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**Letter Report: Comparative Analysis of Actual
Cash Collections to the Revised Revenue Estimate
Through the 4th Quarter of Fiscal Year 2009**

October 29, 2010



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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 4th 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 4th quarter of fiscal year (FY) 2009 to the revised FY 2009 revenue estimate for the 4th 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 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

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, Volume 1, 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 original revenue estimate by \$130.7 million. The FY 2009 Budget and Financial Plan, dated June 9, 2008, included \$188.7 million of 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 FY 2009 revised 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 FY 2009 revised revenue estimate, a \$263 million decrease from the \$5.432 billion September 2008 FY 2009 revised 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 FY 2009 revised revenue estimate, a \$326 million decrease from the \$5.305 billion December 2008 FY 2009 revised revenue estimate, a \$453 million decrease from the \$5.432 billion September 2008 FY 2009 revised revenue estimate, and \$395 million decrease from the \$5.374 billion FY 2009 original revenue estimate.
- Revision #5 In September 2009, the CFO informed the Mayor and Council that the FY 2009 revenue estimate would remain unchanged from the \$4.979 billion FY 2009 June revised 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 \$4.979 billion estimate; (2) the FY 2009 4th quarter Comparative Report of Cash Collections by Funds prepared by the Chief Financial Officer's Office of Revenue Analysis (ORA)⁵; and (3) other relevant information. Additional information reviewed by the Auditor included economic data from several sources, including The Conference Board, the George Mason University 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 Office of Finance and Treasury (OFT), the District of Columbia Lottery and Charitable Games Board (D.C. Lottery), and Destination D.C.⁶

The Auditor interviewed ORA officials regarding cash collections through the 4th quarter of FY 2009 and representatives from other 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.⁷ The scope of the work performed for this purpose does not constitute an audit under government auditing standards (GAGAS).⁸

⁵ The comparative report of cash collections report used by the Auditor to compare the District's revenue estimates to cash collections through the 4th quarter reflected FY 2009 collections through October 15, 2009. Therefore, collections presented in this comparative analysis may not include all adjustments and accruals that may be made during the FY 2009 closing process and which may be reflected in the District's FY 2009 Comprehensive Annual Financial Report (CAFR).

⁶ Formerly called the Washington D.C. Convention and Tourism Corporation.

⁷ 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)."

⁸ See GAGAS 1.33.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 4th quarter of FY 2009 totaled \$5.057 billion, which were \$77.83 million, or 1.6%, above the \$4.979 billion revised estimate through the 4th quarter.⁹ The \$5.057 billion in actual cash collections represented 101.6% of the \$4.979 billion FY 2009 revised revenue estimate.¹⁰ Collections through the 4th quarter from tax, non-tax, and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$4.685 billion, which were \$116.1 million, or 2.5%, above the revised tax estimate of \$4.569 billion through September 2009.
- ◆ **Non-tax** - total non-tax collections were \$302.86 million, which were \$36.98 million, or 10.9%, below the revised non-tax estimate of \$339.84 million through September 2009.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$69 million. These collections were \$1.3 million, or 1.8%, below the revised other financing sources estimate of \$70.3 million through September 2009.

Table I compares actual cash collections to the revised estimate through the 4th 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 4th Quarter of Fiscal Year 2009
(\$000)

Collections Category	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Tax	\$4,685,392	\$4,569,282	\$116,110	2.5%
Non-Tax	302,859	339,840	(36,981)	(10.9%)
Other Financing Sources	69,000	70,300	(1,300)	(1.8%)
Total Collections	\$5,057,251	\$4,979,422	\$77,829	1.6%

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

⁹ Rounding may affect some calculations presented in this report.

¹⁰ The \$4.979 billion revised revenue estimate and \$5.057 billion in collections through the 4th 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 special purpose revenue fund. (O-type).

In conducting the analysis of cash collections through the 4th quarter of FY 2009, the Auditor compared the 4th quarter collection trends for the five prior fiscal years from FY 2005 through the 4th 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 4th quarter collections in general property taxes steadily increased over the five-fiscal year period. On the other hand, 4th 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 4th quarter of FY 2009 to 4th 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 4th quarter of FY 2009 totaled \$1.816 billion, which were:

- ◆ \$4.55 million, or .2%, below the \$1.821 billion 4th quarter FY 2009 revised estimate; and
- ◆ \$84.6 million, or 4.9%, above collections for the same period in FY 2008.

Collections of general property taxes through the 4th quarter represented 99.8% 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 4th quarter of FY 2009.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

General Property Taxes	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Real Property	\$1,754,702	\$1,773,208	(\$18,506)	(1%)
Personal Property	61,477	47,422	14,055	29.6%
Public Space Rental ¹¹	(95)	0	(95)	0%
Total General Property Taxes	\$1,816,084	\$1,820,630	(\$4,546)	(.2%)

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

A. Real Property Tax Collections

Real property tax collections through the 4th quarter of FY 2009 totaled \$1.755 billion. These collections were \$18.51 million, or 1%, below the \$1.773 billion revised estimate. The real property tax category is the largest component of general property taxes. The fact that collections were below the estimate may be due, in part, to the increase in property tax refunds.

The Auditor noted that real property tax refunds through the 4th quarter totaled \$30.08 million and were \$78,000, or .3%, above the \$30 million estimate. Refunds through the 4th quarter of FY 2009 were also \$22.42 million, or 292.6%, above refunds through the 4th quarter of fiscal year 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.

Also, according to ORA, collections may be below the estimate because approximately \$26 million in refunds were made to individuals and/or entities who deposited funds in anticipation of a tax sale initially scheduled for September 9, 2009 but which was subsequently rescheduled. ORA officials indicated that OTR revised the tax sale criteria such that properties with tax liabilities of \$1,000 or less will no longer be included in the sale, therefore some individuals/entities requested a refund of their deposit.

¹¹Public space rental collections are not used for general fund purposes but are dedicated to the District Department of Transportation.

B. Personal Property Tax Collections

Personal property tax collections through the 4th quarter of FY 2009 totaled \$61.48 million. These collections were \$14.06 million, or 29.6%, above the \$47.42 million revised estimate. Collections are above the estimate, in part, because an estimated \$10 million dedicated to the Neighborhood Investment Fund have not yet been transferred to the Fund. It appears that ORA did not include the impact of this transfer when developing and revising the estimate for this revenue source.

It is highly unlikely the District will achieve the \$1.821 billion FY 2009 revised revenue estimate in the general property taxes category.

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 4th quarter totaled \$817 million, which were:

- ◆ \$93.45 million, or 12.9%, above the \$723.55 million 4th quarter revised FY 2009 estimate; and
- ◆ \$50.63 million, or 5.8%, below collections for the same period in FY 2008.

General sales and use tax collections through the 4th quarter represented 113% of the total FY 2009 revised estimate for this category. Table III compares actual collections to the revised estimate through the 4th quarter of FY 2009.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

General Sales and Use Taxes	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	\$817,001	\$723,546	\$93,455	12.9%

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

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

Collections of general sales and use taxes through the 4th quarter totaled \$817 million. Actual collections through the 4th quarter were \$93.45 million, or 12.9%, above the \$723.55 million revised 4th quarter estimate. The fact that collections of general sales and use taxes were above the estimate is due, in part, to the fact that school modernization funds of \$106 million have not yet been distributed from nondedicated 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 \$711 million and would have been \$12.55 million, or 1.8% below the revised 4th quarter estimate.

General sales and use tax collections (after the transfer of modernization funds) may be weaker than the estimate due to a decline in tourism in the District. According to information obtained from Destination DC, hotel occupancy declined approximately 1.1% in the 4th quarter of FY 2009 as compared to the same period in FY 2008. Also, total room revenue generated during the 4th quarter of FY 2009 declined approximately 7.2% as compared to the same period in FY 2008.

Although collections through the 4th quarter were higher than the estimate, the District may not achieve the \$723.55 million FY 2009 revised revenue estimate in general sales and use taxes because after the transfer of \$106 million dedicated to the school modernization fund, non-dedicated collections of general sales and use taxes may be 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 4th quarter of FY 2009 totaled \$74.6 million, which were:

- ◆ \$18.28 million, or 19.7%, below the \$92.9 million 4th quarter FY 2009 revised estimate; and
- ◆ \$5.9 million, or 8.6%, above collections for the same period in FY 2008.

Selective sales and use tax collections through the 4th quarter represented 80% of the total FY 2009 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 4th quarter of FY 2009.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Alcoholic Beverage	\$5,261	\$5,157	\$104	2%
Cigarette	37,620	47,586	(9,966)	(20.9%)
Motor Vehicle Excise	31,745	40,160	(8,415)	(21%)
Total Selective Sales and Use Taxes	\$74,626	\$92,903	(\$18,277)	(19.7%)

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

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 4th quarter totaled \$5.26 million. These collections were \$104,000, or 2%, above the \$5.16 million revised estimate.

B. Cigarette Tax

Cigarette tax collections through the 4th quarter totaled \$37.62 million. These collections were \$9.97 million, or 20.9%, below the \$47.59 million revised estimate. The fact that collections are below the estimate may be due, in part, to the fact that both the federal excise tax and the District tax on cigarettes increased in FY 2009 resulting in a \$2 increase in the cost per pack of cigarettes in the District. This tax increase may have caused some individuals to reduce cigarette purchases resulting in lower collections from the cigarette tax. It appears that the estimate from this revenue source should be more conservative going forward.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 4th quarter totaled \$31.75 million. These collections were \$8.42 million, or 21%, below the \$40.16 million revised estimate. The fact that collections are below the estimate may be due, in part, to the fact that ORA's estimate may have been overly optimistic. ORA estimated that consumer spending for automobile purchases would be higher during the "cash for clunkers" sales.

Overall, the District may not achieve the \$92.9 million 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 4th quarter of FY 2009 totaled \$1.47 billion, which were:

- ◆ \$12.47 million, or .9%, above the \$1.457 billion 4th quarter FY 2009 revised estimate; and
- ◆ \$305 million, or 17.2%, below collections for the same period in FY 2008.

Income taxes collected through the 4th quarter represented approximately 100.9% of the total FY 2009 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 4th quarter of FY 2009.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Income Taxes	Actual Collections Through the 4th Quarter FY 2009	Revised Estimate Through the 4th Quarter FY 2009	Difference: Actual Over/Under Revised Estimate	Percentage Difference
Individual Income Tax	\$1,127,438	\$1,112,357	\$15,081	1.4%
Corporate Franchise Tax	221,098	237,264	(16,166)	(6.8%)
Unincorporated Business Franchise Tax	121,380	107,822	13,558	12.6%
Total Income Taxes	\$1,469,916	\$1,457,443	\$12,473	.9%

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

A. Individual Income Tax

Individual income tax collections through the 4th quarter totaled \$1.127 billion. This tax is the largest in the income taxes category. These collections were \$15.08 million, or 1.4%, above the \$1.112 billion revised estimate.

The fact that individual income taxes are higher than expected may be due, in part, to the fact that individual income tax withholding was \$21.89 million, or 2.2% higher than the estimate through September 2009. Refunds were \$13.85 million, or 4.8%, below the estimate through the 4th quarter. Also, declarations (estimated payments) were \$15.07 million, or 8.1%, higher than the estimate. Declarations may have been higher because of the rebound in the stock market.

B. Corporate Franchise Tax

Corporate franchise tax collections through the 4th quarter totaled \$221.1 million. The collections were \$16.16 million, or 6.8%, below the \$237.26 million revised estimate. The fact that collections were below the estimate may be due, in part, to the fact that corporate franchise tax declarations were \$35.6 million, or 30%, below the estimate.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 4th quarter totaled \$121.38 million. The collections were \$13.56 million, or 12.6%, above the \$107.82 million revised estimate. According to ORA representatives, many unincorporated business franchise taxpayers are partnerships associated with the real estate management industry. The unincorporated business franchise tax revenue is closely tied to the performance of the real estate market. Therefore, the fact that collections are above the estimate may be due, in part, to the fact that the commercial real estate market in the District was not as weak as expected.

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

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, and (C) insurance premium tax. The total FY 2009 revised estimate for the gross receipts taxes category is \$260.11 million. Collections of gross receipts taxes through the 4th quarter of FY 2009 totaled \$264.78 million, which were:

- ◆ \$4.7 million, or 1.8%, above the \$260.11 million 4th quarter FY 2009 revised estimate; and
- ◆ \$1.5 million, or .6%, below collections for the same period in FY 2008.

Gross receipts taxes collected through the 4th quarter represent 101.8% of the total FY 2009 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 4th quarter of FY 2009.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Gross Receipts Taxes	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Public Utilities Tax	\$142,467	\$143,027	(\$560)	(.4%)
Toll Telecommunications Tax	64,894	60,625	4,269	7%
Insurance Premium Tax	57,417	56,457	960	1.7%
Total Gross Receipts Taxes	\$264,778	\$260,109	\$4,669	1.8%

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

A. Public Utilities Tax¹³

Public utilities tax collections through the 4th quarter totaled \$142.47 million. The collections were \$560,000, or .4%, below the \$143.03 million revised estimate.

B. Toll Telecommunications Tax

Toll telecommunications tax collections through the 4th quarter totaled \$64.89 million. The collections were \$4.27 million, or 7%, above the \$60.62 million revised estimate.

C. Insurance Premium Tax

Insurance premium tax collections through the 4th quarter totaled \$57.42 million. The collections were \$960,000, or 1.7%, above the \$56.46 million revised estimate. Collections may be above the estimate, in part, because an estimated \$7.6 million has not yet been transferred to the Healthy DC Fund. After the transfer of these funds, collections of the insurance premium tax may be below the estimate. It appears that the transfer to the Healthy DC Fund was not factored into ORA's estimates for this tax revenue source.

¹³The 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.

Although collections through the 4th quarter were higher than the estimate, it is unlikely the District will achieve the \$260.11 million FY 2009 revised revenue estimate in the gross receipts category because after the transfer of an estimated \$7.6 million dedicated to the Healthy DC Fund, collections of gross receipts may be below the estimate.

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 4th quarter of FY 2009 totaled \$242.99 million, which were:

- ◆ \$28.34 million, or 13.2%, above the \$214.65 million 4th quarter FY 2009 revised estimate; and
- ◆ \$92.19 million, or 27.5%, below collections for the same period in FY 2008.

Collections of other taxes through the 4th quarter represented 113% of the total FY 2009 revised estimate for this category. Table VII compares actual collections to the revised estimate through the 4th quarter of FY 2009 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Other Taxes	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Estate Tax	\$74,508	\$70,000	\$4,508	6.4%
Deed Recordation Tax	89,818	75,662	14,156	18.7%
Deed Transfer Tax	70,285	51,034	19,251	37.7%
Economic Interest Tax	8,376	17,955	(9,579)	(53.4%)
Total Other Taxes	\$242,987	\$214,651	\$28,336	13.2%

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

A. Estate Tax

Estate tax collections through the 4th quarter totaled \$74.51 million. The collections were \$4.51 million, or 6.4%, above the \$70 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, may depend 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 4th quarter totaled \$160.1 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 \$33.4 million, or 26.4%, above the \$126.7 million revised estimates.

According to data obtained from GCAAR, there was an overall average increase in contracts and settlements of single family homes through the 4th quarter of FY 2009 as compared to the 4th quarter of FY 2008. Contracts for single family homes increased 17.9% while settlements for single family homes increased 11.2%.

C. Economic Interest Tax

Economic interest tax collections through the 4th quarter totaled \$8.38 million. The collections were \$9.58 million, or 53.4%, below the \$17.96 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. Also, the economic interest tax rate was reduced in FY 2009. According to ORA officials, equalizing the rate with the deed recordation and transfer taxes reduced the incentive for entities to structure sales through limited liability companies. Notwithstanding the above, ORA's estimate for this tax category may have been overly optimistic.

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

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 4th quarter totaled \$302.86 million, which were:

- ◆ \$36.98 million, or 10.9%, below the \$339.84 million 4th quarter FY 2009 revised estimate; and
- ◆ \$56.39 million, or 15.7%, below collections for the same period in FY 2008.

Non-tax revenue collections through the 4th quarter represented 89% of the total FY 2009 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 4th quarter of FY 2009 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Non-Tax Revenue	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Licenses and Permits	\$65,724	\$60,892	\$4,832	7.9%
Fines and Forfeitures	115,491	129,582	(14,091)	(10.9%)
Charges for Services	47,577	48,050	(473)	(1%)
Miscellaneous Revenue	74,067	101,316	(27,249)	(26.9%)
Total Non-Tax Revenue	\$302,859	\$339,840	(\$36,981)	(10.9%)

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

A. Licenses and Permit Fees

Licenses and permit fees collected through the 4th quarter totaled \$65.72 million. Collections were \$4.83 million, or 7.9%, above the \$60.89 million revised estimate.

B. Fines and Forfeitures

Fines and forfeitures collected through the 4th quarter totaled \$115.49 million. The collections were \$14.09 million, or 10.9%, below the \$129.58 million revised estimate. The fact that fines and forfeitures are below the estimate may be due, in part, to the fact that the revenue from photo cameras was less than estimated. Revenue of approximately \$2.5 million was estimated from a program to equip traffic enforcement cameras on street sweepers that would photograph the license plate numbers of vehicles illegally parked in marked street cleaning zones. According to ORA officials, this program was not implemented as planned.

C. Charges for Services

Charges for services collected through the 4th quarter totaled \$47.58 million. The collections were \$473,000, or 1%, below the \$48.05 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 4th quarter totaled \$74.07 million. The collections were \$27.25 million, or 26.9%, below the \$101.32 million revised estimate through the 4th quarter. Collections of interest income through the 4th quarter were also 76.8% lower than collections through the same period in FY 2008. Collections were below the estimate, in part, because of lower than expected collections from interest income earned on investments. According to data obtained from OFT, the average interest rate earned during the 4th quarter of FY 2008 was 2.31% while the average rate earned during the 4th quarter of FY 2009 was .184%, or a decrease of 2.1% over the same period in FY 2008.

Overall, the District may not achieve the \$339.84 million FY 2009 revised revenue estimate in the non-tax category.

¹⁴Includes the WASA Pilot (payment in lieu of taxes) transfer.

¹⁵Includes 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 4th quarter totaled \$69 million which were:

- ◆ \$1.3 million, or 1.8%, below the \$70.3 million 4th quarter FY 2009 revised estimate; and
- ◆ \$1.9 million, or 2.6%, below collections for the same period in FY 2008.

Collections from other financing sources through the 4th quarter represented 98% of the total FY 2009 revised estimate for this category. Table IX compares actual collections to the estimate through the 4th quarter of FY 2009.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2009
(\$000)

Other Financing Sources	Actual Collections Through the 4 th Quarter FY 2009	Revised Estimate Through the 4 th Quarter FY 2009	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Legalized Gambling	\$69,000	\$70,300	(\$1,300)	(1.8%)

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

Legalized gambling (transfers to the General Fund from the D.C. Lottery) through the 4th quarter totaled \$69 million. The transfers were \$1.3 million, or 1.8%, below the \$70.3 million revised 4th 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 4th quarter of FY 2009 totaled \$468.03 million. These collections were \$14.4 million, or 3.2%, above the \$453.61 million 4th quarter revised estimate. Collections through the 4th quarter of FY 2009 were \$72.86 million, or 18.4%, above the \$395.17 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 4th 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 4th quarter of FY 2009. However, the Auditor's analysis also indicated that the transfer of dedicated revenue had not been completed for all dedicated funds. Once the transfers are completed, non-dedicated collections may be below the estimate.

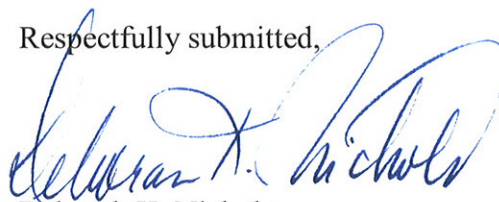
The District's cash collections through September 2009 (excluding special purpose revenue fund (O-type)) totaled \$5.057 billion, which were \$77.83 million, or 1.6%, above the \$4.979 billion revised estimate through the 4th quarter. The \$5.057 billion in actual cash collections represented 101.6% of the total \$4.979 billion revised FY 2009 revenue estimate.

Specifically, collections were above the estimate through the 4th quarter in the following categories: 1) general sales and use taxes; 2) income taxes; 3) gross receipts taxes; 4) other taxes; and 5) licenses and permits. 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) general property taxes; 2) selective sales and use taxes; 3) fines and forfeitures; 4) charges for services; 5) miscellaneous revenue and 4) 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 4th quarter, it appears, overall, that after transfers of revenues to dedicated sources, the District may not achieve the \$4.979 billion FY 2009 revised revenue estimate.

Respectfully submitted,



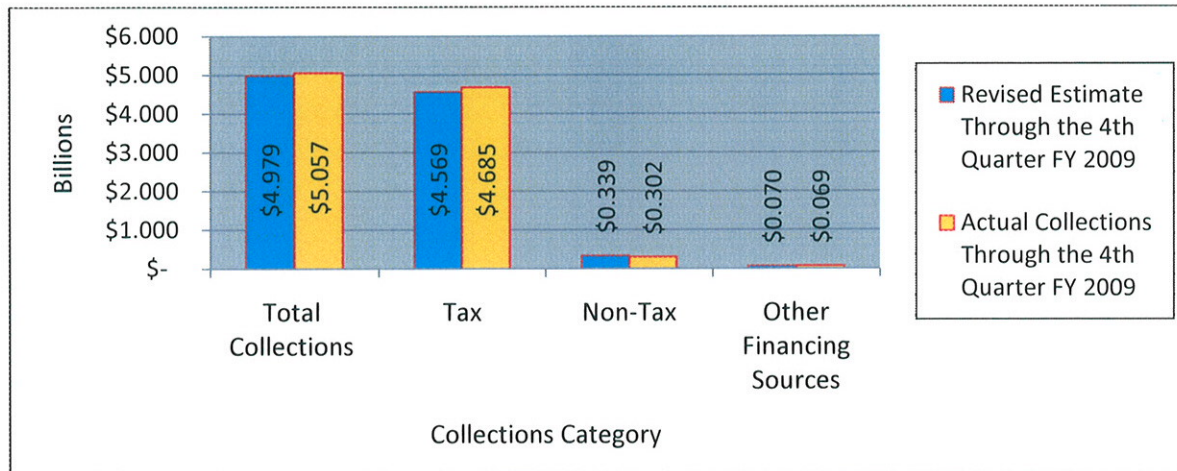
Deborah K. Nichols

District of Columbia Auditor

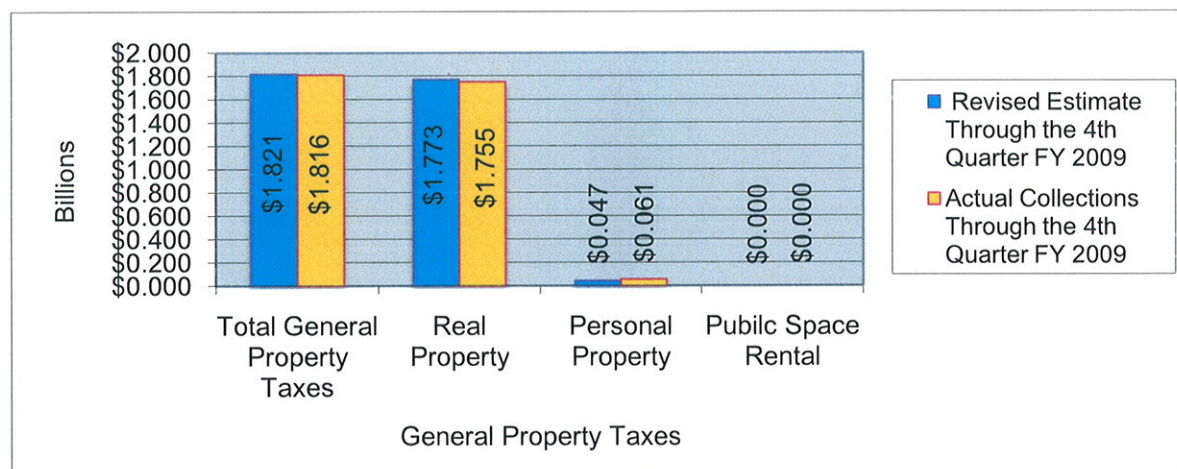
APPENDICES

APPENDIX I

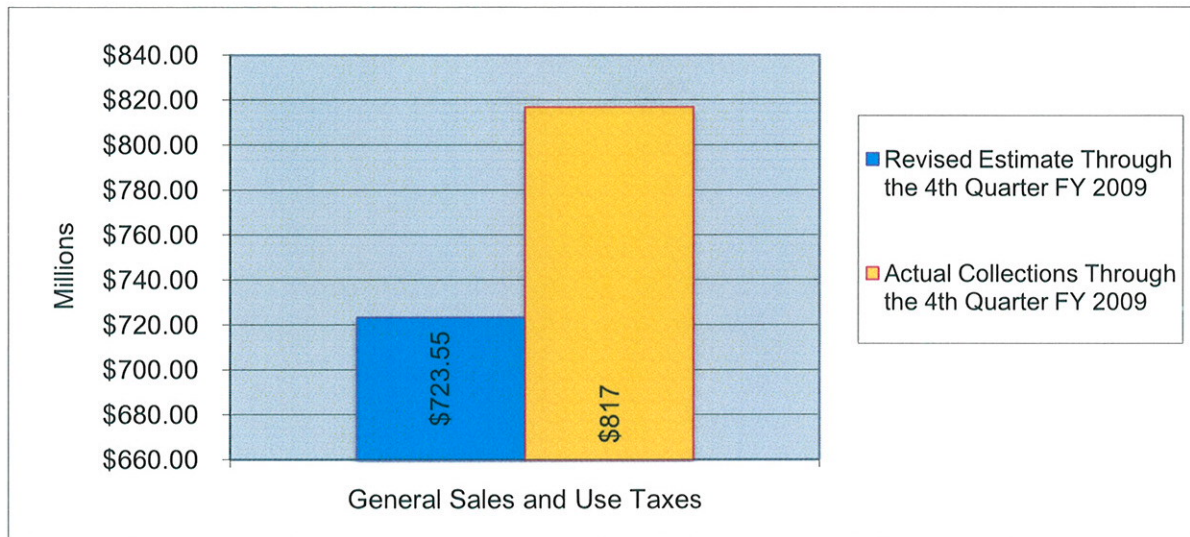
GRAPH I
Summary of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



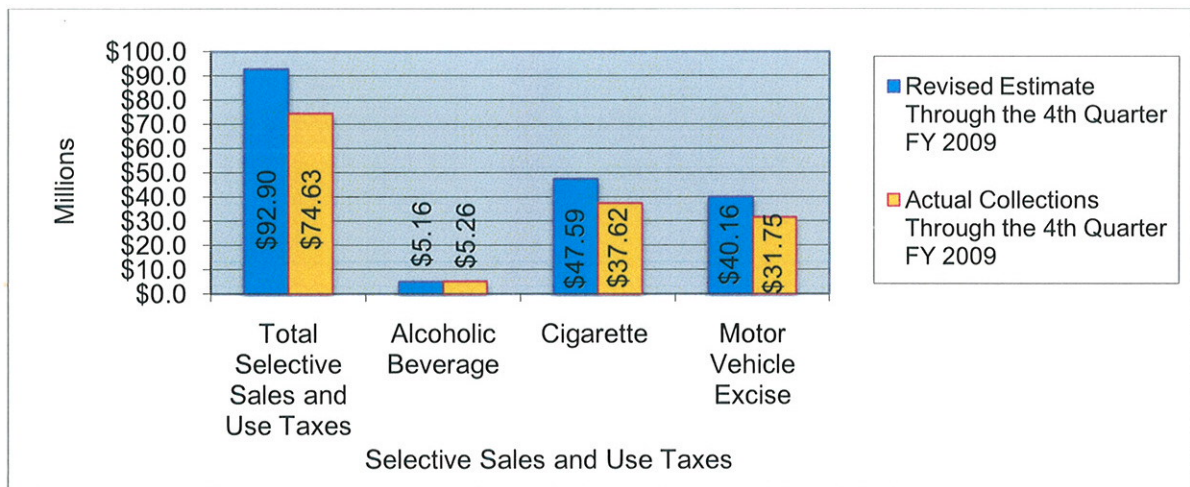
GRAPH II
General Property Taxes:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



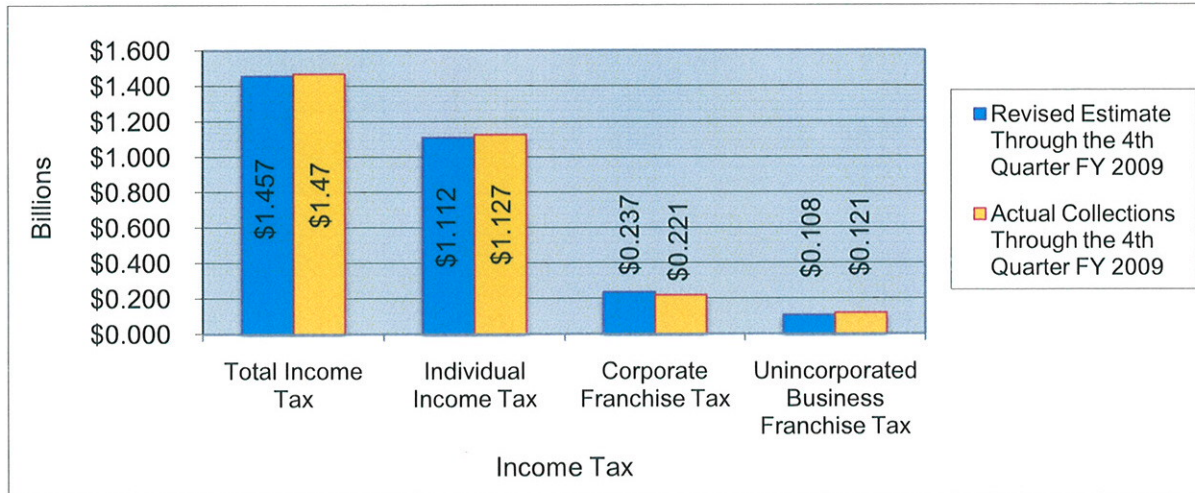
GRAPH III
General Sales and use Taxes
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



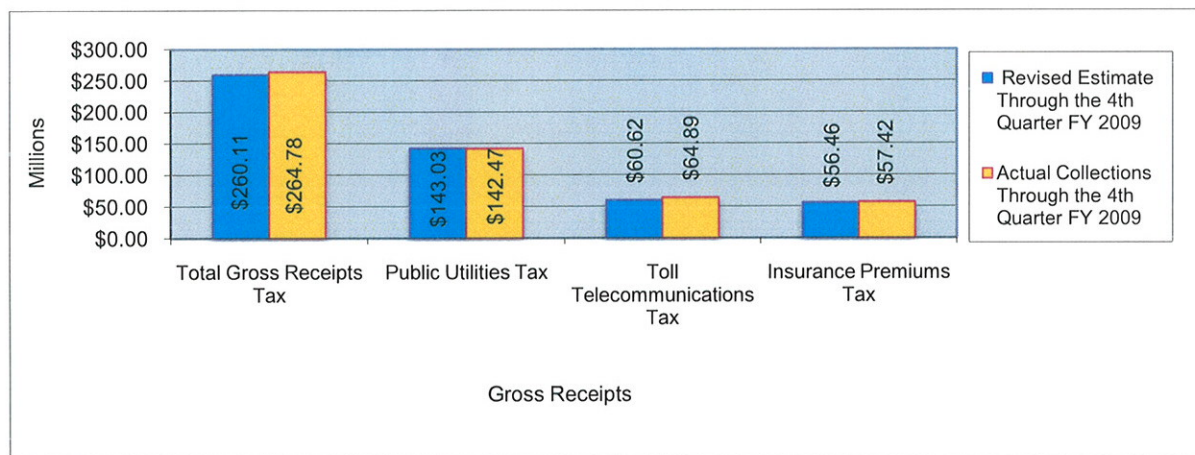
GRAPH IV
Selective Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



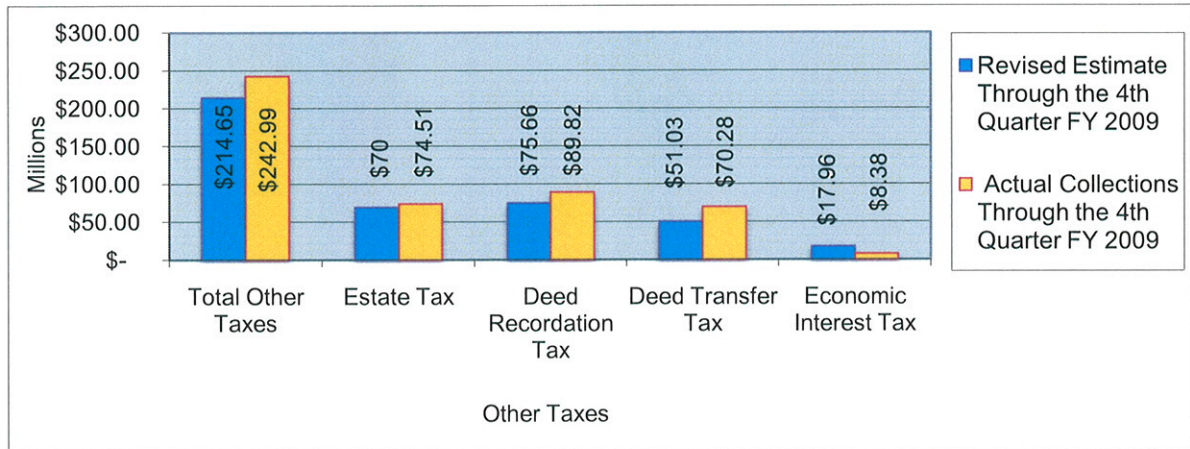
GRAPH V
Income Taxes:
Comparison of the Revised Revenue Estimates
Through the 4th Quarter FY 2009 to Actual Cash Collections



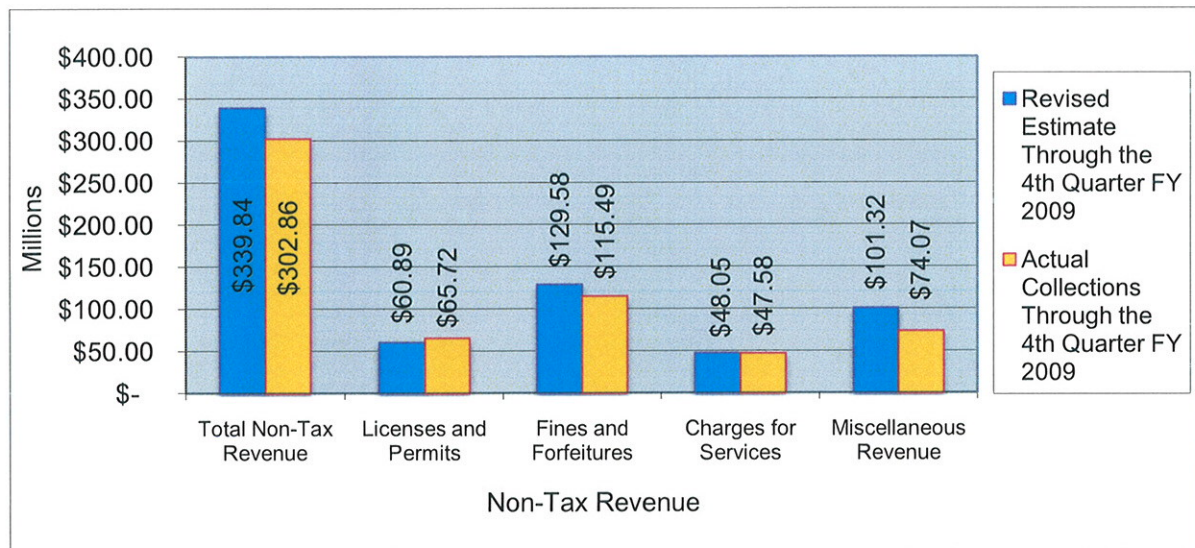
Graph VI
Gross Receipts Tax:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



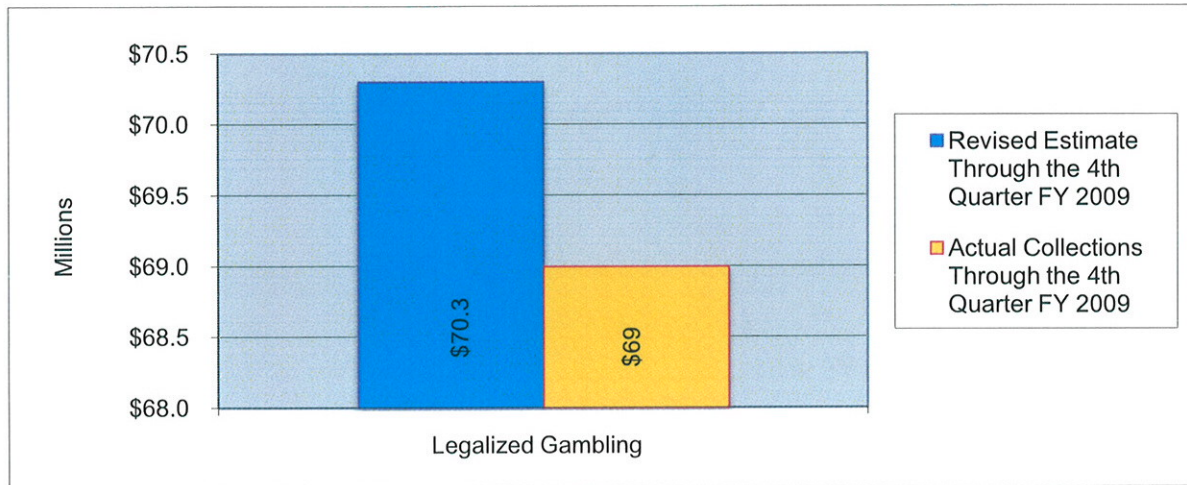
GRAPH VII
Other Taxes:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



GRAPH VIII
Non-Tax Revenue:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 Actual Cash Collections



GRAPH IX
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 4th Quarter FY 2009 to Actual Cash Collections



APPENDIX II

Comparison of Cash Collections Through the 4th Quarter Fiscal Years 2005 - 2009¹⁶ (\$000)

Collections Categories	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
General Property Taxes	\$1,156,076	\$1,202,458	\$1,520,138	\$1,731,446	\$1,816,084
General Sales and Use Taxes*	768,528	765,904	719,553	867,626	817,001
Selective Sales and Use Taxes	69,582	70,633	70,048	68,731	74,626
Income Tax	1,464,899	1,593,079	1,731,742	1,774,931	1,469,916
Gross Receipts Tax	271,707	253,393	262,894	266,291	264,778
Other Taxes	376,371	342,932	420,520	335,175	242,987
Non-Tax Revenue	321,388	358,231	397,105	359,248	302,859
Other Financing Sources	71,300	73,000	63,900	70,875	69,000
Total Cash Collections Financing the Appropriation¹⁷	\$4,499,851	\$4,659,630	\$5,185,900	\$5,474,323	\$5,057,251

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

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

¹⁷Total 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.

APPENDIX III

**Comparison of Collections through the 4th Quarter
Of FY 2009 to Collections through the 4th Quarter of FY 2008¹⁸**
(\$000)

Collections Category ¹⁹	Collections Through the 4 th Quarter Fiscal Year 2009	Collections Through the 4 th Quarter Fiscal Year 2008	Difference 4 th Quarter FY 2009 Over/(Under) 4 th Quarter FY 2008	Percentage Difference
General Property Taxes:				
Real Property	1,754,702	1,670,643	84,059	5%
Personal Property	61,477	60,800	677	1.1%
Public Space Rental	(95)	3	(98)	(3267%)
Total general Property Taxes	\$ 1,816,084	\$1,731,446	\$ 84,638	4.9%
General Sales and Use Taxes	\$817,001	\$ 867,626	(\$50,625)	(5.8%)
Selective Sales and use Taxes:				
Alcoholic Beverage	5,261	5,157	104	2%
Cigarette	37,620	23,900	13,720	57.4%
Motor Vehicle Excise	31,745	39,674	(7,929)	(20%)
Total Selective Sales and Use Taxes	\$ 74,626	\$ 68,731	\$ 5,895	8.6%
Income Taxes:				
Individual Income Tax	1,127,438	1,354,815	(227,377)	(16.8%)
Corporate Franchise	221,098	290,656	(69,558)	(23.9%)
Unincorporated Business Franchise	121,380	129,460	(8,080)	(6.2%)
Total Income Taxes	\$ 1,469,916	\$ 1,774,931	(\$ 305,015)	(17.2%)
Gross Receipts Taxes:				
Public Utilities	142,467	145,843	(3,376)	(2.3%)
Toll telecommunications	64,894	61,431	3,463	5.6%
Insurance Premiums	57,417	59,017	(1,600)	2.7%
Total Gross Receipts Taxes	\$ 264,778	\$ 266,291	(\$ 1,513)	(.6%)
Estate Tax	74,508	66,801	7,707	11.5%
Deed Recordation	89,818	124,936	(35,118)	(28.1%)
Deed Transfer	70,285	88,623	(18,338)	20.7%
Economic Interests	8,376	54,815	(46,439)	(84.7%)
Total Other Taxes	\$ 242,987	\$ 335,175	(\$ 92,188)	(27.5%)
Total Tax Collections	\$ 4,685,392	\$ 5,044,200	(\$ 358,808)	(7.1%)
Non-Tax Revenue:				
License and Permits	65,724	70,235	(4,511)	(6.4%)
Fines and Forfeitures	115,491	103,419	12,072	11.7%
Charges for Services	47,577	43,442	4,135	9.5%
Miscellaneous Revenue	74,067	142,152	(\$68,085)	47.9%
Total Non-Tax Revenue	\$ 302,859	\$ 359,248	(\$ 56,389)	(15.7%)
Other Financing Sources	\$ 69,000	\$ 70,875	(\$ 1,875)	(2.6%)
Total Revenues	\$ 5,057,251	\$ 5,474,323	(\$ 417,072)	(7.6%)

¹⁸Rounding may affect some calculations presented in this table.

¹⁹Total 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.