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Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 1st Quarter of Fiscal Year 2003

July 2, 2003

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The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 410
Washington, D.C. 20004

Letter Report: Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 1st Quarter of Fiscal Year 2003

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

This letter report presents the Office of the District of Columbia Auditor's analysis of the District's actual cash collections through the 1st quarter of fiscal year 2003 in comparison to the September 2002 revised fiscal year 2003 revenue estimates for the 1st quarter.

The original fiscal year (FY) 2003 revenue estimate was $3.596 billion. The Office of the Chief Financial Officer's Office of Research and Analysis (ORA) revised the FY 2003 estimate in September 2002 to $3.626 billion, an increase of $30 million above the original estimate. Then on February 20, 2003, the District's Chief Financial Officer (CFO) submitted to the Mayor and Council of the District of Columbia (Council) a second fiscal year 2003 revised revenue estimate of $3.573 billion. The February 2003 revised estimate represented a decrease of $52.459 million from the September 2002 revised revenue estimate of $3.626 billion. The February 2003 revised estimate was presented after the 1st quarter of FY 2003. As a result, ORA did not prepare a comparative report of cash collections for the 1st quarter of FY 2003 using the February 2003 revised estimate. Therefore, the Office of the District of Columbia Auditor used the Office of the Chief Financial Officer's December Report of Cash Collections by Funds (which reflected the FY 2003 September 2002 revised estimate) and other relevant information to develop this comparative analysis. This letter report also evaluates the achievability of the February 2003 revised revenue estimate based on collections through the 1st quarter.

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 1st quarter of FY 2003 totaled $657.4 million, which was $29.2 million, or 4.7%, above the $628.2 million September 2002 revised estimate through the 1st quarter.[1] The $657.4 million in actual cash collections represented 18.1% of the total $3.626 billion September 2002 revised revenue estimate, and 18.4% of the total $3.573 billion February 2003 revised revenue estimate. Collections through the 1st quarter from all revenue sources are presented below.

- **Tax** - total tax collections were $567.1 million, which were $24 million, or 4.4%, above the 1st quarter FY 2003 September 2002 revised estimate of $543 million. The September 2002 revised FY 2003 revenue estimate for total tax revenue was $3.15 billion. In February 2003, the estimate was revised to $3.19 billion, an increase of $38.8 million.
- **Non-tax** - total non-tax collections were $67.5 million, which were $764,000, or 1.1%, above the 1st quarter FY 2003 September 2002 revised estimate of $66.7 million. The September 2002 revised FY 2003 revenue estimate for total non-tax revenue was $247.4 million. In February 2003, the estimate was revised to $285.3 million, an increase of $37.9 million.
- **Other financing sources** - collections from other financing sources, including legalized gambling, totaled $22.9 million, which were $4.4 million, or 23.9%, above the 1st quarter FY 2003 September 2002 revised estimate of $18.4 million. The September 2002 revised FY 2003 revenue estimate for legalized gambling was $70.9 million. In February 2003, the estimate was revised to $68.6 million, a decrease of $2.3 million.

Table I compares actual cash collections to September 2002 revised estimates through the 1st quarter of FY 2003 for tax, non-tax, and other financing sources. Appendix I presents a graphic depiction of the information in Table I as well as other tables presented in this report.

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

TABLE I
Cash Collections Summary
Through the 1st Quarter of Fiscal Year 2003
($000)

Tax Category	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Tax Collections	$567,052	$542,979	$24,073	4.4%
Non-Tax Collections	67,505	66,741	764	1.1%
Other Financing Sources	22,850	18,448	4,402	23.9%
Total Revenues	**$657,406**	**$628,168**	**$29,238**	**4.7%**

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2003, Dec-02, prepared by the Office of Research and Analysis

In conducting the analysis of cash collections through the 1st quarter of FY 2003, the Auditor also compared the 1st quarter collection trends for the five-fiscal year period of 1999 through the first quarter of FY 2003. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. Appendix III presents a comparison of 1st quarter collections for FY 2003 to 1st quarter collections for FY 2002 for each tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (C) revenue from public space rentals. The September 2002 revised FY 2003 revenue estimate for general property taxes was $851.01 million. In February 2003, the estimate was revised to $897.07 million, an increase of $46.06 million. Collections of general property taxes through the 1st quarter of FY 2003 totaled $26.5 million, which were:

- ✦ $3.3 million, or 14.3%, above the $23.2 million 1st quarter estimate; and
- ✦ $12.3 million, or 86.3%, above collections for the same period in FY 2002.

Collection of general property taxes through the 1st quarter represented 3.1% of the total September 2002 revised revenue estimate and 3% of the February 2003 revised revenue estimate for this category. Table II compares actual collections of general property taxes to the September 2002 revised estimate through the 1st quarter of FY 2003.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates
Through the lst Quarter of Fiscal Year 2003
($000)

General Property Taxes	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Real Property	$24,319	$21,029	$3,290	15.6%
Personal Property	2,172	1,818	354	19.5%
Public Space Rental	10	335	(325)	(96.9%)
Total General Property Taxes	**$26,501**	**$23,182**	**$3,319**	**14.3%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

A. Real Property Tax Collections

Real property taxes collected through the 1st quarter totaled $24.3 million. These collections were $3.3 million, or 15.6%, above the $21 million estimate. The real property tax category is the largest component of general property taxes. Real property taxes are due on March 31st and September 15th of each year. Therefore, collections for real property taxes should increase in the third and fourth quarters of the fiscal year.

Collections of real property taxes were higher than the estimate, in part, because of increases in the assessed values for residential and commercial properties in the District. Assessed values increased, in part, because of the overall positive real estate market in the District. According to the December 2002 edition of DC Economic Indicators, a monthly publication of ORA, the average sales price for a single family home in the fourth quarter of FY 2002 increased 14.2% from the FY 2001 fourth quarter average sales price. The average sales price for a condo/co-op for the fourth quarter of FY 2002 increased 13.3% from the average sales price for the fourth quarter of FY 2001.

Despite the increased assessments and positive real estate market, other factors suggest that the FY 2003 revised revenue estimate of $897.07 million for this tax category should be monitored closely to determine whether the estimate is achievable. The Auditor's concern is primarily based on the potential fiscal impact of successful appeals of property tax assessments.

According to the Board of Real Property Assessments and Appeals (BRPAA), approximately 1,265 property tax appeal cases had been completed for tax year 2003 at the time of the Auditor's information request. An additional 105 cases had been filed for tax year 2003 but had not been completed. Of the 1,265 completed cases, BRPAA reduced the assessment for approximately 536, or 42%, of the properties. Assessed values of the properties represented by the 105 additional cases may be reduced once hearings are completed. Further, the Office of Research and Analysis estimated refunds through the 1st quarter of fiscal year 2003 at $2.9 million. However, actual refunds through the 1st quarter were $3.1 million, or 7.8% higher.

Based on the uncertainty regarding the outcome of appeals of property tax assessments and the potential fiscal impact, the estimate for real property taxes may be overly optimistic for fiscal year 2003.

B. Personal Property Tax Collections

Personal property taxes collected through the 1st quarter totaled $2.2 million. These collections, through the 1st quarter, were $354,000, or 19.5%, above the $1.8 million estimate. According to an official of the Office of Research and Analysis, the bulk of personal property tax collections occurs in the 4th quarter of the fiscal year. Therefore, collections are expected to increase during July, August, and September 2003.

C. Public Space Rental Fees

Public space rental fees collected through the 1st quarter totaled $10,000. Actual collections through the 1st quarter were $325,000, or 96.9%, less than the $335,000 estimate. The Office of Research and Analysis increased the FY 2003 estimate for this category in February 2003 because collections in FY 2002 were above the estimate. According to Office of Research and Analysis officials, June and July are usually the months when increased public space rental revenue is collected. This is due, in part, to some restaurant owners using a portion of the District's sidewalks to provide outdoor seating for patrons. Restaurant owners pay a public space rental fee to the District for the use of this public space. The Auditor believes that this estimate should be monitored closely by Office of Research and Analysis officials because lingering adverse weather conditions as well as frequent alerts issued for possible acts of terrorism in the Washington/Metropolitan area may negatively affect the use of public space by restaurant owners for outdoor seating. As a result, collections may not reach the revenue estimate for this category in fiscal year 2003.

GENERAL SALES AND USE TAXES

The September 2002 FY 2003 revised estimate for general sales and use taxes was $643.4 million[2]. In February 2003, the estimate was revised to $648 million, an increase of $4.6 million over the September 2002 revised estimate. Collections of general sales and use taxes through the 1st quarter of FY 2003 totaled $166.9 million, which were:

- $4.8 million, or 2.8%, below the $171.7 million 1st quarter September 2002 revised estimate; and
- $14.4 million, or 9.4%, above collections for the same period in FY 2002.

General sales and use tax collections through the 1st quarter represented 25.9% of the total September 2002 FY 2003 revised estimate, and 25.8% of the February 2003 revised estimate for this category. Table III compares actual collections to the September 2002 revised estimate through the 1st quarter of FY 2003 for general sales and use taxes.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimate
Through the 1st Quarter of Fiscal Year 2003
($000)

General Sales and Use Taxes	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimate Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
General Sales and Use Taxes	$166,924	$171,722	($4,798)	(2.8%)

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

Office of Research and Analysis officials indicated that the September 2002 revised revenue estimate for this tax category was increased in February 2003 because of the expected increase in sales tax revenue resulting from the opening of the new convention center. Notwithstanding this assumption, according to recent economic data for the Washington Metropolitan Area published by George Mason University for regional studies, "consumer confidence (in the present) fell for the second month in a row and the fifth time in six months." Also, according to the report, "consumer expectations (consumer confidence six months hence) decreased in December after increasing in

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

November." The report indicates further that "the only troubling trend is the continuing loss of consumer confidence in the present and in the future. Three years of declining stock market values and increasing threats from terrorists have taken their toll." The Auditor notes that a decline in consumer confidence may result in a decline in consumer spending which may affect sales tax revenue**.**

The combined factors discussed above may impact general sales and use tax revenue and the Office of Research and Analysis should closely monitor collections in this tax category.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarettes, and (C) motor vehicle excise taxes. The September 2002 FY 2003 revised estimate for selective sales and use taxes is \$52.7 million. In February 2003, the estimate was revised to \$60.6 million, an increase of \$8 million from the September 2002 revised estimate. Collections through the 1st quarter of FY 2003 totaled \$12.3 million which were:

- \$578,000, or 4.9%, above the \$11.8 million 1st quarter September 2002 revised estimate; and
- \$1.2 million, or 8.6%, below collections for the same period in FY 2002.

Selective sales and use tax collections through the 1st quarter represented 23.4% of the total September 2002 FY 2003 revised revenue estimate, and 20.4% of the February 2003 revised estimate for this category. Table IV compares actual collections to the September 2002 revised estimate through the 1st quarter of FY 2003 for selective sales and use taxes.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates
Through the 1st Quarter of Fiscal Year 2003
($000)

Selective Sales and Use Taxes	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Alcoholic Beverage	$1,208	$1,226	($18)	(1.5%)
Cigarette	4,510	3,099	1,411	45.5%
Motor Vehicle Excise	6,622	7,437	(815)	(11.0%)
Total Selective Sales and Use Taxes	**$12,340**	**$11,762**	**$578**	**4.9%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

Alcoholic beverage taxes collected through the 1st quarter totaled $1.21 million. These collections were $18,000, or 1.5%, below the $1.23 million September 2002 revised estimate. In December 2002, the Council of the District of Columbia approved revenue enhancements in several tax categories including an increase in the tax on alcoholic beverages from 8% to 9% which should result in increased revenue in this area. Emergency legislation adopted by the Council increasing this tax was signed by the Mayor on December 4, 2002, and became effective January 1, 2003.

Cigarette taxes collected through the 1st quarter totaled $4.5 million. These collections were $1.4 million, or 45.5%, above the $3.1 million revised estimate. The tax on cigarettes was increased from 65¢ to $1.00 per pack, effective January 1, 2003, and is expected to increase revenue in this area.

Motor vehicle excise taxes collected through the 1st quarter totaled $6.6 million. These collections were $815,000, or 11%, below the $7.4 million revised estimate. Collections for motor vehicle excise taxes may be lower than the estimate, in part, as a result of a decline in consumer spending on big ticket items such as automobiles. According to The Value Line Investment Survey by Value Line[3], the economic expansion has weakened and this softness has now spread to the consumer area, in particular the automotive and retail sections. Based on this data, the Office of Research and Analysis should closely monitor collections in this area to determine whether the

[3] Value Line is involved in the investment field. They publish "The Value Line Investment Survey" which is " a comprehensive source of information and advice on approximately 1,700 stocks, more than 90 industries, the stock market, and the economy."

estimate should be reduced. Again, the Auditor notes that declining consumer confidence may continue to negatively impact consumer spending**.**

According to Office of Research and Analysis officials, alcoholic beverage taxes and motor vehicle excise taxes are generally seasonal in nature and sales of alcoholic beverages tend to increase in the summer months. Based on collections through the 1st quarter and the seasonal collection pattern for these revenue sources, the District should achieve the revised FY 2003 revenue estimate for this category.

<u>INCOME TAXES</u>[4]

Income taxes include: (A) individual income taxes, (B) corporate franchise taxes, and (C) unincorporated business franchise taxes. The September 2002 FY 2003 revised estimate for the income tax category is $1.141 billion. In February 2003, the estimate was revised to $1.125 billion, a decrease of $15.7 million from the September 2002 estimate. Collections through the 1st quarter of FY 2003 totaled $238.1 million which were:

- ✦ $6.675 million, or 2.7%, below the $244.8 million 1st quarter revised estimate; and
- ✦ $22.9 million, or 8.8%, below collections for the same period in FY 2002.

Income tax collections through the 1st quarter represented 20.9% of the September 2002 total FY 2003 revised revenue estimate and 21.2% of the February 2003 estimate for this category. Table V compares actual collections to the September 2002 revised estimate through the 1st quarter of FY 2003 for income taxes.

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[4] The Auditor notes that fiscal year 2002 collections of income tax revenues were well below the fiscal year 2002 revenue estimate which contributed, in part, to the fiscal year 2002 deficit.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates
Through the 1st Quarter of Fiscal Year 2003
($000)

Income Taxes	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/Under Revised Estimates	Percent Difference
Individual Income Taxes	$199,920	$201,680	($1,760)	(0.9%)
Corporate Franchise Taxes	25,266	33,367	(8,101)	(24.3%)
Unincorporated Business Franchise Taxes	12,964	9,777	3,187	32.6%
Total Income Taxes	**$238,149**	**$244,824**	**($6,675)**	**(2.7%)**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

A. Individual Income Taxes

Individual income taxes collected through the 1st quarter totaled $199.9 million. This tax is the largest in this tax category. These collections were $1.8 million, or .9%, below the $201.7 million September 2002 revised estimate.

Declines in the stock market may have a continuing negative impact on individual capital gains taxes. Individual income tax declarations through the 1st quarter were approximately $12.8 million, or 32.4%, lower than the $18.9 million estimate through the 1st quarter. Additionally, individual income tax refunds for the 1st quarter were approximately $13.6 million, or 82.9%, higher than the $7.4 million estimate for the 1st quarter. Individual income tax collections were approximately $26.4 million, or 11.7%, less than collections for the same period in FY 2002. The decrease in individual income tax collections may also be due, in part, to a decrease in employed District residents. According to data obtained from the District's Department of Employment Services, the employed civilian workforce decreased by 7,000 from 304,200 in January 2002 to 297,200 in January 2003.

B. Corporate Franchise Taxes

Corporate franchise taxes collected through the 1st quarter totaled $25.3 million. These collections were $8.1 million, or 24.3%, below the $33.4 million September 2002 revised estimate.

Corporate franchise tax refunds were 108.8% higher than the estimate for the 1st quarter while declarations (estimated tax payments) were 10.9% lower than the estimate. According to a report by Value Line, the recent harsh winter and the consequent surge in oil and natural gas prices may have contributed to a decline in corporate budgets. Additionally, the Auditor notes that the fluctuating stock market may have caused some corporations to limit their investments. In an analysis of FY 2002 revenues, the Auditor raised concerns regarding whether the FY 2002 corporate franchise tax revenue estimate could be achieved. The Auditor notes that the estimate was not achieved. Therefore, based on the current economic climate, the Auditor again strongly cautions that this estimate may be overly optimistic and may not be achieved in FY 2003.

C. Unincorporated Business Franchise Taxes

Unincorporated business franchise taxes collected through the 1st quarter totaled $12.9 million, or 32.6%, above the $9.8 million revised estimate. Refunds of unincorporated business franchise taxes were approximately $2.3 million, or 256%, above the September 2002 estimate for the 1st quarter.

Based on current economic factors discussed above, the District may not achieve the FY 2003 estimate in the income taxes category.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utility taxes, (B) toll telecommunications taxes, and (C) tax on insurance premiums. The September 2002 FY 2003 revised estimate for gross receipts taxes is $243.9 million. In February 2003, the estimate was revised to $250.7 million, an increase of $6.8 million from the September 2002 revised estimate. Collections of gross receipt taxes through the 1st quarter of FY 2003 totaled $47.1 million, which were:

- $3.045 million, or 6.9%, above the $44.1 million 1st quarter revised estimate; and
- $4.6 million, or 10.7%, above collections for the same period in FY 2002.

Gross receipts tax collections through the 1st quarter represented 19.3% of the FY 2003 revised estimate and 18.8% of the February 2003 revised estimate for this category. Table VI compares actual collections to the September 2002 revised estimate through the 1st quarter of FY 2003 for gross receipts taxes.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates
Through the 1st Quarter of Fiscal Year 2003
($000)

Gross Receipts Taxes	**Actual Collections Through the 1st Quarter FY 2003**	**September 2002 Revised Estimates Through the 1st Quarter FY 2003**	**Difference: Actual Over/(Under) Revised Estimates**	**Percent Difference**
Public Utilities	$35,004	$30,231	$4,773	15.8%
Toll Telecommunications	12,070	13,706	(1,636)	(11.9%)
Insurance Premiums	68	160	(92)	(57.8%)
Total Gross Receipts	**$47,142**	**$44,097**	**$3,045**	**6.9%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

A. Public Utility Taxes

Public utility taxes collected through the 1st quarter totaled $35 million. These collections were $4.8 million, or 15.8%, above the $30.2 million September 2002 revised estimate. The strength in these collections through the 1st quarter may be due, in part, to increased profits collected by utility companies and a resultant increase in taxes. According to data obtained from NOAA (the National Oceanic and Atmospheric Administration), the average temperature in Washington, D.C. for the months of October through December, 2002 was colder than the average temperature for the same period in 2001. Because of the cold weather, utility customers may have received higher utility bills resulting in increased revenue for utility companies. The public utility tax is imposed on the gross receipts of utility companies. Therefore, increased revenue to these companies may result in increased gross receipts tax payments to the District.

B. Toll Telecommunications Taxes

Toll telecommunications taxes collected through the 1st quarter totaled $12.1 million. These collections were $1.6 million, or 11.9%, below the $13.7 million September 2002 revised estimate. At the same time, these collections were 3.7% higher than collections for the same period in FY 2002.

C. Insurance Premium Taxes

Insurance premium taxes collected through the 1st quarter totaled $68,000. These collections were $92,000, or 57.8%, below the $160,000 September 2002 revised estimate. It is difficult to determine the potential outcome of this tax, particularly because it is early in the fiscal year and the tax is not due until March. Also, collections for the 1st quarter of FY 2003 were 226.5% more than collected during the same period in FY 2002.

OTHER TAXES

Other Taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interest transfer taxes. The September 2002 FY 2003 revised estimate for Other Taxes is $215.8 million. In February 2003, the estimate was revised to $204.9 million, a decrease of $10.9 million from the September 2002 revised estimate. Collections of Other Taxes through the 1st quarter of FY 2003 totaled $76 million, which were:

- ✦ $28.6 million, or 60.4%, above the $47.4 million 1st quarter revised estimate; and
- ✦ $12.9 million, or 20.5%, above collections for the same period in FY 2002.

Collections of Other Taxes through the 1st quarter represented 35.2% of the total FY 2003 September 2002 revised revenue estimate, and 37.1% of the February 2003 revised estimate for this tax category. Table VII compares actual collections to the September 2002 revised estimate through the 1st quarter of FY 2003 for Other Taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates
Through the 1st Quarter of Fiscal Year 2003
($000)

Other Taxes	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Estate Taxes	$11,047	$12,267	($1,220)	(9.9%)
Deed Recordation	39,611	20,384	19,227	94.3%
Deed Transfer	24,907	14,583	10,324	70.8%
Economic Interests	429	158	271	171.5%
Total Other Taxes	**$75,994**	**$47,392**	**$28,602**	**60.4%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

A. Estate Taxes

Estate taxes collected through the 1st quarter totaled $11.01 million. These collections were $1.2 million, or 9.9%, below the $12.3 million September 2002 revised estimate. Although collections through the 1st quarter were below the estimate, this tax is largely unpredictable in that there is no reliable basis upon which to project the amount of revenue that may be generated during the fiscal year.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes through the 1st quarter totaled $64.5 million. These combined collections were $29.6 million, or 84.5%, above the $35 million September 2002 revised estimate. Collections from these sources were also strong during FY 2002. The continued strength of these collections reflects the resilience of the real estate market, and although some softening is anticipated, no significant changes are forecast for the near future. Further, rates for both of these tax categories (deed recordation and transfer taxes) were increased in the revenue enhancements approved by the Council in December 2002.

C. Economic Interest Taxes

Economic interest taxes collected through the 1st quarter totaled $429,000. These collections were $271,000, or 171.5%, above the $158,000 September 2002 revised estimate.

NON-TAX REVENUE

Non-tax revenue includes: (A) licenses and permits, (B) fines and forfeitures, (C) charges for services, and (D) miscellaneous revenue. The September 2002 fiscal year 2003 revised estimate for non-tax revenue is $247.4 million. In February 2003, the estimate was revised to $285.3 million, an increase of $37.9 million from the September 2002 revised estimate. Collections through the 1st quarter totaled $67.5 million, which were:

- $764,000, or 1.1%, above the $66.7 million 1st quarter revised estimate; and
- $16 million, or 31%, above collections for the same period in fiscal year 2002.

Non-tax revenue collections through the 1st quarter represented 27.3% of the September 2002 fiscal year 2003 revised estimate and 23.7% of the February 2003 revised estimate for this category. Table VIII compares actual collections to the September 2002 revised estimate through the 1st quarter of fiscal year 2003 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the September 2002 Revised Estimates Through the 1st Quarter of Fiscal Year 2003
($000)

Non-Tax Revenue	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimates Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Licenses and Permits	$9,091	$9,036	$55	0.6%
Fines and Forfeitures	19,301	20,827	(1,526)	(7.3%)
Charges for Services	7,070	7,974	($904)	(11.3%)
Miscellaneous Revenue	32,044	28,904	3,140	10.9%
Total Non-Tax Revenue	**$67,505**	**$66,741**	**$764**	**1.1%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

A. Licenses and Permit Fees

Licenses and permit fees collected through the 1st quarter totaled $9.09 million. Collections were $55,000, or .6%, above the $9.04 million September 2002 revised estimate.

B. Fines and Forfeiture Fees

Fines and forfeiture fees collected through the 1st quarter totaled $19.3 million. These collections were $1.5 million, or 7.3%, below the $20.8 million revised estimate. According to officials of the Office of Research and Analysis, the decrease in this estimate was due, in part, to a reduction in red light camera fines.

C. Charges for Services

Charges for services collected through the 1st quarter totaled $7.07 million. These collections were $904,000, or 11.3%, below the $7.97 million September 2002 revised estimate. According to Office of Research and Analysis officials, the decrease in collections may be due, in part, to the fact that anticipated levels of revenue from parking meters has not materialized.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer[5] and (5) other revenue[6]. Miscellaneous revenue collected through the 1st quarter totaled $32 million. These collections were $3.1 million, or 10.9%, above the $28.9 million revised estimate. One area of concern in this tax category is interest income. Interest rates on investments have remained low which has resulted in lower interest income earned on investments.

Overall collections in the non-tax revenue category for the 1st quarter of fiscal year 2003 were higher than overall collections in fiscal year 2002. Additionally, effective in January 2003, the Council of the District of Columbia increased certain license, permit, and user fees and charges to account for inflation. Further, officials in the Office of Research and Analysis indicated that the number of red light cameras and other speeding enforcement efforts are expected to increase, which should result in increased revenue from this non-tax category.

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[5] Includes the WASA Pilot Transfer.

[6] Includes revenue such as dishonored checks, payroll service fees, or other revenue from agencies.

OTHER FINANCING SOURCES

Other Financing Sources include legalized gambling. The September 2002 fiscal year 2003 revised estimate for Other Financing Sources is $70.9 million. In February 2003, the estimate was revised to $68.6 million, a decrease of $2.3 million from the September 2002 revised estimate. Collections through the 1st quarter totaled $22.9 million, which were:

- $4.4 million, or 23.9%, above the $18.4 million 1st quarter revised estimate; and
- $7.1 million, or 45.8%, above collections for the same period in fiscal year 2002.

Collections from Other Financing Sources through the 1st quarter represented 32.2% of the September 2002 fiscal year 2003 revised estimate and 33.3% of the February 2003 revised estimate for this category. Table IX compares actual collections to the September 2002 revised estimate through the 1st quarter of fiscal year 2003 for Other Financing Sources.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the September 2002 Revised Estimate
Through the 1st Quarter of Fiscal Year 2003
($000)

Other Financing Sources	Actual Collections Through the 1st Quarter FY 2003	September 2002 Revised Estimate Through the 1st Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Legalized Gambling	$22,850	$18,448	$4,402	23.9 %

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

Legalized gambling (transfers from the D. C. Lottery Board) through the 1st quarter totaled $22.8 million. These transfers were $4.4 million, or 23.9%, above the $18.4 million September 2002 revised estimate. According to Lottery officials, collections were above the estimate as a result of increased sales due to a large powerball jackpot which reached $315 million.

CONCLUSION

The Auditor's analysis indicates that cash collections, overall, remain above the September 2002 revised estimate through the 1st quarter of fiscal year 2003. The District's cash collections through December 2002 totaled $657.4 million, which were $29.2 million, or 4.7%, above the

$628.2 million September 2002 revised estimate through the 1st quarter. The $657.4 million in actual cash collections represented 18.1% of the total $3.626 billion September 2002 revised revenue estimate, and 18.4% of the total $3.573 billion February 2003 revised revenue estimate.

Based on a review and analysis of economic data from various sources as well as collection patterns through the 1st quarter, the Auditor suggests that the Office of Research and Analysis closely monitor revenue collections from the following tax categories: 1) General Property Taxes; 2) General Sales and Use Taxes; and 3) Income Taxes. If the downward collections trend continues for these tax categories, the Office of Research and Analysis may need to reduce the overall fiscal year 2003 revenue estimate.

If actual collections for fiscal year 2003 do not meet the estimate, District officials may request agencies to reduce spending. If spending is not sufficiently reduced and controlled, the District may end fiscal year 2003 in a deficit position, as was the case in fiscal year 2002.

Respectfully submitted,

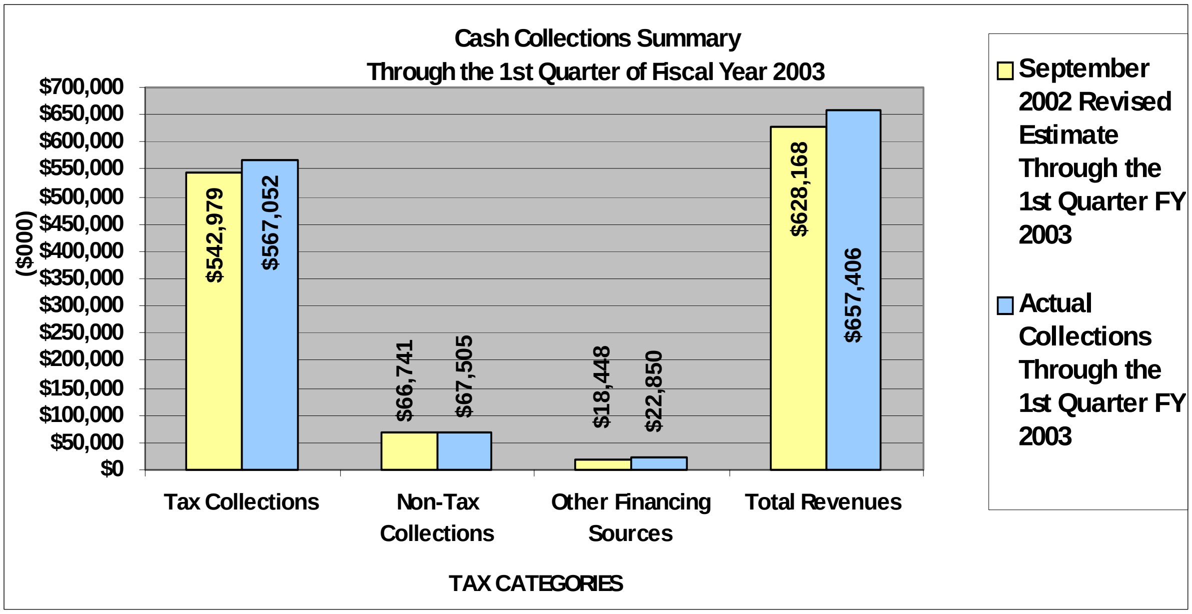
Deborah K. Nichols

Deborah K. Nichols,
District of Columbia Auditor

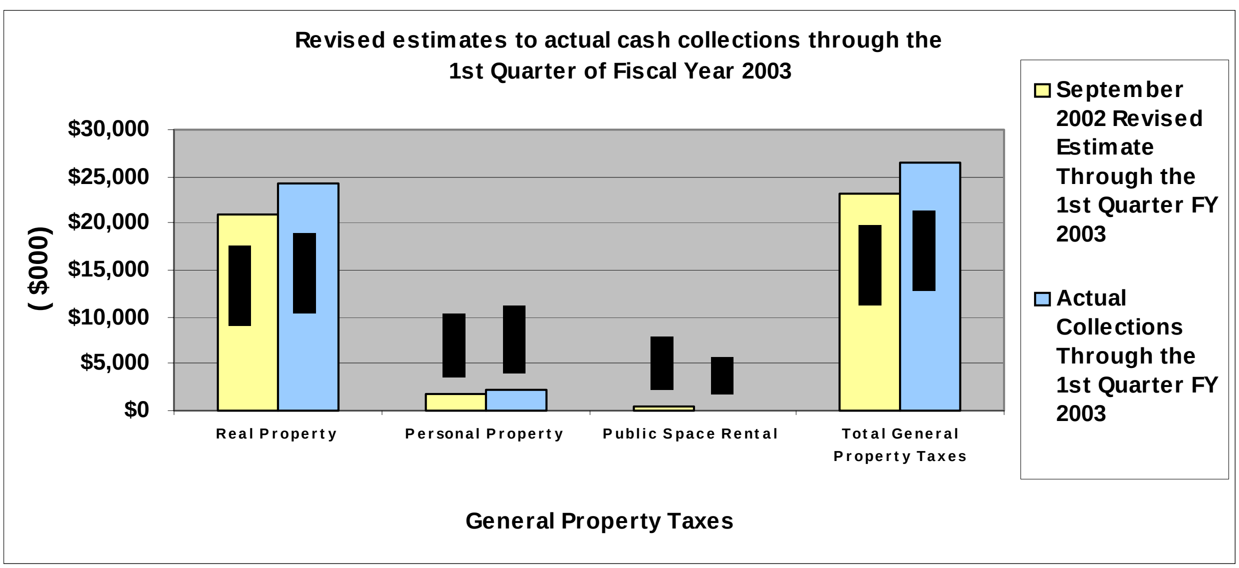
APPENDICES

APPENDIX I

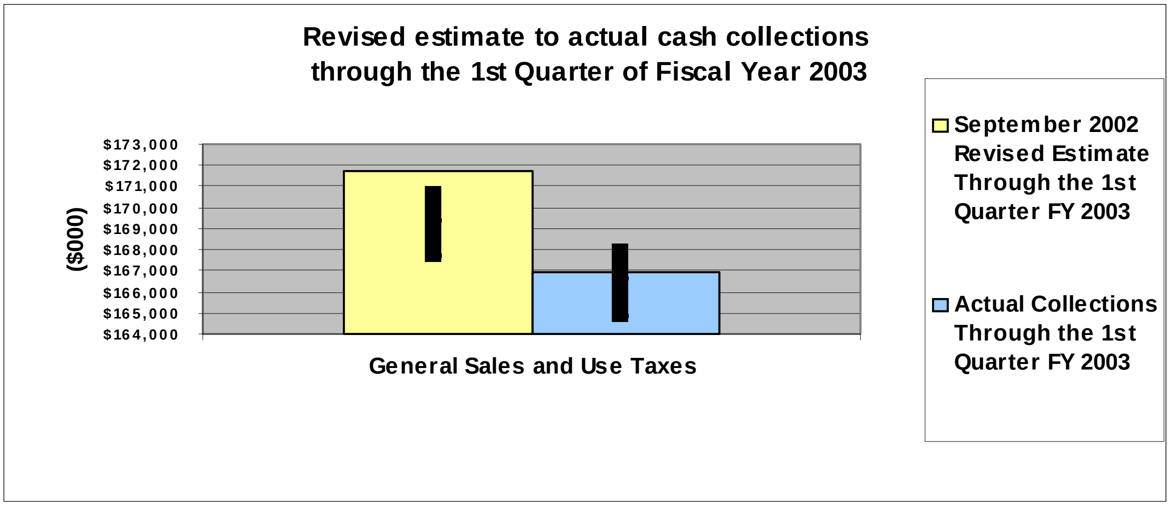
GRAPH I
Cash Collections Summary
Through the 1st Quarter of Fiscal Year 2003
($000)



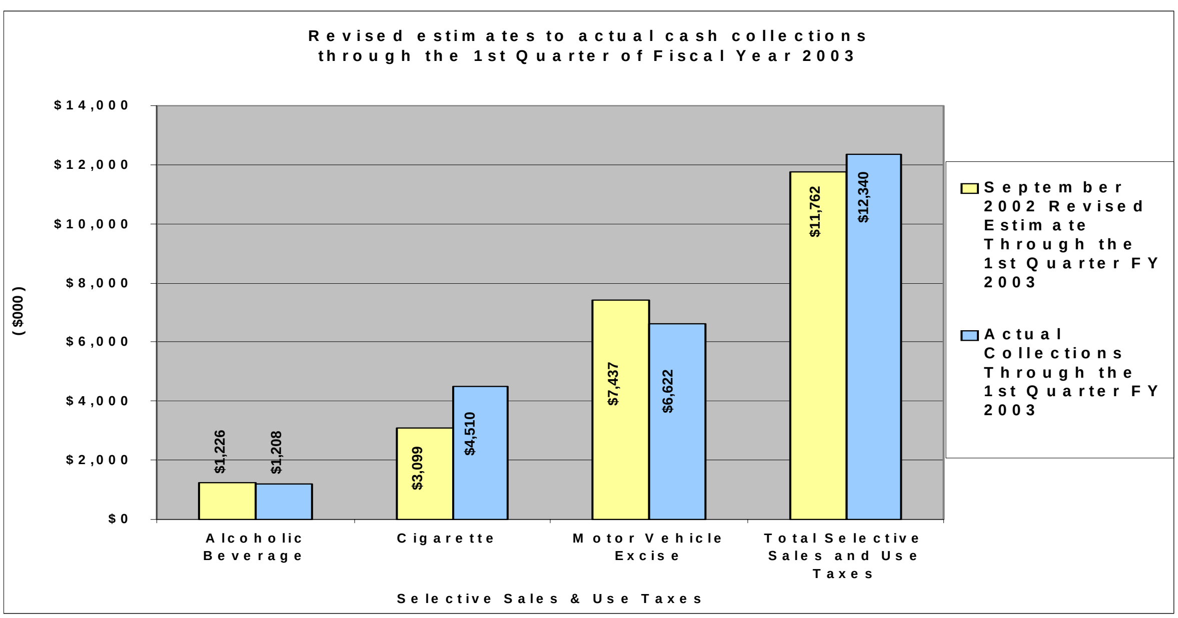
Graph II
General Property Taxes
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



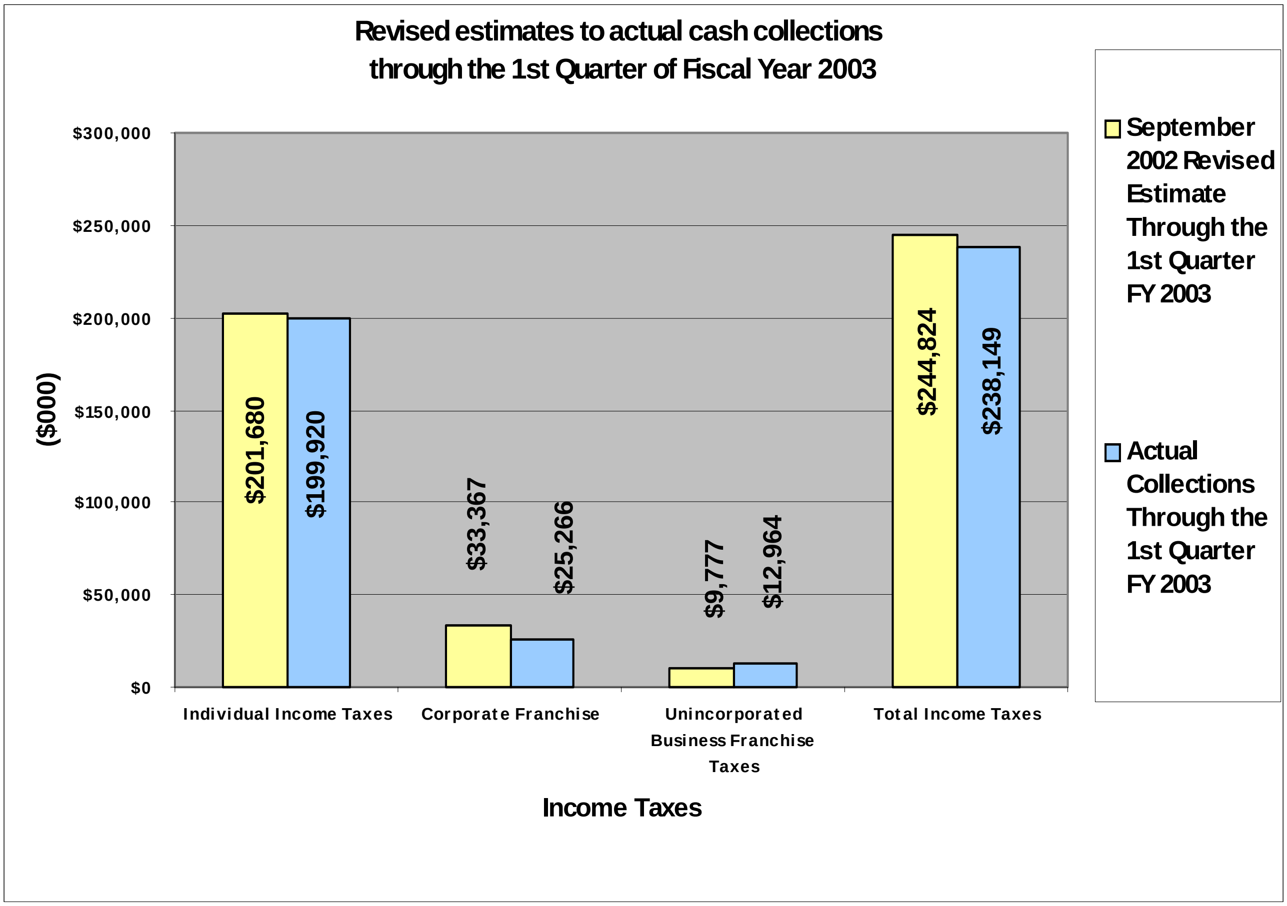
GRAPH III
General Sales and Use Taxes
Comparison of September 2002 Revised Estimate
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



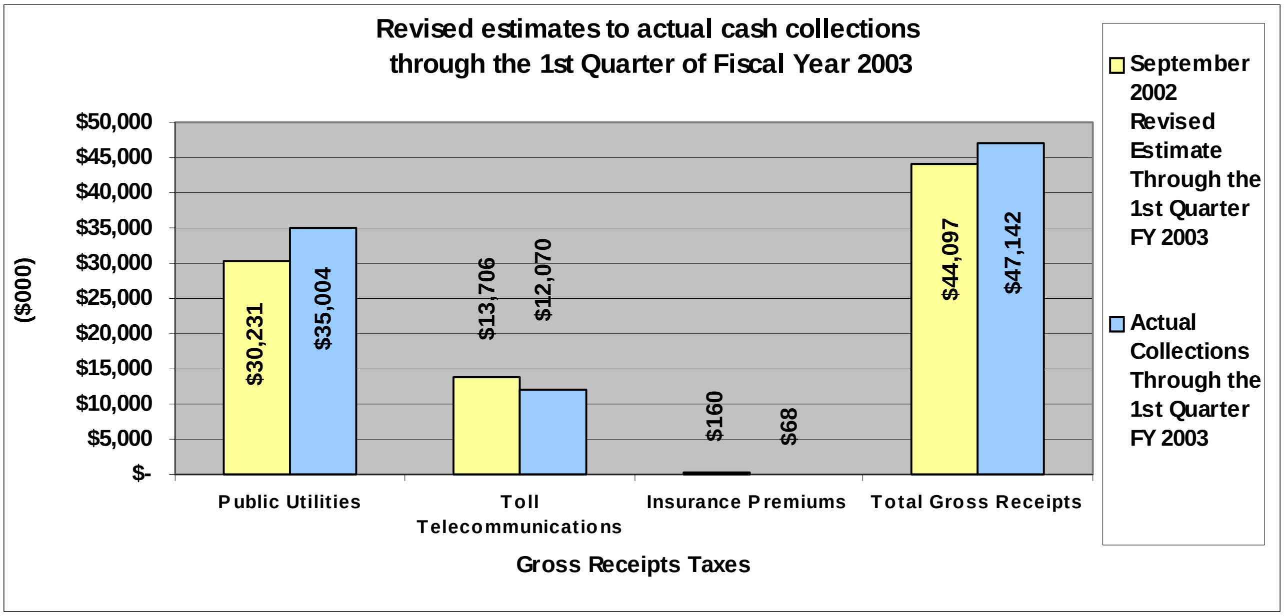
GRAPH IV
Selective Sales and Use Taxes
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



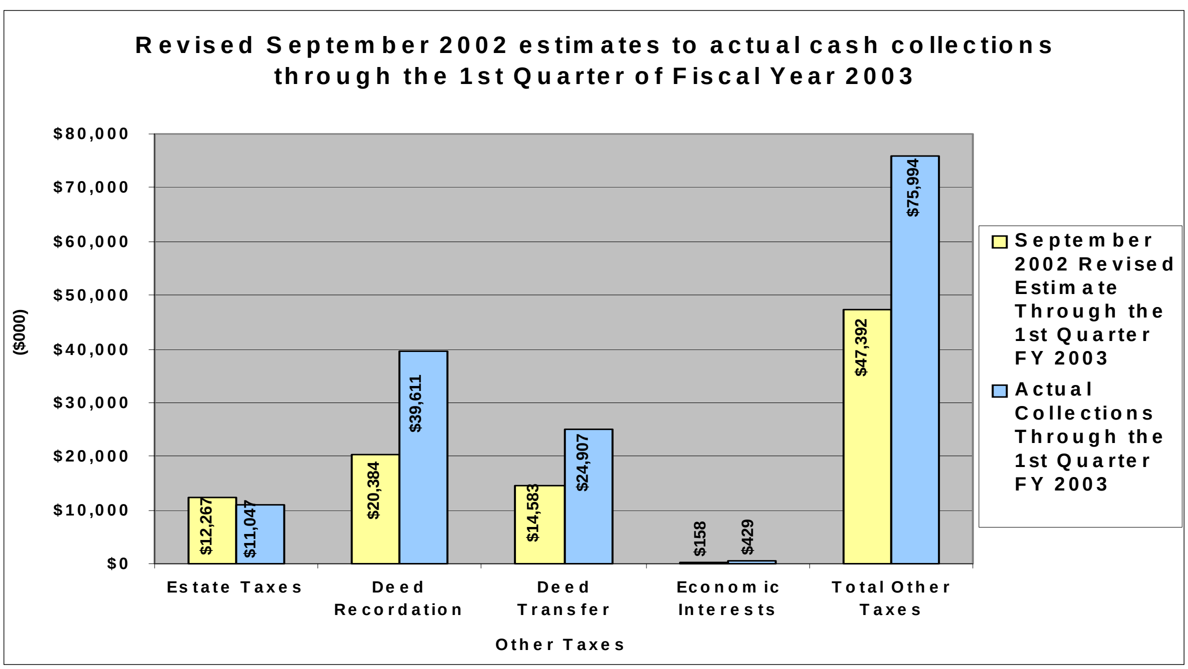
GRAPH V
Income Taxes
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



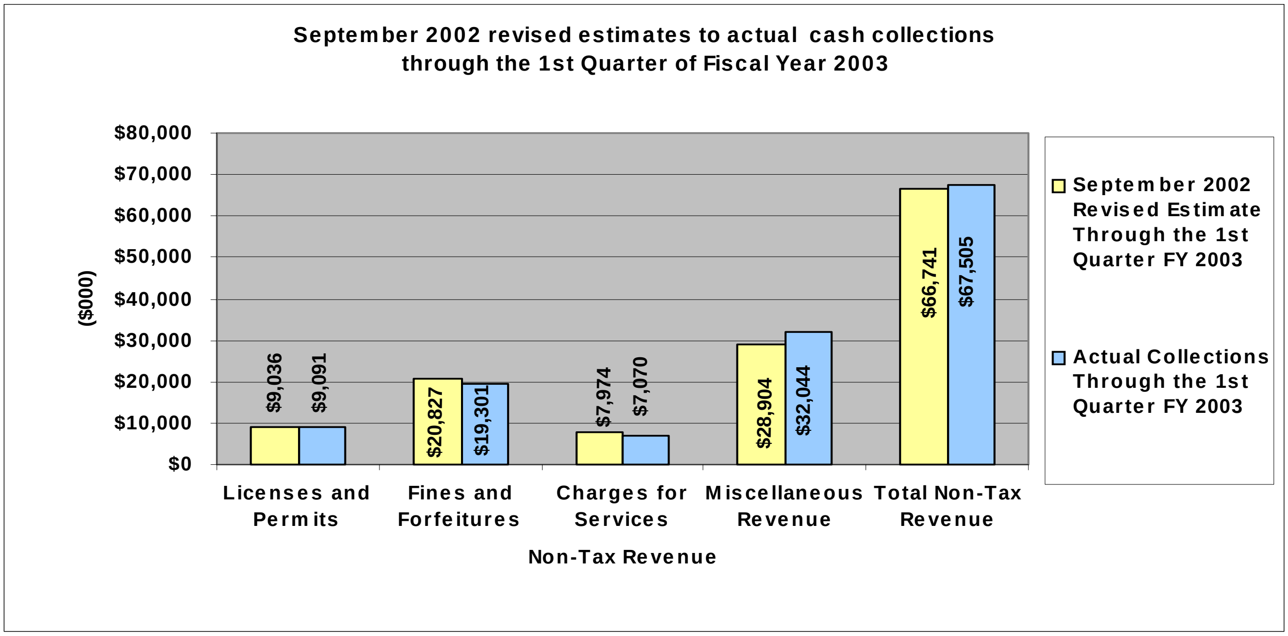
GRAPH VI
Gross Receipts Taxes
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



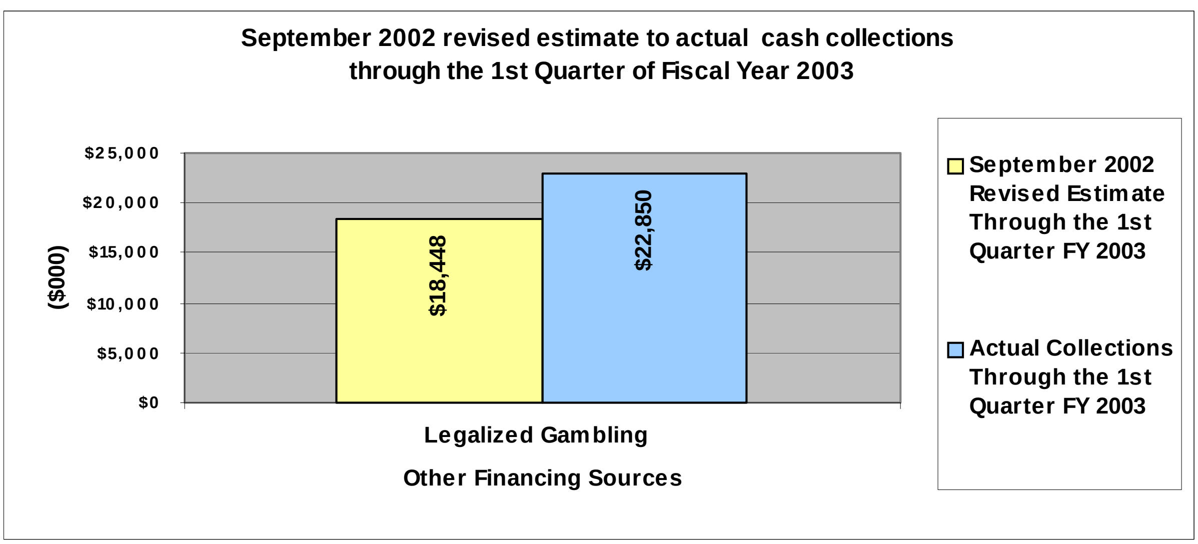
GRAPH VII
Other Taxes
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



GRAPH VIII
Non-Tax Revenue
Comparison of September 2002 Revised Estimates
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



GRAPH IX
Other Financing Sources
Comparison of September 2002 Revised Estimate
For the 1st Quarter FY 2003 to Actual Cash Collections
($000)



Comparison of Cash Collections Through the 1st Quarter Fiscal Years 1999 Through 2003[7] ($000)

Tax Categories	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
General Property Taxes	$8,244	$35,127	$25,881	$14,225	$26,501
General Sales and Use Taxes*	147,033	156,414	172,560	152,518	166,924
Selective Sales and Use Taxes	14,000	13,922	11,191	13,501	12,340
Income Taxes	244,333	271,979	278,230	261,089	238,149
Gross Receipts Taxes	40,355	40,182	43,945	42,567	47,142
Other Taxes	36,422	35,807	33,448	63,080	75,994
Non-Tax Revenue	47,526	58,631	48,624	51,519	67,505
Other Financing Sources	17,975	21,359	22,681	15,676	22,850
Federal Payment	-0-	-0-	-0-	-0-	-0-
Total Cash Collections Financing the Appropriation	**$555,888**	**$633,420**	**$636,560**	**$614,176**	**$657,406**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

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

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

APPENDIX III

Comparison of Collections Through the 1st Quarter for Fiscal Year 2003 to Fiscal Year 2002[8] ($000)

Tax Category	Collections Through the 1st Quarter Fiscal Year 2003	Collections Through the 1st Quarter Fiscal Year 2002	Difference 1st Quarter 2003 Over/(Under) 1st Quarter 2002	Percent Difference
General Property Taxes:				
Real Property	$24,319	$12,626	$11,694	92.6%
Personal Property	2,172	1,590	581	36.6%
Public Space Rental	10	9	1	15.7%
Total Property Taxes	**$26,501**	**$14,225**	**$12,277**	**86.3%**
General Sales and Use Taxes	**$166,924**	**$152,518**	**$14,406**	**9.4%**
Selective Sales and Use Taxes:				
Alcoholic Beverage	$1,208	$1,149	$59	5.2%
Cigarette	4,510	2,662	1,848	69.4%
Motor Vehicle Excise	6,622	9,691	(3,069)	(31.7%)
Selective Sales and Use Taxes	**$12,340**	**$13,501**	**($1,161)**	**(8.6%)**
Income Taxes:				
Individual Income Taxes	$199,920	$226,287	($26,368)	(11.7%)
Corporate Franchise	25,266	19,252	6,014	31.2%
Unincorporated Business Franchise	12,964	15,550	(2,586)	(16.6%)
Total Income Taxes	**$238,149**	**$261,089**	**($22,940)**	**(8.8%)**
Gross Receipts Taxes:				
Public Utilities	$35,004	$30,904	$4,101	13. 3%
Toll Telecommunications	12,070	11,643	427	3.7%
Insurance Premiums	68	21	47	226.5%
Total Gross Receipts	**$47,142**	**$42,567**	**$4,575**	**10.7%**
Other Taxes:				
Estate Taxes	$11,047	$23,011	($11,964)	(52.0%)
Deed Recordation	39,611	21,659	17,952	82.9%
Deed Transfer	24,907	14,519	10,388	71.5%
Economic Interests	429	3,891	(3,462)	(89.0%)
Total Other Taxes	**$75,994**	**$63,080**	**$12,914**	**20.5%**
Total Tax Collections	**$567,052**	**$546,981**	**$20,071**	**3.7%**
Non-Tax Revenue:				
Licenses and Permits	$9,091	$7,749	$1,341	17.3%
Fines and Forfeitures	19,301	16,527	2,774	16.8%
Charges for Services	7,070	4,850	2,220	45.8%
Miscellaneous Revenue	32,044	22,393	$9,651	43.1%
Total Non-Tax Revenue	**$67,505**	**$51,519**	**$15,986**	**31.0%**
Other Financing Sources	**$22,850**	**$15,676**	**$7,174**	**45.8%**
Total Revenues	**$657,406**	**$614,176**	**$43,231**	**7.0%**

Source: Office of Research and Analysis, Office of the Chief Financial Officer of the District of Columbia

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