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BY THE COMPTROLLER GENERAL

Report To The Senate Committee On Environment And Public Works And To The Subcommittee On Public Buildings And Grounds, House Committee On Public Works And Transportation

OF THE UNITED STATES

RELEASED

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Kennedy Center's Financial Problems Are Serious

The Kennedy Center cannot pay the interest on or provide payment for bonds issued to the U.S. Treasury and still meet its statutory performing arts and public service responsibilities.

Although the Center's theater attendance continues at high levels, the Center

--owes the Treasury over $15 million for unpaid bond interest and $20.4 million for bond principal; and

--does not pay its full share of building maintenance costs, because the cost sharing arrangement with the National Park Service is outdated.

Congressional committees are considering three legislative proposals involving varying costs to the Government and the Center to resolve these problems. Only the Congress can determine the appropriate amount of Government support for the Center's programs.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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

SEN06400

The Honorable Elliot H. Levitas
Chairman, Subcommittee on Public
Buildings and Grounds
Committee on Public Works and Transportation
House of Representatives

HSE03104

This report on the financial problems of the John F. Kennedy Center for the Performing Arts points out that the Center cannot pay its bond indebtedness obligations and still meet its statutory performing arts and public service responsibilities. The report discusses three legislative proposals to resolve these problems.

We made our review pursuant to the Senate Committee Chairman's letter dated March 19, 1979, and the House Subcommittee Chairman's letter dated April 9, 1979. Also Public Law 94-119 requires the General Accounting Office to regularly audit the Center's accounts to determine its ability to pay its share of the operating costs and to assure that the cost sharing formula between the National Park Service and the Center fairly and accurately reflect the use of the building.

As arranged with the Subcommittee's office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the report date. At that time, we will send copies to the Director, Office of Management and Budget; the Secretary of the Interior; the Secretary of the Treasury; the Administrator of General Services; and the Chairman, John F. Kennedy Center for the Performing Arts. We also will send copies to other interested parties and make copies available upon request.

Elmer B. Staats

Comptroller General
of the United States

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COMPTROLLER GENERAL'S REPORT TO THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS AND TO THE SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS, HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

KENNEDY CENTER'S FINANCIAL PROBLEMS ARE SERIOUS

DIGEST

The John F. Kennedy Center for the Performing Arts cannot pay the interest on or provide payment for principal on original construction revenue bonds it issued to the Treasury and still meet its responsibilities as a national cultural center for the performing arts and a presidential memorial.

The Center owed the Treasury $15 million for unpaid bond interest and $20.4 million in bond principal due in 2017 to 2019. The annual bond interest charge was $2 million in fiscal year 1978. (See p. 5.)

From inception in 1971 to September 1978, the Center's revenues have exceeded operating expenses, exclusive of bond interest and principal, by $1.16 million. However, the obligations to the Government for bond interest and principal far exceed the Center's ability to pay. Although the Center's financial results may improve in future years, its prospects for paying the bond indebtedness are doubtful. GAO has noted, however, that opportunities exist for increasing garage revenues and recommends that the Center's Board of Trustees explore the possibilities. (See pp. 5 and 16.)

The Center does not believe that it can divert private contributions now received for programs or raise additional contributions to service a Federal debt. It seems unlikely that the Center could make substantial payments on current bond interest charges and still maintain the current level of its performing arts and public service activities. (See pp. 5 and 6.)

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COST SHARING FORMULA STILL NEEDS REVISION

The Center's financial condition could be even more serious. As noted in prior GAO reports, the Center is not paying its full share of building operation costs because the cost sharing arrangement with the Park Service has not been updated and does not accurately reflect how the building is being used.

On the basis of the Center's use of the three main theaters in fiscal year 1978, the Center should pay 33.5 percent of the shared building operation costs. This increase over the 23.8 percent of the existing formula is due to increased theater usage and reduced hours the building is open to the public. (See p. 17.)

The Center receives sizeable payments from the garage and restaurant concessionaires for utilities. Although the Park Service pays for the utilities, it is reimbursed only at the cost sharing formula rate because its agreement with the Center makes no provision for utility reimbursements received by the Center. (See p. 20.)

The formula should be revised, and the Park Service should receive full reimbursement for utilities provided the concessionaires. However, any material increases in the Center's share of building costs would reduce funds available for meeting its performing arts and public service responsibilities. (See pp. 21 and 22.)

COMPARISON WITH OTHER CENTERS

GAO compared the Kennedy Center with three performing arts centers in other cities. Like the Kennedy Center, all three centers had high attendance levels, but they required varying forms of public and private support to offset shortfalls in box office and other revenues. The Kennedy Center had the most burdensome construction debt to finance.

Due largely to the existence of State and municipal support at the other centers, they seem to receive a relatively greater level of governmental financial support than the Kennedy Center. However, varying organizational arrangements, fund sources, and the Kennedy Center's national memorial aspects complicated these comparisons. (See ch. 4.)

GAO also visited two Washington area theater facilities, both fully maintained by the Park Service. In contrast, the Kennedy Center maintains its five theaters, provides backstage support, and shares overall maintenance costs. (See p. 27.)

LEGISLATIVE PROPOSALS

Two bills (H.R. 3437 and S. 1532) and an Administration proposal, intended to resolve the Center's financial problems, are under consideration by congressional committees.

The proposals take different approaches and involve varying costs to the Government and the Center. All would substantially alter the Center's repayment obligations for bond principal and interest and the cost sharing arrangement with the Park Service. Underlying any adjustment must be a judgment on the appropriate level of Government support to the Center and its programs. (See ch. 5.)

AGENCY COMMENTS

The Kennedy Center concurs with the conclusion that it cannot pay past or future bond interest and still fulfill its statutory responsibilities. It is the Center's view that private gift funds raised for performing arts and public service activities are restricted and cannot be diverted to pay bond interest, and it is unlikely that new funds can be raised for that purpose. While the Center agrees that modest increases in operating income may occur, it states these will be needed to repay bond principal and carry out statutory responsibilities. It concurs that the level of Park Service support needs to be reassessed and clarified. The Center notes that the current cost sharing formula is difficult to administer and increases the Center's Federal payments the more it fulfills its mandate.

The Kennedy Center strongly supports the Administration proposal, even though it estimates its Federal payments would increase by an estimated $230,000. (See p. 39.)

The Department of the Interior agreed that the cost sharing formula for building services requires revision and that the Congress needs to resolve the overall problem. (See p. 40.)

The Department of the Treasury was given the opportunity to comment on the draft report but advised that it had no comments to offer. (See p. 40.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Center cannot meet its bond indebtedness obligations to the Federal Government. Substantial payments by the Center on bond indebtedness or major increases in its share of building costs, without offsetting increases in revenues, could seriously affect its ability to effectively carry out mandated performing arts and public service responsibilities. Only the Congress can determine the appropriate amount of Government support for the Center's programs. (See p. 40.)

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CHAPTER

ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare

CHAPTER 1

INTRODUCTION

The Chairman, Senate Committee on Environment and Public Works, asked in a letter dated March 19, 1979, that we update our prior report on the John F. Kennedy Center for the Performing Arts.

In a letter dated April 9, 1979, the Chairman, Subcommittee on Public Building and Grounds, House Committee on Public Works and Transportation, also asked for an update of our prior report and for our comments on a bill, H.R. 3437, which was introduced at the request of the Center's Board of Trustees.

This audit is required by Public Law 94-119 dated October 21, 1975, which requires the General Accounting Office to regularly audit the Center's accounts to determine the Center's ability to pay its share of the operating costs, and to assure that the cost sharing formula between the National Park Service and the Center fairly and accurately reflects the use of the building. This is the second review under that amendment.

BACKGROUND

The John F. Kennedy Center Act (72 Stat. 1698), as amended, established the Center as a bureau within the Smithsonian Institution and provided a Board of Trustees to administer it. Section 4 of the act requires the Board to (1) present classical and contemporary music, opera, drama, dance, and poetry from this and other countries, (2) present lectures and other programs, (3) develop programs for children, youth, and the elderly (and for other age groups as well) in such arts designed specifically for their participation, education, and recreation, (4) provide facilities for the other civic activities at the Center, and (5) provide, within the Center, a suitable memorial in honor of President Kennedy.

The act, as amended, in 1972 designated the Secretary of the Interior, acting through the National Park Service, to provide maintenance, security, information, interpretation, janitorial, and all other services necessary to the Center's nonperforming arts functions. The Park Service therefore pays the normal security, information, and grounds maintenance costs in total, except for considerable information services provided by Center volunteers. Other operating costs are shared by the Center and the Park Service.

BUILDING USE

The Kennedy Center building, which is located on a 28-acre tract in the District of Columbia, was opened in September 1971. It contains about 1.5 million square feet of floor space, consisting of:

--Three major theaters--the Concert Hall, Opera House, and Eisenhower Theater with seating capacity for 2,750, 2,200, and 1,130 persons, respectively. In 1978, about 4.3 million persons visited the Center and 1.6 million of these attended performances.

--The Terrace Theater, constructed with the aid of $3 million given by the Japanese Government and private Japanese organizations as a Bicentennial commemorative gift, was opened January 1979. It has a seating capacity of about 500 persons and is designed for performing arts in forms not suitable to large theaters, public service, and theatrical development activities.

--The Music Theater Lab, organized jointly with the Stuart Ostrow Foundation, Inc., is used to help develop musicals in a workshop setting. The theater accommodates about 100 persons.

--A film theater, operated by the American Film Institute, with seating capacity for 224 persons.

--A grand foyer that runs the full 630-foot length of the building and provides a central lobby for the three major theaters.

--Two major hallways that traverse the 310-foot width of the building and lead from the grand foyer to the main entrances of the building.

--A restaurant, a cafe, and a cafeteria operated by a private concessionaire.

--A privately operated 3-level underground parking garage, with room for about 1,400 cars.

--About 59,000 square feet of office space.

--A Performing Arts Library, a joint project of the Center and the Library of Congress, which recently opened.

The Friends of the Kennedy Center, the Center's official volunteer auxiliary, conducts daily public tours of the building, operates the souvenir stands, handles specially priced tickets for low income groups, and performs other services. In fiscal year 1978, 290 Friends provided about 64,500 free staff hours valued by the Center at $250,000.

CONSTRUCTION COST

The cost of constructing and equipping the Center as of September 30, 1978, was about $77.5 million, of which $23 million was provided in direct appropriations by the Congress, $20.4 million borrowed from the U.S. Treasury, and $3.9 million paid from funds appropriated to cover claims against the Government. The remaining $30.2 million came primarily from private contributors. The above total construction cost is lower than the amount shown in our prior report (GGD 78-15, Dec. 20, 1977) due to reductions in claims settlement. In addition, the Terrace Theater and the library were being constructed at that date at a cost of of $3.7 million and $222,000 respectively.

The last of the lawsuits involving design and contruction of the building has been settled. This was a claim by the Center's architect and a counter-claim by the Department of Justice which were settled with the architect's agreement to pay the United States the net difference of $25,000.

MAJOR BUILDING REPAIRS

Ever since the building neared completion in the fall of 1971, there have been increasing problems with water leaks from the roof, terraces, and entrance plaza roadway. The National Park Service tried stopgap measures until 1977, when the Congress appropriated $4.5 million for repair work. These funds were used to make the repairs, renovation, and reconstruction necessary to correct the water leaks and interior damage resulting from those leaks.

The repair work remaining to be done is on the roof terrace and the entrance plaza roadway in front of the building. Park Service records show that at October 24, 1979, the roof terrace was 94 percent complete, and the entrance plaza roadway was 96 percent complete. As of October 26, 1979, about $4.2 million of the appropriation had been expended.

PENDING LEGISLATION

Two bills and an Administration proposal intended to provide relief for the Center's bond indebtedness are under consideration by two congressional committees. This pending legislation also adjusts the responsibility for building services and the cost sharing allocation between the Center and the Park Service.

CHAPTER 2

CENTER'S ABILITY TO MEET ITS BOND INDEBTEDNESS OBLIGATIONS DOUBTFUL

The Center is unlikely to be able to meet its obligations for payment of interest and principal on its revenue bonds issued to the Treasury. While the Center's revenues have modestly exceeded operating expenses in most years, no interest or principal payments on the revenue bonds have been made. Since inception through September 30, 1978, revenue from theater operations, restaurant and garage concessions, private contributions, and other income sources have exceeded operating expenses (exclusive of bond interest and principal) by $1.16 million. In contrast, the Center's bond indebtedness amounted to about $35,400,000 at December 31, 1978--$20,400,000 principal plus about $15,000,000 in current and deferred interest. The annual interest charge in fiscal year 1978 was about $2 million. The compounding of interest as a result of interest deferrals in prior years has contributed to this heavy burden. While in future years the Center's financial capacity may improve somewhat, prospects for repaying the bond indebtedness seem slight.

During fiscal years 1977 and 1978, theater attendance continued at high levels. Paid attendance at the Center's three major theaters was about 1.6 million each year and averaged 80 percent of seating capacity in 1978. Overall attendance at Center attractions decreased to 1.7 million in 1978 from 2 million in 1977, mainly because of fewer free attractions due to contruction repair work in the grand foyer and other locations in the building.

The Center's income from restaurant operations declined in 1978 primarily because the restaurant was closed for about 4 months for construction repairs. In July 1979, a new restaurant concessionaire began operating the restaurant.

REVENUE BOND INDEBTEDNESS REMAINS UNPAID

The Center has not paid or set aside any reserves to pay interest or principal due on the revenue bonds. As authorized by Section 9 of the Kennedy Center Act, the Center's Board of Trustees borrowed $20.4 million from the Treasury Department by issuing revenue bonds. The proceeds were to be used to finance the construction of the Center's parking facilities, and the bonds were to be repaid from revenues accruing to the Center. The Center issued 21 revenue bonds between July 1, 1968, and April 30, 1970, with maturity dates ranging from December 31, 2017, to December 31, 2019, and interest rates from 5-1/8 to 6-5/8 percent.

The bonds provide that principal and interest are to be paid from parking revenues. However, no payments have been made to date. Beginning in December 1968, the Board annually requested a deferral of the interest which was granted by the Treasury. In February 1979, the Treasury granted another 1-year deferral through December 1979 after the Center indicated its intent to seek a legislative solution to its financial problems. The Treasury subsequently informed the Center that deferral to December 31, 1980, was acceptable.

The Center's Board of Trustees have taken the position that they cannot pay the interest on the bonds and still meet their mandated performing arts and public service responsibilities. The Chairman has stated that it would be virtually impossible to raise private contributions expressly for the purpose of paying off a debt to the Federal Government.

The Administration's proposal and other proposed legislation to address the Center's problems in paying this bond indebtedness are discussed in chapter 5. As of December 31, 1978, the Center's bond indebtedness totaled $35,374,097--$20,400,000 principal plus $14,974,097 in interest. The annual interest charge, bolstered by the compounding of interest as result of deferrals, reached $2 million in fiscal year 1978.

OPERATING RESULTS

Results of the Center's general fund operations through fiscal year 1978 are summarized in table 1 (see p. 7).

Theater operations

The three main theaters of the Center--the Eisenhower Theater, Concert Hall, and Opera House--had few days when there was not a scheduled attraction in 1978. The booking schedule for the 3 theaters contained a total of 1,049 performances, 283 daytime and 766 evening. While attendance

Table 1

Revenues and Expenses (note a)

	Fiscal Year							
	1972	1973	1974	1975	1976 and transition quarter	1977	1978	Total
Net theater receipts (note b)	$ 4,158,527	$ 2,942,207	$ 2,760,062	$ 3,080,702	$ 3,614,414	$ 2,697,291	$ 3,331,698	$ 22,584,901
Other theater income	-	31,267	49,144	72,417	15,984	10,594	-	179,406
Total	4,158,527	2,973,474	2,809,206	3,153,119	3,630,398	2,707,885	3,331,698	22,764,307
Expenses:								
Operations	6,286,587	4,124,855	3,209,185	3,539,180	3,941,011	3,828,804	4,057,029	c/ 28,986,651
Losses on presentations mandated by legislation (note d) and write-off of production investments	-	-	770,412	965,317	2,565,746	1,081,105	1,174,330	6,556,910
Total	6,286,587	4,124,855	3,979,597	4,504,497	6,506,757	4,909,909	5,231,359	35,543,561
Deficit from theater operations before public support	-2,128,060	-1,151,381	-1,170,391	-1,351,378	-2,876,359	-2,202,024	-1,899,661	-12,779,254
Public support:								
Contributions for programming (note d)	125,460	160,328	228,000	362,492	1,812,896	613,834	947,078	4,250,088
General	1,108,717	361,012	301,046	215,730	523,501	550,940	290,307	3,351,253
Total	1,234,177	521,340	529,046	578,222	2,336,397	1,164,774	1,237,385	7,601,341
Deficit before other income	-893,883	-630,041	-641,345	-773,156	-539,962	-1,037,250	-662,276	-5,177,913
Other income:								
Parking	321,256	436,779	399,519	e/482,410	e/ 738,932	e/ 567,151	e/539,391	e/ 3,485,438
Restaurant (note e)	126,134	223,702	261,041	272,076	398,519	300,203	223,045	1,804,720
Other	170,229	109,275	144,100	206,363	237,282	235,056	g/-57,181	1,045,124
Total	617,619	769,756	804,660	960,849	1,374,733	1,102,410	705,255	6,335,282
Net results of operations	-276,264	139,715	163,315	187,693	834,771	65,160	42,979	1,157,369
Interest expense on revenue bonds	f/3,804,811	1,420,711	1,510,035	1,620,675	2,195,986	1,890,336	2,018,503	14,461,057
Excess of expenses over revenues	$-4,081,075	$-1,280,996	$-1,346,720	$-1,432,982	$-1,361,215	$-1,825,176	$-1,975,524	$-13,303,688

a/The information on this schedule was obtained from the Center's financial statements, which were audited by a public accounting firm. The public accountants rendered unqualified opinions on the statements for all years except fiscal year 1972, when no opinion was expressed because of inadequacies in the accounting records.

b/Includes gross box office receipts, after payment of attraction's share and theater rentals.

c/Includes a noncash expense of $1,027,014 for reserve for repair and replacement of fixed assets.

d/Attractions such as operas and ballets are presented to comply with the legislative mandate to present such attractions.

e/Includes payment for utilities.

f/Includes interest of $998,014 for fiscal year 1972 and $2,826,046 for prior fiscal years.

g/Other income was reduced by increased costs of educational and public service programs included in this category.

at the Center decreased from 2 million in 1977 to 1.7 million in 1978, due mainly to fewer free attractions in 1978 because of construction repair work in the grand foyer and other parts of the building, total paid attendance at the 3 theaters was 1.6 million each year, and in 1978 attendance averaged 80 percent of capacity.

In fiscal year 1978, the Center's box office receipts from the three theaters were $14 million as shown in the following schedule, an increase of $1.8 million over 1977.

	Eisenhower Theater	Opera House	Concert Hall	Total
Box office receipts	$3,555,270	$8,595,727	$2,004,060	$14,155,057
Less:				
Attraction share	2,558,934	7,321,119	2,004,060	11,884,113
	996,336	1,274,608	-	2,270,944
Add:				
Theater rentals	80,500	467,346	512,908	1,060,754
Net theater receipts	$1,076,836	$1,741,954	$ 512,908	$ 3,331,698

To book these theaters, the Center uses various forms of contractural arrangements with the performing attractions. These arrangements can be categorized into four basic types.

--The Center licenses the use of the theater to the attraction at standard or negotiated rates, and the attraction retains the box office receipts.

--The Center invests funds to produce or coproduce the attraction and shares in the box office receipts.

--A third type of contractual arrangement, usually for opera and ballet, provides for the Center to retain all box office receipts and pay the attraction a negotiated fee and expenses for the performances.

--In the fourth type of contract, the Center receives a negotiated percentage of the box office receipts with a guaranteed minumum, and the attraction receives the remainder of the box office receipts.

When booking attractions, the Center considers its public service objectives as well as expected profitability. Many attractions are presented despite the likelihood of losses because, according to Center officials, the attractions fulfill its legislative responsibility for educational and public service and a broad range of cultural programs.

In addition to booking attractions produced by others, the Center books attractions which it has produced, coproduced, or joint ventured. "Annie," one of the Center's coproduced presentations, has appeared in other theaters and provided additional income to the Center. Others, such as "Somersaults," "Gracious Living," and "Players," had sizeable deficits written off in 1978.

Kennedy Center Productions, Inc., a nonprofit corporation organized in 1972, has assisted the Center in financing numerous productions through a line of bank credit guaranteed by private individuals. The corporation invests funds in Center productions and receives a share of any proceeds in return. The Center has no liability for any losses on the investments--such losses are absorbed by the corporation. Any operating profits would ultimately go to the Center. In fiscal year 1978, the corporation experienced a net deficit of $214,000 from its investment in 12 productions.

Each attraction at the Center has its own ticket price scale. The Center suggests guidelines to follow, but the final ticket pricing decision rests with the producer. Factors considered in the ticket price include (1) the Center's overhead expense, (2) the producer's costs, and (3) supply and demand factors of the theatrical market. The Center has a specially priced ticket program for most performances. This program allows 15 percent of the tickets to performances other than those on Saturday evening to be offered at half price to students, senior citizens, the handicapped, lowergraded military personnel, and low-income groups. The Center reported that 115,000 tickets were sold in fiscal year 1979 through this program, which would have provided $763,000 additional gross income if sold at full price.

In addition to the Center's three main theaters, the Center operates two smaller theaters, the Music Theater Lab and the Terrace Theater. The Music Theater, joint venture with the Ostrow Foundation, is used to help develop new musical projects and children's programs. Performances are free, and the theater is operated at a loss. The Center considers this theater is a part of its legislatively mandated public service programs. The Japanese Government and private Japanese organizations donated $3 million as a Bicentennial commemorative gift, which was used for construction of the Terrace Theater. The theater, completed in January 1979, has been used in the Center's public service efforts, education, and the development of new talent and works in dance, music, and theater in forms not suitable to large theaters. Admission is paid for many performances; others such as children's programing are free, and the theater operates at a loss.

Under a December 1974 agreement, the Center also provides management services and direction for the operation of the National Theater. The theater is located in Washington, D.C., and owned by the New National Theater Corporation, a nonprofit corporation. In fiscal year 1978, the Center received a management fee of $32,367, a $13,968 share of operating surplus, and cost reimbursements of $155,746. In an October 1979 press release, the Center and the National Theater jointly announced that a plan to establish the theater as an independent operation had been completed, and the existing agreement would be terminated within 90 days.

Garage operations

The Center's parking garage is operated by the Airport Parking Company of America-Washington, Inc., under a contract awarded by the Center in February 1969. For calendar years 1972 to 1978, the Center's share of parking revenues was $1,462,487 after payments of principal totaling $1,633,316 and payments of interest of $1,621,083, as shown in table 2 (see p. 11). The Center's share of revenues decreased in 1978 because of higher interest cost and construction repair work on the roadway entrance plaza.

In accordance with the contract terms, the company advanced the Center $3,500,000 to be repaid from profits over a 15-year period beginning in 1972. After deductions for interest on the advance and amortization of the principal, profits are split evenly between the concessionaire and the Center. The contract gives the concessionaire a 10-year renewal option and provides that the Center can repay the advance without penalty before the end of the initial

Table 2

Parking Revenues and Center's Share

	1972	1973	1974	1975	1976 and transition quarter	1977	1978	Total
Gross revenue	$1,084,868	$1,129,208	$1,221,833	$1,261,373	$1,427,880	$1,377,994	$1,213,270	$8,716,426
Expenses:								
Operations	184,180	170,972	195,555	a/283,529	a/328,394	a/369,767	a/352,242	1,884,639
Management fee (5 percent of gross revenue)	54,243	56,460	61,092	63,069	71,394	68,900	60,663	435,821
Total	238,423	227,432	256,647	346,598	399,788	438,667	412,905	2,320,460
Net operating profit	846,445	901,776	965,186	914,775	1,028,092	939,327	800,365	6,395,966
Payments on advance:								
Interest (note b)	201,250	310,333	326,083	210,001	166,833	180,833	225,750	1,621,083
Amortization of principal	233,333	233,333	233,328	233,333	233,333	233,328	233,328	1,633,316
Total	434,583	543,666	559,411	443,334	400,166	414,161	459,078	3,254,399
Balance available	411,862	358,110	405,775	471,441	627,926	525,166	341,287	3,141,567
Center's share (50 percent)	205,931	179,055	202,888	235,720	313,963	262,583	170,643	1,570,783
Less validations (note c)	32,507	13,422	11,855	12,010	12,065	11,973	14,464	108,296
Center's net share	$ 173,424	$ 165,633	$ 191,032	$ 223,711	$ 301,898	$ 250,610	$ 156,179	$1,462,487

a/Includes $72,000 paid to the Center for utilities.

b/Interest is determined by the prime rate of the Chase Manhattan Bank at November 15 of each year. The rate was 5-3/4 percent in 1972, 9-1/2 percent in 1973, 10-3/4 percent in 1974, 7-1/2 percent in 1975, 6-1/2 percent in 1976, 7-3/4 percent in 1977, and 10-3/4 percent in 1978.

c/A patron purchasing tickets is allowed 30 minutes of free parking for which payment is made by the Center to the parking concessionaire.

15-year term. After the advance is repaid--at the present repayment rate, in 1987--the Center will receive 70 percent of net profits on annual gross receipts up to $1.5 million and 80 percent when gross receipts exceed $1.5 million.

Maximizing garage revenues

Opportunities may exist to increase garage revenues. The garage contains 1,408 parking spaces. In addition to theater patrons, users include monthly parkers, tourists, short-term parkers, and others. While 600 spaces are allocated to monthly parkers, averages of 514 and 437 spaces were rented in calendar years 1977 and 1978, respectively. Resulting revenues are significant, constituting about one-sixth of total garage revenues in both 1977 and 1978. While space available to monthly parkers is constrained by needs of matinee theatergoers, increased promotional effort to rent these spaces could increase Center income. If all monthly spaces were rented, the Center's annual share of parking revenues could be increased by $45,000.

In addition, parking fees should be reviewed. The closest garage facility to the Center charges $2.75 for evening parking. If the Kennedy Center raised its current evening parking rate of $2.50 (in effect since July 1977) to $2.75, its share of garage revenue could increase by a maximum of about $50,000. While the impact of parking rates on all users requires careful consideration, some increases may be justified.

Also, the Center should consider increasing the monthly parking rate. The Center's rate of $50, which became effective in January 1979, compares to rates of $54 and $75 charged by two other garages in the vicinity.

Repayment of parking garage advance

As previously stated, the Center's contract with the parking garage operator permits the Center to pay off the existing advance and increase its share of the profits from 50 to 70 percent. To determine the economic feasibility of refinancing the garage advance, we calculated the estimated net revenues the Center would realize if it were authorized to issue notes to the Treasury in exchange for funds to pay off the garage advance. In our analysis, we computed the results of use of interest-free notes versus interest bearing notes. We assumed that annual garage revenues, expenses, and interest rates remained constant over the remaining 7 years of the initial 15-year term.

Refinancing the advance through the Treasury with interest-free notes as proposed by the Administration is obviously most benficial to the Center. Present value of the net cash flow to the Center over the remaining 7 years of the initial 15-year period at a 12-percent discount rate is $453,000 with the use of interest-free notes. On an undiscounted basis, Center revenues would increase $655,000 over this period.

On the other hand, use of interest bearing notes would be beneficial to the Center only if the interest rate were no greater than 9 percent. At 9 percent, the net cash flow will not benefit the Center until after the 13th year of the initial 15-year term and then only in modest amounts. Further details of the analysis are shown in appendix I.

Under the concession agreement, annual interest on the advance is computed by using the Chase Manhattan Bank's prime rate as of November 15. We used the 10-3/4-percent rate that the Bank had in effect on November 15, 1978, in our analysis. At the close of our review, Chase Manhattan raised its prime rate to 15-1/4 percent which, if used in the analysis, would increase the refinancing benefit to the Center.

Restaurant operations

The primary food and beverage concession facilities are a full-service restaurant, cafe, and cafeteria. Other services provided include an employees' cafeteria, portable bar beverage service before performances and during intermissions, vending machines, and food and beverage catering for special events.

The Center's income from the restaurant concession decreased by about $77,000 in fiscal year 1978 as shown in the following table. This decrease is attributed mainly to the closing of the restaurant for construction repairs to the kitchen for about 4 months in 1978.

	Fiscal year 1977	1978	Decrease
Net sales (note a)	$3,540,018	$2,484,201	$1,055,817
Center's income:			
Share of net sales revenue	193,659	151,333	42,326
Utility reimbursement	106,544	71,712	34,832

a/Net sales are gross sales less sales taxes.

In July 1979, the concession contract with the Canteen Corporation was terminated by mutual agreement and the Center awarded a new contract to Restaurant Associates. The new contract, while similar to the terminated contract, increased the Center's minimum annual income guarantee from $75,000 to $100,000 for the first 18 months and $170,000 annually thereafter. It requires a substantial annual investment in maintenance and improvement of concession facilities by Restaurant Associates.

According to Center officials, Restaurant Associates was awarded the contract after careful consideration, including analysis of inquiries from seven other potential concessionaires and extended negotiations with the new concessionaire. No formal proposals were obtained from other possible concessionaires.

Center officials said the new concessionaire has the specialized skills, background, and experience necessary to operate a food and beverage service meeting the varied tourist and theater patron requirements and time constraints peculiar to a performing arts center and national memorial, and it was the only one in their view that has successfully demonstrated such capabilities.

While the Center may have made the best possible choice and negotiated the most favorable contract terms, there is little basis for comparison other than to the Canteen contract awarded 14 years ago.

Public support and other matters

Through September 30, 1978, the Center has received, in addition to private contributions for construction and equipment, $7.6 million in contributions from the public for programing and general purposes. Sponsors for specific artistic productions such as operas and ballets have been solicited by the Center, and support also has been obtained through general contributions. These corporate, foundation, and private contributions are important to the Center's operations and are critical to the Center's ability to present a wide range of cultural attractions.

Under a contract with the Office of Education, Department of Health, Education, and Welfare, the Center received $750,000 in Federal funds in fiscal year 1978 for arts education projects throughout the United States. It received $253,500 from the National Endowment for the Arts under a program that makes it possible for ballet companies to tour and perform. These programs are discussed further in chapter 4.

The Center also receives income from other sources, such as special events held at the Center, coat check concession, rentals from three of the organizations occupying office space at the Center, and investment income on certificates of deposit and on donated securities.

The Center has been making payments at the rate of $8,500 a month on the $321,000 debt to the General Services Administration that dates back to 1976. By the end of fiscal year 1979 the debt, which was mainly for telephone services, was reduced to a balance of $5,800.

CONCLUSIONS

The Kennedy Center has been unable to meet its bond indebtedness obligations to the Government. Although financial operations may improve in some areas, there are no reasonable prospects that the Center can pay the $2 million annual compound interest on bonds, much less the $15 million owed the Treasury for deferred bond interest at the end of 1978.

From inception through fiscal year 1978, the Center's theater, concession, contributions, and other revenues exceeded operating expenses by $1.16 million. For fiscal year 1978, the excess was only $43,000.

Income from the restaurant and parking concessions was lower in 1978, partly because of construction repairs. The Center may be able to increase parking revenues through greater promotional efforts and modest increases in parking fees.

RECOMMENDATION

We recommend that the Board of Trustees study both the possibility of increasing the utilization of the garage and increasing parking revenues.

CHAPTER 3

COST SHARING FORMULA STILL NEEDS REVISION

Under a 1972 agreement, the Center shares certain building operation costs with the Park Service on the basis of the Center's use for performing arts. The Center is not paying its full share of these costs because, as noted in our prior report, the cost sharing arrangement has not been updated and does not accurately reflect current Center use. The Park Service, restricted by law to providing services for nonperforming arts or building memorial functions, pays for all normal security, information (except for considerable information services provided by the Friends of the Kennedy Center), and grounds maintenance, and shares other costs with the Center. The Center and the Park Service share costs for (1) operation and maintenance of mechanical and electrical systems, (2) utilities, and (3) maintenance, repair, and janitorial services. The cost sharing formula, which is not in the legislation but is included in the agreement, allocates 23.8 percent of the shared costs to the Center for performing arts functions and 76.2 percent to the Park Service for nonperforming arts functions. These sharing rates were based on estimates of Center use made prior to its opening. Costs totaling $14.9 million were shared under the formula through fiscal year 1978, as shown in table 3 (see p. 18).

FORMULA DOES NOT REFLECT CHANGES IN CENTER'S USE AND OPERATING HOURS

Since the Center began operations, joint operating costs have been shared on the basis of the proportion of time the Center was expected to be used for performing arts functions in relation to the total time the Center is open.

The public accounting firm which developed the cost sharing formula in July 1971 estimated the Center would be open to the public 15 hours a day (105 hours a week), and the three theaters would be used for the performing arts an average of 25 hours of the week, including rehearsals (5 days a week, 5 hours a day). The formula allocated 25 hours of the week, or 23.8 percent, to performing arts functions and the remaining 80 hours, or 76.2 percent, to memorial functions.

Table 3

Costs Shared By Government and the Center

	1972	1973	1974	1975	1976 and transition quarter	1977	1978	Total
Building maintenance and repair	$ 476,628	$ 712,748	$ 793,811	$ 870,651	$ 1,417,069	$ 1,100,455	$ 1,162,240	$ 6,533,602
Utilities	588,305	616,298	705,025	872,950	1,014,576	895,364	908,242	5,600,760
Janitorial services	293,429	395,431	290,803	322,856	444,368	356,540	496,455	2,599,882
Work done by construction contractors	184,800	-	-	-	-	-	-	184,800
Total	$1,543,162	$ 1,724,477	$ 1,789,639	$ 2,066,457	$ 2, 876,013	$ 2,352,359	$ 2,566,937	$ 14,919,044
Government's share (76.2 percent)	$1,175,889	$ 1,314,051	$ 1,363,705	$ 1.574,640	$ 2, 191,522	$ 1,792,498	$ 1,956,006	$ 11,368,311
Center's share (23.8 percent)	$367,273	$ 410,426	$ 425,934	$ 491,817	$ 684,491	$ 559,861	610,931	$ 3,550,733
Funds appropriated to the Park Service for shared and nonshared costs	$1,500,000	$ 2,000,000	$ 2,400,000	$ 2,500,000	$ 3,386,000	$ 3,100,000	$ 3,855,000	$ 18,741,000

Since the formula was developed, the Center's use for performing arts has increased while its total operating hours decreased compared to the formula estimates. The formula has not been revised to reflect these changes. Center records and data we obtained from operating officials show that actual hours of theater operations, including onstage rehearsals, averaged 1,711.3 hours for each of the three theaters during calendar year 1978, an average of 32.9 hours each week compared to 25 hours originally estimated. Part of the increased theater use is the inclusion of the time required before and after performances and rehearsals to prepare and secure the theaters. Another difference is that the Center is open to the public 98 hours per week instead of the 105 hours estimated in the formula.

Data for 1978 indicates that the Center should pay about 33.5 percent of the joint costs. In our 1977 report, we concluded the Center should pay 37.2 percent of shared costs. Therefore, it seems clear that the present Center ratio of 23.8 percent of joint building operating costs understates the Center's share based upon the existing formula.

There are other factors not considered in the formula nor in our computations that indicate additional use of the building for the Center's performing arts and public service activities. For example, the theaters and other parts of the building are used for admission-free activities of a performing arts nature, such as organ recitals, children's programs, minority programs, national town meetings, and symposiums. The theaters are also used when equipment for the performance is taken in and out and sets are constructed and lighted.

COST TO MAINTAIN THE CENTER

The Congress appropriated a total of $19 million for fiscal years 1972 through 1978 for the Park Service's cost of maintaining the Center as shown in table 3 (see p. 18). These funds cover both the Park Service's share of the joint costs and the amount it pays for normal security, information services, and grounds maintenance. For fiscal year 1979, Congress appropriated $4,055,000.

REIMBURSEMENT OF THIRD PARTY COSTS

Costs of janitorial services for some organizations involved in performing arts or other program activities are not fully reimbursed to the Park Service. Although maintenance and janitorial services are joint costs to be shared by the Center and the Park Service, the cost sharing agreement stipulates that all maintenance, janitorial, and security costs for third parties and concessionaires should be paid by the Center.

The Center reimburses the Park Service for janitorial services for two major occupants--the American Film Institute and the National Symphony Orchestra--which occupy a total of about 23,000 square feet. The parking garage and restaurant concessionaires provide their own janitorial services. Eight other organizations occupying a total of about 9,600 square feet receive janitorial services valued at about $12,600 without any specific reimbursement by the Center to the Park Service. Through the cost sharing arrangement the Park Service is reimbursed for 23.8 percent of these costs or about $3,000, leaving about $9,600 not reimbursed. The Center fully reimburses the Park Service for other maintenance and repair work provided to these occupant organizations.

The eight organizations are either involved in the Center's performing arts activities or in its other programs. The Music Theater Lab and the National Aesthetic Education Learning Center, partially staffed with Center employees and in the Center's view a part of the Board of Trustee organization, are joint programs undertaken by the Center with other organizations. The National Opera Institute and the Washington Opera are affiliates which the Center considers integral to its performing arts operations. The Performing Arts Library is a joint program with the Library of Congress. Three of the organizations are the Center's contractors for publicity services, the program magazine, and coat checking concession.

CONCESSIONAIRE UTILITY PAYMENTS RETAINED BY CENTER

As discussed in our prior report, the Center receives utility fees from the restaurant and garage concessionaires amounting to about $178,000 annually. In fiscal year 1978, however, this was reduced to $143,712 because the restaurant was temporarily closed for repairs. Concessionaire utility use (mainly electricity) is not separately metered, and the Park Service pays all utility bills for the Center. The Center's cost sharing agreement with the Park Service is silent on the disposition of these utility payments. The Park Service has not received any of the concessionaires' utility payments even though it pays for the utilities they used. Center utility costs, including utilities used by the concessionaires, are part of the joint operating costs shared by the Center and the Park Service according to the agreed formula.

The Center's position is that its agreement with the Park Service does not require it to remit any portion of its supplemental utility receipts to the Park Service, except as part of its obligation to pay the Park Service 23.8 percent of the overall utility costs for the Center. The Center feels that supplemental utility payments collected from its concessionaires are properly viewed either as (a) contributions solely toward the Kennedy Center's own Park Service reimbursement obligations, as set forth in the concession agreement recently entered into with Restaurant Associates, and/or (b) additional concession income which the Center is entitled to retain in full under its current agreement with the Park Service.

CONCLUSIONS AND RECOMMENDATIONS

The cost sharing formula between the Park Service and the Center does not accurately reflect the current use of the building for performing arts and memorial purposes. The formula, which has not been updated since its development in July 1971, fails to recognize increased use of the building for performing arts functions and third-party occupants.

The Center has noted that a "classic paradox" exists in the premise that its share of building service costs should be increased to reflect increased performing arts and public service use of the building, because the more the Center fulfills its mandated performing arts and public service responsibilities, the more it is penalized. The Center also has taken the position that it was never contemplated that the Center would reimburse the Park Service for utility payments received from the concessionaires other than through the cost sharing formula.

While the mandated performing arts and public service responsibilities are a factor, it is primarily the Center's greater use of the theaters for revenue-producing attractions that increases its share of costs in our recomputation of the cost sharing percentages. We believe that the Park Service should receive the concessionaires' full reimbursement for utilities instead of 23.8 percent, both because it pays these costs and it was never contemplated that the Center would be reimbursed for costs it never incurs.

If legislative action on the proposals currently before Congress or on suitable alternatives does not address sharing of joint operating costs and disposition of concessionaire utility payments, we recommend that the Park Service and the Center

--revise the cost sharing formula to reflect more closely actual hours the building is used for performing arts and memorial purposes, and

--exclude utility costs for concessionaires from the cost sharing formula and provide for the Park Service to receive full reimbursement for such costs.

We recognize that the Center's share of building costs would be increased if the changes were made, and its ability to meet other financial commitments would be reduced. Also, pending legislation (see ch. 5) proposes other cost sharing alternatives.

CHAPTER 4

COMPARISON WITH OTHER THEATER CENTERS AND THEATER FACILITIES

We compared the Kennedy Center with three performing arts centers in other cities and two nonprofit theater facilities maintained by the Park Service in the Washington, D.C., area. The purpose was to identify differences and similarities in theater operations that might be useful in our review of the Kennedy Center's financial problems and its operations.

Along with the Kennedy Center, the three other performing arts centers we visited all enjoyed relatively high attendance levels, but they required varying forms of public and private support to offset shortfalls in box office and other revenues. From an organizational standpoint, other centers relied more upon various separate constituent companies to present attractions. In contrast, the Kennedy Center relied more upon the Board of Trustees organization. The Kennedy Center had the most burdensome construction debt to finance. Other centers seem to receive a relatively greater level of governmental financial support than the Kennedy Center. However, varying organizational arrangements and support sources and the Kennedy Center's national memorial aspects complicated these comparisons. The greater governmental support at the other centers seemed due largely to the existence of State and municipal support. All of the centers sponsored programs offering specially priced tickets to eligible groups, although the Kennedy Center's program seemed the most extensive from the standpoint of the number of tickets and price concessions. The nonperforming arts aspects of the Kennedy Center, particularly the much greater tourist attendance exclusive of theatergoers, was another major difference.

The two Washington area theater facilities we visited were, like the Kennedy Center, Park Service supported. Although the physical layouts differed considerably, their operations had many similarities. One difference was the considerably more extensive Park Service support provided to the two Washington area facilities.

HOW THE KENNEDY CENTER COMPARES WITH THEATER CENTERS IN OTHER CITIES

All of the centers visited consisted of three or more theaters of various sizes situated in a single complex and operated year-round. According to statistics provided by the centers all experienced high levels of attendance in 1978, ranging from 70 percent to 89 percent of seating capacity. Composition of the attendance, such as paid admissions, actual attendance, subscriptions, or a combination of these, varied among the centers. With its attendance percentage of 80 percent, the Kennedy Center compares favorably to the others. Characteristics common among the centers were

--substantial local or Federal involvement in donation of land, construction, or building operations;

--need for private contributions and varying degrees of Government support to assist the centers in providing various types of performing arts program activities;

--operation of the center by an organization created for that purpose;

--constituent organizations occupying the building complex; and

--parking and restaurant facilities for the theater patrons.

Ticket prices

The centers encourage attendance by offering a variety of performances at various prices to meet the needs of the community. All of the centers provide specially priced tickets to certain groups such as students and senior citizens. The Kennedy Center's program, which reportedly included 115,000 discount tickets in 1979 for a price reduction of $763,000, is unique in the larger number of eligible low income groups and in providing a 50-percent discount on 15 percent of the tickets to most attractions. Although comparative statistics on results of discount programs at the other centers were not readily available, the information available indicates the Kennedy Center's program is more extensive.

Construction costs

The cost to construct the centers varied from $14.5 million to $185 million, with the Kennedy Center's construction costs at about $77.5 million. Construction funds were generally derived from various sources, such as loans, government contributions, and donations from individuals, foundations, and corporations. One center had no outstanding debt for construction costs, another had a $9 million construction debt, and the third had a debt of $1.2 million. The Kennedy Center's outstanding construction debt at December 31, 1978, totaled $22.3 million, which includes bond principal and the parking garage advance.

Although the Kennedy Center has made no payment on its bond debt to date, it has been paying interest and principal on the garage advance from its share of parking revenues. One of the other centers also uses garage revenues to help pay off its garage construction debt. At another center, the construction debt is serviced indirectly by the county. The third center has no outstanding construction debt.

Operating funds

Operating funds at most centers visited consisted primarily of box office revenues, theater rentals, concession income, Government support, private contributions, and investment income. The Kennedy Center has similar sources of operating funds, but direct Government support for its theater operations is limited. As an indirect subsidy to two ballet companies, the Center received grants totaling $253,500 from the National Endowment for the Arts in fiscal year 1978 to help defray the costs of presenting the ballet attractions. The grants are part of the National Endowment's national dance touring program intended to help make ballet available to the public. The grant does not entirely eliminate the Center's risk of loss in presenting the ballet. Under a contract with HEW, the Center also received $750,000 for performing arts education activities throughout the country. These responsibilities are mainly those of the Alliance for Arts Education, a joint project of the Kennedy Center and the Office of Education.

Provisions for maintenance, janitorial, and repair services vary among centers. At one center, the operating company provides such services; at the other two, the services are provided by the operating company and the county government. The National Park Service provides these services at the Kennedy Center.

Costs for maintenance and repairs are shared at the Kennedy Center and two of the centers visited, while such services are paid mainly by the county at the other center. The shared costs are usually paid by the operating company and the appropriate Government entity with rents from various constituent organizations being applied toward the total maintenance costs. At the center where the county pays for most of the maintenance and repair services, a 5-percent surcharge is added to the price of each ticket to cover expenses for refurbishing the theaters.

Garage operations

Garage operations vary among the centers visited. The Kennedy Center and one other center utilize services of a commercial parking firm; garages at the second and third centers are operated by the county and the center, respectively. All or part of net parking income is made available to the performing art centers at the Kennedy Center and two others. At the third center, all parking revenues are retained by the county which operates the garage. Income sharing arrangements differ with the commercial operators--the Kennedy Center presently receives 50 percent of the net income after operator's expenses, management fee, and debt service. In contrast, the other center receives all net income after payment of operator's expenses and a management fee.

Constituent companies

A major difference is the presence at the other three centers of several resident or constituent companies which book the attractions, produce shows, and operate the theaters under lease agreements with the nonprofit management organization that has overall responsibility for the center. These constituent companies receive Federal and local government funds to support their performing arts operations. At the Kennedy Center, with fewer constituent organizations, much of this is done by the Board of the Trustees organization which, as previously noted, receives very limited direct Government support for its theater operations. While comparisons of funding sources are greatly complicated by varying organizational and cost assumption arrangements and the memorial aspects of the Center, the Center seems to receive proportionally less governmental support than the other performing arts centers we visited. The main difference appears to be the various forms of State and local support these centers receive.

Center's status as a memorial

Another important difference is the large number of persons visiting the Kennedy Center because of its status as a living memorial to the late President. The Kennedy Center reported about 2.7 million visitors in 1978 in addition to the 1.6 million patrons who attended paid performances. More than 365,000 of these visitors received guided tours at the Center. At the other centers, the estimated number of visitors was not readily available, but the number receiving guided tours ranged from 16,000 to 90,000 persons annually in addition to theater attendance ranging from 1 million to 3 million.

HOW THE CENTER COMPARES WITH TWO AREA THEATERS

In addition to the three performing arts centers, we also visited a large and a small theatrical facility in the Washington, D.C., area to compare their operations with those at the Kennedy Center. Both facilities are maintained by the Park Service. Like the centers, they also depend upon Government support and private contributions to help sustain their operations. While the two local theater facilities operate differently from the Kennedy Center in some aspects, their operations are similar to the Kennedy Center in the following areas:

--Maintenance, janitorial, and repair service are provided by the National Park Service.

--Theatrical productions and supporting activities are handled by separate nonprofit organizations established for this purpose.

--Funds are received from private and Government sources.

--Tours are provided for the public.

The larger theatrical facility, which has a large theater and a small theater, is similar to the Kennedy Center in that it (1) has a volunteer organization which operates the gift shop and provides funds for theater operations, (2) provides free programs and special events for children and senior citizens, (3) provides the same type of attractions with the exception of drama, and (4) provides food facilities and parking. In contrast to the Kennedy Center, however, all of the theatrical equipment at this facility is Government-owned; the stagehands and ushers are paid by the Park Service; the parking is free; and the facility, situated in a national park, is open only during the summer months.

The smaller theatrical facility, which operates a single theater and serves as a historical site, also provides a specially priced ticket program for certain military personnel, senior citizens, and students. Unlike the Center, however, the theater is closed during the summer months and can accommodate only small-scale productions, such as one-man shows and small-cast musical shows. It has no restaurant or parking facilities.

These two theatrical facilities receive more extensive support from the Park Service. Maintenance is entirely a Park Service responsibility, and both receive annual fund grants from the Park Service. Nevertheless, each of the two operating organizations must rely upon private contributions and Government grants to help finance their theater operations.

CONCLUSIONS

Although it is difficult to compare the Kennedy Center with other centers, in many major respects the Kennedy Center's operations are similar to those of other performing arts centers. Like the other centers, the Kennedy Center has a good attendance rate, fulfills its responsibilities by providing a variety of programing activities, and receives private support in financing its operations. However, there are significant differences.

With fewer constituent organizations, the Kennedy Center is more heavily involved in presentation of attractions than the management organizations at the other centers. Although funding comparisons are complicated by several factors, the

Kennedy Center seems to receive proportionately less Governmental support due largely to State and local support received by the other centers.

A most striking difference is the large bond interest and principal indebtedness of the Kennedy Center, far in excess of the long-term indebtedness of the two other centers that have such debt.

Similarities and differences also exist between the Kennedy Center and the two theater facilities we visited in the Washington, D.C., area. Presentation of performing arts attractions, presence of the Park Service, and Government ownership are major similarities. Considerable differences exist in the size and type of the facilities, and Park Service support to the two local theater facilities is much broader in scope than at the Kennedy Center. The Center maintains its five theaters, provides backstage support, and shares overall maintenance costs, whereas the two local theater facilities are fully maintained by the Park Service.

CHAPTER 5

LEGISLATIVE PROPOSALS

The Center's primary financial problem is its inability to pay the $15 million revenue bond interest and to set aside funds for payment of the $20.4 million bond principal when due. Another problem and a source of controversy is the allocation of building maintenance and repair costs between the Park Service and the Center.

Two bills (H.R. 3437 and S. 1532) and an Administration proposal, all intended to provide relief to the Center's bond indebtedness problems, are under consideration by congressional committees.

H.R. 3437 would reduce bond interest and principal by the amount of contributions obtained by the Center while actual contributions remain available for Center purposes. The compound interest provision would be repealed. The Center would be required to pay the Park Service $600,000 annually for building maintenance, structural repairs and improvements, utilities, and all similar services. The bill extends Park Service responsibility for building maintenance and utility costs to the interior of the theaters up to the curtain line, but also provides that this responsibility, except for utilities, would not extend to other portions of theaters directly related to production of performing arts. Under the bill, the Center's contributions credit probably would eliminate all accrued interest to September 30, 1979, and cover annual interest thereafter, with a sizeable amount to apply annually against the bond principal. The bond indebtedness would ultimately be reduced or eliminated by contributions received with no cash payment to the Treasury, and the Park Service costs would be increased by its extended responsibilities. Rising costs and the Center's fixed annual maintenance payment of $600,000 required by the bill could result in a materially lower share of costs to the Center than under the existing formula.

S. 1532 provides for a 50-50 split of building costs between the Center and the Park Service. The bill, however, increases the Park Service share by one third of the contribution amounts credited against the Center's bond indebtedness. Under the bill, the Center can credit against bond principal and interest amounts equal to contributions it obtains for four specific public service programs. The Center could issue bonds of $1.5 million to the Treasury to provide funds for paying off the parking garage loan, but must use all parking revenues to retire any bond interest and principal remaining due. The bill provides means for reducing bond and principal indebtedness, increasing garage revenues, and paying off indebtedness from parking revenues. It also increases the Center's share of building costs and, by limiting the eligible contributions to four public service programs, may not fully relieve the Center's bond interest problem. S. 1532 does not forgive past or future interest nor eliminate the compound interest requirement.

The Administration's proposal forgives accrued bond interest, converts the bonds to interest-free notes, and provides for repayment of the parking garage loan. It also fixes the Center's share of joint building operating costs at 30 percent, gives the Park Service responsibility for all structural building repairs, requires establishment of a firm schedule for repayment of bond principal from parking revenues, and places the Secretaries of Treasury and Interior on the Center's Board of Trustees. Thus, the proposal would eliminate the Center's liability for all bond interest, increase net income from parking revenues, and provide a means for repaying bond principal. At the same time, it increases the Center's share of building service costs and resolves any question as to responsibility for structural repairs.

The Center estimates its Federal payments would increase in fiscal year 1980 by $400,000 under S. 1532, exclusive of past or future interest obligations, and by $230,000 under the Administration proposal. These increases are due to increased share of building costs and use of parking revenues to pay bond indebtedness. The Center's estimates seem low although the actual effect would depend in S. 1532 on the amount of contributions credited against maintenance costs and in the Administration proposal by the proportion of parking income applied to the bond indebtedness. H.R. 3437 would lower the Center's maintenance cost payment, retain the parking garage income for Center purposes, and by expanding the Park Service maintenance area, relieve the Center of certain other costs.

Each legislative proposal would adjust the financial situation of the Center and have a different effect upon costs to the Government and the Center. Underlying any adjustment must be a judgment on the appropriate level of Government support to the Center.

H.R. 3437

In April 1979, H.R. 3437 was introduced and referred to the House Committee on Public Works and Transportation. The bill, similar to a proposal presented by the Center at congressional hearings in April and July 1979, would

--reduce the bond interest and principal by the amount of contributions received by the Center,

--repeal the compound interest provision,

--require the Center to pay a fixed sum annually to the Park Service for building services, and

--give the Park Service responsibility for all building services except for those directly related to performing arts.

The bill provides for the Treasury to credit against bond interest accrued as of September 30, 1979, an amount equal to the cumulative value of gifts and contributions in excess of $23 million received by the Center prior to that date. Also, the bill eliminates the compounding of interest on deferred bond interest payable after September 30, 1979. Beginning with fiscal year 1980, the Treasury would credit annually against (a) bond interest accrued after October 1, 1979, and (b) bond principal, an amount equal to the value of gifts and contributions received by the Center during each year for discharge of its mandated responsibilities.

Under H.R. 3437, the Center would pay $600,000 annually to the Secretary of the Interior for its share of all building services furnished by the Park Service to the Board of Trustees and other occupants of the Center. The Park Service would be responsible for structural and other building repairs, replacements and improvements, maintenance, security, information, interpretation, janitorial services, utilities, and all similar services. Except for "front of house" portion (the interior of the theaters up to the curtain line) and the furnishing of utilities, the Park Service responsibility would not extend to any portions of the theaters directly related to production of performing arts attractions.

Evaluation

This bill would relieve the Center of the burden of future compounding of interest payable on the bonds. It would also provide the means for eliminating its liability for accrued interest through the offsetting credit for past gifts and contributions which the Center has computed at $19.9 million. This is more than enough to offset the entire amount of accrued interest at September 30, 1979.

Based on recent contributions, the Center's credit for gifts and contributions for mandated activities beginning with fiscal year 1980 should cover the annual simple bond interest of about $1.2 million and provide an additional amount for credit against bond principal. For example, for fiscal year 1978 the Center reported receipt of $2.5 million in gifts and contributions. If this is indicative of the future and the entire amount eligible for the credit, it would completely offset the annual interest and provide a $1.3 million annual credit against principal.

Other than the credit for contributions, H.R. 3437 makes no provision for the Center to make payments on bond principal. A Treasury spokesman has stated that although the Department is willing to forgive the bond interest, the Center should adopt a firm schedule for bond principal repayment.

Increased Park Service costs

The bill would increase the Park Service costs by giving the Park Service responsibility for structural repairs and extending its area of responsibility up to the curtain line of the theaters. A Park Service official estimated its staff at the Center would have to be increased to handle additional work. The Park Service has estimated a cost of about $3.5 million for refurnishing the theaters and other areas of the Center, which would be paid by the Park Service under the provisions of H.R. 3437 instead of being shared with the Center.

The Center's $600,000 annual payment to the Park Service for building services approximates its 1978 and 1977 payments of about $611,000 and $560,000, respectively. H.R. 3437 contains no escalation provisions to keep pace with rising costs in future years. The Park Service estimates the Center's share of building services under the present formula at about $765,000 for fiscal year 1979 and $784,000 each year for 1980 and 1981.

Clarification needed

In giving the Park Service responsibility for all building maintenance and repair except for portions of the theaters directly related to performing arts productions, H.R. 3437 does not deal with such questions as:

--Should the Center continue to retain the revenues and utility reimbursements from the concessions?

--Should the Park Service continue to be fully reimbursed for janitorial services provided to certain building occupants?

--Should specific areas, such as backstage, dressing rooms, rehearsal halls, lounges, and office space be considered directly involved in production of performing arts?

Clarification of these items in the bill would help prevent future controversy on sharing of costs and revenues.

Also, difficulties remain in readily determining from the Center's records the amount of contributions available for offset under the bill. Although the Center maintains records of contribution pledges and receipts, the records require extensive analysis and verification to determine the contributions eligible for offset. If legislation is enacted to permit the Center to offset contributions against the bond indebtedness, we believe the Center should revise its accounting records to assure the information is readily available for this purpose and have its public accountants verify and attest to the accuracy of the contributions to be offset.

S. 1532

S. 1532 was referred to the Senate Committee on Environment and Public Works in July 1979. It contains three major provisions.

First, the building services costs are split 50-50 annually between the Park Service and the Center. However, the Secretary of the Interior is authorized to increase the Park Service share (and thereby decrease the Center's share) by an additional sum equal to 33-1/3 percent of those sums credited against the Center's indebtedness in the bill's second major provision.

The second provision authorizes credit aganist bond principal and accumulated interest for tax exempt contributions made to the Center for four specific public service programs. These four categories of public service programs do not include many of the theatrical attractions regularly presented at the Center and could exclude certain public service programs presented under its mandated responsibilities.

The third provision authorizes the Center to issue \$1.5 million in bonds to the Treasury to provide funds for repayment of the outstanding parking garage advance. This would be sufficient to retire the bulk of advance. It also requires that all parking revenues received by the Center be used to retire any bond interest and principal remaining due.

Evaluation

This bill's contribution credit feature would reduce the Center's bond interest and principal indebtedness and also provide an offset against the Center's share of building costs. By refinancing the garage advance and requiring the Center to dedicate parking revenues to payment of bond interest and principal, S. 1532 would assure that payments will be made on the bond indebtedness.

However, the 50-50 split of building services cost could create a problem for the Center by significantly increasing costs from current levels, except in those years when the 33-1/3-percent offset could substantially reduce the Center's share. Although the Center reported \$2.5 million in contributions during fiscal year 1978 for all forms of programing, only a portion was for the four categories of public service programs specified in the bill. Using 1978 as an example, if only half of the contributions qualified for the offsetting credit, 33-1/3 percent, or about \$417,000, would be offset against the Center's \$1.3 million share of 1978 building service costs, leaving a balance of \$883,000 to be paid by the Center. The Center has estimated that its Federal payments would be increased by \$400,000 annually, exclusive of past and future interest obligations, due to the increased share of building costs and the use of parking revenues to pay bond indebtedness. On the basis of available estimates, this seems low although the actual effect depends on the amount of contributions eligible for credit against maintenance costs.

Other features of S. 1532 also present difficulties. By limiting the contributions credit to four categories of public service programs and remaining silent on the compound interest requirement, the bill would not fully relieve the Center of the bond interest problem. Also, the credit includes contributions made to the Center "following enactment of this Act" which in context would be the John F. Kennedy Center Act, thus including contributions since inception of the Center. However, it may be interpreted as following enactment of S. 1532, thereby excluding all prior contributions. Regarding the requirement for the Center to use all parking revenues to pay the bond indebtedness, the revenues probably would not be sufficient to pay both interest and principal, and the Center could no longer use any part of such revenue to finance current operations.

Additionally, our comments on the need for clarification of H.R. 3437 with respect to concession revenues, utility reimbursements, reimbursements from building occupants, performing arts area, and accounting for contribution credits also apply to S. 1532.

ADMINISTRATION PROPOSAL

This proposal, presented to the Senate Committee on Environment and Public Works by officials of the Treasury and Interior Departments in July 1979, calls for forgiveness of the accrued bond interest to date, conversion of the revenue bonds to interest-free notes, and Treasury assumption and capitalization of the outstanding garage advance.

It also provides for a fixed 30-percent cost sharing agreement between the Park Service and the Center as the latter's annual share of joint building operating costs, gives the Park Service responsibility for all structural repairs to the building, expands the Board to include the Secretaries of the Interior and the Treasury, and requires adoption of a firm schedule for repayment of bond principal and the dedication of a major portion of parking revenues for that purpose.

Evaluation

The Administration's proposal would eliminate the Center's liability for all past and future interest on the bonds, enhance the potential revenues from the parking garage, and provide a means for repayment of bond principal. It increases the Center's percentage share of building service costs and clarifies responsibility for structural repairs. However, the Center estimates its fiscal year 1980 Federal payments would be increased by $230,000 because of the higher share of building costs and the use of garage revenues to pay bond indebtedness. This estimate could be low depending on the proportion of parking income applied to the bond indebtedness.

Need for clarification

The proposal is silent on concession revenue, utility reimbursement, rentals, and reimbursements from other building occupants. Also, areas of the building and the types of building services covered by the Center's 30-percent share are not identified, and the provisions for repayment of principal are not stated. We believe the bill should clarify these matters to reduce the possibility of interpretations and actions contrary to the intent of the bill.

Table 4 summarizes and compares the provisions of H.R. 3437, S. 1532, and the Administration's proposal (see p. 38).

CONCLUSIONS

The Kennedy Center has no reasonable prospect to pay the accrued interest due or the annual interest on the original indebtedness. Each legislative proposal, as currently drafted, addresses the Center's existing indebtedness with varying costs to the Kennedy Center and the Government. Reducing current indebtedness in an amount equal to qualifying past and future contributions, which is the approach of H.R. 3437 and S. 1532, decreases the indebtedness without decreasing resources available to the Center. Additionally the Center could benefit to the extent that the contribution credit provisions stimulate additional private contributions. The Administration proposal and S. 1532 take the approach of increasing parking garage income by advancing additional funds to repay the existing parking garage loan. Most or all of the Center's share of the increased parking income would be earmarked to repay existing bond indebtedness. In contrast to H.R. 3437, these approaches provide for actual repayment of indebtedness by the Center and consequently reduce funds that would otherwise be available to the Center.

The sharing of maintenance costs between the Center and the Park Service varies under the three proposals. H.R. 3437 reduces the Center's share and consequently increases the Park Service share from the amounts indicated under the current formula. The Senate and Administration proposals both increase the Center's share of total costs. The real effect of the Senate proposal is difficult to predict, since only specified private contributions reduce the Center's share of

Table 4
Comparative Summary of Proposed Legislation

	Bill or proposal (note a) H.R. 3437	S. 1532	Administration proposal
REVENUE BONDS			
Forgive interest accrued to date	NO	NO	YES
Repeal compound interest provision	YES	NO	YES
Allow credit for private contributions:			
(a) credit contributions over $23 million against accrued interest as of 9/30/79	YES	b/ YES	NO
(b) credit annual contributions against annual interest beginning 10/01/79	YES	b/ YES	NO
(c) credit any excess in (a) and (b) against principal	YES	b/ YES	NO
Eliminate future interest by converting bonds to interest free notes	NO	NO	YES
GARAGE ADVANCE AND PARKING REVENUES			
Refinance advance by issuing to the Treasury :			
(a) interest bearing bonds	NO	YES	NO
(b) non-interest bearing notes	NO	NO	YES
Term for refinancing garage advance	NO	40 years	To be determined
Parking revenues to be used to pay Treasury obligations: (a) Principal	NO	YES	YES
(b) Interest	NO	YES	NO
BUILDING MAINTENANCE			
Extend Park Service responsibility:			
(a) to the curtain line of the theaters	YES	NO	NO
(b) to include all structural repairs, replacements, and improvements	YES	YES	YES
Fixed amount to be paid annually by Center for maintenance	$600,000	NO	NO
Fixed cost sharing formula for maintenance	NO	50%-50%	70%-30%
Allow 33 1/3% of annual contributions as a credit against Center's share of maintenance costs	NO	YES	NO
Add Secretaries of Interior and Treasury to Board of Trustees	NO	NO	YES

a/ A "NO" response indicates either no mention or implication of the specific provision in the various proposal or bills.

b/ Effective date, 10/01/80. Only contributions for four categories of public service activities are eligible for credit. The $23 million limitation does not apply.

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maintenance costs. The assumption of Government responsibility for major structural repairs is a provision of each proposal, and consequently not a major factor in the proposal comparisons.

Both the Senate and Administration proposals would reduce funds that would otherwise be available to the Center. By phasing over several years the diversion of parking income and/or increases in shared maintenance costs, the impact on the Center could be better managed.

To avoid possible uncertainty about the specific building areas and services covered by the Center's share of joint operating costs, we believe the legislation should clearly identify the areas and types of building services involved. Moreover, the legislation should spell out how the Park Service should be reimbursed for building services and utilities provided to building occupants, and what the Center should do with the money it receives from building occupants for rentals, utilities, and building maintenance services.

Also, any legislation enacted should include provisions to assure that a specific amount of garage revenues will be set aside and paid annually to the Treasury in reduction of the refinanced bond principal and garage advance.

AGENCY COMMENTS

The Kennedy Center concurs with the conclusion that it cannot pay past or future bond interest and still fulfill its statutory responsibilities. The Center states that

--private gift funds annually raised for performing arts and public service activities are restricted and cannot be diverted to pay bond interest;

--it is unlikely that new private funds could be raised to pay bond interest;

--although modest increases in operating income may be possible, such increases will be needed to repay bond principal and carry out statutory cultural responsibilities;

--reassessment and clarification are needed on the level of support provided by the Park Service; and

--the current cost sharing formula is difficult to administer and, ironically, increases the Center's Federal payments the more it fulfills its mandated responsibilities.

The Center strongly supports the Administration proposal. Although the Center estimates the proposal would increase its Federal payments by $230,000 annually, it considers the Administration proposal a sound and constructive measure. The Center also stated that Administration representatives have explained that the proposal contemplates the Center would continue to bear full maintenance costs for the interior, backstage, and support areas for its five theaters and continue to retain all payments from concessionaires.

The Department of the Interior agreed that the cost sharing formula requires revision and that the Congress needs to resolve the overall problem. The Department said that the Park Service's share of building service costs under the Administration proposal would not amount to 70 percent because of the formula's application. It pointed out that only utilities would be split on a 70-30 basis and that for building maintenance and janitorial services, the formula applies only to (1) maintenance services outside of the theaters, except as occasioned by visitor tours, (2) maintenance and janitorial services outside of areas directly related to production performing arts attractions, and (3) maintenance and janitorial services outside of areas occupied by concessionaires and by third parties not engaged directly and exclusively in furtherance of Board functions.

The Department also stated that the Administration proposal considered concessionaire utility use in deriving the 70-30 formula and intends the Center to retain concessionaire revenues.

The Department of the Treasury was given the opportunity to comment on the draft report but advised that it had no comments to offer.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Center cannot meet its bond indebtedness obligations to the Federal Government. Substantial payments by the Center on bond indebtedness or major increases in its share of building costs, without offsetting increases in revenues, could seriously affect its ability to effectively carry out mandated performing arts and public service responsibilities. Existing legislative proposals to adjust the Center's financial situation clearly involve varying costs to the Government and the Center. Underlying any adjustment must be a judgment on the appropriate level of Government support to the Center and its programs.

CHAPTER 6

SCOPE OF REVIEW

We reviewed the Center's financial statements, accounting and operating records, and records of the National Park Service which relate to the cost sharing formula. We reviewed the audit reports for fiscal years 1977 and 1978 and related work papers of the Center's public accounting firm. We also made tests of the records maintained by the restaurant and parking garage concessionaires.

Finally, to enable us to make comparisons, we visited three other performing arts centers in the United States and two performing arts theater facilities in the Washington, D.C., area.

While our audit covered principally fiscal years 1977 and 1978, we also included data in this report from prior and subsequent periods for purposes of background and current information.

APPENDIX I

Comparison to Determine Economic Feasibility
Of Refinancing Garage Advance
For period 1980-1986

Alternatives	Net shares of revenues (not discounted)	Present value of net share of revenues discounted at 8%	10%	12%
		(--------000 omitted-----)		
Refinance garage advance through Treasury with interest bearing notes:				
Interest rate 8% (note a)	$1,766	$1,281	$1,191	$1,111
Garage advance not refinanced (note b)	1,633	1,195	1,113	1,039
Difference	$ 133	$ 86	$ 78	$ 72
Interest rate 9% (note a)	$1,700	$1,231	$1,144	$1,066
Garage advance not refinanced (note b)	1,633	1,195	1,113	1,039
Difference	$ 67	$ 36	$ 31	$ 27
Interest rate 10% (note a)	$1,635	$1,179	$1,094	$1,018
Garage advance not refinanced (note b)	1,633	1,195	1,113	1,039
Difference	$ 2	$ (16)	$ (19)	$ (21)
Refinance garage advance through Treasury with noninterest bearing notes (note a)	$2,288	$1,702	$1,591	$1,492
Garage advance not refinanced (note b)	1,633	1,195	1,113	1,039
Difference	$ 655	$ 507	$ 478	$ 453

a/ Net profit distributed 70 percent to Center and 30 percent to garage concessionaire.

b/ Net profit distributed 50 percent to Center and 50 percent to garage concessionaire. Interest expense computed at 10 3/4 percent prime rate established by Chase Manhattan Bank in November 1978.

JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

February 26, 1980

Mr.Allen R. Voss, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Voss:

This is in response to your February 12th request that we review and comment upon a draft of a report from the Comptroller General to the Senate Committee on Environment and Public Works and the House Subcommittee on Public Buildings and Grounds concerning the John F. Kennedy Center for the Performing Arts.

The Kennedy Center is especially appreciative of the Report's strong recognition of the need to balance the impact on any proposal for payment of the Center's construction debt against the continued ability of the Center to carry out Congressionally mandated performing arts and public service responsibilities.

The Kennedy Center concurs in the Report's principal conclusion that the Center cannot pay accumulated or future interest on its construction debt and still fulfill its statutory responsibilities as a national cultural center. Each year the Center raises millions of dollars in private gifts for its performing arts and public service activities, but those funds are restricted and cannot be diverted to the payment of what is essentially an intergovernmental debt. Nor, is it likely that new private funds could be raised for Federal interest. While modest increases may be possible in the Center's future operations income, any such increases will be needed to repay the principal amount of the Center's construction debt and to continue to carry out cultural responsibilities described in the statute.

The Kennedy Center also concurs in the Report's conclusion that reassessment and clarification are needed regarding the present level of maintenance and operational support currently provided at the Center by the Park Service. Of particular interest in this regard is the General Accounting Office's finding, based upon a comparative review of other publicly supported performing arts facilities, of the relatively low level of governmental support currently provided to the Center. The current cost-sharing formula for the Park Service and the Center is difficult to administer, and, ironically, increases the Center's Federal payments the more the Center fulfills its mandated performing arts and public service responsibilities.

Washington, D.C. 20566/phone: 202 872-0466

Mr. Allen R. Voss
February 26, 1980
Page Two

The Center, therefore, strongly supports the Administration's pending legislative proposal which replaces the current complex cost sharing formula with a simple and straight forward reimbursement payment by the Center, fixed at 30% annually, for certain shared maintenance and utility costs. It also fixes a firm schedule for repayment of the $20.4 million principal amount of the Center's construction debt and clarifies the Park Service's sole responsibility for structural repairs. As explained by representatives of OMB, Treasury and Interior, the Administration's proposal contemplates that the Center would continue to bear full maintenance costs for the interior, backstage and support areas of its five theaters, and that the Center would continue to retain all payments from concessionaires.

Although the Administration's proposal incorporates OMB's and Treasury's recommendations that past and future interest on the Center's construction debt be waived, it would still increase the Center's Federal payments by at least $230,000 annually. On balance, however, the Administration's proposal is a sound and constructive measure which will enable the Center properly to meet its various responsibilities both as a national performing arts institution and as a presidential memorial.

We are very grateful for the considerable effort expended by your staff in the preparation of this supplemental report on the Center's finances.

Sincerely,

Roger L. Stevens

Roger L. Stevens
Chairman

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 1 1980

Mr. Henry Eschwege, Director
Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed the GAO draft of a proposed report, "Financial Problems of the John F. Kennedy Center for the Performing Arts and Proposal for their Solution."

We are in agreement with GAO that the cost sharing formula requires revision and that Congress needs to resolve the overall problem. With regard to the Administration's proposal for sharing "building services" costs (pages vi, 37, 44-45, and Table 4), only utilities are split on a straight 70/30 basis. For building maintenance the "70/30 formula" applies only to those maintenance services outside of 1) the theatres (except to the extent occasioned by visitor tours), 2) areas of the Center directly related to performing arts attractions, 3) areas occupied by concessioners and 4) areas occupied by third party occupants not engaged directly and exclusively in furtherance of Board functions.

Similarly, for janitorial services, the "70/30 formula" applies only to janitorial services outside of 1) areas of the Center directly related to the production of performing arts attractions, 2) areas occupied by concessioners, 3) areas occupied by third parties not engaged directly and exclusively in furtherance of Board functions.

Therefore, the Park Service share of "building services" respecting maintenance and janitorial services will not amount to 70 percent of the total cost of such services as the draft report indicates.

With regard to the evaluation of the Administration's proposal concerning concessions and concessioner utilities (page 45) the proposal considered concessioner utility use in deriving the 70/30 utility formula and intends the Board to retain concessioner revenues.

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2

Additionally, we have noted a few minor corrections that we wish to bring to your attention, they are:

1. On page 2, first paragraph should begin "The Act, as amended, in 1972 ...."

2. On page 2, under Building Use first sentence corrected to 28-acre tract.

3. Page 20, Chapter 3 should begin "Under a 1972 Agreement ...."

We appreciate the opportunity to comment on this draft report.

Sincerely,

Bob. Horgst.

Assistant Secretary

(238010)

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