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STATEMENT OF

WILLIAM J. ANDERSON

DIRECTOR, GENERAL GOVERNMENT DIVISION

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

ON

THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

028685

Mr. Chairman and Members of the Committee:

We are pleased to be here today to assist your deliberations of legislative proposals concerning the Kennedy Center. On April 11, 1984, we provided your Committee with our report detailing the Center's financial operations and assessing its ability to meet operating costs and long-term liabilities. Today, I would like to focus on three areas of particular concern to your Committee:

--the Center's revenue bond indebtedness to the federal government and the accrued interest obligation stemming from these bonds,

--the appropriate cost sharing of operating costs between the Kennedy Center and the National Park Service, and

--the responsibility for long-term structural repairs.

BOND OBLIGATIONS AND MOUNTING INTEREST DEBT REQUIRE RESOLUTION

The most serious financial problem facing Kennedy Center officials is the Center's growing total bond indebtedness, which amounted to $49 million at the end of fiscal year 1983. This debt originated in 1968 when the Board of Trustees began issuing $20.4 million in revenue bonds to help finance construction of the Center's parking facilities. These bonds are held by the U.S. Treasury, and the principal and annual interest were to be paid with revenues from the Center's parking operations.

The Center, however, has not made any annual interest payments on the revenue bonds since 1968, and no provisions have been made for repaying the principal. Parking revenues instead have been used for normal operating expenses and to repay two other loans secured to complete financing of the parking facility. The yearly interest payments on the revenue bonds have been annually deferred by Treasury, and interest continues to be charged on the deferred amount.

This continual deferral has resulted in a $29 million accrued interest debt at the end of 1983. If annual interest payments continued to be deferred, this total will almost double to $50 million by 1988. By 2017, the first year of bond maturity, the total accrued interest would total $800 million.

Under the current circumstances there is little possibility that the Center will ever be able to completely repay its total bond indebtedness while maintaining normal operations and present programming responsibilities. To date, net revenues from the parking facility have not even been sufficient to pay the annual simple interest on the revenue bonds. Recognizing the insufficiency of the Center's revenue base to meet its accrued interest obligations, Treasury officials established a working group with officials from OMB and the Kennedy Center to frame a solution to the Center's indebtedness.

One solution included in our report, and proposed by these officials, is the need to establish a sinking fund to retire the $20.4 million principal of the revenue bonds. This would involve requiring the Center to make annual payments of about $200,000 into the fund beginning in fiscal year 1987 and ending in 2017 when the bonds reach maturity. By 1987 the Center is scheduled to have repaid other loans secured with parking revenues, and the increase in such revenues should enable the Center to help meet operating costs and make the sinking fund payments.

Another proposal of the Treasury working group is to waive the Center's accrued interest obligation and remove the requirement for future interest on the revenue bonds. This would leave only the principal on the revenue bonds for the Center to repay and requires a policy decision by the Congress. In arriving at this decision, the Congress may want to consider other alternatives short of eliminating all interest obligations, such as

--waiving past accumulated interest but requiring that future interest be paid,

--eliminating requirements for future interest but mandating payment of interest already accrued, or

--requiring that all past and future simple interest be paid but terminating the compound interest arrangement currently in effect.

If the Congress decides to recoup such interest earnings on the revenue bonds, a repayment plan could be developed without significantly affecting the Center's revenue position. This could be accomplished primarily by requiring payments beyond the bond maturity date for whatever amount is deemed appropriate. We have prepared estimates of alternative payment schedules and would be happy to share them with the Committee.

COST SHARING ARRANGEMENTS NOT REFLECTIVE OF CURRENT SITUATION

I would like to turn now to another topic of interest to the Committee--cost sharing arrangements between the Center and the National Park Service. The allocation of operating costs between the Center and the National Park Service is based on a rather simple formula which computes the percentage of time the Center is open for activities such as theatrical performances versus the time the Center is available for public memorial purposes. The present cost sharing arrangement, which is based on data developed at the time the Center first opened, assigns about 24 percent of the costs to the Center. However, if the formula is revised to reflect current estimates of the Center's usage its proportion of total costs would be about 31 percent.

On this basis, the Center's share of fiscal year 1982 operating expenses would have been about $277,000 more than was reimbursed to the Park Service. While the current arrangement does not accurately reflect the Center's present usage, changing the cost sharing ratio is intertwined with resolving the indebtedness problem because of the Center's limited ability to absorb additional costs. Any decision to increase the Center's payment would decrease its ability to meet other financial obligations, including retiring bond indebtedness and meeting the escalating cost of maintaining the theaters and administrative offices.

NO PROVISIONS MADE FOR LONG-TERM STRUCTURAL REPAIRS

Another related issue is the liability for long-term structural repairs of the Kennedy Center. Presently, financial responsibility for major structural repairs, alterations, and reconstruction resides with the Center's Board of Trustees. The Board, however, has not set-aside sufficient reserves to cover such costs, and Park Service officials advise that problems could develop in the next 6 to 8 years because of the Center's age.

In the only case to date where structural repairs were required, the Center requested congressional assistance. In turn, the Congress provided $4.5 million to the Park Service to make the necessary repairs.

Center officials argue that the responsibility for structural repairs should be formally transferred to the Park Service because the Center is a national memorial. Such responsibility, however, has not been extended to the Park Service. As a result, unless Kennedy Center officials establish adequate reserves, the Congress will be petitioned to supply funds for future repairs, regardless of where responsibility is vested.

In summary, Mr. Chairman, a number of important financial issues confront the Kennedy Center and the Congress, and we would be pleased to continue to assist the Committee in arriving at a solution. I would be happy to answer any questions you might have.