



**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 2018**

July 14, 2017

**Report Team:**

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A Report by the Office of the District of Columbia Auditor  
Kathleen Patterson, District of Columbia Auditor

July 14, 2017

The Honorable Phil Mendelson, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Ave., 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 2018

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 2018." 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, 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 2018 projected revenue and excess reserve are 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 projected dedicated tax revenues, operating revenue, and excess reserve will be sufficient to meet its projected operating and debt service expenditures and reserve funding requirements for FY 2018.

The scope of this analysis included WCSA's financial records and data for FYs 2014 through 2016 and FY 2017, as of March 31, 2017. Our analysis also included a review of WCSA's FY 2018 projected revenues, expenditures and reserves.

To accomplish our objective, we conducted a detailed review of WCSA's FY 2018 projected and historical operating revenues and expenses for the Convention and Meetings and Sports and Entertainment divisions. This review included an analysis of financial information included in WCSA's audited financial statements for FY 2014 through FY 2016, WCSA's FY 2017 internal financial statements (variance reports) as of March 31, 2017, and WCSA's FY 2017 and FY 2018 budget as approved by the WCSA Board of Directors. We also analyzed trends in events booked at WCSA, and interviewed WCSA personnel.

In addition, we conducted a review of WCSA's FY 2018 non-operating revenues, non-operating expenses, and excess reserves.

In compliance with the D.C. Official Code, Section §10-1203.05 (b)<sup>1</sup> the Auditor conducted a sufficiency review to determine if WCSA's FY 2018 projected revenues and excess reserve were sufficient to meet WCSA's projected expenditures and reserve requirements. This sufficiency review was not conducted as an audit.

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 2018.

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.

## 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.

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<sup>1</sup> 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.

## 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, advertising and sponsorships, parking and office and retail space rentals. WCSA's FY 2018 operating revenue estimate is \$28.5 million and accounts for 14.9 percent of the total FY 2018 projected revenue. Figure 1 presents WCSA's FY 2018 projected operating revenues per WCSA's FY 2018 budget.

**Figure 1: WCSA's FY 2018 Projected Operating Revenues**

Revenue Category	FY 2018 Projected Revenue
Convention and Meetings Division	\$20,909,109
Sports and Entertainment Division	5,856,166
Carnegie Library	1,698,204
<b>Total Operating Revenue</b>	<b>\$28,463,479</b>

### 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 70 percent of its FY 2018 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 28, 2017<sup>2</sup>, the FY 2018 dedicated tax revenue estimate is \$134 million.

WCSA receives TIF revenues, lease payments and an IRS subsidy, as a result of the Marriott Marquis hotel financing. TIF revenues are collected from a portion of the sales and use and property taxes generated by the hotel. WCSA generates lease revenue from leasing the Plumber's building<sup>3</sup> to the owners of the Marriott Marquis hotel.

To finance the 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 2018 the projected non-operating revenue from the TIF revenues, lease payments, and IRS subsidy is projected to be \$24.6 million.

<sup>2</sup> The CFO quarterly estimate, provided on February 28, 2017, was used by WCSA to formulate the FY 2018 approved budget.

<sup>3</sup> The Marriott Marquis Hotel incorporates the site's original historic Samuel Gompers AFL-CIO headquarters, known as the "Plumber's Building".

WCSA also receives an annual transfer from the District that is paid directly to Destination DC<sup>4</sup>, a private non-profit that provides marketing services for the District. The transfer amount for FY 2018 is projected to be \$3.3 million. Figure 2 presents WCSA's FY 2018 projected non-operating revenues per WCSA's FY 2018 budget.

**Figure 2: WCSA's FY 2018 Projected Non-Operating Revenues**

Revenue Category	FY 2018 Projected Revenue
Dedicated Taxes	\$134,010,000
Interest Income	1,000,000
TIF Revenue – Hotel	19,519,000
IRS Subsidy – Hotel bonds	2,526,055
Lease Income – Plumber's Building	2,513,272
District Transfer to DDC Marketing	3,265,884
<b>Total Non-Operating Revenue</b>	<b>\$162,834,211</b>

## 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 (page 6), WCSA's FY 2018 operating expense projection is approximately \$63 million.

**Figure 3: WCSA's FY 2018 Projected Operating Expenses**

Expense Category	FY 2018 Projected Expenses
Convention and Meetings Division	\$51,420,072
Sports and Entertainment Division	10,718,100
Carnegie Library	835,766
<b>Total Operating Expenses</b>	<b>\$62,973,938</b>

### Non-Operating Expenses

Non-operating expenses include payments to marketing agencies to promote conventions and tourism and debt service payments. As provided in Figure 4, WCSA's FY 2018 non-operating expense projection is \$73.9 million.

<sup>4</sup> Destination DC is designated as the WCSA's primary contractor to: (i) market and sell meetings and conventions for the 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 4: WCSA’s FY 2018 Projected Non-Operating Expenses**

Expense Category	FY 2018 Projected Expenses
Marketing Fund	\$22,436,976
Debt Service	51,448,218
<b>Total Non-Operating Expenses</b>	<b>\$73,885,194</b>

**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 2018 sufficiency calculation presented in Figure 5 (page 9). Noted below are key observations based on our review.

**Convention and Meetings Division**

For FYs 2014 through 2016, the Conventions and Meeting division has consistently exceeded its operating revenue projections, which indicates that leadership is adept at creating a reasonable, attainable budget, and balancing the division’s revenues and expenses. As of March 31, 2017, the WCSA had collected over 50 percent of its FY 2017 projected operating revenue, and is on pace to meet or exceed the annual budget projection.

Beginning in FY 2017, WCSA gave renewed emphasis to the development of retail options on the ground level around the perimeter of the Convention Center building. Lease agreements have been executed with eight retailers, all with 5-year or 10-year terms, creating a strong revenue stream for the division.

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.<sup>5</sup> In FY 2017, a record 20 city-wide events had a marked impact on operating revenue, and the division is looking forward to a projected 18 city-wide events in FY 2018. 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 2018 operating revenue projection.

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

Carnegie Library, a component of the Convention and Meetings division, has not met its overall revenue projection in recent years. Although the building was well suited for hosting events and routinely used for that purpose, use of the facility as a special event venue will cease effective July 30, 2017. As a result, during FY 2018 WCSA has plans to lease space within the building. The Historical Society of Washington will continue tenancy on the second floor of the building.

### **WCSA's Sports and Entertainment Division**

The WCSA Sports & Entertainment Division (SED) exceeded its FY 2016 revenue projection by \$268 thousand, despite falling short of revenue projections in FY 2014 and FY 2015. Increased revenue is attributed in part to the division's emphasis on producing more events independently.

WCSA and the District agreed to jointly finance<sup>6</sup> a new, multipurpose entertainment and sports arena and practice/training facility, currently referred to as the Entertainment and Sports Arena (ESA). The original budget for ESA was projected not to exceed \$56.3 million, with a financial contribution from WCSA of \$27.6 million. However, after finalizing the plans for the area the total cost increased to \$65.5 million increasing WCSA's contribution to the project by approximately \$10.5 million, for a total of \$38 million. The increase in funding was approved by WCSA Board of Directors on August 11, 2016. WCSA has set aside funds maintained in WCSA's capital renewal and replacement fund to finance the ESA project. The capital renewal and replacement fund is funded by the dedicated taxes received from a portion of sales tax revenue. The projected completion date for the ESA is the fall of 2018.

SED's FY 2018 operating revenue estimate is \$5.9 million, which includes \$1.9 million in projected rental revenue (an increase of 82.5 percent from FY 2017). Considering SED's historical revenue collections, the FY 2018 revenue estimate is aggressive, and will require significant and intentional efforts of the SED team to achieve the revenue estimate. With multiple properties at their disposal for use as event venues, the SED has the flexibility to offer a variety of options to potential customers looking to host events in DC. SED's arena and festival-style destinations such as Robert F. Kennedy Memorial (RFK) Stadium, DC Armory, Festival Grounds at RFK, and Gateway DC provide options for events that attract different-sized audiences and utilize indoor or outdoor spaces.

The Division's ability to meet its FY 2018 revenue projection of \$5.9 million will be dependent on its ability to schedule events and generate revenue at a greater pace than it has in the past few years.

### **Conclusion**

Based upon 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 2018 barring any unforeseen events that would adversely impact revenues and expenditures.

The Auditor's analysis indicated that WCSA's projected FY 2018 revenues and excess reserve should exceed expenditures by approximately \$180.2 million. Figure 5 (next page) presents WCSA's FY 2018 sufficiency calculation.

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<sup>6</sup> The ESA is jointly financed by WCSA and the District, with WCSA the District and Monumental Sports and Entertainment contributing funds to the project. The District will contribute \$23 million and \$4.5 million from Monumental Sports and Entertainment.

**Figure 5: Fiscal Year 2018 Sufficiency Calculation**

<u>Category</u>	<u>Amount (in millions)</u>
<b>Revenues (Estimate)</b>	
Dedicated Tax (February 2017 estimate)	\$134.01
TIF Revenue	19.52
IRS Subsidy	2.53
Lease Income	2.51
Operating Revenue	28.46
District Transfer	3.27
Interest Income	<u>1.00</u>
<b>Subtotal Revenues</b>	<b>\$191.30</b>
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<b>Reserves (Estimate)</b>	
Excess reserves <sup>7</sup>	<u>\$146.23</u>
<b>Sum of Projected FY 2018 Revenues and Excess Reserve Estimate</b>	<b>\$337.53</b>
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<b>Expenditures (Estimate)</b>	
Debt Service	\$51.44
Operating Expenditures	62.97
Marketing Agencies Including District Transfer	22.43
Capital Improvement Expenditures	18.99
District's projected transfer from Excess TIF	<u>1.50</u>
<b>Sum of Projected FY 2018 Expenditures</b>	<b>\$157.33</b>
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<b>WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures</b>	<b>\$180.20</b>

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 and the Office of the Chief Financial Officer as of the date of this certification, July 14, 2017, WCSA's total projected revenues and excess reserve estimate for FY 2018 are sufficient to cover its projected expenditures.

<sup>7</sup> Excess reserves amount represents WCSA's projected beginning cash balance less the required minimum reserves amount as of September 30, 2018.



WCSA's FY 2018 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$180.20 million. This, we believe, constitutes a reasonable basis for the Auditor's sufficiency certification.

Sincerely,

A handwritten signature in blue ink that reads "Kathleen Patterson". The signature is written in a cursive, flowing style.

Kathleen Patterson  
District of Columbia Auditor

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