

GAO

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

August 2000

**DISTRICT OF
COLUMBIA**

**Status of the New
Convention Center
Project**



G A O

Accountability * Integrity * Reliability

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

Accounting and Information
Management Division

B-285838

August 30, 2000

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 Convention Center project. When we last reported to you on September 28, 1999,¹ construction at the new convention center site was underway and the guaranteed maximum price (GMP) construction contract was being renegotiated between the Washington Convention Center Authority (WCCA) and the construction manager (CM). 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

While project costs continue to rise, construction at the new convention center site is still scheduled to meet the estimated completion date of March 2003, and WCCA's April 30, 2000, estimated project costs are within the projected funding level stated in its financing plan. According to information provided by WCCA officials, total estimated project costs increased \$22.9 million (2.8 percent) from \$791.1 million to \$814 million from June 30, 1999, to April 30, 2000. The net changes include a \$17.4 million increase in total estimated construction costs, a \$25.1 million increase in estimated other costs, a \$.3 million increase in additions to WCCA's project budget, and a \$19.9 million cost savings in financing-related costs. WCCA's records indicated that about \$162.5 million had been disbursed on the project with \$404 million under contract as of April 30, 2000.

¹*District of Columbia: Status of the New Convention Center Project* (GAO/AIMD-99-258, September 28, 1999).

From June 30, 1999, through April 30, 2000, WCCA's estimated total funding from sources listed in its financing plan increased by \$11.2 million. With the \$22.9 million increase in estimated project costs, the excess of total estimated funds over estimated project costs has been reduced to \$8.3 million. The increase in WCCA's financing plan included more than \$6 million of additional committed federal grants and another \$4.9 million of administrative costs funded by WCCA's operating budget. However, WCCA's contingency (reserve funds) may be reduced if (1) vendor contracts do not fund the \$10 million cost of certain equipment or (2) the \$10 million included in the District of Columbia's capital budget request for fiscal year 2001 is not approved. WCCA's contingency can absorb the \$20 million if the capital budget funds and equipment financing do not materialize.

WCCA's records indicated that \$40.5 million of dedicated taxes were collected for the first 9 months of fiscal year 2000, which on an annualized basis is slightly higher than the \$51.8 million assumed in the District's *Fiscal Year 2001 Proposed Operating Budget and Financial Plan*.

In our September 1999 report,² we identified five issues related to the District's lockbox operations. As of April 30, 2000, the District has implemented corrective actions that appear sufficient to address all five recommendations that we made to the District's Chief Financial Officer (CFO). Appendix I lists our prior recommendations and the status of the actions taken by the CFO to respond to them.

WCCA and the District, in general, agreed with this report's contents. The District's Chief Financial Officer stated that they will continue to monitor the Office of Tax and Revenue's operations to ensure continued compliance with our recommendations.

²GAO/AIMD-99-258, September 28, 1999.

Background

The Washington Convention Center Authority Act of 1994 authorizes WCCA to construct, maintain, and operate the new convention center as well as maintain and operate the existing convention center.³ The WCCA Managing Director/Development oversees the contract and the construction, which is being performed by the CM. The construction of the new convention center is ongoing at Mount Vernon Square.⁴

Plans for the new convention center call for a total of 2.3 million gross square feet, including about 730,000 square feet of prime exhibit space. This compares with 800,000 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 and cannot handle the larger conventions and trade shows.

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 April 30, 2000, unaudited cost estimates for the project with the June 30, 1999, estimates that were included in our September 28, 1999, report to the Subcommittee, and

³WCCA was created by the Washington Convention Center Authority Act of 1994, DC Law 10-188, Sept. 28, 1994, D.C. Reg. 5333,6823, D.C. Code Ann. Secs. 9-801 through 9-833, (1981, 2000 Supp.)

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

- 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 ascertain whether the proper amounts were calculated and transferred, we

- reviewed financial records and lockbox agreements,
- held discussions with officials of the District, WCCA, and the lockbox bank,
- compared the projections of the dedicated taxes for the period from July 1, 1999, through April 30, 2000, with actual collections reported for the same period, and
- reviewed WCCA's external auditors' fiscal year 1999 workpapers related to their audit of the reported taxes collected and deposited for the convention center project.

To determine that expenditures for the new convention center project were valid, complete, and properly valued, we reviewed WCCA's external auditors' workpapers for fiscal year 1999 and examined statistically selected expenditures incurred for the period from April 1, 1999, through January 31, 2000.

We conducted our work from February 2000 through July 2000 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 Chief Financial Officer of the District of Columbia and the General Manager of WCCA or their designees. The Chief Financial Officer of the District and the Chief Financial 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 II and III, respectively.

Status of Ongoing Construction

As of April 30, 2000, WCCA's records indicated that approximately \$162.5 million had been disbursed on the project. This includes \$87.1 million in construction costs, \$69.7 million in other costs, and \$5.7 million in project administrative costs. As of April 30, 2000, WCCA had obligated \$404 million in contracts that were awarded and WCCA's architectural and engineering team had issued fireproofing and doors, door frames, and hardware bid packages. WCCA provided the following information as of April 30, 2000, on the status of the site work:

- Water and sewer utility relocation and slurry wall⁵ panel installation are substantially complete. The CM is currently completing WCCA's punchlist⁶ items.
- Excavation and contaminated soil removal is approximately 93 percent complete with 1.3 million cubic yards of soil removed from the project. This amount includes 550,000 tons of projected contaminated soil, of which approximately 508,548 tons have actually been removed. No additional contaminated soil has been found since April 2000.
- Superstructure concrete work⁷ and foundation concrete work that needs to be completed by the time the steel arrives on site is progressing on schedule.

The critical path method (CPM) schedule illustrates the CM's plan and identifies critical activities that must be completed in order for the project to be finished within the GMP schedule. WCCA identified delays in the processing of contracts and contract modifications that must be addressed to ensure that the project's construction stays on schedule and within budget. WCCA is awaiting the District of Columbia's Financial Responsibility and Management Assistance Authority's approval of approximately \$18 million worth of construction contracts and the approval of the awarded thermal energy provider agreement.⁸ Another critical activity in the CPM schedule is the procurement of mechanical electrical and plumbing (MEP) and building enclosure trades.⁹

The CPM schedule projects a potential 5-week delay in completing the project. This delay is the result of the steel subcontractor requesting additional time for WCCA's incorporation of unit price allowance work that is currently in the subcontract. The subcontract contains unit price allowances to cover changes resulting from finalizing design changes. The

⁵The 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.

⁶The punchlist is a list generated by WCCA to identify items not yet completed.

⁷The superstructure concrete work is required to secure the steel.

⁸Under the terms of this agreement, a vendor leases the central plant area from WCCA and agrees to finance, design, construct, operate, and maintain the central plant for the convention center and provide all hot and chilled water for convention center operations.

⁹Building enclosure trades are exterior items such as brick, pre-cast, and curtain wall. Pre-cast is concrete used on the exterior of the building and curtain wall is a glass structure supported by steel.

subcontractor contended that the changes covered by the unit price allowance work would increase the time duration of the contract. WCCA did not agree with the additional time request because the allowance work was originally included in (1) the CPM schedule, (2) the GMP, and (3) the CM's subcontract. The CM, WCCA, and the steel subcontractor reevaluated the CPM schedule to reach a solution that would be acceptable to everyone. In response to a draft of this report, WCCA's Managing Director/Development stated that the subcontractor has agreed to withdraw these time claims and that this agreement will keep the project on schedule with the estimated completion date of March 2003.

The metro station work is ongoing with the Washington Metropolitan Area Transportation Authority (WMATA) overseeing the work using \$25 million appropriated by the Congress for that purpose. As of April 30, 2000, the estimated cost of the metro station upgrade was approximately \$30.1 million. Of this amount, \$28.2 million was reported as the metro station upgrade project component of the "other costs" section and the other \$1.9 million is included in the additional estimated revisions project component not included in the revised GMP agreement. Also, WMATA is in negotiations with a subcontractor regarding the station entrance expansion contract. As of April 30, 2000, available funding for the metro station upgrade was \$27 million, including \$2 million of interest earned on the federal funds. The construction agreement specifies that WCCA is responsible for any costs in excess of the available funds. As of April 2000, estimated costs exceeded funds available for the metro station upgrade by \$3.1 million. If actual costs exceed the funds available, WCCA will have to offset any excess costs by reallocating costs from other project components, reducing the project contingency or reserved amounts, or using available funding sources.

Proposed GMP Agreement

As of April 2000, the original GMP was still in effect and under the terms of the proposed revision to the GMP agreement, the GMP will be reset in accordance with an agreed upon formula when 90 percent of the purchasing activities have been completed.¹⁰ The proposed revision to the GMP agreement would also incorporate the costs associated with Authority-approved and pending change orders, and estimated revisions, as

¹⁰ WCCA officials stated that the purchasing activities are approximately 75 to 80 percent completed and that they expect to be 90 percent completed by late November 2000, at which time the GMP will be reset.

well as potential cost decreases. The intent of the revised GMP agreement is to prevent future claims or disputes between the CM and WCCA for those incorporated activities that occurred from contract inception in August 1998 through December 1999. The revised GMP agreement would also adjust the estimated cost of various components of construction to reflect the actual cost of services provided as of the date that purchasing was 90-percent complete.

On August 1, 2000, WCCA officials stated that once the GMP is revised, any unallocated GMP costs will be combined into the newly established funded owner's adjustment account (OAA) and buyout reserve and will increase the CM's contingency funds within the GMP. The buyout reserve is an estimate of the cost savings expected during construction. Once all of the construction contracts have been let, the buyout reserve will be adjusted to reflect the actual amount of money saved, if any. Any reserve that remains at the completion of the construction will be shared between WCCA and the CM, with WCCA getting 75 percent and the CM getting 25 percent. The newly established OAA is for WCCA. If there are cost overruns or expansions in the project scope, WCCA can use OAA to cover the shortfall. However, any cost savings will increase the amount of OAA. The CM's contingency is for any unexpected costs and is included within the GMP agreement.

Project Costs Have Increased

From June 30, 1999, to April 30, 2000, estimated project costs increased by a net amount of \$22.9 million, to over \$814 million. The construction and other costs increased from \$714 million to \$756.8 million. The \$42.8 million increase included the \$17.4 million in project construction costs that were outside of the GMP, \$25.1 million in other costs, and \$.3 million in additions to WCCA's project budget. Financing-related costs decreased from \$77.1 million to \$57.2 million. The \$19.9 million decrease resulted from the use of the minimum balance requirements for the reserve funds (the actual balance in the reserve accounts was \$86.1 million)¹¹ as per the bond document instead of the higher amounts reported in the final pricing information. In summary, offsetting the \$42.8 million in construction cost hikes against the projected lower financing costs (\$19.9 million) shows a net increase of \$22.9 million since our September 1999 report.

¹¹As of April 30, 2000, the actual balance in the Operating and Marketing Reserve account was \$58.3 million, the Revenue Stabilization Reserve account balance was \$12.3 million, and the Capital Renewal and Replacement Reserve account balance was \$15.5 million.

Table 1 compares WCCA's cost estimates as of April 30, 2000, with its June 1999 estimates, which are presented in our September 28, 1999, report. The last column of table 1 represents the difference in the estimated costs for each project component and each project category and the total for the project from June 30, 1999, through April 30, 2000. The project cost components are (1) the GMP, which consists of the CM's construction costs, (2) changes to the GMP amount and WCCA estimate of the cost of those changes, which are the CM's construction costs outside of the GMP, (3) WCCA's other costs, which are principally overhead except for utility relocation and the metro station upgrade, (4) additions, which are administrative costs for the project and equipment that are expected to be funded by the vendor, and (5) financing costs related to the issuance of the bond and the establishment of reserves in accordance with the bond. Additional explanations of these estimates and the changes in the estimated cost of project components appear after table 1.

Table 1: Comparison of WCCA's Unaudited Estimated Costs for the New Convention Center as of June 30, 1999, and April 30, 2000

(Dollars in thousands)

| Project component | Estimate as of 6/30/1999 | Estimate as of 4/30/2000 | Increase (decrease) |
|---|-----------------------------|-----------------------------|------------------------|
| Guaranteed Maximum Price (GMP) | \$500,600 | \$500,600 | 0 |
| Changes to GMP amount: | | | |
| Reserve for hazard materials removal (change order 1) | 9,000 | 16,683 | 7,683 |
| Change orders | 473 | 1,895 | 1,422 |
| Subtotal changes to GMP amount | \$9,473 | \$18,578 | \$9,105 |
| Subtotal GMP contract status | \$510,073 | \$519,178 | \$9,105 |
| WCCA estimate of changes: | | | |
| Pending change orders | 123 | 593 | 470 |
| Estimate revisions | 16,013 | 24,971 | 8,958 |
| Potential cost decreases | (15,558) | (16,657) | (1,099) |
| Subtotal pending negotiation | \$578 | \$8,907 | \$8,329 |
| Total WCCA-estimated construction costs | \$510,651 | \$528,085 | \$17,434 |
| Other costs: | | | |
| Land cost | 5,488 | 5,364 | (124) |
| Program management | 14,232 | 16,103 | 1,871 |
| Consulting and inspections | 10,255 | 10,116 | (139) |
| Permits and fees | 1,799 | 1,649 | (150) |

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(Dollars in thousands)

| Project component | Estimate as of 6/30/1999 | Estimate as of 4/30/2000 | Increase (decrease) |
|---|-----------------------------|-----------------------------|------------------------|
| Environmental impact | 1,550 | 1,550 | 0 |
| Legal | 5,177 | 6,188 | 1,011 |
| Insurance | 13,100 | 13,395 | 295 |
| Design fees | 39,748 | 43,035 | 3,287 |
| Site development | 200 | 200 | 0 |
| Fixtures/furnishings/equipment | 22,305 | 22,305 | 0 |
| Other project costs | 14,497 | 15,195 | 698 |
| Portion of utilities relocation not included in building and site | 10,000 | 7,200 | (2,800) |
| Metro station upgrade | 21,972 | 28,208 | 6,236 |
| Project contingency | 14,026 | 28,924 | 14,898 |
| Subtotal other costs | \$174,349 | \$199,432 | \$25,083 |
| Total WCCA project budget | \$685,000 | \$727,517 | \$42,517 |
| Additions to WCCA project budget: | | | |
| Project administrative costs | 5,000 | 9,942 | 4,942 |
| Vendor-provided equipment | 24,000 | 19,350 | (4,650) |
| Total additions to WCCA budget | \$29,000 | \$29,292 | \$292 |
| Total estimated construction costs | \$714,000 | \$756,809 | \$42,809 |
| Financing-related costs: | | | |
| Bond issuance | 11,486 | 11,486 | 0 |
| Reserve funds | 65,633 | 45,769 | (19,864) |
| Subtotal financing-related costs | \$77,119 | \$57,255 | (\$19,864) |
| Total estimated project costs | \$791,119 | \$814,064 | \$22,945 |

Source: WCCA records.

WCCA's total estimated construction costs increased by more than \$17 million from June 30, 1999, to April 30, 2000. WCCA changed its estimates for the following construction costs of the CM that are outside of the GMP.

- Encountering more contaminated soil than anticipated increased the estimate of hazardous material removal from \$9 million to \$16.6 million. The projection of contaminated soil increased from about 300,000 tons to 550,000 tons, of which the actual amount removed as of April 30, 2000, was 508,548 tons.
- The \$9 million net increase in estimated revisions includes \$2 million of additional costs for the metro station upgrade, certain utility relocation

costs of \$2.8 million, and food service equipment costs of \$5 million that were not included in the estimate as of June 30, 1999.

- The \$1.1 million decrease in the potential cost decreases represents potential cost reductions to amounts originally estimated by WCCA.

WCCA also made a number of changes within the “other costs” category totaling more than \$25 million and increasing the total estimated “other costs” category from \$174.3 million to \$199.4 million. WCCA increased the project contingency amount from \$14 million to \$28.9 million. The replenishment of almost the entire original contingency amount is based on WCCA receiving commitments for the federal grant revenue. Additional changes to WCCA’s other costs that were not covered by the revised GMP agreement include the following.

- The \$1.87 million increase in program management costs is due to more traffic management, land use counsel, and WCCA staff costs than anticipated; the hiring of a consultant to prepare a food service Request for Proposal; and the review of third party mechanical electrical and plumbing permits.
- The \$1 million increase in legal costs is attributable to additional time spent on legal issues to help reduce the risk of lawsuits and the processing of the thermal energy provider agreement.
- The \$3.3 million net increase in design fees is due to additional costs being estimated for an architect’s contract. Also, additional costs have been estimated for architects to carry out bid negotiation and redesign work associated with the revised design scope.¹² Design fees for the metro station upgrade have been reclassified from the design fees cost component to the metro station upgrade project component.
- The \$2.8 million decrease in utility relocation costs is due to WCCA reclassifying these costs and putting them in the estimated revisions project component of the estimated construction costs category.
- The \$6.2 million increase in metro station upgrade costs is due to increased costs for station improvements, new elevators and escalators, and slurry wall work.

¹²The design process has become more extensive due to value engineering performed on the exterior masonry, pre-cast concrete, and metal panels. As of April 30, 2000, construction documents have been completed for 18 trade packages.

In the “additions to WCCA’s project budget” category are changes to project administrative costs and vendor-provided equipment project components that had a net effect of almost zero.

- The \$4.9 million increase in project administrative costs is due to marketing, public affairs, and job-specific training for Shaw residents that were not originally anticipated. Also, additional rental and utility costs were incurred when the development staff, who were originally scheduled to be located at the construction site, moved to the Carnegie library.
- The \$4.7 million decrease in vendor-provided equipment is due to the transfer of food service equipment costs to the estimated revisions project component of the construction cost category. WCCA is currently finalizing the Request for Proposal for food-service-related issues.

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

As of April 30, 2000, the bond proceeds of \$519.5 million provided 64 percent of the \$814 million estimated project costs. However, the financing plan covering the remaining 36 percent of estimated project costs contains uncertainties, including the equipment anticipated to be provided by vendors without initial cost and the \$10 million in capital budget funds to be provided by the District. These uncertainties are discussed after table 2, which compares the April 30, 2000, financing plan with the plan as of June 30, 1999.¹³

Table 2: Comparison of WCCA’s June 1999 and April 2000 Unaudited Financing Plans

| Dollars in millions | | |
|-------------------------------------|-----------------------------|-----------------------------|
| Funding sources | Financing plan as of 6/1999 | Financing plan as of 4/2000 |
| Senior lien bonds | \$519.5 | \$519.5 |
| Cash for preconstruction activities | 37.2 | 37.2 |
| Cash for reserves or construction | 77.3 | 77.3 |
| Construction fund earnings | 53.1 | 53.1 |
| Excess revenues through 2002 | 40.0 | 40.0 |

¹³See GAO/AIMD-99-258, September 28, 1999.

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Dollars in millions

| Funding sources | Financing plan as of 6/1999 | Financing plan as of 4/2000 |
|---|--------------------------------|--------------------------------|
| Federal funds | 55.0 | 61.0 |
| Vendor participation | 24.0 | 24.3 |
| Funds for administrative costs | 5.0 | 9.9 |
| Subtotal | \$291.6 | \$302.8 |
| Total funding sources | \$811.1 | \$822.3 |
| Total funding required | \$791.1 | \$814.0 |
| Estimated surplus | \$20.0 | \$8.3 |
| Interest rate | 5.2% | 5.2% |
| Term of debt | 30 | 30 |
| Dedicated annual revenues to back bonds | \$50.3 | \$50.3 |
| Revenue growth assumption | 3.6-4.5% | 3.6-4.5% |
| Maximum annual debt service | \$36.1 | \$36.1 |

Source: WCCA records.

From June 30, 1999, to April 30, 2000, the financing sources increased \$11.2 million from \$811.1 million to \$822.3 million. The increase is the result of receiving commitments for federal grant revenue and additional reimbursable administrative costs. WCCA reflects the reimbursable administrative costs of WCCA staff whose time is dedicated to the proposed new convention center and other dedicated costs, such as marketing and public affairs. These costs are paid by WCCA from the operating budget it receives through dedicated tax collections for the existing center. Committed federal funds in the April 2000 financing plan were the \$25 million appropriated by the Congress in fiscal year 1999, \$1.78 million of interest earned on it, and \$24 million in federal highway funds.

WCCA expects to receive an additional \$10 million from the District's Capital Budget Fund. The \$10 million is included in the District's *Fiscal Year 2001 Proposed Operating Budget and Financial Plan*, which is currently with the Congress awaiting approval.

WCCA anticipates that vendors will provide or fund the costs of a central heating and cooling plant, telecommunications, food service, and audiovisual equipment estimated at \$24.3 million. WCCA has negotiated a 20-year lease agreement with a vendor to provide central heating and cooling plant equipment estimated at \$14.3 million. The agreement is at the

Authority waiting to be approved. WCCA still needs to solicit proposals from vendors to provide telecommunications, audiovisual, and food service.

If the \$10 million from the District's capital budget is not approved by the Congress and the President and the remaining \$10 million in equipment costs is not completely funded by vendors, then total estimated funding sources would decrease from \$822.3 million to \$802.3 million. This would reduce the estimated funding sources to \$11.8 million less than the current \$814 million estimated project costs. While the funds expected from the District's capital budget and the remaining unexecuted vendor contracts, with equipment at no cost to WCCA, are included in WCCA's financing plan and may be realized, they are treated as a reduction to WCCA's project contingency reserve until they are finalized.

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 and rental vehicle tax.¹⁴ 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.

The purpose of the lockbox is to provide bondholders 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. For a more detailed discussion of the lockbox process, please refer to our September 1999 report.¹⁵

¹⁴The 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.

¹⁵See GAO/AIMD-99-258, September 28, 1999.

All five of the recommendations concerning the lockbox operations made to the District's Chief Financial Officer in our September 1999 report have been implemented. Appendix 1 lists our prior recommendations and the actions taken by the District to respond to them.

Based on the analytical procedures performed, lockbox collections are slightly higher than projections. Actual dedicated tax collections were \$40.5 million for the first 9 months of fiscal year 2000. If collections continue at the same rate, actual fiscal year 2000 collections would be about \$54.1 million. The District of Columbia's *Fiscal Year 2001 Proposed Operating Budget and Financial Plan* estimates restaurant sales and hotel sales tax at \$51.8 million for fiscal year 2000. Therefore, dedicated tax collections would exceed projections by \$2.3 million.

Conclusions

With the current level of estimated funding sources from WCCA's financing plan, there would be sufficient amounts to fund the estimated project costs as of April 30, 2000. In addition, WCCA has excess funding sources and funds in its reserve accounts plus sufficient contingency reserves to cover the District's capital budget funds not approved or equipment not funded by vendors. Once the Authority approves pending contracts and the GMP is revised, WCCA expects to complete the construction of the new convention center on schedule. The District has implemented corrective actions to address the five lockbox-related findings identified in our September 1999 report.

The District's Comments and Our Evaluation

WCCA and District officials generally agreed with the contents of our report. They also provided technical comments, which we have incorporated as appropriate. The District's Chief Financial Officer stated that the Office of Tax and Revenue has implemented the five recommendations and that his office will continue to monitor operations to ensure continued compliance with our recommendations. In addition, WCCA provided explanations of events that occurred subsequent to our review and provided a more recent status of issues that are included in this 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, Senator George

V. Voinovich, Representative Dan Burton, Representative Ernest J. 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 or by e-mail at jarmong.aimd@gao.gov or Steven R. Haughton, Assistant Director, at (202) 512-5999 or by e-mail at haughtons.aimd@gao.gov. Key contributors to this assignment were Arkelga L. Braxton and Jamie Sullivan.

Sincerely yours,



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

Status of Prior Year's Recommendations

Table 3: Status of Recommendations Contained in *District of Columbia: Status of the New Convention Center Project* (GAO/AIMD-99-258)

| GAO recommendation | Action taken | Did the District respond to GAO's recommendation? |
|---|---|---|
| Restrict further transfers out of the exceptions account on the basis of estimates. | Effective July 1999, the District discontinued processing transfers out of the exceptions account to the District on the basis of estimates. All transfers out of the exceptions account to the District are based on calculated amounts. | Yes |
| Determine actual amounts due to the District and make appropriate adjustments to the estimated amounts transferred from the exceptions account. | The Office of Tax and Revenue (OTR) computed the actual amounts due to the District and compared this number with the estimated transfers received by the District as of June 1999 when the final estimated transfer was made. The difference was an overpayment that was adjusted with a subsequent transfer to the District. | Yes |
| Resolve the remaining older amounts in the exceptions account and make appropriate transfers to the District and WCCA. | OTR calculated a settlement of the remaining older amounts in the exceptions account as of June 30, 1999. The District's and WCCA's share of the remaining older amounts was calculated and the transfers were made out of the exceptions account to the District and WCCA. | Yes |
| Establish and enforce procedures for clearing the exceptions account and transferring funds to the appropriate accounts monthly. | Effective July 1999, OTR calculates amounts owed to both WCCA and the District monthly and submits the wire transfers to the Office of Financial Operations and Systems (OFOS) monthly for approval. Once OFOS approves the wire transfers, it submits the wire transfers to the Office of Finance and Treasury to initiate the payment. | Yes |
| Determine the 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. | OTR calculated the interest earned on the funds in the exceptions account from inception through June 1999. WCCA's and the District's share of the interest was calculated and transferred out of the exceptions account. Also, the interest earned and funds unidentified by tax rate are allocated to WCCA and the District on a quarterly basis. | Yes |

Comments From the District of Columbia

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

Natwar M. Gandhi
Chief Financial Officer



CONFIDENTIAL

Jeffrey C. Steinhoff
Assistant Comptroller General
United States General Accounting Office
441 G Street NW
Washington, DC 20548

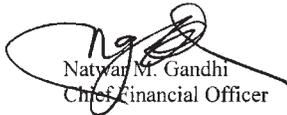
Dear Mr. Steinhoff

Subject: Status of the New Convention Center Project Draft Audit Report

Thank you for the opportunity to comment on your draft report entitled Status of the New Convention Center Project. As you reported, we have implemented your five recommendations regarding the collection and subsequent transfer of the dedicated taxes to the Washington Convention Center Authority (WCCA). I have asked my Director of Internal Audit and Internal Security to continue to monitor the Office of Tax and Revenue's operations to ensure continued compliance with your recommendations.

If you have any questions or concerns, please feel free to contact me at (202) 727-2476 or your staff can contact Herbert Huff, Deputy Chief Financial Officer for the Office of Tax and Revenue at (202) 442-6383.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

Comments From the Washington Convention Center Authority



August 7, 2000

Mr. Steven Haughton, CPA
Accounting and Information Management Division,
General Accounting Office
441 G Street NW, 5th Floor
Washington, DC 20548

Re: WCCA Response to GAO FY 2000 Draft Report

Dear Mr. Haughton:

The Washington Convention Center Authority (WCCA) has had the opportunity to review and comment on GAO's Draft Report on the Status of the New Convention Center Project (the Report). WCCA believes that the Report adequately portrays the status of the Project through April 30, 2000. However, WCCA would like to offer the following responses to address recent activities that have direct correlation to the information within the Report:

Specifically, page 6 of the Report addresses potential delays in the processing of contracts and contract modifications that must be addressed to ensure that the project's construction stays on schedule and within budget. It further discusses that WCCA is awaiting the District of Columbia's Financial Responsibility and Management Assistance Authority's (Authority) approval of approximately \$18 million worth of construction contracts and the awarded thermal energy provider contract. As of July 28, 2000 all contracts have been approved by the Authority. Over the past several months, WCCA has worked closely with the Authority and the District of Columbia City Council to broaden their understanding of the project budget estimate and the necessity of being able to address changes on an immediate basis. The Authority is currently reviewing a proposal from WCCA to increase the contracting authority level associated with the Project, and we are hopeful that a mutual agreement will be reached in the very near future. It is critical to WCCA that a resolution is reached on an immediate basis as failure to timely approve contract actions could adversely affect the project schedule and budget by interrupting the current construction work.

Also on page 6 of the Report it was noted that another critical activity in the critical path method (CPM) schedule is the procurement of the mechanical, electrical and plumbing systems (MEP) and building enclosure trades. As of May 31, 2000, WCCA has awarded these packages within the 2nd GMP Cost estimate.

The comparison of WCCA's unaudited estimated costs for the new convention as of June 30, 1999 and April 30, 2000, Table 1, on page 10 of the Report identifies a decrease of \$4,650,000 in vendor provided equipment. WCCA's intent is not to reduce vendor-provided equipment but to enable WCCA to purchase certain equipment prior to the vendor being selected. This allows WCCA to purchase certain equipment as required by the construction schedule so as not to impact any other construction trade work. Therefore, approximately \$4.7 million in funds have been transferred to the hard construction cost category to accelerate the equipment procurement. Once the vendor has been selected and awarded a contract, the equipment cost will be assigned to

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



Now on p. 7.
See comment 1.

Now on p. 7.
See comment 1.

Now on p. 10-11.
See comment 1.

**Appendix III
Comments From the Washington Convention
Center Authority**

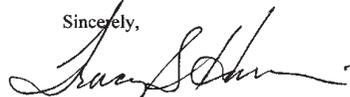
Mr. Steven Haughton, CPA
August 7, 2000
Page 2

the vendor to offset this transfer. As originally contemplated, WCCA intends to secure \$24 million in outsourced funds.

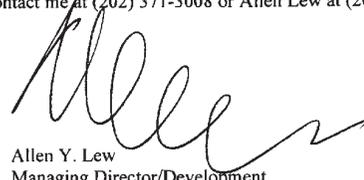
WCCA is pleased with the progress of construction of the new convention center and maintains that the new building is on time and within the current estimate of available funds.

If you have any questions, please feel free to contact me at (202) 371-3008 or Allen Lew at (202) 626-1103.

Sincerely,



Tracy S. Harris
Chief Financial Officer



Allen Y. Lew
Managing Director/Development

cc: Lewis H. Dawley
Claude E. Bailey

**Appendix III
Comments From the Washington Convention
Center Authority**

The following is GAO's comment on the Washington Convention Center Authority's letter dated August 7, 2000.

GAO Comment

1. These reflect subsequent events and therefore no change to the report is necessary.

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