



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
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 2008

September 24, 2008



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The Honorable Vincent C. Gray
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 2008

Dear Chairman Gray 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) 2008 to the revised FY 2008 revenue estimate for the 2nd quarter.

BACKGROUND

In May 2007, pursuant to the Home Rule Act, as amended by Public Law 104-8,¹ and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001,² the District's Chief Financial Officer (CFO) issued a certified FY 2008 original revenue estimate of \$5.165 billion.³ The \$5.165 billion non-dedicated Local Fund revenue estimate was used as the baseline for the FY 2008 budget. Revisions to the \$5.165 billion estimate are presented below:

¹See Pub. L. 104-8, (109 Stat; D.C. Code Section 1-204.24c(5) (A) and (B)).

²See Pub. L. No. 106-522, 114 Stat. 2440.

³See FY 2008 Proposed Budget and Financial Plan, Volume 1, Executive Summary, dated June 7, 2007, page 4-16, "Operating Revenue by Source, Fiscal Years 2006 - 2011." The FY 2008 revenue estimate presented in this report represents the non-dedicated local fund revenue estimate and does not include the FY 2008 special purpose revenue fund (O-type) estimate of \$367.03 million. However, an overall discussion of special purpose revenue fund (O-type) is included in a later section of this report.

GENERAL SALES AND USE TAXES

The FY 2008 revised estimate for general sales and use taxes is \$751.2 million.¹³ Collections of general sales and use taxes through the 2nd quarter totaled \$422.08 million, which were:

- ◆ \$941,000, or .2%, above the \$421.14 million 2nd quarter revised FY 2008 estimate; and
- ◆ \$2.6 million, or .6%, above collections for the same period in FY 2007.

General sales and use tax collections through the 2nd quarter represented 56% of the total FY 2008 revised estimate for this category. Table III compares actual collections to the revised estimate through the 2nd quarter of FY 2008.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

General Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	\$422,081	\$421,140	\$941	0.2%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

Collections of general sales and use taxes through the 2nd quarter totaled \$422.08 million. Actual collections through the 2nd quarter were \$941,000, or .2%, above the \$421.14 million revised 2nd quarter estimate. The fact that collections of general sales and use taxes were only slightly above the estimate may be due, in part, to the national economic slowdown resulting in a decrease in the number of visitors to the District. According to data obtained from WDCCTC, hotel occupancy rates for the 2nd quarter of FY 2008 were, on average, approximately 1.4% lower than the average occupancy rates for the same period in FY 2007. Also, total room revenue for the 2nd quarter of FY 2008 was approximately \$7.4 million lower than room revenue for the 2nd quarter of FY 2007.

¹³Presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention Center Authority.

- In September 2007, the CFO revised the estimate upward to \$5.188 billion⁴ which was a net increase of \$23.5 million over the \$5.165 billion FY 2008 original revenue estimate.
- In December 2007, the CFO revised the FY 2008 revenue estimate upward to \$5.238 billion⁵ which was a net increase of \$49.9 million over the \$5.188 billion September 2007 revenue estimate, and a \$73 million increase over the \$5.165 billion FY 2008 original revenue estimate;
- In February 2008, the CFO revised the FY 2008 revenue estimate upward to \$5.242 billion⁶ which was a net increase of \$4.2 million over the \$5.238 billion December 2007 estimate, a \$54 million increase over the \$5.188 billion September 2007 revenue estimate, and a \$77 million increase over the \$5.165 billion FY 2008 original revenue estimate.

METHODOLOGY

In conducting the comparative analysis, the Auditor reviewed: (1) the \$5.242 billion estimate; (2) the FY 2008 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 Conference Board, the George Mason University of Regional Analysis, Eagle Eye Inc., the District's Department of Employment Services (DOES), the Office of Finance and Treasury (OFT), the Greater Capital Area Association of Realtors (GCAAR), United States Department of Labor, Bureau of Labor Statistics (BLS), the District of Columbia Lottery and Charitable Games Board (D.C. Lottery), and the Washington, D.C. Convention and Tourism Corporation (WDCCTC).

The Auditor interviewed ORA officials regarding cash collections through the 2nd quarter of FY 2008 and representatives from other governmental organizations regarding their knowledge of overall economic conditions that affect the District.

⁴The CFO certified additional revenue of \$30.2 million. The FY 2008-FY 2011 Budget and Financial Plan, dated June 7, 2007, included \$6.7 million of policy changes. The \$30.2 million in additional revenue, and the impact of the policy changes, totaling \$6.7 million, resulted in a net increase of \$23.5 million over the \$5.165 billion May 2007 FY 2008 original revenue estimate.

⁵The CFO certified additional revenue of \$49.9 million.

⁶The CFO certified additional revenue of \$4.2 million.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 2nd quarter of FY 2008 totaled \$2.2198 billion, which were \$120 million, or 5.7%, above the \$2.1 billion revised estimate through the 2nd quarter.⁷ The \$2.2198 billion in actual cash collections represented 42.3% of the \$5.242 billion FY 2008 revised revenue estimate.⁸ Collections through the 2nd quarter from tax, non-tax, and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$2.042 billion, which were \$125.46 million, or 6.5%, above the revised tax estimate of \$1.916 billion through March 2008.
- ◆ **Non-tax** - total non-tax collections were \$143.96 million, which were \$6.15 million, or 4.1%, below the revised non-tax estimate of \$150.11 million through March 2008.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$34.07 million. These collections were \$712,000, or 2.1%, above the revised other financing sources estimate of \$33.36 million through March 2008.

Table I compares actual cash collections to the revised estimate through the 2nd quarter of FY 2008 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.

⁷Rounding may affect some calculations presented in this report.

⁸The \$2.1 billion revised revenue estimate and \$2.2198 billion in collections through the 2nd quarter of FY 2008 are presented net of funds transferred to dedicated purposes including the Washington Convention Center Authority. The estimate and transfer also does not include special purpose revenue fund (O-type).

TABLE I
Cash Collections Summary
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Collections Category	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Tax	\$2,041,813	\$1,916,349	\$125,464	6.5%
Non-Tax	143,955	150,110	(6,155)	(4.1%)
Other Financing Sources	34,075	33,363	712	2.1%
Total Collections	\$2,219,843	\$2,099,822	\$120,021	5.7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA.

In conducting the analysis of cash collections through the 2nd quarter of FY 2008, the Auditor compared the 2nd quarter collection trends for the five prior fiscal years from FY 2004 through the 2nd quarter of FY 2008. 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 2nd quarter collections in general property taxes, general sales and use taxes, and income taxes steadily increased over the five-fiscal year period. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this report.

Appendix III presents a comparison of collections through the 2nd quarter of FY 2008 to 2nd quarter collections for FY 2007 in each tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and public space rental. The FY 2008 revised estimate for general property taxes is \$1.710 billion. Collections of general property taxes through the 2nd quarter of FY 2008 totaled \$489.88 million, which were:

- ◆ \$37.81 million, or 8.4%, above the \$452.08 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$121.68 million, or 33%, above collections for the same period in FY 2007.

Collections of general property taxes through the 2nd quarter represented 29% 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 2008.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

General Property Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Real Property	\$488,523	\$450,306	\$38,217	8.5%
Personal Property	1,355	1,769	(414)	(23.4%)
Public Space Rental ⁹	5	0	5	0%
Total General Property Taxes	\$489,883	\$452,075	\$37,808	8.4%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

A. Real Property Tax Collections

Real property tax collections through the 2nd quarter totaled \$488.52 million. These collections were \$38.22 million, or 8.5%, above the \$450.31 million revised estimate. The real property tax category is the largest component of general property taxes.

The Auditor noted that real property tax refunds through the 2nd quarter totaled \$3.72 million and were \$6.68 million, or 64.2%, below the \$10.4 million estimate. Refunds through the 2nd quarter of FY 2008 were also \$5.8 million, or 61%, below refunds through the 2nd quarter of fiscal year 2007.

The fact that collections are above the estimate may be due, in part, to the strength of the real estate market in 2006.¹⁰ Collections of real property taxes were higher than the estimate for the 2nd quarter due, in part, to higher assessed values for taxable commercial and residential properties in the District.

⁹Public space rental collections is not used for general fund purposes but are dedicated to the District Department of Transportation.

¹⁰Property taxes billed in 2008 are based on a property's 2006 assessed value.

Based on a review of data reported in the District's FY 2006 Comprehensive Annual Financial Report (CAFR), the total taxable portion of the combined assessed values for commercial and residential properties¹¹ in the District increased each year from FYs 1999 through 2006. Overall, the assessed values for taxable properties increased over \$56 billion, or 57%, from \$42.4 billion in FY 1999 to \$98.49 billion in FY 2006.

Total assessed values reported in the CAFR for residential property, however, did 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 Clarification Emergency Act of 2004."¹² The assessed values of residential properties also did not reflect the 2006 assessment cap of 10% for class 01 property with homestead exemptions. These laws may have resulted in reduced real property tax collections for some residential properties. However, real property assessed values for commercial properties, which were not governed by D.C. Law 14-160, the Emergency Act, and the 2006 assessment cap, increased over 54% from \$18.73 billion in FY 1999 to \$40.4 billion in FY 2006.

B. Personal Property Tax Collections

Personal property tax collections through the 2nd quarter of FY 2008 totaled \$1.355 million. These collections were \$414,000, or 23.4%, below the \$1.769 million revised estimate. The annual due date for personal property tax returns is July 31st. Therefore, according to ORA officials, collections in the 2nd quarter may represent late payments of 2007 personal property taxes rather than overall economic activity that may relate specifically to 2008 personal property tax collections.

Based on actual collection patterns and emerging trends through the 2nd quarter, it appears that the District is on course to achieve the FY 2008 revenue estimate in the general property taxes category.

¹¹Presented after deduction of homestead exemption and credits against tax.

¹²The 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 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 2008 revised estimate for general sales and use taxes is \$751.2 million.¹³ Collections of general sales and use taxes through the 2nd quarter totaled \$422.08 million, which were:

- ◆ \$941,000, or .2%, above the \$421.14 million 2nd quarter revised FY 2008 estimate; and
- ◆ \$2.6 million, or .6%, above collections for the same period in FY 2007.

General sales and use tax collections through the 2nd quarter represented 56% of the total FY 2008 revised estimate for this category. Table III compares actual collections to the revised estimate through the 2nd quarter of FY 2008.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

General Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	\$422,081	\$421,140	\$941	0.2%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

Collections of general sales and use taxes through the 2nd quarter totaled \$422.08 million. Actual collections through the 2nd quarter were \$941,000, or .2%, above the \$421.14 million revised 2nd quarter estimate. The fact that collections of general sales and use taxes were only slightly above the estimate may be due, in part, to the national economic slowdown resulting in a decrease in the number of visitors to the District. According to data obtained from WDCCTC, hotel occupancy rates for the 2nd quarter of FY 2008 were, on average, approximately 1.4% lower than the average occupancy rates for the same period in FY 2007. Also, total room revenue for the 2nd quarter of FY 2008 was approximately \$7.4 million lower than room revenue for the 2nd quarter of FY 2007.

¹³Presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention Center Authority.

Also, collections of general sales and use taxes may be only slightly above the estimate because consumer confidence decreased sharply in the 2nd quarter of FY 2008. According to information obtained from The Conference Board, Conference Board Consumer Confidence Index declined from 87.9 points in January 2008 to 64.5 points in March 2008. According to The Conference Board, “consumers’ confidence in the state of the economy continues to fade and the Index remains at a five-year low.” The declining consumer confidence may mean that consumers will spend less.

Although collections through the 2nd quarter were higher than the estimate, District officials should monitor this tax category closely because of the slowdown in the economy. This slowdown may result in fewer tourists visiting the District thus resulting in reduced collections of general sales and use taxes.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise taxes. The FY 2008 revised estimate for selective sales and use taxes is \$71.66 million. Collections through the 2nd quarter of FY 2008 totaled \$33.36 million, which were:

- ◆ \$755,000, or 2.3%, above the \$32.61 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$146,000, or .4%, below collections for the same period in FY 2007.

Selective sales and use tax collections through the 2nd quarter represented 46.5% of the total FY 2008 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 2nd quarter of FY 2008.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Alcoholic Beverage	\$2,572	\$2,643	(\$71)	(2.7%)
Cigarette	10,212	9,087	1,125	12.4%
Motor Vehicle Excise	20,576	20,875	(299)	(1.4%)
Total Selective Sales and Use Taxes	\$33,360	\$32,605	\$755	2.3%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 2nd quarter totaled \$2.572 million. These collections were \$71,000, or 2.7%, below the \$2.643 million revised estimate.

B. Cigarette Tax

Cigarette tax collections through the 2nd quarter totaled \$10.212 million. These collections were \$1.125 million, or 12.4%, above the \$9.087 million revised estimate.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 2nd quarter totaled \$20.576 million. These collections were \$299,000, or 1.4%, below the \$20.875 million revised estimate. ORA representatives could not identify any particular economic reason for the lower 2nd quarter collections.

Based on actual collection patterns and emerging trends through the 2nd quarter, it appears that the District is on course to achieve the FY 2008 revenue estimate in the selective sales and use taxes category.

INCOME TAXES

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2008 revised estimate for the income taxes category is \$1.745 billion. Collections through the 2nd quarter of FY 2008 totaled \$741.25 million, which were:

- ◆ \$41.50 million, or 5.9%, above the \$699.75 million 2nd quarter revised estimate; and
- ◆ \$23 million, or 3.2%, above collections for the same period in FY 2007.

Income taxes collected through the 2nd quarter represented 42.48% of the total FY 2008 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 2nd quarter of FY 2008.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Income Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/Under Revised Estimate	Percentage Difference
Individual Income Tax	\$563,210	\$528,712	\$34,498	6.5%
Corporate Franchise Tax	137,965	119,660	18,305	15.3%
Unincorporated Business Franchise Tax	40,074	51,378	(11,304)	(22%)
Total Income Taxes	\$741,249	\$699,750	\$41,499	5.9%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

A. Individual Income Tax

Individual income tax collections through the 2nd quarter totaled \$563.21 million. This tax is the largest in the income taxes category. These collections were \$34.5 million, or 6.5%, above the \$528.71 million revised estimate. The Auditor noted that collections from individual income withholding through the 2nd quarter totaled \$499.62 million and were \$3.36 million, or .7%, below the \$503 million estimate through the 2nd quarter. On the other hand, individual income tax payments (amount owed to District government when a taxpayer files a return) totaled \$64.35 million and were \$37.42 million, or 139%, above the \$26.93 million estimate through the 2nd quarter.

According to an ORA official, the increase in payments may be due to more electronic filers whose returns are usually processed more quickly through the system. However, the ORA official cautioned that given the present uncertainty in the economy, the results of the April tax filings will present a more accurate picture of the performance in the individual income tax category.

B. Corporate Franchise Tax

Corporate franchise tax collections through the 2nd quarter totaled \$137.97 million. The collections were \$18.31 million, or 15.3%, above the \$119.66 million revised estimate. An ORA representative indicated that businesses in the District tend to be more sensitive to changes in federal procurement spending rather than changes in the general economic environment. According to information obtained from the George Mason University Center for Regional Analysis, Eagle Eye, Inc., federal procurement spending increased in 2007 as compared to 2005 and 2006. This increased federal procurement spending may account, in part, for the increase in corporate franchise tax collections.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 2nd quarter totaled \$40.07 million. The collections were \$11.3 million, or 22%, below the \$51.38 million revised estimate. According to ORA representatives, many unincorporated business franchise taxpayers are partnerships associated with the real estate management industry. The unincorporated business franchise tax revenue is closely tied to the performance of the real estate market. Therefore, the lower than estimated collections may be due, in part, to the slowdown in the real estate market. Additionally, declarations (estimated tax payments) of unincorporated business franchise tax through the 2nd quarter of FY 2008 totaled \$32.45 million. These declarations were \$4.6 million, or 12.4%, below the estimate of \$37.06 million through the 2nd quarter.

Although collections through the 2nd quarter in the income taxes category were higher than the estimate, District officials should monitor this tax category closely because of the slowdown in the real estate market and the overall economy. This slowdown may result in a reduction in employment and earnings, and may also affect collections of unincorporated business franchise tax.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, and (C) insurance premium tax. The total FY 2008 revised estimate for the gross receipts taxes category is \$246.05 million. Collections of gross receipts taxes through the 2nd quarter of FY 2008 totaled \$134.76 million, which were:

- ◆ \$8.8 million, or 7%, above the \$125.97 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$1.79 million, or 1.3%, below collections for the same period in FY 2007.

Gross receipts taxes collected through the 2nd quarter represent 54.77% of the total FY 2008 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 2nd quarter of FY 2008.

TABLE VI
Gross Receipts Taxes
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Gross Receipts Taxes	Actual Collections Through the 2nd Quarter FY 2008	Revised Estimate Through the 2nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Public Utilities Tax	\$73,490	\$72,780	\$710	1%
Toll Telecommunications Tax	30,501	27,833	2,668	9.6%
Insurance Premiums Tax	30,772	25,353	5,419	21.4%
Total Gross Receipts Taxes	\$134,763	\$125,966	\$8,797	7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

A. Public Utilities Tax¹⁴

Public utilities tax collections through the 2nd quarter totaled \$73.49 million. The collections were \$710,000, or 1%, above the \$72.78 million revised estimate. The fact that collections were above the estimate may result, in part, from increased energy costs. Based on data obtained from

¹⁴The public utility tax is imposed on the gross receipts of television, radio and telephone companies; the usage per gallon for heating oil; per therm for natural gas; and per kilowatt hour for electric distribution.

the BLS, Washington-Baltimore area energy prices rose 3.8% over the last two months. As a result, consumers may have paid more to utility companies.

B. Toll Telecommunications Tax

Toll telecommunications tax collections through the 2nd quarter totaled \$30.5 million. The collections were \$2.67 million, or 9.6%, above the \$27.83 million revised estimate.

C. Insurance Premium Tax

Insurance premium tax collections through the 2nd quarter totaled \$30.77 million. The collections were \$5.4 million, or 21.4%, above the \$23.35 million revised estimate.

Based on collections patterns and emerging trends through the 2nd quarter, it appears that the District is on course to achieve the FY 2008 revenue estimate in the gross receipts taxes category.

OTHER TAXES

Other taxes include: (A) estate tax, (B) deed recordation tax, (C) deed transfer tax, and (D) economic interest transfer tax. The total FY 2008 revised estimate for the other taxes category is \$321.79 million. Collections of other taxes through the 2nd quarter of FY 2008 totaled \$220.48 million, which were:

- ◆ \$35.67 million, or 19.3%, above the \$184.81 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$13.39 million, or 5.7%, below collections for the same period in FY 2007.

Collections of other taxes through the 2nd quarter represented 68.52% of the total FY 2008 revised estimate for this category. Table VII compares actual collections to the revised estimate through the 2nd quarter of FY 2008 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Other Taxes	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Estate Tax	\$40,521	\$33,188	\$7,333	22.1%
Deed Recordation Tax	77,169	56,473	20,696	36.6%
Deed Transfer Tax	57,235	43,650	13,585	31.1%
Economic Interest Tax	45,552	51,502	(5,950)	(11.6%)
Total Other Taxes	\$220,477	\$184,813	\$35,664	19.3%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report, March 2008 prepared by ORA

A. Estate Tax

Estate tax collections through the 2nd quarter totaled \$40.52 million. The collections were \$7.3 million, or 22.1%, above the \$33.19 million revised estimate. According to an ORA representative, estate tax revenue is dependent on two variables that are inherently difficult to predict: the number of deaths in any given year and the total value of a decedent's estate which, in turn, depends on the performance of financial and real estate markets. An ORA representative indicated that this tax will be monitored closely and may be revised downward later in the fiscal year.

B. Combined Deed Recordation and Transfer Tax

Combined deed recordation and transfer tax collections through the 2nd quarter totaled \$134.40 million. The recordation tax is imposed on the recording of real estate deeds in the District while the transfer tax is imposed on each transfer of real property at the time the deed is submitted for recordation. These combined collections were \$34.28 million, or 34.2%, above the \$100.12 million revised estimates. According to an ORA representative, the February estimate for the deed recordation and deed transfer tax may have been somewhat conservative. However, according to the representative, there continues to be a great deal of uncertainty in the credit markets and the ability of both residential and commercial purchasers to get loans to finance real estate purchases.

Further, according to data obtained from GCAAR, there was an overall average decline in contracts and settlements of single family homes and condos during the 2nd quarter of FY 2008 as compared to the 2nd quarter of FY 2007.

C. Economic Interest Tax

Economic interest tax collections through the 2nd quarter totaled \$45.55 million. The collections were \$5.9 million, or 11.6%, below the \$51.50 million revised estimate. According to an ORA representative, this tax is difficult to forecast because of the infrequent transfer of corporate ownership interests in the District of Columbia. As a result, ORA does not attempt to estimate this tax using any economic factors.

Although collections through the 2nd quarter were higher than the estimate for other taxes, District officials should monitor this tax category closely because of the slowdown in the real estate market as well as the overall economy.

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 total FY 2008 revised estimate for the non-tax revenue category is \$326.21 million. Collections through the 2nd quarter totaled \$143.96 million, which were:

- ◆ \$6.16 million, or 4.1%, below the \$150.11 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$35.24 million, or 19.7%, below collections for the same period in FY 2007.

Non-tax revenue collections through the 2nd quarter represented 44% of the total FY 2008 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 2nd quarter of FY 2008 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2008
(\$000)

Non-Tax Revenue	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Licenses and Permits	\$33,637	\$34,348	(\$711)	(2.1%)
Fines and Forfeitures	52,268	48,040	4,228	8.8%
Charges for Services	19,304	20,258	(954)	(4.7%)
Miscellaneous Revenue	38,746	47,464	(8,718)	(18.4%)
Total Non-Tax Revenue	\$143,955	\$150,110	(\$6,155)	(4.1%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

A. Licenses and Permit Fees

Licenses and permit fees collected through the 2nd quarter totaled \$33.64 million. Collections were \$711,000, or 2.1%, below the \$34.35 million revised estimate. According to an ORA representative, collections of licenses and permit fees were below the estimate, in part, due to lower than expected collections in building related licenses and permit fees.

B. Fines and Forfeitures

Fines and forfeitures collected through the 2nd quarter totaled \$52.27 million. The collections were \$4.2 million, or 8.8%, above the \$48.04 million revised estimate. Fines and forfeiture collections were above the estimate, in part, due to greater than expected collections from traffic fines and collections from red light cameras.

C. Charges for Services

Charges for services collected through the 2nd quarter totaled \$19.3 million. The collections were \$954,000, or 4.7%, below the \$20.26 million revised estimate.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfers,¹⁵ and (5) other revenue.¹⁶ Miscellaneous revenue collected through the 2nd quarter totaled \$38.75 million. The collections were \$8.7 million, or 18.4%, below the \$47.46 million revised estimate for the 2nd quarter. The fact that collections were below the estimate may be due, in part, to a decrease in short-term interest rates, thus resulting in reduced interest income to the District from earnings on short-term investments. According to information obtained from OFT, the average interest rate for pooled cash investments through the 2nd quarter of FY 2007 was approximately 5.18% while the average rate through the 2nd quarter of FY 2008 decreased to approximately 3.75%.

Since collections of non-tax revenues were below the estimate through the 2nd quarter, District finance officials should monitor this tax category closely for the remainder of FY 2008.

OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling transfers to the General Fund from the D.C. Lottery. The total FY 2008 revised estimate for the other financing sources category is \$70 million. Collections through the 2nd quarter totaled \$34.75 million which were:

- ◆ \$712,000, or 2.1%, above the \$33.63 million 2nd quarter FY 2008 revised estimate; and
- ◆ \$4.48 million, or 15.1%, above collections for the same period in FY 2007.

Collections from other financing sources through the 2nd quarter represented 49.6% of the total FY 2008 revised estimate for this category. Table IX compares actual collections to the estimate through the 2nd quarter of FY 2008.

¹⁵Includes the WASA Pilot (payment in lieu of taxes) Transfer.

¹⁶Includes revenue from 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 2008
(\$000)

Other Financing Sources	Actual Collections Through the 2 nd Quarter FY 2008	Revised Estimate Through the 2 nd Quarter FY 2008	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Legalized Gambling	\$34,075	\$33,363	\$712	2.1%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2008, Monthly OCFO Cash Report March 2008, prepared by ORA

Legalized gambling (transfers to the General Fund from the D.C. Lottery) through the 2nd quarter totaled \$34.08 million. The transfers were \$712,000, or 2.1%, above the \$33.63 million revised 2nd quarter estimate. Collections were above the estimate, in part, because overall prize payouts were approximately \$4.2 million less through the 2nd quarter of FY 2008 as compared to the same period in fiscal year 2007.

SPECIAL PURPOSE REVENUE FUND (O-TYPE)

The special purpose revenue fund (O-type) estimate for FY 2008 is \$367.03 million. Collection of special purpose revenue funds (O-type) through the 2nd quarter of FY 2008 totaled \$189.37 million. These collections were \$4.4 million, or 2.4%, above the \$ 184.99 million 2nd quarter revised estimate. Collections through the 2nd quarter of FY 2008 were \$47.65 million, or 33.6%, above the \$141.72 million in collections for the same period in FY 2007.

Based on collection patterns and emerging trends through the 2nd quarter, it appears that the District is on course to achieve the FY 2008 revenue estimate in the special purpose revenue fund (O-type) category.

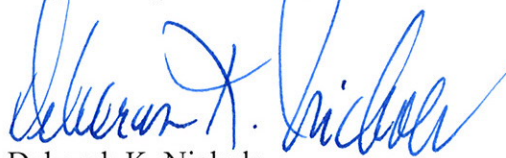
CONCLUSION

The Auditor's analysis indicated that, overall, actual cash collections were above the revised estimate through the 2nd quarter of FY 2008. The District's cash collections through March 2008 (excluding special purpose revenue fund, O-type) totaled \$2.2198 billion, which were \$120 million, or 5.7%, above the \$2.1 billion revised estimate through the 2nd quarter. The \$2.2198 billion in actual cash collections represented 42.3% of the total \$5.242 billion revised FY 2008 revenue estimate.

Specifically, collections were above the estimate through the 2nd quarter in the following categories: 1) general property taxes; 2) general sales and use taxes; 3) selective sales taxes; 4) income taxes; 5) gross receipts taxes; 6) other taxes; 7) fines and forfeitures; and 8) legalized gambling (transfers to the General Fund from the D.C. Lottery). Collections were also above the estimate for the special purpose revenue fund (O-type). On the other hand, collections were below the estimate in the following categories: 1) licenses and permits; 2) charges for services; and 3) miscellaneous revenue. The Auditor believes that a more in-depth examination into the specific reasons why collections are below the estimates should be conducted by ORA and reported to the Auditor.

Based on our review and analysis of economic data from various sources, as well as revenue collection patterns through the 2nd quarter, it appears overall that the District is on course to achieve the \$5.242 billion FY 2008 revised revenue estimate.

Respectfully submitted,



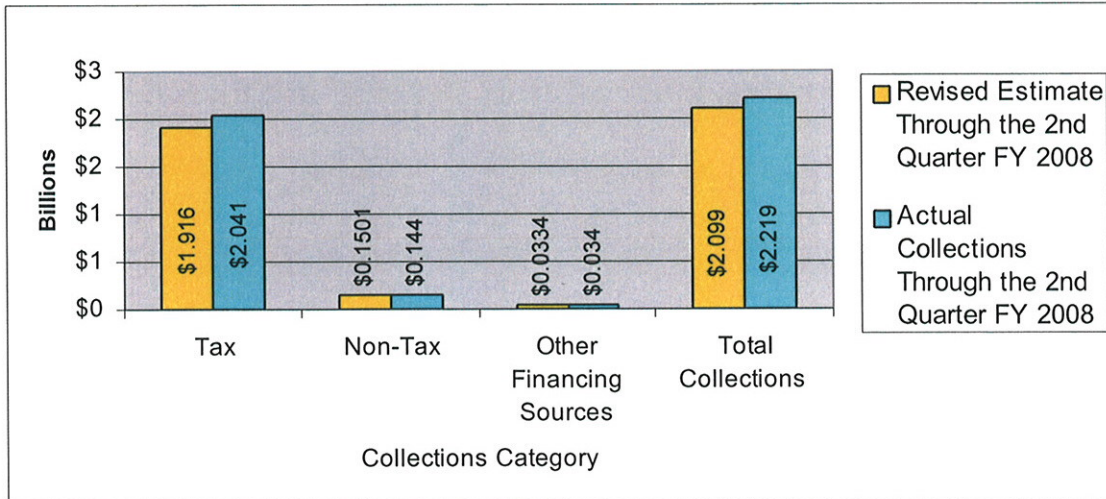
Deborah K. Nichols

District of Columbia Auditor

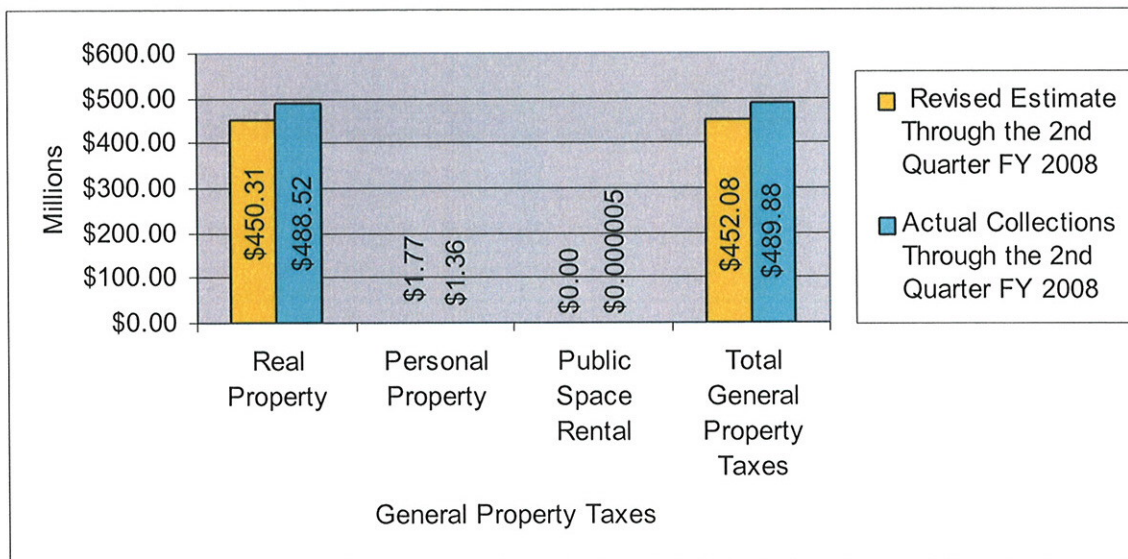
APPENDICES

APPENDIX I

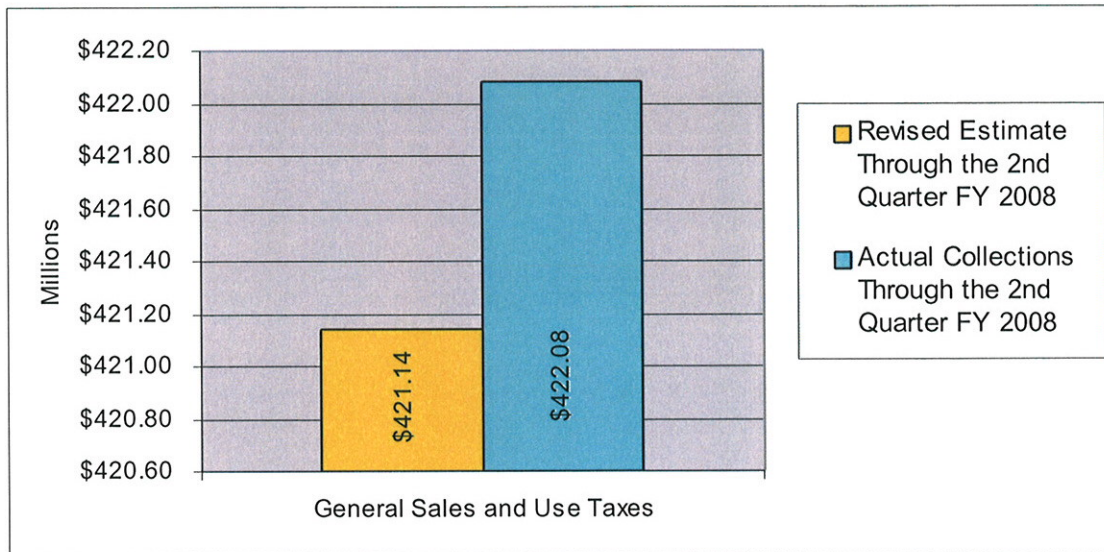
GRAPH I
Summary of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



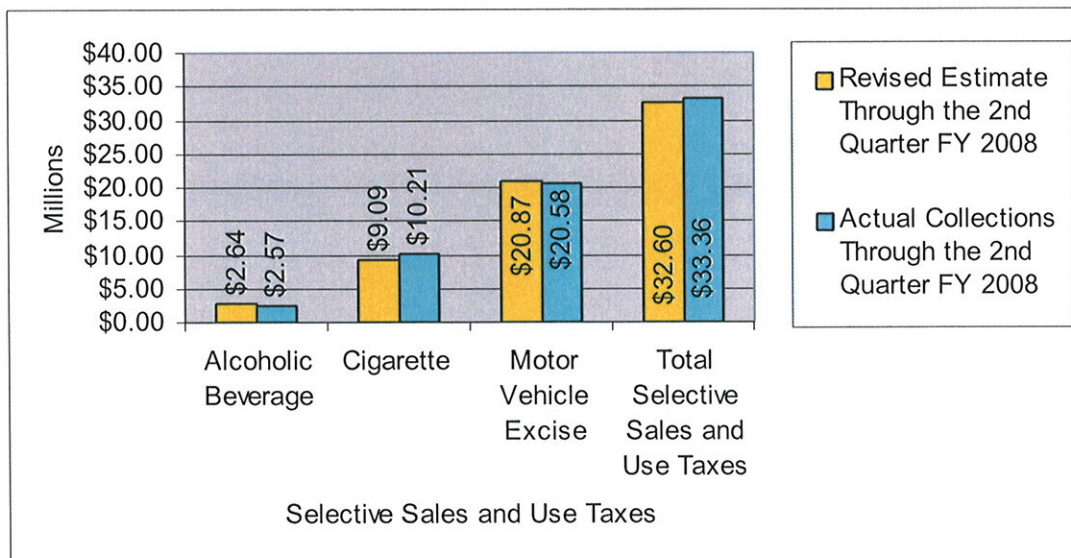
GRAPH II
General Property Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



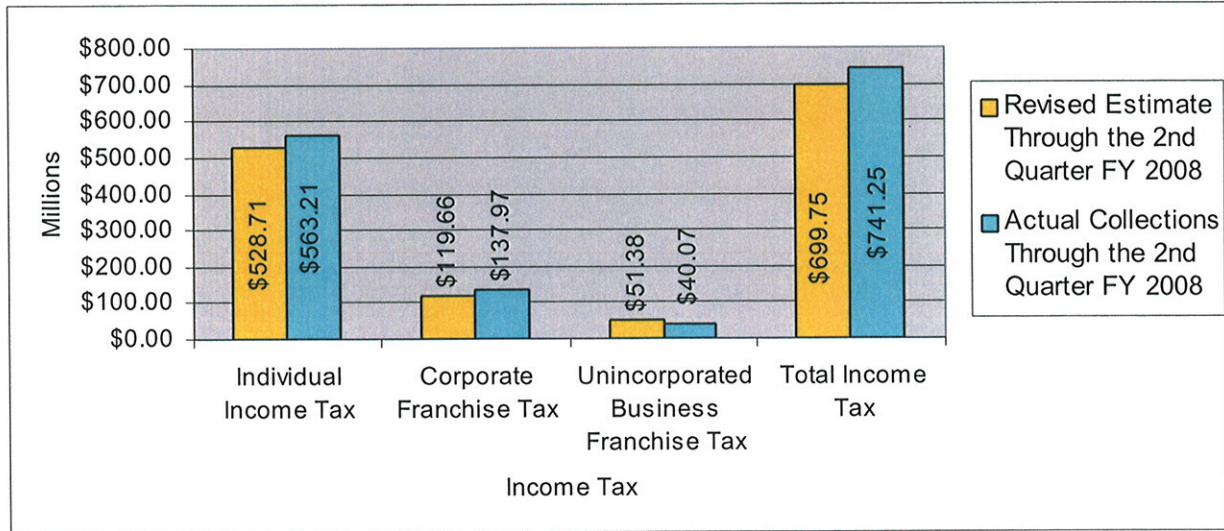
GRAPH III
General Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



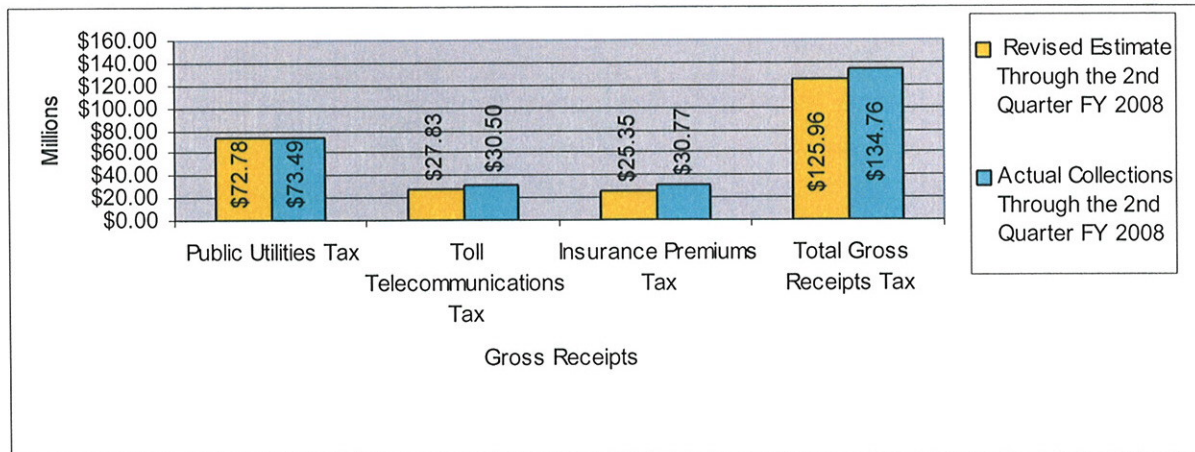
GRAPH IV
Selective Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



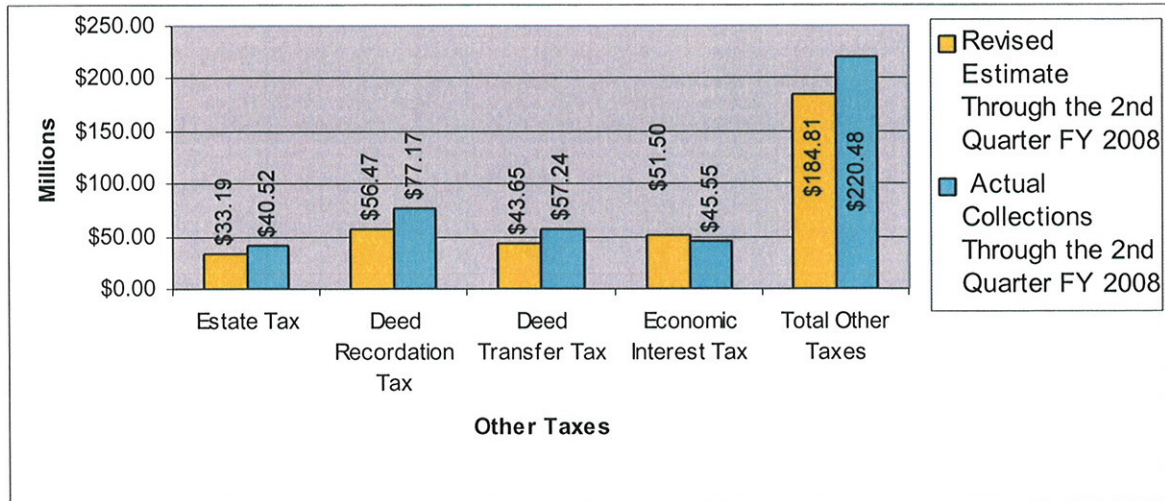
GRAPH V
Income Tax:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



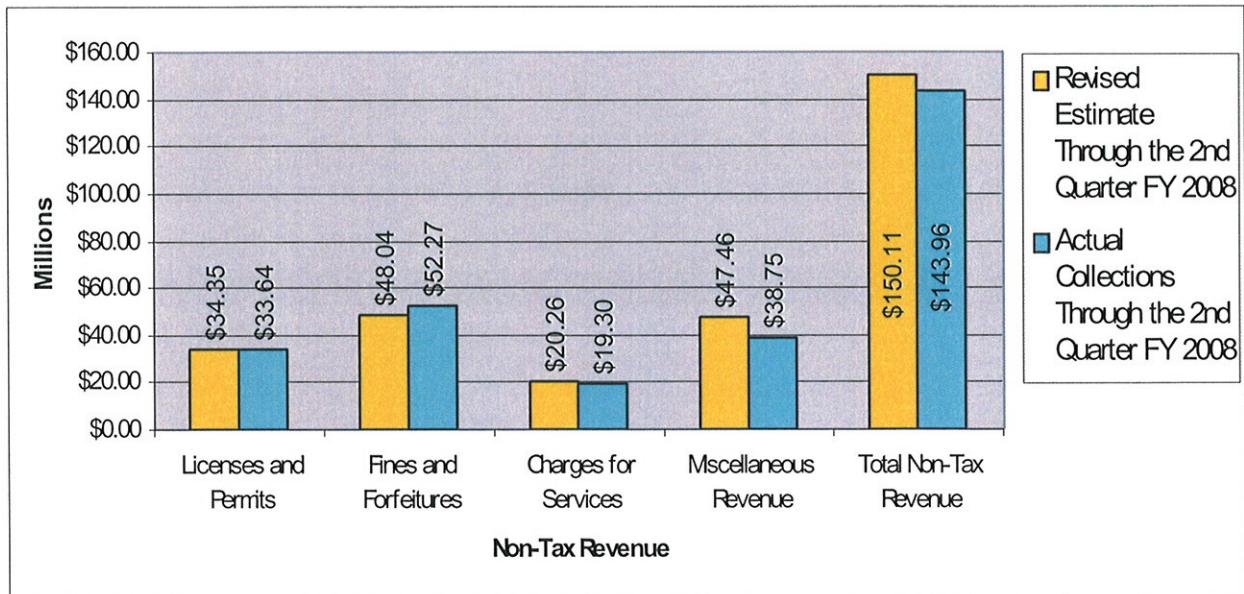
GRAPH VI
Gross Receipts Tax:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



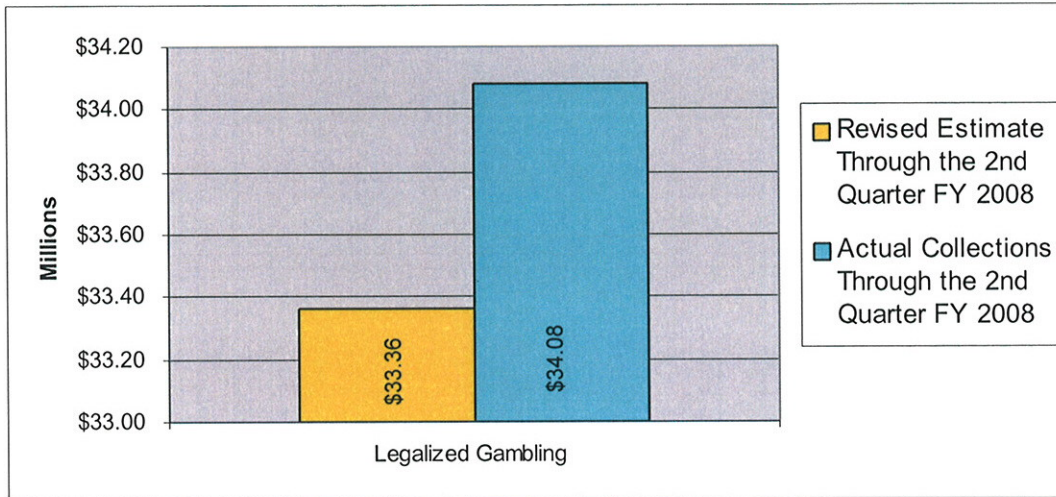
GRAPH VII
Other Taxes:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



GRAPH VIII:
Non-Tax Revenue:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



GRAPH IX
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 2nd Quarter FY 2008 to Actual Cash Collections



APPENDIX II

Comparison of Cash Collections Through the 2nd Quarter Fiscal Years 2004 - 2008¹⁷ (\$000)

Collections Categories	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
General Property Taxes	\$263,109	\$315,378	\$353,546	\$368,207	489,883
General Sales and Use Taxes*	328,077	382,496	394,803	419,469	422,081
Selective Sales and Use Taxes	32,515	31,838	34,161	33,506	33,360
Income Taxes	544,879	608,378	675,293	718,104	741,249
Gross Receipts Taxes	138,137	141,936	131,588	136,548	134,763
Other Taxes	182,425	160,193	169,070	233,866	220,477
Non-Tax Revenue	156,631	156,591	174,847	179,200	143,955
Other Financing Sources	37,650	31,925	35,025	29,600	34,075
Total Cash Collections Financing the Appropriation¹⁸	\$1,683,423	\$1,828,735	\$1,968,333	\$2,118,500	\$2,219,843

Source: ORA

*Collections of general sales and use taxes are reported on a net basis after the transfer of tax revenue to dedicated purposes including the Washington Convention Center Authority.

¹⁷Differences in totals presented in this table are due to rounding.

¹⁸Total collections presented in this Appendix does not include special purpose revenue fund (O-type) .

**Comparison of Collections Through the 2nd Quarter
of FY 2008 to Collections Through the 2nd Quarter of FY 2007¹⁹**
(S000)

Collections Category ²⁰	Collections Through the 2 nd Quarter Fiscal Year 2008	Collections Through the 2 nd Quarter Fiscal Year 2007	Difference 2 nd Quarter FY 2008 Over/(Under) 2 nd Quarter FY 2007	Percentage Difference
General Property Taxes:				
Real Property	\$488,523	\$366,500	\$122,023	33.3%
Personal Property	1,355	1,707	(352)	(20.6%)
Public Space Rental	5	0	5	0%
Total General Property Taxes	\$489,883	\$368,207	\$121,676	33%
General Sales and Use Taxes	\$422,081	\$419,469	\$2,612	0.6%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$2,572	\$2,596	(\$24)	(.9%)
Cigarette	10,212	9,995	217	2.2%
Motor Vehicle Excise	20,576	20,915	(339)	(1.6%)
Selective Sales and Use Taxes	\$33,360	\$33,506	(\$146)	(.4%)
Income Taxes:				
Individual Income Tax	\$563,210	\$518,685	\$44,525	8.6%
Corporate Franchise	137,965	138,569	(604)	(.4%)
Unincorporated Business Franchise	40,074	60,850	(20,776)	(34.1%)
Total Income Taxes	\$741,249	\$718,104	\$23,145	3.2%
Gross Receipts Taxes:				
Public Utilities	\$73,490	\$78,862	(\$5,372)	(6.8%)
Toll Telecommunications	30,501	27,487	3,014	11%
Insurance Premiums	30,772	30,193	579	1.9%
Healthcare Provider Tax	0	6	(6)	0%
Total Gross Receipts Taxes	\$134,763	\$136,548	(\$1,785)	(1.3%)
Other Taxes:				
Estate Tax	\$40,521	\$30,459	10,062	33%
Deed Recordation	77,169	94,983	(17,814)	(18.8%)
Deed Transfer	57,235	62,457	(5,222)	(8.4%)
Economic Interests	45,552	45,967	(415)	(.9%)
Total Other Taxes	\$220,477	\$233,866	(\$13,389)	(5.7%)
Total Tax Collections	\$2,041,813	\$1,909,700	\$132,113	6.9%
Non-Tax Revenue:				
Licenses and Permits	\$33,637	\$27,881	\$5,756	20.6%
Fines and Forfeitures	52,268	57,595	(5,327)	(9.2%)
Charges for Services	19,304	24,125	(4,821)	(20%)
Miscellaneous Revenue	38,746	69,599	(30,853)	(44.3%)
Total Non-Tax Revenue	\$143,955	\$179,200	(\$35,245)	(19.7%)
Other Financing Sources	\$34,075	\$29,600	\$4,475	15.1%
Total Revenues	\$2,219,843	\$2,118,500	\$101,343	4.8%

Source: OCFO ORA

¹⁹ Rounding may affect some calculations presented in this table.

²⁰ Total collections presented in this Appendix does not include special purpose revenue fund (O-type) . General sales and use taxes are presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention Center Authority.