



Deborah K. Nichols
District of Columbia Auditor
019:04:SDG:VJ:vh

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

Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 2nd Quarter of Fiscal Year 2004

July 30, 2004



Deborah K. Nichols
District of Columbia Auditor
019:04:SDG:VJ:vh

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

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

Letter Report: Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 2nd Quarter of Fiscal Year 2004

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

This letter report presents the Office of the District of Columbia Auditor's analysis of the District's actual cash collections through the 2nd quarter of fiscal year (FY) 2004 in comparison to the revised FY 2004 revenue estimates for the 2nd quarter.

BACKGROUND

The FY 2004 revenue estimate certified by the District's Chief Financial Officer (CFO) in February 2003 was \$3.738 billion. However, the Office of the Chief Financial Officer's Office of Revenue Analysis (ORA) revised the FY 2004 estimate in September 2003 to \$3.758 billion, an increase of \$20 million above the February 2003 estimate.¹ This was the estimate used in the Auditor's 1st quarter comparative analysis of cash collections. Then in February 2004, the District's CFO submitted to the Mayor and Council a revised revenue estimate of \$3.798 billion, which represented an increase of \$60 million from the February 2003 estimate of \$3.738 billion and an increase of \$40 million from the September 2003 \$3.758 billion estimate.²

¹These estimates do not include \$191.9 million in dedicated non-tax "O" type revenue.

²In December 2003, the District's CFO submitted to the Mayor and Council of the District of Columbia (Council) an "unofficial" FY 2004 revised revenue estimate of \$3.835 billion, excluding the \$191.9 million for dedicated non-tax "O" type revenue. This estimate represented an increase of \$78 million over the September 2003 estimate of \$3.758 billion and an increase of \$98 million over the February 2003 estimate. According to ORA officials, this estimate was used only for planning purposes and therefore is not reflected in the Auditor's analysis of the 2nd quarter cash collections.

METHODOLOGY

To conduct this comparative analysis, the Office of the District of Columbia Auditor used: (1) the February 19, 2004 revised revenue estimate of \$3.798 billion; (2) ORA's March 2004 Comparative Report of Cash Collections by Funds;³ and (3) other relevant information.

The Auditor interviewed ORA representatives regarding cash collections through the 2nd quarter of FY 2004. We interviewed representatives from private as well as governmental organizations regarding their knowledge of overall economic conditions that affect the District of Columbia.

We reviewed economic data from several sources, including the Metropolitan Washington Council of Governments, the Real Estate Association of the Washington Metropolitan Area, the District's Department of Employment Services (DOES), and "D.C. Economic Indicators" which is published by ORA.

³The Office of Research and Analysis is now referred to as the Office of Revenue Analysis. The change was reported in the CFO's newsletter "The Bottom Line" Volume VI, dated January/February 2004.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 2nd quarter of FY 2004 totaled \$1.683 billion, which were \$77 million, or 4.7%, above the \$1.606 billion revised estimate for the 2nd quarter.⁴ The \$1.683 billion in actual cash collections represented 44.3% of the total \$3.798 billion FY 2004 revised revenue estimate.⁵ These revenues finance the District's FY 2004 appropriation. Collections through the 2nd quarter from all revenue sources are presented below.

- ◆ **Tax** - total tax collections were \$1.489 billion, which were \$53 million, or 3.7%, above the revised tax estimate of \$1.436 billion through March 2004.
- ◆ **Non-tax** - total non-tax collections were \$157 million, which were \$22 million, or 16.5%, above the revised non-tax estimate of \$134 million through March 2004.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$37.6 million, which were \$1.6 million, or 4.5%, above the revised other financing sources estimate of \$36 million through March 2004.

Table I compares actual cash collections to revised estimates through the 2nd quarter of FY 2004 for tax, non-tax, and other financing sources. Appendix I presents a graphic 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 \$1.606 billion revenue estimate and \$1.683 billion in cash collections through the 2nd quarter of FY 2004 are presented net of the Convention Center estimate and transfer and also do 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 2004
(\$000)

Tax Category	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Tax Collections	\$1,489,142	\$1,436,256	\$52,886	3.7%
Non-Tax Collections	156,631	134,431	22,200	16.5%
Other Financing Sources	37,650	36,025	1,625	4.5%
Total Revenues	\$1,683,423	\$1,606,712	\$76,711	4.7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2004, March 04, prepared by the Office of Revenue Analysis

In conducting the analysis of cash collections through the 2nd quarter of FY 2004, the Auditor also compared the 2nd quarter collection trends for the five-fiscal years of 2000 through the 2nd quarter of 2004. These comparisons are presented in Appendix II.

During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that for each of the five fiscal years, 2nd quarter collections in the general property taxes category increased over collections for the same period in the previous fiscal year except for fiscal year 2004. On the other hand, 2nd quarter collections in general sales and use taxes and income taxes appear to have fluctuated widely over the last five years.

Appendix III presents a comparison of collections through the 2nd quarter of FY 2004 to collections through the 2nd quarter of FY 2003 for each tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property tax, (B) personal property tax, and (C) revenue from public space rentals. The revised FY 2004 revenue estimate for general property taxes is \$976.8 million. Collections of general property taxes through the 2nd quarter of FY 2004 totaled \$263.1 million, which were:

- ◆ \$17.3 million, or 6.2%, below the \$280.4 million 2nd quarter FY 2004 revised estimate; and
- ◆ \$15.1 million, or 5.4%, below collections for the same period in FY 2003.

Collections of general property taxes through the 2nd quarter represented 26.9% of the total FY 2004 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 2004.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

General Property Taxes	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Estimates	Percent Difference
Real Property	\$260,853	\$276,819	(\$15,966)	(5.8%)
Personal Property	1,607	3,294	(1,687)	(51.2%)
Public Space Rental	649	274	375	136.7%
Total General Property Taxes	\$263,109	\$280,387	(\$17,278)	(6.2%)

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Real Property Tax Collections

Real property tax collections through the 2nd quarter totaled \$260.8 million. These collections were \$16 million, or 5.8%, below the \$276.8 million estimate. The real property tax category is the largest component of general property taxes.

Collections of real property tax was lower than the estimate, in part, because of: (1) an increase in real property tax refunds; and (2) administrative issues pertaining to the Board of Real Property Assessments and Appeals (BRPAA). Through the 2nd quarter, real property tax refunds totaled \$11.9 million against an estimate of \$7.3 million. Refunds exceeded the estimate by \$4.7 million, or 63%. When compared with the same period in fiscal year 2003, refunds through the 2nd quarter were up by 116%.

Real property taxes can be appealed to: (1) OTR; (2) BRPAA; and (3) the Superior Court. According to BRPAA and ORA representatives, BRPAA's Board, until several months ago, was not fully staffed. Approximately 1,600 appeals were submitted in FY 2003 and through February and March 2003 the Board had heard approximately 80% of those cases. In FY 2004, the number of appeals through February and March totaled approximately 2,500. This represented an increase of 900, or 56%, in the number of appeals. Through February and March 2004, the Board has only heard approximately 15% to 20% of the appeals because of Board turnover. Because the Board was unable to rule on these appeals, some real property tax bill mailings were delayed. These delayed mailings extended the due date for real property tax collections beyond March 31st. This, in turn, may have affected real property tax collections through the 2nd quarter.

District officials should closely monitor this revenue source in the 3rd and 4th quarter of the fiscal year.

B. Personal Property Tax Collections

Personal property tax collected through the 2nd quarter totaled \$1.6 million. These collections were \$1.7 million, or 51.2%, below the \$3.3 million estimate. As noted in the Auditor's 1st quarter comparative analysis report, collections may be impacted by higher than anticipated personal property tax refunds which through the 2nd quarter were \$1.37 million, or 68.5%, higher than the estimate of \$812,000. Also, refunds through the 2nd quarter of FY 2004 were \$222,000, or 19.3%, higher than refunds through the 2nd quarter of the previous fiscal year. The bulk of personal property tax collections occurs in the 4th quarter of the fiscal year. Therefore, collections are expected to increase during July, August, and September 2004.

C. Public Space Rental Fees

Public space rental fees collected through the 2nd quarter totaled \$649,000. Actual collections through the 2nd quarter were \$374,000, or 136.7%, above the \$274,000 estimate. This tax is imposed on restaurant owners who use a portion of the District's sidewalks to provide outdoor seating for their patrons. Since the majority of this activity is directly related to the weather, the increase in collections for the 2nd quarter may represent collections from late payments of FY 2003 fees and not necessarily an increase in public space rental activity through the 2nd quarter of FY 2004 given that warmer weather had not yet arrived. Public space rental fees are due July 31st of each

year and most of this revenue is collected in the 4th quarter of the fiscal year. Thus, increased collections should be reflected in the 4th quarter cash collections report.

GENERAL SALES AND USE TAXES

The FY 2004 revised estimate for general sales and use taxes is \$661 million.⁶ Collections of general sales and use taxes through the 2nd quarter of FY 2004 totaled \$328.1 million, which were:

- ◆ \$3 million, or .9%, below the \$331.1 million 2nd quarter revised FY 2004 estimate; and
- ◆ \$27.6 million, or 8.4%, above collections for the same period in FY 2003.

General sales and use tax collections through the 2nd quarter represented 49.6% of the total FY 2004 revised estimate for this category. Table III compares actual collections to the revised estimate through the 2nd quarter of FY 2004 for general sales and use taxes.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

General Sales and Use Taxes	Actual Collections Through the 2nd Quarter FY 2004	Revised Estimate Through the 2nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
General Sales and Use Taxes	\$328,078	\$331,118	(\$3,040)	(.9%)

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

The fact that collections for general sales and use taxes were slightly below the estimate for the 2nd quarter may be due, in part, to ORA's estimating methodology rather than economic forces. According to information obtained from the American Automobile Association (AAA) and Smith Travel, tourism is expected to be very strong in 2004. Last year's tourist season was impacted by the Severe Acute Respiratory Syndrome (SARS) outbreak and the start of the war. This year the new Washington Convention Center (WCCA) is open and expected to be a boost to the tourism market

⁶Presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.

primarily from business travelers. According to information obtained from WCCA, there are several summer conventions including the National Education Association, American Federation of Teachers, Unity: Journalists of Color and Blacks in Government with total attendees estimated at over 34,000.

Also, information obtained from the travel and hotel industry indicates that the occupancy rate for hotels through March 2004 increased over the same period last year as has the average room rate. AAA indicates that the primary mode of transportation for travelers to the Washington area is by automobile at 81% versus a national average of 59%. Vehicle travel is expected to continue to increase despite high gasoline prices. Airport traffic volume also increased at Reagan National, Dulles, and BWI airports during the same period. These combined activities are expected to have an overall positive impact on general sales and use tax collections for the 3rd and 4th quarters of fiscal year 2004.

Based on collections through the 2nd quarter, the expected increase in tourism during the summer season, and the increased activities from the first full year of operations at the new Washington Convention Center, the District is on course to achieve the FY 2004 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 2004 revised estimate for selective sales and use taxes is \$65.3 million. Collections through the 2nd quarter of FY 2004 totaled \$32.5 million which were:

- ◆ \$1.9 million, or 6.2%, above the \$30.6 million 2nd quarter revised estimate; and
- ◆ \$6 million, or 22.8%, above collections for the same period in FY 2003.

Selective sales and use tax collections through the 2nd quarter represented 49.8% of the total FY 2004 revised revenue estimate for this category. Table IV compares actual collections of selective sales and use taxes to the revised estimate through the 2nd quarter of FY 2004.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Alcoholic Beverage	\$2,587	\$2,271	\$316	13.9%
Cigarette	9,199	9,717	(518)	(5.3%)
Motor Vehicle Excise	20,729	18,640	2,089	11.2%
Total Selective Sales and Use Taxes	\$32,515	\$30,628	\$1,887	6.2%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 2nd quarter totaled \$2.587 million. These collections were \$316,000, or 13.9%, above the \$2.271 million revised estimate. According to ORA officials, alcoholic beverage taxes are generally seasonal in nature and sales of alcoholic beverages tend to increase in the summer months.

B. Cigarette Tax

Cigarette tax collections through the 2nd quarter totaled \$9.2 million. These collections were \$519,000, or 5.3%, below the \$9.7 million revised estimate. Cigarette tax collections were also \$115,000, or 1.3%, above collections for the same period last year. The tax on cigarettes was increased effective January 2003 from 65¢ to \$1 per pack. The increased tax rate may impact cigarette purchases in the District.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 2nd quarter totaled \$20.7 million. These collections were \$2.098 million, or 11.2%, above the \$18.6 million revised estimate. ORA officials indicated that this tax is also seasonal in nature and sales tend to increase in the summer months.

The increase in collections may be attributable to improvements in the procedures used to determine the exact excise tax to levy on vehicles titled in the District and from car sales that have been steadily increasing. As reported in the Auditor's 1st quarter report, these changes are expected to generate an overall 5% increase in motor vehicle excise tax collections for FY 2004.

Based on collections through the 2nd quarter it appears that the District is on course to achieve the FY 2004 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 2004 revised estimate for the income taxes category is \$1.2 billion. Collections through the 2nd quarter of FY 2004 totaled \$545 million which were:

- ◆ \$17.7 million, or 3.4%, above the \$527.2 million 2nd quarter revised estimate; and
- ◆ \$22.9 million, or 4.4%, above collections for the same period in FY 2003.

Income tax collections through the 2nd quarter represented 45.4% of the FY 2004 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 2nd quarter of FY 2004 for income taxes.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

Income Taxes	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Individual Income Tax	\$454,543	\$443,762	\$10,781	2.4%
Corporate Franchise Tax	61,046	62,955	(1,909)	(3.0%)
Unincorporated Business Franchise Tax	29,290	20,492	8,798	42.9%
Total Income Taxes	\$544,879	\$527,209	\$17,670	3.4%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Individual Income Tax

Individual income tax collected through the 2nd quarter totaled \$454.5 million. This tax is the largest in the income taxes category. These collections were \$10.8 million, or 2.4%, above the \$443.8 million revised estimate. However, since the deadline for filing individual income tax returns is April 15th and the extension deadline for filing late tax returns is August 15th, the achievability of this revenue estimate can be better assessed in the 3rd and 4th quarters of the fiscal year. The Auditor notes that collections are 3.5% above collections through the same period in FY 2003. Further, according to the Bureau of Labor Statistics jobs in the District were up 4,800, or .7%, for March as compared to one year ago.

B. Corporate Franchise Tax

Corporate franchise tax collections through the 2nd quarter totaled \$61 million. These collections were \$1.9 million, or 3%, below the \$62.9 million revised estimate. According to an April 23, 2003 summary from the Federal Reserve Beige Book, businesses are continuing to experience substantial increases in the cost of health care and insurance. The Auditor notes that increased cost in these two areas may be contributing factors to reduced corporate profits which would result in decreased corporate franchise tax collections. Additionally, the corporate franchise tax is a tax on corporate profits and corporations are finding more creative ways of shifting their earnings so that they are not taxed in the District of Columbia. The District did not achieve this estimate in either FY 2002 or FY 2003. While District officials consider various proposals to close this and other loopholes, actual corporate franchise tax collections continue to come in below the estimate and the Auditor again cautions that this estimate may not be achieved in FY 2004.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 2nd quarter totaled \$29.3 million. These collections were \$8.8 million, or 42.9%, above the \$20.5 million revised estimate. The unincorporated business franchise tax is based, in part, on partnerships associated with the real estate management industry. The District is continuing to experience growth in this industry and collections of this tax are expected to be strong throughout FY 2004.

Based on the current economic factors as discussed above and collections through the 2nd quarter, it appears that the District is on course to achieve the FY 2004 estimate in this category.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities taxes, (B) toll telecommunications tax, and (C) a tax on insurance premiums. The FY 2004 revised estimate for gross receipts taxes is \$265.6 million. Collections of gross receipts taxes through the 2nd quarter of FY 2004 totaled \$138.1 million, which were:

- ◆ \$15.7 million, or 12.9%, above the \$122.4 million 2nd quarter revised estimate; and
- ◆ \$15.1 million, or 12.3%, above collections for the same period in FY 2003.

Gross receipts tax collections through the 2nd quarter represented 52% of the FY 2004 revised estimate. Table VI compares actual collections to the revised estimate through the 2nd quarter of FY 2004 for gross receipts taxes.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

Gross Receipts Taxes	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Public Utilities	\$84,153	\$79,162	\$4,991	6.3%
Toll Telecommunications	28,414	27,391	1,023	3.7%
Insurance Premiums	25,570	15,842	9,728	61.4%
Total Gross Receipts	\$138,137	\$122,395	\$15,742	12.9%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Public Utilities Taxes

Public utilities taxes collected through the 2nd quarter totaled \$84 million. These collections were \$5 million, or 6.3%, above the \$79.2 million revised estimate. The strength in collections

through the 2nd quarter may reflect increased collections from utility companies as a result of the colder weather experienced this winter. Information obtained from the National Oceanic and Atmospheric Administration (NOAA) indicated that the temperature for January through March 2004 was, on average, up to 3 degrees colder than it was for January through March 2003. As a result of the colder weather, consumers may have used more utilities for heating which resulted in higher receipts to utility companies. Public utilities taxes are based on the gross receipts of gas and electric companies, therefore, increased receipts should result in increased public utilities tax payments to the District.

B. Toll Telecommunications Taxes

Toll telecommunications taxes collected through the 2nd quarter totaled \$28.4 million. These collections were \$1 million, or 3.7%, above the \$27.4 million revised estimate. At the same time, these collections were 18.7% above collections through the 2nd quarter in FY 2003. ORA officials indicate that the increased collections may be due to a rate increase from 10% to 11% which became effective in January 2003.

C. Insurance Premium Tax

Insurance premium tax collections through the 2nd quarter totaled \$25.6 million. These collections were \$9.7 million, or 61.4%, above the \$15.8 million revised estimate. Also, collections for the 2nd quarter of FY 2004 were 16.2% above collections for the same period in FY 2003. Insurance premium payments are due by March and June. Therefore, collections are expected to increase in the 3rd quarter as well.

Based on collections to date, it appears that the District is on course to achieve the FY 2004 revenue estimate in the gross receipts category.

OTHER TAXES

Other taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interest transfer taxes. The FY 2004 revised estimate for other taxes is \$264.6 million. Collections of other taxes through the 2nd quarter of FY 2004 totaled \$182.4 million, which were:

- ◆ \$37.9 million, or 26.2%, above the \$144.5 million 2nd quarter revised estimate; and
- ◆ \$56.5 million, or 44.9%, above collections for the same period in FY 2003.

Collections of other taxes through the 2nd quarter represented 69% of the total FY 2004 revised estimate. Table VII compares actual collections to the revised estimates through the 2nd quarter of FY 2004 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

Other Taxes	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Estate Tax	\$17,368	\$17,982	(\$614)	(3.4%)
Deed Recordation	87,674	67,783	19,891	29.3%
Deed Transfer	65,581	46,461	19,120	41.2%
Economic Interest	11,802	12,293	(491)	(4%)
Total Other Taxes	\$182,425	\$144,519	\$37,906	26.2

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Estate Tax

Estate tax collections through the 2nd quarter totaled \$17.4 million. These collections were \$614,000, or 3.4%, below the \$18 million revised estimate. Collections from this revenue source are difficult to estimate due to its unpredictability.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes through the 2nd quarter totaled \$153 million. These combined collections were \$39 million, or 34.1%, above the \$114 million revised estimate. Collections of these taxes were also strong during fiscal year 2003. Continued strength of these collections reflects the resilience of the District's real estate market.⁷

⁷The recordation tax is imposed on all real estate deeds recorded in the District while the transfer tax is imposed on each transfer of real property at the time the deed is submitted for recordation.

According to information from the Greater Capital Area Association of Realtors, there was an overall increase in the number of listings and contracts for sale as well as settlements for both condo/co-ops and single family homes in the District in March 2004 as compared to March 2003. Additionally, deed recordation and transfer tax rates were increased through revenue enhancements approved by the Council in December 2002.

C. Economic Interest Tax

Economic interest tax collected through the 2nd quarter totaled \$11.8 million.⁸ These collections were \$491,000, or 4%, below the \$12.3 million revised estimate. Also these collections were 1,903.5% above collections for the same period in FY 2003. According to information published in the D.C. Tax Facts, the economic interest tax is imposed on the amount paid for the transfer of ownership interest in a corporation. ORA officials indicate that the tax can be difficult to estimate due to its unpredictable nature.

Since collections were slightly below the estimate through the 2nd quarter, District officials should monitor this tax closely in the 3rd and 4th quarters of FY 2004.

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 2004 revised estimate for non-tax revenue is \$286.7 million. Collections through the 2nd quarter totaled \$156.6 million, which were:

- ◆ \$22.2 million, or 16.5%, above the \$134.4 million 2nd quarter revised estimate; and
- ◆ \$35 million, or 28.8%, above collections for the same period in FY 2003.

Non-tax revenue collections through the 2nd quarter represented 54.6% of the FY 2004 revised estimate for this category. Table VIII compares actual collections to the revised estimates through the 2nd quarter of FY 2004 for non-tax revenue.

⁸ According to the D.C. Tax facts published by the District's CFO, the economic interest transfer tax is triggered by two elements: 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. If these two elements are met, then the tax rate is 3% of the consideration paid for the interest transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.

TABLE VIII
Non-Tax Revenues:
Comparison of Actual Cash Collections to Revised Estimates
Through the 2nd Quarter of Fiscal Year 2004
(\$000)

Non-Tax Revenues	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimates Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Licenses and Permits	\$21,504	\$26,874	(\$5,370)	(20.0%)
Fines and Forfeitures	51,195	43,574	7,621	17.5%
Charges for Services	20,036	21,439	(1,403)	(6.5%)
Miscellaneous Revenue	63,896	42,544	21,352	50.2%
Total Non-Tax Revenues	\$156,631	\$134,431	\$22,200	16.5%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Licenses and Permit Fees

Licenses and permit fees collected through the 2nd quarter totaled \$21.5 million. Collections were \$5.3 million, or 20%, below the \$26.8 million revised estimate. According to the CFO's DC Report of Cash Collections for March 2004, collections for insurance licenses, self-unloading permits, and refrigeration and plumbing permits, are all slightly below collections compared to the 2nd quarter of last year.

B. Fines and Forfeitures

Fines and forfeitures collected through the 2nd quarter totaled \$51.2 million. These collections were \$7.6 million, or 17.5%, above the \$43.6 million revised estimate. According to ORA officials, the increase in collections may be due, in part, to increased collections of traffic fines.

C. Charges for Services

Charges for services collected through the 2nd quarter totaled \$20 million. These collections were \$1.4 million, or 6.5%, below the \$21.4 million revised estimate. ORA officials were unable to fully explain why collections were below the estimate given that collections through the 1st quarter exceeded the estimate. However, one explanation provided was that parking meter collections were lower than estimated.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income; (2) unclaimed property; (3) sale of surplus property, (4) other transfer,⁹ and (5) other revenue.¹⁰ Miscellaneous revenue collected through the 2nd quarter totaled \$63.9 million. These collections were \$21.3 million, or 50.2%, above the \$42.5 million revised estimate. Collections in the miscellaneous revenue category exceeded the estimate primarily because of increased collections in unclaimed property and other revenue. Unclaimed property collections were 109.2% higher than the estimate, in part, because claims have not yet been paid. District officials estimate that approximately \$8.5 million in claims will be paid in FY 2004.

Overall collections in the non-tax revenue category for the 2nd quarter of FY 2004 were substantially higher than collections through the 2nd quarter in FY 2003.

Based on collections through the 2nd quarter, it appears the District is on course to achieve the FY 2004 revenue estimate in the non-tax revenue category.

OTHER FINANCING SOURCES

Other financing sources consists of legalized gambling. The FY 2004 revised estimate for other financing sources is \$70.2 million. Collections through the 2nd quarter totaled \$37.7 million, which were:

- ◆ \$1.6 million, or 4.5%, above the \$36 million 2nd quarter revised estimate; and
- ◆ \$325,000, or .9%, above collections for the same period in FY 2003.

Collections from other financing sources through the 2nd quarter represented 53.7% of the revised estimate for this category. Table IX compares actual collections to the revised estimate through the 2nd quarter of FY 2004 for other financing sources.

⁹Includes the WASA Pilot Transfer.

¹⁰Includes 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 2004
(\$000)

Other Financing Sources	Actual Collections Through the 2 nd Quarter FY 2004	Revised Estimate Through the 2 nd Quarter FY 2004	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Legalized Gambling	\$37,650	\$36,025	\$1,625	4.5%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

Legalized gambling (transfers from the D.C. Lottery) through the 2nd quarter totaled \$37.7 million. These transfers were \$1.6 million, or 4.5%, above the \$36 million revised estimate. According to Lottery officials, collections were above the estimate as a result of increased ticket sales, especially in the D.C. Four games.

Based on collections through the 2nd quarter, it appears the District is on course to achieve the FY 2004 revenue estimate in the other financing sources category.

DEDICATED NON-TAX "O" TYPE REVENUE

The dedicated non-tax "O" type revenue estimate for FY 2004 is \$191.9 million.¹¹ Collection of dedicated non-tax "O" type revenue through the 2nd quarter of FY 2004 totaled \$96.2 million. These collections were \$25.8 million, or 36.6%, above the \$70.4 million estimate through the 2nd quarter. Collections through the 2nd quarter of FY 2004 were also \$17.6 million, or 22.5%, above the \$78.6 million in collections for the same period in FY 2003.

Based on the collections through the 2nd quarter, it appears that the District is on course to achieve the estimate in the dedicated non-tax "O" type revenue category for FY 2004.

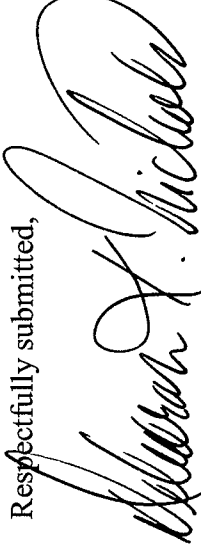
¹¹ In addition to the \$191.9 million expected to be collected in FY 2004, there are \$52.6 million in carryover non-tax "O" type revenue from the previous fiscal year. Therefore, a total of \$244.5 million is estimated to be available for spending in FY 2004. According to ORA and Office of Budget and Planning (OBP) representatives, certain District agencies are authorized to spend from their designated fund (revenues carried forward from the previous fiscal year that remain unspent and did not lapse at the end of the fiscal year).

CONCLUSION

Overall, the Auditor's analysis indicated that cash collections were above the revised estimate through the 2nd quarter of FY 2004. The District's cash collections through March 2004 totaled \$1.683 billion, which were \$77 million, or 4.7%, above the \$1.606 billion revised estimate through the 2nd quarter. The \$1.683 billion in actual cash collections represented 44% of the total \$3.798 billion revised fiscal year 2004 revenue estimate.

Based on the review and analysis of economic data from various sources as well as collection patterns through the 2nd quarter, the Auditor suggests that the Office of Revenue Analysis closely monitor revenue collections from the following tax categories: 1) real property; 2) corporate franchise; and 3) economic interest.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

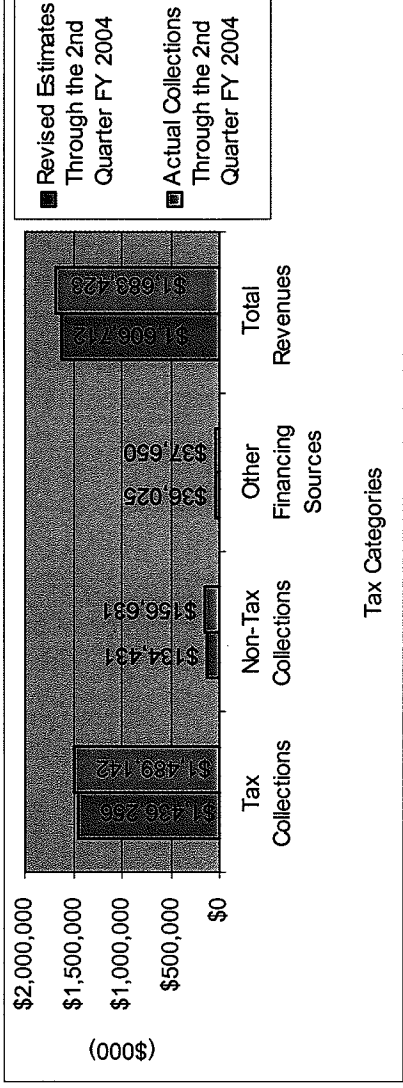
Deborah K. Nichols

District of Columbia Auditor

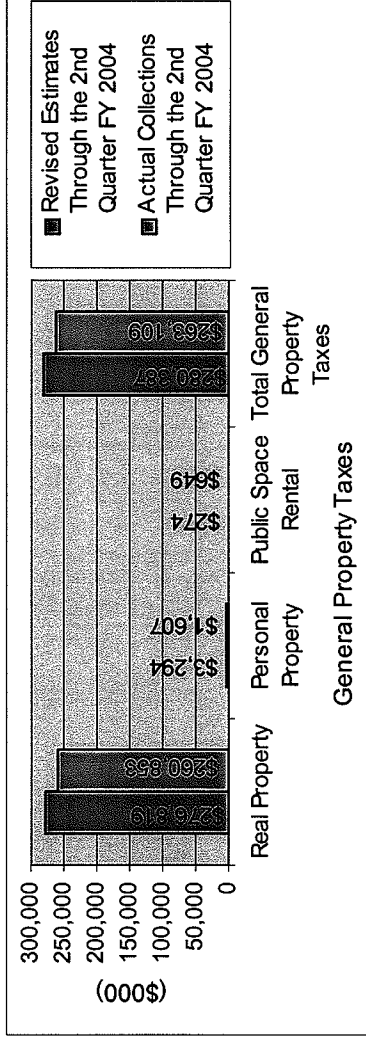
APPENDICES

APPENDIX I

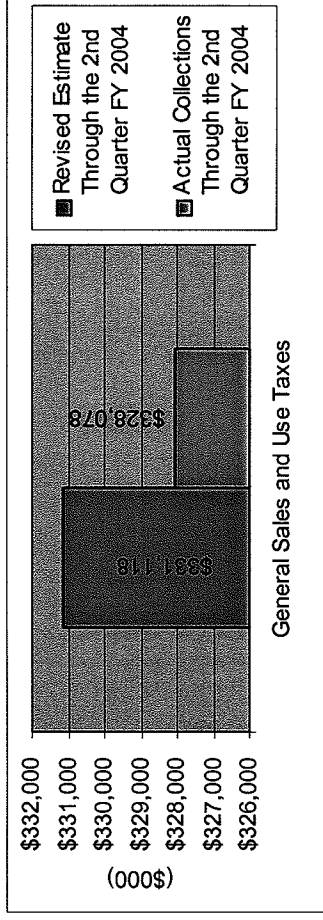
GRAPH I
Summary of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



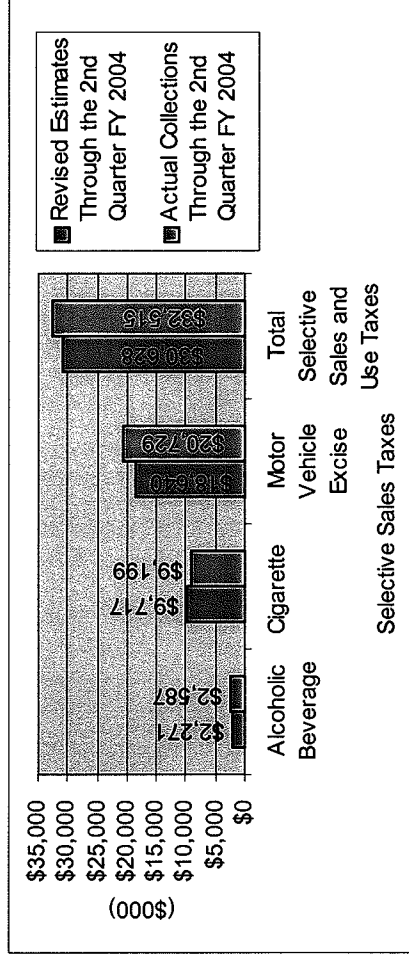
GRAPH II
General Property Taxes:
Comparison of Revised Revenue Estimates
Through the 1st Quarter FY 2004 to Actual Cash Collections



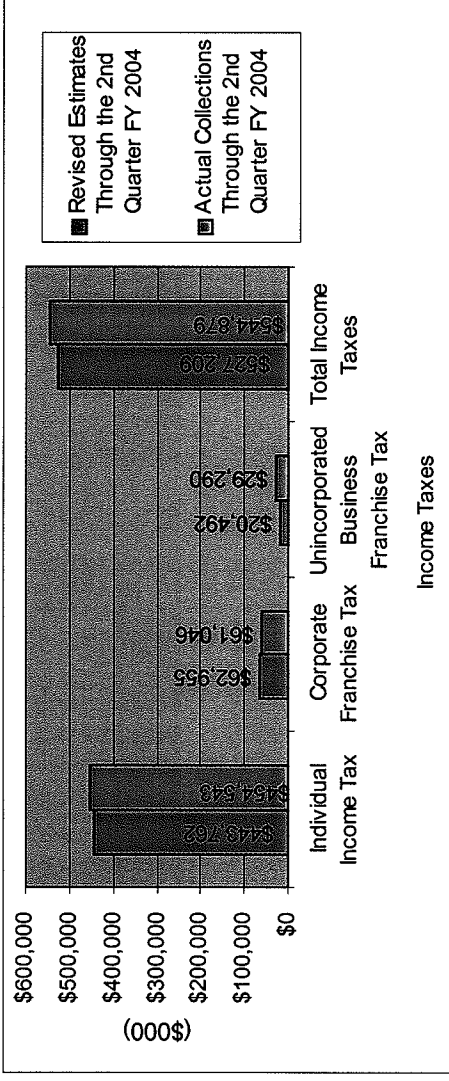
GRAPH III
General Sales and Use Taxes:
Comparison of Revised Revenue Estimate
Through the 2nd Quarter FY 2004 to Actual Cash Collections



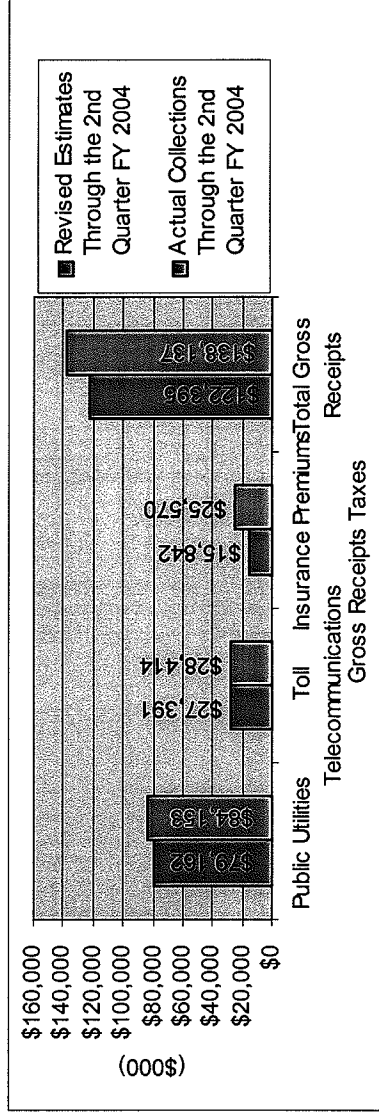
GRAPH IV
Selective Sales and Use Taxes:
Comparison of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



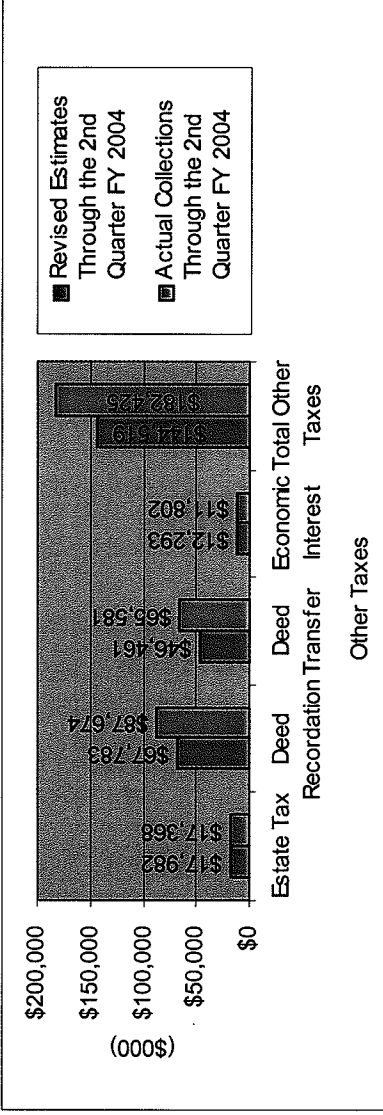
GRAPH V
Income Taxes:
Comparison of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



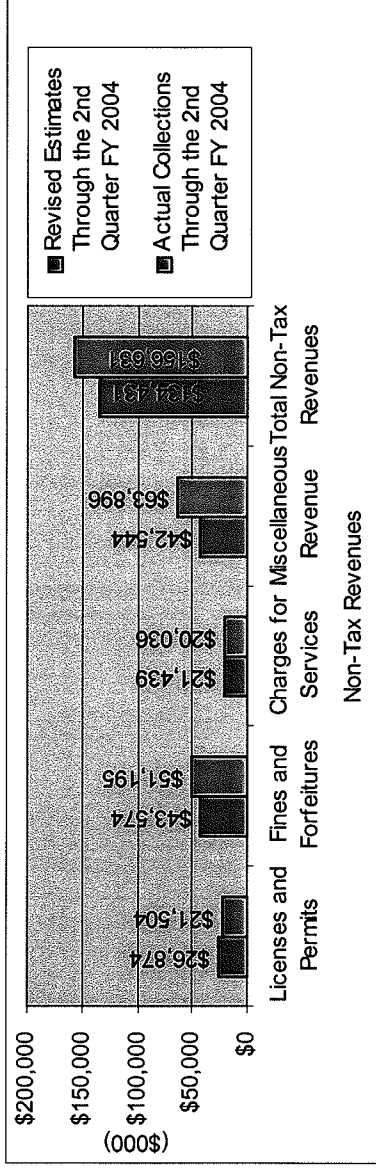
GRAPH VI
Gross Receipts:
Comparison of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



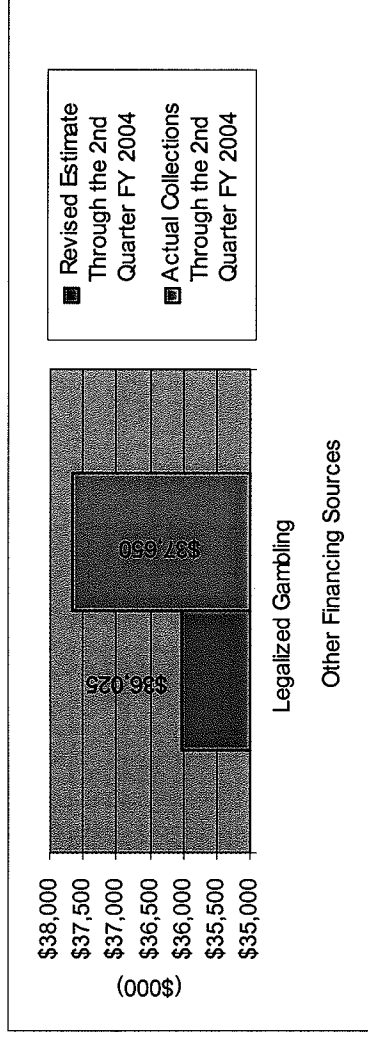
GRAPH VII
Other Taxes:
Comparison of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



GRAPH VIII
Non-Tax Revenues:
Comparison of Revised Revenue Estimates
Through the 2nd Quarter FY 2004 to Actual Cash Collections



GRAPH IX
Other Financing Sources
Comparison of Revised Revenue Estimate
Through the 2nd Quarter FY 2004 to Actual Cash Collections



APPENDIX II

Comparison of Cash Collections Through the 2nd Quarter Fiscal Years 2000 - 2004

(\$000)

Tax Categories	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
General Property Taxes	\$148,018	\$185,689	\$204,898	\$278,208	\$263,109
General Sales and Use Taxes*	276,829	311,984	306,775	300,454	328,077
Selective Sales and Use Taxes	25,257	26,852	25,287	26,474	32,515
Income Taxes	548,626	602,849	539,260	522,021	544,879
Gross Receipts Taxes	77,091	100,526	112,117	123,052	138,137
Other Taxes	59,630	95,392	105,465	125,937	182,425
Non-Tax Revenue	94,697	106,192	122,635	121,597	156,631
Other Financing Sources	40,230	45,059	33,926	37,325	37,650
Total Cash Collections	\$1,294,946	\$1,474,543	\$1,450,363	\$1,535,068	\$1,683,423
Financing the Appropriation					

Source: Office of the Chief Financial Officer, Office of Revenue Analysis (formerly Office of Research and Analysis)

*General sales and use tax collections are reported on a net basis after the transfer of dedicated tax revenue to the Washington Convention Center Authority.

APPENDIX III

Comparison of Collections Through the 2nd Quarter of Fiscal Year 2004 to Collections Through the 2nd Quarter of FY 2003¹² (\$'000)

Tax Category	Collections Through the 2nd Quarter FY 2004 ¹³	Collections Through the 2nd Quarter FY 2003	Difference 2nd Quarter 2004 Over/(Under) 2nd Quarter 2003	Percent Difference
General Property Taxes:				
Real Property	\$260,853	\$273,142	(\$12,289)	(4.5%)
Personal Property	1,607	4,864	(3,257)	(67%)
Public Space Rental	648	202	446	220.9%
Total General Property Taxes	\$263,109	\$278,208	(\$15,099)	(5.4%)
General Sales and Use Taxes	\$328,078	\$300,454	\$27,624	8.6%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$2,587	\$2,335	\$253	10.8%
Cigarette	9,198	9,084	115	1.3%
Motor Vehicle Excise	20,729	15,056	5,674	37.7%
Selective Sales and Use Taxes	\$32,515	\$26,474	\$6,041	22.8%
Income Taxes:				
Individual Income	\$454,542	\$439,150	\$15,392	3.5%
Corporate Franchise	61,046	63,858	(2,812)	(4.4%)
Unincorporated Business Franchise	29,290	19,012	10,278	54.1%
Total Income Taxes	\$544,879	\$522,021	\$22,858	4.4%
Gross Receipts Taxes:				
Public Utilities	\$84,153	\$77,105	\$7,048	9.1%
Toll Telecommunications	28,413	23,941	4,472	18.7%
Insurance Premiums	25,570	22,005	3,565	16.2%
Total Gross Receipts	\$138,137	\$123,052	\$15,085	12.3%
Other Taxes:				
Estate	\$17,367	\$14,141	\$3,226	22.8%
Deed Recordation	87,674	65,497	22,177	33.9%
Deed Transfer	65,581	45,710	19,871	43.5%
Economic Interest	11,802	589	11,213	1903.5%
Total Other Taxes	\$182,425	\$125,937	\$56,488	44.9%
Total Tax Collections	\$1,489,142	\$1,376,146	\$112,996	8.2%

¹² Rounding may affect some calculations presented in this table.

¹³ Total revenue presented in this appendix does not include dedicated non-tax "O" type revenue collections of \$96.2 million through the 2nd quarter of FY 2004. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.

Non-Tax Revenue:					
Licenses and Permits	\$21,504	\$19,254	\$2,250		11.7%
Fines and Forfeitures	51,195	40,866	10,330		25.3%
Charges for Services	20,036	15,286	4,750		31.1%
Miscellaneous Revenue	63,896	46,191	17,704		38.3%
Total Non-Tax Revenues	\$156,631	\$121,597	\$35,034		28.8%
Other Financing Sources	\$37,650	\$37,325	\$325		.9%
Total Revenues	\$1,683,423	1,535,068	\$148,354		4.67%

Source: Office of the Chief Financial Officer, Office of Revenue Analysis (formerly Office of Research and Analysis)