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 2015

July 14, 2014

Audit Team:
Toya Murphy, Auditor-in-Charge
Marshall Matsiga, Senior Auditor
Patrick McCray, Senior Financial Auditor
Amy Wu, Financial Auditor

A Report by the Office of the District of Columbia Auditor
Lawrence Perry, Acting District of Columbia Auditor
July 14, 2014

Included herein is the District of Columbia Auditor’s report, entitled “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 2015.” 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 of the WCSA’s FY 2015 revenue sufficiency.

We would like to thank the WCSA staff for their assistance and cooperation during this certification. Their valuable time and efforts spent on providing us information was greatly appreciated.

Sincerely,

[Signature]
Lawrence Perry
Acting District of Columbia Auditor
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Background

The Washington Convention and Sports Authority (WCSA) was established as an independent authority of the District government. WCSA was created to effectuate certain public purposes and has a legal existence separate from the District government.

WCSA is the official convention and sports authority for the District of Columbia. WCSA oversees the Walter E. Washington Convention Center and the historic Carnegie Library at Mt. Vernon Square. WCSA manages the Stadium-Armory campus, which includes Robert F. Kennedy Memorial Stadium and surrounding Festival Grounds, the non-military functions of the DC Armory and Maloof Skate Park at RFK Stadium. WCSA also serves as landlord for 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 11 member Board consists of the District of Columbia Chief Financial Officer (CFO), another District government official designated by the Mayor and nine public members. These 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. The CFO and Mayoral designee serve as ex-officio voting members with four-year terms. According to WCSA’s enabling legislation, three of the appointed public Board members shall be individuals from the hotel industry, restaurant industry and organized labor, and the remaining six appointed 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 the President and Chief Executive Officer (CEO) who is appointed by WCSA’s Board.

D.C. Official Code, Section §10-1203.05 (b) states, in relevant part, that:

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).
Objectives, Scope and Methodology

Objectives

The objective of this analysis was to determine whether WCSA’s FY 2015 projected revenues and excess reserve will be sufficient to meet WCSA’s FY 2015 projected expenditures and reserve requirements.

Scope

The Auditor reviewed WCSA’s financial records and data for FYs 2011 through 2013 and FY 2014, as of March 2014. Our review also included a review of WCSA’s FY 2015 projected revenues, expenditures and reserves.

Methodology

To accomplish our objective, the Auditor:

- reviewed applicable minutes of the WCSA Board of Directors;
- interviewed WCSA personnel;
- reviewed WCSA’s audited financial statements for FY 2011 through FY 2013 and WCSA’s FY 2014 internal unaudited financial statements, as of March 31, 2014;
- reviewed WCSA’s FY 2015 budget, as approved by the WCSA Board of Directors;
- performed detailed analyses of WCSA’s historical and projected revenues, expenditures, and reserves;
- analyzed WCSA’s pending claims or judgments; and
- analyzed trends in events booked at WCSA.

The Auditor relied on dedicated tax revenue information provided by the CFO’s 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 2015.

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.
We reviewed WCSA’s revenues (operating revenue and dedicated taxes), expenditures, and excess reserves to determine the reasonableness of WCSA’s FY 2015 projections. Key observations from our analysis conducted are noted below.

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 includes revenue from conventions and meetings, sports events, parking, advertising, and sponsorships. WCSA’s FY 2015 operating revenue estimate is $25.2 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 of Columbia CFO provides the dedicated tax revenue projection to WCSA. According to the CFO’s ORA, as of December 2013, the FY 2015 dedicated tax revenue estimate is $111.3 million.

Figure 1  
WCSA’s FY 2015 Estimated Operating Revenues and Dedicated Taxes

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>FY 2015 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention and Meetings Division¹</td>
<td>$18,752,581</td>
</tr>
<tr>
<td>Sports and Entertainment Division</td>
<td>5,582,011</td>
</tr>
<tr>
<td>Carnegie Library</td>
<td>900,000</td>
</tr>
<tr>
<td>Dedicated Taxes (Non-Operating Revenue)</td>
<td>111,344,000</td>
</tr>
<tr>
<td>Total Operating Revenue and Dedicated Taxes</td>
<td>$136,578,592</td>
</tr>
</tbody>
</table>

¹ Convention and Meetings Division FY 2015 revenue projection, this amount excludes the Carnegie Library FY 2015 revenue projection.
Operating Expenses

WCSA's operating expenses include personal services, 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 2015 operating expense projection is $48.5 million.

Figure 2

WCSA's FY 2015 Estimated Operating Expenses

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>FY 2015 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention and Meetings Division²</td>
<td>$39,262,477</td>
</tr>
<tr>
<td>Sports and Entertainment Division</td>
<td>8,242,843</td>
</tr>
<tr>
<td>Carnegie Library</td>
<td>966,220</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$48,471,540</td>
</tr>
</tbody>
</table>

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.

Conclusions

Based on our review we concluded the following:

- For FYs 2011 to 2013, the Convention and Meetings Division met and exceeded its operating revenue projection by an average of $662 thousand or 3.6%, over the three year period.
- The FY 2015 Convention and Meetings revenue projection is deemed reasonable.
- The Convention and Meetings and Sports and Entertainment Division's expenses have historically been under budget.

² Convention and Meetings Division FY 2014 expense projection, this amount excludes the Carnegie Library FY 2014 expense projection.
WCSA has demonstrated its ability to effectively manage its operating expenses.
- For FYs 2011 to 2013, WCSA has met and exceeded its dedicated tax estimate.\(^3\) The FY 2015 dedicated tax estimate is $111.3 million, an increase of 1.8% over the FY 2014 estimate of $109.3 million.

Other Observations

During our review we noted that: (1) WCSA’s Sports and Entertainment Division revenue has increased from FY 2011 to FY 2013, however WCSA did not meet its actual revenue projections during this period and, (2) WCSA also did not meet its revenue projections for FY 2012 and FY 2013 for the Carnegie Library. However, we believe these observations should not affect WCSA’s ability to cover its FY 2015 projected expenditures and reserve requirements. Details of our observations are noted in the following paragraphs.

WCSA’s Sports and Entertainment Division

During FYs 2011 to 2013 the WCSA’s Sports and Entertainment Division did not meet its revenue projection. As of March 2014, WCSA has generated 32% of the FY 2014 revenue projection of $5.45 million.

During FY 2013 the Sports and Entertainment Division generated $5.46 in revenue, a 15% increase over the FY 2012 revenue of $4.75 million.

Based on the analysis conducted, it is concluded that WCSA’s ability to meet its FY 2015 revenue projection is unknown. The Sports and Entertainment division has not met its revenue projections in prior years and since our last review, the Sports and Entertainment Division has experienced high turnover in various key positions. WCSA’s has redirected its focus to the Festival Grounds at RFK to obtain additional revenue. However, it is still unknown if WCSA will meet the FY 2015 revenue projection of $5.6 million.

Carnegie Library

WCSA hosted its first event at the Carnegie Library in February 2012 and generated $152,464 in revenue during FY 2012. FY 2013 was the first full year of operations at Carnegie Library. During FY 2013, WCSA fell $363 thousand short of its projected revenue of $1.3 million, generating $985 thousand in revenue.

\(^3\) The dedicated tax revenue projections are developed by ORA.
Revenue projections for FY 2015 are for nine months only, as it is anticipated that the Library will begin renovations in FY 2015 to include the Spy Museum along with several other additions.

Based on the analysis conducted it is concluded that Carnegie Library’s FY 2015 revenue projection may not be obtainable. From reviewing the limited data for FY 2012, FY 2013 and FY 2014 (as of March 31, 2014), Carnegie has not met its projections in prior years. Additionally, Carnegie Library is scheduled to close in FY 2015 for extensive renovations reducing the number of days available for events. Given the uncertainty of when renovations will begin, this may hamper efforts to try to book events. Consequently, the FY 2015 projection of $900,000 does not appear to be obtainable.

Notwithstanding the observations noted above, it is projected that WCSA’s projected revenues and excess reserve will exceed expenditures in FY 2015. WCSA’s FY 2015 projected revenues and excess reserve are projected to exceed expenditures by approximately $40.0 million. Figure 3 presents WCSA’s FY 2015 sufficiency calculation.
Figure 3  Sufficiency Calculation of WCSA’s Projected Revenues and Excess Reserve to Meet Projected Expenditures and Reserve Requirements For Fiscal Year 2015 (millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues (Estimate)</strong></td>
<td></td>
</tr>
<tr>
<td>Dedicated Tax (December 2013 estimate)</td>
<td>111.3</td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>25.2</td>
</tr>
<tr>
<td>Interest Income</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Subtotal of Projected Revenues</strong></td>
<td>$137.2</td>
</tr>
<tr>
<td><strong>Reserve (Estimate)</strong></td>
<td></td>
</tr>
<tr>
<td>Excess reserve</td>
<td>66.4</td>
</tr>
<tr>
<td><strong>Sum of Projected Revenues and Excess Reserve Estimate</strong></td>
<td><strong>$203.6</strong></td>
</tr>
<tr>
<td><strong>Expenses (Estimate)</strong></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>38.8</td>
</tr>
<tr>
<td>Operating Expenditures</td>
<td>48.5</td>
</tr>
<tr>
<td>Marketing Agencies</td>
<td>15.3</td>
</tr>
<tr>
<td>Capital Improvement Expenditures</td>
<td>17.0</td>
</tr>
<tr>
<td>Spy Museum &amp; Consumer Show</td>
<td>44.0</td>
</tr>
<tr>
<td><strong>Sum of Projected Expenditures</strong></td>
<td><strong>$163.6</strong></td>
</tr>
<tr>
<td><strong>WCSA’s FY 2015 Projected Revenue and Excess Reserve Estimate Over Projected Expenditures</strong></td>
<td><strong>$40.0</strong></td>
</tr>
</tbody>
</table>

Source: WCSA Cash and Investment Manager
Based on our review of WCSA's FY 2015 sufficiency estimate, we determined that WCSA's FY 2015 projected revenues and excess reserves are sufficient to meet its FY 2015 projected expenditures and reserve requirements.

Sincerely,

[Signature]

Lawrence Perry
Acting District of Columbia Auditor