



**Certification of Fiscal Year 2015 Total
Local Source General Fund Revenue
Estimate (Net of Dedicated Taxes) in
Support of the District's Issuance of
General Obligation Bonds (Series 2014C
and 2014D)**

November 25, 2014

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A Report by the Office of the District of Columbia Auditor
Lawrence Perry, Acting District of Columbia Auditor



November 25, 2014

Included herein is the Office of the District of Columbia Auditor's (Auditor) report, entitled "Certification of Fiscal Year 2015 Total Local Source General Revenue Estimate (net of Dedicated Taxes) in Support of the District's Issuance of General Obligation Bonds (Series 2014C and 2014D)." On September 3, 2014, pursuant to D.C. Official Code, Section 1-206.03 (b)(1), the Chief Financial Officer (CFO) of the District of Columbia, through the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT), requested that the Auditor certify the CFO's revised fiscal year (FY) 2015 total local source General Fund Revenue Estimate (net of Dedicated Taxes). The CFO requested the Auditor's certification in connection with the District's issuance of \$379,355,000 in General Obligation Bonds (Series 2014C) to finance certain approved capital projects in the District Capital Improvements Plan and \$136,190,000 in General Obligation Refunding Bonds (Series 2014D) to refund the District's outstanding Multimodal General Obligation Refunding Bonds, Series 2008A and Series 2008D. This report sets forth the results of the Auditor's analysis of the CFO's FY 2015 local source revenue estimate (net of Dedicated Taxes) of \$6,660,934,000.

We would like to thank OCFO staff for their assistance and cooperation during this certification. Their valuable time and efforts spent on providing us information was greatly appreciated.

Sincerely,

Lawrence Perry
Acting District of Columbia Auditor

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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 percent of the District revenues... which the Mayor estimates, and the District of Columbia Auditor certifies, [Auditor's Emphasis] will be credited to the District during the fiscal year in which the bonds will be issued...

The Chief Financial Officer (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's certification was based upon an evaluation of the \$6,660,934,000 fiscal year (FY) 2015 local source revenue estimate certified by the CFO.¹ The CFO's estimate was based upon information that can, and often does, change rapidly thus resulting in revisions to the CFO's estimate after the Auditor's certification. 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 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 the Office of the Chief Financial Officer's (OCFO) Office of Revenue Analysis (ORA) provided a sound and reasonable FY 2015 local source revenue estimate and fully disclosed and provided reliable and accurate information to the Auditor regarding the District's FYs 2011 to 2014 (as of August 2014) revenue collections.²

¹ See revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman, Dated September 29, 2014.

² A Management Representations Letter concerning the disclosures and accuracy of the financial data on which the Auditor's certification was based on and signed by the District's CFO on October 15, 2014.

Objectives, Scope and Methodology

Objectives

The objectives of this analysis were to:

1. Review, analyze and assess the reasonable and attainability of the CFO's fiscal year (FY) 2015 local source revenue estimate of \$6,660,934,000.
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. Code § 1-206.03(b)(1).

Scope

The Auditor reviewed the District's financial records and data for FYs 2011 through 2013 and FY 2014, as of August 31, 2014. Our review also included a review of the District's FY 2015 projected revenues.

Methodology

To accomplish our review objectives, the Auditor:

- Analyzed actual local source revenues for FY 2011 through FY 2014 (as of August 31, 2014);
- Reviewed the District's FY 2014 and FY 2015 Budget and Financial Plans, statistical and economic data published by various sources, the final official statement supporting the bond issuance; and
- Interviewed officials and representatives of the Office of Revenue Analysis (ORA), external local data sources and an Economist from George Mason University's Center for Regional Analysis.

Audit Results

In reviewing the fiscal year (FY) 2015 local source revenue estimate of \$6,660,934,000, the Auditor relied on revenue collections for FYs 2011 to 2013, preliminary revenue collection results for FY 2014 (as of August 31, 2014), as well as, economic indicators, trends and projections.

Based on the Auditor's review and analysis of historical and other economic data, the Auditor concluded that the FY 2015 local source revenue estimate is achievable.

The Auditor conducted detailed analysis 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 to arrive at our conclusions and subsequent certification. Key observations from our analysis conducted are noted below.

Property Tax

The Auditor determined that the FY 2015 revenue estimate for property taxes of \$2.221 billion is reasonable and achievable. The FY 2015 revenue estimate increased by nearly \$160 million when compared to the FY 2014 revenue estimate. The residential housing market for the District continues to show improvement albeit at a slower pace than in recent years. With new housing inventory coming available, price growth is expected to be between three and five percent over the next twelve months. The commercial market has been largely flat in recent years although the values of the properties have remained consistent. Construction on new properties within the District has added to the inventory of higher value properties.

For the first half of 2014, commercial leasing activity remained largely flat for the Washington D.C. region, with only modest growth in tenant renewals, expansions and relocations. There continues to be uncertainty due to the General Services Administration's continued efforts to consolidate the amount of leased space for federal agencies

Sales Tax

The Auditor determined that the FY 2015 revenue estimate for sales tax of \$1.109 billion is reasonable and achievable. The FY 2015 general sales and use tax estimate increased by approximately \$56

million over the FY 2014 revenue estimate. The Auditor notes that both increases in District personal income and increases in District tourism have historically had a positive impact on the District's general sales and use tax collections. According to data from Destination DC, there was an overall increase in total domestic visitors and visitor spending. Additionally, the data forecasted a two and a half percent increase in FY 2015 and nearly a three percent increase in FY 2016 for total visitor volume in the District.

Income Tax

The Auditor determined that the FY 2015 revenue estimate for income taxes of \$2.234 billion is reasonable and achievable. The FY 2015 income tax estimate increased by nearly \$38 million when compared to the FY 2014 estimate. While individual income tax collections, which account for roughly 25 percent of the total general fund (net of dedicated taxes), increased this fiscal year, business tax collections is down. Credit carryovers, combined reporting and corporate inversion are the main contributing factors for the decrease in business tax collections this year. The District's population and personal income for District residents has shown continuous growth over the years, which are two of the main contributing factors when estimating income tax revenue.

Summary

The Auditor also considered the following data in analyzing the FY 2015 local source revenue estimate of \$6,660,934,000:

- The overall economic conditions in the Washington metropolitan region were projected to remain favorable.
- Fines and forfeitures have shown fluctuations in collections in previous fiscal years as new traffic cameras are added. Revenue from the automatic traffic cameras are down significantly this year due to a number of issues with the cameras including delays in implementation.
- The actual cash collections for gross receipts through August 2014 exceeded the revenue estimate for FY 2014 by approximately nine percent.
- Withholdings for income taxes through August 2014 grew by five percent in FY 2014 which supports increased revenue estimates in the future.

The Auditor's analysis of historical revenue trends and other economic factors indicated the District should achieve the \$6,660,934,000 local source revenue (net of Dedicated Taxes) estimate. On October 23, 2014, the Auditor certified the FY 2015 \$6,660,934,000 local source revenue estimate.

Figure I presents the FY 2015 local source revenue estimate submitted by the CFO on September 29, 2014 and certified by the Auditor.

Figure 1

**FY 2015 Local Source Revenue (net of Dedicated Taxes)
Estimate Prepared by the CFO and Certified by the Auditor**

Revenue Source	CFO's September 2014, FY 2015 Local Source Revenue Estimate (net of Dedicated Taxes)
Property Taxes	\$2,221,288
Sales Taxes	1,109,723
Income Taxes	2,234,006
Gross Receipts Taxes	253,392
Other Taxes	323,528
Total Taxes	6,141,937
Total Non-Tax Revenues	452,997
Lottery	66,000
Revised Local Source Revenue Estimate	\$6,660,934

(thousands of dollars)

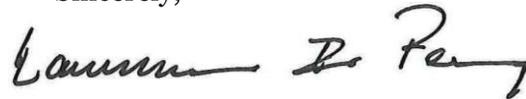
Source: Revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman dated September 29, 2014.

Conclusion

Based on an analysis of information provided by the Chief Financial Officer (CFO) of the District of Columbia, as of October 22, 2014, the assumptions supporting the fiscal year (FY) 2015 revenue estimate; and other relevant data, the Auditor concluded that the September 29, 2014, FY 2015 local source revenue (net of Dedicated Taxes) estimate of \$6,660,934,000 appeared to be reasonable and achievable.

Therefore, on October 23, 2014, the Auditor certified the \$6,660,934,000 FY 2015 local source revenue (net of Dedicated Taxes) estimate submitted by the CFO.

Sincerely,



Lawrence Perry,
Acting District of Columbia Auditor