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Report to the Congress; by Elmer B. Staats, Comptroller General.

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The John F. Kennedy Center for the Performing Arts faces serious financial problems for which there are no simple solutions. It is heavily in debt to the Federal Government and others and probably cannot meet all of its obligations. Independent action by either the Secretary of the Treasury to collect the bond interest due or by the Secretary of the Interior to collect more of the building maintenance costs would affect the Center's ability to conduct its performing arts activities. Only the Congress can make both the value judgments and the tradeoffs required to resolve the situation. Findings/Conclusions: The Kennedy Center has not made provisions to pay $10.5 million in interest owed on bonds held by the U.S. Treasury; has not paid its full share of building maintenance costs; and has not been able to pay all of its operating expenses when due. The formula developed to allocate maintenance costs needs to be updated because of changes in the Center's operations. The present formula, developed before the Center opened, calls for the National Park Service to pay 76.2% of these costs for memorial functions and for the Center to pay 23.8% of the costs for performing functions. While changes have occurred in the operation of the Center since the development of the formula, no changes have been made in the cost-sharing formula, and the Center is not paying its full share of the maintenance cost. The Center does not believe that additional private contributions could be raised to pay its debt or that significant savings could be derived from more efficient operation. It believes that remedial legislation is needed to achieve an appropriate long-term settlement of its financial dilemma. (Author/SC)

04563

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

The John F. Kennedy Center For The Performing Arts Is Financially Troubled

The Kennedy Center faces serious financial problems for which there are no simple solutions. It is heavily in debt to the Federal Government and others and probably cannot meet all of its obligations.

The Center

--has not made provisions to pay $10.5 million in interest owed on bonds held by the U.S. Treasury;

--has not paid its full share of building maintenance costs; and

--has not been able to pay all of its operating expenses when due.

If Center revenues were used to pay either the bond interest or the increased building maintenance costs, less money would be available for performing arts. Only the Congress can make the value judgements required to solve the dilemma.

GGD-78-15

DECEMBER 20, 1977

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

B-154459

To the President of the Senate and the
Speaker of the House of Representatives

This report on the financial operations of the John F. Kennedy Center for the Performing Arts points out that the Center will be unable to meet all of its financial obligations and maintain its current level of performing arts activities. We believe that the Congress is in a position to make the value judgments required to resolve the dilemma.

We made our review pursuant to Public Law 94-119, an amendment to the John F. Kennedy Center Act (72 Stat. 1698), requiring the General Accounting Office to audit regularly the accounts of the Center to determine its continuing ability to pay its share of future operating costs, and to assure that the cost-sharing formula between the National Park Service and the Center fairly and accurately reflects the use of the building.

We are sending copies of this report to the Acting Director, Office of Management and Budget; the Secretary of the Treasury; the Secretary of the Interior; the Administrator of General Services; and the Chairman, John F. Kennedy Center for the Performing Arts.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS IS FINANCIALLY TROUBLED

DIGEST

The Kennedy Center has serious financial problems for which no simple solutions exist. GAO believes the Congress should consider these problems. It alone can make both the value judgments and trade-offs involved in solving the Center's difficulties.

PAYMENT OF FUTURE OPERATING COSTS UNCERTAIN

The Kennedy Center's revenues have exceeded expenses by about $1 million from its opening through September 30, 1976. About $5.2 million in private contributions is included in these revenues. However, the Center has been unable to pay all its operating expenses when due. All of its excess revenue has been needed to pay the principal on a construction loan from the Center's garage concessionaire and payments due on lease purchase agreements. On occasion, the Center has obtained advances against future revenues from its restaurant concessionaire to pay bills, and it has financed the premiums on some of its insurance policies.

As of September 30, 1976, the Center owed to the General Services Administration about $321,000 in unpaid telephone bills dating back to 1972. Further, the Center:

--Owed $10.5 million in interest on bonds held by the U.S. Treasury, as of September 30, 1976. No funds have been set aside to meet this obligation. (See pp. 6 and 8.)

--Was not paying its full share of building maintenance costs. For the 15 months ended September 30, 1976, the Center paid $684,000 for building maintenance, but under existing legislation it should have paid much more. (See ch. 3.)

The Center will be able to improve its financial operations in some areas. It has repaid about $1.2 million of the $3.5 million borrowed from its garage concessionaire, thereby reducing the annual interest payments. This loan is scheduled to be repaid by 1987, at which time the Center's percentage share of the parking revenue will also increase. Also, during its early years the Center was making payments on lease purchase agreements for furnishings and equipment. These payments have now been completed. (See pp. 5 and 10.)

While financial improvement is likely to continue in some areas, the prospects of the Center making much of a dent in the accrued bond interest and paying a larger share of building maintenance costs are not bright. The dilemma is that setting aside revenues to pay for bond interest payments or increasing the amounts paid for building maintenance would affect the Center's ability to conduct performing arts activities.

CENTER HAS DIM PROSPECTS FOR PAYING INTEREST OWED TO THE GOVERNMENT

The Center borrowed $20.4 million from the U.S. Treasury to construct a parking garage. The Center issued interest-bearing revenue bonds with maturity dates ranging from the year 2017 to the year 2019. The bonds provide that the interest and principal will be payable from parking revenues. None of the interest has been paid, however, and as of September 30, 1976, it totaled $10.5 million. Legislation permits deferral of interest on the debt through December 31, 1978, and permits the Secretary of the Treasury to defer it beyond that date. At December 31, 1978, the deferred interest will be about $15 million, and if the interest is deferred beyond that date, which is probable, the annual interest on the bonds and deferred interest will be over $2 million.

No doubt the Secretary of the Treasury will have to defer payment of most if not all of the interest owed by the Center. The Center has not set aside funds to pay the interest and has no plans to do so. If things continue unchanged, the Center's future ability to pay the interest is doubtful. Deferment "without strings attached," however, merely postpones the day of reckoning.

COST-SHARING FORMULA NEEDS REVISION

As bad as the Center's financial situation is, it should be worse. The formula developed to allocate maintenance costs needs to be updated because of changes in the Center's operations. The formula, developed in 1971 before the Center opened, calls for the National Park Service and the Center to share most of these costs. On the basis of the estimated hours for performing and nonperforming (memorial) functions, the cost-sharing formula was set at 23.8 percent to the Center for performing functions and 76.2 percent to the National Park Service for memorial functions.

Changes have occurred in the operation of the Center since the development of the formula, but no changes have been made in the formula. As a result, the Center is not paying its full share of the building maintenance costs. (See ch. 3.) The principal changes have been:

--Theater use in calendar year 1976 shows a larger percentage of performing time than allocated in the formula. (See p. 16.)

--New activities of a performing arts nature such as organ recitals and symposiums have been added. In addition, the formula has not taken backstage activities into account in establishing the hours of performing and nonperforming use. (See p. 16.)

--There has been an increase in the Center's space devoted to performing arts and to third-party occupants not involved in the use of the Center as a memorial. (See p. 17.)

Tear Sheet

Further, the Center collects and retains about $179,000 a year in utility payments from its garage and restaurant concessionaires. However, the Park Service pays for the utility services. The Park Service does not share in the garage or restaurant income, and is reimbursed only at the overall cost-sharing formula rate. (See p. 18.)

The formula needs revision, but any increase in the Center's share of the building maintenance costs would decrease the money available for payments on the bond interest and/or reduce the amount available for performing arts.

AGENCY COMMENTS AND UNRESOLVED MATTERS

It is the Center's view that any increases in payments for operation of the building and any payment of interest on the U.S. Treasury bonds would make it impossible to pay off the balance due on the funds advanced by the garage concessionaire and would impair the Center's programing and public service activities required by the John F. Kennedy Center Act. The Center does not believe that additional private contributions could be raised to pay its debt nor significant savings be derived from more efficient operation.

The Center has considered several steps that might be taken to achieve an appropriate long-term settlement of its financial dilemma. It believes that remedial legislation is needed and might be founded on (1) consideration by the Congress of whether the Center should be responsible for any part of the maintenance cost for a living memorial to a President and (2) lifting the burden of the interest on the U.S. Treasury bonds. If the Congress finds it appropriate to maintain and repair the entire building with Federal funds and to lift the interest burden, the Center is confident that it could repay the $20.4 million principal on the U.S. Treasury bonds at the rate of $1 million a year. (See app. II.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Clearly, the Center cannot meet all of its financial obligations. Independent action by either the Secretary of the Treasury to collect the bond interest or the Secretary of the Interior to collect more of the building maintenance cost would affect the Center's ability to conduct its performing arts activities. (See p. 21.) Only the Congress can make both the value judgments and trade-offs required to resolve the situation.

Contents

ABBREVIATIONS

GAO General Accounting Office

GSA General Services Administration

CHAPTER 1

INTRODUCTION

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

The act authorizes the Secretary of the Interior, acting through the National Park Service, to provide janitorial, maintenance, security, information, interpretation, and all other services necessary to the nonperforming arts functions at the Center. The Park Service pays all normal security, information, and grounds maintenance costs. The rest of the costs to operate and maintain the Center are shared by the Center and the Park Service under a formula developed in 1971, before the Center opened.

In a report to the Senate Committee on Public Works dated April 11, 1975, we recommended that the Secretary of the Interior

--require that the allocation formula be reviewed periodically and revised as necessary to insure the proper allocation of costs and

-obtain the authority to make audits to verify the costs incurred.

No action was taken on our recommendations, but in a report dated July 31, 1975, on a bill to authorize appropriations to Interior for the Center, the Senate Committee on Public Works stated that since Interior was a party to the cost allocation agreement, it was more appropriate to have the review of costs and audit function performed by the General Accounting Office, an independent party. The Committee also expressed its concern that the Center might be unable to meet its debt service as well as other costs to maintain the building. As a result, the act was amended by Public Law 94-119, dated October 21, 1975, to require the General Accounting Office to review and audit regularly the accounts of the Kennedy Center to determine its continuing ability to pay its share of future operating costs, and to assure that the cost-sharing formula between the National Park Service and the Center fairly and accurately reflected the use of the building.

BUILDING USE

The building was opened for use in September 1971. It is located on a 17-acre tract in the District of Columbia and contains about 1.5 million square feet of floor space, consisting of these principal areas:

--The three major theaters are the Concert Hall, Opera House, and Eisenhower Theater, which contain seating capacity for 2,750, 2,200, and 1,130 persons, respectively.

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

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

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

--A children's theater (the Chautauqua Tent) is located on the roof. The Alliance for Arts Education, a joint project of the Kennedy Center and the Department of Health, Education, and Welfare, sponsors programs for children such as folksinging, puppet shows, and storytelling each weekend in the tent.

--A music theater lab, organized jointly with the Stuart Ostrow Foundation, Inc., and used to produce musicals on an experimental basis. The theater accommodates about 100 persons.

--Two restaurants and a cafeteria are operated by a private concessionaire.

--A privately operated three-level underground parking garage contains space for about 1,400 cars.

--About 59,000 square feet of office space are occupied by the Center, the Park Service, and 15 other organizations.

Plans have been approved to add a studio theater to be used for experimental productions. The theater will be constructed in the near future using $3 million given by the Japanese Government and private Japanese organizations as a Bicentennial commemorative gift. It will have a seating capacity of about 500 persons.

The Friends of Kennedy Center, the Center's official volunteer auxiliary, conducts daily public tours of the building. The Friends provide about 11,000 staff-hours annually without pay.

COST OF CONSTRUCTION

The cost to construct and equip the building was about $77.9 million, of which $23 million was provided in direct appropriations by the Congress for the construction of the building, $20.4 million borrowed from the U.S. Treasury, and $3.9 million paid from an appropriation to pay claims against the Government. 1/ The remaining funds were provided primarily by private contributors.

Pending legal suits could affect the cost of the building. The Center's architect has filed a claim of $295,799 against the United States for alleged unpaid services. The Department of Justice has filed a counter-claim of $1,975,000 citing several instances of alleged inadequate and erroneous design which caused water damage to the building.

MAJOR BUILDING REPAIRS

Gradually increasing water leaks have occurred from the time the building neared completion in the fall of 1971. These leaks have affected all horizontal surfaces including the roof, terraces, and entrance plaza roadway. For several years the National Park Service took stopgap maintenance measures. As the problems grew worse, the Park Service insisted that it had no responsibility to repair conditions arising from what it considered faulty construction or design and that it had no legislative authority or funds to make the repairs.

1/The claims were filed by the Center's general contractor, acting for himself and 35 subcontractors for alleged delay damage claims and unpaid construction costs.

In an effort to halt the continuing deterioration, the Center requested funds from the Congress. In the 94th Congress the House and Senate passed bills authorizing $3.3 million for the repairs. Legislation was not passed because differences in the House and Senate bills could not be resolved before adjournment, but in the 95th Congress $4.5 million for the repair work was appropriated.

SCOPE OF REVIEW

We reviewed the Center's financial statements, accounting and operating records, and the records of the National Park Service relating to the cost-sharing formula. We reviewed the Center's public accounting firm's audit reports for all years and related workpapers for fiscal years 1975 and 1976. We also made tests of the records maintained by the restaurant and parking garage concessionaires.

CHAPTER 2

THE CENTER PROBABLY CANNOT PAY ITS SHARE OF FUTURE OPERATING COSTS

The Center's theater operations have lost money every year. However, revenues from garage, restaurant, and other income-producing activities have more than offset the theater losses, and cumulatively the Center's revenues have exceeded operating expenses by about $1 million through September 30, 1976, exclusive of interest expense on revenue bonds.

The Center, however, has been unable to pay all of its operating expenses when due. Its excess revenues have been used to pay the principal on an advance from the garage concessionaire and the payments due on lease purchase agreements for furnishings and equipment.

The Center has not made interest payments to the Treasury on the revenue bonds issued to finance the construction of the garage, and the deferred interest as of September 30, 1976, amounted to about $10.5 million. It has also deferred payment to the General Services Administration (GSA) of about $321,000 for telephone services. Some improvements in the Center's financial position are likely, but not enough to meet its debt to the Federal Government.

CENTER HAMPERED BY LIMITED FUNDS

The Center has been hampered from the beginning by a lack of funds for both construction and operating needs. In order to complete the building, the Center obtained an advance of $3.5 million from its garage concessionaire. It is currently repaying this advance.

To furnish the building the Center had to sell and lease back the theater seats, enter into a lease-purchase arrangement for some of the carpeting and wallcovering, and obtain an advance from the restaurant concessionaire. The Center has completed its payments on these items, ending this drain on its operating funds.

The Center has deferred the payment of some expenses, and in order to pay others it obtained advances during 1975 amounting to $175,000 from its restaurant concessionaire. The Center has also financed the premiums on some of its current insurance policies. Additionally, it has accumulated unpaid debts to GSA, primarily for Federal telecommunication (telephone) services. Unpaid bills have been accumulating since 1972. On June 30, 1974, the Center's debt to GSA amounted to $191,374. One year later it was $284,069; and as of March 1976, the Center owed about $436,000, including $316,000 for telephone service, about $83,000 for supplies, and about $37,000 for construction costs.

In April 1976, the Center proposed payment arrangements to GSA on the amounts owed for telephone services and supplies, including a monthly $8,500 payment starting in October 1976 on the telephone debts. The Center's proposal was accepted by GSA in May 1976. As of September 30, 1976, the unpaid telephone charges amounted to about $321,000.

NO PROVISION MADE FOR INTEREST ON BONDS

The Center has not provided for the payment of interest or principal on Treasury bonds. As authorized by law, the Center borrowed $20.4 million from the Treasury by issuing 21 interest-bearing revenue bonds between July 1, 1968, and April 30, 1970. Maturity dates range from December 31, 2017, to December 31, 2019. Interest rates range from 5-1/8 to 6-5/8 percent.

The Kennedy Center Act provided that the $20.4 million would be used to finance the Center's garage and would be repaid from the Center's revenues. The bonds state that the interest and principal are to be paid from parking revenues. However, the Center has not set aside any funds or made any provision to pay the interest or amortize the principal of the bonds.

All interest may be and, according to current conditions, will be deferred until December 31, 1978. Also, under the act, the Secretary of the Treasury can continue to defer accrued interest after 1978. All deferred interest bears interest after June 30, 1972, and by December 31, 1978, the accrued interest will be about $15 million. It probably will not be paid in full at that time. If no payments are made by December 1978, the total debt will be about $35.4 million and the future annual interest will be more than $2 million. If things continue unchanged, the Center will be unable to pay the interest.

Undoubtedly the Secretary of the Treasury will have to defer payment of most if not all of the interest owed by the Center. Deferment "without strings attached," however, merely postpones the day of reckoning. One option available to the

Secretary is requiring the Center to set aside its garage revenues to pay the interest as a condition of further deferment of interest payments. However, this course of action would affect the Center's ability to meet its other costs.

The Department of the Treasury does not believe that the Center should be required to set aside the garage revenues as a condition of further deferment. (See app. IV.) The Treasury stated that because of the Center's financial situation and status as a national memorial, it would be incongruous for it to press its claim to the limit. Moreover, the Department believes such a course of action would further impair the Center's overall financial condition without materially enhancing the probability of recovering the Treasury's investment.

RESULTS OF OPERATIONS

The schedule on page 8 shows the results of the Center's operations through the end of September 1976.

Theater operations

The Center uses several different types of contractual arrangements in dealing with performing attractions.

--In some cases the Center licenses the use of the theater to an attraction, which generally retains the box office receipts (booking contract). The Center has established standard rates for the use of the theaters, but the rates used in the contracts are often negotiated. The National Symphony Orchestra, the resident concert orchestra, is provided a special rate which includes the use of the Concert Hall for performances and rehearsals as well as office space.

--In other cases the Center invests funds to produce or coproduce an attraction and shares in the profit or loss.

--For operas and ballets the Center often pays the attraction a negotiated fee and expenses for the performances, and the Center retains the theater receipts.

--In other cases the Center receives a negotiated fee, and the attraction receives the rest of the box office receipts.

Revenues and Expenses (note a)

	Fiscal year 1972	1973	1974	1975	1976 and transition quarter	Total
Net theater receipts (note b)	$4,158,527	$2,942,207	$2,760,062	$3,080,702	$3,614,414	$16,555,912
Other theater income	-	31,267	49,144	72,417	15,984	168,812
Total	4,158,527	2,973,474	2,809,206	3,153,119	3,630,398	16,724,724
Expenses:						
Operations	6,286,58[illegible]	4,124,855	3,209,185	3,539,180	3,941,011	c/21,100,818
Losses on presentations mandated by legislation (programing) (note d)	-	-	770,412	491,289	2,109,054	3,370,755
Write-off of production investments	-	-	-	474,028	456,692	930,720
Total	6,286,587	4,124,855	3,979,597	4,504,497	6,506,757	25,402,293
Deficit from theater operations before public support	-2,128,060	-1,151,381	-1,170,391	-1,351,378	-2,876,359	-8,677,569
Public support:						
Contributions for programing (note d)	125,460	160,328	228,000	362,492	1,812,896	2,689,176
General	1,108,717	361,012	301,046	215,730	523,501	2,510,006
Total	1,234,177	521,340	529,046	578,222	2,336,397	5,199,182
Deficit before other income	-89[illegible],883	-630,041	-641,345	-773,156	-539,962	-3,478,387
Other income:						
Parking	321,256	436,779	399,519	e/482,410	e/738,932	2,378,896
Restaurant (note e)	126,134	223,7[illegible]2	261,041	272,076	398,519	1,281,472
Other	170,229	109,[illegible]	144,1[illegible]0	206,363	237,282	867,249
Total	617,619	769,755	[illegible]	960,849	1,374,733	4,527,617
Net results of operations	-276,264	139,715	163,315	187,693	834,771	1,049,230
Interest expense on revenue bonds	f/3,804,811	1,420,711	1,510,035	1,620,675	2,195,986	10,552,218
Excess of expenses over revenues	$-4,081,075	$-1,280,996	$-1,346,720	$-1,432,982	$-1,361,215	$-9,502,988

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

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

c/Includes a noncash expense of $627,014 for reserve for repair and replacement of fixed assets.

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

e/Includes payment for utilities.

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

In use and attendance the Center's theaters have been operating at close to optimal expectations. During calendar year 1976 there were 1,170 performances at the three theaters, 856 evening and 314 daytime. There were few days when the theaters did not have scheduled attractions. Total attendance at the performances averaged over 80 percent of capacity. Considering scheduling requirements and the Center's attempts to present performing arts attractions diverse in appeal and high in artistic merit, much higher attendance is improbable.

Many of the theater losses in recent years have been on presentations which the Center classifies as "programing." This includes attractions such as operas and ballets which the Center is required by its authorizing legislation to present. Many of these attractions are presented despite the likelihood of sustaining losses, even with sellouts.

Some of these presentations result in a small profit, but many result in major losses. In some cases such losses are offset by public contributions. A schedule of the programing presentations for the 15 months ended September 30, 1976, listing the receipts, expenses, public contributions, and net surplus or deficit resulting from each attraction is shown in appendix I.

Another major source of losses on theater operations has been the writeoff of production investments. While booking presentations in which the Center has no financial interest before or after their run at the Center can result in a profit, such profits are more than offset by the net losses on the "programing" attractions. According to the general manager of the Center's theaters, the Center's best hope of financial success is to produce or coproduce successful attractions which will be presented in theaters in other cities as well as at the Kennedy Center and perhaps to obtain some revenue from television or the movies. Of course a greater financial risk is involved in producing or coproducing such presentations, because the Center's investment could not be recovered during a relatively short run at the Center. Through the end of September 1976, most of the presentations in which the Center has had a production investment have not been successful, and the Center has lost $930,720 on its investments in such productions. The major part of this was the musical "Odyssey," which lost $647,459.

Tickets are priced separately for each attraction, taking into consideration such factors as the type of attraction and its cost. The Center's general policy is to offer 15 percent of the tickets to performances other than those on Saturday evening at half-price to students, senior citizens, the handicapped, lower-graded military personnel, and low-income groups.

The Kennedy Center entered into an agreement in December 1974 to provide management services and direction for the operation of the National Theater located in Washington, D.C. The Center receives a fee, plus its expenses for providing these services.

In addition to its performance programing, the Center provides free educational and public service programs financed primarily by private funds and funds from Federal agencies.

Garage operations

The Center awarded the parking garage concession to the Airport Parking Company of America-Washington, Inc. The Company agreed to advance the Center $3,500,000, to be repaid from profits over a 15-year period beginning in 1972. These funds were used to help pay construction costs.

The agreement with the parking concessionaire provides that after deductions for interest on the advance and amortization of the principal, profits are split evenly between the concessionaire and the Center. For a 10-year option period after the advance is repaid, the Center will receive 70 percent of the net income when the receipts are under $1.5 million and 80 percent of the net income when receipts exceed that amount. After the option period, the Center can either award a new contract, whereby it could receive all profits after paying the concessionaire expenses and a management fee, or operate the garage itself.

For calendar years 1972-76, the Center's share of parking revenues was $1,055,698 after amortization of principal totaling $1,166,660 and payment of interest of $1,214,500, as shown in the following schedule.

Parking Revenues and Center's Share

	1972	1973	1974	1975	1976	Total
Gross revenue	$1,084,868	$1,129,208	$1,221,833	$1,261,373	$1,427,880	$6,125,162
Expenses:						
Operations	184,180	170,972	195,555	a/283,529	a/328,394	1,162,630
Management fee (5 percent of gross revenue)	54,243	56,460	61,092	63,069	71,394	306,258
Total	238,423	227,432	256,647	346,598	399,788	1,468,889
Net operating profit	846,445	901,776	965,186	914,775	1,028,092	4,656,274
Payments on advance:						
Interest (note b)	201,250	310,333	326,083	210,001	166,833	1,214,500
Amortization of principal	233,333	233,333	233,328	233,333	233,333	1,166,660
Total	43,583	543,666	559,411	443,334	400,166	2,381,160
Balance available	411,862	358,110	405,775	471,441	627,926	2,275,114
Center's share (50 percent)	205,931	179,055	202,888	235,720	313,963	1,137,557
Less validations (note c)	32,507	13,422	11,855	12,010	12,065	81,859
Center's net share	$ 173,424	$ 165,633	$ 191,032	$ 223,711	$ 301,898	$1,055,698

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

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

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

The garage is currently operating at close to maximum potential. A monthly parking rate for daytime parking has attracted many persons who work in the area. At the time of our field work, 546 of the 600 monthly parking spaces were sold. The rate charged to evening theatergoers is comparable to the rates charged by other garages in the area.

Income from other sources

The primary source of the Center's other income is the restaurant concessionaire. It pays the Center 5 percent of the gross sales, exclusive of tax, of the restaurants and vending machines and 10 percent on the sales at the foyer bars. In addition the concessionaire pays the Center $106,544 annually for utilities.

Other sources of income include:

--Rents from organizations occupying space at the Center, principally the American Film Institute. The Institute is paying for use of office space occupied, but has not paid for the space occupied by its small theater because no agreement has been reached on that matter.

--Rents received from special events held at the Center.

--Payments from the coat check concessionaire.

--Investment income, some of which is earned on donated securities.

Public support

Public contributions amounting to $5.2 million received through September 1976 have been important to the Center's operations. Past practice has been to solicit sponsors for specific artistic presentations such as operas and ballets. In addition, some support has been provided through nonearmarked contributions. Contributions are tax deductible under provisions of the Internal Revenue Code.

A 1977 corporate fund drive to attract $1 million from the business community is underway.

CONCLUSIONS AND AGENCY COMMENTS

Prospects are dim that the Center can make much of a dent in the accrued interest on the revenue bonds. While the Center will likely be able to improve its financial operations in some areas, the interest on the revenue bonds and deferred interest will be about $2 million annually if all of the interest owed is deferred by the Secretary of the Treasury.

The Center said that it could not meet all of its financial obligations to the Federal Government and continue to conduct the activities it was created to present. (See app. II.) The Center's Board of Trustees has reached several conclusions concerning the Center's financial dilemma which are discussed in chapter 4.

The Treasury Department does not believe that the Center should be required to set aside the garage revenue as a condition of further deferment. It said that because of the Center's financial situation and status as a national memorial it would be incongruous for the Department to press its claim to the limit. Moreover, it believes such a course of action would further impair the Center's overall financial condition without materially enhancing the probability of recovering the Treasury's investment.

With respect to the amount owed GSA, the Center objected to the implication that its obligation was overdue. As mentioned earlier, in April 1976 the Center and GSA entered into an agreement for payment on accounts for telephone services and supplies dating back several years. The Center cited its dispute with GSA over amounts owed during construction and maintained that it was not delinquent in its payments under the April 1976 settlement.

It should be noted that only $37,000 of the $436,000 owed was in dispute; the rest was overdue bills. The dispute was not settled by the April 1976 agreement, and was still unresolved as of the end of fiscal year 1977.

CHAPTER 3

COST-SHARING FORMULA

NEEDS REVISION

The cost-sharing arrangement for maintaining the Center does not accurately reflect its use. As a result, the Center is not paying its full share of maintenance costs. The cost of operating and maintaining the Center is shared by the National Park Service and the Center. The Park Service, restricted by legislation to participating only in maintenance costs unassociated with performing functions, pays all normal security, information, and grounds maintenance costs. The rest of the costs are shared under a formula developed in 1971: On the basis of the estimated hours for performing and nonperforming (memorial) functions, the shared costs were allocated 23.8 percent to the Center for performing functions and 76.2 percent to the National Park Service for memorial functions.

Changes have occurred in the operation of the Center since the formula was developed, but the formula has not been revised to recognize the increased use of the Center for performing arts. The principal changes have been:

--More hours of theater use in calendar year 1976 than allocated in the formula.

--New activities of a performing arts nature, such as organ recitals and symposiums. In addition, the formula has not taken backstage activities into account in establishing the hours of performing and nonperforming use.

--Increased space devoted to performing arts and to third-party occupants not involved in the memorial function.

Further, the Park Service pays for the utility service furnished to the garage and restaurants but does not share in the income from these operations. The Center collects utility reimbursements from these concessionaires which it does not return to the Park Service.

COSTS TO MAINTAIN THE CENTER

The Congress has appropriated a total of $11,786,000 through September 1976 for the Park Service's cost of maintaining the Center, as follows:

Fiscal year	(000 omitted)
1972	$ 1,500
1973	2,000
1974	2,400
1975	2,500
1976	2,645
Transition quarter	741
Total	$11,786

These funds cover both the Park Service's share of the joint costs and the amount it pays for normal security, information services, and grounds maintenance.

Through September 1976, the total costs shared according to the formula have totaled about $10 million, computed and shared as follows:

	Fiscal year					
	1972	1973	1974	1975	1976 and transition quarter	Total
Building maintenance and repair	$ 476,628	$ 712,748	$ 793,811	$ 870,651	$1,417,069	$4,270,907
Utilities	588,305	616,298	705,025	872,950	1,014,576	3,797,154
Janitorial services	293,429	395,431	290,803	322,856	444,368	1,746,887
Work done by construction contractors	184,800	-	-	-	-	184,800
Total	$1,543,162	$1,724,477	$1,789,639	$2,066,457	$2,876,013	$9,999,748
Government's share (76.2 percent)	$1,175,889	$1,314,051	$1,363,705	$1,574,640	$2,191,522	$7,619,800
Center's share (23.8 percent)	$367,273	$410,426	$425,934	$491,817	$684,491	$2,379,940

COST-SHARING FORMULA NEEDS UPDATING

Because the Center's operations have changed, the formula developed to allocate maintenance costs needs updating. The agreement between the Park Service and the Center is based on an hours-of-use method developed by an accounting firm in July 1971, before the opening of the Center. That agreement expired June 30, 1973. The fiscal year 1974 agreement containing the same cost-sharing formula as the initial agreement has been extended, pending development of a new agreement. As of October 1, 1977, no new agreement had been negotiated.

The formula was based on the hours that the building was expected to be used for memorial and performing arts functions. The accounting firm recommended that 76.2 percent of the joint costs be allocated to memorial functions on the basis of estimates that the Center would be open 15 hours a day (105 hours a week) and that the theaters would be used 25 hours a week, including rehearsals (5 days a week, 5 hours a day). On this basis, 80 hours (76.2 percent) were allocated to the memorial function and the remaining 25 hours (23.8 percent) to the performing arts function. In its report the accounting firm stated that the formula was based on assumptions and estimates relating to events that had not taken place.

According to the Center's records for calendar year 1976, actual hours of theater operations, including onstage rehearsals, averaged 1,897 hours for each of the three theaters for that year, an average of 36.5 hours each week compared to the 25 hours used in the formula. Theater hours of use includes time before and after performances and rehearsals to prepare and secure the theaters. Also, the Center is open to the public only 98 hours a week, rather than the 105 stated in the formula. Based on actual theater use, 37.2 percent of the joint costs should be allocated to the performing arts and 62.8 percent to the memorial function.

We noted other factors not considered in the present formula which have resulted in further overstating the use of the Center for memorial purposes. During 1976, for example, the theaters were used for organ demonstrations, performing arts symposiums, national town hall meetings sponsored by an oil company, and other activities totaling over 100 hours; and backstage activities, such as taking equipment in and out for the performances, required over 1,000 hours. Further, the formula presumes that the theaters, before or after their use for performing arts, are available for memorial purposes. But this is not the case. The Chairperson of the Friends of the Kennedy Center told us that the public tours of the building which start at 10:00 a.m. are ended at about 2:00 p.m. because the theaters are not available after that time for public viewing.

USE OF SPACE

The Kennedy Center functions as a center for the performing arts, a memorial in honor of the late President Kennedy, and a facility for lectures, meetings, and civic activities. The first two functions are primary.

In fulfilling these functions the building's space has been assigned to joint performing arts and memorial uses (the grand foyer, the halls, and the three main theaters), exclusive uses (rehearsals halls, theatrical storage space, and offices), and supportive uses (restaurants and parking garage). Concessionaires and other third parties use a large part of the space assigned to exclusive and supportive uses.

At the time the formula was developed, there were in addition to the Park Service and the Center only two other organizations--the garage and restaurant concessionaires--occupying space at the Kennedy Center. In contrast, in April 1977, 15 organizations occupied space, including the American Film Institute, which has both offices and a small theater, the Musical Theater Lab, the National Symphony Orchestra, the National Opera Institute, the Opera Society of Washington, a coat-checking concessionaire, and a photographer. Also, additional areas have been assigned to performing arts activities, such as the children's theater and the soon-to-be-constructed studio theater.

To identify the operation and maintenance costs of the joint-use areas of the building, the costs incurred by the Park Service for the exclusive and supportive use areas should be identified and subtracted from the total costs. Costs should be assigned where possible to the exclusive and supportive use areas before an allocation, under the cost-sharing formula, is made. This is particularly appropriate at the Center because of the increased use of the building by third-party occupants and performing arts activities since the formula was developed. In part, the current agreement recognizes this principle and includes this provision:

"The Board shall fully reimburse the Secretary for all maintenance, janitorial and security costs incurred by the Secretary pursuant to his responsibilities hereunder and attributable to private activities and uses of third parties authorized by the Board and not open to the general public, or attributable to activities and use of space by concessioners or other parties under contract to the Board (not including this agreement or usual performing arts agreements)."

The Park Service pays all of the utility, janitorial, and maintenance costs associated with the 13 other occupants of the Center. In August 1973, the Center agreed to pay the Park Service for janitorial services provided to the National Symphony Orchestra and the American Film Institute. Both of these third-party organizations maintain offices in the Center, and the Institute operates a small film theater. The amounts paid are based on estimates submitted by the janitorial contractor.

UTILITY REIMBURSEMENTS RETAINED BY THE CENTER

The garage and restaurant concessionaires pay their own expenses except for utilities. Utility use, mainly electricity, is not separately metered for the concessionaires, and the Park Service pays all utility bills for the Center. In November 1971, the restaurant concessionaires agreed to pay the Center $26,636 each quarter, or $106,544 annually, for utilities. In January 1975 the parking garage concessionaire agreed to pay the Center $6,000 a month, or $72,000 annually, for the utilities. Since these amounts were agreed upon the Center has received $178,544 annually. The Park Service has not received any of the payments for utilities made by the concessionaires.

CONCLUSION AND AGENCY COMMENTS

The cost-sharing formula between the Park Service and Center does not fairly and accurately reflect the use of the building. The formula has not been updated since its adoption in July 1971 and fails to recognize the increased use of the building for performing arts activities and by third-party occupants.

The Center believes it is paying more than its share for maintaining the building. (See app. II.) Compared to the costs to maintain the National Theater and other institutions in the Washington area, the Center believes it is paying substantially more than fair value for the maintenance services.

The Center also believes that the entire building is a memorial and that it would therefore be appropriate that the Park Service pay all costs of maintenance and repair, as it does in the case of other Presidential memorials.

The Center believes that the utility payments made by the garage and restaurant should not be reimbursed to the Park Service. It is the Center's position that the Congress was aware of the presence of the concessionaires at the time the cost-sharing formula was adopted and that it was never contemplated that the Center would reimburse the Park Service for other than the Center's share of the joint costs. We do not believe the present arrangement is equitable. The Center's contracts with both the garage and restaurant operators provide that the expense of operation be paid by the concessionaire. If the electricity costs were separately metered, the concessionaires would pay the utility company directly and there would be no cost to the Park Service.

The Center believes that this report is misleading about the increased number of organizations occupying space in the building. (See app. II.) The Center explained that

--some activities, although not in the building at the time the fomula was developed, were contemplating moving in;

--the Musical Theater Lab was a 2-year program to foster the development of musical productions jointly sponsored by the Center and the Stuart Ostrow Foundation;

--various other nonprofit organizations were provided small amounts of space; and

--it had provided space to two of its contractors whose operations were directly related to the Center's performing arts activities.

The Department of the Interior agreed with our position on cost-sharing. (See app. II.) The Department said that a new agreement should:

--Include a cost-sharing formula which would fairly and accurately give effect to the use of the building.

--Provide for identification and reimbursement to the Park Service of all costs attributable to the concessionaires and other third-party occupants of the Center.

--Use the hours-of-use concept on an updated basis.

We recognize that any change made in the cost-sharing formula requiring the Center to increase its contribution toward the building's maintenance would reduce its ability to pay the interest and principal on the revenue bonds as well as its ability to maintain its current programing level.

CHAPTER 4

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Kennedy Center cannot meet all of its financial obligations to the Federal Government and continue to conduct the full range of performing arts and public service activities which it was created to present. The Center advised us that in consultation with the Administration, interested Congressmen, and appropriate congressional committees, it had considered several steps that might be taken to achieve an appropriate long-term settlement of its financial dilemma. It believes that remedial legislation might be founded upon the following principal considerations:

--Its Board of Trustees has performed well in raising funds for the Center's operations. The Board has raised more than its original commitment in constructing the building.

--Raising more funds than are now being raised in order to make significant payments to the Government for the construction debt is virtually impossible.

--The Center is being run efficiently, and there are no areas of its operations in which substantial savings could be made.

--Unlike other major performing arts centers, the Kennedy Center does not receive direct Federal subsidies for its performing arts.

--The Congress should reconsider whether performing arts functions should be asked to carry part of the cost of maintaining a living memorial to a President. If the Government were to pay to maintain and repair the building and waive the interest on the Treasury bonds, the Center could conduct its performing arts activities, carry on extensive free public service programing, and repay the principal of the Treasury bonds at the rate of $1 million a year.

In our view, the Center clearly cannot meet all of its financial obligations and maintain its current levels of performing arts attractions. Independent action by either the Secretary of the Treasury to collect the bond interest or the Secretary of the Interior to collect more of the building maintenance costs would affect the Center's ability to carry out its performing arts functions. Only the Congress can make both the value judgments and trade-offs required to resolve this situation.

APPENDIX I

JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

THEATER OPERATIONS--NONFUNDED PROGRAMING EXPENSES

15 MONTHS ENDED SEPTEMBER 30, 1976

	Sale of box office receipts	Add: capital contributed by outside venturers	Add: sale of production	Less: production expenses	Less: operating expenses	Less: Loss on out of town presentation	Surplus or deficit	Public support	Net surplus or deficit
American Bicentennial Theatre:									
Skin of Our Teeth	$ [illegible]	[illegible]	$ -	$184,697	$ 263,486	$50,907	$ -145,137	$ -	$-145,137
Scarecrow	[illegible]	[illegible]	-	125,217	99,006	-	-111,884	-	-111,884
Summer Brave	[illegible]		-	105,930	121,986	8,224	-52,030	-	-52,030
Sweet Bird of Youth	[illegible]	[illegible]	-	108,805	154,026	-	-29,556	-	-29,556
Royal Family	[illegible]	[illegible]	17,304	121,162	168,167	-	-8,741	-	-8,741
Long Days Journey	[illegible]	[illegible]	-	110,177	195,716	-	-26,053	-	-26,053
Rip Van Winkle	[illegible]		-	70,910	123,692	-	-14,856	-	-14,856
The Heiress	[illegible]		12,500	93,275	158,590	-	49,376	-	49,376
Magnificent Yankee	[illegible]	-	-	17,494	28,249	-	9,445	-	9,445
American Bicentennial Theatre season--general	-	-	-	-	42,763	-	-42,763	380,000	337,237
Total	$1,807,476	$143,000	$29,804	$937,667	$1,355,681	$59,131	$ -372,199	$ 380,000	$ 7,801
Stuttgart Ballet	201,984	-	-	-	189,982	-	13,002	-	13,002
Fonteyn and Nureyev	302,231	-	-	-	270,511	-	31,720	-	31,720
Bolshoi Opera	556,194	-	-	-	973,263	-	-417,069	175,000	-242,069
Star-Spangled Pianos	1,030	-	-	-	7,044	-	-6,014	-	-6,014
Sing America Sing	94,896	-	-	-	271,881	-	-176,985	186,437	9,452
Haydn Festival	9,608	-	-	-	110,291	-	-100,683	1,200	-99,483
American Ballet Theatre	649,332	-	-	-	636,756	-	12,576	96,000	108,576
Canadian Festival	97,597	-	-	-	127,739	-	-30,142	-	-30,142
Berlin Opera	558,123	-	-	-	578,906	-	-20,783	-	-20,783
Lincoln Center Chamber Players	25,010	-	-	-	24,122	-	888	-	888
12 Days of Christmas	-	-	-	-	45,287	-	-45,287	45,000	-287
Isaac Stern and Friends	22,707	-	-	-	13,360	-	9,347	-	9,347
JFKC Bicentennial Music	-	-	-	-	30,908	-	-30,908	-	-30,908
America on Stage	-	-	-	-	28,724	-	-28,724	2,003	-26,721
Congress of Strings	-	-	-	-	147	-	-147	-	-147
New York City Ballet	332,306	-	-	-	383,324	-	-51,018	55,980	4,962
New York City Opera	334,905	-	-	-	514,379	-	-179,474	56,942	-122,532
Concerts in the Schools	-	-	-	-	1,660	-	-1,660	-	-1,660
Spring Festival	-	-	-	-	51,328	-	-51,328	53,063	1,735
MENC Concerts	-	-	-	-	2,575	-	-2,575	-	-2,575
Inter-American Music Conference	-	-	-	-	2,900	-	-2,900	-	-2,900
Philadelphia Orchestra	60,551	-	-	-	56,983	-	3,568	-	3,568
W. C. Handy	13,633	-	-	-	41,166	-	-27,533	30,000	2,467
Royal Danish Ballet	232,061	-	-	-	205,595	-	26,466	8,334	34,800
Royal Ballet	629,174	-	-	-	780,876	-	-151,702	-	-151,702
Australian Ballet	283,653	-	-	-	281,035	-	2,618	-	2,618
John Browns Body (cancelled)	-	-	-	-	14,537	-	-14 537	-	-14,537
Russian Festival	103,076	-	-	-	72,732	-	30,344	-	30,344
El Capitan	11,749	-	-	-	54,499	-	-42,750	60,000	17,250
Mahalli Dancers of Iran	22,861	-	-	-	22,861	-	-	-	-
La Scala Opera--Washington	687,109	-	-	-	1,051,370	-	-364,261	285,139	-79,122
La Scala Opera--New York and Philadelphia	111,458	-	-	-	47,912	-	63,546	-	63,546
University Resident Theatre Association	-	-	-	-	405	-	-405	-	-405
Carnegie Hall	66,572	-	-	-	67,008	-	-436	-	-436
Paris Opera	485,583	-	-	-	609,304	-	-123,721	52,056	-71,665
Bicentennial Salute to Roger L. Stevens	-	-	-	-	59,888	-	-59,888	325,742	265,854
Total	$7,701,679	$143,000	$29,804	$937,667	$8,986,939	$59,131	$-2,109,054	$1,812,896	$-296,158

Note: The information in this schedule was included in the public accountant's audit report.

JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

September 22, 1977

Mr. Victor L. Lowe
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

In response to your request, this letter will set forth the views of the John F. Kennedy Center for the Performing Arts concerning the draft Comptroller General's Report to the Congress, Audit of the Kennedy Center for the Performing Arts.

Necessity To Resolve Revenue Bond And Operating Cost Problems

The Kennedy Center concurs in the conclusion of the Report that it cannot meet all of its financial obligations to the Federal government and continue to conduct the full range of performing arts and public service activities which it was created to present. If the Center were to make provision for payment of interest on its $20.4 million borrowing from the Treasury, or if it were to increase its payments to the Park Service to reflect what the report refers to as a larger-than-anticipated use of the Center by performing arts activities, the unavoidable consequence would be to reduce the scope and quality of its public service programming, including the free events and children's concert and theater productions which it now regularly mounts.

As found by the General Accounting Office, the Kennedy Center has conducted its activities during the 6-1/2 years since it has been open to the public without a performing arts subsidy, and with operating receipts, including substantial private contributions, exceeding operating expenses by the average amount of approximately $210,000 per year. The entire amount of such excess has, however, been required to be applied to the rather substantial indebtedness the Center incurred from private sources prior to its opening. (At the opening of the Kennedy Center, current liabilities -- primarily arising from construction of the building under GSA supervision (for which GSA received $1 million) and totalling $2,366,318 -- exceeded current assets by $1,422,078.) In addition, the excess has also been needed to reduce the $3.5 million advanced prior to the Center's opening by its garage concessionaire, and required in order to complete construction of the Center.

APPENDIX II

For the future, the Center will continue to require use of any excess revenues to pay off the balance of this privately incurred indebtedness. Any increase in payments for operations of the memorial building and any payment against the interest owing to the United States Treasury will make it impossible to meet these obligations. Further, as stated above, any such commitment of funds will impair the programming and public service activities required by the Act, and will have a disastrous impact on raising funds from donors -- who are interested in contributing funds for programming and public service activities, but who have not indicated a willingness to contribute funds for paying off United States Treasury bonds and for paying building maintenance costs.

The Board of Trustees, in consultation with the Administration and interested members and the appropriate committees of the House and Senate, has considered several possible steps that might be taken to achieve an appropriate long-term settlement of the financial dilemma confronting the Center. The following are the principal conclusions upon which the Board considers that remedial legislation might be founded:

> First, the Board considers that it has performed well in raising funds for the Kennedy Center's operations. When the National Cultural Center was altered legislatively in 1964 to make it a living memorial in honor of the late President, the fundamental concept was that federal dollars would match \$21 million in private dollars to construct this federal building. To date, the Board has been able to go far beyond this obligation. This fiscal year, substantial additional funds are being raised by the Corporate Fund for Performing Arts at the Kennedy Center. A description of this program, funds from which will be used for public service activities, is enclosed.
>
> Second, experience shows that it is virtually impossible to raise sufficient additional funds from contributors, over that now being raised, to make significant payments to the Government, in order to repay previously incurred construction debt. Corporate, foundation and individual contributions are now being solicited in a sustained, integrated manner.
>
> Third, the Board believes that the Kennedy Center today is being run efficiently and that there are no areas of its operations where substantial savings could be derived. Indeed, its performance

compares favorably with that of any similar institution in the United States. This is not to say that no improvement can be made; but, as your report states, no funds in the amounts required could be attained from a change or improvement in operations by the Board.

Fourth, the Board takes pride that the Kennedy Center's performing arts activities are conducted without direct subsidies from the Government. Virtually every other major performing arts center in this country and abroad has operated with the benefit of substantial public monies to sustain their programming. Unlike these institutions, the Kennedy Center has drawn no federal funds to sponsor performing arts attractions.

Fifth, the Board believes that the Congress should reconsider whether performing arts functions -- including, in the case of the Kennedy Center, some 1,000 to 1,500 free events annually -- should be asked to carry part of the cost of maintaining a living memorial to a President. If Congress finds it appropriate for Federal funds to maintain and repair the building, and if it lifts the burden of interest (including compound interest) owing to the Treasury, the Board is confident that it can conduct the performing arts activities of the Center, carry on extensive free public service programming, raise the funds from private contributions to meet deficits, and repay the principal of the Treasury bonds, at the rate of $1 million a year.

Cost Allocation Formula

The following comments are addressed to specific conclusions in the Report, which are based on the current relationship between the Center and the Federal government.

The Report concludes that the cost allocation formula developed in 1971 is not being applied properly. While the Kennedy Center agrees that the percentages used in the formula have not been changed since 1971, it considers that it is paying more than its appropriate share of the costs of operation of the building.

The Trustees, conscious of their obligation to operate a "living memorial", have made every effort to keep the Center's three major halls and other facilities constantly active. Ironically, this has caused the Center to bear a disproportionate burden under the present cost-sharing formula.

Furthermore, because the building is a memorial building, the Kennedy Center believes it is right that the National Park Service pay for all costs of maintenance and repair of the building, as it does in the case of all other presidential memorials, leaving to the Center the responsibility it already is carrying of finding and presenting performing arts and public service activities, and of raising the necessary funds to meet the inevitable deficits that stem from such activities.

In addition, certain of the functions to which the Report refers to support a greater per week usage by the Kennedy Center improperly included public service functions, such as the Town Meeting, sponsored by Mobil, which are not performing arts functions at all. They are open to tourists and other visitors to the building without charge. More importantly, even assuming that the Kennedy Center's increased use of the theaters should result in the Kennedy Center's bearing a greater percentage share of allocable costs under the existing formula, that formula, as already applied requires that the Board pay more than an appropriate level of costs for operation of the building.

During the fifteen month period ending September 30, 1976, the Kennedy Center paid the National Park Service $633,411. Annualized, the amount was $506,729. For this sum, the Kennedy Center was provided electricity, janitorial, and a portion of the total maintenance required for operation of its three theaters and office space (including that of other organizations in the memorial building). Electricity was also provided for the Center's garage and restaurant areas. A comparison of the costs for similar services provided to The National Theater and other institutions in the Washington area indicates that the fees actually paid by the Kennedy Center for those services substantially exceeded their fair value.

Finally, the Board considers that the question of whether there should be any allocation at all of joint costs between performing arts and non-performing arts functions should be reconsidered. Although direct federal subsidy of the performing arts activities of the Board is not necessary, it is appropriate that the United States pay the cost of all electricity, janitorial services, regular operation, maintenance and repair of this memorial building. If this were accomplished, the Board would be in a position to repay the principal amount of the revenue bonds over a term of years and would be able to continue the present level of performing arts and public service activities.

Sharing Of Concession Reimbursements

The Kennedy Center objects to the suggestion in the Report that payments of the garage and restaurant concessioners for electricity and other services should be paid over to the National Park Service. In the first place, the Congress was fully aware of the presence of these concessioners when the cost sharing formula first was adopted and presented prior to the passage of the 1972 amendments to the John F. Kennedy Center Act. It was never contemplated that separate reimbursement of these costs was to be made, apart from the Kennedy Center's payment to the National Park Service of 23.8 percent of joint costs. More importantly, however, the payments by the concessioners which the Report suggests should be turned over to the Park Service are part of the basic receipts of the Kennedy Center from their use of the Center facilities. They constitute receipts derived from necessary support activities which the Center might properly have performed itself, but which it instead chose to have performed by concessioners. Any receipts derived therefrom properly belong to the Center, and are critically needed both to pay for operations costs incurred by the Kennedy Center and to reimburse the Park Service for costs attributable to performing arts functions in the building.

Use Of The Building By Other Organizations

The Report is misleading when it states that 15 organizations occupy space in the building at the present time, whereas only two organizations (apart from the garage and parking concessionaries) were in the building at the time that the cost sharing formula was developed. The only new activity in the building which was not there, or contemplated to be there, at the time of the development of the cost sharing formula is The American Film Institute. (The National Symphony was in the process of preparing office space in 1972. The coat checking concessioner was in fact located in the building in 1972, having been provided with space to conduct activities inextricably related to the theater operations.) The Musical Theater Lab, referred to as a separate organization, is not. Rather, it is a two year program located in the multipurpose room area, to foster the development of musical productions, open to the public at no charge, which is being sponsored jointly by the Stuart Ostrow Foundation and the Kennedy Center as a public service.

Various other nonprofit organizations are provided a minimum of space at the Kennedy Center, generally no more than a small room, to conduct activities. There are also several contractors of the Kennedy Center, such as the company producing programs, which are performing services for the Kennedy Center on a contractual rather than employee basis and which require some space for operations, that are required for the Kennedy Center's theater operations. Because the operations of both such organizations are directly related to Kennedy Center performing arts operations, the Board feels that the cost attributable to these organizations hardly needs to be separately accounted for.

General Services Administration Obligation

The Report makes reference to funds owing to the General Services Administration for telephone and other services. These services were provided primarily during the construction period and the amount of the Kennedy Center's obligation for them was in dispute over several years. The dispute was resolved by an agreement of April 1976, which provides for payment of an agreed amount over a period of years. Since April 1976 the Kennedy Center has in fact made payments under that agreement totalling $183,500. Accordingly, the implication that the Kennedy Center's obligation is overdue is not correct.

Conclusion

In conclusion, the Kennedy Center appreciates the seriousness and fairmindedness with which the Comptroller's staff approached this study. The Center agrees with the central findings of the Comptroller General that there is an essential dilemma in the present relationship between the Federal government and the Center. An institution that was established by Congress to produce the full range of performing arts, including costly opera; that maintains a half-priced ticket program for the elderly, students, the military, and the handicapped; and, that puts on over a thousand free events each year, including music festivals and children's productions, cannot be expected at the same time to carry the financial load of compound interest on its construction loan, and increased maintenance costs for a Presidential memorial building. The Center has been an unparalleled success insofar as it has fulfilled its Congressional mandate, and raised the funds needed to achieve that end. It can continue to do so if the reality of its situation is understood and acted upon.

Sincerely,

Roger L. Stevens

Roger L. Stevens
Chairman

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 1 1977

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

Dear Mr. Eschwege:

We have reviewed the GAO draft report, "Audit of the Kennedy Center for the Performing Arts."

Overall, we are in agreement with the report, particularly with respect to negotiating a new agreement that will include a cost-sharing formula which fairly and accurately gives effect to the use of the building. The new agreement will provide for identification and reimbursement to the National Park Service of all costs which are attributable to the concessioners and other third-party occupants of the Center. The hours of use concept will be used on an updated basis.

We agree with the legal conclusion expressed in the report that the authorizing legislation limits Park Service participation to bearing costs associated with the nonperforming arts functions.

We appreciate the opportunity to comment on this draft report.

Sincerely,

Richard R. Hite
Assistant Secretary - Policy,
Budget, and Administration

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FISCAL ASSISTANT SECRETARY

Dear Mr. Lowe:

This responds to your letter of July 22, transmitting copies of a draft report to the Congress covering an audit of the Kennedy Center for the Performing Arts.

The proposed report makes reference to $20.4 million in revenue bonds of the Center purchased by the Department of the Treasury between July 1968 and April 1970 under section 9 of the Kennedy Center Act, and makes these observations:

-- Under an agreement between the Center and the Secretary, interest payments on the indebtedness have been deferred until December 31, 1978;

-- The revenues from the Center's parking concession have not been sufficient to pay the interest on the bonds and will not be in the near term; and

-- The Chairman of the Center's Board of Trustees and his staff are considering proposing legislation requiring the Secretary to waive all interest on the indebtedness.

The report recommends that the Secretary require the Center, as a condition of any further deferment of interest beyond December 1978, to apply net revenues from the parking facility to reduction of the deferred interest.

[See GAO note below.]

If the Kennedy Center could be considered a conventional business-type operation, we would concur in this recommendation. However, it cannot in our view be considered in this light. While it is true that the implication of section 9 of the Kennedy Center Act is that the parking revenues should provide the funds to repay principal and interest on the bonds (and the instruments so provide), the revenues were not, in fact, dedicated. And the substantial diversion of those revenues to the Center's parking

GAO note: The recommendation in our draft report was replaced by "Matters for Consideration by the Congress."

concessioner (to repay a construction loan of $3.5 million) makes it highly unlikely that parking revenues will ever be sufficient to repay the Treasury for both principal and interest.

Given the outlook for the Center's interest obligations to continue to accumulate at a far greater rate than its share of the parking revenues; given the fact that the Center is being subsidized by other parts of the Federal Government, has received numerous gifts from foreign governments, and needs private contributions to keep its arts programs in the black; and given the Center's status as a national memorial and cultural center, it would be incongruous for the Treasury to press its claim to the limit. As with any lender, the Department occasionally has to accommodate a bad loan situation and refrain from extracting every possible penny from a financially impaired borrower or imposing conditions that may aggravate the situation. In my judgment, the condition that you proposed would further impair the overall financial condition of the Center without materially enhancing the probability of recovering the Treasury's investment.

Sincerely,

David Mosso

Mr. Victor L. Lowe
Director, General Government
Division
General Accounting Office
Washington, D.C. 20548

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