

Certification of Fiscal Year 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) in Support of the District's Issuance of Income Tax Secured Revenue Bond Anticipation Notes, (Series 2019A)

May 1, 2019

A report by the Office of the District of Columbia Auditor



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

Letter Report: Certification of Fiscal Year 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) in Support of the District's Issuance of Income Tax Secured Revenue Bonds (Series 2019A)

Dear Chairman Mendelson:

On March 14, 2019, 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) 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes).¹ The OCFO requested the Auditor's certification in connection with the District's issuance of \$40,000,000 in Income Tax Secured Revenue Bond Anticipation Notes, Series 2019A.

This report sets forth the results of the Auditor's analysis of the CFO's FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) of \$7,779,237,000.²

Objectives, Scope, and Methodology

The objectives of the analysis were to:

1. Assess the reasonableness and attainability of OCFO's FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) of \$7,779,237,000.
2. Determine if the issuance of the proposed Income Tax Secured Revenue Bond Anticipation Notes would cause the District to exceed the 17 percent revenue limitation, as outlined in D.C. Official Code § 1-206.03(b)(1).

The scope of the review included financial records and data for FY 2014 through FY 2019, the FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) and economic forecasts.

¹ Request sent from OCFO's Office of Finance and Treasury (OFT) to the Office of the D.C. 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, 2019. The Auditor's certification was issued on March 25, 2019.

In conducting our analysis, we analyzed cash collections for FY 2014 through FY 2018 and year-to-date (YTD), as of January FY 2019. We reviewed actual Total Local Source, General Fund Revenues (Net of Dedicated Taxes) for FY 2014 through FY 2018 and the Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) for FY 2019 as laid out in the District's February quarterly revenue estimate.

To gain an understanding of the District's current economic outlook, we reviewed an economic report published by the Stephen S. Fuller Institute which 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), the OCFO requested that the Auditor certify the Fiscal Year (FY) 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) in connection with the District's issuance of \$40,000,000 in Income Tax Secured Revenue Bond Anticipation Notes, Series 2019A.

The Auditor's certification was based on an evaluation of the \$7,779,237,000 in FY 2019 Total Local Source, General Fund Revenue (Net of Dedicated Taxes) estimated by the CFO on February 28, 2019. 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, March 25, 2019, appears sufficiently supported and achievable. As the OCFO frequently revises projections throughout the fiscal year after gathering additional information, we stress that our report is based on the information available at the time of our review.

Further, as noted in the CFO's estimate, as of February 28, 2019, the CFO had completed an assessment of the federal government shutdown estimating the lost revenue at \$47.4 million. This was offset by approximately "\$6 million in higher collections," reducing the revenue estimate by \$41.4 million from the estimate completed in December 2018. The estimated cost of the federal government shutdown did not have a material impact on our assessment of the District's ability to meet its obligations. Similarly, the economic assessments we reviewed from the Stephen S. Fuller Institute identify the federal government shutdown as a concern, but also suggest the short-term losses should not cause any permanent damage to the economy's future performance.

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 analyses are predicated upon the extent to which the OCFO provided a sound and reasonable FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes); fully disclosed information to the Auditor and provided reliable and accurate information to the Auditor regarding the District's FY 2014 to FY 2018 revenue collections.

Results of the Auditor's Examination

In reviewing the Fiscal Year (FY) 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) of \$7,779,237,000 detailed in Figure 1, the Auditor relied on an analysis of cash collections for FY 2014 through FY 2018, and YTD, as of January 2019, actual Total Local Source, General Fund Revenues (Net of Dedicated Taxes) for FY 2014 through FY 2018, and economic analyses prepared by the Stephen S. Fuller Institute.

**Figure 1: FY 2019 Total Local Source, General Fund Revenue Estimate
(Net of Dedicated Taxes) Submitted by the CFO dated February 28, 2019**

Revenue Source	CFO's December 2018 Revenue Estimate (net of Dedicated Taxes)
Property Taxes	\$2,750,977,000
Sales Taxes	\$1,124,514,000
Income Taxes	\$2,676,987,000
Gross Receipts Taxes	\$244,182,000
Other Taxes	\$431,288,000
Total Taxes	\$7,227,949,000
Total Non-Tax Revenues	\$506,578,000
Lottery Revenues	\$44,710,000
Estimated Total Local Source General Fund Revenue*	\$7,779,237,000

Source: Revenue estimate letter from the CFO to the Mayor and Council Chairman dated February 28, 2019.
Available at: <https://cfo.dc.gov/page/quarterly-revenue-estimates>

*Total differs slightly as compared to individual line items due to rounding.

To arrive at our conclusions and subsequent certification, we 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, *"...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 [may not] 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 principal 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 the OCFO, the District's projected aggregate general obligation bond and income tax secured revenue bond debt service (principal and interest) for all bonds outstanding is projected to be 9.28 percent of the District's FY 2019 estimated revenue of \$7,779,237,000. During the period in which the District has outstanding debt from both this issuance and other previous debt issuances (2019-2045), the percentage of revenue necessary to pay debt service ranges from 10.88 percent (2023) to .91 percent (2045). As such, it is not likely that the 17 percent limitation will be exceeded as a result of the issuance of \$40,000,000 in Income Tax Secured Revenue Bond Anticipation Notes, Series 2019A.

Conclusion

Based on an analysis of information provided by the Office of the Chief Financial Officer of the District of Columbia, including assumptions supporting the Fiscal Year (FY) 2019 revenue estimate and other relevant economic data, the Auditor concludes that the FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) of \$7,779,237,000 appears to be both reasonable and attainable. 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 \$7,779,237,000 FY 2019 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) submitted by the CFO for the issuance of \$40,000,000 in Income Tax Secured Revenue Bond Anticipation Notes, Series 2019A, on March 25, 2019.

Sincerely,



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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