



**OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

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Deborah K. Nichols  
District of Columbia Auditor

010:01:SDG:VJ

**Report on Certification of the Fiscal Year 2001 Revised  
Revenue Estimate of \$3,372,559,000 in Support of the  
District of Columbia Multimodal General Obligation  
Refunding Bonds Series 2001A and General  
Obligation Bonds 2001B**

**April 4, 2001**



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

## **Letter Report:**

Certification of the Fiscal Year 2001 Revised  
Revenue Estimate of \$3,372,559,000 in  
Support of the District of Columbia  
Multimodal General Obligation Refunding  
Bonds Series 2001A and General Obligation  
Bonds Series 2001B

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

Pursuant to Section 603(b)(1) of Public Law 93-198, the District of Columbia Home Rule Act, as amended, the Office of the District of Columbia Auditor analyzed the fiscal year 2001 revised General Fund revenue estimate supporting the \$179.8 million District of Columbia Multimodal General Obligation Refunding Bonds (Series 2001A) and General Obligation Bonds (Series 2001B). Public Law 93-198, Section 603(b)(1), states, in relevant part, the following:

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

The \$179,795,000 bond issues consisted of \$114,150,000 in Series 2001A Multimodal General Obligation Refunding Bonds to redeem certain outstanding bonds and \$65,645,000 in Series 2001B General Obligation Bonds to finance certain capital projects. The fees and related expenses associated with issuing and delivering the bonds will be covered by bond proceeds.

The Auditor reviewed and analyzed the fiscal year 2001 revised revenue estimate, the report of cash collections as of January 31, 2001, and other related information. The fiscal year 2001 revised revenue estimate was prepared by the Chief Financial Officer of the District of Columbia (CFO), approved by the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), and submitted to the Mayor and Council of the District of Columbia in accordance with Public Law 104-8, entitled "District of Columbia Financial Responsibility and Management Assistance Act of 1995". Public Law 104-8 authorized the District's CFO to annually estimate and quarterly re-estimate all revenues of the District during a control year. The CFO's estimates are binding on the Mayor and Council of the District of Columbia, during a control year, for purposes of preparing the District's budget. A control year is a fiscal year of the District for which a Financial Plan and Budget approved by the Authority is in effect. Fiscal year 2001 is a control year.

### **OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this analysis was to determine whether the fiscal year 2001 revised revenue estimate of \$3,372,559,000 could be achieved by September 30, 2001. The fiscal year 2001 General Fund revenue estimate includes tax revenues collected by the Office of Tax and Revenue and non-tax revenues generated by programs and activities administered by other District agencies.

The Auditor interviewed officials of the District's Office of Research and Analysis (ORA) regarding the underlying assumptions supporting the revised fiscal year 2001 General Fund revenue estimate and reviewed information obtained from the Office of Tax and Revenue (OTR) regarding the revised estimate. The Auditor also interviewed the District's Associate Treasurer within the District's Office of Finance and Treasury regarding the District's issuance of both general obligation bonds and its plans to refund certain outstanding District debt. Additionally, the Auditor spoke with an official of George Mason University's School of Public Policy regarding the economic outlook for the Washington Metropolitan Region and reviewed published reports and articles regarding the local economy.

The Auditor reviewed the preliminary official statement supporting the General Obligation Bond issue and a final official statement supporting the Refunding Bond issue. The Auditor also reviewed the District's Fiscal Year 2001 Operating Budget and Financial Plan which contained assumptions about the original fiscal year 2001 revenue forecast. Updated economic assumptions supporting the revised fiscal year 2001 revenue forecast were also provided by ORA and reviewed by the Auditor.

## **BACKGROUND**

Pursuant to P.L. 104-8, the District of Columbia Financial Responsibility and Management Assistance Authority was established on April 17, 1995. The purpose of P.L. 104-8 was:

To eliminate budget deficits and management inefficiencies in the government of the District of Columbia through the establishment of the District of Columbia Financial Responsibility and Management Assistance Authority, and for other purposes.

P.L. 104-8 also established the Office of the Chief Financial Officer of the District of Columbia within the District government's executive branch and defined the CFO's duties, responsibilities, and authority during a control period (see Appendix I for events that initiate and terminate a control period). Section 302(c)(5) of P.L. 104-8, states that during a control year the CFO's duties include:

With the approval of the Authority, preparing and submitting to the Mayor and the Council—

(A) annual estimates of all revenues of the District of Columbia (without regard to the source of such revenues), including proposed revenues, which shall be binding on the Mayor and the Council for purposes of preparing and submitting the budget of the District government for the year under part D, except that the Mayor and the Council may prepare the budget based on estimates of revenues which are lower than those prepared by the Chief Financial Officer; and

(B) quarterly re-estimates of the revenues of the District of Columbia during the year.

Additionally, Section 302(d)(2) provides the following with regard to the CFO's duties as they relate to the issuance of bonds:

Administering all borrowing programs of the District government for the issuance of long-term and short-term indebtedness.

Prior to the enactment of P.L. 104-8, the District of Columbia Auditor certified to a General Fund revenue estimate prepared by the Mayor of the District of Columbia. However, pursuant to P.L. 104-8, during a control period the Chief Financial Officer of the District of Columbia is responsible for preparing the revenue estimate for the District of Columbia government, transmitting that estimate to the Authority for its approval, and submitting the estimate to the Mayor and Council of the District of Columbia. As previously noted, the revenue estimate submitted by the Chief Financial Officer is binding on the Mayor and Council for purposes of preparing the District's budget during a control year.

## **FINDINGS**

### **THE CFO'S FISCAL YEAR 2001 REVISED REVENUE ESTIMATE OF \$3,372,559,000 APPEARS ACHIEVABLE**

According to revised revenue estimates provided by the District's CFO, District General Fund revenues will total approximately \$3,372,559,000 for the year ending September 30, 2001. The fiscal year 2001 revised revenue estimate was submitted to the Authority on February 14, 2001. The Authority adopted the \$3,372,559,000 revised fiscal year 2001 revenue estimate by resolution dated February 14, 2001.

According to the Auditor's analysis of cash collections through the 1<sup>st</sup> quarter of fiscal year 2001,<sup>1</sup> and the projected collections for the remainder of fiscal year 2001, the \$3,372,559,000 revised revenue estimate appears achievable. The following factors, among others, were considered in the Auditor's analysis:

- cash collections of tax and non-tax revenues through December 2000, the 1<sup>st</sup> quarter of fiscal year 2001, were \$636.6 million. This was \$64.5 million, or 11.3%, above the 1<sup>st</sup> quarter estimate of \$572.1 million;
- collections of property taxes through the 1<sup>st</sup> 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. The District is 1) currently enjoying a robust real estate market; 2) benefitting from a reduction in the backlog of property tax refunds resulting from successful assessment appeals; and 3) collecting increased assessments from properties that comprise triennial group two for which payments are due in fiscal year 2001;<sup>2</sup> and
- a 4% growth in retail sales for the District during the past holiday season versus 3% growth in the surrounding suburbs.

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<sup>1</sup>The Auditor issued a report on cash collections March 12, 2001, entitled "Analysis of the 1<sup>st</sup> Quarter Cash Collections Against the Revised FY 2001 Revenue Estimate".

<sup>2</sup>The District of Columbia operates under a triennial assessment system. District properties are divided into three triennial groups (Tri-Groups) each containing approximately one-third of all real property. Under this system, one tri-group is reassessed each year and increases in assessed values are phased-in over a three-year period.

The Auditor also reviewed cash collections from tax and non-tax revenue sources through the first four months of fiscal year 2001. Overall, the collections totaled \$920.2 million, which was \$14.5 million, or 1.6%, above the fiscal year to date estimate of \$905.7 million. Notwithstanding, the fiscal year to date collections from several revenue sources were below their estimates, including motor vehicle excise taxes, individual income taxes, licenses and permits, interest income, and other revenue. These lower than expected collections were offset by higher than anticipated collections for property taxes, general sales and use taxes, corporate and unincorporated business franchise taxes, gross receipts from public utility taxes, estate taxes, and deed recordation and transfer taxes, which were all above their estimate through the first four months of fiscal year 2001. Although the collections in several categories were below the estimate, as previously noted, collections overall remained above the estimate through the first four months of fiscal year 2001.

Provided that overall collection trends continue at the rate established through the first four months of fiscal year 2001, and the region's overall economy remains strong, the revised fiscal year 2001 revenue forecast of \$3,372,559,000 appears achievable.

**The Fiscal Year 2001 Revised Revenue Estimate of \$3,372,559,000 Represents An Increase of Approximately \$109 Million Above the Original Approved Fiscal Year 2001 Revenue Estimate**

The fiscal year 2001 revenue estimate contained in the Fiscal Year 2001 Proposed Operating Budget and Financial Plan, submitted to the Congress of the United States on June 9, 2000, totaled \$3,263,012,000. The District's CFO subsequently revised this estimate upwards by \$109,547,000 to \$3,372,559,000 to reflect continued revenue growth. Table I presents the fiscal year 2001 original and revised revenue estimate as proposed by the CFO.

**TABLE I**  
**FY 2001 Original Estimate vs FY 2001 Revised Estimate**  
(000)

| Revenue Source                        | FY 2001<br>Original | FY 2001<br>Revised  | Difference<br>increase<br>(decrease) | Percent<br>Difference |
|---------------------------------------|---------------------|---------------------|--------------------------------------|-----------------------|
| Total Property                        | \$644,360           | \$671,433           | \$27,073                             | 4.2%                  |
| Total Sales and Use Taxes*            | 651,230             | 686,889             | 35,659                               | 5.5%                  |
| Total Income                          | 1,291,179           | 1,342,913           | 51,734                               | 4.0%                  |
| Total Gross Receipts                  | 219,753             | 216,074             | (3,679)                              | -1.7%                 |
| Total Other Taxes                     | 111,907             | 125,000             | 13,093                               | 11.7%                 |
| <b>Total Tax Revenues</b>             | <b>2,918,429</b>    | <b>3,042,309</b>    | <b>123,880</b>                       | <b>4.2%</b>           |
| <b>Total Non-Tax Revenues</b>         | <b>237,372</b>      | <b>231,205</b>      | <b>(6,167)</b>                       | <b>-2.6%</b>          |
| Lottery                               | 69,000              | 69,000              | 0                                    | 0%                    |
| Federal Project Funds                 | 38,211              | 30,045              | (8,166)                              | -21.4%                |
| <b>Total Other Revenues</b>           | <b>107,211</b>      | <b>99,045</b>       | <b>(8,166)</b>                       | <b>-21.4%</b>         |
| <b>Total General Fund<sup>3</sup></b> | <b>\$3,263,012</b>  | <b>\$ 3,372,559</b> | <b>\$109,547</b>                     | <b>3.4%</b>           |

Source: Office of Research and Analysis

\*This estimate is net of Convention Center transfers.

As presented in Table I, the fiscal year 2001 revised revenue estimate is \$109 million, or 3.4%, above the original estimate. Approximately 47% of the increase, or \$51 million, is attributable to continued growth in income tax collections. As a result, there was a 4% upward revision in the estimate for income taxes.

The revenue estimate for sales and use taxes was also revised upwards by approximately \$36 million, or 5.5%. According to information provided to the Auditor, the increase reflects projected growth in sales and use tax revenues largely attributable to an overall strong economy.

In addition to income taxes and sales taxes, the revenue estimate for property taxes was also revised. The estimate was revised upwards by \$27 million, or 4.2%. ORA officials attribute this increase primarily to the strength in the real estate market and a decline in refunds due to successful appeals of property tax assessments.

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<sup>3</sup>Total General Fund equals Total Tax Revenues plus Total Non-Tax Revenues plus Total Other Revenues.

The revenue estimate for gross receipts taxes was reduced to reflect changes pertaining to the collections of the toll telecommunication tax. The revenue estimates for non-tax revenues and other taxes were also reduced primarily due to initial optimistic revenue forecasts particularly from traffic fines and the red light camera program.

### **ESTIMATES FOR NON-TAX REVENUES CONTINUE TO BE PROBLEMATIC**

Overall, the fiscal year 2001 revised revenue estimate for non-tax revenues, which includes licenses and permits, parking fines, traffic fines, parking meters, other charges, interest income, unclaimed property and other revenue, was revised downward by approximately \$6.2 million, or 2.6%. While the estimate for licenses and permits and other charges for services was revised upwards, the estimate for fines and forfeitures was reduced by \$14.8 million, or 21.8%. The estimate for miscellaneous revenue, which includes interest income, unclaimed property and other revenue, was also reduced by \$2 million, or 2.8%.

In several earlier reports, this office reported on a number of problems associated with estimating non-tax revenue. The documented problems included OTR's lack of knowledge of the revenue estimating procedures of each agency responsible for the estimation and collection of non-tax revenue. Further, the Auditor found that there was no written methodology documenting the procedures agencies should follow in developing their forecasts for revenues. As a result, the estimates that were submitted by District agencies for non-tax revenues were problematic.

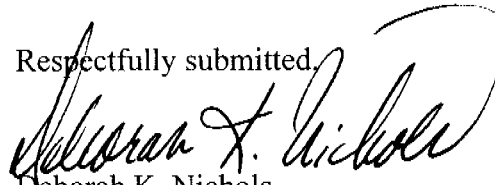
ORA officials indicated that its present methodology for estimating non-tax revenue has not changed significantly. District agencies are still relied upon to develop a revenue forecast and submit that information to ORA for inclusion in the District's revenue budget. ORA further indicated that estimates may need to be revised based on a lack of adequate supporting documentation. If the overall collection trends for non-tax revenues continue at the rate established through the first four months of fiscal year 2001, the estimate for non-tax revenues may not be achieved. However, the Auditor notes that increased collections in other areas may compensate for any shortfall in non-tax revenues.

### **CONCLUSION**

Based on a review and analysis of the fiscal year 2001 revised General Fund revenue estimate and actual collections through the first four months of fiscal year 2001, the District of Columbia Auditor certifies to the revenue estimate of \$3,372,559,000.

The Auditor's certification was based, in part, on assumptions that the collection pattern established through the first four months of fiscal year 2001 would continue, that the real estate market would remain strong, and that retail sales growth would continue. Barring any major changes in these areas, the revised fiscal year 2001 revenue estimate of \$3,372,559,000 appears achievable.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols". The signature is fluid and cursive, with a large loop at the end.

Deborah K. Nichols

District of Columbia Auditor

## **APPENDIX**

INITIATION AND TERMINATION OF A CONTROL PERIOD

Public Law 104-8, Section 209(a) describes the initiation of a control period as follows:

"(a) INITIATION.— For purposes of this Act, a "control period" is initiated upon the occurrence of any of the following events (as determined by the Authority based upon information obtained through the Mayor, the Inspector General of the District of Columbia, or such other sources as the Authority considers appropriate):

(1) The requisitioning by the Mayor of advances from the Treasury of the United States under title VI of the District of Columbia Revenue Act of 1939 (sec. 47-3401, D.C. Code), or the existence of any unreimbursed amounts obtained pursuant to such authority.

(2) The failure of the District government to provide sufficient revenue to a debt service reserve fund of the Authority under subtitle B.

(3) The default by the District government with respect to any loans, bonds, notes, or other form of borrowing.

(4) The failure of the District government to meet its payroll for any pay period.

(5) The existence of a cash deficit of the District government at the end of any quarter of the fiscal year in excess of the difference between the estimated revenues of the District government and the estimated expenditures of the District government (including repayments of temporary borrowings) during the remainder of the fiscal year or the remainder of the fiscal year together with the first 6 months of the succeeding fiscal year (as determined by the Authority in consultation with the Chief Financial Officer of the District of Columbia).

(6) The failure of the District government to make required payments relating to pensions and benefits for current and former employees of the District government.

(7) The failure of the District government to make required payments to any entity established under an interstate compact to which the District of Columbia is a signatory."

Further, Public Law 104-8, Section 209(b) states that a control period can be terminated as follows:

"(b) TERMINATION.-

(1) IN GENERAL.- A control period terminates upon the certification by the Authority that-

(A) the District government has adequate access to both short-term and long-term credit markets at reasonable interest rates to meet its borrowing needs; and

(B) for 4 consecutive fiscal years (occurring after the date of the enactment of this Act) the expenditures made by the District government during each of the years did not exceed the revenues of the District government during such years (as determined in accordance with generally accepted accounting principles, as contained in the comprehensive annual financial report for the District of Columbia under section 448(a)(4) of the District of Columbia Self-Government and Governmental Reorganization Act).

(2) CONSULTATION WITH INSPECTOR GENERAL.-In making the determination under this subsection, the Authority shall consult with the Inspector General of the District of Columbia."