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Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 4th Quarter of Fiscal Year 2003

February 24, 2004



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The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Comparative Analysis of Actual Cash
Collections to Revised Revenue Estimates Through the 4th
Quarter of Fiscal Year 2003

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

This letter report presents the Office of the District of Columbia Auditor's comparison of the District's actual cash collections through the 4th quarter of fiscal year (FY) 2003 to the revised FY 2003 revenue estimates for the 4th quarter.

BACKGROUND

The original FY 2003 revenue estimate was \$3.596 billion. However, the Chief Financial Officer revised the FY 2003 estimate in May 2002 to \$3.621 billion, an increase of \$25 million above the original estimate. In September 2002 the CFO again revised the estimate to \$3.626 billion, an increase of \$5 million over the May 2002 estimate and \$30 million above the original estimate. On February 20, 2003, the District's Chief Financial Officer (CFO) submitted to the Mayor and Council of the District of Columbia (Council) a third FY 2003 revised revenue estimate of \$3.573 billion, which was a decrease of \$52.459 million from the September 2002 revised revenue estimate of \$3.626 billion, and a \$23 million decrease from the original \$3.596 billion estimate. The FY 2003 revenue estimate during the 3rd quarter was \$3.715 billion which represented a net increase of \$142 million over the February 2003 revised estimate and a \$119 million increase over the original \$3.596 billion estimate.¹

¹ According to ORA officials, the revisions to the revenue estimate were made because of changes in economic conditions as well as legislative changes and revenue enhancements approved by the Council of the District of Columbia.

As stated in our 3rd quarter FY 2003 report, the \$3.715 billion estimate did not represent a revision in any of the tax categories presented in the 3rd quarter cash collections report prepared by ORA. Rather, the \$3.715 billion estimate included a new category entitled “dedicated non-tax “O”-type revenue” which totaled \$174.6 million and excluded the “federal project funds” category of \$33 million. The net effect of these two changes resulted in an overall revised estimate of \$3.715 billion for the 3rd quarter. The estimate during the 4th quarter of FY 2003 remained unchanged at \$3.715 billion.

The cash collections report used by the Auditor to compare the District’s revenue estimates to cash collections through the 4th quarter reflected collections as of October 15, 2003. Therefore, collections presented in this comparative analysis may not include all adjustments and accruals made during the FY 2003 closing process which are reflected in the District’s FY 2003 Comprehensive Annual Financial Report (CAFR). Additionally, the cash collections report prepared by ORA does not include the estimate and related collections for the dedicated non-tax “O” type revenue. Therefore, the Auditor compares collections to the \$3.540 billion estimate (the overall estimate of \$3.715 billion less the \$176 million estimate for dedicated non-tax “O” type revenue). However, an overall discussion of dedicated non-tax “O” type revenue is included in a later section of this report.

METHODOLOGY

To conduct this comparative analysis, the Office of the District of Columbia Auditor used: (1) the \$3.540 billion estimate; (2) the Office of the Chief Financial Officer’s 4th quarter FY 2003 Comparative Report of Cash Collections by Funds; and (3) other relevant information.

The Auditor interviewed ORA officials regarding cash collections through the 4th quarter of FY 2003. The Auditor also interviewed local economists regarding the District’s overall economy. We reviewed the economic data from several sources, including the National Oceanic and Atmospheric Administration (NOAA), the District’s Department of Employment Services (DOES), the Real Estate Association of the Washington Metropolitan Area, Metropolitan Washington Council of Governments, and the “D.C. Economic Indicators” published by ORA.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 4th quarter of FY 2003 totaled \$3.651 billion, which were \$110 million, or 3.1%, above the \$3.540 billion revised estimate through the 4th quarter.² The \$3.651 billion in actual cash collections represented 103% of the total \$3.540 billion revised revenue estimate³. Collections through the 4th quarter from tax and non-tax revenues and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$3.279 billion, which were \$92 million, or 2.9%, above the revised tax estimate of \$3.187 billion through September 2003.
- ◆ **Non-tax** - total non-tax collections were \$285 million, which were \$5.3 million, or 1.9%, above the revised non-tax estimate of \$280 million through September 2003.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling and tobacco settlement residual, totaled \$86.8 million, which were \$12.8 million, or 17.4%, above the revised other financing sources estimate of \$74 million through September 2003.⁴

Table I compares actual cash collections to revised estimates through the 4th quarter of FY 2003 for tax, non-tax, and other financing sources. Appendix I presents a graphic depiction of the information in Table I as well as other tables presented in this report.

²Rounding may affect some calculations presented in this report.

³The \$3.540 billion revised revenue estimate and \$3.651 in collections through the 4th quarter of FY 2003 are presented net of the Convention Center estimate and transfer and also do not include the estimate and collections for dedicated non-tax ("O" type) revenue.

⁴The tobacco settlement residual funds were not included on cash collection reports prior to the 4th quarter because funds from this source were not received until the 4th quarter.

TABLE I
Cash Collections Summary
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Tax Category	Actual Collections Through the 4th Quarter FY 2003	Revised Estimates Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Tax Collections	\$3,278,764	\$3,186,509	\$92,255	2.9%
Non-Tax Collections	285,282	279,942	5,340	1.9%
Other Financing Sources	86,820	73,948	12,872	17.4
Total Revenues	\$3,650,866	\$3,540,399	\$110,467	3.1%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2003, September 2003, prepared by the Office of Research and Analysis and ORA updated non-tax collection data

In conducting the analysis of cash collections through the 4th quarter of FY 2003, the Auditor also compared the 4th quarter collection trends for the five-fiscal years of 1999 through the 4th quarter of 2003. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that 4th quarter collections in the general property taxes have steadily increased over the five-fiscal year period. On the other hand, 4th quarter collections in the income taxes category increased in fiscal years 2000 and 2001 but declined in fiscal years 2002 and 2003.

Appendix III presents a comparison of collections through the 4th quarter of FY 2003 to 4th quarter collections for FY 2002 in each tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (C) revenue from public space rentals. The FY 2003 revised estimate for general property taxes is \$897.07 million. Collections of general property taxes through the 4th quarter of FY 2003 totaled \$923.7 million, which were:

- ◆ \$26.6 million, or 3%, above the \$897.07 million 4th quarter FY 2003 revised estimate; and
- ◆ \$130.4 million, or 16.4%, above collections for the same period in FY 2002.

Collections of general property taxes through the 4th quarter represented 103% of the total revised revenue estimate for this category. Table II compares actual collections of general property taxes to the revised estimates through the 4th quarter of FY 2003.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

General Property Taxes	Actual Collections Through the 4th Quarter FY 2003	Revised Estimates Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Real Property	\$845,376	\$818,936	\$26,440	3.2%
Personal Property	65,954	65,271	683	1.0%
Public Space Rental	12,364	12,865	(501)	(3.9%)
Total General Property Taxes	\$923,694	\$897,072	\$26,622	3.0%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Real Property Tax Collections

Real property taxes collected through the 4th quarter totaled \$845.4 million. These collections were \$26.4 million, or 3.2%, above the \$819 million estimate. The real property tax category is the largest component of general property taxes. Real property taxes are due on March 31st and September 15th of each year. Although real property taxes were due on September 15th, additional collections may be received in month 13 from taxpayers who paid after the due date.

Collections of real property taxes were higher than the estimate, in part, because of the strong real estate market, higher property tax assessments, and the phase-out of triennial assessments for tri-group two. With the phase-out of the triennial assessment system, homeowners in tri-group two will have their property assessed annually. However, the Council of the District of Columbia enacted legislation which limited the increase in property taxes from higher assessments on a taxpayer's principal residence to 25%. Prior to the phase-out of triennial assessments, increased property taxes were phased in over three years.

B. Personal Property Tax Collections

Personal property taxes collected through the 4th quarter totaled \$66 million. These collections, through the 4th quarter, were \$683,000, or 1%, above the \$65.3 million estimate.

C. Public Space Rental Fees

Public space rental fees collected through the 4th quarter totaled \$12.4 million. Actual collections through the 4th quarter were \$501,000, or 3.9%, below the \$12.9 million estimate. According to ORA officials, public space rental fees were due July 31st.

Overall the District achieved the FY 2003 revenue estimate in the General Property Taxes category.

GENERAL SALES AND USE TAXES

The FY 2003 revised estimate for general sales and use taxes is \$648 million.⁵ Collections of general sales and use taxes through the 4th quarter of FY 2003 totaled \$613 million, which were:

- ◆ \$35 million, or 5.4%, below the \$648 million 4th quarter revised FY 2003 estimate; and
- ◆ \$13 million, or 2%, above collections for the same period in FY 2002.

General sales and use tax collections through the 4th quarter represented 95% of the total FY 2003 revenue estimate for this category. Table III compares actual collections to the revised estimate through the 4th quarter of FY 2003 for general sales and use taxes.

⁵Presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2003
(\$000)

General Sales and Use Taxes	Actual Collections Through the 4 th Quarter FY 2003	Revised Estimate Through the 4 th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
General Sales and Use Taxes	\$613,015	\$648,009	(\$34,994)	(5.4%)

Source: Office of the Chief Financial Officer, Office of Research and Analysis

According to ORA officials, general sales and use taxes are below the estimate through the 4th quarter, in part, because revenue was lower than expected from activities related to the Cherry Blossom Festival. The District usually collects a significant part of its annual general sales and use tax revenue from events and tourism related to the Cherry Blossom Festival. According to ORA officials, it is difficult for the District to recover later in the fiscal year from a loss of revenue normally generated by this annual event.

Other causes of reduced collections included: (1) the outbreak of Severe Acute Respiratory Syndrome (SARS) which could have affected tourism and other travel to the District; and (2) the start of the war in Iraq which could have reduced consumer confidence and consumer spending.

In the comparative analysis of cash collections to revised revenue estimates through the 1st, 2nd and 3rd quarters of FY 2003, the Auditor discussed several factors that appeared to negatively impact sales and use tax collections. The Auditor suggested that ORA officials monitor this tax category very closely. Notwithstanding ORA's monitoring as suggested by the Auditor, the FY 2003 estimate was not achieved for the General Sales and Use Taxes Category. As noted above, several factors contributed to collections that were lower than expected in this tax category.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise taxes. The FY 2003 revised estimate for selective sales and use taxes is \$60.6 million. Collections through the 4th quarter of FY 2003 totaled \$63 million which were:

- ◆ \$2.3 million, or 3.9%, above the \$60.6 million 4th quarter revised FY 2003 estimate; and
- ◆ \$8.5 million, or 15.6%, above collections for the same period in FY 2002.

Selective sales and use tax collections through the 4th quarter represented 104% of the total FY 2003 revised revenue estimate for this category. Table IV compares actual collections to the revised estimate through the 4th quarter of FY 2003 for selective sales and use taxes.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Selective Sales and Use Taxes	Actual Collections Through the 4 th Quarter FY 2003	Revised Estimates Through the 4 th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Alcoholic Beverage	\$4,583	\$4,502	\$81	1.8%
Cigarette	21,344	22,863	(1,519)	(6.6%)
Motor Vehicle Excise	37,059	33,273	3,786	11.4%
Total Selective Sales and Use Taxes	\$62,986	\$60,638	\$2,348	3.9%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Alcoholic Beverage Tax

Alcoholic beverage taxes collected through the 4th quarter totaled \$4.6 million. These collections were \$81,000, or 1.8%, above the \$4.5 million revised estimate.

B. Cigarette Taxes

Cigarette taxes collected through the 4th quarter totaled \$21.3 million. These collections were \$1.5 million, or 6.6%, below the \$22.9 million revised estimate. The tax on cigarettes was increased from 65¢ to \$1 per pack, effective January 1, 2003. The lower than estimated collections of cigarette taxes may result from customers purchasing cigarettes at cheaper prices in other jurisdictions. According to ORA officials, cigarette taxes are lower in Virginia at 2½¢ per pack.

C. Motor Vehicle Excise Taxes

Motor vehicle excise taxes collected through the 4th quarter totaled \$37.1 million. These collections were \$3.8 million, or 11.4%, above the \$33.3 million revised estimate.

The FY 2003 estimate for Selective Sales and Use Taxes was achieved for FY 2003.

INCOME TAXES⁶

Income taxes include: (A) individual income taxes, (B) corporate franchise taxes, and (C) unincorporated business franchise taxes. The FY 2003 revised estimate for the income tax category is \$1.125 billion. Collections through the 4th quarter of FY 2003 totaled \$1.150 billion which were:

- ◆ \$25 million, or 2.2%, above the \$1.125 billion 4th quarter revised estimate; and
- ◆ \$7.7 million, or .7%, below collections for the same period in FY 2002.

Income tax collections through the 4th quarter represented 102% of the total FY 2003 revised revenue estimate for this category. Table V compares actual collections to revised estimates through the 4th quarter of FY 2003 for income taxes.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Income Taxes	Actual Collections Through the 4 th Quarter FY 2003	Revised Estimates Through the 4 th Quarter FY 2003	Difference: Actual Over/Under Revised Estimates	Percent Difference
Individual Income Taxes	\$940,663	\$924,206	\$16,457	1.8%
Corporate Franchise Taxes	133,498	137,065	(3,567)	(2.6%)
Unincorporated Business Franchise Taxes	76,038	63,892	12,146	19.0%
Total Income Taxes	\$1,150,199	\$1,125,163	\$25,036	2.2%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Individual Income Taxes

Individual income taxes collected through the 4th quarter totaled \$941 million. This tax is the largest in the income taxes category. These collections were \$16.5 million, or 1.8%, above the \$924.2 million revised estimate. Individual income tax collections were higher than the estimate, in part, because of an increase in individual income tax withholdings. According to the September 2003 cash collections report, withholdings were \$115 million, or 16.4%, higher than the estimate.

⁶The Auditor notes that fiscal year 2002 collections of income tax revenues were well below the fiscal year 2002 revenue estimate which contributed, in part, to the fiscal year 2002 deficit.

B. Corporate Franchise Taxes

Corporate franchise taxes collected through the 4th quarter totaled \$133.5 million. These collections were \$3.6 million, or 2.6%, below the \$137.1 million revised estimate. Corporate franchise tax refunds were 31.9% higher than the estimate through the 4th quarter while declarations (estimated tax payments) were 5.3% lower than the estimate. Corporate profits were below the estimate, in part, due to the overall sluggishness in the economy during fiscal year 2003.

The Auditor notes that the estimate for corporate franchise taxes was not achieved in FY 2002 and again in FY 2003.

C. Unincorporated Business Franchise Taxes

Unincorporated business franchise tax collections through the 4th quarter totaled \$76 million. These collections were \$12.1 million, or 19%, above the \$63.9 million revised estimate. According to ORA officials, many unincorporated business franchise taxpayers are partnerships associated with real estate management. The overall strength in the real estate market has contributed to increased collections in unincorporated business franchise taxes.

Overall, the District achieved the FY 2003 revenue estimate in the Income Taxes category.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities taxes, (B) toll telecommunications taxes, and (C) a tax on insurance premiums. The revised estimate for gross receipts taxes is \$250.7 million. Collections of gross receipts taxes through the 4th quarter of FY 2003 totaled \$256.8 million, which were:

- ◆ \$6.1 million, or 2.4%, above the \$250.7 million 4th quarter revised estimate; and
- ◆ \$26.6 million, or 11.6%, above collections for the same period in FY 2002.

Gross receipts tax collections through the 4th quarter represented 102% of the FY 2003 revised estimate for this category. Table VI compares actual collections to the revised estimates through the 4th quarter of FY 2003 for gross receipts taxes.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Gross Receipts Taxes	Actual Collections Through the 4th Quarter FY 2003	Revised Estimates Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Public Utilities	\$165,042	\$151,754	\$13,288	8.8%
Toll Telecommunications	50,623	64,958	(14,335)	(22.1%)
Insurance Premiums	41,164	34,000	7,164	21.1%
Total Gross Receipts	\$256,829	\$250,712	\$6,117	2.4%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Public Utilities Taxes

Public utilities taxes collected through the 4th quarter totaled \$165 million. These collections were \$13.3 million, or 8.8%, above the \$151.8 million revised estimate. The strength in these collections through the 4th quarter may be due, in part, to increased profits collected by utility companies and the results of an increase in the public utilities tax rate from 10% to 11%, which became effective January 2003. According to data obtained from the National Oceanic and Atmospheric Administration (NOAA), the average temperature in Washington, D.C. for the months of January through September 2003 was colder than the average temperature during the same period in 2002. Because of the colder weather, utility customers may have incurred higher utility bills resulting in increased revenue to utility companies. The public utility tax is imposed on the gross receipts of utility companies. Therefore, increased revenue to these companies may have resulted in increased gross receipts tax payments to the District.

B. Toll Telecommunications Taxes

Toll telecommunications taxes collected through the 4th quarter totaled \$50.6 million. These collections were \$14.3 million, or 22.1%, below the \$65 million revised estimate. Also, these collections were 8.9% below collections for the same period in FY 2002. One reason revenue from this tax source may be below the estimate is that consumers are now using more economically priced calling cards or cell phone service to make long distance telephone calls, and are therefore paying less for toll telecommunications services. Additionally, cell phone companies are experiencing lower gross receipts because of competition in the cell phone market. As a result, these companies are paying less taxes to the District.

C. Insurance Premium Taxes

Insurance premium taxes collected through the 4th quarter totaled \$41.2 million. These collections were \$7.2 million, or 21.1%, above the \$34 million revised estimate. Also, collections for the 4th quarter of FY 2003 were 15.8% more than collections during the same period in FY 2002.

The District achieved the FY 2003 revenue estimate in the Gross Receipts Taxes category.

OTHER TAXES

Other Taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interest transfer taxes. The FY 2003 revised estimate for other taxes is \$204.9 million. Collections of other taxes through the 4th quarter of FY 2003 totaled \$272 million, which were:

- ◆ \$67.1 million, or 32.8%, above the \$204.9 million 4th quarter revised estimate; and
- ◆ \$10 million, or 3.6%, below collections for the same period in FY 2002.

Collections of Other Taxes through the 4th quarter represented 133% of the total FY 2003 revised revenue estimate. Table VII compares actual collections to the revised estimates through the 4th quarter of FY 2003 for Other Taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Other Taxes	Actual Collections Through the 4th Quarter FY 2003	Revised Estimates Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Estate Taxes	\$29,881	\$39,808	(\$9,927)	(24.9%)
Deed Recordation	138,184	93,495	44,689	47.8%
Deed Transfer	99,042	70,905	28,137	39.7%
Economic Interests	4,934	707	4,227	597.9%
Total Other Taxes	\$272,041	\$204,915	\$67,126	32.8%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Estate Taxes

Estate taxes collected through the 4th quarter totaled \$30 million. These collections were \$9.9 million, or 24.9%, below the \$39.8 million revised estimate. Collections from this revenue source are difficult to estimate due to the unpredictable event that triggers the tax.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes collected through the 4th quarter totaled \$237.2 million. These combined collections were \$72.8 million, or 44%, above the \$164.4 million revised estimates. Collections from these sources were also strong during FY 2002. The continued strength of these collections reflects the resilience of the District's real estate market. For example, according to the November 2003 edition of "D.C. Economic Indicators," published by ORA, completed contracts for the sale of single family homes in the 3rd quarter of 2003 increased by 3.5% and contracts for the sale of condo/co-ops increased by 17% from one year ago. Further, taxes for both of these tax categories (deed recordation and transfer taxes) were increased in the revenue enhancements that became effective in January 2003.

C. Economic Interest Taxes

Economic interest taxes collected through the 4th quarter totaled \$4.9 million. These collections were \$4.2 million, or 597.9%, above the \$707,000 revised estimate.

Overall, the District achieved the FY 2003 revenue estimate in the Other Taxes category.

NON-TAX REVENUE

Non-tax revenue includes: (A) licenses and permit fees, (B) fines and forfeitures, (C) charges for services, and (D) miscellaneous revenue. The FY 2003 revised estimate for non-tax revenue is \$280 million. Collections through the 4th quarter totaled \$285 million, which were:

- ◆ \$5.3 million, or 1.9%, above the \$280 million 4th quarter revised estimate; and
- ◆ \$42 million, or 17.4%, above collections for the same period in fiscal year 2002.

Non-tax revenue collections through the 4th quarter represented 102% of the FY 2003 revised estimate for this category. Table VIII compares actual collections to the revised estimate through the 4th quarter of fiscal year 2003 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimates
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Non-Tax Revenues	Actual Collections Through the 4th Quarter FY 2003	Revised Estimates Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimates	Percent Difference
Licenses and Permits	\$59,460	\$ 61,872	(\$2,412)	(3.9%)
Fines and Forfeitures	89,404	104,162	(14,758)	(14.2%)
Charges for Services	49,606	49,281	325	.7%
Miscellaneous Revenue	86,812	64,627	22,185	34.3%
Total Non-Tax Revenue	\$285,282	\$279,942	\$5,340	1.9%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Licenses and Permit Fees

Licenses and permit fees collected through the 4th quarter totaled \$59.5 million. Collections were \$2.4 million, or 3.9%, below the \$61.9 million revised estimate. According to ORA officials, collections from motor vehicle registration fees were below the estimate. As discussed below, estimates for licenses and permit fees are developed by the agencies administering the related program, not ORA. Therefore, the Auditor recommends that ORA review the agencies' methodology for developing estimates in this category to ensure that they are reasonable and achievable.

B. Fines and Forfeitures

Fines and forfeitures collected through the 4th quarter totaled \$89.4 million. These collections were \$14.8 million, or 14.2%, below the \$104.2 million revised estimate. According to ORA officials, the decrease in this estimate was due, in part, to lower than expected collections from traffic fines primarily because projected collections from red light cameras were not met. Also, additional red-light cameras that were projected to be installed were not and a “speed on green” initiative that was expected to generate additional revenue was not implemented.

C. Charges for Services

Charges for services collected through the 4th quarter totaled \$49.6 million. These collections were \$325,000, or .7%, above the \$49.3 million revised estimate.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer,⁷ and (5) other revenue.⁸ Miscellaneous revenue collected through the 4th quarter totaled \$86.8 million. These collections were \$22.2 million, or 34.3%, above the \$64.6 million revised estimate. Collections in the miscellaneous tax category through the 4th quarter of fiscal year 2003 were higher than collections for the same period in FY 2002.

Overall, the District achieved the FY 2003 estimate in the Non-Tax Revenue category. However, the estimate was not achieved in two of the four subsets that make up the Non-Tax Revenue category. This may indicate that the methodology used by agencies to develop non-tax revenue estimates should be examined and improved. Further, ORA officials should review each agency’s methodology for developing the FY 2004 estimates and make changes and improvements where appropriate.

⁷Includes the WASA Pilot Transfer.

⁸Includes revenue such as dishonored checks, payroll service fees, or other revenue from agencies.

OTHER FINANCING SOURCES

Other Financing Sources consisted of legalized gambling and the tobacco settlement residual. The FY 2003 revised estimate for Other Financing Sources is \$74 million. Collections through the 4th quarter totaled \$86.8 million, which were:

- ◆ \$12.9 million, or 17.4%, above the \$74 million 4th quarter revised estimate; and
- ◆ \$24.4 million, or 39%, above collections for the same period in FY 2002.⁹

Collections from Other Financing Sources through the 4th quarter represented 117% of the FY 2003 revised estimate for this category. Table IX compares actual collections to the estimate through the 4th quarter of FY 2003 for Other Financing Sources.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 4th Quarter of Fiscal Year 2003
(\$000)

Other Financing Sources	Actual Collections Through the 4th Quarter FY 2003	Revised Estimate Through the 4th Quarter FY 2003	Difference: Actual Over/(Under) Revised Estimate	Percent Difference
Legalized Gambling	\$72,000	\$68,600	\$3,400	5.0%
Tobacco Settlement Residual	14,820	5,348	9,472	177%
Total Other Financing Sources	\$86,820	\$73,948	\$12,872	17.4%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

A. Legalized Gambling

Legalized gambling (transfers from the D.C. Lottery) through the 4th quarter totaled \$72 million. These transfers were \$3.4 million, or 5%, above the \$68.6 million revised estimate. According to Lottery officials, collections were above the estimate as a result, in part, of increased sales in two large powerball jackpots during FY 2003 as well as the introduction of a new lottery game, Keno, in May 2003.

⁹Tobacco settlement residual funds of \$9.75 million related to FY 2002 were not received in FY 2002 but were received in FY 2003. Therefore, collections in the Other Financing Sources category in FY 2002 did not include an amount for tobacco settlement. If the FY 2002 funds had been received and recorded in FY 2002 instead of FY 2003, the comparison of FY 2003 to FY 2002 in the Other Financing Sources would have reflected that collections in FY 2003 were \$4.9 million, or 7%, above collections for the same period in FY 2002.

B. Tobacco Settlement Residual

According to ORA officials, collection of \$14.8 million in tobacco settlement residual funds for FY 2003 include approximately \$9.75 million related to FY 2002. ORA officials further indicated that an adjustment will be made to remove the \$9.75 million from FY 2003 collections during the FY 2003 closing process. Tobacco settlement residual collections for FY 2003 totaled \$5.1 million which represented 95% of the \$5.348 million estimate.

DEDICATED NON-TAX “O” TYPE REVENUE

The FY 2003 estimate for dedicated non-tax “O” type revenue totals \$174.6 million. Actual cash collections together with accrued revenues from this source through September 12, 2003, totaled \$145 million which is approximately \$29 million, or 17%, below the estimate of \$174.6 million. However, according to ORA and Office of Budget and Planning (OBP) officials, certain District agencies are authorized to spend from their designated fund balance (revenues carried forward from the previous fiscal year that remain unspent and did not lapse at the end of the fiscal year). According to information provided by ORA, the designated fund balance supporting “O” type revenue authority for District agencies in FY 2003 totaled \$117 million. Together the collections supporting the dedicated non-tax “O” type revenue totaled \$262 million for FY 2003. The \$262 million in cash collections, accrued revenues, and designated fund balance authority supporting dedicated non-tax “O” type revenue is approximately \$87.4 million, or 50%, above the FY 2003 estimate.

As was the case in the Auditor’s cash collection analysis through the 3rd quarter of FY 2003, there was limited information in the 4th quarter upon which the Auditor could conduct a detailed analysis of the dedicated non-tax “O” type revenue, primarily because this data is not captured at specified intervals. For example, the non-tax “O” type data was not captured and reported on a monthly or quarterly basis, therefore the Auditor was not able to conduct comparisons of collections in FY 2003 to the same period in the prior fiscal year.

CONCLUSION

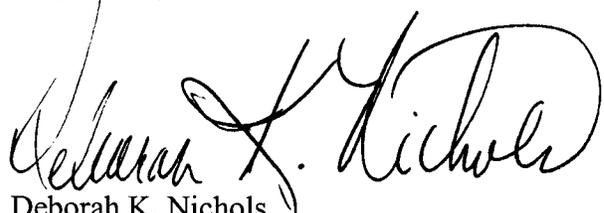
Overall, the Auditor’s analysis indicated that cash collections were above the revised estimate through the 4th quarter of FY 2003. The District’s cash collections through September 2003 totaled \$3.651 billion, which were \$110 million, or 3.1%, above the \$3.540 billion revised estimate through

the 4th quarter. The \$3.651 billion in actual cash collections represented 103% of the total \$3.540 billion revised revenue estimate. The Auditor notes that overall collections were above the estimate for the 1st, 2nd, and 3rd quarters of FY 2003.

Based on collections through the 4th quarter as of October 15, 2003 as well as updated collection data for non-tax revenue, collections were below the estimate in the General Sales and Use Tax category. Collections in the General Sales and Use Taxes category were also below the estimate for the 1st, 2nd and 3rd quarters of FY 2003. Collections for income taxes were also below the estimate for the 1st, 2nd and 3rd quarters but rebounded and ended the year above the estimate. However, given the fact that collections in these categories were below the estimate for most of the fiscal year, ORA officials should review the FY 2004 estimates for these tax categories and make adjustments where necessary. In addition, collections for licenses and permit fees and fines and forfeitures in the non-tax revenue source were below their estimates. The Auditor notes, however, that the estimates for non-tax revenues were developed by the agencies administering the related programs, not ORA. Therefore, ORA should examine and, where applicable, improve the methodology used by these agencies to ensure that the estimates are reasonable and achievable. Because of a lack of historical data pertaining to dedicated non-tax revenue, ORA must closely monitor collections from this revenue source and make adjustments as necessary during FY 2004.

The Auditor notes that the overall FY 2003 revenue estimate was revised several times. As a result, agencies were required to adjust their spending throughout the fiscal year to reflect revisions to the revenue estimate. These revisions can sometimes be disruptive to agencies achieving their stated goals in that uncertainty regarding the budget may adversely impact agencies' ability to adequately plan. Often some of the changes result in agencies deferring hiring, deferring or canceling step increases, and not being able to fully fund various programs. These actions could be counterproductive to the mission of the agency and the District of Columbia government. Further, agencies need adequate notice to adjust spending patterns. Without sufficient time, agencies can and sometimes do significantly over or under spend their budgets.

Respectfully submitted,

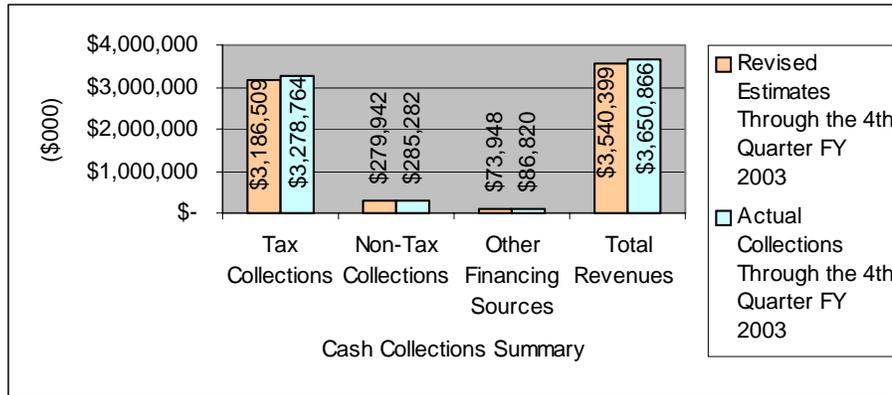


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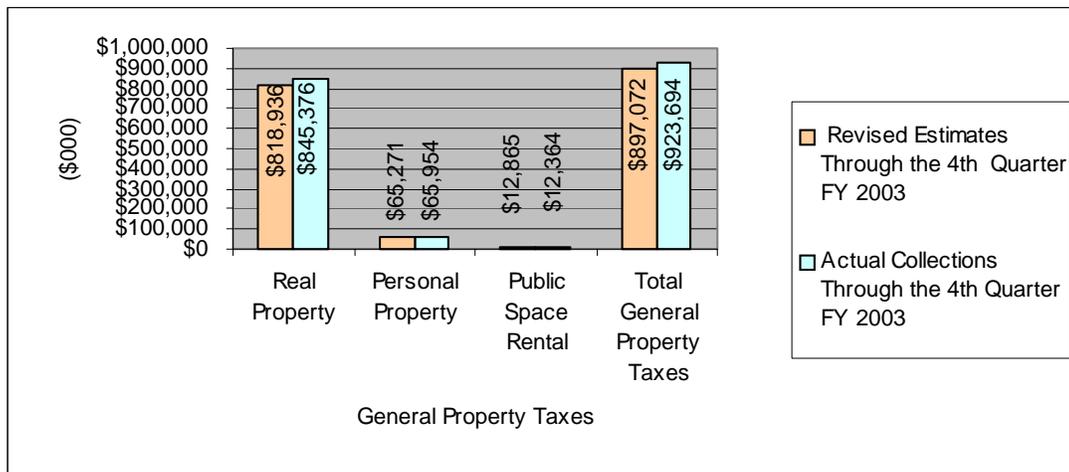
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APPENDICES

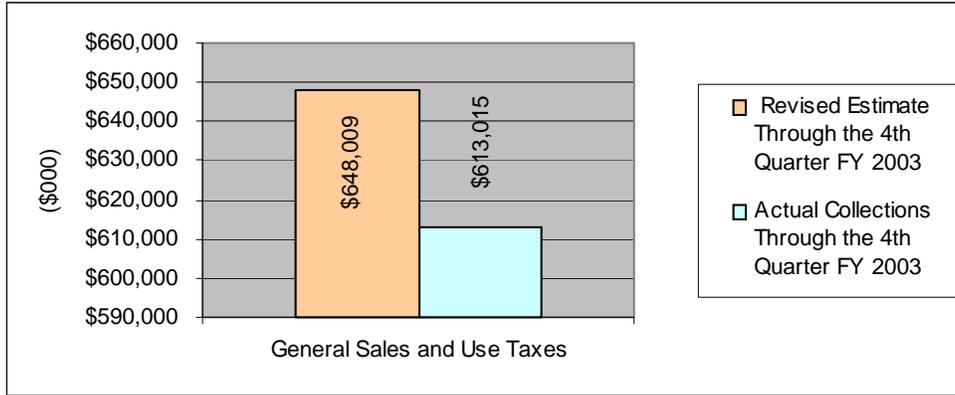
GRAPH I
 Summary of Revised Revenue Estimates
 Through the 4th Quarter FY 2003 to Actual Cash Collections



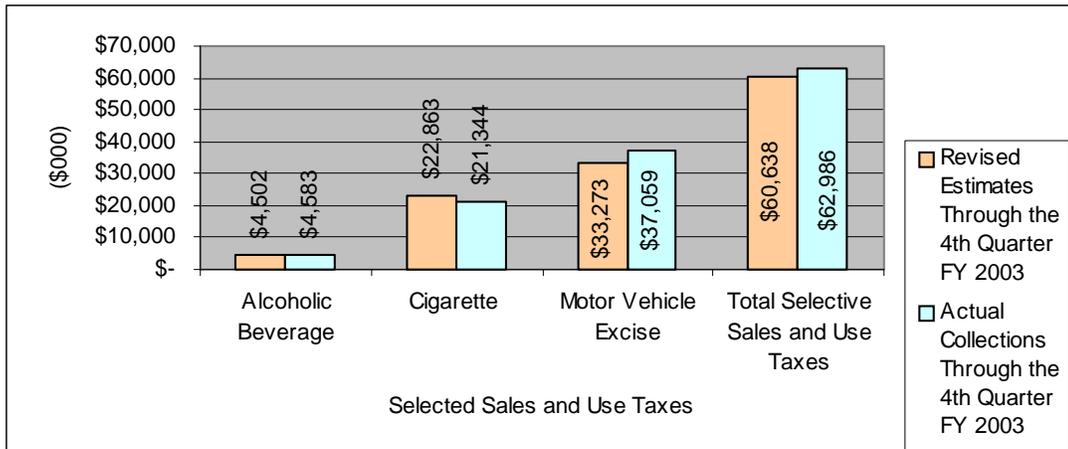
GRAPH II
 General Property Taxes
 Comparison of Revised Revenue Estimates
 Through the 4th Quarter FY 2003 to Actual Cash Collections



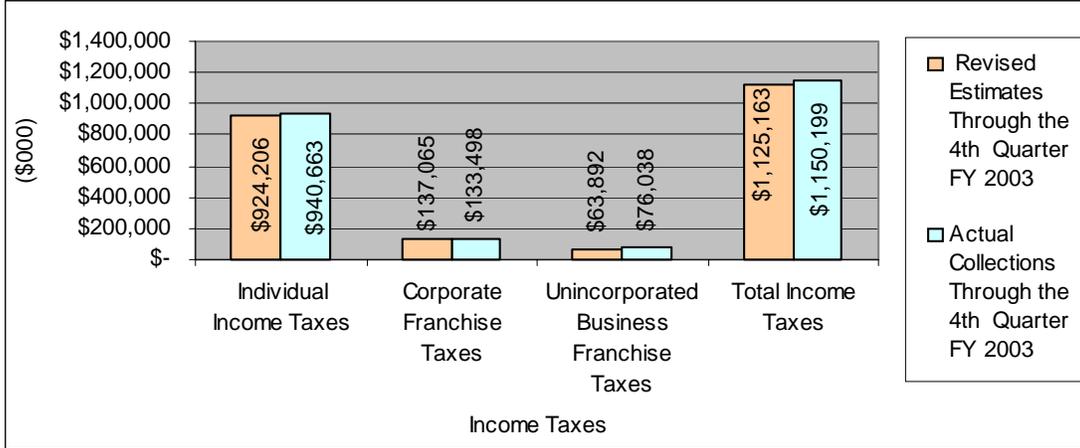
GRAPH III
General Sales and Use Taxes
Comparison of Revised Revenue Estimate
Through the 4th Quarter FY 2003 to Actual Cash Collections



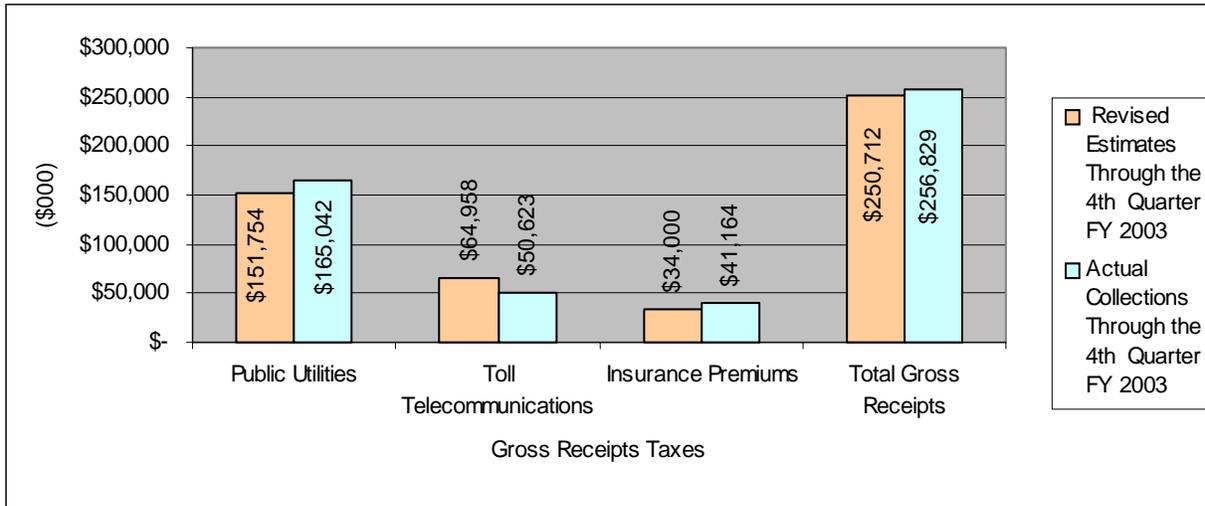
GRAPH IV
Selective Sales and Use Taxes
Comparison of Revised Revenue Estimate
Through the 4th Quarter FY 2003 to Actual Cash Collections



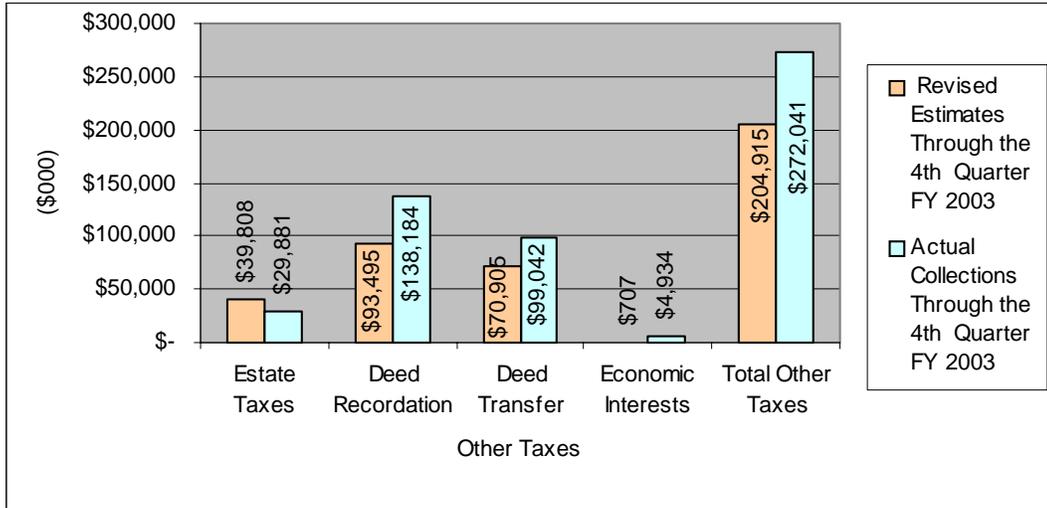
GRAPH V
Income Taxes
 Comparison of Revised Revenue Estimate
 Through the 4th Quarter FY 2003 to Actual Cash Collections



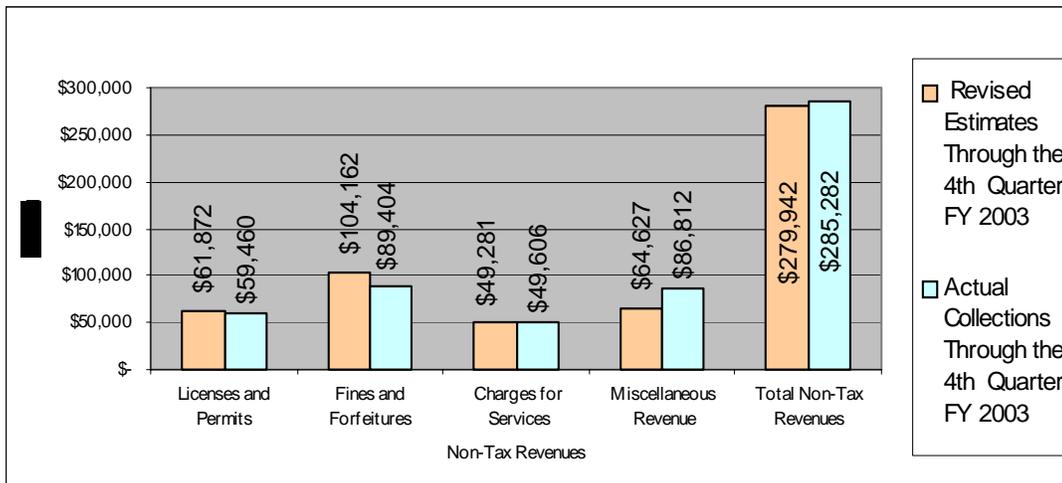
GRAPH VI
Gross Receipts
 Comparison of Revised Revenue Estimate
 Through the 4th Quarter FY 2003 to Actual Cash Collections



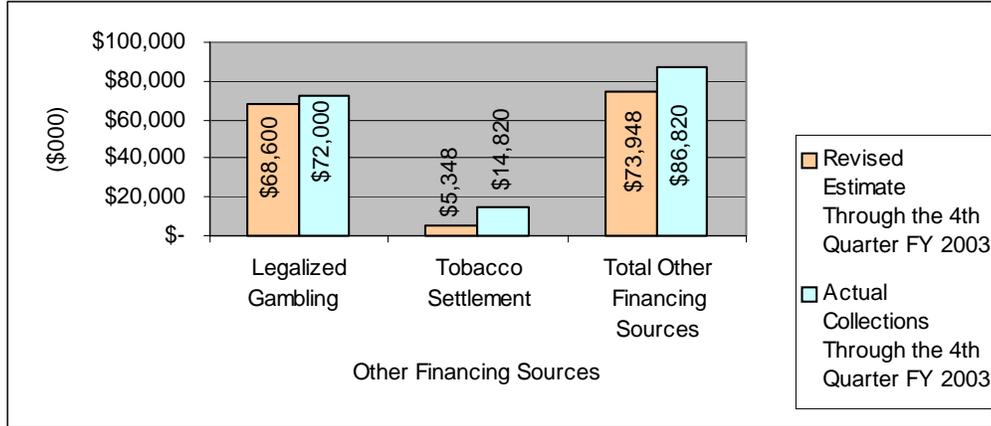
GRAPH VII
Other Taxes
 Comparison of Revised Revenue Estimate
 Through the 4th Quarter FY 2003 to Actual Cash Collections



GRAPH VIII
Non-Tax Revenues
 Comparison of Revised Revenue Estimate
 Through the 4th Quarter FY 2003 to Actual Cash Collections



GRAPH IX
Other Financing Sources
Comparison of Revised Revenue Estimate
Through the 4th Quarter FY 2003 to Actual Cash Collections



APPENDIX II

Comparison of Cash Collections Through the 4th Quarter Fiscal Years 1999 - 2003¹⁰ (\$000)

Tax Categories	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 ¹¹
General Property Taxes	\$650,836	\$689,215	\$715,288	\$793,323	\$923,694
General Sales and Use Taxes*	541,952	580,354	627,235	599,956	613,015
Selective Sales and Use Taxes	54,139	58,733	59,963	54,474	62,986
Income Taxes	1,168,018	1,348,086	1,400,946	1,157,861	1,150,199
Gross Receipts Taxes	207,238	212,301	234,584	230,229	256,829
Other Taxes	148,253	141,248	191,248	282,067	272,041
Non-Tax Revenue	200,840	214,615	256,167	242,933	285,282
Other Financing Sources	71,244	76,146	100,450	62,451	86,820
Total Cash Collections Financing the Appropriation	\$3,042,520	\$3,320,698	\$3,585,881	\$3,423,294	\$3,650,866

Source: Office of the Chief Financial Officer, Office of Research and Analysis

*General sales and use tax collections are reported on a net basis after the transfer of dedicated tax revenue to the Washington Convention Center Authority.

¹⁰Differences in totals presented in this table are due to rounding.

¹¹Dedicated non-tax "O" type revenue collections of \$145 million through September 12, 2003 are not presented in this Appendix.

APPENDIX III

**Comparison of Collections Through the 4th Quarter
of FY 2003 to Collections Through the 4th Quarter of FY 2002¹²
(\$000)**

Tax Category	Collections Through the 4th Quarter Fiscal Year 2003¹³	Collections Through the 4th Quarter Fiscal Year 2002	Difference 4th Quarter FY 2003 Over/(Under) 4th Quarter FY 2002	Percent Difference
General Property Taxes:				
Real Property	\$845,376	\$716,326	\$129,050	18.0%
Personal Property	65,954	64,396	1,558	2.4%
Public Space Rental	12,364	12,601	(237)	(1.9%)
Total Property Taxes	\$923,694	\$793,323	\$130,371	16.4%
General Sales and Use Taxes	\$613,015	\$599,956	\$13,059	2.2%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$4,583	\$4,695	(\$112)	(2.4%)
Cigarette	21,344	17,189	4,155	24.2%
Motor Vehicle Excise	37,059	32,590	4,469	13.7%
Selective Sales and Use Taxes	\$62,986	\$54,474	\$8,512	15.6%
Income Taxes:				
Individual Income Taxes	\$940,663	\$975,153	(\$34,490)	(3.5%)
Corporate Franchise	133,498	119,103	14,395	12.1%
Unincorporated Business	76,038	63,605	12,432	19.5%
Total Income Taxes	\$1,150,199	\$1,157,861	(\$7,662)	(0.7%)
Gross Receipts Taxes:				
Public Utilities	\$165,042	\$139,097	\$25,945	18.7%
Toll Telecommunications	50,623	55,593	(4,969)	(8.9%)
Insurance Premiums	41,164	35,539	5,624	15.8%
Total Gross Receipts	\$256,829	\$230,229	\$26,600	11.6%
Other Taxes:				
Estate Taxes	\$29,881	\$124,848	(\$94,967)	(76.1%)
Deed Recordation	138,184	89,944	48,240	53.6%
Deed Transfer	99,042	62,197	36,845	59.2%
Economic Interests	4,934	5,078	(144)	(2.8%)
Total Other Taxes	\$272,041	\$282,067	(\$10,026)	(3.6%)
Total Tax Collections	\$3,278,764	\$3,117,911	\$160,853	5.2%
Non-Tax Revenue:				
Licenses and Permits	\$59,460	\$38,529	\$20,931	54.3%
Fines and Forfeitures	89,404	86,240	3,164	3.7%
Charges for Services	49,606	48,455	1,151	2.4%
Miscellaneous Revenue	86,812	69,709	17,103	24.5%
Total Non-Tax Revenue	\$285,282	242,933	\$42,349	17.4%
Other Financing Sources	\$86,820	\$62,451	\$24,369	39.0%
Total Revenues	\$3,650,866	\$3,423,294	\$227,572	6.6%

Source: Office of the Chief Financial Officer, Office of Research and Analysis

¹² Rounding may affect some calculations presented in this table.

¹³ Total revenue presented in this appendix does not include dedicated non-tax "O" type revenue collections of \$145 million through September 12, 2003. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.