



**Certification of Fiscal Year 2014 Total
Local Source General Fund Revenues
(Net of Dedicated Taxes) in Support of
the District's Issuance of \$ 495,425,000
in General Obligation Bonds (Series
2013A)**

April 3, 2014

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A Report by the Office of the District of Columbia Auditor
Yolanda Branche, District of Columbia Auditor



Office of the District of Columbia Auditor

April 3, 2014

Included herein is the District of Columbia Auditor's (Auditor) report, entitled "Certification of Fiscal Year 2014 Total Local Source General Fund Revenues (Net of Dedicated Taxes) in Support of the District's Issuance of \$495,425,000 in General Obligation Bonds (Series 2013A)." On November 19, 2013, 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) 2014 estimated total local source General Fund Revenue (net of Dedicated Taxes). The CFO requested the Auditor's certification in connection with the District's issuance of \$495,425,000 in General Obligation Bonds (Series 2013A). The proceeds from the bonds are to be used to: (1) finance capital project expenditures under the District's capital improvements plan; and (2) pay the costs and expenses of issuing and delivering the Series 2013A Bonds. This report sets forth the results of the Auditor's analysis of the CFO's revised FY 2014 local source revenue (net of Dedicated Taxes) estimate of \$6,311,555,000.

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


for: Yolanda Branche
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 \$6,311,555,000 fiscal year (FY) 2014 revised 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 2014 local source revenue estimate and fully disclosed and provided reliable and accurate information to the

¹ See revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman, dated September 30, 2013.

Auditor regarding the District's FYs 2011 to 2013 revenue collections.²

² A Management Representations Letter concerning disclosures and accuracy of the FYs 2011 to FY 2013 financial data on which the Auditor's certification was based was signed by the District's CFO on December 18, 2013.

Objectives, Scope and Methodology

Objectives

The objectives of this analysis were to:

1. Review, analyze and assess the reasonableness and attainability of the CFO's revised fiscal year (FY) 2014 local source revenue estimate of \$6,311,555,000.³
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 October 2013. Our review also included a review of the District's FY 2014 projected revenues.

Methodology

To accomplish our review objectives, the Auditor:

- Analyzed actual local source revenues for FY 2011 through FY 2013, and the estimated local source revenue of FY 2014, as of October 31, 2013;
- Reviewed the District's FY 2013 and FY 2014 Budget and Financial Plans, statistical and economic data published by various sources, the preliminary official statement supporting the bond issuance; and
- Interviewed the officials and representatives of the Office of Revenue Analysis (ORA), the Office of the Attorney General, the District's external auditors KPMG, and Destination DC.

We conducted this certification review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our review objectives.

³ The CFO revised the FY 2014 estimate in the certification letter dated September 30, 2013.

The Auditor notes that revenue estimates are based on information that can change rapidly, thus resulting in revisions to estimates after the Auditor's certification. Consequently, the Auditor does not, and cannot, guarantee the validity of the revenue estimates. The Auditor only certifies that the FY 2014 Total Local Source General Fund Revenues (net of Dedicated Taxes) estimate at the time of certification, appeared to be sufficiently supported and achievable. Additionally, the validity and accuracy of the Auditor's sufficiency analysis and calculations are predicated upon the extent to which: (a) ORA officials provided sound estimates; and (b) OCFO officials fully disclosed and provided the Auditor with reliable and accurate information regarding the District's revenue estimate.

Audit Results

In reviewing the fiscal year (FY) 2014 local source revenue estimate of \$6,311,555,000, the Auditor relied on preliminary revenue collection results for FY 2013, as well as economic indicators, and trends and projections. During the review period, there was only one month of FY 2014 actual revenue collection data available for review and analysis.

Based on the Auditor's review and analysis of historical and other economic data, the Auditor concluded that the FY 2014 local source revenue estimate was 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

Based on historical and economic data, the Auditor concluded that the FY 2014 \$1.937 billion revised estimate for real property taxes is reasonable and achievable. According to the Greater Capital Area Association of Realtors (GCAAR), reported contracts and settlements for November 2013 were up 7.3 percent and 8.5 percent respectively for single family homes and 17.9 percent and 20.4 percent for condominiums. During this period, the average price of a single family home sold in the District increased from \$655,545 to \$716,321 and condominiums and cooperatives average sales prices increased from \$429,390 to \$451,033. Although the residential real estate market growth is predicted to slow during 2014, District homes sales are expected to continue to increase with the average sales prices expected to grow by approximately 2.8 percent. Regarding commercial property, during, 2013, the District's commercial real estate market has shown the signs of the effects of the uncertainty of the broader economic climate, the uncertainty with the Federal budget, and curtailed commercial property leasing by the General Services Administration (GSA). As a result, the growth of the commercial market was not as strong in 2012 and 2013 as it had been in previous years. However, it is expected that the District's commercial real estate market will display improvement in the latter part of 2014 and forward as evidenced by the addition of almost eight million square feet of office space expected to be delivered in the D.C. metro area within the next few years.

Sales Tax

The Auditor concluded that the District would achieve the \$1.037 billion revised sales taxes estimate for FY 2014. According to FYs 2011 to 2013 actual general sales and use taxes monthly data reviewed by the Auditor, actual sales taxes revenues exceeded the projected revenue estimates by an average of 4.98 percent for each of these three fiscal years. The Auditor notes that increases in both District personal income and District tourism have 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 visitors and visitor spending in FY 2012 as compared to the same period in FY 2011. Further, FY 2012 airport travel increased 4.8 percent in Reagan National Airport (DCA) and 4.2 percent in Washington Dulles International Airport according to Metropolitan Washington Airport Authority. Additionally, data from US Bureau of Economic Analysis indicates that District personal income increased 2.55 percent from FY 2011 to FY 2012 and 0.94 percent from the first quarter to the second quarter in FY 2013.

Income Tax

The FY 2014 estimate for income taxes also appeared achievable. District individual income tax revenue increased each year since FY 2011. Individual income tax revenue collections increased: (1) 17 percent in FY 2011; (2) 13 percent in FY 2012; and (3) 13 percent in FY 2013 over the prior year. For the month of October 2013 (FY 2014), individual income collections increased by 11 percent as compared to the same period of the previous fiscal year. The increased collections for the month of October 2013 (FY 2014), coupled with the CFO's conservative estimate for increases of individual income revenue over the past three years, of a 2 percent increase from the previous year, makes the FY 2014 total income tax revenue estimate appear attainable.

Summary

The Auditor's analysis of historical revenue trends and other economic factors indicated that the District should achieve the \$6,311,555,000 revised local source revenue estimate. On December 18, 2013, the Auditor certified the revised FY 2014 \$6,311,555,000 local source revenue estimate.

Figure I presents the revised FY 2014 local source revenue estimate submitted by the CFO on September 30, 2013 and certified by the Auditor.

Figure 1

FY 2014 Local Source Revenue Estimate Prepared by the CFO and Certified by the Auditor

Revenue Source	CFO's September 2013, FY 2014 Local Source Revenue Estimate
Property Taxes	\$2,027,098
Sales Taxes	1,036,872
Income Taxes	2,177,574
Gross Receipts Taxes	258,141
Other Taxes	312,248
Total Taxes	5,811,933
Total Non-Tax Revenues	436,167
Lottery	63,455
Revised Local Source Revenue Estimate	\$6,311,555

(thousands of dollars)

Source: Revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman dated September 30, 2013.

Conclusion

Based on an analysis of information provided by the Chief Financial Officer (CFO) of the District of Columbia, as of October 31, 2013; the assumptions supporting the fiscal year (FY) 2014 revenue estimate; and other relevant data, the Auditor concluded that the September 30, 2013, FY 2014 revised local source revenue (net of Dedicated Taxes) estimate of \$6,311,555,000 appeared to be reasonable and achievable.

Therefore, on December 18, 2013, the Auditor certified the \$6,311,555,000 FY 2014 revised local source revenue (net of Dedicated Taxes) estimate submitted by the CFO.

Sincerely,

 *Yolanda Branche*, Deputy Auditor
for:

Yolanda Branche
District of Columbia Auditor