Estimates.

Figure 2: WCSA's FY 2022 Projected Non-Operating Revenues

Revenue Category	FY 2022 Projected Non-Operating Revenue
Dedicated Taxes	\$100,442,000
Interest Income	\$933,852
TIF Revenue – Hotel	\$11,637,919
District Ground Lease Payment (Hotel)	\$7,134,256
District Transfer to DDC Marketing	\$4,466,000
Total Non-Operating Revenue	\$124,613,027

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 2022 operating expense projection is approximately \$71.95 million of which \$35,900,628, or 50%, is personnel costs for approximately 278 employees, as stated by WCSA.

Figure 3: WCSA's FY 2022 Projected Operating Expenses

Expense Category	FY 2022 Projected Operating Expenses
Convention & Meetings Division	\$56,175,963
Sports and Entertainment Division	\$15,776,203
Total Operating Expenses	\$71,952,166

Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism, debt service payments, and possessory interest tax.⁵ As provided in Figure 4, WCSA's FY 2022 non-operating expense projection is \$48.71 million.

Figure 4: WCSA's FY 2022 Projected Non-Operating Expenses

Expense Category	FY 2022 Projected Non-Operating Expenses
Marketing Fund	\$14,604,107
Debt Service	\$27,788,486
Transfer to DDC Marketing	\$4,466,000
Possessory Interest Tax	\$855,000
Transfer to the District- Excess TIF	\$1,000,000
Total Non-Operating Expenses	\$48,713,593

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 reserves to cover projected operating and debt services expenditures and reserves requirements.

During this year's sufficiency review, Events DC refunded 2010 Bonds and a portion of 2018 Bonds and issued new 2021A, 2021B and 2021C Bonds. As 2010 bonds will become defeased in 2022, Events DC will no longer receive IRS Subsidy Revenue. These changes were included in the sufficiency calculation and required that minimums were reserved according to the seventh and eighth supplementals to the Amended Master Trust Agreements and the Official Statements. Based on supporting documentation provided by WCSA, we determined that all funds from the three new issued bonds are restricted—that is, they are to be used for debt service payments.

By refunding 2010 bonds and a portion of 2018 Bonds, Events DC secured lower interest rates and debt service payments are reduced for FY 2021 and FY 2022. Events DC saved \$10.56 million in FY 2021 and \$22.02 in FY 2022.

5 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, 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.

The District allocates \$1.5 million annually to WCSA toward the cost of maintaining Nationals Park. WCSA restricts these funds because every fiscal year these funds are used to pay for ballpark related expenses.

In June 2021, WCSA received a Paycheck Protection Program Loan (PPP Loan) from the U.S. Small Business Administration in the amount of \$5,250,685 for payroll costs, covered utilities, and covered operations expenditures⁶ as authorized under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and Title V of the American Rescue Plan Act of 2021. According to WCSA, the PPP loan will be used by the fourth quarter of FY 2021 for payroll related costs.

Results of the Auditor’s Examination

We conducted detailed analysis over each component of WCSA’s FY 2022 sufficiency calculation presented in Figure 5 (page 9). Noted below are key observations based on our review.

Convention and Meetings Division

For FYs 2019 through 2020, the Walter E. Washington Convention Center consistently exceeded its operating revenue projections. As of March 31, 2021, the Walter E. Washington Convention Center collected 49% of its FY 2021 projected operating revenue and will likely meet its revenue projections due to the District reopening and confirmed events during the months of July through September and the monthly lease payments for leasing the Carnegie Library.

WCSA also generates lease revenue from leasing the Plumbers building⁷ to the owners of the Marriott Marquis hotel. However, due to the pandemic the hotel suspended operations and the revenue is not included in FY 2021 and FY 2022 budget, the FY 2022 budget will be revised and include the revenue. In addition, WCSA has retail options on the ground level of the Convention Center building around its perimeter. Lease agreements have been executed with nine retailers, all with either 5-year or 10-year terms, creating an additional revenue stream for the Division.

As noted above, the advent of COVID-19 impacted the first half of FY 2021’s revenue and expenditures. In March 2020, the District government implemented several public health measures to combat the spread of COVID-19. As a result, retail tenants experienced severe financial losses and requested rent relief from WCSA. WCSA decided to waive rent for all tenants based on their ability to operate during the pandemic. WCSA waived rent from April 2020 to March 2021. During FY 2021, Events DC is projected to receive \$683,208 in retail rent. From April to September 2021, as the result of a rental waiver, Events DC will receive six months of retail rent in the amount of \$341,604.

“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

6 According to the application, the loan will be forgiven with documented costs and not more than 40% of the forgiven amount may be for non-payroll costs.

7 The Marriott Marquis hotel incorporates the site’s original historic Samuel Gompers AFL-CIO headquarters, known as the “Plumbers Building.”

on the hotel community, with a minimum of 2,500 room nights at the peak.⁸ In FY 2021, no city-wide events took place before mid-March which impacted operating revenues, and the Division will hold one city-wide event in FY 2021. Although the Division will only have one city-wide event in FY 2021, operating revenue increased from the convention center becoming a vaccination site and a hospital to aid in the fight against COVID-19. Events DC had an agreement with the District government to use the convention center as a vaccination site and the hospital. Events DC received \$1.14 million from the District, specifically the Department of General Services (DGS), to provide building rental. As of June 2021, the District has started its reopening plan and Events DC has 15 confirmed events scheduled for April through September generating \$1.43 million and 16 confirmed city-wide events for FY 2022.

The Division's projections of operating revenue for FY 2021 and FY 2022 appear reasonable if WCSA is able to hold scheduled events during the last three months of FY 2021 and keep all confirmed events for FY 2022.

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, 2021, the SED had collected 85% of its FY 2021 projected operating revenue. During the first half of FY 2021 there was a hold on all events because of COVID-19, and the SED has made up most of its operating revenue serving as a COVID-19 vaccination site with payments from the District government. SED earned \$1.55 million in revenue from hosting vaccination sites at their venues (ESA and Gateway).

The Sports and Entertainment Division's total operating revenues for FY 2022 are expected to increase by \$2.45 million to an estimated \$5.3 million or 87% of the FY 2021 projected revenue. The projected increase assumes the Division will operate for a full year in FY 2022 after operating for only six months in FY 2021.

Considering SED's historical revenue collections, the FY 2022 revenue estimate may be optimistic. With multiple properties at its disposal for use as event venues, SED has the flexibility to offer a variety of options to potential customers looking to host events in D.C. SED's arena and festival-style destinations such as the new Entertainment and Sports Arena (ESA), Robert F. Kennedy Memorial Stadium (RFK), the Festival Grounds at RFK, DC Armory, Gateway DC, the R.I.S.E. Demonstration Center, and the Fields at RFK Stadium. The venues provide options for events that attract different sized audiences and uses of indoor and outdoor spaces. The Fields at RFK allowed WCSA to generate revenue during the pandemic with hosting outdoor events.

The Division's ability to meet its FY 2022 revenue projections of \$5.3 million will be dependent upon its ability to schedule events and generate revenue given current circumstances.

⁸ Peak room nights refer to the nights during an event when most rooms are occupied by those in attendance.

Conclusion

Based on 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 2022. In making this determination, the Auditor took into account the already-known impact of COVID-19 on FY 2020 and the first half of FY 2021, as well as the as-yet unknown impacts on the remainder of FY 2021.

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, appeared sufficiently supported and achievable by WCSA.

ODCA’s analysis indicated that WCSA’s projected FY 2022 revenues and excess reserve should exceed expenditures by approximately \$78.66 million. The excess reserve calculation assumes WCSA will be operating with at least some events taking place for the last two quarters (six months) of FY 2021. Figure 5 presents WCSA’s FY 2022 sufficiency calculation.

Figure 5: Fiscal Year 2022 Sufficiency Calculation (in millions)

Category	Amount
Revenues	
Dedicated Tax Estimate	100.44
0.3% Additional Hotel Tax	4.47
TIF Revenue Estimate	11.64
Operating Revenue Estimate	19.40
Lease Payments	7.13
Interest Income Estimate	.93
Subtotal Revenues	\$ 144.01
Reserves	
Beginning Cash Balance Over the Required Minimum Reserves	87.13
Sum of Projected FY 2022 Revenues and Excess Reserve Estimate	\$ 231.15
Expenditures	
Debt Service	27.79
Operating Expenditures	71.95

Category	Amount
Marketing Agencies	14.60
Projected 0.3% Additional Hotel Taxes to DDC	4.47
Transfer to the District - Excess TIF	1.00
Possessory Interest Tax	.86
Re-opening DC Market	3.00
Capital Improvement Exp	28.82
Sum of Projected FY 2022 Expenditures	\$ 152.49

Projected Revenue and Excess Reserve

Estimate Over Projected Expenditures (End of Fiscal Year)	\$ 78.66
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Source: WCSA Cash and Investment Manager

Auditor’s Certification

Based on 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 15, 2021, WCSA’s total projected revenues and excess reserve estimate for FY 2022 are sufficient to cover its projected expenditures. WCSA’s FY 2022 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$78.66 million, which assumes operations for two quarters, or six months, of FY 2021.

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

Sincerely yours,



Kathleen Patterson
District of Columbia Auditor

cc: Betsy Cavendish, EOM
Gregory O’Dell, Events DC
Henry Mosely, 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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