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**Letter Report: Sufficiency Certification for the
Washington Convention and Sports Authority's
Projected Revenues and Excess Reserve to Meet
Projected Operating and Debt Service Expenditures
and Reserve Requirements for Fiscal Year 2011**

July 15, 2010



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The Honorable Vincent C. Gray, Chairman
Council of the District of Columbia
1350 Pennsylvania Ave., N.W. Suite 504
Washington, D.C. 20004

Letter Report: Sufficiency Certification for the Washington Convention and Sports Authority's¹ Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2011

Dear Chairman Gray 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 10-188,² 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 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 sets forth the Auditor's determination of the sufficiency of WCSA's projected revenues and excess reserve to meet its projected FY 2011 expenditures and reserve requirements. The sources of revenues and excess reserve are:

¹ Effective October 1, 2009, the name changed with the merger of the Washington Convention Center Authority (WCCA) and the DC Sports and Entertainment Commission (DCSEC).

² 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).

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 are to be transferred to WCSA by the Mayor from the Office of Tax and Revenue (OTR);
2. WCSA'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 WCSA.

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 2011 barring any unforeseen events that would adversely impact revenues and expenditures.

WCSA's projected FY 2011 revenues and excess reserve estimate over projected expenditures is \$37.67 million. However, the Auditor's analysis indicated that WCSA's projected FY 2011 revenues and excess reserve should exceed expenditures by approximately \$36.27 million, a difference of \$1.4 million related to the dedicated tax projection.³

OBJECTIVE, 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, reserve requirements, and capital improvement expenditures for FY 2011.

In preparing this certification, the Auditor: (a) reviewed applicable District of Columbia laws;⁴ (b) interviewed WCSA and ORA personnel; (c) reviewed WCCA and DC Sports and Entertainment Commissions' (DCSEC) audited financial statements for FY 2006 through FY

³ See Table 1 for Summary of Analysis.

⁴ 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. § 47-2002.02 and § 47-2202.01.

2009 and WCSA's FY 2010 internal unaudited financial statements, as of May 31, 2010; (d) reviewed WCSA's FY 2011 budget, as approved by its Board of Directors; and (e) performed detailed analyses of WCSA's historical and projected revenues and expenditures.

In determining the reliability and sufficiency of WCSA's projected revenues for FY 2011, the Auditor relied on dedicated tax revenue information provided by ORA and other financial information provided by WCSA officials. In determining the soundness of WCSA's projected expenditures and debt service requirements for FY 2011, the Auditor relied, in part, on information provided by WCSA's Chief Financial Officer (CFO).

The sufficiency review was 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 WCSA's projections of FY 2011 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 2011 sufficiency certification statement.

The Auditor notes that estimates are based on information that can, and often does, change rapidly thus resulting in revisions to 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, as presented in Table 1, at the time of certification, appeared sufficiently supported and achievable by WCSA. Additionally, the validity 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) WCSA officials have fully disclosed and provided reliable and accurate information to the Auditor 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.

BACKGROUND

The Act, effective September 28, 1994, as amended, established the Washington Convention Center Authority (WCCA). Effective October 1, 2009 WCCA and DCSEC merged to create one synergized organization, the Washington Convention and Sports Authority (WCSA).⁵ WCSA was established as an independent corporate instrumentality of the District of Columbia government created to effectuate certain public purposes. Section 10-1202.02 (b) of the D.C. Code provides:

Notwithstanding any other provisions of this chapter, the general purposes of the Authority are to:

- (1) Acquire, construct, equip, maintain, and operate the new convention center, in whole or in part, directly or under contract;*
- (2) Promote, develop, and maintain the District as a location for convention, trade shows, and other meetings;*
- (3) Engage in activities to promote trade shows, conventions, concerts, and other events related to activities at a facility of the Authority;*
- (4) Consolidate the District's efforts in promoting and managing sporting and entertainment events;*
- (5) Promote, develop, and maintain the District as a location for sporting events, sports teams, recreational events, film, television, and other motion picture productions, and entertainment events, directly or under contract;*
- (6) Develop, construct, and lease the ballpark in accordance with § 10-1601.05;*
- (7) Encourage and support youth activities in the District, including by sponsoring sporting events for young athletes, attracting national collegiate championships to the District, and providing disadvantaged youths with opportunities to attend sporting events;*
- (8) Exercise the non-military functions of the Armory Board and the Armory, including controlling the scheduling, rental, and promotion of the Armory and its adjacent facilities and leasing unused or vacant space in the Armory;*
- (9) Exercise the non-regulatory functions of the Boxing and Wrestling Commission, including all advertising, promotion, and attraction of boxing, wrestling, and mixed martial arts events; and*
- (10) Maintain and operate the old convention center site until such time as is considered appropriate by the Mayor.*

⁵ See D.C. Code Section 10-1202.02a "Transfer of authority of the Armory Board", 10-1202.02b "Transfer of authorities and functions of the District of Columbia Sports and Entertainment Commission; abolishment of the District of Columbia Sports and Entertainment Commission" and 10-1202.02c "Transfer of assets, rights, and obligations of the District of Columbia Sports and Entertainment Commission."

WCSA owns and manages the Walter E. Washington Convention Center, and the Stadium-Armory campus which includes Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds. In addition, WCSA serves as the owner and landlord for Nationals Park.

As a result of the merger, WCSA is currently governed by an 11 member Board of Directors (Board). The Board consists of the CFO of the District of Columbia and another District government official designated by the Mayor. Both serve as ex-officio voting members with four-year terms. Additionally, 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. According to WCSA's enabling legislation, two public Board members shall be individuals from the hospitality industry and organized labor, and the remaining seven members must possess expertise in economic development, construction, tourism, municipal finance, or business finance. The daily management of WCSA is under the direction of a Chief Executive Officer (CEO) and General Manager who is appointed by WCSA's Board.

In accordance with D.C. Code, 2001 Ed. § 10-1203.07, WCSA 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 WCSA. In accordance with the collections agreement, the following four accounts were established under the lockbox arrangement: (1) Transfer Account; (2) Exceptions Account; (3) WCSA Dedicated Account; and (4) the District Account. The District is required to keep the lockbox arrangement in place for as long as WCSA has outstanding bonds.

Tax receipts deposited into the WCSA Dedicated Account are assigned to, pledged to, and received daily by a trustee bank.⁶ The trustee bank then deposits these funds in the WCSA Revenue Account for WCSA's use in accordance with the Amended Master Trust Agreement.⁷

In accordance with the Amended Master Trust Agreement, WCSA was required to establish and maintain 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 Amended 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 Amended Master Trust Agreement are presented in Appendix II.

WCSA is required to maintain minimum balances in the Operating and Marketing Reserve Account, Senior Debt Service Reserve Account, Marketing Account, Redemption Fund, Capital Renewal and Replacement Fund, and a Debt Service Reserve Account. Any balance remaining in these accounts, after deducting the minimum balance requirements, represents WCSA'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.

⁶ 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 WCSA Dedicated Account.

⁷ See the Amended and Restated Master Trust Agreement dated as of February 1, 2007 (the Amended Master Trust Agreement) as supplemented by a Second Supplemental Trust Agreement dated as of February 1, 2007 (the Second Supplemental Trust Agreement), between the Washington Convention and Sports Authority (WCSA) and the Bank of New York, as trustee. The Amended Master Trust Agreement provides for the deposit of dedicated tax receipts 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

BARRING ANY SIGNIFICANT CHANGES, THE WASHINGTON CONVENTION AND SPORTS AUTHORITY'S FY 2011 PROJECTED REVENUES AND EXCESS RESERVE APPEAR SUFFICIENT TO MEET PROJECTED EXPENDITURES AND RESERVE REQUIREMENTS

WCSA's FY 2011 projected revenues from dedicated taxes, operating revenue, interest income, and projected excess amounts in reserve accounts are estimated to total approximately \$186.57 million. This includes \$96.9 million in dedicated tax revenue,⁸ \$22.22 million in operating revenue, \$1.7 million in interest income, and \$65.75 million in excess reserve funds.

WCSA's FY 2011 projected expenditures, headquarters hotel equity contribution, and reserve requirements are estimated to total approximately \$148.9 million and include: \$34.9 million for debt service, \$42.95 million for operating expenditures, \$14.2 million for payment to marketing agencies, and \$8.8 million for capital improvement expenditures (including carryover of capital funds not expended in prior years). Additionally, WCSA's projected expenditures for other costs associated with its central plant (interest expense and financing arrangements) total \$1.05 million and a headquarters hotel equity contribution of \$47 million.

Based on the Auditor's analysis WCSA's FY 2011 operating revenue and interest income estimates are reasonable. However, the Auditor's analysis does not support the FY 2011 dedicated tax estimate of \$96.9 million, \$4 million over FY 2010 estimate of \$92.9 million. Based on historical and FY 2010 year-to-date dedicated tax collections, the Auditor developed a projection of \$95.5 million for the FY 2011 dedicated tax collections, a difference of \$1.4 million.

⁸ See letter dated December 16, 2009, from the District's Chief Financial Officer to the Mayor of the District of Columbia and the Chairman of the Council of the District of Columbia, certifying the District's revenue estimates for FY 2010 to FY 2014. The CFO's certification also presents the OCFO's estimated dedicated tax transfers to WCSA for those fiscal years. On February 24, 2010, the CFO revised the dedicated taxes estimate, however for WCSA's budget purposes WCSA used the December 16, 2009 estimate.

Notwithstanding the \$1.4 million reduction, the Auditor found WCSA's revenues and excess reserve estimate appear sufficient to meet projected expenditures and reserve requirements for FY 2011. In fact, WCSA's FY 2011 revenues and excess reserve are projected to exceed expenditures by approximately \$36.27 million.

Table I presents the sufficiency calculation of WCSA's projected revenues and excess reserve to meet projected expenditures and reserve requirements for FY 2011 and the Auditor's \$1.4 million reduction for dedicated taxes.

TABLE 1

**Sufficiency Calculation of WCSA's Projected Revenues and Excess Reserve to Meet
Projected Expenditures and Reserve Requirements for Fiscal Year 2011
(millions)**

<u>Category</u>	<u>Amount</u>
Revenues (Estimate)	
FY 2011 Dedicated Tax (December 2009 estimate)	\$ 96.90
FY 2011 Operating Revenue	22.22
FY 2011 Interest Income	<u>1.70</u>
Subtotal Revenues	\$120.82
<hr/>	
Reserves (Estimate)	
Excess reserves*	<u>\$ 65.75</u>
Sum of Projected FY 2011 Revenues and Excess Reserve Estimate	\$186.57
<hr/>	
Expenditures (Estimate)	
Debt Service	\$34.90
Operating Expenditures	42.95
Marketing Agencies	14.20
Capital Improvement Expenditures	8.80
Other Interest Expense & Financing Arrangements (Central Plant)	1.05
Equity Contribution, Headquarters Hotel	<u>47.00</u>
Sum of Projected FY 2011 Expenditures	\$148.90
<hr/>	
WCSA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures	<u>\$37.67</u>
ODCA's Adjustment	
Reduction in Dedicated Tax Projection	<u>(1.40)</u>
ODCA's Projected Revenue and Excess Reserve Estimate Over Projected Expenditures (for September 30, 2011)	<u>\$36.27</u>

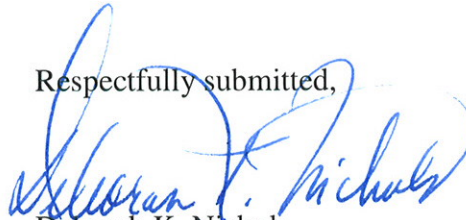
Sources: WCSA's FY 2011 Budget Submission and Supporting Documentation, and the OCFO's FY 2011 dedicated tax revenue estimate, as of December 16, 2009.

*The FY 2011 beginning excess reserve estimate already takes into account the actuals as of June 30, 2010, and the updated FY 2010 projections.

AUDITOR'S CERTIFICATION

Based upon the Auditor's analysis of information provided by WCSA and ORA as of the date of this certification, WCSA's total projected revenues and excess reserve estimate for FY 2011 appear sufficient to cover its projected expenditures. According to the Auditor's calculation, which includes a reduction of \$1.4 million from WCSA's FY 2011 estimated revenues and excess reserve projection, WCSA's FY 2011 estimated revenues and excess reserve are expected to exceed its projected expenditures and reserve requirements by \$36.27 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, WCSA's projected revenues and excess reserve should be sufficient to meet projected expenditures and reserve requirements for FY 2011.

Respectfully submitted,



Deborah K. Nichols
District of Columbia Auditor

APPENDICES

APPENDIX I

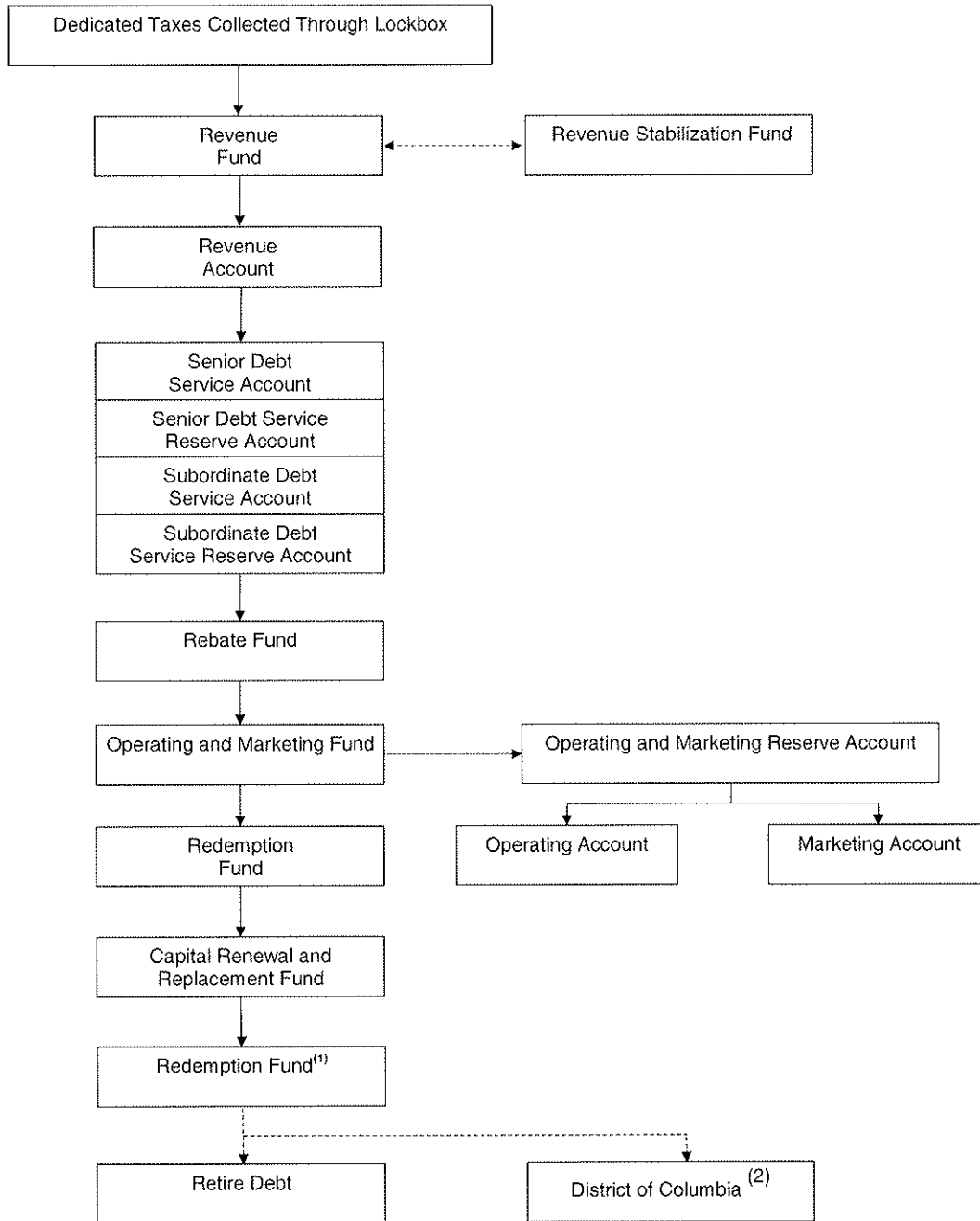
**Summary of Certain Funds and Accounts
In the Amended Master Trust Agreement**

	Senior Debt Service Reserve Account	Operating and Marketing Reserve Account	Capital Renewal and Replacement Fund	Revenue Stabilization Account	Debt Service Reserve Account
Projected Balance as September 30, 2011	\$25,986,084	\$30,077,269	\$38,738,524	\$3,378	\$24,843,219
Minimum Balance Required Before Surtax Triggered	Not applicable	Six months of the budgeted operating and marketing expenses of WCSA, (currently estimated to be \$28,577,899)	2% of Costs of Projects, adjusted for inflation (estimated to be \$17,000,000)	Not applicable	Not applicable
Maximum Permitted Per Amended Master Trust Agreement	Not applicable	1.5x annual operating and marketing budget (combined with Revenue Stabilization Account)	5% of Costs of Projects, adjusted for inflation	1.5x annual operating and marketing budget (combined with O&M Reserve Account Balance)	\$35,000,000
Fill-up Mechanics	To Minimum Level Required: -Follows flow of funds priority	To Minimum Level Required: -Follows flow of funds priority	To Minimum Level Required: -Follows flow of funds priority	Deposits to Revenue Stabilization Account can be made only after all other Funds and Accounts are fully funded in each semi-annual period	Two \$3.5M deposits will be made annually
	Discretionary in Excess of Minimum:	Discretionary in Excess of Minimum:	Discretionary in Excess of Minimum:		
	-Can only be filled on any April 1 or October 1 when Funds and Accounts are fully funded	-Can only be filled on any April 1 or October 1 when all other Funds and Accounts are fully funded	-Can only be filled on any April 1 or October 1 when all other Funds and Accounts are fully funded		

APPENDIX II

Flow of Funds

The Amended Master Trust Agreement provides for Revenues deposited into the Revenue Account from the Lockbox Account to be transferred to other Funds and Accounts as set forth in the chart and described in the text below.



1. For reimbursement obligations and swap termination payments, if any.

2. Any excess may flow, at the direction of an Authorized Officer of WCSA, to the General Fund of the District at the end of a Fiscal Year only after debt service requirements are satisfied, reserves are filled to the maximum allowable levels, and WCSA has met its pay as you go capital spending needs.