

GAO

## Testimony

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

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# DISTRICT OF COLUMBIA

## Status of the New Convention Center Project

Statement of Gloria L. Jarmon  
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Accounting and Information Management Division



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our review of the Washington Convention Center Authority's (WCCA) efforts to arrange for financing and constructing of a new convention center in the District of Columbia. My statement highlights the information we obtained on the following two points that you requested:

- The estimated cost of this project, including the Guaranteed Maximum Price (GMP) for constructing the new convention center, and the risk exposure for both the contractor and the District.
- The Financing Plan, including proposed changes to the revenue base, history of dedicated tax collections, projections for future revenues, and sufficiency to cover the GMP and other project costs.

You also asked us to provide background information on the site selection process, including WCCA's analysis of alternative sites, particularly the Northeast No. 1 site. These issues are discussed in greater detail in our report, which is being issued today to the Subcommittee.<sup>1</sup>

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## Estimated Project Costs Have Increased

WCCA is proceeding with efforts to build a new convention center at Mount Vernon Square at a cost WCCA officials estimate to be \$650 million. This estimate has not changed since we reported on this project in September 1997. However, our latest review of the project identified an additional \$58 million in project costs which—because WCCA expects these costs to be funded through federal grants or moved into operating costs—are not included in WCCA's total project costs. These costs raise the project's cost estimate to \$708 million, excluding reserve requirements and financing costs of \$138 million.

Table 1 compares current cost estimates with the estimates included in our September 1997 report. As of May 31, 1998, WCCA had spent about \$27 million, primarily for contractual services.

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<sup>1</sup>District of Columbia: Status of the New Convention Center Project (GAO/AIMD/OCE-98-238, July 15, 1998).

**Table 1: Total Estimated Costs for the New Convention Center**

Dollars in thousands			
Project component	Estimate as of 05/31/97 <sup>a</sup>	Estimate as of 06/19/98 <sup>b</sup>	Increase (decrease)
Building and site/GMP	\$417,500	\$500,600	\$83,100
<b>Other costs</b>			
Total predevelopment costs	39,912	79,424	39,512
Fixtures/furnishings/equipment	40,000	22,305	(17,695)
Soil remediation and hazardous materials removal	11,000	5,000	(6,000)
Section 106 mitigation costs	7,600	12,671	5,071
Metro station upgrade	22,300	0	(22,300)
Other construction costs	35,814	0	(35,814)
Project contingency	75,874	30,000	(45,874)
<b>Subtotal WCCA project budget</b>	<b>\$650,000</b>	<b>\$650,000</b>	<b>\$0</b>
<b>Additions to WCCA project budget</b>			
Vendor provided equipment		17,695	17,695
Portion of utilities relocation not included in building and site		10,000	10,000
Metro station upgrade		25,000	25,000
Project administrative costs		5,000	5,000
<b>Total additions to WCCA budget</b>		<b>\$57,695</b>	<b>\$57,695</b>
<b>Estimated project costs</b>	<b>\$650,000</b>	<b>\$707,695</b>	<b>\$57,695</b>
<b>Financing related costs</b>			
Bond issuance	12,200	11,827	(373)
Reserve funds	75,100	126,399	51,299
<b>Total financing related costs</b>	<b>\$87,300</b>	<b>\$138,226</b>	<b>\$50,926</b>
<b>Total estimated project costs</b>	<b>\$737,300</b>	<b>\$845,921</b>	<b>\$108,621</b>

(Table notes on next page)

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<sup>a</sup>District of Columbia: Status of the Proposed New Convention Center Project (GAO/AIMD-97-148, September 25, 1997).

<sup>b</sup>District of Columbia: Status of the New Convention Center Project (GAO/AIMD/OCE-98-238, July 15, 1998).

Source: WCCA.

While WCCA has maintained a \$650 million budget, a number of changes have been made among the budget components, with some components increasing and some decreasing. The following estimated project costs, when added to WCCA's \$650 million budget, results in total estimated project costs of \$708 million:

- Portion of utilities' relocation costs that are not included in the building and site costs for which WCCA anticipates \$10 million of federal funding.
- Metro station upgrade for which WCCA anticipates \$25 million of federal funding.
- Anticipated vendor-provided equipment of about \$17.7 million.
- Project administrative costs of \$5 million, which have not been shown in the budget.

As part of the prospective financing arrangements, some of the reserves have been increased and others established for a strengthened financial arrangement for an overall increase of \$51 million.

Currently, the majority of the estimated project costs are covered in a \$500.6 million GMP for construction, which WCCA is in the process of negotiating with the construction manager, Clark/Smoot, with the goal of minimizing risks to WCCA and taxpayers. The GMP, which is a proposed amendment to the construction management contract, lays out 22 different cost components and sets limits on financial risks to the construction manager. Practically speaking, the GMP is only a guaranteed maximum price if the underlying assumptions on which the contractor bid the job do not change. Further, areas of risk—such as the removal of hazardous materials and remediation of any unknown subsurface conditions—are not included in the \$500.6 million price. An estimated \$207 million in other project-related activities will be or have been contracted for separately. The total contingency for the project is down from \$75.9 million to \$40 million, which is about 8 percent of the building and site costs.

Table 2 shows the components of the GMP. Site work, concrete, and steel account for \$233 million, which is 47 percent of the GMP. Mechanical and

fire protection, electrical and security, and design allowances<sup>2</sup> account for \$117 million, which is 23 percent.

**Table 2: Proposed Components of the GMP**

Dollars in thousands	
<b>Component</b>	<b>Amount</b>
General conditions/requirements	\$26,500
Utilities relocation	6,500
Site work	50,500
Concrete	50,500
Masonry	16,500
Steel/metals	132,000
Carpentry	1,000
Moisture protection	17,000
Fenestrations	17,000
Finishes	29,000
Specialties	4,000
Loading dock equipment	79
Window treatment	400
Conveyances	8,800
Mechanical and fire protection	45,000
Electrical work and security	36,700
Design allowances	35,113
Construction contingency	10,000
Insurance	808
Performance and payment bonds	3,400
Pre-construction fee	300
Construction management fee	9,500
<b>Total GMP</b>	<b>\$500,600</b>

Source: WCCA.

## New Financing Plan Supports Increased Debt

WCCA's current financing plan to cover predevelopment, construction, reserves, and operation of the convention center calls for about \$846 million. Seventy-three percent of the funds needed to finance the project are expected to be derived from revenue bonds supported by dedicated taxes. Changes from the previous financing plan include

<sup>2</sup>The design allowance covers a number of relatively small items, such as light fixtures, site and street lighting, signage, various finishes, etc.

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increasing the term of the bonds as well as the dedicated taxes to allow WCCA to borrow more money for the project.

WCCA received \$44 million in dedicated taxes in 1997, and WCCA has projected collections to increase at 1 percent a year over the next several years. These projections are conservative relative to estimates by management consultants and the District and to our evaluation of trends in tax collections and the national and local economic outlook. These and other factors will be looked at by WCCA's consultants, rating agencies, and bond insurers who will evaluate the financing package and determine its ability to cover the GMP and other project costs.

Table 3 shows the May 1997<sup>3</sup> and the current (May 1998) financing plans. Since May 1997, WCCA has proposed several changes to its financing plan. As the table indicates, the current financing plan assumes a lower interest rate, an increase<sup>4</sup> in the annual dedicated tax revenues to support the bond financing, and an increase in the term of the bonds from 30 to 34 years. These changes would allow WCCA to borrow more money to finance the project. In addition, since the amount of cash available from dedicated taxes and bond proceeds has increased, the amount estimated for construction fund earnings has also increased from the original plan. Finally, the current financing plan includes funding for financing costs and reserve requirements.

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<sup>3</sup>This financing plan was developed in May 1997 and was discussed in our 1997 report, *District of Columbia: Status of the Proposed New Convention Center Project* (GAO/AIMD-97-148, September 25, 1997).

<sup>4</sup>Based on the Washington Convention Center Authority Act of 1998, WCCA will now use the existing convention center's operating subsidy (\$5.6 million) and the subsidy (\$5.2 million) to the Washington Convention and Visitors Association, the Mayor's Committee to Promote Washington, and the D.C. Chamber of Commerce to support the bond financing.

**Table 3: Comparison of Financing Plans for Proposed New Convention Center**

Dollars in millions		
Funding sources	Financing plan as of 5/97	Financing plan as of 5/98
Senior lien bonds	\$343	\$487.4
Junior/senior subordinate lien	\$80	\$128.2
<b>Subtotal</b>	<b>\$423</b>	<b>\$615.6</b>
Cash for reserves	\$30	\$72.8
Construction fund earnings	\$51	\$62.7
Cash for preconstruction activities	\$40	\$37.2 <sup>a</sup>
Federal funds	0	\$35
Vendor participation	0	\$18
Funds for administrative costs	0	\$5 <sup>b</sup>
<b>Subtotal</b>	<b>\$544</b>	<b>\$846</b>
<b>Total funding required</b>	<b>\$650<sup>c</sup></b>	<b>\$846</b>
Estimated shortfall	(\$106)	0
Interest rate	6.3% <sup>d</sup>	5.6% <sup>e</sup>
Term of debt	30	34
Dedicated annual revenues to back bonds	\$27.5	\$44
Revenue growth assumption	1%	1%
Avg. annual debt service	\$26.0	\$42.6

<sup>a</sup>This money reflects dedicated tax collections available, of which about \$27 million had already been spent on predevelopment activities as of May 31, 1998.

<sup>b</sup>WCCA reflects funds for administrative costs (salaries and wages) of the proposed new convention center as part of the operating subsidy it receives through dedicated tax collection for the existing center.

<sup>c</sup>The \$650 million did not include WCCA's preliminary estimate of \$87.3 million needed for financing costs and reserve requirements.

<sup>d</sup>The interest rate was based on prevailing interest rates as of May 21, 1997, and a projected bond issuance date of October 1997.

<sup>e</sup>The interest rate was based on prevailing interest rates as of May 6, 1998, and a projected bond issuance date of July 1, 1998.

Source: WCCA.

Obviously, risks associated with the financing package could affect the rating of the bonds and accordingly, the interest rate. Among the major unknowns at this juncture are a WCCA assumption that the Congress will approve \$35 million in federal funding to cover relocating utilities and upgrading the Mount Vernon Square Metro station. In addition, although WCCA plans to address an \$18 million reduction in its construction budget

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by negotiating arrangements with vendors to provide equipment and services, such as a heating and cooling plant, and communications and food services equipment, to date there are no executed contracts to cover these arrangements.

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## Site Selection Process Has Long History

The site selection process for the convention center has a long history and numerous studies over the years have consistently identified Mount Vernon Square<sup>5</sup> as a preferred site. WCCA and its predecessors in the District government have repeatedly determined that Mount Vernon Square is a more viable location for a convention center than the other sites, including the Northeast No. 1 site.<sup>6</sup> WCCA's most recent analysis of the Northeast site indicates that costs would be higher and would likely result in opening the convention center at a much later date than estimated for the Mount Vernon Square site.

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Mr. Chairman, this concludes my statement. I will be happy to answer any questions that you or Members of the Subcommittee may have.

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<sup>5</sup>Located in the blocks between 7th and 9th Streets, N.W., and N Street and Mount Vernon Place, N.W.

<sup>6</sup>An area bordered by K Street, 1st Street, N.E., New York Avenue, Florida Avenue, and the railroad tracks.

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