



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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District of Columbia Auditor
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**Certification of the Fiscal Year 2004 Revenue
Estimate in Support of the District's \$173,995,000
General Obligation Bonds (Series 2003B) and
\$140,325,000 Multimodal General Obligation
Bonds (Series 2003C and 2003 D)**

February 10, 2004



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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, N.W., Suite 504
Washington, D.C. 20004

Letter Report: Certification of the Fiscal Year 2004 Revenue Estimate in Support of the District's \$173,995,000 General Obligation Bonds (Series 2003B) and \$140,325,000 Multimodal General Obligation Bonds (Series 2003C and 2003D)

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, through the Office of Finance and Treasury, requested the District of Columbia Auditor to certify the fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000. The CFO requested the certification in furtherance of the District's issuance of \$314,320,000 in bonds which consisted of \$173,995,000 in General Obligation Bonds (Series 2003B) and \$140,325,000 in Multimodal General Obligation Bonds (Series 2003C and 2003D).¹

The fiscal year 2004 revised revenue estimate of \$3,950,017,000 was transmitted by the CFO to the Mayor and Council of the District of Columbia in a letter dated September 29, 2003. At that time, the CFO increased the fiscal year 2004 revenue estimate by \$20,000,000 over the revenue estimate of \$3,930,017,000 which was certified by the CFO in February 2003. Following the completion of the Auditor's analysis and certification of the estimate on December 11, 2003, the CFO revised the fiscal year 2004 revenue projection upwards to \$4,027,607,000. The CFO's revised

¹According to the District's associate treasurer, the bond issue is a fiscal year 2004 issuance and will be reflected in the District's fiscal year 2004 Comprehensive Annual Financial Report (CAFR). The bonds were titled to reflect the calendar year rather than the fiscal year.

fiscal year 2004 revenue estimate was transmitted to the Mayor and Council by letter dated January 13, 2004. For purposes of the Auditor's certification analysis, we used the September 2003 fiscal year 2004 revenue estimate of \$3,950,017,000.

According to the preliminary official statement, the proceeds from the bonds were to be used to: (1) finance the District's fiscal year 2004 Capital Improvement Program; and (2) pay the costs and expenses of issuing and delivering the bonds. This report sets forth the results of the Office of the District of Columbia Auditor's analysis of the fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000 in support of the \$314,320,000 in bonds issued by the District of Columbia government.²

Public Law 93-198, Section 603(b)(1), the Home Rule Act, as amended, 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 . . .

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" (the 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 reestimates of revenues during the fiscal year.

BACKGROUND

The Auditor analyzed and certified the CFO's September 2003 revised fiscal year 2004 total local general fund revenue estimate of \$3,950,017,000. The Auditor's certification was based upon an evaluation of the \$3,950,017,000 revenue estimate developed by officials within the Office of the Chief Financial Officer's Office of Research and Analysis (ORA). Estimates are based upon

²Rounding may affect some calculation presented in this report.

information that can and often does change rapidly, thus resulting in revisions to the estimates after the Auditor's certification. Thus, the Auditor does not and cannot guarantee the validity of the estimates, and only certifies, in whole or in part, that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable by the District. 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.

Based upon the results of an examination of available information as well as representations made by officials in the Chief Financial Officer's ORA, the Auditor determined that, barring any significant unforeseen events that could adversely impact revenues, the fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000 should be credited to the District during fiscal year 2004.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether the CFO's fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000 would be credited to the District for the fiscal year ending September 30, 2004. The fiscal year 2004 revised total local general fund revenue estimate included tax collections of the Office of Tax and Revenue, non-tax revenues generated by programs administered by other District agencies, and dedicated non-tax "O" type revenue.³

The Auditor analyzed the District CFO's total local general fund revenue projection for fiscal year 2004, the report of cash collections through month 13 of fiscal year 2003 prepared by the CFO's Office of Research and Analysis, and other relevant information. Additionally, the Auditor reviewed the District's Fiscal Years 2003 and 2004 Operating Budget and Financial Plan which contained assumptions supporting the fiscal year 2004 revenue estimate; the preliminary official statement supporting the issuance of the bonds; statistical, economic, and other data obtained from the Department of Employment Services (DOES), the Metropolitan Washington Council of Governments, the Real Estate Association of the Washington Metropolitan Area, Value Line Investment Survey, Standard and Poors, and Moody's Investor Services.

³According to the FY 2004 Proposed Budget and Financial Plan dated June 2, 2003, Dedicated Non-Tax "O" Type Revenue also referred to as other revenues, "are funds generated from fees, fines, assessments, or reimbursements that are dedicated to the District agency that collects the revenues to cover the cost of performing the function."

In conducting the examination, the Auditor interviewed ORA officials regarding underlying assumptions and the methodology used to develop the CFO's revised total local fiscal year 2004 general fund revenue estimate of \$3,950,017,000. The Auditor also held discussions with the District's associate treasurer within the CFO's Office of Finance and Treasury (OFT) regarding the proposed issuance of general obligation bonds. The Auditor consulted with an economist to obtain another perspective on the economic outlook for the District of Columbia and the surrounding region. Discussions were also held with, and information obtained from, officials of the Washington Convention and Tourism Bureau (WCTB) regarding statistics on District tourism, hotel room occupancy, and restaurant activity for the District of Columbia.

RESULTS OF ANALYSIS

In reviewing the revised fiscal year 2004 total local general fund revenue estimate of \$3,950,017,000, the Auditor relied on the revenue collection results of fiscal year 2003, as well as current economic indicators, trends and projections in that there was little actual revenue collection data available at the time for fiscal year 2004.⁴

The preliminary results for fiscal year 2003 indicate that revenue collections overall exceeded the estimate based largely on the continued strength in the District's real estate market. Collections for real property taxes, deed transfer, and deed recordation taxes were all substantially above the estimates. The excess collections in these taxes were more than sufficient to offset the shortfalls in other tax and non-tax categories such as general sales and use taxes. According to ORA officials and information obtained from other sources, the strength in the real estate market is expected to continue in fiscal year 2004, although some industry analysts indicate that this growth may slow somewhat due to gradually rising interest rates and as a result may not match the record level of growth attained during the last two years.⁵ As a result, the Auditor's analysis of the fiscal year 2004 revised total local general fund revenue estimate for tax and non-tax revenues indicated that the District should achieve the estimate. Therefore, the Auditor certified to the \$3,950,017,000 total local general fund revenue estimate for fiscal year 2004.

Table I presents the fiscal year 2004 revised total local general fund revenue estimate prepared by the CFO and certified by the Auditor.

⁴The bonds were issued in the 1st quarter of fiscal year 2004. At the time the Auditor's review began, collection data was available only through October 2003.

⁵Information from the National Association of Realtors on existing homes sales and the Mortgage Bankers Association on mortgage rates.

TABLE I
FY 2004 Revised Local General Fund Revenue Estimate
Prepared by the CFO and Certified by the Auditor
(thousands of dollars)

Revenue Category	CFO's FY 2004 Revised Local General Fund Revenue Estimate as of 9/03 as Certified by the Auditor
Property Taxes	\$1,003,068
General Sales and Use Taxes	734,577
Income Taxes	1,169,159
Gross Receipts	265,458
Other Taxes	221,111
Total Taxes	3,393,373
Non-Tax Revenues	295,101
Dedicated Non-Tax	191,343
Total Non-Tax and Other Revenues	486,444
Lottery	70,200
Total Local General Fund Revenue Estimate	\$3,950,017

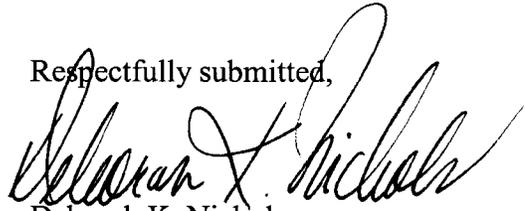
Source: Office of Research and Analysis

CONCLUSION

Based on an analysis of the CFO's fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000, actual collections for fiscal year 2003 as of October 2003, and other relevant data, the District of Columbia Auditor certified to the full \$3,950,017,000 revised fiscal year 2004 total local general fund revenue estimate.

Notwithstanding the Auditor's certification of the fiscal year 2004 revised total local general fund revenue estimate of \$3,950,017,000, the Auditor recommends that ORA officials continue their practice of closely monitoring and comparing revenue collections with the estimates for all categories of tax and non-tax revenues and make adjustments as necessary.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols". The signature is fluid and cursive, with a large initial 'D' and 'N'.

Deborah K. Nichols

District of Columbia Auditor