



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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Letter Report: Re-Certification of the Fiscal Year 2008
Total Non-Dedicated Local Source Revenues in
Support of the District's \$327,905,000
General Obligation Bonds (Series 2008E)

September 23, 2008



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The Honorable Vincent C. Gray, Chairman
and Members of the Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Letter Report: Re-Certification¹ of the Fiscal Year 2008 Total Non-Dedicated Local Source Revenues in Support of the District's \$327,905,000 General Obligation Bonds (Series 2008E)

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

On July 3, 2008, pursuant to section 603(b)(1) of the District of Columbia Home Rule Act ("Home Rule Act"), as amended,² Pub. L. No. 93-198, approved December 24, 1973 (87 Stat. 790; D.C. Code, Section 1-206.03 (b)(1)), the Chief Financial Officer ("CFO") of the District of Columbia, through the Office of Finance and Treasury (OFT),³ requested that the District of Columbia Auditor ("Auditor") certify the fiscal year (FY) 2008 estimated non-dedicated local source revenues ("local source revenue estimate"). The CFO requested the Auditor's certification in connection with the District's issuance of \$327,905,000 in General Obligation Bonds (Series 2008E). According to the official statement, the proceeds from the bonds were to be used to: (1) finance capital project expenditures in the District's capital improvements program; and (2) pay the costs and expenses of issuing and delivering the Series 2008E Bonds.

This report sets forth the results of the Auditor's analysis of the FY 2008 revised local source revenue estimate of \$5,255,340,000.

¹ The Auditor originally certified the FY 2008 local source revenue estimate in December 2007 in support of the District's \$333,840,000 General Obligation Bonds (Series 2007C). The December 2007 estimate was \$5,238,030,000.

² See D.C. Code § 1-206.03 (b)(1).

³ See the Home Rule Act, as amended by Pub.L.No. 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995 ("FRMAA"), approved April 17, 1995, and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001, approved November 22, 2000, which indicates that the CFO must prepare annual estimates of all District revenues for use in developing the District's budget and must prepare quarterly reestimates of revenues during the fiscal year.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to review, analyze and assess the reasonableness and attainability of the CFO's FY 2008 revised local source revenue estimate of \$5,255,340,000. The FY 2008 revised local source revenue estimate includes tax collections of the Office of Tax and Revenue (OTR) and non-tax revenues generated by other District agencies.

In connection with this re-certification review, the Auditor: (a) analyzed actual local source revenues for FY 2005 through FY 2008, as of July 2008; (b) reviewed the District's FY 2007 and FY 2008 Budget and Financial Plans, and statistical and economic data published by various sources,⁴ Bond Resolution #17-415,⁵ the preliminary official statement supporting the bond issuance; and (c) interviewed Office of Revenue Analysis (ORA) personnel, the D.C. Treasurer, local economists,⁶ and others external to the District government, including representatives of Destination DC.⁷

The Auditor conducted this attestation engagement in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the attestation to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion that is expressed in our report. The Auditor believes this review provides a reasonable basis for certifying the CFO's \$5,255,340,000 FY 2008 revised local source revenue estimate based on our attestation objectives.

Based upon our examination of available information as well as representations made by officials in the CFO's ORA, the Auditor determined that, barring any significant unforeseen events that could adversely impact revenues, the FY 2008 revised local source revenue estimate of \$5,255,340,000 should be achieved by the District during FY 2008. Therefore, on August 27, 2008, the Auditor certified the CFO's May 2008 revised local source revenue estimate of \$5,255,340,000.

⁴ The Auditor reviewed information obtained from the Federal Reserve Board, the U.S. Department of Labor's Bureau of Labor Statistics, the District's Department of Employment Services, Greater Capital Area Association of Realtors, The Conference Board and reports on the regional economy published by the School of Public Policy's Center for Regional Analysis, at George Mason University.

⁵ See Resolution # 17-415, Fiscal Year 2008 General Obligation Bond Issuance Approval Resolution of 2007, approved November 6, 2007. The Council of the District of Columbia approved "the Mayor's request for the authority to borrow funds for capital projects . . . through the issuance and sale of general obligation bonds not to exceed an aggregate principal amount of \$678,254,000..."

⁶ Interviews were conducted with Professor Stephen S. Fuller, Dwight Schar Faculty Chair and University Professor, Director, Center for Regional Analysis, School of Public Policy, George Mason University and Professor Rodney Green, Executive Director, Center of Urban Progress, Department of Economics, Howard University.

⁷ Formerly called the Washington D.C. Convention and Tourism Corporation.

BACKGROUND

Section 603(b)(1) of the Home Rule Act, as amended, 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 . . .

Pursuant to the Home Rule Act, as amended by Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (FRMAA), approved April 17, 1995, and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001, approved November 22, 2000, 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.

The Auditor's re-certification was based upon an evaluation of the \$5,255,340,000 revised local source revenue estimate prepared by officials in the CFO's ORA. The CFO's estimate is based upon information that can, and often does, change rapidly thus resulting in revisions to the estimate after the Auditor's certification. The Auditor does not, and cannot, guarantee the stability of the CFO's estimate submitted for the Auditor's certification. Thus, the Auditor only certifies that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable. Relative uncertainty in the overall estimating process or unforeseen national and local events may substantially change the District's economic outlook and could result in changes to the revenue estimate that differ significantly from the estimate certified by the Auditor. Additionally, the validity and accuracy of the Auditor's certification analysis are predicated upon the extent to which ORA officials have provided a sound and reasonable FY 2008 local source revenue estimate and have fully disclosed and provided reliable and accurate information to the Auditor regarding the District's FY 2008 revenue collections.⁸

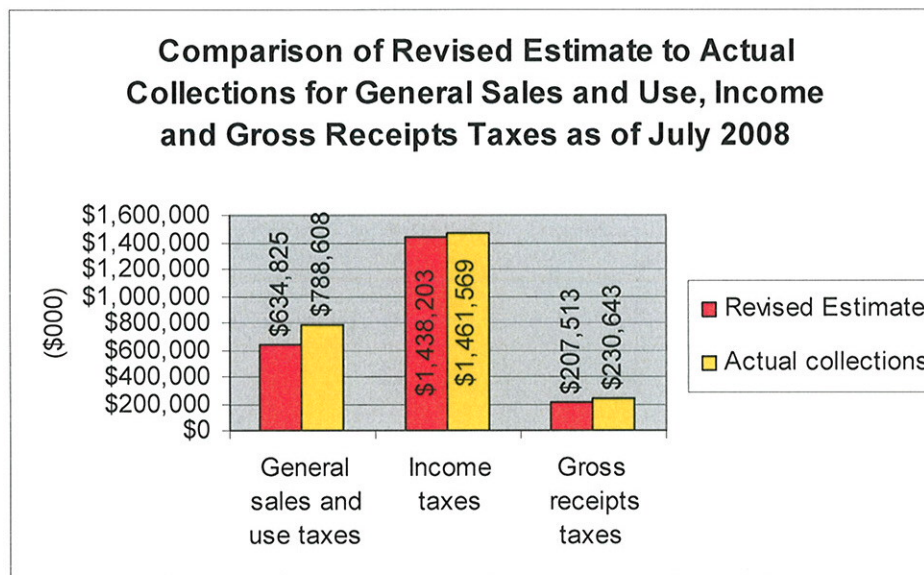
⁸ A Management Representations Letter concerning the disclosures and accuracy of the financial data on which the Auditor's re-certification is based was signed by the District's CFO on August 26, 2008.

RESULTS OF ANALYSIS

In reviewing the FY 2008 revised local source revenue estimate of \$5,255,340,000, the Auditor relied on actual collection results reported as of July 2008, as well as current economic indicators, trends and projections.

Actual results of collections through July 2008⁹ indicate that actual collections overall exceeded the revised estimate by approximately \$157.9 million, or 4.1 percent. The excess collections resulted, in part, from excess collections in general sales and use taxes, income taxes, and gross receipts taxes. Graph I presents a comparison of the FY 2008 revised estimate through July 2008 to actual collections for general sales and use taxes,¹⁰ income taxes, and gross receipts taxes.

Graph I



Source: Monthly OCFO cash report, July 2008

Collections of general sales and use taxes through July 2008 were \$155.13 million, or 26.9%, above the revised estimate and were \$136.8 million, or 23%, above collections for the same period last year. The increased collections are due, in part, to an overall increase in hotel occupancy rates and room rates in the 3rd quarter of FY 2008 as compared to the same period in FY 2007.

⁹ See Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, July 2008.

¹⁰ Does not include selective sales and use taxes.

Income taxes collected were \$23.4 million, or 1.6%, above the revised estimate primarily due to increased collections of individual income taxes. Income taxes collected were also \$40.03 million, or 2.8%, higher than collections as compared to the same period in FY 2007.

Gross receipts taxes were \$23.1 million, or 11.1 %, above the revised estimate primarily because insurance premiums through July 2008 were higher than the estimate. Gross receipts taxes collected were also \$2.5 million, or 1.1%, above collections through the same period in FY 2007.

The Auditor's analysis of the FY 2008 revised local source revenue estimate for tax and non-tax revenues, as reported through July 31, 2008, indicated that the District should achieve the \$5,255,340,000 revised estimate. Therefore, on August 27, 2008, the Auditor re-certified the \$5,255,340,000 total revised local source revenue estimate for FY 2008.

Table I presents the FY 2008 revised local source revenue estimate prepared by the CFO and re-certified by the Auditor.

TABLE I
FY 2008 Revised Local Source Revenue Estimate
Prepared by the CFO and Re-certified by the Auditor
(000s)

Revenue Source	CFO's May 2008, FY 2008 Revised Local Source Revenue Estimate as Re-certified by the Auditor on August 27, 2008.
Property Taxes	\$1,743,152
General Sales and Use Taxes	699,757
Selected Sales and Use Taxes	71,661
Income Taxes	1,728,805
Gross Receipts Taxes	246,049
Other Taxes	368,292
Total Taxes	4,857,716
Total Non-Tax Revenues	327,624
Lottery	70,000
Revised Local Source Revenue Estimate	\$5,255,340

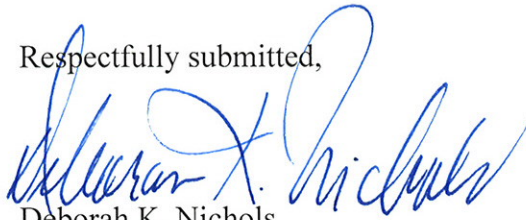
Source: Transmittal letter from the Chief Financial Officer to the Mayor and Council Chairman, dated May 7, 2008

CONCLUSION

Based on the analysis of information provided by the District's CFO through ORA and OTR, including the actual collections for FY 2008, as of July 31, 2008, the assumptions supporting the revised revenue estimate, and other relevant data, the Auditor found that the May 7, 2008, FY 2008 revised local source revenue estimate of \$5,255,340,000 appeared to be reasonable and achievable.

Therefore, on August 27, 2008, the Auditor re-certified the \$5,255,340,000 FY 2008 revised local source revenue estimate as prepared by the CFO.

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor