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DISTRICT OF COLUMBIA

Status of the New Convention Center Project

Statement of Jeanette M. Franzel
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Madam Chairwoman and Members of the Subcommittee:

Thank you for the opportunity to discuss our November 30, 2001, report¹ on the status of the new District of Columbia (D.C.) Convention Center. The Washington Convention Center Authority (WCCA) Act of 1994² authorizes WCCA to construct, maintain, and operate the new convention center as well as maintain and operate the existing convention center. At the request of the Subcommittee, we have provided periodic status reports on the convention center regarding estimated cost projections, the progress of construction, the sufficiency of the financing plan, and other issues affecting the project.

Our most recent report, dated November 30, 2001, provided a status of the convention center project as of July 2001 and additional information regarding the resetting of the Guaranteed Maximum Price (GMP) agreement and the negotiation of potential changes through November 2001. Today, I will discuss the results presented in our November 30, 2001, report along with updated information for the following three aspects of the project: (1) the status of the GMP negotiations, (2) the estimated time frames for completion of the convention center, and (3) estimated cost projections in relation to planned project financing.

GMP Negotiations

WCCA and the construction manager (CM) signed the original GMP amendment in the amount of \$500.6 million in August 1998. Under the terms of the original GMP, WCCA and the CM can adjust the GMP amount when actual quantities and costs differ from the original baseline assumptions. Accordingly, WCCA and the CM agreed that they would reset the GMP once purchasing activities were 90 percent complete. In our November 30, 2001, report, we noted that as of November 13, 2001, the revised GMP had not yet been set, and WCCA and the CM were continuing to negotiate. The delay in resetting the GMP had been mainly due to a lack of agreement between WCCA and the CM on total estimated costs and the project completion schedule. Specifically, as of July 2001, the CM had approximately \$135 million in submitted and unsubmitted change orders for WCCA's consideration that had not been included in the estimated

¹*District of Columbia: Status of the New Convention Center Project* (GAO-02-182R November 2001).

²*DC Law 10-188, September 28, 1994 41 DCR 5333,6823, DC Official Code, secs. 10-1201.01 through 10-1203.07*

costs of the project. We also reported that as of November 2001, WCCA's managing director stated that the CM had agreed in principle to withdraw \$109 million of the pending changes during the GMP negotiations. The managing director also stated that the remaining \$26 million would be resolved, and the final GMP would include funding reserves for any pending amounts that were not released. At the time of our report, WCCA and the CM were negotiating the pending changes.

Subsequent to our November 30, 2001, report, WCCA and the CM have made significant progress in their negotiations to reset the GMP. The two parties have achieved agreement on the two most critical components of the GMP proposal: price and time frames for completing the new convention center. The next step in the process is the review of the proposed GMP agreement by WCCA's Board of Directors, followed by formal ratification of the agreement by both WCCA and the CM. WCCA and the CM have reached agreement on a GMP amount of \$590.7 million, which includes resolution of the previously pending change orders and dates of March 31, 2003, for substantial completion of convention ready areas and October 31, 2003, for a final completion date. According to WCCA officials, they recently received a letter from the CM's chairman and chief executive officer formally stating the CM's intention of accepting the terms of this most recent GMP proposal, including the revised price and completion time frames. WCCA officials stated that a special meeting of its board of directors will be scheduled in early to mid-February to review and officially act on the proposed GMP agreement.

The revised GMP amount of \$590.7 million represents a \$71.3 million, or 13.7 percent, increase over the estimated GMP amount of \$519.4³ million that we cited in our November 30, 2001, report. WCCA attributes a portion of the increase in the GMP amount to the inclusion of costs previously considered as outside of the GMP agreement, such as work related to removal of contaminated soil, the metro station, and costs associated with expanded scope of work for certain aspects of the project. Also contributing to the increased GMP is the inclusion of costs and reserves for work related to change orders.

The revised GMP, once ratified, will provide a new contractual agreement between WCCA and the CM for the construction costs of the project, along

³WCCA reported in its July 2001 monthly status report that the GMP estimate had increased to \$519.4 million.

with an allocation of responsibility between WCCA and the CM for costs. The intent of the revised GMP is to prevent future claims or disputes between WCCA and the CM for changes that have occurred since the original contract. The GMP represents the maximum price to be charged by the CM for its allocated portion of construction costs. Any increases in the cost of items assigned to the CM in the GMP agreement will be the responsibility of the CM. Any increases in the costs of items assigned to WCCA in the GMP agreement, along with any increases resulting from change orders issued by WCCA, will be the responsibility of WCCA.

Project Completion Dates

In our November 30, 2001, report, we reported that substantial differences existed in the estimated completion dates of WCCA and the CM as of July 2001. WCCA's estimated substantial completion⁴ date was February 4, 2003, while the CM had an estimated date of July 8, 2003, or a difference of 5 months. The CM further estimated that if design delays continued, the substantial completion date could be as late as March 12, 2004, or a difference of 13 months from WCCA's estimate. Similar differences existed between WCCA's and the CM's estimated dates for final completion.⁵ WCCA's estimated final completion date was May 7, 2003, while the CM had an estimated date of November 6, 2003, or a difference of 6 months. The CM's estimate under the assumption of continued design delays was as late as July 11, 2004, or a difference of 14 months from WCCA's estimate.

We also reported that the CM partially attributed the estimated project delays to design changes, incomplete designs, and delays in shop drawings. The CM reported that these issues could result in increased costs and time delays. In addition, we reported that WCCA officials stated that they did not agree with the CM's assessment of the design delays or its estimated substantial and final completion dates.

As a part of the GMP negotiations, WCCA and the CM have reached agreement regarding the dates for completion of the new convention center. The proposed GMP agreement contains the following dates:

⁴Substantial completion is defined as obtaining occupancy permits for all three buildings and having those buildings available for operations, except for minor items identified by WCCA that have not yet been completed.

⁵Final completion is defined as the completion of all three buildings and minor items identified by WCCA.

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- March 31, 2003, for substantial completion of convention-ready areas. WCCA has defined convention-ready areas by identifying specific areas within the convention center facility that can be utilized for actual convention activities. The substantially complete status includes having obtained Certificates of Occupancy from the appropriate District entities for the specifically defined convention-ready areas.
 - October 31, 2003, for final completion of the convention center facility. At this date, all construction related activities should be completed.

Estimated Cost and Financing

In our November 30, 2001 report, we reported that the estimated total cost of the new convention center was \$778.2 million and the estimated financing sources available for the project totaled \$815.7 million, leaving an estimated surplus of \$37.5 million. We also reported that as of July 31, 2001, WCCA had already received \$770.9 million, or 94.5 percent, of the total estimated \$815.7 million in available financing sources.

Since our November 30, 2001, report, the total estimated cost for the convention center has increased from \$778.2 million to \$799.5 million. (See appendix I.) This represents a \$21.3 million, or 2.7 percent, increase over the estimate included in our November report. While the total estimated cost has increased, the estimated financing sources of \$815.7 million have remained the same. (See appendix II.) WCCA officials attribute the increase in total project cost to increases in construction costs and other costs associated with the middle building of the convention center facility. Based on current cost estimates of \$799.5 million and existing financing sources of \$815.7 million, an estimated \$16.2 million surplus remains available to the project. The surplus amount could be higher if WCCA achieves certain cost savings goals. Cost savings goals are included in the proposed GMP agreement, with financial incentives to the CM if both scheduling and savings goals are met.

According to WCCA officials, the events of September 11, 2001, have had little impact on the construction of the convention center. As of December 31, 2001, approximately 98 percent of the construction subcontracts had been executed and all major construction trades had been purchased. Of the \$815.7 million in funding available to the project, WCCA had received \$789.5 million, or 97 percent, as of December 31, 2001, an increase of \$18.6 million since July 31, 2001. Further, according to WCCA, none of the 197 currently booked events for the new Convention Center has been cancelled.

Dedicated Taxes

The WCCA issued revenue bonds backed by dedicated taxes to finance the construction cost of the project. Dedicated taxes were also used for construction and are pledged to cover the debt service for the bonds. These taxes consist of 4.45 percentage points of the District's 14.5 percent hotel sales tax and 1 percentage point of the District's 10 percent tax on restaurant meals, alcoholic beverages served on premises, and rental vehicles.⁶

Currently, all the dedicated taxes included in the financing schedule to fund the actual construction of the new convention center have been received by WCCA, including the \$10 million reported as outstanding in our November 30, 2001, report. The \$10 million was considered an equity contribution to the project and represents the estimate of the amount of dedicated tax revenues that will be collected in fiscal year 2002 above the amounts needed for operations of the existing convention center and debt service on the bonds of the new facility. As a result of collecting this equity contribution, all of the dedicated tax revenues included in WCCA's construction financing plan have been collected. Future dedicated taxes are pledged as security for WCCA's debt service.

From 1999 through 2002, WCCA's debt service consists of interest payments only. Beginning in October 2003, WCCA will also be required to make payments of principal. With respect to the ability of WCCA to cover its obligations, we note that the financing of the new convention center is based on the conservative assumption of no growth in the dedicated tax revenues for the next 30 years. However, based on WCCA's analysis, the dedicated tax revenues have shown continued growth since the creation of the WCCA. Several other steps have been taken to enhance WCCA's ability to meet its obligations. For example, the Washington Convention Center Authority Act of 1994 permits the Mayor to impose a surtax in the event that the dedicated taxes are not sufficient to fund WCCA's debt service and reserve requirements. Also, WCCA purchased a municipal bond insurance policy that would cover debt service payments if WCCA were unable to make such payments.

An additional matter directly related to the dedicated taxes is the Office of the District of Columbia Auditor's (DCA) certification of WCCA's revenues

⁶DC Official Code secs. 10-1202.01 (4), 47-2002.02 and 47-2202.

and reserve balances. In a July 24, 2001⁷, report, the DCA certified that WCCA's estimated total revenues (including dedicated taxes) and excess reserves of \$155.9 million would be sufficient to meet WCCA's projected expenditures (including debt service) and reserve requirements of \$81.9 million for fiscal year 2002. The DCA plans to recertify the fiscal year 2002 projections once the fiscal year dedicated tax estimates are revised next month.

In recent discussions, WCCA officials indicated that they had performed a sensitivity analysis that showed that WCCA could continue to meet its fiscal year 2002 debt service payments even if dedicated taxes declined by as much as 40 percent below the certified fiscal year 2002 estimate, while maintaining a coverage ratio of at least 1.5 times the amount needed for fiscal year 2002 debt service. In fiscal year 2003, when WCCA is scheduled to start making principal payments, WCCA's analysis shows that dedicated taxes could decrease by as much as 20 percent, while maintaining a debt coverage of 1.5 times the amount of principal and interest due.

Scope and Methodology

In order to prepare this testimony and the report upon which it is based we

- held discussions with and obtained information from WCCA officials on the status of the projected and the ongoing GMP negotiations;
- reviewed WCCA and CM progress reports, visited the construction site, and compared WCCA current estimates for the project with the original cost estimates of September 1998⁸;
- reviewed cost reports and schedules and held discussions with WCCA officials to obtain information on the current GMP estimates and total project cost estimates; and
- reviewed the most current financing documents and analyzed financing available in relation to total estimated projected costs.

We conducted our work in accordance with generally accepted government auditing standards.

⁷Certification Review of the Sufficiency of the WCCA's Projected Revenues and Excess Reserve to Meet Projected Operating and Debt Service Expenditures and Reserve Requirements for Fiscal Year 2002 (July 24, 2001).

⁸WCCA considers the September 1998 estimate to be the original estimate.

Madam Chairwoman and members of the Subcommittee, this concludes my statement. I will be happy to answer any questions that you or members of the Subcommittee may have.

Contacts and Acknowledgments

For future information regarding this testimony, please call Jeanette M. Franzel, Acting Director, at (202) 512-9471. Key contributors to this testimony included Keith A. Thompson, Terrell G. Dorn, and Arkelga L. Braxton.

Appendix I: WCCA's Unaudited Estimated Costs for the New Convention Center

(Dollars in thousands)

Project component	Estimate as of 9/1998	Estimate as of 7/2001	Estimate as of 1/2002
WCCA-estimated hard costs ^a	\$505,600	\$563,422	\$590,677
WCCA-estimated other costs ^b	118,903	143,815	145,410
Contingency	30,497	14,634	11,088
Estimated future additions to project budget^c	\$59,000	\$56,338	\$52,373
Total estimated construction costs	\$714,000	\$778,209	\$799,548

^aHard costs are construction costs related to the physical structure of the facility, such as masonry, concrete, and structural items.

^bOther costs include items such as design fees, legal costs, consulting and inspections, and administrative items.

^cEstimated additions include portions of the outsourced work such as work on the metro station, utility relocation, central plan, telecommunications, and food service costs.

Source: WCCA records.

Appendix II: Comparison of WCCA's Unaudited Financing Schedule for the New Convention Center

(Dollars in millions)

Funding sources	Financing plan as of 9/1998	Financing plan as of 1/2002	Increase (decrease)
Bond proceeds	\$507.4	\$507.4	\$0.0
WCCA contribution	114.5	114.5	\$0.0
Construction fund earnings	53.1	53.1	\$0.0
Excess dedicated taxes (equity contributions) through 2002	40.0	40.0	\$0.0
Grants	35.0	65.5	\$30.5
Vendor participation	24.0	24.4	\$0.4
Funds for administrative costs	5.0	10.8	\$5.8
Total funding sources	\$779.0	\$815.7	\$36.7
Total estimated costs	\$714.0	\$799.5	\$85.5
Estimated surplus	\$65.0	\$16.2	(\$48.8)

Source: WCCA records.