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REPORT TO THE CONGRESS



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Examination Of Financial
Statements Of The Pennsylvania
Avenue Development Corporation
For The Fiscal Year Ended
June 30, 1974

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

FOD-75-13

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MARCH 21, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118638

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of the financial statements of the Pennsylvania Avenue Development Corporation for fiscal year ended June 30, 1974.

We made our examination pursuant to section 105 of the Government Corporation Control Act, as amended, 31 U.S.C. 850 (1970).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman of the Board of Directors, Pennsylvania Avenue Development Corporation.

James B. Stacks

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL
STATEMENTS OF THE PENNSYLVANIA
AVENUE DEVELOPMENT CORPORATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 1974

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the Comptroller General to examine annually the financial transactions of the Pennsylvania Avenue Development Corporation. 730

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the Corporation's financial statements present fairly its financial position at June 30, 1974, and the results of its operations and the changes in its financial position for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

OTHER MATTERS OF INTEREST

This is GAO's first examination of the financial statements of the Corporation. The Corporation was created by the Congress on October 27, 1972, under the Pennsylvania Avenue Development Corporation Act of 1972, to prepare and implement a development plan for certain areas adjacent to Pennsylvania Avenue between the Capitol and the White House.

The Corporation is managed by a 15-member Board of Directors, 8 of whom are private citizens appointed by the President and 7 of whom are Government officials.

To develop the plan the Corporation was authorized to be appropriated not to exceed \$1,750,000 for operating and administrative expenses. Total appropriations through June 30, 1974, amounted to \$850,000, of which \$643,731 has been expended.

"The Pennsylvania Avenue Plan--1974" was presented to the Congress on November 19, 1974. The Corporation may implement the plan unless, between the date of transmittal and the end of the 60-legislative-day period, either the Senate or the House of Representatives passes a resolution opposing the plan.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions to the Corporation.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report informs the Congress of the Corporation's financial condition and operations.

Tear Sheet. Upon removal, the report cover date should be noted hereon.

CHAPTER 1

INTRODUCTION

The Pennsylvania Avenue Development Corporation was created by the Congress on October 27, 1972, under Public Law 92-578, 86 Stat. 1266, 40 U.S.C. 871 et seq. (Supp. III, 1973), to prepare and implement a development plan for certain areas adjacent to Pennsylvania Avenue between the Capitol and the White House. The Congress, in passing this legislation, considered not only the national significance of the avenue but also the steady deterioration of its northern surroundings and the consequent economic and social liabilities to the District of Columbia.

The act (40 U.S.C. 874(a) (Supp. III, 1973)) provides that, to insure proper development and use of the area, the plan must specify:

1. The public and private uses to be permitted.
2. Criteria for the design and appearance of buildings, facilities, open space, and other improvements.
3. An estimate of (a) the current values, the land preparation costs, and the reuse values of all properties to be acquired and (b) all relocation costs.
4. A program for staging proposed development, including a description of the portion of the program scheduled for completion by 1976.
5. A determination of the marketability and the public and private costs of development.
6. A thorough study of the economic impact of such development, including the impact on the local tax base, the metropolitan area as a whole, and the existing business activities within the development area.
7. The procedures (including interim and long-term arrangements) for carrying out and insuring continuing conformance to the development plan.

The Corporation has a broad range of powers, including the authority to (1) sue and be sued in its own name, (2) acquire property through eminent domain proceedings, (3) construct and renovate buildings, (4) manage property, and (5) establish

restrictions, standards, and other requirements that will insure conformance to the plan (40 U.S.C. 875 (Supp. III, 1973)).

The Corporation is managed by a 15-member Board of Directors, 8 of whom are private citizens appointed by the President and 7 of whom are Government officials (40 U.S.C. 872(c) (Supp. III, 1973)). (See app. II.) In addition, eight other Government officials are designated by the act to serve as nonvoting members (40 U.S.C. 872(g) (Supp. III, 1973)).

The Corporation began planning activities when appropriations were made available in July 1973. It may borrow funds from the U.S. Treasury in amounts to be authorized by the Congress, but not to exceed \$50 million (40 U.S.C. 875 (10) (Supp. III, 1973)).

CHAPTER 2

THE DEVELOPMENT PLAN

The Corporation formed several objectives as a basis for planning the Pennsylvania Avenue area. They included:

1. Providing commercial and cultural activities along the avenue that will attract people and stimulate street life.
2. Introducing, on underutilized land, buildings having contemporary architectural and planning concepts.
3. Maintaining a sense of historic continuity and evolution by preserving buildings of different eras and styles.
4. Bringing new economic life--jobs, shopping, and business opportunities--to the avenue while reinforcing existing activity both on the avenue and in the adjacent downtown area.

To develop the plan the Corporation was authorized to be appropriated not to exceed \$1,750,000 for operating and administrative expenses. Total appropriations through June 30, 1974, amounted to \$850,000, of which \$643,713 has been expended.

The Corporation's Board of Directors approved "The Pennsylvania Avenue Plan--1974" on October 24, 1974, after extensive study, consultation, cooperation, and negotiation with Federal and District agencies, community groups, and business and professional associations. The Corporation presented the comprehensive plan to the Congress on November 19, 1974.

The Corporation may implement the plan unless, between the date of transmittal and the end of the 60-legislative-day period, either the Senate or the House of Representatives passes a resolution opposing the plan. If automatically approved--due to the lapsing of 60 legislative days--the Corporation may request the necessary funds. Projected costs are discussed on page 5.

GENERAL DESCRIPTION

The land uses proposed in the plan include current avenue uses and new uses for making the area a center of constant activity. (See app. I.) The avenue itself would be enhanced by special landscaping and lighting and by providing a continuous frontage of retail activity along its north side.

Offices and hotels will dominate the western development area, as it is near the city's business and banking area. The eastern development area will be for a new residential community. Although this eastern area has been predominantly commercial for many years, a major change in land use is considered essential for several reasons. First, the land along Pennsylvania Avenue now zoned for office development cannot be marketed for that use in the foreseeable future. Second, there is a strong housing market downtown. Finally, the influx of residents should help make the area lively, attractive, and safe.

MAJOR BENEFITS

The land use proposals are intended to bring economic, social, and fiscal benefits to the southern part of downtown, which for many years has stagnated and declined as extensive development occurred elsewhere in the city and suburbs. Following is a list of major benefits anticipated by the Corporation.

1. Stimulating additional employment in the city-- New private office and commercial space will attract up to 15,000 additional employees in the Pennsylvania Avenue area over the next decade.
2. Improving opportunities for retail development--The rise in employment will generate a demand for new and upgraded commercial enterprises. Strengthening the retail attraction of Pennsylvania Avenue and the surrounding downtown area will stimulate growth of community-based and, particularly, minority-run businesses.
3. Enlivening downtown by introducing day-round uses and new cultural attractions and by improving the physical setting-- Development of housing, along with hotels and retail activities, will draw residents and more and more visitors to the avenue, transforming it into a promenade linking cultural, commercial, and governmental attractions.

4. Increasing tax revenues for the city--The development area can generate much greater tax revenues for the District than it does. The area now provides an estimated \$4.7 million in annual tax revenues--after redevelopment, about \$11.8 million is expected each year.

IMPLEMENTATION AND PROJECTED COST

To insure implementation and to insure that the congressional objectives are satisfied, regulations for public and private development are necessary. The Congress has authorized the Corporation to establish (through covenants, regulations, agreements, etc.) such restrictions, standards, and requirements as are necessary to insure development, maintenance, and protection of the area (40 U.S.C. 875(8) (Supp. III, 1973)). The Corporation is also authorized to enter into contracts, leases, and cooperative agreements to foster development (40 U.S.C. 875(7) (Supp. III, 1973)).

Even though the Corporation regulates development, it "shall comply with all District of Columbia laws, ordinances, codes, and regulations in constructing, reconstructing, rehabilitating, altering, and improving any project * * *." (40 U.S.C. 878(b) (Supp. III, 1973)). The Corporation is specifically required to consult and cooperate with District and community officials, to give primary consideration to local needs and desires, and to foster local initiative and participation (40 U.S.C. 878(a) (Supp. III, 1973)).

Financial implementation involves several basic elements, including (1) a one-time appropriation of \$130 million at the beginning of the project that would remain available until expended or returned to the U.S. Treasury, (2) a \$150 million interim working capital loan that would be financed by the sale of federally guaranteed Corporation notes or other obligations, (3) use of the Corporation's \$50 million Treasury borrowing authority for establishing a construction revolving fund to be repaid from mortgage proceeds, (4) salaries and expenses, for the Corporation's staff, to be funded separately by annual appropriations and not to be included in the above amounts, and (5) authority, at project conclusion, to sell long-term obligations secured by income from land leases and backed by a Federal guarantee.

CHAPTER 3

SCOPE OF EXAMINATION

Our examination of the Corporation's financial statements was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

In our opinion, the Corporation's financial statement (schs. 1 through 3) present fairly its financial position at June 30, 1974, and the results of its operations and the changes in its financial position for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SCHEDULES

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1974

ASSETS

Funds with U.S. Treasury	\$294,054
Furniture, equipment, and leasehold improvements--net (note 1)	25,669
Other assets	<u>688</u>
Total assets	<u>\$320,411</u>

LIABILITIES AND INVESTMENT

LIABILITIES:

Trade accounts payable	\$ 97,103
Accrued salaries and benefits	15,944
Other liabilities	<u>1,095</u>

Total liabilities	114,142
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INVESTMENT OF U.S. GOVERNMENT (note 2)	<u>206,269</u>
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Total liabilities and investment	<u>\$320,411</u>
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The notes following schedule 3 are an integral part of this statement.

SCHEDULE 2

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

STATEMENT OF OPERATING COSTS

FOR FISCAL YEAR ENDED JUNE 30, 1974

PERSONNEL COSTS:

Consultant services	\$315,081
Compensation and related benefits	225,581
Annual leave expense	10,859
Directors and staff travel expenses	11,097

OTHER OPERATING COSTS:

Rent of office space	20,201
Administrative support services provided by General Services Ad- ministration	20,000
Supplies and materials	15,806
Printing and reproduction	14,189
Other expenses	<u>10,917</u>

Total operating costs	<u>\$643,731</u>
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PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR FISCAL YEAR ENDED JUNE 30, 1974

FUNDS PROVIDED BY APPROPRIATIONS (note 2)	<u>\$850,000</u>
FUNDS APPLIED:	
Operating costs (net of \$11,321 for costs not requiring an outlay of cash)	\$632,410
Increase in working capital	190,825
Purchase of furniture, equipment, and leasehold improvements	<u>26,765</u>
Total funds applied	<u>\$850,000</u>

ANALYSIS OF WORKING CAPITAL

CURRENT ASSETS:	
Funds with U.S. Treasury	\$294,054
Other	<u>688</u>
Total current assets	294,742
CURRENT LIABILITIES:	
Trade accounts payable	97,103
Accrued salaries and benefits	5,719
Other	<u>1,095</u>
Total current liabilities	<u>103,917</u>
Working capital	<u>\$190,825</u>

The notes following schedule 3 are an integral part of this statement.

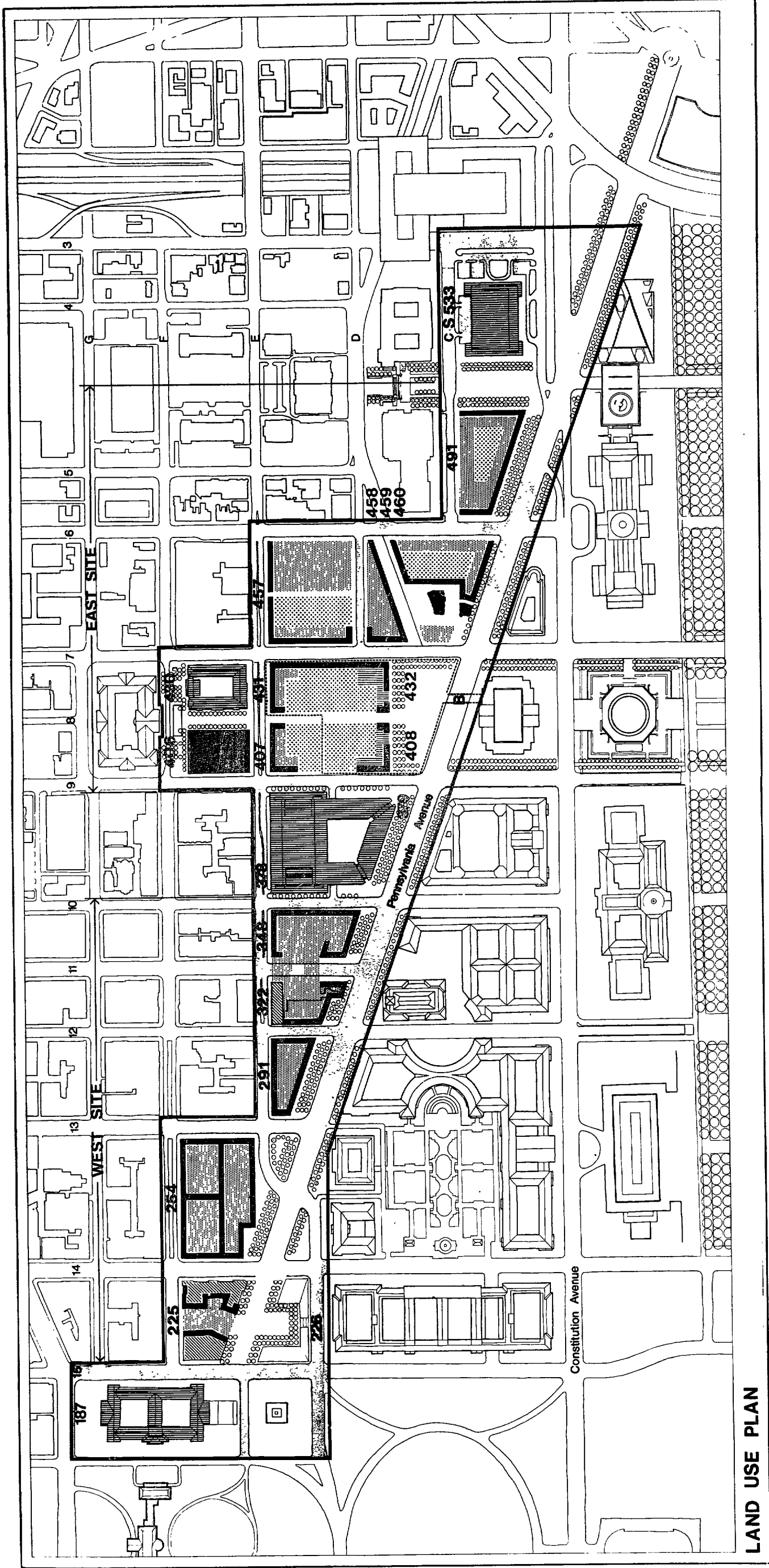
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1974

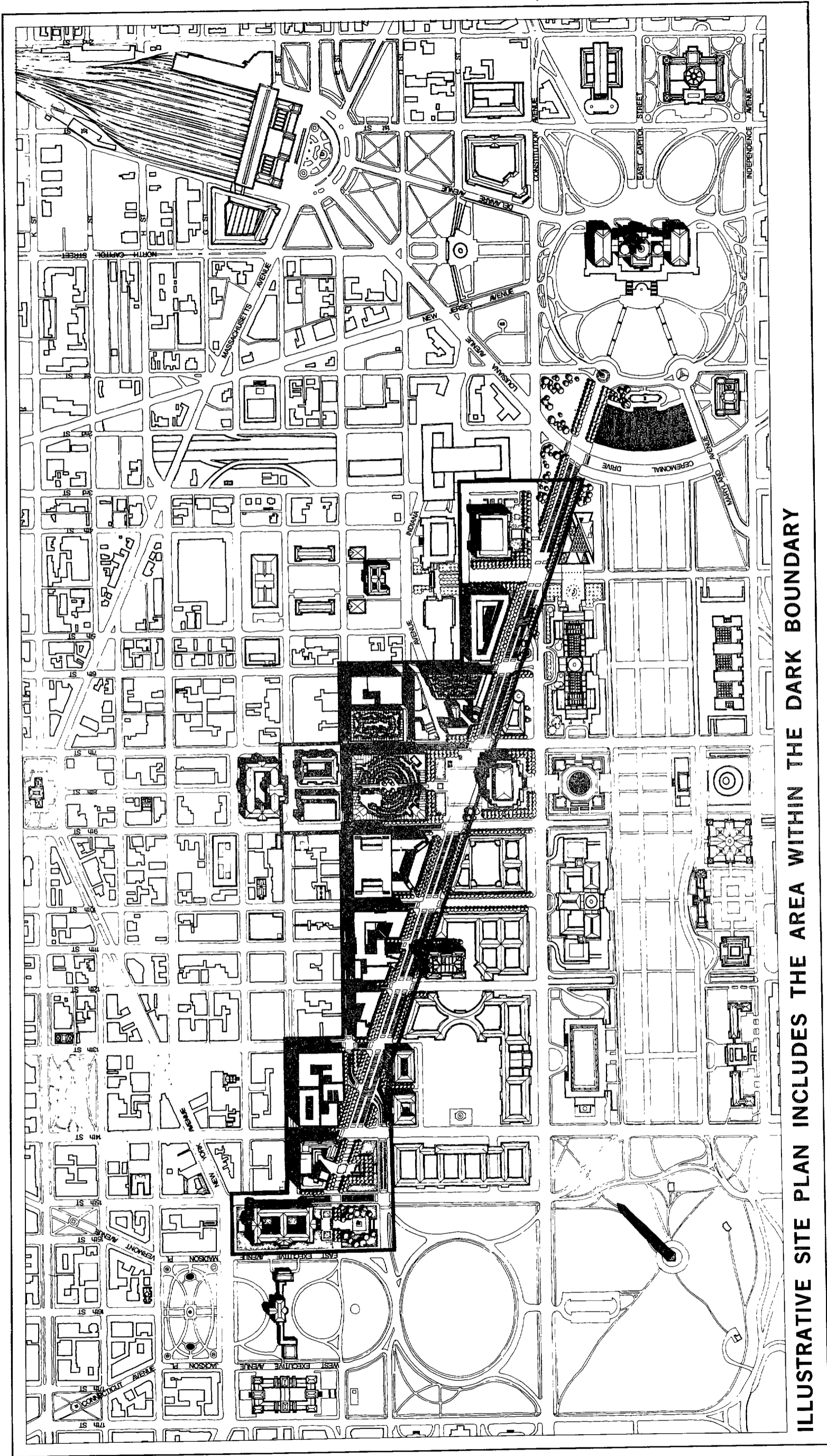
1. Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property and life of the lease, respectively.
2. The Congress has authorized to be appropriated not to exceed \$1,750,000 for the operating and administrative expenses of the Corporation to develop the plan. Through June 30, 1974, total appropriations amounted to \$850,000.

APPENDIXES



LAND USE PLAN

- HOTEL
- RESIDENTIAL
- OFFICE
- RETAIL
- GOV'T./INST'L.



ILLUSTRATIVE SITE PLAN INCLUDES THE AREA WITHIN THE DARK BOUNDARY

PRINCIPAL OFFICIALS RESPONSIBLE FOR
THE ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
BOARD OF DIRECTORS (voting members):		
Elwood R. Quesada, Chairman	Oct. 1972	Oct. 1978
Donald J. Bruckmann, Vice Chairman	Oct. 1972	Oct. 1978
Joseph B. Danzansky	Oct. 1972	Oct. 1978
Nathaniel A. Owings	Oct. 1972	Oct. 1978
Mrs. Jouett Shouse (note a)	Oct. 1972	Oct. 1976
John T. Connor (note b)	Oct. 1972	Oct. 1976
Mitchell I. Kafarski	Oct. 1972	Oct. 1974
Willie L. Leftwich	Oct. 1972	Oct. 1974
The Secretary of the Interior	(
The Secretary of the Treasury	(
The Secretary of Housing and Urban Development	((note c)
The Secretary of Transportation	(
The Administrator of General Services	(
The Commissioner of the District of Columbia	(
The Chairman, District of Columbia Council	(
OFFICERS:		
John A. Woodbridge, Executive Director	June 1973	Present
Peter T. Meszoly, Assistant Director, General Counsel	Dec. 1973	Present
F. David Harris, Assistant Director, Finance and Economics	Mar. 1974	Present
Barbara S. Austin, Secretary	June 1973	Present

^aResigned April 15, 1974.

^bResigned July 23, 1974.

^cThese board members are appointed ex officio and will serve until the Corporation is dissolved.

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