



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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Deborah K. Nichols
District of Columbia Auditor
024:02:SDG:VJ:GK

**Certification of the Fiscal Year 2002 Revenue Projection
in Support of the District's \$283,870,000
Multimodal General Obligation Bonds and Refunding Bonds
(Series 2001C and 2001D)**

September 25, 2002



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The Honorable Linda W. Cropp, Chairman
and Members of the Council of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Certification of the Fiscal Year 2002 Revenue
Projection in Support of the District's
\$283,870,000 Multimodal General Obligation
Bonds and Refunding Bonds (Series 2001C
and 2001D)

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

Pursuant to Section 603(b)(1) of Public Law 93-198, the Home Rule Act, as amended, the Chief Financial Officer (CFO) of the District of Columbia, by letter dated November 28, 2001, requested the District of Columbia Auditor to certify the fiscal year 2002 total local revenue projection in support of the District's issuance of \$283,870,000 in multimodal general obligation bonds and refunding bonds to finance approved capital project expenditures and refund certain outstanding indebtedness.¹ The issuance was to consist of \$214 million in general obligation bonds (Series 2001C) and \$70 million in refunding bonds (Series 2001D). This report sets forth the results of the Office of the District of Columbia Auditor's analysis of the fiscal year 2002 total local revenue projection in support of the \$283,870,000 in bonds issued by the District.

Public Law 93-198, Section 603(b)(1) states, in relevant part, the following:

No general obligation bonds . . . or Treasury capital project loans shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid both serially and into a sinking fund in any fiscal year on the aggregate amounts of all outstanding general obligation bonds and such Treasury loans, to exceed 17 percent of the District revenues . . . which the Mayor estimates, and the District of Columbia Auditor certifies, will be credited to the District during the fiscal year in which the bonds will be issued . . .

¹ According to the District's associate treasurer, the bond issuance is a 2002 issuance and will be reflected in the District's 2002 CAFR. The bonds were titled to reflect the calendar year of issuance as opposed to the fiscal year.

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

The Auditor was disinclined to certify the \$3.555 billion fiscal year 2002 local revenue projection out of concern that it did not reflect the potential impact upon revenues of the events of September 11, 2001 or a downturn in the District's economy. The Chief Financial Officer adjusted downward the fiscal year 2002 total local revenue projection of \$3.555 billion by approximately \$91.75 million to \$3.464 billion. According to the CFO, the \$3,464,140,000 would be the figure included in the legal debt limitation certificate executed by the Mayor and the certificate executed by the Auditor for general obligation bonds issued by the District during December 2001. The CFO further indicated that the fiscal year 2002 revenue estimate would not be officially revised until February 2002.²

The Auditor's certification was based upon an evaluation of revenue projections developed by officials within the Office of the Chief Financial Officer. Information upon which projections are based can change rapidly, oftentimes requiring revisions to the projections after certification. Thus, the Auditor does not and cannot guarantee the validity of the projections, and only certifies, in whole or in part, to the revenue estimate, at that time, that appears sufficiently supported and achievable by the District. Relative uncertainty in the overall revenue estimating process or unforeseen national and local events, which substantially change the city's economic outlook, may result in changes to the revenue projection that are significantly different from the projection certified by the Auditor or actual revenue collections.

Based upon the results of the review and analysis and representations made by the Chief Financial Officer, the Auditor determined that, barring any further significant unforeseen events that impact revenues, the District should achieve the fiscal year 2002 local revenue projection of \$3,464,140,000 by September 30, 2002.

²Subsequent to the Auditor's certification of revenue and the issuance of the bonds, the Chief Financial Officer officially adjusted the fiscal year 2002 local revenue projection of \$3,555,889,000 downward by \$58.6 million to \$3,497,299,000. This revision was presented in the FY 2003 Proposed Budget and Financial Plan submitted to the Council of the District of Columbia dated March 18, 2002. The projection was further adjusted downward to \$3,490,730,000, or by a grand total of \$61.2 million, in the FY 2003 Proposed Budget and Financial Plan submitted to the Congress of the United States dated June 3, 2002.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether the fiscal year 2002 total local revenue projection of \$3,464,140,000 could be achieved by September 30, 2002. The fiscal year 2002 local revenue projection included all tax collections of the Office of Tax and Revenue and non-tax revenues generated by programs administered by other District agencies.

The Auditor reviewed and analyzed the District CFO's projection of total local revenue for fiscal year 2002, the report of cash collections as of October 31, 2001 prepared by the Office of Chief Financial Officer's Office of Research and Analysis (ORA), and other relevant information.

In conducting the examination, the Auditor interviewed ORA officials regarding the underlying assumptions used in the development of the CFO's original fiscal year 2002 local revenue estimate of \$3,555,889,000 and the revised projection of \$3,464,140,000. The Auditor interviewed economists outside of the government to obtain their assessments regarding the impact of the events of September 11, 2001 on the District's economy. Discussions were also held with officials of the Washington Convention and Visitors Association (WCVA) regarding their views of District tourism, hotel room occupancy rates, and other related sources of District tax revenue.

In determining the achievability of the District's fiscal year 2002 local revenue projection, the Auditor also reviewed the preliminary official statement supporting the fiscal year 2002 Multimodal General Obligation Bonds and Refunding Bonds, the Fiscal Year 2002 Budget and Financial Plan, and statistical data from the Department of Employment Services (DOES) on employment in the Washington metropolitan area.

RESULTS OF ANALYSIS

According to the Deputy Chief Financial Officer for the Office of Research and Analysis, the District's economy was impacted by layoffs from the closing of Ronald Reagan Washington National Airport as well as related layoffs in the tourism industry. Hotel occupancy in the District, through October 20, 2001, was down approximately 75% while the restaurant industry experienced a similar decline. The Deputy Chief Financial Officer for the Office of Research and Analysis further indicated that the overall impact from the economic slowdown, while not good, was not as harmful to the District as anticipated. For example, although hotel occupancy was down, it was down by a smaller margin than originally anticipated after the events of September 11, 2001.

Table I presents a comparison of the original fiscal year 2002 revenue projection and the revised revenue projection presented by the CFO in the November 28, 2001, letter to the Auditor.

TABLE I
Original Estimate and Revised Projections
(\$000's)

Revenue Source	Fiscal Year 2002 Revenue Projection	CFO's Revised Fiscal Year 2002 Revenue Projection	Variance	Percent Change
Property Taxes	\$746,031	\$754,031	\$8,000	1%
General and Selected Sales and Use Taxes	738,507	665,284	(73,223)	-10%
Income Taxes	1,361,077	1,366,169	5,092	.4%
Gross Receipts	244,480	244,480	-0-	
Other Taxes	153,460	121,842	(31,618)	-21%
Total Taxes	3,243,555	3,151,806	(91,749)	-2.8%
Non-Tax Revenues	225,334	225,334	-0-	
Other Financing Sources	70,000	70,000	-0-	
Federal Payment	17,000	17,000	-0-	
Total Non-Tax and Other Revenues	312,334	312,334		
Total Local Source Revenue	\$3,555,889	\$3,464,140	(\$91,749)	-2.6%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

As indicated in Table I, the estimate for property taxes of \$746 million was revised upwards by \$8 million, or approximately 1%, to \$754 million as a result of continued strength in the District's real estate market.

The estimate for general and selected sales and use taxes was \$738.5 million. This estimate was revised downward to \$665.3 million, representing a decrease of approximately \$73.2 million, or 10%. General and selected sales and use taxes were the revenue sources most vulnerable to and affected by the events of September 11, 2001, and the resulting slowdown in the tourism industry affecting hotel occupancy, restaurant sales, and related areas.

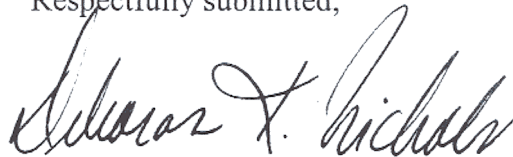
The original estimate for income taxes of \$1.361 billion was revised upward to \$1.366 billion, which represented an increase of approximately \$5 million, or .4%.

The estimate for gross receipts taxes remained unchanged while the estimate for the "other taxes" category decreased by \$31.6 million, or 21%. Overall, the revenue estimate for total taxes decreased by approximately \$91.75 million, or approximately 2.8%, from \$3.244 billion to a projection of \$3.152 billion. The projections for non-tax revenues, other financing sources, and the federal payment remained unchanged at \$312,334,000.

CONCLUSION

Based on a review and analysis of the CFO's fiscal year 2002 projection for total local revenues, actual collections through October 31, 2001, and other relevant data, the District of Columbia Auditor certified to the fiscal year 2002 proposed revenue projection of \$3,464,140,000. Barring any further significant unanticipated events that affect revenues, it appears that the District should achieve the revised fiscal year 2002 revenue projection by September 30, 2002.

Respectfully submitted,

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

Deborah K. Nichols

District of Columbia Auditor