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Wolf Trap Foundation

Debt Restructuring Alternatives

Statement of
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Before the
Subcommittee on National Parks
and Public Lands
Committee on the Interior and Insular Affairs
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss GAO's assessment of the financial condition of the Wolf Trap Foundation for the Performing Arts and possible alternatives for restructuring its debt to the U.S. government.

We reviewed the Foundation's most recently audited financial statements for the fiscal years ending October 31, 1988 and 1989, and other pertinent information provided to us by the Foundation's Executive Vice President. Based on our analysis of this information, we believe that the Foundation is financially healthy and should be able to make annual payments of about $500,000 in settlement of its debt to the U.S. government. At the same time, it is clear to us that the present total debt of over $17 million in principal and interest would be very difficult for the Foundation to repay, even under the most generous of repayment schedules.

We note that the Senate-passed bill to restructure the Foundation's repayment terms would forgive one-half the existing debt and would not assess interest on the remaining portion of the debt. As an alternative, the accumulated interest to date could be forgiven, and the principal, which amounts to about $8.5 million, could be repaid over no more than 25 years at no less than $200,000 per year. We have provided several repayment alternatives within these parameters for your consideration as attachment I to this statement.

Before I get into the details of our analysis and suggested alternatives, let me spend a few minutes providing some background related to Wolf Trap.

BACKGROUND

Wolf Trap Farm Park for the Performing Arts in Fairfax County, Virginia, was established by an act of Congress in October 1966 from a private donation of over 100 acres of land and $2 million to build the Filene Center for staging performances. Wolf Trap is the only national park dedicated to the presentation and cultivation of the performing arts and is administered by the U.S. Park Service.

The Wolf Trap Foundation for the Performing Arts is a nonprofit organization formed at the request of the U.S. government to be responsible for the programs and educational activities at Wolf Trap. The Foundation is also responsible for public relations, publicity, marketing, ticketing, general administration, and underwriting of these activities.

On April 4, 1982, the Filene Center, Wolf Trap's centerpiece and principal outdoor amphitheater, was completely destroyed by fire. At the time of the fire, Wolf Trap was self-insured by the

U.S. government. Faced with the potential loss of audience and programming, and in an effort to shorten the length of time needed for reconstruction, the Foundation agreed to take on the responsibility of reconstructing the Filene Center.

To enable the Foundation to do so, in October 1982, the Congress provided for a $17 million construction program for a new Filene Center. The $17 million program consisted of a $9 million government grant and up to $8 million in 5-year government loans to be repaid on November 23, 1988.

Due to additional fire, safety, and contract modifications, the final construction cost of the Filene Center was $21.6 million, instead of the $17 million originally estimated. The additional $4.6 million is being paid by the Foundation.

Part of the construction cost included a settlement with the contractor over a contract dispute involving change orders and the accelerated construction program. Under the terms of the settlement, the Foundation agreed to pay the contractor $1.14 million over a 6-year period. To date, payments totaling $735,000 have been made, with the balance of $405,000 due in annual installments of $135,000 ending in 1992.

The Filene Center was substantially completed by June 1984 and reopened for performances.

In January 1985, the main girder of the newly constructed center fractured. The repair work was completed in May 1986 at a cost of $4.1 million, increasing the total cost to rebuild the Filene Center to $25.7 million. To help fund the repairs, an additional $1,435,000 was borrowed from the government.

In 1988, we were asked by Senators Johnston and McClure of the Subcommittee on Interior of the Senate Appropriations Committee to review the financial condition of the Foundation and propose alternatives for restructuring the Foundation's debt to the U.S. government. As a result of our effort, we issued two reports[1] which provided information on the financial condition of the Foundation and several debt restructuring alternatives. On March 22, 1990, the Senate passed a bill (S.1859) to restructure the repayment terms and conditions of the government loans.

At the request of the Subcommittee staff, we recently reviewed the current financial condition of the Foundation and performed certain analyses of its operating trends to ascertain its financial viability and provide the Subcommittee with a range of repayment options for your consideration. We met with Foundation personnel and gathered information from the records of the Foundation and

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[1]Government Loans: Financial Information on the Wolf Trap Foundation for the Performing Arts (GAO/AFMD-88-42FS, May 16, 1988) and Government Loans: Loan Restructuring for the Wolf Trap Foundation for the Performing Arts (GAO/AFMD-88-54FS, September 19, 1988).

from its financial statements, which are audited annually by an independent public accounting firm. The Foundation's last audit covered the fiscal year ended October 31, 1989. These audited financial statements were the primary source of data for our financial analysis, along with the Foundation's unaudited monthly financial reports through July 31, 1990.

FINANCIAL CONDITION OF THE FOUNDATION

In our May 1988 report, we stated that the Foundation's cumulative operating results were $505,651 for the period 1981 through 1987. This amount was net of losses in 1981, 1982, 1983, and 1985. Since 1987, however, the Foundation's financial condition has been growing stronger.

-- The Foundation reported total assets of $13.9 million at July 31, 1990. Of this amount, over $10 million was cash and short-term investments. Also included were land and buildings, which were reported at a net book value of $2.7 million, but which include 30 acres of land adjacent to Wolf Trap Farm Park with a market value that may be considerably higher than its book value.

-- Against its assets of $13.9 million, the Foundation reported liabilities of about $2.6 million, exclusive of its debt to the U.S. government. Over $2 million of this amount consisted of deferred revenue from advance ticket sales.

-- The Foundation's net equity amounted to about $11 million as of July 31, 1990, of which $680,000 were endowment funds and $3.5 million were funds otherwise restricted as to use.

-- Revenues from ticket sales grew from $7 million in 1988 to $7.5 million in 1989; as of July 31, 1990, sales were $1 million over the Foundation's projected budget. The Foundation's 1990 budget projected total sales of $7.6 million.

-- Attendance has recently been averaging about 70 percent of seating capacity, which Foundation officials believe is exceptional for a facility with a diversified program such as that provided by Wolf Trap.

-- Net contributions from the public through the Foundation's various fund raising programs amounted to about $1.4 million in 1988, $1.1 million in 1989, and $1 million as of July 31, 1990.

-- The National Park Service pays certain Wolf Trap operating costs, including maintaining the grounds and buildings and providing technical theater assistance for the Filene Center. Federal funding for this purpose now exceeds $2.8 million annually, including a $600,000 grant.

-- Net revenues, from all sources, over expenses amounted to $546,000 in 1988, $1,099,000 in 1989, and $743,000 for the 9 months ending July 31, 1990.

These financial results indicate an organization that is financially sound, exclusive of its debt to the U.S. government. At July 31, 1990, the Foundation reported its debt to the U.S. government as $17,152,446, which was comprised of notes payable of $8,560,226, and interest payable of $8,592,220. The amount due and payable at the time the Foundation defaulted on November 23, 1988, was approximately $15.8 million. Until the repayment issue is resolved, the interest will continue to accrue.

However, repayment of the Foundation's $17 million debt to the government would be very burdensome, regardless of the repayment schedule. For example, on a 20-year repayment schedule without interest, annual payments would average $850,000. Over 25 years, they would average $680,000. Furthermore, if the interest to date were to be forgiven and the $8.5 million principal was to be repaid at current interest rates, the payments would still be burdensome. For example, the annual payment over 20 years at 7.30 percent, a recent Treasury bill rate, would be $827,000; over 30 years it would be $711,000. However, repayment of the $8.5 million principal without interest should be possible over a reasonable time frame.

It is our belief that, based on the Foundation's good financial health, it should be able to make annual payments of up to $500,000 a year. This view is based on the Foundation's net results, which averaged $770,000 a year over the past 5 years, and the substantial resources that it holds in various funds and property. Of course, there are no assurances that future contributions will continue at the present rate or that the relatively high attendance figures will also continue into the future. However, the Foundation has considerable funds on hand. Furthermore, the Subcommittee may wish to consider a graduated schedule with lower payments in the early years so as to allow the Foundation to more easily accommodate the remaining three payments on its settlement with the contractor.

LOAN RESTRUCTURING ALTERNATIVES

In consultation with the Subcommittee staff, we have made certain assumptions in arriving at various loan restructuring alternatives.

1. Similar in effect to the Senate-passed bill, which forgives half the approximately $17 million debt, we assume the accumulated interest would be forgiven and the loan principal of $8,560,226 will be repaid in cash.

2. The repayment period should be as timely as possible without placing an unreasonable burden on the Foundation. A 20- to 25-year repayment schedule appears reasonable. We note that these loans were made in the 1983-85 time frame and are now over 5 years old.

3. There should be a minimum annual payment amount--which we have arbitrarily set at $200,000--so as to not overload the later years of the payment schedule when the present value of the payments will be diminished.

4. The payments should be due and payable on October 31 of each year, the end of the Foundation's fiscal year, when the summer season revenues have been collected. The payments should begin on October 31, 1990.

Finally, our presentation of alternatives assumes that the Foundation will continue to operate under its present structure. We did not consider any operational or management changes which might be made to increase profitability. Such changes might include extending the Wolf Trap season and increasing the number of performances, booking more commercially successful events, raising ticket prices, charging for parking, seeking additional fund-raising sources, or pursuing efforts to reduce operating expenses.

Attachment I to this statement provides a range of debt repayment alternatives for the Subcommittee's consideration. These alternatives are examples of ways to repay the $8,560,226 principal over 20 to 25 years. There are many possible schedules. The annual payments range in amount from $200,000 to about $500,000, and typically provide for lower payments in the early years. The early payments are at reduced amounts so as to allow the Foundation some flexibility in meeting its last three payments of $135,000 in settlement of its contractor dispute.

Lastly, one other alternative is to offer the Foundation an immediate settlement opportunity at an amount equivalent to the present value of future payments to be received by the government. For example, the present value of the $8.5 million principal, when repaid in 20 annual payments of $425,000 at a 7.30 percent interest rate (using a recent Treasury bill rate), would be $4.4 million; or, if based on a 25-year payment schedule, would be about $3.9 million.

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Mr. Chairman, this concludes our formal statement. We will be pleased to answer any questions that you or other Members of the Subcommittee may have.

WOLF TRAP FOUNDATION
DEBT REPAYMENT ALTERNATIVES

Year Ended Oct. 31	20 Years: Alternative #1	20 Years: Alternative #2	20 Years: Alternative #3	20 Years: Alternative #4	25 Years: Alternative #5	25 Years: Alternative #6	25 Years: Alternative #7	25 Years: Alternative #8
1990	$200,000	$250,000	$305,000	$215,000	$200,000	$200,000	$250,000	$215,000
1991	200,000	250,000	305,000	215,000	200,000	200,000	250,000	215,000
1992	380,000	350,000	400,000	215,000	225,000	200,000	280,000	215,000
1993	380,000	350,000	400,000	350,000	225,000	250,000	280,000	350,000
1994	425,000	400,000	400,000	365,000	250,000	250,000	300,000	350,000
1995	425,000	400,000	425,000	400,000	250,000	250,000	300,000	350,000
1996	425,000	430,000	425,000	400,000	275,000	275,000	300,000	350,000
1997	425,000	430,000	425,000	450,000	275,000	275,000	325,000	350,000
1998	450,000	450,000	425,000	450,000	300,000	275,000	325,000	350,000
1999	450,000	450,000	425,000	500,000	300,000	300,000	325,000	350,000
2000	450,000	450,000	450,000	500,000	325,000	300,000	350,000	350,000
2001	450,000	450,000	450,000	500,000	325,000	300,000	350,000	350,000
2002	475,000	475,000	450,000	500,000	350,000	350,000	350,000	350,000
2003	475,000	475,000	450,000	500,000	350,000	350,000	350,000	350,000
2004	475,000	475,000	450,000	500,000	375,000	350,000	350,000	350,000
2005	475,000	475,000	475,000	500,000	375,000	400,000	375,000	350,000
2006	500,000	500,000	475,000	500,000	400,000	400,000	375,000	350,000
2007	500,000	500,000	475,000	500,000	400,000	400,000	375,000	350,000
2008	500,000	500,000	475,000	500,000	425,000	450,000	375,000	350,000
2009	500,226	500,226	475,226	500,226	425,000	450,000	375,000	350,000
2010	-	-	-	-	450,000	450,000	400,000	365,000
2011	-	-	-	-	450,000	475,000	400,000	400,000
2012	-	-	-	-	475,000	475,000	400,000	400,000
2013	-	-	-	-	475,000	475,000	400,000	400,000
2014	-	-	-	-	460,226	460,226	400,226	400,226
TOTAL	$8,560,226	$8,560,226	$8,560,226	$8,560,226	$8,560,226	$8,560,226	$8,560,226	$8,560,226

Note: 20 year straight line is $421,011 annually
25 year straight line is $342,409 annually