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# Letter Report: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 3rd Quarter of Fiscal Year 2009

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The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

**Letter Report**: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 3rd Quarter of Fiscal Year 2009

Dear Chairman Gray and Members of the Council of the District of Columbia:

This letter report presents the Office of the District of Columbia Auditor's (ODCA) comparison of the District of Columbia's (District) actual cash collections through the 3rd quarter of fiscal year (FY) 2009 to the revised FY 2009 revenue estimate for the 3rd quarter.

## BACKGROUND

In May 2008, pursuant to the Home Rule Act, as amended by Public Law 104-8,[1] and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001,[2] the District's Chief Financial Officer (CFO) issued a certified FY 2009 original revenue estimate of $5.374 billion.[3] The $5.374 billion non-dedicated Local Fund revenue estimate was used as the baseline for the FY 2009 budget. Revisions to the $5.374 billion estimate are presented below:

Revision #1 In September 2008, the CFO revised the FY 2009 revenue estimate upward to $5.432 billion which was a net increase of $58 million over the $5.374 billion FY 2009 original revenue estimate.[4]

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[1] *See* Pub. L. 104-8, (109 Stat; D.C. Code Section 1-204.24c (5) (A) and (B)).
[2] *See* Pub. L. No. 106-522, 114 Stat. 2440.
[3] *See* FY 2009 Proposed Budget and Financial Plan, Executive Summary, dated June 9, 2008, page 4-18, "Operating Revenue by Source, Fiscal Years 2007 - 2012." The FY 2009 revenue estimate presented in this report represents the non-dedicated local fund revenue estimate and does not include the FY 2009 special purpose revenue fund (O-type) estimate of $453.61 million. However, an overall discussion of special purpose revenue fund (O-type) is included in a later section of this report.
[4] The CFO reduced the revenue estimate by $130.7 million. The FY 2009 Budget and Financial Plan, Executive Summary, page 4-20, dated June 9, 2008, included $188.7 million of proposed policy changes. The $130.7 million revenue reduction, and the impact of the policy changes, totaling $188.7 million, resulted in a net increase of $58 million over the $5.374 billion May 2008 FY 2009 original revenue estimate.

Revision #2 In December 2008, the CFO revised the FY 2009 revenue estimate downward to $5.305 billion which was a net decrease of $127 million from the $5.432 billion September 2008 revenue estimate and a $69 million decrease from the $5.374 billion FY 2009 original revenue estimate.

Revision #3 In February 2009, the CFO revised the FY 2009 revenue estimate downward to $5.169 billion which was a net decrease of $136 million from the $5.305 billion December 2008 revenue estimate, a $263 million decrease from the $5.432 billion September 2008 revenue estimate and a $205 million decrease from the $5.374 billion FY 2009 original revenue estimate.

Revision #4 In June 2009, the CFO revised the FY 2009 revenue estimate downward to $4.979 billion which was a net decrease of $190 million from the $5.169 billion February 2009 revised revenue estimate, a $326 million decrease from the $5.305 billion December 2008 revenue estimate, a $453 million decrease from the $5.432 billion September 2008 revenue estimate, and a $395 million decrease from the $5.374 billion FY 2009 original revenue estimate.

The District's revenue estimating function for budget purposes seems to be flawed in tough economic times or overly optimistic. Regardless of which factor is at play, too often the estimate must be repeatedly revised downward as the estimates fail to materialize. Thus, ultimately requiring repeated disruptive budget adjustments throughout the fiscal year.

## METHODOLOGY

In conducting the comparative analysis, the Auditor reviewed: (1) the June 2009 revised $4.979 billion revenue estimate; (2) the FY 2009 3rd quarter Comparative Report of Cash Collections by Funds prepared by the Chief Financial Officer's Office of Revenue Analysis (ORA); and (3) other relevant information. The additional information reviewed by the Auditor included economic data from several sources, including The Conference Board, George Mason University's Center for Regional Analysis, Eagle Eye Inc., the District's Department of Employment Services (DOES), the Greater Capital Area Association of Realtors (GCAAR), United States Department of Labor, Bureau of Labor Statistics (BLS), the District of Columbia Lottery and Charitable Games Board (D.C. Lottery), and Destination D.C.[5]

[5] Formerly called the Washington D.C. Convention and Tourism Corporation.

The Auditor interviewed ORA officials regarding cash collections through the 3rd quarter of FY 2009 and representatives from other relevant governmental organizations regarding their knowledge of overall economic conditions that affect the District.

This analysis was conducted at the discretion of the D.C. Auditor for legislative oversight purposes.[6] The scope of the work performed for this purpose does not constitute an audit under government auditing standards (GAGAS).[7]

[6] *See* GAGAS A3.02 which states: "Audit organizations in government entities frequently provide nonaudit services that differ from the traditional professional services provided by an accounting or consulting firm to or for the audited entity. These types of nonaudit services are often performed in response to a statutory requirement, at the discretion of the authority of the audit organization or for a legislative oversight body or an independent external organization and do not impair auditor independence. (See paragraphs 3.20 through 3.30 for the requirements for evaluating whether nonaudit services impair auditor independence)."

[7] *See* GAGAS 1.33.

## RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 3rd quarter of FY 2009 totaled $3.379 billion, which were $79.07 million, or 2.4%, above the $3.3 billion revised estimate through the 3rd quarter.[8] The $3.379 billion in actual cash collections represented 68% of the $4.979 billion FY 2009 revised revenue estimate.[9] Collections through the 3rd quarter from tax, non-tax, and other financing sources are presented below.

- **Tax** - total tax collections were $3.097 billion, which were $86.25 million, or 2.9%, above the revised tax estimate of $3.011 billion through June 2009.

- **Non-tax** - total non-tax collections were $232.16 million, which were $3.81 million, or 1.6%, below the revised non-tax estimate of $235.97 million through June 2009.

- **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled $49.48 million. These collections were $3.36 million, or 6.4%, below the revised other financing sources estimate of $52.84 million through June 2009.

Table I compares actual cash collections to the revised estimate through the 3rd quarter of FY 2009 for tax, non-tax, and other financing sources. Appendix I presents a graphical depiction of the information in Table I as well as other tables presented in this report.

**TABLE I**
**Cash Collections Summary**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Collections Category | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Tax | $3,097,011 | $3,010,765 | $86,246 | 2.9% |
| Non-Tax | 232,161 | 235,974 | (3,813) | (1.6%) |
| Other Financing Sources | 49,475 | 52,835 | (3,360) | (6.4%) |
| **Total Collections** | **$3,378,647** | **$3,299,574** | **$79,073** | **2.4%** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

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[8] Rounding may affect some calculations presented in this report.

[9] The 3.3 billion revised revenue estimate and $3.379 billion in collections through the 3rd quarter of FY 2009 are presented net of funds transferred to dedicated purposes including the Washington Convention Center Authority. The estimate and transfer also does not include the special purpose revenue fund. (O-type).

In conducting the analysis of cash collections through the 3rd quarter of FY 2009, the Auditor compared the 3rd quarter collection trends for the five prior fiscal years from FY 2005 through the 3rd quarter of FY 2009. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that 3rd quarter collections in general property taxes steadily increased over the five-fiscal year period. On the other hand, 3rd quarter collections in income taxes increased from FY 2005 through FY 2008 but decreased in FY 2009. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this report.

Appendix III presents a comparison of collections through the 3rd quarter of FY 2009 to 3rd quarter collections for FY 2008 in each tax and non-tax category.

## GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (C) public space rental. The FY 2009 revised estimate for general property taxes is $1.821 billion. Collections of general property taxes through the 3rd quarter of FY 2009 totaled $907.94 million, which were:

- $5.94 million, or .7%, above the $902 million 3rd quarter FY 2009 revised estimate; and
- $52.38 million, or 6.1%, above collections for the same period in FY 2008.

Collections of general property taxes through the 3rd quarter represented 49.86% of the annual total revised revenue estimate for this category. Table II compares actual collections of general property taxes to the revised estimate through the 3rd quarter of FY 2009.

**TABLE II**
**General Property Taxes:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| General Property Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Real Property | $904,750 | $899,571 | $5,179 | .6% |
| Personal Property | 3,182 | 2,429 | 753 | 31% |
| Public Space Rental[10] | 8 | 0 | 8 | 0% |
| **Total General Property Taxes** | **$907,940** | **$902,000** | **$5,940** | **.7%** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June, 2009 prepared by ORA.

## A. Real Property Tax Collections

Real property tax collections through the 3rd quarter of FY 2009 totaled $904.75 million. These collections were $5.18 million, or .6%, above the $899.57 million revised estimate. The real property tax category is the largest component of general property taxes. The fact that collections were only slightly above the estimate may be due, in part, to the increase in property tax refunds.

The Auditor noted that real property tax refunds through the 3rd quarter totaled $21.57 million and were $7.49 million, or 53.2%, above the $14.08 million estimate. Refunds through the 3rd quarter of FY 2009 were also $16.28 million, or 307.4%, above refunds as compared to the 3rd quarter of FY 2008. According to an official of the Office of Revenue Analysis, the increase in refunds is due to the processing of a backlog of refunds that had been halted pending the FBI's investigation of real property tax.

Collections may be above the estimate, in part, because transfers of property tax revenue to tax increment finance (TIF) funds[11] are $6.9 million below the estimate.

[10] Public space rental collections are not used for general fund purposes but are dedicated to the District Department of Transportation.

[11] According to the OCFO's website, the Tax Increment Financing (TIF) Program is an economic development tool administered jointly by the Office of the Chief Financial Officer and the Office of the Deputy Mayor for Planning and Economic Development. This program allows the District government to sell bonds backed by a development's future taxes, with the bond money helping to pay the developer's construction costs. TIF is not a loan; the development's taxes, which would already have to be paid, are used to pay back the principal and interest on the bonds.

B. **Personal Property Tax Collections**

Personal property tax collections through the 3rd quarter of FY 2009 totaled $3.18 million. These collections were $753,000, or 31%, above the $2.43 million revised estimate. The annual due date for personal property tax returns is July 31st. Therefore, most of the personal property taxes are estimated to be collected in the 4th quarter.

According to ORA officials, the District should achieve the revised estimate in the general property taxes category for FY 2009.

**GENERAL SALES AND USE TAXES**

The FY 2009 revised estimate for general sales and use taxes is $723.55 million.[12] Collections of general sales and use taxes through the 3rd quarter totaled $622.61 million, which were:

- $61.53 million, or 11%, above the $561.08 million 3rd quarter revised FY 2009 estimate; and
- $34.72 million, or 5.3%, below collections for the same period in FY 2008.

General sales and use tax collections through the 3rd quarter represented 86% of the total FY 2009 revised estimate for this category. Table III compares actual collections to the revised estimate through the 3rd quarter of FY 2009.

[12] Presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention Center Authority.

**TABLE III**
**General Sales and Use Taxes:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| General Sales and Use Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| **General Sales and Use Taxes** | $622,610 | $561,080 | $61,530 | 11% |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June, 2009 prepared by ORA.

Collections of general sales and use taxes through the 3rd quarter totaled $622.61 million. Actual collections through the 3rd quarter were $61.53 million, or 11%, above the $561.08 million revised 3rd quarter estimate. The fact that collections of general sales and use taxes were above the estimate may be due, in part, to the fact that school modernization funds of $106 million have not yet been distributed from non-dedicated general sales and use taxes. If the $106 million in school modernization funds had already been transferred, collections of general sales and use taxes would have totaled $516.61 million and would have been $44.47 million, or 7.9%, below the revised 3rd quarter estimate.

General sales and use tax collections may be weaker than the estimate due to a decline in consumer spending as a result of worsening economic conditions. According to a March 31, 2009 report from the Conference Board, "Apprehension about the outlook for the economy, the labor market and earnings continues to weigh heavily on consumers' attitudes. Looking ahead, consumers remain extremely pessimistic about the short-term future and do not foresee a turnaround in economic conditions over the coming six months. Consumers' assessment of overall present-day conditions remains unfavorable."

Although collections through the 3rd quarter were higher than the estimate, District officials should monitor this tax category closely since school modernization funds have not been transferred. After the transfer, non-dedicated collections of general sales and use taxes may be significantly below the estimate.

## SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise taxes. The FY 2009 revised estimate for selective sales and use taxes is $92.9 million. Collections through the 3rd quarter of FY 2009 totaled $53.32 million, which were:

- $13.2 million, or 19.8%, below the $66.52 million 3rd quarter FY 2009 revised estimate; and
- $2.8 million, or 5.6 %, above collections for the same period in FY 2008.

Selective sales and use tax collections through the 3rd quarter represented 57.4% of the total FY 2009 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 3rd quarter of FY 2009.

**TABLE IV**
**Selective Sales and Use Taxes:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Selective Sales and Use Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Alcoholic Beverage | $3,953 | $3,873 | $80 | 2.1% |
| Cigarette | 26,470 | 34,954 | (8,484) | (24.3%) |
| Motor Vehicle Excise | 22,892 | 27,691 | (4,799) | (17.3%) |
| **Total Selective Sales and Use Taxes** | **$53,315** | **$66,518** | **($13,203)** | **(19.8%)** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

## A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 3rd quarter totaled $3.95 million. These collections were $80,000, or 2.1%, above the $3.87 million revised estimate.

## B. Cigarette Tax

Cigarette tax collections through the 3rd quarter totaled $26.47 million. These collections were $8.48 million, or 24.3%, below the $34.95 million revised estimate. The fact that collections are below the estimate may be due, in part, to the fact that the federal excise tax on cigarettes was increased on April 1, 2009. According to the Center for Disease Control and Prevention (CDC) the increase was the largest federal cigarette tax increase in history. This tax increase may have caused some individuals to decrease or cease their purchase of cigarettes resulting in lower collections from the cigarette tax.

## C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 3rd quarter totaled $22.89 million. These collections were $4.8 million, or 17.3%, below the $27.69 million revised estimate. The fact that collections are below the estimate may be due, in part, to the fact that consumers are "holding off" on car purchases. According to a survey conducted by the Consumer Reports National Research

Center, "overall, 40 percent of American consumers are delaying buying a new car." Consumers who are purchasing cars are considering the purchase of a used car. These factors may have contributed to lower collections of this tax.

Overall, the District may not achieve the FY 2009 revised estimate in the selective sales and use taxes category.

## INCOME TAXES

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2009 revised estimate for the income taxes category is \$1.457 billion. Collections through the 3rd quarter of FY 2009 totaled \$1.122 billion, which were:

- \$9.55 million, or .8%, below the \$1.131 billion 3rd quarter revised estimate; and
- \$209.19 million, or 15.7%, below collections for the same period in FY 2008.

Income taxes collected through the 3rd quarter represented approximately 77% of the total FY 2009 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 3rd quarter of FY 2009.

**TABLE V**
**Income Taxes:**
**Comparison of Actual Cash Collections to the Revised Estimate Through the 3rd Quarter of Fiscal Year 2009**
**(\$000)**

| Income Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/Under Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Individual Income Tax | \$850,421 | \$864,783 | (\$14,362) | (1.7%) |
| Corporate Franchise Tax | 173,371 | 181,764 | (8,393) | (4.6%) |
| Unincorporated Business Franchise Tax | 97,977 | 84,770 | 13,207 | 15.6% |
| **Total Income Taxes** | **\$1,121,769** | **\$1,131,317** | **(\$9,548)** | **(.8%)** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

## A. Individual Income Tax

Individual income tax collections through the 3rd quarter totaled $850.42 million. This tax is the largest in the income taxes category. These collections were $14.36 million, or 1.7%, below the $864.78 million revised estimate.

The fact that individual income tax collections were lower than expected may be due, in part, to the fact that individual income tax declarations (estimated tax payments) were $485,000, or .3%, below the estimate through the 3rd quarter.

Also, collections may have been below the estimate due to higher unemployment rates. According to DOES, the District's unemployment rate increased from the previous month in both May and June 2009. Additionally the unemployment rates for April, May and June 2009 were respectively 2.9%, 4.1%, and 2.7% higher than the unemployment rates in April, May and June 2008.

Since income tax collections were below the estimate through the 3rd quarter, District officials should monitor this tax category closely for the remainder of FY 2009.

## B. Corporate Franchise Tax

Corporate franchise tax collections through the 3rd quarter totaled $173.37 million. The collections were $8.39 million, or 4.6%, below the $181.76 million revised estimate. The fact that actual collections were below the estimate may be due, in part, to the fact that corporate franchise tax declarations were $27.7 million, or 31%, lower than the estimate.

## C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 3rd quarter totaled $97.98 million. The collections were $13.21 million, or 15.6%, above the $84.77 million revised estimate.

Overall, the District appears on course to achieve the FY 2009 estimate in the income taxes category.

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, and (C) insurance premiums tax. The total FY 2009 revised estimate for the gross receipts taxes category is $260.11 million. Collections of gross receipts taxes through the 3rd quarter of FY 2009 totaled $213.15 million, which were:

- $41.33 million, or 24.1%, above the $171.81 million 3rd quarter FY 2009 revised estimate; and

- $16.37 million, or 8.3%, above collections for the same period in FY 2008.

Gross receipts taxes collected through the 3rd quarter represent 82% of the total FY 2009 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 3rd quarter of FY 2009.

**TABLE VI**
**Gross Receipts Taxes**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Gross Receipts Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Public Utilities Tax | $107,403 | $97,385 | $10,018 | 10.3% |
| Toll Telecommunications Tax | 49,355 | 46,203 | 3,152 | 6.8% |
| Insurance Premiums Tax | 56,389 | 28,226 | 28,163 | 99.8% |
| **Total Gross Receipts Taxes** | **$213,147** | **$171,814** | **$41,333** | **24.1%** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

## A. Public Utilities Tax[13]

Public utilities tax collections through the 3rd quarter totaled $107.4 million. The collections were $10.02 million, or 10.3%, above the $97.38 million revised estimate. The fact that collections were above the estimate may result, in part, from increased energy costs. According to the BLS, in June 2009, Washington-Baltimore area consumers paid more than the average U.S. city for utility (piped) gas and electricity. According to the BLS, Washington's June 2009 electricity prices were 13.6 percent higher than U.S. levels, the highest percent increase in the last ten years.

[13]The public utility tax is imposed on the gross receipts of television, radio and telephone companies; the usage per gallon for heating oil; per therm for natural gas; and per kilowatt hour for electric distribution.

**B. Toll Telecommunications Tax**

Toll telecommunications tax collections through the 3rd quarter totaled $49.35 million. The collections were $3.15 million, or 6.8%, above the $46.2 million revised estimate. The fact that collections were above the estimate may be due in part to the fact that, according to data from the BLS' Consumer Expenditure Survey, cellular phone expenditures increased rapidly from 2001 through 2007. The increase in cellular phone expenditures may result in the increase in the gross receipts to companies in the telephone service industry and a resultant increase in the toll telecommunications taxes paid on these receipts.

**C. Insurance Premiums Tax**

Insurance premium tax collections through the 3rd quarter totaled $56.39 million. The collections were $28.16 million, or 99.8%, above the $28.23 million revised estimate.

Based on collection patterns and emerging trends through the 3rd quarter, it appears that the District is on course to achieve the FY 2009 revenue estimate in the gross receipts taxes category.

**OTHER TAXES**

Other taxes include: (A) estate tax, (B) deed recordation tax, (C) deed transfer tax, and (D) economic interest transfer tax. The total FY 2009 revised estimate for the other taxes category is $214.65 million. Collections of other taxes through the 3rd quarter of FY 2009 totaled $178.23 million, which were:

- $194,000, or .1%, above the $178.04 million 3rd quarter FY 2009 revised estimate; and
- $101.61 million, or 36.3%, below collections for the same period in FY 2008.

Collections of other taxes through the 3rd quarter represented 83% of the total FY 2009 revised estimate for this category. Table VII compares actual collections to the revised estimate through the 3rd quarter of FY 2009 for other taxes.

**TABLE VII**
**Other Taxes:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Other Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Estate Tax | $69,481 | $57,085 | $12,396 | 21.7% |
| Deed Recordation Tax | 57,494 | 65,718 | (8,224) | (12.5%) |
| Deed Transfer Tax | 42,884 | 41,553 | 1,331 | 3.2% |
| Economic Interest Tax | 8,371 | 13,680 | (5,309) | (38.8%) |
| **Total Other Taxes** | **$178,230** | **$178,036** | **$194** | **.1%** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report, June 2009 prepared by ORA.

## A. Estate Tax

Estate tax collections through the 3rd quarter totaled $69.48 million. The collections were $12.39 million, or 21.7%, above the $57.09 million revised estimate. According to an ORA representative, estate tax revenue is dependent on two variables that are inherently difficult to predict: the number of deaths in any given year and the total value of a decedent's estate which, in turn, depends on the performance of financial and real estate markets.

## B. Combined Deed Recordation and Transfer Tax

Combined deed recordation and transfer tax collections through the 3rd quarter totaled $100.38 million. The recordation tax is imposed on the recording of real estate deeds in the District while the transfer tax is imposed on each transfer of real property at the time the deed is submitted for recordation. These combined collections were $6.89 million, or 6.4%, below the $107.27 million revised estimates.

According to data obtained from GCAAR, there was an overall average decline in settlements of condos and coops through the 3rd quarter of FY 2009 as compared to the 3rd quarter of FY 2008. While settlements for single family homes increased 4%, settlements for condos and coops declined 18.1%.

## C. Economic Interest Tax

Economic interest tax collections through the 3rd quarter totaled $8.37 million. The collections were $5.31 million, or 38.8%, below the $13.68 million revised estimate. According to an ORA representative, this tax is difficult to forecast because of the infrequent transfer of corporate ownership interests in the District of Columbia. As a result, ORA does not attempt to estimate this tax using any economic factors.

## NON-TAX REVENUE

Non-tax revenue includes: (A) licenses and permit fees, (B) fines and forfeitures, (C) charges for services, and (D) miscellaneous revenue. The total FY 2009 revised estimate for the non-tax revenue category is $339.84 million. Collections through the 3rd quarter totaled $232.16 million, which were:

- ✦ $3.8 million, or 1.6%, below the $235.97 million 3rd quarter FY 2009 revised estimate; and
- ✦ $8.58 million, or 3.8%, above collections for the same period in FY 2008.

Non-tax revenue collections through the 3rd quarter represented 68% of the total FY 2009 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 3rd quarter of FY 2009 for non-tax revenue.

**TABLE VIII**
**Non-Tax Revenue:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Other Taxes | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Licenses and Permits | $49,270 | $46,192 | $3,078 | 6.7% |
| Fines and Forfeitures | 86,226 | 87,414 | (1,188) | (1.4%) |
| Charges for Services | 34,437 | 32,570 | 1,867 | 5.7% |
| Miscellaneous Revenue | 62,228 | 69,798 | (7,570) | (10.8%) |
| **Total Non-Tax Revenue** | **$232,161** | **$235,974** | **($3,813)** | **(1.6%)** |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

### A. Licenses and Permit Fees

Licenses and permit fees collected through the 3rd quarter totaled $49.27 million. Collections were $3.08 million, or 6.7%, above the $46.19 million revised estimate.

### B. Fines and Forfeitures

Fines and forfeitures collected through the 3rd quarter totaled $86.23 million. The collections were $1.18 million, or 1.4%, below the $87.41 million revised estimate.

### C. Charges for Services

Charges for services collected through the 3rd quarter totaled $34.44 million. The collections were $1.87 million, or 5.7%, above the $32.57 million revised estimate.

### D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfers,[14] and (5) other revenue.[15] Miscellaneous revenue collected through the 3rd quarter totaled $62.23 million. The collections were $7.57 million, or 10.8%, below the $69.8 million revised estimate for the 3rd quarter.

According to information obtained from ORA, collections were below the estimate, in part, because of lower than expected collections in interest income earned on investments. Collections of interest income through the 3rd quarter of FY 2009 were 21% lower than the estimate through the 3rd quarter of FY 2008. According to data obtained from the Office of the Chief Financial Officer, Office of Finance and Treasury, the average interest rate earned on investments decreased approximately 2.58% in the 3rd quarter of FY 2009 as compared to the same period in FY 2008. The average rate during the 3rd quarter of FY 2009 was .239% compared with average of 2.817% in FY 2008.

Since non-tax revenue collections were below the estimate through the 3rd quarter, District officials should monitor this tax category closely.

[14]Includes the WASA Pilot (payment in lieu of taxes) transfer.
[15]Includes revenue from dishonored checks, payroll service fees, or other revenue from agencies.

## OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling transfers to the General Fund from the D.C. Lottery. The total FY 2009 revised estimate for the other financing sources category is $70.3 million. Collections through the 3rd quarter totaled $49.48 million which were:

- $3.36 million, or 6.4%, below the $52.84 million 3rd quarter FY 2009 revised estimate; and
- $1.4 million, or 2.8%, below collections for the same period in FY 2008.

Collections from other financing sources through the 3rd quarter represented 70.4% of the total FY 2009 revised estimate for this category. Table IX compares actual collections to the estimate through the 3rd quarter of FY 2009.

**TABLE IX**
**Other Financing Sources:**
**Comparison of Actual Cash Collections to the Revised Estimate**
**Through the 3rd Quarter of Fiscal Year 2009**
**($000)**

| Other Financing Sources | Actual Collections Through the 3rd Quarter FY 2009 | Revised Estimate Through the 3rd Quarter FY 2009 | Difference: Actual Over/(Under) Revised Estimate | Percentage Difference |
|---|---|---|---|---|
| Legalized Gambling | $49,475 | $52,835 | ($3,360) | (6.4%) |

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2009, Monthly OCFO Cash Report June 2009, prepared by ORA.

Legalized gambling (transfers to the General Fund from the D.C. Lottery) through the 3rd quarter totaled $49.48 million. The transfers were $3.36 million, or 6.4%, below the $52.84 million revised 3rd quarter estimate.

## SPECIAL PURPOSE REVENUE FUND (O-TYPE)

The special purpose revenue fund (O-type) estimate for FY 2009 was $453.61 million. Collection of special purpose revenue funds (O-type) through the 3rd quarter of FY 2009 totaled $325.45 million. These collections were $7.62 million, or 2.4%, above the $317.83 million 3rd quarter revised estimate. Collections through the 3rd quarter of FY 2009 were $25.06 million, or 8.3%, above the $300.38 million in collections for the same period in FY 2008.

ORA officials stated there were numerous funds which comprise special purpose revenue funds (O-type) and that the collection pattern varied for each fund.

Overall, based on collection patterns and emerging trends through the 3rd quarter, it appears that the District is on course to achieve the FY 2009 revenue estimate in the special purpose revenue fund (O-type) category.

## CONCLUSION

The Auditor's analysis indicated that, overall, actual cash collections were above the revised estimate through the 3rd quarter of FY 2009. The District's cash collections through June 2009 (excluding special purpose revenue fund (O-type) totaled $3.379 billion, which were $79.07 million, or 2.4%, above the $3.3 billion revised estimate through the 3rd quarter. The $3.379 billion in actual cash collections represented 68% of the total $4.979 billion FY 2009 revised revenue estimate.

Specifically, collections were above the estimate through the 3rd quarter in the following categories: 1) general property taxes; 2) general sales and use taxes; 3) gross receipts taxes; 4) other taxes; 5) licenses and permits; and 6) charges for services. Collections were also above the estimate for the special purpose revenue fund (O-type). On the other hand, collections were below the estimate in the following categories: 1) selective sales and use taxes; 2) income taxes; 3) fines and forfeitures; 4) miscellaneous revenue and 5) legalized gambling (transfers to the General Fund from the D.C. Lottery).

Based on our review and analysis of economic data from various sources, as well as revenue collection patterns through the 3rd quarter, it appears, overall, that the District is on course to achieve the $4.979 billion FY 2009 revised revenue estimate.

Respectfully submitted,

Deborah K. Nichols

Deborah K. Nichols
District of Columbia Auditor

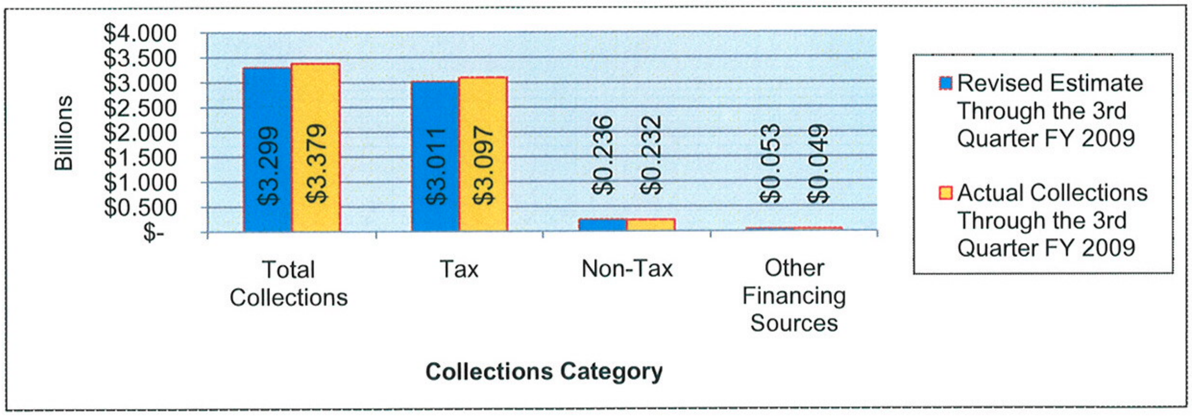
# APPENDICES

**APPENDIX I**

GRAPH I

Summary of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

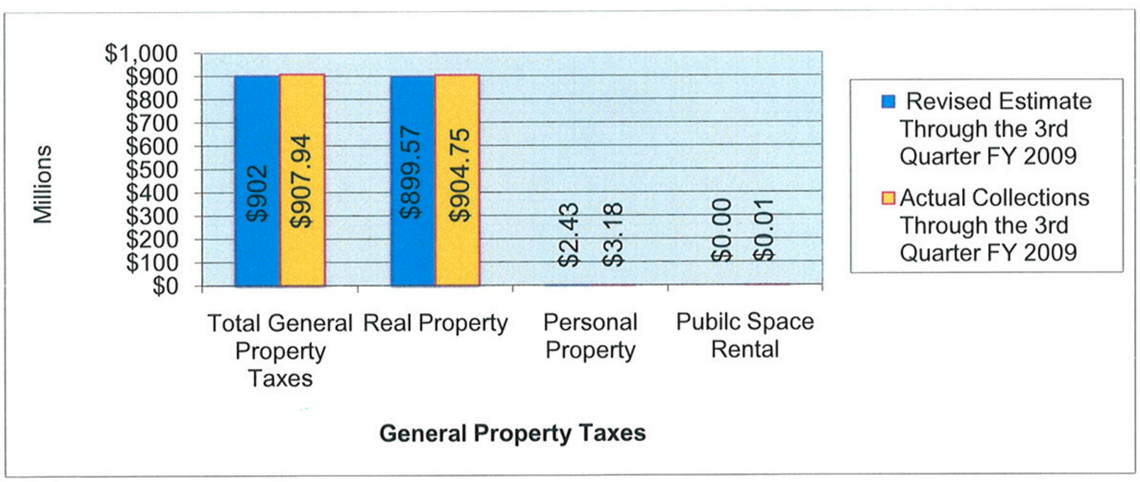



GRAPH II

General Property Taxes:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

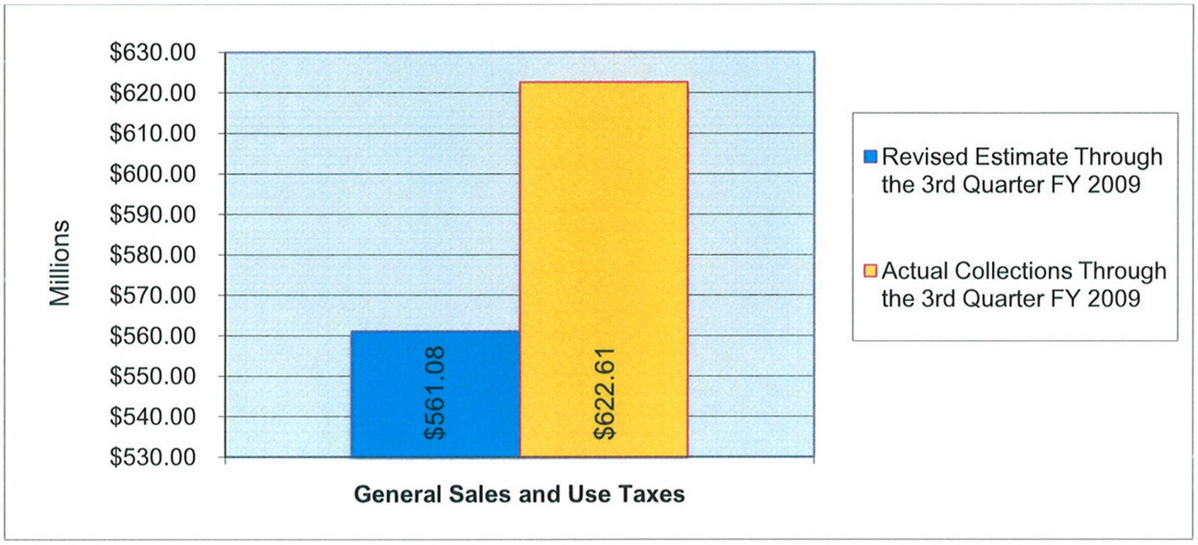


GRAPH III

General Sales and use Taxes:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

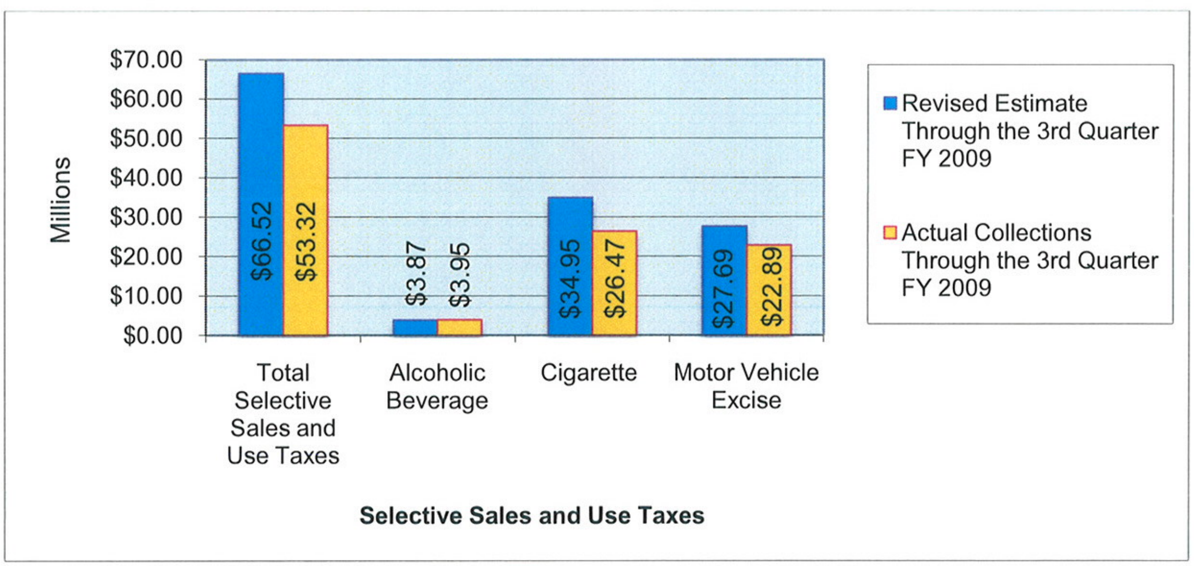



GRAPH IV

Selective Sales and Use Taxes:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

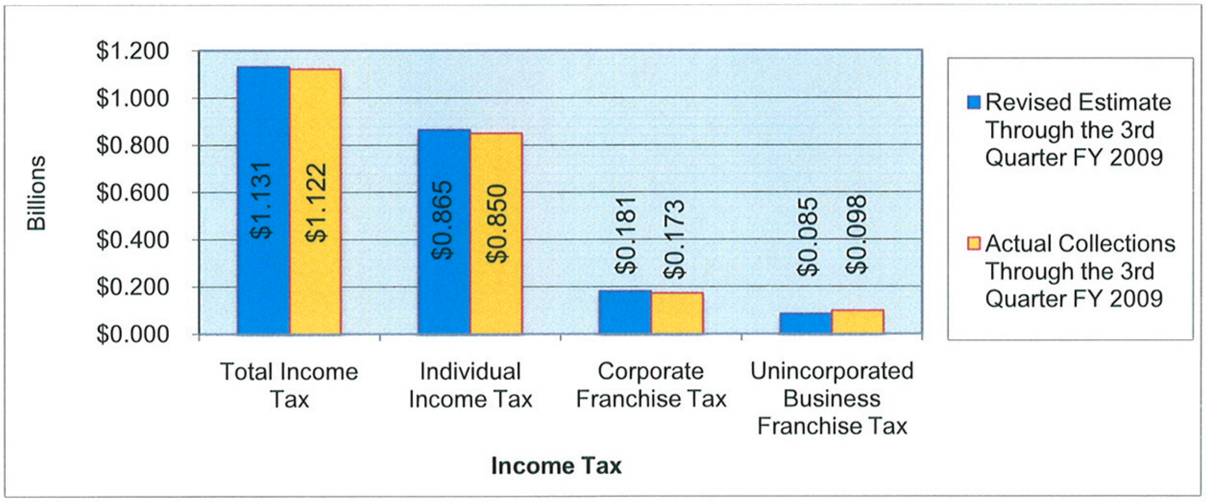


GRAPH V

Income Taxes:

Comparison of the Revised Revenue Estimates

Through the 3rd Quarter FY 2009 to Actual Cash Collections

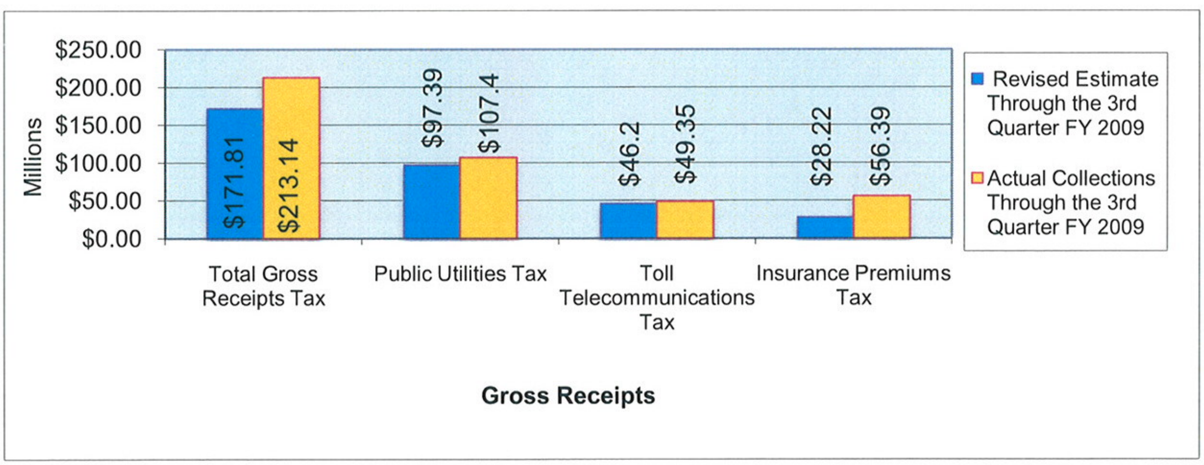



Graph VI

Gross Receipts Tax:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

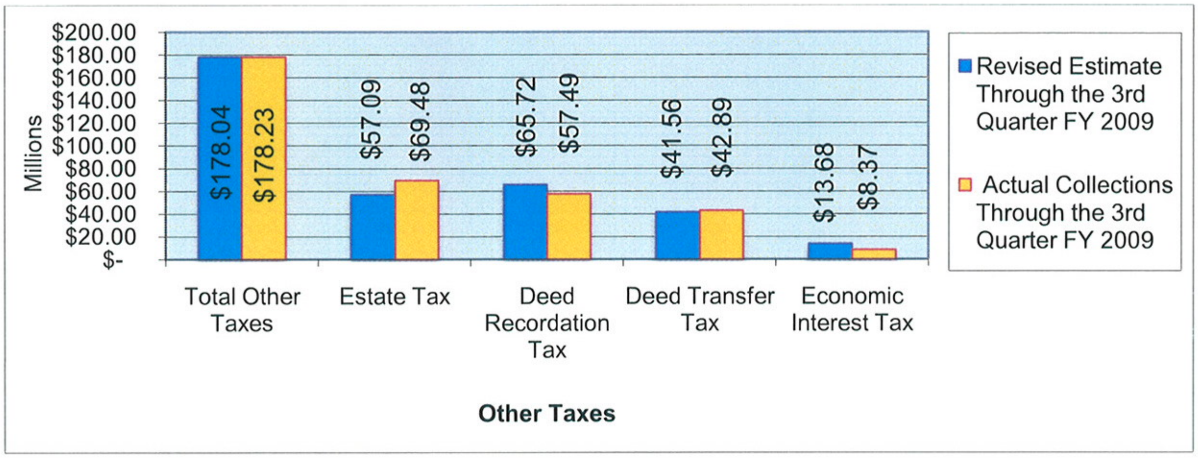


GRAPH VII

Other Taxes:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 to Actual Cash Collections

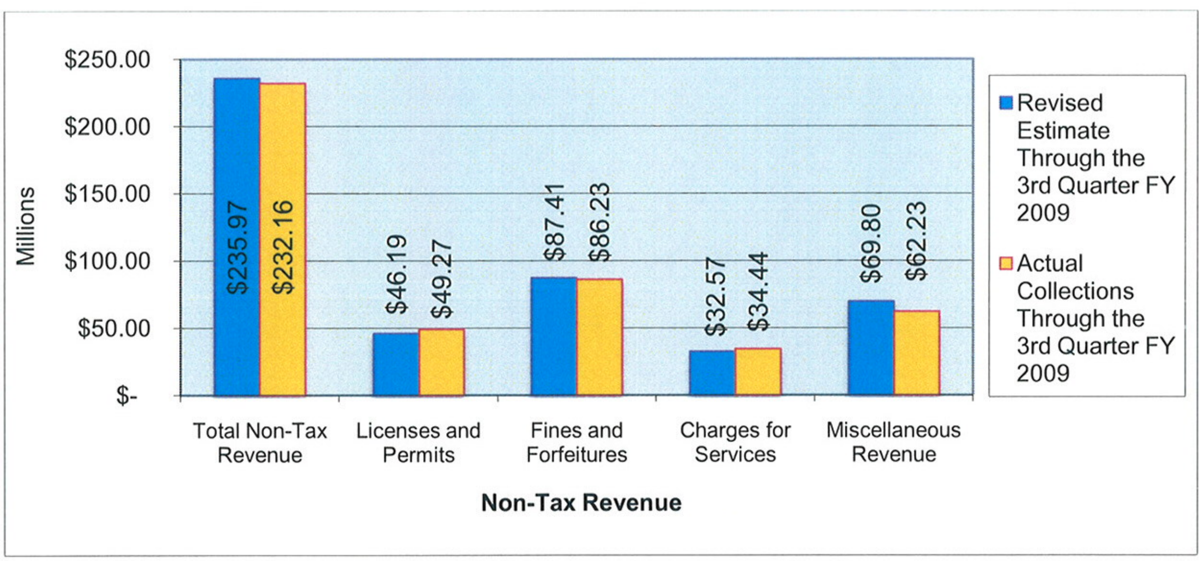



GRAPH VIII

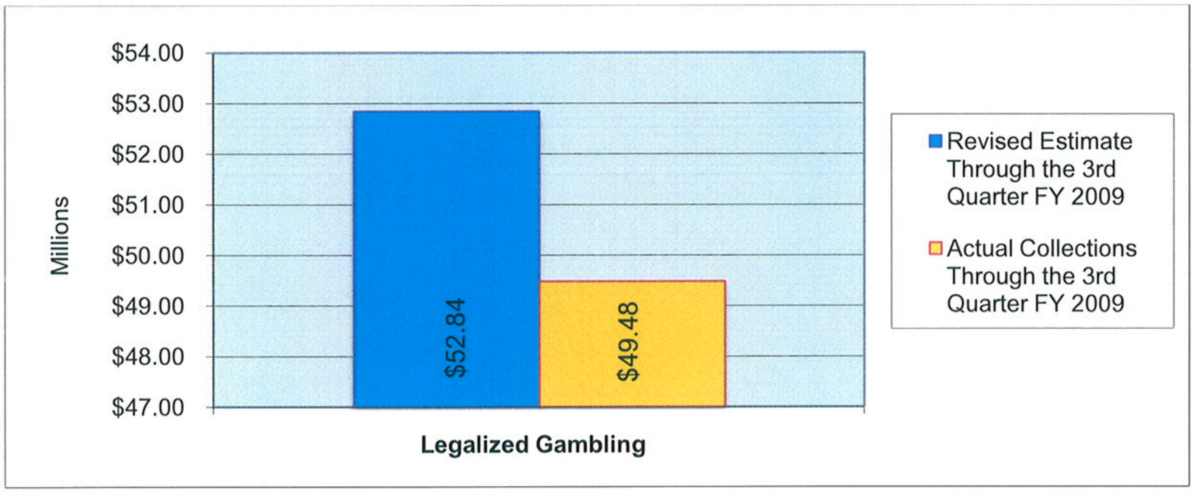
Non-Tax Revenue:

Comparison of the Revised Revenue Estimate

Through the 3rd Quarter FY 2009 Actual Cash Collections



GRAPH IX
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2009 to Actual Cash Collections



## Comparison of Cash Collections Through the 3rd Quarter Fiscal Years 2005 - 2009[16] ($000)

| Collections Categories | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---|---|---|---|---|---|
| **General Property Taxes** | $552,466 | $573,412 | $717,568 | $855,556 | $907,940 |
| **General Sales and Use Taxes*** | 587,610 | 594,319 | 521,815 | 657,333 | 622,610 |
| **Selective Sales and Use Taxes** | 50,047 | 50,488 | 51,375 | 50,509 | 53,315 |
| **Income Tax** | 1,092,357 | 1,235,469 | 1,329,931 | 1,330,958 | 1,121,769 |
| **Gross Receipts Tax** | 219,750 | 190,351 | 190,870 | 196,773 | 213,147 |
| **Other Taxes** | 262,951 | 250,616 | 380,088 | 279,838 | 178,230 |
| **Non-Tax Revenue** | 242,154 | 251,346 | 256,885 | 223,578 | 232,161 |
| **Other Financing Sources** | 52,250 | 50,275 | 47,850 | 50,875 | 49,475 |
| **Total Cash Collections Financing the Appropriation[17]** | **$3,059,585** | **$3,196,276** | **$3,496,382** | **$3,645,420** | **$3,378,647** |

Source: OCFO ORA

*Collections of general sales and use taxes are reported on a net basis after the transfer of tax revenue to dedicated purposes including the Washington Convention Center Authority

[16]Differences in totals presented in this table are due to rounding.

[17]Total collections presented in this Appendix does not include special purpose revenue fund (O-type) and are presented net of dedicated taxes transferred to dedicated purposes.

## Comparison of Collections through the 3rd Quarter of FY 2009 to Collections through the 3rd Quarter of FY 2008[17] ($000)

| Collections Category[18] | Collections Through the 3rd Quarter Fiscal Year 2009 | Collections Through the 3rd Quarter Fiscal Year 2008 | Difference 3rd Quarter FY 2009 Over/(Under) 3rd Quarter FY 2008 | Percentage Difference |
|---|---|---|---|---|
| **General Property Taxes:** | | | | |
| Real Property | 904,750 | 853,237 | 51,513 | 6% |
| Personal Property | 3,182 | 2,319 | 863 | 37.2% |
| Public Space Rental | 8 | 0 | 8 | 0.0% |
| **Total general Property Taxes** | **$ 907,940** | **$ 855,556** | **$ 52,384** | **6.1%** |
| **General Sales and Use Taxes** | **$ 622,610** | **$ 657,333** | **($34,723)** | **(5.3%)** |
| **Selective Sales and use Taxes:** | | | | |
| Alcoholic Beverage | 3,953 | 3,900 | 53 | 1.4% |
| Cigarette | 26,470 | 16,316 | 10,154 | 62.2% |
| Motor Vehicle Excise | 22,892 | 30,049 | (7,157) | (23.8%) |
| Motor Vehicle Fuel Tax | 0 | 244 | (244) | (99.8%) |
| **Total Selective Sales and Use Taxes** | **$ 53,315** | **$ 50,509** | **$ 2,806** | **5.6%** |
| **Income Taxes:** | | | | |
| Individual Income Tax | 850,421 | 1,012,849 | (162,428) | (16%) |
| Corporate Franchise | 173,371 | 203,504 | (30,133) | (14.8%) |
| Unincorporated Business Franchise | 97,977 | 114,605 | (16,628) | (14.5%) |
| **Total Income Taxes** | **$ 1,121,769** | **$ 1,330,958** | **($ 209,189)** | **(15.7%)** |
| **Gross Receipts Taxes:** | | | | |
| Public Utilities | 107,403 | 108,545 | (1,142) | (1.1%) |
| Toll telecommunications | 49,355 | 46,285 | 3,070 | 6.6% |
| Insurance Premiums | 56,389 | 41,943 | 14,446 | 34.4% |
| Healthcare Provider Tax | 0 | 0 | 0 | 0.0% |
| **Total Gross Receipts Taxes** | **$ 213,147** | **$ 196,773** | **$ 16,374** | **8.3%** |
| | | | | |
| Estate Tax | 69,481 | 56,212 | 13,269 | 23.6% |
| Deed Recordation | 57,494 | 99,279 | (41,785) | (42.1%) |
| Deed Transfer | 42,884 | 75,327 | (32,443) | (43.1%) |
| Economic Interests | 8,371 | 49,020 | (40,649) | (82.9%) |
| **Total Other Taxes** | **$ 178,230** | **$ 279,838** | **($ 101,608)** | **(36.3%)** |
| **Total Tax Collections** | **$ 3,097,011** | **$ 3,370,967** | **($ 273,956)** | **(8.1%)** |
| **Non-Tax Revenue:** | | | | |
| License and Permits | 49,270 | 54,370 | (5,100) | (9.4%) |
| Fines and Forfeitures | 86,226 | 77,569 | 8,657 | 11.2% |
| Charges for Services | 34,437 | 33,347 | 1,090 | 3.3% |
| Miscellaneous Revenue | 62,228 | 58,292 | 3,936 | 6.8% |
| **Total Non-Tax Revenue** | **$ 232,161** | **$ 223,578** | **$ 8,583** | **3.8%** |
| **Other Financing Sources** | **$ 49,475** | **$ 50,875** | **($ 1,400)** | **(2.8%)** |
| **Total Revenues** | **$ 3,378,647** | **$ 3,645,420** | **($ 266,773)** | **(7.3%)** |

Source: June 2009 Monthly OCFO cash report

[17]Rounding may affect some calculations presented in this table.
[18]Total collections presented in this Appendix does not include special purpose revenue fund (O-type). General sales and use taxes are presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention Center Authority.