United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on the District of Columbia, Committee on Government Reform, House of Representatives

September 1999

DISTRICT OF COLUMBIA

Status of the New Convention Center Project

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

Accounting and Information
Management Division

B-280908

September 28, 1999

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

Dear Mr. Chairman:

You requested that we provide periodic status reports on the construction of the new Washington Convention Center. When we last reported to you on July 15, 1998,[1] the Washington Convention Center Authority (WCCA) was working to obtain necessary approvals, negotiate a guaranteed maximum price (GMP) construction contract, and obtain construction financing. This report highlights the status of the convention center project, changes in WCCA's estimated project costs and financing plan since our last report, and actual expenditures and collection of dedicated taxes.

Results in Brief

Work at the new convention center site is underway. In March 1999, work started on slurry wall construction,[2] site excavation, and removal of contaminated soil. Based on information provided by WCCA officials as of June 1999, total estimated project costs decreased $55 million (6.5 percent) from $846 million to $791 million. This decrease was due to reduced financing-related costs, which resulted primarily from the purchase of a surety bond covering debt servicing instead of funding the initially planned for Debt Service Reserve Fund. WCCA estimated the total construction cost of the project at $714 million–$6.3 million, or less than 1 percent, more than the June 1998 estimate. The $6.3 million increases to $24 million the estimated value of equipment that WCCA anticipates being provided by vendors at no initial cost to WCCA. However, WCCA remains at risk for the cost of the equipment until contracts are executed with vendors.

[1]*District of Columbia: Status of the New Convention Center Project* (GAO/AIMD/OCE-98-238, July 15, 1998).

[2]The slurry wall is a concrete wall around the construction site that extends below the excavation and is a barrier to underground water flowing into the site.

Within the $714 million construction cost estimate, WCCA made a number of changes, increasing the estimated cost of some project components and decreasing others to reflect more current data. For example, because its current estimate of the volume of contaminated soil requiring removal is about double the 150,000 tons anticipated, the cost estimate for this work increased $4 million to a total of $9 million. WCCA's estimates of construction costs include changes to the $500.6 million GMP agreed to by the construction manager (CM) and WCCA in August 1998. WCCA's estimate of GMP costs as of June 30, 1999, was $510.7 million. As noted in our last report, practically speaking, the GMP is only a guaranteed maximum price if the underlying assumptions on which the contractor bid do not change. Under the GMP agreement, WCCA must negotiate any changes to the GMP amount with the CM. As of June 30, 1999, several of the amounts included in WCCA's cost estimate had yet to be negotiated, and the ultimate effect on the budget is not certain. Also, the project contingency absorbed $16 million of costs not offset by decreases in other project components. Of the $30 million project contingency in WCCA's estimate last year, $14 million remains to cover unanticipated costs during the more than 3 years remaining until scheduled project completion.

Proceeds from the September 1998 bond sale covered about 66 percent of the $791 million June 1999 project cost estimate. WCCA's financing plan covered the remaining cost through dedicated taxes over the 4-year construction period, anticipated interest earnings, anticipated federal grants, and reliance on vendors to provide without cost, equipment that WCCA estimates would cost $24 million—an amount for which WCCA is at risk until such time that there are executed contracts to cover these arrangements. About $73.2 million had been disbursed on the project as of June 1999.

Dedicated tax collections for the first 10 months of fiscal year 1999 were $42.2 million—a little higher than the amount assumed in the bond offering documents prorated for the same period. In addition to the amounts already collected, WCCA may receive some portion of amounts in the lockbox exceptions account. These amounts cannot be determined until all collections held in the lockbox exceptions account have been appropriately allocated by the District and appropriate amounts transferred to WCCA. Similarly, WCCA's share of interest earnings on amounts in the exceptions account cannot be determined until the District determines the appropriate allocation.

WCCA, in general, agreed with the report's contents, and District officials said that they are addressing the report recommendations for improving the operations of the exceptions account. However, District officials did not commit to monthly transfers to WCCA and the District of interest earned in the exceptions account. We reaffirmed the need for prompt transfers in the “District's Comments and Our Evaluation” section of this report.

Background

The Washington Convention Center Authority Act of 1994 authorizes WCCA to construct, maintain, and operate the new convention center as well as to maintain and operate the existing convention center.[3] Since our last report, WCCA and the CM signed the $500.6 million GMP contract for construction, and WCCA received $519.5 million from bond financing supported by new dedicated taxes. Construction of the new convention center is now underway at Mount Vernon Square.[4]

The new convention center will have a total of 2.3 million gross square feet, including about 730,000 square feet of prime exhibit space. This compares with 800,000 gross square feet for the existing convention center, including 381,000 square feet of prime exhibit space. Based on the square feet of prime exhibit space, the new convention center is projected to rank sixth in the United States when completed. Its size is expected to make it highly marketable far into the 21st century.

The new convention center is intended to allow the District to compete for larger conventions and trade shows. A 1993 feasibility study by Deloitte & Touche, commissioned by the local hospitality industry, stated that even though the District is viewed as a desirable location, the existing convention center is small compared to the convention centers of other cities, such as Atlanta, New York, Chicago, and Philadelphia.

[3]WCCA was created by the Washington Convention Center Authority Act of 1994, D.C. Law 10-188, Sept. 28, 1994, 41 D.C.Reg. 5333, 6823, D.C. Code Ann. secs. 9-801 through 9-833, (1981, 1999 Supp.).

[4]Located in the blocks between 7th and 9th Streets, N.W., and N Street and Mount Vernon Place, N.W.

Scope and Methodology

To determine the status of the new convention center project and its estimated costs and financing plan, we

- held discussions with and obtained information from various officials of WCCA and its representatives and the CM,
- reviewed WCCA's and the CM's progress reports,
- visited the construction site,
- compared WCCA's June 30, 1999, unaudited cost estimates for the project with the June 19, 1998, estimates that were included in our July 1998 report to the Subcommittee, and
- reviewed budget documents and held discussions with WCCA officials to obtain reasons for variations from the previous estimates.

To review the dedicated tax collection procedures and the proper amounts calculated and transferred, we

- reviewed financial records and lockbox agreements,
- held discussions with officials of WCCA, the District, and the lockbox bank,
- compared the projections of dedicated taxes for the period from October 1998 through June 1999 with actual collections for the same period, and
- reviewed the Washington Convention Center auditors'[5] workpapers of the reported taxes collected and deposited for the convention center project for fiscal year 1998.

To determine that expenditures for the new convention center project were valid, complete, and properly valued, we reviewed the WCCA auditors' workpapers for fiscal year 1998 and examined statistically selected expenditures incurred for the period from October 1, 1998, through April 30, 1999.

We conducted our work from August 1998 through July 1999 in accordance with generally accepted government auditing standards and considered the results of our previous work, which were reported to you last year. We requested comments on a draft of this report from the Mayor of the District of Columbia and the General Manager of WCCA, or their designees. The Chief Financial Officer of the District government and the Chief Financial

[5]Mitchell & Titus, LLP, audited WCCA's financial statements for fiscal year 1998.

Officer and Managing Director/Development of WCCA provided us with written comments. These comments are discussed in the "District's Comments and Our Evaluation" section and are reprinted in appendixes I and II, respectively.

Construction of New Convention Center Has Begun

Since we last reported, WCCA received necessary approvals to build the new convention center at Mount Vernon Square, with Clark/Smoot, A Joint Venture, serving as CM. Ground was broken in October 1998, and excavation of the site began in March 1999. As of June 1999, $64 million in construction contracts had been let, and WCCA was preparing to obtain bids on structural steel and foundation concrete, which it estimated at about $150 million. WCCA officials provided the following information, as of June 1999, on the status of the site work:

- Relocation of utilities, which started in July 1998, was 85 percent complete and was expected to continue through calendar year 1999.
- Construction of the slurry wall, which started in March 1999, was about 60 percent complete and was expected to be completed in September 1999.
- Excavation of the site was about 32 percent complete with 375,000 cubic yards of soil removed. Excavation work was expected to continue until about August 2000.
- About 175,000 tons of contaminated soil had been removed from the site. The total estimate of contaminated soil requiring removal has now grown from 150,000 tons to between 250,000 and 300,000 tons. Contaminated soil removal is scheduled to be completed in January 2000. The on-schedule completion of site excavation is contingent upon the timely removal of the contaminated soil.

According to WCCA officials, the amount of water encountered at the construction site was less than originally expected. WCCA officials stated that the construction of the slurry wall had progressed more rapidly than they anticipated, and this had reduced the amount of water that was present.

The Washington Metropolitan Area Transportation Authority (WMATA) is overseeing the Metro station upgrade work at the construction site using $25 million appropriated by the Congress for that purpose. Agreements between WCCA and WMATA covering the construction and their operating relationship after completion of the convention center were approved by the D.C. Financial Responsibility and Management Assistance Authority in late July 1999. The construction agreement specifies that WCCA is responsible for any costs in excess of the amount appropriated. WCCA would have to offset any excess costs by reducing the cost of other project components, including the project contingency, or find other sources of funding.

WCCA's June 28, 1999, status report stated that the most significant schedule risks were the removal of the contaminated material from the site and the preparation of the design bid packages when needed. The CM identified a potential 22-day delay in the construction schedule relating to the start of the foundation work. According to WCCA officials, they will work with the CM to overcome any potential delays by using alternate sequences and methods.

Estimated Project Costs Have Changed

Since we last reported, the estimated costs for building the new convention center have increased, but financing costs were less than estimated. Estimated construction costs increased $6.3 million, from $707.7 million to $714 million. The $6.3 million consists of an increase in the value of equipment that WCCA anticipates being provided by vendors without cost to WCCA. As a result of modified reserve requirements, financing-related costs decreased $61.1 million, from $138.2 million to $77.1 million. These changed estimates reduced the total funds required by $54.8 million, from $845.9 million to $791.1 million. Of the total estimated cost, $73.2 million had been disbursed as of June 30, 1999: $24.1 million for GMP costs and $49.1 million for other costs.

Table 1 compares WCCA's cost estimates as of June 1999 with its estimates in our July 1998 report. To the extent that costs increase or anticipated funds do not become available, WCCA must offset the costs against other project components or find other sources of funding. As shown in the last column of table 1, WCCA decreased the estimated cost for some project components and increased the estimated cost of others within the overall total estimated project cost of $791 million. It should be noted that some of the increases and decreases affect the GMP amount and have yet to be negotiated with the CM. WCCA's explanations of these estimates and of other increases and decreases in the estimated cost of project components follow the table.

Table 1: Comparison of WCCA's Unaudited Estimated Costs for the New Convention Center as of June 1998 and June 1999

Dollars in thousands

Project component	Estimate as of 6/19/98[a]	Estimate as of 6/30/99	Increase (decrease)
Building and site (initial GMP)	**$500,600**	**$500,600**	**$0**
Changes to GMP amount			
Change order 1 (Reserve for hazardous materials removal)	5,000[b]	9,000	4,000
Other change orders	0	473	473
Subtotal changes to GMP amount	**$5,000**	**$9,473**	**$4,473**
Subtotal GMP contract status	**$505,600**	**$510,073**	**$4,473**
WCCA estimate of changes to be negotiated with CM			
Pending change orders		123	123
WCCA estimate of cost increases	0	16,013	16,013
WCCA estimate of cost decreases	0	(15,558)	(15,558)
Subtotal WCCA estimate of changes pending negotiation	**$0**	**$578**	**$578**
Total WCCA estimated building and site (GMP amount)	**$505,600**	**$510,651**	**$5,051**
Other costs			
Land cost	4,692[c]	5,488	796
Program management	16,632[c]	14,232	(2,400)
Consulting and inspections	4,510[c]	10,255	5,745
Permits and fees	400[c]	1,799	1,399
Environmental impact	1,550[c]	1,550	0
Legal	2,900[c]	5,177	2,277
Insurance	19,000[c]	13,100	(5,900)
Design fees	29,240[c]	39,748	10,508
Site development	0	200	200
Fixtures/furnishings/equipment	22,305	22,305	0
Other project costs	12,671[d]	14,497	1,826
Portion of utilities relocation not included in building and site	10,000[e]	10,000[f]	0
Community outreach	500[c]	0	(500)
Metro station upgrade	25,000[e]	21,972	(3,028)[g]
Project contingency	30,000	14,026	(15,974)
Subtotal other costs	**$179,400**	**$174,349**	**($5,051)**
Total WCCA project budget	**$685,000**	**$685,000**	**$0**

(continued)

Dollars in thousands

Project component	Estimate as of 6/19/98[a]	Estimate as of 6/30/99	Increase (decrease)
Additions to WCCA project budget			
Project administrative costs	5,000	5,000[h]	0
Vendor-provided equipment[i]	17,695	24,000	6,305
Total additions to WCCA budget	**$22,695**	**$29,000**	**$6,305**
Total estimated construction costs	**$707,695**	**$714,000**	**$6,305**
Financing-related costs			
Bond issuance	11,827	11,486	(341)
Reserve funds	126,399	65,633	(60,766)
Subtotal financing-related costs	**$138,226**	**$77,119**	**($61,107)**
Total estimated project costs	**$845,921**	**$791,119**	**($54,802)**

[a]Reported in GAO/AIMD/OCE-98-238, July 15, 1998.

[b]In our prior report, this reserve was listed under other costs.

[c]In our prior report, these costs were consolidated in total predevelopment costs.

[d]In our prior report, these costs were listed as section 106 mitigation costs. National Historic Preservation Act, section 106 mitigation requirements for this project were established in a September 12, 1997, memorandum of agreement among the National Capital Planning Commission, the D.C. State Historic Preservation Officer, the Advisory Council on Historic Preservation, WCCA, the Mayor, and the D.C. Council. The agreement requires WCCA to take a number of actions to improve the community and to mitigate adverse effects of the convention center on the community.

[e]In our prior report, these costs were listed as additions to the WCCA project budget.

[f]Committed costs are $10.7 million.

[g]The WCCA estimated cost of the Metro station is $25 million. Part of the cost has been allocated to GMP estimated increases and to design fees for work relating to the Metro station upgrade.

[h]WCCA officials did not provide an estimate of administrative costs for the project. They estimated that $3.3 million had been expended as of May 31, 1999. As stated in our last report, WCCA does not include administrative costs as part of its project costs. It stated that these costs would continue to be paid from the current center's operating budget.

[i]WCCA anticipates that vendors will provide this equipment without cost to WCCA.

Source: WCCA officials.

Changes to GMP

Some of the estimated cost increases and decreases involved construction change orders or other costs that affect GMP. As noted in our previous report, GMP is only a guaranteed maximum price if the assumptions upon which it is based do not change.[6]

[6]GAO/AIMD/OCE-98-238, July 15, 1998.

Change order number 1 covers the removal of additional contaminated soil from the site. The estimate for hazardous materials removal increased by $4 million due to encountering higher amounts of contaminated material on the site than anticipated. These costs are based on unit rates, thus, the ultimate cost is determined by the quantities removed. The other change orders ($473,000) represent changes to utility relocation work caused by unexpected site conditions. Estimated cost increases ($16 million) is a new line item that represents WCCA's estimate of GMP cost increases for identified design and construction-related issues. Potential cost decreases ($15.6 million) is also a new line item that represents WCCA's estimate of GMP cost decreases as a result of design changes and alternative insurance arrangements. The net effect of these changes is to increase WCCA's estimated GMP costs to $510.7 million. In contrast, a CM representative told us on July 2, 1999, that the CM's estimate of GMP costs was about $523 million. The CM's estimate does not include any GMP cost decreases, such as those identified by WCCA. The actual amount of any increase or decrease to the GMP depends on the outcome of negotiations between WCCA and the CM.

Changes to Other Costs

WCCA also made a number of changes within the estimated costs of $280.4 million[7] that are not covered by GMP. The $796,000 increase in the estimate for land cost is due to an increase in relocation costs for former owners, rental of temporary parking lots not included in the original budget, easements on adjoining property, and increased security costs. Estimated program management costs decreased due to an amendment of the program manager's contract. Certain services, such as accounting, were obtained from other contractors. Consulting and inspections increases were largely due to reimbursing the District's Department of Consumer and Regulatory Affairs for the cost of inspectors and related staff ($1.4 million) and hiring KPMG to provide a project accounting system and services ($2.3 million). Neither of these items were included in the original budget.

Permits and fees increases were due primarily to the District's Water and Sewer Authority's declining to waive its fees ($700,000) as assumed in the budget, and the District's Department of Health's requesting reimbursement for its staff costs associated with hazardous materials

[7]In table 1, total estimated project costs of $791.1 million minus total WCCA estimated construction costs of $510.7 million.

monitoring ($300,000). Estimated legal costs increased with the decision to have legal services provided throughout the construction phase. Estimated insurance costs decreased as a result of WCCA's obtaining insurance covering its contractors and subcontractors (owner-controlled insurance program) rather than having each obtain necessary coverage individually.

The estimate for design fees increased by $10.5 million because the complexity and scope of services required of the architect and engineering (A&E) team have been greater than anticipated. Multiple (15 to 20) bid packages will be required, rather than the 4 to 5 originally predicted. Increases are also attributable to the more complex nature of the final design and the A&E team's participation in value engineering and subcontractor purchasing. Also, design costs of $1.3 million relating to the Metro station upgrade have been reallocated to the design fees component.

Other project cost changes resulted from reclassifying various items. Site development costs is a new line item related to costs for fencing, site cleanup, and rodent abatement. Community outreach costs have been reclassified and are now included in other project costs. The utilities relocation costs not covered in GMP increased because field conditions differed from what was expected. Metro station upgrade costs of $3 million were reclassified to building and site/GMP costs and design fees.

The estimate for vendor-provided equipment increased by $6.3 million. WCCA anticipates that a central heating and cooling plant and telecommunications, food service, and audiovisual equipment will be provided by vendors without cost. WCCA officials indicate that arrangements whereby vendors provide such equipment have been used at convention centers in other cities. WCCA is considering the technical aspects of several proposals by vendors to provide a central plant. As the project progresses, WCCA anticipates soliciting proposals from vendors to provide telecommunications, food service, and audiovisual equipment. As we noted in our prior report, WCCA is at risk for these costs until contracts have been executed with vendors and for any costs that may be necessary in connection with installation of the vendors' equipment.

Contingency to Cover Project Risks

In addition to the cost increases that were offset by decreases in the program management and insurance line items, WCCA offset $16 million of cost increases by reducing the project contingency. This offset reduced the project contingency amount from $30 million to $14 million—4 months into the 4-year construction schedule. Currently, several unknowns put additional pressure on the remaining contingency funds:

- The uncertain outcome of negotiations with the CM on changes to the GMP amount.
- The risk that additional costs—for hazardous materials removal and other work—will be incurred in the more than 3 years remaining until estimated project completion.
- The risk that vendors do not fund all or part of the $24 million in equipment costs as anticipated by WCCA or that WCCA has to incur additional costs to accommodate the installation of vendors' equipment.

Changes to Financing-Related Costs

A modified arrangement for meeting reserve requirements for bond financing significantly reduced the financing-related costs and the total required funds from prior estimates. An anticipated Debt Service Reserve Fund of $44.4 million was not required due to the purchase of a surety bond for $633,000 to cover debt servicing. Also, the Operations and Marketing Reserve fund required $10 million less and the Renewal and Replacement fund required $7 million less than anticipated.

WCCA's Financing Plan Covers Estimated Costs But Contains Some Uncertainties

On September 29, 1998, WCCA issued bonds with considerably better terms than it anticipated at the time of our last report. Specifically, no subordinate bonds were issued, the term was 30 years instead of 34, the interest rate was 5.2 percent instead of 5.6 percent, and financing and reserve costs were $77.1 million instead of $138.2 million. As of June 1999, the bond proceeds provided about 66 percent of the $791 million estimated project costs. However, the financing plan covering the remaining 34 percent of estimated project costs contains some uncertainties, including the equipment anticipated to be provided by vendors without initial cost and the federal grants being provided through the District government. These uncertainties are discussed after table 2, which compares the current financing plan with the plan in our prior report.[8]

[8]GAO/AIMD/OCE-98-238, July 15, 1998.

Table 2: Comparison of WCCA's May 1998 and June 1999 Unaudited Financing Plans

Dollars in millions

Funding sources	Financing plan as of 5/98[a]	Financing plan as of 6/99
Senior lien bonds	$487.4	$519.5
Junior/senior subordinate lien	128.2	0.0
Subtotal	**$615.6**	**$519.5**
Dedicated tax collections for pre-construction activities (at bond issuance)	37.2	37.2
Dedicated tax collections for reserves or construction (at bond issuance)	72.8	77.3
Estimated construction fund earnings	62.7	53.1
Projected excess dedicated tax collections through 2002	0.0	40.0
Anticipated federal funds	35.0	55.0
Anticipated vendor participation	17.7	24.0[b]
Funds for administrative costs	5.0	5.0[c]
Subtotal	**$230.4**	**$291.6**
Total funding sources	**$846.0**	**$811.1**
Interest rate (percent)	5.6	5.2
Term of debt (years)	34	30
Dedicated annual taxes to back bonds	$44	$50.3
Dedicated taxes growth assumption (percent)	1	3.6-4.5[d]
Average annual debt service	$42.6	$34.9

[a]Reported in GAO/AIMD/OCE-98-238, July 15, 1998.

[b]We adjusted this amount from $25 million to $24 million to agree with WCCA's cost estimate in table 1.

[c]WCCA reflects funds for the administrative cost (salaries and wages) of the proposed new convention center as part of the operating subsidy it receives through dedicated tax collections for the existing center.

[d]PriceWaterhouseCoopers in the *Final Pricing Information* report dated Sept. 29, 1998, projected dedicated tax growth between 1999 and 2007 to range between 3.6 percent and 4.5 percent.

Source: WCCA officials.

The major differences in funding sources between the two plans are a $96 million decrease in bond proceeds, a $9 million decrease in interest earnings, the use of $40 million of dedicated tax receipts for construction during the 4-year construction period, and a $20 million increase in anticipated federal funds. The anticipated federal funds in the June 1999 financing plan were a $25 million appropriation for the Metro station upgrade, which the Congress appropriated since our last report, a $10 million grant for utilities relocation from Community Development

Block Grants (CDBG) funds made available to the District by the U. S. Department of Housing and Urban Development, and a $20 million grant in federal highway funds.

Although the District informed WCCA with a letter dated April 19, 1999, that the $10 million CDBG grant would not be provided, WCCA continues to carry the grant in its financing plan. The District informed WCCA with a letter dated July 2, 1999, that at this time it would provide $8.5 million of the anticipated $20 million in federal highway funds from the District's Federal-Aid Highway program to help fund the road work at the convention center. The District has indicated that additional highway funds may be available for specified aspects of the road work during future years of the project. While additional highway funds may be forthcoming at some time in the future, WCCA is at risk until they become available.

If the remaining anticipated federal funds of $21.5 million[9] do not materialize, total estimated funding sources would decrease from $811.1 million to $789.6 million, which is $1.5 million less than the current $791.1 million estimated project cost.

Collections of Dedicated Taxes

Certain District sales and use taxes (dedicated taxes) are to be transferred to WCCA to construct and operate the convention center and redeem the bonds. These taxes consist of a 4.45 percent hotel sales tax and a 1 percent restaurant tax.[10] These taxes, along with several other District sales and use taxes that are reported on the same tax form, are collected through what is referred to as a lockbox arrangement. Under this arrangement, the relevant District businesses file their tax returns along with their tax payments directly with a designated local bank (lockbox bank). Any such payments received by the District are forwarded directly to the lockbox bank without further processing. The bank then makes appropriate distribution of the tax payments.

[9]The $21.5 million consists of the $10 million CDBG grant and the remaining $11.5 million in highway funds.

[10]The taxes identified for WCCA make up a portion of the District's 14.5 percent hotel sales and use tax and 10 percent tax on restaurant meals, alcoholic beverages consumed on premises, and rental vehicle charges.

The purpose of the lockbox is to provide bond holders with assurance that dedicated taxes for the convention center are provided to WCCA for use as specified in the bond agreements. The lockbox arrangement for collecting dedicated taxes for WCCA, as well as other taxes for the District, operates pursuant to the provisions of a number of agreements among the parties involved. The agreements include

- a master trust agreement between WCCA and a trustee bank that is the depository for the bond proceeds and the dedicated tax collections,
- a memorandum of understanding between WCCA and the District,
- a collections agreement among WCCA, the trustee bank, the District, and the lockbox bank, and
- a lockbox agreement between the District and the lockbox bank.

In general, the lockbox bank uses four bank accounts for collecting District sales and use taxes and making appropriate transfers to the District and WCCA. If the tax payment agrees with the amount shown on the tax return, the receipts are deposited in a transfer account. Where there is not agreement, tax receipts are deposited in an exceptions account. Funds in the transfer account are transferred to a WCCA-dedicated account and a District account in the appropriate amounts through the use of a computerized program that calculates the amount of the transfers.

Funds in the WCCA-dedicated account are transferred daily to the trustee bank for use by WCCA as specified in the master trust agreement. Funds in the exceptions account are held by the lockbox bank until the District's tax office determines their proper disposition and provides the lockbox bank with instructions on appropriate distribution of the funds.

Lockbox Collections in Line With Projections

Pricing information for the bond issuance assumed dedicated tax collections of $50.3 million annually in depicting debt service ratios.[11] Tax receipts deposited in WCCA's dedicated account for the first 10 months of fiscal year 1999 totaled $42.2 million. This amount is a little higher than the $41.9 million estimate prorated for the first 10 months of 1999. It is $6.1 million (17 percent) higher than comparable deposits for the first 10 months of fiscal year 1998.

[11] *Final Pricing Information, $524,460,000 Washington Convention Center Authority Senior Lien Dedicated Tax Revenue Bonds, Series 1998*, September 29, 1998, PaineWebber Incorporated.

Operations of the Exceptions Account Have Been Problematic

When the collections agreement covering dedicated taxes for WCCA became effective on October 1, 1998, the District continued to use an exceptions account that it had been using since early 1997 during preconstruction on the convention center. At September 30, 1998, the account had a balance of $55.3 million in exceptions that needed to be resolved. Amounts continued to accumulate in the account, and in December 1998, the unresolved balance reached $70.1 million. The District is responsible for resolving the problems with tax receipts recorded in the exceptions account and initiating monthly transfers of the amounts to the District and WCCA accounts as appropriate. The records indicate that the accumulation of funds in the account was due to delays in (1) resolving the exceptions and (2) making transfers out of the account after the exceptions have been resolved.

Transfers to the District on the Basis of Estimates

To gain access to funds in the account, beginning in December 1998, the District made estimates of its share of tax receipts in the account and initiated several transfers to the District account based on those estimates. From October 1998 through June 1999, transfers from the exceptions account to the District were $98.8 million and transfers from the exceptions account to WCCA were $2.9 million. Of the amounts transferred to the District, $95.5 million was based on estimates of the amounts that were due the District. None of the transfers to WCCA were based on estimates. At June 30, 1999, the balance in the exceptions account was $14.1 million.

As of August 1999, the District had not reconciled the $95.5 million in transfers made on the basis of its estimates with actual amounts due and made appropriate adjustments. A District official told us that the District was in the process of reconciling the estimated amounts with actual amounts due and that additional transfers on the basis of estimates would not be made.

The collections agreement specifies that the District shall not have access to amounts in the exceptions account until they are transferred to the District account. The agreement further specifies that the District will resolve the amounts in the exceptions account and initiate transfers out of the account no less often than monthly. In addition, the District is to resolve amounts in the exceptions account before any monies are allocated to either WCCA or the District, according to a description of the lockbox arrangement in the bond's *Final Pricing Information*.

Transfers to WCCA and the District Have Not Kept Pace With Resolved Exceptions

The exceptions account should contain only the unresolved amounts from prior months plus the current month's exceptions, which average about $6 million a month. Summary information on the exceptions account as of June 1999, prepared by the District's Office of Tax and Revenue, showed that while the exceptions account had a balance of $14.1 million, all but about $1 million of the funds in the exceptions account had been resolved. Of the $1 million, about 62 percent dated back to 1997 and 38 percent back to 1998. District officials told us that they are having difficulty locating the documents necessary to allocate the remaining amounts. District and WCCA officials stated that if these amounts are not resolved in the near future, they will agree on an appropriate distribution. District officials indicated that they are now resolving the exceptions on what is essentially a month-to-month basis. This means that at June 30, 1999, the exceptions account included $13.1 million that had been resolved and should have been distributed to the District and WCCA, as appropriate. A District official attributed the backlog in making transfers after exceptions have been resolved to several factors, including the time required to prepare the necessary paperwork for the adjustments, obtaining the necessary approvals, and the District's conversion to a new accounting system.

Interest Earnings on Amounts in the Exceptions Account Not Recognized or Transferred

At the end of each day, the amount in the exceptions account is transferred into an interest-bearing investment account, and at the beginning of the next day, a lump-sum amount including earned interest is transferred back into the exceptions account. Based on the amounts transferred out of the exceptions account each afternoon and the increased amount transferred back into the account the following morning, we computed that over $1.2 million in interest had been earned from October 1998 through June 1999. Additional amounts may have been earned from origination of the account to September 1998.

The collections agreement and the memorandum of understanding between the District and WCCA is silent on the disposition of such interest. As of June 1999, the District had not determined the amount of interest earnings on the exceptions account and transferred appropriate amounts to WCCA and the District. WCCA and District officials stated that they would resolve disposition of the interest.

Conclusions

Except for an increase in the estimated value of equipment that WCCA anticipates will be provided by vendors, WCCA estimates show that the construction cost has remained unchanged overall. WCCA indicates that the project is within budget. Financing-related costs have decreased substantially, resulting in an overall $55 million (6.5 percent) decrease in total estimated project costs.

WCCA has made numerous changes to the estimated costs of the various project components within the overall estimate by increasing the estimated cost of some components and decreasing the estimated cost of other components. Only 4 months into the 4-year construction project, WCCA offset $16 million in costs against the project contingency, reducing the contingency for covering unexpected costs to $14 million. As discussed in the report, there are currently several uncertainties regarding the cost estimates, such as the pending increases and decreases in GMP.

Dedicated tax receipts under the lockbox arrangement for the first 10 months of fiscal year 1999 were a little higher than the estimates supporting the bond issuance. These receipts did not include WCCA's share of taxes in the exceptions account, which has not been resolved promptly and appropriate amounts transferred to WCCA. These receipts also do not include WCCA's share of interest earnings in the account, which cannot be determined until the District resolves the differences in the account.

Recommendations

We recommend that the District's Chief Financial Officer

- restrict further transfers out of the exceptions account on the basis of estimates,
- determine actual amounts due to the District and make appropriate adjustments to the estimated amounts transferred from the exceptions account,
- resolve the remaining older amounts in the exceptions account and make appropriate transfers to the District and WCCA,
- establish and enforce procedures for clearing the exceptions account and transferring funds to the appropriate accounts monthly, and
- determine interest income on the exceptions account to be allocated to the District and WCCA, make appropriate transfers of the interest previously earned, and make future transfers of interest no less often than monthly.

District's Comments and Our Evaluation

The District agreed with all five recommendations with the exception of the timing of transfers of interest earnings on the exceptions account to the District and WCCA. We reaffirm our recommendation that from a business perspective, it would be prudent to transfer such amounts at least monthly. The underlying premise of an exceptions account is that it is a temporary account and that amounts resolved and accrued interest should be transferred promptly. The timely transfer of these amounts would provide access to these funds for the District—which is due the vast majority—as well as WCCA. WCCA, in general, agreed with the report's contents and provided additional information on some matters discussed in the report.

We are sending copies of this report to Senator Robert Byrd, Senator Richard J. Durbin, Senator Kay Bailey Hutchison, Senator Joseph I. Lieberman, Senator Ted Stevens, Senator Fred Thompson, and Senator George V. Voinovich and to Representative Dan Burton, Representative Ernest Jim Istook Jr., Representative James P. Moran, Delegate Eleanor Holmes Norton, Representative David R. Obey, Representative Henry Waxman, and Representative C. W. (Bill) Young in their capacities as Chair or Ranking Minority Member of Senate and House Committees and Subcommittees. Copies will be made available to others upon request. If you have any questions regarding this report, please contact me at (202) 512-4476. Key contributors to this assignment were Arkelga Braxton, Steven Haughton, and Roy Hutchens.

Sincerely yours,

Gloria L. Jarmon

Gloria L. Jarmon
Director, Health, Education, and Human
Services Accounting and Financial
Management Issues

Comments From the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Valerie Holt
Chief Financial Officer

August 24, 1999

CONFIDENTIAL

Mr. Jeffrey Steinhoff
Acting Assistant Comptroller General
Accounting and Information Management Division
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Steinhoff:

I am in receipt of your draft report entitled District of Columbia: Status of the New Convention Center Project. As requested, I am providing comments on the General Accounting Office's (GAO) recommendations made in the respective report regarding the lockbox arrangement for collecting sales and use taxes dedicated to the Washington Convention Center Authority (WCCA). My comments are as follows:

The GAO recommended that the District Chief Financial Officer (CFO) restrict further transfers out of the exceptions account on the basis of estimates.

The CFO agrees with the recommendation. The final estimated transfer from the exceptions account to the District was made in June 1999 for collections through April 1999. Effective July 1999, transfers to the District are based on the calculation of actual amounts collected in accordance with the agreement. Transfers to the WCCA have been made on the basis of actual calculations since inception of the agreement.

The GAO recommended that the CFO determine actual amounts due to the District and make appropriate adjustments to the estimated amounts transferred from the exceptions account.

The CFO agrees with the recommendation. The Office of Tax and Revenue (OTR) is presently in process of completing a reconciliation of the exceptions account for the period from inception to June 1999 when the final estimated transfer was made. The analysis will take into consideration all estimated amounts previously wired to the District.

441 4th Street, N.W., Suite 1150N, Washington, D.C. 20001   202/727-2476   www.dccfo.com

District of Columbia: Status of the
New Convention Center Project
August 24, 1999
Page 2

The GAO recommended that the CFO resolve the remaining older amounts in the exceptions account and make appropriate transfers to the District and the WCCA.

The CFO agrees with the GAO recommendation, and as stated above, the OTR will resolve the remaining older amounts during the reconciliation of the exceptions account. The remaining older balances will be wired to the District and to WCCA as part of the allocation of the exception account balance as of June 30, 1999.

The GAO recommended that the CFO establish and enforce procedures for clearing the exception account and transferring funds to the appropriate accounts on a monthly basis.

The CFO agrees with the GAO recommendation. Effective July 1999, the OTR calculates amounts owed to both the WCCA and to the District monthly and submits to the Office of Financial Operations and Systems (OFOS) the wire requests on a timely basis. The OTR Data Services Administration (DSA) prepares collection reports on the 22^{nd} of the month (for the previous month's collections). The OTR Revenue Accounting Administration performs the proper calculations, and sends the wire request to OFOS by the 5^{th} of the following month. OTR's standard procedures also include a reconciliation of the month end cash balance per bank in the exceptions account to the System of Accounting and Reporting (SOAR) balance.

The GAO recommended that the CFO determine interest income on the exceptions account to be allocated to the District and the WCCA and make appropriate transfers of interest previously earned and make future transfers of interest no less often than monthly.

Except for the timing of interest transfers, the CFO agrees with the GAO recommendation. The Office of Finance and Treasury (OFT) is responsible for the allocation of interest earned in the exceptions account, and is in the process of determining the allocation of amounts earned by the District and the WCCA through June 30, 1999. In addition, OFT is also in the process of establishing standard procedures for the allocation of interest earned and the timing of interest transfers. These procedures will consider the most effective and efficient timing of transfers, as well as offsetting amounts billed to the District for the maintenance services provided on behalf of WCCA which approximate $200,000 annually. In addition, no interest income is payable to WCCA on the minimum balance amount for the transfer account.

Sincerely,

Valerie Holt
Chief Financial Officer

Comments From the Washington Convention Center Authority

WASHINGTON
CONVENTION CENTER

August 27, 1999

By Hand Delivery

Mr. Jeffrey C. Steinhoff
Acting Assistant Comptroller General
General Accounting Office
441 G Street, NW 5th Floor
Washington, D.C. 20548

Reference: **Draft GAO Report B-28908**
GAO Letter August 13, 1999

Subject: **Comments on Draft Report**

Dear Mr. Steinhoff:

On behalf of the Washington Convention Center Authority (the "Authority"), we thank you for the opportunity to comment on GAO's draft report and are submitting the comments set forth herein for your consideration. In general, we feel that the report accurately portrays the status of the project. We are also confident that the new convention center will be completed on time and on budget. Our specific comments are as follows:

1. With regard to the Community Development Block Grant, we have had recent discussions with the District's Department of Housing and Community Development with regard to obtaining the CDBG block grants through three installments during the FY 1999 through 2001 timeframe. We attach a copy of our most recent correspondence in this regard. We have been verbally advised by DHCD's Acting Director that he intends to provide the requested funding.

2. The District's Department of Public Works has agreed in principle to provide $27 million in Federal-aid highway funding to assist in the construction of the L, M and 9th Street viaducts. We attach a copy of DPW's letter July 22, 1999 for your review. We have already received

WASHINGTON CONVENTION CENTER AUTHORITY
900 NINTH STREET, NW ★ WASHINGTON, DC 20001 ★ TELEPHONE: 202.789.1600 ★ 1.800.368.9000
FAX: 202.789.8365 ★ WWW.DCCONVENTION.COM

Mr. Jeffrey C. Steinhoff
August 27, 1999
Page 2

a funding commitment for the first $8.5 million of these funds. A copy of DPW's July 2, 1999 letter in this regard is attached.

3. On page 3, and at various other places in the report, it is noted that the project's current contingency is approximately $14 million. Although this figure is reflected in our June 30, 1999 financial report, this figure does not include supplemental funding for which we have received tentative commitments. If received, the funding will supplement the existing contingency. In particular, the indicated contingency does not consider the impact of the Federal-aid highway funding described in Item 2 above. For each dollar of this funding that is received, the contingency is effectively increased on a dollar-for-dollar basis. If all of the Federal-aid funding is received the contingency should increase to roughly $31 to 41 million depending upon what happens with regard to the CDBG grant.

   We note, however, that our budget assumes that we will receive a $10 million CDBG grant. We feel it is essential that this funding be provided in order to insure that there is an adequate financial cushion for this project. However, as with the Federal-aid funding, if these funds are not received the net effect is to decrease the contingency on a dollar-for-dollar basis.

4. The indicated contingency represents the Authority's contingency. In addition to these amounts, the GMP includes a designated $10 million contingency that is under the joint control of the Authority and Clark/Smoot. We would further note that Clark/Smoot's current GMP estimate includes approximately $23 million of unbudgeted funds.

5. The report notes that the Authority's GMP estimate is different than that used by Clark/Smoot and that there may be exposure until such time as these issues are settled. At this time, the Authority has only issued a limited notice to proceed to Clark/Smoot for excavation, slurry wall and certain other work (approximately $50 million of direct work). All of the work that has been released was purchased at or below budget. The Authority does not intend to release future work unless such work is purchased for an amount that can be funded within the Authority's budget.

   The next major component of work to be purchased is the structural steel. This package is out for bid, and we are confident that it will be purchased for a significant savings over the GMP budget. Our take-offs indicate that the structural steel tonnage has been reduced from

Mr. Jeffrey C. Steinhoff
August 27, 1999
Page 3

the 46,300 tons assumed in the GMP to 40,000 to 42,000 tons. This represents a savings of approximately $10 to 12 million.

Should you have any questions, or if we can be of further assistance, please do not hesitate to contact us (202) 371-3523 or (202) 626-1103.

Sincerely,

Allen Y. Lew	Tracy S. Harris
Managing Director/Development	Chief Financial Officer (CFO)

Enclosures (3)

cc: Lewis H. Dawley, III

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