

DOCUMENT RESUME

02634 - [A1872912]

Economic Feasibility of the District of Columbia's Proposed Civic Center. June 29, 1977. 7 pp.

Testimony before the Senate Committee on Appropriations: District of Columbia Subcommittee; by Victor L. Lowe, Director, General Government Div.

Issue Area: Federal Procurement of Goods and Services (1900).
Contact: General Government Div.

Budget Function: General Government: Other General Government (806).

Organization Concerned: District of Columbia.

Congressional Relevance: Senate Committee on Appropriations: District of Columbia Subcommittee.

Analysis of the economic feasibility of the civic center proposed for the District of Columbia did not result in definite views due to the existence of several significant areas of uncertainty. These areas of uncertainty were: (1) can the center attract the additional visitors and related private development to produce a profit to the city as predicted? (2) can the District control construction schedules and relocate the people on the site in a timely manner that avoids costly delays? (3) can the District provide for the effective management of the center which is vital to its successful operation? and (4) what effect will the lack of adequate parking spaces and direct subway connections have on the expected delegate business and costs of operating the center? The economic feasibility of the center depends heavily upon the number of additional visitors it attracts to Washington. If the number of visitors falls short of the estimates, then the benefits to the city will be reduced in about the same proportion. A consultant hired by the District emphasized that the center must be well-designed, well-managed, and well-located in order to realize a profit for the city. The accuracy of the final cost estimate of the center and the ability of the District to prevent construction delays that will escalate costs were doubtful. (SC)

02634 7912
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 2:00 PM, EDT
WEDNESDAY, JUNE 29, 1977

STATEMENT OF
VICTOR L. LOWE
DIRECTOR, GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ON
ECONOMIC FEASIBILITY OF THE DISTRICT
OF COLUMBIA'S PROPOSED CIVIC CENTER

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE HERE AT YOUR REQUEST TO PRESENT THE HIGHLIGHTS OF OUR ANALYSIS OF THE DISTRICT OF COLUMBIA'S CIVIC CENTER PROPOSAL, WHICH WAS COVERED IN OUR LETTER OF MAY 18, 1977, TO THE SUBCOMMITTEE. WE COULD NOT ARRIVE AT DEFINITIVE VIEWS ON THE FEASIBILITY OF THE CENTER, BECAUSE THERE ARE SEVERAL SIGNIFICANT AREAS OF UNCERTAINTY. THESE ARE:

--CAN THE CENTER ATTRACT THE ADDITIONAL VISITORS AND RELATED PRIVATE DEVELOPMENT TO PRODUCE A PROFIT TO THE CITY AS PREDICTED?

--CAN THE DISTRICT CONTROL CONSTRUCTION SCHEDULES AND RELOCATE THE PEOPLE ON THE SITE IN A TIMELY MANNER THAT AVOIDS COSTLY DELAYS?

--CAN THE DISTRICT PROVIDE FOR THE EFFECTIVE MANAGEMENT OF THE CENTER WHICH IS VITAL TO ITS SUCCESSFUL OPERATION?

--WHAT EFFECT WILL THE LACK OF ADEQUATE PARKING SPACES AND DIRECT SUBWAY CONNECTIONS HAVE ON EXPECTED DELEGATE BUSINESS AND COSTS OF OPERATING THE CENTER?

BACKGROUND

AS PROPOSED BY THE DISTRICT OF COLUMBIA, ITS NEW CIVIC CENTER WILL COST APPROXIMATELY \$110 MILLION AND BE COMPLETED ABOUT MID-1981.

ACCORDING TO A CONSULTANT'S STUDY THE CIVIC CENTER AND RELATED PRIVATE DEVELOPMENT WOULD PRODUCE A NEW ECONOMIC PROFIT TO THE CITY OF ABOUT \$5.3 MILLION PER YEAR AFTER ALL COSTS FOR THE CENTER, INCLUDING DEBT SERVICE.

TO REALIZE THE PROFIT, THE CONSULTANT EMPHASIZED THAT THE CENTER MUST BE WELL-DESIGNED, WELL-MANAGED, AND WELL-LOCATED. SPECIFICALLY, TIGHT CONTROL MUST BE EXERCISED OVER CONSTRUCTION COSTS; THE CENTER'S MANAGER MUST BE HIGHLY QUALIFIED; THE BOARD OF DIRECTORS SHOULD BE INDEPENDENT OF THE DISTRICT'S OPERATING AGENCIES AND REPORT TO THE MAYOR; BOARD MEMBERS AND THE MANAGER SHOULD BE ON BOARD EARLY IN THE DEVELOPMENT STAGES OF THE PROJECT; AND A STRONG COMMITMENT SHOULD BE MADE BY THE DISTRICT TO ASSURE PROJECTED SPIN-OFF DEVELOPMENT. WE AGREE WITH THESE CONDITIONS.

ADDITIONAL VISITORS

THE ECONOMIC FEASIBILITY OF THE CENTER DEPENDS HEAVILY UPON THE NUMBER OF ADDITIONAL VISITORS IT ATTRACTS TO WASHINGTON. IF THE NUMBER OF VISITORS FALLS SHORT OF THE ESTIMATES, THEN THE BENEFITS TO THE CITY WILL BE REDUCED IN ABOUT THE SAME PROPORTION.

THE CONSULTANT ESTIMATED THAT THE CENTER WOULD ATTRACT AN ADDITIONAL 310,000 TO 390,000 VISITORS. ALTHOUGH THE METHODOLOGY USED APPEARS REASONABLE, THESE NUMBERS SHOULD NOT BE VIEWED AS TOTALLY FIRM FOR A NUMBER OF REASONS:

--THE FORECASTS ARE BASED ON A SURVEY OF A SAMPLE

OF NATIONAL ORGANIZATIONS, AND WITH ANY SURVEY THERE IS SOME DEGREE OF UNCERTAINTY:

- THE NATIONAL ORGANIZATIONS SURVEYED MADE NO COMMITMENTS TO BOOK MEETINGS IN THE CENTER,
- THE NUMBER OF NEW CENTERS TO BE BUILT AROUND THE COUNTRY IN THE NEXT 10 TO 20 YEARS AND THEIR EFFECT ON MARKET DEMAND IS UNKNOWN,
- LOCAL COMPETITION FOR MEDIUM-SIZED CONVENTIONS WILL PROBABLY BE GREATER THAN ASSUMED BY THE CONSULTANT,
- IT IS ASSUMED THAT THE PERCENTAGE OF THE CENTER'S SPACE THAT WILL BE USED BY NONLOCAL MEETINGS WILL BE HIGHER THAN THE AVERAGE CONVENTION CENTER NATIONWIDE,
- A FUTURE ENERGY SHORTAGE COULD REDUCE ATTENDANCE AT NATIONAL CONVENTIONS,
- MANY OTHER ASSUMPTIONS--SUCH AS THE NUMBER OF DAYS THAT A DELEGATE STAYS IN THE CITY AND HOW MUCH MONEY HE SPENDS ARE CRUCIAL TO THE ESTIMATES OF BENEFITS,

CONSTRUCTION COSTS

THE FINAL COST OF THE CENTER MAY NOT BE \$110 MILLION, BECAUSE WE QUESTION THE ACCURACY OF THE ESTIMATE AND THE ABILITY OF THE DISTRICT TO PREVENT CONSTRUCTION DELAYS THAT ESCALATE COSTS. ACCORDING TO THE CONSULTANT, EVEN A YEAR'S DELAY WILL

INCREASE CONSTRUCTION COSTS BY \$6 TO \$8 MILLION AND IF THE TOTAL COST RISES ABOVE \$120 MILLION OR MORE THEN THE ECONOMIC FEASIBILITY OF THE CENTER DECREASES.

COST DATA PROVIDED TO THE GAO CONTAIN DIFFERENCES, CAUSING US TO DOUBT THE RELIABILITY OF THE TOTAL PROJECT ESTIMATE. DEPENDING ON WHICH COST FIGURES ONE ACCEPTS, THE ESTIMATE FOR THE CIVIC CENTER COULD BE EITHER \$12.6 MILLION LESS OR \$7.9 MILLION MORE THAN THE \$110 MILLION ESTIMATED BY THE DISTRICT.

THE LIKELIHOOD THAT THE DISTRICT CAN BUILD THE CIVIC CENTER TO BEGIN OPERATING BY MID-1981 DEPENDS ON HOW EFFECTIVELY IT CAN MINIMIZE DELAYS. SETBACKS IN SOME PRECONSTRUCTION STEPS COULD CARRY OVER TO OTHER PROJECT STEPS. FOR EXAMPLE, A DELAY IN THE DISTRICT'S FILING OF AN ENVIRONMENTAL IMPACT STATEMENT WOULD DETAIN THE CITY FROM BUYING PROPERTY ON THE SITE BECAUSE, BY DETERMINATION OF THE CORPORATION COUNSEL, THE DISTRICT CANNOT TAKE ANY IRRETRIEVABLE ACTION UNTIL THE ENVIRONMENTAL STATEMENT IS FILED. THE FILING ON THE GOVERNMENT PRINTING OFFICE BUILDING STATEMENT, CONSIDERED BY THE NATIONAL CAPITAL PLANNING COMMISSION TO BE THE MOST ANALAGOUS STATEMENT TO THAT NEEDED FOR THE CIVIC CENTER, TOOK 19 1/2 MONTHS.

COSTLY DELAYS COULD ALSO OCCUR DURING THE CITY'S RELOCATION OF OCCUPANTS FROM THE SITE. THE DISTRICT HAS SCHEDULED

AN 18-MONTH PERIOD FOR SITE ACQUISITION AND RELOCATION OF RESIDENTS WHICH DISTRICT OFFICIALS SAY IS "VERY TIGHT" AND REQUIRES "IDEAL CONDITIONS."

MANAGEMENT

REALIZING THE SIZE OF THE CAPITAL COMMITMENT, COMPETITIVENESS OF THE CONVENTION MARKET, AND NECESSITY OF THE CENTER TO CREATE A PROFIT FOR THE DISTRICT, THE CONSULTANT RECOMMENDED THAT THE:

- MANAGEMENT OF THE CENTER BE VESTED IN A HIGHLY QUALIFIED BOARD OF DIRECTORS TO BE DIRECTLY RESPONSIBLE TO THE MAYOR.
- BOARD MEMBERS BE EXPERIENCED IN MANAGEMENT AND CAPABLE OF FULFILLING THEIR BUSINESS AND PUBLIC RESPONSIBILITY.
- BOARD OF DIRECTORS SECURE THE SERVICES OF A HIGHLY QUALIFIED AND COMPETITIVELY COMPENSATED MANAGER.
- BOARD AND MANAGER BE INVOLVED AT THE BEGINNING OF THE PROJECT TO ASSURE THAT THE FACILITY MEETS OPERATIONAL SPECIFICATIONS.

THE CONSULTANT ALSO STRESSED THE DESIRABILITY OF THE BOARD COORDINATING THE DEVELOPMENT OF ADJACENT AND NEARBY HOTELS, COMMERCIAL FACILITIES AND PARKING.

THE MANAGEMENT SCHEME PROPOSED BY THE CONSULTANT SEEMS TO CONTAIN THE ESSENTIAL ELEMENTS OF AN EFFECTIVE MANAGEMENT TEAM.

BECAUSE OF THE IMPORTANCE OF SPIN-OFF DEVELOPMENT TO THE CENTER'S ECONOMIC FEASIBILITY WE WOULD SUGGEST THAT THE BOARD BE LIMITED IN SIZE--FIVE TO SEVEN MEMBERS WHO ARE KNOWLEDGEABLE ABOUT THE ECONOMY OF THE DISTRICT, AND EXPERIENCED IN DRAWING PRIVATE DEVELOPMENT TO WASHINGTON. THE MANAGER SHOULD BE AN EXPERIENCED AND EFFICIENT PROMOTER, SALESMAN AND ADMINISTRATOR.

PARKING

BASED UPON ADDITIONAL PRELIMINARY ANALYSIS PERFORMED AFTER SUBMISSION OF OUR LETTER TO THE SUBCOMMITTEE, WE RAISE THE FOLLOWING TWO ITEMS.

IT IS UNCERTAIN WHETHER THE 750 PARKING SPACES TO BE BUILT FOR THE CIVIC CENTER WILL BE ADEQUATE. THE CONSULTANT ADVISED THAT CENTER MUST BE LOCATED ADJACENT TO AN AREA WHERE THERE WILL CONTINUE TO BE AN EXTENSIVE SUPPLY OF PARKING--AT LEAST 3,000 WITHIN WALKING DISTANCE OF THE CENTER. ALTHOUGH OVER 6,4000 PUBLIC PARKING SPACES ARE LOCATED WITHIN THREE BLOCKS OF THE CIVIC CENTER SITE, MANY OF THESE SPACES ARE ALREADY FULLY UTILIZED AND OTHERS WILL BE DISPLACED BY AREA DEVELOPMENT.

THE DISTRICT SHOULD TAKE STEPS TO ASSURE THAT THE SPIN-OFF DEVELOPMENT GENERATED BY THE CIVIC CENTER DOES NOT ELIMINATE THE RECOMMENDED MINIMUM OF 3,000 NEARBY PARKING SPACES WHICH SHOULD BE AVAILABLE TO CENTER USERS.

WE QUESTION WHETHER THE CENTER WOULD BE USED EXCLUSIVELY FOR NATIONAL EVENTS. THIS MAY BE THE CURRENT PLAN, BUT IT MAY WELL TURN OUT THAT THE PRESSURES TO INCREASE REVENUES WILL LEAD THE MANAGEMENT INTO BOOKING SHOWS AND EXHIBITIONS THAT WOULD APPEAL TO A LOCAL OR REGIONAL AUDIENCE. IF THIS OCCURS, THE EXISTING PARKING FACILITIES MAY NOT BE ADEQUATE, AND TRAFFIC INTO THE CITY WOULD INCREASE CONGESTION.

LACK OF CONNECTIONS TO METRO SUBWAY

AN ADDITIONAL QUESTION, ONE WHICH WE HAVE NOT HAD TIME TO PURSUE, IS THE LACK OF DIRECT CONNECTIONS TO THE METRO SUBWAY; WHILE 2 METRO STATIONS ARE ON THE PERIMETER OF THE PROPOSED SITE, NO DIRECT CONNECTIONS ARE PLANNED. THOUSANDS OF ATTENDEES ATTEMPTING TO WALK ACROSS H STREET TO ARRIVE AT THE CENTER FROM METRO STATIONS SUGGESTS THE POTENTIAL FOR TRAFFIC SAFETY AND CONGESTION PROBLEMS. PERHAPS THE ADDITIONAL COST OF A DIRECT CONNECTION SHOULD BE CONSIDERED AS A PART OF THE CENTER CONSTRUCTION.