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# **OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

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## **Re-certification of the Fiscal Year 2003 Revenue Estimate in Support of the District's \$327,835,000 General Obligation Bonds (Series 2003A)**

**September 24, 2003**



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

**Letter Report:** Re-certification of the Fiscal Year 2003 Revenue  
Estimate in Support of the District's \$327,835,000  
General Obligation Bonds (Series 2003A)

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 Home Rule Act, as amended, the Chief Financial Officer of the District of Columbia (CFO), through the Office of Finance and Treasury, requested the District of Columbia Auditor to certify the fiscal year 2003 revised total local revenue estimate of \$3,715,030,000 in support of the District's issuance of \$327,835,000 in General Obligation Bonds (Series 2003A).<sup>1</sup>

According to the preliminary official statement, the proceeds from the bonds will be used to: (1) fund the District's fiscal year 2003 Capital Improvement Program; and (2) pay the costs and expenses of issuing and delivering the bonds. This report sets forth the results of the Office of the District of Columbia Auditor's analysis of the fiscal year 2003 revised revenue estimate in support of the \$327,835,000 in bonds issued by the District of Columbia government.

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

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<sup>1</sup> Rounding may affect some calculations presented in this report.

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...

Pursuant to the District of Columbia Home Rule Act, as amended by Public Law 104-8, the "District of Columbia Financial Responsibility and Management Assistance Act of 1995" (Authority Act), and Public Law 106-522, the "District of Columbia Appropriations Act for Fiscal Year 2001," the CFO must prepare annual estimates of all District revenues for use in developing the District's budget and must prepare quarterly re-estimates of revenues during the fiscal year.

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

The objective of this analysis was to determine whether the fiscal year 2003 revised total local revenue estimate of \$3,715,030,000 would be credited to the District for the fiscal year ending September 30, 2003. The fiscal year 2003 revised total local revenue estimate included all tax collections of the Office of Tax and Revenue, non-tax revenues generated by programs administered by other District agencies such as the Department of Consumer and Regulatory Affairs and the Insurance Administration, and dedicated non-tax "O" type revenue.

The Auditor reviewed and analyzed the District CFO's total local revenue projection for fiscal year 2003, the report of cash collections as of June 30, 2003 which was prepared by the CFO's Office of Research and Analysis (ORA), and other relevant information. Additionally, the Auditor reviewed the District's Fiscal Years 2002 and 2003 Operating Budget and Financial Plan which contained assumptions supporting the original fiscal year 2003 revenue forecast; the preliminary official statement supporting the issuance of the bonds; statistical, economic and other data obtained from the Department of Employment Services (DOES), the Metropolitan Washington Council of Governments, the Real Estate Association of the Washington Metropolitan Area, Value Line Investment Survey, Standard and Poors, and Moody's Investor Services.

In conducting the examination, the Auditor interviewed ORA officials regarding the underlying assumptions and methodology used in the development of the CFO's revised fiscal year 2003 local general fund revenue estimate of \$3,715,030,000. The Auditor also interviewed the District's associate treasurer within the CFO's Office of Finance and Treasury regarding the District's proposed issuance of general obligation bonds. The Auditor consulted with an economist

outside of the government to obtain his perspective on the economic outlook for the District of Columbia and the surrounding region. Discussions were also held with officials of the Washington Convention and Tourism Bureau (WCTB) regarding statistics on District tourism, hotel room occupancy, and restaurant activity for the District of Columbia.

## **BACKGROUND**

On October 15, 2002, the Auditor initially certified to the fiscal year 2003 revenue estimate in support of the District's issuance of \$374,200,000 Multimodal General Obligation Bonds (Series 2002A and 2002B). Results of the Auditor's analysis supporting the certification were contained in a report dated December 9, 2002. At the time of the Auditor's October 2002 certification, the CFO's proposed revenue estimate for fiscal year 2003 was \$3,499,007,000. The Auditor was unable to certify to the full revenue estimate of \$3,499,007,000 because, at the date of certification, cash collections in several tax categories were substantially below the revised estimates for fiscal year 2002, and the CFO's assumptions supporting projected increases in these estimates for fiscal year 2003 did not appear achievable. As a result, the Auditor ultimately certified to a fiscal year 2003 revenue estimate of \$3,467,206,000, which excluded approximately \$32 million from the CFO's fiscal year 2003 estimate.<sup>2</sup>

The District's CFO revised the estimate two additional times after the Auditor first certified to the fiscal year 2003 revenue estimate. In September 2002, the estimate was revised upwards to \$3,625,857,000. In February 2003, the estimate was revised downward to \$3,573,398,000. In a June 26, 2003 letter requesting the Auditor's certification of the fiscal year 2003 revenue estimate, the total local general fund revenue estimate was stated as \$3,715,030,000. Although it appears that \$3,715,030,000 is an increase over the February 2003 estimate of \$3,573,398,000, officials within the CFO's Office of Research and Analysis indicated that the current estimate of \$3,715,030,000 is essentially the February 2003 revenue estimate in addition to the following two adjustments: (1) the addition of dedicated non-tax "O" type revenue of \$174,631,000; and (2) the exclusion of federal project funds which totaled \$33,000,000. These adjustments were made to reflect the total local fund revenue estimate based on recent Governmental Accounting Standards Board changes in governmental reporting requirements.<sup>3</sup>

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<sup>2</sup>The Auditor's certification excluded approximately \$32 million due to concerns, at that time, that cash collections from public utilities, licenses and permits, and miscellaneous revenues would not meet the estimate for fiscal year 2003. Further questions were raised regarding the estimate for general sales and use taxes given the prevailing economic climate and other factors.

<sup>3</sup>See GASB 34

The Auditor's certification was based upon an evaluation of the \$3,715,030,000 revenue estimate developed by officials within the Office of Research and Analysis. Estimates are based upon information that can and often does change rapidly, thus requiring revisions to estimates after the Auditor's certification. Thus, the Auditor does not and cannot guarantee the validity of the estimates, and only certifies, in whole or in part, that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable by the District. Relative uncertainty in the overall revenue estimating process or unforeseen national and local events, may substantially change the city's economic outlook and could result in changes that differ significantly from the estimate certified by the Auditor.

Based upon the results of the Auditor's review and analysis as well as representations made by officials in ORA, the Auditor determined that, barring any significant unforeseen events that could adversely impact revenues, the District should achieve the fiscal year 2003 revised local revenue estimate of \$3,715,030,000. Therefore, the Auditor certified to a revenue estimate of \$3,715,030,000 in support of the District's \$327,835,000 General Obligation Bonds (Series 2003A).

## **RESULTS OF ANALYSIS**

In reviewing the revised fiscal year 2003 local revenue estimate of \$3,715,030,000, concerns were raised regarding the achievability of the estimate in several major tax categories such as general sales and use taxes and individual income taxes, two of the District's largest sources of revenue. However, the analysis of collections for other tax categories, such as real property, unincorporated business franchise taxes, insurance premiums, and deed recordation and transfer taxes, all appeared strong and are projected to exceed the fiscal year 2003 estimate thereby offsetting shortfalls anticipated in general sales and use and individual income taxes.

The Auditor was also concerned with the achievability of the \$174,631,000 estimate for dedicated non-tax "O" type revenue based largely on the CFO's first time inclusion of these revenues in the District's estimate of total local general fund revenues in addition to variances between projected spending and projected revenue collections. The Auditor's analysis of the dedicated non-tax "O" type revenue indicated that collections may fall short of the estimate. In discussions with officials from ORA, representations were made that the District's CFO could use several measures to ensure that overspending would not occur including, but not limited to, reducing the affected agency's overall budget authority. Further, ORA officials indicated that they have implemented a monitoring program for these revenues which include monthly review and analysis of the agency's revenue collections and expenditures as well as contacting agencies to discuss variances. Additionally, according to ORA officials, the Office of Budget and Planning is also notified when significant variances develop.

Overall, the Auditor's analysis of the fiscal year 2003 revised revenue estimate for tax and non-tax revenue categories indicated that based on collections at the time of certification and forecasts for remaining revenue collections, the District may exceed its revised fiscal year 2003 revenue estimate of \$3,715,030,000. Collections for tax categories such as real property, incorporated business franchise, public utilities, deed recordation and transfer taxes, as well as miscellaneous revenues are projected to exceed the estimates. The Auditor notes that excess collections may be offset by shortfalls in other tax categories such as individual income taxes, general sales and use taxes, and dedicated non-tax "O" type revenue, to name a few. Therefore, the Auditor certified to the \$3,715,030,000 revised fiscal year 2003 revenue estimate as prepared by the District's CFO.

The CFO's fiscal year 2003 total local general fund revenue estimates, as revised in September 2002 and again in February 2003, as well as the amount certified by the Auditor are presented in Table I below.

**TABLE I**  
**FY 2003 Local General Fund Revenue Estimates**  
**Prepared by the CFO and the Estimate Certified by the Auditor**  
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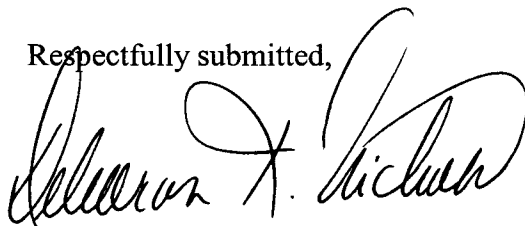
| Revenue Category                            | Fiscal Year 2003<br>Revised Revenue<br>Estimate as of<br>September 2002 | Fiscal Year 2003<br>Revised Revenue<br>Estimate as of<br>March 2003 | Auditor Re-<br>Certification of FY<br>2003 Revenue<br>Estimate |
|---------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------|
| Property Taxes                              | \$852,211                                                               | \$897,072                                                           | \$897,072                                                      |
| General and Selected Sales and Use<br>Taxes | 696,044                                                                 | 708,647                                                             | 708,647                                                        |
| Income Taxes                                | 1,116,893                                                               | 1,125,163                                                           | 1,125,163                                                      |
| Gross Receipts                              | 243,930                                                                 | 250,712                                                             | 250,712                                                        |
| Other Taxes                                 | 196,399                                                                 | 204,915                                                             | 204,915                                                        |
| <b>Total Taxes</b>                          | <b>3,105,477</b>                                                        | <b>3,186,509</b>                                                    | <b>3,186,509</b>                                               |
| Non-Tax Revenues                            | 236,671                                                                 | 285,290                                                             | 285,290                                                        |
| Other Financing Sources                     | 70,900                                                                  | 68,600                                                              | 68,600                                                         |
| Federal Payment                             | 33,000                                                                  | -0-                                                                 | -0-                                                            |
| Revenue Initiatives                         | 52,959                                                                  | -0-                                                                 | -0-                                                            |
| <b>Total Non-Tax and Other Revenues</b>     | <b>393,530</b>                                                          | <b>353,890</b>                                                      | <b>353,890</b>                                                 |
| <b>Dedicated Non-Tax (O Type)</b>           |                                                                         | <b>174,631</b>                                                      | <b>174,631</b>                                                 |
| <b>Total Local Source Revenue</b>           | <b>\$3,499,007</b>                                                      | <b>\$3,715,030</b>                                                  | <b>\$3,715,030</b>                                             |

Source: Office of Research and Analysis, DCA

## **CONCLUSION**

Based on a review and analysis of the CFO's fiscal year 2003 revised revenue estimate of \$3,715,030,000, actual collections through June 2003, and other relevant data, the District of Columbia Auditor certified to the \$3,715,030,000 revised fiscal year 2003 total local general fund revenue estimate.

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