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
004:07:VJ:SDG:gk

Letter Report: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 3rd Quarter of Fiscal Year 2006

February 20, 2007

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The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 506
Washington, D.C. 20004

Letter Report: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 3rd Quarter of Fiscal Year 2006

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) 2006 to the revised FY 2006 revenue estimate for the 3rd quarter.

BACKGROUND

In February 2005, 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 2006 original revenue estimate of \$4.515 billion.[3] The \$4.515 billion non-dedicated General Fund revenue estimate was used as the baseline for the FY 2006 budget. Revisions to the \$4.515 billion estimate are presented below:

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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 2006 Proposed Budget and Financial Plan, Volume 1, Executive Summary, page 4-14, "General Fund Revenue by Source, Fiscal Year 2004 Actual, Fiscal Years 2005 - 2009 Estimates and Projections," dated June 6, 2005. The FY 2006 revenue estimate presented in this report represents the general purpose general fund revenue estimate and does not include the FY 2006 special purpose fund (O-type) revenue estimate of \$264.3 million. However, an overall discussion of special purpose fund (O-type) revenue is included in a later section of this report.

- In May 2005, the CFO revised the FY 2006 revenue estimate to $4.436 billion[4] which was a net decrease of $79.4 million from the $4.515 billion FY 2006 original revenue estimate;

- In September 2005, the CFO revised the FY 2006 revenue estimate upward to $4.466 billion[5] which was a net increase of $30.2 million over the $4.436 billion May 2005 revenue estimate, and $49 million below the $4.515 billion FY 2006 original revenue estimate;

- In December 2005, the CFO revised the estimate upward to$4.495 billion[6] which was a net increase of $29.5 million over the $4.466 billion September 2005 revenue estimate, a $59 million increase over the $4.436 billion May 2005 revenue estimate, and $20 million below the $4.515 billion FY 2006 original revenue estimate; and

- In February 2006, the CFO revised the revenue estimate upward to $4.502 billion which was a $7 million increase over the $4.495 billion December 2005 revenue estimate, a $36 million increase over the $4.466 billion September 2005 revenue estimate, a $66 million increase over the $4.436 billion June 2005 revenue estimate, and $13 million below the $4.515 billion FY 2006 original revenue estimate.

In May 2006, the CFO again revised the revenue estimate upward to $4.545 billion which was a $43 million increase over the $4.502 billion February 2006 revenue estimate, and a $30 million increase over the $4.515 billion FY 2006 original revenue estimate.

METHODOLOGY

In conducting the comparative analysis, the District of Columbia Auditor (Auditor) reviewed: (1) the May 2006 estimate of $4.545 billion; (2) the FY 2006 3rd quarter Comparative Report of Cash Collections by Funds which is prepared by the CFO's Office of Revenue Analysis (ORA); and (3) other relevant information. The Auditor also reviewed data from the following sources: the Office

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[4]In May 2005, the CFO certified additional revenue of $40 million. The FY 2006 Budget and Financial Plan, dated June 6, 2005, included $119.4 million in policy proposals. The additional revenue coupled with the policy proposals resulted in a net decrease of $79.4 million.

[5]The CFO certified additional revenue of $51.7 million which triggered policy changes totaling $21.5 million, resulting in a net increase of $30.2 million.

[6]The CFO certified additional revenue of $53.8 million which triggered policy changes totaling $24.3 million, resulting in a net increase of $29.5 million.

of Finance and Treasury (OFT); the George Mason University Center for Regional Analysis; the National Oceanic and Atmospheric Administration (NOAA); the Federal Reserve Board Beige Book (Federal Beige Book); the District's Department of Employment Services (DOES); the Greater Capital Area Association of Realtors (GCAAR); Smith Travel Research; U. S. Census Bureau; the District's Department of Insurance, Securities and Banking (DISB); Washington, D.C. Convention & Tourism Corporation (WDCCTC); the Consumer Price Index (CPI); the Conference Board; and CB Richard Ellis, a real estate services company.

The Auditor interviewed officials and individuals from District agencies and other entities including ORA, the Office of Finance and Treasury's Unclaimed Property Unit (OFT Unclaimed Property Unit), the U. S. Census Bureau, and the D.C. Lottery and Charitable Games Control Board (D.C. Lottery) regarding collections and overall economic conditions in the District.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 3rd quarter of FY 2006 totaled \$3.196 billion, which were \$57.6 million, or 1.8%, above the \$3.139 billion revised estimate through the 3rd quarter.[7] The \$3.196 billion in actual cash collections represented 70% of the \$4.545 billion revised FY 2006 revenue estimate.[8] Collections through the 3rd (June 2006) quarter from tax, non-tax, and other financing sources are presented below.

- **Tax** - total tax collections were \$2.895 billion, which were \$47.5 million, or 1.7%, above the revised tax estimate of \$2.847 billion through June 2006.

- **Non-tax** - total non-tax collections were \$251.3 million, which were \$14.5 million, or 6.1%, above the revised non-tax estimate of \$236.9 million through June 2006.

- **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$50.3 million. These collections were \$4.4 million, or 8%, below the revised other financing sources estimate of \$54.6 million through June 2006.

Table I compares actual cash collections to the revised estimate through the 3rd quarter of FY 2006 for tax, non-tax, and other financing sources. Appendix I presents a graphical depiction of the information contained in Table I and other tables presented in this report.

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

[8] The \$4.545 billion revised revenue estimate and \$3.196 billion in collections through the 3rd quarter of FY 2006 are presented net of the Washington Convention Center Authority estimate and transfer and also does not include the estimate and collections for special purpose fund (O-type) revenue.

TABLE I
Cash Collections Summary
Through the 3rd Quarter of Fiscal Year 2006
($000)

Collections Category	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Tax	$2,894,655	$2,847,161	$47,494	1.7%
Non-Tax	251,346	236,896	14,450	6.1%
Other Financing Sources	50,275	54,641	(4,366)	(8%)
Total Revenue Collections	**$3,196,276**	**$3,138,698**	**$57,578**	**1.8%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

In conducting the analysis of cash collections through the 3rd quarter of FY 2006, the Auditor compared the 3rd quarter collection trends from FY 2002 through the 3rd quarter of FY 2006. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. The Auditor notes, however, that 3rd quarter collections in the general property taxes, general sales and use taxes, selective sales and use taxes, and non-tax categories increased each year after FY 2002. On the other hand, 3rd quarter collections in the income tax category decreased in FY 2003, but increased in FYs 2004 through 2006. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this analysis.

Appendix III presents a comparison of collections through the 3rd quarter of FY 2006 to collections through the 3rd quarter of FY 2005 in each collections category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (c) revenue from public space rentals. The total FY 2006 revised estimate for the general property taxes category was $1.165 billion. Collections of general property taxes through the 3rd quarter of FY 2006 totaled $573.4 million, which were:

- $6.3 million, or 1.1%, above the $567.1 million 3rd quarter FY 2006 revised estimate; and
- $20.9 million, or 3.8%, above collections for the same period in FY 2005.

Collections of general property taxes through the 3rd quarter represented 49% of the total FY 2006 revised estimate for this category. Table II compares actual collections of general property taxes to the revised estimate through the 3rd quarter of FY 2006.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

General Property Taxes	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Real Property	$570,786	$563,640	$7,146	1.3%
Personal Property	2,646	3,453	(807)	(23.4%)
Public Space Rental	(20)	0	(20)	0%
Total General Property Taxes	**$573,412**	**$567,093**	**$6,319**	**1.1%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Real Property Tax Collections

Real property tax collections through the 3rd quarter of FY 2006 totaled $570.8 million. These collections were $7.1 million, or 1.3%, above the $563.6 million revised estimate. The real property tax category is the largest component of general property taxes.

Collections of real property taxes were higher than the estimate for the 3rd quarter due, in part, to higher assessed values for taxable commercial and residential properties in the District. Based on a review of data reported in the District's FY 2005 Comprehensive Annual Financial Report (CAFR), the total taxable portion of the combined assessed values for commercial and residential properties in the District increased each year from FYs 1999 through 2004.[9] Overall, the assessed values for taxable properties increased over $24 billion, or 57%, from $42.4 billion in FY 1999 to $66.5 billion in FY 2004. Total assessed values reported in the CAFR, however, did not reflect the impact of the "Owner-Occupant Residential Tax Credit Act of 2002," D.C. Law 14-160, or the "Owner-Occupant Residential Tax Credit and Homestead Deduction Clarification Emergency Act

[9] Property taxes billed in 2006 are based on the property's 2004 assessed value.

of 2004."[10] These laws may have resulted in reduced real property tax collections for some residential properties. However, the largest increases in real property assessed values from FYs 1999 to 2004 were for commercial properties which increased approximately $15 billion, or 80%, from $18.7 billion to $33.7 billion. Commercial properties are not governed by D.C. Law 14-160 and the Emergency Act which imposed 25% and 12% caps on the assessed value of real property.

B. Personal Property Tax

Personal property tax collections through the 3rd quarter totaled $2.65 million. These collections were $807,000, or 23.4%, below the $3.45 million estimate. July 31st is the annual due date for filing personal property tax returns.

C. Public Space Rental Fees

Public space rental fees collected through the 3rd quarter of FY 2006 showed a deficit of ($20,000). ORA officials could not provide a definitive explanation of this deficit and speculated that the ($20,000) may relate to refunds of public space rental fees. ORA officials did not prepare an estimate for public space rental fees through the 3rd quarter. Pursuant to D.C. Law 16-66, effective March 8, 2006,[11] all revenue derived from the collection of public rights-of-way user fees, charges and penalties must be deposited into the Local Roads Construction and Maintenance Fund, which is separate from the General Fund. Therefore, according to ORA officials, collections of revenue from public space rental fees for FY 2006 will be reported as special purpose fund (O-type) revenue.

Based on collections through the 3rd quarter, it appears the District is on course to achieve the FY 2006 revised revenue estimate in the general property taxes category.

[10] The Council enacted the "Owner-Occupant Residential Tax Credit of 2002," D.C. Law 14-160, which became effective June 25, 2002. The law stipulated that District homeowners will pay no property tax on assessments above 25% of the prior year's assessment. Then, effective FY 2004, the Council passed the "Owner-Occupant Residential Tax Credit and Homestead Deduction Clarification Emergency Act of 2004," which reduced the rate from 25% to 12%.

[11] *See* the "Highway Trust Fund and District Department of Transportation Temporary Amendment Act of 2005."

GENERAL SALES AND USE TAXES[12]

The total FY 2006 revised estimate for the general sales and use taxes category is $792.5 million. Collections of general sales and use taxes through the 3rd quarter of FY 2006 totaled $594.3 million, which were:

- $18.3 million, or 3%, below the $612.6 million 3rd quarter FY 2006 revised estimate; and
- $6.7 million, or 1.1%, above collections for the same period in FY 2005.

General sales and use tax collections through the 3rd quarter represented 75% of the total FY 2006 revised estimate for this category. Table III compares actual collections to the revised estimate through the 3rd quarter of FY 2006.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

General Sales and Use Taxes	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	$594,319	$612,643	($18,324)	(3%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

Collections of general sales and use taxes through the 3rd quarter were $18.3 million, or 3%, lower than the 3rd quarter estimate. The fact that collections were below the estimate have reflected a slowing of the overall economy at the time. The slowing economy may have accounted for reduced spending overall. According to information obtained from The Conference Board, consumer confidence fluctuated during the 3rd quarter due largely to consumer concerns about the short-term economic outlook. According to the George Mason University Center for Regional Analysis, total residential building permits in the Washington area decreased, during the 3rd quarter of FY 2006, for the fourth time in five months. This slowdown in the construction industry contributed to decreased spending for construction related materials and may have accounted, in part, for the decrease in collections of general sales and use taxes.

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[12] Presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (c) motor vehicle excise tax. The total FY 2006 revised estimate for the selective sales and use taxes category is $69.6 million. Collections through the 3rd quarter of FY 2006 totaled $50.5 million which were:

- $288,000, or .6%, below the $50.8 million 3rd quarter FY 2006 revised estimate; and
- $440,000, or .9%, above collections for the same period in FY 2005.

Selective sales and use tax collections through the 3rd quarter represented 73% of the total FY 2006 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 3rd quarter of FY 2006.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Selective Sales and Use Taxes	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Alcoholic Beverage	$3,864	$3,922	($58)	(1.5%)
Cigarette	16,895	14,303	2,592	18.1%
Motor Vehicle Excise	29,729	32,551	(2,822)	(8.7%)
Total Selective Sales and Use Taxes	**$50,488**	**$50,776**	**($288)**	**(.6%)**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 3rd quarter totaled $3.86 million. The collections were $58,000, or 1.5%, below the $3.92 million 3rd quarter revised estimate.

B. Cigarette Tax

Cigarette tax collections through the 3rd quarter totaled $16.9 million. These collections were $2.6 million, or 18.1%, above the $14.3 million revised estimate.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 3rd quarter totaled $29.7 million. These collections were $2.8 million, or 8.7%, below the $32.6 million revised estimate. The fact that the motor vehicle excise tax is below the estimate may be due to reduced car sales because manufacturers did not offer incentives to buyers at the level offered in FY 2005.

INCOME TAX

Income tax includes: (A) individual income tax, (B) corporate franchise tax, and (c) unincorporated business franchise tax. The total FY 2006 revised estimate for the income tax category is $1.566 billion. Collections through the 3rd quarter of FY 2006 totaled $1.2 billion which were:

- $55.3 million, or 4.7%, above the $1.180 billion 3rd quarter FY 2006 revised estimate; and
- $143 million, or 13.1%, above collections for the same period in FY 2005.

Income tax collections through the 3rd quarter represented 77% of the total FY 2006 revised estimate for this category. Table V compares actual collections to the revised estimate through the 3rd quarter of FY 2006.

TABLE V
Income Tax:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Income Tax	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/Under Revised Estimate	Percentage Difference
Individual Income Tax	$943,538	$916,448	$27,090	3%
Corporate Franchise Tax	173,834	163,526	10,308	6.3%
Unincorporated Business Franchise Tax	118,097	100,153	17,944	17.9%
Total Income Tax	**$1,235,469**	**$1,180,127**	**$55,342**	**4.7%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Individual Income Tax

Individual income tax collections through the 3rd quarter totaled $943.5 million. This tax is the largest in the income tax category. These collections were $27.1 million, or 3%, above the $916 million revised estimate. The increased collections of individual income tax may be partially due to increased job growth in the District. The seasonally adjusted June 2006 unemployment rate declined slightly, by .3% to 5.4%, after increasing in April and May respectively. As compared to the same period in 2005, the rate decreased by 1.1%. According to information obtained from DOES, there was a net increase of 1,100 District wage and salary jobs during the 3rd quarter of FY 2006.

B. <u>Corporate Franchise Tax</u>

Corporate franchise tax collected through the 3rd quarter totaled $173.8 million. The collections were $10.3 million, or 6.3%, above the $163.5 million revised estimate. According to DOES, the District of Columbia gained a total of 7,900 jobs during the 12 months ending June 2006. The increased job growth in the District of Columbia may indicate corporate profits are beginning to increase.

C. <u>Unincorporated Business Franchise Tax</u>

Unincorporated business franchise tax collections through the 3rd quarter totaled $118 million. The collections were $17.9 million, or 17.9%, above the $100.2 million revised estimate.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the FY 2006 revised revenue estimate in the income tax category.

<u>GROSS RECEIPTS TAX</u>[13]

Gross receipts tax include: (A) public utilities tax, (B) toll telecommunications tax, and (c) insurance premiums tax. The total FY 2006 revised estimate for the gross receipts tax category is $249.9 million. Collections of gross receipts taxes through the 3rd quarter of FY 2006 totaled $190.4 million, which were:

- $1.9 million, or 1%, below the $192.3 million 3rd quarter FY 2006 revised estimate; and
- $29.4 million, or 13.4%, below collections for the same period in FY 2005.

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[13] Collections from healthcare provider tax is reported with special purpose fund (O-type) revenue.

Gross receipts tax collections through the 3rd quarter represented 76% of the total FY 2006 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 3rd quarter of FY 2006.

TABLE VI
Gross Receipts Tax:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Gross Receipts Tax	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Public Utilities Tax	$111,403	$115,305	($3,902)	(3.4%)
Toll Telecommunications Tax	40,423	39,474	949	2.4%
Insurance Premiums Tax	38,525	37,485	1,040	2.8%
Total Gross Receipts Tax	**$190,351**	**$192,264**	**($1,913)**	**(1%)**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Public Utilities Tax

Public utilities tax collections through the 3rd quarter totaled $111.4 million. The collections were $3.9 million, or 3.4%, below the $115.3 million revised estimate. The public utility tax is imposed on the gross receipts of utility companies. The fact that collections were below the estimate may have been due, in part, to milder weather. According to data obtained from NOAA, National Climate Data Center, the average temperature during the 3rd quarter of FY 2006 was 1.5 degrees milder than the average temperature during the 3rd quarter of FY 2005. As a consequence, less consumption of utilities may have resulted in lower utility bills, and lower gross receipts tax payments that utilities made to the District.

B. Toll Telecommunications Tax

Toll telecommunications tax collections through the 3rd quarter totaled $40.4 million. The collections were $949,000, or 2.4%, above the $39.5 million revised estimate. The toll telecommunications tax is imposed on the gross receipts of telephone companies. One reason revenue exceeded the estimate in this tax category was that companies offered a variety of new products and services for Blackberry and mobile telephone users. This may have led to an increase in sales and revenue for telephone companies resulting in increased toll telecommunications taxes payable to the District.

C. **Insurance Premiums Tax**

Insurance premiums tax collections through the 3rd quarter totaled $38.5 million. The collections were $1 million, or 2.8%, above the $37.5 million revised estimate. Collections are above the estimate in this category, in part, because businesses are purchasing more insurance particularly related to security and terrorism threats.

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 2006 revised estimate for the other taxes category is $315.5 million. Collections of other taxes through the 3rd quarter of FY 2006 totaled $250.6 million, which were:

- $6.4 million, or 2.6%, above the $244.3 million 3rd quarter FY 2006 revised estimate; and
- $12.3 million, or 4.7%, below collections for the same period in FY 2005.

Collections of other taxes through the 3rd quarter represented 79% of the total FY 2006 revised estimate for this category. Table VII compares actual collections to the revised estimate through the 3rd quarter of FY 2006 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Other Taxes	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Estate Tax	$21,327	$15,753	$5,574	35.4%
Deed Recordation Tax	132,558	128,077	4,481	3.5%
Deed Transfer Tax	89,850	95,669	(5,819)	(6.1%)
Economic Interest Tax	6,881	4,759	2,122	44.6%
Total Other Taxes	**$250,616**	**$244,258**	**$6,358**	**2.6%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Estate Tax

Estate tax collections through the 3rd quarter totaled $21.3 million. The collections were $5.6 million, or 35.4%, above the $15.8 million revised estimate. The fact that collections were higher than the estimate may be due, in part, to an increase in the value of estate assets such as real estate, stocks, and bonds. Collections from this revenue source are difficult to estimate due to the unpredictable nature of the event that triggers the tax.

B. Combined Deed Recordation and Transfer Tax

Combined deed recordation and transfer tax collections through the 3rd quarter totaled $222.4 million. The recordation tax is imposed on all real estate deeds recorded 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 $1.3 million, or .6%, below the $223.7 million revised estimate. The fact that these combined collections were below the estimate may be due, in part, to a slowdown in the real estate market and the refinancing of properties because of rising interest rates. According to information obtained from GCAAR, the number of contracts and settlements for condominiums, cooperatives, and single family homes decreased in the 3rd quarter of FY 2006 as compared to the same period in FY 2005.

C. Economic Interest Tax

Economic interest tax collections through the 3rd quarter totaled $6.9 million. The collections were $2.1 million, or 44.6%, above the $4.8 million revised estimate. This tax is imposed on the amount paid for the transfer of corporate ownership interest. According to ORA representatives, this tax is difficult to forecast because of the infrequent transfer of corporate ownership interests in the District of Columbia.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revised revenue estimate in the other taxes category in FY 2006.

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 2006 revised estimate for the non-tax revenue category is $315.2 million. Collections through the 3rd quarter totaled $251.3 million, which were:

- ✦ $14.5 million, or 6.1%, above the $236.9 million 3rd quarter FY 2006 revised estimate; and
- ✦ $9.2 million, or 3.8%, above collections for the same period in FY 2005.

Non-tax revenue collections through the 3rd quarter represented 80% of the total FY 2006 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 3rd quarter of FY 2006.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Non-Tax Revenue	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Licenses and Permits	$46,532	$48,869	($2,337)	(4.8%)
Fines and Forfeitures	90,154	82,064	8,090	9.9%
Charges for Services	22,238	35,334	(13,096)	(37.1%)
Miscellaneous Revenue	92,422	70,629	21,793	30.9%
Total Non-Tax Revenue	**$251,346**	**$236,896**	**$14,450**	**6.1%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

A. Licenses and Permit Fees

Licenses and permit fees collected through the 3rd quarter totaled $46.5 million. Collections were $2.3 million, or 4.8%, below the $48.9 million revised estimate. According to data obtained from ORA, slower than expected collections from licenses and permits may have resulted from the slowdown in the housing market.

B. Fines and Forfeitures

Fines and forfeitures collected through the 3rd quarter totaled $90.2 million. The collections were $8.1 million, or 9.9%, above the $82.1 million revised estimate.

C. Charges for Services

Charges for services collected through the 3rd quarter totaled $22.2 million. The collections were $13.1 million, or 37.1%, below the $35.3 million revised estimate. Collections were below the estimate for boiler inspections, as well as requests for reports, tax certificates, and transcripts of records.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer,[14] and (5) other revenue.[15] Miscellaneous revenue collected through the 3rd quarter totaled $92.4 million. The collections were $21.8 million, or 30.9%, above the $70.6 million revised estimate for the 3rd quarter. The increased collections may be due, in part, to increased collections of unclaimed property. The District government, which had not submitted an unclaimed property report in approximately two years, submitted $3 to $4 million of unclaimed property to the OFT Unclaimed Property Unit. Additionally, the Director of the OFT Unclaimed Property Unit stated that the value of stock held as unclaimed property appreciated. Further, according to the Director, approximately $3 million of claims will not be paid until the 4th quarter. Another reason for the increase in miscellaneous revenue may be due to an increase in short-term interest rates resulting in increased interest income to the District from earnings on short-term investments. According to information obtained from OFT, the average interest rate for pooled cash investments through the 3rd quarter of FY 2005 was approximately 2.8% while the average rate through the 3rd quarter of FY 2006 was approximately 4.8%.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revised revenue estimate in the non-tax revenue category in FY 2006.

OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling transfers to the General Fund from the D.C. Lottery. The total FY 2006 revised estimate for the other financing sources category is $72 million. Collections through the 3rd quarter totaled $50.3 million which were:

- $4.4 million, or 8%, below the $54.6 million 3rd quarter FY 2006 revised estimate; and

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[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.

- ✦ $1.97 million, or 3.8%, below collections for the same period in FY 2005.

Collections from other financing sources through the 3rd quarter represented 70% of the total FY 2006 revised estimate for this category. Table IX compares actual collections to the estimate through the 3rd quarter of FY 2006.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2006
($000)

Other Financing Sources	Actual Collections Through the 3rd Quarter FY 2006	Revised Estimate Through the 3rd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Legalized Gambling	$50,275	$54,641	($4,366)	(8%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, June 2006, prepared by ORA

Legalized gambling (transfers to the General Fund from the D.C. Lottery) through the 3rd quarter totaled $50.3 million. The transfers were $4.4 million, or 8%, below the $54.6 million revised estimate. According to a D.C. Lottery official, collections were below the estimate, in part, because prize payouts related to the D.C. Four game were higher than estimated and, although there were record sales during the 3rd quarter, there were also record payouts. As a result, actual transfers, overall, to the General Fund were lower than estimated.

SPECIAL PURPOSE FUND (O-TYPE) REVENUE

The special purpose fund (O-type) revenue estimate for FY 2006 is $264.3 million. Collection of special purpose fund (O-type) revenue through the 3rd quarter of FY 2006 totaled $223.5 million. These collections were $52.8 million, or 30.9%, above the $170.7 million 3rd quarter revised estimate. Collections through the 3rd quarter of FY 2006 were $61 million, or 37.5%, above the $162.5 million in collections for the same period in FY 2005.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the special purpose fund (O-type) revenue category in FY 2006.

CONCLUSION

Overall, the Auditor's analysis indicated that actual cash collections were above the revised estimate through the 3rd quarter of FY 2006. The District's cash collections through June 2006 (excluding special purpose fund (O-type) revenue) totaled $3.196 billion, which were $57.6 million, or 1.8%, above the $3.139 billion revised estimate through the 3rd quarter. The $3.196 billion in actual cash collections represented 70% of the total $4.545 billion revised FY 2006 revenue estimate.

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

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor

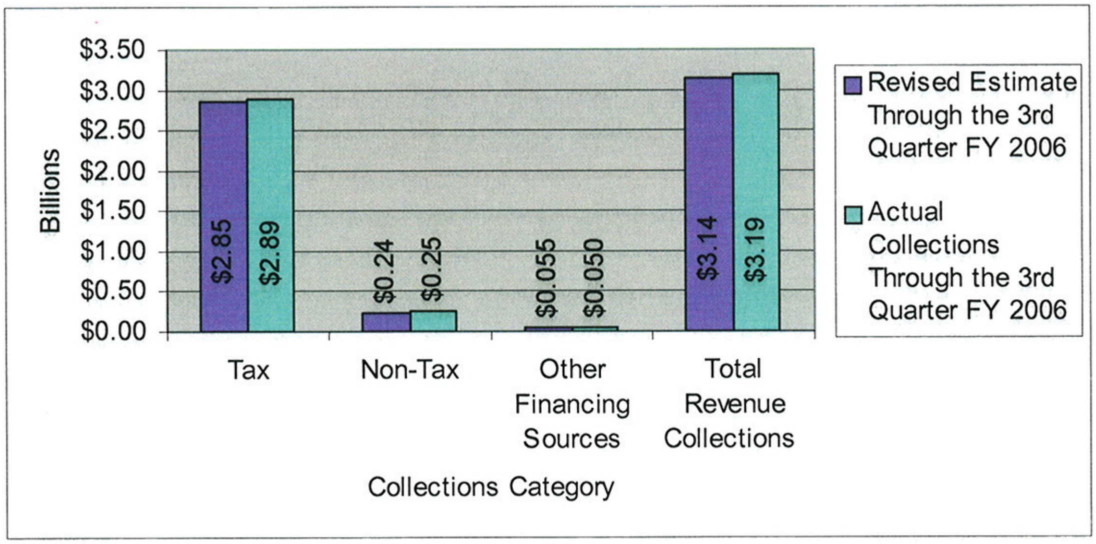
APPENDICES

APPENDIX I

GRAPH I

Summary of the Revised Revenue Estimate

Through the 3rd Quarter FY 2006 to Actual Cash Collections

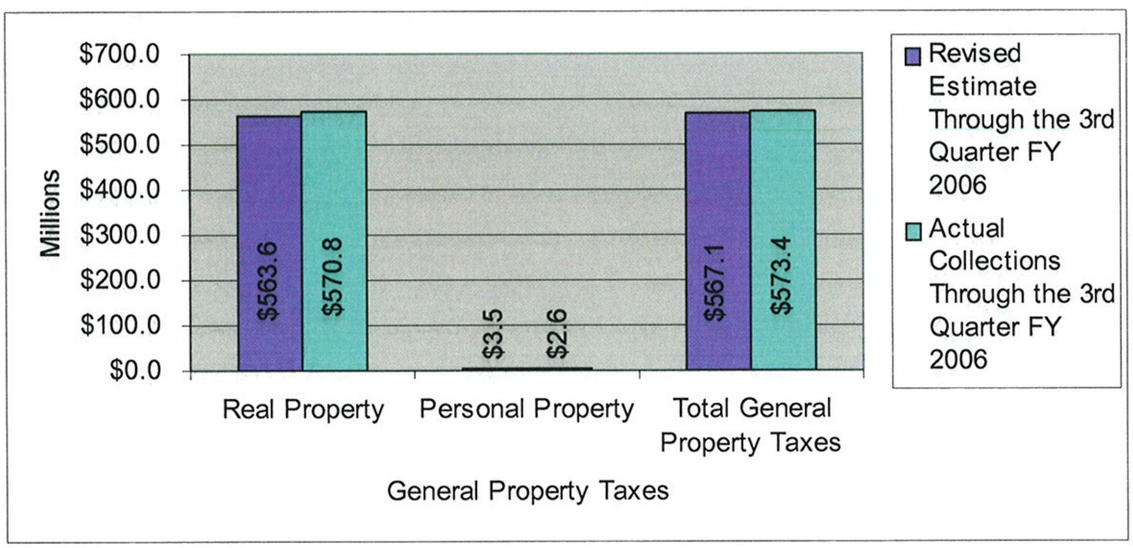


GRAPH II

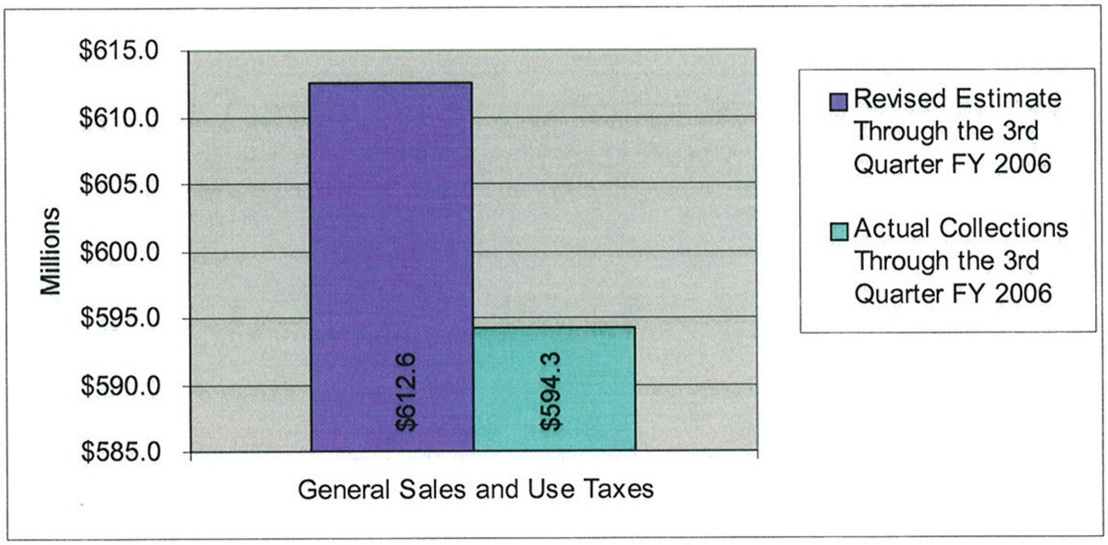
General Property Taxes:

Comparison of the Revised Revenue Estimate

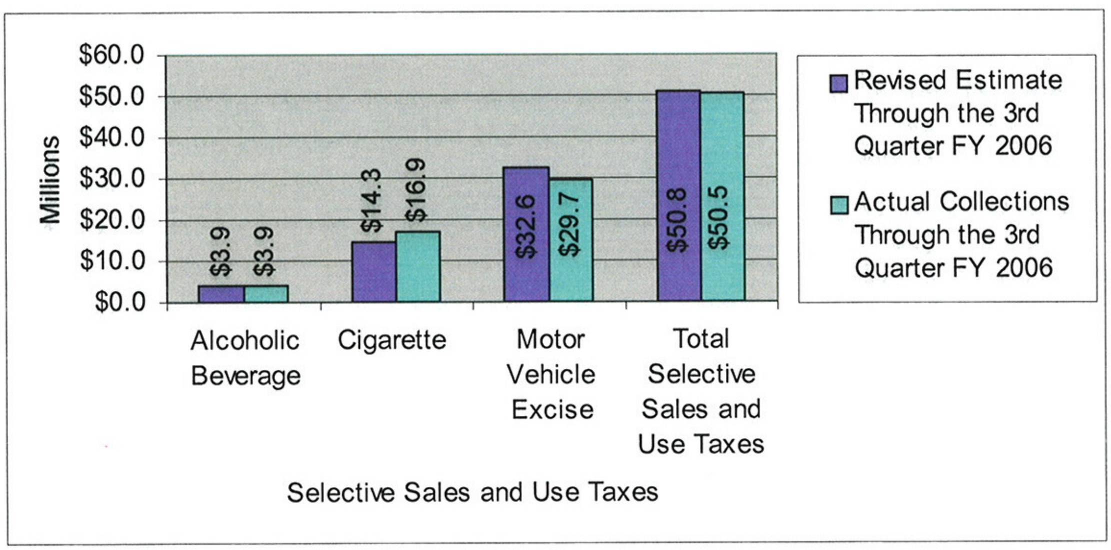
Through the 3rd Quarter FY 2006 to Actual Cash Collections



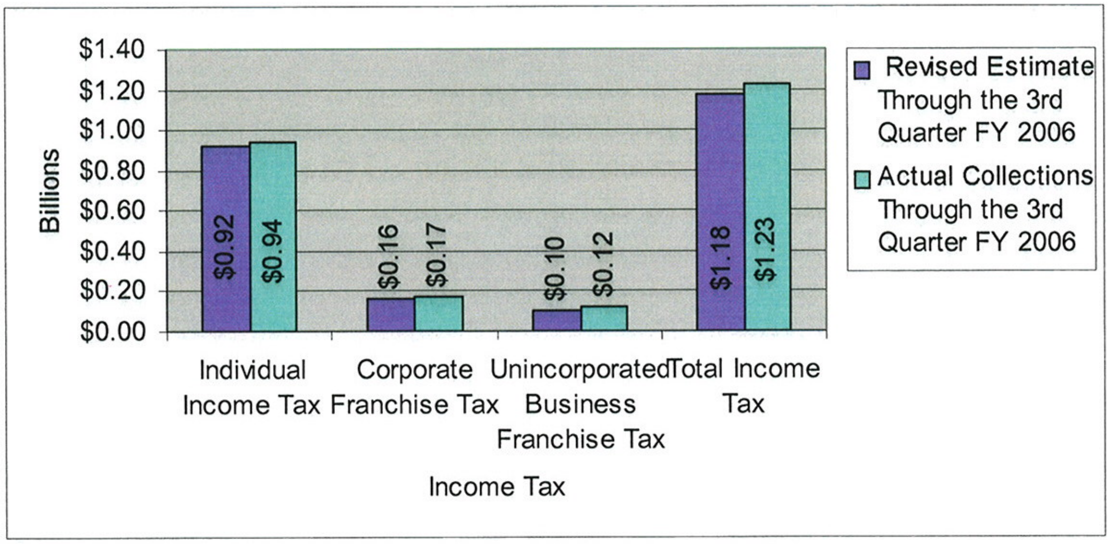
GRAPH III
General Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



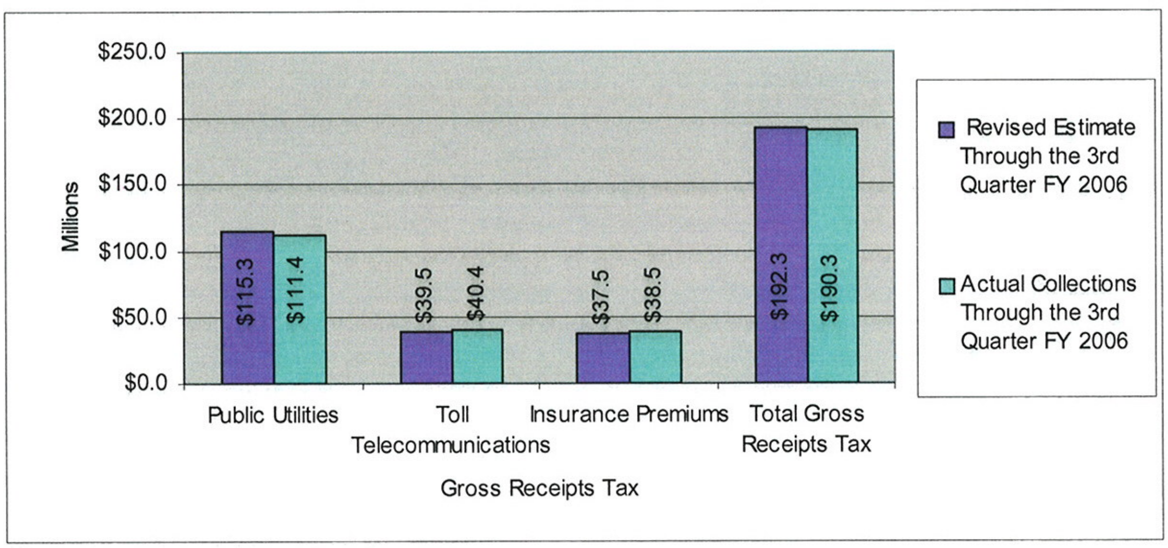
GRAPH IV
Selective Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



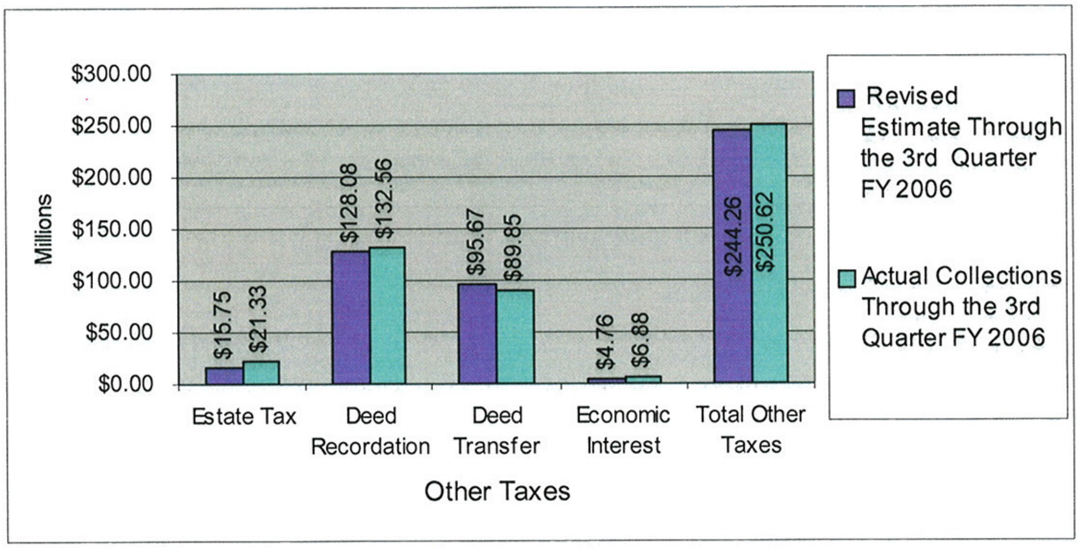
GRAPH V
Income Tax:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



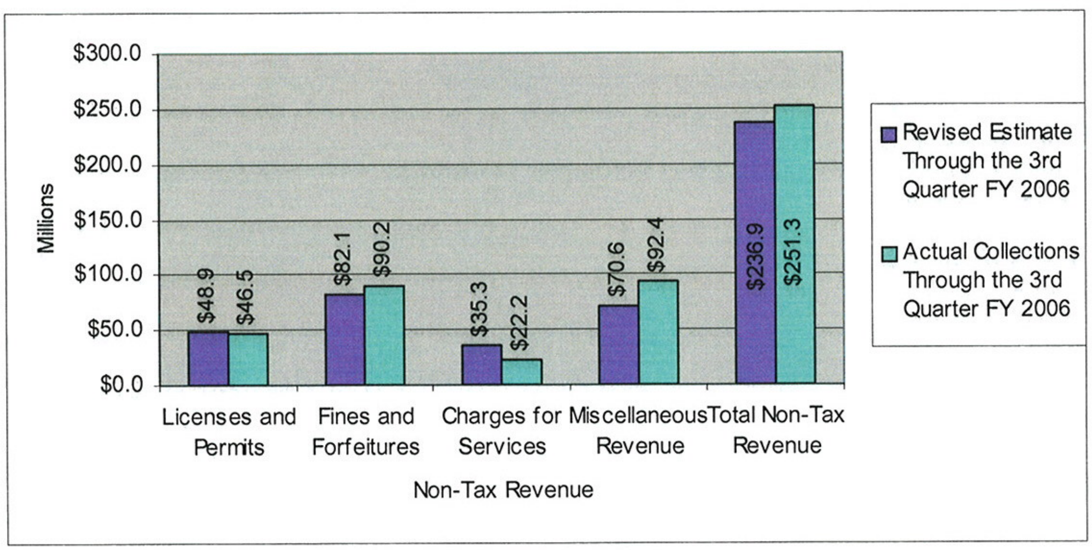
GRAPH VI
Gross Receipts Tax:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



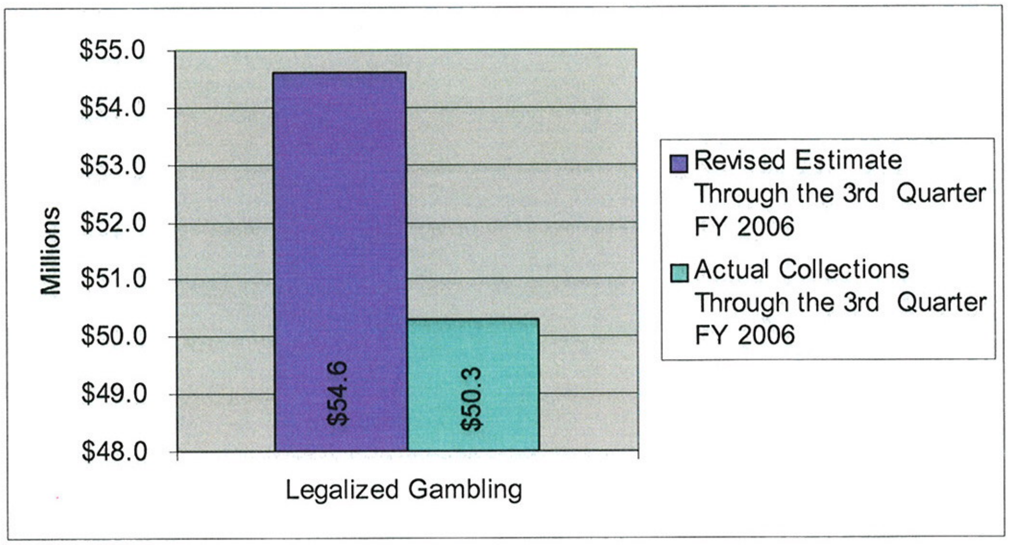
GRAPH VII
Other Taxes:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



GRAPH VIII:
Non-Tax Revenue:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



GRAPH IX:
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2006 to Actual Cash Collections



Comparison of Cash Collections Through the 3rd Quarter Fiscal Years 2002 - 2006[16] ($000)

Collections Categories[17]	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Property Taxes	$368,760	$445,957	$485,401	$552,466	$573,412
General Sales and Use Taxes*	451,197	462,625	505,791	587,610	594,319
Selective Sales and Use Taxes	39,387	44,813	49,437	50,047	50,488
Income Tax	893,965	868,119	982,311	1,092,357	1,235,469
Gross Receipts Tax	179,053	201,520	218,236	219,750	190,351
Other Taxes	221,985	185,547	280,623	262,951	250,616
Non-Tax Revenue	173,120	211,966	229,946	242,154	251,346
Other Financing Sources	48,501	55,225	58,900	52,250	50,275
Total Cash Collections Financing the Appropriation	**$2,375,968**	**$2,475,772**	**$2,810,645**	**$3,059,585**	**$3,196,276**

Source: ORA

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

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

[17] Special purpose fund (O-type) revenue collections are not presented in this Appendix.

Comparison of Collections Through the 3rd Quarter of FY 2006 to Collections Through the 3rd Quarter of FY 2005[18] ($000)

Collections Category[19]	Collections Through the 3rd Quarter Fiscal Year 2006	Collections Through the 3rd Quarter Fiscal Year 2005	Difference 3rd Quarter FY 2006 Over/(Under) 3rd Quarter FY 2005	Percentage Difference
General Property Taxes:				
Real Property	$570,786	$540,983	$29,803	5.5%
Personal Property	2,646	1,173	1,473	125.6%
Public Space Rental	(20)	10,310	(10,330)	(100.2%)
Total General Property Taxes	**$573,412**	**$552,466**	**$20,946**	**3.8%**
General Sales and Use Taxes	**$594,319**	**$587,610**	**$6,709**	**1.1%**
Selective Sales and Use Taxes:				
Alcoholic Beverage	$3,864	$3,770	$94	2.5%
Cigarette	16,895	16,576	319	1.9%
Motor Vehicle Excise	29,729	29,701	28	.09%
Selective Sales and Use Taxes	**$50,488**	**$50,047**	**$441**	**.9%**
Income Tax:				
Individual Income Tax	$943,538	$859,295	$84,243	9.8%
Corporate Franchise	173,834	145,331	28,503	19.6%
Unincorporated Business Franchise	118,097	87,731	30,366	34.6%
Total Income Tax	**$1,235,469**	**$1,092,357**	**$143,112**	**13.1%**
Gross Receipts Tax:				
Public Utilities tax	$111,403	$128,828	($17,425)	(13.5%)
Toll Telecommunications tax	40,423	41,994	(1,571)	3.7%
Insurance Premiums tax	38,525	48,928	(10,403)	(21.3%)
Total Gross Receipts	**$190,351**	**$219,750**	**($29,399)**	**(13.4%)**
Other Taxes:				
Estate Tax	$21,327	$19,343	$1,984	10.3%
Deed Recordation tax	132,558	135,254	(2,696)	(2%)
Deed Transfer tax	89,850	99,702	(9,852)	(9.9%)
Economic Interest tax	6,881	8,652	(1,771)	(20.5%)
Total Other Taxes	**$250,616**	**$262,951**	**($12,335)**	**(4.7%)**
Total Tax Collections	**$2,894,655**	**$2,765,181**	**$129,474**	**4.7%**
Non-Tax Revenue:				
Licenses and Permits	$46,532	$47,421	($889)	(1.9%)
Fines and Forfeitures	90,154	80,393	9,761	12.1%
Charges for Services	22,238	33,638	(11,400)	(33.9%)
Miscellaneous Revenue	92,422	80,702	11,720	14.5%
Total Non-Tax Revenue	**$251,346**	**$242,154**	**$9,192**	**3.8%**
Other Financing Sources	**$50,275**	**$52,250**	**($1,975)**	**(3.8%)**
Total Revenues	**$3,196,276**	**$3,059,585**	**$136,691**	**4.5%**

Source: ORA

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[18] Rounding may affect some calculations presented in this table.

[19] Total revenue presented in this Appendix does not include special purpose fund (O-type) revenue. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.