
Certification of Fiscal Year 2018 Total Local Source General Fund Revenue Estimate (Net of Dedicated Taxes) in Support of the District's Issuance of General Obligation Commercial Paper Bond Anticipation Notes (Series 2018A)

July 31, 2018



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July 31, 2018

The Honorable Phil Mendelson, Chairman
Council of the District of Columbia
1350 Pennsylvania Ave., N.W.
Washington, D.C. 20004

Letter Report: Certification of Fiscal Year 2018 Total Local Source General Fund Revenue Estimate (Net of Dedicated Taxes) in Support of the District's Issuance of General Obligation Commercial Paper Bond Anticipation Notes (Series 2018A).

Dear Chairman Mendelson:

On May 8, 2018, the Deputy Chief Financial Officer and Treasurer of the District of Columbia requested that the Auditor certify the Office of the Chief Financial Officer (OCFO) fiscal year (FY) 2018 estimated total local source General Fund Revenue (net of dedicated taxes).¹ OCFO requested the Auditor's certification in connection with the District's issuance of \$300,000,000 in General Obligation Commercial Paper Bond Anticipation Notes, (Series 2018A).

This report sets forth the results of the Auditor's analysis of the CFO's FY 2018 local source revenue (net of Dedicated Taxes) estimate of \$7,578,198,000.²

Objectives, Scope, and Methodology

The objectives of this analysis were to:

1. Assess the reasonableness and attainability of OCFO's fiscal year (FY) 2018 local source revenue estimate (net of dedicated taxes) of \$7,578,198,000.
2. Determine if the issuance of the proposed general obligation bonds would cause the District to exceed the 17 percent revenue limitation, as outlined in D.C. Official Code § 1-206.03(b)(1).

1 Request sent from the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT) to the Office of the DC Auditor pursuant to D.C. Official Code, Section 1-206.03(b)(1).

2 See quarterly revenue estimate letter from the Chief Financial Officer to the Mayor and Council Chairman, dated February 28, 2018, for local source revenue estimate.

The scope of this review included financial records and data for FY 2013 through FY 2017, and FY 2018 estimated local source revenues and economic forecast.

In conducting our analysis, we analyzed actual local source revenues for FY 2013 through FY 2017 and reviewed the estimated local source revenue for FY 2018 as laid out in the District's quarterly revenue estimates. We also reviewed the District's FY 2018 budget and economic data, and the final official statement supporting the bond issuance.

To gain an understanding of the District's current economic outlook, we interviewed the OCFO Office of Revenue Analysis (ORA) staff, and interviewed Dr. Stephen S. Fuller, an economist from the Stephen S. Fuller Institute who specializes in macroeconomic forecasts of the District and surrounding areas.

This report was drafted, reviewed, and approved in accordance with the standards outlined in ODCA's Policy and Procedure Manual.

Background

D.C. Official Code, Section 1-206.03 (b)(1) states, in relevant part, that:

*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% 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.(emphasis added)*

In compliance with D.C. Official Code, Section 1-206.03 (b)(1), OCFO requested that the Auditor certify the OCFO FY 2018 total local source General Fund Revenue (net of dedicated taxes) estimate. OCFO requested the certification in connection with the District's issuance of \$300,000,000 of general obligation bond anticipation notes, in the form of commercial paper.

The Auditor's certification was based on an evaluation of the \$7,578,198,000 in FY 2018 local source revenue estimated by the CFO on February 28, 2018. The CFO's estimate was based upon information that can change rapidly, resulting in revisions to the CFO's estimate after the Auditor's certification. Thus, the Auditor only certifies that the revenue estimate, at the time of certification, appears sufficiently supported and achievable. As OCFO frequently revises projections throughout the fiscal year as they gather additional information, we stress that our report is based on the information available at the time of our review.

Relative uncertainty in the overall estimating process or unforeseen national and local events may substantially change the District's economic outlook and could result in changes to the revenue estimate that differ significantly from the estimate certified by the Auditor. Additionally, the validity and accuracy of the Auditor's certification analysis are predicated upon the extent to which the OCFO provided a sound and reasonable FY 2018 local source

revenue estimate; fully disclosed information to the Auditor; and provided reliable and accurate information to the Auditor regarding the District's FY 2013 to 2017 revenue collections. (Management Representation Letter obtained from OCFO)

Results of the Auditor's Examination

In reviewing the fiscal year (FY) 2018 local source revenue estimate of \$7,578,198,000 detailed in Figure 1, the Auditor relied on revenue collection results for FYs 2013 through 2017, economic indicators, projections provided by the Office of Revenue Analysis, and an interview held with a local economist.

Figure 1: FY 2018 Local Source Revenue (net of Dedicated Taxes)
Estimate Submitted by the CFO dated February 28, 2018

Revenue Source	CFO's February 2018 Revenue Estimate (net of Dedicated Taxes)
Property Taxes	\$2,640,468,000
Sales Taxes	\$1,244,937,000
Income Taxes	\$2,554,264,000
Gross Receipts Taxes	\$242,334,000
Other Taxes	\$421,771,000
Total Taxes	\$7,103,774,000
Total Non-Tax Revenues	\$429,424,000
Lottery Revenues	\$45,000,000
Estimated Total Local Source Revenue	\$7,578,198,000

Source: Revenue estimate letter from the CFO to the Mayor and Council Chairman dated February 28, 2018. Available at: <https://cfo.dc.gov/page/quarterly-revenue-estimates>

To arrive at our conclusions and subsequent certification, ODCA conducted detailed analyses of the following local tax and non-tax revenue sources: property tax; sales tax; income tax; gross receipts; other taxes; non-tax revenue; and lottery revenue.

Debt Limitation

D.C. Official Code, Section 1-206.03 (b)(1) sets forth a debt limit of 17 percent of the District's revenue. Specifically, it states that no general obligation bonds shall be issued "...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% of the District revenues..."

Per the D.C. Official Code, the District is only required to include the debt from all outstanding general obligation bonds and Treasury capital project loans in the debt limit calculation. Nevertheless, the District has taken a more conservative approach and included the principle and interest payments related to outstanding income tax secured revenue bonds in the debt limit calculation.

Based on our review of the limitation on borrowing calculation provided by OCFO, the District's projected aggregate general obligation bond and income tax secured revenue bond debt service (principle and interest) for all bonds outstanding is projected to be 11.52% percent of the District's FY 2018 estimated revenue of \$7,578,198,000. During the period in which the District has outstanding debt from both this issuance and other previous debt issuances (2018-2042), the percentage of revenue necessary to pay debt service ranges from 12.72 percent (2022) to 1.52 percent (2042). As such, it is not likely that the 17 percent limitation will be exceeded as a result of the issuance of the General Obligation Commercial Paper Bond Anticipation Notes (Series 2018A).

Conclusion

Based on an analysis of information provided by the Office of the Chief Financial Officer of the District of Columbia, the assumptions supporting the fiscal year (FY) 2018 revenue estimate, and other relevant economic data, the Auditor concluded that the February 28, 2018, FY 2018 local source revenue (net of Dedicated Taxes) estimate of \$7,578,198,000 appeared to be both reasonable and achievable. Further, the issuance of the new bonds is not likely to exceed the District's 17 percent limitation on debt service payments.

Therefore the Auditor certified the \$7,578,198,000 FY 2018 local source revenue (net of dedicated taxes) estimate submitted by the CFO for the issuance of the District's Issuance of General Obligation Bonds Series 2018A on February 28, 2018.

Sincerely,

A handwritten signature in blue ink that reads "Kathleen Patterson". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Kathleen Patterson
District of Columbia Auditor

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

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