



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor
002:03:SDG:VJ:gk

**Certification of the Fiscal Year 2003 Revised Total
Local Revenue Estimate in Support of the District's
\$374,200,000 Multimodal General Obligation Bonds
(Series 2002A and 2002B)**

December 9, 2002



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900
WASHINGTON, D.C. 20005
TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor
002:03:SDG:VJ:gk

The Honorable Linda W. Cropp, Chairman
and Members of the Council of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Certification of the Fiscal Year 2003 Revised Total
Local Revenue Estimate in Support of the District's
\$374,200,000 Multimodal General Obligation Bonds
(Series 2002A and 2002B)

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

Pursuant to Section 603(b)(1) of Public Law 93-198, the Home Rule Act, as amended, the Chief Financial Officer (CFO) of the District of Columbia, by letter dated September 17, 2002, requested the District of Columbia Auditor to certify the fiscal year 2003 revised total local revenue estimate. The certification was requested in support of the District's issuance of \$374,200,000 in Multimodal General Obligation Bonds (Series 2002A and 2002B) to finance approved capital project expenditures and refund certain outstanding indebtedness.¹ This report sets forth the results of the Office of the District of Columbia Auditor's analysis of the fiscal year 2003 revised local revenue estimate in support of the \$374,200,000 in bonds issued by the District of Columbia government.

Public Law 93-198, Section 603(b)(1), states, in relevant part, the following:

No general obligation bonds...or Treasury capital project loans shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid both serially and into a sinking fund in any fiscal year on the aggregate amounts of all outstanding general obligation bonds and such Treasury loans, to exceed 17 percent of the District revenues...which the Mayor estimates, and the District of Columbia Auditor certifies, will be credited to the District during the fiscal year in which the bonds will be issued...

¹ According to the District's associate treasurer, the bond issue is a fiscal year 2003 issuance and will be reflected in the District's fiscal year 2003 CAFR. The bonds were titled to reflect the calendar year rather than the fiscal year.

Pursuant to the District of Columbia Home Rule Act, as amended by Public Law 104-8, the "District of Columbia Financial Responsibility and Management Assistance Act of 1995" (Authority Act), and Public Law 106-522, the "District of Columbia Appropriations Act for Fiscal Year 2001," the CFO must prepare annual estimates of all District revenues for use in developing the District's budget and must prepare quarterly re-estimates of revenues during the fiscal year.

In reviewing the revised fiscal year 2003 local revenue estimate of \$3.499 billion, the Auditor was disinclined to certify to the entire estimate as a result of concerns regarding the achievability of the estimates for public utilities, licenses and permits, and miscellaneous revenues in fiscal year 2003.² Also, the Auditor had concerns regarding the estimate for general sales and use taxes as a result of prolonged stock market declines and other factors that continue to affect the District's economy.

The Auditor certified to \$3.467 billion, which is approximately \$32 million less than the CFO's \$3.499 billion revised revenue estimate for fiscal year 2003. In the Auditor's overall evaluation, revenue of approximately \$32 million,³ or approximately 1%, of the total \$3.499 billion revised fiscal year 2003 revenue estimate, may not be realized if the downward revenue collection trend continues in the affected revenue categories. Additionally, other events may occur which could negatively affect consumer spending and the District's economy.

Information upon which tax and non-tax revenue estimates are based can, and often does, change rapidly thereby resulting in revisions to the estimates after the Auditor's certification. Further, relative uncertainty in the overall revenue estimating process and unforeseen national and local events may substantially change the District's economic outlook and result in changes to the revenue estimate that differ significantly from the estimate certified by the Auditor. Thus, the Auditor has determined that, at the time of certification, the estimate appears sufficiently supported and achievable by the District.

Based upon the results of a review and analysis of available information as well as representations made by representatives of the Office of the Chief Financial Officer, the Auditor determined that the District should achieve a fiscal year 2003 revised local revenue estimate of \$3.467 billion. Therefore, the Auditor certified to a revenue estimate of \$3.467 billion in support of the District's issuance of \$374,200,000 in Multimodal General Obligation Bonds (Series 2002A and 2002B).

²Public utilities is a component of gross receipts taxes while licenses and permits and miscellaneous revenue are components of non-tax revenue.

³Rounding may affect some calculations presented in this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether the CFO's fiscal year 2003 revised total local revenue estimate of \$3.499 billion would be credited to the District for the fiscal year ending September 30, 2003. The fiscal year 2003 revised total local revenue estimate included all tax collections of the Office of Tax and Revenue and non-tax revenues generated by programs administered by other District agencies such as, but not limited to, the Department of Consumer and Regulatory Affairs and the Department of Insurance and Securities Regulation.

The Auditor's certification was based upon an evaluation of revenue estimates developed by officials within the District's Office of the Chief Financial Officer. The evaluation included a review and analysis of the CFO's estimate of total local revenue for fiscal year 2003, the report of cash collections as of August 31, 2002, prepared by the Office of the Chief Financial Officer's Office of Research and Analysis (ORA), preliminary collection data for September, as of October 15, 2002, from the District's System of Accounting and Reporting (SOAR), and other relevant information. Additionally, the Auditor reviewed the District's fiscal years 2002 and 2003 budget and financial plans, the preliminary official statement supporting the issuance of the bonds, as well as statistical, economic, and other relevant data.⁴ Tourism, restaurant and hotel statistics were obtained from the Washington D.C. Convention and Tourism Corporation (WCTC).

The Auditor interviewed ORA officials regarding underlying assumptions used in the development of the CFO's revised fiscal year 2003 local revenue estimate of \$3.499 billion, and interviewed private economists to obtain their independent assessments regarding the impact of the recession on the District's economy.

⁴Data was obtained from several sources including the Department of Employment Services (DOES), the Metropolitan Washington Council of Governments, the Real Estate Association of the Washington Metropolitan Area, Value Line, Standard and Poors, and Moody's investor services.

RESULTS OF ANALYSIS

The District's Chief Financial Officer officially revised the fiscal year 2003 revenue estimate in September 2002 following a significant drop in revenue collections in April 2002 which continued into August and September 2002. The decline in revenue collections resulted, in part, from reduced income tax collections coupled with higher than expected refunds to taxpayers. The fiscal year 2003 revised total local revenue estimate prepared by the CFO, in addition to the amount certified by the Auditor, are presented in Table I below.

TABLE I
FY 2003 Revised Local Revenue Estimate
Prepared by the CFO and the Amount Certified by the Auditor
(000s)

Revenue Category	CFO's FY 2003 Revised Revenue Estimate 9/02	Auditor's Certification of FY 2003 Revised Revenue Estimate	Difference
Property Taxes	\$852,211	\$852,211	\$ -0-
General and Selected Sales and Use Taxes	696,044	696,044	-0-
Income Taxes	1,116,893	1,116,893	-0-
Gross Receipts	243,930	235,130	8,800
Other Taxes	196,399	196,399	-0-
Total Taxes	3,105,477	3,096,677	8,800
Non-Tax Revenues	236,671	213,670	23,001
Other Financing Sources	70,900	70,900	-0-
Federal Payment	33,000	33,000	-0-
Revenue Initiatives	52,959	52,959	-0-
Total Non-Tax and Other Revenues	393,530	370,529	23,001
Total Local Source Revenue	\$3,499,007	\$3,467,206	\$31,801

Source: Office of Research and Analysis, DCA

The Auditor was unable to certify the CFO's entire revised fiscal year 2003 revenue estimate of \$3.499 billion largely because collections through September 2002 for public utilities, licenses and permits, and miscellaneous revenue were substantially below the revised estimates for fiscal year 2002, and increases in these estimates for fiscal year 2003 were not adequately supported. For example, in public utilities, preliminary collections through September 2002 totaled only \$139 million which was approximately \$8 million below the revised fiscal year 2002 revenue estimate of \$147 million. Because the collections in fiscal year 2002 did not meet the revised estimate, the Auditor questioned whether the fiscal year 2003 public utilities revenue estimate of approximately \$148 million could be achieved.

For licenses and permits, the collections through September 2002 totaled only \$38.3 million, which were approximately \$6.5 million below the revised estimate of \$44.8 million for fiscal year 2002. Again, based upon a comparative analysis of the fiscal year 2002 collections for this revenue category to the revised fiscal year 2003 estimate of \$48 million, the Auditor had concerns about whether the District would achieve the fiscal year 2003 estimate for licenses and permits.

Collections for miscellaneous revenue were also well below the fiscal year 2002 revised estimate. Collections as of September 2002 totaled \$49 million, which were approximately \$20 million below the revised fiscal year 2002 estimate of \$69 million. The fiscal year 2003 revised local revenue estimate for this category totaled \$65 million, an increase of approximately 33% over actual fiscal year 2002 collections as of September 2002. The Auditor again was concerned whether the District could achieve the fiscal year 2003 revised local revenue estimate for this category.

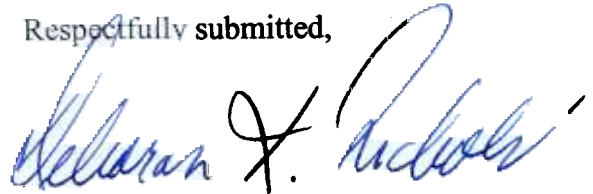
Other concerns and risk factors that could impact the District's ability to achieve its fiscal year 2003 revised local revenue estimate of \$3.499 billion that could not be quantified at the time included:

- the impact on the District and national economy of possible armed conflict;
- recent sniper attacks in the Washington Metropolitan region;
- possibility of terrorist attacks occurring in the region;
- potential for a weak Christmas retail season;
- continued weakness in corporate profits; and
- continued weakness in the stock market.

CONCLUSION

Based on a review and analysis of the CFO's fiscal year 2003 revised local revenue estimate of \$3.499 billion, actual collections for fiscal year 2002 as of October 15, 2002, and other relevant data, the District of Columbia Auditor certified to a \$3.467 billion revenue estimate. The amount certified by the Auditor is approximately \$32 million less than the \$3.499 billion revenue estimate proposed by the District's CFO.

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor