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Fact Sheet for the Subcommittee on Interior and Related Agencies, Committee on Appropriations, U.S. Senate

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GOVERNMENT LOANS

Loan Restructuring for the Wolf Trap Foundation for the Performing Arts

GAO/AFMD-88-54FS

GAO

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The Honorable Robert C. Byrd
Chairman
The Honorable James A. McClure
Ranking Minority Member
Subcommittee on Interior and
Related Agencies
Committee on Appropriations
United States Senate

On May 16, 1988, we provided your Subcommittee with our report, Government Loans: Financial Information on the Wolf Trap Foundation for the Performing Arts (GAO/AFMD-88-42FS). During a follow-up discussion with your office, we were requested to prepare a further analysis of alternatives for restructuring the Foundation's debt. The alternatives include: (1) restructuring the Foundation's entire debt over an extended period, (2) forgiving a portion of the debt, particularly the accrued interest, and restructuring the remaining amount, (3) reducing the debt by an amount equal to half of the cost overrun and restructuring the remaining balance, and (4) accepting Foundation-owned real property in lieu of repayment. When we discussed these alternatives with Foundation officials, they suggested a fifth alternative: the Foundation could transfer the Filene Center, at a reconstructed cost of $28.1 million and an estimated replacement value of $36.3 million, to the federal government in full satisfaction of its debt. This report provides the requested information on these alternatives.

In our May 16, 1988, fact sheet, we reported that due to its marginal financial condition, the Foundation would probably not be able to repay its outstanding government loans and accrued interest totaling $13.1 million when due on November 23, 1988. However, the Foundation is not entirely without resources. It had profitable seasons in fiscal years 1986 and 1987 which resulted in a combined net income before interest expense of $1.5 million, or 7.4 percent of revenue. The Foundation also owns approximately 30 acres of real property adjacent to the 124-acre Wolf Trap Farm Park. The property is zoned for residential use with a special purpose exemption, and although not legally restricted, Foundation officials stated that this property was donated with the expectation that it would be developed for educational and cultural purposes.

Our review of the five alternatives and the Foundation's financial condition was limited because we assumed that the Foundation will continue to operate under its present structure and did not consider any operational or management changes which might be made to increase profitability. Such changes might include extending the Wolf Trap season and increasing the number of performances, booking more commercially successful events, raising ticket prices, seeking additional fund-raising sources, and pursuing other efforts to reduce operating expenses. The alternatives presented in this report were developed based on the alternatives discussed in our earlier report and on material provided by the Foundation.

RESTRUCTURING THE FOUNDATION'S DEBT

Restructuring the Foundation's debt to provide a reasonable repayment plan involves many variables, including: the total amount to be repaid; whether interest is to be charged and, if so, at what rate; and over what period of time the repayment should occur. One alternative is to restructure the entire $13.1 million debt. Another alternative is to forgive a portion of the debt and restructure the remaining amount. The portion of the debt which might be forgiven could be based on the amount of accrued interest outstanding or on an amount equal to half of the cost overrun.

In reviewing these alternatives, we noted that in the 1984 amendments to the John F. Kennedy Center Act (Public Law 88-260), the Congress considered the Kennedy Center's financial condition and forgave the accrued interest outstanding and converted the principal to noninterest-bearing debt repayable over 15 years. In the case of the Filene Center, if the accrued interest outstanding of $4.7 million were forgiven, the remaining amount to be restructured would be the $8.4 million loan principal.

Another alternative to be considered is forgiving a portion of the debt equal to half of the cost overrun. The legislative history of the Wolf Trap Farm Park Act indicates that the Congress contemplated that the U.S. government would finance, with grants, half the cost of reconstructing the Filene Center. The Foundation and the National Park Service estimated that it would cost about $18 million to rebuild the Center, and the original House and Senate bills provided a grant of $9 million and loans of $9 million. The Foundation was to raise sufficient funds from private donations to repay the loans with accrued interest. However, the actual cost of rebuilding the Center exceeded the estimate by $7.6 million.

If the Congress were to forgive the portion of the debt representing 50 percent of the cost increases, the Foundation's debt on November 23, 1988, that would need to be restructured would be $7.2 million. This is arrived at by subtracting half of the cost overrun ($3.8 million) and the associated accrued interest ($2.1 million) from the $13.1 million due.

For any of these restructuring alternatives, the length of the repayment period could be determined by a balance between the amount of annual payments that the Foundation could afford and a reasonable payback period for the government. Payments could be made monthly, quarterly, semiannually, or annually. Table 1 provides several examples of annual debt service costs based on the restructuring alternatives we have identified.

Table 1: Examples of Annual Debt Service Costs

Amount of debt (in millions)	Interest rate (percent)	Term (years)	Annual debt service costs[a]	Ratio of debt service costs to net income[b] (percent)
$13.1	9	20	$1,435,000	191
8.4[c]	9	20	920,000	123
8.4[c]	None	20	420,000	56
8.4[c]	None	15	560,000	75
7.2[d]	9	20	789,000	105
7.2[d]	None	20	360,000	48
7.2[d]	None	15	480,000	64

[a]Dollar amounts have been rounded to the nearest thousand.

[b]The Foundation's average net income before interest costs in fiscal years 1986 and 1987 was $750,000.

[c]This amount excludes accrued interest of $4.7 million.

[d]This amount excludes $5.9 million, representing 50 percent of the cost overrun and the associated accrued interest.

ACCEPTING FOUNDATION-OWNED PROPERTY

Another means of resolving the Foundation's outstanding debt is for the Congress to accept Foundation-owned property, particularly land and buildings, in lieu of cash repayment. The October 31, 1987, audited financial statements of the Foundation reported land at a book value of $807,000 and buildings and improvements at a book value of $2,555,000, for a total of $3,362,000. This 30-acre property, acquired primarily by gift, is adjacent to the Wolf Trap Farm Park and borders the Dulles Airport corridor, which is currently experiencing a boom in development and construction. Because of this, the market value of the Foundation's property may be considerably higher than book value. A market value appraisal would best establish the value of the property. If the Foundation's real property were used to reduce its outstanding debt, any remaining debt could be restructured to be repaid over a reasonable period of time.

In discussions with Foundation officials on this issue, they disagreed with this alternative and indicated that it was doubtful that the real property could be conveyed to the government without breaching the terms of the gift. The land was donated to the Foundation with the expectation that it would be developed for educational and cultural purposes. However, we were unable to find any evidence that the use of this donated property is, in fact, legally restricted.

Foundation officials proposed another alternative for satisfaction of their debt which would recognize their efforts in reconstructing the Filene Center. They proposed to transfer the Center, at a reconstructed cost of $28.1 million and an estimated replacement cost of $36.3 million, to the federal government in full satisfaction of the Foundation's debt. However, this is not a feasible alternative due to legal considerations. The Wolf Trap Farm Park Act specifically provided that "all rights, title, and interest in the Center shall be vested in the United States." (16 U.S.C. 284e) Therefore, since the Filene Center is not an asset of the Foundation, it cannot be used by the Foundation to repay any of its debt.

A copy of this report will be sent to the Board of Directors of the Wolf Trap Foundation for the Performing Arts. We will also make copies available to others upon request. If you have any questions on the contents of this document, please call me at (202) 275-9406.

Dennis J. Duquette

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Associate Director

(917505)

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