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FINANCING OPERATIONS OF THE JOHN F. KENNEDY
CENTER FOR THE PERFORMING ARTS

GOVERNMENT

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DOCUMENTS

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HEARING

BEFORE THE

SUBCOMMITTEE ON
PUBLIC BUILDINGS AND GROUNDS

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 3437

TO AMEND THE JOHN F. KENNEDY CENTER ACT

APRIL 5, 1979

Printed for the use of the Committee on Public Works and Transportation



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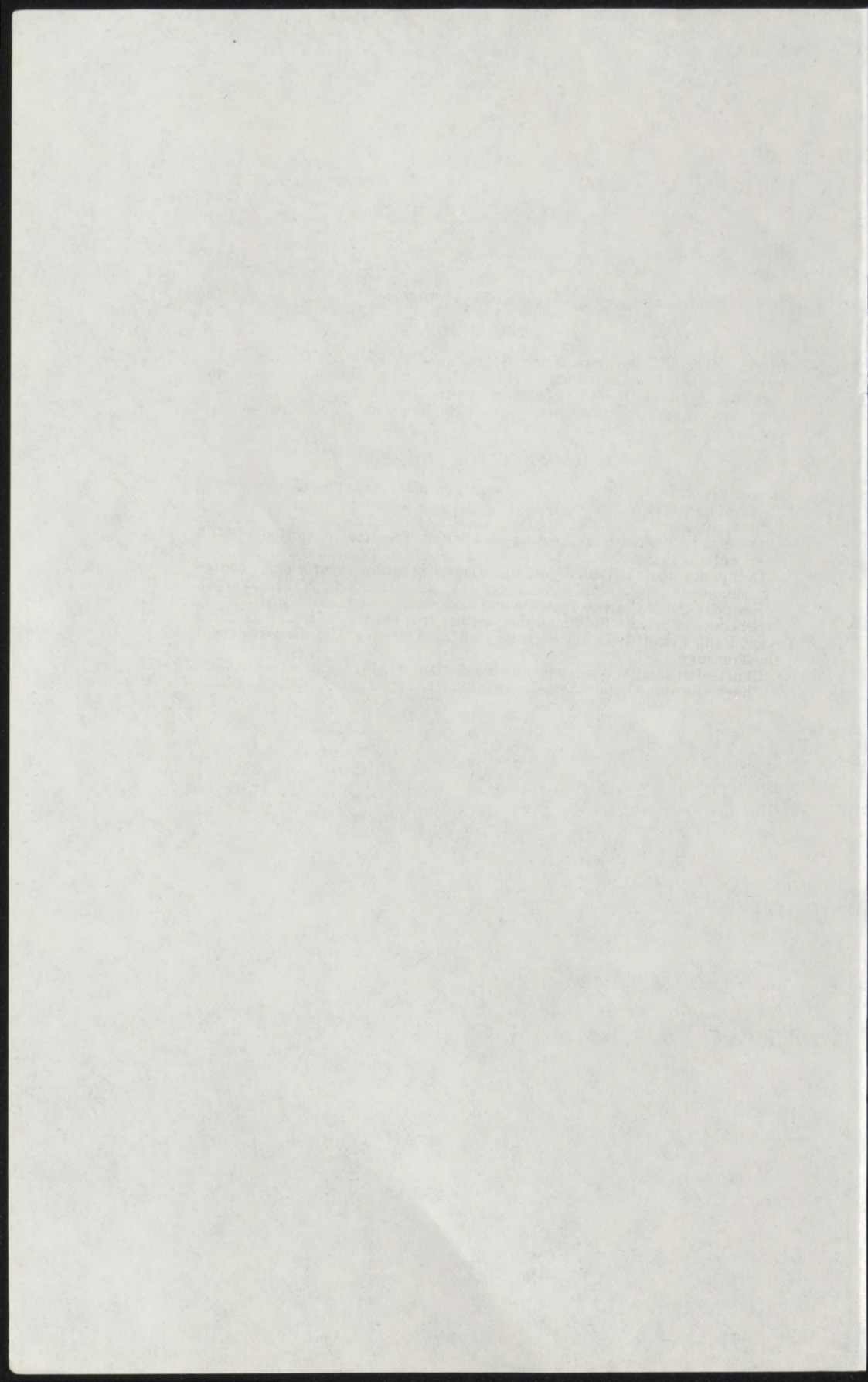
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96TH CONGRESS
1ST SESSION

H. R. 3437

To amend the John F. Kennedy Center Act.

IN THE HOUSE OF REPRESENTATIVES

APRIL 4, 1979

Mr. LEVITAS (for himself and Mr. JOHNSON of California) (by request) introduced the following bill; which was referred to the Committee on Public Works and Transportation

A BILL

To amend the John F. Kennedy Center Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That subsection (e) of section 6 of the John F. Kennedy
4 Center Act is amended to read as follows:

5 “(e) The Secretary of the Interior, acting through the
6 National Park Service, shall have authority and responsibility
7 for structural and other building repairs, replacements and
8 improvements, maintenance, security, information, interpre-
9 tation, janitorial services, utilities, and all similar services at
10 the John F. Kennedy Center for the Performing Arts; a

1 living national memorial to the late president: *Provided*, That
2 except as relates to the front of house (public) portions of the
3 Center's theaters and the furnishing of utilities, such respon-
4 sibility shall not extend to any activities, functions, or serv-
5 ices in any portions of the Center's theaters directly related
6 to the production of performing arts attractions. The Board
7 shall annually remit to the Secretary, commencing with the
8 fiscal year beginning October 1, 1979, the sum of \$600,000
9 as the Board's share of payment for all building services fur-
10 nished through the National Park Service to the Board and
11 other occupants of the Center. The Secretary's responsibility
12 under this section shall be carried out in a manner that is
13 consistent with the Board's overall responsibility and author-
14 ity for the administration of the Center, which includes such
15 production, programing, educational, interpretive, and infor-
16 mational activities as are necessary to carry out its responsi-
17 bilities under section 4 of the Act. There is authorized to be
18 appropriated to the Secretary to carry out this subsection not
19 to exceed \$4,820,100 for the fiscal year ending September
20 30, 1979, and \$5,066,896 for the fiscal year ending Septem-
21 ber 30, 1980."

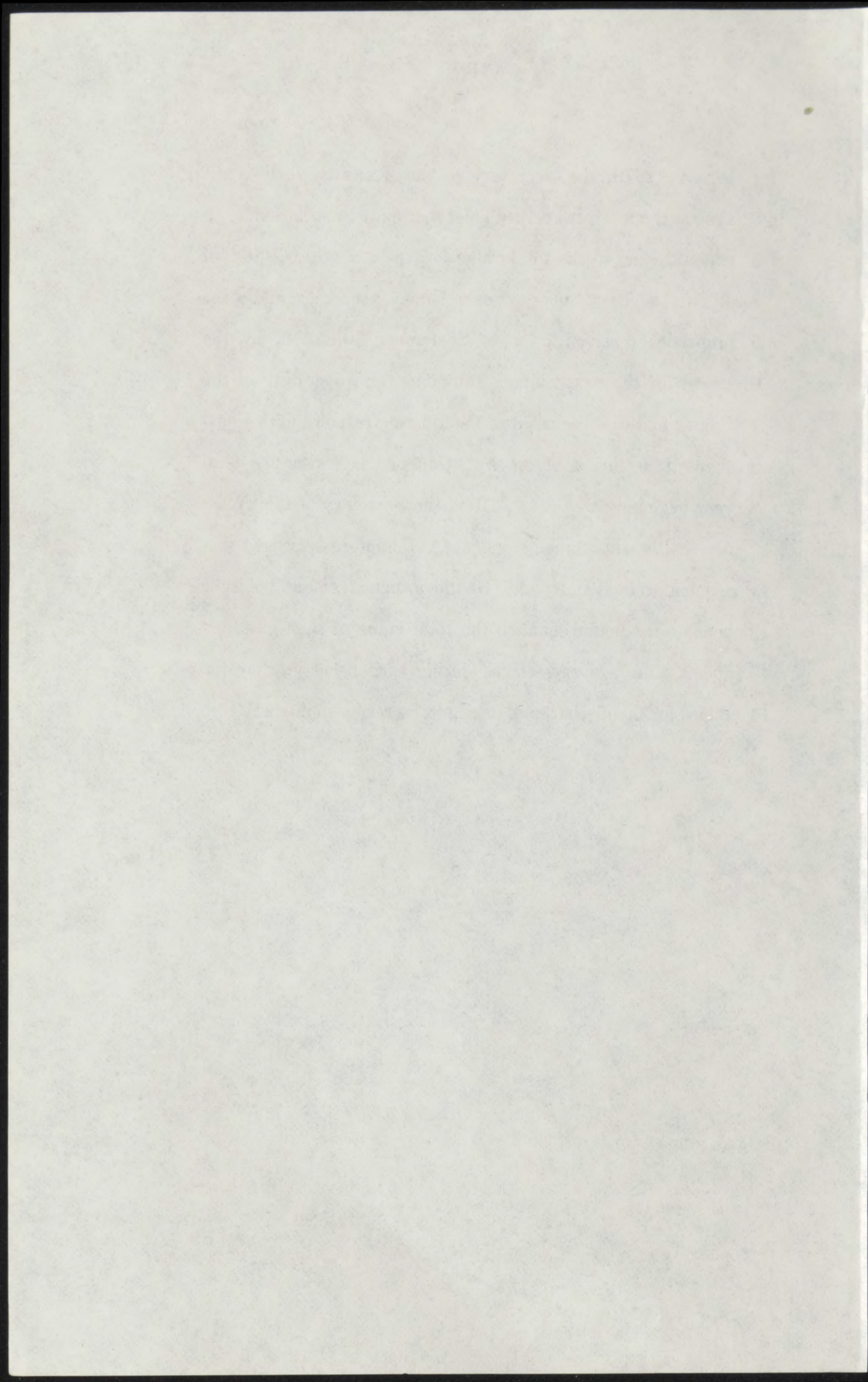
22 SEC. 2. The third sentence of section 9 of the John F.
23 Kennedy Center Act is amended by striking out the period at
24 the end thereof and inserting in lieu thereof a comma and the
25 following: "and until September 30, 1979. Effective Septem-

VII

3

ber 30, 1979, the Secretary of the Treasury shall credit
against the interest accrued as of that date on such bonds, an
amount equal to the total value in excess of \$23,000,000 of
all gifts, bequests, and devises of money, securities, and other
properties received prior to September 30, 1979, by the
Board for the construction, equipping, and operating of the
Center and the discharge of the Board's responsibilities pur-
suant to section 4 of the Act. Commencing with the fiscal
year beginning October 1, 1979, the Secretary of the Treas-
ury shall credit annually against (A) the interest accrued sub-
sequent to that date and (B) the principal amount of such
bonds, an amount equal to the total value of such gifts, be-
quests, and devises received during each fiscal year by the
Board for the discharge of its section 4 responsibilities."

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FINANCING OPERATIONS OF THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

THURSDAY, APRIL 5, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, D.C.

The subcommittee met at 9:40 a.m., in room 2253, Rayburn House Office Building, Hon. Elliott H. Levitas, chairman of the subcommittee, presiding.

Mr. LEVITAS. The Subcommittee on Public Buildings and Grounds will please come to order.

The subcommittee is meeting today to discuss the financial operations of the John F. Kennedy Center for the Performing Arts.

In this regard, after reviewing the testimony of Roger Stevens, Chairman of the Board of the John F. Kennedy Center, I requested that a draft bill be forwarded to the committee based on his recommendations to resolve the financial matters currently confronting the Center.

I introduced the bill, H.R. 3437, yesterday by request, and it is currently pending before the subcommittee. Mr. Stevens will explain the contents of the bill as drafted. The bill is designed to seek a pragmatic and realistic resolution of the issues raised in a General Accounting Office report, dated December 20, 1977.

The GAO report concluded that 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; further, the GAO stated that the Kennedy Center cannot meet all of its financial obligations and that independent action, either by the Secretary of the Treasury to collect bond interest due to the Secretary of the Treasury or to collect more of the building maintenance costs would affect the Center's ability to carry out the performing arts functions.

Their conclusion was that--and I quote--"Only the Congress can make both the value judgments and the tradeoffs required to resolve this situation."

Accordingly, this subcommittee will begin to address the issue today. Needless to say, we cannot cover the entire spectrum of the activities of the John F. Kennedy Center in one hearing. It is the intention of the chairman that we hold ongoing hearings, and I have directed the staff of the subcommittee to contact the General Accounting Office and request that they update their report to the Congress which was previously dated December 1977. In updating that report, the staff has been directed to work closely with GAO

in an attempt to have all concerns raised by members of the subcommittee addressed.

I would hope that we can report legislation later this session, designed to resolve the financial matters of the Kennedy Center.

Mr. Abdnor, do you have an opening statement?

Mr. ABDNOR. I look forward, Mr. Chairman, to asking the witnesses a number of questions, covering all aspects of the John F. Kennedy Center. I am hopeful that our discussions will enable this committee to better understand the operations and the problems facing the taxpayers involving the Center. It seems that the more I look into this matter, the more complex it becomes, and each problem seems to be interrelated.

The financial dilemma of the Kennedy Center is disgraceful and cannot continue being ignored as if it is going to go away by itself.

I hope this committee will thoroughly examine these problems during the 96th Congress and arrive at a solution that will prevent similar incidents from occurring in the future.

Thank you, Mr. Chairman.

Mr. LEVITAS. Thank you very much for that excellent statement, Mr. Abdnor.

It is my pleasure now to invite to the witness table Mr. Roger Stevens, Chairman of the Board, John F. Kennedy Center for the Performing Arts.

Mr. Stevens, would you and your colleagues come forward.

TESTIMONY OF ROGER L. STEVENS, CHAIRMAN OF THE BOARD, JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS, ACCOMPANIED BY HARRY McPHERSON, COUNSEL FOR THE CENTER, AND TOM KENDRICK, DIRECTOR OF OPERATIONS FOR THE CENTER

Mr. STEVENS. Thank you, Mr. Chairman. I have submitted for the record a rather detailed history and record of the Kennedy Center, which as you know, is quite long, and I would not feel it proper to take your time to read it. But I would like to just fill in a little bit of the background—

Mr. LEVITAS. Mr. Stevens. Without objection, your complete statement will be made a part of the record at this point.

[The following was received for the record:]

STATEMENT OF ROGER L. STEVENS, CHAIRMAN, JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

Mr. Chairman, Members of the Subcommittee on Public Buildings and Grounds, I am pleased that the Chairman has convened this hearing, so that we might have a full and open discussion of the Kennedy Center's financial relationship with the Federal government.

As the Members know, the General Accounting Office, in its 1977 report on the Center, posed the following problem:

First, the Center has been unable to set aside funds to repay the principal and interest on its construction bonds, which are held by the Treasury;

Second, in the GAO's view, the present formula for dividing maintenance expenses between "performing arts" and "non-performing arts" activities does not accurately reflect the actual use of the building for each purpose; if the formula were revised in the manner proposed by the GAO, the Center's share of those expenses would rise from 23.8 percent to 37.2 percent;

If, however, the Center were to set aside funds to repay the principal and interest on the bonds, or if the formula were revised to increase the Center's share of maintenance expenses, the Center's ability to carry out the principal functions that Congress has instructed it to perform would be adversely affected.

It is important to note here that GAO found the Center's management to be operating efficiently, within its financial limitations—filling its halls at levels “close to optimal expectations,” raising substantial private funds, and seeking to provide the wide range of performing arts and public programming that is called for in the Center's charter.

Prospects are “dim,” the GAO observed, that the center “can make much of a dent” in its debt by raising more private funds or increasing attendance.

The GAO concluded (and I quote): “Only the Congress can make both the value judgments and the trade-offs required to resolve this situation.”

You have asked me to suggest to you how the Trustees of the Center would prefer to have this problem resolved. Before doing so, I would like to lay out some of the facts that need to be considered no matter what course is chosen.

I can personally attest that President Kennedy considered development of a National Cultural Center in Washington essential to the country's position of world leadership. He was closely involved in its plans and remained so until his untimely death.

Thus, in 1964, it was entirely appropriate that Congress decided to covert the proposed National Cultural Center into the only memorial to President Kennedy in Washington. What had been conceived as a purely privately-funded center became eligible for Federal money. It is important to bear this in mind, because statements continue to be made in Congress that the Center's sponsors promised that no Federal dollars would be needed to construct the building. That was indeed the original intention, prior to the conversion of the Center into what Congress called a “living memorial” to the late President. In retrospect, the remarkable part about the 1964 Act was that a presidential memorial was required to solicit private funds to match Federal construction appropriations.

However remarkable that requirement was, the Trustees vigorously set about fulfilling it.

Congress appropriated \$15.5 million in 1964 in matching funds and authorized the Trustees to issue 50-year Revenue Bonds for an additional \$15.4 million. Still, the Center could not be finished with the funds available. Rapidly escalating inflation, and mis-estimates by the construction manager—the General Services Administration—drove costs up sharply. (It might be noted in passing, however, that the Kennedy Center was built for 65 percent of the cost of the Lincoln Center in straight dollar terms, and 40 percent if an allowance is made for inflation.)

In 1969, Congress increased the matching appropriation to \$23 million and the Revenue Bond authorization to \$20.4 million. (Later, Congress appropriated an additional \$3.9 million for construction claims against the Government.) To date, the Trustees have raised more than \$34 million from sources other than the U.S. Government for the construction of the building—far more than the required matching.

Congress continued to require the payment of compound interest on the \$20.4 million in Revenue Bonds. Let me note that at the time the original compound interest requirement was imposed, there was no National Endowment for the Arts. When the Bond authorization was increased to \$20.4 million, the Endowment was receiving Federal appropriations in the amount of \$7.7 million—a sharp contrast to its current appropriation of \$150 million.

I think this historical context is important to understand. In 1969, Congress was, to put it mildly, still very wary about appropriating for the arts. The idea of using Federal funds to help build a National Cultural Center in the capital made many Members nervous. Its conversion into a memorial to President Kennedy was probably the only way by which that could have been accomplished. And, even that conversion was conditioned on two factors: first, that Federal appropriations would be matched by private contributions; second, that compound interest would accrue on the bonds. There would be no Federal funds for subsidizing the performing arts themselves in the Center. Except for such support as the Center receives when the National Endowment helps to fund ballet companies when they perform at the Center, that has continued to be the case, even as the National Endowment's annual appropriation has risen to \$150 million. Unlike most other cultural centers in the country, the Center receives no program funds from any state or municipal arts agencies.

Several other important facts are these:

In Section 4 of the Federal statute that created the Center, the Trustees are instructed to do the following:

Present classical and contemporary music, opera, drama, dance, and poetry from this and other countries;

Present lectures and other programs;

Develop programs for children and youth and the elderly (and for other age groups as well) in such arts designed specifically for their participation, education, and recreation;

Provide facilities for other civic activities at The John F. Kennedy Center for the Performing Arts.

These are what we call the "Section 4" responsibilities of the Board, wide-ranging responsibilities imposed and set forth by Congress in our charter—but not funded.

As everyone knows, many of these presentations do not pay their own way. They must be subsidized by somebody. Classical and contemporary music and opera are particularly costly. Programs that educate children and youth, and provide for broad public participation require substantial underwriting. The half priced ticket program obviously results in a substantial revenue loss. Kennedy Center does receive limited help, through the Alliance for Arts Education, in mounting programs for youth at the Center. But even here, much of the funding is from private donors. For the most part, Congress in Section 4 gave us a mandate to fill a building with all the performing arts, and to serve the great social purpose of enlightening and giving pleasure to all citizens through those arts, but did not provide the wherewithal to carry out that mandate.

Other nations do, of course. Let me give a few brief examples. Our director of performing arts, Martin Feinstein, recently returned from a trip to Europe. Here are a few items from his report:

Zurich, Switzerland, with a population of 420,000, maintains an opera house in which they manage to put on ten new opera, musical and ballet productions each year. They receive an annual state subsidy of \$12 million for this purpose;

Stuttgart, Germany, with a population of 700,000 has a famous ballet company, an opera company, and a theater. To keep these in operation and mount new productions requires an annual subsidy of \$20 million—\$10 million from the state, \$10 million from the city;

The total subsidy for German opera houses, provided by both cities and states, comes to almost \$800 million a year.

Budapest keeps two opera houses going nightly with opera and ballet. In Vienna, the opera house receives a state subsidy of \$30 million. The Paris Opera receives about \$27 million.

A number of great opera companies from Europe—La Scala, Berlin, Paris, and Vienna—have come, or will be coming, to the Kennedy Center. The combined subsidies that Italy, Germany, France and Austria have provided or will provide to make these visits possible total \$7 million. There has been and will be no corresponding U.S. government subsidy at all.

I cite these examples for comparative purposes. The American taxpayer helped build the national cultural center, but unlike the taxpayers of Europe, contributes virtually nothing to the production costs of the artistic events that take place there. The United States Congress appropriated funds to help construct the building, and annually pays three-quarters of its maintenance cost. But though Congress by statute requires the Center to conduct artistic and public service programs that inevitably cost more than they earn, it provides no funds to meet this requirement.

Let me turn to the maintenance cost issue. Almost from the time the building opened in September, 1971, there was an unexpected tide of tourists who came, not to attend performing arts activities, but simply to see this national memorial to a slain President. Maintenance costs were much higher than anticipated. Because of a Federal policy affecting national memorials, the Center could not charge admission for tours. According to the National Parks Service, 5 million persons were visiting the Center annually until the current repair project reduced that flow to about 4 million last year. (Of these visitors, about 1.6 million attend paid performances.)

We could not meet the maintenance costs occasioned by such massive tourist use of the Center, and still carry out our mandated responsibilities. So we appealed for help. Congress responded by authorizing the National Park Service to provide—as it does for other presidential memorials—maintenance, security, and utility services for the building. But it limited the Park Service's share of maintenance and utility costs to the non-performing arts aspect of the Center. The Center retained an accounting firm to determine what that share should be. The formula produced a call for the Center to pay 23.8 percent of maintenance and utility costs, as attributable to the performing arts' use of the building. We have been paying that share since 1972.

GAO has questioned whether that is an accurate formula today. In its December, 1977 report, it found that theater use was higher than anticipated by the formula; that public service and educational activities, such as free organ recitals and symposia, had been significantly expanded; and so on. GAO thought the formula should be

adjusted to call for the Center's paying something like 37% of the maintenance costs.

The first point to be made about this is that the very things that have occasioned more use of the building by the Center, as distinct from use purely by tourists, are those activities mandated by the statute. Both the production of performing arts, and public service programming such as performances for children, organ recitals and symposia, are exactly what is called for in the law. So, if we follow the GAO's reasoning, the more the Center does what it is required to do, the more it would be required to pay in maintenance costs.

The second point to be made about the GAO analysis is this. The Kennedy Center was called a "living memorial" to the late President, in the preamble to its authorizing legislation. That distinguishes it from the Washington, Lincoln, Jefferson, and other presidential memorials. It was meant to be more than a building. It is a platform for the cultural enrichment of our people. What goes on in the Center—from the production of plays for children, to the presentation of music and dance, to seminars conducted by artists—is as important to memorializing and celebrating the life of President Kennedy, as is the building itself. These things are endowed with a public purpose. They are meant to be broadly shared.

The Center has become an important showcase for the performing arts in America and has added much to the cultural life of Washington. It is conducting a wide range of public service activities; in Fiscal 1978, it allocated \$2 million for such programs. For example:

Since it opened in 1971, the Center has maintained a Specially Priced Ticket Program through which up to 15 percent of the tickets to regular performances, except on Saturday evenings, are made available, at half price, to students, the handicapped, persons over 65, low-income groups and enlisted military personnel. In Fiscal 1978, about 130,000 tickets were sold through this program, resulting in a total price reduction of \$770,000.

In 1977, more than 400,000 people attended nearly 600 free events at the Center, including special performances, symposia, lectures and exhibitions. These numbers were reduced by repair work last year, but are expected to be at a similar level next year.

The Center and HEW cooperate in an Alliance for Arts Education program, which supports exemplary arts education programs in the States, and produces a model children's program at the Center. In fiscal year 1978, 105,000 children attended free performances of music, theater, dance, poetry and puppetry put on by groups from around the country. Fiscal 1979, spending provides for fall and spring series of performances for young people, an annual National Children's Arts Festival and outreach Festivals in Chicago and Seattle. The budget is \$401,583—of which \$200,000 is from the Kennedy Center Corporate Fund, and \$88,000 from other private sources.

The Center and the Alliance sponsor an annual American College Theatre Festival. Last year more than 400 colleges and universities took part in 13 preliminary regional festivals. The Fiscal 79 budget totals \$433,750 of which \$247,750 is raised from corporations and other private sources.

The Friends of the Kennedy Center—with 8,500 members—present free weekly symposia at the Center; artists like Marcel Marceau, Isaac Stern, Mary Martin and Marcia Haydee have taken part. Nearly 300 active volunteer Friends serve as tour guides and run an information center. Their contributions to the Center totalled more than 64,000 hours last year alone. Proceeds from their membership dues and sale of souvenirs go to finance more public service and educational programs.

A national advisory commission has been working to expand black and other minority participation in the performing arts at the Center and across the country—both in terms of artists and audiences. More than \$500,000 in private funds has been expended or committed for a score of projects recommended by the Commission in the three years since it began.

The Center sponsors special festivals of music—renaissance, baroque, Haydn, etc.—which cost far more than they bring in, but which are necessary in a National Cultural Center.

The Center recently opened a new 500-seat Terrace Theater, the \$3 million gift of the people of Japan. Along with a new Performing Arts Library, also built and furnished with private funds, this multi-purpose theater is expected to greatly facilitate the Center's efforts in public service, education and development of new talent and works.

We do all these things because a national memorial should be available to, and used by, as broad a range of citizens as possible.

So the idea of parceling out shares of maintenance costs between "performing arts" and "non-performing arts" functions runs counter to the true nature of this unique Presidential memorial.

Where do we get funds for carrying on the Center's numerous activities—the music, opera, and ballet that chronically run deficits, the dramatic shows that often do so as well, the public service and educational programming, the half-priced ticket sales? Our sources are several:

Corporate giving. We have the active support of many of the largest corporations in America, who underwrite our public service programs through contributions to the "Corporate Fund". We raised more than \$1.2 million in the last fiscal year from corporate givers, and we expect to raise \$1.5 million this year. Altogether, donors from the private sector and foreign governments have given the Center more than \$34 million for construction, and approximately \$8.7 million additional to carry out "Section 4" responsibilities;

Foundation, personal, and corporate gifts to underwrite specific public service projects, shows, and festivals, such as those featuring the complete works of a great composer.

There are also of course, box office earnings, and to a limited extent, investments in successful shows. In 1972, a group of public spirited individuals organized Kennedy Center Productions, Inc. to assist Kennedy Center by providing a source of private financing for programming. It operates totally on a non-profit basis. It pays no salaries whatever and no fees except for periodic audit services. KCPT's net profits and revenues are committed by its charter to Kennedy Center. Its basic financing has been provided by a revolving bank loan, guaranteed by its founders without any obligation on the part of Kennedy Center. It has been responsible in whole or in part for providing the financing of many of the major productions at Kennedy Center.

Let me now cover one or two other matters involving the Federal government and the Center.

Three years ago, the Center developed leaks in many horizontal areas—roof, terraces, and entrance drive. Immediate action was required to prevent water from spreading and damaging large areas of the Center, including the houses themselves. Such action was not forthcoming. The Park Service insisted that their present statutory responsibilities were only for "maintenance", and the leaks called for "major repairs" of design and construction defects. We had to seek legislation to resolve the matter. It became ensnared in a dispute between the two Houses. Month after month passed, the water damage grew. At last the Secretary of Interior was authorized funds to repair the leaks. The ultimate cost to the taxpayer will be substantially higher than it would have been if the repair work had been started as soon as the leaks were discovered. Clearly any future legislation affecting the center must provide permanent Park Service authority and responsibility for repairing the building, inside and out, as well as for replacing fixtures and furnishing worn by the use of 5 million people each year.

Finally, the administration of the Center. Basically, this is the responsibility of the Trustees. As Chairman of the Trustees and Director of the Center, I have purposefully kept the size of the staff very small. It is a hard-working group. It handles everything from overseeing massive and complex backstage facilities to selecting and mounting productions, from the box office to contracts, from education programs to minority participation, from the American College Theatre Festival to working relationships with the National Park Service. It includes a remarkable volunteer group, the Friends of the Kennedy Center. The Friends provides tourguide service for the thousands of visitors who come each day, and they operate the souvenir shops in the Halls. Replacing the Friends with paid employees, private or government, would cost the Center or the Government more than \$250,000 annually.

The Park Service is responsible for seeing that the Center is cleaned and secured. By and large the cooperation between the center and the Park Service is good now. Jack Fish has been very cooperative.

The Center is fortunate in carrying out the administrative responsibilities of its charter to have the advice and experience of three Senators and three Congressman, who, along with nine key government officials, are—by statute—voting members of its Board of Trustees. (The remaining 30 members are private citizens and appointed by the President.) Such substantial government representation, seems to me, to emphasize that the Center is very much a Federal institution. Thus, the Board's unique composition provides both the government supervision a national institution should have and the private oversight that, along with various protections written into the Act, give us the artistic freedom that a cultural center should have. That private involvement has also been invaluable in helping us raise private funds.

Mr. Chairman, you have asked me for suggestions for legislation that would address the various financial problems of the Center.

Let me emphasize this first: despite all its various difficulties which the Congress has been called upon to help us resolve, the Kennedy Center is the pre-eminent success among American cultural centers. Doubts were expressed, before it was built, whether enough people would come to keep it from being a "white elephant". What has happened is, that its theaters are filled or nearly filled virtually every night (indeed, the GAO report specifically found that increasing our audiences in order to increase our revenues was not a realistic goal); an average of more than ten thousand tourists and patrons visit the Center every day, according to the Park Service; hundreds of free events are put on every year; the Center's outreach encompasses schools, colleges, and performing arts organizations throughout the country; and with the government's help in providing maintenance and security and with private contributions helping us with out public service programming, we are presently operating in the black. So you are not faced, as representatives of the people, with the prospect of bailing out a sinking organization.

Nevertheless, there are some aspects of our financial relationship with the Federal government that ought to be improved, consistent with the facts and principles I have described this morning.

First is the bond issue. Almost certainly there is no way that the Trustees can meet their Section 4 responsibilities, pay for an ever-increasing share of the building's maintenance costs, and find the money to pay interest on the bonds. It is futile to expect private donors to help satisfy what is essentially an intra-government debt. What precedent is there? No other government entity has been asked to repay compound interest on a Federal debt with private funds. Given the historical context in which that interest requirement was imposed—a time when there was no National Endowment for the Arts or any real Federal commitment to encourage them—it seems sensible and just to relieve the Center of it in 1979. Payment of interest was deferred by the terms of the bonds until December 31, 1978, when it then amounted to \$14.6 million. The Secretary of the Treasury has just deferred, pursuant to the Act, the additional \$2.1 million in compound interest which will accrue during 1979. So, at present, the annual interest payment need not be made until December 31, 1980.

The Board would prefer to have the interest—past and future—permanently waived. That is the clean way to do it, and compared to the notion of looking to the national cultural center to produce \$2 million a year for the Treasury, it appeals to reason. Remember that every dollar that would be set aside to pay interest would be one dollar less that would be available to carry out our Section 4 responsibilities—in other words, to serve the fundamental purposes of the Center. Remember also that while the Center was originally meant to be funded on a 50-50 basis by government appropriations and by private contributions, the Trustees in fact substantially exceeded that matching requirement.

Obviously, the most glaring inequity, or peculiarity, of the current law is the requirement to pay compound interest. At the very least, that requirement ought to be immediately repealed. If that were presently done, the Center would still owe \$20.4 million in principal, plus approximately \$15.1 million in accrued deferred interest, plus annual future simple interest of about \$1.2 million.

Bear in mind that when the Center raises private funds to meet its Section 4 obligations, it is in effect substituting those funds for what the government might otherwise have to appropriate. I am not suggesting that the government has an obligation to make such an appropriation. I am simply pointing out that when Congress instructs a Federally-chartered board to perform certain functions in a national institution owned by the government, it ordinarily appropriates funds to carry out these functions. If it does not do so, it ought at least to take proper account of the funds that board raises to discharge those responsibilities.

To sum up our effort to attract voluntary contributions:

To date, the Kennedy Center board has raised more than \$34 million from private sources to construct the building. That is \$7 million more than was required to match the \$23 million Federal appropriation for construction and the supplemental construction claims appropriation of \$3.9 million. Since that time, the Center has raised about \$8.7 million in additional private funds to underwrite the cost of its Section 4 responsibilities. Thus, the total private funds raised to date by the Trustees over the federal construction funds appropriated are nearly \$16 million. Since that sum exceeds the Center's present compound interest obligations of approximately \$15.1 million, I would respectfully propose, Mr. Chairman, that this obligation be cancelled.

I would also propose that in the future, sums raised by the Board for Section 4 purposes be credited against the annual simple interest owing on the bonds, and

that any excess be credited against the principal itself. For example: if the Board is able to raise \$2 million to carry out programs required by the Act, and if interest amounted to \$1.2 million, both that interest and \$800,000 in repayment of Federal debt principal would be deemed to be satisfied.

Finally, as to the Center's responsibility to contribute to the maintenance of the building. It is arguable, as I have said, that the government—which, after all, owns the building—should be responsible for maintaining the entirety of this living presidential memorial. It is more than arguable, indeed critical, that the government be responsible for repair and replacement costs of the building. With more than 3 million tourist and 1.6 million audience members using the building each year, the wear and tear on fixtures, carpets, and furnishings is beyond the ability of the Board to provide for.

But the Board is prepared to continue contributing a share of the ordinary maintenance costs. Last year legislation was introduced that would have limited the Board's share to behind-the-curtain costs. In other words, the Park Service would be responsible for maintaining the theaters themselves up to the curtain. Maintenance from that point on, and all costs of producing the shows and equipping complex backstage facilities, would of course be the Board's responsibility.

The main reason for advancing that proposal was that the Board's share, even under the 23.8% formula that GAO found to be insufficient, is growing at a rapid rate. For Fiscal 1979, the Center's share is expected to be about \$650,000. Just recently, the Park Service announced that the Board's share of maintenance and utility costs will rise nearly to \$800,000 in Fiscal 1980, an increase of nearly 30 percent in two years. As I said earlier, every dollar we pay for maintenance is a dollar we cannot spend to meet our Section 4 responsibilities. There will soon come a time, given inflation and the heavy use of the building, when our share will impose an undue burden on our ability to achieve our principal purpose.

A percentage formula fails to protect us from that. It would perhaps be simpler to put a fixed dollar limit on the Board's share—possibly \$600,000. I would frankly be glad to pay such an amount if only to insure that we have a strong voice in determining maintenance policies at the Center. If we paid nothing, I am concerned that we would lose what voice we have, and that would almost certainly interfere with our conduct of operations.

Summing up, Mr. Chairman, I would recommend legislation to accomplish the following results:

Credit past funds raised from non-U.S. government sources for both construction and meeting Section 4 responsibilities against the accrued interest owing on the bonds;

Repeal the compound interest requirement;

Credit private donations raised each year to meet Section 4 responsibilities against simple interest owing each year, with any excess credited against the principal;

Expand the current Park Service responsibility for maintenance, security, and so forth to include repair and replacement; and extend the Park Service's jurisdiction for maintenance within the theaters up to the curtain line.

Establish a fixed dollar ceiling on the Board's share of ordinary maintenance costs.

Mr. LEVITAS. I can tell you that I have read your statement, and it is an excellent statement. It is one of the most comprehensive and detailed discussions of the John F. Kennedy Center for the Performing Arts that I have seen, and I commend you on it.

I commend it to my colleagues on this committee, because I think the John F. Kennedy Center for the Performing Arts role is widely misunderstood, not only by the Congress but by the press, as well. And your statement is an excellent detailed exposition of the John F. Kennedy Center for the Performing Arts, and it will be made a part of the record, and we will have, I am sure, a number of questions.

But you may proceed at your own fashion, in your own way, to detail and discuss any aspects. And, before doing so, if you would identify for the record the persons accompanying you.

Mr. STEVENS. I am sitting here with Mr. Harry McPherson, the Counsel for the Center, and Tom Kendrick, who is Director of Operations.

Mr. Chairman, as you say, the difficulty has been understanding the purposes of the Center. And I think it all goes back to the fact that it is easy enough to blame inflation for everything, but inflation is there, has been real, and of course, the original estimates of the cost of the building over a 10-year period were greatly exceeded.

But as I have frequently pointed out, in spite of inflation, our building cost, both on a square foot or a cubic foot basis, actually, two-thirds of Lincoln Center, which presumably had the best management and the best brains of any group in the country building it, and, if you adjust it to inflation, only 40 percent. So even though it has gone up, it is the story of the times, and it brought obstacles that we could not foresee.

For example, when the bond issue first came up, interest rates generally were at 3 percent at that time, and it did not seem to be an important problem. And then, of course, as we all know, interest rates, which had been stable for a long time, skyrocketed, and it ended up with us having a compound interest on the money after we had taken it down, which was ranging from 1969 to 1970, in there.

Mr. LEVITAS. Just so I can clarify at this point, we are talking about the approximately \$20 million in bonds that were issued by the John F. Kennedy Center for the Performing Arts to the U.S. Treasury Department.

Mr. STEVENS. Right.

Mr. LEVITAS. And I take it from your testimony that the interest rate was variable, it fluctuated; that it was not a fixed interest rate at 3 percent, but it could rise as the Treasury rate would; is that correct?

Mr. STEVENS. Right, sir. And as a matter of fact, it may have been a lack of imagination on our parts, but the rate had been stable for years, and I never dreamed that we would be talking, as we are today, 10 percent; I do not think anybody in this room would think that the Government could possibly be paying 10 percent on money, but that is the changes.

The reason I bring this up is that many factors have changed in the nearly 16 years since this bill was passed.

Mr. LEVITAS. And it is also correct, and I think it is important for the committee to be aware, that not only has the interest rate gone up in ways which were unexpected at the time the original notes were issued, but that beginning in 1972, instead of accumulating as simple interest, it began to compound—

Mr. STEVENS. Correct, sir

Mr. LEVITAS [continuing]. So we now have approximately—what is the figure, as you understand it now—

Mr. STEVENS. It is approximately \$16 million.

Mr. LEVITAS. It is \$16 million of interest, and it is continuing to compound.

Mr. KENDRICK. \$15.2 million.

Mr. STEVENS. Including its compound.

Now, I do think it is a remarkable fact that this Center has been supported to an extent of thousands and thousands of different groups and organizations contributing to its work. I do not know of any other Government buildings, except for the generosity of the

Mellon family who have given outright the money to build the two museums which have been so helpful to the city of Washington—I do not know of any Government building that \$35 million has been raised to help its completion, which we feel is a very important factor.

But the nagging problem of interest never has allowed to solve the problem of section 4 of the act, which calls for us to—

* * * present classical and contemporary music, opera, drama, dance, and poetry, from this and other countries, present lectures and other programs, develop programs for children and youth and the elderly, and for other age groups as well, in such arts designed specifically for their participation, education and recreation, and provide facilities for other civic activities at the Center.

As to that point, my testimony covers our reasons for our recommendations. The act never did provide an authorization for money to do that, but the act commands us to do it to carry out our duties. In that part of the act, we feel, as I have stated in my testimony, that we have done a very good job.

The fact of facing the interest obligations, we have not done as good a job, as we all know, or we would not be meeting.

Mr. LEVITAS. If I could interject at this point again, to put the matter in context, what you are saying is that Congress in its legislative mandate created the John F. Kennedy Center for the Performing Arts, imposed certain obligations on the Center to provide certain kinds of services to the public—

Mr. STEVENS. That is right, sir.

Mr. LEVITAS [continuing]. Quite apart from putting on a program of theater and music and dance, for which tickets are sold, and these are public service programs for the young and the aged and the handicapped and the like; and that this is a requirement imposed on the John F. Kennedy Center for the Performing Arts, but the funding of these services and programs was not covered by authorizations or appropriations from the Congress. Is that correct?

Mr. STEVENS. That is right, sir. And while also, the bill calls for us to pay interest, we feel the service that we have rendered more than compensates for the interest, and that is the point that I have gone into, in rather a detailed fashion, in my testimony.

I would also like to point out one thing which I find practically universal support for, and the fact is that the Kennedy Center has changed Washington. If I have been told that once, I have been told that 10,000 times. And the people that are most emphatic about the change are Ambassadors who on their way up to being Ambassador to the United States, have spent time in Washington in the fifties and sixties, and every time I meet an Ambassador that has been here before when there was not the Kennedy Center, the first thing they say is how much it has changed Washington. I think that is pretty well admitted by most everyone, and I think the Government has benefited a great deal by our efforts of raising \$35 million to help build the building and to raise an additional \$8 million, as we have for public service. This has been recognized by the fact that some of the most important and largest corporations in the country feel that we are doing a good job, and it is valuable to the United States. I can just cite a few of them, such as General Motors, General Electric, IBM, Xerox—I mean, literally, you name it, and they have been supporting us. I do not think that they

would have supported this public service program if they did not think it was of value.

But as I have said many times, I do not know where I could go to raise money to pay interest on intergovernmental debt, and that is the dilemma we are faced with. But we feel we should get credit for what we have done and that we have to leave it to the wisdom of Congress to decide, as GAO has requested, whether this credit is worthy and whether we have done the right thing. So we leave it to the committee, sir.

Mr. LEVITAS. Well, the buck stops here, so we might as well deal with it. It has been an issue that has been hanging around since I came to Congress, and I gather it has been there before.

Mr. STEVENS. Yes, sir. If I might interrupt a second, that is very true. It is not as though we have just put our heads in the sand. As far back as 6 or 7 years ago, when the problem started to arise, I talked to members of the committee to try to get a bill to straighten that problem out. It is not, as I say, that we have neglected it.

Mr. LEVITAS. I am going to place in the record at this point a letter from you to me, dated March 27, 1979, responding to two questions which I think are fundamental that I asked you in connection with the Kennedy Center's current financial condition.

My first question was why the Kennedy Center has been supported by substantial Federal appropriations for construction, operation, and maintenance, in view of earlier representations that no Federal funds would be used for construction or operation of the building.

That is an allegation we hear repeatedly; whether we are trying to fix a roof that is leaking or whatever we do, your letter addresses that.

I also asked why the original planning for Kennedy Center's payback of the outstanding Treasury revenue bonds with interest is not now considered feasible. You have addressed that partially today, and in your testimony, and in this letter.

I am making this letter a part of the record without objection and will ask that copies of it be made available to each member of the subcommittee.

[The following was received for the record:]

JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS,
Washington, D.C., March 27, 1979.

Mr. ROGER L. STEVENS,
Chairman, John F. Kennedy Center for the Performing Arts
Washington, D.C.

Hon. ELLIOTT H. LEVITAS,
Chairman, Subcommittee on Public Buildings and Grounds, Committee on Public
Works and Transportation, House of Representatives, Washington, D.C.

DEAR CHAIRMAN LEVITAS: This letter is in response to two questions which you have raised in connection with the Kennedy Center's current financial condition.

I

You have asked why Kennedy Center has been supported by substantial federal appropriations, both for construction and for operation and maintenance, in view of past representations that no federal funds would be used for construction or operation of the building.

As originally constituted in 1958, the John F. Kennedy Center, then the National Cultural Center, was intended to be a performing arts center constructed wholly with private funds, on lands provided by the federal government. When I was appointed in 1961 as Chairman by President Kennedy, fund raising efforts had

stalled. However, he was deeply committed to the project, and during the next two years, with his guidance, we increased our total funds raised to approximately \$12 million from the private sector.

Because of President Kennedy's commitment to the arts, Congress, with virtually unanimous bipartisan support, enacted the John F. Kennedy Center Act, Public Law 88-260, which renamed and established the National Cultural Center as a living memorial in 1964. The original concept of an institution funded wholly with private donations was altered. Federal matching appropriations were provided as well as authority to borrow from the Treasury to fund construction of the Center's parking garage and substructure. A review of the legislative history of the 1964 Act, and of the appropriations bill which followed, confirms that Kennedy Center did not anticipate federal support for operation and maintenance of the building at that time. (See, e.g., Hearings, Joint Session of House and Senate Committees on Public Works, 88th Cong. 1st Sess. 62-63, 74-75, 100 (1963); Hearings, House Subcomm. on Appropriations, 88th Cong., 2d Sess. 1452 (1964); Hearings, Senate Subcomm. of Comm. on Appropriations, 88th Cong., 1st Sess. (1964); Senate Report No. 784, 88th Cong., 1st Sess. 3 (1963).)

As the Subcommittee was advised in 1971, the expectation that no federal funds would be required for operation and maintenance was based on several factors. It was anticipated that income could be obtained from charges for tours and visitation by the public to the building. In view of the present visitation to the building, the expectation in 1963 and 1964 that \$1,500,000.00 could be made available from admission charges for operation and maintenance purposes was not unreasonable. Of course, it was subsequently determined to be inappropriate to charge the public for visitation to this presidential memorial—comparable in purpose to other presidential memorials in the Washington area.

The expectation of the Center in 1963 and 1964 that no federal funds would be required for operation and maintenance of the building also may be attributed to a lack of understanding that there would be substantial increased costs incurred in the operation of the building because of the non-performing arts activities added by the memorial legislation. It is undeniable that if the building were operated only as a theater, the substantial costs for utilities and other purposes could be substantially curtailed.

In addition, economic conditions have changed dramatically since the 1964 memorial legislation. Building operating expenses are far greater than were anticipated. For example, the costs of wages and security, not only for this public building but for all others in the metropolitan Washington area, have risen considerably.

Finally, the public service functions of the memorial have been far more extensive than anyone anticipated when this unique, living memorial to a deceased President was established. The Kennedy Center has all of the traditional attributes of a national monument; the bricks and mortar, the bust exhibited in the Grand Foyer, the quotations of John F. Kennedy inscribed in marble, and the foreign gifts in honor of President Kennedy's memory. Unlike other monuments, however, Kennedy Center has undertaken an extensive array of public service and educational programs, as well as the performing arts attractions presented in the building's four theaters. These programs are, in large part, underwritten by the generous support of numerous corporations, foundations, and individuals from throughout the country. (An explanatory summary of these activities is enclosed with this letter.) Indirectly, the public service and educational activities, which are part of the mandate given the Board of Trustees of the Kennedy Center under Section 4 of the John F. Kennedy Center Act, result in additional costs in the operation and maintenance of the building.

That these changed conditions might require some federal support for operation and maintenance of the Kennedy Center was first recognized in the legislative history of the Kennedy Center during the hearings preceding the enactment of Pub. L. 91-90 in 1969. During these hearings, and those related to the appropriation bill which followed, Kennedy Center often stated that no federal funds would be necessary for operation of the Kennedy Center after it was completed, except for public service activities. See Hearings, Senate Comm. on Appropriations, 91st Cong., 1st Sess. 76-77 (1969). Any commitment made in 1969 not to seek additional federal funds, we believe, was in the context of not seeking additional matching federal funds for construction, which was the subject matter of the pending legislation. Compare, House Report No. 91-309, 91st Cong., 1st Sess. 6 (1969) with, Hearing, House Subcomm. on Public Buildings and Grounds, Comm. on Public Works, 91st Cong., 1st Sess. 46-47 (1969). See also, 115 Cong. Record 28626, 28645 (1969) (Senator Percy's commitment not to support additional federal appropriations after 1969 related to construction only). But, even this is not the case, the fact remains that

given current costs and the demand on the Center's facilities, the building cannot be operated without federal support.

II

You also have asked why the original planning for Kennedy Center's payback of the outstanding Treasury Revenue Bonds (now \$20.4 million) with interest is not now considered feasible.

The John F. Kennedy Center Act in 1964 provided for the issuance of Treasury Revenue Bonds, to cover the costs of construction of a parking facility and the substructure of the Center building. Relying upon a feasibility study made by the architect, consulting engineers, mechanical engineers, and Meyers Bros. Parking System & Parking Plan, Inc., Kennedy Center in 1963 estimated that receipts from the parking facility would yield sufficient funds to retire the revenue bonds and pay interest at three percent over the term of the 50-year bonds after an initial period if deferred.

After 1963 many unforeseen events affected our initial projections. Interest rates climbed to levels which had not been experienced in our lifetime. Because of inadequate staffing, GSA delayed approval of plans for construction, which postponed the beginning of construction for about one year. Construction delays and design problems added to the cost of construction as well. As a result, interest costs increased and the deferred period through June 20, 1972, was shortened, thereby leaving Kennedy Center with a start-up period which was three years shorter than originally anticipated.

Because of accelerating costs of construction, Kennedy Center in 1969 entered into an agreement with APCOA for operation of the parking garage, pursuant to which APCOA advanced \$3.5 million which could be used for construction of the building and which was to be paid out of net parking revenues. Thereafter, faced with an imminent contractor threat to cease construction which would have cost an estimated \$10 million and at the behest of the administration, Kennedy Center drew down the \$3.5 million advance from APCOA in order to permit the building to be substantially completed in 1971. Even though the obligation to repay the \$3.5 million advance existed at the time, Kennedy Center in 1971 expected that it would be able to repay the advance and also to make interest and, ultimately, principal payments as required under the Treasury Revenue Bonds, commencing in 1979.

In a report dated August 8, 1972, Finances and Operations of the John F. Kennedy Center for the Performing Arts, B-154459, the Comptroller General stated that Kennedy Center would require an annual revenue of \$1,564,000.00 from the parking operation per year, assuming a 6¼ percent interest rate, in order to cover its annual interest payment obligation commencing December 31, 1979. The report concluded that the parking operation would not generate the required gross receipts to pay interest during the 15 years of the APCOA Concession Agreement. The report also concluded that it might be possible that Kennedy Center could make annual interest payments to the Treasury after the initial 15 year term of the APCOA agreement.

Subsequently, in 1977, the Comptroller General determined that Kennedy Center cannot reasonably be expected to make its annual interest payments at any time and will probably not have sufficient funds to repay the principal outstanding balance on the Treasury Revenue Bonds when they become due during the years 2017 through 2019. This change in circumstances results from several factors.

The General Accounting Office Report dated December 20, 1977, concludes that Kennedy Center operations are efficiently and effectively managed and that no significant cost savings can be obtained, given the current activities undertaken. Therefore, Kennedy Center cannot make any payment on outstanding Treasury Revenue Bonds without severely and adversely affecting the conduct of its public service activities. Section 4 of the John F. Kennedy Center Act mandates that the Board of Trustees conduct these activities, for which Congress has not provided funding. The Trustees have raised significant funds, roughly \$1 million per year during the past eight years for these activities, but it is unlikely that Kennedy Center can raise funds from private sources to pay the outstanding interest and principal obligations under the Treasury Revenue Bonds. While the Trustees have been successful in raising significant funding for performing arts and public service activities to an extent not equaled at other performing arts institutions in the country, it is not possible to raise funds to repay a government debt for construction of a national memorial, especially one that involves more than \$15 million of Federal compound interest.

When the Treasury Revenue Bond obligation was conceived in 1963 and 1964 prevailing interest rates were at approximately 3 percent. When the Treasury Revenue Bonds were issued in 1967 through 1969, the bond rates were established at

a range between five and one-eighth to six and five-eighths percent. Thus, the interest obligation is far greater than was anticipated.

The Treasury Revenue Bonds provide for compounding of interest—that is, interest at current high rates on interest already accrued but deferred. With the substantially higher interest rates on the principal amount of the Revenue Bonds than was originally anticipated, the effect of compound interest has a devastating, geometric effect on the Center's repayment and interest obligations. While it is anomalous that a national memorial should be required to generate a return to cover a portion of the cost of its construction, the anomaly is made worse by the obligations to generate revenues to cover not only interest on principal but also interest on interest.

III

Your questions appropriately highlight the changes in conditions that Kennedy Center has faced since it first was conceived. The trustees have struggled over the years with these changed conditions while developing a viable institution. While we have succeeded, in large measure, in accomplishing the Congressional mandate, we do need the assistance of Congress to resolve the two problems to which your questions are addressed. We earnestly believe that this living memorial is a testament to the foresight of the Congress in creating and supporting the Center and to the diligence of the Congressional and other trustees and officials who have worked on the project. The problems of the revenue bond obligations and operating costs are matters which we are committed to resolve with the guidance of Congress. The solutions should realistically account for our best estimation of what Kennedy Center can sustain today, rather than depend on our best estimation of years past.

Sincerely yours,

ROGER L. STEVENS.

Mr. LEVITAS. I would like to ask some questions at this point.

What is the total, at the present time, amount of principal outstanding on the Treasury revenue bonds?

Mr. STEVENS. \$20,400,000.

Mr. LEVITAS. And the interest compounded to date, or to December 31, I believe you testified, is approximately \$16 million?

Mr. STEVENS. \$15.2 million, to date.

Mr. LEVITAS. Why did the Center enter into an agreement in 1969 with the Airport Parking Co. of America for the operation of the parking garage, pursuant to which the parking company advanced \$3.5 million to the Kennedy Center?

Mr. STEVENS. Well, the answer to that is that at that time, we were having a great deal of trouble with the subcontractors. For some reason or other, the contract was signed, calling for completion in 18 months. Actually, as I understand it, it is a routine GSA clause that calls for 30 months to complete those, which of course, in a single-purpose building, it would have been rather impractical to complete it.

But we had paid GSA \$1.4 million to advise us and supervise the construction of the property, so we followed the advice of the people that we were paying to give us advice.

And at that time, the plumbing and heating contractor and the electrical contractor walked off the job and said that they could not finish their contracts.

Legally, I think we were in a position where we could have had a nice lawsuit with them and maybe won it in 10 years. Meanwhile, the building would have stood idle and deteriorated, because it was only two-thirds finished at the time. And it seemed to be the opinion—and I checked at that time with members of the administration—that somehow or other, we had to raise the money that was necessary to put them back to work.

We could not get any other contractors to take on the job, anywhere near the prices we had had. If we had taken the time to go to the Congress and try to get an adjustment of the price, we would have run into great expenditures that would have practically killed the project.

So, since we found a parking group that was willing to advance a substantial sum of money which would be against future income, we decided that was the way out of our dilemma of having the money necessary to put the contractors back to work.

And of course, in retrospect, where in those days, I was hearing, both from the papers and all kinds of people in town, that this was going to be a great white elephant, these people made what I call a very shrewd speculation. It was out for bid; there were four or five people that bid on the garage concession, and this was of course the best bid, and enabled us to have the money to complete the building, and we finally opened it in 1971.

Mr. LEVITAS. What were the terms of the agreement between the Center and the parking company, as far as the repayment and sharing of revenues?

Mr. STEVENS. Well, \$3.5 million was to be amortized over 15 years, at \$233,000 per year, plus the interest, at prime rate, to be charged against the operations, and the balance divided between the Center and the people who made the advance—at that time, it was ITT, but now, APCOA is a separate entity and does not have anything to do with ITT.

Mr. LEVITAS. Is the Kennedy Center going to share in any of the revenues from the parking garage?

Mr. STEVENS. Yes, sir. We share now, and we receive half the cost above the payment of \$233,000 and interest on the balance at the prime rate.

Mr. LEVITAS. And how much income has the Kennedy Center received from the operation of the parking garage?

Mr. STEVENS. Mr. Kendrick has those figures.

Mr. KENDRICK. Through 1978, the total revenue was split equally between APCOA and Kennedy Center. The Kennedy Center share of that was \$1.7 million.

Mr. LEVITAS. And how much total have you received—

Mr. KENDRICK. That, by the way, sir, is \$1.7 million share. In addition, we have paid off \$1.6 million of the balance of the \$3.5 million, leaving \$1.9 to be repaid at this time. So that would be a total of roughly \$3.3 million.

Mr. LEVITAS. And that is the aggregate amount.

Mr. KENDRICK. The aggregate amount since the opening.

Mr. LEVITAS. Including the amount applied to the repayment of the \$3.5 million?

Mr. KENDRICK. Yes.

Mr. LEVITAS. How much income has the Kennedy Center received from other concession contracts, such as the restaurant?

Mr. STEVENS. Well, the only other concession contract of any importance is the restaurant. I should point out at this time that the revenues from both the garage and the restaurant are directly related to our success in keeping the building full, because the restaurant just closes down when there is not anything playing in the auditoriums. And it is a customary part of the trade that you

try to help balance your books by selling some food or some parking by keeping your theaters full—which we have managed to do, as GAO points out, very successfully.

Mr. HAGEDORN. Is there a liquor concession—does that go with the restaurant?

Mr. STEVENS. Yes, that is part of the restaurant concession.

Mr. HAGEDORN. How much revenue does that bring?

Mr. STEVENS. Well, lately, it has not brought very much, but we have gotten as much as \$300,000 in a year. We have got the exact figures.

Mr. KENDRICK. That is for the entire restaurant operation, including the liquor.

Mr. STEVENS. Including the liquor. The liquor, of course, as anybody who has had any experience in that game knows, is where most of the profit is. There is very little of it in handling food.

Mr. LEVITAS. Was it contemplated that the revenues from the garage contract would be used to make payments on the Treasury revenue bonds?

Mr. STEVENS. I think originally, it was, sir. Of course, the garage bonds, as they are called, covered a great deal of the superstructure. I mean, the money was not just used for the garage. A large portion of the money was used for the building itself and the actual cost of the garage proved to be considerably less.

Mr. LEVITAS. And I am correct in saying that there have been no repayments of interest or principal to the Treasury Department.

Mr. STEVENS. No repayments, sir. But we are not in default, sir. We have never—

Mr. LEVITAS. I am not suggesting that it is a default.

Mr. STEVENS. I know. I am just saying that we have not been in default yet.

Mr. LEVITAS. But I am just trying to make the point that there have not been any payments made.

Mr. STEVENS. Correct.

Mr. LEVITAS. I think it is important for this committee to know that if it had been contemplated that the revenues would be used to pay interest and principal, what was the revenue used for if it was not used for the payment of interest on bonds?

Mr. STEVENS. Well, it was used for our general revenues. And while our theater operation is one of the few in the country that more than breaks even—I mean, we have never quite allocated it that way, but the various public service items that we have been doing have used up considerable money, as far as the garage and restaurant concessions are concerned.

Mr. LEVITAS. I want to tie that back into the earlier question that I asked. Are you saying and is it your testimony that in order to fulfill the congressionally mandated obligation of performing these public services without appropriation from the Congress that the revenues which you have received from your concessionaires have been applied in part to defray those expenses?

Mr. STEVENS. Well, we have never done it from a bookkeeping point of view, but it enabled us to do those things, because our theaters have shown year after year that they themselves, after applying the overhead of the Center, have carried themselves.

Mr. LEVITAS. Are there other tenants in the Kennedy Center other than the concessionaires and the Kennedy Center for the Performing Arts?

Mr. STEVENS. Well, the American Film Institute is what you might call a tenant. It is sort of a wash; they pay some of the expenses of operating the theater down there.

The only other tenants are a couple of related, small things like the Opera Institute and something called CEMREL, which has one room, and the Opera Institute has a room. It is not at all of any importance.

Mr. LEVITAS. What about the National Symphony Orchestra?

Mr. STEVENS. Well, of course, they are a tenant, but we do not look at them as tenants: They occupy the building, and we charge them for occupancy. Strangely enough, the Concert Hall is the biggest hall but is the one hall that provides the least revenue to enable us to carry our cost of operation.

Mr. LEVITAS. Does the American Film Institute pay rent to the Kennedy Center or share in the operating costs to any extent?

Mr. STEVENS. Well, once more, the word, "rent"—you can call it rent if you want to, but it is sort of a misnomer. I mean, they pay occupancy charges, toward the cost of the building, just as we share with the Park Service and pay a substantial sum.

Mr. LEVITAS. According to the GAO report, the Park Service pays all of the utility, janitorial and maintenance costs associated with the 13 other occupants of the Kennedy Center. Is that a correct statement?

Mr. STEVENS. That is what they said. I think a lot depends on—in other words, the so-called tenants are all part of the general operation of the Center. I remember at one time, there was a great to-do because we did not have a movie theater planned. The movie people feel that they are a performing art, just as well as anybody else, and of course, the trustees, years before the building was finished, decided that we would have the Film Institute, as it was then known, be at the Center, or else we would have to have a movie theater of our own.

Mr. LEVITAS. Well, what I am not clear on is this, and maybe, if you do not have it available today, you could supply it for the record—it is my understanding that there is an organization known as the Kennedy Center for the Performing Arts, of which you are the Chairman of the Board.

Mr. STEVENS. Right, sir.

Mr. LEVITAS. There are other organizations and operations that use facilities—the National Symphony Orchestra, the American Film Institute, the Washington Opera, the various concessionaires, the garage, canteen, hat check, stage bill, advertising agency, photographer, and National Opera Institute.

If we could have a list of the other organizations aside from the Kennedy Center for the Performing Arts that utilize these facilities and how much space they occupy, and what formula or method of cost-sharing or occupancy charge they pay, and the amount—

Mr. STEVENS. Right. We will supply that immediately, sir.

[The following was received for the record:]

As of May 1979, twelve organizations engaged by the Kennedy Center or the National Park Service to assist in carrying out their respective functions under the John F. Kennedy Center Act occupied space within the Kennedy Center Building.

Kennedy Center and the National Park Service and United States Park Police administrative facilities also are located within the building, in addition to public and theater areas.

Excluding APCOA and Canteen Corporation, the remaining ten entities use approximately 29,912 square feet, or less than 2 percent of the building total. Excluding the space used for the American Film Institute Theater (5,051 square feet), the figure is reduced to approximately 1.65 percent. Each of the twelve entities assist Kennedy Center in carrying out its programming and education responsibilities that otherwise would be undertaken by Kennedy Center's staff, provide services for the public that normally are provided by concessionaires in other public buildings, or are contractors providing services within the building that otherwise would be provided by additional staff of Kennedy Center or the Park Service.

Of the twelve organizations three are concessionaires operating under contract with the Kennedy Center to provide services necessary to the operation of the Center. Canteen Corporation operates the Center's restaurant facilities; APCOA operates the parking garage; and Golub Brothers operates coat checking facilities and sells candy and other items. Two other organizations, Weiner Publicity and Stagebill (Kennedy Center's program magazine) are speciality companies contracted to provide necessary services for operation of the theaters. The Musical Theater Laboratory and the National Aesthetic Education Learning Center are cooperative performing-arts programs undertaken by the Center with other non-profit organizations.

Four organizations are Kennedy Center affiliates whose goals and operations are necessary to Kennedy Center's operation as a national performing arts center. These are: The American Film Institute which is the Center's film entity; the National Opera Institute; the Washington National Symphony Orchestra Association, which is the Center's resident orchestra; and the Washington Opera, which presents opera programs annually at the Kennedy Center.

Finally, Unified Services is a contractor of the National Park Service and provides housekeeping services within the building.

KENNEDY CENTER OCCUPANCY BY AFFILIATED ORGANIZATIONS, PROGRAM OPERATIONS, CONCESSIONAIRES

Organization	Status	Space (square feet)	Building/ percent	Financial arrangement
1. APCOA (garage)	Concessionaire	¹ 555,716.0	NA	Presently 50-50 share of net operating proceeds after expenses and APCOA loan principal and interest payments. Kennedy Center share calendar year 1978: \$170,643.57.
2. Canteen Corp. (restaurants)	Concessionaire	² 33,152.5	.2	Kennedy Center percentage share of gross receipts: 5 percent restaurants; 10 percent group sales and intermission bars, reimburses Kennedy Center for portion of Kennedy Center's 23.8 percent share of building utility and other maintenance expenses.
3. American Film Institute (film entity)	Affiliate	³ 15,978.0	.1	Payment by American Film Institute to Kennedy Center of \$3,679 per month for office space occupancy. Additional payment for housekeeping services to National Park Service through Kennedy Center at rate determined by NPS.
4. Golub Brothers	Concessionaire	1,080.0	.07	Revenue sharing—Kennedy Center receives percentages of gross receipts from operation of coat checking facilities, sale of candy, sale and rental of binoculars, sale of music scores and opera librettos, sale of cassettes and records, sale of novelties, books and souvenirs.
5. Musical Theater Laboratory	Kennedy Center cooperative project	⁴ 675.0	.045	A joint project with the Stuart Ostrow Foundation; 50 percent of production costs from Stuart Ostrow Foundation/50 percent from Kennedy Center.
6. National Aesthetic Education Learning Center (CEMREL)	Kennedy Center cooperative project	1,058.0	.07	Kennedy Center education grant of \$5,000 for programming. Payment by CEMREL to Kennedy Center of \$5,000 for administrative overhead. Payment by CEMREL of all other project expenses including one full-time staff member.
7. National Opera Institute	Affiliate	672.0	.04	Payment by National Opera Institute to Kennedy Center of \$200 per month space occupancy charge.
8. National Symphony Orchestra	Affiliate	⁵ 7,468.9	.5	Payment by National Symphony Orchestra to Kennedy Center of \$323,000 per year for use of office space and use of concert hall for 120 concerts and related rehearsals (including house personnel and box office services). ⁶
9. Stagebill (Kennedy Center program magazine)	Contracted by Kennedy Center	304.5	.02	Payment by Stagebill to Kennedy Center of \$1,000 per month plus 4 percent of annual net profits. Performance programs provided to Kennedy Center by Stagebill at no cost to Kennedy Center. Contractor paid varying amounts depending upon publicity services provided. Space provided by Kennedy Center for Kennedy Center-related services provided by contractor.
10. Unified Services (housekeeping)	Contracted	405.0	.03	Not applicable.
11. Washington Opera	Affiliate	⁷ 1,650.0	.1	Payment by Washington Opera to Kennedy Center of \$23,500 per week for Washington Opera performance in the opera house plus additional payment for all house personnel, box office services, and musicians and stagehands required. No office-space occupancy payment from Washington Opera to Kennedy Center.
12. Weiner Publicity	Contracted by Kennedy Center	620.0	.94	Contractor paid varying amounts depending upon publicity services provided. Space provided by Kennedy Center for Kennedy Center-related services provided by contractor.

¹ Includes 1,645 ft.² occupied on nonexclusive basis.² Additional payment by NSO to Kennedy Center for required stagehands at current rates.³ Includes 760 ft.² occupied on a nonexclusive basis.⁴ Garage.⁵ Including restaurants and kitchen.⁶ Including APT theater 5,051 ft.².⁷ Office space only (not including multi-purpose room).

Mr. LEVITAS. I am almost through with this series of questions.

If the Congress were to appropriate funds to pay off the balance of the advance from the garage concessionaire, what is the amount of yearly additional income that the parking concession would generate?

Mr. STEVENS. Well, part of the deal with the parking company was that if that amount was paid, the operation of the garage would then revert to 70 percent of the profits would go to the Kennedy Center and 30 percent to the concessionaire. And roughly speaking, based on the last few years, it would be around \$600,000.

We have figured that out very carefully, and it does not pay for us to do this until the 14th year of the loan, plus the fact that we keep our parking substantially below what the other garages charge in town, and we feel that it is better for us to let the concessionaire pay half the cost of keeping the parking prices down.

Mr. LEVITAS. Mr. Abdnor?

Mr. ABDNOR. I was wondering if I heard right. What did you say about 30 percent going into the concessionaires?

Mr. STEVENS. You heard exactly right.

Mr. ABDNOR. Of the—

Mr. STEVENS. Thirty percent of the net income.

Mr. ABDNOR. From the parking?

Mr. STEVENS. From the parking, yes, sir.

Mr. ABDNOR. Goes directly to the—

Mr. STEVENS. Not now, sir. The question he asked me was if we paid the loan off, would the parking revenues be available to the Center, and I said yes, they would, because the agreement if the loan is paid off, 70 percent of the net income would go to the Center and 30 percent to the concessionaire.

Mr. ABDNOR. Why 30 percent to the concessionaire?

Mr. STEVENS. That was the deal that was arranged at the time when we went out for public bid.

Mr. ABDNOR. Well, I understand the deal, but I was just wondering why such a concession was made.

Mr. STEVENS. Mr. Abdnor, I would share your concern at this moment. Do not forget, when this deal was made, there was no Kennedy Center. They advanced money that we could not get anywhere else. Everybody said it was going to be a great white elephant and nobody would come. Nobody dreamt that we were going to be able to keep our occupancy at 85 percent.

So in retrospect, it is a bad deal, but today—

Mr. HAGEDORN. Would the gentleman yield?

Mr. LEVITAS. I would be glad to yield.

Mr. HAGEDORN. Mr. Stevens, this would be kind of a pay back penalty of 30 percent of your revenue to pay off the loan, for the balance of the term?

Mr. STEVENS. That is right.

Mr. HAGEDORN. So for 5 more years—

Mr. STEVENS. Well, 7 more years to go.

Mr. HAGEDORN. I am sorry. For 7 more years, you would have to give up 30 percent of your net profit, even if the Government were to pay off this loan of \$1.9 million?

Mr. STEVENS. Yes, sir. In my opinion, it is better for the people to keep our parking prices low. We do not gain enough by paying it off so that it is worthwhile. That is the long and short of it.

And once more, inflation has come along and raised parking prices, but we have kept our prices down, and substantially, as I said before, below the current market for parking in the city.

Mr. HAGEDORN. Thank you.

Mr. LEVITAS. Following up on Mr. Hagedorn's question, there is a contract with this parking concessionaire to operate the parking garage.

Mr. STEVENS. Right, sir.

Mr. LEVITAS. If there were no loan still involved, there would still be that contract for them to operate the garage, and their deal, the way they make money, is getting 30 percent of the revenues from the operation.

Mr. STEVENS. Right, except for the fact—that is not their deal right now.

Mr. LEVITAS. I understand that.

Mr. STEVENS. That would be if the loan were paid off.

Mr. LEVITAS. Now, is it feasible, legally, and would it be feasible economically for the Kennedy Center to terminate the concession contract for the parking garage and operate it in-house?

Mr. STEVENS. Well, I think we have a contract with them, sir—I mean, we cannot—

Mr. LEVITAS. Are there any conditions under which you can terminate that contract?

Mr. STEVENS. No; not that I am familiar with. [Conferring with Mr. McPherson.] The answer is "No," from counsel.

Mr. LEVITAS. According to some figures that have been supplied to me, from the year 1971 through 1978 on the concessionaire's income—I will take the year 1978 as an example—the revenue from the concessionaire was \$1.2 million; the operating expenses were \$412,000; interest—I assume that is interest on the loan that you made from them—

Mr. STEVENS. That is right, sir.

Mr. LEVITAS [continuing]. Is \$225,000. That is deducted from the gross revenues, as are the parking concessionaire's expenses, approximately \$450,000; \$233,000 are taken out to repay the principal in 1978, and the balance net in the revenues is \$341,000, and that is what is split between the parking concessionaire and the Kennedy Center.

Mr. STEVENS. That is right.

Mr. LEVITAS. I am going to, without objection, ask that this information be a part of the record at this point.

[The following was received for the record:]

Mr. STEVENS. Pardon me, sir. May I point out one point that I think is being overlooked in this?

Mr. LEVITAS. Certainly.

Mr. STEVENS. We have to look at the overall picture. The garage is a small part, just as the restaurant is, of an overall picture.

We spend considerable money to keep the building full, without which there would not be revenue to the garage or the restaurant. And quite often, in order to keep the building full, we take on things like ballet and opera which are losing the same way as our theater situation.

It is only by our producing things on our own that we supply this revenue through the garage and the restaurant. So specifically, the garage and the restaurant, I would just respectfully point out, are part of our whole operation, and that income helps us offset the money that it costs us to put on production that keep the building full.

So if you just use the garage as one specific little point, it is not really the correct approach, in my opinion, if I might point out.

Mr. LEVITAS. Thank you, Mr. Stevens.

Mr. ABDNOR.

Mr. ABDNOR. Thank you, Mr. Chairman.

I do want to welcome Mr. Stevens to our committee. I certainly agree with him that we have a very fine program at the Kennedy Center, and no one questions that at all—certainly, I do not.

But if I could start off by just going back to page 23 of your written testimony. You say—

I would recommend legislation to accomplish the following: Credit past funds raised from non-U.S. Government sources for both construction and meeting Section 4 responsibilities against the accrued interest owing on the bonds; repeal the compound interest requirement; credit private donations raised each year to meet Section 4 responsibilities against simple interest owing each year, with any excess credited against the principal; expand the current Park Service responsibility for maintenance, security, and so forth to include repair and replacement; and extend the Park Service's jurisdiction for maintenance within the theaters up to the curtain line; establish a fixed dollar ceiling on the board's share of ordinary maintenance costs.

Now, that is your proposal, for the record?

Mr. STEVENS. That is my suggestion, yes, sir.

Mr. ABDNOR. I just wanted to make it clear for the record. I think we all admit that we do have a dilemma here that we cannot just keep ignoring and turning away from, and that is exactly where the problem goes to.

When we issued the 21 interest-bearing revenue bonds between July 1, 1968, and April 30, 1970, the arrangements were that the principal and the interest would be paid from parking revenue. So of course, you are saying that is almost an impossibility; is that correct?

Mr. STEVENS. Right.

Mr. ABDNOR. So it is impossible to even think about doing that.

If I could just go into the parking concession here for a second. These people, APCOA, have more or less an open-ended right to go ahead and spend any moneys they need for operating the garage, right? I mean, you have no control over it, as to the manner in which they operate the garage, their expenses, the parking part?

Mr. KENDRICK. Sir, we have quite a lot of control over it. They cannot raise the prices, for example—

Mr. ABDNOR. Can they charge for any operating expenses that they care to?

Mr. KENDRICK. Sir, they can—I have not got the lease here, but I think over a period of years—

Mr. ABDNOR. Well, I could not help but notice that 5 years ago, the expenses were \$227,400 and the revenue at that time was \$1,129,000. That is 5 years ago. And while it has only increased to \$1,377,000 in income for this past year, the expenses have almost, but not quite, doubled, to \$438,600.

I would like to put some good business practice to this whole thing. While it is great they do not raise the parking rates, when I go downtown and park, when I am invited to some reception or something down at the Hilton Hotel, I have to pay the regular parking and I do not bat much of an eye, and I think anyone going to the Kennedy Center would expect to pay the going parking rate.

So I am just wondering—you have no control whatsoever—that is, anyone they want to hire, any salaries they want to pay, any number of people—

Mr. STEVENS. We have watched them rather carefully. They are responsible people. They are the most experienced parking company in the country. And there is no motive for them to spend money, because half of what they spend comes out of their own pocket. So there is no reason why they should spend money unnecessarily, and we do watch it carefully.

Mr. CLINGER. Can you explain that, half of the money comes out of their own pocket? What do you mean by that?

Mr. STEVENS. Well, the deal now is that the principal payment is first deducted from the net revenues; then the interest at the prime rate, and the balance is split between APCOA and ourselves. So anything that they spend, half of it comes out of their own pocket, and that is one of the advantages—

Mr. CLINGER. You mean it comes out of their gross revenues?

Mr. STEVENS. No. It comes out of their own net pocket. In other words, just to make it very simple, let us say they put \$100,000 improvement of some kind in—which they have not done, but let us say they did; \$50,000 of it would come out of them, and \$50,000 out of the Center.

Mr. CLINGER. I did not mean to interrupt you, Mr. Abdnor.

Mr. ABDNOR. That is quite all right.

Mr. CLINGER. They have put no improvements in there?

Mr. STEVENS. No. There is no reason to put any in the garage since it has been operating apart from ordinary wear and tear and maintenance.

Mr. CLINGER. So nothing has come out of their pocket, then, necessarily?

Mr. STEVENS. Well, whatever they spend on that item—what did they spend last year?

Mr. KENDRICK. Their total operating expenses last year were \$400,000.

Mr. STEVENS. No; on maintenance.

Mr. ABDNOR. The original thought behind this at the time was that we were going to pay off not only the \$3.5 million borrowed from APCOA, but we were also going to pay the bonds—

Mr. STEVENS. The bonds, sir, are not due until 2018.

Mr. ABDNOR. But that was the intent at the time. I mean, when you awarded the parking concession to the Airport Parking Co. of America in 1972, and you borrowed \$3.5 million, wasn't the thought that this would bring in enough revenue not only to retire the debt here, but also to pay something toward the bond—

Mr. STEVENS. Well, sir, in the first place, we have not got the authority to borrow any money.

Mr. ABDNOR. All right. Pardon me.

Mr. STEVENS. They made an advance against rentals—which, of course, I agree with you in effect, it was a loan but I mean, they took all the chance that if the rentals were not there, that they would not get their money back. And it was not a loan at all. It was an advance rental, at a time when the picture was very bleak, and people did not know where we were going to go for the income in the building.

Mr. ABDNOR. Well, I have got to admit that I was not in Washington, and I would never be any authority on the performing arts, but did the people who went into this—whoever went into it—have the idea that this was going to be a big money losing proposition from the word “go”? Was that the idea, or the feeling of the group?

Mr. STEVENS. No, sir. I was one of the few people who thought that it would work. But certain conditions have changed. I mean, it is 18 years now since I started on this, and there has been a lot of water over the dam. I mean, our dollar is worth a great deal less than it was, and there have been all kinds of problems that we are all familiar with, that we are struggling with every day, and we are not an exception to the problems.

Mr. ABDNOR. Well, let me ask you this, then. There was not any association at the time between what revenues you would receive from the parking concession going toward paying the interest and the retirement on the Treasury bonds; is that right? I mean, that was not the intent of the Kennedy Center.

Mr. STEVENS. It was not necessarily the intent. In the first place, a great deal of that money, sir, went to the structure. It was not just to the garage. But it was hoped that there would be sufficient—

Mr. ABDNOR. What do you mean “to the structure”?

Mr. STEVENS. In other words, this money was not just used for garage purposes; it was used to finish the building.

Mr. ABDNOR. Well, we have the amount of what you receive each year; would it be possible to see how the money was applied?

Mr. STEVENS. Well, GAO has made a complete audit. It has been submitted to Congress, and they are bringing it up to date, so I have been told.

Mr. ABDNOR. Well, I am sure you would have it, too, though, wouldn't you?

Mr. STEVENS. Yes, sir. I would be glad to supply it.

Mr. ABDNOR. All right, thank you.

[The following was received for the record:]

KENNEDY CENTER GARAGE REVENUE AND EXPENSES

Garage revenues for calendar year 1977 were \$1,377,944. Operating expenses were \$438,667. \$180,833 was applied to interest payable at the prime rate outstanding balance of the APCOA advance. \$233,328 was applied to the annual principal repayment obligation. The remaining \$525,165 was split equally between APCOA

and Kennedy Center, yielding a net share to the Center of \$262,582, deposited in the Center's general fund and used to meet obligations of the Kennedy Center.

For calendar year 1978, gross revenues were \$1,213,270. Operating expenses were \$412,905. \$225,750, reflecting a sharp increase in the prime rate, was applied to interest payable on the outstanding balance of the APCOA advance. After the principal payment of \$233,328, \$341,287 was split equally between APCOA and Kennedy Center yielding a new share to the Center of \$170,644, which was deposited in the general fund.

The decline in the Center's share from 1977 is directly attributable to (1) the negative impact of construction which forced the closing of the Entrance Plaza Drive during the last half of 1978, reducing garage traffic, and (2) higher interest rates. The negative interest rate and construction factors are holding garage revenues below normal in 1979 as well.

The Kennedy Center's share of garage revenues after interest and principal payments for 1977 and 1978 (\$262,582 and \$170,644) were added to Kennedy Center's general fund. This account includes other revenues such as restaurant concession payments and unrestricted contributions.

The general fund is used to meet general overhead expenses of Kennedy Center, including the Center's annual share of building utility and maintenance costs and administrative expenses. It also is used to underwrite public service programming cost, that exceed available restricted private contributions. Thus, garage revenues are needed by Kennedy Center to maintain the present level of Section 4 programming and other Center operations.

General overhead totals approximately \$2 million annually, including the \$750,000 which the Center pays the National Park Service for its share of utilities and maintenance. Kennedy Center's overhead expenses are slightly less than 10 percent of the Center's overall budget. Aside from the Park Service payment, Kennedy Center's overhead expenses are substantially less than those of other comparable performing arts institutions and far below the standard for private corporations. GAO has concurred that the Center's overhead expenses are relatively low and that no meaningful savings may be achieved through administrative changes.

Mr. ABDNOR. You mentioned the GAO audit. In the 1977 report on the Center, it posed problems regarding the Center's inability to set aside funds to repay the principal and the interest on the construction bonds, and the problems concerning the present formula for dividing maintenance expenses between performing arts and the nonperforming arts activities.

I notice the report also states that the Center, quote, "* * * has not been able to pay all of its operating expenses when due."

Now, can you explain—

Mr. STEVENS. Well, I can explain it by saying that I think that was an error, which we brought up. I mean, we had a lot of arguments with GSA over what was owed for this and that at the end, as you would normally have on a \$75 million job.

The money that they referred to at that time was to telephone charges owing to GSA, which has since been paid off. We worked out an arrangement to pay them off, and I think they are paid off in full by now. If it is not, it is just a few thousand dollars. That is what they were referring to.

Mr. ABDNOR. So it is more or less of a moot statement, actually?

Mr. STEVENS. Well, it gave an impression that we were not paying our bills. We not only pay our bills, but as I say, we have all but paid the GSA off—Mr. Kendrick?

Mr. KENDRICK. I think one point of confusion is the date of the report and the date at which the GAO stopped obtaining information. By the time the report was issued, the settlement was being paid at the rate of \$8,000 a month, or roughly \$100,000 a year. So the debt is basically paid and that is now a moot question.

Mr. STEVENS. I mean, it was a moot question whether the debt was owed, but we finally settled with them on that basis.

Mr. ABDNOR. Now, you suggest that legislation be passed that would credit past funds raised from non-U.S. Government sources for both construction and meeting section 4 responsibilities against the accrued interest owing on the bonds. What would happen to the \$15.5 million, then? Do you suggest we just write it off, then, or what?

Mr. STEVENS. Well, as GAO has pointed out, it is an intra-government debt, and it is up to however you want to handle it.

Mr. ABDNOR. Put it on the national debt, probably, would be the easiest. That always bothered me——

Mr. STEVENS. I understand the problem.

Mr. ABDNOR. I do not know if Members of Congress—how quickly they would be able to accept all of this, in the austerity mood of the Congress.

Section 4 of the John F. Kennedy Center Act—and I would like to quote that section, if I could, so we all understand—"The Board shall: (1) Present classical and contemporary music, opera, drama, dance, and poetry, from this and other countries; (2) present lectures and other programs; (3) develop programs for children and youth and the elderly, in such arts designed specifically for their participation, education and recreation; (4) provide facilities for other civic activities at the John F. Kennedy Center for the Performing Arts; (5) provide within the John F. Kennedy Center for the Performing Arts a suitable memorial in honor of the late President."

Now, you furnished the staff with a working sheet, listing the Center's public service programs. This sheet lists 13 of those programs. However, now, as we understand it, there are other public service programs that the Center provides that are not considered as recurring programs, and therefore, they have not been listed on this working sheet.

Can you explain what those programs are?

Mr. STEVENS. I know that we had 600 programs last year, not 13.

Mr. ABDNOR. The one-time programs.

Mr. KENDRICK. You are talking about continuing programs, sir? I think you are talking about the work sheet that lists continuing programs.

Mr. ABDNOR. Well, I think what I am saying is that these are mandatory—you use the word "shall"—you have some of these programs, no one can deny that. But maybe there are some others that are being carried out. And I guess I am wondering, to try to improve the financial situation and still leave a good, functioning program, what this would do to the financial situation if we left off some of those one-time programs.

Mr. STEVENS. Well, sir, when you say "a one-time program"——

There are different programs. I mean, take the children's program, where we give free plays for them to see. We have different productions every year, as part of an overall program of education for children and for adults.

Mr. KENDRICK. Sir, I think I can answer this. The 12 that you are referring to are the continuing programs—our half-price ticket program, our American College Theater Festival Program—these are annual programs—our children's programs, which are our weekly series, spring and fall, and our national festival, which is

going on right now, our black minority programs. There are actually, perhaps, 10 projects within that program one year, and five in another year. These are continuing areas of programs. Our public symposia, our concert hall organ demonstrations, our performing arts library, our music festivals, the musical theater laboratory, the grand foyer state concerts, and the Rockefeller-Freidheim music competitions—these are continuing programs within the public service area.

Mr. STEVENS. But it adds up, sir, to about 600.

Mr. KENDRICK. It adds up to about 600 free events.

Mr. ABDNOR. Those are the mandatory programs, so to speak, as to the law; is that correct?

Mr. STEVENS. Well, I would think they were, sir. I interpreted it that way.

Mr. ABDNOR. Is there anything you could take out that is very costly, I guess is what I am really trying to get at.

Mr. STEVENS. Well, sir—

Mr. ABDNOR. They are all fine, they are all great. We are not denying that fact. But I am just wondering, are there some programs that you are not commanded to do by law that, while it is nice, is very costly, that could be—

Mr. STEVENS. I understand, sir, what you mean. But the point is, these programs are paid for by contributions that we raise. That is the point. I mean, if we did not have the programs, we would not be able to raise the contributions. So the money is raised at no cost to the U.S. Government.

Mr. ABDNOR. Well, I can understand some of that. I guess, though, what bothers me besides that is the fact that—are any of the revenues from the concessions, the 15 you talked about, Mr. Chairman, or more—the returns that come from the parking directly to the Kennedy Center—does all the other outside income also go into the budget for running these performing arts? Where does that money go?

Mr. STEVENS. Well, that money goes into general operations.

Mr. ABDNOR. What is defined as general operations? How about running the performing arts, other than just paying for the talent coming in? I mean, the 23 percent of your share for operations—

Mr. STEVENS. Yes; we have to pay that.

Mr. ABDNOR. That doesn't bring anymore than the 23 percent of the cost for operating—

Mr. STEVENS. Well, no, not anymore; not anywhere near as much as what we have to pay the parks for our share of the property.

Mr. ABDNOR. While we are talking about those concessions, I am interested—for instance, at intermission time, you go out, and there is liquor available, right?

Mr. STEVENS. Yes.

Mr. ABDNOR. Who has that? Is that the restaurant?

Mr. STEVENS. That is part of the restaurant concession, yes, sir.

Mr. ABDNOR. I was a little surprised to hear you say that the food part of the restaurant does not bring any return.

Mr. STEVENS. Well, sir, I happen to have had extensive hotel experience, and right now I own some interest in botels, and I can tell you that the profit from operating food, if you can break even on it, you are very happy; the profit that is made in most restau-

rant operations, I think I am safe in saying, is from the liquor concessions, the sale of liquor.

Mr. ABDNOR. Well, let me pursue how we operate here, on these concessions. Do they each pay their own electrical bill? How is this computed? Electricity, heat and light—is that all furnished to them?

Mr. STEVENS. Yes, sir.

Mr. ABDNOR. And you collect a——

Mr. STEVENS. We collect some money back from them for the concessions.

Mr. ABDNOR. Do you attempt just to break even for their expenses, or do you try to make any additional revenue from it?

Mr. STEVENS. Well, there is a problem with this building, and that is the fact that it is an all-electrical building. And we have on occasion thought about putting in separate meters for each one of those two places. But the cost is prohibitive.

Mr. ABDNOR. How much does it cost to put a meter in? If I remember back in my area, it was not that expensive.

Mr. STEVENS. Well, I was just as surprised as you were, sir. The figure they gave us on the garage was somewhere around \$300,000—is that correct——

Mr. KENDRICK. Yes, several hundred thousand dollars.

Mr. STEVENS [continuing]. And then the restaurant would be even more complicated, because of the way the building is wired. So that it would be a more practical way of doing it, but the capital necessary to do it is not available to us at the moment.

Mr. ABDNOR. You do have a formula where you can figure out the amount of electricity——

Mr. STEVENS. Yes, sir. We did have PEPCO send their engineers up and try to figure out what the usage was of the building by the various sections of the building.

Mr. ABDNOR. Well, now, at the very outset—I have not got the exact percent—but 76 percent of all maintenance and operating costs were paid for by the parks——

Mr. STEVENS. That is right, sir.

Mr. ABDNOR [continuing]. And 23 by you folks. So, when you collect whatever you receive from the restaurants and these 13 or so different concessions, do you pay 60-some percent back to the parks for their share of the electricity?

Mr. STEVENS. No, sir.

Mr. ABDNOR. Why is that?

Mr. STEVENS. Well, because it has never been part of our parks agreement. In other words, when the agreement was entered into back in 1971 with the parks, it was set up on a basis——

Mr. ABDNOR. Why do you pay the 23? Why don't you just forget it altogether?

Mr. STEVENS. I would love to.

Mr. ABDNOR. How did you reach that figure?

Mr. STEVENS. Well, that was arrived at by a certified audit as to the use of the building for theater purposes and as a public memorial. I mean, 5 million people go through that building a year, in round figures, and you cannot have that many million people go through anything without it costing you a lot of money.

Take the National Theater, for example. People come in at 7:30; it opens at 8:00; they all leave at 10:30, and the building is closed the rest of the time. We are open from 10 in the morning until 12 in the evening; they bring tours through all day and night, not to go to the events, and it costs money.

Mr. ABDNOR. Well, I grant you all that, but the point still remains that to put this on any kind of a businesslike basis, maybe we ought to put the whole thing under the Park Service, the whole 100 percent of the operating costs, so they can maybe let the return for the electricity and the operating costs go back to them.

Mr. STEVENS. I would not necessarily object to that in principle. There arguably are advantages to that which could be agreeable to the Center, I am sure.

Mr. SOLOMON. Are you saying put it under the Interior Department like all the other memorials?

Mr. ABDNOR. Yes; maybe even go that far. I am just wondering—that way we would feel like we have some responsibility.

Mr. SOLOMON. Could I just pursue that for a second? I am a new kid on the block here, and I do not know how this thing was originally formed. But evidently, this is the only memorial that does not come under the Interior Department.

Mr. STEVENS. No. The memorial function does come under Interior. That is the reason for them paying those expenses. It is under the Park Service.

Mr. SOLOMON. Wasn't this set up, in the original formation, though, as a nonprofit type thing, so that you could get matching funds and operate it on a break-even proposition? Isn't it different from the others?

Mr. ABDNOR. No; it is not.

Mr. STEVENS. Well, sir, all I can say is that Congress voted to make this a living memorial. And the word, "living," is rather a general word, but certainly calls for the fact that productions should be put on and kept full, all the service we have been talking about should be done, and that was voted by Congress—

Mr. SOLOMON. Well, I think what Mr. Abdnor is pursuing here—and when I read page 5 of your letter to our chairman, where the Comptroller General has determined that we cannot expect you to pay the interest and principal, this was set up differently at the time. Is there any validity to putting this whole thing under the parks system?

Mr. STEVENS. Well, it all depends. I mean, when you say the "whole thing," the theater management?

Mr. SOLOMON. Well, I do not know. What is your opinion? That is what I am saying. Times have changed—

Mr. STEVENS. That is right.

Mr. SOLOMON [continuing]. You have told us, since the original formation.

Mr. STEVENS. That is right.

Mr. SOLOMON. And because of those changes, what do you recommend that we do? If this whole debt is going to be placed over and put on our national debt, maybe you have some recommendations to us of how we should change this thing, now that everything is changed since the original formation.

Mr. STEVENS. Well, I made the recommendations on the last page, that Mr. Abdnor referred to on page 23. But the reason that formula was arrived at, once more, back in 1971, no one knew whether this building was going to be half filled, three-quarters filled, or what. And GAO makes the very specific point that the building is operated—this is the theatrical part of it—very well. And I think, as Mr. Abdnor himself said, that what we do there from a theatrical point of view is fine. And if they put the whole operation of the building under the Park Service (costs and all), it would be fine with us, but I do not think they themselves would want any part of the theatrical operation, because that requires a great number of choices and having to stick your neck out on various productions that people may or may not come to, and it is a very chancy business. But we have managed over the 8 years, and that is the reason why corporations make large gifts to us for our public-service programing. And there is even a corporate committee, as I mentioned, of the largest corporations, because of the fact we are able—in fact, we are the only one—to make our theatrical operation break even.

Mr. LIVINGSTON. If the gentleman would yield, Mr. Stevens, I just want to see if I understand you correctly, sir. Are you saying that you and the people on behalf of the Kennedy Center would not have any objection if you could maintain control over the theatrical portion of the Kennedy Center, and you would be willing to turn over the parking, the restaurants, the concessions, and all of the other managerial aspects of the Kennedy Center to the Department of the Interior?

Mr. STEVENS. The Board would have no objection to it, but I would have to ask them.

[Subsequently, the following was received for the record:]

Upon further review by Kennedy Center, it appears that transferring garage and restaurant operations to the National Park Service would adversely affect these operations as well as Kennedy Center's performing arts operations, all of which are very much interrelated and require close coordination. Further, success in the operation of the garage and restaurants is tied directly to the success of the Center's theater operations. Finally, transferring these operations from Kennedy Center would have a significant and adverse impact upon Kennedy Center's finances, resulting in reduced funds available for other operations mandated under the Act.

Mr. STEVENS. After all, I am only one man on a 45-member Board. But it might make for a lot less confusion. Nevertheless, this may all be unnecessary because there will be a time—maybe beyond the time that we will all be alive—but there will be a time that the debt will be paid off eventually. There also will be more concession income available and so forth.

As I said to Mr. Harsha at the time this matter first came up, when he suggested having the Park Service handle maintenance, I said we would welcome it, because those particular duties of maintenance are not something that have anything to do with the performing arts, and I would welcome that freedom.

Mr. ABDNOR. Just one other question. I was just wondering on the various performances that you contract for that come before you, do they all count on you to pay a certain fee, and the gross from it stays with the Center, or how does that work?

Mr. STEVENS. Sir, we have a fixed rental arrangement which is one of the highest in the country, if not the highest, and in the

Eisenhower Theater, the rent is 30 percent up to \$50,000 of the weekly gross receipts, plus 25 percent of everything over that, with a minimum weekly charge—we have raised it recently—but I think last year, it was \$13,500. In the Opera House, we get 30 percent of the first \$150,000 and 25 percent above; and then, as customary in the trade, you pay some pro rata share of the expenses of advertising, stagehands and musicians, and they are very nominal.

Now, any production that we put on ourselves, we still charge ourselves the same rent that anybody else would pay so that we do not—

Mr. ABDNOR. When you say you put it on yourselves, that is when you go out and you pay out a flat fee?

Mr. STEVENS. No. We assemble a production; we produce—

Mr. ABDNOR. Oh, you produce it, I see.

Mr. STEVENS. Going back to these concessions—and I hate to harp on it—but we can spend as much as \$700,000 or \$800,000 a year producing these things. We produce them in order to keep the theaters full all the time, which enables the garage and the restaurant to do business. And I think I am safe in saying, because I am familiar with theater operations, that there is no theater in this country that makes, on a year-around basis, the kind of net income the Eisenhower Theater or the Opera House does, because we keep them full all the time. That is the essence of it, because 3 or 4 weeks or a couple of months of empty theater, and you eat up any surplus you might have.

Mr. ABDNOR. Well, thank you very much.

Mr. STEVENS. Well, thank you, sir. I am glad you have brought these things out in the open.

Mr. DONNELLY. Mr. Livingston?

Mr. LIVINGSTON. Thank you, Mr. Chairman. I think we have covered some ground that we should explore, and I really do not have any more questions at this time. But I do think that we might get some accounting advice as to whether or not some of these suggestions that have been discussed are feasible.

Mr. DONNELLY. Mr. Solomon?

Mr. SOLOMON. No questions.

Mr. DONNELLY. Mr. Leath?

Mr. LEATH. No questions, Mr. Chairman, thank you.

Mr. DONNELLY. Mr. Stevens, you can sit a little bit easier now that somebody from Massachusetts is sitting in the Chair.

Just for the record, Mr. Stevens, on page 18 you state that presently, the Kennedy Center is operating in the black. Has this been the case since the Center has opened?

Mr. STEVENS. Yes, sir. Wait a minute, and let me make sure we are talking about the same thing. The statement says, sir, that, "in providing maintenance and security and with private contributions helping us out with public service programing, we are presently operating in the black."

What we have been able to do—and the records show it—over the past 7 years, we have been able to pay the \$233,000 off annually, we have paid the Park Service the 23.8 percent of the operating costs of the building, and we have been in the black in that respect. That does not include, of course, the \$34 million we raised for construction or the money we have raised for public service.

Mr. DONNELLY. I understand the bookkeeping aspects of the Kennedy Center are quite complex. Since you are dealing with unrestricted and restricted funds, who makes the determination of the funds that are to be classified restricted or unrestricted?

Mr. STEVENS. The people that give us the money.

Mr. DONNELLY. That is one heck of an answer. And they have every right to do that.

What liabilities were incurred by the Kennedy Center for the year ending September 30, 1978, and could you please explain for the record what items would be classified as a liability?

Mr. STEVENS. Well, when you say "classified liability," I think I have lost you. I mean, there is a liability accruing each year of the interest that we have been talking about, and there is the liability to do certain things that we have agreed to. But it is a separate operation.

Mr. DONNELLY. Mr. Stevens, I want you to start breathing a little harder, now that the gentleman from Massachusetts is leaving the Chair. [Laughter.]

[Whereupon, Mr. Levitas resumed the Chair.]

Mr. ABDNOR. Mr. Chairman, could I ask one question?

Mr. LEVITAS. Absolutely.

Mr. ABDNOR. Just for the record, how much longer in years is that commitment to the APCOA Parking Co.?

Mr. STEVENS. About 7 more, sir. It was a 15-year originally.

Mr. ABDNOR. So regardless, they have a commitment that they shall receive 30 percent off the top—

Mr. STEVENS. It is a lease, yes, sir.

Mr. ABDNOR. And the more we pay off, the more they will get, because the interest will be saved—there is no way you can pay them off; they love to have you.

Mr. STEVENS. That is right. We have figured it out that it does not pay for us to do it until about the 13th year of the lease.

Mr. LEVITAS. Let me ask a couple more questions, Mr. Stevens.

Why doesn't Congress fund and pay for the section 4 public service programs which Congress requires you to provide?

Mr. STEVENS. I do not recall ever asking. I tried to work out, as long ago as 6 or 7 years ago, a reason why—a way of approaching this interest problem. I mean, after all, you are really going into the unknown when you are building three theaters, and now we have got our fourth completed. We had no idea which way we would go, other than I do know that President Kennedy felt, as I did—and the reason I came down to Washington from New York to work this out was that I just thought for the world's richest nation not to have a decent place for the performing arts in its Capitol was wrong. We are the only Nation that would not have had one. That was the principle for getting into it and trying to work it out and going out and raising all this money. And I can assure you, if you have ever raised \$35 million in bits and pieces, it is an awful lot of money. To get the building finished was a terrific struggle. Then, of course, the public service programs we probably should have gotten into sooner, but as I say, once we were slightly successful in the first 3 or 4 years, we found we could get into this and get the money to do it privately, but we cannot get interest money.

Mr. LEVITAS. You make the point in your testimony about the efforts which other nations make in supporting our performing arts programs, and that is, as I say, part of the record.

But to me, one of the aspects of this whole problem is that section 4 mandates the responsibility of the Kennedy Center for the Performing Arts to provide certain public service functions. Congress has never funded it. It has been funded in essentially two ways, by your raising private funds through corporate donations and other donations—

Mr. STEVENS. And individuals, too.

Mr. LEVITAS [continuing]. And individual donations—and the application of funds from your other operations, whether it be box office or concessionaire payments. And yet, as a result of that, in connection with that, you have been financially unable to pay the interest on the revenue bonds which now, the interest on them amounts to \$15.2 million.

Are the corporate funds which are donated, or other funds which are donated, referred to as the restricted funds?

Mr. STEVENS. Well, if they are not, they should be—the so-called “general corporate fund,” which is this year \$1.5 million, specifies right in the brochures that the corporations send out to their fellow corporate members exactly what the money is going to be used for—shows, events, helping black participation in the Center. We have one of those brochures available, and I would like to put it on the record, sir, if I might.

I think you can get an idea from this. [Handing document to Chairman.]

Mr. KENDRICK. It is restricted by the nature in which it is requested. If it is requested for specific programs, and when it is given by the corporate fund, it is thereby restricted to those programs.

This brochure gives you the programs it is restricted to. This is where we tell them what we are going to use the money for.

Mr. LEVITAS. And I notice in some of the financial information—

Mr. KENDRICK. Mr. Abdnor had mentioned the worksheet, and he had listed a dozen programs. Those same programs appear here in our corporate fund, and in a sense, those are the private funds being restricted for those purposes. Now, there may be additional private funds in those 12 programs that he was talking about.

Mr. LEVITAS. Now, under the account entitled “Unrestricted,” there is a further breakdown; namely, a general fund and the friends of the Kennedy Center fund. What are the total current assets of the Kennedy Center before deducting liabilities for the general fund?

Mr. STEVENS. Well, I have not got the statement right in front of me, sir, but I looked at it yesterday, in terms of net current assets, which is what you usually treat as working capital, and it appeared that we have about \$300,000.

Mr. LEVITAS. That includes cash and quick assets, right?

Mr. STEVENS. Yes. Of course, it looks like we have got a lot of cash there, but most of it is advance ticket sales.

Mr. LEVITAS. Why isn't this available to help pay the interest?

Mr. STEVENS. Well, I do not think you would want us to be there without any working capital. You have to lay out money for productions before you get any money back.

Mr. LEVITAS. The Government has made—and I guess this is the core question we are sort of dancing around here—the Government has made a very substantial investment in the Kennedy Center, and the fact that two Presidents are honored by it, President Kennedy and President Eisenhower—it seems to me almost impossible to believe that this administration or any administration and Congress would allow a default to occur.

But let us assume that a default would occur--

Mr. STEVENS. Well, it is your building, sir, and it belongs to the U.S. Government.

Mr. LEVITAS. What would happen if the Kennedy Center defaulted on the bonds?

Mr. STEVENS. Well, I think it would be up to you, just as GAO asked you to, to make a determination what to do. I mean, the Kennedy Center Trustees do not own anything. This building belongs to the U.S. Government, it is on park land, and the so-called platform is administered by the trustees, of which there are three Members of your House and three Senators and nine other government officials. There are 15 Government officials included in the trustees, and the rest of the trustees are appointed by the President of the United States. We just do the best we can to make the thing work.

Mr. LEVITAS. In your testimony, you say that, "To date, the Kennedy Board has raised more than \$34 million from private sources to construct the building. That is \$7 million more than was required to match the \$23 million Federal appropriation for construction and the supplemental construction claims appropriations of \$3.9 million. Since that time, the Center has raised about \$8.7 million in additional private funds to underwrite the cost of its section 4 responsibilities. Thus, the total private funds raised to date by the trustees over the Federal construction funds appropriated is nearly \$16 million. Since that sum exceeds the Center's present compound interest obligations of approximately \$15 million," you propose that the obligation for this interest be canceled.

Now, with respect to the private funds that have been raised, could you furnish the committee with, say, a breakdown of the sources of those funds?

Mr. STEVENS. Sure. It is pretty much in the GAO report, but any further information you would like, of course, we will make available to you.

Mr. LEVITAS. Could you give us that information for 1978?

Mr. STEVENS. Sure.

Mr. LEVITAS. What is the amount of public funds received by the Kennedy Center in 1978?

Mr. STEVENS. Fiscal 1978? We have got that right here.

Mr. LEVITAS. You can furnish that, too, for the record.

[The following was received for the record:]

John F. Kennedy Center for the Performing Arts schedule of private funding¹

[Not including variations of services]

	<i>Detail</i>
Apr. 1, 1959-June 30, 1960:	
Mr. & Mrs. Floyd Akers	\$100,000
Mrs. Jouett Shouse	116,200
L. Corrin Strong (anonymous)	355,357
Other donations and benefits	387,625
Subtotal	959,182
Fiscal year 1961: Other donations and benefits	288,696
Fiscal year 1962: Other donations and benefits	119,412
Fiscal year 1963:	
American Telephone & Telegraph	100,000
Mrs. Robert Brookings	50,000
C. Douglas Dillon (anonymous)	100,000
Ford Foundation (pledge)	5,000,000
International Business Machines	100,000
National Geographic Society	50,000
Col. C. Michael Paul	100,000
Mrs. Marjorie Merriweather Post	115,000
John D. Rockefeller III	104,000
Hattie M. Strong Foundation (anonymous)	500,000
Other donations, benefits and interest	651,819
Subtotal	6,871,319
Fiscal year 1964:	
Mrs. Geo. R. Brown	50,000
Coca Cola Co.	50,000
Ford Motor Co.	100,000
General Motors Co.	100,000
Kennedy Family	60,000
Lockheed Aircraft Co.	50,000
Martin Marietta (cement)	50,000
Mrs. Agnes Meyer	50,000
Eugene & Agnes Meyer Foundation	100,000
Old Dominion Foundation (Paul Mellon)	500,000
R.C.A. (record royalties)	122,000
Rockefeller Foundation	1,000,000
Rockwell Corp.	50,000
Jos. E. Seagrams & Sons, Inc.	70,000
Hiram Walker & Sons	50,000
Robert W. Woodruff	50,000
Foreign gifts	1,168,000
Other donations, benefits and interest	2,926,330
Subtotal	6,546,830
Fiscal year 1965:	
Capt. & Mrs. Peter Belin	100,000
E. I. du Pont de Nemours	50,000
Elizabeth Houghton (anonymous)	50,000
Joseph P. Kennedy Foundation	500,000
Mrs. Albert D. Lasker	100,000
Reynolds Metals (aluminum)	73,500

*John F. Kennedy Center for the Performing Arts schedule of private funding¹—
Continued*

John Philip Sousa memorial	100,000
Roger L. Stevens	102,000
Robert W. Woodruff	50,000
Canteen Corp. (equipment).....	250,000
Foreign gifts.....	619,000
Other donations, benefits and interest	2,186,313
Subtotal.....	4,180,813
Fiscal year 1966:	
Capitol Records	50,000
Samuel Kress Foundation	50,000
Other donations, benefits and interest	372,267
Subtotal.....	472,267
Fiscal year 1967:	
Mrs. Rose Saul Zalles.....	75,000
Foreign gifts.....	280,000
Other donations, benefits and interest	651,149
Subtotal.....	1,006,149
Fiscal year 1968:	
J. Clifford Folger.....	100,000
Foreign gifts.....	35,000
Other donations, benefits and interest	802,670
Subtotal.....	937,670
Fiscal year 1969:	
Adolph's Food Products	100,000
Bethlehem Steel Co.	50,000
Kenyon Bolton.....	50,000
Heurich family (land).....	150,000
International Business Machines	75,000
Scheffner & Turner families.....	50,000
Baldwin Piano & Organ Co. (Piano).....	58,000
L. Corrin Strong estate (anonymous).....	219,860
Other donations, benefits and interest	1,240,184
Subtotal.....	1,993,044
Fiscal year 1970:	
Atlantic Richfield Foundation.....	50,000
Dr. & Mrs. Samuel S. Lombard.....	100,000
Edward Mernone (oil leases).....	100,000
Potomac Electric Power.....	89,000
R.C.A. Corp. (sound equipment)	91,011
Foreign gifts.....	260,215
Other donations, benefits and interest	1,282,867
Subtotal.....	1,973,093
Fiscal year 1971:	
Mr. & Mrs. Robert O. Anderson	103,620
Canteen Corp. (cash and equipment)	735,576
Clagett Foundation.....	52,111
Greer Family (anonymous)	89,385
Mr. & Mrs. J. Willard Marriott	100,500
Mr. & Mrs. Spencer T. Olin.....	51,000
Thomas J. Watson (anonymous)	65,000

John F. Kennedy Center for the Performing Arts schedule of private funding¹—
Continued

Foreign gifts.....	23,600
Other donations, benefits and interest.....	1,013,796
Subtotal.....	2,234,588
Fiscal year 1972:	
Adolph's Foundation.....	50,000
Canteen Corp. (equipment).....	264,424
Estate of George Angus Garrett.....	71,764
David Lloyd Kreeger.....	50,000
Carl and Robert Lindner.....	117,500
Other donations, benefits and interest.....	817,300
Subtotal.....	1,370,988
Fiscal year 1973:	
Theatre program grants.....	160,628
Sustaining fund.....	58,867
Other donations, benefits and interest.....	382,422
Subtotal.....	601,917
Fiscal year 1974:	
Alcoa Foundation.....	50,000
Mrs. Gwendolyn Cafritz.....	118,000
Mr. & Mrs. John Dimick.....	50,000
Foreign gifts.....	1,000
Sustaining fund.....	66,501
Other donations, benefits and interest.....	396,571
Subtotal.....	682,072
Fiscal year 1975:	
AMOCO (ACTF).....	80,000
International Business Machines.....	500,000
Prudential Insurance Co.	83,000
Xerox Corp.	50,000
Foreign gifts.....	37,000
Sustaining fund.....	97,110
Other donations, benefits and interest.....	493,472
Subtotal.....	1,341,347
Fiscal year 1976:	
AMOCO.....	120,000
Cafritz Foundation.....	300,000
George L. Erion.....	50,000
Exxon Corp.	60,000
International Business Machines.....	225,857
McDonald's.....	53,063
Mr. & Mrs. W. G. McMurtrie.....	59,423
Philip Morris.....	100,000
Prudential Insurance Co.	80,000
Mrs. Esther Simon.....	50,000
Xerox Corp.	350,000
Foreign gifts.....	3,030,426
Sustaining fund.....	158,750
Salute to R. L. Stevens.....	325,742
Other donations, benefits & interest.....	842,157
Subtotal.....	5,805,418
Fiscal year 1977:	
AMOCO.....	80,000
William Cafritz.....	50,000
International Business Machines.....	69,302
Rose Bente Lee.....	50,000
McDonald's.....	55,000

*John F. Kennedy Center for the Performing Arts schedule of private funding¹—
Continued*

Thomas Anthony Pappas	50,000
Foreign gifts	22,031
Interest on Japanese gift	153,836
Sustaining fund	170,481
Corporate fund	852,649
Other donations, benefits and interest	536,251
Subtotal	2,089,550
Fiscal year 1978:	
AMOCO	80,000
McDonald's	50,000
Mr. Esther Simon	60,000
Rockefeller Foundation	75,000
Mr. Lew Wasserman	92,450
Foreign gifts	10,878
Interest on Japanese gift	192,161
Sustaining fund	179,415
Corporate fund	897,000
Kennedy Center Friends for Studio Theatre	200,000
Other donations, benefits and interest	628,320
Subtotal	2,465,224
Fiscal year thru Mar. 4, 1979:	
AMOCO	40,000
Mrs. Esther Simon and S. A. Simon	79,000
Rockefeller Foundation	75,000
Interest on Japanese gift	42,268
Sustaining fund	92,877
Corporate fund	446,400
Other donations, benefits and interest	230,050
Subtotal	1,005,595
Total	42,945,174
Through Mar. 4, 1979:	
Contributions (including interest income) for building	28,490,614
Foreign gifts	5,483,915
Interest on Japanese gift	388,265
Subtotal	34,362,794
Theatre programing	2,807,125
America on stage	795,159
Sustaining fund	824,001
Corporate fund	2,096,049
Private education	670,297
Friends	905,500
General and restricted	484,249
Subtotal	8,582,380
Total	42,945,174

¹ Specified private contributions of \$50,000 or more.

Mr. STEVENS. I would like to take the liberty of just pointing out one other thing, Mr. Chairman. The Arts Council, which was one of my first endeavors with the Government—I was the first head of it—at that time, we were lucky to get \$10 million for all the purposes, and now, there is \$150 million available to make up deficits and do various other things which I think are worthwhile in the field, all across the country. That is money the Government is giving to Lincoln Center and all the rest of them around the country.

Mr. CLINGER. You are talking about the performing arts?

Mr. STEVENS. Yes. And here we are, at least, making our way as far as our theater operation is concerned, and performing a great public service; except for one little bit of money that comes because of the way the Arts Council sets up the advance programs, which is very immaterial, we do not get any other kind. But you are spending \$150 million to bolster up places all over the country, and here we are in the Capital of the United States and the showcase for the United States of America. And I think that we have done pretty well not to have to come and get money to keep our theaters going.

Mr. LEVITAS. Has the Kennedy Center for the Performing Arts ever requested funds from the National Endowment?

Mr. STEVENS. No, sir. Under the policy up until a year or so ago, it was always the policy of the National Endowment for the Arts that any money that we requested should go directly to the Government rather than through the Arts Council.

Mr. LEVITAS. In the 1977 GAO report, it stated that the Kennedy Center was not paying its proportionate share of the building maintenance cost. Has the utilization of the building for performing and nonperforming arts changed since the GAO study?

Mr. STEVENS. I would think that is a perfectly fair statement. There is no question about it, because of the fact, once more, that we have been using the building more because we are doing the things that Congress asked us to do. I mean, it is an anomaly, as they point out. In that report they say, "Well, since they are doing these things, the building is used a lot more," and it is true—than we counted on at first.

Mr. LEVITAS. Do you have the figures on the amount of hours of utilization that are attributable to the free performances?

Mr. STEVENS. I do not, sir, but it would be fairly easy to put together.

Mr. LEVITAS. I am talking about the hours, in the various theaters, proportionately.

Mr. STEVENS. Right, sir.

[The following was received for the record:]

JOHN F. KENNEDY CENTER—PUBLIC SERVICE FREE EVENTS

FISCAL YEAR 1977

During fiscal year 1977, 595 free events were presented at the Center. Of these, 491 were presented by the Center itself and 104 by affiliate organizations and other public service groups. Attendance at free events totaled approximately 414,000.

The 595 events represented a total of approximately 1,622 hours of presentation (lectures, symposia, workshops), performance and rehearsal time. This figure does not include staff time involved in any of the presentations, nor does it include 1,284 hours that the Center's major Bicentennial exhibition, AMERICA ON STAGE: 200 Years of Performing Arts, was open to the public during the fiscal year.

Of the 595 events, 99 were presented in the Concert Hall, Opera House and Eisenhower Theater. The remaining events were staged in other areas of the Center including the Musical Theatre Laboratory, the American Film Institute Theater, the Grand Foyer, the Chautauqua Tent and Jazz Club (parts of the AMERICA ON STAGE exhibition), rehearsal rooms and the National Aesthetic Education Learning Center.

FISCAL YEAR 1978

During fiscal year 1978, 339 free events were presented, of which 307 were sponsored by the Center and 32 by affiliates and other public service organizations. Attendance totaled approximately 116,000.

Mr. LEVITAS. I would like to mention, and it is no secret, that there are some members of this committee who are actively considering proposing that the Department of the Interior, through the National Park Service, take over 100 percent of the operating and maintenance costs of the Kennedy Center—I do not know if you are familiar with that or not.

Mr. STEVENS. Yes, yes, indeed. It was suggested, sir, while you were out, that the Park Service take it over.

Mr. LEVITAS. How do you feel about it—or did you already respond? If you have already answered—

Mr. STEVENS. I said that I cannot speak for the Board, but I am sure that they would look at it favorably.

Mr. LEVITAS. And that would result in approximately a \$600,000 savings to the Kennedy Center?

Mr. STEVENS. Not that much, sir, because as I understand Mr. Abdnor's suggestion, then the concession revenues would go to the parks; was that not correct?

Mr. ABDNOR. Yes.

Mr. STEVENS. So it would not be a very substantial savings, if any.

Mr. LEVITAS. Mr. Nowak, do you have any questions at this point?

Mr. NOWAK. Not at this point, Mr. Chairman.

Mr. LEVITAS. Does any other Member—I have some more questions—

Mr. ABDNOR. I think you asked this, Mr. Chairman, but you did earlier request the revenues of the various concessions involved. How many tenants are there, about 13?

Mr. STEVENS. Well, they were calling them tenants.

Mr. ABDNOR. Well, don't they have a room for the advertising agency, and the photographer, and the National Opera Institute—

Mr. STEVENS. Well, you have to have that. I mean, you would not want the advertising man to be in another building. So he does not pay us any rent; we just let him use the space.

Mr. ABDNOR. Well, how does the advertising agency operate? Is that part of the Kennedy operation, and do you hire the man in there?

Mr. STEVENS. Well, there is a company that handles it, but we approve everything that is done.

Mr. ABDNOR. He gets reimbursed substantially, though—

Mr. STEVENS. Well, he gets his money, as any advertising agency, off the advertising commission.

Mr. ABDNOR. In other words, in a way, you just throw in the facilities for him to operate in; is that right? You give him the space, and the lights and so on?

Mr. STEVENS. That is right, yes. It is for our convenience.

Mr. KENDRICK. We are talking about one room. I think one thing that ought to be mentioned in here is that there are 1.5 million square feet of floor space in that Center; there is only 50,000 square feet, altogether, involved in office space. You are talking about, in all these cases—for example, our stage bill operation, our advertising operation. Those are integral to our performing arts operations,

and they involve one room each. We are talking about very small spaces.

Mr. ABDNOR. I appreciate that.

Mr. KENDRICK. With the exception of the American Film Institute, which pays an occupancy charge.

Mr. ABDNOR. What I finally would like to ask—and I think we probably have done so already—Mr. Levitas asked for the revenues from the various tenants that are there—what are the other sources of income other than your gross?

Mr. STEVENS. Our main principal source of income is the revenues from ticket sales for the theater, and of course, the Symphony, which fortunately wants to keep their own identity, and they need about \$2.5 million of fund-raising to balance their budget.

Mr. ABDNOR. And again, the revenues from the tenants, 23 percent of that is turned back to the parks—not all of it—I mean 23 percent of the electric costs and the heat.

Mr. STEVENS. Well, 23 percent of whatever the operating costs of maintaining the building—

Mr. ABDNOR. And everything over and above that remains with the Kennedy Center.

Mr. STEVENS. That is right.

Mr. ABDNOR. And the parking garage remains with the Kennedy Center. Are there any other areas?

Mr. STEVENS. Well, the Symphony pays an occupancy fee of \$350,000 in round figures, but they lose money and we lose money on that.

Mr. LEVITAS. That is information you are going to provide, as I understand.

Mr. STEVENS. Yes, sir.

Mr. LEVITAS. But I also understand that the National Symphony Orchestra itself is financially strapped, and that there is some effort now underway to see if arrangements can be made for waiving or changing that occupancy thing.

Mr. STEVENS. Yes, there have been suggestions made, and once more, we will cooperate in every possible way, but we have been right along the edge, as far as our theatrical activities are concerned.

Mr. LEVITAS. It would certainly help your doing that if Congress made arrangements to grant your proposals at this point. In other words, you could accommodate the needs of the National Symphony if these other arrangements we are now considering were implemented.

Mr. STEVENS. Well, I like to look at the bottom line, as Mr. Abdnor says. We try to run this on a businesslike basis. We have a smaller overhead, I think, than any outfit in the country, and that is the reason why we do it. And the corporations that have looked over our books before they gave us any money have complimented us many times on the careful way we operate in terms of money.

Mr. LEVITAS. I understand, Mr. Stevens, but I want to get back to my question. My question is, If this committee and the Congress are able to enact legislation which would have the result of what you are seeking, would it not put the Kennedy Center for the Performing Arts in the position of reducing or eliminating the

financial obligation of the National Symphony Orchestra to the Kennedy Center?

Mr. McPHERSON. If we could have a second, Mr. Chairman. [Conferring with Mr. Stevens.]

Mr. STEVENS. I have got two people talking to me at once here, but I would say that, generally speaking, I think if it was taken over by the Park Service, as was suggested, I think we could do something substantially for the Symphony.

Mr. LEVITAS. I know Congressman Yates in particular will be pleased to read that portion of the transcript.

Let me get on the record something that is extremely important to this committee politically if we take any legislation to the floor.

Every year, I think, since I have been in Congress, there has been legislation on the floor to appropriate money for something at the Kennedy Center—to repair a room, to refurbish inside where water damage has created problems. And some of our colleagues get on the floor and start reading from the Congressional Record back in 1958 or thereabouts, and said it was promised to the Congress that there would be no public funds put into this Kennedy Center.

I am reading now from a speech made on October 1, 1976, and I think it had to do with the roof at that time. And one of my distinguished colleagues said something like this:

We were told when this building was constructed that basically it was going to be supported by private funds. Almost every year, we have had to authorize some kind of bill to authorize additional funds to do something. This year, it is to save the leaky roof and such other things.

We keep hearing this, time and time again, and impassioned pleas are made about why should we now be putting money into the Kennedy Center when it was never to be funded by public money.

Your letter to me of March 27, which is now in the record, deals with that, but I would like for you at this point to deal with that.

Mr. STEVENS. Well, I would like to respectfully point out—I do not like to throw the blame on anyone else, but this so-called leaky roof was mostly the result of design errors. And once more, I would like to point out that we paid a \$1.4 million fee to a Government organization who represents Congress and the executive branch, GSA. The design errors were things they were paid for. There was supposed to be an architect on the job who should have caught it; there was a GSA man who should have caught it; there was a contractor who should have caught it. And then, when the design errors—it was every horizontal surface; it just was not the roof, it was a misnomer to call it the roof.

And I think it might be of interest to you, sir, that the man who used to talk the most about this, Mr. Bow, the distinguished Republican who as minority head of the Appropriations Committee, got up on the floor and made a great point of all this. And he came to me after the Center was finished and said that he was never so wrong in his life; he said, "I am not wrong very often, but I was certainly wrong about the Kennedy Center. I will do everything I can to help you." And that was from the other side; he admitted he was wrong about it.

Mr. LEVITAS. Isn't this correct, though, Mr. Stevens—and I think it is important that this committee understand it so we can make a case to our colleagues—when the Kennedy Center was originally conceived of as a cultural center, a national cultural center, in 1958 in the 85th Congress, it was in fact conceived of as an operation which would be funded totally with private funds, on donated public land, but that 6 years later, that concept was changed by Congress?

Mr. STEVENS. You are right, sir, completely and unanimously, if my memory serves me correctly.

Mr. LEVITAS. And so therefore, the original concept of a cultural center was changed by Congress when it was decided to make this building into a living memorial for a deceased President, in a form similar to but somewhat beyond the way in which we have built memorials to Thomas Jefferson, Abraham Lincoln, and George Washington?

Mr. STEVENS. Yes, sir.

Mr. LEVITAS. And at that point, the concept that it would be funded only through private funds was abandoned by the Congress, and it became to a certain extent a financial obligation that Congress has dealt with in succeeding years, except for providing any funds for a congressionally mandated operation under section 4, for which we provide no funds, and you have looked to the Kennedy Center to pay for?

Mr. STEVENS. That is right, sir.

Mr. LEVITAS. Is that a fair statement of where we are?

Mr. STEVENS. That is exactly the statement, and that is the position that I have taken in my testimony, sir.

Mr. LEVITAS. Mr. Nowak, are you prepared at this point? I know Mr. Donnelly and Mr. Leath have some questions, also.

Mr. NOWAK. Let me, Mr. Chairman, if I may, just clarify a couple of broad postures here.

On your statement, Mr. Stevens, that has been submitted for revenue expenses and public support, this is a statement for the year ending September 30, and you show that total revenues were \$17 million and total expenses were \$22 million, with a \$4.5 million deficit position for your operating expenses.

Is this likely to continue at that level for this year?

Mr. STEVENS. No, sir. That includes depreciation. I do not know which one you are reading from, but that includes depreciation and interest and nonoperating charges as I read it—is that for 1978, sir?

Mr. NOWAK. Yes. This is an unaudited statement that I am looking at here.

Mr. STEVENS. Right. As I read that statement, those are capital charges—depreciation obviously takes place, but it is not a cash item, nor is the interest, which is what we are talking about. And as I came out of the thing, I figured our theater operating costs were ahead.

Mr. NOWAK. The question, I guess, is, if this is close to reality, you are still going to be in a deficit position. I think this is not allowing for depreciation or anything else in the statement—

Mr. STEVENS. Well, it is all there, sir, and you have the same copy I have.

Mr. NOWAK. And it shows a deficit position in which, I believe, you are unable even to pay the interest on the outstanding——

Mr. STEVENS. Well, that is what this is all about. We have never been able to pay the interest. And the depreciation is already paid for, because the building is finished.

Mr. NOWAK. Well, besides the nonpayment, then, we are still talking about a differential in your operational budget alone, without considering the capital repayment to the Treasury; is that correct?

Mr. STEVENS. You see, the way this is set up for auditing, it does not include some of the corporate fund money which we use to pay our finances. It is set up in a peculiar fashion, because it has no corporate fund income at all, and it puts the corporate fund down as "expense." We received a million dollars last year from our corporate fund. It is a way of doing bookkeeping which——

Mr. NOWAK. For your operation?

Mr. STEVENS. Well, for doing the things that are charged as expenses, yes, sir.

Mr. BEGLE. He was just saying that the revenue does not include the private funds he talked about raising; that apart from the private funds, there would be a deficit.

Mr. STEVENS. All the expenses of those services are listed down here, as expenses. We ended up—on a cash flow basis, of money in and money out, except for depreciation and interest, we ended up with about a \$200,000 in the black last year. If you look at it, sir, you will see there is no money in there for corporate funds at all.

I agree with your point.

Mr. NOWAK. What you are saying is that this figure of \$4.6 million, then, does not take into consideration——

Mr. STEVENS. The cash operating situation—the depreciation and the interest, and it does not take into consideration the corporate fund. It says, right up on top, on the left side, Revenue, excluding public support and capital additions.

Mr. NOWAK. Well, that is my question. Your public support and capital additions, if you did include them, what would your bottom line be?

Mr. STEVENS. It is several hundred thousand, on a cash basis, in the black.

Mr. NOWAK. So you are stating, then, that those two items would more than make up any deficit——

Mr. STEVENS. That is right, sir.

Mr. NOWAK. And you would be operating on a cash basis, essentially.

Mr. STEVENS. On a cash basis, we are all right.

Mr. KENDRICK. The answer is roughly \$5 million would be over in this column, which is what he was saying, that you would be in a cash operation about \$300,000 in the black.

Mr. NOWAK. So that the only problem that you are having is trying to pay back the notes and the bonds that have been——

Mr. STEVENS. Well, the bonds are not due, as I keep saying, until 40 years from now.

Mr. NOWAK. Well, the interest is, though.

Mr. STEVENS. The interest is owing next year.

Mr. NOWAK. The interest is due, and they will add more interest to that interest.

Mr. STEVENS. That is right.

Mr. NOWAK. And you are going to be compounding that, and you are going to have a real problem somewhere down the line.

Mr. STEVENS. It is due next year.

Mr. NOWAK. As a matter of fact—the other fellow who is sitting there in the back, would you identify yourself for the record?

Mr. BEGLE. I am sorry. I am a colleague of Harry McPherson's, Howell Begle.

Mr. NOWAK. All right.

Mr. ABDNOR?

Mr. ABDNOR. No questions.

Mr. NOWAK. Mr. Donnelly?

Mr. DONNELLY. Thank you, Mr. Chairman.

I think the final statement made by the chairman before he had to leave really points up the quandry that you people face. On one hand, you have the directive not to expend any public money; on the other hand, you have the directive to make a living memorial to President Kennedy.

I would just like to focus for 1 second on the scheduling of events, because I think it is important that we put this in the record, and that everybody understand exactly what the priorities are and how we schedule events at the Kennedy Center.

For the record, who determines what type of events will be performed at the Kennedy Center, and in determining what type of events will be performed, what consideration is given to the financial implications of these events?

Mr. STEVENS. Well, to answer your first question, the management of the Center determines the events, and we tell the trustees what we recommend before each meeting. We have a quarterly meeting of the trustees.

And as far as the financial operations, Mr. Feinstein, who is the executive director, has been involved with many years of experience, and I have been involved in hundreds of shows myself. Then you make up a budget, and you do not know whether you are going to have people come or not come beforehand—really, baseball is the best analogy to this. If a man makes one hit out of three times, he is a star, and if he makes one hit out of five times, he is a bum. You can only look at the overall average, and over the 7 years, we have been able to come out right. We have had losses, and we will continue to have losses, as long as we are operating. But we have also had some very profitable ventures, things that we have done that have ended up where we have gotten residuals out of them.

So all you can do is look at the law of averages.

If I can beg your indulgence, there is one thing that I have not put in my statement. As an example, in 1970, the St. Lawrence Seaway Corporation amendment was offered on the floor of the Senate, providing in part for the termination of accrued and payment of interest on the obligations of the Corporation to the U.S. Treasury. There are precedents, but regardless of what we have done, we think we have very much met our interest obligations by what we have done under section 4. But there are precedents for waiving of interest. I think there is an *Alaskan Railway* case, but

we are not sure of that; we have not researched that. But I mean, it has been done, and it is not an unusual thing to do.

Mr. DONNELLY. Getting back to the events, certain events are projected to make some money, and then there are certain events that you know, and your people know, from being professionals in this business, that will either break even or lose money. Now, what criteria do you have—you certainly take shows or take performances that will lose money or that will break even, and you do not simply, as I understand it, spend your entire time trying to turn over revenue and run a Broadway show down at the Center. It serves as a service center, too. Would you like to respond to that?

Mr. STEVENS. Well, let us take a coming attraction, the Viennese Opera, which the Austrian Government is putting up \$1.5 million to send it over here.

We have made out a careful budget, and we have to charge what I think are outrageous prices, but we have set the thing on a basis where it will come out even. In other words, we showed, even at the prices that we are getting, that we would have about a \$300,000 deficit, and we are solving that deficit. We got a grant from the foundation for \$200,000 of it, and we are going to get another grant from a corporation.

But everything that we do, we have a budget set up for it. We charge ourselves the same rent as we would charge any outsider that came in and booked.

Mr. DONNELLY. The point that I am trying to get to is that if we want to schedule events at the Kennedy Center, like the Bijou Theater, I would suspect that you could substantially reduce the deficit over a period of time. But there are events, for the record, that you schedule, in terms of inner city children, minorities, and the elderly, that you know in advance will either not break even or absolutely not make a profit; is that right?

Mr. STEVENS. That is right.

Mr. McPHERSON. Mr. Donnelly, if I could interject, there are a number of these listed and described.

Mr. DONNELLY. And finally for the record, could you please state what the rental provisions are for the Concert Hall, the Opera House, and the Eisenhower Theater?

Mr. STEVENS. I did state them once before, sir.

Mr. DONNELLY. You did state them; then I apologize.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you, Mr. Donnelly.

Mr. Livingston?

Mr. LIVINGSTON. No questions, thank you, Mr. Chairman.

Mr. NOWAK. Mr. Leath?

Mr. LEATH. Mr. Stevens, on the Kennedy Center Productions, Inc. that you mentioned, could you tell us how this is structured and who the financial backers of the Kennedy Center Productions, Inc. are?

Mr. STEVENS. Yes. The purpose of the Kennedy Center Productions is to see to it that our halls are always filled, which is, as I mentioned before, the reason we are able to break even.

We have a line of credit with the American Security Bank, which is endorsed by around 10 or 12 individuals, of which, unfor-

tunately, one of them is myself. And over a period of years, they have advanced money for productions, and it has ended up even. Any profit under the Corporation belongs to the Center. They are just sticking their necks out, and have for 7 years, and they have never been called on for any money, thank God. And over a period of years, right now, we do not owe the bank anything, and we have come out about even.

This credit has enabled us—for example, with the production “Annie,” suddenly the people could not raise the money, and it was coming in scheduled for a long run of 7 weeks, and they needed some money. I was able to go to the Kennedy Center Productions and get a grant for around \$125,000 or whatever it was we needed, and I was able to do it like that. So they were able to go into rehearsal—this was Friday afternoon, and they were able to go into rehearsal on Monday morning. And it turned out that it has been, obviously, a very profitable thing, and it is one of the big hits.

We have done that on other occasions, where people need money to either bring their productions in, and we will advance some money to them, making what we hope is a good business deal.

Mr. LEATH. Well, essentially, then, it is just a private group of very interested people like yourself that put your own financial—

Mr. STEVENS. Yes. I can give you a list of the backers. Most of it is \$25,000 apiece. I think we have about 14 of them, or something like that.

Mr. LEATH. And then any profits that would accrue—

Mr. STEVENS. Oh, there is no profit, and there is no operating cost. Mr. Abe Fortas is the chairman of it, and there are no charges of any kind, except an accounting fee.

Mr. LEATH. Who makes the decisions for the Kennedy Center Productions, Incorporated?

Mr. STEVENS. The KCPI Board. I go to them with a schedule of what I want to do and what the costs are going to be and where we think we will go with it, and they make up their minds. There are not many Trustees on the Board; it is mostly outside members—people, actually, most of them, that endorse the notes.

Mr. LEATH. So on a production like “Annie,” for example, that would make a profit, you would then be able to put that in a revolving fund, or something?

Mr. STEVENS. Whatever the production's share of the profit is will go to help make up for some of the mistakes—because we make them, and I do not want to deny that we make them.

Mr. LEATH. You would be highly unusual if you did not.

Thank you, Mr. Stevens.

Mr. NOWAK. Mr. Stevens, just to carry that line of questioning a little further, when “Annie” came in, the profits, I think you stated, went to the Kennedy Center Productions?

Mr. STEVENS. Yes.

Mr. NOWAK. And how much of a fund do they have at the present time?

Mr. STEVENS. Well, right at the present time, they do not have any fund, but they have got a line of credit at the bank. I mean,

right at the moment, fortunately, we are down to where it has broken even.

Mr. NOWAK. This line of credit is collateralized, I take it, by the personal signatures of the members of the Foundation?

Mr. STEVENS. Correct, sir.

Mr. NOWAK. How much is that line of credit?

Mr. STEVENS. This year, I think it was \$385,000. Sometimes, it has gone as high as \$450,000. It just depends on—sometimes somebody gets sick of having their name on the note and they want to withdraw, and we let them withdraw, and try to get someone new.

Mr. NOWAK. That fund acts like a revolving fund, I take it?

Mr. STEVENS. That is right. And we have never had to call on any of the endorers.

Mr. NOWAK. So that there has never been any personal liability on behalf of any of those people?

Mr. STEVENS. Oh, yes, there is personal liability for the amount of the loan, their pro rata share.

Mr. NOWAK. But they never have had to pay.

Mr. STEVENS. No. In 8 years, no one has had to pay any money.

Mr. NOWAK. And if you did have a substantial loss, there is the possibility that that would be called on—

Mr. STEVENS. That is right. It is renewed every year, sir. At the end of the year, we get new endorsements.

Mr. NOWAK. The overall operation, the prices that are charged for the events that are put on under the so-called mandate by Congress—the ticket prices that are charged are set so that the Center will break even?

Mr. STEVENS. That is our purpose. We set them up financially and—

Mr. NOWAK. How about the organizations that bring in and put on "Annie"?

Mr. STEVENS. Well, that organization just pays rent. It has nothing to do with the fact that we made a capital investment in order to get them in to pay rent.

Mr. NOWAK. They just pay the rent, the proceeds from the—

Mr. STEVENS. Go to our income. Every production we do—

Mr. NOWAK. What I am trying to get at is what do the producers of "Annie" receive as their portion of the ticket sales against what they pay in rent?

Mr. STEVENS. In that particular case, I drove a very hard bargain. I got \$15,000 a week, net, and they paid everything, which we do not net anywhere near that much normally. Normally, they would pay 30 percent of the first \$60,000 and then 25 percent above that as rent, and that is sort of the normal working figure. We get the highest rent of any group in the country.

Mr. NOWAK. So anybody that comes in contracts in different ways with the—

Mr. STEVENS. But that is the only time we have ever done that where we have happened to have a net deal. Most of the time, it is a percentage deal.

Mr. NOWAK. And what is the usual percentage that is charged?

Mr. STEVENS. I said 30 percent of up to \$60,000, and 25 percent above it.

Mr. NOWAK. OK. Do you feel that the Kennedy Center could put on a gala annually, designed to raise money to pay off this interest?

Mr. STEVENS. Well, we have had a couple of galas, one of them a few years ago, that did pretty well. But it is a tremendous amount of effort, and you cannot do it every year. This last year, you may have noticed, we had this tribute to five leading people in the arts, and we netted some money, but it requires a great deal of effort and work, and it is not a substantial portion of our fund raising.

Mr. NOWAK. Do you recall what you netted from that gala?

Mr. STEVENS. Yes. As I recall, when all the smoke cleared and everything, it was somewhere around in excess of \$200,000, not a great deal more.

Mr. NOWAK. Looking at the recommendations that you have submitted here on page 23 of your testimony, I understand that a bill has been drawn up to include some of these, and I am sure the committee and the chairman especially will give every consideration to it.

I also notice, in reading your testimony, that you receive no other funds from any State or local performing arts groups.

Mr. STEVENS. That is right.

Mr. NOWAK. And if we look throughout the country, I would think that many of these performing arts centers in the other cities, while perhaps not as large and not encompassing as much, still have to be using some type of funds, other than receipts at the gate, to exist, and I am sure that some of these factors will get very sympathetic hearing.

I do not know of any other way you are ever going to come near compounding that interest, if we do not. But that is a decision, of course, that will have to come.

I want to thank you, in behalf of the committee and the chairman.

Mr. STEVENS. Thank you for your time and consideration of our problem.

Mr. NOWAK. We have a vote, and then Mr. Taylor will be the next witness. We will recess for about 15 minutes.

[Short recess.]

Mr. NOWAK. We will come to order.

Our next witness is Mr. Paul Taylor, Fiscal Assistant Secretary of the Treasury.

TESTIMONY OF PAUL TAYLOR, FISCAL ASSISTANT SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY

Mr. TAYLOR. I have a very short statement, so I will not keep you too long.

Mr. Chairman and members of the subcommittee, I am glad to be here this morning to discuss fiscal aspects of the John F. Kennedy revenue bonds, which were purchased by the Secretary of the Treasury, pursuant to section 9 of the Kennedy Center Act.

That provision authorized the Center's board of trustees to issue revenue bonds to the Secretary in an amount not exceeding \$20.4 million. The proceeds were to be used to finance the Center's parking facilities and the bonds were to be repaid from revenues accruing to the Center.

Interest was required to be computed to reflect the cost of market borrowings by the Treasury. The act permits deferral of the interest with the approval of the Secretary of the Treasury, but stipulates the interest so deferred will bear interest after June 30, 1972. Deferred interest was not, however, to be considered a reduction of the borrowing limitation.

The first bond was issued on July 1, 1968, in the amount of \$1.5 million and carried a maturity date of December 31, 2017. Attachment A to my statement shows the obligations, their interest rates and maturity dates.

The bonds provide that principal and interest are to be paid from parking revenues. However, because these revenues were insufficient to meet the current interest on the bonds—partially because a substantial portion was used to repay a \$3.5 million loan from the parking concessioner—the Center's board, in December 1968, and annually thereafter, requested and was granted a deferral of the interest by the Secretary of the Treasury.

Attachment B shows the computation of deferred interest from December 31, 1968, through December 31, 1978. In February 1979, the Department granted a further 1-year deferral after the Center indicated its intent to seek a legislative solution to their financial problem.

In this connection, H.R. 13579 of the 95th Congress would have provided for an accommodation between the Center and the Treasury whereby the Board would undertake to repay, in equal annual installments, the \$20.4 million principal on the bonds, and the Secretary would release the board from its obligation to pay deferred and future interest thereon.

The proposed legislation was not considered, however, and we understand that your committee is now reviewing ways to provide some relief for the Center's financial dilemma.

Apropos this point, on December 20, 1977, the Comptroller General transmitted to the Secretary of the Treasury a report on the financial operations of the Center. The report pointed out that one of the Center's largest financial obligations is the \$15 million in interest and deferred interest owed to the Treasury on the revenue bonds.

The report concluded that only the Congress can determine the future financial course of the John F. Kennedy Center for the Performing Arts. We concur in that assessment, recognizing that that determination will require an accommodation between the Center and the Treasury.

We believe the Center's status as a national memorial and cultural center requires us to view their financial impairment in a different light than would be the case with respect to normal business-type operations of the Government.

Therefore, the Department supports a writeoff of the Center's interest obligation to the Treasury. However, we also believe that a firm schedule for repayment of the principal should be adopted.

That concludes my prepared statement, and I will be happy to answer any questions.

[Attachments A and B, referred to, follow:]

ATTACHMENT A.—JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS, LOANS, JOHN F. KENNEDY CENTER, PARKING FACILITIES
REVENUE BONDS, DECEMBER 31, 1978

Percent rate	Bond number	Due date	Calendar year advanced	Accrued face amount	Interest to Dec. 31, 1978 (number of days)		
					From	To (years)	Interest
5½	2-5	Dec. 31, 2017	1968	3,800,000	Dec. 31, 1977	1	194,750
5¼	1-6	Dec. 31, 2017	1968	2,900,000	do	1	152,250
5¾	7, 8	Dec. 31, 2017	1968	1,200,000	do	1	64,500
5¼	9, 10	Dec. 31, 2018	1968	2,200,000	do	1	126,500
5¾	11, 14	Dec. 31, 2018	1969	4,300,000	do	1	252,625
6	15	Dec. 31, 2018	1969	1,000,000	do	1	60,000
6¼	16, 17	Dec. 31, 2018	1969	1,300,000	do	1	81,250
6½	18, 19	Dec. 31, 2018	1969	1,900,000	do	1	123,500
6¾	20	Dec. 31, 2018	1969	800,000	do	1	
6¾	21	Dec. 31, 2019	1970	1,000,000	do	1	
Total				1,800,000			119,250
Grant total				20,400,000			1,174,625

ATTACHMENT B.—JOHN F. KENNEDY DEFERRED INTEREST REVENUE BONDS—DEC. 31, 1978

Year deferred	Interest deferred	Deferred rate (percent)	Interest on deferred interest	Interest on deferred interest deferred
Dec. 31, 1968	114,176.57	5½	6,279.71	
Dec. 31, 1969	775,852.06	7¾	55,279.46	
Dec. 31, 1970	1,152,844.18	6¾	76,375.93	
Dec. 31, 1971	1,174,625.00	5¾	69,009.22	
Dec. 31, 1972	1,174,625.00	6¾	71,945.78	
Dec. 31, 1973	1,174,625.00	6¾	80,755.47	
Dec. 31, 1974	1,174,625.00	7¾	91,033.43	
Dec. 31, 1975	1,174,625.00	7½	88,096.88	
Dec. 31, 1976	1,174,625.00	6¾	71,945.78	
Dec. 31, 1977	1,174,625.00	7	82,223.75	
Total	10,265,247.81		692,945.41	
Interest on deferred interest deferred:				
Dec. 31, 1972		6¾	103,472.16	6,337.66
Dec. 31, 1973		6¾	285,227.76	19,609.41
Dec. 31, 1974		7¾	385,592.64	29,883.43
Dec. 31, 1975		7½	506,509.50	37,988.21
Dec. 31, 1976		6¾	632,594.59	38,746.42
Dec. 31, 1977		7	743,286.79	52,030.08
Total			2,656,683.44	184,595.21
Total interest deferred				877,540.62

Summary

Interest Dec. 31, 1978	\$1,174,625.00
Deferred interest to date	10,265,247.81
Interest on deferred interest	3,349,628.85
Interest on deferred interest deferred	184,595.21
Subtotal	14,974,096.87
Principal owed	20,400,000.00
Total interest owed	14,974,096.87
Total owed Dec. 31, 1978	35,374,096.87

Mr. NOWAK. Thank you very much, Mr. Taylor.

You made reference to the fact that the revenues are insufficient to meet the current interest on the bonds, and you state as a reason here, "partially because a substantial portion was diverted to repay a \$3.5 million loan from the parking concessioner." I wonder, under what authority was that given?

Mr. TAYLOR. Their basic authority for taking the parking fees and in effect tying them up in that amount of money? I do not know. I am not sure what their legal considerations were. Since the interest has always been deferred, up until this last year, the deferral was at the discretion of the Kennedy Center. In other words, we in effect could not refuse.

After 1978, the last one we deferred was at the discretion of the Secretary of the Treasury. And again, as I say, we have never questioned, to my knowledge, the legality of that arrangement if that is your question.

Mr. NOWAK. That is my question. I ask that because under section 9 of the Kennedy Center Act, the bonds were floated—they were revenue bonds. Were they revenue bonds from the parking—

Mr. TAYLOR. That is in the bonds themselves. I do not think it said exclusively that all revenue would have to go to pay off the bonds. You would be getting into the legal aspects of it. The wording of the bonds is:

This bond is one of a series of bonds of like tenor, except as to number, date of issue, principal amount, rate of interest and signature, issued for valid purposes of the Board under and pursuant to the John F. Kennedy Center Act as amended, and shall be payable as to both principal and interest from the revenues of said John F. Kennedy Center from parking fees therein.

It does not seem to say that that is the only thing that parking fees could be used for, though again, I have no legal interpretation of that language.

Mr. NOWAK. As you stated there, it may be a little peculiar, but it would still indicate that the parking fees were to be used for the repayment of the bonds and the interest thereon.

Mr. TAYLOR. That would be the source of it. I think that is very clear.

Mr. NOWAK. And then there was an evasion of that by, I assume, the subsequent contract that was entered into between the Center and the concessionaire, wherein they diverted the funds from the payment of the bonds and interest to the payment of the loan back to the concessionaire; is that correct?

Mr. TAYLOR. In other words, if you are saying that if they had not done that, they would have had some funds to pay us at least a part of the interest, that appears to be true.

Mr. NOWAK. It does strike me that that was the relinquishing of some right that was prior to the repayment of the loan to the concessionaire. It does raise a legal question whether or not that, at that time, should have been entered into. But in any event, it was.

Mr. TAYLOR. It was, that is correct.

Mr. NOWAK. And the diversion of that probably led to the problem we are encountering today.

Also on page 2, you make the statement, "In February 1979, the Department granted a further 1-year deferral after the Center indicated its intent to seek a legislative solution to their financial problems." But that legislative solution was not forthcoming.

Is your position the same today?

Mr. TAYLOR. Do you mean since the legislation was not obtained, would our answer be we would defer the interest?

Mr. NOWAK. That is correct.

Mr. TAYLOR. Yes, we would.

Mr. NOWAK. What, in your opinion, would be the ramifications with the bonds if no legislation was forthcoming? What would be the position of Treasury if——

Mr. TAYLOR. I am sorry. Relative to the bond principal?

Mr. NOWAK. Not really to the bond principal, but the bond interest, the compounded interest that is due; if no legislation is forthcoming, what would be the posture of the Treasury?

Mr. TAYLOR. Well, if the Kennedy Center indicated they had no way to pay the interest, we would continue to defer it. By law, we cannot forgive it, but we could continue to defer it until the first principal comes due, which is 2017. But the chickens would come to roost then, unless some legislative relief were granted.

So whatever we do has to be temporary, without any further legislation.

Mr. NOWAK. But there comes an end to the temporary deferment.

Mr. TAYLOR. Yes. That would be when the bonds began to mature.

Mr. NOWAK. And what would the consequences at that time be, to the Center?

Mr. TAYLOR. Well, again, in that distant time, if the Center did not have the wherewithal to pay the bonds, and no relief were granted by Congress, and they had no funds, then I think that that horrible word that was mentioned a little bit ago, "default," would happen. But I do not personally think that that would be allowed to happen.

But just taking your scenario out to its conclusions, with those assumptions, the bonds just could not be paid, that is all. They would not have the funds to pay them.

Mr. NOWAK. And if the bonds could not be paid, the Foundation that contracted with Treasury, without funds, would cease the operation of the Center; isn't that correct?

Mr. TAYLOR. I really do not know what would happen. Certainly, I do not think Treasury would do anything overt to cause that to happen. In other words, we would certainly say that the money is owed, and either look to the Kennedy Center to come up with some funds to pay them, or look to Congress to grant some relief. In other words, there would be very little that we could do, per se.

Mr. NOWAK. But the ultimate conclusion and what I am trying to determine is that if there is no legislative relief or any other relief, the interest——

Mr. TAYLOR. The interest continues, the compounding continues, the whole scenario continues and grows and grows, and ultimately, it comes to a head when the bonds begin to mature; that is correct.

Mr. NOWAK. And the conclusion would be that the Center would have to be closed because it does not have an operator, isn't that correct——

Mr. TAYLOR. I cannot answer the last part, whether it would close. I am just saying they would not have any funds to pay the bonds and they would be unpaid on our books.

What that would lead to into the operation of the Kennedy Center, I could not speculate. I really do not know.

Mr. NOWAK. Well, wouldn't you foreclose on those bonds?

Mr. TAYLOR. I do not think so, no, sir, under the circumstances. I do not think we have a lien against the Kennedy Center or anything like that. In the sense of a mortgage—a mortgage holder would foreclose if I did not pay off my mortgage—I do not look at it in that light. I do not read those bonds as giving us that kind of a right.

Mr. NOWAK. Well, you would be foreclosing against the Federal Government, is essentially the situation.

Mr. TAYLOR. Yes. That might raise an eyebrow or two.

Mr. NOWAK. Have you had an opportunity to look at the solutions which were proposed by Mr. Stevens?

Mr. TAYLOR. Very briefly. It moved back and forth. I got a very quick look at his testimony, particularly the summary part.

Mr. NOWAK. That would be page 23 of the testimony which was submitted by Mr. Stevens.

Mr. TAYLOR. Yes. I think I can support, certainly, and I have in my testimony, the interest. And based on our past meetings with Mr. Stevens, and the GAO report—which I am glad to hear is going to be updated—it seemed to us that we could work out something—given no great press of time, we could work out something that would be mutually satisfactory on the principal, and that is our preference, and that is what we would like to pursue right now. Particularly as that report gets updated, I think we will have a new financial look at the situation and perhaps be able to work something out with them.

Mr. NOWAK. Do you think that the credit that they are requesting from previously raised nongovernmental funds and sources should be used to reduce the accrued interest owing on the bonds?

Mr. TAYLOR. I would have no problem with it used for that purpose, relating to the interest. I think it is just a different method, but it accomplishes the same purpose; it is a forgiveness regardless of how you approach it; you end up with the same. It is different, maybe, cosmetically, but its ultimate result is that you forgive the interest.

Mr. NOWAK. Thank you.

Mr. Livingston?

Mr. LIVINGSTON. Thank you, Mr. Chairman.

Mr. Taylor, as I understand it from your testimony, the Treasury Department has no objection to simply waiving the debt of some \$15.2 million of accrued interest on these bonds; is that correct?

Mr. TAYLOR. If that is Congress wish, yes. Again, I am basing it on basically two things, the Kennedy Center's contention that they do not have the funds and would not in the foreseeable future be able to obtain funds to pay the interest, and the GAO assessment.

We have made no independent, in-depth assessment of their financial ability. We have gone mostly on the GAO assessment and their own assessment, as we do for most programs.

Mr. LIVINGSTON. And the original GAO assessment was made in—

Mr. TAYLOR. It came back in 1977, I think.

Mr. LIVINGSTON. And you say that they are updating their report now?

Mr. TAYLOR. Yes. That was said in the previous testimony.

Mr. LIVINGSTON. And you have said that the Treasury Department has no intention of foreclosing against the Kennedy Center any time between now and 2017; is that correct?

Mr. TAYLOR. Well, first, the bonds are not due until 2017, and we have agreed to defer the interest. So I think that answers it.

Mr. LIVINGSTON. In fact, you may not even foreclose against them in 2017 when the bonds became due and they could not make any payments?

Mr. TAYLOR. We have no ability to collect if they did not have the funds, unless Congress provided the funds. Now, if that is what you term foreclosure, that is right. We would have an unpaid obligation, an unpaid liability—an accounts receivable, in effect, that we could not collect at that point.

Mr. LIVINGSTON. In other words, this is a hot potato that you would rather not hang onto, isn't it?

Mr. TAYLOR. As far as the interest is concerned, yes; I am not convinced that the principal cannot be paid off at this point. And I would hope that if some relief is——

Mr. LIVINGSTON. But you have not made a study to determine whether they can pay the principal off or not.

Mr. TAYLOR. No. As I mentioned to you, I am going by what the Board told us themselves. I met with them in February of 1978, which was my last meeting with them. At that time they indicated that if they were given relief on the interest and some of these other things that they mentioned, that they thought they would be able to pay off the principal in installments. GAO came up with that same conclusion, and we agreed.

Mr. LIVINGSTON. So the Treasury Department does not care if the payments are deferred, and they do not care if the Congress goes ahead and waives that interest. Why do we have to take any action at all right now?

Mr. TAYLOR. Well, as far as Treasury is concerned, if it continues the way it is, we would end up about the same as far as funds are concerned. In other words, if we continue to defer them, they would not pay us, naturally.

Mr. LIVINGSTON. Right. From the bookkeeping end, it is going to end up the same. It is going to be a zero, and that is what you are going to get back on those bonds, right?

Mr. TAYLOR. Well, as I say, the bonds are not due yet.

Mr. LIVINGSTON. In terms of interest only.

Mr. TAYLOR. But in terms of interest, if we continued to defer—if you took no action, and we continued to defer, it would end up basically the same as far as the Kennedy Center. It would be a liability on their books, but we would have allowed them to defer it.

Mr. LIVINGSTON. So this talk about the interest compounding really means nothing if the Treasury Department does not seek to enforce that debt.

Mr. TAYLOR. As far as them losing cash, losing part of their assets, I think that would be true. That is right. Their liability continues to grow.

Mr. LIVINGSTON. You say the GAO is going to update their report by 1981. Wouldn't you——

Mr. TAYLOR. No, I did not say—that is what I understand. I heard this in the testimony today for the first time.

Mr. LIVINGSTON. Well, I understand the chairman is requesting that.

Mr. TAYLOR. Yes.

Mr. LIVINGSTON. Then I would assume from your testimony, Mr. Taylor, that the Treasury Department would have no objection to allowing this matter to be deferred for another few months, until the GAO could update their report.

Mr. TAYLOR. No, sir, we have already deferred through this year.

Mr. LIVINGSTON. You have already deferred for about 20 years—since 1968.

Mr. TAYLOR. Since 1968.

Mr. LIVINGSTON. Since 1968, so about 11 years.

Mr. TAYLOR. Right.

Mr. LIVINGSTON. Would the Treasury Department have any objection to an arrangement which, if it could be agreed upon by all parties, would negotiate the takeover of all maintenance activities and all concession functions, parking functions, by the Department of the Interior, and simply maintain responsibilities for the performing arts functions in the hands of the Kennedy Center Trustees?

Mr. TAYLOR. I am afraid I really could not answer that. I do not know all of the implications that would be in there for additional appropriations going to Interior, whether they would have to expend any additional funds that they are not expending. I really do not know the impact on Interior to really be able to answer that, sir.

I would have to bow to their assessment.

Mr. LIVINGSTON. Let me put it this way. If you are already prepared to forgive all the interest on the bonds, it would not make any difference to you what the arrangements were; you could not lose any more money, could you?

Mr. TAYLOR. Well, again, without maybe directly answering your question, if it had no increased cost to the Government for Interior to do it versus the Kennedy Center—the current arrangement—it certainly seems to me we could look at it favorably. Really, I would have to know what the circumstances were, particularly from a financial standpoint. I think most of that could only be answered by Interior, not Treasury.

Mr. LIVINGSTON. Right. But I am talking about speaking from the point of view of the Treasury Department.

Mr. TAYLOR. Well, again, I would have to know its financial implications. If it ended up as costing the Government less money, Treasury is always interested in that. So I say, if other things were favorable in the proposal, and it cost less money to the Government, I certainly do not see why we would be against it.

Mr. LIVINGSTON. Well, it could not cost the Government any more money, could it, if you are getting zero back on your investment?

Mr. TAYLOR. Well, you could get minus—yes, you could have more payouts. In other words, I am saying if it cost more for Interior, say, to do what is now being done under the present

arrangements, then it seems to me that we could possibly end up with more of a loss.

Mr. LIVINGSTON. Well, from the standpoint of your Department, it could not cost the Treasury Department any more money than the present situation.

Mr. TAYLOR. Well, in as far as you are speaking directly of the bonds and the interest, no, not those particular financial arrangements.

Mr. LIVINGSTON. Suppose the arrangement meant some sort of set, prescribed payment schedule on the principal and possibly even some interest; the Treasury would favor that arrangement, would they not?

Mr. TAYLOR. We certainly would. If it could be arranged, and the Kennedy Center felt they could do it, and you agreed that that was the way to go, certainly we would be in favor of a graduated system for them to pay.

Mr. LIVINGSTON. And if an arrangement were reached whereby, say, only some percentage of the interest due each year was paid back, that would still be better than what you are getting now, right?

Mr. TAYLOR. Certainly, if that in fact could be done financially and that was what the Congress desired.

Mr. LIVINGSTON. Thank you very much, Mr. Taylor.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you.

Mr. Donnelly?

Mr. DONNELLY. I have no questions, Mr. Chairman.

Mr. NOWAK. Just one further question. Mr. Livingston made the statement about the possibility of increasing the financial posture by having the Service come in and take over, perhaps, the parking and the maintenance and the other functions.

It seems to me that the Treasury waived part of its revenue source, especially on revenue bonds, when this agreement was entered into by the Center back at the time of the parking loan, which probably was needed to bring in other revenues to the Center for its initial operation. Any improvement upon that would certainly put them in a better posture to start thinking about paying back some of the principal, even if the interest is waived——

Mr. TAYLOR. I would certainly think so.

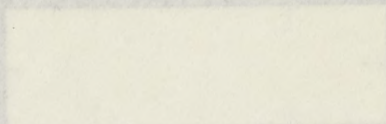
Mr. NOWAK [continuing]. And the compound interest is waived on top of that.

Mr. TAYLOR. Right.

Mr. NOWAK. We want to thank you for your testimony.

We have a vote on the floor, and I think this would be a good point to adjourn these hearings. Thank you very much.

[Whereupon, at 12:20 p.m., the subcommittee was adjourned.]





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