



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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Letter Report: Comparative Analysis of
Actual Cash Collections to the Revised Revenue Estimate
Through the 2nd Quarter of Fiscal Year 2006

August 25, 2006



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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: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 2nd Quarter of Fiscal Year 2006

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 (ODCA) comparison of the District of Columbia's (District) actual cash collections through the 2nd quarter of fiscal year (FY) 2006 to the revised FY 2006 revenue estimate for the 2nd quarter.

BACKGROUND

In February 2005, the District's Chief Financial Officer (CFO) issued a certified FY 2006 original revenue estimate¹ of \$4.515 billion.² The \$4.515 billion non-dedicated General Fund revenue estimate was used in building the FY 2006 budget. The CFO revised the FY 2006 revenue estimate in June 2005 from \$4.515 billion to \$4.436 billion, a decrease of \$79 million. In September 2005, the CFO revised the estimate upward to \$4.466 billion, which was a \$30 million increase over the \$4.436 billion June 2005 estimate and \$49 million below the original \$4.515 billion FY 2006 estimate. In December 2005, the CFO again revised the revenue estimate upward to \$4.495 billion,³ which was a \$29 million increase over the September 2005 estimate of \$4.466 billion; a \$59 million increase over the June estimate of \$4.436 billion, and \$20 million below the original FY 2005 estimate of \$4.515 billion.

¹The FY 2006 revenue estimate presented in this report represents the general purpose general fund revenue estimate and does not include the FY 2006 dedicated non-tax "O" type revenue estimate of \$264.3 million. However, an overall discussion of dedicated non-tax "O" type revenue is included in a later section of this report.

²See FY 2006 Proposed Budget and Financial Plan, Volume 1, Executive Summary, page 4-14, "General Fund Revenue by Source, Fiscal Year 2004 Actual, Fiscal Years 2005 - 2009 Estimates and Projections."

³The estimate is presented net of tax policy changes. According to an ORA official, policy changes triggered by the December 2005 estimate related to income and property tax revenue.

METHODOLOGY

In conducting the comparative analysis, the District of Columbia Auditor (Auditor) reviewed: (1) the December 2005 estimate of \$4.495 billion; (2) the FY 2006 2nd quarter Comparative Report of Cash Collections by Funds prepared by the Chief Financial Officer's Office of Revenue Analysis (ORA); and (3) other relevant information. Additional information reviewed by the Auditor included economic data from several sources, including the Office of Finance and Treasury (OFT), the National Oceanic and Atmospheric Administration (NOAA), the Federal Reserve Board Beige Book (Federal Beige Book), the District's Department of Employment Services (DOES), the Greater Capital Area Association of Realtors (GCAAR), Smith Travel Research, U. S. Census Bureau, the Department of Insurance, Securities and Banking (DISB), the Office of Washington, D.C. Convention & Tourism Corporation (WDCCTC), the Consumer Price Index (CPI), and CB Richard Ellis a real estate services company.

The Auditor interviewed several officials and individuals from District agencies and other entities including ORA, OFT, DISB, WDCCTC and the U.S. Census Bureau regarding cash collections through the 2nd quarter of FY 2006 and overall economic conditions in the District.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 2nd quarter of FY 2006 totaled \$1.968 billion, which were \$101.6 million, or 5.4%, above the \$1.867 billion revised estimate through the 2nd quarter.⁴ The \$1.968 billion in actual cash collections represented 44% of the \$4.495 billion revised FY 2006 revenue estimate.⁵ Collections through the 2nd quarter from tax, non-tax, and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$1.758 billion, which were \$89 million, or 5.3%, above the revised tax estimate of \$1.669 billion through March 2006.
- ◆ **Non-tax** - total non-tax collections were \$174.8 million, which were \$15 million, or 9.4%, above the revised non-tax estimate of \$159.8 million through March 2006.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$35 million. These collections were \$2.5 million, or 6.6%, below the revised other financing sources estimate of \$37.5 million through March 2006.

Table I compares actual cash collections to the revised estimate through the 2nd quarter of FY 2006 for tax, non-tax, and other financing sources. Appendix I presents a graphical depiction of the information in Table I as well as other tables presented in this report.

⁴Rounding may affect some calculations presented in this report.

⁵The \$1.867 billion revised revenue estimate and \$1.968 billion in collections through the 2nd quarter of FY 2006 are presented net of the Washington Convention Center Authority estimate and transfer and also does not include the estimate and collections for dedicated non-tax "O" type revenue.

TABLE I
Cash Collections Summary
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Collections Category	Actual Collections Through the 2nd Quarter FY 2006	Revised Estimate Through the 2nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Tax	\$1,758,461	\$1,669,375	\$89,086	5.3%
Non-Tax	174,847	159,825	15,022	9.4%
Other Financing Sources	35,025	37,503	(2,478)	(6.6%)
Total Revenue Collections	\$1,968,333	\$1,866,703	\$101,630	5.4%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

In conducting the analysis of cash collections through the 2nd quarter of FY 2006, the Auditor compared the 2nd quarter collection trends for the five prior fiscal years from 2002 through the 2nd quarter of 2006. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. The Auditor notes that 2nd quarter collections in the general sales and use taxes and income tax categories decreased in FY 2003 but increased in FY 2004 through the 2nd quarter of FY 2006. On the other hand, 2nd quarter collections in the general property taxes category increased in FYs 2003, 2005 and 2006 but decreased in FY 2004. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this analysis.

Appendix III presents a comparison of collections through the 2nd quarter of FY 2006 to collections through the 2nd quarter of FY 2005 in each collections category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (C) revenue from public space rentals. The FY 2006 revised estimate for general property taxes is \$1.174 billion. Collections of general property taxes through the 2nd quarter of FY 2006 totaled \$353.5 million, which were:

- ◆ \$33 million, or 10.3%, above the \$320.6 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$38.2 million, or 12.1%, above collections for the same period in FY 2005.

Collections of general property taxes through the 2nd quarter represented 30% of the annual total 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 2006.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

General Property Taxes	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Real Property	\$351,264	\$318,352	\$32,912	10.3%
Personal Property	1,896	2,294	(398)	(17.3%)
Public Space Rental	386	0	386	0%
Total General Property Taxes	\$353,546	\$320,646	\$32,900	10.3%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Real Property Tax Collections

Real property tax collections through the 2nd quarter totaled \$351.3 million. These collections were \$32.9 million, or 10.3%, above the \$318.4 million revised estimate. The real property tax category is the largest component of general property taxes.

Collections of real property taxes were higher than the estimate for the 2nd quarter, in part, because of increased assessed values for taxable commercial and residential properties in the District. Based on a review of data reported in the District's FY 2005 Comprehensive Annual Financial Report (CAFR), the total taxable portion of the combined assessed values for commercial and residential properties in the District have increased each year from fiscal years 1999 through 2004.⁶ Overall, the assessed values for taxable properties increased over \$24 billion, or 57% from \$42.4 billion in FY 1999 to \$66.5 billion in FY 2004. The total assessed values reported in the CAFR however do not reflect the impact of the "Owner-Occupant Residential Tax Credit Act of 2002," D.C. Law 14-160 or the "Owner-Occupant Residential Tax Credit and Homestead Deduction

⁶Property taxes billed in 2006 are based on the property's 2004 assessed value.

Clarification Emergency Act of 2004."⁷ These laws may result in reduced real property tax collections for some residential properties. However, the largest increase in real property assessed values from FY 1999 to FY 2004 was for commercial properties which increased approximately \$15 billion, or 80%, from \$18.7 billion to \$33.7 billion. Commercial properties are not included in the property tax limit imposed by the laws.

B. Personal Property Tax

Personal property tax collections through the 2nd quarter totaled \$1.9 million. These collections were \$398,000, or 17.3%, below the \$2.3 million estimate. The annual due date for personal property tax returns is July 31st. Therefore, according to ORA officials, collections through the 2nd quarter may reflect 2005 late payments rather than overall economy activity that may impact personal property tax payments.

C. Public Space Rental Fees

Public space rental fees collected through the 2nd quarter of FY 2006 totaled \$386,000. ORA officials did not present an estimate for public space rental fees through the 2nd quarter. Pursuant to D.C. Act 16-206, effective November 2005, all revenue derived from the collection of public rights-of-way user fees, charges and penalties will be deposited into the Local Roads Construction and Maintenance Fund, which shall be separate from the General Fund. Therefore, according to ORA officials, collections of revenue from public space rental fees for FY 2006 will be reported as dedicated non-tax "O" type revenue. Collections shown on the cash collection report through the 2nd quarter may represent fees related to FY 2005.

Based on collections through the 2nd quarter, it appears the District is on course to achieve the FY 2006 revised revenue estimate in the general property taxes category.

⁷The Council enacted the "Owner-Occupant Residential Tax Credit of 2002," D.C. Law 14-160, which became effective June 25, 2002. The law stipulated that District homeowners will pay no property tax on assessments above 25% of the prior year's assessment. Then, effective in FY 2004, the Council passed the "Owner-Occupant Residential Tax Credit and Homestead Deduction Clarification Emergency Act of 2004," which reduced the rate from 25% to 12%.

GENERAL SALES AND USE TAXES

The FY 2006 revised estimate for general sales and use taxes is \$795.5 million.⁸ Collections of general sales and use taxes through the 2nd quarter of FY 2006 totaled \$394.8 million, which were:

- ◆ \$13.6 million, or 3.6%, above the \$381.2 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$12.3 million, or 3.2%, above collections for the same period in FY 2005.

General sales and use tax collections through the 2nd quarter represented 49.6% of the annual total FY 2006 revised estimate for this category. Table III compares actual collections to the revised estimate through the 2nd quarter of FY 2006.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

General Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	\$394,803	\$381,204	\$13,599	3.6%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

Collections of general sales and use taxes through the 2nd quarter were \$13.6 million, or 3.6%, higher than the 2nd quarter estimate. The increased collections over the estimate may be due, in part, to the strong tourism market. According to the Federal Beige Book, Washington, D.C. officials indicate that tourism is returning to pre-September 11th levels. According to information obtained from WDCCTC, the District has a full schedule of conventions and meetings at the Washington Convention Center and other venues city-wide. For example, according to WDCCTC, February's top ten meetings were estimated to bring approximately 19,300 convention-goers, generating 20,281 room nights and more than \$20 million in delegate spending. Further, the average hotel occupancy rate for the 2nd quarter was 66% and the average daily hotel room rate was \$186.

⁸Presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.

Based on collection patterns and emerging trends through the 2nd quarter it appears that the District is on course to achieve the FY 2006 revised revenue estimate in the general sales and use taxes category.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise tax. The FY 2006 revised estimate for selective sales and use taxes is \$71.1 million. Collections through the 2nd quarter of FY 2006 totaled \$34.2 million which were:

- ◆ \$1.5 million, or 4.6%, above the \$32.7 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$2.3 million, or 7.3%, above collections for the same period in FY 2005.

Selective sales and use tax collections through the 2nd quarter represented 48% of the annual total FY 2006 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 2nd quarter of FY 2006.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Alcoholic Beverage	\$2,580	\$2,716	(\$136)	(5%)
Cigarette	10,925	9,220	1,705	18.5%
Motor Vehicle Excise	20,656	20,738	(82)	(.4%)
Total Selective Sales and Use Taxes	\$34,161	\$32,674	\$1,487	4.6%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 2nd quarter totaled \$2.6 million. The collections were \$136,000, or 5%, below the \$2.7 million 2nd quarter revised estimate.

B. Cigarette Tax

Cigarette tax collections through the 2nd quarter totaled \$10.9 million. These collections were \$1.7 million, or 18.5%, above the \$9.2 million revised estimate.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 2nd quarter totaled \$20.66 million. These collections were \$82,000, or .4%, below the \$20.74 million revised estimate.

Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revised revenue estimate in the selective sales and use taxes category in FY 2006.

INCOME TAX

Income tax includes: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2006 revised estimate for the income tax category is \$1.456 billion. Collections through the 2nd quarter of FY 2006 totaled \$675 million which were:

- ◆ \$30 million, or 4.7%, above the \$645 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$67 million, or 11%, above collections for the same period in FY 2005.

Income tax collections through the 2nd quarter represented 46.4% of the annual total FY 2006 revised estimate for this category. Table V compares actual collections to the revised estimate through the 2nd quarter of FY 2006.

TABLE V
Income Tax:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Income Tax	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/Under Revised Estimate	Percentage Difference
Individual Income Tax	\$522,191	\$513,503	\$8,688	1.7%
Corporate Franchise Tax	116,198	91,613	24,585	26.8%
Unincorporated Business Franchise Tax	36,904	39,945	(3,041)	(7.6%)
Total Income Tax	\$675,293	\$645,061	\$30,232	4.7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Individual Income Tax

Individual income tax collections through the 2nd quarter totaled \$522.2 million. This tax is the largest in the income tax category. These collections were \$8.7 million, or 1.7%, above the \$513.5 million revised estimate. The increased collections of individual income tax may be due, in part, to the District's low unemployment rate. According to information obtained from DOES, the seasonally adjusted unemployment rate for January 2006 was 5.4%, which was a .5% decline from the December 2005 rate and a 1.7% decrease since January 2005. According to DOES, the January 2006 unemployment rate was at its lowest level in over fifteen years. The seasonally adjusted unemployment rates continued to drop in February 2006 to 5.3 % and remained at 5.3% in March 2006.

Additionally, collection of individual income tax withholdings totaled \$501.5 million and were \$14 million, or 2.9%, higher than the \$487.5 million estimate.

B. Corporate Franchise Tax

Corporate franchise tax collected through the 2nd quarter totaled \$116.2 million. The collections were \$24.6 million, or 26.8%, above the \$91.6 million revised estimate. According to DOES, the District gained a total of 10,300 jobs during the 12 months ending March 2006. The increased job growth in the District may indicate corporate profits are beginning to increase. Additionally, according to a local economist, Federal government procurement spending is a factor in the area's strong job growth. According to information obtained from the U.S. Census Bureau, from FY 2000 to FY 2004, Federal procurement contracts in the District increased approximately 75%, from \$7.6 billion in FY 2000 to \$13.3 billion in FY 2004. This increased spending translates to more profit for companies and more revenue to the District and may account, in part, for the increased collections of corporate franchise tax.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 2nd quarter totaled \$36.9 million. The collections were \$3 million, or 7.6%, below the \$39.9 million revised estimate. According to ORA representatives, many unincorporated business franchise taxpayers are partnerships associated with the real estate management industry. The fact that collections are below the estimate through the 2nd quarter of FY 2006 may reflect a moderation in the real estate market.

Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revised revenue estimate in the income tax category in FY 2006.

GROSS RECEIPTS TAXES⁹

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, (C) a tax on insurance premiums; and (D) a healthcare provider tax. The revised estimate for gross receipts taxes is \$267.3 million. Collections of gross receipts taxes through the 2nd quarter of FY 2006 totaled \$131.6 million, which were:

- ◆ \$4.9 million, or 3.8%, above the \$126.72 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$10.3 million, or 7.3%, below collections for the same period in FY 2005.

Gross receipts tax collections through the 2nd quarter represented 49.2% of the annual total FY 2006 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 2nd quarter of FY 2006.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Gross Receipts Taxes	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Public Utilities	\$78,375	\$76,143	\$2,232	2.9%
Toll Telecommunications	26,839	25,859	980	3.8%
Insurance Premiums	26,374	24,717	1,657	6.7%
Healthcare Provider Tax	0	0	0	0
Total Gross Receipts Taxes	\$131,588	\$126,719	\$4,869	3.8%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

⁹Collections from healthcare provider tax is reported with non-dedicated "O" type revenue.

A. Public Utilities Tax

Public utilities tax collections through the 2nd quarter totaled \$78.4 million. The collections were \$2.2 million, or 2.9%, above the \$76.1 million revised estimate. The strength in these collections through the 2nd quarter may be due, in part, to increased profits collected by utility companies. According to the CPI for the Washington D.C.-Baltimore area, electricity prices rose in both February and March 2006. Electricity rates in March 2006 were also 3.4% higher than a year ago. Also, utility gas prices in March 2006 were 27.1% higher than in March 2005. Further, according to data obtained from NOAA, National Climate Data Center, the average temperature during the 2nd quarter of FY 2006 was 5.5 degrees colder than the average temperature during the 1st quarter of FY 2006. As a result of the colder temperatures, consumers may have used more utilities resulting in increased payments to utility companies. The public utility tax is imposed on the gross receipts of utility companies. Therefore, increased revenue to these companies may have resulted in increased gross receipts tax payments to the District.

B. Toll Telecommunications Tax

Toll telecommunications tax collections through the 2nd quarter totaled \$26.8 million. The collections were \$980,000 or 3.8%, above the \$25.9 million revised estimate. One reason revenue is above the estimate in this tax category is that companies are offering a variety of new products and services for Blackberry and mobile telephone users leading to an increase in sales for telephone companies. The toll telecommunications tax is imposed on the gross receipts of the telephone companies and increased revenue to these companies may have resulted in increased toll telecommunications taxes payable to the District.

C. Insurance Premium Tax

Insurance premium tax collections through the 2nd quarter totaled \$26.4 million. The collections were \$1.7 million, or 6.7%, above the \$24.7 million revised estimate. Collections for the 2nd quarter of FY 2006 were 6.4% higher than collections during the same period in FY 2005. According to DISB officials, construction in the District may have resulted in more companies obtaining insurance. Also, insurance policies may have increased because of Homeland Security and other security concerns.

Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revised revenue estimate in the gross receipts taxes category in FY 2006.

OTHER TAXES

Other taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interest transfer tax. The FY 2006 revised estimate for other taxes is \$331.5 million. Collections of other taxes through the 2nd quarter of FY 2006 totaled \$169 million, which were:

- ◆ \$6 million, or 3.7%, above the \$163 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$8.9 million, or 5.5%, above collections for the same period in FY 2005.

Collections of other taxes through the 2nd quarter represented 50.1% of the annual total FY 2006 revised revenue estimate for this category. Table VII compares actual collections to the revised estimate through the 2nd quarter of FY 2006 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Other Taxes	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Estate Tax	\$14,469	\$10,875	\$3,594	33%
Deed Recordation	85,777	87,405	(1,628)	(1.9%)
Deed Transfer	63,070	62,864	206	.3%
Economic Interest	5,754	1,927	3,827	198.6%
Total Other Taxes	\$169,070	\$163,071	\$5,999	3.7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Estate Tax

Estate tax collections through the 2nd quarter totaled \$14.5 million. The collections were \$3.6 million, or 33%, above the \$10.9 million revised estimate. The fact that collections are higher than the estimate may be due, in part, to an increase in the value of estate assets such as real estate, stocks and bonds, however collections from this revenue source are difficult to estimate due to the unpredictable event that triggers the tax.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer tax collections through the 2nd quarter totaled \$148.8 million. These combined collections were \$1.4 million, or .9%, below the \$150.2 million revised estimate. The fact that these combined taxes were below the estimate may be due, in part, to a slight slowdown in the real estate market and the refinancing of property because of rising interest rates. According to information obtained from GCAAR, the number of contracts as well as settlements for both condominiums, cooperatives, and single family homes decreased in the 2nd quarter of FY 2006 as compared to the same time in FY 2005.

C. Economic Interest Tax

Economic interest tax collections through the 2nd quarter totaled \$5.8 million. The collections were \$3.8 million, or 198.6%, above the \$1.9 million revised estimate. This tax is imposed on the amount paid for the transfer of corporate ownership interest. According to ORA representatives, this tax is difficult to forecast because of its unpredictable nature or the infrequent transfer of ownership interests in the District of Columbia.

Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revised revenue estimate in the other taxes category in FY 2006.

NON-TAX REVENUE

Non-tax revenue includes: (A) licenses and permit fees, (B) fines and forfeitures, (C) charges for services, and (D) miscellaneous revenue. The FY 2006 revised estimate for non-tax revenue is \$327.8 million. Collections through the 2nd quarter totaled \$174.8 million, which were:

- ◆ \$15 million, or 9.4%, above the \$159.8 million 2nd quarter FY 2006 revised estimate;
and
- ◆ \$18.3 million, or 11.7%, above collections for the same period in FY 2005.

Non-tax revenue collections through the 2nd quarter represented 53% of the annual total FY 2006 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 2nd quarter of FY 2006.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Non-Tax Revenue	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Licenses and Permits	\$26,511	\$28,460	(\$1,949)	(6.8%)
Fines and Forfeitures	61,214	55,362	5,852	10.6%
Charges for Services	10,471	20,693	(10,222)	(49.4%)
Miscellaneous Revenue	76,651	55,310	21,341	38.6%
Total Non-Tax Revenue	\$174,847	\$159,825	\$15,022	9.4%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Licenses and Permit Fees

Licenses and permit fees collected through the 2nd quarter totaled \$26.5 million. Collections were \$1.9 million, or 6.8%, below the \$28.5 million revised estimate. According to an ORA representative, a decrease in collections from this revenue source may be due, in part, to a decrease in the number of business ventures starting and therefore a decrease in business licenses for jobs such as electricians, plumbers and carpenters.

B. Fines and Forfeitures

Fines and forfeitures collected through the 2nd quarter totaled \$61.2 million. The collections were \$5.9 million, or 10.6%, above the \$55.4 million revised estimate.

C. Charges for Services

Charges for services collected through the 2nd quarter totaled \$10.5 million. The collections were \$10.2 million, or 49.4%, below the \$20.7 million revised estimate. According to an ORA representative, a decrease in collections in this category may be due, in part, to a slight softening of economic activity resulting in less demand for city services such as copies of reports and licenses.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer,¹⁰ and (5) other revenue.¹¹ Miscellaneous revenue collected through the 2nd quarter totaled \$76.7 million. The collections were \$21.3 million, or 38.6%, above the \$55.3 million revised estimate. The increased collections may be due, in part, to increased collections of unclaimed property coupled with the fact that, according to unclaimed property officials, approximately \$12 million in claims have not yet been paid. Another reason for the increase in miscellaneous revenue may be due to an increase in interest income. Short term interest rates have increased resulting in increased interest income to the District from earnings on its short term investments. According to information obtained from the OFT, the average interest rates for pooled cash investments through the 2nd quarter of FY 2005 was approximately 2.1% while the average rate through the 2nd quarter of FY 2006 was approximately 4.1%.

Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revised revenue estimate in the non-tax revenues category in FY 2006.

OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling transfers to the General Fund from the D.C. Lottery. The FY 2006 revised estimate for other financing sources is \$72 million. Collections through the 2nd quarter totaled \$35 million which were:

- ◆ \$2.5 million, or 6.6%, below the \$37.5 million 2nd quarter FY 2006 revised estimate; and
- ◆ \$3.1 million, or 9.7%, above collections for the same period in FY 2005.

Collections from other financing sources through the 2nd quarter represented 48.6% of the annual total FY 2006 revised estimate for this category. Table IX compares actual collections to the estimate through the 2nd quarter of FY 2006.

¹⁰Includes the WASA Pilot Transfer.

¹¹Includes revenue such as dishonored checks, payroll service fees, or other revenue from agencies.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2006
(\$000)

Other Financing Sources	Actual Collections Through the 2 nd Quarter FY 2006	Revised Estimate Through the 2 nd Quarter FY 2006	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Legalized Gambling	\$35,025	\$37,503	(\$2,478)	(6.6%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2006, March 2006, prepared by ORA

A. Legalized Gambling

Legalized gambling (transfers to the General Fund from the D.C. Lottery) through the 2nd quarter totaled \$35 million. The transfers were \$2.5 million, or 6.6%, below the \$37.5 million revised estimate. According to a D.C. Lottery representative, collections were below the estimate, in part, because prize payouts related to the D.C. Four game were higher than estimated in January while prize payouts related to the D.C. Daily Six game were higher in March.

Since collections were slightly below the estimate through the 2nd quarter, District officials should monitor transfers to the General Fund from the D.C. Lottery closely in the 3rd and 4th quarters of FY 2006.

DEDICATED NON-TAX “O” TYPE REVENUE

The dedicated non-tax “O” type revenue estimate for FY 2006 is \$264.3 million. Collection of dedicated non-tax “O” type revenue through the 2nd quarter of FY 2006 totaled \$127.7 million. These collections were \$16.1 million, or 14.4%, above the \$111.6 million 2nd quarter revised estimate. Collections through the 2nd quarter of FY 2006 were \$12.9 million, or 11.2%, above the \$114.8 million in collections for the same period in FY 2005.

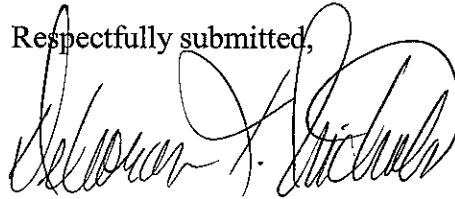
Based on collections through the 2nd quarter, it appears that the District is on course to achieve the revenue estimate in the dedicated non-tax “O” type revenue category in FY 2006.

CONCLUSION

Overall, the Auditor's analysis indicated that actual cash collections were above the revised estimate through the 2nd quarter of FY 2006. The District's cash collections through March 2006 (excluding dedicated non-tax "O" type revenue) totaled \$1.968 billion, which were \$101.6 million, or 5.4%, above the \$1.867 billion revised estimate through the 2nd quarter. The \$1.968 billion in actual cash collections represented 44% of the total \$4.495 billion revised FY 2006 revenue estimate.

Based on our review and analysis of economic data from various sources as well as revenue collection patterns through the 2nd quarter, the Auditor suggests that ORA closely monitor collections from the following categories: 1) licenses and permits; 2) charges for services; and 3) legalized gambling (transfers to the General Fund from the D.C. Lottery).

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written over the typed name.

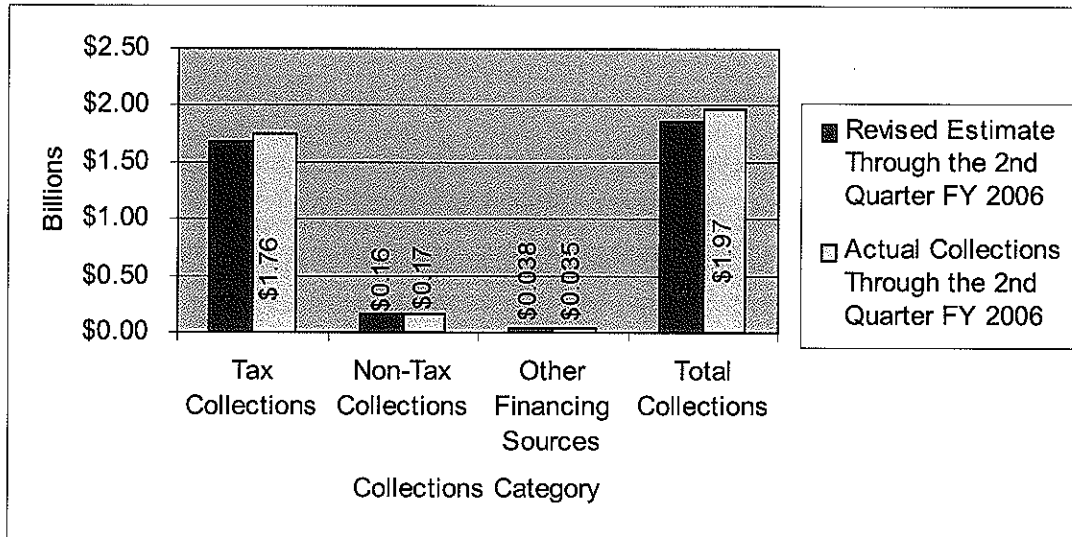
Deborah K. Nichols

District of Columbia Auditor

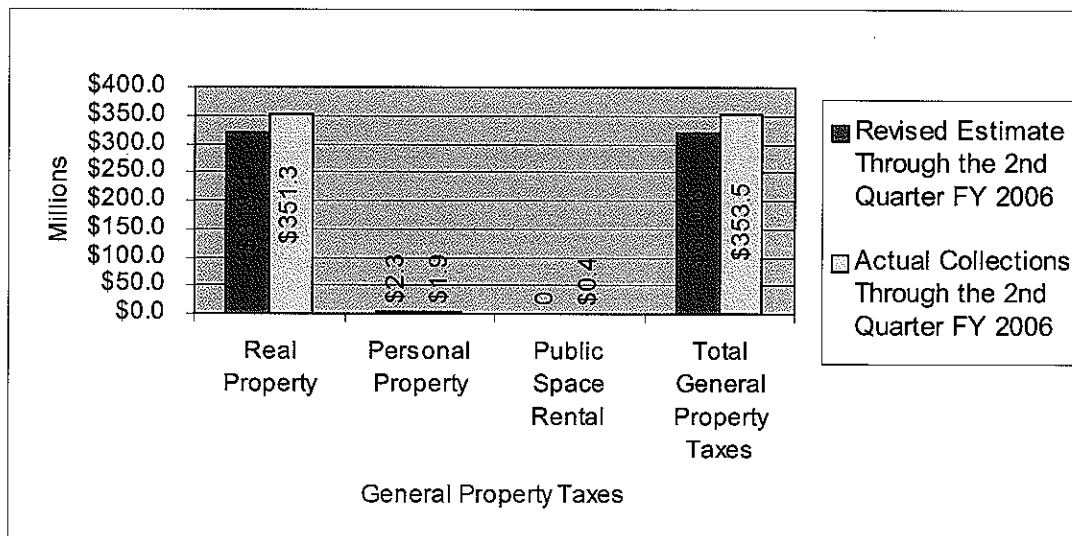
APPENDICES

APPENDIX I

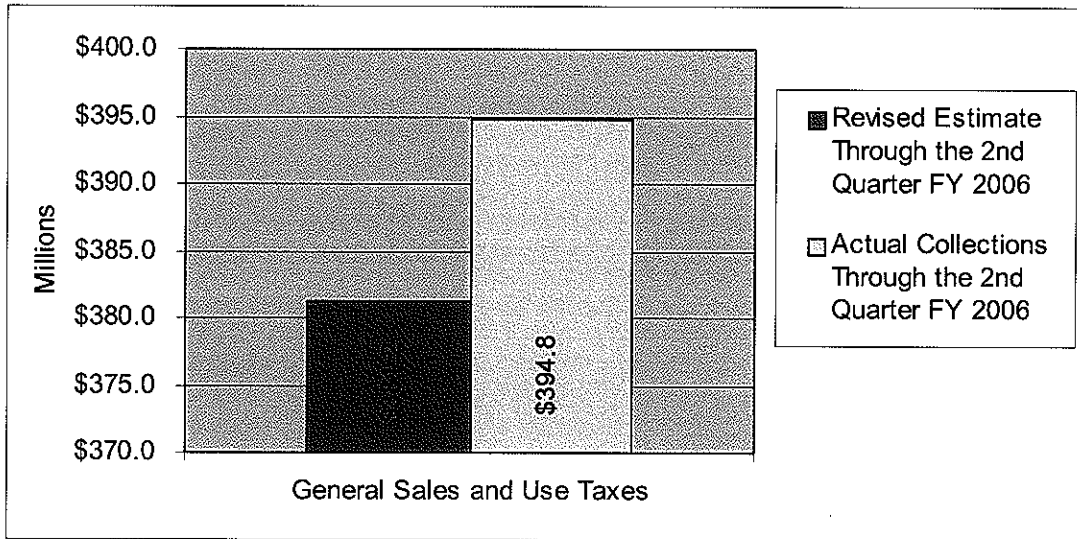
GRAPH I
Summary of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



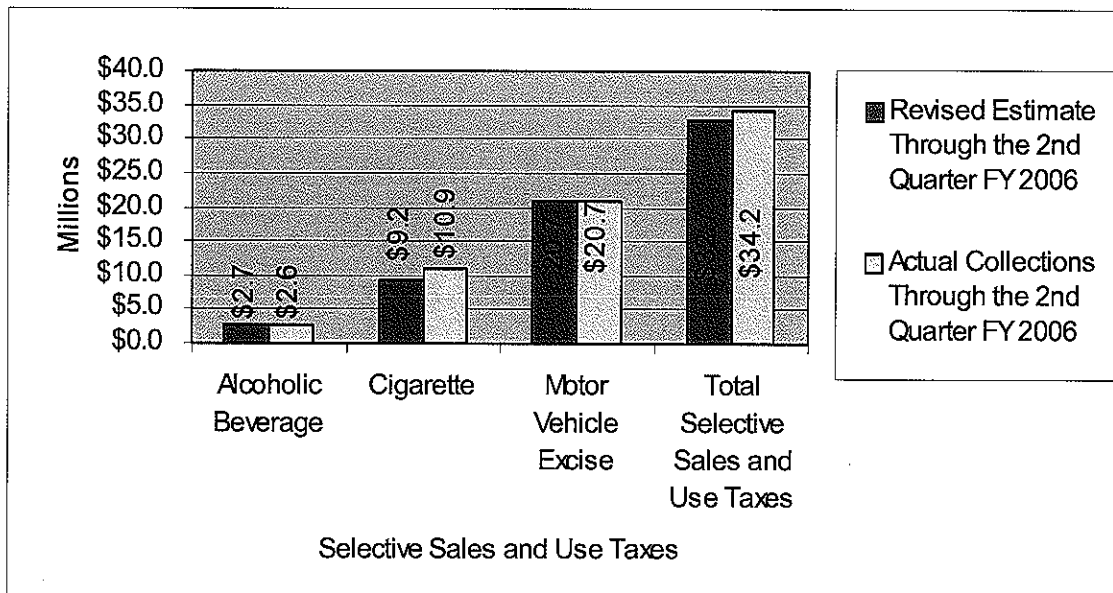
GRAPH II
General Property Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



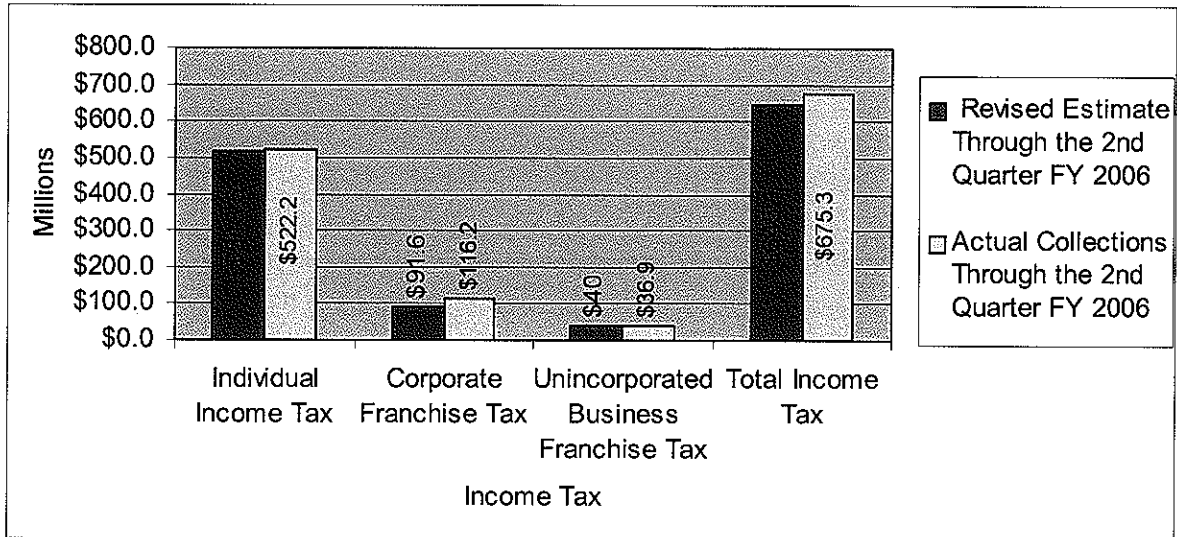
GRAPH III
General Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



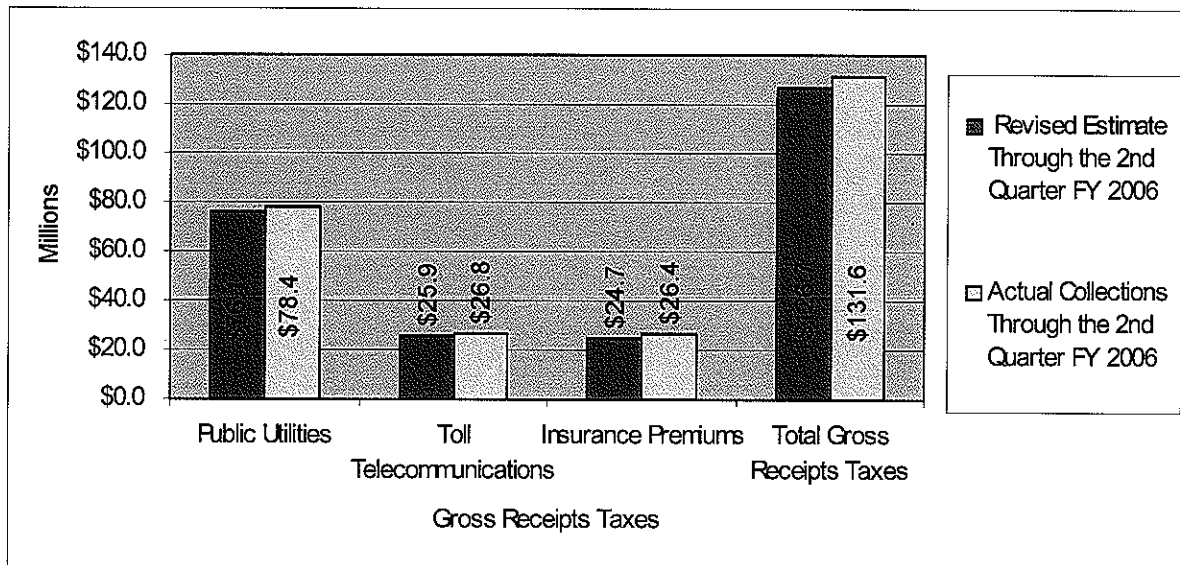
GRAPH IV
Selective Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



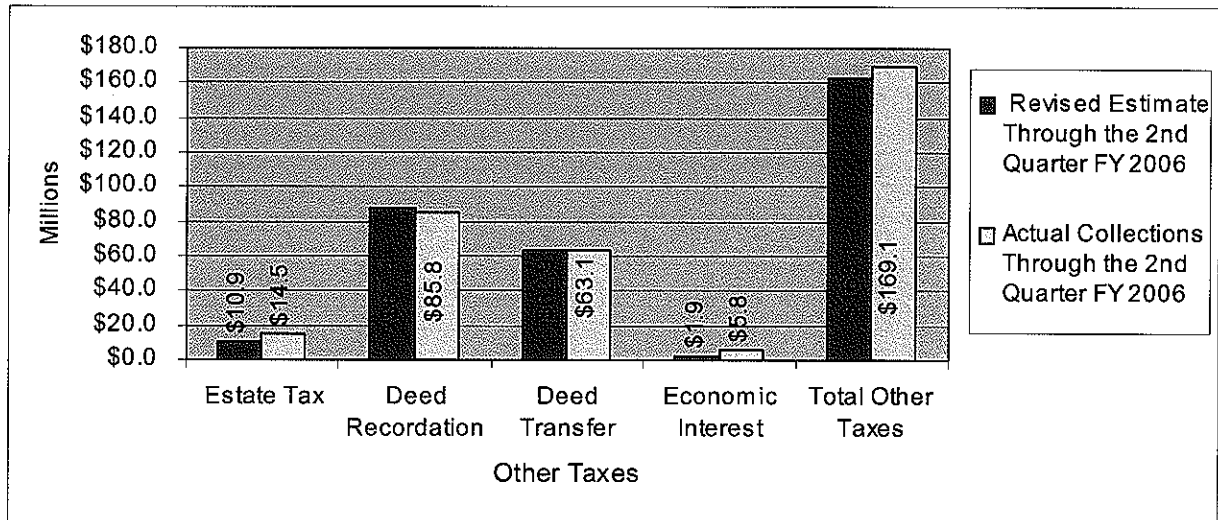
GRAPH V
Income Tax:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



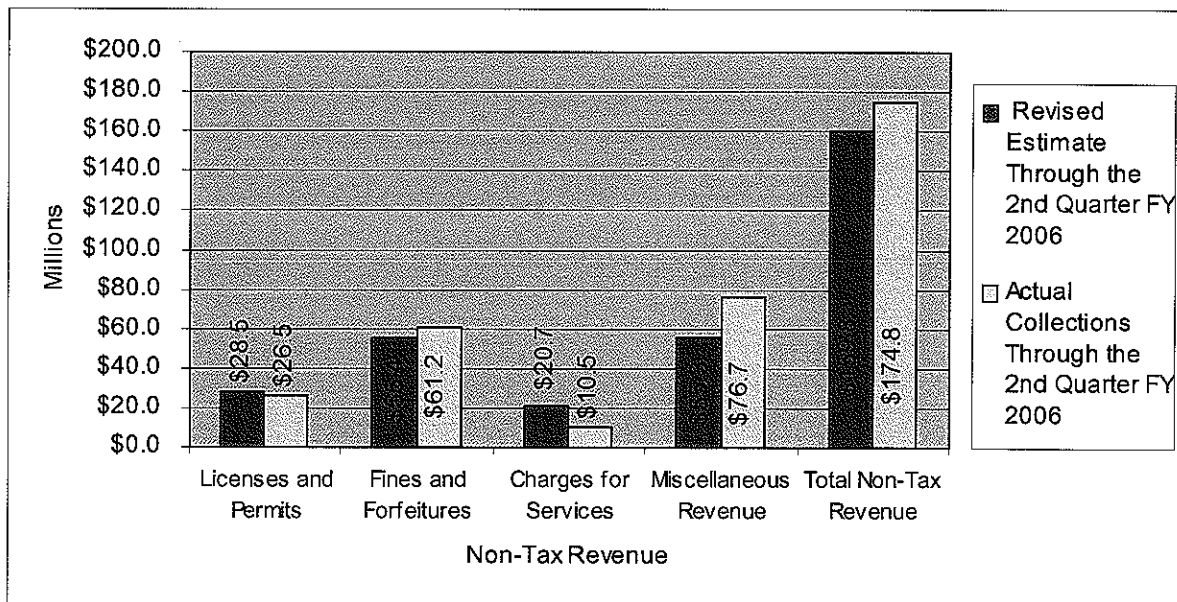
GRAPH VI
Gross Receipts Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



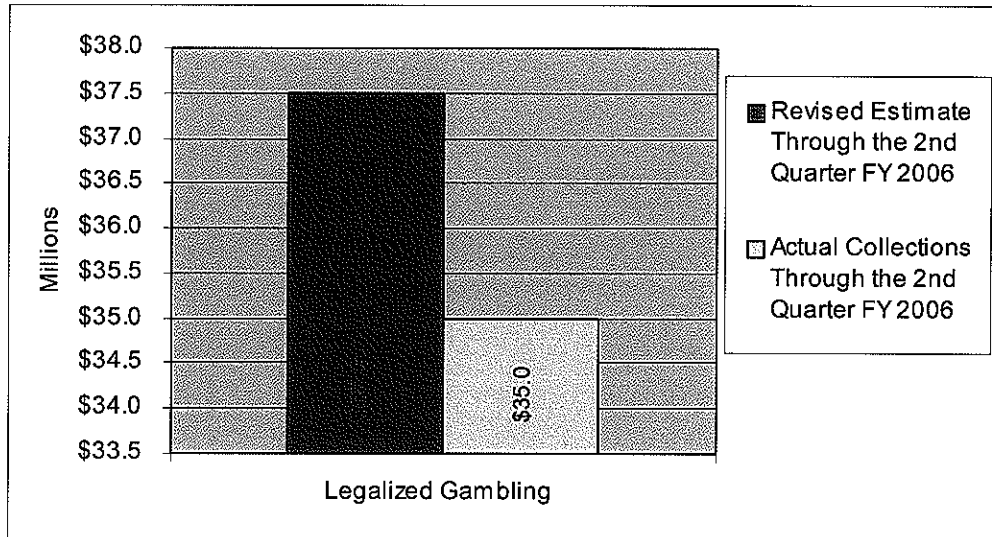
GRAPH VII
Other Taxes:
 Comparison of the Revised Revenue Estimate
 Through the 2nd Quarter FY 2006 to Actual Cash Collections



GRAPH VIII:
Non-Tax Revenue:
 Comparison of the Revised Revenue Estimate
 Through the 2nd Quarter FY 2006 to Actual Cash Collections



GRAPH IX:
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2006 to Actual Cash Collections



APPENDIX II

Comparison of Cash Collections Through the 2nd Quarter Fiscal Years 2002 - 2006¹² (\$000)

Collections Categories ¹³	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Property Taxes	\$204,898	\$278,208	\$263,109	315,378	\$353,546
General Sales and Use Taxes*	306,775	300,454	328,077	382,496	394,803
Selective Sales and Use Taxes	25,287	26,474	32,515	31,838	34,161
Income Tax	539,260	522,021	544,879	608,378	675,293
Gross Receipts Taxes	112,117	123,052	138,137	141,936	131,588
Other Taxes	105,465	125,937	182,425	160,193	169,070
Non-Tax Revenue	122,635	121,597	156,631	156,591	174,847
Other Financing Sources	33,926	37,325	37,650	31,925	35,025
Total Cash Collections Financing the Appropriation	\$1,450,363	\$1,535,068	\$1,683,423	\$1,828,735	\$1,968,333

Source: ORA

*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.

¹²Differences in totals presented in this table are due to rounding.

¹³Dedicated non-tax "O" type revenue collections are not presented in this Appendix.

**Comparison of Collections Through the 2nd Quarter
of FY 2006 to Collections Through the 2nd Quarter of FY 2005¹⁴**
(\$000)

Collections Category ¹⁵	Collections Through the 2 nd Quarter Fiscal Year 2006	Collections Through the 2 nd Quarter Fiscal Year 2005	Difference 2 nd Quarter FY 2006 Over/(Under) 2 nd Quarter FY 2005	Percentage Difference
General Property Taxes:				
Real Property	\$351,264	\$314,435	\$36,829	11.7%
Personal Property	1,896	334	1,562	467.7%
Public Space Rental	386	609	(223)	(36.6%)
Total Property Taxes	\$353,546	\$315,378	\$38,168	12.1%
General Sales and Use Taxes	\$394,803	\$382,496	\$12,307	3.2%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$2,580	\$2,476	\$104	4.2%
Cigarette	10,925	10,560	365	3.5%
Motor Vehicle Excise	20,656	18,802	1,854	9.9%
Selective Sales and Use Taxes	\$34,161	\$31,838	\$2,323	7.3%
Income Tax:				
Individual Income Tax	\$522,191	\$486,039	\$36,152	7.4%
Corporate Franchise	116,198	91,029	25,169	27.7%
Unincorporated Business	36,904	31,310	5,594	17.9%
Total Income Tax	\$675,293	\$608,378	\$66,915	11%
Gross Receipts Taxes:				
Public Utilities	\$78,375	\$89,586	(\$11,211)	(12.5%)
Toll Telecommunications	26,839	27,561	(722)	(2.6%)
Insurance Premiums	26,374	24,789	1,585	6.4%
Healthcare Provider Tax	0	0	0	0
Total Gross Receipts	\$131,588	\$141,936	(\$10,348)	(7.3%)
Other Taxes:				
Estate Tax	\$14,469	\$11,516	\$2,953	25.6%
Deed Recordation	85,777	86,212	(435)	(.5%)
Deed Transfer	63,070	61,344	1,726	2.8%
Economic Interest	5,754	1,121	4,633	413.2%
Total Other Taxes	\$169,070	\$160,193	\$8,877	5.5%
Total Tax Collections	\$1,758,461	\$1,640,219	\$118,242	7.2%
Non-Tax Revenue:				
Licenses and Permits	\$26,511	\$26,766	(\$255)	(1%)
Fines and Forfeitures	61,214	51,266	9,948	19.4%
Charges for Services	10,471	20,510	(\$10,039)	(48.9%)
Miscellaneous Revenue	76,651	58,049	18,602	32%
Total Non-Tax Revenue	\$174,847	\$156,591	\$18,256	11.7%
Other Financing Sources	\$35,025	\$31,925	\$3,100	9.7%
Total Revenues	\$1,968,333	\$1,828,735	\$139,598	7.6%

Source: ORA

¹⁴ Rounding may affect some calculations presented in this table.

¹⁵ Total revenue presented in this Appendix does not include dedicated non-tax "O" type revenue. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.