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Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 2nd Quarter of Fiscal Year 2003

September 22, 2003



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The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Ave., NW, Suite 504
Washington, D.C. 20004

Letter Report: Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 2nd 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 2nd quarter of fiscal year (FY) 2003 in comparison to the revised FY 2003 revenue estimates for the 2nd quarter.

The original FY 2003 revenue estimate was \$3.596 billion, however, 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, which reflected a decrease of \$52.459 million from the September 2002 revised revenue estimate of \$3.626 billion and a \$23 million decrease from the original \$3.596 billion estimate.

To conduct this comparative analysis, the Office of the District of Columbia Auditor used: (1) the February 2003 revised revenue estimate; (2) the Office of the Chief Financial Officer's March 2003 Comparative Report of Cash Collections by Funds; and (3) other relevant information.

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 2nd quarter of FY 2003 totaled \$1.562 billion, which was \$130.1 million, or 9.1%, above the \$1.432 billion revised estimate through the 2nd quarter.¹ The \$1.562 billion in actual cash collections represented 43.7% of the total \$3.573 billion revised revenue estimate. These revenues finance the District's FY 2003 appropriation. Collections through the 2nd quarter from all revenue sources are presented below.

- ◆ **Tax** - total tax collections were \$1.403 billion, which were \$132 million, or 10.4%, above the revised tax estimate of \$1.271 billion through March 2003.
- ◆ **Non-tax** - total non-tax collections were \$121.6 million, which were \$3.4 million, or 2.7%, below the revised non-tax estimate of \$125 million through March 2003.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$37.3 million, which were \$1.8 million, or 5%, above the revised other financing sources estimate of \$35.5 million through March 2003.

Table I compares actual cash collections to revised estimates through the 2nd quarter of FY 2003 for tax, non-tax, and other financing sources. Appendix I presents graphic depictions of the information in Table I as well as other tables presented in this report.

TABLE I
Cash Collections Summary
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Tax Category	Actual Collections Through the 2nd Quarter FY 2003	Revised Estimates Through the 2nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Tax Collections	\$1,402,932	\$1,271,297	\$131,634	10.4%
Non-Tax Collections	121,597	124,953	(3,356)	(2.7%)
Other Financing Sources	37,325	35,532	1,793	5%
Total Revenues	\$1,561,854	\$1,431,782	\$130,071	9.1%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2003, March 03, prepared by the Office of Research and Analysis

¹ Rounding may affect some calculations presented in this report.

In conducting the analysis of cash collections through the 2nd quarter of FY 2003, the Auditor also compared the 2nd quarter collection trends for the five-fiscal years of 1999 through the second quarter of 2003. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that for each of the five fiscal years, 2nd quarter collections in the general property taxes category increased over collections for the same period in the previous fiscal year. On the other hand, 2nd quarter collections in the income taxes category increased over collections in fiscal years 2000 and 2001 but declined in fiscal years 2002 and 2003.

Appendix III presents a comparison of collections through the 2nd quarter of FY 2003 to collections through the 2nd quarter of 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 revised FY 2003 revenue estimate for general property taxes was \$897.07 million. Collections of general property taxes through the 2nd quarter of FY 2003 totaled \$278.2 million, which were:

- ◆ \$63.5 million, or 29.6%, above the \$214.7 million 2nd quarter FY 2003 revised estimate; and
- ◆ \$73.3 million, or 35.8%, above collections for the same period in FY 2002.

Collections of general property taxes through the 2nd quarter represented 31% of the total FY 2003 revised revenue estimate for this category. Table II compares actual collections of general property taxes to the revised estimate through the 2nd quarter of FY 2003.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

General Property Taxes	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimates Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Estimates	Percent Difference
Real Property	\$273,142	\$211,327	\$61,815	29.3%
Personal Property	4,864	2,818	2,046	72.6%
Public Space Rental	202	564	(362)	(64.1%)
Total General Property Taxes	\$278,208	\$214,708	\$63,500	29.6%

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

A. Real Property Tax Collections

Real property taxes collected through the 2nd quarter totaled \$273.1 million. These collections were \$61.8 million, or 29.3%, above the \$211.3 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 the overall positive real estate market in the District which has resulted in increased assessed values for both residential and commercial properties. For example, based on a comparison of statistical data reported in the District's FY 2002 Comprehensive Annual Financial Report (CAFR), the total assessed values of taxable commercial and residential properties in the District have increased each year from fiscal years 1999 through 2002. Overall, the assessed values for taxable properties increased over \$10 billion, or 24%, from \$42.4 billion in FY 1999 to \$52.5 billion in FY 2002. According to information contained in the June 2, 2003, FY 2004 Proposed Budget and Financial Plan, the District's FY 2003 total taxable real property has an assessed value of \$63 billion, which represented a 20% increase over the District's total taxable real property assessed value of \$52.5 billion in FY 2002.

Despite increased assessments and a positive real estate market, ORA officials should monitor this tax category closely. The Auditor notes that there are currently a number of property tax appeal cases pending before the D.C. Superior Court. Depending on the outcome of these cases, refunds may have to be made to property owners. Notwithstanding these cases, refunds through the 2nd quarter were 20.7% lower than estimated.

Based on collections through the 2nd quarter, and the fact that real property taxes are due again in September 2003, it appears that collections in this tax category will be achieved for FY 2003.

B. Personal Property Tax Collections

Personal property taxes collected through the 2nd quarter totaled \$4.9 million. These collections were \$2.01 million, or 72.6%, above the \$2.8 million estimate. According to an ORA official, 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 2nd quarter totaled \$202,000. Actual collections through the 2nd quarter were \$362,000, or 64.1%, less than the \$564,000 estimate. The tax is imposed on restaurant owners who use a portion of the District's sidewalks to provide outdoor seating for their patrons. According to ORA officials, public space rental fees are due July 31st and most of this revenue is collected in the 4th quarter of the fiscal year. Thus, increased collections should be reflected in the 4th quarter cash collections report.

This estimate should be monitored closely by ORA since collections are 64% below the estimate through the 2nd quarter. Although the tax is not due until July 31st, collections in the remaining months of the fiscal year may be inadequate to meet the FY 2003 revised estimate.

GENERAL SALES AND USE TAXES

The FY 2003 revised estimate for general sales and use taxes was \$648 million². Collections of general sales and use taxes through the 2nd quarter of FY 2003 totaled \$327.2 million, which were:

- ◆ \$8.8 million, or 2.6%, below the \$336.1 million 2nd quarter revised FY 2003 estimate; and
- ◆ \$20.5 million, or 6.7%, above collections for the same period in FY 2002.

General sales and use tax collections through the 2nd quarter represented 50.5% of the total FY 2003 revised estimate for this category. Table III compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for general sales and use taxes.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

General Sales and Use Taxes	Actual Collections Through the 2nd Quarter FY 2003	Revised Estimate Through the 2nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
General Sales and Use Taxes	\$327,240	\$336,053	(\$8,813)	(2.6%)

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

The fact that collections for general sales and use taxes were less than the estimate for the 2nd quarter may be due, in part, to the fact that tourism and other travel to Washington, D.C. may not be as strong as it was a year ago. According to the report of D.C. economic indicators released by the Office of Research and Analysis, the occupancy rate for hotels as of March 2003 decreased 1.9% from the occupancy rate in March 2002. Although airport passenger volume increased at Reagan National airport in March 2003 in comparison to March 2002, volume decreased at Dulles and BWI airports during the same period. The District depends, in part, on tourists and other visitors to generate revenue from general sales and use taxes. A decrease in the number of visitors to the District could mean a decrease in overall sales and a resulting decrease in revenue from general sales and use taxes.

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

According to information from the George Mason University Center for Regional Analysis, other factors may negatively affect general sales and use tax revenue collections. Using March 2003 data, a report entitled, "The Current State of the Washington Area Economy," indicated that consumer confidence (in the present) fell 8.7 percent in March and is now down 38.3 percent over the past twelve months. Further, the report indicated that "consumer expectations (consumer confidence six months hence) dropped 12.3 percent and is now 44 percent lower than in March 2002." The decline in consumer confidence may result in a decline in consumer spending. It does appear that the unemployment rate for March 2003 decreased from the unemployment rate in February 2003. However, consumer confidence and consumer spending may not rebound quickly enough for the District to achieve its estimate in the general sales and use taxes category for FY 2003.

Officials of ORA should monitor this tax category very closely.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise taxes. The FY 2003 revised estimate for selective sales and use taxes is \$60.6 million. Collections through the 2nd quarter of FY 2003 totaled \$26.5 million which were:

- ◆ \$1.4 million, or 5.5%, above the \$25.1 million 2nd quarter revised estimate; and
- ◆ \$1.2 million, or 4.7%, above collections for the same period in FY 2002.

Selective sales and use tax collections through the 2nd quarter represented 44% of the total FY 2003 revised revenue estimate for this category. Table IV compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for selective sales and use taxes.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimates Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Alcoholic Beverage	\$2,335	\$2,342	(\$7)	(.3%)
Cigarette	9,084	8,074	1,010	12.5%
Motor Vehicle Excise	15,056	14,683	372	2.5%
Total Selective Sales and Use Taxes	\$26,474	\$25,099	\$1,375	5.5%

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

A. Alcoholic Beverage Taxes

Alcoholic beverage taxes collected through the 2nd quarter totaled \$2.335 million. These collections were \$7,000, or .3%, below the \$2.342 million revised estimate. According to ORA officials alcoholic beverage taxes are generally seasonal in nature and sales of alcoholic beverages tend to increase in the summer months.

B. Cigarette Taxes

Cigarette taxes collected through the 2nd quarter totaled \$9.1 million. These collections were \$1 million, or 12.5%, above the \$8.1 million revised estimate. The tax on cigarettes was increased effective January 2003 from 65¢ to \$1.00 per pack. This should result in increased revenue from cigarette taxes.

C. Motor Vehicle Excise Taxes

Motor vehicle excise taxes collected through the 2nd quarter totaled \$15.1 million. These collections were \$372,000, or 2.5%, above the \$14.7 million revised estimate. ORA officials indicated that this tax is also seasonal in nature and sales increase in the summer months.

Should the collection trend for selective sales and use taxes continue during the 3rd and 4th quarters of FY 2003, the District should meet its revised revenue estimate in this category.

INCOME TAXES

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2003 revised estimate for the income tax category is \$1.125 billion. Collections through the 2nd quarter of FY 2003 totaled \$522 million which were:

- ◆ \$11.5 million, or 2.3%, above the \$510.5 million 2nd quarter revised estimate; and
- ◆ \$17.2 million, or 3.2%, below collections for the same period in FY 2002.

Income tax collections through the 2nd quarter represented 46% of the FY 2003 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for income taxes.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Income Taxes	Actual Collections Through the 2nd Quarter FY 2003	Revised Estimates Through the 2nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Individual Income Taxes	\$439,150	\$420,854	\$18,296	4.3%
Corporate Franchise	63,858	68,366	(4,508)	(6.6%)
Unincorporated Business Franchise Taxes	19,012	21,261	(2,249)	(10.6%)
Total Income Taxes	\$522,021	\$510,481	\$11,540	2.3%

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

A. Individual Income Taxes

Individual income taxes collected through the 2nd quarter totaled \$439.2 million. This tax is the largest in this tax category. These collections were \$18.3 million, or 4.3%, above the \$420.9 million revised estimate. However, since the deadline for filing individual income tax returns is April 15th and the extension deadline for filing late tax returns is August 15th, the achievability of this tax category can be better assessed in the 3rd and 4th quarters of the fiscal year. The Auditor believes that

this category should be closely monitored by ORA officials because collections are 6% below collections through the same period in FY 2002. The Auditor notes that in FY 2002 overall collections were below the FY 2002 estimate for individual taxes.

B. Corporate Franchise Taxes

Corporate franchise taxes collected through the 2nd quarter totaled \$63.9 million. These collections were \$4.5 million, or 6.6%, below the \$68.4 million revised estimate. According to an April 23, 2003 Summary from the Federal Reserve Beige Book, businesses are continuing to experience substantial increases in the cost of health care and insurance. The Auditor notes that increased cost in these two areas as well as overall sluggishness in the economy may be contributing factors to reduced corporate profits which would result in decreased corporate franchise taxes. 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. Based on the current economic climate, the Auditor again cautions that this estimate may not be achieved in FY 2003.

C. Unincorporated Business Franchise Taxes

Unincorporated business franchise taxes collected through the 2nd quarter totaled \$19 million. These collections were \$2.2 million, or 10.6%, below the \$21.3 million revised estimate. The Auditor notes that refunds of unincorporated business franchise taxes were approximately \$3.9 million, or 192.7%, above the estimate for refunds in the 2nd quarter.

Based on the current economic factors as discussed above and collections to date, the District may not achieve its FY 2003 estimate in the Income Taxes category.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, and (C) tax on insurance premiums. The FY 2003 revised estimate for gross receipts taxes is \$250.7 million. Collections of gross receipts taxes through the 2nd quarter of FY 2003 totaled \$123.1 million, which were:

- ◆ \$20 million, or 19.4%, above the \$103.1 million 2nd quarter revised estimate; and
- ◆ \$10.9 million, or 9.8%, above collections for the same period in FY 2002.

Gross receipts tax collections through the 2nd quarter represented 49% of the FY 2003 revised estimate. Table VI compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for gross receipts taxes.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Gross Receipts Taxes	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimates Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Public Utilities	\$77,105	\$64,737	\$12,368	19.1%
Toll Telecommunications	23,941	27,927	(3,986)	(14.3%)
Insurance Premiums	22,005	10,402	11,603	111.5%
Total Gross Receipts	\$123,052	\$103,066	\$19,986	19.4%

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

A. Public Utilities Taxes

Public utilities taxes collected through the 2nd quarter totaled \$77 million. These collections were \$12.4 million, or 19.1%, above the \$64.7 million revised estimate. The strength in collections through the 2nd quarter may reflect increased collections from utility companies as a result of the colder weather. According to information obtained from the National Oceanic and Atmospheric Administration (NOAA), the temperature for January through March 2003 was, on average, seven degrees colder than it was for January through March 2002. As a result of the colder weather, consumers may have used more utilities for heating which resulted in higher receipts to utility companies. The public utilities tax is based on the gross receipts of gas and electric companies, therefore, increased receipts should result in increased public utilities tax payments to the District. Another factor that may have affected collections is that effective January 1, 2003, the public utilities tax rates were increased from 10% to 11%.

Based on collections to date, it appears that the District may achieve its estimate in this category.

B. Toll Telecommunications Taxes

Toll telecommunications taxes collected through the 2nd quarter totaled \$23.9 million. These collections were \$4 million, or 14.3%, below the \$27.9 million revised estimate. At the same time, these collections were 11.1% below collections through the 2nd quarter in FY 2002. ORA officials are unsure why collections in this tax category are below the estimate. However, one reason could be that telecommunication companies may have over-invested in technology that has not increased their gross receipts. For example, telecommunications customers may have increased their use of more economically priced calling cards or cell phone service to make long distance calls and are therefore paying less for toll telecommunications services.

C. Insurance Premium Taxes

Insurance premium taxes collected through the 2nd quarter totaled \$22 million. These collections were \$11.6 million, or 111.5%, above the \$10.4 million revised estimate. Also, collections for the 2nd quarter of FY 2003 were 20.2% above collections for the same period in FY 2002. It appears that collections in this tax category will meet the estimate for FY 2003.

Based on year-to-date collections, it appears that the District should achieve the FY 2003 revenue estimate in the Gross Receipts category.

OTHER TAXES

Other taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interests transfer taxes. The FY 2003 revised estimate for other taxes is \$204.9 million. Collections of Other Taxes through the 2nd quarter of FY 2003 totaled \$125.9 million, which were:

- ◆ \$44 million, or 53.8%, above the \$81.9 million 2nd quarter revised estimate; and
- ◆ \$20.5 million, or 19.4%, above collections for the same period in FY 2002.

Collections of Other Taxes through the 2nd quarter represented 61% of the revised estimate for this tax category. Table VII compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for the Other Taxes category.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Other Taxes	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimates Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Estate Taxes	\$14,141	\$17,714	(\$3,573)	(20.2%)
Deed Recordation	65,497	35,672	29,826	83.6%
Deed Transfer	45,710	28,090	17,620	62.7%
Economic Interests	589	416	173	41.7%
Total Other Taxes	\$125,937	\$81,891	\$44,046	53.8%

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

A. Estate Taxes

Estate taxes collected through the 2nd quarter totaled \$14.1 million. These collections were \$3.6 million, or 20.2%, below the \$17.7 million revised estimate. Collections from this revenue source are difficult to estimate due to the unpredictable event that triggers the tax. According to the most recent D.C. Tax Facts publication: "The estate tax is imposed on the estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable situs in the district at the time of his or her death."

The Auditor notes that 2nd quarter collections in this category were 51% lower than collections through the same period in FY 2002 and are 20.2% below the FY 2003 revised estimate. ORA should closely monitor collections in this tax category.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes through the 2nd quarter totaled \$111.2 million. These combined collections were \$47.4 million, or 74%, above the \$63.8 million revised estimate. Collections of these taxes were also strong during fiscal year 2002. The continued strength of these collections reflects the resiliency of the District's real estate market. 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. According to information from the Greater Capital Area Association of Realtors, there was an overall increase in the number of listings and contracts for sale as well as settlements for both condo/co-ops and single family homes in the District in March 2003 as compared to March 2002. Further, deed recordation and transfer tax rates were increased in the revenue enhancements approved by the Council in December 2002. All of these factors combined indicate that the District will meet the revenue estimate in this tax category in FY 2003.

C. Economic Interests Taxes

Economic interests taxes collected through the 2nd quarter totaled \$589,000. These collections were \$173,000, or 41.7%, above the \$416,000 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 FY 2003 revised estimate for non-tax revenue is \$285.3 million. Collections through the 2nd quarter totaled \$121.6 million, which were:

- ◆ \$3.4 million, or 2.7%, below the \$125 million 2nd quarter revised estimate; and
- ◆ \$1.04 million, or .8%, below collections for the same period in FY 2002.

Non-tax revenue collections through the 2nd quarter represented 43% of the FY 2003 revised estimate for this category. Table VIII compares actual collections to the revised estimates through the 2nd quarter of FY 2003 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Non-Tax Revenue	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimates Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Licenses and Permits	\$19,254	\$22,211	(\$2,957)	(13.3%)
Fines and Forfeitures	40,866	46,934	(6,068)	(12.9%)
Charges for Services	15,286	17,769	(2,483)	(14%)
Miscellaneous Revenue	46,191	38,039	8,152	21.4%
Total Non-Tax Revenue	\$121,597	\$124,953	(\$3,356)	(2.7%)

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

License and Permit Fees

License and permit fees collected through the 2nd quarter totaled \$19.3 million. Collections were \$3 million, or 13.3%, below the \$22.2 million revised estimate. According to ORA officials, one reason collections were below the estimate is that business license fees collected by DCRA were removed and classified as O-type revenue.

A. Fines and Forfeiture Fees

Fines and forfeiture fees collected through the 2nd quarter totaled \$40.9 million. These collections were \$6.1 million, or 12.9%, below the \$46.9 million revised estimate. According to ORA officials, the decrease in collections may be due, in part, to the fact that collections from traffic fines were lower than estimated.

B. Charges for Services

Charges for services collected through the 2nd quarter totaled \$15.3 million. These collections were \$2.5 million, or 14%, below the \$17.8 million revised estimate. ORA officials were again unable to fully explain why collections were below the estimate. However, one explanation provided was that parking meter collections were lower than estimated.

C. Miscellaneous Revenue

Miscellaneous revenue collected through the 2nd quarter totaled \$46.2 million. These collections were \$8.2 million, or 21.4%, above the \$38 million revised estimate. One area of concern in this tax category is interest income. Interest income is generated from the investment of the District's excess cash balances. According to information obtained from Office of Finance and Treasury officials, interest rates on investments have steadily declined during fiscal year 2003. In October 2002 cash invested earned 1.82%. In March 2003, the rate declined to 1.323%. The lower rates have resulted in lower interest income.

Overall collections in the non-tax revenue category for the 2nd quarter of FY 2003 were lower than collections through the 2nd quarter in FY 2002. These collections were lower even though effective January 2003, the Council of the District of Columbia increased certain licenses and permits and user fees and charges to account for inflation.

Based on overall collections to date, ORA officials should monitor collections in the non-tax revenue category closely in that it appears this revenue estimate may not be achieved.

OTHER FINANCING SOURCES

Other Financing Sources consisted of legalized gambling. The FY 2003 revised estimate for Other Financing Sources is \$68.6 million. Collections through the 2nd quarter totaled \$37.3 million, which were:

- ◆ \$1.8 million, or 5%, above the \$35.5 million 2nd quarter revised estimate; and
- ◆ \$3.4 million, or 10%, above collections for the same period in FY 2002.

Collections from Other Financing Sources through the 2nd quarter represented 54.4% of the revised estimate for this category. Table IX compares actual collections to the revised estimate through the 2nd quarter of FY 2003 for Other Financing Sources.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2003
(\$000)

Other Financing Sources	Actual Collections Through the 2 nd Quarter FY 2003	Revised Estimate Through the 2 nd Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Legalized Gambling	\$37,325	\$35,532	(\$1,793)	5%

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

Legalized gambling (transfers from the D. C. Lottery) through the 2nd quarter totaled \$37.3 million. These transfers were \$1.8 million, or 5%, above the \$35.5 million revised estimate. According to Lottery officials, collections were above the estimate as a result of increased ticket sales, especially in the D.C. Four games.

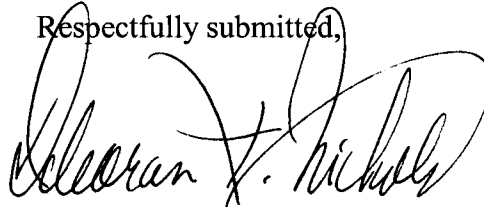
CONCLUSION

Overall, the Auditor's analysis indicated that cash collections remain above the February 2003 revised estimate through the 2nd quarter of FY 2003. The District's cash collections through March 2003 totaled \$1.562 billion, which were \$130 million, or 9.1%, above the \$1.432 billion revised estimate through the 2nd quarter. The \$1.562 billion in actual cash collections represented 44% of the total \$3.573 billion revised fiscal year 2003 revenue estimate.

Based on the review and analysis of economic data from various sources as well as collection patterns through the 2nd quarter, the Auditor suggests that the Office of Research and Analysis closely monitor revenue collections from the following tax categories: 1) General Sales and Use Taxes; 2) Income Taxes; and 3) Non-Tax Revenues. If the downward collections trend continues for these tax categories and collections in the remaining tax categories are not sufficient to have an off-setting effect, the Office of Research and Analysis may need to reduce the overall FY 2003 revenue estimate.

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

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

APPENDICES

APPENDIX II

Comparison of Cash Collections Through the 2nd Quarter Fiscal Years 1999 - 2003 (\$000)

Tax Categories	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
General Property Taxes	\$144,762	\$148,018	\$185,689	\$204,898	\$278,208
General Sales and Use Taxes*	282,902	301,397	338,574	306,775	327,240
Selective Sales and Use Taxes	25,501	25,257	26,852	25,287	26,474
Income Taxes	507,098	548,626	602,849	539,260	522,021
Gross Receipts Taxes	93,248	77,091	100,526	112,117	123,052
Other Taxes	83,022	59,630	95,392	105,465	125,937
Non-Tax Revenue	90,628	94,697	106,192	122,635	121,597
Other Financing Sources	34,584	40,230	45,059	33,926	37,325
Total Cash Collections Financing the Appropriation	\$1,261,745	\$1,294,945	\$1,501,131	\$1,450,362	\$1,561,854

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

*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.

APPENDIX III

Comparison of Collections Through the 2nd Quarter of Fiscal Year 2003 to Collections Through the 2nd Quarter of FY 2002 (\$000)

Tax Category	Collections Through the 2nd Quarter FY 2003	Collections Through the 2nd Quarter FY 2002	Difference 2nd Quarter 2003 Over/(Under) 2nd Quarter 2002	Percent Difference
General Property Taxes:				
Real Property	\$273,142	\$202,598	\$70,544	34.8%
Personal Property	4,864	2,224	2,640	118.7%
Public Space Rental	202	76	127	167.6%
Total Property Taxes	\$278,208	\$204,898	\$73,311	35.8%
General Sales and Use Taxes	\$327,240	\$306,775	\$20,465	6.7%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$2,335	\$2,305	30	1.3%
Cigarette	9,084	6,501	2,583	39.7%
Motor Vehicle Excise	15,056	16,481	(1,426)	(8.7%)
Selective Sales and Use Taxes	\$26,474	\$25,287	\$1,187	4.7%
Income Taxes:				
Individual Income Taxes	\$439,150	\$466,497	(\$27,346)	(5.9%)
Corporate Franchise	63,858	53,796	10,063	18.7%
Unincorporated Business Franchise	19,012	18,967	45	0.2%
Total Income Taxes	\$522,021	\$539,260	(\$17,239)	(3.2%)
Gross Receipts Taxes:				
Public Utilities	\$77,105	\$66,883	\$10,222	15.3%
Toll Telecommunications	23,941	26,924	(2,983)	(11.1%)
Insurance Premiums	22,005	18,310	3,696	20.2%
Total Gross Receipts	\$123,052	\$112,117	\$10,934	9.8%
Other Taxes:				
Estate Taxes	\$14,141	\$29,034	(\$14,893)	(51.3%)
Deed Recordation	65,497	42,037	23,460	55.8%
Deed Transfer	45,710	30,499	15,210	49.9%
Economic Interests	589	3,896	(3,306)	(84.9%)
Total Other Taxes	\$125,937	\$105,465	\$20,471	19.4%
Total Tax Collections	\$1,402,932	\$1,293,801	\$109,130	8.4%
Non-Tax Revenue:				
Licenses and Permits	\$19,254	\$17,659	\$1,595	9.0%
Fines and Forfeitures	40,866	40,089	776	1.9%
Charges for Services	15,286	13,876	1,410	10.2%
Miscellaneous Revenue	46,191	51,011	(4,819)	(9.4%)
Total Non-Tax Revenue	\$121,597	\$122,635	(\$1,038)	(0.8%)
Other Financing Sources	\$37,325	\$33,926	\$3,399	10.0%
Total Revenues	\$1,561,854	1,450,362	\$111,491	7.7%

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