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STATUS OF CONSTRUCTION OF THE CONVENTION CENTER

HEARING

BEFORE THE

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

JANUARY 18, 2002

Serial No. 107–136

Printed for the use of the Committee on Government Reform

Available via the World Wide Web: http://www.gpo.gov/congress/house
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

82–952 PDF WASHINGTON : 2003

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CONTENTS

	Page
Hearing held on Janaury 18, 2002	1
Statement of:	
Franzel, Jeanette M., Acting Director, Financial Management Assurance Team, GAO; Harold Brazil, chairman, Committee on Economic Development, Council of the District of Columbia; Eric Price, deputy mayor, planning and economic development, District of Columbia Government; Lewis H. Dawley III, general manager/CEO, Washington Convention Center Authority; and Dr. Natwar Gandhi, chief financial officer, District of Columbia	7
Letters, statements, etc., submitted for the record by:	
Brazil, Harold, chairman, Committee on Economic Development, Council of the District of Columbia, prepared statement of	21
Dawley, Lewis H., III, general manager/CEO, Washington Convention Center Authority, prepared statement of	28
Franzel, Jeanette M., Acting Director, Financial Management Assurance Team, GAO, prepared statement of	10
Gandhi, Dr. Natwar, chief financial officer, District of Columbia, prepared statement of	39
Norton, Hon. Eleanor Holmes, a Delegate in Congress from the District of Columbia, prepared statement of	5
Price, Eric, deputy mayor, planning and economic development, District of Columbia Government, prepared statement of	49

STATUS OF CONSTRUCTION OF THE CONVENTION CENTER

FRIDAY, JANUARY 18, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:10 a.m., in room 2154, Rayburn House Office Building, Hon. Constance A. Morella (chairwoman of the subcommittee) presiding.

Present: Representatives Morella and Norton.

Staff present: Russell Smith, staff director; Heea Vazirani-Fales, counsel; Robert White, communications director; Matthew Batt, legislative assistant/clerk; Shalley Kim, staff assistant; Jon Bouker, minority counsel; and Jean Gosa, minority clerk.

Mrs. MORELLA. Good morning. I am ready now to convene the District of Columbia Subcommittee hearing, and this morning we are going to look at the status of construction of the convention center.

You know, just a few blocks from here where we are gathered, the most important public works projects in the District of Columbia is nearing completion. When it is finished, the new District of Columbia Convention Center will consist of 2.3 million square feet of space, a third of which is dedicated for exhibits. It will be the second largest building in Washington, behind only the Ronald Reagan International Trade Center.

But, more importantly, the new convention center will be one of the sixth largest convention centers in the country, once again giving the District the ability to attract major exhibitions as well as the tourism dollars that follow them.

There is no more vital project now underway in the District than the convention center. This has become even more evident in the aftermath of September 11th, when the importance of business and tourism travel to the economic health of the city became painfully clear to all of us. That is why, immediately after receiving the General Accounting Office's status report on the convention center project, I figured that we needed to hold this hearing.

Some of the findings in the GAO report were quite worrisome to me. I feared some of the controls put in place to protect this project are not being fulfilled. For instance, although utility relocation and excavation work began back in 1998, with construction of the building beginning a year later, the GAO reported that there still is no revised guaranteed maximum price or the GMP for the project. The GMP is supposed to ensure that project's costs are contained. How

are you supposed to control costs when you don't have a final budget to work with?

At the time of the GAO report, there was a $135 million difference between the total cost estimates of the construction manager, Clark/Smoot, and the Washington Convention Center Authority. This difference stemmed from change orders in the project that were submitted but not yet approved. These changes were not reflected in the Authority's projected total cost of $778 million dollars. Since then, I understand the Authority has adjusted its estimate to $799 million.

But, you know, cost is not the only disputed figure. As the GAO reported, the builder and the Authority also differed greatly in their projected completion dates, with the Authority contending it will be finished on schedule next spring, and the construction manager saying it could take up to a year later.

Now, I understand there is a feeling that the convention center will be ready to open by next March, although some work will continue past that date. So that is why we are holding this hearing. There are too many unanswered questions, too many differences at this late stage in the game for us to have a high level of comfort with the progress of the project.

I hope Mr. Dawley and our other guests can shed some more light on the budget, funding, and timing of this vital project. And I sincerely hope that Mr. Dawley will tell us that the GMP is on the verge of being signed by all parties. We have heard such promises before. But I want to state for the record that I strongly encourage the principals to get the GMP signed within 30 days or they can expect to be back before the subcommittee for another hearing.

In closing, let me read something from the Temple Group which has been providing status reports on the convention center to the city council, "an updated construction schedule which incorporates status of the work in the field, production and manufacture, and labor availability for all trades is a critical priority as a planning tool to assure meeting the project objectives, timing and goals."

This was written in October. The report then suggested if the new schedule and budget cannot be finalized within a few weeks, an independent assessment of the project might be in order. I trust that in the intervening weeks, the parties have been working diligently to rectify these problems, and I look forward to hearing about that progress today.

I am now pleased to recognize the distinguished ranking member of this Subcommittee on the District of Columbia, Congresswoman Eleanor Holmes Norton.

Ms. NORTON. Thank you very much, Mrs. Morella.

I appreciate that our Chair, Connie Morella, has scheduled this hearing to examine the findings of the recent GAO report on the District of Columbia Convention Center now under construction, and to hear responses from those most familiar with the project.

It is difficult to overestimate the importance of the success of the new convention center to the District. The convention center is a rare example in this country of a convention center to be largely paid for by the private sector, our hospitality industry. At the depth of the fiscal crisis, the restaurant and hotel industry, on its

own, stepped forward and volunteered to tax itself to build a larger convention center. However, congressional approval for the project was necessary to allow preconstruction activities and bonding. I was not able to get agreement in the 103d Congress on the necessary bill, because the city was in such deep fiscal crisis. In the 104th Congress, however, I sponsored H.R. 2108 to allow preconstruction to proceed. In the 105th Congress, I sponsored H.R. 4237 to allow bonding for construction to move forward.

This project is a vital key to the development of the new downtown. However, the convention center also is important to the D.C. economy itself. Although the city is perhaps the preeminent tourist destination in the country, it has been unable to attract the largest conventions because of lack of capacity. As a result, the losses to the city have been vast, surely totaling billions of dollars over the years.

The convention center is a home rule matter for the District of Columbia. Congressional involvement stems from the approvals that were required here. Congressional concern arises because of the importance of convention center receipts to the city's economy. The expectation has been that a convention center would for the first time draw the largest conventions such as the ABA and the AMA, and that the increased revenue would enable the hotel and restaurant industry to pay off the bonds because of their increased receipts. An additional benefit, of course, would be increased tax receipts to the D.C. government. This is a marvelous example of a win-win for the city and the industry, and a departure from taxpayer-built arenas and convention centers that are the rule nationwide.

No one could have anticipated September 11th, the anthrax scares, and the barricades that have created a foreboding atmosphere to the city. My concern therefore goes not only to the important issues raised in the GAO report: the estimated guaranteed maximum price, the estimated full cost of the project, and the extent to which these costs have been in line with the original 1998 estimates; the extent to which the contingency account will cover increased costs; whether the estimated financing sources will be sufficient to cover the total costs of the project; and whether the project will be completed on time.

To these root issues have been added branches that may significantly affect the viability of the center once it is up. For example, I am particularly concerned about whether the hospitality industry, which has assumed the primary responsibility for construction costs, will be able to meet these costs in light of the slowdown in much of the industry since September 11th. We need to understand whether continuing shortfalls in receipts to the hospitality industry will result in shortfalls in the ability of the Convention Center Authority to meet its bond obligations, and what happens in that event. All of this, of course, in turn will affect city revenues which already are in trouble in the wake of September 11th, the shutdown and slow startup of National Airport, anthrax scares, the recession, and other effects on tourism. In addition, we need to determine if advanced convention and organization reservations for the new center have been affected by September 11th, and whether

plans for the new center are sufficient to meet increased security concerns.

The convention center is not a gamble. Conventions have long been waiting in line for a new convention center here with the capacity to accommodate them. The uniqueness of the Nation's Capital makes virtually inevitable that this same market is there. Our task today is to make sure that we understand all of the contingencies so that we can both urge and help see that the city is able to meet them.

I welcome today's witnesses, and am pleased to receive their testimony.

[The prepared statement of Hon. Eleanor Holmes Norton follows:]

ELEANOR HOLMES NORTON
Delegate, District of Columbia

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TRANSPORTATION AND
INFRASTRUCTURE

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RANKING MINORITY MEMBER,
DISTRICT OF COLUMBIA

CIVIL SERVICE AND
AGENCY ORGANIZATION

Congress of the United States
House of Representatives
Washington, D.C. 20515

Statement of Congresswoman Eleanor Holmes Norton
Hearing on "Status of the Construction of the Convention Center"
District of Columbia Subcommittee
January 18, 2002

I appreciate that our chair, Connie Morella, has scheduled this hearing to examine the findings of the recent General Accounting Office report (November 30, 2001) on the District of Columbia Convention Center now under construction (*District of Columbia: Status of the New Convention Center Project*), and to hear responses from those most familiar with the project. It is difficult to overestimate the importance of the success of the new convention center to the District.

The convention center is a rare example in this country of a convention center to be largely paid for by the private sector, our hospitality industry. At the depth of the fiscal crisis, the restaurant and hotel industry, on its own, stepped forward and volunteered to tax itself to build a larger convention center. However, congressional approval for the project was necessary to allow preconstruction activities and bonding. I was not able to get agreement in the 103rd Congress on the necessary bill because the city was in deep fiscal crisis. In the 104th Congress, however, I sponsored H.R. 2108 to allow pre-construction to proceed. In the 105th Congress, I sponsored H.R. 4237 to allow bonding for construction to move forward.

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No one could have anticipated September 11, the anthrax scares, and the barricades that have created a foreboding atmosphere to the city. My concern, therefore, goes not only to the important issues raised in the GAO report: the estimated Guaranteed Maximum Price, the estimated full cost of the project, and the extent to which these costs have been in line with the original 1998 estimates; the extent to which the contingency account will cover increased costs; whether the estimated financing sources will be sufficient to cover the total cost of the project; and whether the project will be completed on time.

To these root issues have been added branches that may significantly affect the viability of the center once it is up. For example, I am particularly concerned with whether the hospitality industry, which has assumed the primary responsibility for the construction costs, will be able to meet these costs in light of the slowdown in much of the industry since September 11. We need to understand whether continuing shortfalls in receipts to the hospitality industry will result in shortfalls in the ability of the Convention Center Authority to meet its bond obligations, and what happens in that event. All of this, of course, in turn, will affect city revenues, which are already in trouble in the wake of September 11, the shutdown and slow start-up of National Airport, anthrax scares, the recession, and other effects on tourism. In addition, we need to determine if advance convention and organization reservations for the new center have been affected and whether plans for the new center are sufficient to meet increased security concerns.

The convention center is not a gamble. Conventions have long been waiting in line for a new convention center here with the capacity to accommodate them. The uniqueness of the nation's capital makes virtually inevitable that this same market is there. Our task today is to make sure that we understand all the contingencies so that we can both urge and help see that the city is able to meet them.

Mrs. MORELLA. Thank you, Ms. Norton.

This is the first subcommittee hearing of the second session of the 107th Congress. As you know, the catalyst was the GAO report and, of course, the importance of the convention center.

I want to welcome the people who are going to be on this panel and who will be testifying. Thank you for being with us. It is the policy of the subcommittee and the full committee to swear in those people who will be testifying, so if you would stand and raise your right hands.

[Witnesses sworn.]

Mrs. MORELLA. Everybody affirmatively responded and the record will so show it. And again, confine your statements to about 5 minutes in duration, we will then have a chance to ask questions and kind of expedite this hearing.

Your full testimony, of course, will be in the record in its entirety.

So we will start off, then, with Ms. Franzel, the acting Director of Financial Management Assurance Team of the GAO, I mentioned is the catalyst for this hearing.

Harold Brazil is the chairman of the Committee on Economic Development of the Council of the District of Columbia. And I saw you on television last night, eating away and talking about some of the other incentives we can utilize in the District of Columbia.

Eric Price hasn't joined us yet, but I will swear him in as soon as he gets here.

Lewis H. Dawley III, who is the general manager, CEO, Washington Convention Center Authority. You are important to this hearing, obviously.

And Dr. Natwar Gandhi, the chief financial officer of the District of Columbia who is no stranger to this subcommittee. So we will now proceed then.

Ms. Franzel, if you would lead us off.

STATEMENTS OF JEANETTE M. FRANZEL, ACTING DIRECTOR, FINANCIAL MANAGEMENT ASSURANCE TEAM, GAO; HAROLD BRAZIL, CHAIRMAN, COMMITTEE ON ECONOMIC DEVELOPMENT, COUNCIL OF THE DISTRICT OF COLUMBIA; ERIC PRICE, DEPUTY MAYOR, PLANNING AND ECONOMIC DEVELOPMENT, DISTRICT OF COLUMBIA GOVERNMENT; LEWIS H. DAWLEY, III, GENERAL MANAGER/CEO, WASHINGTON CONVENTION CENTER AUTHORITY; AND DR. NATWAR GANDHI, CHIEF FINANCIAL OFFICER, DISTRICT OF COLUMBIA

Ms. FRANZEL. Thank you. Good morning, Madam Chairwoman and Ranking Member Norton. I am pleased to be here today to discuss our recent report on the status of the District's new convention center. My remarks today will also include updated information on progress made by the Washington Convention Center Authority since our report was issued on November 30, 2001.

As agreed with the subcommittee, my comments today will cover the following three areas: the status of the guaranteed maximum price negotiations between WCCA and its contract manager; the estimated timeframes for completion of construction; and estimated cost projections and financing.

First, WCCA and its contract manager have made significant progress in their negotiations to arrive at a guaranteed maximum price [GMP], for the construction portion of the project. WCCA and the contract manager have agreed on a GMP amount of $591 million. This agreement includes resolution of the $135 million in pending change orders that we reported were outstanding in November.

The next step is a review of the proposed GMP agreement by WCCA's board of directors, followed by formal ratification of the agreement by both parties. The agreed-upon GMP amount represents a $71 million increase over the estimated GMP that we cited in our November report. WCCA attributes the majority of the increase to the inclusion of costs that were previously considered outside of the GMP agreement, such as work related to soil contamination, metro station, as well as other costs. So, in other words, costs have been transferred into the GMP from line items that were previously considered outside of the GMP.

Second, WCCA and its contract manager have reached agreement on completion dates for the new convention center. In our November report, we noted that WCCA and the contract manager had significant differences in their estimated completion dates. WCCA and the contract manager have agreed on March 31, 2003, as the substantial completion date for convention-ready areas, which would include the areas of the facility that can be used for actual convention activities. The substantially complete status will include having certificates of occupancy for those convention areas.

In addition, WCCA and the contract manager have agreed on October 31, 2003, as the final completion date for all cross-examination activities.

Finally, in our November 30th report, we noted that the estimated total cost of the new convention center was at $778 million, with an estimated $815 million in financing available to cover those costs.

Since our November report, the total estimated cost for the new convention center has increased by $21 million, to $799 million. While estimated total costs have increased, the financing available has remained the same at $815 million.

Based on these figures, an estimated $16 million surplus currently remains available to the project. WCCA issued revenue bonds, backed by dedicated taxes, to finance the construction costs of the project. Dedicated taxes were also used as part of the financing for the project. Currently, all of the dedicated taxes used to finance the construction of the convention center have been received. All future dedicated taxes are pledged as security for WCCA's debt service.

In summary, significant progress has been made in the negotiations between WCCA and its contract manager. WCCA and the contract manager have agreed on a GMP amount of $591 million; a date of March 31, 2003, as the substantial completion date for convention areas; and October 31, 2003, as the final completion date for construction.

Although the total estimated costs of the project have increased, an estimated $16 million surplus remains available for the project.

Madam Chairwoman, that concludes my statement. I would be happy to answer any questions that you might have.

Mrs. MORELLA. Thank you very much, Ms. Franzel. Sounds like a lot of progress has been made since the report was issued.

[The prepared statement of Ms. Franzel follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on the District of Columbia, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at
9 a.m.
Friday,
January 18, 2002

DISTRICT OF COLUMBIA

Status of the New Convention Center Project

Statement of Jeanette M. Franzel
Acting Director, Financial Management and Assurance

GAO-02-335T

Madam Chairwoman and Members of the Subcommittee:

Thank you for the opportunity to discuss our November 30, 2001, report[1] on the status of the new District of Columbia (D.C.) Convention Center. The Washington Convention Center Authority (WCCA) Act of 1994[2] 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 $519.4[3] 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

[3]WCCA 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 completion[4] 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:

[4]Substantial 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.

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

- 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

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

and reserve balances. In a July 24, 2001[7], 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 1998[8];
- 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.

[7]Certification 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).

[8]WCCA 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**

[a]Hard costs are construction costs related to the physical structure of the facility, such as masonry, concrete, and structural items.

[b]Other costs include items such as design fees, legal costs, consulting and inspections, and administrative items.

[c]Estimated 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.

Mrs. MORELLA. Mr. Brazil, very happy to have you with us, sir.

Mr. BRAZIL. Thank you very much. I am pleased to be before the Congress, and particularly before you, Congresswoman Morella, and before my very own, if you will, and the District's representative, Congresswoman Norton.

I learned a very important lesson last night: that there is a lot of meat to Washington, and certainly it is something you can sink your teeth into.

I come to you today really from that perspective; that is, from the economic development perspective. And it is our job in the Council, and the Mayor and the others, to make sure that there is productivity, there is vibrance. And this project, the Washington Convention Center, is a part of that, and certainly we are going to make sure, along with you, that our goal of bringing in the project on time and under budget is achieved. It is very achievable and will be.

We are also concerned with the benefits that will flow to the community to ensure that the community grant program is—becomes a realty, and that local small businesses and citizens participate in this in terms of jobs and prosperity.

The Council really shares with the Congress, particularly this subcommittee in its oversight role, and we take it very seriously. I have had just numerous contacts and interaction with Mr. Dawley, his staff, and others on this project, so that we don't have to wait until 3 months from now, 4 months from now to get a report; we sort of understand it as we go along.

We have at least two public hearings, major hearings on the project every year, and have scheduled the second one for February or March of this year so that we can get into some of the nitty-gritty of the issues and air them publicly to discharge our oversight function. In our oversight capacity, we have retained a construction monitor, if you will, so that we can get into the very technical aspects of this project, and understand them and make sure that everything is according to Hoyle.

We have the Millennium Group that has now replaced the Temple Group. Also there is a Convention Center Authority Advisory Committee that is made up of citizens and Council appointees. They meet monthly, again to ensure that everything is going along appropriately.

So I guess I am really here to assure you from the Council's perspective that our eyes are open and we are doing everything that we can to ensure that this project does come in on time and within budget, and I am convinced that it will.

And I thank you for the opportunity to come before you this morning.

Mrs. MORELLA. Thank you, Mr. Brazil.

You can answer a question at greater length, since you didn't even get to your 5 minutes. I appreciate the work that the committee has been doing, the advisory committee, in your other meetings.

[The prepared statement of Mr. Brazil follows:]

TESTIMONY OF COUNCILMEMBER HAROLD BRAZIL
CHAIRMAN OF THE COMMITTEE ON ECONOMIC DEVELOPMENT
OF THE COUNCIL OF THE DISTRICT OF COLUMBIA

before the

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
CONSTANCE A. MORELLA, CHAIRWOMAN

on

"STATUS OF THE CONSTRUCTION OF THE CONVENTION CENTER"

January 18, 2002

Good morning, Chairwoman Morella, and members of the Subcommittee on the District of Columbia. I am pleased to appear before you today to present testimony on the status of the construction of the District of Columbia's new convention center.

As you are aware, several years ago the Council and the Mayor approved the establishment of the Washington Convention Center Authority — with one of its main goals being the construction and maintenance of a new, state-of-the-art, nationally competitive convention center. After a long and involved process, the District selected a site north of Mount Vernon Square for the location of the new convention center, and construction there is now well underway.

The new convention center is physically and financially immense and it is an important element in the continued economic development of the District. Because of this, it is important that the convention center be completed in a timely manner and within an allowable budget.

The Council's oversight of the Washington Convention Center Authority and the construction of the new convention center are key elements in ensuring that this goal is reached.

The Council has exercised its oversight in several manners. First, the Committee on Economic Development, through its chair, has maintained open and frequent contacts between the Council and the Authority. Thankfully, this has been a relatively simple goal to accomplish. The Washington Convention Center Authority staff, Board Chairman Vincent Cohen, and the Authority's General Manager Lewis H. Dawley have been highly responsive and accommodating to requests for information from the Council and the Committee on Economic Development. In addition, Mr. Cohen, Mr. Dawley, and other officers and employees of the Authority have worked proactively to keep me and my staff informed of issues which the Authority may face.

In addition to this relatively informal process, the Council, through the Council's Committee on Economic Development, holds formal hearings — open to the public — at least twice a year. Of those two hearings, one focuses on the Authority's performance during the then-current fiscal year and the second focuses on the Authority's plans for the then-coming fiscal year. During these hearings, and other hearings on the convention center project,

the Authority has always provided detailed information to all requests and answered the Committee's questions fully and openly.

Since the convention center project is so significant, the Council also wanted to go beyond these traditional processes in order to ensure that it was exercising the fullest oversight of the convention center project. Therefore, the Council entered into a contract with an outside consulting firm to monitor the construction of the convention center on behalf of the Council and to provide reports to the Council on the status of the project on a regular basis. The consulting firm is tasked with monitoring the budget and schedule of the convention center project, as well as monitoring the Authority's coordination with other District agencies and its compliance with various project-related agreements.

The consultant sits in on and observes weekly progress meetings of the convention center's project team, which includes the Authority's project manager and the construction manager. In addition, the consultant observes meetings of the Authority's Board of Directors and the legislatively mandated Washington Convention Center Advisory Committee, which includes several community representatives. The consultant also sits in on meetings of the special task force established by the Authority to review the progress of local hiring initiatives and to contract with local, small, and disadvantaged business enterprises. The consultant also receives monthly progress reports from the Authority and Clark/Smoot and participates in walk-throughs of the construction site to review the work in progress.

Thus far, the consultants have provided three reports to the Council. I have been satisfied with the content and quality of the reports and with the responsiveness of the Authority to the consultant's requests.

The Council has also gone beyond these efforts. In the statute creating the Convention Center Authority, the Council also created the Convention Center Advisory Committee, to maintain public oversight of the Authority during the construction of the new convention center. The Committee includes community members appointed by the Mayor and the local advisory neighborhood commissions. The Committee also includes representatives appointed by the Chairman of the Council and the Committee on Economic Development.

The Advisory Committee meets on a monthly basis and allows for community concerns to be heard. The Authority's General Manager, Managing Director of Development, General Counsel, and Director of Public Affairs are represented at these meetings to provide for communication with the Authority's decision makers. Representatives of Clark/Smoot are represented at this monthly meeting. In addition, the Chairman of the Council and the Chairman of the Committee on Economic Development have representatives that are members of the Advisory Committee. These representatives keep the Advisory Committee apprised of any legislative matters that may impact the project and report back to the Chairman of the Council and to me on any issues that may need the Council's further involvement. I have been pleased both with the role the Advisory Committee has played and the many important contributions it has made to the project and with the Authority's committed attendance at the meetings of the Advisory Committee and its responsiveness to Advisory Committee requests for information.

As I hope I have made clear, Chairwoman Morella, the Council has been involved in a number of ways with the oversight of the construction of the new convention center. Through each of these routes, I have received positive reports on the quality of the Authority staff and the progress of the new convention center. We are lucky to have Mr. Cohen, Mr. Dawley, and Mr. Dawley's able staff managing this project.

In closing, Chairwoman Morella, I would like to congratulate the Authority on its progress with the new convention center. It is no easy task to manage an existing, large convention center while also overseeing the construction of a new, world-class facility. Mr. Cohen and Mr. Dawley have handled both tasks in a first-class fashion.

Chairwoman Morella, thank you for allowing me the opportunity to present this testimony on behalf of the Council. I am available to answer any questions you, or other members of the subcommittee, may have.

Mrs. MORELLA. Now we look forward to hearing from Mr. Dawley. Thank you for being with us.

Mr. DAWLEY. Good morning, Chairwoman Morella, Congresswoman Norton, and members of the subcommittee. Good morning. Thank you for the invitation to update the subcommittee on the status of the new convention center. I would like to thank the subcommittee for its efforts to assist the District of Columbia through the difficult aftermath of the tragic events of September 11th.

For the record, I am Lewis Dawley, general manager and CEO of the Convention Center Authority. As you know, the new convention center is the fourth facility in which I have participated in either expansion or new construction. But the Authority is doing what no other organization in our industry has ever done: We are managing the full operation of an extremely busy convention center while also overseeing the construction of the new facility. The past year and a half has demonstrated that the Authority has assembled a quality team with the necessary experience and expertise to handle both operations.

The new convention center project, in addition to being one of the largest in the country, is also the most complex development of its kind, and we have tightly managed what has been a massive undertaking. It has been difficult, but we are getting the job done.

The Authority has accepted this difficult task because the existing and new convention centers are vital to maintaining and invigorating the District's tourism industry. More importantly, the new facility is a prime catalyst for the economic renewal of Washington, DC and the entire metropolitan area. But now more than ever, the importance of our task is clear. I can say on behalf of our Board of Directors' management staff, we are resolute in our determination to be successful.

In many respects, all Americans can claim the new Washington Convention Center, located in the very heart of our capital, as their own. We anticipate and expect that this magnificent facility will quickly come to be known as the Nation's meeting place.

Today the subcommittee has heard about the most notable aspects of the project's schedule and budget from GAO. You have also heard from Council Member Brazil about how the convention center project is monitored locally and the impact the project will have on neighborhood revitalization and economic development.

What I will do now is provide more detail on where the project is currently, review how we got there, and advise you how we plan to complete construction on time and within our funding estimates.

As you may recall when the Authority appeared before the subcommittee in 1998 to seek final approval for the project, several goals were outlined, including opening the facility in March 2003; building within the means of a strong financial plan; increasing contracting opportunities for local businesses; and providing employment for District residents. Despite the predictable and the customary challenges for a project of this size and complexity, these goals and objectives remain unchanged and they will be achieved. I would like to tell you where we are today.

The design is 99 percent complete. Over 98 percent of all trades have been contracted, and construction is approximately 55 percent complete. In getting to this point, the following milestones, among

others, were achieved. We have excavated over 2 million tons of soil. We completed installation of a totally new utility infrastructure around the site that will also benefit the community that surrounds the convention center: The Shaw, Blagden Alley, and Mount Vernon Square Communities.

We have completed erection of a 44,000-ton super steel structure. The mechanical, electrical, and plumbing systems are being installed as we speak. And in the next new months, the interior enclosure of the building will be completed. The interior work has recently begun and will accelerate toward completion in a little more than a year from now.

We have selected an art consultant for implementation of our $4 million art program to work in conjunction with the D.C. Commission on Arts and Humanities. As part of that, we established an executive committee with representatives from the Smithsonian and Corcoran Museums as well as the Federal Commission for Fine Arts. We have also put together an advisory committee that consists of nearly 30 local artists. The project has achieved a 50 percent contracting percentage with local, small, and disadvantaged businesses, surpassing our goal of 35 percent. And nearly 600 D.C. residents have been hired to work on the project, including 67 who have entered a program that we call the Step-Up Apprenticeship Program that I am extremely proud of.

I would like to thank Congresswoman Norton for assisting us in helping that program become a reality. Because of the Convention Center Authority's Shaw Comprehensive Job Training Academy, nearly 1,000 D.C. residents have received job readiness counseling and training in a variety of career skills, and nearly 500 have earned employment through the program.

In addition to these accomplishments, we have met and exceeded all of the construction impact mitigation measures requested as a condition of the project's approval. I am proud to report that because of our Business Impact Grant Program, grants totaling nearly $250,000 have been awarded to sustain impacted businesses around the construction, and not one has closed.

As you can see, the project has come a long way from where we started. When the project was approved in 1998, we established it as a "fast track" project.

I guess I am running out of time here.

Mrs. MORELLA. Go ahead.

Mr. DAWLEY. What that means is, in a fast track project on a convention center, it must be ready to host shows to begin in April 2003 when our first conventions are scheduled. Therefore, the schedule was compressed so certain phases of construction could proceed on a design as it was being finished.

The realty of simultaneous designing and constructing a facility of this size during what has been a very competitive construction environment, as we have read in the news media, has been very challenging. We have had to deal with the removal of over a half million tons of hazardous soil, partial collapse of a small portion of the roof system, and some difficulties in contracting with trades.

These challenges have been met by our development team. The culmination of this—let me back up here a little bit. We have taken some effort to make sure that we were able to meet this design

schedule that has come to fruition with this reset GMP that we have established with our construction manager.

As we mentioned, that agreement with Clark resolves the vast majority of outstanding issues that were related to design cost and schedule that was in the GAO report. In particular, the agreement eliminates $109 million of the $135 million of accumulated claims. The $26 million balance of these claims will be covered by reserves and allowances within the GMP.

The amendment also calls for the facility to be ready to host conventions in March 2003. The final GMP number will be $799.5 million, which is just 12 percent above the originally approved budget. In addition to providing a sense of certainty to the projected substantial completion date, keeps costs, which is significantly important for us, within our estimated available funds, as you have heard this morning.

The total source of our funds—and I am kind of jumping ahead so I won't take as much time—the estimated—the total source of our funds for completion of the project is approximately $815 million. The Authority has secured 97 percent, $790 million. And just this week our board of directors approved a food service contract that will provide additional outsource funds that we reported to you in 1998, and in fact the amount of that is $10 million.

Also there is—let me say this about the industry and where we are. And I would like to take a second and expressly thank Congresswoman Norton, because what you said in the beginning, about the importance of this after September 11th, is very accurate.

Congresswoman Norton, through her efforts, was able to help us maintain the Congressional Black Caucus meeting, which was important for us, because as you might expect, there were a number of conventions that were planning to come to the city recently, after September 11th, that had concerns about that. That effort allowed us to not lose one convention during this period after September 11th. So I would like to thank her for that.

Finally, I would like to thank the Mayor, the chief financial officer, Dr. Gandhi, who sits on our board, and Councilman Brazil for all of the support that they have given to this project.

I will be happy to answer any specific questions you might have.

Mrs. MORELLA. Thank you very much, Mr. Dawley. And I know there was a section of your testimony that you submitted, you didn't have a chance to mention. But it will be in the record in its entirety.

[The prepared statement of Mr. Dawley follows:]

WASHINGTON
CONVENTION CENTER

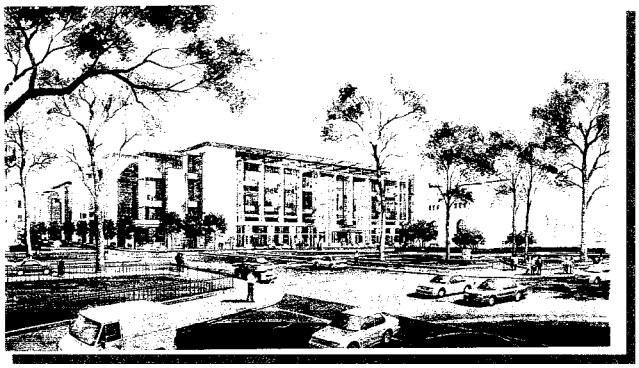
TESTIMONY OF

LEWIS H. DAWLEY, III
GENERAL MANAGER & CHIEF EXECUTIVE OFFICER
WASHINGTON CONVENTION CENTER AUTHORITY

On the "Status of Construction of the New Washington Convention Center -- "America's Convention Center"

BEFORE THE
CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENT REFORM

Friday, January 18, 2002
10:00 am
Rayburn House Office Building
Room 2154



Good morning, Chairwoman Morella, Congresswoman Norton and members of the Subcommittee. Thank you for the invitation to update the Subcommittee on the status of the new Washington Convention Center. I'd also like to thank the Subcommittee for its efforts to assist the District of Columbia through the difficult aftermath of the tragic events of September 11th.

For the record, I am Lewis H. Dawley, III, General Manager and CEO of the Washington Convention Center Authority (WCCA/The Authority). As you may know, the new Washington Convention Center is the fourth facility in which I have participated in either the expansion or new construction.

But the Authority is doing what no other organization in our industry has ever done. We are managing the full operation of an extremely busy convention center while also overseeing the construction of a new facility. The past year and a half has demonstrated that the Authority has assembled a quality team with the necessary experience and expertise to handle both operations.

The new Washington Convention Center project, in addition to being one of the largest in the country, is also the most complex development of its kind. We have tightly managed what has been a massive undertaking. It has been difficult, but we *are* getting the job done.

The Authority has accepted this difficult task because the existing and new convention centers are vital to maintaining and invigorating the District's tourism industry. More importantly, the new facility is a prime catalyst for the economic renewal of Washington, DC and the entire metropolitan Washington region.

Now more than ever, the importance of our task is clear. I can say on behalf of the Authority's Board of Directors, management and staff, we are resolute in our determination to succeed.

In many respects, all Americans can claim the new Washington Convention Center, located in the very heart of the nation's capital, as their own. We anticipate and expect that this magnificent facility will quickly come to be known as the nation's meeting place.

Today, the Subcommittee has heard about the most notable aspects of the project's schedule and budget. You have also heard from District officials about how the convention center project is monitored locally and the impact the project will have on economic development and neighborhood revitalization.

What I will do now is provide more detail on where the project is currently, review how we got here and advise you how we plan to complete construction on time and within funding estimates.

As you may recall, when the Authority appeared before the Subcommittee in 1998 to seek final approval for the project, several goals were outlined, including: opening the facility in March 2003, building it within the means of a strong financial plan, increasing contracting opportunities for local businesses and providing employment for District residents. Despite the predictable and customary challenges for a project of this magnitude and complexity, these goals and objectives remain unchanged, and will be achieved.

Here is where we are today:

- the design is 99 percent complete;
- 98.5 percent of all trades have been contracted; and
- construction is approximately 55 percent complete.

In getting to this point, the following milestones, among others, have been achieved:

- Excavated 2 million tons of soil.
- Completed installation of totally new utility infrastructure around the site that will also benefit surrounding historic communities such as Shaw, Blagden Alley and Mount Vernon Square.
- Completed erection of the 44,000-ton steel super structure.
- The mechanical, electrical and plumbing systems are being installed.
- In the next few months the exterior enclosure of the building will be completed.
- The interior work has recently begun and will accelerate toward completion in a little more than one year from now.
- Selected an art consultant for implementation of our $4 million (dollar) Art Program to work in conjunction with the D.C. Commission on the Arts and Humanities. We also established an Executive Committee with representatives from the Smithsonian and Corcoran museums as well as the Federal Commission for Fine Arts. There is also an Advisory Committees comprised of nearly 30 local artists.
- The project has achieved 50 percent contracting with Local, Small and Disadvantaged Business Enterprises (LSDBE), surpassing our original goal of 35 percent.
- Nearly 600 DC residents have been hired to work on the project, including 67 who have entered our innovative Step-Up Apprenticeship Program. The Step-Up program is the only commercial program sanctioned by the US Department of Labor and has been hailed by the Agency as a model job training initiative.

- **Because of the WCCA sponsored Shaw Comprehensive Job Training Academy, nearly 1000 DC residents have received job readiness counseling and training in a variety of career skills. Nearly 500 residents have earned employment through this program.**

In addition to these accomplishments, we have met and exceeded all of the construction impact mitigation measures requested as a condition of the project's approval. I am proud to report that because of our Business Impact Grant Program, grants totaling nearly $250,000 have been awarded to sustain impacted businesses around the site, and not one has closed.

As you can see, the project has come a long way from where we started. When the project was approved in 1998, we established a very aggressive schedule and initiated a "fast-track" approach. In our case "fast track" means the new convention center must be ready to host shows by April 2003 which is when the first event is scheduled for the new building. Therefore the schedule was compressed so that certain phases of construction could proceed as the design was being finished. In fact, when excavation started the architectural design was still being developed.

The realities of simultaneously designing and constructing a facility of this monumental scale, during what has arguably been the most competitive construction environment ever, have been sobering.

There have been numerable challenges that have impacted the budget and threatened the schedule. We had to deal with the removal and remediation of over half a million tons of hazardous soil, a partial collapse of a small portion of the roof truss system and difficulties in finding qualified trades specialists.

These enormous challenges not withstanding, our Development Team has worked with the Architects and the Construction Manager to find ways to control costs and maintain our schedule objectives. Whether that meant making needed design changes without compromising the quality of the architecture, working double shifts, or renegotiating a complex amendment to the Guaranteed Maximum Price (GMP), the project has stayed on course.

The culmination of these efforts is the agreed upon amendment to the GMP contract discussed earlier. As mentioned, the agreement with Clark/Smoot, our Construction Manager, resolves the vast majority of outstanding issues related to design, costs and schedule. In particular, the agreement eliminates $109 million of $135 million of accumulated claims. The $26 million (dollar) balance of these claims will be mitigated or covered by reserves and allowances within the GMP.

The amendment also calls for the facility to be ready to host conventions by March 31, 2003. As the attached letter from Clark/Smoot indicates, a new schedule that realizes this goal has been developed and will be included in the amendment.

The GMP amendment provides the financial basis for how we will move forward toward completion. The total project cost in 1998, including the GMP for hard construction costs, project contingencies, administrative costs, grants and vendor supplied items, was $714 million and is now $799.5 million, which is just 12 percent above the originally approved budget.

In addition to providing a sense of certainty to the projected substantial completion date, the GMP amendment keeps costs within our estimate of available funds.

As you know, the events of September 11th sent shockwaves through the hospitality industry. The Authority acted quickly to reassure our bondholders and other financial stakeholders that the project was on course and that WCCA had more than sufficient funding to meet debt service requirements.

The total sources of funds estimated for the completion of the project is approximately $815.6 million. The Authority has secured 97 percent or $790 million (dollars), with only a small portion remaining to be received through grants and vendor contracts. Because of the strength of available reserves, currently approximately $100 million (dollars), the Authority has not been adversely impacted by the events of September 11th and will *not* need any additional District or federal funding or taxes.

Also, there is growing optimism that the District's hospitality and tourism industry has rebounded from the recent downturn because of the terrorist attacks. The increased flights at Reagan-National Airport and increased marketing efforts are slowly but surely bringing business and leisure travelers back to the District.

We also recognized, as did Congress, the vital importance of the existing convention center to the District's and the region's economy. Because we were determined to stay open for business through that tough period and work closely with our clients, we didn't suffer any cancellations.

Our outreach efforts to groups booked for September and October included developing specialized newsletters for exhibitors, briefing clients on new security protocols and assigning staff liaisons to answer any and all client concerns. Because we have been able to keep these groups in the existing convention center many of our hotels and restaurants were able to weather the storm.

Of special note, I again want to publicly thank Congresswoman Norton for working with the leadership of the Congressional Black Caucus (CBC) to go forward with the annual Legislative Weekend. The CBC event was schedule just a week after the attacks and the courage and determination exhibited by the CBC leadership set the tone for the groups that followed.

Additionally, on behalf of the entire Washington Convention Center Authority, I want to take this opportunity to thank DC Mayor Tony Williams and his administration for their superb outreach effort to our clients to ease any concerns that they may have had. Mayor Williams' efforts may not have garnered much publicity, but were absolutely critical to holding on to these groups and earning us high marks for the top-down commitment to the organizations that choose Washington, DC as a convention destination.

The response by the Washington hospitality industry, Mayor Williams, the City Council and, indeed Congress, is reverberating through our target market of large professional associations, many of which are headquartered here in the nation's capital.

The high level of commitment to superior customer service and personal attention as demonstrated by the Mayor has helped tremendously with Washington, DC's growing reputation as a prime meeting destination. With the City's economic and cultural renaissance, and now a world-class convention facility to match, the future is extremely promising.

We started booking the new Center in 1997 and those commitments are quickly picking up steam. For 2003, 24 definite and tentative bookings have been secured, and there are currently 197 total definite and tentative bookings through 2013. To make certain that we are ready to host these clients, last year I assembled an in-house Transition Team to guarantee that operations flow smoothly from the existing to new Centers and that clients have access to senior management to ensure the success of our first several events.

We have made a commitment to our clients to open one of the finest meeting and convention facilities in the world in March 2003. With the experience of our team, we will fulfill this commitment and are confident that the new Washington Convention Center will meet and exceed the economic impact projections to help continue the revitalization of the nation's capital and strengthen the metropolitan Washington region.

Madam Chair, Congresswoman Norton, members of the Subcommittee, thank you again for this opportunity to share our progress. At this time, I am happy to respond to any questions or comments that any members may have.

-END-

Mrs. MORELLA. Now I am now pleased to recognize Dr. Gandhi, our CFO.

Mr. GANDHI. Thank you, Madam Chair, Congresswoman Norton, and members of the subcommittee. For the record, I am Natwar Gandhi, chief financial officer for the District of Columbia.

I am here today to testify on the status of the construction of the new Washington Convention Center. The recent GAO report on the subject raises a number of concerns, especially with regard to the guaranteed maximum price and the timeliness of the completion. Overall, I do believe this report is a very good heads-up about this important project, and deserves serious attention.

While disagreement on these kinds of issues may be common in the construction industry, particularly on large projects, we all have an interest in bringing this project to a successful and timely completion.

There is one major connection between my office and this project, and that is the likely sufficiency of the sales taxes dedicated to cover the debt service. I believe that the dedicated stream of taxes will be sufficient to cover the debt service and that no additional revenue will be required. The revised fiscal year 2002 budget for the District estimates dedicated taxes for the new convention center at $60.53 million. However, we now believe that because of the recession and aftermath of the tragic events of September 11th, that amount will likely reduce to about $60 million, a reduction of about $5 million. We will have a more precise estimate of this number by March of this year.

This reduction in revenues should not affect the construction of the new convention center. The Convention Center Authority has completed a study on this issue, which concluded that even if the dedicated taxes were to decline, say, by $26 million, to a total of about $39 million, they could continue to operate the existing convention center and complete the new convention center as planned, with minimal impact to their reserve funds.

I believe my oversight authority over the convention center is quite adequate. I serve on its board, and in that capacity vote on all matters that come before the board for approval.

I also have to approve the convention center's annual operating budget. On matters relating to the issuing of bonds and adopting budgets and financial plans, the chief financial officer has a de facto veto authority. Additionally, the chief financial officer of the convention center reports to the general manager of the convention center and to me.

Whether or not the latter relationship will continue in the future depends on the authorities given to the District's chief financial officer by the Congress.

Madam Chairwoman, that concludes my testimony. I will be pleased to answer any question you may have. Thank you.

Mrs. MORELLA. Thank you, Dr. Gandhi.

[The prepared statement of Mr. Gandhi follows:]

STATUS OF CONSTRUCTION OF THE CONVENTION CENTER

Before the
Subcommittee on the District of Columbia
Committee on Government Reform
U.S. House of Representatives

The Honorable Constance A. Morella, Chairwoman

January 18, 2002, 9 a.m.
Room 2154, Rayburn House Office Building

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

1

Good morning, Madam Chairwoman, Congresswoman Norton, and Members of the Subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia. I am here today at your request to discuss the Office of the Chief Financial Officer's (OCFO) perspective on the status of the construction of the new Washington Convention Center.

The recent General Accounting Office (GAO) report on this subject, entitled "District of Columbia: Status of the New Convention Center Project" (November 30, 2001; GAO-02-182R), raises a number of concerns about the ongoing construction effort, especially with regard to the guaranteed maximum price and the timeliness of completion. Overall, I believe this report is a very good "heads up" to the District and the Congress about this important project and deserves serious attention. While disagreements on these kinds of issues may be common in the construction industry, particularly on large projects, we all have an interest in bringing this project to a successful and timely completion.

There is one major connection between the OCFO and this project, and that is the likely sufficiency of the sales taxes "dedicated" to cover debt service on the costs of the project for the next few years. I believe that dedicated stream will be sufficient to cover the debt service, and that no additional revenue will be required.

The revised FY 2002 budget for the District estimates dedicated taxes for the new convention center at $65.3 million. However, we now believe the

national economic recession and the aftermath of the events of September 11 likely will reduce that estimate by about $5 million, to some $60.3 million for FY 2002. We will have a more precise estimate of this number by March of this year.

This reduction in revenues should not affect the construction of the new convention center. The Washington Convention Center Authority (WCCA) has completed a study on this issue, which concluded that even if the dedicated taxes were to decline by $26 million, to a total of about $39 million, they could continue to operate the existing convention center and complete the new convention center as planned with minimal impact to their reserve funds. They can discuss the study in greater detail if you wish.

I believe the Chief Financial Officer's oversight authority over WCCA is adequate. Based on the local act that created the Board of Directors, I serve on the board of the convention center and, in that role, vote on all matters that come before the board for approval. I also have to approve the convention center's annual operating budget, which is over $57 million for FY 2002. On matters relating to issuing bonds and adopting budgets and financial plans, the Chief Financial Officer has de facto veto authority. Additionally, as authorized by the District's FY 1997 Appropriations Act (Public Law 104-194), and extended through July 1, 2002 by the FY 2002 District of Columbia Appropriations Act (Public Law 107-96), the chief financial officer of the convention center reports to the general manager of the convention center and to me. Whether or not the latter relationship will continue in the future depends on the exact authorities given to the District's Chief Financial Officer by the Congress.

Madam Chairwoman, that concludes my testimony. I would be pleased to answer any questions you or the Members may have.

Mrs. MORELLA. I thank the entire panel for their opening statements.

I know that Mr. Price is on his way. He has already submitted a status of the construction of the convention center to us. And so when he arrives, we will allow him to make any comments that he would like.

I think I will start off, then, with GAO. The projected cost of the project, as you have mentioned, is now $799 million. I just wondered if you could explain to us, what are the reasons for the increased cost of the project, and then if you would go into what adequate controls are in place to ensure that the project will not exceed that $799 million estimate or statement?

Ms. FRANZEL. The cost increases, the increase up to $799 million, is due to several factors. A couple of the largest factors are the hazardous material/soil contamination issues. That accounted for about $12 million of the increase.

Increased design fees were another very large line item that increased, and that increased by approximately $17 million. And then numerous other line items had some smaller increases; line items such as program management, legal, consulting, inspections, public works, and equipment. So all of those had some smaller increases. And together these increases then account for the new costs.

Regarding controls in place, the concept of the GMP is to really put a cap on the total price and also to allocate responsibilities for costs between the contract manager and WCCA so that future increases in costs would then be the responsibility of the party that has been allocated those costs. So that, once ratified, should also help put in place a control over the costs.

I believe that there intended to be some cost savings incentives and provisions in the final GMP amendment—I am not aware of all of the details—but that would also provide some controls over costs. Again, this is not finalized or ratified, but getting the GMP finalized will help tremendously. I believe there is also a contingency factor built into the current $799 million of around $112 million.

And as we heard, the current GMP does have some reserves built in for those pending change orders that hadn't been resolved, so there is some cushion, and the GMP should provide some controls. But ongoing monitoring and oversight will continue to be very important.

Mrs. MORELLA. You heard Mr. Brazil's comments about the oversight and the advisory meetings. Do you think that is going to enhance this control mechanism?

Ms. FRANZEL. Very definitely. We have been coordinating with the results of Mr. Brazil's studies.

Mrs. MORELLA. I would like to direct that very same question to Mr. Dawley, obviously.

Mr. DAWLEY. Well, Madam Chair, I can answer that. But I think that it is important that I have just a moment here to just explain, you know, what this project is about and how we got into this and why this is important. It all ties into the things that are related to the costs.

You know, there are—from our perspective, there are four elements of this project that make it a very special and dynamic project. One is quality. You know, it is important that we never sacrifice the quality. As you know, the convention center meetings and convention industry is a very competitive industry. And it was important to us that when this project is finished, that it would be what I feel will be one of the finest convention centers in the world and a truly world-class convention center. So, you know, we have endeavored to not sacrifice that quality in how we have made decisions to move forward.

The second element of that is that we have always been conscious of our costs relative to our sources of funds, so that we managed those costs with the interest in making sure that we had available funds.

The third is the schedule. You know, you have mentioned the schedule this morning and why the schedule is important. We made a conscious decision in 1997 to start booking conventions in the convention center. There are two avenues that you can go down when you make a decision to do that. You can wait, as some convention centers in some cities have done, and a couple of years out you get a sense of where you are in terms of the schedule, and you start to book business. But then there is a price you pay: Your convention center sits there for maybe 2 or 3 years and doesn't give the full benefit back to the community that you expected.

So that was a decision that we made to start booking conventions; in fact, in April 2003, two of our first conventions that would not be coming to Washington if it wasn't for the new convention center. So that is important, because the schedule has always been something that we have focused on.

And the fourth is that there were responsibilities that were given to this organization in terms of benefit to the community. And as I mentioned and Councilman Brazil mentioned, that was related to business opportunities for businesses in the District and job opportunities. So all of that is important to this, because it does have some impact on how we have made decisions in terms of how we have managed the costs of this project.

But when you take into consideration where we are today, you can see there is light at the end of the tunnel. The three largest and most complicated parts of the construction are behind us, which was obviously digging the hole, which was the excavation. On any project when you start to do that, you never know what is down there. You can do all of the testing that you want. We found that there was some—apparently, years ago, there had been some gas stations and things like that on that site, and we had some soil remediation efforts that we had to make. So that is behind us.

The second largest part of this project has been the site—the utility relocation and the concrete work. On a project of this size, that is massive. That is now behind us.

And then the third, what I consider to be—if you have driven there, if you have gone past there, you have seen that is an enormous steel structure there.

Now that the steel is behind us, and as part of resetting the GMP and these costs and closing out that part of the construction, that is important because now we are basically on what I consider

to be the finish line of this. We are currently closing out and trying to wrap up the mechanical, electrical, and plumbing; then we start to get into just interior things, which is carpet and wallpaper.

Mrs. MORELLA. I would like to just interrupt you. Tell me just briefly, are you offering financial incentives for completion on time, and then are you offering penalties for noncompletion?

Mr. DAWLEY. There is a financial incentive. If you want specifics about that, I should probably have Alan Lew, our managing director of development come up, and he can tell you specifically what those incentives are. But we do have some incentives in the GMP to finish this in March 2003. There is a liquidated damages that goes into effect, and that goes into effect, I believe, on June 1, 2003. So, yes, there is.

Mrs. MORELLA. We may pursue that later. I see Mr. Price is here. I know the difficulty of scheduling and transportation. So, if you would, I am going to let you give an opening statement. But before you do, would you stand and raise your right hand. I will just swear you in briefly.

[Witness sworn.]

Mrs. MORELLA. Thank you. So if you have caught your breath, you may proceed.

Mr. PRICE. I do apologize.

Mrs. MORELLA. We do have a copy of your testimony that you submitted.

Mr. PRICE. Good morning, Chairwoman Morella, Congresswoman Norton, and members of the subcommittee. Thank you for the invitation to discuss the state of tourism in the District of Columbia as well as provide the administration's perspective on the development of the new Washington Convention Center.

I would like to take this time, this opportunity, to thank the subcommittee, particularly Chairwoman Morella and Congresswoman Norton and Congressman Davis, for your assistance in dealing with the aftermath of the terrorist attacks in New York City and the Pentagon. Especially I would like to thank you for reopening the Capitol to visitors, as well as your work with the Mayor and regional leaders to resume air service at Reagan National Airport. Both of these actions have sent a strong message out to the world that Washington, DC, is safe and open for business.

My name is Eric Price, and I am the deputy mayor for planning and economic development for the District of Columbia, and it is my honor to represent Mayor Williams here today.

I will begin by speaking about the District's recovery from the attacks and then follow with remarks about the new Washington Convention Center.

Prior to September 11th, the District was weathering well the financial downturn that had impacted the Nation. The District was outperforming the national economy on a range of economic indicators.

Tourism was up. The city's hotel occupancy rate surpassed New York City in August. At less than 5 percent vacancy rate, the District's office market was identified by the real estate industry as one of the top markets in the United States. Unemployment was down, and the city continued to create new jobs, 4,900 more jobs than the same time last year.

Investment city-wide was up, pumping $10 billion into our economy from ward 1 to ward 8; Freddie Mac reported that the District's 29 percent rise in home values was the highest in the Nation for the third quarter of 2001, and the median price of a single-family home was at $217,000.

Four months later, we are relieved to report that our dire economic forecasts have not materialized. Although the District, its business and residents have suffered economically—although the District and its businesses have suffered economically somewhat, greater Washington's hospitality industry lost an estimated $1.25 billion in revenues in 2001 as a result of the attacks. Student tours of the Nation's Capital are almost nonexistent, including field trips from our neighboring jurisdictions.

However, since late fall, the hospitality industry is showing signs of rebounding. Hotel occupancy returned to a high of 74 percent in December from a post-September 11th low of 26 percent. The convention center lost no bookings as a result of the September 11th or subsequent anthrax incidents, and convention attendance is climbing back to normal. Restaurants are also experiencing a steady return to their previous levels of business, and seasonally adjusted unemployment dropped from 6.6 percent in September to 6.3 percent in October.

The city, the Convention Center Authority, the Washington Convention and Tourism Corp. and the business, civic, arts and cultural communities have collaborated and worked aggressively on a campaign to rebuild our tourism economy. There have been successful promotions. We've had two Restaurant Weeks; we're going into our second. We just started Holiday Homecoming, D.C. Sales Tax Holiday, Metro Free Weekend to bring regional visitors and revenue into the city. The cast of NBC's West Wing and Warner Brothers volunteered to produce four promotional advertisements of the city that will be seen by regional and national audiences beginning January 21st.

Our other new partners in the recovery include the Smithsonian Institution, which participated in Holiday Homecoming and is providing February's Smithsonian magazine wrapper, which has a circulation of 2.6 million people, to promote Washington, DC, to its readers. Also companies such as New Balance shoes, who sponsored Washington Walks, will be featured in Conde Nast Traveler magazine, which has a circulation of 800,000 people.

There has been a strong, solid effort to promote a resurgence of the city's hospitality industry that will ensure that hotel occupancy and the levels of revenues generated meet and surpass pre-September 11th levels. I am confident that this effort will continue and that it will result in a strong flow of dedicated revenue to support the new Washington Convention Center.

The new convention center is projected to have a substantial positive impact on the District and the region. According to an economic impact study conducted by Coopers and Lybrand, when fully operational, the center is projected to have an annual total economy impact of $1.4 billion, $656 million of this on the District and $776 million on the metropolitan region. Additionally, the center will produce over 17,000 jobs, 7,800 for D.C. residents and 9,700 for the metropolitan region.

In anticipation of the new convention center, 16 new hotels have been completed or will be completed by 2004, adding 7,500 rooms that will be added to the city's inventory of 26,000 rooms. The recent awarding of the neighboring Wax Museum site will add additional vibrancy to the neighborhood and retail opportunities for convention center attendees.

By District statute, the Mayor or his designee and the chief financial officer are ex-officio members of the Washington Convention Center Authority Board which oversees the operation of the current convention center and development of the new convention center. I have served as the Mayor's designee to the Board since my appointment as Deputy Mayor over 2 years ago. I attend monthly meetings of the Board and serve on the Board's Operation Committee.

The Mayor and the Council of the District of Columbia appoint the remaining members of the Convention Center Authority Board, and since taking office, Mayor Williams has only made two appointments to the Board. Recognizing the importance of the Board's role and oversight of the construction of the project, the D.C. Council recently approved legislation over the current—holding over the current board until the completion of the new convention center.

Greg Fazakerley, who is the chairman and CEO of CG Investments, serves as chair of the Development Committee, and Mr. Fazakerley has over 20 years of development experience. He also has worked closely with the Authority's construction manager and development team and provided the Board thorough updates on the construction and all issues that have arisen, including providing the Board oversight of the recently negotiated guaranteed maximum price, which resolved the majority of outstanding issues related to design, cost and schedules.

The Authority's financial team and auditors have assured the Board and the Mayor that the approximately $100 million of available reserves is more than sufficient to meet the debt service requirements and that the Authority will not need any additional District or Federal funding or taxes. I am confident that under Lewis Dawley's strong leadership, the Authority will open in March 2003 on time and on budget.

There are two other major projects related to the convention center that you should be aware of, the development of a convention center headquarters hotel and the redevelopment of the existing convention center site. Since last fall, my office, the chief financial officer's office and the Office of Planning have been in negotiations with the two development teams who are judged to be best qualified on their responses to our request for proposal to provide a 1,000-plus room convention center hotel. The terrorist attacks of September 11th have definitely had a negative impact on the already challenged hospitality capital markets, and as a result, my staff and our advisors, Strategic Advisory Group, have taken some additional time to see if the financing proposals will hold up in the current marketplace.

With the recent completion of the final stage's selection process, the CFO and I will likely make a selection in the next few weeks. When completed, we project that the headquarters hotel will generate an estimated $10 million in net new District tax revenues.

In addition, last year my office and the Office of Planning issued a phase one plan, which proposed a set of uses and a general process for the redevelopment of our old convention center or the existing convention center site. Late last year, we selected a consultant, Hamilton Rabinowitz and Alschuler to advise us in the structuring of the redevelopment process and development of the developer solicitation.

After examining the experience of other cities and other threshold issues, the Office of Planning and HR&A have begun the process of creating a development solicitation and engaging with groups like the Federal City Council and the Martin Luther King Library who have an interest in the site. Over the next 3 months, we will finalize the process and offering documents, and we expect to formally engage the Council and other stakeholders later this spring.

I want to thank you for this opportunity to speak on these two critical elements of the District of Columbia's economy, and I am available to answer your questions. Thank you.

[The prepared statement of Mr. Price follows:]

GOVERNMENT OF THE DISTRICT OF COLUMBIA

EXECUTIVE OFFICE OF THE MAYOR

Subcommittee on the District of Columbia
Committee on Government Reform
United States House of Representatives

Congresswoman Constance A. Morella, Chairwoman
Congresswoman Eleanor Holmes Norton, Ranking Member

"Status of Construction of the Convention Center"

Statement of
Eric W. Price
Deputy Mayor for Planning and Economic Development
District of Columbia

January 18, 2002
2154 Rayburn House Office Building
9:00 A.M.

Good morning Chairwoman Morella, Congresswoman Norton and members of the Subcommittee. For the record, I am Eric W. Price, Deputy Mayor for Planning and Economic Development for the District of Columbia. It is my honor to represent Mayor Anthony A. Williams before the Subcommittee on the District of Columbia. Thank you for the opportunity to discuss the state of tourism in the District of Columbia as well as provide Mayor Williams Administration's perspective on the development of the new Washington Convention Center. I would like to take this opportunity to thank the Subcommittee, particularly Chairman Morella, Congresswoman Norton and Congressman Davis, for your assistance in dealing with the impact of the terrorist attacks on the District of Columbia. Your assistance in reopening the Capitol to visitors and working with Mayor Williams and regional leaders to resume air service at the Ronald Reagan National Airport is greatly appreciated. Both of these actions have sent a strong message out to the world that Washington, D.C. is safe and open for business.

Prior to September 11th, the District was weathering the financial downturn that had impacted the nation. In fact, the District was outperforming the national economy on a range of economic indicators:

- Tourism was up — the city's hotel occupancy rated surpassed New York City's in August;
- With less than a five (5) percent vacancy rate, the District's office market was identified by the real estate industry as one of the top two markets in the United States;
- Unemployment was down and the city continued to create new jobs — 4,900 more jobs than the same time last year;
- Investment citywide was up, pumping $10 billion into our economy from Ward 1 to Ward 8;
- Freddie Mac reported that the District's 29 percent rise in home values was the highest in the nation for the third quarter of 2001 with the median price of a single family home at $217,500.

Four months later, we are relieved to report that our dire economic forecasts since September 11th have not materialized. The District, its businesses and residents have suffered economically but not to the extent initially anticipated. The Greater Washington metropolitan area's hospitality industry lost an estimated $1.25 billion in revenues in 2001 as a result of the terrorist attacks and anthrax scare. Student tours of the nation's capital are almost non-existent, even from our neighboring jurisdictions. However, since late fall, we are pleased to see signs of a rebound:

- Hotel occupancy returned to a high of 74 percent in December from a post-September 11 low of 25.6 percent. Anecdotally, hoteliers report that bookings for this February and March are on par with February and March 2001. They also report that the room prices have been deeply discounted to attract the business and leisure traveler;
- The Convention Center lost no bookings as a result of September 11 or the subsequent anthrax incidents. Convention attendance is climbing back to normal, and in even exceeding anticipated registration;
- Restaurants are also experiencing a steady return to their previous levels of business;
- Seasonally adjusted unemployment dropped from 6.6 percent in September to 6.3 percent in October.

The District, Washington Convention Center Authority, Washington Convention and Tourism Corporation and the business, civic, arts and cultural communities have collaborated and worked aggressively on a campaign to rebuild our tourism economy. There have been successful promotions - Restaurant Week, Holiday Homecoming, D.C. Sales Tax Holiday and Metro Free Weekend - to bring regional visitors and revenue into the city. The cast of NBC's *West Wing* and the Warner Brothers studio volunteered to produce four promotional advertisements of the city that will be seen by regional and national audiences beginning January 21, 2002.

Other new partners in the recovery effort include the Smithsonian Institution, which participated in Holiday Homecoming (a two-month long program of events and

promotions throughout the city) and is providing February's Smithsonian magazine wrapper (circulation 2.6 million) to promote Washington, D.C., to its readers. Also, New Balance Shoes has sponsored "Washington Walks" to be featured in Conde Nast Traveler magazine (circulation 800,000) this March.

There has been a strong, solid effort to promote a resurgence of the city's hospitality industry that will ensure that hotel occupancy and levels of revenue generation meet and surpass pre-September 11 levels. I am confident that this effort will result in a strong flow of dedicated revenue to support the new Washington Convention Center.

The new Convention Center is projected to have a substantial positive economic impact on the District and the region. According to an economic impact study conducted by Coopers and Lybrand, when fully operational, the Convention Center is projected to have an annual total economic impact of $1.4 billion, $656 million in the District and $776 million in the metropolitan region. Additionally, the Center will produce over 17,000 jobs - 7,830 in the District of Columbia residents and 9,750 in the Washington Metropolitan region.

In anticipation of the new Convention Center, 16 new hotels have been completed or will be completed by 2004, adding 7,500 rooms to the city's inventory of 26,000 rooms. The recent award of the neighboring Wax Museum site will add vibrancy to the neighborhood and retail opportunities for convention center attendees.

By District statute, the Mayor or his designee and the Chief Financial Officer (CFO) are ex-officio members of the Washington Convention Center Authority Board (Board), which oversees the operation of the current convention center and the development of the new convention center. I have served as the Mayor's designee to the Board since my appointment as Deputy Mayor over two years ago. I attend monthly meetings of the Board and serve on the Board's Operation Committee.

The Mayor and Council of the District of Columbia appoint the remaining members of the Convention Center Authority Board. Since taking office, Mayor Williams has only made two appointments to the Board. Recognizing the importance of the Board's role in oversight of the construction of the project, the District of Columbia

Council recently approved legislation holding over the current Board until the completion of the new Convention Center.

Gregory Fazakerley serves as chair of the Development Committee. Mr. Fazakerley is Chairman & CEO of CG Investments, Inc, a real estate and development company and has over 20 years of development experience. He works closely with the Authority's construction manager and development team, providing the Board with thorough monthly updates on the construction and any issues that arise. This includes providing the Board oversight of the recently renegotiated Guaranteed Maximum Price (GMP) which has resolved the majority of outstanding issues related to design, costs and schedule.

The Authority's financial team and auditors have assured the Board and the Mayor that the approximately $100 million of available reserves is more than sufficient to meet debt service requirements. The Board and the Mayor are also assured that the Authority will not need any additional District or federal funding or taxes. I am confident that under Lewis Dawley's strong leadership, the Authority will open in March 2003 on time and on budget.

There are two other major projects related to the new Convention Center of which you should be aware: the development of a Convention Center Headquarters Hotel and the redevelopment of the existing Convention Center site.

Coopers and Lybrand, in a study commissioned by the Control Board, identified a need to develop a headquarters hotel to maximize the city's investment in the new Convention Center. Since last fall, my office, the Chief Financial Officer's office and the Office of Planning have been in negotiations with two development teams selected based on their responses to our Request for Proposal to provide a 1,000 plus room convention center hotel.

The terrorist attacks of September 11th have definitely had a negative impact on the already challenged hospitality capital markets. As a result, my staff and our advisors, Strategic Advisory Group, have taken some additional time to see if the financing proposals will hold up in the current marketplace. With the final stage of the selection process recently completed, the CFO and I will likely make a selection in the next few

weeks. We project that the Convention Center Headquarters Hotel will generate an estimated $10 million in new District tax revenues once it is completed.

Last year, my office and the Office of Planning issued a Phase 1 plan that proposed a set of uses and a general process for the redevelopment of our old convention center. Late last year we selected a consultant, Hamilton Rabinowitz & Alschuler (HR&A) to advise us in the structuring of the redevelopment process and development of the developer solicitation.

After examining the experience of other cities and other threshold issues, the Office of Planning and HR&A have begun the process of creating a development solicitation and engaging with groups like the Federal City Council and the MLK Library, who have an interest in the site. Over the next three months, we will finalize the process and offering documents and we expect to formally engage the District's Council and other stakeholders later this spring.

Madam Chairwoman this concludes my testimony before the Committee. Thank you for this opportunity to speak on these two critical elements of the District of Columbia's economy. I am happy to answer any questions you or Members of the Committee may have.

Mrs. MORELLA. Thank you very much, Mr. Price. I'm now going to recognize the distinguished ranking member, Congresswoman Norton, for her questioning.

Ms. NORTON. Thank you. I thank you very much, Congresswoman Morella.

Dr. Gandhi in his testimony indicated that of course many of the increases and unanticipated costs are what you see in large projects, and I'm sure that's true. I am having a very hard time; this is in part because the GAO report is focused so specifically on D.C. I can never judge anything except compared to what—the District of Columbia, for example, is always judged on what is happening—on its own terms.

So that—for example, I remember when the Control Board was here and there was the big problem with the schools, and we were told that the District of Columbia schools were the worst in the country. That wasn't even true. That wasn't even true. And people were comparing the District of Columbia with States, and it just wasn't true that the District of Columbia schools were worse than New York City, you know, or Birmingham, AL.

And so, you know, the academic in me wants to say, how can I judge this; and obviously I want to ask questions and insist upon holding the District to a high standard, but none of us up here are construction experts. Therefore, it is hard for me, I will say to Ms. Franzel, to judge what—when we are talking about the largest building in this city since the Ronald Reagan Building—and the Ronald Reagan Building is the largest building that the Federal Government has ever built, and there's no building of its size, anywhere near its size, in the entire region, and it's hard to find a building anywhere in the country as big as that. So at least that gives me one standard by which to judge.

So here this is second, in this city, only to the Ronald Reagan Building. I'll tell you one thing. I'm on the committee that had jurisdiction over the Ronald Reagan Building, and we had to go through a version of hell to make sure that building not only went up because of its size, but it was used for the purposes that it was intended. It was quite an ordeal.

So I cannot help but begin by asking Ms. Franzel whether the GMP increases, whether the delays we've seen, how they—those issues that concern us. Estimated costs are compared to—actual costs compared to estimated costs, how that compares to the standard in the industry, or else I just don't know anything to say, except do better, and that is not a very scientific way to go about judging a project.

Ms. FRANZEL. Sure. The focus of our work was really to look at the estimated costs in relation to financing available, because although certain norms might be occurring out there in the construction industry for such projects like this, I think our real concern was whether the current estimated costs were still within the available financing for this particular project. So we did not attempt to compare, you know, the levels of increase on this project with levels of increase on other projects around the United States. Our chief concern was whether the current financing available would still be sufficient to cover the current estimated costs.

Ms. NORTON. All right. Well, let me—again, to judge that, though one has to know whether or not when costs increase this way, whether that—obviously there can be great surprises. Well, let me go at it this way.

I look at the original amount for unforeseen costs. That was $30.5 million. That's where we started in September 1998. Then I look in May of this past year, and the fact is that they'd used up most of it by then; $28.3 million is what's been used. So that in July—in June, rather, right after most of it—it became clear that most of it was being used, the contingency was increased, and they increased it by $50.7 million.

So that—as I look at these amounts, the estimated financing sources now exceed the estimate, the Convention Center Authority's estimated costs by about $16 million as of July. So the question then becomes, seeing what has happened over that time line and seeing that the cost of the building started at $799.5 and is now $815.7, let me ask you, given that time line then for this project, do you believe that they will continue to have enough money in the contingency to cover remaining unforeseen costs, or will they have to seek further financing?

Ms. FRANZEL. That is really the key matter here. Because these new figures have just come out, we have not specifically studied the feasibility of completing the project within those estimates. We did, however, want to present a status of the current estimates, and perhaps WCCA can explain further some of the reserves and contingencies that have been put in place with this current budget to help ensure that it can be met within the current estimates.

There is a contingency, and I believe there are reserves built into the figures which we've not had a chance to analyze because we just received those numbers last week, but currently there are some reserves and contingencies built into that estimated cost of $799 million; and that would be, then, in addition to the $16 million that is still out there that's available for the project.

Ms. NORTON. Well, that's important, and perhaps Mr. Dawley could explain that, that particularly, in addition to the $16 million that's available, according to Ms. Franzel, there are reserves that could perhaps be drawn upon to make sure that the project was completed.

Mr. DAWLEY. We are replenishing what you referred to as the contingency. As part of resetting the GMP, we have approximately a $30 million contingency that is included within the GMP and about $10 million outside of the GMP, and I believe we consider that the owner's account. So we do have—we are replenishing the contingencies, and as I mentioned earlier, we feel that when you look at where we are in terms of the construction and what we're doing, there's a reason why we reset the GMP at this point.

As I said in the beginning, we've bought over—you know, 98 percent of the job is bought where we are on construction. So we feel confident that these levels of reserves and contingencies that we have are going to be sufficient to complete the project at this time.

Mr. GANDHI. And if I may add a word, Ms. Norton, you know, in addition there are the debt services fund, revenue stabilization fund, operating and marketing fund. So at each of these levels, we

have reached the minimum, and in many cases exceeded far beyond that.

Ms. NORTON. This is very reassuring. Have you looked at the risk factors that could keep you from completing—let me note that you're to complete in March, and you have your first——

Mr. DAWLEY. We have our first convention in April.

Ms. NORTON. In April. There's no wiggle room there.

Mr. DAWLEY. Right.

Ms. NORTON. I'm glad there's no wiggle room. Let's get on with it. Let's get it on once it's completed.

But it does put a premium on completing the project. Does that mean that in April we'd have a large convention?

Mr. DAWLEY. We actually—at the beginning of April, we have our first convention; and then we have two large conventions in April, and we're busy in the new convention center all the way up until December. In my testimony, I don't know if I mentioned that we have I believe 20-something conventions already scheduled in that first year, so——

Ms. NORTON. So this looks like a guarantee that the convention center will be finished on time?

Mr. DAWLEY. Yes. And we're working very closely with our construction manager, Clark Construction, and we've come up with a plan for what we're calling "convention ready," which is going to get us ready. And as you would expect, you know, the initial report where GAO was reporting what was in the initial report before we had an opportunity to resolve those issues with Clark, caused some concern among our clients; and we've met with those clients that are scheduled to come in in April, and we've reassured them that the convention center is going to be ready. So we're working closely with Clark. We have a plan for that.

Just as an example, there's a huge amount of carpet that is going into this building, and what we've decided is to expedite that. We're actually ordering the carpet now. We're going to store it. So we have a plan for how we're going to be there in April 2003.

Ms. NORTON. Yeah. Well, I certainly—when you say "clients," you mean people who were considering coming?

Mr. DAWLEY. Were already booked.

Ms. NORTON. I hope people don't misunderstand what GAO reports mean in Washington, and we certainly want to help to clarify that, that they're routinely ordered, because that's the only way Congress can get independent information. So if an—if some explanation is needed, I'd be pleased to help provide that. It's just part of our oversight; it doesn't indicate that we had difficulty with—or saw any difficulty with how the convention center was proceeding.

I have more questions, but I'd defer to the Chair and come back later.

Mrs. MORELLA. Thank you. Actually, GAO reports sometimes also inspire and motivate actions, too.

Mr. DAWLEY. Well, our competitors out there around the country took advantage of that opportunity.

Mrs. MORELLA. Well, but I also think——

Mr. DAWLEY. It's the nature of the business. I understand.

Mrs. MORELLA. I also feel very comforted that you have a lot more in order, in terms of reaching——

Mr. DAWLEY. Absolutely.

Mrs. MORELLA [continuing]. The final destination of total completion. But I have a little question about some of the terminology.

You know, I've often felt that they say around Washington to tell the truth, the whole truth and nothing but the truth means three different things. Now, that's not the case here at all, but let me ask you to define "readiness," "substantial" and "final completion" just so that I have it clear in my own mind.

Mr. DAWLEY. Right.

Well, frankly I'm kind of new at this concept we've developed on convention readiness, but what we had discussions with Clark about, you know, this building is so big, it's being built in three phases. You know, there's the north phase, the middle phase, as we call it, and the south phase; and a decision was made to kind of build each one independently.

So how we pull those phases together and prepare for our clients that are coming in—because obviously they want all of the things that a convention center expects, all of the food service and the technology and all of those things—so our plan and what we're focused on is ensuring that we have a certificate of occupancy which—you can't get a certificate of occupancy until March 2003. We have to have that to be able to operate the building. That means all life safety systems and those things will be in place.

So that's kind of what we're—when we say "convention ready," we mean having a certificate of occupancy and having the building ready.

Substantial completion means that, you know, there are things that you're still maybe finishing, which is—this is, like—there may be sections in the back of the house. There may be some warehouse storage areas, things like that, that you decided to kind of delay while you focus on these convention-ready areas, but they don't really impact our ability to operate and function as a convention center.

"Final completion" is when everything is done, you know, you've walked the building, and you've done all of the punch lists, and you've looked at those things. Although sometimes you agree to extend punch lists out because in a building this size, those things could take months. But "final completion" is that you've closed out all of the contracts. Everybody is gone. The subcontractors are gone. They've all been paid, and you've actually finished the project.

Mrs. MORELLA. So, therefore, it will be—readiness will be March 31st?

Mr. DAWLEY. Right.

Mrs. MORELLA. And the final completion will be October——

Mr. DAWLEY. Right.

Mrs. MORELLA. 31st? It will, however—from March 31st on, it will not impede——

Mr. DAWLEY. No.

Mrs. MORELLA [continuing]. The use of the new convention center?

Mr. DAWLEY. Right.

Mrs. MORELLA. And you say you already have some people or entities——

Mr. DAWLEY. We have a lot.

Mrs. MORELLA [continuing]. That have already signed up for April, and you're not going to have any problem with handling that?

Mr. DAWLEY. I believe I sent you a copy of my schedule—of our schedule of the convention center in my testimony.

Mrs. MORELLA. Yes. And then you also indicated in answer to a question that I posed that you do have some financial incentives——

Mr. DAWLEY. Right.

Mrs. MORELLA [continuing]. For the construction manager to meet those construction dates. And within that, financial incentives, would be penalties, too, the carrot and the stick, both of those; and you feel pretty sure and Dr. Gandhi and Mr. Price and Mr. Brazil are all cognizant of that and feel that these are pretty good safeguards. That's correct?

Dr. Gandhi, do you agree with that?

Mr. GANDHI. Yes, ma'am.

Mrs. MORELLA. Let me jump to the current convention center. Did I hear you say, Mr. Price—maybe you want to elaborate on this. Do you have plans in mind? Are you just asking people to submit their various proposals——

Mr. PRICE. Right.

Mrs. MORELLA [continuing]. For using that?

Mr. PRICE. What we've done so far for the first step we had to take was where would a convention center hotel go, and so we put out an RFP with the CFO's office to solicit proposals for a new convention center hotel, because we had to rule out the possibility—or rule it in one way or the other, would it go on the existing convention center site. And then, once determining that, we can move forward with what would be our plans for the existing convention center.

So we did get your proposals for the new convention center hotel. They are not on the site itself, and we'll make that decision. In the meantime, we are now—we've hired consultants to really look at some design planning issues, and all we've done so far is, the Mayor put together a task force with several stakeholders last year, and we came out with basically what kind of uses would you want to see on that particular site, and things that came out of that were, like, housing, boutique hotel. People wanted it to be a people-puller kind of cultural entertainment, a great public space.

Those were the kind of ideas that came out of that. So what we're doing now is taking all of that information, using consultants throughout the country to help us come up with a framework from which we can then in about 3 months issue an RFP for development of the site.

Mrs. MORELLA. Thank you. I'm now going to defer back to Ms. Norton for any other questions.

Ms. NORTON. Thank you very much, Mrs. Morella.

Mr. Gandhi, among the most reassuring parts of your testimony concerned the capacity of the dedicated tax, because you testified that well beyond the kind of drop in sales tax we're now seeing—and this, of course, is a drop after an unprecedented event of a monumental sort—there would be enough to cover. Does that mean

that there's a cushion in the reserves and how to dedicate it—and how much money the dedicated tax brings in in the first place?

Mr. GANDHI. Even in the first place, there is a lot of cushion, that even if the taxes were to decline, say by $26 million, you would still have a lot of money left over to take care of the debt services. As Eric Price pointed out earlier, things do not look now as bad as they looked immediately after September 11th.

So we are quite encouraged about the movement of the economy; and I think, Ms. Norton, if I—just to belabor for a moment, I think the District's fundamentals are quite strong. As you have stated so many times, for the first time in a long time, our population has stabilized. Now, that is a sea change in the case of American cities, and when that raises our tax base, we will have people here living with us and people with a lot of income. So I'm quite confident that the dedicated taxes are more than enough to take care of this.

Ms. NORTON. So we don't subsidize this convention center now at all, and we've never subsidized a convention center, and we won't subsidize a convention center?

Mr. GANDHI. Well, we do have dedicated taxes to take care of the convention centers for construction.

Ms. NORTON. But we've never had to subsidize it out of general revenues?

Mr. GANDHI. Well, if you——

Ms. NORTON. The dedicated tax is to build the convention center, of course. I understand. I'm asking the Convention Center Authority, which operates the convention center now——

Mr. DAWLEY. I can answer that.

Ms. NORTON. Yes.

Mr. DAWLEY. After the act of 1994, the subsidy to the convention center from the District at that point was eliminated, and our operating expenses and the construction debt service is paid for from the hotel tax, the dedicated hotel and restaurant tax.

Ms. NORTON. I have a question for Mr. Brazil and, I suppose, Mr. Price. This, of course, is to be the sixth largest center. By the way, could I ask Mr. Dawley, is it still going to be the sixth?

Mr. DAWLEY. As of today, yes.

Ms. NORTON. I never have been able to figure out how D.C. built a convention center that couldn't let the ABA come in the door in the first place. So I have to ask. Why build—they've already built a convention center once. Leave aside that over time your center will be—will have others to get larger, but I thought you measure by whether or not your—did these conventions get larger and that's why D.C. couldn't accommodate them?

Mr. DAWLEY. Well, there's—and I'll try to answer this as simply as I can. As you know, you hear about convention centers like McCormick Place in Chicago—and I think you'll recall we talked about this in 1998—or Las Vegas. Those tend to be trade show destinations that have, you know, industrial-type mechanical trade shows which occupy a lot of floor space. Our market is the association market, which is—requires meeting space. The exhibit space tends to just support the meeting. So it's like comparing apples to oranges.

Ms. NORTON. No. But I'm talking about the ABA, the AMA. I'm talking about the associations. I'm not talking about the——

Mr. DAWLEY. We can accommodate——

Ms. NORTON. But we apparently can't accommodate them now. At least they don't come now, because——

Mr. DAWLEY. In the existing center, you mean?

Ms. NORTON. Yeah.

Mr. DAWLEY. Yeah. No, we can't.

Ms. NORTON. I was simply trying to find out how we built a convention center, since we're association-oriented in the first place, that couldn't accommodate the largest associations; and I'm just hoping that this time we got it right.

Mr. DAWLEY. Well, that's why I said quality, and what I believe is going to be the finest convention center in the world has been one of our missions and our goals that we not cut corners.

Ms. NORTON. Mr. Brazil, you may recall that when the convention center bill was before the Congress and before the Council, there were some who tried to torpedo the bill on the basis that it was not going to be large enough. You know, all kinds of things were done, but an important point was raised, and that was that it didn't have any place to grow, and that was the—kind of the last—the last way in which they did—those who didn't want a convention center did a "gotcha," you know, it's not going to be able to grow.

At that time, you may recall that a plan came forward for an extension underground if an extension was needed, and this plan called for the extension to be paid for by the building of what I now—what I believe now, but I must ask, would be this convention hotel; that is to say, it would not be paid for—we probably are running out of ways to pay for it.

We've already got the industry paying for this. You know that D.C. can't pay for it, so it was to be paid for.

Nobody has even mentioned this underground extension, and it makes me very nervous. I hear a lot about this hotel, but nobody mentions whether or not these plans for extending the convention center, as is inevitable, if it outgrows its present space, are still the plans for the city—for the center.

Mr. BRAZIL. Well, I would like to address that, but I think Mr. Dawley and Mr. Price would probably give you more accurate information.

Mr. PRICE. I would like to take an attempt at that, because it's tied to the convention center hotel. You're exactly correct, as well as what happens at the existing convention center site; so all of the work we're doing right now, that is an issue, and in terms of choosing who will get the—who will win the new convention center hotel, that's been part of those discussions. And I'd be glad to even off-line talk more about it, but it is part of the negotiations——

Ms. NORTON. But it was very specific. It wasn't just that you're going to have a hotel where the revenues will end up in the general revenue. It was, you know, D.C. gets used to the revenues from this hotel being a part of the general revenue, it will be very difficult to do anything but say that D.C. is paying for the extension. What I want to know is, in the process, all this fancy stuff that—sure, people are going to come and say they want to build a convention hotel, even in a city that is full of hotels. The location of this hotel would make it a prime location for a hotel.

I want to know if the link between the revenues generated and extension for the convention center remains.

Mr. PRICE. Right now, and what I was going to finish up with is that if the—a new space or additional exhibit space that the convention center hotel needs is not part of the new convention center, then Lew has—is ready to begin a process of siting where that would go, and one of the places would be——

Ms. NORTON. I'm sorry. Could you say that again?

Mr. PRICE. Lew has started or will start—Lew Dawley, I'm sorry—looking at the siting issue of where that space would be, and one of those options is the existing convention center site. Paying for it, we haven't really gotten there yet. It could be tied to the new convention center hotel, part of the public-private partnership or a full public partnership that pays for it. It could be we come back to the convention center and look at the taxes that are being raised now for the new convention center, but we just don't have the answer to that, I think, at this time.

Mr. DAWLEY. We actually have started the process of developing a feasibility study, which I recommend, and as you know, all convention centers kind of do that today when they're built on future expansion and what the options would be. And as Mr. Price said, you know, we haven't gotten far enough along yet to really look at the financing issues.

Ms. NORTON. Well, I have a feeling this project would have had a much harder time getting through the Council and the Congress if we had not been assured——

Mr. DAWLEY. Right.

Ms. NORTON [continuing]. That the city had a way to expand it. And the reason was that the city's first convention center was obsolete as soon as it went up, and that's often not the fault of the jurisdiction.

So my only concern here is that if no real discussions continue to go on in the city, what will happen is that revenue will be dedicated to the District of Columbia, which like any government, can always spend it on very worthy issues. And I urge that the planning include the probability that this center is going to have to be extended. And while you might use the revenues in the meantime for something, and, yes, our populations have been stabilized, is one of the great—Mr. Gandhi's point here—is one of the great and important gains in the District of Columbia, making it almost unique.

But the fact is, we need 100,000 more people, as the Control Board has said, to even support what we've got. So it seems to me that this planning is going to be very important.

Madam Chair, I have only one question. I just want to congratulate the convention center for the way in which it has not only agreed to the step-up program, but used it. The reason this was so important—and I had the entire industry and all of the unions, all of those involved, in before this project began—is because the Federal Government in 1980 stopped doing joint apprenticeship programs with management and with developers and contractors; and what that has done is to leave us with a generation of young men and women in the inner cities who have not been trained to work

in sheet metals, to be electricians, to do much of the work. So cities are being built by people who live in suburbs.

That is an abomination. It's the fault of the Federal Government, because the fact is, it was that agreement, 1980, the first thing the Reagan administration did was to abolish this program, and it really condemned particularly a generation of young black men who were the most ready pool, condemned them to—you know, to doing what they did. They went into the streets. There was no money to train them.

So the step-up program is a way to try to get around that, and the convention center is one of the few examples in the city——

Mr. DAWLEY. In the country.

Ms. NORTON [continuing]. Of it having worked successfully.

Now, Mr. Brazil, the city itself—this is Mr. Brazil—it's really Mr. Price, but because the Council passed its own bill that said you couldn't come in here and build and use revenue bonds and the rest, and continued to recruit labor the way you always did; and there has been a lot of consternation that the city has not in fact met its promise, except at the convention center.

So I've got to ask what the—whether the Step-Up—my—and just let me indicate that the clout to do so really comes only from enforcement and the notion that you're going to monitor it to make it happen. I have—the largest projects coming in the District are Federal projects that have come through my committees—DOT, the Southeast Federal Center, the AFT, the SEC. I have insisted that each and every one of those projects have a Step-Up program, and each and every one of them is going to have one; and the GSA cooperates with me, because I just keep on them.

Now, if the city government does not keep on them, whatever the Council passes is not going to mean anything; and I have been very chagrined that there have been picket lines in the city. It should be an embarrassment to all of us. There have been picket lines in the city about how D.C., doing so much better, has not enforced its own laws.

I guess I should ask Mr. Price where you are on enforcing these agreements in places like George Washington University, which come to you to get revenue bonds, make you a promise. Then there's the picket line. I know whatever happens after that—and I understand this is continuing around the city; and I'd like to know what you're doing to enforce the law that was passed. I said, I'm not going to continue to bring jobs into this city for the suburbs. They already get a free ride, subsidized by the District of Columbia with no commuter tax.

So I should think you would be up in arms that all these jobs are being filled by people who don't live here. But unless somebody is willing to get on them to do what the convention center did, this is the way it always happens. So I've got to ask you about that, since it has bothered me no end to see all of these cranes—some of them are because of my own D.C.-only tax breaks for businesses, a big reason you see so many cranes.

Well, it breaks my heart, unless some of these young men and women from the District of Columbia are at least being trained through apprenticeship programs as this money flows from the Federal Government.

Mr. PRICE. Well, I don't disagree that it—not enough is being done to ensure that these jobs do go to District residents. And you're right. I think Lou has pointed out that the Step-Up program is one of the few in the country, and it's one of the few, because it is so difficult to do. And I agree with you, and he——

Ms. NORTON. Why were you successful, Mr. Dawley, in doing this, and the District of Columbia has had such difficulty? What's the difference? What does it take?

Mr. DAWLEY. Well, I think one of the things that made this successful was that we had the building trades participate and commit——

Ms. NORTON. But they've got the building trades. They're building things subsidized by the District of Columbia, tax breaks from the District of Columbia. Same building trades——

Mr. DAWLEY. And Clark Construction's were——

Ms. NORTON. You mean these were union trades and the others are not? I mean, is that the——

Mr. DAWLEY. In some cases, maybe.

Ms. NORTON. The Federal Government does not require that unions build, and yet we're going to have a Step-Up program.

What made your program so——

Mr. PRICE. Do you want me to respond to that?

Ms. NORTON. Yeah. I don't understand, and I really would like to, because if I understand that, I know what we have to do to make sure it succeeds, and my own projects that are coming online; and it would help the District if you would carry that over so that the District can use that.

The District wants this to work. Here it has this big project that's made it work. Why has it worked here, but didn't work at George Washington University, didn't work at these other places that——

Mr. PRICE. One difference between George Washington—I'll just give you one and, again, I don't want to make any excuses because I agree with you that not enough is being done, but one difference is, in the convention center, the District is in a way the owner of the project, and that has a big thing to do with the enforcement of it and the follow-through. On the revenue bond programs, the District is——

Ms. NORTON. Well, let me ask Mr. Brazil, does the statute that the Council passed, does it make it easier for a city-owned building? Because if it does, and it's not a city-owned building, then of course I think we need to have the law revised, because almost nothing that's being put up is city-owned.

Does your statute, so far as you know, draw any—make any differences between city-owned and city-subsidized projects?

Mr. BRAZIL. I'm not sure that it does. I think Mr. Price was just alluding to the fact that if you own the building—I mean, just as a practical matter—you can exercise more control.

In talking about the revenue bond program in general, we—our committee, my committee, oversees that, and one of the things—I think we have a—the executive branch has a good office that they screen the applications, etc. But one of the things that I insist on is to understand not only have you certified that you're going to meet the various requirements, be that sometimes apprenticeship

programs, but mostly hiring of D.C. residents and the small business program requirements, not only have you certified that you're going to do it, but how are you going to do it? Tell me your plan so that I can see you, from today just before you get this $30 million, or as much as $300 million between that time and the completion of the project, how are you going to get there?

And I have to—I think it's a work in progress. You know, some of the bond recipients are just very forthright, and they are very interested in meeting these requirements. Others, it's, you know, I don't want to have to do this, and I think we should gather—both branches of the government in Washington need to work harder, ask harder questions, monitor more.

One of the things I'm going to urge upon Mr. Price and the Mayor is to put a little bit extra muscle, some more people in their LSDBE program, so that they can really go through these projects and monitor them—not after they're all finished and gone, but as they're going, are you meeting these requirements?

And I think that the apprenticeship programs have sort of their own unique set of problems, but you're exactly right. If we don't make it happen, if we don't antagonize and be pests or however we do it, it's not going to happen and——

Ms. NORTON. Well, let me make a recommendation then, given what you've just said, Mr. Brazil.

The city tries to say a certain number of residents from the city, a certain number—and of course that's the important point. The Step-Up program, the reason that the apprenticeship program may be the key here as opposed to saying go out and hire some residents, is that people who live in cities have not had the training to work on these jobs. So in a sense you—the city is giving the developer or the construction manager an order that he cannot make.

If he's supposed to go out and find himself some carpenters and some sheet metal folks who live in the District, I mean, good luck. I just said you had a generation in which nobody is being trained.

So may I ask this. We've been able to get people to work on Federal projects by saying you must have—negotiate with them, the Step-Up program. One way to do it is, instead of using these numbers, which are almost impossible to be met, to require that there be a Step-Up program on every project, because all that means is that they're going to have to train people. And it concedes what it seems to me is fair to them, that if you tell me, I've got to be from D.C. and I've got to fill these positions, then you've got to help me find a way to fill them.

It seems to me the Step-Up program is an offer they can't refuse because it tells them there is a way to get people to train to be electricians, to train in sheet metal work, to train to do wire work; and we insist that you do that, and we'll help you do that. So I would ask that you—that—I would ask that you consider that as an approach to alleviating some of the tensions that has arisen in the city when people see that construction is going on all over the place but they are sure the D.C. residents, in fact, have not been hired and therefore the promise has not been kept. There's a reason the promise has not been kept, and I think the Step-Up program helps you to keep that promise.

Thank you very much, Madam Chair.

Mrs. MORELLA. Thank you, Congresswoman Norton. Are there any provisions that would not allow for some of the apprenticeship programs, those Step-Up programs? That's been something I've been concerned about.

Mr. PRICE. The current legislation that we have for first source—our first source agreements, that the 51 percent hire and 35 percent procurements have to go to LSDBEs, doesn't have a lot of teeth in it. Quite frankly, there's not a lot of remedy if they don't. Just to give you an example, George Washington, who Ms. Norton mentioned, they had a requirement for them to be registered in the apprenticeship program. GW had 22 of their 23 registered; 1 wasn't. We looked at how do we go about enforcing it. The only enforcement mechanism that was there was to that one subcontractor who did not agree to this program. If any other group came in and wanted IRB and wanted to include them as a sub, we could deny the IRB that way, but we couldn't stop the project, for example, which is what people wanted. As Councilmember Brazil said, there is a work in progress to see how we can put teeth in that legislation legally and do that.

Mrs. MORELLA. I think——

Mr. BRAZIL. Part of the problem with that particular contractor is I don't think there's another contractor in the region that can pour and work with the concrete the way this one can. So they're kind of giving you some reverse muscle, but we're working on them.

Mrs. MORELLA. I also—I appreciate the fact that you are working on it, because I do think it's an important opportunity with regard to utilizing our human capital in the District of Columbia.

Let me ask you about the heating and cooling system, because my understanding is that—those systems are going to be done by Trigen and Pepco Energy Services, and I'm wondering about how is it proceeding? How much is it going to cost?

Going further, will they be able to sell services outside of clients for the—of the convention center other than the convention center as its big client, and has WCCA had to incur any of the costs with regard to constructing those systems?

Mr. DAWLEY. Madam Chair, the Trigen-Pepco relationship, if you recall in 1998, we came and said we were proposing to do this to outsource that. It's gone extremely well. I don't know if you had an opportunity recently to see the large helicopters that were lifting the cooling towers for the convention center on the roof. It was quite a media event, a couple weeks ago.

That has gone along very well. I think at this point it's my understanding it's pretty much within budget. As you know, they have a huge part of the responsibility to do this, and they absorbed the responsibility and the costs for installing this; and, yes, this will allow some opportunity for them to sell energy. In fact, as part of the discussion that Eric and I have had about these other properties around the convention center, that may be—one of the incentives to help with that is that they can provide that cooling and heating actually from the plant, the central plant at the convention center. So it's gone very well.

Mrs. MORELLA. And has the WCCA had to put any money in?

Mr. DAWLEY. We haven't put any in. It's all their money at this point.

Mrs. MORELLA. They've done it. So it's proceeding along according to schedule?

Mr. DAWLEY. Yes.

Mrs. MORELLA. You've got that all worked out.

Let me ask another question with regard to the Metro that's being planned. Does it appear that the $25 million that the Federal Government will contribute for the funding of the Metro station, plus interest earned on the funds to date, will cover the estimated costs of the Metro station?

Mr. BRAZIL. I feel like I should just say no to that because I know the costs will go higher. So I don't know exactly the answer to that question yet. I had heard there did look like there were some cost overages, a little bit, and that they were working to bring them back down within budget; but I don't have the answer to that today.

Mrs. MORELLA. Will you keep us apprised of that?

Mr. BRAZIL. I will.

Mrs. MORELLA. And of how it's proceeding and if there are any additional costs, what they would be?

Well, as I look to the hearing that we've had and the GAO report that motivated it, it appears as though you have said that the costs will be $799 million. There is—you'll be able to handle it. There's a $6 million surplus that's available. You estimate the dedicated taxes at $65.3 million, but even if it goes down, it won't go down any lower, you say, to $60 million.

Now let me ask you about, when are you going to sign the GMP?

Mr. DAWLEY. There is a board meeting scheduled for next Friday. We had—my board of directors had an in-depth discussion at the Board meeting last Thursday on the GMP, and this was literally worked on right up to the morning of our Board meeting. So we explained all of the details of it in our Board meeting on the 25th to make a vote on. Clark has agreed to the reset GMP, and our board of directors will officially approve it on January 25th.

Mrs. MORELLA. January. And so the decision will be made then, and we may have—the big signing take place at that particular point.

Well, I hope you know that this subcommittee will continue to monitor very closely, because we feel, as you do, that the convention center is critically important. We want it to proceed on schedule. We don't want the cost overruns. We want to know that you've got your accountability all in order and all of the exigencies also considered. So I have no other questions, unless—first of all, do any of you want to make any final comments?

Mr. DAWLEY. I just want to thank you for this opportunity to come and brief you on where we are; and as I said, if you look at where we've been and where we're going, we're confident that we're going to get there.

Mrs. MORELLA. Uh-huh. It seems that way.

Ms. Norton, any final questions?

Well, I want to thank you all for being here, and, again, I think it's—we have made some great progress, from what we have seen,

from our point of view. We congratulate you on that. GAO, keep watching, and we will all keep watching too.

So my thanks to all of you for being here, and just before I adjourn, I want to recognize my staff who are here. On the majority side, Russell Smith as staff director; Robert White, communications director; Matt Batt, legislative assistant and clerk; Shalley Kim, staff assistant; Heea Vazirani-Fales, counsel/deputy director.

On the minority side, John Bouker, who is the counsel; Jean Gosa, the minority clerk.

Thanks, all of you. The meeting is now adjourned.

[Whereupon, at 10:45 a.m., the subcommittee was adjourned.]

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