



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

Deborah K. Nichols
District of Columbia Auditor
006:06:SDG:CA:gk

**Certification of the Fiscal Year 2006 Revised
General Purpose General Fund Revenue
Estimate in Support of the District's
\$331,210,000 General Obligation Bonds (Series 2005A)**

February 27, 2006



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

Deborah K. Nichols
District of Columbia Auditor
006:06:SDG:CA:gk

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 2006 Revised General Purpose General Fund Revenue Estimate in Support of the District's \$331,210,000 General Obligation Bonds (Series 2005A)¹

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

Pursuant to Section 603(b)(1) of the District of Columbia Home Rule Act ("Home Rule Act"), as amended,² Pub. L. No. 93-198, approved December 24, 1973 (87 Stat. 790; D.C. Code Section 1-206.03 (b)(1)), the Chief Financial Officer ("CFO") of the District of Columbia, through the Office of Finance and Treasury (OFT), requested the District of Columbia Auditor ("the Auditor") to certify the fiscal year (FY) 2006 revised total local general fund revenue estimate ("local source revenue estimate") of \$4,487,381,000. The CFO requested the certification in furtherance of the District's issuance of \$331,210,000 in General Obligation Bonds (Series 2005A).³ According to the preliminary official statement, the proceeds from the bonds were to be used to: (1) finance capital project expenditures in the District's FY 2006 Capital Improvements Program; and (2) pay the costs and expenses of issuing and delivering the bonds.

¹Concurrently with the \$331,210,000 General Obligation Bonds, the District also issued General Obligation Refunding Bonds (Series 2005B) in the aggregate amount of \$116,475,000 (see Official Statement dated December 1, 2005). In a separate note deal, the District issued \$250,000,000 General Obligation Tax Revenue Anticipation Notes (TRANS), to pay general governmental expenses. Payment of principal and interest on the TRANS are due and payable in the fiscal year in which they are issued.

²See D.C. Code Section 1-206.03 (b)(1).

³According to the District's Debt Manager, the bonds were titled to reflect the calendar year rather than the fiscal year. The \$331,210,000 General Obligation Bonds (Series 2005A) is a fiscal year 2006 issuance and, as such, will be reflected in the District's fiscal year 2006 Comprehensive Annual Financial Report (CAFR).

The FY 2006 revised local source revenue estimate of \$4,487,381,000 was transmitted by the CFO to the Mayor and Council of the District of Columbia in a letter dated September 22, 2005. At that time, the CFO increased the FY 2006 local source revenue estimate by \$51.7 million over the local source revenue estimate of \$4,435,735,000 which was certified by the CFO in June 2005.

This report sets forth the results of the Office of the District of Columbia Auditor's analysis of the FY 2006 revised local source revenue estimate of \$4,487,381,000 in support of the \$331,210,000 in bonds issued by the District of Columbia government.⁴

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine the achievability of the CFO's FY 2006 revised local source revenue estimate of \$4,487,381,000. The FY 2006 local source revenue estimate includes tax collections of the Office of Tax and Revenue (OTR) and non-tax revenues generated by other District agencies.

In preparing this certification, the Auditor consulted a variety of sources both internal and external to the government to determine the achievability of the revenue estimate proposed by the District's CFO. Specifically, in analyzing the CFO's revised local source revenue estimate for FY 2006, the Auditor: (a) analyzed the report of cash collections through September 30, 2005, which was prepared by the CFO's Office of Revenue Analysis (ORA); (b) reviewed the District's audited financial statements for FY 1999 through FY 2004; (c) analyzed OTR's preliminary estimates of FY 2005 actual collections of tax and non tax revenues; (d) reviewed Bond Resolution #16-356, which was approved by the Council of the District of Columbia on November 1, 2005; and (e) considered other relevant information. Additionally, the Auditor reviewed: (a) the District's Operating Budget and Financial Plan for FY's 2005 and 2006 which contained assumptions supporting the FY 2006 revenue estimate; (b) the preliminary official statement supporting the issuance of the bonds; (c) statistical, economic, and other data obtained from the Federal Reserve Board, the U.S. Department of Labor's Bureau of Labor Statistics, and the District's Department of Employment Services ("DOES"); and (d) reports on the regional economy published by George Mason University.

The Auditor interviewed ORA officials regarding underlying assumptions and the methodology used to develop the CFO's FY 2006 revised local source revenue estimate of \$4,487,381,000. The Auditor also held discussions with the District's Acting Deputy Chief

⁴Rounding may affect some calculations presented in this report.

Financial Officer and Treasurer for OFT regarding the issuance of these general obligation bonds. The Auditor interviewed several local economists regarding economic forecasts for the District of Columbia and the surrounding region.⁵ Information was also obtained from the Washington Convention and Tourism Bureau (“WCTB”) on District tourism, hotel room occupancy, and restaurant activity in the District, and the National Retailers Federation (NRF) regarding preliminary assessments of Black Friday⁶ sales statistics.

The certification review was performed as required by Section 603 of the Home Rule Act, and conducted in accordance with standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. The review included such tests of the documentation and other procedures as deemed necessary and appropriate under the circumstances. The Auditor believes this examination provides a reasonable basis for certifying the CFO’s FY 2006 local source revenue estimate.

BACKGROUND

Section 603(b)(1) of 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 Home Rule Act, as amended by Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (“FRMAA”), approved April 17, 1995,⁷ and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001,

⁵Interviews conducted with Professor Stephen Fuller the Dwight Schar Professor of Public Policy and Director of Center for Regional Analysis at George Mason School of Public Policy and Dr. Ray Whitman, Acting Associate Dean, School of Business and Public Administration, University of the District of Columbia and President and Chief Economist of Jobs Trends Associates, Inc.

⁶According to retail industry information the day after the Thanksgiving holiday is usually referred to as “Black Friday.” Based on information published by the National Retail Federation, “the term “Black Friday” was coined because, traditionally, the day after Thanksgiving was the day that retailers went from being in the red-or in debt-to being “in the black”-or making a profit.”

⁷See Pub. L. 104-8, (109 Stat. 97; D.C. Official Code Section 1-204.24c(5) (A) and (B)).

approved November 22, 2000,⁸ 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.

The Auditor analyzed and, on December 15, 2005, certified the CFO's September 2005 FY 2006 revised local source revenue estimate of \$4,487,381,000. The Auditor's certification was based upon an evaluation of the \$4,487,381,000 revenue estimate developed by ORA officials. The Auditor notes a trend in which the CFO's estimates are often revised immediately after the Auditor's certification. The CFO's estimates are based upon information that can, and often does, change rapidly thus resulting in revisions to the estimate after the Auditor's certification. For example, the CFO issued a revised FY 2006 local source revenue estimate totaling \$4,519,690,000 on December 16, 2005, one day after obtaining the Auditor's certification.⁹ The revised local source revenue estimate of \$4,519,690,000 represents a \$32,309,000 (excluding tax policy changes) increase over the September 2005 local source revenue estimate of \$4,487,381,000. The Auditor does not, and cannot, guarantee the stability of the CFO's estimate submitted for the Auditor's certification. Thus, the Auditor only certifies, in whole or in part, that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable. 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 ORA officials have provided a sound and reasonable FY 2006 local source revenue estimate and OTR officials have fully disclosed and provided reliable and accurate information to the Auditor regarding the District's FY 2005 revenue collections and year-end closing adjustments.¹⁰

Based upon our examination of available information as well as representations made by officials in the CFO's ORA and OTR, the Auditor determined that, barring any significant unforeseen events that could adversely impact revenues, the FY 2006 revised local source revenue estimate of \$4,487,381,000 should be achieved and credited to the District during FY 2006.

⁸See Pub. L. No. 106-522, 114 Stat. 2440.

⁹The December 16, 2005, revised FY 2006 local source revenue estimate of \$4,519,690,000 excludes any adjustments for tax policy changes. The \$4,519,690,000 was used to be consistent with the September 22, 2005, revised FY 2006 local source revenue estimate of \$4,487,381,000, which also excluded adjustments for tax policy changes. The CFO's December 2005 FY 2006 non-dedicated general fund revenue estimate, net of triggered tax policy changes of \$24,273,000, totals \$4,495,417,000.

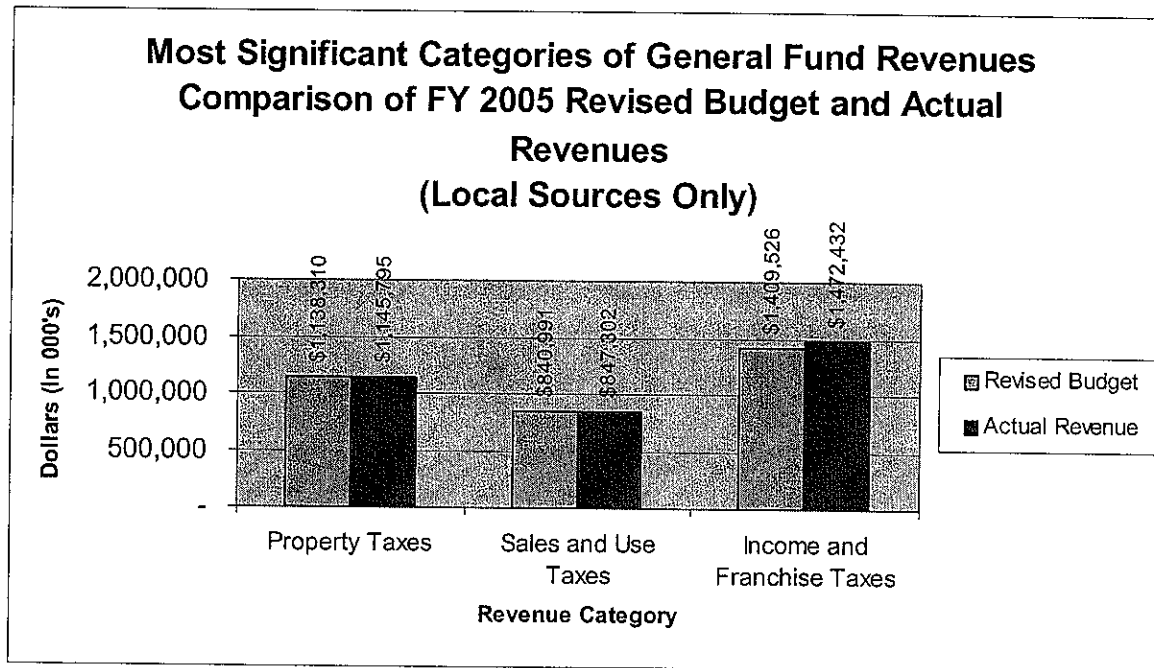
¹⁰A Management Representations Letter concerning the disclosures and accuracy of the financial data on which the Auditor's certification is based was signed by the District's CFO on December 14, 2005.

RESULTS OF ANALYSIS

In reviewing the FY 2006 revised local source revenue estimate of \$4,487,381,000, the Auditor relied on the revenue collection results of FY 2005, as well as current economic indicators, trends and projections in that there was insufficient actual FY 2006 revenue collection data available at the time.¹¹

Preliminary results for FY 2005 indicate that the actual revenue collections overall are projected to exceed the estimate based, in part, from excess collections in income taxes, sales and use taxes, property taxes, gross receipts and other taxes. Graph I presents a comparison of the estimate to actual collections for the District's largest three tax categories: income and franchise taxes, property taxes, and sales and use taxes that generated approximately 76.5% of the FY 2005 revenue.

Graph I



Source: OTR's preliminary Revenue Lead Schedule

¹¹The Auditor notes that the Auditor's office faced similar challenges due to the timing of the General Obligation Bonds (Series 2004A and 2004B) and Multimodal General Obligation Bonds (Series 2004C) which were also issued in the 1st quarter of the fiscal year. Also, because of the timing this year, the Auditor's review was completed utilizing the latest available revenue estimate, i.e., the CFO's September 2005 FY 2006 revised local source revenue estimate.

According to information obtained by the Auditor, income tax collections were exceptionally strong in FY 2005, in part, from higher income wage earners relocating to the District, fairly low unemployment, and increased hiring by businesses, due to a continued surge in federal procurement spending. According to information obtained from a local economist, federal procurement spending increased from \$5.5 billion a year ago to approximately \$18 billion, representing an increase of \$12.5 billion, or 227%, from previous years providing a positive economic benefit in 2005.

Sales tax revenue was strengthened in FY 2005 by an increase in tourism-related sales, which grew nationally at 9.4%, during the second quarter of FY 2005 according to the Bureau of Economic Analysis. Also, preliminary assessments of Black Friday sales statistics as reported by the National Retailers Federation (NRF) indicate that total revenue collected by retailers over the Black Friday weekend increased by 21.9% over the prior year. The NRF further reported that sales on Black Friday in 2005 alone increased 7.9% over the same day in the prior year.

Further, the real estate market demonstrated continued strength in FY 2005. Although economists predict some softening (cooling off) in 2006 from higher interest rates, the market remains fairly strong. According to published reports, the District of Columbia also continues to be a desired location for businesses.

The Auditor's analysis of the FY 2006 revised local source revenue estimate for tax and non-tax revenues indicated that the District should achieve the \$4,487,381,000 estimate. Therefore, on December 15, 2005, the Auditor certified the \$4,487,381,000 total local source revenue estimate for FY 2006. Table I presents the FY 2006 revised local source revenue estimate prepared by the CFO and certified by the Auditor.

TABLE I
FY 2006 Revised Local Source Revenue Estimate
Prepared by the CFO and Certified by the Auditor
(000s)

Revenue Category	CFO's FY 2006 Revised Total Local Source Revenue Estimate as of 09/05 as Certified by the Auditor*
Property Taxes	\$1,225,165
General Sales and Use Taxes	795,549
Selected Sales and Use Taxes	67,029
Income Taxes	1,435,171
Gross Receipts	249,662
Other Taxes	328,025
Total Taxes	4,100,601
Total Non-Tax Revenues	313,680
Lottery	73,100
Total Non-Dedicated Local Source Revenue	\$4,487,381

Source: Office of Revenue Analysis

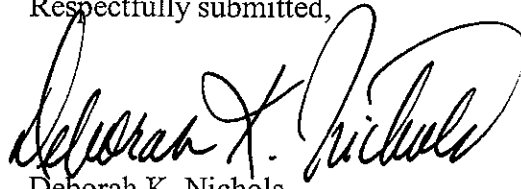
* The CFO's FY 2006 Revised Total Local Source Revenue Estimate as of December 16, 2005, is \$4,519.7 million, excluding triggered tax policy changes, representing a \$32.3 million increase over the September 2005 estimate.

CONCLUSION

Based on the analysis of information provided by the District's CFO through ORA and OTR, including the actual revenue collections for FY 2005, as of November 2005, the assumptions supporting the revenue estimate, and other relevant data, the Auditor finds that the September 2005 FY 2006 revised local source revenue estimate of \$4,487,381,000 appears reasonable and achievable.

Therefore, the Auditor hereby certifies to the full September 2005 FY 2006 \$4,487,381,000 revised local source revenue estimate as proposed by the CFO.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols". The signature is written in a cursive style with a large, looping flourish at the end.

Deborah K. Nichols

District of Columbia Auditor