THE NEW WASHINGTON CONVENTION CENTER

HEARING

BEFORE THE

SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES

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THE NEW WASHINGTON CONVENTION CENTER

WEDNESDAY, JULY 15, 1998

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

The subcommittee met, pursuant to notice, at 11:10 a.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Morella, Horn, and Norton.

Also present: Representative Moran.

Staff present: Peter Sirh, staff director; Trey Hardin and Anne Mack, professional staff members; Ellen Brown, clerk; and Jon Bouker, minority counsel.

Mr. DAVIS. Good morning. The hearing will come to order.

Today this subcommittee continues its review of the project to bring a new, more spacious, state-of-the-art convention center to the Nation's Capital. In 1995, the Congress and the President enacted legislation which enabled the District of Columbia and the Washington Convention Center Authority to go forward with its part of the costs associated with the development of both the MCI Center at Gallery Place and to begin studies for a new convention center. The MCI Center has proven to be a spectacular success, and I am very proud of the role this subcommittee played in making that project possible.

Now it is time for Congress to close on a new convention center so it too may open and help to generate the needed jobs and revenue for the city.

Because of the hard work done by the WCCA, City Council, the Control Board, the National Capital Planning Commission and community leaders, Congress is now in a position to move the project one step closer to completion. Under ideal circumstances planning and construction of a convention center marks an important new phase in the life of a metropolitan region. Three years ago, when we started down this road, it was not the best of times for the Nation's Capital. Today things are different. Not only have we made substantial progress in restoring economic stability and prosperity to the city, I am convinced that projects such as the MCI Center itself has been a positive element in the city's continuing recovery. The MCI Center is a dynamic attraction in the center of the city and I believe the new convention center will only enhance the economic and cultural renaissance of downtown Washington.

I want to thank my colleagues and the ranking member of the subcommittee, Eleanor Holmes Norton, for her leadership in helping to advance these projects. It was her legislation in 1995, which I was proud to cosponsor, which moved along both the arena and convention center. It was my view then and it is still my opinion that both of these projects are of enormous significance not only to the District of Columbia but to the entire metropolitan region.

The City Council legislation under review has been approved by the Control Board after its own careful analysis. It is good to see all parts of the District government working together so constructively. The Control Board is empowered to approve or disapprove all city borrowing. They must sign off on the financial package, and after reviewing information from proponents and opponents of the project, they have unanimously approved the project. The Control Board has in effect reported to Congress that all aspects of the project, including borrowing and costs, are compatible with the best interests of the city. This judgment has great credibility.

We also have a positive analysis of the financing package and dedicated revenue stream by the General Accounting Office, charged by this subcommittee to review the project. In addition, we have the report of the General Services Administration indicating that acceptable industry practices were followed by WCCA in preparation of the financing package.

The convention center legislation the Congress passed in 1995 was very tightly drawn. At the time the city was already collecting an additional tax on hotels and restaurants. This special tax was dedicated to paying the operating subsidy for the current convention center and paying expenses associated with developing plans for a new convention center. It was expressly written into law that before the city could move into the construction phase that additional congressional action would be necessary. That is where we are today. Take information on this, digest the information and move accordingly.

The convention center project is thus made possible by dedicated taxes and is run by a semi-autonomous entity, the Washington Convention Center Authority. In 1996, a newly formed Washington Convention Center Authority began investigating the possibility of constructing a new convention center facility. That process resulted in selection and approval by the National Capital Planning Commission and the City Council of the present site north of Mount Vernon Square.

I agree with those who have characterized the new convention center as being absolutely essential to the revitalization of the District's economy. After years of planning and preliminary review, local officials have decided to proceed with construction of a bigger and better convention center north of Mount Vernon Square. While the subcommittee is cognizant of the fact that there continues to be an element of concern expressed by some within the community regarding the adopted site or facility design, the subcommittee also recognizes and respects the role that the Congress should play in this process. It never was, and it is not now, within the proper purview of the subcommittee to determine an appropriate site or design for the new convention center. The purpose of this hearing is to review the legislation enacted by the City Council and approved by the Control Board, and to consider congressional legislation to authorize the WCCA to issue bonds and waive the 30-day waiting period for Council enactments to go into effect.

By building a state-of-the-art facility, tourism in the national capital region will be substantially enhanced. The hospitality industry is the largest private sector employer in Washington. It occupies a vital place in our regional economy. The current convention center is no longer in a position to make a sizable contribution to the local economy as it once did. A new convention center will provide much needed jobs for the city and an increase in locally generated revenue. It will boost the morale of the entire region.

Every large association should have the Nation's Capital as a stop on its regular schedule of annual meeting sites. The size of the current convention center is too small for such important associations as the American Heart Association, the American Booksellers Association, the International Association of Amusement Parks, and many others. This loss of business is a blow to the entire national capital region. If we can reverse this trend, it follows that the ripple effect will help the tourism industry from Fairfax to Montgomery Counties.

Hotel operators in Tyson's Corner and Falls Church tell me that their occupancy rates are higher than normal when there is a large convention in the city. The vendors servicing the current convention center are located throughout the greater metropolitan area, and the jobs produced help the region as a whole.

I look forward to hearing the testimony of all the witnesses today. They have an important story to tell. We have a number of questions for them to clarify and to get on the record. A new convention center will not only be good for the city and the region, but for our entire Nation. The project embodies the energy, vitality and the community spirit that makes our Nation's Capital a truly great American city.

I would now yield to Delegate Norton, the ranking member of the committee, for an opening statement.

Ms. NORTON. Thank you. I want to thank Chairman Tom Davis for scheduling this hearing for the specific purpose of taking testimony on whether to authorize legislation required before the Washington Convention Center Authority may issue bonds to finance the construction of a new convention center and whether to waive the 30-day congressional holdover period for the D.C. City Council legislation approving financing of the convention center.

This hearing is not an oversight hearing or a reprise of the extensive City Council hearings on the convention center but is addressed to a narrow set of financial issues required by law before the District may issue bonds.

This bill is an amendment to the District of Columbia Convention Center and Sports Arena Authorization Act of 1995. The MCI Arena included in the original bill was quickly constructed and is already bringing additional jobs and revenue to District residents and revitalization of downtown, as anticipated from both projects. The convention center amendment is unusual because it arises from a proposal by the hotel and restaurant industry for taxes on their own industry that would not have been available to the city for any other purpose. The proposal was made at a time when the city's need for revenue and jobs has been especially pressing.

In every other city in the United States, this matter would not come before any but the local city council. Unfortunately, unlike every other city, the District does not have legislative and budget autonomy and therefore cannot spend its own funds unless authorized by the Congress.

In a local jurisdiction, a local convention center, including its location, size, and similar matters, are quintessentially local matters, and, in keeping with our long home rule tradition, this subcommittee will continue to honor the home rule decisions of the District's elected officials. I appreciate that Chairman Tom Davis has treated the local convention center as a matter for the local elected officials to decide, except insofar as charter issues involving congressional absence are necessarily raised. Extensive hearings in the City Council have been held on the underlying issues, and there was an informed and vigorous debate by members of the City Council, who received testimony and debated all of the issues thoroughly before they voted. The D.C. City Council deserves great credit for carrying out its duties in the way a responsible legislature should, leaving no stone unturned in an exhaustive debate.

Today, as required, we will receive an independent evaluation of the financial and technical aspects of the project from representatives of the General Accounting Office and the General Services Administration, as well as testimony from the appropriate local officials, Mayor Marion Barry, City Council Chairman Linda Cropp and Dr. Andrew Brimmer, chair of the D.C. Financial Responsibility and Management Authority.

I welcome all of today's witnesses and look forward to hearing from each of them.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you.

Mrs. Morella, would you like to make a statement?

Mrs. MORELLA. Yes, I would. I also want to commend you for holding this important hearing on the new Washington Convention Center. The effort to build a new convention center in the District of Columbia has strong bipartisan support and has created unity within the local congressional delegation. Economists as well as government officials agree that a new convention center will be good for the economic vitality of the District. Washington, DC has many assets, and it is understandable that the Nation's Capital is considered one of the most desirable locations for conventions. It hosts the Federal Government. It is home to many fine colleges and universities. It is a cultural hub with many great museums and theaters. More than 21 million visitors travel from every part of the country to the District.

The present convention center, however, has been too small to accommodate some conventions and trade shows. Consequently, over the past several years the District has lost millions of dollars. A new and more spacious convention center is needed. This center will attract new businesses, will help to revitalize the downtown area, will generate significant tax revenue and employment opportunities for the District and its residents.

While I am sensitive to the concerns of those who oppose the convention center site, I am satisfied that the decision was appropriately made at the local level by the City Council and approved by the Control Board. I congratulate the Control Board for supporting the new convention center and for making decisions that will expedite the project.

It is now our job in Congress to put a stamp of approval on this project and to expedite legislation to allow the Washington Convention Center Authority to issue bonds.

Mr. Chairman, I well remember that 3 years ago we expedited and approved legislation for a new sports arena. The MCI Center has brightened and revitalized the old downtown area of the District, new restaurants have sprouted up and funky art galleries dot the area. I expect that the new convention center will add to the economic vitality of the city. I look forward to hearing the testimony from our expert witnesses today to better understand the financing plan for this important project which I believe will help the District and the region develop a strong economy.

Thank you, Mr. Chairman, for holding this important hearing.

Mr. DAVIS. Thank you very much. I see my colleague from northern Virginia, Mr. Moran, has joined us. Welcome, Jim. Do you have an opening statement?

Mr. MORAN. Thank you, Tom. I gather Mrs. Morella thinks funky art galleries are a positive economic signal. I have got a few neighborhoods where they are going up, and I will tell them that they should be overjoyed.

I just wanted to underscore the importance of a world class convention center for the Washington area. We have lost an awful lot of business because we didn't have a large enough convention center when people really wanted to come to this Nation's Capital. It should be no surprise that I have wanted to get it into northern Virginia right across from National Airport. I won't go into the whole speech, but, boy, do we have a nice spot for it.

[Disturbance in hearing room.]

Mr. DAVIS. The committee will be in order. If there are any more outbreaks we will clear the room of people who are interrupting the hearing.

Mr. MORAN. I get the same kind of reaction when I speak locally on the topic. It is a metropolitan tradition.

But the fact is that this has got to be the underlying theme, and I know it has been of the chairman and the vice chairman and our District of Columbia delegate, that we have got to look at these issues in the context of what is in the best interest of the region as a whole, and it is in the best interest of the Washington metropolitan region to put it in the District of Columbia.

I do think that this is the best site, and the principal reason is because the people who have focused on it most intensely and have had the responsibility for making the decision have determined that it is the best site. I am glad to see that there is an option available to expand it because I do think that it is going to have to be expanded, and in fact if it is as successful as we would hope, then it will be expanded. There is no alternative in the long term.

But the option that has been presented seems to be viable, so other than neighborhood opposition which obviously is genuine and important, but which will probably exist in any part of the city where you decided to locate it, I think it is time to move forward, and as far as I am concerned, I think that the Control Board, Mr. Golden, the D.C. City Council and the Mayor all deserve credit for working together in a constructive fashion, and I would hope that we support your efforts in every way possible.

I do think that it is terribly important to get the additional Federal money, particularly the money that would fund the subway center included in this year's appropriation bill, and thus it is critical that it be included on the Senate appropriations bill specifically and I hope and trust we will work toward that effort.

So that having been said, I know that you are anxious to hear from the witnesses. I appreciate you hearing from me this morning, Mr. Chairman.

Mr. DAVIS. Thank you.

Ms. NORTON. Mr. Chairman, following Mr. Moran's comments and your own, I do want to say that this effort waiting for the D.C. City Council process to work its way has been one that required regional members to defer when in fact there has been great competition for the convention center, and I do want to express my appreciation, particularly to the members, the regional members from Virginia that they have allowed the District process to continue and have asked their own forces in Virginia to hold back until that process went its way. And there were many in Virginia that thought it would not happen. And if the District had lost the opportunity to do a convention center, it would have been tantamount to losing the Redskins.

Now this process has gone the full way in the Council and we are at the end of it to see if it has been successful, and I do want to convey my appreciation to the regional members who cooperated in allowing the District to continue its process to the full end.

Mr. DAVIS. I thank the gentlelady.

I would like to call our first panel forward to testify. We have Terence Golden, who is the chairman of the Washington Convention Center; Dr. Andrew Brimmer, the chairman of the Control Board; the Honorable Marion Barry, the Mayor of the District of Columbia; the Honorable Linda Cropp, chair of the D.C. City Council. In addition, we have Dr. Charlene Drew Jarvis of the City Council and Mr. Greene and Mr. Mariani. If you all rise with me and raise your right hands, I will swear you in.

[Witnesses sworn.]

Mr. DAVIS. Let me start with Mayor Barry, then Dr. Brimmer, and Ms. Cropp. Mr. Golden, you will be at the end, because I know that you have a longer summary. I would like to have the officials testify first who have borne some of the brunt of this from the citizens. Then you will get plenty of time to sum up.

Mayor Barry, thank you for being with us this morning.

STATEMENTS OF MARION BARRY, MAYOR, DISTRICT OF COLUMBIA; DR. ANDREW BRIMMER, CHAIRMAN, FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY; LINDA W. CROPP, CHAIRMAN, CITY COUNCIL, DISTRICT OF COLUMBIA; CHARLENE DREW JARVIS, COUNCILMEMBER, DISTRICT OF COLUMBIA CITY COUNCIL; AND TERRY GOLDEN, CHAIRMAN, WASHINGTON CONVENTION CENTER AUTHORITY

Mayor BARRY. Good morning, Chairman Davis, Delegate Norton, Mrs. Morella and Mr. Moran. For the record I am Marion Barry, Mayor of the District of Columbia. I would like to ask that my statement in its entirety be entered into the record.

[Disturbance in hearing room.]

Mr. DAVIS. The committee will be in order. I would like to have the committee stand in recess until the police can restore order.

[Brief recess.]

Mr. DAVIS. Thank you, Mayor Barry.

Mayor BARRY. Thank you, Mr. Chairman.

On June 23 of this year I gladly signed into law D.C. Act 12–402, the Washington Convention Center Authority Financing Amendment Act of 1998. This legislation represents the culmination of years of study, public comment and careful planning to develop what everyone agrees is the single most important economic development project in the history of the District of Columbia.

Mr. Chairman, let me commend you and thank you for your view about letting local officials, after much debate and scrutiny and much everything else, make the decision as to the site for such a convention center and the architectural nature of that center. I want to thank you for that home rule attitude.

Mr. Chairman, as we all know, the hospitality and tourism industry is the largest employer behind the Federal and District governments. We underestimate that sometimes, but with 23 million visitors to the region, most of whom come to the District, and there are 24,000 hotel rooms in the District and hundreds of restaurants, and the great majority of the people who work in these establishments live in the District of Columbia, unlike the Federal Government or the private sector where 70 percent who work in those institutions live outside the District, which means that the District's tax base is enhanced by these jobs and the social service costs are reduced because of these jobs in the hospitality industry.

The Washington Convention Center is a major force in Washington's economic life. Since opening in 1982, the center has anchored business development and commercial redevelopment in downtown Washington. As I said earlier, it is a major area of attraction for the 23 million guests who visit Washington every year and spend money.

When the existing convention center opened, it was the fourth largest facility in the country. It is now ranked No. 30 because other cities and counties have either built new convention centers or expanded their existing ones.

Mr. Chairman, this didn't start this year or last year. These discussions about a new expanded convention center have been going on since 1986 when the convention center board studied options for expanding their existing facility. Since that initial study, there have been at least two others assessing locations around the country. For nearly 5 years the development of a new convention center has been the subject of countless regulatory meetings.

Mr. Chairman and members of the committee, I can't think of any other project in my 16 years as Mayor that has had as much scrutiny as this project has had and as much community input as this project has had.

The National Capital Planning Commission, the Fine Arts Commission, Historic Preservation, all of these bodies have been involved in addition to the City Council's hearing which allowed anybody and everybody who wanted to come and testify on this matter, so this site was not just grabbed out of the air someplace. It was studied. I personally did a lot of studying of the sites. Fifteen sites were looked at, and it boiled down to two or three, including the site near Union Station.

Mr. Chairman, conventions are now a science. You don't get them because you say I want you. You have to have a place for people to come, but also for a convention center, you also have to have places for delegates to go who spend a significant amount of money in restaurants and in hotels and also in department stores purchasing goods from those places.

When you look at the Union Station site, really Florida Avenue, that is the name of the site, it is blocks and blocks and blocks away from hotels, blocks and blocks away from restaurants, and delegates just don't want to do that.

I just recently left New Orleans from a festival——

[Disturbance in hearing room.]

Mr. DAVIS. Please continue. She is trying to get on the news. Go ahead.

Mayor BARRY. She did the same thing at the City Council.

But on a very serious note, I was in New Orleans and they have expanded their convention center and it is in the center of downtown. I was at the Hilton and it was a block from the Hilton, and people want to do that. They don't want to walk blocks and blocks to get to their hotel or take a shuttle bus or take a taxi. The Mount Vernon site is not a perfect site, but it is a good site. Thirty-nine businesses are on 7th Street and 9th Street and on N, and of those 39 businesses, all 39 businesses have endorsed this site. Thirty-nine, all 39 have endorsed this site.

All of the ANC commissioners except one have endorsed this site. I have established an advisory committee of citizens, of 30–35 citizens, not just in Shaw but throughout the area who have endorsed this site. Twelve of us endorsed this site. It is not a perfect site, but it is a good site for the District. We own the land. We don't have to go through condemnation and bargaining how much you are going to pay some landowner and take it to court. So the Mount Vernon site is the preferred site for this convention center.

And also, Mr. Chairman, as you know, convention centers are also synergistic. They work synergistically. That means in tandem with and enhancing the MCI Center. People can have events at the convention center and at the MCI Center. So it is good to be near the MCI Center. The MCI Center, which was built in record time because of my cooperation in cutting red tape with Mr. Pollin, has exceeded all of its expectations in terms of revenue, in terms of attendance. The only thing that is not happening is the Mystics are not doing too well, but that is another story.

Also the financing has been put together. You will hear later from Mr. Golden and others about a sound financing plan. The center has an excellent financial adviser and excellent CFO with Mr. Greene, and the board has been vigilant in making sure that the financing was sound, that it was explainable, it was defensible, et cetera.

And also in terms of the government itself, I created the Washington Convention Center Task Force. This is a group of government employees who work directly with the convention center to make sure that the necessary permits, land acquisition, coordination of necessary permits are done. We did the same thing for the MCI Center. So we are prepared to cut through all of the unnecessary bureaucracy to make sure that this center gets built on time and on budget.

In summary, I fully support this convention center. I have great faith in Mr. Terry Golden, who chairs the board, who I had the honor to appoint with the Council and the Convention Center Board. They are some of the most dedicated public servants around. They are diligent and financially responsible people. As you know, Mr. Golden is CEO of a multi-billion dollar corporation, and I want to thank him for taking time out from his business to spend a lot of time on this center, and he will speak to you later.

And again, the District of Columbia cannot afford to forego the tremendous opportunities. Almost 10,000 new jobs will be created, and almost $600 million of direct benefits will come from the construction of the center, and we in the District of Columbia are ready for it. We are ready for the groundbreaking. We are ready to proceed.

Let me also say that the architects have made a lot of changes to make this center compatible with the neighborhood. When we first started, it was one big block from Mount Vernon to N Street, and it looked like a prison. But they brought in a lot of glass and divided it up.

So on behalf of the executive branch of government, I fully support this center and I await the committee's action so that the money can be borrowed, and later on others will be talking about the guaranteed construction price, which is difficult to get to. That is not usually done in America, so that was another uniqueness about this.

Again, Mr. Chairman, thank you very much.

[The prepared statement of Mayor Barry follows:]

Good morning, Chairman Davis, Delegate Norton and Members of the DC Subcommittee. For the record I am Marion Barry, Jr., Mayor of the District of Columbia.

On June 23rd, I gladly signed into law DC Act 12-402, the "Washington Convention Center Authority Financing Amendment Act of 1998." This legislation represents the culmination of years of study, public comment, and careful planning to develop what everyone agrees is the single most important economic development project in the history of the District of Columbia.

As we all know, the hospitality and tourism industry is the largest employer in this city, just behind the Federal and District governments, employing thousands of people; and is our number one revenue producing industry.

The Washington Convention Center is a major force in Washington's economic life. Since opening in 1982, the Center has anchored business development and commercial redevelopment in downtown Washington. The Washington Convention Center helps to attract many of the 23 million guests who visit Washington every year.

When our existing convention center opened, it was the fourth largest facility in the Country, it is now ranked 30th. As I said, the quest to correct

this problem is not new. We have been pursuing this goal since 1986 when the District, through the Washington Convention Center Board, studied options for expanding the existing facility.

At that time, we concluded that in order to remain competitive and maintain major convention bookings, we needed to add 200-300-thousand square feet or more of exhibit space.

Since that initial study, there have been at least two others, assessing locations across the city. In each analysis, the result was clear... building a new convention center at Mount Vernon Square offered the best opportunity to recapture lost convention business and create significant additional economic benefit for the District.

For nearly five years, the development of the new Washington Convention Center has been the subject of countless community, regulatory and Council meetings. I have met with Shaw community residents and business owners about the new Center. While there remains a very small, but very vocal minority in opposition to the Mt. Vernon Square site, I can assure you that the vast majority of the Shaw community, and residents across the District support building the new Convention Center at Mt. Vernon Square.

The reasons can be summed up in three words-jobs, jobs, jobs. Construction of the new convention center offers training and employment opportunities for nearly 1,000 DC residents. Further, once the facility is

complete, it will generate nearly 10,000 jobs in the District in the hospitality, tourism and exhibition services industries.

Additionally, this project will serve as the catalyst for economic development in our downtown core and in nearby residential communities. We fought hard to bring Abe Polin and his organization back to the District. The rebirth of retail establishments along the 7th Street corridor will continue as we move towards completion of the New Convention Center.

Just as important, I fully expect that subcontracting opportunities for District companies will be significant, as will entrepreneurial opportunities for enterprising community residents.

The Washington Convention Center Authority has done an excellent job of formulating a sound financing plan. The expected bond offering is supported by dedicated taxes, and the structure of the plan provides maximum protection for investors.

My administration created the Washington Convention Center Task Force, which was directly responsible for supervision, implementation and completion of many necessary government related project activities, including land acquisition, coordination of necessary permits and the numerous other District government actions necessary for the construction of the proposed new center.

Along with my office, the Chief Management Officer has pledged, as has the Financial Authority, to work with the Convention Center Authority to remove any impediments to the swift completion of this project.

Construction of the new center does present exacting challenges, but I believe that those concerns have been successfully mitigated through the Section 106 consultation process which resulted in the Memorandum of Agreement (MOA) between the District, the National Capitol Planning Commission, the Convention Center, the Council of the District of Columbia and the Advisory Council for Historic Preservation.

The District of Columbia cannot afford to forego the tremendous opportunities that the New Washington Convention Center presents. Jobs, community development, economic impact...this is what the new convention center means, and this is what the District needs to continue its climb back to financial solvency and back to home rule.

I urge the Subcommittee to expeditiously approve this project and grant the layover waiver so that utility relocation and groundbreaking for the New Washington Convention Center can proceed without further delay.

That concludes my statement, Mr. Chairman. At this time, I am prepared to answer any question you and other members may have.

Mr. DAVIS. Mr. Barry, thank you very much. We will hear from Mr. Brimmer.

Mr. BRIMMER. Thank you for inviting me to testify today on the new Washington Convention Center. I will describe briefly the role the Authority has played with respect to the development of this vital economic development project. It has already been said this is one of the most important projects ever to be undertaken by the government of the District of Columbia.

Earlier this week, the Authority approved the District Council's legislation, Act 12–402, regarding the Washington Convention Center. Our action allows plans for the new conference and meeting facility to advance to the next step, which is approval by the Congress and the National Capital Planning Commission.

In granting its approval, our board first reviewed the process undertaken by the Convention Center Authority, considered comments and testimony presented to the City Council, and gave serious consideration to concerns expressed by various groups, including the Committee of 100.

In reaching its decision, the Authority weighed the economic benefits associated with the project, considered the impact of a new facility on the Shaw community, evaluated estimates of a guaranteed maximum price and the risk elements to the city government. Finally, we considered the feasibility of carrying out the project as well as the soundness of the budget and plan of finance.

The Authority has been committed to this project from the very beginning. We have given it strong support, including assigning some of our senior staff to work closely with the convention center's management. We have monitored this project very closely for the last 2 years. We have provided guidance and advice when necessary or appropriate. The Authority believes that the Convention Center Authority under the leadership of Mr. Golden has acted responsibly and effectively with regard to design, location, and the contracting for the center.

As the committee members recall, the Authority concurred with and supported the convention center's decision to reject the original design-build procurement approach in favor of the current construction manager at-risk method for the construction of the new facility. The convention authority made this decision after receiving one bid from the market in its initial solicitation and after it reviewed the recommendations of the General Services Administration. The shift to the construction manager at-risk procurement method produced healthy competition for this contract and it resulted in the final GMP of $500.6 million. This figure represents the direct hard costs of construction negotiated by the Convention Center Authority. The total cost of the project is estimated at $685 million, consisting of $650 million of hard and soft costs together, plus equipment and contingencies, $25 million to improve the Metro station, and $10 million for utility relocation. The total budget assumes that $25 million will be provided through a Federal grant to fund the WMATA costs to expand the Metro station and $10 million will be available using the community block grant funds for utility relocation, subject to approval by the U.S. Department of Housing and Urban Development.

Most importantly, we have worked hand in hand with the Convention Center Authority to restructure the early financing plan. We have considered comments from the administration and the city, congressional staff members, the representatives of the hotel and restaurant industry and the financial marketplace. Based on those considerations, we are confident that the restructured dedicated tax revenue will be more than sufficient to support the expected planned issuance of tax exempt revenue bonds in the range of $560- to $645 million without any undue risk to the District and its general fund.

The current financing plan includes adequate operating and marketing reserves, renewal and replacement reserve funds and a rate stabilization account, all to assure new building can be maintained and will be able to compete effectively with other convention centers. Furthermore, the new structure contemplates a closed indenture and a change in the current lock box facility of the District to ensure that, once the dedicated revenues are collected, they will go first to pay the annual debt service on the bonds. Based on current cash-flow analysis, it appears that, if administered properly, the debt on this project could be retired well in advance of the stated 30 to 34-year final maturity on the bonds and that there should be a positive net return to the general fund once the debt is paid off.

The Authority weighed the concerns expressed by some citizens concerning the proposed impact that the proposed facility might have on the Shaw community. We were pleased to learn of the efforts made by the Convention Center Authority to gain the support of Shaw and other community and business groups. The convention center leaders assured us that they will establish an affirmative action oversight committee to monitor on a monthly basis all contracting and affirmative action goals relating to the local small and disadvantaged business enterprise program. Affirmative action and employment goals set by the Convention Center Authority are aggressive but achievable. The construction manager has agreed to a vigorous outreach and advertising program that is designed to make opportunities known within the target communities. The contractor and all of its subcontractors also are required to enter into first source employment agreements. There are incentives and penalty clauses within the construction manager contracts to help enforce these social and business agreements.

Concerning the possible adverse impact on the surrounding community, the Convention Center Authority has responded by developing sound mitigation responses. Pursuant to section 106 of the National Historic Preservation Act, the Convention Center Authority is a signatory to a memorandum of agreement with the National Planning Commission and others. These measures are taken to safeguard community and environmental interests.

Mr. Chairman, there has already been comment about the economic impact of this convention center in my statement. I described this in greater detail, but let me say that they were substantial and assured.

I would also at this point like to take specific note of the efforts of several individuals who have been instrumental in the center's progress.

They include Mr. Golden, but I would also want to stress that the chair, Dr. Charlene Drew Jarvis, the chair of the Committee on Economic Development for the Council, played a major role. I would also note the contribution our former board member, Ed Singletary, made. All of this represents a substantial contribution and commitment to the center.

I also wish to express our appreciation to the members of the Committee of 100, which provided the Authority with the results of considerable research and insight into the complex issues of location and management of a successful meeting and convention center.

Mr. Chairman, as I said at the outset, we are dedicated. We have studied this project. We are absolutely convinced that it is feasible. The financial plan is feasible, and we urge the Congress to take the steps to approve it so we can go to the market and get on with the project.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Brimmer follows:]

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify today on the development of the new Washington Convention Center. I will describe briefly the role the District of Columbia Financial Responsibility and Management Assistance Authority ("Authority") is playing with respect to the development of this vital economic development project. This is one of the most important such projects ever to be undertaken by the government of the District of Columbia.

Earlier this week, the Authority approved the District Council's legislation (Act 12-402) regarding the Washington Convention Center. Our action allows plans for the new conference and meeting facility to advance to the next step, which is approval by Congress and the National Capital Planning Commission. In granting its approval, the Authority first reviewed the process undertaken by the Convention Center Authority, considered comments and testimony presented to the District Council, and gave serious consideration to concerns expressed by various groups, including the Committee of 100. In reaching its decision, the Authority weighed the economic benefits associated with the project, considered the impact of the new facility on the Shaw Community, evaluated estimates of the guaranteed maximum price ("GMP"), and the risk elements to the government. Finally, we considered the feasibility of carrying out the project as well as the soundness of the budget and plan of finance.

The Authority has been committed to this project from the very beginning. We have given it strong support – including assigning some of our Senior Staff to work closely with the Convention Center's management. We have monitored this project very closely for the last two years, and have provided guidance and advice when necessary or appropriate. The Authority believes that the Convention Center Authority, under the leadership of Mr. Terry Golden, has acted responsibly and effectively with regard to design, location, and the contracting for the Center.

As the Committee may recall, the Authority concurred with—and supported—the Convention Center's decision to reject the original design-build procurement approach in favor of the current construction manager at-risk method for the construction of the new facility. The Convention Center Authority made this decision after receiving one bid from the market in its initial solicitation and after it reviewed the recommendations of the General Services Administration. The shift to the construction manager at-risk procurement method produced healthy competition for this contract, and it resulted in the final GMP of $500.6 million. This figure of $500.6 million represents the direct hard cost of construction negotiated by the Convention Center Authority. The total cost for the project is estimated to be $685 million, consisting of $650 million for hard and soft costs, plus equipment and contingencies; $25 million to improve the METRO Station; and $10 million for utility relocation. The total budget assumes that $25 million will be provided through a federal grant to fund the WMATA costs to expand the Metro Station, and $10 million will be available using Community Development Block Grants for utility relocation (subject to approval by the U.S. Department of Housing and Urban Development).

Most importantly, we have worked hand-in-hand with the Convention Center Authority to restructure the early financing plan. We have considered comments from the Administration, Congressional staff members, the Council, representatives of the hotel and restaurant industry, and the financial marketplace. We are confident that the restructured dedicated tax revenue will be more than sufficient to support the expected planned issuance of tax-exempt bonds in the range of $560 - $645 million without any undue risks to the District and its general fund.

The current financing plan includes adequate operating and marketing reserves, renewal and replacement reserve funds, and a rate-stabilization account, all to assure that the new building can be maintained and will be able to compete effectively with other convention centers. Furthermore, the new structure contemplates a closed indenture and a change in the current lock-box facility of the District to insure that, once the dedicated revenues are collected, they will go first to pay the annual debt service on the bonds. Based on current cash flow analysis, it appears that, if administered properly, the debt on this project could be retired well in advance of the stated 30 - 34 year final maturity on the bonds and that there should be a positive net return to the general fund, once the debt is paid off.

The Authority weighed the concerns expressed by some citizens with respect to the impact that the proposed facility might have on the Shaw Community. We were pleased to learn of the efforts made by the Convention Center Authority to gain the support of Shaw, and other community and business groups. The Convention Center leaders assured us that they will establish an "affirmative action oversight committee" to monitor, on a monthly basis, all contracting and affirmative action goals relating to the Local, Small, and Disadvantaged Business Enterprise program. The affirmative action and employment goals set by the Convention Center Authority are aggressive but achievable. The Construction Manager has agreed to a vigorous outreach and advertising program that is designed to make opportunities known within the target communities. The Contractor and all of its subcontractors also are required to enter into First Source Employment Agreements. There are incentive and penalty clauses within the Construction Manager contract to help enforce these social and business agreements.

Concerning the possible adverse impact on the surrounding community, the Convention Center Authority has responded by developing sound mitigation responses. Pursuant to Section 106 of the National Historic Preservation Act, the Convention Center Authority is a signatory to a Memorandum of Agreement with the National Capital Planning Commission, the District, the Advisory Council on Historic Preservation, and the D.C. State Historic Preservation Office, which outlines a number of measures to be taken to safeguard community and environmental interests.

Finally, the Authority believes that the new Washington Convention Center can serve as the cornerstone project for expanding the District's tax base, and in improving opportunities for economic development. The economic impact analysis prepared by the accounting firm of Coopers & Lybrand indicates that this project will have a significant, and much needed, positive "net" impact on the economy of the nation's capitol. The net total economic impact resulting from this project by 2006 is estimated at $397.9 million ($776.7 million projected for the new facility versus $378.8 million projected for the existing facility). The total employment impact is estimated to be 9,750 jobs by 2006, for a net employment gain of 3,860 over the projected employment for the existing facility. As witnessed by the recent announcements of planned new hotel rooms to be built in the District, the Convention Center can leverage growth in both the tax and employment base of the District, without committing or jeopardizing the general fund of the government. Indeed, the key to this project is the ability to spur economic development across the District. The hotel and restaurant industries are very supportive of this project and, with their help, we look forward to a greater opportunity for economic development in the District.

I would like to make specific note of the efforts of several individuals who have been instrumental in the Center's progress. They include Mr. Terry Golden, Chairman of the Convention Center Authority and Council Member Charlene Drew Jarvis, Chair of the Committee on Economic Development. Mr. Edward Singletary, a former Member of the Authority, provided strong leadership to encourage the development of the new Convention Center. I also wish to express our appreciation to the members of the Committee of 100, which provided the Authority with considerable research and insight into the complex issues of location and management of a successful meeting and convention center.

Mr. Chairman, the Authority is dedicated to the mission of creating a stable, vital environment that will retain existing residents, businesses, and visitors, while attracting new ones. The Washington Convention Center will help greatly to fulfill that mission. The state-of-the-art facility will attract new business and tourists to the District, and it will be a catalyst for furthering downtown and nearby neighborhood development. The Convention Center will create jobs for District residents in the hospitality industry and in related meeting and exhibition service companies. Finally, this project will generate enormous benefits for the District, and it will strengthen the economy of the entire metropolitan region. Therefore, the Authority urges the Congress to approve the project and to take all necessary actions, before the scheduled August recess, in order to provide the District the opportunity to move forward with this vital economic development project in an expeditious manner.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or Members of the Subcommittee may have.

Mr. DAVIS. Thank you. Chairman Cropp.

Ms. CROPP. Thank you very much. Good morning to Chairman Davis and Congresswomen Norton and Morella and other members of the subcommittee of the District of Columbia. Thank you for the opportunity to make a few remarks prior to turning to my colleague, Charlene Drew Jarvis, who, as chair of the Council's Committee on Economic Development, will present the local legislative position in support of the financing of the proposed new convention center at Mount Vernon Square.

First, let me thank you, Mr. Chairman, for your continuing support for the proposed new convention center at Mount Vernon Square, and for the expeditiousness with which you scheduled this hearing today following the Council's final approval of the financing plan and the street and alley closing legislation this past month.

Let me also extend my public appreciation to Mrs. Jarvis and to all of the public and private sector partners whose hard work, patience and prudent oversight has helped move this important project forward in a responsible way. No one questions the need to build a better designed and larger Washington Convention Center facility in order to regain the convention market and economic spin-off which the city and the region have lost in recent years.

Tourism is the District's No. 1 industry, and the success of the new Washington Convention Center is absolutely essential to the revitalization of our economy. The new center will also provide significant benefits without cost to the economies of our surrounding jurisdictions. Operation of the new expanded center is expected to generate direct spending in the District of approximately $618 million in the first year of operation, which will grow to $776 million in the 5th year of operation. This is business the city desperately needs to increase local revenue that will help fund the Council's twin priorities of improved service delivery and tax cuts for both our residents and businesses. Additionally, the new convention center will directly and indirectly generate 8,550 full and part-time jobs for District residents in the 1st year of operation, which again will grow to nearly 10,000 jobs by the 5th year of operation.

The current Washington Convention Center opened in 1983 as the fourth largest facility in the United States with 380,000 square feet of exhibit space. Today, however, the center ranks 30th in size and can compete for only 54 percent of the large national shows and meetings. The economic impact associated with these lost events is scores of millions of dollars in lost revenue to the city every year.

The new expanded center to be built north of Mount Vernon Square is a beautifully designed facility with architectural elements which are sensitive to the surrounding Shaw community. The center and its sites were unanimously approved by a 6–0 vote of the local Advisory Neighborhood Commission 2–C, where the facility is proposed to be located, and also by a unanimous vote in favor by the neighboring Advisory Neighborhood Commission 2–F when one member changed their vote and is now in support of the convention center. So both grass roots advisory neighborhood commissions support unanimously the location of the convention center at the Mount Vernon site, and these are the people who live in that community.

The proposed center and its location also have been supported by the Mount Vernon Business Alliance, which represents most of the existing businesses surrounding the site, and by a majority of the Shaw neighborhood residents who have testified at several public hearings by the council on this matter.

As a result of the input of the Shaw community and others, many measures will be implemented to mitigate possible adverse environmental and historic impacts pursuant to the National Environmental Policy Act and the National Historic Preservation Act, and as required by the National Capital Planning Commission in its approval of the site and design for this project.

When the 2.3 million square foot facility opens in the year 2003, the Washington Convention Center will again rank among the largest in the Nation and will then be able to capture nearly 90 percent of the total convention market, including all of the targeted customers that we seek among the professional and business associations and the medical and high technology industry. The new convention center will include many things that I will put in the record.

To the extent that future expansion of the center may be needed to accommodate the targeted convention market after a decade of operations, convention center officials have determined that it would be feasible both architecturally and financially to link the new Mount Vernon Square facility with the existing city, old convention center site, which is only one block away. Moreover, such future linkage and expansion could be privately developed, maximizing the economic impact of the new center at no cost to the District.

A few opponents still question the siting and cost of the new facility at Mount Vernon Square. But recent analysis by the Financial Authority, by the chief financial officer, of the tax revenues that will support the $650 million in total cost of the District for developing the new convention center, along with the financial studies of Coopers & Lybrand, all confirm that previous environmental impact and feasibility studies have demonstrated the city will receive the biggest bang for its buck by building a larger size and better designed convention center closer to the heart of downtown, and that fact cannot be overlooked.

Therefore, Mr. Chairman, I urge your committee to take the final steps necessary to allow groundbreaking to begin this fall on this critical economic development project for the Nation's Capital and the region.

Specifically, we seek congressional adoption of legislation which would explicitly authorize the Washington Convention Center Authority to issue up to $650 million in bonds to finance the construction of the new convention center; includes within the fiscal year 1999 Appropriations Act the $25 million to Metro for improvements to the subway station at Mount Vernon Square; and waives the congressional review periods for the convention center financing and street and alley closing legislation which were adopted by the Council last month.

I would like to submit, Mr. Chairman, for the record copies of the Council committee's report which were adopted last month on the financing plan amendments and the street and alley closing legislation.

Thank you for the opportunity to testify, and I am available of course for questioning following the testimony of Mrs. Jarvis and others.

[The prepared statement of Ms. Cropp follows:]

TESTIMONY OF D.C. COUNCIL CHAIRMAN LINDA W. CROPP

BEFORE THE HOUSE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

HEARING ON THE NEW WASHINGTON CONVENTION CENTER

WEDNESDAY, JULY 15, 1998

Good morning, Chairman Davis, Congresswoman Norton, and other Members of the House Subcommittee on the District of Columbia. Thank you for the opportunity to make a few remarks prior to turning to my colleague, Councilmember Charlene Drew Jarvis, who, as chair of the Council's Committee on Economic Development, will present the local legislative position in support of the financing for the proposed new convention center at Mount Vernon Square.

First, let me thank you, Mr. Chairman, for your continuing support for the proposed new convention center at Mount Vernon Square, and for the expeditiousness with which you scheduled this hearing today following the Council's final approval of the financing plan and the street and alley closing legislation this past month. Let me also extend my public appreciation to Mrs. Jarvis and to all of the public and private sector partners whose hard work, patience, and prudent oversight have helped moved this important project forward in a responsible way.

No one questions the need to build a better-designed and larger Washington convention center facility in order to regain the convention market and economic spin-off which the city -- and the region -- have lost in recent years. Tourism is the District's number one industry, and the success of the new Washington Convention Center is absolutely essential to the revitalization of our economy. The new center will also provide significant benefits, without cost, to the economies of our surrounding jurisdictions.

Operation of the new expanded center is expected to generate direct spending in the District of approximately $618 million in the first year of operation, which will grow to $776 million in the fifth year of operation. **This is business the city desperately needs to increase local revenues that will help fund the Council's twin priorities of improved service delivery and tax cuts for both our residents and our businesses.** Additionally, the new convention center will directly and indirectly generate 8,550 full and part-time jobs for District residents in the first year of operation, which again will grow to nearly 10,000 jobs by the fifth year of operation.

The current Washington Convention Center opened in 1983 as the fourth largest facility in the United States with 380,000 square feet of exhibit space. Today, however, the current center ranks 30th in size and can compete for only 54 percent of large national shows and meetings. The economic impact associated with these lost events is *scores of millions of dollars in lost revenue to the city every year!*

The new expanded center to be built north of Mount Vernon Square is a beautifully designed facility with architectural elements that are sensitive to the surrounding Shaw community. The center and its site were unanimously approved by a 6-0 vote of the local Advisory Neighborhood Commission 2-C where the facility is proposed to be located, and also by a unanimous vote in favor by the neighboring Advisory Neighborhood Commission 2-F. The proposed center and its location also have been supported by the Mount Vernon Business Alliance, which represents most of the existing businesses surrounding the site, and by a majority of the Shaw neighborhood residents who have testified at several public hearings by the Council on this matter. As a result of the input of the Shaw community and others, many measures will be implemented to mitigate possible adverse environmental and historic impacts, pursuant to the National Environmental Policy Act and the National Historic Preservation Act, and as required by the National Capital Planning Commission in its approval of the site and design for this project.

When the new 2.3 million square-foot facility opens in the year 2003, the Washington Convention Center will again rank amongst the largest in the nation and be able to capture nearly 90% of the total convention market, including all of the targeted customers that we seek amongst the professional and business associations, and the medical and high technology industries. The new expanded center will include:

- 725,000 square feet of exhibit space -- which is almost twice the amount of exhibit space as the current center.
- 150,000 square feet of meeting space -- which is over three times the amount of meeting space in the current center.
- A 60,000 square foot ballroom -- the largest on the East Coast.

To the extent that future expansion of the new center may be needed to accommodate the targeted convention market after a decade of operations, convention center officials have conceptually determined that it would be feasible -- both architecturally and financially -- to link the new Mount Vernon Square facility with the existing city-owned convention center site, which is only one block away. Moreover, such future linkage and expansion could be privately developed, maximizing the economic impact of the new center at no cost to the District.

A few opponents still question the siting and cost of the new facility at Mount Vernon Square. But recent analyses by the Financial Authority and by the Chief Financial Officer of the tax revenues that will support the $650 million in total costs to the District for developing the new center, along with the financial study by Coopers and Lybrand, all confirm what previous environmental impact and feasibility studies have demonstrated: **The city will receive the biggest bang for its buck by building a larger-sized and better-designed convention center closer to the heart of downtown.**

Therefore, Mr. Chairman, I urge your committee to take the final steps necessary to allow groundbreaking to begin this fall on this critical economic development project for the nation's capital, and for the region. Specifically, we seek Congressional adoption of legislation which:

- Explicitly authorizes the Washington Convention Center Authority to issue up to $650 million in bonds to finance construction of the new convention center;

- Includes within the Fiscal Year 1999 Appropriations Act the $25 million to METRO for improvements to the subway station at Mount Vernon Square; and

- Waives the Congressional review periods for the convention center financing and street and alley closing legislation, which were adopted by the Council last month.

Mr. Chairman, I would like to submit for your record copies of the Council committee reports which were adopted last month on the financing plan amendments and the street and alley closing legislation.

Thank you again for the opportunity to testify, and I am available of course for questions following the testimony of Councilmember Jarvis and others.

Mr. DAVIS. Thank you.

Welcome, Ms. Jarvis.

Ms. JARVIS. Good morning, Chairman Davis, Ms. Norton, and other members of the subcommittee. I am Charlene Drew Jarvis, chair of the D.C. Council Committee on Economic Development. In September 1994, D.C. Law 10–188 was enacted and established the Washington Convention Center Authority as an independent public instrumentality of the District of Columbia government. The Authority was established for the purpose of acquiring land on which to construct, to equip, maintain and to operate an appropriate new convention center to promote trade shows, conventions and other events.

I would say, Mr. Chairman, that this has been, as the Mayor has indicated, a very exhaustive process. I would add also that it has been a very exhausting process because it has been the subject of more debate and more information flow than I can remember in recent history, and I must say that we are grateful for that information flow because I now think that we have answered almost every question imaginable about the convention center and its future and its viability and its ability to promote District of Columbia fiscal health for the future. This was an exhausting and exhaustive process in collaboration with a lot of hard work by the Authority and the Council and concerned citizens and the Office of the Mayor and the Control Board and the hospitality industry, which of course is tremendously important to us in the District. In fact, Coopers & Lybrand has estimated that government and the service industry, including hospitality and tourism, account for 82 percent of total employment and will dominate the District's future as we go forward.

I would also mention, Mr. Chairman, that you indicated that this convention center is an advantage for the surrounding jurisdictions, and I would point out that Steve Fuller at George Mason University has indicated that for every dollar of growth in the District of Columbia, there is a dollar and a half of growth in the surrounding jurisdiction. So this truly is a project that is a win/win both for the District of Columbia and for the region.

And I would note, Mr. Chairman, that a number of years ago at one of the Potomac conferences where there were elected officials from the District of Columbia, Maryland and Virginia and business people from the District of Columbia, Maryland and Virginia, there was actually a regional decision that supported the establishment of the convention center in Washington, DC, and I think, frankly, is an excellent example of regional cooperation. The only other thing that I could have wished is that the region also contributed to some of the cost, but we didn't prevail on that issue.

Mr. Chairman, the act before you amends the Washington Convention Center Authority Act of 1994. The act repeals the Hotel Occupancy Tax and eliminates the transfer of certain business surtaxes to the Washington Convention Center Authority. It increases the Hotel Sales and Compensating Use Tax rate from 13 percent to 14½ percent, and the percentage of the tax to be collected on behalf of the Authority from 2.5 percent to 4.45 percent. Subject to Council approval by resolution, the act authorizes the Authority to enter into various interest rate protection agreements which will allow for cost savings, but the Convention Center Authority has indicated to us that they do not expect that such interest rate contracts will be necessary. Should they be necessary, the Council would review them. The act requires the Authority to enter into marketing services contracts for the purpose of promoting conventions and tourism in the District, clarifies that taxes dedicated to the Authority shall not be part of the District's general fund and increases the permitted maturity of revenue bonds issued by the Authority from 30 to 34 years, allows the Authority to use revenues for redemption or purchases of outstanding indebtedness of the Authority prior to delivering excess revenues to the District, and subject to Council approval by resolution, permits the Authority to create additional reserves, if required.

The act also amends the provision specifying the procedures employed by the District of Columbia auditor in certifying as to the sufficiency of certain taxes to meet debt service expenses and reserves of the Authority.

It is indeed with pleasure that I accompany this august body here today asking for your continued support, Mr. Chairman and Mrs. Norton, as each has said, for the most significant economic development project for the District of Columbia in recent years. Thank you.

[The prepared statement of Ms. Jarvis follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA
WASHINGTON, D.C. 20004

TESTIMONY OF D.C. COUNCILMEMBER CHARLENE DREW JARVIS BEFORE THE HOUSE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA ON THE NEW WASHINGTON CONVENTION CENTER WEDNESDAY, JULY 15, 1998

Good morning Chairman Davis, Congresswoman Norton, and other members of the House subcommittee. I am Councilmember Charlene Drew Jarvis, chair of the D.C. Council Committee on Economic Development. In September, 1994, D.C. Law 10-188 was enacted and established the Washington Convention Center Authority as an independent public instrumentality of the District of Columbia government.

The Authority was established for the purpose of acquiring land on which to construct, equip, maintain, and operate an appropriate new convention center to promote trade shows, conventions, and other events and to maintain and operate the existing convention center until such time as the new facility is completed and opened for operation.

As such, I am pleased to report that after much collaboration and a lot of hard work by the Authority, the Council and participation by various associations and concerned citizens, the reality of a new convention center will soon be realized. Project groundbreaking is anticipated for early Fall and will mark the start of the largest economic development project ever undertaken by the District. This project, which will be paid for by hospitality industry customers, is necessary to sustain revitalization of the District. Local businesses will expand, areas will develop commercially, and quality of life in our neighborhoods will be enhanced.

The District's economy is dependent upon government and services, which includes the hospitality and tourism industries. The consulting firm of Coopers and Lybrand has estimated that these two components of the District's economy account for approximately 82 percent of total employment and are expected to dominate Washington's economy in the future.

The current convention center opened in 1983 as the nation's fourth largest facility with 380,000 square feet of exhibit space. Today, however, the current center ranks 30th in size and can compete for only 54 percent of large national trade shows and meetings. This lack of ability to compete results in millions of dollars of foregone revenue for the District each year.

We need a new convention center -- the government has conducted a great deal of research and analysis on the feasibility of a new center -- and the Council has approved legislation authorizing the financing plan for a new state of the art convention center that not only will be able to compete well into the next century, but also will include a plan for future expansion should that become necessary.

The "Washington Convention Center Financing Amendment Act of 1998", was introduced into the Council in September, 1997 and referred to the Committee on Economic Development. Two public hearings on the bill were held jointly with the Committee on Finance and Revenue; and additional Council hearings were held at which the public was allowed to comment on the new convention center project. The bill passed on two readings by the Council, was signed by the Mayor, approved by the Financial Authority and is currently before the Congress for its review.

The Act amends the Washington Convention Center Authority Act of 1994 -- the law that I previously mentioned which created the Authority and established its mission.

The Act also:

- repeals the Hotel Occupancy Tax and eliminates the transfer of certain business surtaxes to the Washington Convention Center Authority Fund;

- increases the Hotel Sales and Compensating Use Tax rate from 13% to 14.5% and the percentage of the tax to be collected on behalf of the Authority from 2.5% to 4.45%;

- subject to Council approval by resolution, authorizes the Authority to enter into various interest rate protection agreements, which will allow for cost savings;

- requires the Authority to enter into marketing services contracts for the purpose of promoting conventions and tourism in the District of Columbia;

- clarifies that taxes dedicated to the Authority shall not be a part of the District's General Fund;

- increases the permitted maturity of revenue bonds issued by the Authority from 30 to 34 years;

- allows the Authority to use revenues for redemption or purchase of outstanding indebtedness of the Authority prior to delivering excess revenues to the District and, subject to Council approval by resolution, permit the Authority to create additional reserves, if required; and

- amends the provisions specifying the procedures employed by the District of Columbia Auditor in certifying as to the sufficiency of certain taxes to meet debt service expenses and reserves of the Authority.

It is indeed with pleasure that I present today this legislation for the subcommittee's consideration, and would be pleased to answer any questions members may have.

Thank you.

Mr. DAVIS. Thank you, Ms. Jarvis.

Mr. Golden, thank you for being here.

Mr. GOLDEN. Thank you, Mr. Chairman and members of the committee. I appreciate you giving me the opportunity to speak about the new District Convention Center, and I think as you have already seen, we have a tremendous amount of leadership—from the political leadership from the Mayor and City Council, Chairman Cropp and our committee chairman, Councilman Jarvis. We have had strong support throughout this process from the Financial Control Board, who has participated almost on a daily basis in the progress, and I think we have gotten support, and we needed support from all of them in order to be successful, and I think it is a big day for the District of Columbia and its citizens when all of the leadership have worked as hard as they did and have been as informed as they are about the center.

With your permission, I would like to submit a written statement for the record and make a few brief remarks, and I am going to have to say that I am going to make fewer remarks because we have heard from our leadership and they certainly covered most of the territory that I intended to cover.

Personally it was really exciting to be the chairman and continue to be the chairman of the Authority. I believe in the new convention center. I believe in the importance of the convention center. As the CEO of Host Marriott, a company that owns major convention hotels in almost every market in the country, I have seen the power that convention centers can deliver, the economic power that they can deliver to a community.

I cite perhaps one of the more analogous situations, being that of Philadelphia where, as we all know, Philadelphia was a down-and-out city with a lot less opportunity than Washington and a lot more problems.

The new convention center was constructed there and I think we have seen a tremendous revitalization in Philadelphia. We have created in that particular environment 4,000 jobs with the construction of hotels that are underway right now. That number will increase to 6,000. There has been $275 million of new spending, $30 million of new tax revenue, which will eventually get up to $87 million, and I think more importantly, as the Mayor pointed out, it really adds and it adds a synergistic effect to the revitalization of downtown. You see more office buildings and more life in downtown Philadelphia. I think we have that same opportunity in much greater measures here in Washington, DC.

I think it is important to understand, and the Council members have mentioned the jobs being created, 10,000 jobs being created in the District and 17,000 overall in our region. It is important to emphasize when we talk about jobs, particularly in the District, these are jobs that people can do. These are jobs that people who are unemployed can be trained and can do. They are good paying jobs.

And I think just as importantly in today's environment, in the complexity of the metropolitan region, that there is significant transportation available to the jobs through Metro and other things, and that they are jobs that people can get to and do and be successful and raise families with. The convention center also creates business opportunities within our community, and the money it generates stays in the community, which I think is a key overall.

The new convention center is a $2 million state-of-the-art facility. It is 100 percent paid for by the hotel and restaurant taxes, taxes from the industries most benefiting from the new center. It has taken us 5 years, and I think if we were really honest probably 10 years, to get to this point, but it is a great day for us.

We have overcome a number of challenges which make it almost impossible to build a major civic project in an urban area. We now stand at your feet with environmental impact statements completed, the Fine Arts approval, NCPC approval, neighborhood concerns addressed, the neighborhood being in support of the project and the community at large being in support of the project, and the business community and people involved in tourism in total support of the community. We have completed the economic feasibility studies. We have dealt with the historic preservation concerns. We have dealt with a number of special interest groups. We have dealt with all of the politics, and a lot more.

I think that when you look at the Washington, DC, hospitality industry, you recognize it is a key industry within Washington, DC. One only has to look at the numbers: 22.4 million visitors annually; 6.3 million business and convention visitors, a total of close to $10 billion in visitor spending overall. It is our most important business other than government. It is a natural business for the District and for this region. We have a great opportunity, given the museums, the beauty of the area, the monuments and our location. We are one of the most desirable convention locations in the United States.

As was pointed out earlier, the convention center is obsolete. It doesn't meet our customers' needs. I think clearly size is an issue. It is a 285,000 square foot exhibit space in an environment that now places us at the 30th position in the country.

I would emphasize, though, that size alone is not the issue. I think one of the things that we have to recognize is that we have an inability in the existing center given the amount of meeting space that we have, given the overall size, we only have the ability to handle one show at a time.

In total, if you look at the meeting space that we are putting in, 210,000 square feet plus the additional exhibit space feet, 725,000 square feet, close to a million square feet overall, the typical convention is somewhere between 100,000 to 150,000 square feet.

What we benefit most from with the new convention center is the ability to handle multiple conventions at one time, to have one in operation, one starting up and one breaking down all at the same time so we keep that economic engine going as many days out of the year as we possibly can.

As far as our target market is concerned, and I think this has always been a point of communication, I think particularly in the press that they have never completely gotten the story straight. Our target market is a very select group of associations. They comprise 85 percent of the total convention market. But it is professional associations, corporate conventions and international meetings. We are the ideal target for that particular market. We have all the amenities that they are looking for. Our hotels are more expensive than other areas in the country. These are groups that clearly can pay the rates that exist here in Washington. That target market comprises roughly 85 percent of the total convention and meeting industry.

We are not on the other hand, and I would like to emphasize this, focused on large-scale industrial shows or regional meetings. Typically the large-scale industrial shows like the consumer electronics, print show, and COMDEX focus on a lot more exhibit space, on environments where hotel rates are a lot lower and where there is a different locational mix in terms of ability of people to get in there. Chicago, Las Vegas, Orlando, and New Orleans are really focused on that particular market. It is a market that has only roughly 15 percent of the shows. There is more than enough supply in those particular cities to do it. I think from our point of view, it would be uneconomic to focus on a center with those sites. Let us take advantage of our strengths and focus where we need to.

In terms of the impact of the new center, it has been covered by others. In the District, $776 million in total economic impact. In the metropolitan region, $1.4 billion in 2006 when the center fully stabilizes.

In terms of employment, it has also been discussed. In 2006, roughly 10,000 jobs directly or indirectly resulting in the District and roughly 18,000 in the metro region in its entirety. I would like to point out that we are not just talking about jobs. This is not flipping hamburgers. That when you look at the construction trades during the construction period of this particular center, there will be, on average 1,000 workers involved in construction. The average compensation for those workers range between $25,000 and $60,000.

Once the center is completed, the hospitality industry is one industry that is going to have the major impact. The range of starting jobs there is somewhere between $24,000 and $33,000. These are meaningful jobs, that people can raise a family in the District of Columbia on that. I think that is important to understand.

I think the major strengths of the proposed center have been mentioned by the Mayor and by members of the City Council. One of the things to point out is that our customers are really enthusiastic about the location. It is a very attractive location, one of the best in the country in the sense that it is near a number of headquarters hotels. There are plenty of hotels in the area, 24,000 overall, 3,000 within a half a mile. We have all the restaurants, monuments and museums nearby. We have onsite a Metro subway station and plenty of parking in the area. In terms of ranking us in terms of people's desirability, I think we rank extremely high.

A lot of things have been accomplished so far. I think we have come a long way, as has been pointed out, with the environmental impact statement completed, the Commission of Fine Arts approval done, the NCPC approval achieved. We have gone through an economic impact study with Coopers & Lybrand.

We have finally reached, about a month and a half ago, a guaranteed maximum price construction contract which was negotiated and it was bid and we had very good competition. The Clark Construction Co., a Washington, DC-based firm, one of the top five largest in the country, a company that did the McCormick Place that was just recently completed in Chicago, was successful along with their joint venture partner, one of the largest minority construction firms in the country, Smoot being their partner, and so it is a team of Clark and Smoot, that team also did the MCI Arena and was very successful with that.

We have received D.C. Council action and the support of the Financial Control Board. I guess we are now at a point where we need your support to move forward. We have reached agreement with the contract with the Clark team on a guaranteed maximum price overall. In essence, the construction manager, Clark/Smoot, must deliver the project at a cost not to exceed a guaranteed maximum price of $500.6 million. I would point out the construction costs are fully bonded and that all subcontract work must be bid out and performed under fixed price subcontracts. The construction manager will not be given notice to proceed with primary construction activities until an affirmative action subcontracting plan has been accepted by the Authority. We view this as one of our prime responsibilities to engage as many minorities, as many residents of the District of Columbia, as much activity within the District as we can, and so we are very serious about making sure that the affirmative action subcontracting plan fits in with our overall targets.

The construction manager and the Authority will share cost savings, with the Authority getting 75 percent of any savings, the construction manager receiving 25 percent. The construction manager's share of savings is increased when LSDBE goals are exceeded, and reduced if they are not met.

In terms of the overall project cost, the project cost is $650 million. I have mentioned the guaranteed construction maximum price of $500.6 million. Soft costs total $97 million, including land and demolition, the environmental impact statement, hazardous material remediation, all of the architectural, engineering and other consultants, insurance, and all of the community impact mitigation that Dr. Brimmer mentioned earlier.

It also includes equipment costs as a budget item at $22.3 million and an overall project contingency of $30 million, for a grand total of $650 million. That will be the responsibility of the Authority and we are certainly prepared to do that. Included in the overall $650 million is the $30 million of contingency included in a line item by the Authority as well as another $10 million included in the GMP construction project. As was mentioned, not included in that is the Federal support we anticipate receiving that is essential for the project to be completed. That is roughly $25 million for the Mount Vernon Station expansion by Ramada which has been included tentatively in the 1999 D.C. appropriation as a contribution of the Federal Government.

Also we need to do the offsite utility relocations. The Department of Housing and Community Development's CDBG Federal grant of roughly $10 million that we need to accomplish those tasks, that is where I think we need support overall.

In terms of the project schedule, it is our anticipation that we will begin utility relocation in August, that the construction will begin early next year. The utility relocation involves a significant amount of development on the site. We will be breaking ground in

September of this year. We anticipate the construction lasting until March 2003, a foot-out being completed at the same time, and the commissioning would take place in March 2003 overall. So, a very solid schedule. We look forward to moving forward with it.

As far as the financing plan, I think it is important to talk about the financing plan, first, it has been approved by the District, and also what our intentions are beyond that. The financing that we have anticipated is a total bond issue of $645 million, of which after issuance costs we will wind up with $616 million. That $616 million will be used partly, $550 million for a construction fund, the balance will be put in reserve funds required by the investment community, debt service reserve funds of $45 million, capital replacement reserve fund of $9 million and financing costs of $12 million. So that with the net proceeds, less the reserves, construction fund that I mentioned earlier of $550 million, plus cash we have on hand and investment earnings that we are receiving on taxes that we are already collecting, we have the $650 million necessary to complete the project. If we were to move forward with that program, we would anticipate repaying the bonds over a 30-year period and that the average interest rate would be approximately 5.6 percent overall.

What we have been exploring, and one of the reasons why we are very anxious to get you to act as quickly as possible while interest rates are low, is a much more aggressive financing plan that Dr. Brimmer mentioned earlier. We think that it may be possible, instead of having a senior-junior lien structure, to in fact, given current interest rates, to reduce the term of the bonds from 34 years to 30 years; to not require that there be a junior lien piece but that there be only a senior lien piece that would be fully insured and be fully rated AAA bonds overall, we could reduce the interest rates, we think, to approximately 5.2 percent and as a result of that I think have much more economic financing for the project as a whole and a significant savings overall.

A third important point I would like to raise, and this is a person who is the administrator of GSA and he has experienced this problem in the past, and that is that there have been very few projects where capital has been set aside year to year and reserves taken sufficiently so that when a major maintenance needs to be done on the facility and a rehab of the facility needs to be accomplished, that there is money there set aside to accomplish that task. I think this is the first project like that that is going to occur in the District, and I think if I could comment about the Federal Government, I think it would be the first project the Federal Government was in any way involved with where that is accomplished.

I think we have got ongoing capital available to maintain the facility and upgrade it and modernize it over time. I won't go into the Act 12.379 that Ms. Jarvis outlined in terms of what we are trying to accomplish in terms of limiting tax revenues and the like. I think that has been pretty well covered. As you can see on page 15, we are dedicating tax revenues of hotel and restaurant sales taxes, they expect to increase over time, and as Dr. Brimmer has pointed out, that our financing is fundamentally based on the 1997 tax collections increasing by approximately 1 percent per year, a conservative approach to financing. Our expectations when you look over the last 8 years, that tax revenues have in fact in the hotel sales tax increased by roughly 3 percent per year. Since this is a closed indenture and all of the excess tax flow collected through tax revenues need be used to pay down the bonds, we are anticipating that even though we might have a financing of hopefully 30 years, that as a result of the structure that we have in place that we could repay those bonds at a considerably faster rate overall.

With that, I would like to close and just say thank you for your time and I look forward to answering your questions.

[The prepared statement of Mr. Golden follows:]

Chairman Davis, Delegate Norton, Members of the Subcommittee, my name is Terry Golden and I am appearing before you today in my capacity as Chairman of the Board of Directors of the Washington Convention Center Authority. I would like to thank you for giving me the opportunity to appear before the Subcommittee to discuss a project of enormous importance to the District of Columbia -- the development of the new Washington Convention Center.

We all know that Washington is one of the nation's leading destinations for both tourists and conventioneers. Last year, the Nation's Capital played host to more than 22 million tourists and another 6 million business and convention visitors. Collectively, visitor spending totaled nearly $10 billion in 1997. Impressive as those numbers are, if they are to increase in the coming years, the District's convention facilities must be able to accommodate the technological and functional requirements of today's meeting and exhibition industry.

Our current convention center can no longer meet the needs of our target market. Once the fourth largest convention center in the country, today it ranks number thirty. Our present facility has only 12 loading docks and, more importantly, it can host only a single show at a time. The upshot is that the District is losing valuable market share to the likes of Philadelphia, Atlanta, and Orlando.

The new Washington Convention Center at Mount Vernon Square has been designed to meet the needs of our target market, which consists of professional associations, corporate conventions, and international meetings.

Together, these groups account for 85 percent of the total convention and meetings industry, and our new facility will accommodate 100 percent of that market for the foreseeable future.

The new convention center will total 2.3 million square feet, with 725,000 square feet of prime exhibit space, 150,000 square feet of dedicated meeting space, 66 loading docks, and a 60,000 square foot ballroom, which will be the largest in the Northeast. The ballroom space is flexible space, so it will be possible to configure it as additional meeting space, thereby providing a total of 210,000 sq. ft. of meeting space. The new Center also will have state-of-the-art technology.

The building has been designed by an award-winning team of architects and engineers who have worked on convention facilities throughout the country including Philadelphia, Atlanta and Chicago. The design has been approved by both the Commission of Fine Arts and the National Capitol Planning Commission.

While the new Washington Convention Center will be a handsome addition to the District architecturally, the real reason for building this facility is the enormous economic contribution it will make to the City and to the region.

According to Coopers and Lybrand, the new Washington Convention Center will produce in the District $776.7 million in total economic output in its fifth year of operation. By the fifth year, the region as a whole will realize $1.4 billion in total output.

Just as significant are the jobs that will be created in the District. By the fifth year of operation, the project will support 9,750 full and part time jobs in the District, while in the region 17,580 full and part time jobs will be produced.

We are well aware that this project has its detractors. But it is terribly important that you know how much support there is throughout the city and in the Shaw neighborhood for the new Convention Center at Mount Vernon Square. *Over 20 Shaw area civic organizations -- including three surrounding Advisory Neighborhood Commissions -- have endorsed the project.*

We have undertaken a number of steps to mitigate any adverse community impacts. The entire building has been lowered one whole level to reduce the apparent massing, and L and M Streets both will remain open to pedestrian and vehicular traffic. To better serve the Shaw community, the new Center will include approximately 44,000 square feet of street-level retail space fronting on 7th and 9th Streets. Our goal is to be as friendly to the surrounding community as we will be to visitors in the building.

With respect to the construction cost, our Construction Manager (CM), the joint venture of Clark/Smoot, has agreed to a $500.6 million Guaranteed Maximum Price (GMP) for the project. If there are construction cost overruns, they will be borne by the Construction Manager.

The construction management contract that we entered into has been structured in such a way as to encourage costs savings, with 75 percent of any savings going to the Authority and 25 percent to the CM. Further, the contract outlines aggressive local, small and disadvantaged business enterprise subcontracting goals.

In order to reach the GMP, the Authority worked with the Construction Manager to clarify construction details, received independent cost estimates, and engaged in a value engineering process that found less costly ways to undertake the project. *Neither the design nor the function of the building were compromised during the value engineering process.* In the end, the Authority was able to negotiate a GMP that is consistent with the project budget.

Total cost for the entire project is $650 million, inclusive of the GMP. Additional costs include: $97 million for soft costs such as legal and other professional services; $22.3 million for equipment and fixtures; and $30 million for construction-related contingencies. The budget anticipates that improvements to the Mount Vernon Square Metrorail Station and some off-site utility relocation costs will be funded through grants from the federal government. Specifically, the President's FY 1999 budget includes $25 million for the Metrorail station and $10 million for the utility work.

The City Council of the District of Columbia has approved the financing plan and the GMP for the project. These items also have been approved by the Financial Responsibility and Management Assistance Authority.

The financing plan anticipates issuing approximately $645 million in par amount bonds with net bond proceeds equaling $616 million with a 34-year senior and junior lien structure. Bond proceeds will finance $45 million in Debt Service Reserve Funds; a contribution of $9 million to the Capital Renewal and Replacement Reserve Fund; and $12 million for financing costs. Finally, the Authority will utilize the more than $100 million in cash and investment earnings on hand to fund the remainder of the $650 million budget.

This is a very conservative model that the Authority will continuing to refine, and we may present to rating agencies a more aggressive financing structure to achieve a transaction which could have a 30-year term of senior lien debt only. Again, I believe that you will conclude, as others have, that our plan is extremely conservative.

A recent analysis of potential future revenue generated by the dedicated taxes indicates that more than enough money will be available to support repayment of the bonds. While the Authority based it financial model on base year revenues totaling $44 million, the report indicates that in 1999, dedicated tax revenues will be $52.6 million and in 2007 revenues will be approximately $71.4 million.

Development of the new Washington Convention Center is essential if the District of Columbia is to continue to grow and prosper. The Convention Center Authority has worked diligently to bring us to this point.

The New Washington Convention Center enjoys broad support in both the public and private sector. The new Center has been enthusiastically received by our customers. With your support, we can begin this critical economic development project this year.

Therefore, I respectfully urge the Subcommittee to authorize the Washington Convention Center Authority to issue bonds and to spend funds for construction of a new convention center at the Mount Vernon Square location. We also request that the Subcommittee waive the 30-day Congressional review period for the "Washington Convention Center Authority Amendment Act of 1998," which was recently passed by the Council of the District of Columbia, signed by the Mayor and approved by the DC financial Control Board.

Waiver of the 30-day review period will allow WCCA to complete the bond transaction in August and take advantage of the currently favorable interest rates in the municipal bond market.

Mr. Chairman, that concludes my formal statement, and I would be delighted to answer any questions that you might have at this time.

Mr. DAVIS. Mr. Golden, thank you very much. Let me start with the first question and then I am going to yield to Mrs. Morella for the questions.

The GAO report, as you noted, talked about $58 million. Almost $18 million was in vendor-provided equipment. Utility relocation was $10 million, Metro station upgrade, $25 million and $5 million for project administrative costs. These are additional costs which were not included in WCCA's total. If the $650 million is the agreed-upon cap, how do you envision coming up with the funds to cover these additional costs?

Mr. GOLDEN. I think that when we have assumed—there are two major categories. We anticipate vendors supplying some of the equipment so that we won't come out-of-pocket for them, and I will talk about that in a minute. The second, we are anticipating support from the Federal Government and Federal funds to pay for off-site utilities and the Metro expansion.

Mr. DAVIS. That is $35 million there in Federal dollars.

Mr. GOLDEN. That's right. And the difference in costs, if we could go through the GAO expenditures, we had a project budget of $650 million. Vendor-supplied equipment would account for $18 million. Offsite utilities which would be funded by Federal CDBG grant would be $10 million. The expansion of the Mount Vernon Metro site would be $25 million, funded by a Federal grant to Ramada directly.

Project administration, which is the other item that was included, $5 million, is part of our annual budget. So that that is being currently funded through our existing tax revenues.

What they in fact did was allocate out, separate the project costs from the ongoing operations of the convention center and allocated that to the project. Those funds are anticipated in our overall Convention Center Authority budget, a total of about $708 million. Just from an accounting point of view, we at the convention center will be responsible for $650 million of that.

As far as the vendor-supplied equipment is concerned, the $18 million there, let me see if I can provide a little bit of detail on that. Included in that would be vendor support for the central plant in the amount of $9 million. That would be the major central plant which would be provided by a vendor for steamed/chilled water and electricity. I might point out that we have already had discussions with three suppliers who are anticipating and would anticipate contributing more than $9 million overall to this process. It represents a significant change in how convention centers in major structures operate in today's deregulated environment.

As an example, at McCormick Place, which is the most recently completed convention expansion, McCormick Place received $20 million in support and in fact the central plant is being operated by an outside vendor. I think there is significant synergies involved in this particular process. As an example, unused capacity that is available in the center can be used by the surrounding environment. If we have days on which the center is not in operation or, as an example, at night when the center is closed down, chilled water generated at that plant can be in fact delivered to surrounding hotels and other businesses to be sold to them. So this would be a process as far as the central plant is concerned where not only would the utility delivery be provided by someone else and the equipment provided by someone else but the employees who would be operating the center would be on someone else's payroll and we would be paying for units of energy that we are receiving in one form or another; and when that energy wasn't being delivered to us, it would be delivered to somebody else, and there would be savings involved with that overall. It is really a concept of outsourcing, and I think that the vendors would prefer to use their own equipment and make their own arrangements in the surrounding community.

As far as food service is concerned, we have included in terms of equipment to be provided by the vendor $5 million. As an example, this is a standard practice in the industry. Javits in New York, the Javits Convention Center in New York received $9 million. MCI here, the arena received $10 million in equipment being provided by vendors. Almost all of the convention centers in the country use this same process of having the outside vendor provide the equipment. The analogous situation would be in a typical office building or other structure where there is a restaurant involved, that typically the developer provides a space and the restaurateur provides his own equipment. And really I think when you look at it from our own experience within Marriott, when in many cases our sister company is providing service to a college, it is very typical to provide the equipment as well, and I think you wind up with a professional in the business providing the equipment that he wants and being responsible for overall delivery as well as the equipment.

Telecommunication is a third item, $4 million. Telecommunication was provided to convention centers in Dallas, Houston, Denver and Atlanta. Again, it represents part of our new deregulated environment in terms of profit centers. It is no longer a cost center. We currently have Bell Atlantic providing the service. We pass through the cost of that but we don't pass it through as a profit center. What our anticipations are in the future is that this will be viewed as a profit center, run as a business, franchised out to the person delivering this service, and they who are experts in telecommunications and in providing the service can provide the equipment and keep up with the rapid change in technology and maximize our income over time.

As you can see from a vendor point of view, we anticipate receiving $18 million, but it is all part of a program of change within our industry as a result of the effect of deregulation overall.

The offsite utilities that we talked about earlier, $10 million, we are working with the city to get directed from the city's HUD CDBG block grant sufficient money to handle the relocation of offsite utilities. From our point of view when you look at the Metro expansion, the $25 million, I think it is very important that Congress act in a favorable way, support the District's budget so that we can expand the Metro station, that Ramada can expand the Metro station at the same time the rest of the project is being completed so that it is there and available to support the increased activity both in the convention center and the surrounding shop community, reflecting the increased economic activity overall there.

Mr. DAVIS. Thank you. That is the short answer, I guess.

Mr. GOLDEN. Would you like the long answer?

Mr. DAVIS. Thank you. I am going to yield to Mrs. Morella for some questions.

Mrs. MORELLA. Thank you, Mr. Chairman. Picking up on that last abbreviated response, actually if you are, and you say you are depending upon the Federal Government for some of that funding to cover the additional costs, do you have a contingency plan if the Federal Government does not come through with that money?

Mr. GOLDEN. I think we have a plan but I don't think it is as good a plan overall. I think the difficulty is, obviously we are not looking to the District for financial support. The Authority is standing on its own as a result of its tax revenues. We clearly think that this is an essential project for the community. The President has included that in his budget. It is essential I think, if we are really going to see revitalization in the District, for the Federal Government to be a participant. I don't think it is at a particularly significant level. I think the alternative would be for us financing more costs. In my sense it is just not prudent, given our budgets at this point, to include those costs. I think you could stretch and stretch to get the job done if it were absolutely critical but I think for all of us, both the Federal Government and for the District of Columbia, the Convention Center Authority, we have a very solid project that represents good economic potential for the community. I don't think we want to start the process with a structure, a financial structure in place to get the job done that is less than reflecting the overall quality of what is being done. I think it would put too much stress on our budget overall.

Mrs. MORELLA. That doesn't mean, though, you don't have to think about a contingency plan. Dr. Brimmer, do you want to comment on that?

Mr. BRIMMER. Yes, Mrs. Morella. On that last point, I would like to make two points. First, the $25 million which would be——

Mrs. MORELLA. That the President asked for.

Mr. BRIMMER. That is for expansion of the station. That is not a part of the structure of the convention center. That is Ramada's responsibility. It is a part of the already existing transportation system. It would clearly be helpful to the convention center, would expand the transportation capacity, would make it more efficient. If the center were to borrow money to expand a Ramada facility, that would be a most unusual claim. And so I would hope that we wouldn't come to that.

With respect to the $10 million, that is a block grant. Those funds would be in the HUD budget as a part of its traditional block grant authority. The Housing and Community Development Department in the District has already earmarked those. Let me assure you that if they get any money, and there is every reason to believe they would, that $10 million would be earmarked and go to this project. That is a part, the relocation of the utilities is a part, is necessary for the convention center and that ought to be counted as a part of the center. The Ramada station is ancillary to the center and supportive of it but not a vital part of it.

Ms. CROPP. Mrs. Morella, if I may suggest that perhaps there needs to be more unity with a regional approach to assure the $25 million remained in place. Because I see great benefits from that coming from our surrounding jurisdictions, in that we have talked about the spinoff to the region for the convention center. Certainly with the expansion of Ramada and the subway station, that will enable better access from the surrounding jurisdictions. So I think that that is a good opportunity for all of us to use a regional approach to ensure that the $25 million stays intact.

Mrs. MORELLA. I am even going beyond that. I am looking at the GAO report that Mr. Golden talked about which would include an additional $58 million in projected costs, according to today's paper, also. But I am wondering, also, are there some other additional costs, too, in addition to that $650 million that we should be aware of? Is there anything that is not included in that guaranteed maximum cost?

Mr. GOLDEN. Let me say there is more than the guaranteed maximum price. There are other costs that we enumerated in that schedule. But I would say that with the $650 million that we are receiving, that the project costs that the Authority is paying plus the Federal moneys that are being received, we have adequate money to complete the job and we have a significant contingency in the project, and that most of the costs of the project are covered by the guaranteed maximum price which is a bonded price, where the contractor has significant responsibility and overall responsibility in most cases for cost overruns.

Mrs. MORELLA. So you seem pretty confident about that.

Mr. GOLDEN. I generally feel very good that, No. 1, we have got a great contractor, that we have had some significant negotiations on the guaranteed maximum price. Personally I anticipate savings in the overall guaranteed maximum price. I think if you went back and looked at the last job Clark did, in the McCormick expansion, that there were significant savings. I think the structure is one where we have been as aggressive as we could with the contractor in terms of getting a price, but I feel very comfortable that the project can be completed within those costs and that we have adequate contingency.

Mrs. MORELLA. Your assurances are pretty comforting to us. I hope you will keep us posted. I hope you are absolutely accurate on it.

I would like to ask another question that deals with that affirmative action that had been referred to throughout the testimony. Dr. Brimmer mentioned it. You mentioned it. I think the contract calls for 51 percent of the new hires to be District residents. I wonder what you are doing to comply with that. And then I want to go beyond that with regard to affirmative action. How do you describe those provisions, and do they include hiring more women and what are your plans for that?

Mr. GOLDEN. I think that as far as the construction manager's contract goals are concerned in the area of local small disadvantaged business enterprise goals, that our targets are that 35 to 45 percent of the project's construction work go to LSDBE contractors. I might point out that we have significant incentives for that number to be higher, that as the contractor's participation in savings and profitability increases, the higher the percentage of LSDBE work that is completed is accomplished.

In addition to that, we have a goal defined as 51 percent of new hires being D.C. residents, 42 percent of new hires are minority tradespersons, and that 6.9 percent of new hires are female tradespersons overall. And that before we start the project, that in terms of the LSDBE goals and our employment program overall, that they need to submit an overall program and that has to be approved by the Convention Center Authority before they are allowed to move forward.

One of the things that we have imposed upon the contractor is that he conduct market research to identify LSDBE resources and we have created a committee on which there are members appointed by the Council, members appointed by the Convention Center Authority and the local LSDBE contracting community, and that one of our directors, Harold Johnson, has assumed responsibility for the Convention Center Authority to monitor this. It becomes a major focal point as far as the Convention Center. The construction manager has got to conduct market research, identify potential suppliers eligible for certification, hold business opportunity fairs, and submit monthly status reports on the status of LSDBE contracts. I think ultimately that there is a financial incentive for the contractor to perform and a contractual requirement that he does perform overall in this particular regard.

Mayor BARRY. Let me also say, Congresswoman, that the 51 percent D.C. residents has been in existence for almost 15 years in terms of the first source; in fact, all D.C. government contracts. It has been very successful. We used it at the MCI Center. In fact, our challenge was we had four or five times more people wanting to work than there was work available. So the supply side is not new to the District. That provision is not new.

Mrs. MORELLA. Dr. Brimmer.

Mr. BRIMMER. Mrs. Morella, when we met with the leadership of the convention center last week, one of the items we focused on explicitly was the set of goals and targets with respect to minority and disadvantaged business participation. We reviewed the targets which Mr. Golden just described and we made as a condition of our approval that these targets be set and be achieved. We also look forward to receiving the reports on a monthly basis or at least periodically from the convention center, so we will ourselves at the Control Board be monitoring these along the way. And we were satisfied that they have not only set targets but they have put in place a mechanism to assure that these targets are achieved along the way, so that they would not be faced with the situation where, say, the master contractor would turn up later and say, "I tried but couldn't do it, and therefore I don't get the savings," but they have put in place a mechanism to make certain that it happens along the way. So we were persuaded that they are on target.

Mrs. MORELLA. The percentage of women, you say, is 6 percent?

Mr. GOLDEN. That is right; 6.9 percent.

Mrs. MORELLA. How did you come up with that figure?

Mr. GOLDEN. I think there was a lot of discussion about what was available and what was achievable. We had independent looks and involvement with our consultants in terms of what we thought was realistically achievable in terms of new hire for female tradespersons overall. This is during the construction process.

Mr. DAVIS. If you would yield to me for a second, we talked about this in the briefing; it is the decision that was made, we are not going to play with it in any way. You feel, though, that by having these set-asides and so on that it increases the cost of the project as opposed to not having them? We can't just look at the project costs by themselves, without looking at all of the other social and economic goals.

Mr. GOLDEN. That is sort of saying if you look at one part and don't look at the totality of the impact. I think if you look at what we are trying to accomplish as a community, it is to create employment and to create opportunity in our own community, and to not impose these requirements or not to do this would be—and I am as a businessman looking for the lowest cost overall, but not to take advantage of this opportunity to have it impact those who are unemployed and those who are underserved in terms of jobs would be——

Mr. DAVIS. I think you have answered the question. It may raise the cost but you have competing goals that you are trying to accomplish.

Mr. GOLDEN. I think the Authority clearly understands what it is trying to do, and that is, increase economic activity in the city and to increase jobs for D.C. residents.

Mr. DAVIS. That is fine. OK.

Mrs. MORELLA. Just a final point, I guess to Dr. Brimmer. Is there a mechanism that has been put in place to assure compliance with the contract?

Mr. BRIMMER. Yes, they assured us they had.

Mrs. MORELLA. Do you have a mechanism? I mean the Control Board?

Mr. BRIMMER. We won't be operating this. We will get the reports. We will evaluate those. As I said, that is the monitoring we can do. I assure you that if it turns out that they are falling short, the Control Board will work with the Convention Authority to make certain they are achieved. But no, we did not put in place, for example, to show the range for construction work is 35 to 45 percent. We did not fix the quota. The Convention Authority has not fixed a quota. We didn't impose a quota. They have set targets and goals. They have in place a mechanism to make certain they achieve them.

Mrs. MORELLA. But you need some monitoring to make sure that it is going to be achieved, right? The Control Board is the proper place to do the evaluation or assessment as you move along.

Mr. BRIMMER. They will do that.

Mrs. MORELLA. They will do that?

Mr. GOLDEN. We have a requirement that we produce a monthly report on how we are performing in comparison to our goals, and we have a committee that comprises people from outside the Authority itself overseeing that particular process. There is a mechanism in place to provide the information. We have one board member whose responsibility is to focus strictly on that. We are going to produce the information and we are going to have a cross section where we have representatives of the LSDBE community involved in the process, and we will have the information available to the Financial Control Board as well as to the City Council and the Mayor.

Mrs. MORELLA. Fine, thank you. I look forward to continuing to learn more about this as it progresses. I wish you all well. Thank you, Mr. Chairman.

Mr. DAVIS. The delegate from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. Essentially there appear to be four major issues raised by the convention center, some of them only tangentially relevant to the Congress, relevant insofar as they may impede upon price and financing in some respect, but they are size, cost, jobs and location.

Just to finish up on the line of questioning that was just opened on jobs, I just had a job fair at the biggest location I could find, the Old Pension Building, with minimum publicity only through my newsletter. And just the day of it, a ton of people were to come, and 4,000 people showed up and they all had to show evidence that they lived in the District of Columbia.

Increasingly, I am no longer in the business of trying to bring jobs to the District. I spent a lot of money keeping the 2,300 jobs, the SEC jobs going to Montgomery County last term, a lot of time and effort, a lot of time and effort getting the 5,400 jobs from Crystal City to come here rather than go to California. Of course, there is a great economic development benefit there because with the renovation of the Navy Yard, there will be substantial economic benefits to the District. But the fact is that one looks at who are employed, whether we are talking about entry level jobs or jobs going up the scale, what we see is the massive destruction of our middle-income and even working-class population with the flight out of the District. So we can talk about hiring D.C. residents all we want to, even for hotel jobs, entry level hotel jobs, they are competing with an available pool, particularly from Virginia, eager to work, with experience in working in Virginia hotels, leave alone construction jobs or other jobs where some training is required. The population of the District that has been losing is the population that had government jobs and other jobs. If you look at the breakdown of who goes, it is absolutely astounding.

Therefore, my concern really goes to training. I don't think it is relevant to discuss D.C. residents without superimposing on that how we are going to make certain that people have the kind of training that will make them competitive with others who will come right in there for the jobs as well. Let us take construction. Until the Reagan administration, the Federal Government funded unions and industry for apprenticeship programs. And over time one saw, particularly in the 1960's and 1970's, a growth of a work force that was ready for the skilled craft jobs that pay money without having people go to college and do other rigmarole.

What I am interested in is what the Authority can do or intends to do to make sure that we have a competitive pool so that you can meet the 51 percent. Monitoring it won't meet it. Punishing people through nonmarket enforcement mechanisms won't meet it, because what you will have on the other end are timeframes and quality factors. The kinds of things that are generally discussed do not reach what I understand to be the core problem of employment of residents of the District of Columbia that, increasingly, our residents have less and less opportunity, more and more advantage.

And therefore, very specifically, my question is with respect to jobs from the entry jobs on up, what kind of training or other job readiness mechanism will be in place to assure that these figures can be met quite apart from monitoring, quite apart from punishment, quite apart from fines, based on ordinary business practices and what it takes to get a convention center built and done with?

Mr. GOLDEN. Let me see if I can respond to that question, because I think there are really two elements of it. One is during the construction period and then the other is how do you get permanent jobs. I think the Authority recognizes that that is one of the primary issues of the District and it is one of the primary responsibilities of the Authority to be an active participant in both those things.

As far as the construction period is concerned, what we have committed to, both with the Shaw community and as a part of outer community impact work overall, is a major apprenticeship training program that our contractor, Clark, now has responsibility and is working right now and is part of his program to train District residents in the building trades so that we can comply with the 51 percent. Not only is there a significant target that needs to be achieved and good reporting, but there is a requirement as a part of our moving forward with our—having him sign off to begin with and going over our LSDBE program—that we have a clear outline and action taken on our apprenticeship training program for the trades. So I think that is the major vehicle in which we have addressed that issue.

I think in the long term as far as the hotel industry and the restaurant industry is concerned, I don't want to steal too much thunder from the Hotel Association which is planning on doing something down the way, but I will suggest to you that there is movement under way to create a hospitality high school so that we can get young residents of this community trained and ready for work in the District of Columbia. I will say that I would anticipate hearing some good news within the next month to two and hopefully prior to the groundbreaking ceremony where there are things taking place. I have to tell you, we have been very active in supporting that program.

I would also say that companies like Marriott have a Pathways program where we are already in certain areas, as an example, Frederick Douglass/Stanton dwellings, working on a program with the Noa Co., which is a training company to get people trained and have them move into jobs. The fact of the matter is if you went outside the District, there is such low unemployment that there are a lot of jobs in the hospitality industry that go begging in places like Dulles Airport and that whole corridor out there that we as a people who are in the business have got to figure.

So there is a need for employees and there is a need for us to take advantage of the talent that exists in the District, within the District, and that there are not a lot of people coming from the exterior part of our region to employment opportunities of this nature in the District.

I can say I think that there are some activities underway that would help employment for District residents in the hospitality industry in the District. I would include not only the District but the nearby Maryland and Virginia suburbs, and that the Hotel Association and the Restaurant Association have taken a lead in that and I think they will step up in the next couple of months.

Mayor BARRY. Also, Ms. Norton, the convention center is using the same model that we used at MCI Center with apprenticeships. Even in those trades where you find very few D.C. residents or African-Americans, it is made up in other trades. For example, bricklayers and other areas made up, and laborers and others, so there is an ample opportunity for D.C. residents to get apprenticeship training and move into journeymen jobs. In fact, there are people who were apprentices in the MCI Center who will now move over to the convention center because of the same contractor.

Ms. NORTON. Mr. Barry, did you meet your goals with the arena?

Mayor BARRY. Yes. As I said, in some instances you have to make up in some trades the lack of available African-Americans or D.C. residents that were already trained as journeymen in certain trades. We made it up in laborers and bricklayers and others where you had an adequate number of people. Also, Ms. Norton, the Restaurant Association and others are doing a number of things in terms of culinary arts. A number of people at Martha Washington and other places are now being trained. As Mr. Golden said, the goal is by September 1999 to open this hospitality high school which will then give us an additional number of people that are there. That is the way I look at it.

Mr. Chairman, may I be excused? I changed my schedule from 9 to 11. I have a summit at UDC with about 500 young people talking about violence reductions and how we try to make our city safer. I think that Ms. Cropp or others can answer anything that I need to be asked.

Mr. DAVIS. You will be able to supplement any additional questions we have?

Mayor BARRY. Yes, sure.

Mr. DAVIS. Thank you for being with us.

Ms. JARVIS. Ms. Norton, may I add to the issue that the Mayor spoke about, and that is, the low number of D.C. residents in the trades. This has really been a very significant problem for us at the convention center and with other jobs, because union members chosen for a job are chosen from a list available at the union hall which they rotate up. If you do not have minorities and women in the list who have moved through the process, then they are not made available for jobs. So through a very, very arduous series of discussions over probably 7 or 8 years with the convention center and now the Convention Center Authority, there has now been an agreement with Local 1110 which I think is really a prototype for what can happen with unions and admission of minorities and women who have not historically been a part of the union membership. They now are engaged in the training of folks who would be available in that lineup when the list is called for more carpenters, for example, for the center. I think it is a prototypical agreement that I recommend to you and to others who are trying to make sure that there is an appropriate representation.

Ms. NORTON. Do you have a copy of that agreement?

Ms. JARVIS. Mr. Golden could probably get it from staff very easily.

Ms. NORTON. This is D.C. residents, Ms. Jarvis, that you are speaking of?

Ms. JARVIS. What is your question?

Ms. NORTON. This agreement involves D.C. residents?

Ms. JARVIS. Yes, absolutely. It is a seminal agreement. It took a very long time. I don't need to tell you how resistant unions have been to changes in the rules by which people are pulled off of a list in order to go on a job. It is a historical and traditional approach which I think we have been effective in addressing. But not with all unions.

Ms. NORTON. I think this is very hopeful. I would like to have that agreement for the record and I would like to see it myself for what you say you have been able to do there. I am far more interested in the process than I am in the goals, because the District often has the right goals. It has had extraordinary difficulty generally in the processes provided to achieve its goals. I would like to ask you what controls, financial, managerial, are in place to keep this project on schedule and within budget.

Mr. GOLDEN. There are a number of different mechanisms. I will just try to cover some of the more significant ones. I think, first of all, having a guaranteed maximum price in place and having the contractor responsible for cost overruns related to that and for delays in the project that he can control is the No. 1 leverage that we have overall.

I would also say that I think we have a number of other mechanisms. Clearly in terms of being concerned about overruns as it relates to the $650 million, we have a $10 million contingency in the guaranteed maximum price as well as $30 million outside of that contract, so a total of $40 million there that represents about 8 percent of the $500.6 million construction budget. So we have some room in there to operate.

I think that one thing that most people in the community don't understand, that we have employed the convention center associates, a team of people, to work with us and support us and monitor the process itself. We have working for us currently JBG, which has done a number of projects in the community, taking a lead as kind of the project manager, project adviser on this. We have included on that team representatives of Turner Construction Co., the largest contracting company in the country, who are involved in the day-to-day processes of managing the project, as well as an architectural team of Thompson, Ventlett and Steinbeck, Devrouax and Purnell, and Mariani Associates, all of whom have cost engineers and people monitoring the project as well.

I think one of the things that has happened that we haven't been able to talk a lot about is, I think particularly over the last 6 months as a part of our negotiations with Clark, that we have developed a very good communication mechanism within the Authority itself, with our project team, and that we have a very effective group working on monitoring the architect and monitoring the contractor overall. So we have in place people that are seasoned, that have a lot of experience that we are paying to do that.

Ms. NORTON. Aside from the construction of the project itself, let me ask you about the Authority staff, its flexibility and its expertise. As this project began, tied into the District's procurement, the

Authority itself was weighted down with that process and all the delays that were built into it. Do you think that the Authority itself has sufficient flexibility and staff expertise to manage the center and to do its work, to do the part of the management of the project that is indeed its work? For example, how you tie it into the procurement system of the District of Columbia.

Mr. GOLDEN. I think—let me answer that. We have been—I think we have a very solid team in place overall. The general manager of the convention center has been here for about a year. He was involved directly in the development of the Philadelphia Convention Center, has had a lot of experience there. Allen Lew, who is the project manager within the Convention Center Authority, had been for a long time prior to that associated with the Javits Convention Center as the project manager there. So we have very good capability.

I think we have dramatically strengthened our chief financial officer position with the addition of Jay Greene overall. So I think we have some people that have had good experience overall.

I would also like to point out that it doesn't require a staff of hundreds on the part of the convention center to get this job done. I think the smartest thing that we did as a group was hire professional people to work with us to get the job done. We have an extraordinarily capable contractor. We have a very strong and experienced project team that is working directly for the Authority, providing financial information, providing onsite supervision and the like in the form of JBG and Turner.

And where I think that if we were to look a year ago and the convention Authority were to comment that that team wasn't working particularly well together, I think that to a person within the Authority right now, we feel that through the fire and storms of going through NCPC and Fine Arts and neighborhood concerns and so forth, that we have pulled together as a team and that we are very organized.

In terms of the overall management, the board meets every Monday at 4 o'clock with the development group and with our outside project team, and we go until whatever hour it takes, dealing with all of the issues of the Authority once a week. So there has been very active involvement on the part of the board of directors of the Authority and direct involvement in the development process on a weekly basis for as long as it takes in terms of number of hours.

Ms. JARVIS. Ms. Norton, the convention center's procurement system is not tied to the District. They have a separate——

Ms. NORTON. Certainly in the beginning it was just as cumbersome as the District's in terms of the amount of time that it took to get things done. I know that the District is streamlining its system.

Mr. GOLDEN. The proof is in the pudding. We have the NCPC approval. We have got the economic analysis done and the environmental impact statement. We have done something which is an extraordinary event, whether you are a major developer or a municipality, which is we have a guaranteed maximum price. We have gone through a competitive bid process. We stopped the process, as Dr. Brimmer said, and we started another process and got very good competition and we selected what we think is a very good contractor.

Ms. NORTON. I want to know about the system. You know the D.C. system. This system, at least in the beginning when I remember this project, kind of aped the D.C. system. We know everything has to be competitive. In doing whatever procurement, are you satisfied that as your own D.C. system is being streamlined, that this system is sufficiently streamlined to get the work done without encountering problems?

Ms. JARVIS. Let me comment on the monitoring of contracts, especially local, small and disadvantaged. Historically the convention center has had an outstanding record, better than most city agencies, and that was something that my committee was responsible for monitoring all along the way. And so they continued to have a very outstanding record of contracting with local small and minority businesses. So that goes to the first part of your question.

The second thing is, I don't think that they had a cumbersome procurement system. I think the issues had to do, for example, with the fact that there were few bidders and a necessity to go out for another bid.

Ms. NORTON. I was talking about the kinds of service contracts they had to let out for bid, and simply getting the work started in the early part of the work on the convention center.

In any case, we have a new chairman. If you are satisfied that this process is streamlined, I will accept that.

Parking. I need to know whether you all think that parking—we know that it is the Metro that is important here, and that one of the reasons for location here is access to Metro.

Nevertheless, there are parking needs and I would like your assessment of the adequacy of the parking given the demand for parking?

Mr. GOLDEN. The important thing from our point of view as it relates to parking was that it was a concern from our perspective from day one as to whether we had adequate parking and when we—it was clearly a part of the NCPC process that we answer the question was there adequate parking in the area. And we in fact commissioned a study—an overall transportation study that addressed the issue of parking.

We feel very comfortable with the transportation management plan that we have completed. There is approximately 8,700 available existing parking spaces within a 10-minute walking distance of the convention center. We have had—I think the MCI experience demonstrates the success of onsite Metro in relieving parking overall.

I think the areas, if you are to understand the convention center during the week, it is really on the weekends that we get a lot of people coming in for the garden show, the flower show, job fairs and things of that sort, and there we can take advantage of the 8,700 parking spaces.

During the normal course of a convention, we do not have a significant parking demand. Based on the results of the MCI Center and the experience to date already operating a center in the exact neighborhood, we have a pretty good handle on parking.

Ms. NORTON. I have one more question about contingency. When we did the Reagan Center, we found that there were problems that nobody could have anticipated. I recall particularly that there were underground water problems and of course we—there were cost overruns there. We didn't have the situation that you have here, but obviously that was something you had to deal with.

I would like to know how a contingency is calculated given the fact that there can be unknowns like that, whether you calculate your contingency in light of some model for the industry, whether you calculate it in light of what local conditions are, and simply how you arrive at contingencies. So, for example, if there is a problem that no one anticipated, like water flowing underground, how do you deal with it?

Mr. GOLDEN. There is a standard for a project like this in terms of where you should be from a contingency point of view, and the amount of contingency you have depends on the stage that you are in the project. If you are in the early stages of design, you haven't done the necessary soil testing, you don't have a contractor, et cetera. Typically you do your estimating, but include in that significant reserve.

I think when you look at where we are now with the guaranteed maximum price and the stage that we are in, we have roughly an 8 percent contingency on our GMP, which we feel very comfortable with and is consistent with the standards within the industry overall.

I think that with that, and also with the nature of the GMP contract itself, my own assessment of the GMP contract is that we are going to experience savings on that contract and that there will be more profit in it for Clark and that the negotiations were ones that were intense but left room for Clark to have savings in the process itself.

So my sense is when you look at having an 8 percent contingency overall at this stage and have a GMP contract where our assessments is that there will be savings on the contract, that we generally feel comfortable.

Mr. DAVIS. We don't know if you have a water problem or not?

Mr. GOLDEN. If you want to address the water problem, I would like to have Ted Mariani talk about it because we have done extensive borings and tests on that, and he can give you as a resident expert where we are.

Mr. DAVIS. He has been sworn and we appreciate hearing from you, Mr. Mariani.

Mr. MARIANI. The issue of water was obviously very critical to us. As part of our team we have Musser Rutledge of New York, the leading soils engineer in the country, who has done a lot of work with the Metro system. They are very familiar with all of the deep excavations in this city.

The 7th Street Metro line essentially is the same depths as we are with the new convention center, and we have all of the information from Metro. In addition, we did over 100 soil samples, even 15 deep bores going down into the rock strata, and we did a series of pump tests which determined how much flow we would get in the underground aquifer.

The site is pretty good as far as water is concerned because of the densities of the soil, and we have designed a slurry wall which cuts off all of the adjacent water from coming into the site, and it is locked into this underground impervious layer of dense material.

We have tested what we think that we are going to get in terms of flow, and it is a very modest amount of water, probably 50 gallons a minute, and this can be handled with a small pump, if you will, but it is designed to take very large amounts with the drainage slab under the building.

We obviously are building right next to Metro along 7th Street, and they have been monitoring everything we have been doing to make sure that it is a fail-safe system.

We also have the experience of Tech World, which is a deep excavation on the south side of Mount Vernon Square, and they did not experience any significant problems in that deep excavation.

So we are not the same as the Ronald Reagan Building. They are in a different part of town, much closer to the Potomac River, much higher water table, and they made a few mistakes, quite frankly, in that process which they had to pay for later on. We are going about it in I think a much better way.

Ms. NORTON. Thank you. And thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much. I just have a few questions. Let me ask a question of Dr. Brimmer. What is going to be the role of the Control Board in this project from this point forward?

Mr. BRIMMER. I would anticipate that the board will play the same role that it has played all along. I have identified some of the commitments that the board took on to monitor.

Over the last year board members, I and my former colleague, devoted a great deal of time at the board level, along with senior staff. I would strongly recommend that my successors devote whatever amount of time that is necessary to monitor and to participate in the implementation of this project. My expectation is that they will do so.

Mr. DAVIS. All right. I think it is the subcommittee's expectation that the Control Board will continue to exert their proper role of oversight for the project. You are the first line, and of course the city council will continue to work through this.

Is the revenue dedicated to funding the debt service requirements resulting from the proposed financing plan engendered by a locally approved sales tax where the long-term debt repayment includes a subject annual appropriation clause as is typically the case on municipal bonds?

Mr. BRIMMER. That won't be necessary here.

Mr. DAVIS. Will there be any impact on the rating of the bonds themselves?

Mr. BRIMMER. No. First, there is no requirement for appropriation. This is a dedicated tax. The tax is in place, and I assume that there is no propensity to change that. The availability of the tax and this commitment clearly, clearly will reassure investors in these bonds.

First, the soundings we have done have indicated that the rating agencies are anxious to review this matter. Potential investors in these bonds have already expressed a great deal of interest, and those include bond houses who bought the city's paper before, and some who have not. So there is a strong indication of interest.

Moreover, the plan being considered most actively would involve insurance for these bonds, so this would be enhanced and I would expect this to be the equivalent of an AAA.

The recent experience of Rosier when it first entered into the market, which attracted a great deal of support, strikes me as indicating that these bonds will be equally sought after. They won't have any problem marketing these, and the tax is the principal base for insuring that.

Mr. DAVIS. So the debt issuance required to finance the project does or does not count against the debt limits for the District of Columbia?

Mr. BRIMMER. It would not. This is a revenue bond and revenue bonds would not count.

Mr. DAVIS. OK. Ms. Jarvis, let me ask you and Ms. Cropp a question. Some have said during the Council hearings on this issue that this new convention center will be obsolete in 10 years and in need of expansion. Do you think that is the case, and what is the plan to pay for that expansion and what would that expansion entail? If it is going to be paid through private funds, has anyone asked for a letter of intent for that purpose?

You can both speak to this.

Ms. JARVIS. Let me just say that the chairman asked about expansion and asked the Convention Center Authority to come back with a proposal for connecting the existing convention center to the proposed convention center.

The Authority did come back with such a proposal, and identified not only additional underground space that could be used for additional exhibition space, but parking for 2,000 cars and above ground development of hotels that would pay essentially for the cost of the expansion of the center.

Your question is whether any private sector entities have come forward to indicate their interest in it.

I would say that none have come forward in an official way because what the city has to do is issue a request for proposals once there is no further need for the existing convention center, so there is a process that we have to go through. And frankly the chairman's question and the response from the Authority very much inform that process of what the request for proposals ought to look like at such a time as the new convention center is up and the existing convention center is available.

Ms. CROPP. Mr. Chairman, what also made that whole process and scenario exceptionally inviting is that not only do we have the opportunity for great expansion, the opportunity for the private sector to fund it, but we own the property so that it would be to no cost to the District of Columbia or its citizens as we look at expansion at that particular site, which would not be true at any other location.

So once we looked at it in that direction, it made the Mount Vernon site, quite frankly, even more appropriate as the possible site regarding potential expansion.

Mr. DAVIS. It is my understanding in 2003, when the new convention center would be completed, the dedicated revenue in the lock box that had been used toward paying off the debt of the current convention center will start to be used on the new convention center. Who will be responsible for paying the remaining balance of the old convention center and what funds will be used toward that end?

Ms. JARVIS. The current convention center is not being paid for by dedicated taxes. The current convention center is being paid out of GO debt of the District of Columbia.

Mr. DAVIS. Anybody want to elaborate?

Mr. GOLDEN. No. That is an obligation of the District, and the dedicated tax revenues are dedicated to the construction of the new convention center and the operations of the existing center.

Mr. DAVIS. Well, I thank you all. We may submit written questions for you.

We are having votes on the floor, and so I am going to swear in the next panel and leave Ms. Norton in charge, then I will be back shortly.

Mr. GOLDEN. Thank you.

Mr. DAVIS. Our second panel is Ms. Gloria Jarmon, Director of Health Education and Human Services Accounting and Financial Management Issues, U.S. General Accounting Office, and Rick Hendricks, Director of Property Development from the U.S. General Services Administration, National Capital Division.

We appreciate both of you being here today. If you would come forward and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. Ms. Jarmon, we will start with you and I will be back, and Ms. Norton will start with the questions.

STATEMENTS OF GLORIA JARMON, DIRECTOR, HEALTH, EDUCATION, AND HUMAN SERVICES ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE; AND RICK HENDRICKS, DIRECTOR, PROPERTY DEVELOPMENT, U.S. GENERAL SERVICES ADMINISTRATION, NATIONAL CAPITAL DIVISION

Ms. JARMON. Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss the results of our review of the Washington Convention Center Authority's efforts to arrange for financing and construction of a new convention center in the District of Columbia. I would like to summarize my statement, but ask that my entire statement be made a part of the record.

Consistent with your request, we primarily focused on two issues: One, the estimated cost of this project, including the guaranteed maximum price or GMP for construction and the risk exposure for both the contractor and the District; and two, the financing plan, including proposed changes to the revenue base, the history of dedicated tax collections, projections for future revenues and sufficiency to cover the GMP and other project costs.

These issues are discussed in greater detail in our report, which is being issued to the subcommittee today. In regard to the estimated costs, the WCCA is proceeding with efforts to build the convention center at Mount Vernon Square at a cost that they discussed today, estimated to be $650 million. This estimate has not changed since we reported on this project in September 1997. However, our latest review of the project identified an additional $58 million in project costs which because the WCCA expects to be funded from Federal grants and moved into operating costs are not included in their total project costs. These costs raise the project's cost estimate to $780 million, excluding reserve requirements and financing costs of $138 million.

While WCCA has maintained a $650 million budget, a number of changes have been made among the budget components, with some increasing and some decreasing. Currently the majority of the estimated project costs are covered in the $500.6 million GMP for construction which WCCA is negotiating with construction manager Clark/Smoot.

The GMP lays out 22 different cost components and sets limits on the financial risks to the construction manager. Broadly speaking, the GMP is only a guaranteed maximum price if the underlying assumptions on which the contractor bid the job did not change.

Further, areas of risk, such as the removal of hazardous materials and remediation of any unknown surface conditions are not included in the $500.6 million price.

An estimated $207 million in other project-related activities have been or will be contracted for separately. In regard to the financing plan, WCCA's current plan to cover predevelopment construction reserves and operation of the convention center calls for $846 million. Seventy-three percent of the funds needed to finance the project are expected to be derived from revenue bonds supported by dedicated taxes. Changes from the previous financing plan include increasing the term of the bonds as well as the dedicated taxes to allow WCCA to borrow more money for the project.

WCCA received $44 million in dedicated taxes in 1997 and it has projected collections to increase 1 percent a year over the next several years, a conservative stance relative to estimates by management consultants and the District.

These and other factors will be looked at by WCCA's consultants, rating agencies and bond insurers who will evaluate the financing package and determine its ability to cover the GMP and other project costs. Obviously, risk associated with the financing package could effect the rating of the bonds and, accordingly, their interest rates. Among the major unknowns at this juncture is the WCCA assumption that Congress will approve $35 million in Federal funding to cover relocating utilities and upgrading the Mount Vernon Square Metro station.

In addition, although WCCA plans to address an $18 million reduction in its construction budget by negotiating arrangement with vendors to provide equipment and services such as the heating and cooling plant, communications and food services equipment, to date there are no executed contracts to cover these arrangements.

In summary, assuming the estimated project costs are substantially accurate, the financing plan projections, including the projected growth and dedicated tax revenues, seem reasonable. However, until the Federal funding is approved and WCCA signs contracts with vendors, there is a risk to the plan of at least $53 million.

This concludes my statement, and I will be happy to answer any questions that you or members of the committee might have.

[The prepared statement of Ms. Jarmon follows:]

July 15, 1998

Mr. Chairman and Members of the Subcommittee:

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

(1) The estimated cost of this project, including the Guaranteed Maximum Price (GMP) for constructing the new convention center, and the risk exposure for both the contractor and the District.

(2) The Financing Plan, including proposed changes to the revenue base, history of dedicated tax collections, projections for future revenues, and sufficiency to cover the GMP and other project costs.

You also asked us to provide background information on the site selection process, including WCCA's analysis of alternative sites, particularly the Northeast No. 1 site.

These issues are discussed in greater detail in our report, which is being issued today to the Subcommittee.[1]

ESTIMATED PROJECT COSTS HAVE INCREASED

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

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

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

Table 1: Total Estimated Costs for the New Convention Center
(Dollars in thousands)

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

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

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

Source: WCCA.

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

- Portion of utilities' relocation costs that are not included in the building and site costs for which WCCA anticipates $10 million of federal funding.

- Metro station upgrade for which WCCA anticipates $25 million of federal funding.

- Anticipated vendor-provided equipment of about $17.7 million.

- Project administrative costs of $5 million, which have not been shown in the budget.

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

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

Table 2 shows the components of the GMP. Site work, concrete, and steel account for $233 million, which is 47 percent of the GMP. Mechanical and fire protection, electrical and security, and design allowances[2] account for $117 million, which is 23 percent.

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

Table 2: Proposed Components of the GMP
(Dollars in thousands)

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

Source: WCCA

NEW FINANCING PLAN SUPPORTS INCREASED DEBT

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

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

Table 3 shows the May 1997[3] and the current (May 1998) financing plans. Since May 1997, WCCA has proposed several changes to its financing plan. As the table indicates, the current

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

financing plan assumes a lower interest rate, an increase[4] in the annual dedicated tax revenues to support the bond financing, and an increase in the term of the bonds from 30 to 34 years. These changes would allow WCCA to borrow more money to finance the project. In addition, since the amount of cash available from dedicated taxes and bond proceeds has increased, the amount estimated for construction fund earnings has also increased from the original plan. Finally, the current financing plan includes funding for financing costs and reserve requirements.

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

Table 3: Comparison of Financing Plans for Proposed New Convention Center (Dollars in millions)

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

[a]This money reflects dedicated tax collections available, of which about $27 million had already been spent on predevelopment activities as of May 31, 1998.

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

[c]The $650 million did not include WCCA's preliminary estimate of $87.3 million needed for financing costs and reserve requirements.

[d]The interest rate was based on prevailing interest rates as of May 21, 1997, and a projected bond issuance date of October 1997.

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

Source: WCCA.

Obviously, risks associated with the financing package could affect the rating of the bonds and accordingly, the interest rate. Among the major unknowns at this juncture are a WCCA assumption that the Congress will approve $35 million in federal funding to cover relocating utilities and upgrading the Mount Vernon Square Metro station. In addition, although WCCA plans to address an $18 million reduction in its construction budget by negotiating arrangements with vendors to provide equipment and services, such as a heating and cooling plant, and communications and food services equipment, to date there are no executed contracts to cover these arrangements.

SITE SELECTION PROCESS HAS LONG HISTORY

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

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[5]Located in the blocks between 7th and 9th Streets, N.W., and N Street and Mount Vernon Place, N.W.

[6]An area bordered by K Street, 1st Street, N.E., New York Avenue, Florida Avenue, and the railroad tracks.

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

(916259)

Ms. NORTON [presiding]. Mr. Hendricks.

Mr. HENDRICKS. Good afternoon, Ms. Norton. My name is Rick Hendricks, and I am with the General Services Administration of the Federal Government. I am the Director of Property Development in the National Capital Region. Thank you for the opportunity to appear before you today to describe GSA's involvement in the D.C. Convention Center project.

We at GSA have been working with the Washington Convention Center Authority at their request for about a year. We have been consulting with them on the hard construction costs and the construction contracting methods. We didn't work with them on any of the financing mechanisms.

In August 1997, WCCA sought our opinion and recommendations regarding the design-build solicitation that was on the market at the time. The offers were due in September 1997. WCCA was concerned that they may only receive one bid. GSA recommended that they cancel the procurement and change the solicitation strategy to attract more competition. WCCA did subsequently receive only one offer and that offer exceeded their budget. GSA was asked to review the proposal, and we determined that it was too high and it could not be value engineered back to within the budget. GSA again recommended that the procurement be canceled and reissued using what we call a construction manager at-risk or a construction manager as constructor type of procurement in order to get the project back under cost control and still remain on schedule.

CM at-risk means that the owner selects a contractor to perform both the construction work and the construction services in accordance with plans and specification for a fixed fee, and that contractor guarantees a maximum price for construction, or a GMP.

The issues that must be managed on this project are price competition, design and construction, risks for all of the involved parties and the relationships between the various parties and stakeholders on the project.

Our experience has shown that the CM at-risk method of contracting helps to form a partnering relationship between the owner and the contractor, and it minimizes adversarial relationships between the parties. This tends to reduce claims and change orders. It was suggested that this type of contract would also reduce barriers to competition and encourage more firms to submit proposals. It was believed that such a competitive procurement process could produce prices more in line with the project estimate.

The resulting contract would also produce a controllable and predictable guaranteed maximum price on an acceptable schedule for the construction.

WCCA would still retain tight control over the design while the CM at-risk would have sufficient control over construction to manage the risk, sequencing and methods to bring the project in on schedule and within the GMP.

GSA recommended that WCCA pursue this type of at-risk contract. Subsequently, WCCA rejected the loan bid because it failed to meet technical requirements and significantly exceeded the estimated cost. WCCA revised their solicitation, issued it again as a CM at-risk, and this time it produced four competitive proposals.

For this testimony GSA has reviewed the proposal from Clark/Smoot, the selected contractor. Based on our review we feel that WCCA did choose the appropriate contracting vehicle for the new convention center. One of the things that the CM at-risk contract does is to define the risk of both parties. Because of this specific risk allocation, the contractor is better able to quantify the costs associated with his risks while he doesn't have to ensure himself against unpredictable risk by padding his offer.

WCCA has incorporated the normal provisions into the GMP contract to place the risk of meeting the project schedule and most of the construction costs onto the contractor, Clark/Smoot.

WCCA has obtained unit prices for hazardous material removal and what we consider to be an attempt to minimize unpredictable risks to the contractor. This action retains some of the risk on the owner, but WCCA should be able to control cost impact and it will still be less than if they had off-loaded this onto the construction contractor.

WCCA also has developed some creative arrangements to reduce up front costs by proposing a long term service contract with a thermal energy service provider, TESP, who will build the heating and chilling water plant selling hot and cold water to the convention center and recovering the capital outlay through operating charges over the life of the contract.

WCCA has incorporated affirmative action goals into the contract. They are making every reasonable effort to afford District of Columbia residents, minorities, women, as well as local and small and disadvantaged business enterprises opportunities to participate. This would include the residents of the Shaw neighborhood.

The contract has provisions to terminate the contract in the event that acceptable GMP and schedule cannot be developed. I think that they actually have achieved agreement right now with Clark/Smoot. In that case WCCA would only pay the preconstruction fees.

In conclusion, GSA finds that the proposed contract for the Washington Convention Center is appropriate. While construction contracting by its nature is a risky business, this contract appears to have a high potential for satisfactorily achieving the purpose of WCCA. That is constructing the convention center within budget and on schedule. It also establishes a reasonable allocation of risks.

Again, thank you for inviting me to appear before the subcommittee today. I will be happy to answer any questions about our involvement in the contract.

[The prepared statement of Mr. Hendricks follows:]

Good morning Mr. Chairman and members of the subcommittee, my name is Rick Hendricks and I am the Director of the Property Development Division in the National Capital Region for General Services Administration (GSA). Thank you for the opportunity to appear before you today to describe GSA's involvement in the DC Convention Center construction contract.

We at GSA have been working with the Washington Convention Center Authority (WCCA), at their request, for over a year. In August 1997, WCCA sought our opinion and recommendations regarding the design-build solicitation that was on the market at that time (offers were due September 8, 1997). WCCA believed that they were only going to receive one offer. GSA recommended that they cancel the procurement and change the solicitation strategy to attract more competition. WCCA did receive only one offer and it exceeded the budget. GSA reviewed the proposal and determined that it was approximately $100 million too high and could not be value-engineered within the budgeted cost. GSA again recommended the procurement be cancelled and reissued using the Construction Management at Risk (CM at risk) method to get the project cost under control and still remain on schedule. CM at risk means that the owner selects a contractor to perform construction management services and construction work in accordance with the plans and specification for a fixed fee and the contractor guarantees the maximum construction price.

The issues that must be managed on such a project include: price competition, design and construction control, risks to the involved parties, relationships and the project cost. GSA recommended that the WCCA pursue an "at risk" construction manager as constructor (CMc) contract. Experience has shown that this method of contracting helps to minimize adversarial relationships between the parties, thus reducing claims and change orders. It was felt that this type of contract would eliminate barriers to competition and encourage more firms to submit proposals. Such a competitive procurement process should produce prices more in line with the Government's project estimate. The resultant contract would produce a controllable and predictable Guaranteed Maximum Price (GMP) and schedule for the construction. WCCA would retain control over the design while the CMc would assume control over the construction to manage risks, means and methods to bring the project in on schedule and within the GMP.

WCCA rejected the lone bid because it failed to meet technical requirements in its proposal and significantly exceeded the cost estimated. Their subsequent solicitation for a guaranteed maximum price CMc contract produced four competitive proposals.

For this testimony, I have reviewed Clark-Smoot's guaranteed maximum price proposal. We feel that WCCA chose the appropriate contracting vehicle for their new Convention Center. One of the things the CMc contract does is to define the risks of both parties. In this manner, the contractor is better able to quantify the costs associated with those risks. WCCA has incorporated the normal GMP provisions into the contract to place the risk of meeting the project schedule and costs on the constructor. WCCA has obtained unit prices for hazardous material in what I consider to be an effort to minimize unknown risks to the contractor. While this action will place risk on the WCCA, the cost impact will still be less than if the contractor included the price for that unknown risk within the GMP. WCCA developed creative arrangements to reduce up-front costs by proposing a long term service contract with a Thermal Energy Services Provider (TESP) to build a plant and then recover the capital outlay through higher operating charges during the life of the contract. They have incorporated affirmative action goals in the contract and are making every reasonable effort to afford District of Columbia residents, minorities, and women (residents of Shaw neighborhood are included in DC residents), as well as Local, Small, or Disadvantaged Business Enterprises, with opportunities to participate in the project. Provisions have been made that in the event an acceptable Guaranteed Maximum Price and Project Schedule are not developed, the contract will be terminated and WCAA will only be obligated to pay the construction manager the preconstruction fee.

In conclusion, GSA finds the proposed contract for the Washington Convention Center to be appropriate. While construction contracting by its nature is an inherently risky business, this contract appears to have a high probability of satisfactorily achieving its stated purpose of constructing the Washington Convention Center within budget and on schedule and establishes a reasonable allocation of risks.

Again, Thank you for inviting me to appear before the subcommittee today. I will be happy to answer any questions about our involvement in the DC Convention Center construction contract.

Ms. NORTON. I thank both of you for your testimony. The chairman has left me his questions and I have some of my own.

I wonder if you would both comment on why the proposal initially received only one bid and then how it was able to receive more after it was rebid? Why the difference?

Mr. HENDRICKS. I don't know why they received only one. When GSA first got involved in this, WCCA said they were concerned that they were only going to get one offer.

Ms. NORTON. Why would that have happened with a project of this size and attractiveness or presumed attractiveness?

Mr. HENDRICKS. I think it was a design-build contract at that time, and apparently the rest of the market didn't feel that there was enough flexibility in there to respond.

When we changed it to a construction manager at-risk and actually sort of beat the bushes and recommended to contractors in the marketplace that this was a real open competition, I think that that did the trick.

Ms. NORTON. Ms. Jarmon.

Ms. JARMON. We weren't really involved in the procurement process at that time.

Ms. NORTON. But you have studied the process?

Ms. JARMON. From what we have heard, I think it was because it was a design-build contract at that time and maybe it was considered riskier for the potential bidders.

Ms. NORTON. Ms. Jarmon, you indicated the basic estimate has not changed?

Ms. JARMON. WCCA's estimate has not changed.

Ms. NORTON. Over what period of time are we talking?

Ms. JARMON. WCCA's estimate?

Ms. NORTON. The 1997 estimate?

Ms. JARMON. When we reported it in September 1997, which was really their estimate as of May 1997, they estimated it would cost about $650 and we last reported on that in September 1997.

Their estimate has not changed, but we mention in the report that we are now estimating that the cost, excluding the financing related costs, are at $708 million, so that is $58 million more.

Ms. NORTON. I am concerned about the apples and oranges nature of the comparison here. You say that the estimate has not changed, and you apparently are indicating that even though time has elapsed with respect to their basic estimate, it is correct now and it was correct then, when I compare apples to apples?

Ms. JARMON. I am saying that the estimate was the same in May 1997, but some of the components of the estimate increased.

Ms. NORTON. I recognize that you have included more components, and that is fair. But I am interested in the validity of their estimate in May 1997 and the validity of their estimate now comparing apples to apples. We can talk about what should have been included in the estimate or what you have added to the estimate, but I am trying to get an independent evaluation of the estimate in 1997 and the estimate today. The estimate—are those estimates valid in your judgment?

Ms. JARMON. The estimate in 1997?

Ms. NORTON. For what it covered in 1997 and the estimate in 1998 for what it covers, comparing like thing to like thing, are those estimates valid?

Ms. JARMON. Comparing like things to like things, the estimate in 1997 which—some of the things, the $58 million, the Metro costs and utilities relocation, those were costs in 1997. There is more information now.

Ms. NORTON. They were not costs for the convention center proper; is that correct?

Ms. JARMON. They are components of the $650 million in May 1997. It included an estimate for the Metro cost. That estimate was for $23.3 million, and that was part of the $650 million.

Ms. NORTON. How did they change the estimate in 1998 so that it still added up to $650 million?

Ms. JARMON. We have a table in our testimony, table 1, which shows the estimate as of May 1, 1997, and June 18, 1998. And in that table you see that the Metro station upgrade which was included in the $650 million was $22.3 million at 5–31–97.

When you look at June 19, 1998, that has been moved below the line, below the $650 million. Now it is an amount that they are no longer including in their estimate. There is $25 million that you see below the line called Metro station upgrade. So they have moved certain things that used to be part of the $650 million.

Ms. NORTON. Was that an appropriate thing for them to do, separate it out and try to fund it separately?

Ms. JARMON. It is our belief that they are still costs of the project.

Ms. NORTON. Have they made them more fundable by moving them?

Ms. JARMON. They have plans on how they expect them to be funded.

Ms. NORTON. What is your evaluation of their plans with respect to those additional costs?

Ms. JARMON. With respect to the $58 million?

Ms. NORTON. Yes.

Ms. JARMON. With respect to the $58 million, $35 million is expected to be covered by Federal grants. I can't say whether that is going to happen.

Ms. NORTON. Has the money—that is the money in the President's budget?

Ms. JARMON. The $25 million is in the President's budget; $10 million is to be covered by the HUD block grant. So there is some legislative risk related to that. Much of it is in the budget, like you mentioned.

Also part of the $58 million is the $18 million which they expect to have covered by the vendors. This is what Mr. Golden talked about as far as they have some proposals with some vendors, but there are no signed contracts. In our mind those are still costs.

Ms. NORTON. Should those contracts be signed already?

Ms. JARMON. I am not sure if they could have been signed already. I am not sure of the timing when they started that whole process, but that is a cost of the project until there are signed contracts saying that someone else is going to assume those costs.

So that is $18 million and $35 million. The remaining $5 million is for administrative costs, these are costs for people working directly on the development of the new convention center project. Those are still costs of the project. So that $58 million we are adding to the $650 million to say that the estimate should be $708 million. These are really not new things. They are things that we feel should have been included in the estimate.

Ms. NORTON. I would like your view on the hotel and restaurant tax which they show growing at a rather shallow rate of 1 percent. If it grew at that rate, one would begin to wonder about what would happen with a downturn in the economy, and so I would like to ask your evaluation of the adequacy of the tax given its projected growth rate?

Ms. JARMON. We looked at the historical collections of these taxes over the last 5 years which show that from the period 1993 to 1997 the increase in these dedicated taxes, which include the hotel taxes and the other dedicated taxes to the convention center, was about 8.7 percent over the last 5 years. That was the average annual increase in the taxes that were dedicated to the convention center, which includes the hotel taxes, it includes the restaurant taxes, the rental car taxes and certain business taxes.

And if you just look at the hotel and the restaurant taxes which are the ones that will be in the proposal going forward for financing the project, the increase of those two over the last 5 years was about 6.6 percent annually.

We also looked at the revenue analysis performed by Coopers & Lybrand, they also looked at historical collections and what they project the collections to be over the next 8 years, they are projecting those collections over the next 8 years for the hotel and restaurant taxes will be 3.4 percent annually.

So looking at those, and the District's own estimate that it will be at least 2 percent, if not more, we felt that the 1 percent that is in the budget seemed conservative.

Ms. NORTON. I would like your evaluation of the guaranteed maximum price as developed by the construction manager in the at-risk methodology used there. Do you think that it is reasonable?

Mr. HENDRICKS. I don't understand the meaning of what you said.

Ms. NORTON. I would like your evaluation of the guaranteed maximum price as developed by construction management at-risk methodology?

I would like essentially to know whether you think that it is reasonable as applied here?

Ms. JARMON. As part of our work we did rely on GSA to look at the guaranteed maximum price, so I will defer to Mr. Hendricks to comment on that.

Mr. HENDRICKS. Thank you.

We did an estimate of the GMP as recently as 2 or 3 weeks ago, and at that time—as you say, it is hard to get an apples for apples type of comparison because different things are included.

But comparing it the way that GSA would do an estimate, and that is to show the contingency all in one place, they show it in 2 places, some under the CM at-risk contractor and some under the owner, but showing it all under the owner, our prices are within

6 percent of theirs. So we would say that is within a normal estimating range. So they are in the right ballpark.

Ms. NORTON. Let me—I would like particularly to ask you, Mr. Hendricks, the GAO has brought you into this process because we are dealing with a large construction project of the kind that GSA regularly engages in around the country.

I would like, using your own background and experience, I would like you to assess the overall risk involved in this project, particularly with respect to its finances and outcomes as compared with—using your professional background and expertise, do you believe that there is a great risk, little risk?

Is this a reasonable project in its financing and in its risk compared to others that you have seen in your professional experience?

Mr. HENDRICKS. As far as the methodologies that they are using, I think that this CM at-risk approach is really a way of mitigating the risk to the owner and reducing not only the risk of construction costs but, more importantly, reducing the risk of claims.

Any time you can set up a better working relationship between the parties involved in construction, you reduce the risk of claims. So we also recommended that WCCA use this method. We have been pioneering this in GSA, and we find that it is a much more positive way of dealing with construction contracts.

I believe that they have balanced their risk fairly well. The biggest risk is in the excavation and in getting out of the ground. They are going to be using a slurry wall construction method, which is the best way to deal with the kind of water table that you have in Washington, DC. We have built several buildings that have slurry walls. The African Art and Asian Museum, which we built for the Smithsonian, has a slurry wall. The new Secret Service headquarters, which is across from the existing convention center, has a slurry wall which was also done by Clark Construction. That is our contractor. The Ronald Reagan Building has a slurry wall, and I think by picking the right method they have reduced the risk, too.

Ms. NORTON. The technical assistance from the GSA to this project has been significant. It has been a source of some frustration to me generally that many Federal agencies that have significant experience in much larger matters than the District government will ever have will not involve themselves, and the District government often is forced to reinvent the wheel. You see what happened when the first bid went out.

I would like to know what has been the extent of your involvement, and I would like to know in whatever detail you can give me what you envision to be the continued extent of the GSA involvement with this project in terms of technical assistance to the Convention Center Authority?

Mr. HENDRICKS. I appreciate your confidence in us, and we try to be a good neighbor to the District any time we can.

Our involvement with this project started about a year ago when the Convention Center Authority asked us to—we just had an informal discussion with them, with our chief of procurement, and at that time we were discussing the design-build method and whether or not they were going to receive adequate competition. So about a year ago we started talking construction methods.

When they received a single bid, OMB asked to have an informal conference, where they brought the WCCA. There were members of congressional staff, and GSA was asked to participate as an adviser under construction. WCCA at that point shared their offer with us, and we did an independent estimate of it and at that point is when we thought that the offer that they had received was high, possibly because of inadequate competition, and at that point we had several discussions with them about changing the methodology.

Our procurement people met with them and advised them how the CM at-risk process would work. They subsequently decided to go that route, and we then had one more meeting that was called by the D.C. Control Board. They asked the WCCA to come and explain this new construction method. We were there in support of that method. Also the Hotel and Restaurant Association was there discussing whether or not this was appropriate and would actually reduce the project cost. And we felt it did, and I think the competition in the marketplace has held that out.

Ms. NORTON. I thank you very much, and I certainly hope that this kind of technical assistance to the District continues. I know that you have done the same thing with respect to roofs on schools, and I think we have made woefully inadequate use of Federal expertise and GSA expertise, and when I say "we" I think the country has when we are talking about construction. But frankly, the Federal Government, including reinventing government, is replete with examples of what the District could be doing simply by borrowing what the Federal Government has painfully gone through to develop. This is one of the best examples of it.

I thank you very much, and I thank you, Ms. Jarmon, and thank you, Mr. Chairman.

Mr. DAVIS [presiding]. Thank you.

Mr. Hendricks, let me start with you. The WCCA has excluded from the guaranteed maximum price risks associated with soil remediation and hazardous materials. In your judgment, does this make sense in light of our desire to limit additional risks and the costs associated with them on this project.

Mr. HENDRICKS. In terms of soil remediation, I believe that is the prudent way to proceed. If you take a very unknown kind of factor like soil remediation and load that onto the construction contractor, he has no option except to insure himself, and you are going to get a higher price.

I think the opposite would be to take the total risk yourself as the owner or the government, and that would be risky, too. So they have balanced it and set unit prices so when they have to remove contaminated soil, they know the unit cost.

Mr. DAVIS. So you think that they have acted reasonably?

Mr. HENDRICKS. I think so.

Mr. DAVIS. What is your opinion of the extra $17 million in costs that the GAO has identified in addition to the $650 million? Does this follow regular industry contracting practice?

Mr. HENDRICKS. I believe the GAO's estimate shows the $17 million as vendor-provided equipment. So WCCA is going to do several things that are sort of structured to reduce the front costs and make them operating costs.

One is to offer space in the building to a vendor so that he can put in his own equipment and sell them hot and cold water for air conditioning and heating.

The other is to actually have some of the restaurant equipment and the food service equipment provided by the vendor. I think that is probably more standard practice in the commercial industry, certainly in the hospitality industry, but not in Federal buildings.

Mr. DAVIS. Do you think that the risks that are inherent with construction contracting in this case, along with their consequences, have been foreseen in this project and are adequately provided for?

Mr. HENDRICKS. I think they have adequate contingencies in this project to cover those things. I am pretty sure that they have a good soils engineer and a good analysis. I think they are in pretty good shape.

Mr. DAVIS. If the project contingencies aren't sufficient—you think that they probably are sufficient?

Mr. HENDRICKS. I believe they are.

Mr. DAVIS. Ms. Jarmon, what is the mechanism for making up any shortfall in the financing package, and on whom would that financial burden fall?

Ms. JARMON. I didn't hear the second part.

Mr. DAVIS. What is the mechanism for making up any shortfall in the financing package, and on whom would the financial burden fall?

Ms. JARMON. If the financing were to be more than the financing package, WCCA would have to go back to the local officials. But they have informed us that any additional funding requirements would require reevaluating the financing package and reevaluating their budget. There is also the possibility of an additional surtax on the hotels.

Mr. DAVIS. Several things could go wrong. The cost of the project could increase and we have asked a lot of questions about that. You think that this is done reasonably, but you never can tell any contingency that arises. The revenues could be lower, you could go into a recession, but it looks like we have provided for that because they have come in higher than we really anticipate. Anything else that we ought to be aware of as we move through this issue? The project is bonded. What else can come up in 3 to 4 years down the road that we might not have anticipated?

Ms. JARMON. We mention in our report some items that are at risk that are not part of the GMP. We have talked about the soil remediation and hazardous material and the risk of change orders. But after talking with experts and GSA, it seems like there is no more risk than any other large projects. There is nothing else that I can add.

Mr. DAVIS. Are the projections fairly conservative?

Ms. JARMON. As far as the revenue projections, yes.

Mr. DAVIS. Let me just say to both of you, we appreciate the work that you have put into this and the analysis that you have given. This is the most important project this city will have undertaken from an economical development point of view in a generation. It is important that this works and it comes in on schedule and on cost, because we will be riding hard on that. We appreciate the work that you have put into this and the testimony that you have given today, and we will be calling on you again in the future.

Without objection, all written statements submitted by witnesses will be made part of the permanent record. In consultation with Ms. Norton, other statements of individuals who may not have been witnesses who want to submit testimony will be put in the permanent record after we analyze them. The record will remain open for 10 days.

The subcommittee will continue its consideration of this matter and may ask for further written responses from the witnesses. These proceedings are adjourned. Thank you very much.

[Whereupon, at 1:55 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

NATIONAL CAPITAL PLANNING COMMISSION
801 PENNSYLVANIA AVENUE, N.W., SUITE 301
WASHINGTON, D.C. 20576

STATEMENT

Of the

NATIONAL CAPITAL PLANNING COMMISSION

Before the

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

July 15, 1998

Thank you Mr. Chairman. I am Harvey Gantt, Chairman of the National Capital Planning Commission. On behalf of my fellow Commissioners, I appreciate this opportunity to review the Commission's role in the new Convention Center that is being proposed for Washington D.C.

The National Capital Planning Commission is the federal government's planning agency for the National Capital Region which includes the District of Columbia and surrounding counties in Maryland and Virginia. The Commission was established in 1924 and its mission and functions were reviewed and impacted in several subsequent federal statutes, including the National Capital Planning Act of 1952 and the D.C. Home Rule Act. In the Planning Act, the Commission was given "in lieu of zoning" authority to approve all public buildings erected in the Central Area of the District of Columbia. The proposed new Convention Center is such a building.

Because of perceived inadequacies in the ability of the existing Convention Center to attract larger conventions and trade shows, the Washington Convention Center Authority (WCCA) was formed in 1976 to consider the construction of a new Convention Center. Since construction at the site preferred by the District of Columbia government, Mount Vernon Square, would require NCPC approval, WCCA began, at the start, to consult with Commission staff about the procedural requirements for approval. In addition, consultations with Commission staff were begun on design guidelines intended to address building mass and edges, street level treatment, public spaces, and service access. During the course of the project, those design guidelines would help shape the project's design. The process began in 1996 by WCCA contracting for a master plan and Environmental Impact Statement (EIS) that would, among other things, identify the best site.

Because the Commission, a federal agency, acts as a licensing body under the Planning Act, Commission action requires compliance with the National Environmental Policy Act (NEPA) and the National Historic Preservation Act (NHPA). Such compliance preceded Commission action to date.

Environmental Impact Statement

In September 1996, NCPC conducted a public scoping meeting to elicit suggestions for the scope and content of an Environmental Impact Statement (EIS) for the project. A draft EIS was filed with the Environmental Protection Agency in February 1997 and a final EIS was completed in April 1997. Preparation of the EIS began with a survey of 16 potential alternative sites, which, based on minimum location and size criteria, were eventually narrowed to five. After a comparison against further qualitative criteria, a determination was made that two alternative sites would be discussed in detail in the EIS, the Mount Vernon Square/Shaw site and the Northeast No. 1 site, a tract of land north of Union Station near the intersection of New York and Florida Avenues N.E. The Mount Vernon Square site was the preferred alternative of the District of Columbia Government and WCCA.

The EIS found that the proposed Convention Center at the Mount Vernon Square site would not generate significant adverse impacts on the natural environment. However, that site would generate significant impacts on local traffic. Therefore, at NCPC's request, WCCA executed a Traffic Management Plan (TMP) dated April 28, 1997. The TMP addresses issues such as automobile, taxi, and limousine routing; management of commercial bus parking; pedestrian and truck access; construction traffic; and coordination among relevant agencies. WCCA and the District of Columbia Department of Public Works (DCDPW) will prepare a Transportation and Parking Operations Plan (TMOP) prior to occupancy. In addition, WCCA will establish and open a truck marshaling yard to serve as a truck staging area to prevent truck queues in the surrounding neighborhood. The marshaling yard must be in place before a Certificate of Occupancy can be issued. Finally, WCCA will fund and design an expansion of the existing Mount Vernon/UDC Metrorail station.

Throughout the process, the Commission has placed significant emphasis on issues of environmental justice. Thus, pursuant to negotiations with local groups and subject to

D.C. Council approval, WCCA intends to provide funds to a local community group for long-term community development projects and will participate in a Business Improvement District (BID). The District will make available grants up to $20,000 each from Community Development funds to assist existing businesses during construction.

Historic Preservation

A proposed Convention Center at the Mount Vernon Square site was determined in December 1996 to have adverse effects on historic resources in the area, including the L'Enfant Plan, individual historic structures, and National Register-listed and eligible historic districts. On that basis, consultation was begun with interested parties, as required by Section 106 of the NHPA, to determine if there were ways to avoid or mitigate those adverse effects.

NCPC led the consultation that resulted in a Memorandum of Agreement among the federal and District agencies responsible for undertaking and reviewing this project. More than 30 public meetings involving residents, small business owners, professional planning and architecture groups and civic organizations were held between February and August 1997, leading to the signing of the Memorandum of Agreement (MOA) on August 27, 1997. The consulting parties included groups such as the D.C. Preservation League, the Washington Chapters of the American Institute of Architects and the American Planning Association, the Committee of 100 on the Federal City, the National Trust for Historic Preservation and several neighborhood community and business associations.

The key terms in the MOA include: the provision of monies for surveying and documenting historic properties in the vicinity of the Mount Vernon Square site; the establishment of a revolving fund for property owners in the vicinity to renovate the exteriors of their historic properties; funds for cleaning and repairing Carnegie Library; and the promotion of a demolition moratorium, since passed by the D.C. Council, to protect potentially eligible historic properties from demolition for parking lots until the validity of landmark protection can be assessed.

The Commission Approval Process

As I've noted, staff has been working with WCCA from the outset of the project to address such issues as design, historic preservation, traffic and transportation, neighborhood concerns, and potential construction disruption, with the aim of achieving the best possible outcome. At the same time, the Commission was receiving regular informal briefings from WCCA in order to keep up-to-date on the progress of the project and to ensure that the developer was aware of our concerns. Approximately six such briefings were held between November 1996 and the time of the Commission's first formal action in September 1997.

On September 25, 1997 the Commission approved the location and preliminary site and building plans and final foundation plans for a Convention Center to be built at the Mount Vernon site. In its approval, the Commission listed several design and transportation requirements, which WCCA will have to meet when submitting final site and building plans. In addition, in the MOA executed pursuant to the 106 historic preservation process, WCCA and the District Government committed to certain actions prior to construction of the building. Before the project can move forward, NCPC must approve final building plans; the next step in the process will be review of those plans. We anticipate that final plans will be submitted sometime later this year at which time the Commission will have the opportunity to review compliance by WCCA and the District government with some of the conditions which were placed at the time of preliminary approval.

Although the requirements, other than design, placed on WCCA and the District Government under the Commission's decision and the historic preservation process are too numerous to cite individually, a few examples are worth noting. For example, WCCA is committed to fund certain initiatives intended to protect, maintain, and/or rehabilitate historic buildings in the immediate area of the proposed Convention Center, including the Carnegie Library. Although it would not be feasible to develop the Mount Vernon Square site without closing portions of L, M, and 8th Streets, which are part of the historic L'Enfant plan, L and M Streets will remain open to vehicular traffic, and the District has committed to completely reopening those streets at some future date when the Convention Center has outlived its useful life.

WCCA has also conducted a Retail Study to identify new retail opportunities for the proposed convention center that will meet the needs of convention attendees and neighborhood residents, thereby promoting further retail development in the area and increasing business opportunities for the residents. A public briefing on that Retail Study was held in May of this year. Finally, WCCA has been very responsive to the Commission's concerns about ways to adapt the design of the building to reduce its perceived mass, keep the building in scale with the surrounding neighborhood, promote pedestrian safety, and provide a more inviting and aesthetically pleasing environment. As a result of Commission recommendations and consultation with NCPC staff, the design team has reduced the mass and height of the proposed building; significantly increased the amount of window glazing, making the building far more transparent and enhancing the pedestrian experience; and added street entrances and increased ground-floor retail space by 30 percent, enabling the center to better serve the surrounding Shaw community.

WCCA has also agreed to take part in a comprehensive and cohesive traffic plan for the entire area and to ensure the least possible disruption to the neighborhood during construction. In a recent letter to WCCA, the Commission has reiterated its expectations that there will be total compliance with our directives and that we will receive assurances that the design eventually approved will be the one that is built within the approved funding package. I am greatly encouraged that these joint efforts will lead to an excellent product.

NATIONAL CAPITAL PLANNING COMMISSION

IN REPLY REFER TO:
NCPC File No. 5542

JUL 15 1998

Honorable Thomas M. Davis, III
Chairman, Subcommittee on the District of Columbia
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Davis:

The Commission is pleased to submit for the record the enclosed written testimony on its role in the new Convention Center project for your public hearing today, Wednesday, July 15, 1998.

If we can be of further assistance, please feel free to contact us.

Sincerely,

David A. Nystrom

for Harvey B. Gantt
Chairman

Enclosures

Lawson L. Hockman, CEM
Chief Operating Officer
202 364 3760

ENVIRONMENTAL INDUSTRY
ASSOCIATIONS

Comments Relative to the Building of the New Convention Center
Mt. Vernon Square, Washington, D.C.

I am Lawson Hockman, COO of the Environmental Industry Associations and Chairman of the International Association for Exposition Management. IAEM's membership includes 3500 exposition industry professionals.

My comments are short and to the point. Washington, D.C. should be the premier location for the convention and exposition industry. This is not possible however unless a new Convention Center is built that will permit the siting of the major expositions that are produced in the United States and Internationally. This project will permit the siting of all except 40 to 50 of the largest shows produced in the United States (Square footage estimates taken from the Tradeshow Week 200, 24th Annual Edition). It will once again make Washington one of the leading exposition industry destinations.

I look forward to bringing WasteExpo the show my association produces back to Washington, D.C. The last show we held in Washington was in 1990 and the hall was too small for us then. The new center will permit WasteExpo to return to Washington and have the space required to produce an event with no waiting lists for exhibitors. WasteExpo presently takes more than 600,000 gross square feet of space. WasteExpo's attendance varies between 11,000 and 13,500 Waste Industry Professionals depending on location. Washington would attract the 13,500 attendees or maybe more based on past history.

There is no other city in the country that offers the benefits of Washington, D.C. The Nation's Capital permits attendees the opportunity to see our government in action, to visit historical monuments and museums, to engage in self improvement through the event they are attending, and help support the local economy. A win win situation for everyone. I look forward to Congress approving the new center so WasteExpo and other major expositions can return to the District of Columbia.

Statement of Daniel E. Mobley, CAE, President
Washington, DC Convention and Visitors Association

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

July 15, 1998

Rayburn House Office Building

Good afternoon. My name is Daniel E. Mobley and I am President of the Washington, DC Convention and Visitors Association – a private, non-profit organization whose mission it is to enhance the local economy by increasing the number of overnight visitors to Washington.

Congressman Davis and members of the Subcommittee, we appreciate the opportunity to testify today on the hospitality industry's number one priority – the building of a new convention center for our nation's capital at Mount Vernon Square. The Washington, DC Convention and Visitors Association is the official marketing arm of the convention center. This relationship is similar to most other convention and visitors associations in cities across the nation.

As the official sales arm of the convention center, we are in a unique position to have witnessed the economic development created by our first center. For the city's $100 million dollar investment in 1980, the facility has returned over $4 billion dollars to date.

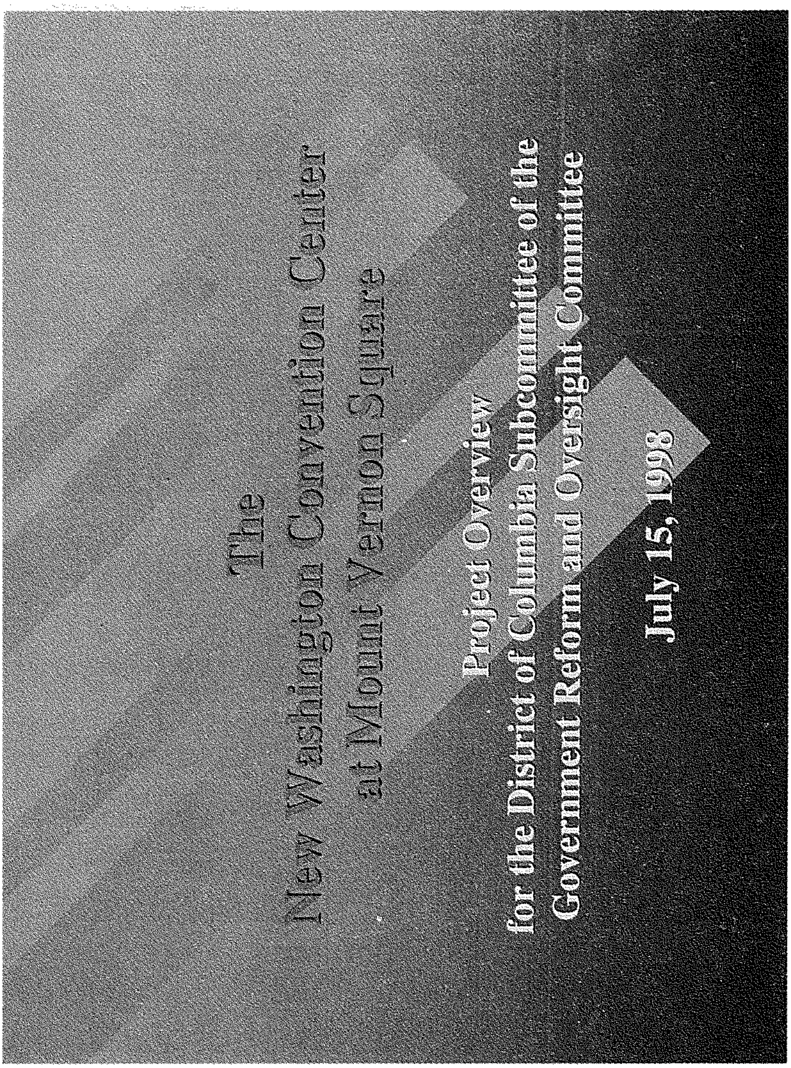
When it opened in 1982, our center was ranked 4th largest in the nation and we could host 90% of the conventions in the marketplace. Due to expansion of convention centers in competitive cities, the building now ranks 30th in the nation and our market share has slipped significantly -- we can host less than 50%.

We urge you to approve the new Washington convention center to allow us to return to a prominent position in the lucrative convention industry. Many groups, such as the American Heart Association (35,000 attendees), Environmental

Industry Associations (13,000 attendees) and the American Society of Association Executives (7,000 attendees) can not return due to the size of our existing center. We presently have tentative commitments from these associations, and many others, who have been unable to meet in Washington. They have assured us that they will return once a new, larger convention center is completed. Simply put...Build it and they will come!

It is now my pleasure to introduce Mr. Lawson Hockman, the Chief Operating Officer of the Environmental Industry Associations, which is one of the conventions that will be returning to the nation's capital upon completion of our new center. This year, Mr. Lawson is also the elected Chairman of the International Association of Exposition Managers which represents many of the associations and corporations that will utilize the new building for their future conventions.

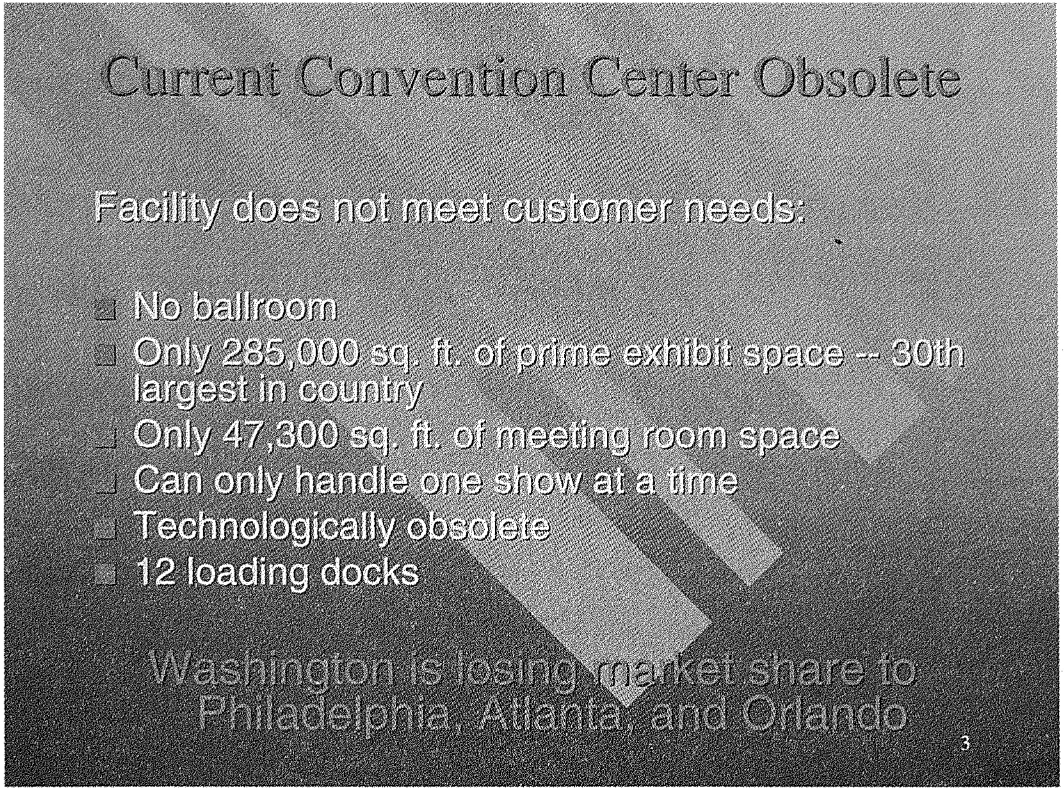
Congressman Davis, we appreciate your allowing us to testify today. I would be pleased to answer any questions that you may have.

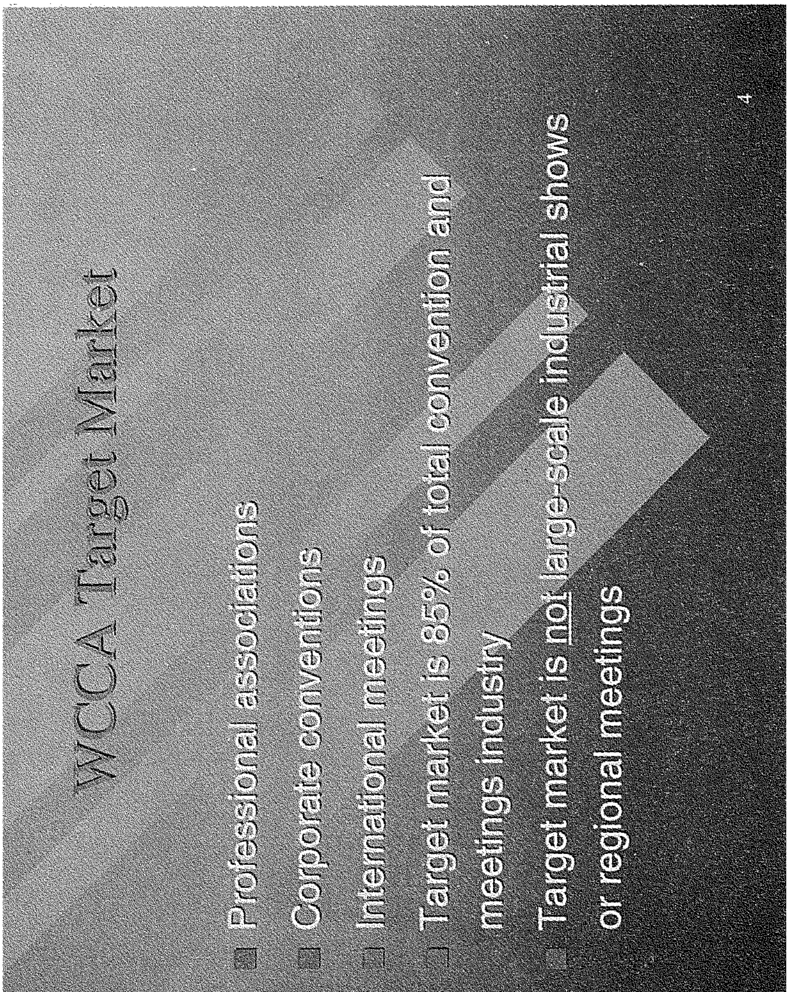

The
New Washington Convention Center
at Mount Vernon Square
Project Overview
for the District of Columbia Subcommittee of the
Government Reform and Oversight Committee
July 15, 1998

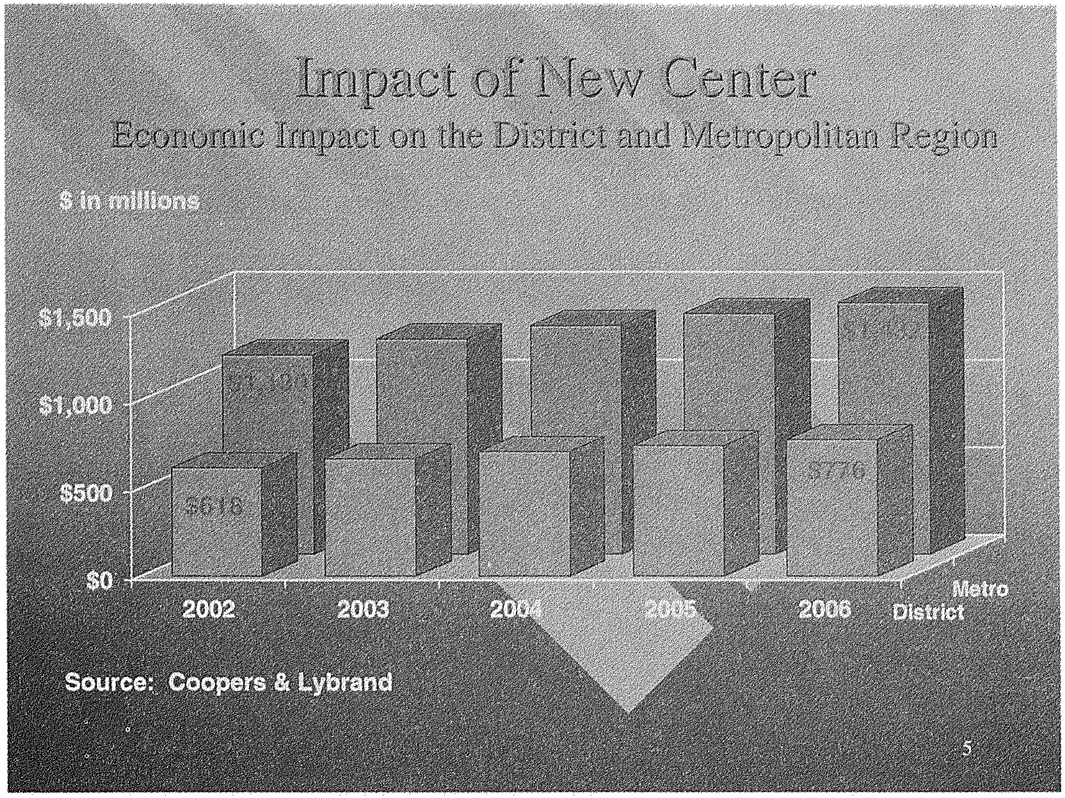
Washington, DC Hospitality Industry

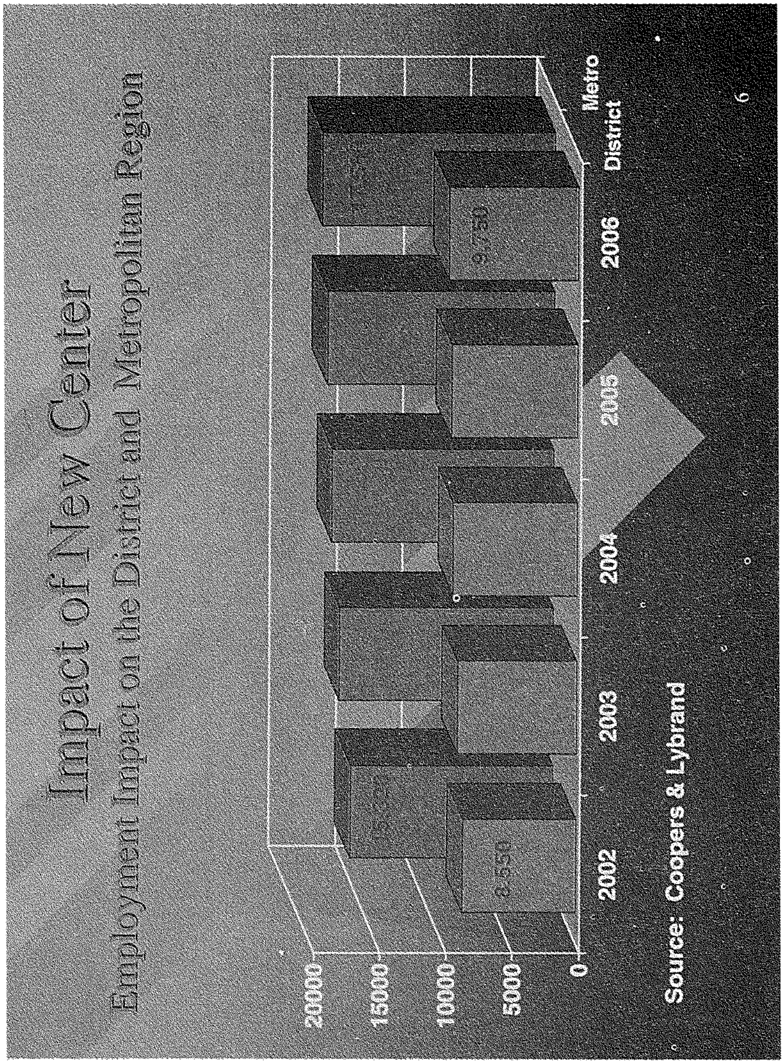
- Hospitality industry ranks second to federal government in economic impact
- 22.4 million visitors annually
  - 20.9 domestic
  - 1.5 international
- 6.3 million Business/Convention visitors
- $9.69 billion in visitor spending

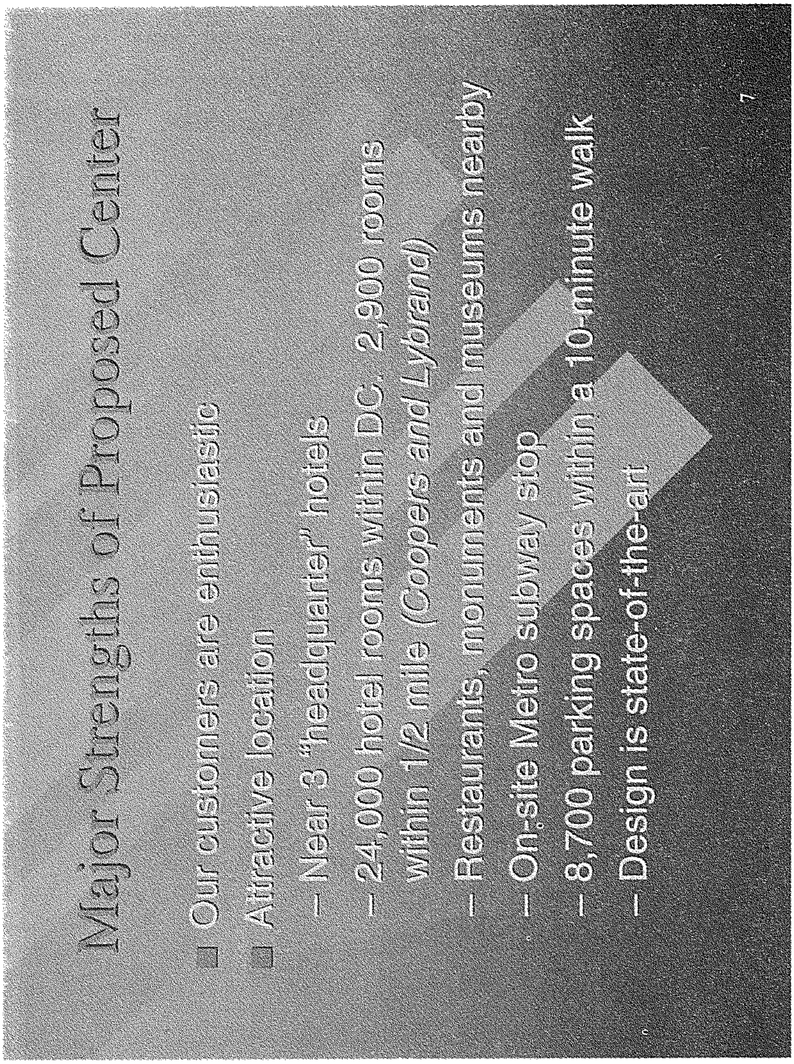
Source: Travel Industry Association, TravelScope 1997, Washington, DC Convention and Visitors Association


Current Convention Center Obsolete
Facility does not meet customer needs:
No ballroom
Only 285,000 sq. ft. of prime exhibit space -- 30th largest in country
Only 47,300 sq. ft. of meeting room space
Can only handle one show at a time
Technologically obsolete
12 loading docks
Washington is losing market share to Philadelphia, Atlanta, and Orlando
3


WCCA Target Market
Professional associations
Corporate conventions
International meetings
Target market is 85% of total convention and meetings industry
Target market is not large-scale industrial shows or regional meetings
4


Impact of New Center
Economic Impact on the District and Metropolitan Region
$ in millions
$1,500
$1,000
$500
$0
$618
$776
2002
2003
2004
2005
2006
Metro
District
Source: Coopers & Lybrand
5


Impact of New Center
Employment Impact on the District and Metropolitan Region
20000
15000
10000
5000
0
2002
2003
2004
2005
2006
8,550
9,750
Metro
District
Source: Coopers & Lybrand
6


Major Strengths of Proposed Center
Our customers are enthusiastic
Attractive location
– Near 3 "headquarter" hotels
– 24,000 hotel rooms within DC. 2,900 rooms within 1/2 mile (Coopers and Lybrand)
– Restaurants, monuments and museums nearby
– On-site Metro subway stop
– 8,700 parking spaces within a 10-minute walk
– Design is state-of-the-art
7

Key Project Milestones Accomplished

- Final Environmental Impact Statement Completed
- Commission of Fine Arts Approval
- NCPC Site and Preliminary Design Approval
- 1st Phase of Economic Impact Study Completed
- Guaranteed Maximum Price Construction Contract Negotiated
- DC City Council Action and Bond Inducement Resolution
- DC Financial Control Board Approval (DCFRMAA)

Construction Guaranteed Maximum Price (GMP)

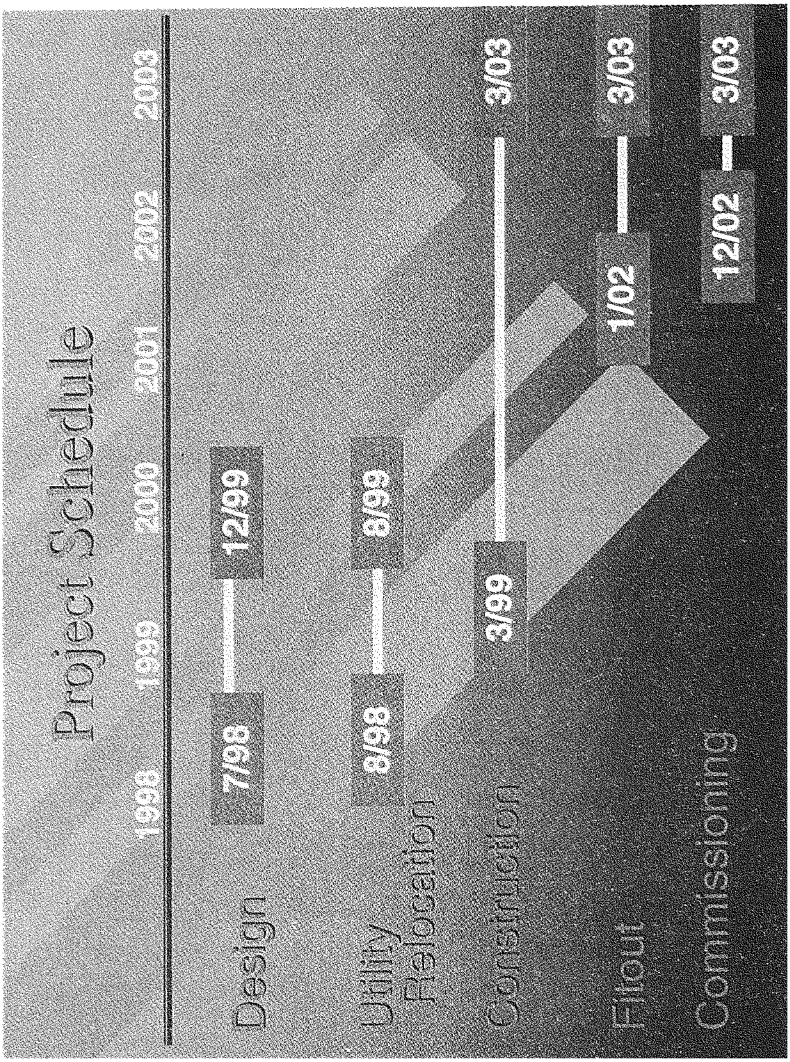
- Construction Manager (CM) must deliver a complete and operational building at a cost not to exceed a Guaranteed Maximum Price of $500.6 million (GMP).
- Construction costs are fully bonded.
- All subcontract work must be bid out and performed under fixed price subcontracts.
- CM will not be given Notice to Proceed with primary construction activities until Affirmative Action Subcontracting Plan has been accepted by the Authority.
- CM and Authority will share cost savings on a 25/75% basis
- Construction Manager's share of savings is increased when LSDBE goals are exceeded and reduced if not met.

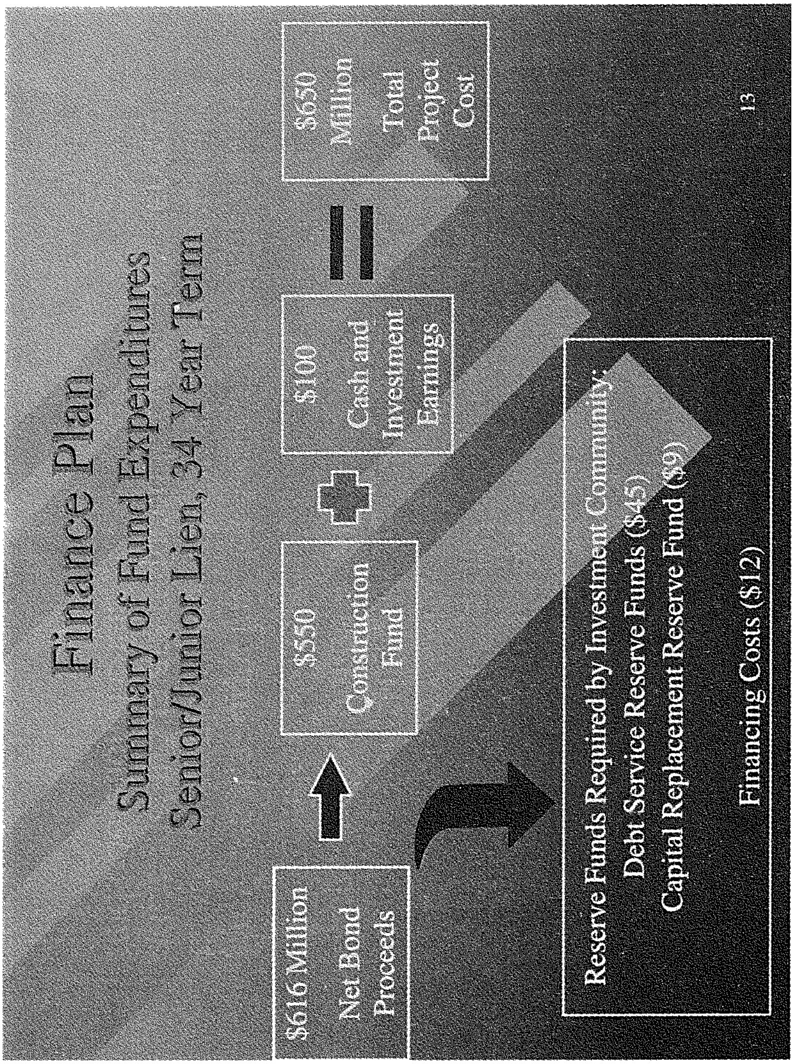

Total Project Costs
Guaranteed Construction Maximum Price $500,600,000
Soft Costs $ 97,095,000
– Land and Demolition
– EIS and Hazmat Remediation
– Architectural/Engineering/ Consultants
– Insurance
– Community Impact Mitigation
Equipment Costs $ 22,305,000
Contingency* $ 30,000,000
Total $650,000,000
*$30 million contingency costs cover any design changes, owner changes and unforeseen conditions.
10

Federal Support for the Convention Center

Metro Expansion and utility relocation

- The Mount Vernon Metro Station will be expanded by WMATA using $25 appropriation it will receive through the 1999 DC Appropriations Bill to:
  - Accommodate the increased usage resulting from the convention center and the anticipated growth in the Shaw neighborhood
  - Preclude the need for a major parking garage which would cost at least $50 million
  - Ensure a balanced multi-modal transportation system that will reduce vehicular traffic on the adjacent street system
  - Avoid a re-approval process with the National Capital Planning Commission and Advisory Council on Historic Preservation. These organizations approved the project based on expansion of Metro.
- The required Utility Relocations will be funded by the Department of Housing and Community Development ($10 million HUD CDBG Federal Grant).

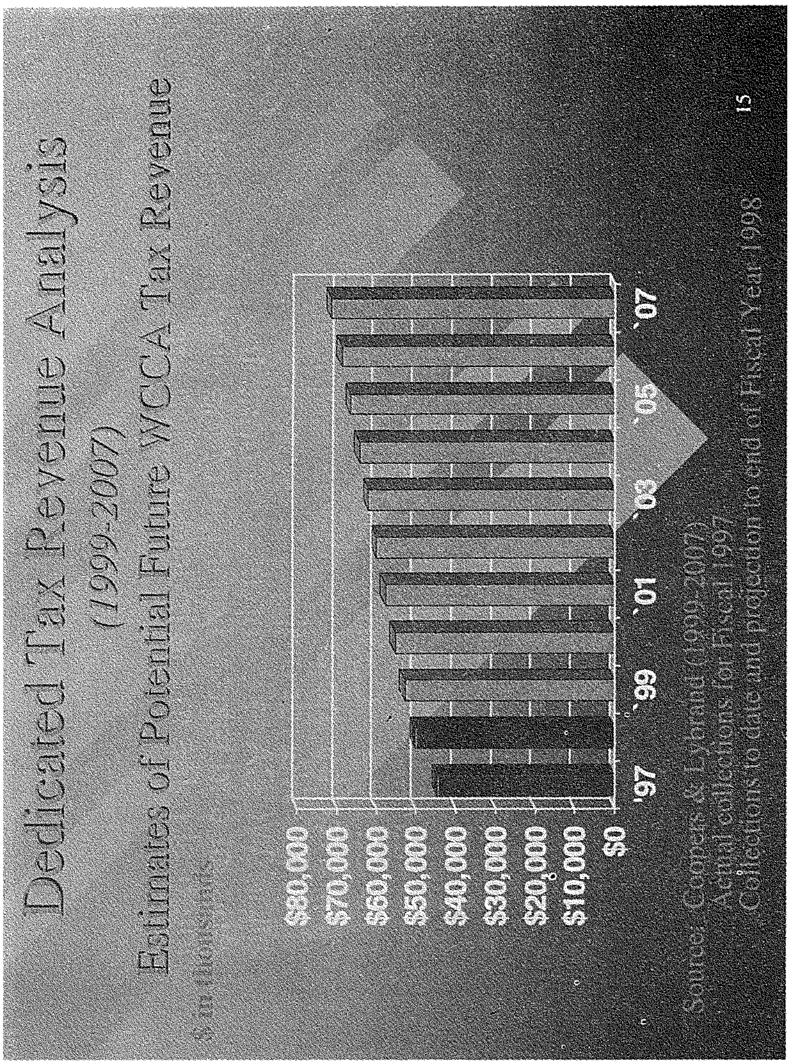

Project Schedule
1998
1999
2000
2001
2002
2003
Design
7/98
12/99
Utility Relocation
8/98
8/99
Construction
3/99
3/03
Fitout
1/02
3/03
Commissioning
12/02
3/03

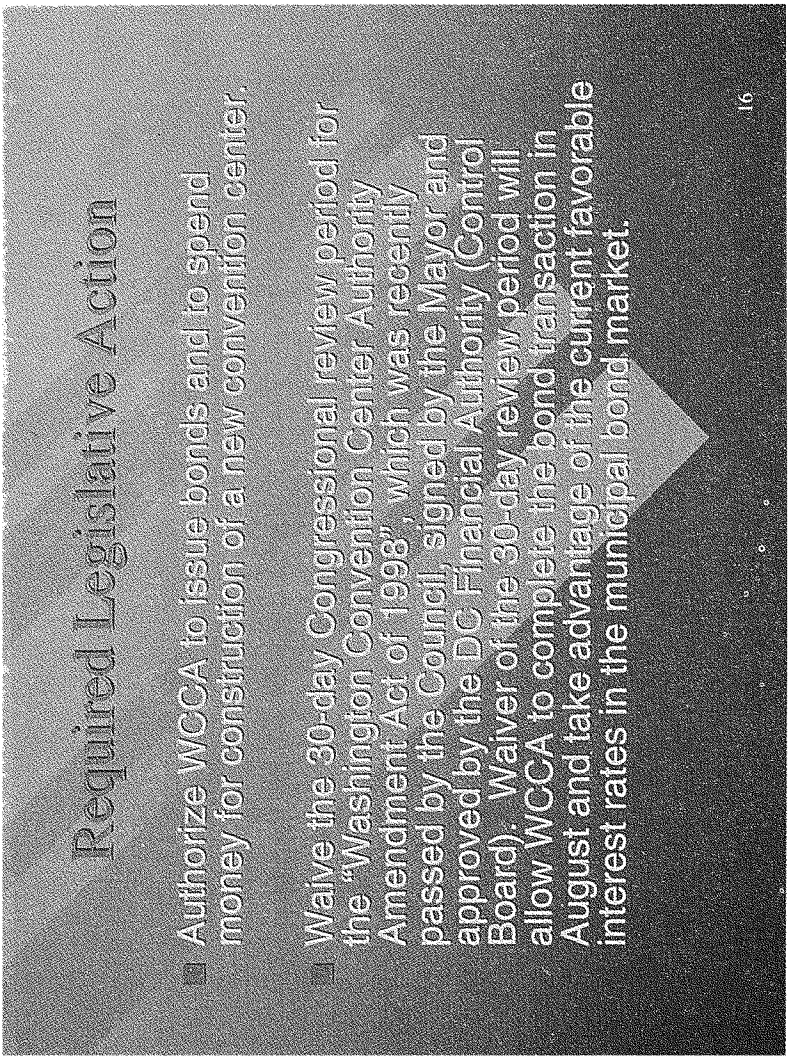

Finance Plan
Summary of Fund Expenditures
Senior/Junior Lien, 34 Year Term
$616 Million
Net Bond
Proceeds
$550
Construction
Fund
$100
Cash and
Investment
Earnings
$650
Million
Total
Project
Cost
Reserve Funds Required by Investment Community:
Debt Service Reserve Funds ($45)
Capital Replacement Reserve Fund ($9)
Financing Costs ($12)
13

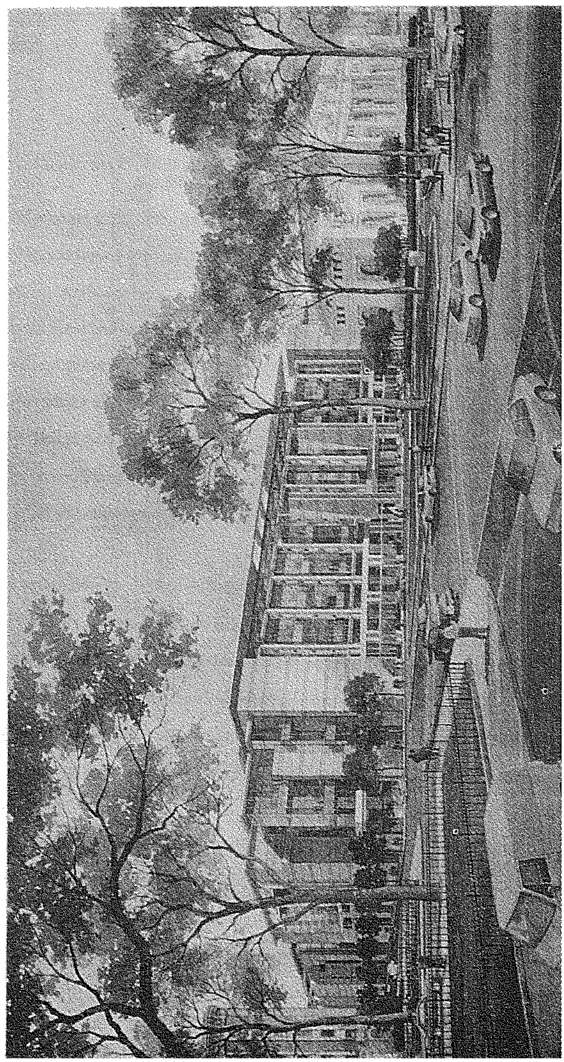
Act 12-379, *Washington Convention Center Authority Financing Amendment Act of 1997*

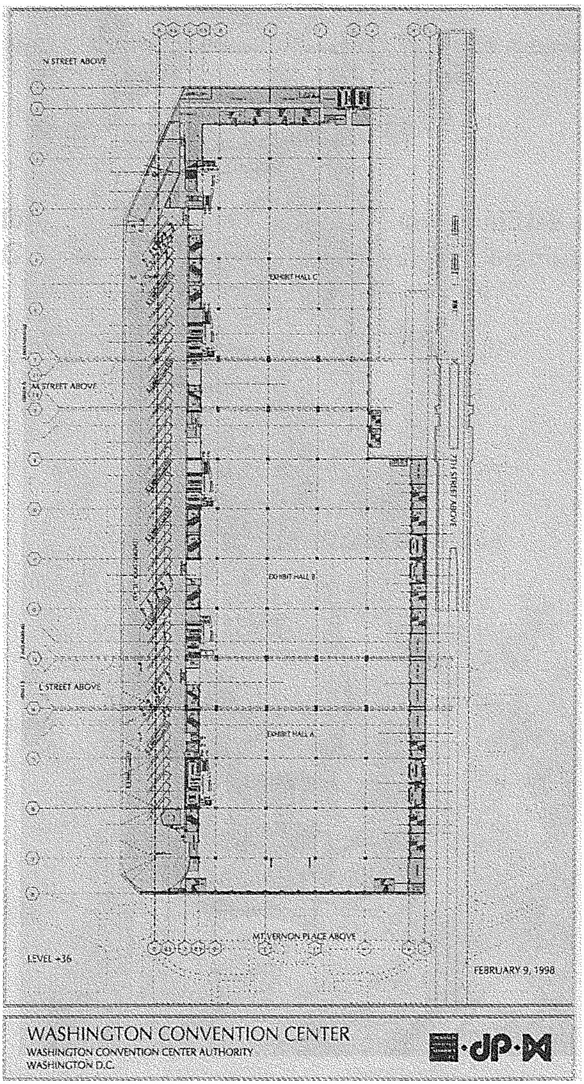
Key Concepts

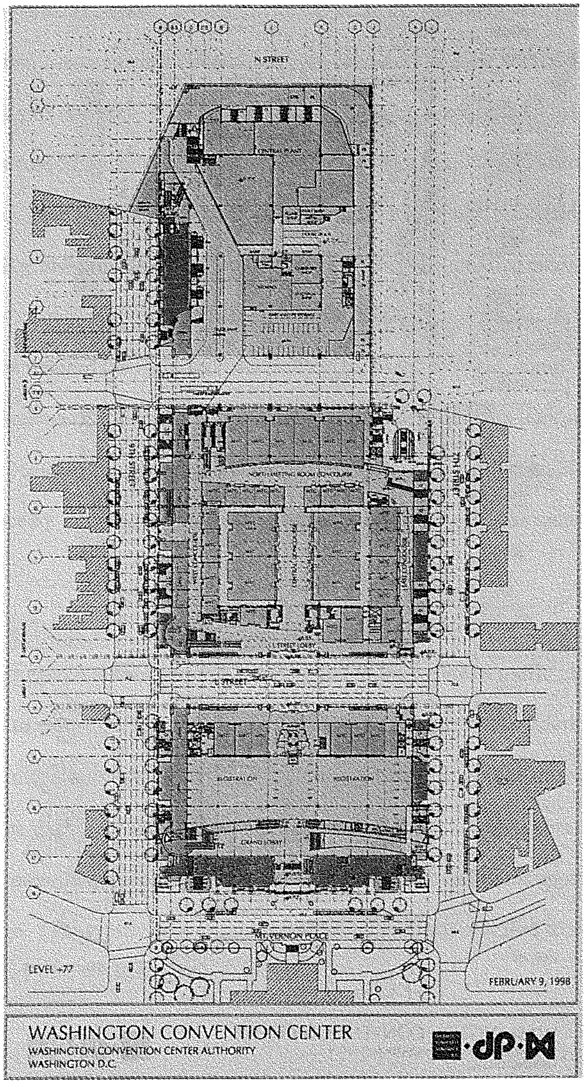
- Limits tax revenue sources to hospitality industry (hotel and restaurant sales taxes).
- Secures adequate funding of tourism/convention marketing organizations.
- Reduces term of bonds from 40 to 34 years. (Construction period + 30 years)
- Closed indenture structure.
- Provides that **only** the hotel sales tax will be subject to an automatic increase in the unlikely event that additional funds are required to cover debt service and operational costs.

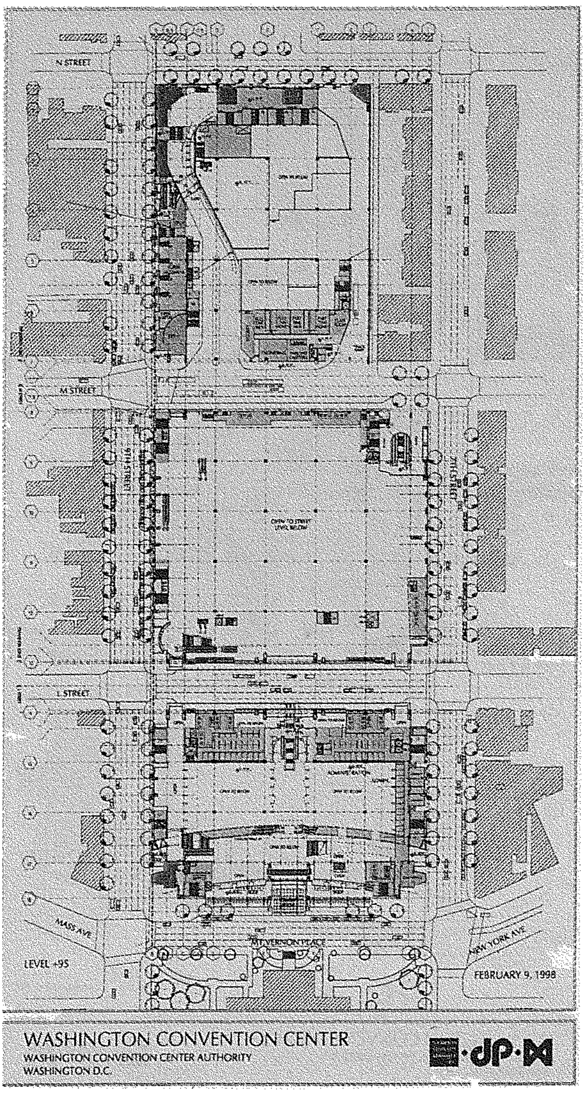

Dedicated Tax Revenue Analysis
(1999-2007)
Estimates of Potential Future WCCA Tax Revenue
$ in thousands
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
'97
`99
`01
`03
`05
`07
Source: Coopers & Lybrand (1999-2007)
Actual collections for Fiscal 1997
Collections to date and projection to end of Fiscal Year 1998
15


Required Legislative Action
Authorize WCCA to issue bonds and to spend money for construction of a new convention center.
Waive the 30-day Congressional review period for the "Washington Convention Center Authority Amendment Act of 1998", which was recently passed by the Council, signed by the Mayor and approved by the DC Financial Authority (Control Board). Waiver of the 30-day review period will allow WCCA to complete the bond transaction in August and take advantage of the current favorable interest rates in the municipal bond market.
16




N STREET ABOVE
M STREET ABOVE
L STREET ABOVE
EXHIBIT HALL C
EXHIBIT HALL B
EXHIBIT HALL A
7TH STREET ABOVE
MT. VERNON PLACE ABOVE
LEVEL +36
FEBRUARY 9, 1998
WASHINGTON CONVENTION CENTER
WASHINGTON CONVENTION CENTER AUTHORITY
WASHINGTON D.C.


N STREET
CENTRAL PLANT
9TH STREET
7TH STREET
L STREET
MT. VERNON PLACE
LEVEL +77
FEBRUARY 9, 1998
WASHINGTON CONVENTION CENTER
WASHINGTON CONVENTION CENTER AUTHORITY
WASHINGTON D.C.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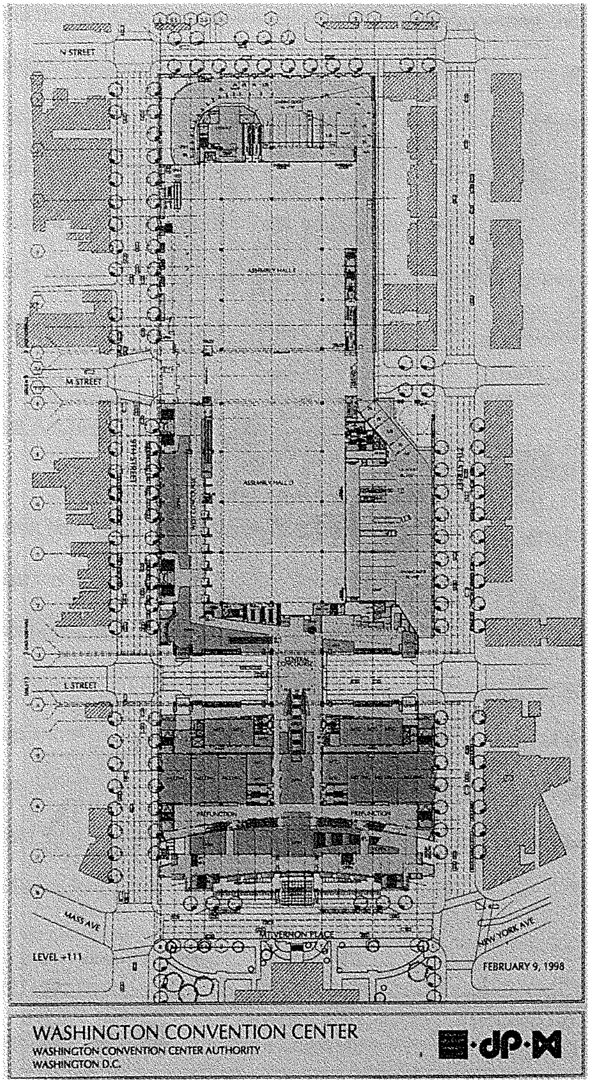
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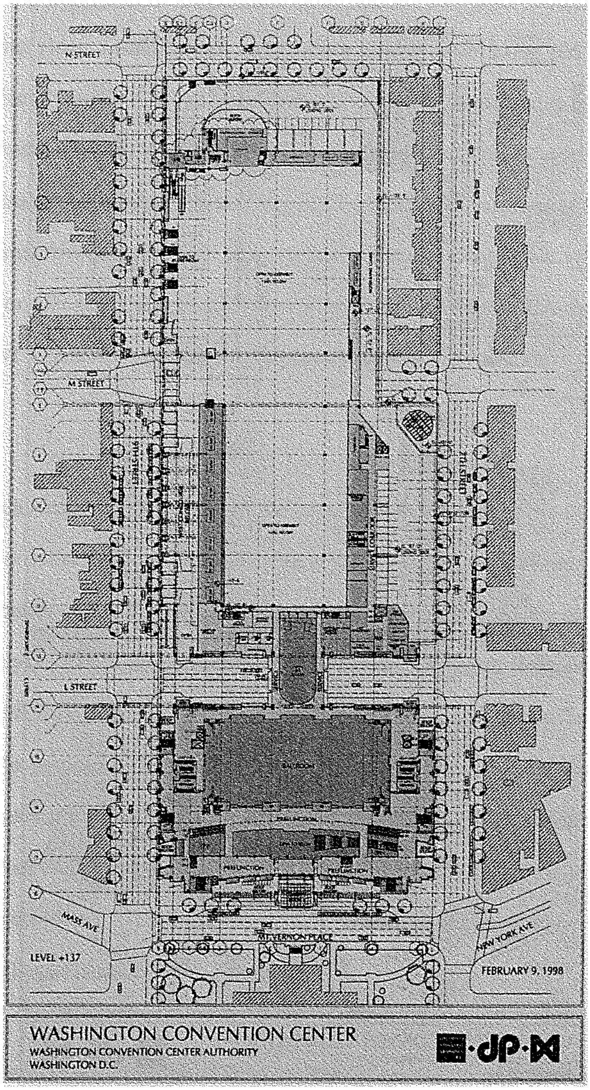
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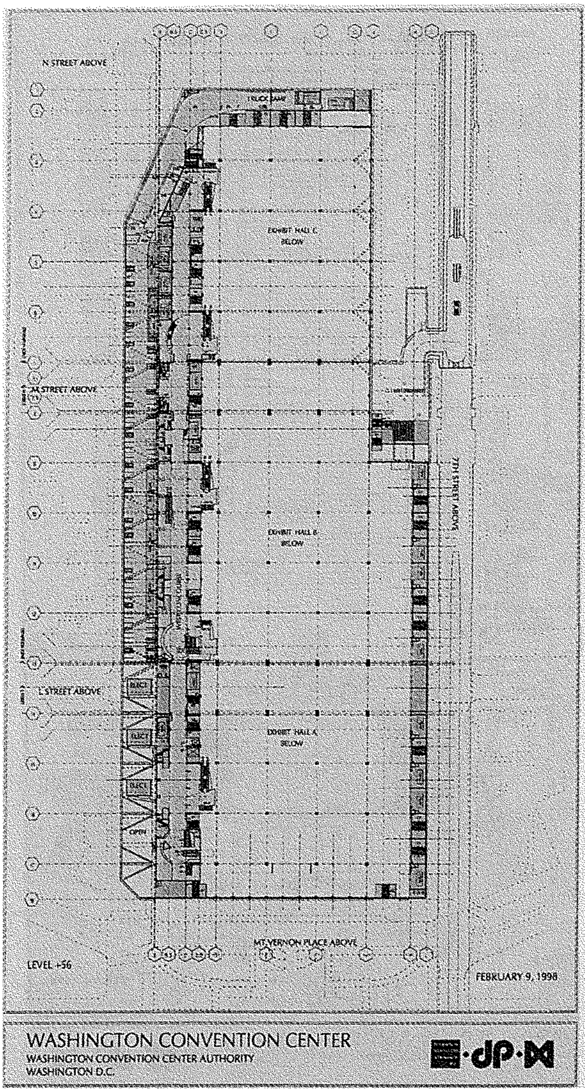
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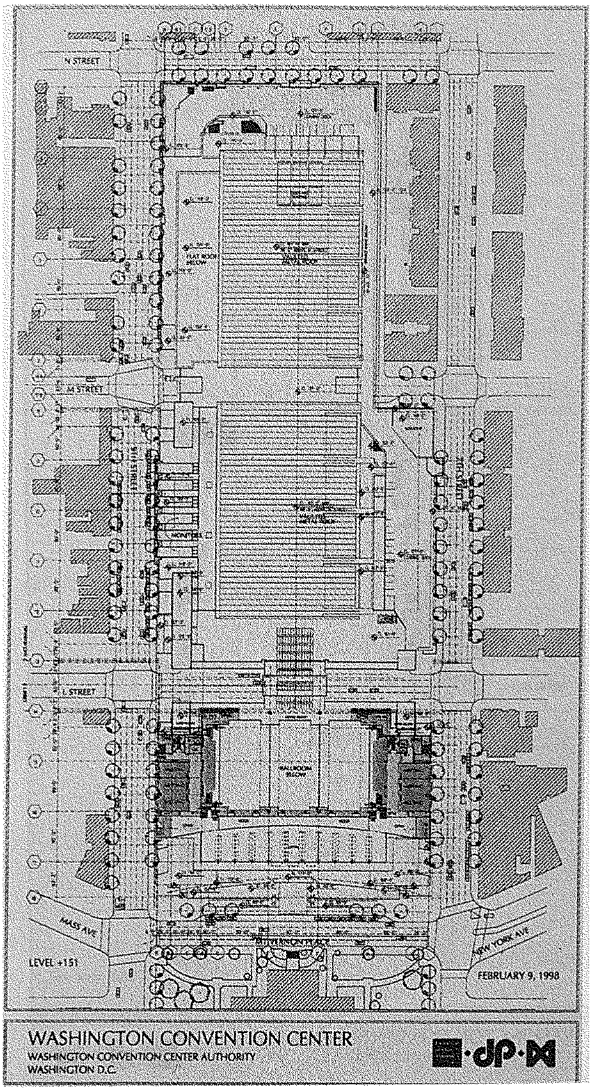
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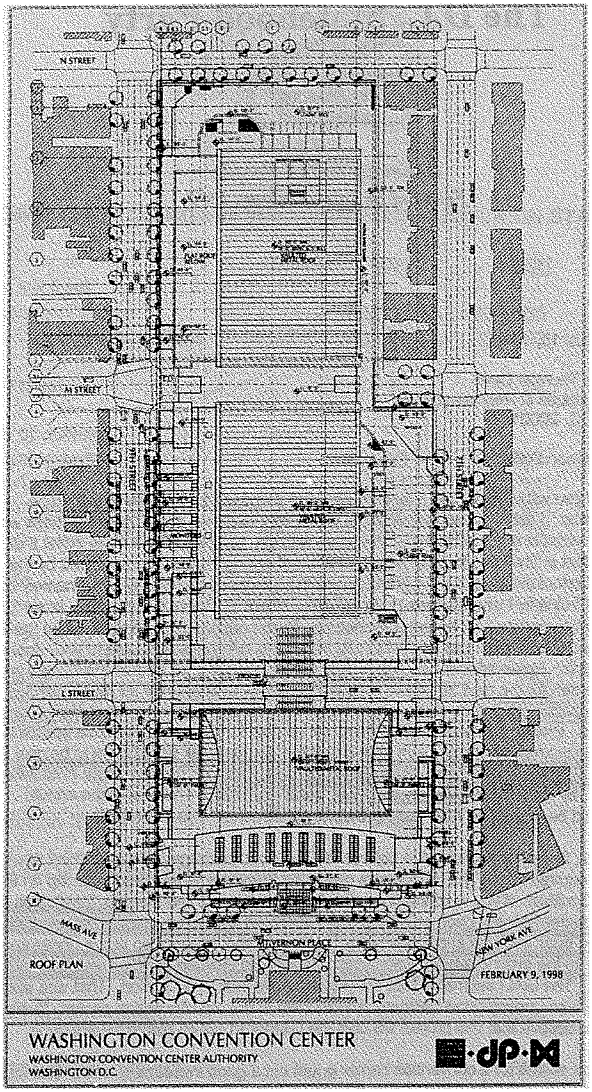
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WASHINGTON D.C.

The D.C. Statehood Party

P.O. Box 50371
Washington, DC 20091
202-789-8708
202-398-1376

Believing in the People
Founded by Julius Hobson, 1971

Wednesday, July 15, 1998

The Honorable Thomas Davis
United States House of Representatives
Washington, DC 20001

Dear Congressman Davis:

Today you will consider the financing package proposed for the new Washington convention center. I ask that you examine this with a very skeptical eye. There are those who would find the very act of my addressing this issue with you to be heresy. I must admit that I, myself do not feel entirely comfortable with the notion of asking an official not elected by the people of the District of Columbia to second guess the actions of an elected body, namely our City Council. Ordinarily I would refuse to do so. You, above all others in Congress, know first-hand of my Party's vigilance on behalf of democracy for the people of the District, given the fact that we marched five miles in last August's heat in order to bring this message to your doorstep in Fairfax, Virginia. However, this new convention center financing will saddle the District with an unbearable burden for the next 30 years, crippling our ability to find funds for much needed investments in public education, crime prevention, youth intervention, drug rehabilitation and other programs. Proponents say that this bond will be paid for by proceeds from a special hotel room tax. A quick analysis of this claim shows that the per room tax would have to be over $200 per room, per night, in order to satisfy the enormous debt financing burden. (See "The Mirage of the Megaplex", by Ronald Utt, Washington Post, June 14, 1998.) The cost of the annual payments would be enough to fund cutting District public school classes in half!

Further, there is little reason to believe that the bond package being proposed would fulfill the financing requirements. The proponents claim that there is a guaranteed cost cap on the project of $650 million. If you read the fine print, however, you will find that this "cap" does not include "unexpected" construction complications. There will always be unexpected, additional costs when you build such an enormous project on top of, and through, an active underground aquifer, similar to the ground system upon which the Ronald Reagan Building was built, at twice its original cost. The GAO estimated that the project would cost $737 million. That was before the plan to build an underground ballroom, and tunnels to the old convention center. There is every reason to believe that this project will cost the District $1 billion before we are done.

A billion dollars for a convention center is just not a good investment for the District right now. We have such dire needs to address that go beyond petty politics and interest peddling. It is criminal that the CEO of the Marriott Corporation chairs the Washington Convention Center Authority. If that is not conflict of interest, then what is? Where were all of the watchdogs you appointed, and we elected, when this decision was made?

I ask you to reject this bond package as too costly and harmful to the people of the District. At the very least, I ask that you slow down the expedited path this project has been placed on, so that cooler heads may prevail, and the electorate have a chance to speak as to the new leaders and direction the District will have after November 3rd.

Sincerely,

John Gloster
LH

John Gloster
Chairman

P.O. Box 53222
Washington, D.C. 20009
July 15, 1998

The Hon. Thomas M. Davis III, Chairman
Oversight Subcommittee on the District of Columbia
U.S. House of Representatives
Washington, D.C.

Dear Sir and Members of the Subcommittee:

Attached you will find my testimony in favor of building a larger more competitive Convention Center north of Union Station. In this letter I would like to share some additional thoughts.

1) Are we building the biggest downtown swimming hole in the world? -- It has come to my attention that the Reagan Building, also 65' deep, but half the size, pumps 1,000 gallons of water per minute. The Mt. Vernon Sq. (MVS) site is in the old bed of Tiber Creek. We have owned a home built on that creek bed for 15 years. Every bad storm we cross our fingers that the electricity won't go out and the sump stop. We have lost two good tenants to basement flooding. How many will the Convention Center lose? How many lawsuits will it have? How much will they have to pay DPW for the water they will have to pump away?

2) How many 65' deep core samples have been taken at the MVS site? Suppose we start digging and discover the water and red clay problems are much more severe than we thought? Is this really just a pork barrel project for rich excavators? What about the GAO report. Will this be a planning disaster like the I.M. Pei skyscraper whose entire facade started popping off and falling on the street below?

3) Why does the Convention Center Authority want to repeat the same mistakes they made last time? -- With the potential at Union Station North (USN) to expand to 1.3 or 1.4 million sq. ft. exhibit space, we can remain competitive with New Orleans, Orlando, Las Vegas, Atlanta, and New York City. At MVS we will once again be a third rate convention city. With the shrinkage of our government employment base we <u>must</u> maximize our tourist potential now.

4) How many hotel rooms do Marriott, Hyatt and any other hotel chains involved in the MVS decision have in the above competitor cities? -- If we can build 50% larger at USN, then they could build more hotels to serve the 50% more conventioneers. This would also be good for hotels in Virginia and Maryland. They say USN is a wasteland, but like the new Metro stops, "build it and they will come." Many new businesses and <u>hotels</u> could be built on the vacant land near USN. Maybe Marriott & co. want us to be <u>third rate</u> so as not to impact their hotel business in New Orleans, Orlando, etc.

5) Would <u>you</u> like to schlep the tunnels <u>on foot</u> from the House or Senate to the Capitol? Of course not, you have a nice little subway. Do you like the underground trek from Rayburn to Cannon? I doubt it. — My business takes me to many large trade shows and exhibits. The idea of having to walk an extra 1½ blocks (3 blocks round trip) to get to the rest of an exhibit has all the appeal of cold, unsalted grits or oatmeal. The Convention Center Authority says connecting the two Centers by tunnel is the solution to the small size problem. I say their solution is hogwash. My feet hurt just thinking about it. I will not be alone. Ditto for putting extra exhibit space two floors above.

6) How much would it cost to develop a Metro stop at USN (which I believe is above ground), versus expanding the underground stop at MVS? A Metro stop near Trailways would be a very good thing. It is a long lonely and scary walk from Trailways to Union Station Metro, especially with luggage. I know, I have taken it.

If the Convention Center were built at USN it could start 18 months later and still finish at the same time as MVS. The argument has been made that the City Council voted for MVS. However a change of only 2 votes would make it 7 to 6 against. Why not wait until the November election to decide? Many D.C. citizens are just becoming aware of what a serious mistake is about to be made. I am one of them. We will vote our feelings. It may be a whole new ball game after November. I do not want to saddle my children and grandchildren with a 34 year mortgage on a $3/4 billion mistake. If we want to spend an extra $3/4 billion, then let's build a Center that is 50% larger at Union Station North. This would put us in fair competition with New York, Atlanta and New Orleans.

Sincerely yours,

Lee Aikin
36 year D.C. resident

TESTIMONY REGARDING THE PROPOSED CONVENTION CENTER, before the House Oversight Subcommittee on D.C., July 15, 1998, by Lee Aikin (P.O. Box 53222, Washington, DC 20009)

WHY PLAN TO BE THIRD RATE?? . WHEN WE COULD BE A CONTENDER!!

The Competition**

Rank	City	Square Feet of Exhibit Space	Parking	Cost/ sq.ft.	Recent & Planned Expansion
1	Chicago	1.85 million	3-5,000	$ 233	½ million planned
2	New Orleans	1.3 million	2,000	209	
3	Orlando (Orange Co.)	1.05 million	3,500	162	3 times in 10 years & 250,000 planned
4	Las Vegas	970,000	4,800		425,000 planned
5	Atlanta	950,000	5,000	154	1985, 1992 & ½ million planned
6	Sands (Las Vegas)	935,000	1,400		105,000 planned
7	Los Angeles	867,000	6,000		
8	NYC (Javits)	760,000			540,000 planned
9	Kentucky Expo	793,000	19,000		
10	Proposed D.C. Current D.C.	725,000 385,000	-0-	est. 296	

** Statistics are from Comm. of 100 Updated Financial & Planning Study, May 1998, or "Washington Post," May 26, 1998.

Union Station North Site

Advantages

1. Almost double the space now, almost triple for future. Less expensive building, construction, and interest costs will save $ 3/4 billion.
2. We could build 1.3 to 1.4 million sq. ft. and would be on a par with all but Chicago now and Orlando (Osceola Co.) in the near future.
3. Save severe wear and tear on streets and neighborhoods by using rail transport and truck containerization to remove construction debris, and bring in building materials, and later bring in large exhibits.
4. Empty space for new hotels, businesses, parking garages, and marshalling yards for rail/truck interface. Large nearby space and buildings for lease.
5. Adaptive reuse includes 46 existing truck bays and a huge building suitable for smaller meetings and conferences.
6. Surface Metro access (no expensive digging) and bus space for convention and other tourist and visitor purposes such as a welcome center.

Mt. Vernon Square Site

Disadvantages

1. Too small today, and no room to expand. No parking hurts the neighborhood.
2. 100,000 truckloads of dirt, destructive to streets, dirty the neighborhoods. This is 1 truck every 2 minutes, 12 hrs./day, 5 days/week for one year.

3. When planned expansion are added to Anaheim, Orlando (Osceola Co.), San Diego, Boston, Dallas, and Miami Beach we will rank 16th.
4. Higher taxes on already high hotel and restaurant fees will discourage tourists.
5. Small vendors have been arrogantly eliminated from area in advance of construction, as MCI has arrogantly done after construction (shows bad faith with the people).
6. Constant danger of embarrassing leaks from below water table construction of exhibit space.

From the foregoing analysis as well as other testimony presented today it should be obvious to anyone not motivated by ill-considered and short-sighted self-interest that the Union Station North (USN) site is far superior to Mt. Vernon Square (MVS).

It seems obvious that MVS is primarily preferred by a few hotel and land owners to the detriment to the entire population of this city. Even they could profit in the short run by buying and developing land near a larger convention center at USN. With the additional business and visitors to the City, their existing holdings should do well in the long run without any need to saddle us with an expensive dud.

Rather than plan for a mere 725,000 sq. ft of exhibit space, this Council should order a study to look at the economics of a 1.3 to 1.4 million sq. ft. center, perhaps built in two stages. Since it is projected that the convention center with bond interest would cost $1,937,000 at MVS, versus $1,191,000 at USN, it appear we could finance the larger space for what MVS would cost for the currently planned inadequate space. With such an expanded center we would be, and remain, competitive with New Orleans, Orlando (Orange Co.), Las Vegas, Atlanta and New York City all of which have or plan 1.3 to 1.4 million sq. ft. of exhibit space.

Given the USN site's proximity to both the railroad and the N.Y. Ave. gateway, it would be an ideal site both for the convention center and a tour bus Welcome Center and staging area. Rather than have busloads of tourists brought down to the Mall where the buses sit all day, idling their motors and polluting the air, they could bring the students and other visitors to the Welcome Center where they could use bathroom facilities to freshen up, cafeteria, coffee shops and fast food places to relieve their hunger, and shops, drug stores and open air vending sites to buy necessities, gifts and souvenirs. Then a conveniently located Metro stop or shuttle buses could wisk them downtown to the Mall, Capitol Hill and other favorite tourist sites. This would be a great improvement over the current bus situation, and Municipal bus parking could provide additional City revenue.

Data provided by national convention center experts show that if other cities proceed with their expansion plans, in a few years D.C. could be only 16th largest in the highly competitive convention center market. Then D.C. would steadily lose market share each year. Notice that the convention center cities which already have more exhibition space than 730,000 sq. ft -- Chicago, Orlando, Las Vegas, Atlanta, New York, Anaheim -- are planning to add still more exhibition space. Observe that San Diego, Dallas, and Boston plan to reach and exceed 1 million sq. ft. of exhibition space.

Plate 7

Largest U.S. Convention Centers: Current and Planned Exibition Space -- Sites -- Parking

City/Convention Center	Exhibit Space (sq. ft.)	Expansion Plans	Total	Site (Acres)	Parking on-site or contiguous (No. of cars)
Chicago CC (McCormick Pl.)	1,850,000	500,000	2.35ml	100+	3-5,000
New Orleans CC (Morial)**	1,300,000		1.3ml	100	2,000
Orlando CC (Orange Co.)**	1,050,000	250,000	1.3ml	125	3,500
Las Vegas CC**	970,000	425,000	1.4ml		4,800
Atlanta CC (GA Wd. Cong.)**	950,000	500,000	1.45ml	100+	5,000
Las Vegas CC (Sands)**	935,000	105,000	1.04ml		1,400
Los Angeles CC	867,000		867,000	34	6,000
N.Y.C. CC (Javits)**	760,000	540,000	1.3ml		
Anaheim CC**	670,000	330,000	1.0ml	75	5,500
Orlando CC (Osceola Co.)*/**		2.1ml	2.1+ml	100+	5,000
San Diego CC**	630,000	500,000	1.1ml	27	2,200
Boston TCC*/**	600,000	400,000	1.0ml	60	2,000
Dallas CC	600,000	300,000	900,000		1,300
Kentucky Expo CC	793,100		793,100		19,000
Miami Beach CC	502,800	250,000	752,800		2,800
Washington CC*/**	735,000	no	735,000	17	

* New facility
** Expansion studies or expansion under way

The Committee of 100 is indebted to the following nationally known convention center experts for their pro bono assistance in preparing the above chart:
Charles H. Johnson, IV David P. O'Neal, President Jeff Sachs

Plate 3

Mt. Vernon Square Convention Center Projected Costs
WCCA and C100 Estimates Compared
(Dollars in Thousands)

	WCCA	C100
Land Costs:		
Private Land Acquisition	$ 5,000	$ 5,000
City Land Contribution	0	61,000
Remediation	11,000	11,000
Subtotal, Land Costs	16,000	77,000
Hard Costs:		
Construction	425,000	500,000
Utility Relocation	8,000	8,000
Transportation System	23,000	23,000
Parking	0	0
Fixtures, Furnishings and Equipment	34,000	34,000
Escalation	0	0
Subtotal, Hard Costs	490,000	565,000
Soft Costs:		
Design, Program Mgmt, Consulting	44,000	44,000
Legal and Insurance	26,000	26,000
Section 106 Mitigation Costs	16,000	16,000
Subtotal, Soft Costs	86,000	86,000
Contingency	58,000	67,000
Total Costs Excluding Financing & Interest	650,000	795,000
Financing Costs and Required Reserves	87,000	94,000
Total Costs Excluding Interest	737,000	889,000
Bond Interest	912,000	1,048,000
Total Project Costs	1,649,000	1,937,000

V. Less Costly Alternative at Union Station North

By contrast, the same size convention center at Union Station North could be built for $662 million. This would be $227 million less than Mt. Vernon Square. When bond interest is included, savings would increase to $746 million over the life of the bonds. (Plate 4)

The savings at the 27-acre Union Station North site are generated primarily by building the convention center at grade level, with all exhibition space on one single level -- eliminating underground construction and associated expenses and disadvantages. Truck docks at Union Station North also are at grade level, eliminating the need for costly tunnels and complex truck ramping.

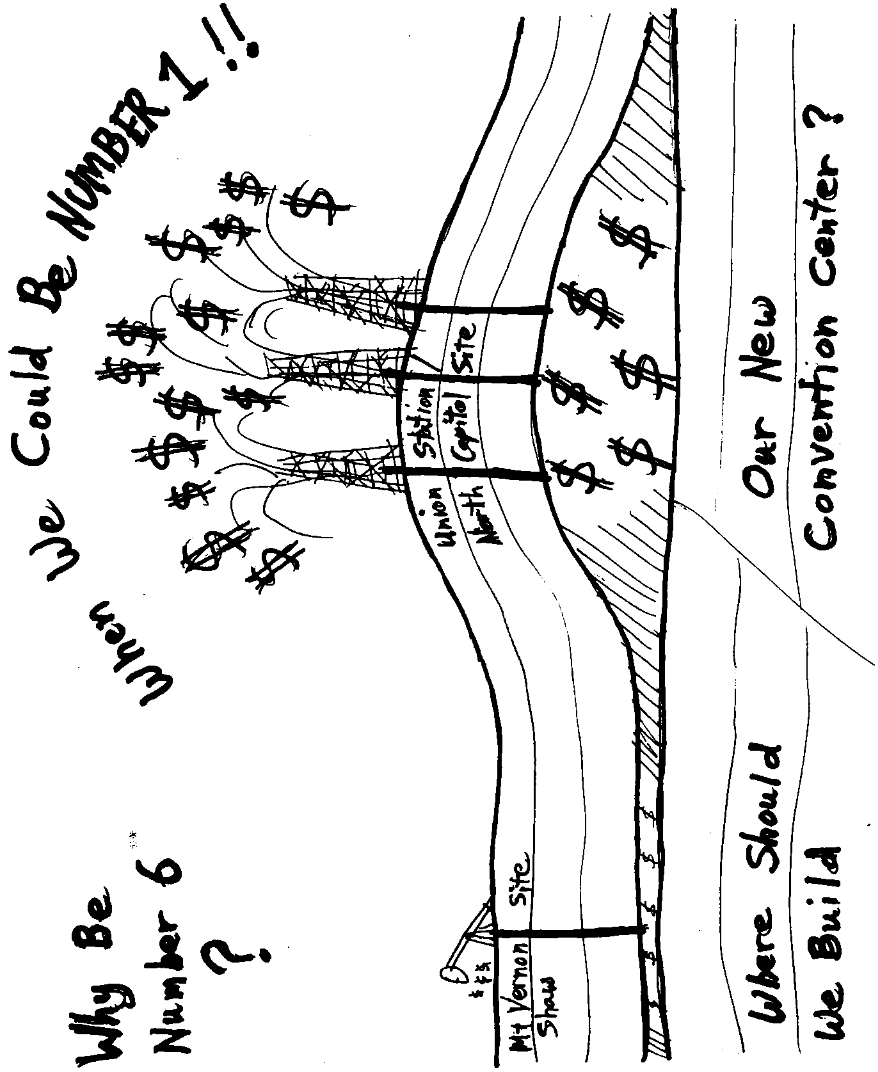
Plate 4

New Washington Convention Center
Comparison of Project Costs at
Mt. Vernon Square (MVS) and Union Station North (USN)
Prepared By Committee of 100 (C100) As of May 1, 1998
(Dollars in Thousands)

	Notes	MVS (17 Acre Site)	USN (27 Acre Site)	Savings at USN
Land Costs:				
Private Land Acquisition	1	$ 5,000	$ 48,000	$ (43,000)
City Land Contribution	2	61,000	11,000	50,000
Remediation	3	11,000	3,000	8,000
Subtotal, Land Costs		77,000	62,000	15,000
Hard Costs:				
Construction	4	500,000	350,000	150,000
Utility Relocation	5	8,000	2,000	6,000
Transportation System	6	23,000	3,000	20,000
Parking	7	0	0	0
Fixtures, Furnishings and Equipment		34,000	34,000	0
Escalation	8	0	0	0
Subtotal, Hard Costs		565,000	389,000	176,000
Soft Costs:				
Design, Program Mgmt, Consulting	9	44,000	54,000	(10,000)
Legal and Insurance		26,000	26,000	0
Section 106 Mitigation Costs	10	16,000	0	16,000
Subtotal, Soft Costs		86,000	80,000	6,000
Contingency	11	67,000	53,000	14,000
Total Costs Excluding Financing & Interest		795,000	584,000	211,000
Financing Costs & Reserves	12	94,000	78,000	16,000
Total Costs Excluding Interest		889,000	662,000	227,000
Bond Interest	13	1,048,000	529,000	519,000
Total Project Costs		1,937,000	1,191,000	746,000

[For explanatory notes, refer to Appendix]

** According to "The Washington Post" article, May 2[illegible], 19[illegible]. Actually according to the more definitive report of the Committee of 100 just released, we would be Number 10; and if other planned expansions in six cities occur, we'll be No. 1[illegible].



The COMMITTEE of 100 on the FEDERAL CITY
founded 1923

Testimony of the
Committee of 100 on the Federal City

Before the
Committee on Economic Development
Councilmember Charlene Drew Jarvis, Chair

on

PR 12-840, the "Washington Convention Center Authority Dedicated Tax Revenue Bond Resolution of 1998"

July 6, 1998

The COMMITTEE of 100 on the FEDERAL CITY
founded 1923

Good morning Madam Chairman, Councilmembers and staff. My name is Joe Bender. I am chair of the Economic Development & Housing Subcommittee of the Committee of 100 on the Federal City.

With me today is Mr. John Forrer, a consultant to the Committee of 100. He will review analysis he has prepared on the cost and financing of the proposed center. In addition, he will discuss cost estimates and a critique of the proposed construction contract that were prepared by Ms. Robin Godfrey, another consultant to the Committee. I will introduce Mr. Forrer more fully in a moment.

Our chairman, Tersh Boasberg, is typically in this seat. No less event than the marriage of his son could keep him from sharing this time with you. I hope that I can convey the Committee's thoughts on this important project with some of the skill he brings to the task.

I would like to thank the you and the Committee on Economic Development for allowing us the opportunity to appear before you. It is a particular pleasure for me, as I have so many good memories of appearing before the Committee and working with you during my almost fifteen years of service with the government – and a few times since as a private citizen and businessman.

The Committee of 100 is strongly in favor of constructing an expanded convention center. Meeting the demands of todays and future conventions and trade shows is key to a strong and growing hospitality industry; to expanding secure and quality jobs for District residents; to generating related opportunities for local and regional businesses; and for enhancing the fiscal condition of the District of Columbia. We want to see a new, quality center built and operating as quickly as possible. These goals we share.

At issue between us is a difference over the location of the expanded center. We believe strongly that Union Station North is the site at which these objectives can and should be met. The location historically favored by the Washington Convention Center Authority (WCCA) and, to date, the most influential factions of the business and political establishment, is Mt. Vernon Square. Yet events and circumstances have rendered Mt. Vernon Square wholly inadequate for meeting the objectives.

o That site is cramped. It will not allow for construction of a center that competes on the first tier now – functional layout has been repeatedly compromised to fit the center to the site.

o Mt. Vernon offers no room for realistic, contiguous expansion, dooming the District to also ran status among our competitors.

The COMMITTEE of 100 on the FEDERAL CITY

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o Because of site constraints, the center at Mt. Vernon cannot be built on budget. Either the budget will be busted or we will see a continuation of recent cuts -- compromising quality and competitiveness. Indeed, at Mt. Vernon, we are likely to get both, a lesser quality center that still explodes the budget.

o There is no on site parking or the opportunity for providing it on contiguous sites without displacement of businesses and residents, destruction of the historic neighborhood and precluding the long-held goal of revitalization of the area as a mixed-use residential community.

In contrast, the Union Station alternative responds favorably to each of these key issues. It's greater size allows for superior function and design. Immediately contiguous to the site are properties for ready expansion -- many are District owned or controlled. Owing to a far more straightforward construction regime, the proposed center can be built within the revenue streams now dedicated -- without fear of compromising quality and competitive advantage. We estimate savings to be over one quarter billion dollars as compared with Mt. Vernon Square. Further, even after allowing for design and approval times necessary for shifting sites, the Union Station convention center could be opened ahead of the date we can reasonably expect when going full bore at Mt. Vernon Square. The opportunity to produce contiguous parking is apparent without negatively affecting neighboring businesses. The site poses none of the extremely negative environmental impacts associated with the Mt. Vernon alternative. And the Union Station center holds the promise of catalyzing implementation of the North Capital Street portion of the recently adopted Monumental Core Plan as well as creating a southern anchor for the long-awaited revitalization of the New York Avenue corridor.

Please allow me a moment for personal observation. I am frequently asked how the WCCA and the Committee of 100 could have such distinct disagreements on location when their stated goals are so similar. I am sure that I don't know the half of it. But, I suspect that the long history of trying to find a site for expansion of the convention center and extreme frustration with the pace of progress is a leading factor. And, I fully share that frustration. As project director for the District, now almost a decade ago, my team identified Mt. Vernon Square as the then best site for expansion. Yet conditions have changed dramatically since that time -- as has the proposed program for the center. Indeed, I am now convinced that Mt. Vernon was the wrong choice for all the reasons outline above.

Given the events of the past few years, I suspect that long ago the only real task of the WCCA and associated parties became to build an expanded center at Mt. Vernon Square -- the sooner the better. Critical analysis ceased. That was certainly the "conventional wisdom" (pun intended) at the time plans were first formally made public with release of the Environmental Impact Statement. The site was selected. Alternative sites were discussed simply to seem to meet

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requirements of law. If you had problems with the proposal, work them out at Mt. Vernon.

In the year and a half since publication of the EIS and the Committee of 100 having bucked conventional wisdom by raising questions about the Mt. Vernon site selection, we have repeatedly seen WCCA delay release of ever increasing budget projections until immediately after votes critical to moving forward at Mt. Vernon Square. Responses to requests for comparison with the Union Station alternative, if made, were usually done immediately before some key action so as to disallow rebuttal before the vote -- and have always been highly biased and inaccurate. Questions have been addressed, but not answered. Concerns have been managed, not met. It is of no comfort that the points and projections initially made by the Committee of 100 are proving true when real responses and action are withheld.

With all respect, this is not the way to make decisions on the District's most important economic development project and most expensive public works project since Metro. We need to be about making the best choice to achieve public policy in partnership with all business interests, not to simply ratify the private decision of the WCCA and its associated interest groups.

Today, you are considering PR 12-840, which authorizes WCCA to sell $650 million par value bonds in order to raise $616 million of net bond proceeds. These are the bond proceeds that WCCA would need if its budget for Mt. Vernon Square was correct. Therefore, before deciding whether to approve this resolution, we request that you carefully consider five questions:

1. Is the Guaranteed Maximum Price for construction of $500.6 million firm? NO
2. Is WCCA's budget for Mt. Vernon Square realistic? NO
3. Is spending on Mt. Vernon Square limited to $650 million? NO
4. Does the proposal for expansion of Mt. Vernon Square (the tunnel notion) make sense? NO
5. Is Union Station North an attractive alternative? YES

To elaborate on the answers to these questions is John Forrer. Mr. Forrer is a former official of the federal OMB and the New York City Budget Bureau. For the past 15 years he has been a private developer, who has put together many budgets and financing plans for substantive construction projects. In addition to summarizing his analysis, Mr. Forrer will be sharing with us the work of another consultant to the Committee of 100, Robin Godfrey. Ms. Godfrey is the principal of Scharf-Godfrey, Inc., one of the preeminent construction cost estimating firms in the nation. Ms. Godfrey regrets not being available to you today.

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1. Is the Guaranteed Maximum Price of $500.6 Million Firm? -- NO

The proposed construction management contract between WCCA and Clark-Smoot contains a so-called guaranteed maximum price or GMP of $500.6 million. However, while a majority of the construction costs are indeed guaranteed, there are so many exceptions, allowances and omissions from the guarantee that a significant amount of the contract is in reality a cost plus expenses contract. As stated in the attached summary report from Scharf-Godfrey, Inc., one of the preeminent construction cost estimation firms in the nation, "this leaves the contract open to a considerable overrun with no control on the costs."

Some of the exceptions are normal for a contract of this kind. Examples include increases in the scope of work ordered by WCCA and acts of God (floods, earthquakes, etc.). Other exceptions are unavoidable for this particular project. The most important and potentially costly is unforeseen underground soil or water conditions, since Mount Vernon Square requires the largest deep excavation ever undertaken in the District of Columbia.

Many exceptions are unusual, however, and do not appear to be in the best interest of WCCA or the City. These exceptions are summarized in the attached report from Scharf-Godfrey.. The report details many items that would normally be included in a GMP without limitation but which in this case have been treated as allowances so that the contractor will be entitled to increases in the GMP if the allowances are exceeded. One example is lighting equipment, which was previously budgeted at $12 million but is now included as an allowance of $10 million. The revised contract also contains no ceiling on the contractor's general conditions, whereas GMP contracts almost always put a ceiling on such costs to protect the owner.

In addition, under the guise of value engineering, a number of elements of the design have either been eliminated or altered in ways that appear to be unwise and probably unreal. Examples include the elimination of the grand staircase to the ballroom and elimination of the sound insulation from the heating and air conditioning ducts. The former raises questions about how thousands will exit quickly from the ballroom after a meeting as well as sacrifices an esthetic value of the original plans, and the latter raises the prospect of noisy conditions which will disturb meetings throughout the center. Both should, and probably will, be restored to the scope of work through change orders, but at a cost which will be significantly higher than if they had been included in the GMP in the first place.

It is clear that the $500.6 million is not the final GMP. How much it will increase before the job is completed cannot be known with certainty, but funds must be included in the budget to cover our best guess. Given the present construction contract and the present status of design development, Scharf-Godfrey believes that a contingency allowance of $100 million is needed for construction costs alone. Since WCCA's contingency allowance of $30 million is needed for non construction items, Scharf-Godfrey concludes that the WCCA budget is understated by $100 million.

NEW WASHINGTON CONVENTION CENTER 06/25/98
CONSTRUCTION MANAGEMENT AGREEMENT
AND GUARANTEED MAXIMUM PRICE PROPOSAL

Approved Value Engineering and Cost Reduction
Scharf-Godfrey Inc. Comments

VE 1.2 Reduce survey costs
This is a false reduction, the costs are still in the project GMP.

VE 1.8 Remove requirement for maximum of General Conditions and General Requirements.
This item becomes a reimbursable cost with no cap, which equals a Cost Plus Expenses Contract, not a Guaranteed Maximum Price Contract.

VE 2.3 Eliminate Clark/Smoot responsibility for unforeseen soil conditions and delay for hazardous material remediation.
As above ,this item becomes a reimbursable cost with no cap, which equals a Cost Plus Expenses Contract, not a Guaranteed Maximum Price Contract.

VE M.2a Outsourcing of the central plant and associated production.
This is a reduction in the GMP and an increase in overall costs through operating expenses over the long term --there is no cap on this cost.

VE M.2 Delete voice and data, telephone and intercom systems.
This is a deferred cost, the systems are still required for the proper functioning of the facility and the cost remains although not in the GMP.

VE M.11 Delete food service equipment.
This reduction relies on vendors to install their own equipment, which may or may not happen. The likely result is a reduction in quality of food services which impacts the quality of the Convention Center.

VE M.12 Delete all Metro work.
This reduction is based on WAMTA doing any modifications to the Metro station to accommodate the Convention Center.

The following "cost reductions" simply transfer costs from the GMP to a cost plus status

VE 3.4 Reduce canopy allowance to $1,800,000
VE 5.8 Reduce miscellaneous metals
VE 5.17 Provide ornamental handrail allowance
VE 9.5 Reduce allowance for the Ballroom Prefunction ceiling
VE 9.19 Use carpet allowance in lieu of current budget
VE 9.22 Establish allowance of $1,300,000 for Ballroom ceiling
VE 9.23 Reduce fabric wrapped panel quantity by 10,000 SF
* VE 16.1 Reduce light fixture allowance from $12, 000,000 to $10,000,000
VE M.13 Change the security system requirements to an allowance

*This is a good example of how it is possible to really reduce the cost of an item, with the likely result of a future decision that the quality has been reduced to an unacceptable level and therefore a Change Order is the result.

A number of VE items (45) reduce the budget resulting in a reduction of quality which will be noticed. An example is the reduction in the cost of the ductwork which will result in an unacceptable increase in the noise level throughout the Center,

The following VE items affect the quality of function both in building operation and/or flow of visitor traffic:

VE 9.20
VE 10.1
VE 14.2
VE 14.3
VE 15.8
VE 15.12

Despite shifting cost reponsibilities to WCCA, the reserves for contingency are reduced from $58,000,000 (13% of construction costs) to $30,000,000 (6% of construction costs). Instead, the contingency should have been increased to 15% of construction costs ($75,000,000) for unforseen costs at this stage of design (95% design development which is not yet 50% construction document completion) plus an extra 5% of construction costs ($25,000,000) for the allowances, questionable deleted items and absence of a maximum for General Conditions and General Requirements. In addition, a contingency allowance for non construction costs is also needed.

Although the majority of the contract remains a Guaranteed Maximum Price, with the many open ended allowances a significant amount of the contract is a cost plus expense contract. This leaves the contract open to a considerable overrun with no control on the costs.

Items taken out of the GMP just shift costs which remain to some other source of funds and/or additional future expenditure and do not reduce the cost to the public of the Center. The ultimate cost is of real concern in the items/conditions which allow Clark/Smoot Change Orders. Change Orders often result in a cost for the change which is over and above what the cost would have been originally.

In the opinion of Scharf-Godfrey Inc. the budget is understated by approximately $100,000,000.

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2. Is WCCA's Budget for Mount Vernon Square Realistic? – NO!

In 1993 the cost of building a new convention center at Mount Vernon Square (MVS) was estimated at $450 million. By early 1997, the Washington Convention Center Authority (WCCA) increased this estimate to $550 million, and in late 1997 they upped their estimate again to $650 million. At that time several members of this Council said they would live with $650 million for MVS, but if the cost went any higher they would no longer support this site.

On May 29, 1998, WCCA released another budget. In it, the construction cost was increased by $81 million and pre-development and mitigation costs were increased by $7 million. However, in order to make it appear that the budget still totaled only $650 million, that budget simply omitted all costs for site remediation, Metro improvements, utility relocation, food service and communications equipment and the central heating/cooling plant, all of which had been included in the previous budgets. The new budget also reduced the contingency allowance from $58 million to $30 million.

In addition, WCCA acknowledged that the largest unknown cost of the project - - unforeseen subsoil and hydrology conditions -- had been shifted from the GMP to the reduced contingency allowance. The attached memo from James O'Conner, the D.C. geologist for 23 years until his retirement last year, details the precarious subsoil and hydrology conditions at MVS and concludes that major unforeseen costs are almost inevitable. WCCA also disclosed that 16 construction cost elements previously budgeted at $50 million are now included in the GMP as allowances totaling only $35 million. The risk of cost overruns in all of these categories as well as others must now be covered by the contingency allowance.

In its June 19 request for a bond resolution, WCCA came up with yet another budget. This time the change was relatively minor - they added back the site remediation item they had omitted on May 29, albeit at only $5 million rather than the $11 million included in previous budgets. However, they also reduced the A&E budget by $5 million, even though that budget had been increased by $10 million on May 29. Therefore, as expected, the total remained at $650 million.

This latest budget, like all of its predecessors, is grossly understated. As can be seen on the attached table, WCCA's own estimates for the items which were included in previous budgets now total $703 million, and a realistic contingency allowance per Scharf-Godfrey would add $100 million more. Therefore, a realistic total for the same budget categories included when a $650 million ceiling was set now equals $798 million.

And even that figure is still not the true total cost of the project. All of WCCA's budgets omit both the value of the land which the city is contributing and the financing costs and reserves required in order to sell the bonds. When these items are included, a realistic estimate of the total resources required to build a new convention center at Mount Vernon Square is $985 million.

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COST ESTIMATES FOR MOUNT VERNON SQUARE
(Dollars in Millions)

	Previous WCCA Budget	5/29/98 WCCA Budget	06/19/98 WCCA Budget	07/06/98 Realistic Budget
Pre-Development & Mitigation				
Private Land Acquisition	5	5	5	5
Design/A&E Services	24	34	29	29
Other Pre-Development	46	45	45	45
Sec. 106 Mitigation	16	13	13	13
Total Pre-Development & Mitigation	91	97	92	92
Construction				
Allowance Items in GMP	50	35	35	35
Other Building and Site Costs in GMP	370	466	466	466
Soil Remediation & Hazmat	11	0	5	5
Total Construction	431	501	506	506
Furniture, Fixtures & Equipment Excluding Food Service and Communications	22	22	22	22
Reserve For Contingencies (Authority)	58	30	30	130
Project Cost As Redefined	602	650	650	750
Items Omitted From 5/29/98 and 6/19/98 Budgets				
Environmental Remediation	0	5	0	0
Metro Station	23	23	23	23
Utility Relocation	8	8	8	8
Food Service and Communications Equipment	12	12	12	12
Central Heating/Cooling Plant Formerly in GMP	5	5	5	5
Total Items Omitted	48	53	48	48
Project Cost as Previously Defined	**650**	**703**	**698**	**798**
City Land Donation	0	0	0	61
Financing Costs and Reserves				
Bond Issuance Costs	12	12	12	12
Funded Reserves	75	104	104	114
Total Financing Costs & Reserves	87	116	116	126
Total Project Costs	**737**	**819**	**814**	**985**

May 29, 1998

TO: DC CITY COUNCIL MEMBERS
RE: PUBLIC HEARINGS ON FINANCIAL PLAN
FOR WCCA MT. VERNON CONVENTION SITE

I am James V. O'Connor. From 1974-1997, I served as Associate Professor of Geoscience and DC city geologist at UDC. From 1988-1992, I was responsible for developing, placing and testing the federal-state groundwater monitoring well system for the District of Columbia as part of the state mandate by Congress under the Clean Water Act. Funding for the program was from EPA & USGS through the DC C&RA and DCWRRC. I present testimony here today as an unpaid volunteer member of the water resources committee of the Committee of 100 with twenty-five years experience in the geology and hydrology of underground DC.

My concerns are with the short and long term costs related to the natural earth science parameters encountered pre-during-post construction at the Mt Vernon site and comments on the pollution mitigation issues at the Northeast 1 site especially from this mornings testimony.

GROUNDWATER AT MT VERNON-SHAW SITE:

Controlling groundwater for construction downtown is always a major cost and usually involves cost overruns despite preconstruction pump tests. This site has two different groundwater systems that have constantly plagued the green line UDC METRO STATION here.

The pump test-well analysis for this project will require that 50-500 gal/min must be pumped and treated every day for the life of the building. Data from the architect state that these are real seasonal norms for the area. This water must be collected, pumped, treated and lifted to be disposed into the DC street sewer system forever. We are looking at 3000 gal/hr to 30,000 gal/hr. If the pumps fail or if maintenance fails or if cost cutting civil engineering is used, structural integrity begins to happen. Think about why and what happened at the failure of the O ST slurry wall– built to last forever. The water is from two different aquifers with different pressure systems that will be cut into to form an intermixed system. Is this design impact considered in the costs presented this morning??? I would like to see the groundwater control plan so that true costs of the underground construction phase are known.

COMPARISON TO: REAGAN INTERNATIONAL TRADE CENTER groundwater control system

The Reagan Center currently pumps 1000 gal/hr. While it just opened to the public, its construction took place over the last five years and the slurry wall has been in place for four years. It has the latest designed state of the art pumping systems with 7 basement containment well sites across the 8 acres. Each well site has two high powered pumps with two backup pumps on emergency generators. THIS SITE IS HALF THE SIZE OF THE MT VERNON SITE & has similar but much lower groundwater problems and issues. They also planned for expected new EPA urban water quality directives with three separate water disposal and treatment facilities: groundwater, stormwater and sanitary sewer. This was changed after the original plan but prevents retrofitting costs in the near future and is ready for changes to the DC sewer flow system. Will the cost of Mt Vernon contain state-of -the art equipment to handle the new water quality-urban disposal regulations for the next century before it opens??

9

O'C p-2

WHERE DO YOU PUT THE COST OF THE GROUNDWATER CONTROL SYSTEM?
THERE IS A MAJOR GROUNDWATER COST DURING ALL THREE PHASES.

Pre-construction phase involves pumping tests to determine baseline levels, quantity and quality. A groundwater management plan is developed and a dewatering system placed with all the proper groundwater extraction and disposal permits granted.
Major hidden or unknown cost is the role and amount of subsidence that will occur and where. I have asked for the pumping test reports for two months through the C1[illegible]0 but have not been able [illegible] get a copy to study and determine the extent and depth of the cone of depression. Permanent depression on the water tables here - contrary to DC groundwater law- will have settlement impacts. How much and where I cannot determine without the engineering design pump study. The source of the groundwater from the north and the nature of the porous geologic gravelly and sandy sediments makes settlement very predictable if the water is withdraw for a substantial period of time or quickly if any major vibrations cause compaction/loss of the void space. Costs here come from settling claims with the neighbors and could be paid by insurance company (depends on policies).

Construction phase will involved a well dewatering system and treatment/collection system in and around the site as well as monitoring wells through the neighborhood to document subsidence issues for the insurance companies. The slurry wall process will involve creation of slurry ponds and recycling systems as well as run of control and washing facilities for the machines and trucks. This messy operation always involves violations- added costs and problems offsite. Water and liquefaction (quicksand) are always issues in large projects in 40 feet of continuous groundwater especially with a quickclay potential foundation bottom. Maintaining the structural integrity of the subway during pumping and construction will also be a challenge closely watched by METRO and its engineers.

Operational phase will involve groundwater control to keep the building safe forever. Seeps will be natural but controlling the water will be critical to floor and wall stability. The equipment and maintenance schedules must be first class and kept at all costs-check out all slurry wall buildings downtown since 1978- important annual cost.

POTENTIAL COSTS RELATED TO GEOLOGY OF MT VERNON SITE

WCCA reports to the council questions from March 98 meetings state that the site geology and soils are generally favorable for this kind of construction. The boring logs and geological cross sections of both this site and neighboring green line on 7th St bear this out. **There is 5-15% plastic or swelling clay of the Potomac group geology that is a physical problem on site.** The main lense of plastic clay is not very thick and somewhat broken across the middle and east side of the whole site but occurs where the foundation slabs are projected to be placed. This geological occurrence may or may not be included in the construction costs. It will cause problems and it will require funds to deal with- quite sure this will come under the EXTRA PAY clauses one way or the other.

O'C p-3

Every slurry wall in DC, e.g. O St, Smithsonian Asian-African Museums, Reagan Center, has encountered hydrogeologic freaks that caused extra expenditures. While these geologic oddities appeared on all the borings and logs, they were ignored as minor blips in the majority construction.
In all cases, the minority geology caused major cost overruns. I always worry about building on physical challenging geology with cost cutting and low bidding as the norm up front.
IF YOU SKIMP ON PROPER GEOTECHNICAL ENGINEERING, YOU WILL PAY DEARLY IN THE LONG RUN.

NORTHEAST 1-UNION STATION SITE- COMMENTS ON HYDROGEOLOGY

This mornings testimony raised the issue of cleanup costs at the Union station site as part of the cost comparison and choice alternatives. The comments were made on the data from the CSX assessment and DC UST reports from 1988-1989. The figures quoted were for a development plan and technology/laws for clean up ten years ago. Most of the 50 million was for excavation and transport of the polluted soil off site. New technology and legal changes in cleanup risk management since 1988 have dropped the clean-up costs and fostered in-situ methods of mitigation versus hauling away.
The real issue is the removal of the floating fuels above the shallow water table which CSX has been doing since they reported the problem to DC in 1988 in complying with DC water law. An all out cleanup of the float could be done very quickly [illegible] and low cost (a few million dollars) if it were necessary (selling of property deadline). As a former industrial site it is dirty. The CSX site is a smaller track and has a uniform pollution product as opposed to the 33 potential USTs sites cited in the 1997 environmental reports for Mt Vernon where numerous different land uses provided different petroleum products to the water and soil and which require a host of different treatment and hauling solutions. This multi pollution range at Mt Vernon is ideal for potential cost overruns from the unexpected as the WCCA cleanup budget dropped from 11,000 to 3000 dollars in the morning presentation (I am not sure what the new evidence was to drop down Mt Vernon remediation costs in today's revised budget).

I would be willing to work with any council person, city agency or WCCA team to help.

While we need a strong and vital convention center to spark this city forward, we do not need nor should we go into a plan that is second class and with short term gains for a limited few. Plan it big. Plan it right. Make it a showcase to rally around. If you spend so much of the city's funds, make sure the 30 year economic returns are truly there at Mt Vernon.

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3. Is Spending on Mount Vernon Square Limited to $650 Million? – NO!

Although the latest budget put forth by the Washington Convention Center Authority (WCCA) for the Mount Vernon Square (MVS) site still pretends to be capped at $650 million, Bill 12-379 does not limit spending to $650 million <u>or to any other number.</u> WCCA is permitted to spend whatever it can raise from bond proceeds and other sources.

PR 12-840 authorizes the sale of $650 million of bonds, which are expected to yield $616 million of net proceeds. With these proceeds, WCCA currently acknowledges plans to spend about $814 million on MVS as follows:

Sources of Funds:	
Bond Proceeds	$616
Cash On Hand or Already Spent as of 7/1/98	100
Federal Grants	31
Vendor Contributions	17
Earnings During Construction	50
Total Sources of Funds	814
Uses of Funds:	
Cost of Bond Sale	12
Debt Service, Operating and Capital Reserves	104
Project Costs Per WCCA Budget	650
Other Costs: Metro Station	23
Utility Relocation	8
Heating & Cooling Plant	5
Food Service & Communication Equipment	12
Total Uses of Funds	814

However, even $814 million is not a ceiling. The revenue and coverage projections used in connection with $616 million of bond proceeds are extremely conservative. It is likely that up to $75 million or perhaps even $100 million of additional bonds can be supported with the dedicated taxes authorized in Bill 12-379. It is also probable that cash on hand or already spent at time of bond sale will somewhat exceed the current estimate. And, of course, the financing plan assumes that the City will contribute land with a current assessed value of $61 million.

Therefore, WCCA can probably increase spending to over $900 million, and total project costs including city land to over $960 million, without requiring further legislative action other than another bond resolution in a year or two to sell additional bonds to complete the project. Is this their real plan? Have they deliberately understated the budget, and hence the bond requirements, with the intention of authorizing more bonds later? Will the bond indenture allow more bonds backed by the same tax revenues? WCCA should answer those questions.

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4. Does the Proposal for Future Expansion of Mount Vernon Square Make Sense? – NO!

Aside from its ever increasing cost, the biggest weakness of MVS is its lack of room for future expansion. Responding to public criticism, on May 29, 1998 WCCA suggested that this problem could be solved by connecting the new center to the old center site with a tunnel, tearing down the old center and replacing it with a new complex that would have 300,000 square feet of exhibition space below ground and a multi-use complex above ground with three hotels.

The economic and technical feasibility of such a scheme is highly dubious, especially since public funds are to be used to build the expensive underground exhibition space while private funds would build the above ground portion. However, the bigger problem is that <u>even if the complex were built,</u> it would <u>not</u> meet the expansion needs of the new convention center.

Convention planners and the companies who exhibit at conventions want exhibit space which is close to the meeting rooms and assembly halls at which the main events of the convention take place. Otherwise, convention attendees will never see the exhibits. Exhibit space located three blocks away, even if connected by an underground tunnel, would not be acceptable.

Ideally, convention centers have at least 3 times the amount of exhibition space needed by the average convention they are designed to serve. This enables them to have one average-sized convention open at all times, since it takes three days to set up, the convention is open for three days, and it takes three days to tear it down. In 1997, the average convention in the United States utilized 230,000 square feet of gross exhibition space. By 2001, this number is projected to grow to 260,000 square feet. If conventions continue to expand, by 2010 the average convention will need at least 300,000 square feet of exhibition space (1997 Guide to Exhibition Marketing and Management - 2nd Edition).

The design for MVS has one 500,000 square foot exhibit hall underground and one 230,000 square foot exhibit hall on the second floor. Today this facility could barely handle three average sized conventions, but by the time it opens in 2003 it would already be small for three <u>average</u> conventions. If conventions continue to grow in size, by 2010 the new center clearly would be able to handle only two conventions at once.

The purpose of expansion space is to increase the size of the exhibit areas so that the center could continue to serve three average conventions at the same time. In order to accomplish this goal, expansion space would need to be immediately adjacent to one if not both of the exhibit halls. Additional space two or three blocks away is of little use for this purpose. WCCA's "expansion plan" is really not an expansion plan at all. Instead, it is a proposal to build a separate center with 300,000 square feet of exhibit space two or three blocks away. Expansion space for the MVS center would still be needed. None will be available.

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5. Is Union Station North A Financially Realistic Alternative? – YES!

The Committee of 100 (C100) estimates that a new convention center of the same size can be built at Union Station North (USN) for approximately $250 million less than at Mount Vernon Square (MVS). At the hearing on May 29, WCCA presented a budget for USN which alleges that USN would cost more than MVS. The three budgets are set forth on the attached table.

Which is correct? In our judgment, the budget for USN presented by WCCA is grossly distorted in the following key respects:

a. Construction. Both parties agree that construction costs will be considerably less at USN than at MVS because the USN site is large enough to permit the center to be built at grade and thus avoid the expensive underground construction required at MVS. The WCCA estimate for USN is now $386 million. C100 experts put the cost at $350 million. Since our experts have turned out to be right on the GMP at MVS, there is reason to use their estimate for USN.

b. Land acquisition and remediation. The WCCA figures include both a private land acquisition cost of $70 million and a remediation cost of $50 million. The $70 million acquisition cost is undoubtedly more than the actual cost would be since it is merely the owners' initial asking price and it is substantially above the assessed value of the property. The remediation cost is also greatly overstated, since experts consulted by C100 indicate that the problems on the CSX site are typical of former industrial sites and can be dealt with for a small fraction of the cost and time put forth by WCCA. More importantly, CSX has indicated in writing that the cost of remediation can be subtracted from the cost of acquiring the land, which accords with their legal responsibility for the entire cost of removing or containing hazardous materials on their land.

c. Metro. WCCA includes $75 million for the full cost of a new Metro station in the USN numbers while not even including the cost of the Metro improvements in the MVS numbers. C100 does not believe that the convention center at USN needs a new Metro station when the existing Metro station at Union Station is only 4 blocks away. If and when a new station is needed to support total redevelopment of the area, it should be paid for with Federal or regional funds just like the improvements at MVS.

d. Parking. WCCA includes $55 million for parking at USN and nothing at MVS. In fact, both sites need additional parking, but it is not necessary to include such costs in the budget for either site. At both sites, either private funds can acquire the land and build the needed parking or WCCA can use the parking revenues to support a separate bond issue that could be floated for this purpose.

e. Pre-Development Costs. The WCCA estimate includes $24 million to repeat all of the costs incurred to date on MVS. This is clearly overstated, since a new EIS would not be needed,

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the same program plans can be used, no new fiscal impact study by Coopers and Lybrand would be needed, etc. The C100 estimate includes $10 million more for pre-development costs at USN than for MVS, which should be more than sufficient to cover the redesign and repermitting costs.

f. Cost Escalation. WCCA says that $30 million extra must be included for cost escalation since the start of construction at USN would be delayed for at least a year. They are correct that there will be escalation costs, but they are wrong that this requires a budget increase. The additional taxes that will be collected by the Authority prior to the start of construction will more than cover the cost escalation that will occur during this period, so no additional financing is required for this purpose.

g. Contingency. WCCA includes $53 million for contingencies, which is only about 6% of their estimated project costs. C100's contingency allowance is $100 million, which is approximately 20% of our estimated project costs. Clearly our estimate is more realistic.

Therefore, the cost of building the center at the larger USN site is indeed about $250 million less than at MVS. Not only would this bring the project cost (as previously defined for MVS) below the $650 million "ceiling", but it would also make it possible to consider such additional steps as (a) using the proceeds from new bonds to pay off the bonds on the old center which are now being paid out of the general funds of the District, or (b) reducing the length of the new bonds from 34 years to about 20 years, thus possibly enabling the same dedicated taxes to be used to pay for future expansion once the initial bonds are paid off.

MOREOVER, C100 BELIEVES THAT A CONVENTION CENTER AT USN COULD BE COMPLETED AND OPERATING 6-12 MONTHS SOONER THAN AT MVS BECAUSE NO HEAVY EXCAVATION WORK WOULD BE REQUIRED. This estimate is based on a construction time that would be 18-24 months less than the four and one half years proposed for MVS, and it allows a year for redesigning and repermitting the center to fit the new site. WCCA's chairman suggested that this additional pre-development work could take five years, but there is absolutely no reason why this should be so. With proper leadership, there is no reason why WCCA could not be back in front of this Committee one year from today with plans and budgets for USN which are at the same stage of development as the plans for MVS are now.

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COST ESTIMATES FOR UNION STATION NORTH
(DOLLARS IN MILLIONS)

	Realistic MVS Budget	WCCA USN Budget	Realistic USN Budget
Pre-Development & Mitigation			
Private Land Acquisition	5	70	48
Design/A&E Services	29	50	39
Other Pre-Development	45	53	48
Sec. 106 Mitigation	13	0	0
Total Pre-Development & Mitigation	92	173	135
Construction			
Allowance Items in GMP	35	35	35
Other Building and Site Costs in GMP	466	346	310
Soil Remediation & Hazmat	5	30	3
Total Construction	506	411	348
Furniture, Fixtures & Equipment Excluding Food Service and Communications	22	22	22
Reserve For Contingencies (Authority)	130	53	100
Project Cost As Redefined	750	659	605
Items Omitted From 5/29/98 and 6/19/98 Budgets			
Environmental Remediation	0	50	3
Metro Station	23	75	3
Parking	0	55	0
Utility Relocation	8	0	0
Food Service and Communication Equipment	12	12	12
Central Heating/Cooling Plant Formerly in GMP	5	5	5
Total Items Omitted	48	197	23
Project Cost as Previously Defined	798	856	628
City Land Donation	61	11	11
Financing Costs and Reserves			
Bond Issuance Costs	12	10	10
Funded Reserves	114	116	80
Total Financing Costs & Reserves	126	126	90
Total Project Costs	985	993	729

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Closing statement by John Forrer

I am here as a consultant to the Committee of 100, but in closing I would like to make some personal remarks as a resident of the District of Columbia.

You have heard the answers to the five questions posed at the start.

-The Guaranteed Maximum Price for Mount Vernon Square is only partially guaranteed and it is definitely not maximum.

-The budget for Mount Vernon Square is grossly understated. On basis comparable to past budgets, it should now be $800 million, and full project costs are even higher.

-Expenditures are not limited to $650 million, and WCCA probably plans to spend at a much higher rate.

-The proposed expansion plans don't work.

-And Union Station North could save about $250 million.

It is time to be honest with ourselves about the Mount Vernon Square site. It is simply too small. We need a larger site in order to build a first class new convention center. Union Station North is such a site. The many advantages of Union Station North over Mount Vernon Square are summarized on the last page of the package you have before you. I hope you will give them serious attention. It is critically important to the economic development of the District that we build the best convention center possible in order that we can once again attract major conventions and trade shows to the District.

A lot of effort by dedicated and able people has gone into the plans for Mount Vernon Square, and the design they have produced is the best that could be done on that difficult site. But that is not a reason to continue. It is hard to stop a train when it has picked up this much speed, but trains do have brakes and they can be stopped in an emergency. This is an emergency! Let's stop the train before we build another inadequate convention center to which the wanted conventions will once again stop coming after a few years because it is once again too small, poorly laid out internally, and possibly even a safety risk with its major exhibition space 50 feet below ground where thousands of conventioneers could be trapped in case of a major fire or bomb scare.

I urge the City Council to reject PR 12-840 and instead instruct the WCCA and their team of professionals to turn their full attention to designing a better center on the Union Station North site. In a few months we will know whether there are any insurmountable unforeseen problems at Union Station North. If there are, we can always come back to Mount Vernon Square. But if there aren't, and if everyone pulls together, we can be back in front of this Committee a year from today requesting approval for a $650 million bond resolution that will honestly be sufficient to build a truly first class convention center for the District of Columbia on the new

The COMMITTEE of 100 on the FEDERAL CITY
founded 1923

COMPARISON OF MOUNT VERNON SQUARE AND UNION STATION NORTH

	MVS	USN	Savings
Program (in square feet):			
Exhibition Space	730,000	730,000	
Meeting/Ballroom Space	210,000	210,000	
Size of Site (in acres)	17	27	
Cost (in millions of dollars)			
Development	798	628	170
City Land	61	11	50
Financing	126	90	36
Total Cost	985	729	256
Completion Date	**2003**	**2002**	
Potential for Delay	High	Low	
Room for Expansion	No	Yes	
Room for Contiguous Parking	No	Yes	
Column-Free Exhibition Space	No	Yes	
Contiguous Exhibition Space	No	Yes	
Safety Problem (Below Grade Public Space)	Yes	No	
Catalyst for Other Development	No	Yes	
Impact on Residential Neighborhood	Yes	No	
Distance to Metro Station Entrance	On Site	4 Blocks	
Room for Contiguous New Hotel(s)	No	Yes	
Proximity to Existing Hotels	Good	Fair	
Proximity to Tourist Attractions	Good	Good	

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