



Accounting and Information
Management Division

B-271116

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 updating the information in our July 26, 1995, letter¹ on the proposed new Sports Arena Project in the District of Columbia. Specifically, you requested an update on (1) the predevelopment project costs, (2) the issuance of bonds to finance the predevelopment costs, and (3) the revenues from the new Arena Tax.

PREDEVELOPMENT PROJECT COSTS

The District's estimated predevelopment costs to be financed (land acquisition, Metrorail connection, environmental remediation, and utility relocations) for the new sports arena increased by about \$11.6 million since late July 1995—with land acquisition representing the largest increase, at about \$4 million. However, primarily due to a federal Department of Transportation grant award, the District's share of Metrorail connection costs was reduced by about \$12.7 million.² Thus, total estimated predevelopment costs to be financed by the District have remained relatively constant at about \$55 million, as shown in table 1.

¹Sports Arena, (GAO/AIMD-95-209R, July 26, 1995).

²This grant was not included in the revised July 1995 budget because it was not yet finalized at that time.

156247

Table 1: The District of Columbia's Estimated Predevelopment Costs To Be Financed for the Sports Arena Project

(Dollars in thousands)

Predevelopment costs	Original budget	Revised budget as of July 26, 1995	Revised budget as of January 24, 1996	Increase (decrease) in cost since July 26, 1995
Land acquisition				
Appraisal/purchase price		\$30,108	\$34,250	\$4,142
Appraisal fees		33	33	
Total	\$28,000	\$30,141	\$34,283	\$4,142^a
Metrorail connection				
Construction costs for station entrance/exit and mezzanine	\$7,000	\$14,800 ^b	\$17,000 ^c	\$2,200 ^a
Less funds received: Capital Assistance Grant (after \$3 million District cost)			(12,000)	(12,000) ^d
Less WMATA contribution		(1,300) ^b	(2,000)	(700) ^d
Total Metrorail connection	\$7,000	\$13,500^b	\$3,000	(\$10,500)
Relocation of District employees				
Lease commitments and rent advances		\$1,986	\$1,986	
Lease appraisals and space consultants		70	70	
Leasehold improvements		972	972	
Furniture and equipment move		638	638	
Telecommunications equipment move		875	875	
Total	\$7,000	\$4,541	\$4,541	
Building demolition, utility relocation, legal and environmental consultants				

Building demolition and environmental remediation		\$1,393	\$1,940	\$547
Utility relocations		3,440	4,616	1,176
Business relocation		25	25	
Legal, environmental, and other consultants		1,816	2,483	667
D.C Sports Commission reimbursement		294	302	8
Total	\$11,000	\$6,968	\$9,366	\$2,398^a
Bank fees and costs ^b		1,161	1,257	96
Total		\$1,161	\$1,257	96^a
Reserve for unanticipated increases			\$2,750	\$2,750 ^a
Total Costs To Be Financed by the District	\$53,000	\$56,311	\$55,197	(1,114)

^aSum of increases in predevelopment costs totals about \$11.6 million.

^bIn our July 26, 1995, report, we combined these numbers. To more clearly show the costs, we have separated them here.

^cThis includes a \$1.5 million reserve for cost overruns.

^dThe total gross decrease in the District's share of the Metrorail connection is \$12.7 million.

^eThe Redevelopment Land Agency received a \$53 million loan combined commitment from Nations Bank and Crestar Bank to finance the predevelopment costs of the arena project. A portion of the loan was subsequently drawn to pay predevelopment costs. The portion was subsequently paid off from the proceeds of the bonds which were sold by RLA.

Source: District of Columbia Gallery Place Arena Task Force financial information on the Sports Arena Project. We did not independently verify these estimates.

Land Acquisition

The new sports arena requires the purchase of two parcels of land from (1) the Washington Metropolitan Area Transit Authority (WMATA)³ and Mel Simon, a private developer, and (2) the Unification Church. The District now estimates that the total price for acquiring the properties will be about \$34 million compared to the July 1995 estimate of \$30 million. On December 28, 1995, the District purchased the property owned by WMATA and Mel Simon for \$29 million. The price is approximately \$4.2 million more than the District's appraised property value and its July 26, 1995, estimate of \$24.8 million. It is \$5.4 million less than an independent appraisal of the property obtained by WMATA and Mel Simon. According to the Sports Arena Project Manager, the District negotiated this price with the property owners to avoid a potentially higher price which could be awarded if a condemnation suit was pursued.

The District did not reach a purchase agreement with the Unification Church on the second parcel. On November 30, 1995, the District obtained the property through a "Declaration of Taking," which required the District to deposit \$5,250,000 in escrow with the Superior Court of the District of Columbia and have a jury trial to determine the purchase price of the property. The \$5.2 million purchase price of the Unification Church combined with the \$29 million for the WMATA and Mel Simon property totals about \$34.2 million. This represents about a \$4 million increase since our July report.

Metrorail Connection

The total cost for the Metrorail connection is now estimated at \$17 million, of which the District's estimated cost is \$3 million—a \$12.7 million reduction from the estimate we reported in July 1995. This is the result of a \$15 million Capital Assistance Grant which WMATA received from the Department of Transportation to build the Metrorail connection. Under the terms of the grant, a 20-percent (\$3 million) match by WMATA, which the District will fund, is required. Thus, after considering the District's contribution, the grant will provide \$12 million

³WMATA is a legally separate organization that is owned, operated, and governed by Maryland, Virginia, and the District as a joint venture in which the participants retain an ongoing financial responsibility.

towards the cost of the Metrorail connection. As part of a triparty agreement with the District and D.C. Arena Associates, LP, WMATA will now provide \$2 million for the escalators and mechanical room costs, up from \$1.3 million in July 1995. Also included in the Metrorail connection total cost estimate is a \$1.5 million reserve which WMATA recently established for cost overruns.

Utility Relocations

We last reported that the District's estimated budget for utility relocations was \$3,439,740. However, the current revised budget based on letters from utility companies shows that utility relocations will be \$4,615,950. According to the Project Manager, most of the \$1,176,210 increase is attributable to overtime costs paid to Bell Atlantic employees for completing the relocation of cable lines under G Street by the end of November 1995. Overtime costs were incurred to maintain scheduled project deadlines so that the estimated October 1997 completion date for the sports arena would not be jeopardized.

Environmental Remediation

The District's current budget shows \$1,940,000, an increase of about \$547,000 over its July 26, 1995, estimate, for building demolition and environmental remediation. The budget for environmental remediation has increased because of higher projected costs for removing the petroleum-contaminated soil from lot 455⁴ of the arena site. Costs included for environmental remediation are not only for soil removal but also for soil remediation and monitoring of the remediation efforts.

FINANCING THE PREDEVELOPMENT COSTS

Between January 9 and 11, 1996, the District's Redevelopment Land Agency (RLA) sold \$59,950,000 of tax exempt bonds to finance the predevelopment cost of the sports arena.⁵ Before the bonds were sold, the District received an investment grade and a noninvestment grade rating on the bond issue from Moody's Investors

⁴Lot 455 of the arena site is the land between 6th, 7th, F, and G Streets.

⁵RLA received a \$53 million loan from Nations Bank and Crestar Bank to finance the predevelopment costs of the arena project. The loan was subsequently paid off from the proceeds of the bonds which were sold by RLA.

Service (Moody's) and Standard and Poor's Rating Services (S&P), respectively. In a letter from Moody's, the District's Sports Arena Special Tax Revenue Bonds were assigned a rating of "Baa." This rating was based on the legal provisions insulating arena tax revenues from the District's other funds. S&P assigned the rating of "B" to the District's debt obligations. An official from S&P told us they were unable to separate the District's financial condition and its credit from this transaction. Further, the S&P official stated that S&P was also concerned that the City Council could authorize the Mayor to redirect funds from various accounts and pay other obligations.

District officials stated that they did not formally request S&P to assign a rating to the bonds but requested that S&P review the District's financial assumptions for issuance of the bonds. District officials stated that the bonds' "split" investment rating did not negatively impact the bond sale because the demand for the bonds was greater than the amount of bonds available for sale, and all bonds were sold. In addition, District officials stated that the investors were informed before the bonds were sold that a split rating would be received.

Between January 9 and January 11, 1996, the District's RLA sold two types of bonds—serial⁶ and term.⁷ The serial bonds totaled \$15,450,000 and are redeemable between the years 1996 and 2000. The interest rate on these bonds ranged from 4.5 percent to 5.4 percent. The term bonds totaled \$44,500,000 and are redeemable on November 1, 2010, and carry an interest rate of 6.05 percent. Special provisions attached to the term bonds allow the District to redeem them after November 1, 1996. The combined annual debt service for the two types of bonds is about \$5.9 million.

According to District officials, if annual collections from the Arena Tax remain at the \$9 million level achieved for fiscal year 1995, they plan to use the difference between the required debt service and the collections from the Arena Tax to redeem the bonds early.

RLA was required by the terms of the bond agreement to establish debt service and capital reserve accounts totaling about \$11 million in the event of costs

⁶Serial bonds are defined as bonds with different maturities.

⁷A term bond is defined as a bond with a single maturity date greater than 1 year from the date of issuance.

overruns or shortfalls in the collection of Arena Tax revenue. More specifically, RLA was required to establish a debt service reserve account in the amount of \$5,995,000 to cover any shortfalls in the collection of Arena Tax in the future and a capital reserve fund of \$5 million to cover possible cost overruns for the Metrorail connection and other areas. Any funds over a million dollars in the capital reserve fund after September 1, 1997, (the arena's projected completion date) are to be used for bond redemption. Both the debt service and capital reserve fund were established from proceeds from the bond sale.

ARENA TAX REVENUES

We verified that, as of December 18, 1995, the District had collected approximately \$9.2 million from the Arena Tax for the period from June 1995 to December 1995, compared to the \$9 million estimated in July 1995. This revenue was generated from about 26,600 returns filed out of an expected universe of 34,000 returns.

To update data in our July 26, 1995, letter, we reviewed relevant information on the predevelopment project costs, the proposal to finance the predevelopment costs, and the revenues from the new Arena Tax from District officials on the Gallery Place Arena Task Force and other District agencies, including the Office of Finance and Revenue, the Office of the Treasurer, the Office of the Corporation Counsel, the Redevelopment Land Agency, and the D.C. Sports Commission. We also conducted interviews with the Gallery Place Arena Task Force Project Manager, the District's Treasurer, and officials of S&P and Moody's. However, except where noted in this report, we did not independently verify the information provided to us. We did our work from September 1995 through January 1996 in accordance with generally accepted government auditing standards.

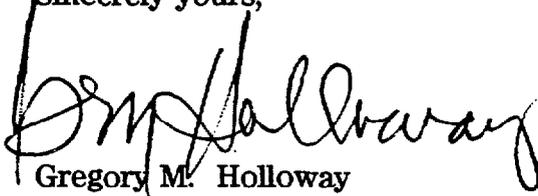
We obtained comments on a draft of this report from the Mayor of the District of Columbia. He concurred with the information presented here.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations and the Ranking Minority Member of your Subcommittee. If you need further

B-271116

information, please contact me at (202) 512-9510 or Hodge Herry, Assistant Director, at (202) 512-9469.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Gregory M. Holloway". The signature is written in a cursive style with a large initial "G".

Gregory M. Holloway
Director, Governmentwide Audits

(901678)

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**

<p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p>

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

Address Correction Requested
