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

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B-154459 May 11, 1979

The Honorable Jennings Randolph
Chairman, Committee on Environment
and Public Works
United States Senate

SEN06400

Dear Mr. Chairman:

In response to your request dated March 19, 1979, and discussions with your office, we have updated information contained in our prior reports on the John F. Kennedy Center for the Performing Arts. The updated information includes the Center's parking-concession agreement, status of revenue bonds held by the Treasury Department, and the results of the Center's operations through fiscal year 1978.

CONTRACT AGREEMENT WITH THE PARKING GARAGE CONCESSIONAIRE

The parking facility at the Kennedy Center which consists of 1,408 parking spaces is operated by the Airport Parking Company of America-Washington, Inc. Under its parking-concession agreement, it advanced the Center $3,500,000 to be repaid from profits over the 15-year term of the agreement beginning in 1972. The company's proposal to provide this advance, which the Center required to complete construction and to begin operations, was an important factor in its selection to manage the Kennedy Center's parking facility.

The agreement with the garage concessionaire provides that after deductions for interest and amortization of the principal, profits are to be split evenly between the concessionaire and the Center. The agreement also gives the concessionaire a 10-year renewal option and provides that the Center can repay the advance prior to the end of the initial 15-year term. After the advance is repaid--which at the present rate of repayment will be in 1987--the Center will receive 70 percent of net profits on annual gross receipts up to $1.5 million. On annual gross receipts in excess of $1.5 million after repayment of the advance, the distribution rate is 80 percent

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to the Center and 20 percent to the contractor. After the option period, the Center can award a new contract.

The Center's net income from parking revenues was $250,610 in 1977 and $156,179 in 1978. A schedule of parking revenues from 1972 through 1978 and the Center's share is shown in enclosure 1.

Evaluation of parking-concession proposals

In a prior report (B-154459, August 8, 1972), we evaluated the parking-concession proposals received by the Center and, considering the Center's requirement for a substantial advance against future parking revenues, agreed with the selection made. However, if the advance had not been required, we believed the Center could have entered into a more favorable parking concession agreement with another company.

Details on our evaluation of the proposals were contained in chapter 4 of our August 1972 report (enclosure 2).

ISSUANCE AND CURRENT STATUS OF REVENUE BONDS

As authorized by Section 9 of the Kennedy Center Act, the Center's Board of Trustees borrowed $20.4 million from the Treasury Department by issuing revenue bonds. The proceeds were to be used to finance the construction of the Center's parking facilities and the bonds were to be repaid from revenues accruing to the Center. The act permitted deferral of interest payment on the bonds but stipulated that interest so deferred will bear interest after June 30, 1972. The Center issued 21 revenue bonds between July 1, 1968, and April 30, 1970, with maturity dates ranging from December 31, 2017 to December 31, 2019.

The bonds provide that principal and interest are to be paid from parking revenues. To date, no payments have been made of the interest due. Beginning in December 1968, the Board annually requested a deferral of the interest which was granted by the Treasury. In February 1979, the Treasury granted the latest one-year deferral through December 1979 after the Center indicated its intent to seek a legislative solution to its financial problems. As of December 31, 1978, the Center's bond indebtedness totaled, $35,374,097--$20,400,000 principal plus $14,974,097 in interest. (See enclosures 3 and 4.)

RESULTS OF THE CENTER'S OPERATIONS

We summarized the financial results of the Center's operations for fiscal years 1972 through 1976 in our previous report (GGD-78-15, December 20, 1977). The Center's net income from operations, before the provision for interest on the revenue bonds was $65,160 in 1977 and $42,979 in 1978 resulting in a net income from operations since the Center opened in fiscal year 1972 through fiscal year 1978 of $1,157,369. After deducting interest accrued on the bonds, the Center showed net losses of $1,825,176 in 1977, and $1,975,524 in 1978 and a cumulative net loss of $13,303,688 through fiscal year 1978. A summary of the Center's income and expenses from 1972 through 1978 is shown in enclosure 5.

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The updated information contained in this report was derived from the Center's certified public accountant's reports, Treasury data on bonds and interest, and information obtained from the Kennedy Center. We have not audited the information obtained. In accordance with Public Law 94-119, which requires us to audit regularly the Kennedy Center's accounts and records, we are in the process of auditing the Center's operations for fiscal years 1977 and 1978, and a copy of our report will be sent to your Committee when the audit is completed.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

R. F. Keller

ACTING Comptroller General
of the United States

Enclosures - 5

John F. Kennedy Center for the Performing Arts

Parking Revenues and Center's Share

	1972	1973	1974	1975	1976	1977	1978	Total
Gross revenue	$1,084,868	$1,129,208	$1,221,833	$1,261,373	$1,427,880	$1,377,994	$1,213,270	$8,716,426
Expenses:								
Operations	184,180	170,972	195,555	a/283,529	a/ 328,394	a/ 369,767	a/352,242	1,884,639
Management fee (5 percent of gross revenue)	54,243	56,460	61,092	63,069	71,394	68,900	60,663	435,821
Total	238,423	227,432	256,647	346,598	399,788	438,667	412,905	2,320,460
Net operating profit	846,445	901,776	965,186	914,775	1,028,092	939,327	800,365	6,395,966
Payments on advance:								
Interest (note b)	201,250	310,333	326,083	210,001	166,833	180,833	225,750	1,621,083
Amortization of principal	233,333	233,333	233,328	233,333	233,333	233,328	223,328	1,633,316
Total	434,583	543,666	559,411	443,334	400,166	414,161	459,078	3,254,399
Balance available	411,862	358,110	405,775	471,441	627,926	525,166	341,287	3,141,567
Center's share (50 percent)	205,931	179,055	202,888	235,720	313,963	262,583	170,643	1,570,783
Less validations (note c)	32,507	13,422	11,855	12,010	12,065	11,973	14,464	108,296
Center's net share	$ 173,424	$ 165,633	$ 191,032	$ 223,711	$ 301,898	$ 250,610	$ 156,179	$1,462,487

a/Includes $72,000 paid to the Center for utilities.

b/Interest is determined by the prime rate of the Chase Manhattan Bank at November 15 of each year. The rate was 5-3/4 percent in 1972, 9-1/2 percent in 1973, 10-3/4 percent in 1974, 7-1/2 percent in 1975, 6-1/2 percent in 1976, 7-3/4 percent in 1977, and 10-3/4 percent in 1978.

c/A patron purchasing tickets is allowed 30 minutes of free parking for which payment is made by the Center to the parking concessionaire.

ENCLOSURE 1

CHAPTER 4

PARKING CONCESSION

AWARD OF THE PARKING-CONCESSION AGREEMENT

In response to a request for proposals dated June 22, 1966, the Center received three proposals for managing its parking facility. All three proposals were rejected. The Center had no record of the basis for the rejections, and Center officials told us they could not remember the basis for the actions.

The proposals provided that the concessionaire retain revenue as shown below.

Proposals	Concessionaire's share of revenue
1	$12,000, plus expenses
2	2-1/2 percent of gross receipts up to $200,000
	3-1/2 percent of gross receipts from $200,000 to $400,000
	4-1/2 percent of gross receipts from $400,000 to $600,000
	5-1/2 percent of gross receipts over $600,000, plus expenses
3	100 percent of the first $80,000 of gross receipts for fixed expenses
	50 percent of the next $80,000 of gross receipts
	25 percent of additional gross receipts

The Center again requested proposals on October 16, 1968, from eight companies. Because the Center needed funds to pay construction costs and to begin operations, this request required that "A substantial advance to the Center against future profits should be proposed." The Center received four proposals in November 1968. A summary of these proposals reflecting subsequent negotiations with APCOA and company A 1/ is presented in the following table.

1/The Center request stated that each proposal would be considered in the strictest confidence. At the request of Center officials, we have designated companies other than APCOA as companies A, B, and C.

Source: GAO report B-154459, August 8, 1972

Summary of Parking Concession Proposals Reflecting subsequent Negotiations

Proposal provision	APCOA	Company A	Company B	Company C
Term	15 years	20 years	10 years	Not stated
Renewal option	10 years	10 years	Not stated	Not stated
Advance against revenues	$3,500,000	$3,000,000		$100,000
Repayment of advance	$233,333 for 15 years, Plus interest at the prime rate of Chase Manhattan Bank	14-year payout at 6-percent interest on $3,650,000 (advance, equipment, and 2 years prepaid interest)		Amortized as expense
Estimated cost of equipment	$130,000	$250,000	$88,638	$45,000
Payment for equipment	By APCOA--amortized as expense	By company A--repaid as shown above	By company B--amortized as expense	By company C--amortized as expense
Estimated gross receipts	$1,250,000	$936,000	$864,000	$750,000
Estimated operating expenses	$300,000	$258,000	$227,460	$200,000
Management fee (note a)	5% of gross receipts	7-1/2% of gross receipts	6% of gross receipts	$35,000
Labor costs (note a)	No estimate	$103,500	$117,200	$140,000
Company's share of net profit while advance is outstanding	b/ 50%	b/ 50% of first $200,000 40% of remainder		50% of first $100,000 15% of next $100,000 10% of next $200,000 5% of remainder
Company's share of net profit after repayment of advance	30% of net profit on gross receipts up to $1.5 million plus 20% of gross receipts in excess of $1.5 million	Same as above after $400,000 of net profit is paid to Center	5%	Same as above

a/Management fee and labor costs are included in the amounts shown for estimated operating expenses.

b/Applies to distribution of net profit after withholding the advance payment and interest.

Company B and company C did not propose a substantial cash advance against future revenues. Center records show that, for this reason and because other aspects of the proposals were not considered to be substantially different, final negotiations were limited to APCOA and company A. After these negotiations and with the unanimous recommendation of the Center/GSA Building Committee, the parking concession was awarded to APCOA on February 21, 1969.

The principal features of the agreement are as shown in the above table. The commencement date of the agreement was to be the date of completion of the parking facility and its acceptance by APCOA. APCOA subsequently accepted the parking facility on April 1, 1972.

GAO EVALUATION OF THE PARKING-CONCESSION PROPOSALS

We compared the APCOA proposal with the other proposals received by the Center. The only available written evaluation made by the Center was a comparative listing of the terms proposed by APCOA and company A.

We made two comparisons. First we compared the APCOA and company A proposals--the only proposals which offered a substantial advance against future revenue. Next we compared the APCOA and company B proposals to determine whether the Center could have obtained a more favorable agreement if it had not required a substantial advance. We made no comparison with the company C proposal because we had determined previously that the company B proposal was more favorable.

Estimated gross receipts and expenses in proposals

APCOA and companies A, B, and C estimated gross receipts at $1,250,000, $936,000, $864,000, and $750,000, respectively. We believe that, for a comparison to be equitable, it should not be based on a different level of gross receipts for each company, because the amount of gross receipts that can be generated is dependent upon the capacity and utilization of the parking facility and the parking rates charged--factors over which the concessionaire would have little control.

Utilization of the parking facility is governed, in part, by the scheduling of performances at the Center, and the capacity of the facility is relatively fixed. In addition, the Center has approval authority over parking rates. Accordingly, in each comparison, we computed the revenue to the Center from each company on the basis of APCOA's estimate of receipts and expenses and also on the other company's estimate of receipts and expenses. At all times, however, we used the actual management-fee rate proposed by the companies. The basic data used in our comparisons follow.

	Estimate by		
	APCOA	Company A	Company B
	(000 omitted)		
Gross receipts	$1,250	$936	$864
Expenses	238	188	176
Net profit before management fee	$1,012	$748	$688

Present value

Because the value of money is directly related to the time in which it is received, we also compared the present value of the expected revenue to the Center.

A major problem in the use of the present-value methods of analysis has been the selection of the appropriate discount rate. For Federal Government progam analyses and decisionmaking, arguments have been presented for using rates ranging from as low as the interest rate for borrowings by the Treasury to rates as high as certain rates of return that can be earned in the private sector of the economy. The discount rate used has a direct effect on the results and conclusions of present-value analysis.

Because of the public and private aspects of the Center and the controversy over the selection of an appropriate discount rate, we computed the present value of revenues to the Center using 6-,8-, and 10-percent discount rates. We are not taking a position as to which discount rate is appropriate, but we believe that our computations provide an indication of the effect of present-value considerations on estimated revenues to the Center.

<u>APCOA proposal versus company A proposal</u>

We computed, for the APCOA and company A proposals, the estimated revenues to the Center and the present value of those revenues for (1) a 15-year period representing the basic term of the APCOA proposal and (2) a 25-year period representing the basic term and the 10-year-renewal option period.

Our comparison of the estimated revenues to the Center under the APCOA and company A proposals showed that the estimated revenues to the Center would have been higher under the company A proposal based on either APCOA's or company A's estimates of gross receipts and expenses as shown in the following table.

<u>Estimated Revenue to the Center from Parking Concession</u>

Gross receipts and expenses as estimated by	Parking concessionaire	Revenue from parking operations 15 years	25 years
		-------(millions)	------
APCOA	APCOA	$8.1	$14.8
	Company A (note a)	8.5	15.4
	Difference	$0.4	$ 0.7
Company A	APCOA (note b)	$6.2	$11.1
	Company A	6.4	11.8
	Difference	$0.1	$ 0.7

a/Based on APCOA's estimated receipts and expenses and on company A's proposed management fee.

b/Based on company A's estimated receipts and expenses and on APCOA's proposed management fee.

Note: Figures may not add due to rounding.

However, the present value of the estimated revenue to the Center is generally higher under the APCOA proposal. The following table shows the results of our present-value computations.

Present Value of
Estimated Revenue to the Center
from Parking Concession

Gross receipts and expenses as estimated by	Parking Concessionaire	Present value of revenue from parking operations: 15 years			25 years		
Discount rate		(6%)	(8%)	(10%)	(6%)	(8%)	(10%)
		millions					
APCOA	APCOA	$6.4	$6.1	$5.8	$8.5	$7.5	$6.7
	Company A	6.4	a/ 6.0	5.6	8.5	a/ 7.4	6.6
	Difference	$0.0	$0.1	$0.1	$0.1	$0.0	$0.1
Company A	APCOA	$5.2	$5.0	$4.8	$6.7	a/$6.0	$5.5
	Company A	5.0	4.7	4.5	6.7	5.9	5.3
	Difference	$0.2	$0.2	$0.3	$0.0	$0.1	$0.2

a/Indicates the higher amount.

Note: Figures may not add due to rounding.

As shown above, the present value of estimated revenue to the Center from company A is higher only under APCOA's estimate of gross receipts and expenses and at a 6-percent discount rate.

We believe the selection of APCOA over company A was reasonable because of the following factors.

- --The additional revenue under the company A proposal is less than $30,000 a year, regardless of which company's estimate is used.

- --The present-value analysis of the estimated revenue favors the APCOA proposal.

- --During the 15-year basic term of the APCOA proposal, each dollar increase in gross receipts above the level estimated by APCOA would result in 8 cents more revenue to the Center under the company A proposal than under the APCOA proposal. However, during the 10-year renewal period, each dollar increase in gross receipts would result in 11 cents more revenue to the Center under the APCOA proposal than under the company A proposal if gross receipts remain at $1.5 million or less and in 21 cents more revenue on each dollar increase in gross receipts over $1.5 million. In both cases we assumed that there would be no increase in expenses.

APCOA proposal versus company B proposal

Our comparison of the APCOA and company B proposals disclosed that the estimated revenue and the present value of estimated revenue to the Center were higher under the company B proposal at all levels considered, as shown in the following tables.

Estimated Revenue to the Center
from Parking Concession

Gross receipts and expenses as estimated by	Parking concessionaire	Revenue from parking operations 15 years	25 years
		------(millions)----	
APCOA	APCOA	$ 8.1	$14.8
	Company B (note a)	13.4	22.3
	Difference	$ 5.3	$ 7.5
Company B	APCOA (note b)	$5.8	$10.3
	Company B	9.1	15.1
	Difference	$3.3	$ 4.8

a/Based on APCOA's estimated receipts and expenses and on company B's proposed management fee.
b/Based on company B's estimated receipts and expenses and on APCOA's proposed management fee.

Present value of
Estimated Revenue to the Center
from Parking Concession

Gross receipts and expenses as estimated by	Parking concessionaire	Present value of revenue from parking operations 15 years			25 years		
Discount rate		(6%)	(8%)	(10%)	(6%)	(8%)	(10%)
		(millions)					
APCOA	APCOA	$6.4	$6.1	$5.8	$ 8.5	$7.5	$6.7
	Company B	8.7	7.6	6.8	11.4	9.5	8.1
	Difference	$2.2	$1.6	$1.0	$2.9	$2.0	$1.4
Company B	APCOA	$4.9	$4.7	$4.6	$6.3	$5.7	$5.3
	Company B	5.9	5.2	4.6 a/	7.7	6.5	5.5
	Difference	$0.9	$0.4	$0.0	$1.4	$0.8	$0.2

a/Company B's amount is higher.

Note: Figures may not add due to rounding.

If the Center had not required a substantial advance against revenues, it could have entered into a more favorable parking-concession agreement with company B. On the basis of APCOA's estimates, revenue to the Center under a parking-concession agreement with company B would have been $5.3 million more in the first 15 years of operations or $7.5 million more in the first 25 years of operations. On the basis of company B's estimates, revenue to the Center under an agreement with company B would have been $3.3 million more in the first 15 years of operations or $4.8 million more in the first 25 years of operations. Moreover, our present-value computations showed that the company B proposal remained more favorable when we considered the time value of money.

If the parking concession generates more than estimated in the above alternatives, the Center will receive a smaller portion of the additional profit than it would have received under the company B proposal. Under the APCOA agreement the Center wil receive 50 percent of any increase in net profit during the initial 15-year term and 70 percent of any increase in net profit on gross receipts of $1.5 million or less during the 10-year renewal period. Under the company B proposal, the Center would have received 95 percent of any additional net profit.

To illustrate this difference we computed the profit to the Center resulting from an increase in gross receipts of $250,000 with no increase in expenses. In this case the Center would have received an additional $119,000 under the APCOA proposal but would have received an additional $223,000 under the company B proposal.

We recognize that the Center considered APCOA and company A as the only companies that submitted responsive proposals. Furthermore, we have not examined into alternative sources of funds which might have been available to the Center at that time. Therefore we are not taking the position that the parking-concession agreement should have been awarded to company B. We are including our comparison of the APCOA and company B proposals only as information for the Committee.

ENCLOSURE 3

John F. Kennedy Center for the Performing Arts
Loans, John F. Kennedy Center, Parking Facilities
Revenue Bonds - 12/31/78

Percent of Rate	Bond no.	Due date	Calendar year advanced	Accrued face amount
5-1/8	2-5	12/31/2017	1968	$ 3,800,000
5- 1/4	1-6	12/31/2017	1968	2,900,000
5-3/8	7 and 8	12/31/2017	1968	1,200,000
5-3/4	9 and 10	12/31/2018	1968	2,200,000
5-7/8	11 and 14	12/31/2018	1969	4,300,000
6	15	12/31/2018	1969	1,000,000
6-1/4	16 and 17	12/31/2018	1969	1,300,000
6-1/2	18 and 19	12/31/2018	1969	1,900,000
6-5/8	20	12/31/2018	1969	800,000
6-5/8	21	12/31/2019	1970	1,000,000
GRAND TOTAL				$20,400,000

ENCLOSURE 4

John F. Kennedy - Deferred Interest
Revenue Bonds - 12/31/78

Year deferred	Interest deferred	Percent of deferred rate	Interest on deferred interest	Interest on deferred interest deferred
12/31/68	$ 114,176.57	5-1/2	$ 6,279.71	
12/31/69	775,852.06	7-1/8	55,279.46	
12/31/70	1,152,844.18	6-5/8	76,375.93	
12/31/71	1,174,625.00	5-7/8	69,009.22	
12/31/72	1,174,625.00	6-1/8	71,945.78	
12/31/73	1,174,625.00	6-7/8	80,755.47	
12/31/74	1,174,625.00	7-3/4	91,033.43	
12/31/75	1,174,625.00	7-1/2	88,096.88	
12/31/76	1,174,625.00	6-1/8	71,945.78	
12/31/77	1,174,625.00	7	82,223.75	
	$10,265,247.81		692,945.41	
Interest on deferred interest deferred				
12/31/72		6-1/8	103,472.16	$ 6,337.66
12/31/73		6-7/8	285,227.76	19,609.41
12/31/74		7-3/4	385,592.64	29,883.43
12/31/75		7-1/2	506,509.50	37,988.21
12/31/76		6-1/8	632,594.59	38,746.42
12/31/77		7	743,286.79	52,030.08
			2,656,683.44	$184,595.21
			$3,349,628.85	

SUMMARY

Interest for year ended 12/31/78	$ 1,174,625.00
Deferred interest to date	10,265,247.81
Interest on deferred interest	3,349,628.85
Interest on deferred interest deferred	184,595.21
	$14,974,096.87
Principal owed	$20,400,000.00
Total interest owed	14,974,096.87
Total owed 12/31/78	$35,374,096.87

Revenues and Expenses (note a)

	Fiscal year							
	1972	1973	1974	1975	1976 and transition quarter	1977	1978	Total
Net theater receipts (note b)	$4,158,527	$2,942,207	$2,760,062	$3,080,702	$3,614,414	$2,697,291	$3,331,698	$22,584,901
Other theater income	-	31,267	49,144	72,417	15,984	10,594	-	179,406
Total	$4,158,527	2,973,474	2,809,206	3,153,119	3,630,398	2,707,885	3,331,698	22,764,307
Expenses:								
Operations	6,286,587	4,124,855	3,209,185	3,539,180	3,941,011	3,828,804	4,057,029	c/ 28,986,651
Losses on presentations mandated by legislation (programing) (note d)	-	-	770,412	491,289	2,109,054	869,630	233,354	4,473,739
Write-off of production investments	-	-	-	474,028	456,692	211,475	940,976	2,083,171
Total	6,286,587	4,124,855	3,979,597	4,504,497	6,506,757	4,909,909	5,231,359	35,543,561
Deficit from theater operations before public support	-2,128,060	-1,151,381	-1,170,391	-1,351,378	-2,876,359	-2,202,024	-1,899,661	-12,779,254
Public support:								
Contributions for programming (note d)	125,460	160,328	228,000	362,492	1,812,896	613,834	947,078	4,250,088
General	1,108,717	361,012	301,046	215,730	523,501	550,940	290,307	3,351,253
Total	1,234,177	521,340	529,046	578,222	2,336,397	1,164,774	1,237,385	7,601,341
Deficit before other income	-893,883	-630,041	-641,345	-773,156	-539,962	-1,037,250	-662,276	-5,177,913
Other income:								
Parking	321,256	436,779	399,519	e/ 482,410	e/ 738,932	e/ 567,151	e/ 539,391	e/ 3,485,438
Restaurant (note e)	126,134	223,702	261,041	272,076	398,519	300,203	223,045	1,804,720
Other	170,229	109,275	144,100	206,363	237,282	235,056	-57,181	1,045,124
Total	617,619	769,755	804,660	960,849	1,374,733	1,102,410	705,255	6,335,282
Net results of operations	-276,264	139,715	163,315	187,693	834,771	65,160	42,979	1,157,369
Interest expense on revenue bonds	f/ 3,804,811	1,420,711	1,510,035	1,620,675	2,195,986	1,890,336	2,018,503	14,461,057
Excess of expenses over revenues	$-4,081,075	$-1,280,996	$-1,346,720	$-1,432,982	$-1,361,215	$-1,825,176	$-1,975,524	$-13,303,688

a/The information on this schedule was obtained from the Center's financial statements, which were audited by a public accounting firm. The public accountants rendered unqualified opinions on the statements for all years except fiscal year 1972, when no opinion was expressed because of inadequacies in the accounting records.

b/Includes gross box office receipts, after payment of attaction's share and theater rentals.

c/Includes a noncash expense of $1,027,017 for reserve for repair and replacement of fixed assets.

d/Attractions such as operas and ballets are presented to comply wth the legislative mandate to present such attractions.

e/Includes payment for utilities.

f/Includes interest of $998,014 for fiscal year 1972 and $2,826,046 for prior fiscal years.