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REPORT BY THE U.S.

General Accounting Office

JFK

Financial Problems Of The ~~John F. Kennedy~~ Center For The Performing Arts Need To Be Addressed

GAO reviewed certain aspects of the Kennedy Center's financial operations to assess the Center's ability to meet its operating costs and bond indebtedness. GAO's review found that the Kennedy Center remains unable to pay the deferred but growing interest on its revenue bonds issued to the U.S. Treasury, has been unable to set aside funds to repay the bond principal, and pays less than its full portion of operating costs shared with the National Park Service.

While the magnitude of these issues will grow unless addressed, any solution must consider the interrelationship between the Center's ability to pay its bond indebtedness and operating costs and its ability to fulfill its performing arts and public service responsibilities. A working group, consisting of officials of the Treasury, the Office of Management and Budget, and the Kennedy Center, has developed a proposal for addressing the Center's financial problems.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT DIVISION

B-212170

The Honorable Robert A. Young, Chairman
The Honorable E. Clay Shaw, Jr., Ranking Minority Member
Subcommittee on Public Buildings and Grounds
Committee on Public Works and Transportation
House of Representatives

As requested in your letter dated March 2, 1983, and as required by the John F. Kennedy Center Act, as amended (20 U.S.C. § 76h-76q (1982)), we have reviewed selected aspects of the Kennedy Center's financial operations for fiscal years 1979 through 1982 and unaudited data for fiscal year 1983. The purpose of our review was to (1) report on the results of operations of the Kennedy Center during fiscal years 1979 through 1982, (2) assess the Center's ability to meet future operating costs, including its present bond indebtedness to the U.S. Treasury, and (3) evaluate whether the formula used to allocate building operating costs between the Center and the National Park Service fairly reflects the Center's use. The results of our review are summarized below and are discussed in detail in Appendix I to this letter.

Although the Kennedy Center's annual revenues through fiscal year 1983 continued to exceed operating expenses, excluding bond interest expense, we found that previously reported problems[1] on this subject still exist regarding the Center's ability to pay Treasury bond obligations and the formula used to share building operating costs with the National Park Service. Specifically, we found that:

--The Kennedy Center has not met its bond interest debt to the U.S. Treasury, which totaled about $28.6 million at the end of fiscal year 1983.

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[1]Kennedy Center's Financial Problems Are Serious (GGD-80-39, April 24, 1980).

--Kennedy Center officials said that because of insufficient revenues, they have not been able to set aside funds to repay $20.4 million in bond principal, which becomes due beginning in the year 2017.

--The Kennedy Center continues to pay less than its full share of building operating costs shared with the National Park Service using a cost-sharing formula developed in 1971. In recent years operating and maintenance costs, however, have increased materially--both those costs shared with the Park Service and those paid entirely by the Center.

Any resolution of these issues must consider the competing demands on the Center's resources. These include the Center's need not only to meet its bond debt and bear a full share of the building's operating costs, but also to offer diverse performing arts programs. A working group, consisting of officials of the Department of the Treasury, Office of Management and Budget, and the Kennedy Center, has developed a proposal to address these issues.

The Kennedy Center's revenue bond debt originated with the construction of the Center's parking facilities. Section 9 of the Kennedy Center Act, as amended (20 U.S.C. §76o (1982)), authorized the Board of Trustees to issue revenue bonds to the Secretary of the Treasury to finance construction of the Center's parking facility. These revenue bonds provided for paying of both principal and interest out of parking revenues accruing to the Center. Section 9 also authorized the Secretary, in turn, to defer interest owed on the bonds, providing that all deferred interest amounts would themselves bear interest.

Since 1968, the Board has annually requested and received from the Treasury a deferral of all interest due on the revenue bonds. Interest payments, which totaled $28.6 million at the end of fiscal year 1983, are presently deferred through December 31, 1984. The Treasury granted this deferral, however, with the understanding that a working group of the primary interested parties address the Center's financial condition and propose solutions for the interest payment problem. Assuming that the interest on deferred amounts is compounded at a constant rate of 9 percent (the approximate Treasury rate applicable in December 1982 for loans with 1-year maturities) in future years, the bond interest debt would nearly double to $50 million by 1988, would approach $170 million by the year 2000, and would reach $800 million by 2017, the first year of bond maturity.

The Center's share of parking profits, which are split with the parking concessionaire, has been insufficient to pay the bond debt. Kennedy Center officials said these revenues have been needed to offset general overhead and operating expenses.

In August 1983 the Center obtained a $2.0 million loan, secured by future parking revenues; this loan was used to augment working capital and to pay off the remaining $825,000 of a $3.5 million advance obtained from the parking concessionaire to complete construction of the parking garage. As provided in the concession agreement, the Center now receives 70 percent rather than 50 percent of net parking profits. After retirement of the new loan, in fiscal year 1987, the Center will annually receive approximately $746,000 in parking revenues, assuming that future net operating profits from parking remain at fiscal year 1983 levels. These revenues would be about $490,000 more than the amount available to the Center in 1983 after it paid the amounts due on the concessionaire advance and the new loan. This increased revenue could be used to pay bond indebtedness or to cover costs incurred in support of the Center's programming.

No provision has been made as yet for repaying the bond principal. If, assuming a 7 percent return on investment, a sinking fund were established in 1987, the Center would be able to pay the bond principal amounts on their due dates with an annual payment of about $190,000, based on our calculations.

As provided in a 1972 agreement, the Kennedy Center reimburses the National Park Service for 23.8 percent of the joint operating costs for maintaining certain public areas of the building, utilities, and housekeeping services. This percentage resulted from a cost-sharing formula developed by an independent public accounting firm before the Center opened. The formula was based on the average proportion of time the Center was expected to be used for performing arts functions in relation to the total time the Center is open. Since 1972, however, although performing arts usage has increased and the number of hours the Center is open to the public have decreased, the formula has remained unchanged.

According to our analysis of fiscal year 1982 records and discussions with Kennedy Center and Park Service staff, the Center's share should be 30.6 percent to reflect increased use of the building for performing arts purposes. If the 30.6 percent had been applied in fiscal year 1982, for example, the Center would have paid the Park Service $277,000 more than the actual reimbursement of $970,000. An increase in the Center's share would in turn affect its ability to meet other financial obligations.

Based on the results of 12 years of operations, there is little likelihood that the Center will have the money to pay for the building's operating costs, meet its programming responsibilities, and, at the same time, pay off the interest and principal on the outstanding Treasury bonds. The center is responsible for bearing the full cost of maintaining its five theaters, backstage, and office facilities. Furthermore, the

Center's wide range of cultural and educational programs, many free or at half-price, do not usually generate profits that could be used to service its revenue bonds.

The number and interrelation of issues involved require a comprehensive solution to the Kennedy Center's financial problems. The failure to address these issues comprehensively will result in an increase in their magnitude, particularly in the amount of unpaid bond interest. The solution should address a range of issues, including bond interest indebtedness, bond principal, and the cost-sharing agreement between the Center and the National Park Service. Any solution requiring the Center to pay more to the Park Service for operating costs and a portion of the bond debt would result in fewer funds available for performing arts and public service programming.

The Secretary of the Treasury has assembled a working group to propose to the Congress a solution to the Kennedy Center's financial problems. This group, which includes officials of the Office of Management and Budget and of the Kennedy Center, is addressing the issues discussed in this report. The working group's proposal to resolve the Center's Financial problems involves: (1) waiving the deferred interest obligation and removing the requirement for future interest on the revenue bonds; (2) establishing a sinking fund, with investment authority, in the Treasury into which the Center would, beginning in calendar year 1987, pay $200,000 annually; this fund would be secured by garage revenues and would be used toward amortization of the bond principal; and (3) freezing the cost-sharing formula at its current level. The Treasury said the proposal was being discussed with the staffs of the Center's authorizing and appropriations committees in the Congress.

Officials of the Treasury and the Kennedy Center agree that this proposal is a reasonable compromise, based on their beliefs that (1) the Center has probably reached the upper limit of its ability to raise funds from private sources, and (2) the Center's costs for maintaining its five theaters, backstage space, and office areas, for which it bears sole responsibility, are increasing, making it more difficult for the Center to meet its share of future operating costs. These maintenance costs are rising significantly as the building ages.

In their comments, the Treasury Department, the Office of Management and Budget (OMB), the Department of the Interior, and the Kennedy Center generally agreed with the report's findings and conclusions. While the Kennedy Center concurred with GAO's overall conclusions, it states in its comments, however, that the draft report omitted some factors and did not adequately reflect the Kennedy Center's current financial situation, which "has become even more difficult than GAO's 1982 figures suggest."

The Kennedy Center stated that there were "sharp increases" since 1982 in operating costs, including maintenance expenses paid solely by the Center, as well as in production costs. At a time when the Center has substantially increased its payments to the Park Service, according to the Center, the cost of maintaining the Center's five theaters and massive backstage, dressing room, rehearsal, and office facilities, for which the Center is solely responsible, "has soared," reflecting the building's intensive use for 12 years. The Center states that more than $2.7 million is allocated for building maintenance in fiscal year 1984, including more than $1.6 million raised from private sources for full-scale renovation of the Opera House. According to the Center, rapidly escalating production costs for theatrical presentations have handicapped the Center. This trend has dictated a need for private subsidy for virtually all types of presentations; has increased the need for production investment; and has reduced the number of available productions suitable for booking. The Center notes as well that parking and concession revenues depend on continuous operation of the theaters, an issue linked to the cost and availability of appropriate productions.

According to the Center, its efforts to obtain private contributions, while noted in the draft report, have been most dramatic in the more recent period not covered by the review, with $4.2 million contributed in fiscal year 1983 and $6 million projected for fiscal year 1984. In the Center's view, the massive interest obligation represents a major deterrent to the Center's establishment of an endowment, its best hope for long-range stability without future injections of federal subsidy.

The Center also notes that the draft report omitted GAO's observation in its 1980 report that the Center receives a "significantly lesser percentage of government assistance"--federal, state, or municipal--than other regional performing arts centers, or comparable Washington institutions that receive direct National Park Service support.

In accordance with the Kennedy Center's comments, we have updated the report throughout to reflect increased operating costs since fiscal year 1982, not only in payments to the National Park Service, but also in costs for building maintenance. The report also notes the Center's increased production costs, as well as the rise in private contributions since fiscal year 1982. As we point out on page 1 of this letter, data through fiscal years 1982 have been audited, while data later than 1982 have not been audited. The increases in costs that the Kennedy Center pays alone or jointly with the National Park Service strengthen GAO's conclusion that a comprehensive solution must be developed for the Center's financial problems.

In commenting on the draft report, the Kennedy Center and the Treasury summarized the working group's legislative proposal to resolve the Center's financial problems, described earlier. The Kennedy Center endorses the working group's legislative proposal. The Treasury supports the "consensus approach" of the working group, viewing this approach as a fair compromise towards resolving the Center's financial problems; Treasury also stated that it would work towards implementation of such a compromise plan. The Department of the Interior said it would "continue to monitor" the working group's proposed legislation and support negotiation of a new cooperative agreement for use of the building. OMB's reply noted that the Administration has been concerned with this issue for the past three years and "continues to work toward an acceptable solution to the problem which will consider the competing demands on the Center's resources."

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As arranged with your office, we are sending copies of this report to the Chairman, House Committee on Public Works and Transportation; the Chairman, Senate Committee on Environment and Public Works; the Director, Office of Management and Budget; the Secretaries, Departments of the Treasury and Interior; and the Chairman, Board of Trustees of the John F. Kennedy Center.

James S. Howard for
William J. Anderson
Director

FINANCIAL PROBLEMS OF THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS NEED TO BE ADDRESSED

BACKGROUND

The John F. Kennedy Center Act, as amended (20 U.S.C. §76h-76q (1982)), established the Kennedy Center as both the national cultural arts center and a presidential memorial. A bureau within the Smithsonian Institution, the Center is independently administered by a 45-member Board of Trustees. The Board is responsible for providing a variety of programs including classical and contemporary music, opera, drama, and dance, as well as special programs designed specifically for the education and participation of children, youth, the elderly, and other groups. The Center also provides a substantial number of public service and educational activities, many of which are free. Other activities or services include a half-price ticket program and the free use of special audio and visual equipment for the hearing and visually-impaired.

The Center relies extensively on revenues from ticket sales, private contributions, concession income, and other sources to fund its performing arts and public services activities. The Center does receive, however, some financial support from the federal government in the form of a grant from the Department of Education to support educational programming. It has also received support, which ended after fiscal year 1983, for touring dance companies from the National Endowment for the Arts.

The responsibility for maintaining the Kennedy Center is shared between the Center and the National Park Service. The Secretary of the Interior, acting through the National Park Service, pays for all security and grounds-keeping as well as maintenance of the major public areas of the building. Funds are appropriated to the Park Service to cover these non-performing arts activities. The Center has sole responsibility for maintaining the stage and backstage areas of its five theaters and related supporting areas, as well as its own office facilities. The Center also pays its share of total operating expenses relating to the building's usage for performing arts activities. This share, as determined by a formula developed in 1971 before the Center opened, is 23.8 percent. Conversely, the Park Service's share of the joint operating expenses related to the Center's function as a presidential memorial is 76.2 percent.

Since fiscal year 1978, the Center's operating costs have increased substantially. Its payments to the Park Service, for example, have increased from about $611,000 in 1978 to more than $900,000 in fiscal years 1982 and 1983, although the reimbursement rate remains at 23.8 percent. Similarly, the Center's costs to maintain areas for which it has sole responsibility have increased sharply as the building has aged. These costs were less than $50,000 in 1972 and 1973, but rose to about $535,000 in fiscal year 1983, and were budgeted at $1.2 million for fiscal year 1984.

This rise in operating costs comes at the same time as a decline in attendance, consistent with a recent downward national trend for theaters and performing arts centers. Despite the opening of an additional theater, the Terrace Theater, in 1979, total attendance decreased from 1.6 million in 1978 to 1.3 million in 1982. These figures represent a decrease in attendance levels from 80 percent of seating capacity in 1978 to 73 percent in 1982. With attendance down, the Center has generated less revenue at the box office than in previous years. (Revenues for fiscal year 1983, however, indicate an improvement in attendance.)

According to Kennedy Center officials, there is also a shortage of externally produced shows of adequate quality and profit potential for them to book. Because the Center cannot schedule enough externally produced shows, it must either produce more shows itself or keep the theaters vacant for longer periods. But vacant theaters generate no revenue or related concession income to offset fixed overhead costs, and producing shows internally requires the Center to invest heavily in productions and to assume greater risks. The Center states that, in the past five years, production costs have escalated rapidly.

These rising costs, declining attendance levels, and limited production possibilities have put greater pressure on the Center's ability to repay its revenue bond debt. Although the Center's operating revenues and public contributions since 1973 have exceeded operating expenses, excluding Treasury bond interest expense and certain debt repayments, the Center has not repaid any of its revenue bond interest debt to the U.S. Treasury. In 1968-70, the Center issued $20.4 million in revenue bonds to the Treasury to finance the construction of parking facilities. The bonds stated that interest and principal were to be paid out of the Center's parking revenues. Deferrals of interest payments were allowed, with approval of the Secretary of the Treasury, but such deferrals were to bear additional interest after June 30, 1972. Treasury has agreed, in every year since 1968, to defer payment of interest. Through the end of October 1983, the Center had made no payments of annual interest.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was done at the request of the Chairman and the Ranking Minority Member, Subcommittee on Public Buildings and

Grounds, House Committee on Public Works and Transportation. In response to that request, and as required by the John F. Kennedy Center Act, we have reviewed selected aspects of the Center's financial operations for fiscal years 1979-1982 and updated the financial information contained in GAO's previous report.[1]

The objectives of our review were to (1) report on the results of operations of the Kennedy Center during fiscal years 1979-1982, (2) assess the Center's ability to meet its obligations for payment of interest and principal on revenue bonds issued to the U.S. Treasury, and (3) determine whether the formula used to allocate certain operational costs shared by the Center and the National Park Service fairly reflects use of the building.

While our audit concentrated on fiscal year 1982, the report includes data from earlier years, for purposes of comparison, unaudited financial data for fiscal year 1983, and some projections, based on agency comments, for fiscal year 1984. We did not perform a detailed review of the Kennedy Center's accounts, but relied upon the financial statements audited by the Center's independent certified public accounting firm. We accepted the Center's management decisions concerning programming mix, ticket price structure, and costs incurred as reflected in these statements. Accordingly, this report was developed based on:

--Interviews with officials of the Kennedy Center and the National Park Service,

--A review of the minutes from meetings of the Center's Board of Trustees,

--A review of audited financial statements for fiscal years 1979 through 1982 and the related working papers of the Center's independent public accounting firm for fiscal year 1982,

--A review of National Park Service records on the determination of costs shared with the Kennedy Center,

--A projection of future interest accruing on revenue bonds issued to the U.S. Treasury, based on the assumption of continued nonpayment of amounts deferred and a small increase in the Treasury rate of interest used to determine the amount of annual interest on deferred interest,

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[1]Kennedy Center's Financial Problems Are Serious (GGD-80-39, April 24, 1980).

--A review of records of theater operations to determine the amount of time the Center is actually used for performing arts activities, and

--Discussions of our findings and recommendations with Kennedy Center, Park Service, Office of Management and Budget, and Treasury officials.

Our review was conducted in accordance with generally accepted government auditing standards.

KENNEDY CENTER OPERATIONS

The Kennedy Center is a not-for-profit organization whose commercially oriented operations help to offset the costs of its less profitable programming. The Center's management said it considers its public service objectives in booking attractions as well as the attraction's expected profitability. Many attractions are presented despite the likelihood of losses because, according to officials, they fulfill the Center's legislated responsibility to provide a broad range of educational, public-service, and cultural programs. Opera and ballet, for example, are presented even though the ticket revenues generated rarely cover the operating expenses. Even with private or corporate support, the Center must often absorb substantial losses on these performances: in fiscal year 1982, for example, 11 productions in the Opera House resulted in a total deficit of approximately $1,586,000 despite about $606,000 in private, corporate, and federal support.

Pricing practices also have an impact on revenues. Some of the programming, especially public service and educational programming, either is free or requires only a small charge. In fiscal year 1982, educational and public service programming cost the Center about $1.9 million, but generated revenues of about $72,000. Part of the deficit was offset by approximately $682,000 in federal grants. The remaining $1.1 million was made up by private contributions and other Center revenues. Additionally, the Center has a half-price ticket program which makes the arts more accessible to the elderly, students, handicapped persons, and low-income groups. In fiscal year 1982, the Center sold 112,873 half-price tickets, resulting in box office receipts of about $1,104,040 less than if the tickets had been sold at full price. Since the Center was operating at 73 percent of seating capacity in that year, however, it is not certain that these tickets would have sold at full price.

The results of the Kennedy Center's general fund operations for fiscal years 1979 through 1983 are summarized in Table 1. (See p. 5.) The table shows that for those years, revenues exceeded operating expenses, excluding bond interest expense and repayment of a loan from the parking concessionaire, by $1.3

Table 1

Revenues and Expenses (note a)

	Fiscal Year					
	1979	1980	1981	1982	Unaudited 1983	Total
Net theater receipts (note b)	$ 3,440,341	$ 3,456,373	$ 4,356,542	$ 3,555,676	$ 3,499,199	$18,308,131
Other theater income	524,572	667,248	688,561	646,923	103,848	2,631,152
Total	3,964,913	4,123,621	5,045,103	4,202,599	3,603,047	20,939,283
Expenses:						
Operations	3,955,851	4,220,792	4,519,414	4,336,321	4,597,166	21,629,544
Losses on presentations (note c) and write-off of production investments	3,323,640	3,931,735	4,652,996	6,695,783	5,576,788	24,180,942
Total	7,279,491	8,152,527	9,172,410	11,032,104	10,173,954	45,810,486
Deficit from theater operations before public support	-3,314,578	-4,028,906	-4,127,307	-6,829,505	- 6,570,907	-24,871,203
Public support:						
Contributions for programming	1,853,760	3,511,873	3,011,841	4,074,029	3,952,639	16,404,142
General	328,005	485,098	662,977	1,142,185	1,080,536	3,698,801
Total	2,181,765	3,996,971	3,674,818	5,216,214	5,033,175	20,102,943
Deficit before other income	-1,132,813	-31,935	-452,489	-1,613,291	-1,537,732	- 4,768,260
Other income:						
Parking (note d)	399,594	415,564	497,255	515,525	656,476	2,484,414
Restaurant (note d)	279,382	217,959	320,986	337,137	332,864	1,488,328
Other	462,476	-161,931	284,974	830,568	665,914	2,082,001
Total	1,141,452	471,592	1,103,215	1,683,230	1,655,254	6,054,743
Net results of operations	8,639	439,657	650,726	69,939	117,522	1,286,483
Interest expense on revenue bonds	2,182,992	2,493,765	2,805,205	3,187,418	3,520,041	14,189,421
Excess of expenses over revenues	$ -2,174,353	$ -2,054,108	$ -2,154,479	$ -3,117,479	$-3,402,519	$-12,902,938

a/The information on this schedule was obtained from the Center's financial statements, which were audited by an independent public accounting firm.
b/Includes gross box office receipts and theater rentals less payment of attraction's share.
c/According to Kennedy Center officials, some of the productions, such as operas and ballets, which are presented to comply with the legislative mandate to present a variety of performing arts attractions, result in financial losses.
d/Includes reimbursement by parking concessionaire to the Kennedy Center for utilities.

APPENDIX I

million. Similarly, for the earlier fiscal years 1972 through 1978, revenues exceeded operating expenses, excluding bond interest expense and repayment of the parking loan, by $1.2 million. (See our 1980 report, GAO/GGD-80-39).

The Center's primary source of gross revenue is its theater operations, with other funds provided by private contributions, concession income, and a federal education grant. In fiscal year 1982, box office receipts for the four theaters totaled about $16.2 million as shown in the following schedule. This figure represented a decrease of about $2.0 million from fiscal year 1981, although operations in fiscal year 1983 indicated an improvement.

Theater Receipts For Fiscal Years 1979-1983

	1979	1980	1981	1982	Unaudited 1983
Box office receipts	$13,900,757	$14,232,800	$18,133,190	$16,181,234	$18,154,500
Less: Attraction share of receipts	11,912,871	12,641,126	16,050,183	15,402,961	18,039,504
	1,987,886	1,591,674	2,083,007	778,273	114,996
Add : Theater license fees (rentals)	1,452,455	1,864,699	2,273,535	2,777,403	3,384,203
Net theater receipts	3,440,341	3,456,373	4,356,542	3,555,676	3,499,199

After theater operations, the Center's main sources of funds are private contributions and support from the federal government. During fiscal year 1982, donations from individuals, foundations, and corporations for programming amounted to about $4 million, a $1 million increase over the previous year. Although the Center has been successful in increasing donations to record levels, officials believe that private donations are at their upper limit and expect no substantial increases. The Center has also received support from the federal government in the form of grants. In fiscal years 1982 and 1983, the Department of Education provided $675,000 for educational programming and the National Endowment for the Arts (NEA) contributed about $170,000 to help subsidize touring dance companies performing at the Center. Kennedy Center officials said the NEA grant ceased after fiscal year 1983.

In addition to revenues, grants, and contributions, in 1982 the Center received donated services valued at approximately $134,000. About 90 percent of this amount was for the estimated 34,200 hours of volunteer work performed by the Center's auxiliary group, the Friends of the Kennedy Center, which provides free tours and information service for visitors.

BOND INTEREST OBLIGATIONS EXCEED ABILITY TO PAY AND NO PROVISION FOR PRINCIPAL REPAYMENT HAS BEEN MADE

The most serious financial problem facing Kennedy Center officials is the Center's growing bond interest debt to the U.S. Treasury. At the end of fiscal year 1983, total interest on the Center's outstanding revenue bonds was $28.6 million, which the Kennedy Center is unable to pay, given current revenues. In fiscal years 1979 through 1983, the Center's annual bond interest obligations totaled about $14.2 million, while its receipts and public support exceeded operating expenses, excluding bond interest and repayment of a loan from the parking concessionaire, by about $1.3 million.

The Center's ability to repay the $20.4 million bond principal by the scheduled maturity dates, beginning in 2017, will also be doubtful if the Center does not begin to set aside funds in the near future. The bond provisions do not require that funds be set aside to retire them. Kennedy Center officials told us, however, that because of insufficient revenues, the Board of Trustees has not set aside funds or made plans to retire the bonds. At the end of fiscal year 1983, the Center's total bond indebtedness was about $49.0 million--$20.4 million in principal plus $28.6 million accrued interest--an amount that will increase substantially (to $170 million in interest alone by the year 2000) if actions are not taken to repay or waive portions of the interest due.

Revenue bond interest remains unpaid and is increasing

The Center's continued deferral of annual interest payments has resulted in a $28.6 million debt which is now beyond the Center's ability to completely repay. As authorized by Section 9 of the John F. Kennedy Center Act, as amended (20 U.S.C. §76o (1982)), the Center's Board of Trustees borrowed $20.4 million from the Treasury Department by issuing revenue bonds. The proceeds were used to finance construction of the Center's parking facilities. The Center issued 21 bonds between July 1, 1968, and April 30, 1970, with maturity dates from December 31, 2017, to December 31, 2019, and interest rates from 5-1/8 to 6-5/8 percent. Beginning in 1968, the Board has annually requested and received from the Treasury a deferral of interest due. In August 1983, the Center was granted another deferral through December 1984. However, the Treasury indicated that it would grant the deferral with the understanding that a working group would address the Center's financial problems and propose solutions for the interest payment problem.

The Act also provides that, after June 30, 1972, the Treasury charge interest on any unpaid interest debt. The interest on deferred interest, which is compounded annually at the rate applicable for Treasury notes having a 1-year maturity, causes the interest debt to grow at an ever increasing rate. The Center's annual interest payment due the Treasury was about $3.2 million in December 1982, almost a $400,000 increase over 1981. The annual obligation consisted of current simple interest of $1.2 million plus $2.0 million for interest on deferred interest. Assuming a constant rate of 9 percent in future years, if all interest is continually deferred, the Kennedy Center's bond interest debt would nearly double to $50 million by 1988, would reach about $170 million by the year 2000, and would approach $800 million by 2017, the first year of bond maturity.

Parking revenues insufficient to pay bond interest debt

While the revenue bonds state that both the interest and principal are to be paid out of the parking revenues received by the Center, the parking revenues have not been sufficient to provide for these amounts. Treasury and Kennedy Center officials further acknowledge that the parking revenues are in fact available for other operating expenses and the Center has relied on them, on two occasions, to finance loans. Even if the Center had not incurred these other obligations, the net operating profits from parking would not have been sufficient to pay even the annual $1.2 million simple interest on the bonds, let alone the annual interest due on the deferred interest and principal.

In February 1969, the Center's Board of Trustees entered into a parking concession agreement with Airport Parking Company of America-Washington (APCOA). The 15-year agreement provided that APCOA advance the Center $3.5 million dollars against the Center's share of future revenues. APCOA was to be reimbursed annually for 1/15th of the advance, or $233,328, plus interest on the outstanding balance. (Principal and interest payments averaged about $464,000 annually in calendar years 1972 through 1982.) After deductions for interest and amortization of the principal, profits were to be split evenly between the concessionaire and the Center until the loan was paid off. At that time, the Center's share of net profits was to increase from 50 percent to 70 percent as provided in the concession contract. The results of the Center's parking operations in fiscal years 1979-1982 are summarized in Table 2. (See p. 9.)

In July 1983, the Center obtained a $2 million loan, secured by future parking revenues, from the American Security Bank (ASB). According to Kennedy Center officials, the loan is intended to pay off the remaining $825,000 balance of the APCOA advance and to provide for the Center's increased cash needs. Early payment of the APCOA Loan allows the Center to receive

Table 2

Parking Revenues and Center's Share

	Fiscal Year					
	1979	1980	1981	1982	Unaudited 1983	Total
Gross revenue	$1,113,678	$1,119,505	$1,268,494	$1,265,207	$1,681,783	$6,448,667
Expenses:						
Operations (note a)	363,006	350,977	351,389	385,466	532,491	1,983,329
Management fee (5 percent of gross revenue)	55,684	55,975	63,425	63,260	84,089	322,433
Total	418,690	406,952	414,814	448,726	616,580	2,305,762
Net operating profit	694,988	712,553	853,680	816,481	1,065,203	4,142,905
Payment on advance:						
Interest (note b)	273,437	262,209	236,548	162,755	92,168	1,027,117
Amortization of principal	233,328	233,328	233,328	233,328	194,440	1,127,752
Total	506,765	495,537	469,876	396,083	286,608	2,154,869
Balance available	188,223	217,016	383,804	420,398	778,595	1,988,036
Center's share (50 percent)	94,111	108,508	191,902	210,199	389,298	994,018
Less validations (note c)	15,510	12,654	15,452	14,339	13,903	71,858
Center's net share	$ 78,601	$ 95,854	$ 176,450	$ 195,860	375,395	922,160

a/Includes $72,000 paid to the Center for utilities.
b/Interest was determined by the prime rate of the Chase Manhattan Bank at November 15 of each year.
c/A patron purchasing tickets is allowed 30 minutes of free parking for which payment is made by the Center to the parking concessionaire.

APPENDIX I

70 percent of net operating profits from parking, instead of 50 percent, as specified in the APCOA agreement. The Center will pay off the ASB loan in eight semi-annual payments of $250,000 each, plus interest, at the ASB prime rate, for 4 years ending August 1, 1987.

The repayment provision for the APCOA advance reduced the Center's share of net operating profits to 50 percent. Combined with the Center's use of parking revenues to help pay other operating expenses and the continued deferral and compounding of interest due, this reduction in profits available to the Center has resulted in an increasing annual interest expense and a debt that is beyond the Center's ability to pay in its current financial condition. In fiscal year 1982, the Center's net share of parking revenues was about $196,000 and its overall net revenues before interest expense were approximately $70,000; the annual interest debt, however, was about $3.2 million. Any attempt by the Treasury to collect all the unpaid interest from the Center would thus reduce the Center's ability to meet its other obligations.

Kennedy Center Board could provide for repayment of bond principal

Although the Kennedy Center is unable to pay its bond interest debt, future parking garage revenues could allow the Board of Trustees to annually set aside funds for the retirement of the $20.4 million bond principal. If the Board can establish a bond sinking fund that provides a 7 percent return on the fund investment, an annual payment to the fund of about $190,000 will be necessary to retire the entire principal by the scheduled maturity dates in the years 2017 through 2019. Beginning in 1987, the payment schedule under such a plan would be as follows:

Years	Annual Payment To Fund
1987-2017	$190,143
2018	112,747
2019	8,408

Since the garage advance is now paid off, the Center's share of the income from the parking concession will increase in future years. During fiscal year 1983, for example, net operating profits were about $1,065,000. After deducting the final payments for the APCOA loan and payments for the ASB loan,the Center's net share was about $256,000. Given the Center's increased share of net operating profits, and assuming that net operating profits remain at fiscal year 1983 levels in the future, the Center would net approximately $746,000 per year (70 percent of net operating profits) after payoff of the ASB loan in fiscal year 1987. This increase, about $490,000 more than the Center's net share in fiscal year 1983, could enable the Center to begin paying an increased share of the building's operating costs and to establish a sinking fund for retiring the bond principal while maintaining current programming and operating expenditure levels.

COST SHARING NOT CONSISTENT WITH CURRENT USAGE

Under a 1972 agreement, the Center shares certain building operation costs with the Park Service based on the Center's use for performing arts activities. The Center is not paying its full share of these costs because, as noted in our prior reports, 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 non-performing arts or building memorial functions, pays for all normal security, some information (excluding tours provided by the Friends of the Kennedy Center), and grounds maintenance. 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 non-performing arts functions. These sharing rates were based on estimates of the building's use for memorial and performing arts purposes projected before its opening.

Formula does not reflect changes in the 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 it is open. The cost allocation formula currently being used does not reflect changes in the Center's operations since opening. The public accounting firm that 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 theaters would be used for the performing arts an average of 25 hours a 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.

Using fiscal year 1982 records and other information obtained from Kennedy Center and Park Service officials, we determined that two of the initial assumptions made by the accounting firm are no longer valid. In our analysis we examined the time periods when the Center was operating primarily for performing arts purposes.[2] The following changes in the original estimates are necessary if the cost-sharing formula is to more closely reflect current use of the building:

--The theaters are now operating 6 days per week, not 5.

--The Center is now open to the public 98 hours per week rather than 105 hours, due to a decrease in daily operating hours from 15 to 14.

We found that the original estimate that the theaters would be open 5 hours per day remains valid for current operations.

A formula based on the revised estimates allocates 30.6 percent of the shared costs to the Center for performing arts activities, which occupy the Center for 30 hours (5 hours per day, 6 days per week) out of the building's 98-hour (14 hours per day, 7 days per week) operating week. If this revised cost-sharing formula had been applied in fiscal year 1982, the Kennedy Center would have reimbursed the National Park Service $1,247,000 for shared building operating costs, an increase of $277,000 over the $970,000 that was actually paid. (See Table 3, page 13.)

We recognize, of course, that any increase in the Center's share of joint operating costs would decrease its ability to meet other financial obligations, including bond indebtedness and support of its performing arts responsibilities. This is especially true in the area of educational and public service programming that generates little or no revenue to cover its production costs.

Cost to operate the Center

During fiscal years 1979 through 1983, costs totaling about $17.8 million were allocated between the Kennedy Center and the Park Service using the formula shown in Table 3. (See p. 13.)

Over the 5-year period, fiscal years 1979 through 1983, the Congress appropriated about $20.8 million for the Park Service

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[2]Other performing arts uses of the building include free public service and educational programs, rehearsals, and set construction. In determining theater use time, we included only those events for which an admission was charged.

APPENDIX I

Table 3

Costs Shared By The Government and the Center

	1979	1980	1981	1982	Unaudited 1983	Total
Building maintenance and repair	$ 1,551,727	$ 1,564,779	$ 1,504,588	$ 1,878,683	$ 1,694,367	$ 8,194,144
Utilities	975,245	1,094,914	1,379,048	1,484,915	1,456,114	6,390,236
Janitorial services	561,891	604,263	666,514	710,685	717,911	3,261,264
Interior plantings	—	—	1,426	1,680	123	3,229
Total	$ 3,088,863	$ 3,263,956	$ 3,551,576	$ 4,075,963	$ 3,868,515	$ 17,848,873
Government's share (76.2 percent)	$ 2,353,714	$ 2,487,134	$ 2,706,301	$ 3,105,884	$ 2,947,808	$ 13,600,841
Center's share (23.8 percent)	$ 735,149	$ 776,822	$ 845,275	$ 970,079	$ 920,707	$ 4,248,032
Funds appropriated to the Park Service for shared and nonshared costs	$ 4,055,000	$ 4,130,000	$ 4,200,000	$ 4,212,000	$ 4,247,000	$ 20,844,000

to cover the cost of maintaining the Center. These funds were applied to both the Park Service's 76.2 percent share of the joint costs as well as the full amounts paid for building security, visitor information services, and grounds maintenance. For fiscal year 1983, the Congress appropriated about $4.2 million to cover these costs.

The Kennedy Center's share of joint operating expenses for fiscal years 1979 through 1982 totaled $4.2 million to cover the performing arts share of building costs. In addition to its payments to the Park Service, the Center must pay the full cost of maintaining its theaters, backstage areas, and its own office areas. It must also maintain and purchase theater equipment. For fiscal years 1981 and 1982 combined, the Center spent over $1 million for these items; in fiscal year 1983 it spent $535,000. About $2.7 million is budgeted for such costs in fiscal year 1984--including more than $1.6 million raised from private sources for a one-time overall renovation of the Center's Opera House.

Responsibility for major repairs

The existing cost-sharing agreement places financial responsibility for major structural repairs, alterations, and reconstruction with the Board of Trustees. However, the Board has neither set aside sufficient reserves to cover such costs should they arise, nor do Center officials believe that they should be financially responsible for major structural repairs. In the mid-1970s, when funds were needed to correct problems with water leaks from the roof, terraces, and the entrance plaza roadway, the Center had to request congressional assistance. In order to make the necessary repairs, the Congress appropriated $4.5 million to the Park Service. Although no further structural problems have developed, Park Service staff indicated that since the building is already 12 years old, such problems could develop in the next 6 to 8 years.

Kennedy Center officials have sought to make the Park Service responsible for major structural repairs, alterations, and reconstruction. In their view, the Kennedy Center building and grounds are a presidential memorial and the property of the federal government, and the government should bear this responsibility. To date, the Congress has not extended Park Service responsibility to include these items.

National Park Service maintenance projects have been deferred at the Kennedy Center

We also reviewed the extent to which maintenance projects were being deferred by the National Park Service. We found that, as of February 1983, at least 15 projects have been or are planned to be deferred from their originally scheduled dates. Even though the number of scheduled maintenance projects has increased in recent years, due to the increased age of the building, the Park Service's appropriation has remained at virtually the same level over the past 5 years. Increases in other operating expenses have forced the Park Service to delay many of these maintenance projects. However, Park Service staff added that some maintenance is deferred because the work is not necessary at the time originally scheduled.

A COMPREHENSIVE SOLUTION TO THE CENTER'S FINANCIAL PROBLEMS IS NEEDED

Given the Kennedy Center's inability to meet its growing bond obligations, we believe the Center's financial condition should be reviewed with special attention to its expected future revenues, expenses, and programming needs. In our last report (GGD-80-39, April 24, 1980), we examined three legislative proposals then under consideration by the Congress. In part, these proposals would have adjusted the Center's financial situation by relieving the bond indebtedness problems and extending the National Park Service's responsibility for structural repairs, replacements, and improvements. In 1980, a bill incorporating several features included in the earlier proposals was passed by the Senate but not the House of Representatives.

A comprehensive solution to the Center's financial problems is still needed. Further delay will only increase the magnitude of the problems, particularly the amount of unpaid bond interest. The solution should address a range of issues including bond interest indebtedness, bond principal, and the cost-sharing agreement between the Center and the National Park Service. Any solution requiring the Center to pay the Park Service more for operating costs and to pay the Treasury a portion of the bond debt would decrease the funds available for performing arts and public service programming.

During the fiscal year 1983 budget hearings, a group was formed to study the Center's financial status and make recommendations to the Congress for consideration with the fiscal year 1984 budget. The group consisted of representatives of the Office of Management and Budget (OMB), the Department of Treasury, the Department of the Interior, and the Kennedy Center. Subsequently, in an August 1983 letter to the Center, the Treasury granted a deferral of unpaid interest until December 1984, with the understanding that a similar working group would study the situation and develop recommendations for solving the interest deferral problem. The Secretary of the Treasury convened a group in December 1983 consisting of officials of OMB, the

Kennedy Center, and the Treasury to propose a solution for the Center's financial problems. Representatives of the Department of the Interior attended a February 1984 meeting of the group as observers.

The working group has developed a consensus approach for addressing the Center's financial problems that involves: (1) waiving the deferred interest obligation and removing the requirement for future interest on the revenue bonds, (2) establishing a sinking fund, with investment authority, in the Treasury into which the Center would, beginning in calendar year 1987, pay $200,000 annually; this fund would be secured by garage revenues and would be used toward amortization of the bond principal, and (3) freezing the cost-sharing formula at its current level.

Treasury and Kennedy Center officials believe this approach is a fair compromise, given the competing demands on the Center's resources. The Deputy Director, Office of Management and Budget, stated that the Administration has been concerned with this problem for the past three years and continues to work toward an acceptable solution. The working group plans to propose a legislative solution, based on the "consensus approach," in the current session of the Congress. The Department of the Interior said it would "continue to monitor" the working group's proposed legislation and support negotiation of a new cooperative agreement for use of the building.

JOHN F KENNEDY CENTER FOR THE PERFORMING ARTS

Board of Trustees
OFFICE OF THE CHAIRMAN

March 5, 1984

Mr. William J. Anderson
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

Referral of a draft report of the General Accounting Office's most recent examination of Kennedy Center's operations comes at a singularly appropriate time: a working group composed of Treasury, OMB and Kennedy Center representatives has developed a "consensus" legislative proposal for consideration by the Congress that we believe, on balance, represents a realistic approach to resolving the complex issues involved in payment of the Center's Treasury Bond obligations.

This "consensus" proposal, in essence, would remove the grossly inequitable burden of Federal compound interest that has accumulated on these bonds, commit the Center to a practical payment schedule of the $20.4M construction bond principal and freeze present building cost-sharing arrangements with the National Park Service. This approach appears to be entirely consistent with the principal findings and conclusions of GAO's draft report, which confirm those of its previous examination of Kennedy Center operations four years ago. Kennedy Center strongly concurs with GAO's conclusion in both reports that only Congress can make the judgments necessary to resolve the complex issues involved and that a comprehensive solution is necessary that balances the Center's ability to meet this obligation against its unique statutory responsibilities as a national cultural center and a "living" Presidential memorial.

At the same time, the Center is appreciative of this opportunity to point out several significant new developments in the Center's financial situation that the working group considered of critical importance in arriving at their "consensus". Unfortunately, we believe GAO's draft report fails to adequately reflect these points because the GAO examination was essentially limited to the period of FY '79 thru FY '82 and the impact of these new factors, as documented by current financial data, is most dramatic in the period since that date.

Washington, D C 20566/phone 202 872-0466

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March 5, 1984
Page Two

Essentially, these more recent figures confirm that, despite the Center's success in raising substantially more private contributions, the Center's overall financial situation has become even more difficult than GAO's 1982 figures suggest. Indeed, more current data simply further substantiates GAO's 1980 and 1984 conclusion that there is an urgent need for Congress to address the Treasury Bond issue.

Briefly, current Center financial information documents sharp increases in both production and building operating costs, including maintenance expenses borne solely by the Center, that are not immediately apparent from the 1979-1982 data in GAO's draft report. Data made available to the Treasury/OMB/ Kennedy Center working group documents a similarly sharp increase in private contributions raised by the Center to help offset these costs. We have, of course, long relied on contributions from the private sector to carry out a broad range of Congressionally mandated--but largely unfunded-- performing arts, education and public service programming. That reliance on private donations to augment box office and concession revenue--which the Center's Board of Trustees has always favored in lieu of Federal subsidy--has become much greater than the 1982 data of the draft GAO report indicates and may well have, as the working group found, reached its "outer limits." Certainly, there is no prospect that private funds can be raised to pay Federal compound interest.

I. Kennedy Center Agreement on GAO Conclusions:

Kennedy Center concurs with the two principal conclusions of the draft report, which confirm those of GAO's 1980 report, and believes they both reflect, and strongly justify, the current legislative proposal developed by the key Federal agencies involved.

- GAO recognizes that, while the Center has been able to operate narrowly in the black for the past 10 years, it is unrealistic to expect that the Center will be able to pay accumulated or future Federal interest on a debt for construction of a building owned by the Federal government and still meet its statutory programming responsibilities as well as pay its share of building operating costs. Payment of the bond principal of $20.4M, as GAO notes, is not due until 2017. But deferred compound interest--fueled by an unanticipated four-fold rise in interest rates--is already more than $30M, mounting now at more than $3M annually, and would soar by GAO's estimate to $800M if no remedial action were taken before the bonds' maturity dates.

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- GAO recognizes the large "number and inter-relation of issues" involved in the Center's difficult financial situation; and that a "comprehensive solution" is required by Congress that would balance the impact of any proposals for payment of Treasury Bond obligations against payments the Center must make to the National Park Service for shared building operating costs; theater and backstage maintenance costs for which the Center is wholly responsible, and the Center's ability to carry out Congressionally mandated performing arts programming for which it receives no Federal appropriation.

II. Relevant Factors Omitted by GAO

While the GAO draft report touches upon several new factors that have sharply influenced the Center's current financial status, we believe the report inadequately reflects their current impact on an already precariously balanced operation. This may well be because it focuses on FY '79 thru FY '82, and these trends have become most obvious in the period FY '82 thru FY '84. But they are particularly relevant to GAO's conclusion that the Center is paying somewhat less than its full share of those building operating costs it shares with the National Park Service, which is responsible for memorial security and maintenance as at all other Presidential memorials.

- The Center, of course, concurs that it should pay a "fair" share of those costs attributable to the use of the building as a performing arts center. The Center's annual payment to the National Park Service under the current cost-sharing formula rose roughly 60%--from $611,000 in FY '78, the last year covered by GAO's previous report, to nearly $1M in FY '82. Much more important, and a relatively new factor which we believe the GAO draft fails to fully recognize, is that the cost of maintaining the Center's five theaters and massive backstage, dressing room, rehearsal and office areas--for which the Center is solely responsible--has also soared, reflecting the building's intensive use for more than a dozen years by millions of patrons and tourists. This building operating expense was negligible in the Center's early years. But in FY '81 and FY '82 combined, as GAO notes, the Center spent more than $1M for this purpose; in FY '83 it expended $535,000; more than $2.7M is allocated in FY '84, including more than $1.6M raised from private sources for full-scale renovation of the Opera House. Clearly, judgments involving the Center's "fair" share of building operating costs can no longer be based solely on those it shares with the National Park Service.

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- The Center is appreciative that GAO has noted in both its reports that the Center has vigorously pursued private contributions in an integrated campaign reaching all levels of the private sector. But again, it is important to stress that results of this effort are most dramatic in the recent period not covered by the draft report. For example, in FY '78, the last year covered by the GAO's 1980 report, the figure for private contributions was $1.2M; the draft report shows an increase to $3M by FY '81, but the figure for FY '83 is $4.2M and roughly $6M -- most of which is in hand -- is projected for FY '84. This sharp increase clearly documents a successful drive to meet rising production and maintenance costs during a time of increased consumer resistance to higher ticket prices and a generally difficult economy for all arts organizations. It is also clear that this significant increase in Center donations has been absorbed by escalating costs. There can be little doubt that the Center will be hard pressed to maintain this level of private subsidy in the years ahead, particularly for maintenance-related items. And it is generally recognized that there is virtually no prospect that the Center could raise additional private funds to pay compound Federal interest on a Federal debt on a building owned by the Federal government. At the same time, continued growth of this massive interest obligation represents a major deterrent to the Center's establishment of an endowment, its best hope for long-range stability without future injections of Federal subsidy.

- The draft GAO report takes virtually no notice of the rapid escalation in production costs during the past five years that has significantly handicapped Kennedy Center, as all performing arts organizations. This national trend has dictated a need for private subsidy of virtually all types of presentations where it was once chiefly limited to major ballet and opera engagements. This situation is expected to continue in what is essentially a hand-craft industry; and it has been exacerbated by the need for more production investment to keep the Center's theaters operating. Escalating costs have sharply reduced the number of productions of reasonable quality around the country that are available for booking. And it is imperative to note, as the GAO report does not, that parking and restaurant concession revenue is directly dependent upon keeping the Center's theaters operating on a continuous basis. While the GAO report does not deal with this aspect of Kennedy Center's finances, it is also important to record that, in addition to raising substantial private contributions for performing arts

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presentations, the Center has been able to keep its theaters operating only by successful efforts to secure co-investors to share the expense--and high risk--involved in financing new productions.

- The current GAO draft, unlike GAO's 1980 report, fails to mention that the Center receives a significantly lesser percentage of government assistance--Federal, state or municipal--than other regional performing arts centers, or comparable Washington institutions that receive direct National Park Service support. It should also be emphasized that Kennedy Center now receives only one Federal grant--for nationally oriented educational purposes which is allocated for outreach programs for children and youth around the country. Kennedy Center does not receive, and has not requested, direct funding from the National Endowment for the Arts. Previous indirect subsidy through NEA for touring dance companies, available in the past to all presenting facilities, has ceased--forcing the Center to raise more private donations to cover major ballet engagements.

III. Lesiglative Resolution

GAO's draft report notes that the Secretary of the Treasury has declined to continue to defer interest payments beyond December 31, 1984 and assembled a working group representing Treasury, OMB and Kennedy Center in late 1983 to develop a "consensus" proposal for submission to Congress to resolve the Treasury Bonds issue. Kennedy Center, over the years, has sought repeatedly to obtain such Congressional resolution and has expressed its willingness to ensure payment of the bond principal of $20.4M. This "consensus" proposal, endorsed by Treasury and Kennedy Center, and now being submitted for Congressional consideration, appears on balance to be both constructive and feasible. It provides for waiver of past and future Federal interest on the Treasury Bonds and freezing cost-sharing arrangements for building operating costs in their present form; in turn, Kennedy Center's Board of Trustees has pledged to pre-pay the $20.4M bond principal through fixed payments of $200,000 annually into a Treasury sinking fund secured by garage revenues. These payments, beginning in FY '87 when Kennedy Center's current loan secured by garage revenues is scheduled to be fully repaid, would, according to Treasury calculations, ensure that the full $20.4M would be available by the time the bonds reach their maturity dates.

Kennedy Center believes the working group assembled by Treasury has thoroughly studied the Center's complex financial situation, taken into account the most current data available, and has developed a realistic solution (appropriately reflecting the GAO's analysis and findings)

Mr. William J. Anderson
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that: (1) will relieve the Center of a manifestly unfair burden of Federal compound interest; (2) help guarantee that the Center will be able to pay its original construction debt when due; and (3) give the Center a reasonable chance of meeting its share of future building operating costs and carrying out its primary responsibility--presenting a broad spectrum of Congressionally mandated performing arts and public service programming--while continuing to rely on the private sector as its basis of support.

A statement accompanying the Treasury/OMB/Kennedy Center "consensus" proposal points out that the Center has been able to operate "generally in the black" due to tight control of administrative expenses and its "concerted efforts to maximize private contributions totalling $60M since the Center's birth". It seems useful here to also quote the working group's consensus that: "Only the Congress can resolve this (matter). The Center has no prospects of paying the deferred interest of $29.4M, and for the Treasury to declare the Center in default would be totally inconsistent with the Center's unique status as a national "living" memorial to a slain President and a vital national cultural center for the arts."

In conclusion, the Center wishes to express its gratitude for the considerable effort and care exhibited by your staff in researching and preparing this report.

Sincerely,

Roger L. Stevens

Roger L. Stevens
Chairman

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 2 1984

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We have the GAO draft report, "Financial Problems at the John F. Kennedy Center for the Performing Arts Need to be Addressed."

Information gathered by GAO in their review of the Kennedy Center's financial operations is most beneficial to all parties involved in the complexities of this relationship between the Federal and private sector. We suggest that the Kennedy Center Board continue to update the revenue and expense tables included in the report on an annual basis since they give the clearest and most concise financial information.

Overall, we are in agreement with the report, and support negotiation of a new agreement. We will continue to monitor the work of the group assembled by the Treasury Department in their consideration of a legislative solution to the Kennedy Center's financial problems.

We have also enclosed a copy of page 17 of the draft report annotated with suggested language clarifying information pertaining to the Treasury Department's working group.

We appreciate the opportunity to comment on this draft report.

Sincerely,

G. Ray Arnett
Assistant Secretary for Fish and
Wildlife and Parks

Enclosure

DEPARTMENT OF THE TREASURY
WASHINGTON, D C 20220

FISCAL ASSISTANT SECRETARY

MAR 0 7 1984

Dear Mr. Anderson:

Thank you for the opportunity to comment on the GAO draft report on the financial problems of the John F. Kennedy Center for the Performing Arts.

The Treasury has known for some time that the Center's revenue base is not sufficient to meet its deferred interest obligation to the Treasury ($29.4 million at the end of CY 1983) on $20.4 million in revenue bonds held by the Secretary. We have informed the Center that while we are opposed to granting future interest deferrals, we will cooperate in the framing of a solution to the indebtedness.

After extensive discussions, Treasury, OMB, Interior, and the Center have sketched out a proposal that is now being discussed with staff of the Center's authorizing and appropriations committees in the Congress. That consensus involves: (1) waiving the deferred interest obligation and removing the requirement for future interest on the revenue bonds, (2) a sinking fund, with investment authority, in the Treasury into which the Center would, beginning in CY 1987, pay $200,000 annually, secured by garage revenues, toward amortization of the bond principal, and (3) freezing the cost-sharing formula at its current level.

We feel this proposal is a reasonable compromise given the fact that (1) the Center is probably now at the outer percentage limits of its ability to raise funds from private sources, (2) its annual share of garage income, even after repayment of present notes secured by such revenues, will be several hundred thousand dollars short of even the annual simple interest on the bonds, and (3) the costs of maintaining its five theaters, backstage space, and administrative offices are rising dramatically as the structure ages.

Therefore, while we are in agreement with the overall findings of the GAO draft report, we believe that the consensus approach is a fair compromise of the Center's financial problem. Secretary Regan has approved this approach, and the Department will work towards its implementation.

Sincerely,

Carole Jones Dineen

Mr. William J. Anderson
Director
United States General
Accounting Office
Washington, D. C. 20548

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D C. 20503

MAR 12 1984

Mr. William J. Anderson
Director, General Government Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This letter is in response to your February 7, 1984 request for OMB's review of and comments on your draft report entitled, "Financial Problems at The John F. Kennedy Center for the Performing Arts Need to be Addressed" (GAO/GGD - 84 -). The purpose of your report was to (1) review the operations of the Kennedy Center during fiscal years 1979 through 1982, (2) assess the Center's ability to meet future operating costs, including its present bond indebtedness to the U.S. Treasury, and (3) evaluate whether the formula used to allocate building operating costs between the Center and the National Park Service fairly reflects the Center's use.

GAO's review of the Kennedy Center resulted in the following findings, as presented in the draft report:

-- The Center has not met its bond debt to the U.S. Treasury, which totalled about $28.6 million at the end of fiscal year 1983.

-- Center officials have not made plans for setting aside funds to repay $20.4 million in bond principal, which becomes due beginning in 2017.

-- The Center continues to pay less than its fair share of building operating costs because the cost sharing formula does not accurately reflect current use of the building.

Based on GAO's review of 12 years of the Center's operations, the draft report concludes that "the Center will probably not have the money to meet its programming responsibilities and, at the same time, pay the interest and principal on the outstanding Treasury bonds as well as its fair share of the building's operating costs." The draft report states that a realistic solution to the Center's financial problems must reconcile competing demands on its resources. While calling for a comprehensive solution to the Center's financial problems, the draft report warns that any solution requiring the Center to pay more for operating costs and a portion of the bond debt would result in fewer funds available for programming.

OMB appreciates and shares GAO's concerns about the Kennedy Center's financial problems. In fact, OMB agrees with the findings and conclusions stated in your draft report regarding the Center's financial problems and the need for a realistic, comprehensive solution. The Administration has been concerned with this issue for the past three years and continues to work toward an acceptable solution to the problem which will consider the competing demands on the Center's resources. Thank you for the opportunity to comment on your draft report.

Sincerely,

Joseph R. Wright
Deputy Director

(426710)

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