REPORT TO COMMITTEE
ON PUBLIC WORKS
UNITED STATES SENATE

Finances And Operations Of The John F. Kennedy Center For The Performing Arts B-154459

Smithsonian Institution

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUG 8, 1972

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-154459

Dear Mr. Chairman:

AGC00657

This is our report on the finances and operations of the John F Kennedy Center for the Performing Arts, Smithsonian Institution. Our review was made in response to your request dated December 30, 1971.

We have not obtained written agency comments on this report We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

The Honorable Jennings Randolph
Chairman, Committee on Public Works SEN03106
United States Senate

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ABBREVIATIONS

GAO General Accounting Office

GSA General Services Administration

CHAPTER 1

INTRODUCTION

Pursuant to a request dated December 30, 1971, from the Chairman of the Senate Committee on Public Works (see app. I) and subsequent discussions with his office, the General Accounting Office (GAO) made a review, at the John F. Kennedy Center for the Performing Arts, of the status of construction of the building to house the Center, management controls, use of funds, liabilities, theater rental practices, and concession agreements. As a part of our examination into the status of construction, we reviewed pertinent construction records at the General Services Administration (GSA) and obtained the views of Center and GSA personnel knowledgeable of, and responsible for, the administration of the project.

We have not obtained written comments on our report from Center officials.

BACKGROUND

The John F. Kennedy Center Act (72 Stat. 1698), as amended, created the John F. Kennedy Center for the Performing Arts to be administered under the direction of a Board of Trustees. The Board originally consisted of 30 members but presently consists of 45 members--15 serve ex officio and 30 are appointed by the President of the United States.

The act requires the Board to (1) present classical and contemporary music, opera, drama, dance, and poetry from this and other countries, (2) present lectures and other programs, (3) develop programs for children and youth and the elderly (and for other age groups as well) in such arts designed specifically for their participation, education, and recreation, (4) provide facilities for other civic activities at the Center, and (5) provide, within the Center, a suitable memorial in honor of President Kennedy.

Under a formal agreement between GSA and the Board, GSA acted as the Center's agent for the design and construction of a building to house the Center. The construction contractor was notified on September 8, 1966, to start construction of the building to be completed by January 19, 1969. Because of delays for various reasons, GSA did not accept the building as being complete until October 19, 1971.

The Center building was opened for public performance in September 1971. It comprises three separate buildings under one roof, which for the most part, are connected only on the ground- and top-floor levels. It is approximately 10 stories high, 630 feet long, and 310 feet wide and is situated on a 17-acre site in the District of Columbia. Included in the structure are three theaters with seating capacities as follows. Concert Hall, 2,759; Opera House, 2,318; and Eisenhower Theater, 1,142. In addition, a restaurant, a cafeteria, and a coffee shop are located on the roof terrace. Parking space for 1,404 cars is available under the building.

CHAPTER 2

CONSTRUCTION

The John F. Kennedy Center Act, as amended, authorized appropriations of $23 million for the Center. These funds--together with matching funds of $23 million to be raised by voluntary contributions and up to $20.4 million in funds to be borrowed from the Treasury Department, or a total of $66.4 million--were authorized to be used to carry out the purposes of the act, including construction of the building.

From the Center's and GSA's records, we identified construction costs totaling about $72.4 million, exclusive of land costing about $3.4 million which was acquired with appropriated funds by the National Capital Planning Commission and of donated land valued at $150,000. The costs of $72.4 million are $6 million in excess of the estimated project costs of $66.4 million, as stated in our report to the Committee on December 3, 1969. We did not attempt to ascertain the reasons for the increase in the estimated cost of the project.

The Center's records showed that as of March 31, 1972, $67.9 million had been paid with funds received from Federal and private sources, leaving about $4.5 million to be paid on the construction of the building. Center officials informed us that they did not know how the Center would pay the remaining $4.5 million. In an effort to extend the payment period, the General Counsel of the Center negotiated with one creditor to accept a 1-year interest-bearing promissory note and was negotiating with other creditors to also accept 1-year interest-bearing promissory notes.

CONSTRUCTION COSTS

Center and GSA records showed that as of March 31, 1972, construction costs amounted to about $72.4 million as follows:

Cost element	Cost (million)
Construction (amount of contract and delay damage claims of $3.8 million)	$60.0
Architect's fees	3.8
Other costs (note a)	3.7
Donated materials (note b)	2.5
Insurance and bonds	1.1
GSA supervision	.9
Legal expenses	.5
Total	$72.4

[a]Includes Center's administrative costs related to construction, parkway repairs, studies and services, and items purchased for the Center.

[b]Includes donations of various items, such as money, building materials, furniture, chandeliers, and building marble.

Note: Total does not add due to rounding.

CONSTRUCTION PAYMENTS

As of March 31, 1972, the Center had paid about $67.9 million on construction as shown below.

Source of funds	Amount expended (million)
Appropriations	$23.0
Private funds	22.0
Borrowings from the Treasury Department	20.4
Donated materials	2.5
Total	$67.9

Details concerning the source and expenditure of these funds are summarized in the following sections.

Appropriations

The Congress appropriated $23 million for use by the Board of Trustees to carry out the purposes of the John F. Kennedy Center Act, as amended, including construction of the building. The Center's records showed that all but $900 of the appropriated funds were used during fiscal year 1965 through July 5, 1972.

Private funds

The Center deposited all funds received from private sources in one bank account. The funds included contributions received from individuals and businesses, borrowed funds, revenues from theater operations, and a cash advance from a Center concessionaire. The Center used the funds in this account to pay construction and various other costs, including administrative and operating expenses. About $22 million of private funds were expended for construction.

Parking advance

The Center, under an agreement with the parking concessionaire, received a $3.5 million advance against future revenues of the parking facility. Center officials told us that, of the funds received, $2.4 million had been used as payment on delay damage claims by the general contractor and three subcontractors. Additional information on the parking advance is included in chapter 4.

Contribution by the restaurant concessionaire

As a part of the conditions stated in the solicitation for proposals for the food and beverage concession, the Center requested a gift or donation in an amount to cover the cost of kitchen equipment, furniture, fixtures, and other items. Automatic Canteen Company of America, the successful bidder, agreed to pay $1.25 million toward the cost of furnishing these items, as discussed in chapter 3.

Auditorium seating

The Center's seating capacity of 6,219 consists of 5,803 auditorium seats and 416 box seats. The auditorium seats were acquired under a subcontract with the American Seating Company for $400,447. Because the Center was unable to pay the subcontractor, it entered into a sale-and-leaseback arrangement with the United States Leasing Corporation, under which it sold the auditorium seats for $398,982 and then leased them back.

Under the lease, dated November 5, 1971, the Center agreed to pay rent of $490,750 for a 6-year period commencing December 10, 1971. The rent was to be paid as follows: 12 quarterly payments of $35,908, followed by three annual payments of $19,949. The payments include interest of $91,768 over the 6-year period of the lease.

The lease provides that, after the 6-year period, the Center can renew the lease on a year-to-year basis for an additional 3 years at an annual rental of $7,980. Under an option in the lease, the Center can purchase the seats from the corporation for 10 percent of the sale price to the corporation after the lease has been in effect 3 years or for 3 percent of the sale price after 6 years or at the expiration of each of the three 1-year renewal periods.

The table below shows what the lease-purchase cost to the Center would be if the purchase option were exercised after 3, 6, 7, 8, or 9 years.

			One-year renewal terms		
	After 3 years	After 6 years	After 7 years	After 8 years	After 9 years
	(000 omitted)				
Rental payments	$430,902	$490,750	$498,730	$506,709	$514,689
Purchase price	39,898	11,969	11,969	11,969	11,969
Total	$470,800	$502,719	$510,699	$518,678	$526,658

As of April 30, 1972, the Center had paid the leasing company $71,817, leaving a balance of $418,933 to be paid under the lease. The Center also owed the American Seating Company $21,413 for the seats.

Carpet and wallscaping

Carpet and wallscaping was furnished and installed by Washington Carpet Sales Corp., under a subcontract with the general contractor, at a cost of $477,216. On October 15, 1971, after it had paid a total of $264,411, the Center entered into a lease-purchase agreement with Washington Carpet for the carpet and wallscaping.

The agreement provided for the Center to pay $200,000 of the outstanding balance of $212,805, plus finance charges at 8 percent, in 36 monthly installments of $6,267 beginning November 15, 1971. The finance charges will total about $25,620. After 36 installments have been paid, title to the carpet and wallscaping will vest in the Center. Payment of the remaining $12,805 of the outstanding balance was not changed by the agreement.

As of April 30, 1972, the Center had paid $31,336, leaving a balance of $194,284 to be paid under the agreement.

Treasury bonds

The act, as amended, authorized the Board of Trustees to issue revenue bonds totaling $20.4 million to the Treasury Department to finance necessary parking facilities for the Center. Between July 1, 1968, and April 30, 1970, the Board issued the maximum amount of revenue bonds to the Treasury; the funds derived from the bonds were expended in fiscal years 1969 and 1970.

Donated materials

We have included as a cost of construction the value of donated materials received from foreign and domestic contributors. The value of the donated materials was established by the Center on the basis of either the actual sums of money made available for specific purchases or appraisals by the Center. We have not questioned the value of the donated materials--2.5 million--as shown on the Center's records.

UNPAID CONSTRUCTION COSTS

As of March 31, 1972, unpaid construction costs amounted to about $4.5 million, as shown below. Center officials informed us that they did not know how the funds would be obtained to pay these costs.

Cost element	Amount (million)
Construction cost	$2.4
Delay damage claims (GSA estimates)	1.4
Cost related to construction--architect's fees, legal expenses, insurance and bonds, and other	.8
Total	$4.5

Note: Total does not add due to rounding.

Delay damage claims

The Center has received delay damage claims from the general contractor and 24 subcontractors. According to available information the claims originated because of various acts by the Government, which hindered the construction contractor in the performance of his contract and which resulted in a substantial delay in the completion of construction. Under the contract, completion of construction was required by January 19, 1969; however, the Center was not accepted as complete until October 19, 1971. We did not determine the reasonableness of the individual delay damage claims.

The claims amounted to about $6.2 million which, through negotiations by GSA, was reduced to $4 9 million The Center paid $2.4 million of this amount to the general contractor and three subcontractors The remaining $2.5 million should be settled, according to GSA officials, for about $1 4 million

CONSTRUCTION DELETIONS

As noted in our report dated December 3, 1969, the Center deleted the completion of the multipurpose room and the film theater from the construction contract. A Center official estimated that it would cost at least $300,000 to complete the multipurpose room and $1 million to complete the film theater. These estimates are contingent on the items which would be included in the finished areas. We were informed by Center officials on June 26, 1972, that the Center had no plans as to how it would obtain the funds required to complete the multipurpose room and the film theater.

The Center's Executive Director for Engineering told us that no significant project work had been deferred after the December 3, 1969, report.

Unfinished areas

There are several unfinished areas in the Center which originally had been intended for administrative space or for rehearsal areas. According to the Center's Executive Director for Engineering, completion of this space was not provided for in the construction contract and the Center has no plans to finish this space.

At the beginning of our review, Center officials occupied administrative space in the New Executive Office Building which was provided by GSA without reimbursement by the Center. However, the space was needed by GSA and the Center was asked to move. As of June 23, 1972, the Center had relocated its entire administrative activities to the Center building.

CHAPTER 3

FOOD AND BEVERAGE CONCESSION

The Center's primary food and beverage concession facilities are a deluxe restaurant and lounge, a cafeteria, and a snack bar. Other services provided include beverage service before performances and during intermissions, vending machines, and food and beverage catering for special events.

Under the food and beverage concession agreement between the Center and the Automatic Canteen Company of America which was succeeded by the ITT Canteen Corporation (CANTEEN), CANTEEN guaranteed the Center an annual income of $75,000 or 5 percent of net sales, whichever is greater CANTEEN also agreed to pay up to $1.25 million of the cost of equipping, decorating, furnishing, and supplying the initial expendable inventory for the concession facilities.

We evaluated the food and beverage concession proposals received by the Center to determine whether the best proposal was accepted, and we believe the Center accepted the best proposal.

REQUEST FOR PROPOSALS

By letter dated April 6, 1965, the Center requested proposals from nine prospective bidders. The request mentioned only major considerations but was prepared for the purpose of obtaining some uniformity in the proposals. Some of the major considerations mentioned were:

--A single concessionaire was to handle the food and drink concessions and the vending operations.

--A gift or donation was to cover the cost of kitchen equipment, furniture, fixtures, and a substantial portion of all the interior construction. (An architect's estimate for these items was $1.14 million.)

--A concessionaire was to furnish food service equipment including silverware, linens, glassware, china, etc.

--The Center was to receive, annually, a fixed percentage of the gross receipts or a minimum guarantee, whichever is greater

Prior to requesting proposals, Center officials had met with a potential concessionaire in December 1964. As a result of this meeting, the potential concessionaire prepared a draft proposal dated January 4, 1965, which Center officials evaluated along with three proposals received in response to the April 6, 1965, request.

The following table summarizes the four proposals.

Summary of Proposals

Proposal provision	CANTEEN	Company X	Company Y	Company Z
		(note a)		
Contribution	$1 2 million plus additional funds if needed, to prevent stinting on design and decor plans	$650 000--$150,000 on signing a contract $100 000 on opening of the building, and $100 000 annually for 4 years	$300 000	$250 000--No included in draft proposal but discussed as a contribution in a December 22 1964 meeting with Center officials
Annual income to the Center	A percentage of net sales[b] with a $100 000 minimum The percentage would be either --5 percent if net sales were $2 2 million or less --5-1/2 percent if over $2 2 million or --6 percent if $2 5 million or more	6 percent of net sales[b]--minimum guarantee after 3 years of 75 percent of the average payment over the preceding 3 years	6 percent of gross receipts--$50 000 minimum	Center to receive 60 percent of net profit after the company received $30 000 plus 5 percent of gross sales as a management fee and $10 000 as a reserve for equipment replacement Expenses were to include administrative overhead not to exceed 5 percent of gross sales

[a]Because the Center's request for proposals contained the statement that each proposal be considered in strict confidence, Center officials requested that companies other than CANTEEN not be identified Therefore we have identified the other companies as companies X Y and Z

[b]Net sales are gross sales less sales taxes

GAO EVALUATION OF PROPOSALS

To evaluate the proposals we projected the income to the Center over a 10-year period assuming different levels of annual sales. To compute annual income, we assumed annual net sales of $2 million and $3 million on the basis of annual sales volumes mentioned in the proposals. We added the proposed contribution to the projected income to approximate the value of the contribution and the income the Center would receive from each company. The following table shows that the CANTEEN proposal appears to be more advantageous to the Center at the assumed levels of net sales.

		Income over 10-year period		Contribution and income over 10-year period	
		Assumed annual net sales		Assumed annual net sales	
	Contribution	$2 million	$3 million	$2 million	$3 million
	(000 omitted)				
CANTEEN	$1,200	$1,000	$1,800	$2,200	$3,000
Company X	650	1,200	1,800	1,850	2,450
Company Y	300	1,237	1,856	1,537	2,156
Company Z	250	379	688	629	938

To project profit or loss to the Center under the terms of the company Z proposal which provided for paying the Center a percentage of net profit instead of a percentage of either net sales or gross receipts as proposed by the other companies, it was necessary to estimate company Z's profit margin. A Government Services, Inc., official told us that the profit margin in the food and beverage industry was from 3 to 7 percent. We used a profit margin of 10 percent in our computations to minimize the possibility of understating income to the Center.

TERMS OF AGREEMENT

On May 17, 1965, after considering the various proposals, the Center's Executive Committee voted unanimously to enter into an agreement with CANTEEN. On June 28, 1965, the Center entered into an agreement granting CANTEEN the exclusive right, license, and privilege to sell alcoholic and non-alcoholic beverages, food, candy, cigars, cigarettes, tobacco products, and other products as might be mutually agreed upon. The principal terms of the agreement are listed below.

Term.	10 years.
Renewal option·	10 years at option of CANTEEN subject to negotiation of terms.
Commencement date	Formal opening of the Center.
Payments by CANTEEN	$1.25 million or less toward the cost of equipping, decorating, furnishing, and supplying the initial expendable inventory for the concession facilities. Any cost in excess of this amount to be borne by the Center.
Primary facilities:	A deluxe restaurant and lounge, a cafeteria, and a snack bar to be located on the roof terrace.
Other services.	Catering service to special events, snack food service, beverage service, and vending machine service.
Food and beverage prices	As agreed upon by CANTEEN and the Center.
Revenue to the Center:	5 percent of net sales (gross sales, less sales taxes) with a guarantee of $75,000 a year.
Method of revenue payment.	$25,000 on the first of July, October, January, and April of each fiscal year with a reconciliation within 30 days after June 30.
Utilities	Center to be reimbursed by CANTEEN.
Books and records:	Center entitled to examine and audit sales and income information through its agent, certified public accountant, and/or GAO.

By an amendment dated September 10, 1970, CANTEEN and the Center agreed to several changes, including:

Renewal option.	Same as stated in the agreement or 6 years at the option of CANTEEN under the same terms and conditions as contained in the agreement, plus 4 additional years at the option of CANTEEN subject to negotiation of terms.
Advance revenue payment	$75,000 on January 15, 1971, in lieu of the first three quarterly installments due in the first year of operation.

RESULTS OF OPERATIONS

CANTEEN's net sales through March 25, 1972, totaled $1.7 million, exclusive of $125,000 of sales prior to the Center's opening from which the Center did not receive any income. Based on sales subject to the 5-percent rate, the Center's income through March 25, 1972, was about $86,000 as shown below.

	September 6, 1971, to March 25, 1972
Net sales (note a)	$1,714,000
Center's income (5 percent of net sales)	86,000

[a]Net sales are gross sales less sales taxes.

On the basis of sales through March 25, 1972, we estimate annual net sales of $3 1 million and annual income to the Center of $155,000 However, the Center was closed to tourists from December 11, 1971, to March 31, 1972 We believe that, if the Center remains open to tourists in the future, net sales and income to the Center may be higher than we estimated.

The agreement with CANTEEN provides that the Center be reimbursed for utilities and maintenance costs. The amount of this reimbursement, however, has not been agreed upon. In correspondence from CANTEEN to the Center, CANTEEN agreed to reimburse the Center for utilities at a quarterly rate of $26,636 and for maintenance costs at the actual cost of equipment and parts with labor to be billed at cost, plus 20 percent. A Center official told us that CANTEEN may also be liable for utilities and maintenance costs in banquet areas outside the restaurant areas.

ADDITIONAL RESTAURANT EQUIPMENT

The concession agreement provides that the cost of equipping, decorating, furnishing, and supplying the initial expendable inventory for the concession facilities in excess of $1 25 million be borne by the Center CANTEEN reported that, as of March 22, 1972, the costs incurred were $262,000 in excess of this amount Center officials told us that the Center had previously agreed to its liability for $257,000 to CANTEEN and that a meeting with CANTEEN was anticipated to discuss the Center's liability for the additional $5,000

By letter dated April 24, 1972, CANTEEN proposed that the Center execute a 6-percent promissory note for money due to CANTEEN The note was for $203,000 and was based on:

	Amount (000 omitted)	
Due CANTEEN:		
Concession facilities cost overrun	$262	
Prepaid income to the Center	75	
Charge sales to Center	14	
Total		$351
Due the Center:		
Income	86	
Utilities and maintenance	62	
Total		147
Balance to be paid CANTEEN		$203

Note: Figures do not add due to rounding.

After discussions with Center officials, CANTEEN submitted a revised proposal including a note for $265,000 based on a cash payment to the Center of $62,000 for the outstanding utilities and maintenance costs This cash payment would increase the net amount due CANTEEN to $265,000. The Center had not executed either note as of June 21, 1972, and a Center official told us that a meeting with CANTEEN would be necessary to resolve the matter because (1) final agreement had not been reached concerning the Center's liability for the cost of facilities in excess of $1 25 million and (2) CANTEEN may be liable for other costs, mainly utilities and maintenance, in banquet areas outside the restaurant areas.

CHAPTER 4

PARKING CONCESSION

The parking facility at the Center is a three-level substructure below the Center building and contains 1,404 parking spaces. The facility is operated by APCOA-Washington, Inc. (APCOA), a wholly owned subsidiary of ITT Consumer Services Corporation.

Under the parking-concession agreement with APCOA, the Center receives 50 percent of the annual net profit from parking operations after deduction of interest on the $3.5 million advance to the Center and one-fifteenth of the principal. After the advance is repaid, the Center will receive 70 percent of net profit on gross receipts up to $1.5 million and 80 percent of the gross receipts in excess of $1.5 million.

We evaluated the parking-concession proposals received by the Center and, considering the Center's requirement for a substantial advance against future parking revenues, we are in agreement with the selection made. However, if the advance had not been required, we believe the Center would have entered into a more favorable parking-concession agreement with another company.

AWARD OF THE PARKING-CONCESSION AGREEMENT

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

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

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

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

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

Summary of Parking Concession Proposals
Reflecting Subsequent Negotiations

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

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

[b]Applies to distribution of net profit after withholding the advance payment and interest

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

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

GAO EVALUATION OF THE PARKING-CONCESSION PROPOSALS

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

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

Estimated gross receipts and expenses in proposals

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

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

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

Present value

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

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

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

APCOA proposal versus company A proposal

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

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

Estimated Revenue to the Center from Parking Concession

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

[a]Based on APCOA's estimated receipts and expenses and on company A's proposed management fee. (See p. 27.)

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

Note: Figures may not add due to rounding.

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

Present Value of
Estimated Revenue to the Center
from Parking Concession

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

[a]Indicates the higher amount.

Note Figures may not add due to rounding.

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

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

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

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

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

APCOA proposal versus company B proposal

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

Estimated Revenue to the Center from Parking Concession

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

[a]Based on APCOA's estimated receipts and expenses and on company B's proposed management fee. (See p. 27.)

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

Present Value of
Estimated Revenue to the Center
from Parking Concession

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

[a]Company B's amount is higher

Note Figures may not add due to rounding

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

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

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

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

CURRENT PARKING OPERATIONS

APCOA took possession of two levels of the Center's parking facility on January 4, 1971, but did not formally accept the facility until April 1, 1972. Under the parking-concession agreement, the 15-year term of the agreement and the amortization of the APCOA advance did not begin until the latter date.

At the time of our review, APCOA and Center officials had not reached agreement concerning the distribution of profits earned during the period from January 4, 1971, through March 31, 1972. Correspondence from APCOA states that net profits after payment of interest on the APCOA advance should be divided equally. APCOA's distribution on this basis is shown below.

Distribution of Net Profit
January 4, 1971, through March 31, 1972

		Amount (000 omitted)
Gross receipts		$728
Less: Management fee	$ 36	
Other expenses	143	179
Net profit		$549
Distribution of net profit:		
Interest on APCOA advance		$163
To APCOA (note a)		193
To Center		193

[a]In accordance with the terms of the concession agreement, APCOA withheld about $15,000 as reimbursement for equipment and paid the Center about $178,000. The Center accepted this payment without prejudice to its claim for additional profits.

The Center, in its correspondence with APCOA, expressed the opinion that APCOA was not entitled to share profits earned before April 1, 1972. The Center therefore would be entitled to the additional $193,000 in profits withheld by APCOA. Center officials met with representatives of APCOA on June 8, 1972, but were unable to resolve the matter.

CHAPTER 5

FINANCING OF PARKING FACILITIES

The Congress authorized the Center to borrow $20.4 million from the Treasury Department to finance the construction of the parking facility with the expectation that the Center's income from parking operations would be sufficient to pay interest on the borrowings and to repay the principal. The Center must receive income of about $1,564,000 annually from the parking-concession agreement to pay the accrued interest and provide for repayment of the principal. We estimate that, during the first year of the concession agreement with APCOA, the Center will receive about $237,000, or about 15 percent of the income needed.

BACKGROUND

During hearings in December 1963 before a joint session of the House and Senate Committees on Public Works, Center officials stated that adequate parking must be provided for the people attending performances at the Center. They stated also that they did not believe it would be appropriate to ask for contributions from the public to pay for the parking facilities.

Center officials suggested that a parking facility be financed with a grant from the Government or that authority be provided to borrow the money. Center officials stated that, on the basis of a feasibility study by a professional parking concern, the parking facility would be self-sustaining.

The Congress subsequently amended the John F. Kennedy Center Act to include borrowing authority enabling the Board of Trustees to issue revenue bonds totaling $20.4 million to the Secretary of the Treasury to finance construction of a parking facility. The bonds were to have maturities agreed upon by the Board and the Secretary of the Treasury but not in excess of 50 years and were to bear interest at a rate determined by the Secretary of the Treasury taking into consideration the average rate on marketable obligations of the United States of comparable maturities.

The interest payments could be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred would bear interest after June 30, 1972. The bonds were to be repaid from Center revenues.

REVENUE BONDS OUTSTANDING

The Center borrowed $20.4 million from the Treasury Department by issuing 21 revenue bonds between July 1, 1968, and April 30, 1970. Maturity dates are December 31, 2017, for bonds totaling $7.9 million, December 31, 2018, for bonds totaling $11.5 million; and December 31, 2019, for one bond of $1 million. At any time before maturity, the bonds are redeemable, in whole or in part, at the option of the Board.

ACCRUED INTEREST PAYABLE

Interest rates on the bonds range from 5-1/8 to 6-5/8 percent, and the annual interest on the bonds is about $1.2 million. The bonds provide that interest accruing thereon until December 31, 1978, can be deferred or paid at the election of the Board; that after June 30, 1972, deferred interest will bear interest at rates set by the Secretary of the Treasury; and that all unpaid accrued interest at December 31, 1978, will be due on that date. Under the act, however, the Secretary of the Treasury could continue to defer accrued interest after 1978.

The Board has deferred payment of all interest which accrued during the period 1968 through 1971. A Center official told us that, unless the current financial position of the Center improves, no payment of accrued interest will be made during the period in which it can be deferred by the Board. If no payments are made, we estimate that accrued interest at December 31, 1978, will amount to $14.6 million. Our estimate of accrued interest at the end of each year from 1968 through 1978--assuming no payment of interest or retirement of bonds during the period--is shown in the following table.

Year	Annual accrued interest: On bonds	Annual accrued interest: On deferred interest	Cumulative accrued interest
	(millions)		
1968	$0.1	$ -	$ 0.1
1969	.8	-	.9
1970	1.2	-	2.0
1971	1.2	-	3.2
1972	1.2	0.1	4.5
1973	1.2	.3	6.0
1974	1.2	.4	7.5
1975	1.2	.5	9.1
1976	1.2	.6	10.9
1977	1.2	.7	12.7
1978	1.2	.7	14.6

Note. Figures may not add due to rounding.

EXPECTED REVENUE FROM PARKING CONCESSIONS
DURING FIRST YEAR OF CONCESSION AGREEMENT

The last of the Center's three theaters was opened in October 1971. Parking receipts and net operating profit for the next 6 months of operations are shown below.

Net Operating Profit from Parking Operations
November 1971 through April 1972

Month of operations	Gross receipts	Management fee (5 percent)	Other expenses	Net operating profit
	(000 omitted)			
November 1971	$ 98	$ 5	$16	$ 78
December 1971	88	4	16	68
January 1972	101	5	18	78
February 1972	79	4	14	61
March 1972	105	5	20	80
April 1972	105	5	15	85
Total	$577	$29	$98	$450

Note: Figures may not add due to rounding.

Based on this 6-month period, the Center's revenue during the first year of the 15-year concession term will amount to $237,000, as shown in the first column of the table on page 41. An APCOA official told us, however, that, he believed, previous operations could not be considered typical of the future. The Center was closed to tourists from December 11, 1971, to March 31, 1972, and the Center has no experience with which to estimate the tourist business during the summer months. In addition, the Center changed its parking rates on April 1, 1972, as follows:

	Prior to April 1, 1972	Revised rates April 1, 1972
Monday through Friday:		
First hour	$ 0.50	$ 0.65
Each additional hour	.35	.35
Maximum daytime charge	1.50	1.75
From 5 p.m. to 7 a.m (prepaid)	2.00	2.00
Saturday and Sunday		
From 7 a.m. to 5 p.m. (prepaid)	1.25	1.25
From 5 p.m. to 7 a.m. (prepaid)	2.00	2.00
Monthly rate for:		
State Department personnel	15.00	20.00
Federal Reserve personnel	20.00	25.00
Other	30.00	30.00

For the above reasons, we believe that the Center's revenue from parking operations during the first year might be more than the $237,000 estimated by us.

REVENUE NEEDED TO PAY INTEREST AND AMORTIZATION

We determined that annual payments of $1,564,000 would be required starting on December 31, 1973, to pay interest on the bonds and to provide for retiring the bonds by December 31, 2019. This amount was based on the assumption that payment of the $4 5 million of accrued interest at December 31, 1972, would be deferred and would accrue interest at 6-1/4 percent--the interest rate used in May 1972 for Treasury Department loans to Government agencies with maturities of 7 years and 4 months or longer.

PROSPECTS FOR CENTER'S RECEIVING ENOUGH REVENUE FROM PARKING CONCESSION TO PAY INTEREST AND AMORTIZATION

The Center's prospects for receiving annual revenue of $1,564,000 from the parking concession during the 47-year remaining term of the revenue bonds are dependent upon (1) the chances of increasing gross parking receipts and (2) the terms of the concession agreement.

We computed the gross parking receipts which would be required for the Center to receive annual revenue of $1,564,000 as its share of net profits. As shown in the following table, the amount varies from $3.9 million to $1.9 million, depending on the terms of the concession agreement.

	Estimated receipts and profit for year ending March 31, 1973		Estimated annual gross receipts required to generate $1,564,000 of revenue to the Center during the following periods					
			APCOA agreement (15 years)		APCOA option (10 years)		Remaining period until bond maturity (22 years)	
	Total (000 omitted)	Daily per space	Total (000 omitted)	Daily per space	Total (000 omitted)	Daily per space	Total (000 omitted)	Daily per space
Gross receipts	$1,154	$2 25	$3,853	$7 52	$2,559	$4 99	$1,873	$3 65
Less								
Management fee of 5 percent	58	11	193	38	128	25	112	22
Other expenses (note a)	197	38	197	38	197	38	197	38
Net profit	$ 900	$1 76	$3,464	$6 76	$2,234	$4 36	$1,564	$3 05
Distribution of net profit								
Interest and principal on APCOA advance (note b)	$ 426	$0 83	$ 336	$0 66	-	-	-	-
Remainder divided between APCOA and Center	(50/50)		(50/50)		(30/70)		(0/100)[c]	
APCOA	$ 237	$0 46	$1,564	$3 05	$ 670	$1 31	$ -	$ -
Center	237	46	1,564	3 05	1,564	3 05	1 564	3 05

[a]Expenses have been held constant

[b]Based on an interest rate of 5-1/2 percent--the prime rate of the Chase Manhattan Bank at November 15, 1971 The actual interest rate will be the prime rate on November 15 of each concession year

[c]Based on a 6-percent management fee with no profit sharing as suggested in the feasibility study presented in congressional hearings on December 12, 1963 (See p 44)

Note Figures may not add due to rounding

Can the gross parking receipts be increased from the current estimate of $2.25 a space each day to $7.52 during the initial 15-year period? $4.99 during the next 10-year period? $3.65 during the remaining 22-year period? The amount of the gross receipts that can be generated is dependent upon the utilization of the spaces and the parking rates charged. Using the current parking rates, we have calculated, on the basis of various parking receipts, the maximum daily receipts, assuming a 100-percent utilization rate, that each of the 1,404 parking spaces in the parking facility could generate each day.

If, however, utilization is less than 100 percent, the average daily receipts from each space would be less than shown in the following table. For the 6 months ended April 30, 1972, we estimate that the utilization rate for the parking facility was 60 percent for periods when prepaid rates were in effect (5 p.m. to 7 a.m. each day and 7 a.m. to 5 p.m. on Saturday and Sunday). There were an average of 7,637 prepaid parkers a week and 12,636 prepaid spaces available--1,404 spaces each evening, plus 1,404 daytime spaces on Saturday and Sunday.

We were not able to estimate a similar utilization rate for daytime parkers on Monday through Friday. An APCOA official told us, however, that, normally, one level of the facility containing 342 spaces is not needed for daytime parking and is closed except for some of the Wednesday and Friday matinees. A second level containing 462 spaces is open daily for the daytime parking. A third level containing 600 spaces is used for monthly parkers.

Maximum Daily Receipts from Each Parking Space under Different Assumed Parking Patterns

Daytime 7 a m to 5 p m Assumed parking patterns	Receipts	Evening 5 p m to 7 a m (note a)	Daily receipts from each of the 1,404 spaces
		Monday through Friday	
Each of the 1,404 spaces occupied by			
One car all day at maximum rate	$1 75	$2 00	$3 75
Three cars for 3 hours each	4 05	2 00	6 05
Four cars for 2 hours each	4 00	2 00	6 00
Eight cars for 1 hour each	5 20	2 00	7 20
600 (note b) spaces occupied by monthly parkers (note c) and 804 spaces occupied by			
One car all day at maximum rate	1 49	2 00	3 49
Three cars for 3 hours each	2 81	2 00	4 81
Four cars for 2 hours each	2 78	2 00	4 78
Eight cars for 1 hour each	3 47	2 00	5 47
Each of the 1,404 spaces occupied by monthly parkers	1 15[c]	2 00	3 15
		Saturday and Sunday	
Each of the 1,404 spaces occupied by			
One car	1 25	2 00	3 25
Two cars	2 50	2 00	4 50
Three cars	3 75	2 00	5 75
Four cars	5 00	2 00	7 00

[a]Assuming one car a space each evening

[b]Approximate number of monthly parkers in June 1972

[c]Based on an average monthly rate of $25, or $1 15 a day from each space

On the basis of parking experience from November 1, 1971, through April 30, 1972, we believe that parking operations cannot generate the required gross receipts during the 15 years of the parking-concession agreement. During this 6-month period, parking operations generated average daily gross receipts of $2.25 a space, or $5.27 less than the $7.52 a space that is needed if the parking operations are to be self-sustaining.

Our analysis under various parking patterns shows that none of these parking patterns would generate sufficient receipts to pay the principal and interest on the bonds. We believe that, even if daytime utilization of each space could be increased to eight cars a day on Monday through Friday and to four cars a day on Saturday and Sunday and if evening utilization could be increased to one car a space, average daily gross receipts from each space would be only $7.14, which is still less than the $7.52 a space that is needed during the first 15 years.

If, however, the annual payment were made in each of the first 15 years, we believe that it is possible that the Center would receive the required revenue in the 10-year-renewal period and that it is likely that the Center would receive the required revenue in the remaining years before December 31, 2019. We reached this opinion because (1) the gross receipts requirement is lower in these two periods, as shown in the table on page 41, and (2) parking rates in general have steadily increased in the past and, we believe, they will continue to increase.

During the 10-year-renewal period, daily gross receipts would exceed the required $4.99 a space under four of the nine parking patterns for Monday through Friday and under two of the parking patterns for Saturday and Sunday. During the last 22 years of the bond maturity period, daily gross receipts would exceed the required $3.65 a space under seven of the nine parking patterns for Monday through Friday and under three of the four parking patterns for Saturday and Sunday.

It should be noted, however, that, if the $1,564,000 annual payment were not made in any year, the required annual payment for subsequent years would increase. Therefore the inability of the Center to pay $1,564,000 in any year would change the gross receipts requirement for succeeding years.

COMPARISON OF THE FEASIBILITY STUDY WITH CURRENT OPERATIONS

The Center's feasibility study introduced during the congressional hearings in December 1963 showed that parking operations would be self-sustaining. We believe, however, that the following changes from the basic assumptions of the feasibility study have resulted in a parking operation which may not be self-sustaining.

--The Center borrowed an additional $6.4 million from the Treasury Department and had to pay interest on the total borrowings at higher rates than those used in the feasibility study.

--The Center negotiated a profit-sharing arrangement with the parking concessionaire, whereas the feasibility study anticipated paying only a management fee.

--The Center has used parking revenues for purposes other than to pay bond interest and to provide for bond retirement.

--The actual number of parking spaces is only 1,404, whereas the feasibility study was based on 1,600 spaces.

Borrowing authority

The feasibility study was based on the Center's borrowing $14 million from the Treasury Department at a 3-percent interest rate. The annual interest on these bonds would have been $420,000. The Center, however, borrowed $20.4 million at interest rates ranging from 5-1/8 to 6-5/8 percent. The annual interest of about $1.2 million on these bonds is $755,000 more than planned for in the feasibility study. In addition, the annual interest of $1.2 million does not include interest on deferred interest, as explained on page 37.

Profit-sharing arrangement

The feasibility study suggested that the parking facility be operated by a professional parking concern for a management fee of 6 percent. The study estimated that a net profit of $599,000 would be available each year to pay interest on the bonds and to provide for retirement of the bonds. The Center, however, entered into a parking-concession agreement with APCOA which provides for a profit-sharing arrangement as well as a management fee of 5 percent.

On the basis of APCOA's estimates, net profit from the parking concession during the first 15 years would be $950,000 a year and the Center's share would range from $262,000 to $352,000 a year depending upon the amount of the advance that is still outstanding. APCOA and the Center divide net profits after first deducting interest and principal on the APCOA advance.

Use of parking revenue

One of the assumptions of the feasibility study was the use of parking revenues to pay interest on the bonds and to retire the bonds. The act, however, does not require that the revenues be used for this purpose. APCOA advanced the Center $3.5 million against future revenues and paid the Center $178,000 as its share of profits through March 31, 1972, none of which was used for payment of interest or principal. Furthermore, the Center's budget for fiscal year 1973 calls for parking revenues to be used to pay operating expenses. (See p. 52.)

Reduction in parking spaces

The Center's parking facility contains 1,404 parking spaces. The Center's feasibility study was based on 1,600 parking spaces in accordance with preliminary architectural drawings. According to the architectural firm which designed the Center, part of the decrease in spaces resulted because areas of the parking facility were used as follows:

Purpose	Spaces
Pump room for air conditioning	30
VIP lounge and elevator	12
Sprinkler enclosures at water mains	18
Vertical plumbing lines	18

According to this correspondence, the remaining decrease in spaces resulted from APCOA's use of a different parking layout and from the assignment of more space than was planned to vehicle circulation.

We believe that additional parking spaces in the Center's parking facility would have resulted in increased receipts. The parking facility, on occasion, has been filled to capacity, and the Center has considered providing additional parking on the Center site. Furthermore, the Center has announced that additional parking space for Center patrons is available at nearby parking facilities.

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During congressional hearings in May 1969, Center officials reiterated that the parking operation would be self-sustaining. We believe that, as presented in the 1963 feasibility study, the parking concession would have been self-sustaining. However, with the issuance of revenue bonds in 1968 at higher interest rates than planned and with the award of the parking-concession agreement in February 1969 which provided for a cash advance and for a sharing of profits, it was questionable whether the parking operations could be self-sustaining.

Center officials stated in the hearings that an increase in parking rates from $1 to $1.75 would provide sufficient revenues for paying the principal and interest on the bonds. Center officials apparently did not consider that the interest rate on outstanding bonds at that time was almost double the interest rate used in the feasibility study or that the Center had agreed to give the parking concessionaire 50 percent of annual net profit after deduction of principal and interest due on the $3.5 million advance from the parking concessionaire.

CHAPTER 6

NEED FOR IMPROVEMENTS IN

MANAGEMENT CONTROL OVER CENTER OPERATIONS

The general objective of an internal management control system is to provide assistance in carrying out all duties and responsibilities as effectively, efficiently, and economically as possible, giving due regard to the necessity for complying with the requirements and restrictions of all applicable laws and regulations. Some specific objectives of a satisfactory control system are to:

--Promote efficiency and economy of operations.

--Restrict costs to a minimum, consistent with efficiently and effectively carrying out the purposes of the organization.

--Safeguard assets against waste, loss, or improper or unwarranted use

--Insure that all revenues applicable to the organization's assets or operations are collected or properly accounted for.

--Insure the accuracy and reliability of financial, statistical, and other reports.

OBSERVATIONS ON EXISTING MANAGEMENT CONTROL OVER CENTER OPERATIONS

This chapter includes a description of the Center's accounting system and our observations which illustrate that recognized management control standards were not being followed in the Center's operations. It should be noted that we did not make a detailed review of all aspects of the Center's management control system

Accounting system

While the Center was in the fund-raising and construction phases, accounting records--except for records maintained for pledges receivable--were maintained primarily under the cash basis of accounting. The Center's accounting records--excluding invoices, correspondence, contracts, and other support documents--consisted of (1) a general ledger, (2) a cash receipts journal, and (3) cash disbursements journals for appropriated funds, funds borrowed from the Treasury Department, and private funds. Extensive subsidiary records were maintained for contributed funds.

The cash basis of accounting is frequently unsatisfactory, except in instances where transactions are limited to cash revenues and disbursements. During the fund-raising and construction phases, Center officials considered the cash basis acceptable for their needs. However, they recognized that this method would not be acceptable when Center operations began. They therefore decided to convert to the accrual basis[1] of accounting as of July 1, 1971.

After experiencing numerous problems in attempting to convert to the accrual basis of accounting, the Center employed a certified public accounting firm experienced in theater accounting to assist in setting up that part of the accounting system related to theater operations. This firm began its work in April 1972 and later began setting up the remainder of the Center's accounting system. A Center official told us that the new accrual accounting system had been substantially installed as of July 12, 1972, and that the Center expected to be able to provide an unaudited income statement for the fiscal year ended June 30, 1972, and an audited balance sheet at June 30, 1972, within 30 days after the close of the fiscal year. The income statement may not be audited because the Center and the certified public accounting firm consider the cost of doing so prohibitive.

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[1]Under the accrual basis, revenue and expense are identified with specific periods of time and are recorded as incurred, along with acquired assets, without regard to when payment is made.

Management control standards

Following are some management control standards and our observations which illustrate that these standards were not being followed in the Center's operations.

Policies

Management policies should be clearly stated, systematically communicated throughout the organization, and designed to promote the carrying out of authorized activities effectively, efficiently, and economically.

The center does not have a comprehensive written statement of policy in the form of a policy manual, a handbook, or a collection of policy statements. A Center official told us that policy matters generally are communicated orally to the appropriate personnel within the organization. Written statements of policy are prepared at times, but only to inform an individual that he has not followed the Center's policy.

We believe that, without written policies, the likelihood that Center employees will inadvertently perform activities opposed to Center policy is increased. We believe also that it is more difficult to train new employees without a clearly written policy manual or a collection of policy statements.

Organization

A carefully planned organizational structure should be established under which responsibility for the performance of all duties necessary to carry out the functions for which the organization exists is clearly defined and specifically assigned and appropriate authority for such performance is delegated.

The Center does not maintain a current organizational chart and does not have formal functional statements defining the duties and authorities of its organizational elements. Moreover, individual job descriptions had not been prepared or were out of date for many Center officials. We believe that situations when Center officials and organizational elements do not fully understand their duties and authorities could lead to unauthorized actions or to the omission of needed actions.

Procedures

Procedures for carrying out operations should be as simple, efficient, and practicable as circumstances permit, giving due regard to the nature of the operations and applicable legal and regulatory requirements.

We inquired as to whether standard operating procedures had been prepared for several areas of the Center's operations, including the box offices, the accounts payable function, and other elements of the accounting function. Center officials told us that no standard operating procedures had been prepared. We believe that, in view of personnel turnover and the size of the Center's operations, procedures, in most instances, should be in writing.

Planning

A system of forward planning, embracing all significant parts of the organization, is needed for determining and justifying needs for financial, property, and personnel resources and for carrying out operations effectively, efficiently, and economically.

The Center did not have a formal budgeting system. In at least three instances, the Center had prepared budget estimates covering part of its operations. One of these estimates was prepared prior to the opening of the Center as part of a request for a maintenance fund to operate the Center. The request was subsequently dropped.

The second budget estimate was presented in congressional hearings on December 2, 1971, as support for a bill authorizing appropriations of $1.5 million each fiscal year to defray operating costs allocated to the nonperforming arts--or memorial--function of the Center. The third budget estimate was for the year ending January 31, 1973, which was presented to the Board of Trustees at its annual meeting on January 26, 1972.

Because of deficiencies noted in the Center's accounting system, the Center did not routinely produce data which could be used with a budget to provide financial control of Center operations. Furthermore, a Center official told us that the Center did not know the total cost related to operating the theaters; therefore, it did not know how the rental rates being charged compared with the cost of operations.

Center officials acknowledged the inadequacy of past efforts in budgeting but told us that, under the accrual accounting system and a planned budgeting system, they would have more control over the Center's financial operations. They stated that budgets would be prepared on a format comparable to the Center's accrual accounting system to serve as the Center's primary control document over financial matters

On June 29, 1972, the Chairman of the Board of Trustees gave us the Center's budget for fiscal year 1973 which had been approved by the Board on June 22, 1972. This budget is included below with explanatory remarks added by GAO for clarity. Because of the date received, we did not evaluate the budget.

JOHN F KENNEDY CENTER FOR THE PERFORMING ARTS

Budget for Fiscal Year Ending

June 30, 1973

INCOME			
Eisenhower Theater			$ 240,000
40 wks @ $6000 a week			
Opera House			440,000
44 wks @ $10,000 a week			
Concert Hall			400,000
40 wks @ $10,000 a week			
Contributions (to be raised)			298,300
Concession Income			
CANTEEN [See GAO note 1]	$175,000		
CANTEEN (Services Rendered) [See GAO note 2.]	140,000	$315,000	
APCOA [See GAO note 3.]		250,000	565,000
Total Net Operating Income			$1,943,300
EXPENSES			
Theater Operations			$ 499,700
20% of National Park Service's Operating Costs [See GAO note 4]			500,000
Chairman's Office			15,400
Assistant Director's Office			85,100
Development Office			32,000
Special Events			16,600
Finance Office			96,900
Advisory Council			17,900
General Office Support			143,500
Insurance [See GAO note 5]			**
Contingency [See GAO note 6.]			150,000
Total Expenses			$1,557,100
ADDITIONAL OPERATING EXPENSES [See GAO note 7]			
Carpet Payments (Burlington Acceptance Co)		$ 75,600	
Seat Payments (U S Leasing Corp)		144,000	
Furnishings (Locafrance U S Corp)		41,600	
CANTEEN [See GAO note 8]		125,000	386,200
Total Operating Expenses			$1,943,300

**Subject to final determination and negotiation

GAO notes

1 Revenue from the food and beverage concession

2 Reimbursement from CANTEEN for utility expenses and maintenance

3 Revenue from the parking concession

4 The National Park Service has been authorized by the Congress to assume janitorial, information, security, and maintenance responsibility for the Center The budget includes reimbursement of 20 percent of the National Park Service's operating costs as the Center's share of these expenses during theater hours

5 During our review we identified insurance payments, totaling $74,163, due in fiscal year 1973

6 We were informed that this amount was to provide for major repairs of Center equipment or other contingencies

7 The Center did not provide for any payment of interest on its revenue bonds issued to the Secretary of the Treasury

8 Planned payment to CANTEEN in fiscal year 1973 for CANTEEN expenditures on food and beverage facilities in excess of $1,250,000

Information system

An adequate and efficiently operated information system should exist to provide promptly essential and reliable operating and financial data to those responsible for making decisions or reviewing performance.

Center officials told us that periodic reports summarizing data on theater operations, building operations, or administrative operations were not routinely prepared. Reports generally were prepared at the request of Center officials for specific data. Due to this lack of a formal information system, much of the data in our report was compiled from basic records rather than from reports on Center operations.

Furthermore, a member of the Board of Trustees informed us that the Board had not been provided with the operating and financial data it needed to perform its functions.

Safeguarding of resources

All funds, property, and other resources for which the organization is responsible should be appropriately safeguarded to prevent misuse, unwarranted waste or deterioration, destruction, or misappropriation.

Our review of the internal control over cash and theater tickets in the Center's box offices disclosed the following weaknesses.

--Tickets for performances at the Center's theaters were counted when they were received from the printer, and unsold tickets were counted after the performances; but no system had been established to reconcile ticket sales with cash receipts. A Center official told us that the box offices were manned by union ticket sellers and that the union must cover any cash shortages. However, because of the weak controls over tickets and ticket sales, the Center could not determine whether a cash shortage existed.

--Bank statements generally were not reconciled with checkbooks.

--Cash receipts were not being deposited intact each day.

--Checks received at two box offices were not stamped "For deposit only to the account of."

--The safe in one box office was not being used for overnight storage of cash. Instead, cash was being kept in a locked drawer.

A Center official told us, however, that improved controls over box-office receipts were established in July 1972. We did not review the internal control over other assets of the Center.

Supervision and review

The performance of all duties and functions should be under proper supervision. All performance should be subject to adequate review under an effective internal audit program to provide information as to whether performance is effective, efficient, and economical; management policies are adhered to; applicable laws and prescribed regulations are complied with, and unauthorized, fraudulent, or otherwise irregular transactions or activities are prevented or discovered.

The Center did not have an internal audit function, and Center officials told us that no surprise cash counts or reviews of cash disbursements had been made in the Center's box offices.

Segregation of duties and functions

Responsibility for assigned duties and functions should be appropriately segregated among authorization, performance, keeping of records, custody of resources, and review, to provide proper internal checks on performance and to minimize opportunities for carrying out unauthorized, fraudulent, or otherwise irregular acts.

We noted several situations where duties and functions had not been segregated. For example, in one box office the same person was responsible for authorizing, recording, and writing checks for ticket reimbursements.

Expenditure control

Adequate control over expenditures requires that effective procedures be devised to insure that needed goods and services are acquired at the lowest possible cost; that goods and services paid for are actually received; that quality, quantity, and prices are in accordance with the applicable contracts or other authorization; that such authorizations are consistent with applicable statutes, regulations, and policies, and that effective use is made of all acquired resources.

The Center did not maintain accounting control over accounts payable. The Center had no accounts payable ledger. Invoices from vendors were maintained in individual folders and were totaled on occasion to determine total accounts payable at that time.

Although invoices are to be paid only upon the written authorization of a Center official, we noted several instances where the written authorization was not indicated on paid invoices. Invoices were sometimes held by Center officials for extended periods before they were received by the accounts payable section. The date of six invoices selected from invoices received by the accounts payable section on May 23, 1972, ranged from March 6 to April 26, 1972.

OTHER CENTER ACTIONS TO IMPROVE MANAGEMENT CONTROL

The Board of Trustees and officials of the Center have recognized the need to improve management control over Center operations. Some of the actions that they have taken are discussed in appropriate sections of this chapter. Other actions that have been taken by the Board are discussed below.

At its 1972 annual meeting, the Board established the position of Comptroller. The Center filled this position on May 1, 1972.

At the same meeting the Chairman of the Board announced that, in view of the Center's critical financial problems and of the necessity to review the Center's organization to effect cost savings, he had established a finance committee. We did not review the actions taken by this committee.

A member of the Board informed us on May 8, 1972, that a personnel committee had also been formed. The committee's immediate purpose was to make a complete review of the management positions at the Center to determine the nature and scope of the work being performed so that each position could be evaluated and a decision could be made as to which positions should be retained, consolidated, or eliminated. We did not review the work of this committee. On June 26, 1972, however, we were provided with a copy of the Center's personnel policies and procedures which were approved by the Board on June 22, 1972.

CHAPTER 7

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Center has not maintained accounting control over its accounts payable. The Center had no accounts payable ledger. Invoices from vendors were maintained in individual folders and were totaled on occasion to determine total accounts payable at that time. The Center's records showed that the accounts payable and accrued liabilities at April 30, 1972, amounted to $1.3 million, as shown below.

	Amount (000 omitted)
Electrical expense	$ 321
Janitorial service	211
Building operations	202
Security	189
Advertising	132
Travel and maintenance	40
Telephone and telegraph	40
Other	191
Total	$1,326

This schedule does not include

--Payables related to construction.

--The $3.5 million advance by the parking concessionaire.

--Expenses related to current productions which are payable from revenues generated by the productions.

--Salaries payable.

Construction payables are discussed in chapter 2, and the advance against future parking revenue is discussed in chapters 4 and 5.

Of the $1.3 million in accounts payable and accrued liabilities, $136,501 was paid by the Center after April 30, 1972. The following table shows the aging of the remaining $1.2 million.

Date liability incurred	Amount (000 omitted)
1972.	
April	$ 319
March	31
February	49
January	196
1971.	
December	176
November	149
October or earlier	269
Total	$1,189

Based on Center records and information provided by Center officials, the Center, at April 30, 1972, had the following assets that might be available to pay these liabilities.

--Cash of $119,000, exclusive of cash related to current productions, such as from advance ticket sales.

--Accounts receivable of about $8,000 and an undetermined amount to be reimbursed by the Smithsonian Institution and other sponsors for part of the incurred expenses of $50,000 for the American College Jazz Festival and $32,000 for the American College Theater Festival.

--Bonds and investments totaling about $38,000.

	Amount (000 omitted)
Israeli bonds	$16
National Memorial Park Bonds	7
National Memorial Park Mausoleums	12
U.S. Savings Bonds	3
Total	$38

--About $198,000 in pledges receivable.

--Credit card deposits of $425 each to American Airlines and Eastern Airlines.

--$500 worth of 5-cent postage stamps which the Center purchased but did not use because of an increase in postal rates.

CHAPTER 8

THEATER OPERATIONS

Since its opening on September 6, 1971, with the initial performance of MASS, the Center has presented a variety of performances in each of its three theaters. The Opera House, seating 2,318, is designed for musicals, ballet, modern dance, and opera. The Concert Hall, seating 2,759, is designed for symphony concerts, recitals, and popular music of all types. The Eisenhower Theater, seating 1,142, is intended primarily for drama.

RENTAL AGREEMENTS

We were told that the following standard rental rates had been established for each of the theaters according to industry patterns.

	One performance daily	Eight performances weekly
Eisenhower Theater	$1,500	$ 7,500
Concert Hall	1,500	7,500
Opera House	2,000	15,000

As a general policy the Center expects to receive, under whatever type of agreement is negotiated, revenue equal to the standard rate. The Center's three theaters have been made available to performing artists under several different types of agreements negotiated by the Chairman of the Board of Trustees--the principal executive officer of the Center--or by the Executive Director of the Performing Arts. The rental terms of the contracts reflect various factors, such as the type and duration of performance, advertising clauses, rehearsals, and stagehand and box office expenses.

Most of the contracts for the Eisenhower Theater provided for a sharing of gross receipts and sometimes provided for a minimum guarantee to the Center. Most of the contracts for the Concert Hall provided for either the standard daily rental rate or the Center to pay a fee to the performer or group of performers and retain all excess receipts. Contracts for the Opera House generally were based on the standard rental rates.

The Center has entered into two contracts providing for a rental fee to the Center, less than the standard rental rate. The Washington Performing Arts Society, which presents international talent in both the Concert Hall and the Opera House, pays $1,000 a performance in the Concert Hall and the standard rental of $2,000 a performance in the Opera House. The National Symphony Orchestra--the Center's resident orchestra for the 1971-72 season--agreed to pay a yearly rental rate of $155,000 for up to 171 performance dates and 160 rehearsals in the Concert Hall. Under this agreement the Orchestra was also to have office space at the Center, but because the space was not available, the rental rate was reduced by 10 percent to $139,500.

THEATER REVENUE

The Center's records show that it has received gross revenues of $2.8 million from rental fees and its share of the receipts from ticket sales and has incurred expenses of $2.5 million, resulting in an excess of revenue over expenses of $337,000. The amount of the expenses, however, does not include expenses applicable to two productions which had not been determined at the time of our review.

Of the excess from the Founding Artist Series, $80,000 has been allocated to the Center's Education Fund to subsidize discount tickets for qualified students, the elderly, low-income people, people in the military services below a certain grade, and the handicapped. Under the Founding Artist Series, various performers donated their services to the Center. The Center, however, had to pay travel and lodging expenses, advertising expenses, orchestra fees, and other costs related to the performances.

The following table shows the results of theater operations from September 6, 1971, through March 31, 1972.

Performance	Center revenue	Production expenses	Excess of revenue over production expenses
	(000 omitted)		
Concert Hall			
Founding Artist Series	$ 333	$ 209	$125[a]
National Symphony Orchestra	87	(b)	87
Washington Performing Arts Society	48	-	48
House of Sounds (note c)	46	77	-32
Other rentals	60	-	60
Total	573	286	287
Eisenhower Theater			
Doll's House	50	23	27
Country Girl (note c)	261	218	43
Story Theater	47	18	29
Time of Your Life	84	23	61
Old Times	43	23	20
Little Black Book (note d)	18	-	18
Total	502	305	197
Opera House			
Opera Society of Washington	25	-	25
American Ballet Theater	546	577	-31
Washington Performing Arts Society	38	-	38
National Ballet	45	-	45
Candide (note c)	374	400	-27
Aridante (note c)	50	148	-98
Sugar	120	49	72
Lost in the Stars (note c)	296	168	128
Captain Brassbound's Conversion (notes c and e)	45	-	45
Little Angels of Korea	4	-	4
MASS (note c)	221	569	-348
Total	1,764	1,911	-147
Grand Total	$2,839	$2,502	$337

[a]About $80,000 allocated to the Center's Education Fund

[b]Expenses will not be determined until September 1972

[c]Shows produced by the Center

[d]Includes only first 2 weeks of performances, expenses not available until production completed

[e]Profits in excess of the rental fee of $45,000 went to Kennedy Center Productions, Inc

[f]Production expenses do not include administrative salaries, indirect costs, and building operation expenses

Note Totals may not add due to rounding

Center officials had not allocated building operations costs--such as electricity, security, cleaning, maintenance, and insurance--to the theater productions. In addition, administrative salaries and other indirect expenses related to productions have not been allocated and used in establishing the rental arrangements for the theater facilities. Three major elements of building operations costs are shown in the table below.

	Electricity (note a)	Security	Cleaning	Monthly total
	(000 omitted)			
1971:				
Sept.	$ 57	$ 25	$ 19	$102
Oct.	51	50	34	134
Nov.	50	32	30	112
Dec.	56	28	33	117
1972:				
Jan.	56	29	19	105
Feb.	54	25	18	97
March	52	23	24	99
Total	$376	$212	$177	$765

[a]Center is reimbursed by CANTEEN for utility expenses related to concession operations.

Note: Totals may not add due to rounding.

PRODUCTIONS OF THE CENTER

As of March 31, 1972, the Center had produced or co-produced seven productions of which four resulted in losses totaling about $505,000 and three resulted in profits totaling about $216,000. The results of the seven productions are shown below.

Production	Gross receipts	Center expenses	Profits or loss (-)
	(000 omitted)		
MASS	$ 221	$ 569	$-348
Ariodante	50	148	-98
House of Sounds	46	77	-32
Candide	374	400	-27
Lost in the Stars	296	168	128
Captain Brassbound's Conversion (note a)	45	-	45
Country Girl	261	218	43
Total	$1,292	$1,580	$-288

[a]Profits in excess of $45,000 were paid to Kennedy Center Productions, Inc. Therefore, we have included only revenue to the Center.

Note: Totals may not add due to rounding.

ORGANIZATION OF KENNEDY CENTER PRODUCTIONS, INC.

As stated in its Articles in Incorporation, dated January 10, 1972, Kennedy Center Productions, Inc., was organized as an independent, nonprofit entity to assist the Center in fulfilling its responsibilities as set forth in the John F. Kennedy Center Act. Such assistance was to include the sponsorship, promotion, production, and presentation of musical, theatrical, and other endeavors of the performing arts at the Center and elsewhere. The corporation's Board of Directors, which includes several members of the Center's Board of Trustees, manages the financial and business affairs of the corporation.

As of March 31, 1972, the corporation had received $20,000 in contributions, $150,000 from borrowings, and $90,000 from the profits of one Center production--"Captain Brassbound's Conversion"--and had invested in three Center productions. "Lost in the Stars," "Captain Brassbound's Conversion," and "Country Girl."

The corporation is seeking donors who would agree to pay a percentage of any operating loss that might be incurred, up to $500,000, for the period ending October 31, 1973. Pledges from these donors would be used to obtain a bank loan for operating funds. Any operating profit that might be earned by the corporation would go ultimately to the Center.

United States Senate

COMMITTEE ON PUBLIC WORKS
WASHINGTON D C 20510

December 30, 1971

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C., 20548

Dear Mr Staats

The Congress has been requested to provide funds on an annual basis to help defray operating costs of the Kennedy Center The Board of Trustees, through Chairman Roger L. Stevens, has stated that public funds are needed because of additional expenses involved in allowing tourists and sightseers to visit the Center

The Committee on Public Works proposes to hold hearings on the construction and operation of the Kennedy Center about the middle of 1972 However, I believe the Committee needs additional information on the finances and operations of the Kennedy Center prior to these hearings and, therefore, request your Office to make a study of the financial condition and operations of the Kennedy Center

In the area of construction, it would be helpful to know the percentage of construction completed as of January 1, 1972, the cost of such construction, the amount of construction obligations remaining to be paid, and the amount of construction money available for payment when claims are settled

In the area of current operations, it would be useful to have a detailed financial statement, either monthly or quarterly, from the time the Center opened through June 30, 1972 The expense information supplied should show the cost of administration, electricity, fuel, repairs, cleaning, protection, supplies, and so forth Income should be broken down to show the revenues from each concession, revenues from the three performance areas, net receipts or losses from shows produced by the Center itself, and revenues from other sources It will also be helpful to have an organizational chart showing all salaried personnel and the remuneration of each

The Honorable Elmer B. Staats
Comptroller General of the United States
December 30, 1971

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The Committee anticipates that the Center's request for immediate authorization and appropriation of $1 5 million for fiscal 1972, presented to me by Mr. Stevens' letter of November 22, 1971, and at the hearing held by the Buildings and Grounds Subcommittee on December 2, 1971, will be renewed when the Congress reconvenes. It would be helpful, therefore, to have by mid-February, (1) a description of the present financial difficulty being experienced by the Center, with comment on the elements contributing to this situation, (2) a preliminary appraisal of the status of construction and funds available to meet the remaining construction costs as they become due, and (3) a preliminary appraisal of current operating costs and revenues, or other funds, which may be available to meet ordinary and necessary operating expenses, exclusive of costs attributable solely to productions sponsored by the Center itself

In its final report, your Office may also wish to comment on or make suggestions with respect to (1) the adequacy of the annual reports to Congress required by the John F. Kennedy Center Act (P.L. 85-874, as amended), (2) whether a division of accounts and responsibility for (a) construction, (b) operations and maintenance, and (c) performing arts functions is desirable and appropriate, (3) improved or alternative accounting, operations and/or management procedures, (4) alternative means and formulas for public, private, and Federal support of the Center, and (5) improved or alternative organizational structure, especially if an amendment to the Act providing for annual Federal financial support should make a change in organizational structure desirable or appropriate

It would be appreciated if your report could be submitted to the Committee by July 15, 1972

Truly,

Jennings Randolph

Jennings Randolph
Chairman