



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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007:01:SDG:VJ

**Analysis of the 1st Quarter Cash Collections
Against the Revised FY 2001 Revenue Estimate**

March 12, 2001



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The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
441 4th Street, N.W. Room 704
Washington, D.C. 20001

Letter Report: Analysis of the 1st Quarter Cash Collections Against the Revised FY 2001 Revenue Estimate

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

The December 2000 Comparative Report of Cash Collections by Funds, issued by the Office of the Chief Financial Officer's Office of Research and Analysis (ORA), indicated that cash collections through the 1st quarter of fiscal year 2001 totaled \$636.6 million. This was \$64.5 million, or 11.3%, above the 1st quarter fiscal year 2001 estimate of \$572.1 million for all revenues financing the appropriation. The collections for tax, non-tax, and other revenues are presented below:

- total tax collections were \$565.3 million, which was \$69.3 million, or 14%, above the estimate of \$496 million through December 2000;
- total non-tax collections were \$48.6 million, which was \$7.2 million, or 12.9%, below the estimate of \$55.8 million; and
- collections from other financing sources, which include legalized gambling, sale of surplus property and other transfers, totaled \$22.7 million. This was \$2.4 million, or 11.8%, above the estimate of \$20.3 million.

The Office of Research and Analysis attributes the overall higher than anticipated collections to continued strength in collections for income and general sales and use taxes, which were \$23.7 million and \$23 million above the 1st quarter estimates, respectively. Table I presents total cash collections through December 2000, the 1st quarter of fiscal year 2001.

TABLE I
1ST Quarter Cash Collections Summary
December 2000
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Tax Category	Collections Through Dec 2000	Estimate Through Dec 2000	Difference Between Estimate and Actual	Percent
Tax Collections	\$565,255	\$495,969	\$69,286	14.0%
Non-Tax Collections	48,624	55,794	-7,170	-12.9%
Other Financing Sources	22,681	20,288	2,393	11.8%
Total Revenues	\$636,560	\$572,051	\$64,509	11.3%

Source: Office of Research and Analysis's Comparative Report of Cash Collections by Funds, Revenues
Financing the Appropriation: Fiscal Year 2001

The fiscal year 2001 local source revenue estimate of \$3,263,012,000 was revised upwards by \$109,547,000 to \$3,372,559,000. According to information provided by ORA, the revised revenue estimate reflects growth in several revenue categories including income taxes, real property taxes, and sales taxes. The revised revenue estimate of \$3,372,559,000 was approved by the District of Columbia Financial Responsibility and Management Assistance Authority in a resolution adopted on February 14, 2001.

ANALYSIS OF CASH COLLECTIONS BY REVENUE TYPE

I. Property Taxes

The fiscal year 2001 revised estimate for property taxes, which includes real property, personal property, and public space rental, is \$671 million. Collections of property taxes through the 1st quarter of fiscal year 2001 totaled \$25.9 million. This was \$14.6 million, or 129.2%, above the estimate of \$11.3 million through December 2000. While the 1st quarter collections of \$25.9 million for property taxes represents only 3.8% of the projected \$671 million total property tax estimate, real property tax payments (which constitute the majority of property tax collections) are not due until the second and third quarter of the fiscal year. Based on the current robust real estate market in the District of Columbia, ORA projects continued strength in the collection of these taxes.

Within the property tax category, real property tax collections accounted for \$24.5 million, or 94.6%, of the \$25.9 million collected in this area. Collections for real property taxes were \$14.5 million, or 145.4%, above the estimate through the 1st quarter. According to information reviewed by the Auditor, the stronger than anticipated cash collections are attributed to: (1) a reduction in the backlog of refunds for property taxes resulting from successful assessment appeals; and (2) an increase in the assessment of some properties in tri-group two, for which property tax payments are due in fiscal year 2001. Table II presents a comparison of 1st quarter cash collections for property taxes through December 2000.

TABLE II
Comparison of 1st Quarter Cash Collections for Property Taxes
Fiscal Years 1997 - 2001
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	FY 1997 1st Quarter	FY 1998 1st Quarter	FY 1999 1st Quarter	FY 2000 1st Quarter	FY 2001 1st Quarter
Property Taxes	\$10,751	\$13,025	\$8,244	\$35,127	\$25,881

Source: Office of Research and Analysis

Based on historical collection patterns for property taxes, the \$25.9 million in cash collections through December 2000, as well as the current robust real estate market in the District of Columbia, it appears that the District will meet its property tax estimate of \$671 million for fiscal year 2001.

II. General Sales and Use Taxes

The fiscal year 2001 estimate for general sales and use taxes is \$692.7 million. General sales and use tax collections through the 1st quarter of fiscal year 2001 totaled \$172.6 million. This was \$23 million, or 15.3%, above the estimate of \$149.6 million through December 2000, and \$16.1 million, or 10.3%, above collections for the same period during fiscal year 2000.

General sales and use tax collections appear to be strong. According to published reports about the region's economy, sales figures in the general economy have been good and are forecast to remain strong through the entire fiscal year. Additionally, an analysis of retail sales data contained in a press release by TeleCheck services, dated December 26, 2000, indicated growth of

4% for the District during the past holiday season versus 3% growth in the surrounding suburbs.¹ Further, according to information published in recent articles in the Washington Business Journal, retailers will continue to explore retail opportunities within the District. Table III presents a comparison of 1st quarter cash collections for general sales and use tax through December 2000.

Table III
Comparison of 1st Quarter Cash Collections for General Sales and Use Taxes
Fiscal Years 1997 - 2001

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	FY 1997 1 st Quarter	FY 1998 1 st Quarter	FY 1999 1 st Quarter	FY 2000 1 st Quarter	FY 2001 1 st Quarter
General Sales and Use Taxes*	\$128,778	\$137,433	\$147,033	\$156,414	\$172,560

Source: Office of Research and Analysis

*The collections for general sales and use tax are reported on a gross basis prior to the transfer of dedicated tax revenue to the Washington Convention Center Authority.

Based on published reports regarding the region's economy and the strength of collections through December 2000, it appears that the District will achieve the fiscal year 2001 general sales and use tax forecast of \$692.7 million.

III. Income Taxes

The fiscal year 2001 estimate for income taxes is \$1.3 billion. Income taxes include individual income, corporate franchise, and unincorporated business franchise taxes. Cash collections through December 2000 totaled \$278.2 million, which was \$23.7 million, or 9.3%, above the \$254.5 million estimate through December 2000. The cash collections for income taxes through the 1st quarter of fiscal year 2001 were \$6.3 million, or 2.3%, above collections for the same period during fiscal year 2000.

Individual income tax collections totaled \$222 million through December 2000, which was \$17 million above the estimate of \$205 million. Corporate franchise tax collections were also higher than the estimate. These collections totaled \$41.4 million and were \$0.4 million above the estimate of \$41 million. Unincorporated business franchise tax collections totaled \$14.8 million through December 2000, which was \$6.1 million, or 70.1%, above the estimate of \$8.7 million. Table IV presents a comparison of 1st quarter cash collections for income taxes through December 2000.

¹TeleCheck is a check acceptance company providing electronic check conversion, check guarantee, check verification, and collections services to retail, financial institutions, and other industry clients.

TABLE IV
Comparison of 1st Quarter Cash Collections for Income Taxes
Fiscal Years 1997 - 2001

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	FY 1997 1st Quarter	FY 1998 1st Quarter	FY 1999 1st Quarter	FY 2000 1st Quarter	FY 2001 1st Quarter
Income Taxes	\$192,875	\$220,780	\$244,333	\$271,979	\$278,230

Source: Office of Research and Analysis

The Office of Research and Analysis projects that the higher than anticipated collections in income taxes are primarily due to several factors, including stronger declaration payments (estimated tax payments) related to capital gains and increased deposits of monthly withholdings. Although the Office of Research and Analysis initially forecasted a decline in capital gains growth, declaration payments were up \$15.7 million, or 68%, above the same period last fiscal year. As a result, the Office of Research and Analysis revised its initial estimate to reflect the better than expected collections activity. At the same time, deposits of withholdings were also up by approximately \$15.5 million above earlier estimates. If the stronger than expected collections in this area continue, the District should achieve the fiscal year 2001 estimate of \$1.3 billion.

IV. Gross Receipts Taxes

The fiscal year 2001 estimate for gross receipts taxes is \$216 million. Gross receipts tax collections, which include public utility, toll telecommunications and insurance premiums, totaled \$43.9 million through the 1st quarter of fiscal year 2001. Gross receipts collections were \$2.9 million, or 7.2%, above the estimate of \$41 million. The collections were also \$3.7 million, or 9.4%, above the same period last fiscal year. ORA partially attributes the increase to higher utility prices paid by consumers. Natural gas and oil prices have increased and there is a continuing demand for these resources.

While overall cash collections of gross receipts taxes were above the estimate, the cash collections for toll telecommunications through December 2000 were \$1.7 million, or 12.1%, below the estimate. This appears to be primarily the result of at least one large taxpayer recently developing a methodology to distinguish between voice and data lines. Taxes are levied only on voice line usage. Table V presents a comparison of 1st quarter cash collections for gross receipts taxes through December 2000.

TABLE V
Comparison of 1st Quarter Cash Collections for Gross Receipts Taxes
Fiscal Years 1997 - 2001

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	FY 1997 1 st Quarter	FY 1998 1 st Quarter	FY 1999 1 st Quarter	FY 2000 1 st Quarter	FY 2001 1 st Quarter
Gross Receipts Taxes	\$36,139	\$22,870	\$40,355	\$40,178	\$43,945

Source: Office of Research and Analysis

Provided the strength of cash collections for gross receipts taxes continues and there is no further significant decline in cash collections for toll telecommunications, the District should achieve the fiscal year 2001 gross receipts taxes estimate of \$216 million.

V. Other Taxes

The fiscal year 2001 estimate for other taxes is \$125 million. Cash collections for other taxes, consisting of estate, deed recordations and transfer taxes, and economic interests, through the first quarter of fiscal year 2001 totaled \$33.4 million. This was \$10.9 million, or 48.5%, above the \$22.5 million estimate through December 2000. The collections were \$2.4 million, or 6.6%, below the same period last year. The combined collections for deed recordation and transfer taxes alone totaled \$26.2 million, which exceeded the estimate by \$9.5 million through December 2000. The increased collections in these two areas were attributed, in part, to the strength in the real estate market in the District of Columbia. Table VI presents a comparison of 1st quarter cash collections for other taxes through December 2000.

TABLE VI
Comparison of 1st Quarter Cash Collections for Other Taxes
Fiscal Years 1997 - 2001

000's

	FY 1997 1 st Quarter	FY 1998 1 st Quarter	FY 1999 1 st Quarter	FY 2000 1 st Quarter	FY 2001 1 st Quarter
Other Taxes	\$23,266	\$47,211	\$36,422	\$35,807	\$33,448

Source: Office of Research and Analysis

Provided the collections trend continues for the remainder of the fiscal year, the District should achieve the fiscal year 2001 estimate of \$125 million.

VI. Non-Tax Revenues

The fiscal year 2001 estimate for non-tax revenues is \$231 million. Cash collections of non-tax revenues totaled \$48.6 million through the 1st quarter of fiscal year 2001. These collections were \$7.2 million, or 12.9%, below the fiscal year to date estimate of \$55.8 million. The collections were also \$10 million, or 17.1%, below the same period in fiscal year 2000. Table VII presents a comparison of 1st quarter cash collections for non-tax revenues through December 2000.

TABLE VII
Comparison of 1st Quarter Cash Collections for Non-Tax Revenues
Fiscal Years 1997 - 2001

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Non-Tax Revenue Categories	FY 1997 1st Quarter	FY 1998 1st Quarter	FY 1999 1st Quarter	FY 2000 1st Quarter	FY 2001 1st Quarter
Licenses & Permits	\$15,319	\$14,276	\$13,667	\$10,239	\$7,345
Fines & Forfeitures	11,167	13,150	13,028	11,999	13,299
Charges for Services	8,621	5,285	8,148	8,125	13,459
Miscellaneous	8,182	7,984	12,864	28,268	14,520
Total Non-Tax Revenue	\$43,289	\$40,695	\$47,707	\$58,631	\$48,623

Source: Office of Research and Analysis

Within the non-tax revenue category, cash collections have been impacted by lower than anticipated collections in traffic fines and fines from the red light camera program. Officials of the Office of Research and Analysis indicated that lower collections from these sources may be attributed to initial estimates that were overly optimistic. In particular, the red light camera program has been impacted by factors such as problems with cameras at certain locations and nonpayment of ticket fines due to the inability to identify violators. Further, the Auditor notes that there may be improved compliance by drivers at intersections where red light cameras are located, resulting in fewer tickets being issued.

Non-tax revenues have also been impacted by lower than expected collections in non-business licenses and permits and business licenses and permits. ORA officials indicated that the fees associated with driver's licenses, motor vehicle registration, and temporary tags are all below

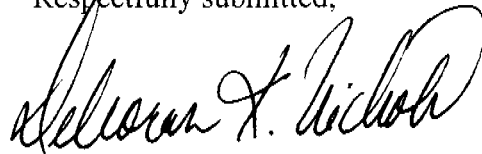
their estimate. ORA officials have not yet determined why collections, thus far, are below the estimates. If the present collection pattern for non-tax revenues continues through the remainder of the fiscal year, the District may not achieve its fiscal year 2001 non-tax revenue estimate of \$231 million. The Auditor will continue to monitor the collections of non-tax revenues.

SUMMARY

The Auditor's analysis of cash collections data through the 1st quarter of fiscal year 2001 indicates that the collections, overall, appear to be strong through the 1st quarter. The District's cash collections through December 2000 totaled \$636.6 million which is \$64.5 million above the year to date estimate of \$572.1 million. The collections are also \$3.1 million, or 0.5%, above the same period last fiscal year.

Provided that overall collection trends continue at the rate achieved through December 2000, and the region's overall economy remains strong, the District should realize its fiscal year 2001 revised revenue forecast of \$3.4 billion.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols

District of Columbia Auditor