United States General Accounting Office

GAO

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

July 1998

DISTRICT OF COLUMBIA

Final Status on the Sports Arena

GAO/AIMD-98-223

GAO

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

Accounting and Information
Management Division

B-279333

July 27, 1998

The Honorable Thomas M. Davis, III
Chairman, Subcommittee on the
District of Columbia
Committee on Government Reform
and Oversight
House of Representatives

Dear Mr. Chairman:

You requested that we monitor and periodically report on the progress of the sports arena[1] project in the District of Columbia. This report, our seventh[2] and final product on this issue, discusses the project's predevelopment costs, revenue collections, and bond redemption status.

Results in Brief

The District has spent $60 million, about 98 percent of the estimated total cost of predevelopment activities, for the sports arena. As of April 30, 1998, the District estimated total predevelopment costs to be about $61.5 million, a net increase of about $2.9 million over its October 7, 1997, estimate, as reported in our November 1997 report. The increase is largely due to the final agreed upon price the District paid for a parcel of land included in the arena site. The only known expense not under contract or agreement is the District cost for soil remediation and the removal of concrete structures below the surface for a parcel of land transferred to the Washington Metropolitan Area Transit Authority (WMATA). The District's project manager for the sports arena has budgeted $700,000 for this activity, which is included in the total estimated cost.

The District's $5 million in remaining available funds for predevelopment costs for the sports arena appears to be sufficient to meet all estimated remaining expenditures. As of April 30, 1998, the District had spent about $60 million and an additional $1.5 million was budgeted for the remaining predevelopment activities that will soon be completed, leaving

[1]The sports arena project was subsequently named the MCI Center.

[2]District of Columbia: Status of Sports Arena Project (GAO/AIMD-94-192, September 15, 1994); District of Columbia: Status of Sports Arena and Convention Center Projects (GAO/T-AIMD-95-189, July 12, 1995); District of Columbia: Sports Arena (GAO/AIMD-95-209R, July 26, 1995); District of Columbia: Sports Arena (GAO/AIMD-96-43R, February 21, 1996); District of Columbia: Status of the Sports Arena (GAO/AIMD-97-19, December 31, 1996); and District of Columbia: Status of the Sports Arena (GAO/AIMD-98-26, November 14, 1997).

approximately $3.5 million to pay unanticipated expenses or to redeem term bonds prior to their redemption dates.

Collections from the dedicated Arena Tax have been more than sufficient to pay principal and interest of about $5.9 million annually on the bonds issued to finance the predevelopment expenses. For each of the past 3 years, collections have exceeded the $9 million originally forecasted by the District, totaling about $1.6 million more than the District's forecast for the 3-year period. As of April 30, 1998, the District had redeemed $6 million of the serial bonds and $2.5 million of the term bonds issued to finance the predevelopment expenses prior to their maturity date. Our analysis shows that if the present level of collections are sustained, and revenues from the ground lease of the sports arena and the existing debt service reserve funds are used, all of the Arena bonds would be paid by 2002, about 8 years before the 2010 maturity date. This redemption schedule would save the District about $16.4 million in interest costs, and allow about $7.7 million to be transferred to the District's General Fund.

Background

The District of Columbia government, acting through the Mayor, the District's Redevelopment Land Agency (RLA),[3] and the District of Columbia Arena, L.P. (DCALP)—a limited partnership formed by the owner of the Washington Wizards[4] and the Washington Capitals—agreed that DCALP would build a sports arena (estimated to cost about $175 million) and that the District would be responsible for financing certain predevelopment costs.

The District agreed to be responsible for the predevelopment costs of:

- acquiring land, including the purchase of property not then owned by the District;[5]
- connecting the Gallery Place Metrorail station to the sports arena;
- relocating District employees from two buildings on the site to other locations; and

[3]The District of Columbia Redevelopment Land Agency was created and established as an instrumentality of the District of Columbia government pursuant to the District of Columbia Redevelopment Land Act, 60 Stat. 793, August 2, 1946 (D.C. Code Ann. sec. 5-801 et seq.), as amended (the RLA Act). The purpose of RLA is to protect and promote the welfare of residents of the District through the acquisition and assembly of real property and the lease of such property for redevelopment.

[4]Formerly known as the Washington Bullets.

[5]The District acquired two properties needed for the arena site.

- demolishing buildings, remediating soil,[6] relocating utilities, and securing all regulatory approvals necessary for construction of the sports arena.

The Omnibus Budget Support Act of 1994 (Arena Tax Act),[7] as amended, provides for a Public Safety Fee (Arena Tax) to be levied on businesses located in the District based upon the annual gross receipts of such businesses. The Arena Tax is due on or before June 15 of each year. The Arena Tax Act requires the Mayor to raise the Arena Tax rates to provide for annual revenues of $9 million if the Arena Tax revenues are estimated to be less than $9 million. The Arena Tax Act also authorized RLA to pledge the Arena Tax as security to repay loans to finance predevelopment activities. The Arena Tax was first levied in fiscal year 1995 and mostly used to fund predevelopment activities. In subsequent years, the Arena Tax was used to pay principal and interest (debt service) on the bonds as required by the bond resolution.[8]

To initially finance the predevelopment costs of the sports arena, $2.5 million was advanced by the District's Sports Commission.[9] The funds were provided with the understanding that they would be repaid from the proceeds of a loan the District would secure. In August 1995, the District received a $53 million loan commitment (line of credit) from a consortium of banks. In January 1996, RLA issued about $60 million in revenue bonds backed by the Arena Tax and paid off the $36.6 million portion of the line of credit used.

The funds originally available to pay the arena's net predevelopment costs[10] and to establish a debt service reserve totaled $66.6 million. These funds consisted of (1) $57.4 million[11] in net bond proceeds from the sale of RLA Revenue Bonds in January 1996 and (2) about $9.2 million in 1995 net

[6] Remediating the soil encompasses any and all corrective action taken to clean up a site in order to meet District or federal standards for soil quality.

[7] D.C. Code Ann. secs. 47-2751 through 47-2753 (1996 Supp.).

[8] The bond resolution authorizes the issuance of bonds to pay for the predevelopment costs of the arena project. It sets forth the terms, rights, and obligations of the RLA, bondholders, and trustees.

[9] The Sports Commission is a business enterprise fund established by the District to promote sports activities within the District of Columbia.

[10] The District's share of the Arena predevelopment costs are net of reimbursable Metrorail construction costs. The reimbursable costs include a DCALP contribution ($2 million), a WMATA contribution ($2 million), and a Department of Transportation Capital Assistance Grant of $12 million, which required $3 million of matching funds from the District (a total of $15 million).

[11] Of the approximately $60 million in bond proceeds, $0.8 million was used to cover various fees associated with the bond sale and a $1.8 million issue discount was offered when the bonds were sold.

tax collections from the dedicated Arena Tax. Of the $66.6 million then available, $11 million was placed in two reserves. A mandatory $5 million capital reserve, which was required by the bond resolution, was established to pay for any insufficiency in the project fund. A reserve of about $6 million was established for debt service.

Objectives, Scope, and Methodology

Our objectives were to determine the status of the sports arena project's (1) predevelopment costs, (2) revenue collections, and (3) bond redemption status.

To determine the status of expenditures for predevelopment activities for the sports arena, we interviewed District officials on the Arena Task Force, the District's Sports Commission and Corporation Counsel, and the D.C. Office of Treasury. We also held discussions with trustees for the bonds. We discussed the construction costs of the arena and Metrorail connection with officials from DCALP and WMATA.

We reviewed all expenditures made since the period covered by our last report, from October 8, 1997, to April 30, 1998. Payments were made from the funds obtained from the net proceeds of the bond sale. The universe of payments included 10 expenditure items, which, at the time of our audit, represented 100 percent of the total funds spent in the review period. We reviewed each expenditure item to determine whether it was made within the terms of the contract or invoice amounts, it had been approved for payment by a District official, and the funds had actually been disbursed.

We did not audit the reported taxes collected and deposited for the sports arena project. Therefore, we did not determine if the District government accurately identified the universe of taxpayers or reported all dedicated taxes[12] for this project. However, we reviewed monthly statements provided by the lockbox trustee to determine the amount of taxes collected and placed in escrow. In addition, we confirmed that all payments due to the District from the ground lease had been made. This review provides an update on the previous work we performed.[13] Our procedures were performed between March 1998 and June 1998 in accordance with generally accepted government auditing standards.

[12]The District does not perform a separate audit of the sports arena tax. This tax is audited as part of the District's comprehensive annual financial statements audit.

[13]See footnote 1 of this report.

Predevelopment Project Costs Have Increased

Since our last report,[14] predevelopment costs have increased from $58.6 million to about $61.5 million, which is a net amount of $2.9 million (5 percent). The District's predevelopment activities consisted of acquiring land, constructing the Metrorail connection, relocating District employees, demolishing two buildings, remediating soil, relocating utilities, and using consultants to secure regulatory approvals. The District has completed almost all of its predevelopment activities and has spent $60 million, about 98 percent, of the estimated total expenditures. Table 1 shows the District's total predevelopment activities financed for the sports arena project.

[14] District of Columbia: Status of the Sports Arena (GAO/AIMD-98-26, November 14, 1997), which reported predevelopment cost estimates as of October 7, 1997.

Table 1: The District of Columbia's Predevelopment Activities Financed for the Sports Arena Project

Dollars in thousands

Predevelopment activities	Budget October 18, 1996	Expenditures[a] October 7, 1997	Expenditures[b] April 30, 1998	Increase (decrease) since October 7, 1997
Land acquisition				
Appraisal/purchase price	$34,268	$34,268	$37,207	$2,939
Appraisal fee	50	0	0	0
Total	**$34,318**	**$34,268**	**$37,207**	**$2,939**
Metrorail connection				
Construction costs[c]	$19,360	$19,000	$19,000	$0
Less: Capital Assistance Grant (after $3 million District cost)	(12,000)	(12,000)	(12,000)	0
Less: WMATA contribution	(2,360)	(2,000)	(2,000)	0
Less: DCALP contribution	(2,000)	(2,000)	(2,000)	0
Total	**$3,000**	**$3,000**	**$3,000**	**$0**
Relocation of District employees				
Lease commitments	$1,922	$1,868	$1,868	$0
Lease appraisals and space consultants	70	2	2	0
Leasehold improvements	1,344	1,006	961	(45)
Furniture and equipment move	638	546	540	(6)
Telecommunication equipment move	875	623	623	0
Total	**$4,849**	**$4,045**	**$3,994**	**$(51)**
Building demolition, soil remediation, relocation: legal, environmental, and consultant fees				
Building demolition	$1,000	$916	$916	$0
Soil remediation	3,521	8,266	8,266	0
Less: Far East Trade Center Associates, L.P. contribution for soil remediation	(569)	(569)	(569)	0
Utility relocation	2,770	3,379	3,530	151
Business relocation	25	0	0	0
Legal, environmental, and consultant fees	2,533	2,693	2,591	(102)
D.C. Sports Commission reimbursement	302	324	324	0
Total	**$9,582**	**$15,009**	**$15,058**	**$49**
Total bank fees	**$1,315**	**$1,922**	**$1,919**	**$(3)**
Total bond issuance costs	**$0**	**$307**	**$314**	**$7**
Reserves for unanticipated increases	**$2,750**	**$0**	**$0**	**$0**
Total costs financed by the District	**$55,814**	**$58,551**	**$61,492**	**$2,941**

(Table notes on next page)

[a]$56.7 million of actual cash disbursements and $1.8 million budgeted for activities to be completed.

[b]$60 million of actual cash disbursements and $1.5 million budgeted for activities to be completed.

[c]Represents the total funds budgeted for the Metrorail connection that are managed by WMATA, of which $18 million are obligated. Of the remaining $1 million unobligated amount, only $285,000 is not budgeted.

Increase in Land Acquisition Costs Funded by HUD Grant

As shown in table 1, land acquisition represents the largest increase in predevelopment expenditures. In order to assemble the arena site, the District acquired two pieces of property. At the time of our last report, November 1997, the price for one of the pieces of property had not been determined. On April 29, 1998, the District reached an out of court settlement with the owners to pay $8.2 million for the land. The price of the land was $2.9 million more than the $5.25 million the District had originally deposited with the D.C. Superior Court in invoking its power of eminent domain.

To pay the additional $2.9 million, the District used funds from a grant made by the Department of Housing and Urban Development (HUD). Under HUD's Community Development Block Grant (CDBG) program, the acquisition of property is a permitted use of grant funds. As of March 6, 1998, the District received permission from HUD to use CDBG funds to acquire the property.

Metrorail Connection Completed Under Budget

The Metrorail connection to the sports arena has been completed. As of April 21, 1998, $16.7 million and $18 million of the $19 million budget had been approved for expenditure and had been obligated, respectively. WMATA officials informed us that they expect the project to be closed out (all bills reviewed and approved for payment) by September 1998. It is their expectation that after the project is closed out, there will be about a $285,000 residual from the funds associated with the Department of Transportation (DOT) Capital Assistance Grant. According to WMATA officials, any residual balance must be used on a transportation related project. One District official told us that he expects the District to use these funds to defray the cost of design work on a Metrorail connection to the proposed new convention center.

Utility Relocation Costs Have Increased

As shown in table 1, expenditures for the relocation of utilities have increased from the projected $3.4 million reported in our November 1997 report to about $3.5 million. The increase is attributable to a negotiated settlement between the District and the developer—DCALP—over the cost of infrastructure improvements to the site. In a letter dated October 6, 1997, DCALP cited seven infrastructure improvements it had made to the site, at a cost of $403,000, which it claimed under the terms of the Exclusive Development Rights Agreement (EDRA), that the District was responsible for. As part of its March 10, 1998, settlement, the District has obtained a legal agreement, intended to preclude the developer from prevailing in any future claims regarding the seven infrastructure improvements.

Soil Remediation and Related Activities Are Continuing

All activities associated with soil remediation efforts have not been fully completed. The District's project manager for the sports arena is still including in the expenditures an estimated $700,000 for the removal of concrete structures below the surface and contaminated soil on a parcel of land[15] transferred to WMATA. District officials told us that they have budgeted sufficient funds to remove the concrete structures and cover the cost of remediation.[16] They stated that based on tests done at the site, only limited amounts of the soil are contaminated. The project manager of the arena task force stated that the District has not contracted for the removal of the concrete because WMATA has not made a decision regarding the land's use.

The District's Office of Corporation Counsel is actively pursuing its legal options for recouping the District's cost for soil remediation and other related costs for the arena site. This office has obtained the assistance of a private law firm and a environmental study firm—both on a pro bono basis—to assist the city in its efforts to recover the District's costs. The two firms have identified approximately 50 potential sources of the contaminants. The Corporation Counsel is currently assessing each firm's potential liability and the ability of each firm to make restitution.

Sources of Revenues for Predevelopment Costs

Table 2 shows total receipts of about $65 million available as of April 30, 1998, to fund predevelopment costs. Revenues have increased from our

[15]This parcel of land is 8,080 square feet and is adjacent to the arena site, which is 218,435 square feet.

[16]Based on the land disposition agreement between the District, WMATA, and Far East Trade Center Associates, L.P., the District is solely responsible for the payment of all work related to the demolition, removal, and environmental clean-up, if required, of the land transferred to WMATA.

November 1997 report mostly as a result of allocating a portion ($2.9 million) of the District's CDBG grant funds received from HUD to pay for the increased price of the land the District acquired. Through April 30, 1998, the District had earned about $1.5 million in interest from the funds available to pay predevelopment costs.

In our last report, we stated that all of the leasehold improvement costs associated with the relocated employees should have been paid from the District's sports arena project fund rather than from the District's appropriated funds because this activity was an allowable cost for the sports arena project. The project manager of the arena task force contends that $371,530 should be borne by the District since it was not factored into the original predevelopment activities budget. However, we have excluded the $371,530 District reimbursement since the cost should be borne by the sports arena project because these expenses were precipitated by the relocation action to allow arena construction. We had informed the District's former Chief Financial Officer of this matter, and he had agreed to recoup the money from the sports arena project fund. As of June 30, 1998, the funds had not yet been returned to the District's General Fund.

Table 2: Predevelopment Funds for the Sports Arena Project

Sources of receipts		April 30, 1998
Net proceeds from bond sale[a]	$57,436,001	
Less: Mandatory debt service reserve	(5,995,000)	
1995 Dedicated Arena Tax collections[b]	9,149,036	
Community Development Block Grant	2,939,326	
Total funds for predevelopment expenses		$63,529,363
Interest earned on funds held in trust:		
Interest earned on bank loan funds[c]	376,265	
Interest earned on project funds[d]	529,446	
Interest earned on capital reserve funds[e]	457,279	
Interest earned on Metrorail funds[f]	94,389	
Total interest earned		1,457,379
Funds Received from D.C. Department of Administrative Services		371,530
Less: Allowable project expenses to be refunded to the District's General Fund		(371,530)
Total predevelopment funds available		**$64,986,742**
Less: Expenditures[g] as of 4/30/98 (see table 1)		(61,492,000)
Total predevelopment funds still available		**$3,494,742**

[a]Includes $5 million of mandatory capital reserve funds.

[b]Represents the 1995 collections of approximately $9.3 million, net of $119,000 used for debt service.

[c]Represents interest earned on borrowing from the August 1995 loan RLA secured from a consortium of banks to pay for predevelopment expenses.

[d]Represents interest earned on funds held by FMB Trust (bond trustee) and dedicated for project expenses.

[e]Represents interest earned on the $5 million of bond proceeds reserved for cost overruns.

[f]Represents interest earned on the District's contribution ($3 million) to the capital assistance grant awarded for the Metrorail connection.

[g]Expenditures are net of the reimbursable Metrorail connection costs from the DOT (federal share [80 percent] of the Capital Assistance Grant), a WMATA contribution, and a DCALP contribution.

Dedicated Tax Revenue Collections Have Exceeded Projections

As of April 30, 1998, collections for the 1997 Arena Tax had totaled about $9.6 million, about the same as the 1995 and 1996 collections of $9.3 million and $9.6 million, respectively. These funds were sufficient to meet 1997 principal and interest payments (about $5.9 million annually) on the bonds issued to finance the predevelopment expenses. The District forecasts Arena Tax collections of $9 million for each year that the bonds are outstanding. Since 1995, the trustees for the lockbox have reported that a total of $28.6 million has been collected exceeding the forecast of $27 million by $1.6 million.

As was done in previous years, taxpayers were instructed to send their payments to a lockbox under the control of bank trustees. We verified that these funds were transferred to the trustee for the bonds and placed in accounts for principal and interest payments.

Taxes Collected Allow Early Redemption of Bonds

Our analysis shows that if the present level of Arena Tax collections continue into the future, and if revenues from the ground lease of the arena and the $6 million in the debt service reserve, including interest earnings, are used, the sports arena bonds could be paid off in 2002, well before the 2010 maturity date of the longest term bonds.

The combined total of $19.3 million in dedicated tax revenues collected for 1996 and 1997 is being used to pay principal and interest on the bonds. The District's Sports Arena Special Tax Revenue Bonds include about $15.4 million in serial bonds, which have maturity dates from 1996 to 2000, and $44.5 million of term bonds with a stated maturity date of 2010 and mandatory sinking fund redemptions in the years 2001 through 2009. As of April 30, 1998, the bond trustees had paid out $14.2 million in principal and interest payments. Approximately $5.7 million had been paid in interest and $6 million of the serial bonds and $2.5 million of the term bonds had been redeemed. The remaining $5.1 million of Arena Tax collections was held in the debt service reserve funds (see next section). The bond resolution requires that any additional tax collected over the amount needed to pay debt service on bonds be placed in a super sinker fund[17] and be used to redeem term bonds earlier than their due dates.[18] The serial bonds cannot be redeemed earlier than their stated maturity dates.

[17]The type of fund that permits early redemption of term bonds is commonly referred to as a super sinker fund.

[18]Based on Section 603, Special Mandatory Redemption, of the bond resolution, the bonds maturing on November 1, 2010, are subject to special mandatory redemption at a price of par, plus accrued interest to the redemption date, in part, by lot, prior to their stated maturity on (1) any principal installment date or interest payment date on and after November 1, 1996, from excess revenues on deposit in the redemption account of the debt service fund, (2) November 1, 1997, from moneys in excess of $1 million on deposit, if any, in the Mandatory Capital Reserve Fund as of September 1, 1997, (3) November 1, 1998, from moneys on deposit, if any, in the Mandatory Capital Reserve Fund as of September 1, 1998, and (4) November 1, 1997, from moneys, if any, remaining in the Project Fund as of September 1, 1997. The bond resolution was modified in August 1997 so that money in the project fund could be used for predevelopment expenditures.

Table 3 shows our analysis of when the Arena Tax bonds can be fully paid off. Our analysis, which assumes similar future collections of dedicated tax revenues, annual ground lease revenue from DCALP, use of outstanding debt service reserve funds (plus interest), and no recession or cyclical downturns of the local economy, shows that the bonds could be paid off in the year 2002, or 8 years before the last scheduled maturity date. Upon redemption of all bonds in 2002, excess funds of $7.7 million would be transferred to the District General Fund. This scenario would save about $16.4 million in interest payments (see table 4). Once the arena tax bonds are repaid, the authorizing legislation calls for the dedicated taxes to be eliminated.[19]

[19]D.C. Code Ann. secs. 47-2752 (a-1)(1) states that each feepayer shall remit a special public safety fee each year until the requirements of paragraph (3) have been met (collected fees to be used to finance the reimbursement of borne costs, building demolition, relocation and housing of District employees from the buildings, acquisition of real property, and any other District costs that relate to the development of the sports arena).

Table 3: GAO Analysis of Projected Early Redemption of the Sports Arena Special Tax Revenue Bonds

Fiscal year	Original outstanding principal balance[a]	Projected gross[b] receipts	Required serial bond debt service payments	Projected net[c] early bond redemptions	Projected outstanding principal balance[d]
Amount	**$59,950,000**		**$15,450,000**		**$44,500,000**
1996	$56,750,000	$9,985,966	$3,826,581	$4,142,979	$40,357,021
1997	53,900,000	12,079,130	3,483,826	6,325,222	34,031,799
1998	50,950,000	11,475,530	3,445,600	6,115,641	27,916,158
1999	47,800,000	10,223,730	3,495,150	5,158,296	22,757,862
2000	44,500,000	10,223,730	3,478,200	5,465,400	17,292,462
2001	41,050,000	10,223,730	0	9,251,029	8,041,433
2002	37,400,000	16,218,730	0	15,766,399	(7,724,967)
2003	33,550,000	0	0	0	0
2004	29,450,000	0	0	0	0
2005	25,200,000	0	0	0	0
2006	20,700,000	0	0	0	0
2007	15,950,000	0	0	0	0
2008	10,900,000	0	0	0	0
2009	5,600,000	0	0	0	0
2010	0	0	0	0	0
Totals		**$80,430,546**	**$17,729,357**	**$52,224,966**	

[a]Represents Bond Value reduced by scheduled serial and term bond principal payments.

[b]Includes sports arena tax collections, ground lease payments, excess reserve funds, and interest on reserve accounts.

[c]Represents excess funds less recalculated interest on term bonds.

[d]Represents the value of the term bonds ($44,500,000) less funds available for early redemption.

Table 4: GAO Analysis of Interest Savings From Early Redemption of the Sports Arena Special Tax Revenue Bonds

Fiscal year	Serial and term bond debt service interest[a]	Projected early bond redemption interest[b]	Projected interest savings
1996	$2,642,987	$2,642,987	$0
1997	3,136,952	2,903,908	233,044
1998	2,998,726	2,409,889	588,837
1999	2,848,276	1,915,434	932,842
2000	2,681,326	1,458,330	1,222,996
2001	2,503,126	972,701	1,530,425
2002	2,309,062	452,331	1,856,731
2003	2,103,750	0	2,103,750
2004	1,887,188	0	1,887,188
2005	1,656,562	0	1,656,562
2006	1,417,500	0	1,417,500
2007	1,164,376	0	1,164,376
2008	897,188	0	897,188
2009	613,126	0	613,126
2010	315,000	0	315,000
Totals	**$29,175,145**	**$12,755,580**	**$16,419,565**

[a]Represents interest calculated on original bond repayment schedule.

[b]Represents interest calculated by GAO based on revenue projections.

Missed Opportunity Could Have Caused Additional Interest Expense

The bond resolution requires that early redemption of term bonds occurs on a interest payment date—either May 1 or November 1 of each year—from excess revenues on deposit in the Redemption Account of the Debt Service Fund. On the interest payment date of November 1, 1997, no term bonds were redeemed even though $2.8 million was available in bond redemption account. We questioned the bond trustee as to why additional term bonds were not redeemed on November 1, 1997. Her response was that because of a change in personnel, the early redemption of term bonds had been overlooked. This missed opportunity to redeem term bonds prior to their maturity date could have caused the District to incur additional interest expense for that period. However, the excess funds were deposited in an interest earning account and the interest earned on the funds available for bond redemption was substantially the same as the average interest rate on the bonds that would have been redeemed and, accordingly, the District did not incur any losses.

Operating Arena Generates First Ground Lease Payment

On April 3, 1998, the District received its first[20] quarterly payment of $76,644 under the yearly ground lease for the arena site. These funds, as stipulated in the bond resolution, were placed in an account established to redeem bonds prior to their maturity date. The ground lease payments along with any excess funds in the project, capital reserve accounts, and debt reserve accounts are to be used for early bond redemption.

District's Comments and Our Evaluation

We requested comments on a draft of this letter from the Mayor of the District of Columbia. The Mayor concurred with the information presented (see appendix I) and also provided, under separate cover, some technical suggestions that we have incorporated as appropriate to clarify the report.

We are sending copies of this report to the Ranking Minority Member of your Subcommittee and to the Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations and their Subcommittees on the District of Columbia and the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs. Major contributors to this report are listed in appendix II. If you or your staff need further information, please contact me at (202) 512-4476.

Sincerely yours,

Gloria L. Jarmon

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

[20]Under Article VI 6.1 and 6.2 of the Land Disposition Agreement - Ground Lease, RLA received an initial payment of $200,000 on the effective date of the lease.

Comments From the District of Columbia

THE DISTRICT OF COLUMBIA
WASHINGTON, D.C. 20001

MARION BARRY JR
MAYOR

JUL 21 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dodaro:

We have reviewed your report on the "Final Status of the Sports Arena" (MCI Center) as submitted with your letter of July 10, 1998. Under separate cover we faxed to Ms. Gloria L. Jarmon, Director certain factual comments that will make the report more accurate. Subject to the technical changes being made as suggested it would appear that the said report reflect budget obligations and expenditures as of April 30, 1998.

The construction and opening of the MCI Center in the District of Columbia has proved to be an economic boon far beyond the initial projection and expectations. I am pleased with the new development projects and the number of retail and commercial enterprises that have brought new jobs to residents of the District of Columbia. We appreciate the General Accounting Office's outstanding work in reviewing and monitoring the financing, predevelopment and construction of this most outstanding and successful project.

Sincerely,

Marion Barry, Jr.
Mayor

Major Contributors to This Report

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