



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-271114

February 21, 1996

The Honorable Thomas M. Davis III
Chairman, Subcommittee on the
District of Columbia
Committee on Government Reform
and Oversight
House of Representatives

Dear Mr. Chairman:

This letter responds to your request for a status report on the proposed new Convention Center Project in the District of Columbia. Specifically, you requested an update on (1) the predevelopment and capital project costs, (2) the financing of the project, (3) the revenues generated from various dedicated taxes, and (4) the project's timetable for completion.

PREDEVELOPMENT AND
CAPITAL PROJECT COSTS

The District's efforts to design and build a new convention center are still in the early stages. According to the Deputy General Manager of the Washington Convention Center Authority (WCCA), the costs (predevelopment and capital) associated with the project are all preliminary estimates, which are not reliable and are subject to change once a program management firm is selected and a project manager is hired to oversee the entire project. In addition, the design and size of the project are expected to change.

Since our last testimony,¹ there have been some changes to WCCA's estimated predevelopment costs for the Convention Center Project. We testified that

¹District of Columbia: Status of Sports Arena and Convention Center Project (GAO/T-AIMD-95-221, August 9, 1995).

WCCA's estimated predevelopment costs for the project, which was in the very early stages, were between \$8.8 million and \$12 million for studies such as environmental impact, traffic, engineering, and design for the new convention center. In referring to these costs, current estimates now use the term expansion-related expenses, which include predevelopment costs and costs not considered in the earlier estimate, such as project manager, bond counsel, and investment banker. The current estimates also use different terminology from the earlier estimate, thus making it difficult to compare the original estimate with the current ones and emphasizing the uncertainty of these estimates. As shown in table 1, these costs are now estimated at approximately \$9.1 million for fiscal year 1996 and \$39.7 million over the 4-year period—fiscal years 1996 through 1999. However, as we stated earlier, these estimates are subject to change.

Table 1: Total Predevelopment and Capital Project Costs

| Task | Original estimate as reported 9/94 | FY 1996 estimate | Four-year estimate |
|---|------------------------------------|--------------------|---------------------|
| Design & engineering | \$6,300,000 - \$9,000,000 | * | * |
| Special studies—environmental, traffic & transportation | 1,500,000 - 2,000,000 | * | * |
| Project structuring & feasibility work | 1,000,000 - 1,000,000 | * | * |
| Financial management review | * | \$200,000 | \$300,000 |
| Legal review | * | 200,000 | 200,250 |
| Land acquisition | * | 5,000,000 | 5,000,000 |
| Project Manager ^b | * | 3,000,000 | 28,000,000 |
| Architect for conceptual design | * | 50,000 | 50,000 |
| Environmental impact study | * | 200,000 | 200,000 |
| Bond counsel | * | 50,000 | 500,000 |
| Investment banker | * | 5,000 | 5,000,000 |
| Value engineering study | * | 200,000 | 200,000 |
| Special staff ^c | * | 200,000 | 200,000 |
| Total | \$8,800,000 - \$12,000,000 | \$9,105,000 | \$39,650,250 |

Note: We did not independently verify the costs listed here. The initial estimates were developed by Deloitte & Touche. The fiscal year 1996 and 4-year period estimates were developed by representatives from Orange County Convention Center, National Institute of Governmental Purchasing, General Services Administration, and D.C. Department of Administrative Services.

¹This indicates tasks that were not included in the original cost estimate.

²This includes not only the Project Manager, but also the project management company.

³This includes Community Relations Manager and Program Manager (Equal Employment Opportunity).

WCCA officials informed us that there is no firm decision on the design of the new convention center; thus, its costs cannot yet be readily determined. Based on a feasibility study conducted in 1993 by a private contractor,² estimates for construction of the project totaled \$521 million. These estimates are also preliminary and are subject to change based on the final design of the building and whether it is constructed above or below ground.

To develop more reliable estimates on predevelopment and capital costs of the project, WCCA has issued and received responses to its requests for proposals for (1) legal counsel to the Board of Directors, (2) an environmental impact study, and (3) a program management services firm to prepare a master budget and development schedule and assist in selecting an architectural and engineering firm and a building contractor. According to WCCA officials, they have completed the technical review of the proposals and will make a selection in the next 2 weeks. In addition, WCCA is currently conducting a search for a project manager who has architectural and engineering skills in overseeing large projects. This person would act as liaison between the WCCA Board of Directors and the program management firm to advise the Board and General Manager of the existing convention center on plans and specifications, project scheduling, and development costs for the new center.

²"Financial Feasibility Study of a New Convention Center in the District of Columbia," by Deloitte & Touche, in association with Carmona, Motley & Company, Mitchell/Titus & Co., December 1993.

FINANCING OF THE PROJECT

As we reported previously,³ WCCA still plans to use revenue bonds backed by dedicated taxes and revenue bonds backed by lease or sale of the existing convention center to finance the new convention center. According to WCCA officials, there are no current plans to attract private financing for this project.

REVENUES GENERATED FROM
VARIOUS DEDICATED TAXES

The only firm milestone completed to date is the establishment of dedicated taxes to help finance the project. In August 1994, when the District created WCCA,⁴ it also earmarked additional revenues to finance the predevelopment and construction costs of the project. With the support of the hotel and restaurant industry, the District established additional taxes from the following revenue sources:

- 2.5 percentage points of the 13-percent hotel sales taxes,
- 40 percent of the \$1.50 daily hotel occupancy tax,
- 1 percentage point of the 10-percent restaurant sales/use tax, and
- one quarter of 1-percent increment of the business unincorporated and corporate franchise surtax.

We verified that, as of December 20, 1995, the District had collected and transferred to WCCA a total of \$35.2 million from dedicated tax revenues, of which \$32.9 million⁵ is for fiscal year 1995. According to the Financial Officer of the District's Department of Finance and Revenue, this is not the final amount for

³District of Columbia: Status of Convention Center Project (GAO/AIMD-94-191, September 15, 1994).

⁴The Authority was created by the Washington Convention Center Authority Act of 1994, DC Law 10-188, Sept. 28, 1994, 41 DCR 5333, 6823.

⁵This amount was audited by KPMG Peat Marwick LLP for the fiscal year ended September 30, 1995. The WCCA legislation authorizes WCCA to use dedicated tax revenues for operating expenses of the existing convention center.

fiscal year 1995 since the District expects, after further reconciliation, to transfer additional revenues to WCCA. However, this preliminary result for fiscal year 1995 tax revenues is \$60,000 more than the District's projection. We also verified that, as of February 7, 1996, for fiscal year 1996, the District had collected, so far, only the October payment of about \$2.3 million, which was transferred to WCCA on December 20, 1995. The District has projected revenues of \$35.4 million for fiscal year 1996. The enclosure to this letter summarizes the total revenues and expenses (actual and projected) for fiscal years 1995 through 1999.

In addition, as of January 4, 1996, WCCA had invested approximately \$25 million of dedicated tax revenues in Treasury bills and Fannie Mae and Federal Home Loan Bank discount notes, which are earning an average of 5.4 percent annually. WCCA has established a mechanism for monthly deposits to be made to this account, which will be used to finance the Convention Center Project.

COSTS AND COMPLETION
OF PROJECT STILL UNCERTAIN

Because most of the critical steps necessary for completing the project have not begun, the Deputy General Manager of WCCA said that the date for completing the convention center has been changed to the year 2000. However, WCCA needs additional information before more precise costs and firm completion dates can be established. For example, the project needs an environmental impact assessment and architectural and engineering design. Such studies are typically needed before bonds can be authorized.

The cost of constructing the new convention center will also be greatly influenced by the final design. For instance, WCCA is considering whether to build the new convention center above or below ground. According to District officials, if the convention center is built below ground, WCCA could sell or lease its above-ground space for commercial or residential development to help offset the cost. Also, as discussed earlier, WCCA is awaiting selection of the program management firm and the appointment of the project manager.

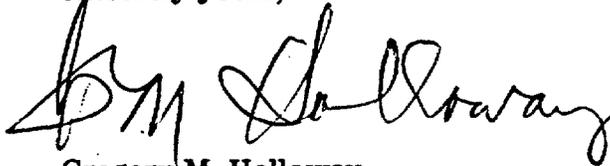
To respond to your request, we reviewed relevant information on predevelopment costs, the financing of the project, the dedicated tax revenues, and the project's timetable for completion from the District government and WCCA. We also conducted interviews with officials from WCCA, the District's Department of

B-271114

Finance and Revenue, and the District's Office of the Assistant City Administrator for Economic Development to clarify data that was provided and obtain additional data. Except where noted in this report, we did not independently verify the information provided to us. We did our work in January 1996 in accordance with generally accepted government auditing standards. We obtained comments from the Mayor of the District of Columbia on a draft of this report. He concurred with the information presented here.

We are sending copies of this letter to the Chairman and Ranking Minority Members of the Senate and House Committees on Appropriations and the Ranking Minority Member of your Subcommittee. If you need further information, please contact me at (202) 512-9510, or Hodge Herry, Assistant Director, at (202) 512-9469.

Sincerely yours,



Gregory M. Holloway
Director, Governmentwide Audits

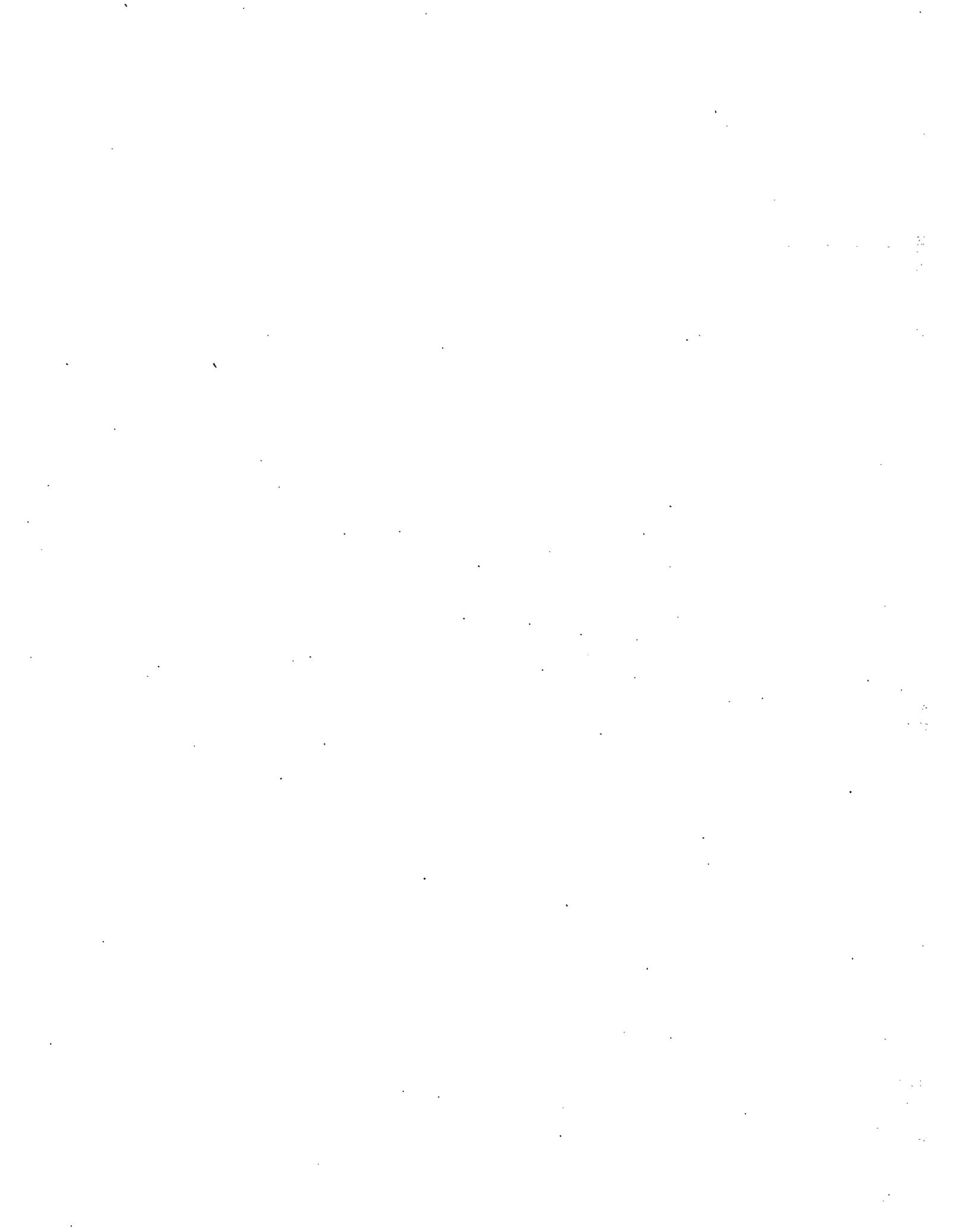
Enclosure

REVENUES AND EXPENSES OF THE WASHINGTON CONVENTION CENTER
(Dollars in Millions)

| | Actual | Projected | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 |
| Revenues | | | | | |
| Taxes | | | | | |
| Hotel sales tax | \$13.6 | 15.0 | 15.7 | 16.0 | 16.4 |
| Restaurant sales/use tax | 11.8 | 13.0 | 13.8 | 14.0 | 14.3 |
| Occupancy tax | 3.7 | 3.5 | 3.7 | 3.7 | 3.7 |
| Business franchise surtax ^a | <u>3.8</u> | <u>3.9</u> | <u>4.0</u> | <u>4.1</u> | <u>4.2</u> |
| Subtotal | <u>\$32.9</u> | <u>\$35.4</u> | <u>\$37.2</u> | <u>\$37.8</u> | <u>\$38.6</u> |
| Building rental | 3.2 | 2.8 | 2.8 | 2.8 | 2.8 |
| Exhibition services | 2.0 | 1.6 | 1.5 | 1.6 | 1.6 |
| Communications | .9 | .7 | .8 | .7 | .7 |
| Concessions | .8 | .4 | .4 | .4 | .4 |
| Miscellaneous | .4 | .3 | .2 | .3 | .3 |
| Subtotal | <u>\$7.3</u> | <u>\$5.8</u> | <u>\$5.7</u> | <u>\$5.8</u> | <u>\$5.8</u> |
| Interest on investments | .1 | | | | |
| Total revenues | <u>\$40.3</u> | <u>\$41.2</u> | <u>\$42.9</u> | <u>\$43.6</u> | <u>\$44.4</u> |
| Expenses | | | | | |
| Personal services | \$ 9.2 | 10.1 | 10.5 | 10.1 | 10.1 |
| Contractual services | 1.8 | 4.3 | 2.4 | 1.5 | 1.7 |
| Supplies | .4 | .6 | .5 | .7 | .7 |
| Occupancy costs | 1.4 | 1.8 | 1.8 | 1.9 | 1.9 |
| Depreciation | 2.4 | 2.6 | 2.8 | 3.2 | 3.3 |
| Miscellaneous | <u>.2</u> | <u>.3</u> | <u>.2</u> | <u>.4</u> | <u>.4</u> |
| Total expenses | <u>\$15.4</u> | <u>\$19.7</u> | <u>\$18.2</u> | <u>\$17.8</u> | <u>\$18.1</u> |

^aAmount includes both corporate and unincorporated business franchise surtax.

(901693)



Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
