



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

THE PRESIDENTIAL BUILDING

415 12TH STREET, N.W., ROOM 210

WASHINGTON, D.C. 20004

TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
Interim District of Columbia Auditor

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**Certification of the Fiscal Year 1998 General Fund
Revenue Estimate in Support of the Issuance of
District of Columbia General Obligation Bonds (Series 1998A)
and General Obligation Refunding Bonds (Series 1998B) in
the Aggregate Principal Amount of \$657,770,000**

September 23, 1998



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The Honorable Linda Cropp, Chairman
and Members of the Council of the
District of Columbia
441 4th Street, N.W. Room 704
Washington, D.C. 20001

Letter Report: Certification of the Fiscal Year 1998 General Fund
Revenue Estimate in Support of the Issuance of
District of Columbia General Obligation Bonds
(Series 1998A) and General Obligation Refunding
Bonds (Series 1998B) in the Aggregate Principal
Amount of \$657,770,000

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

Pursuant to Public Law 93-198, Section 603(b)(1) of the District of Columbia Self-Government and Governmental Reorganization Act, as amended, the Office of the District of Columbia Auditor analyzed the fiscal year 1998 General Fund revenue estimate in support of the issuance of District of Columbia General Obligation Bonds (Series 1998A) and General Obligation Refunding Bonds (Series 1998B) in the aggregate principal amount of \$657,770,000. Public Law 93-198, Section 603(b)(1) 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 . . . "

The \$657,770,000 bond issues consisted of \$206,135,000 in Series 1998A General Obligation Bonds to finance certain capital projects and \$451,635,000 in Series 1998B General Obligation Refunding Bonds to refund certain outstanding obligations that the District owed to the U.S. Treasury and to establish an escrow account. The costs and expenses associated with issuing and delivering the bonds will be covered by bond proceeds.

Pursuant to Public Law 93-198, Section 603(b)(1), the District of Columbia Auditor certified to the fiscal year 1998 General Fund revenue estimate of \$3,035,616,000. The estimate was prepared by the Chief Financial Officer of the District of Columbia (CFO), with the approval of the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), and was submitted to the Mayor and the Council of the District of Columbia. Based on the Office of the Auditor's review and analysis of the fiscal year 1998 revenue estimate, the Auditor certified to the fiscal year 1998 General Fund revenue estimate of \$3,035,616,000.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this analysis was to determine whether the revenue estimate of \$3,035,616,000 could be achieved by September 30, 1998. The fiscal year 1998 General Fund revenue estimate specifically included revenue collected by the Office of Tax and Revenue as well as non-tax revenue estimates generated by other District agencies. The General Fund revenue estimate was submitted to the Auditor in a legal debt limitation certificate signed by the Mayor on April 16, 1998.

The Office of the Auditor interviewed Office of Tax and Revenue (OTR) officials regarding the underlying assumptions used in determining and forecasting the fiscal year 1998 General Fund revenue estimate. The Office of the Auditor also interviewed the District's debt manager concerning the District's issuance of general obligation bonds and its plan to refund certain outstanding District debt. Additionally, the Auditor interviewed an official of the District of Columbia Courts regarding changes in the administration and financing of the D.C. Courts pursuant to the National Capital Revitalization and Self-Government Improvement Act of 1997 (the "Revitalization Act").

BACKGROUND

The District of Columbia Financial Responsibility and Management Assistance Authority was established April 17, 1995 pursuant to Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995 ("Authority Act"). The purpose of the Authority Act was:

"To eliminate budget deficits and management inefficiencies in the government of the District of Columbia through the establishment of the District of Columbia Financial Responsibility and Management Assistance Authority, and for other purposes."

The legislation also established the Office of the Chief Financial Officer of the District of Columbia within the District government's executive branch and defined the Chief Financial Officer's (CFO) duties, responsibilities and authority during a control period (see Appendix I for events that initiate and terminate a control period). Specifically, pursuant to Public Law 104-8, Section 302(c)(5), during a control year the Chief Financial Officer's duties include:

"With the approval of the Authority, preparing and submitting to the Mayor and the Council-

(A) annual estimates of all revenues of the District of Columbia (without regard to the source of such revenues), including proposed revenues, which shall be binding on the Mayor and the Council for purposes of preparing and submitting the budget of the District government for the year under part D, except that the Mayor and the Council may prepare the budget based on estimates of revenues which are lower than those prepared by the Chief Financial Officer; and

(B) quarterly re-estimates of the revenues of the District of Columbia during the year."

Additionally, Public Law 104-8, Section 302(d)(2) provides the following regarding the CFO's duties as they relate to the issuance of bonds:

"Administering all borrowing programs of the District government for the issuance of long-term and short-term indebtedness."

Previously, the Office of the D.C. Auditor certified to a General Fund revenue estimate as prepared by the Mayor of the District of Columbia. With the enactment of Public Law 104-8, the Chief Financial Officer of the District of Columbia has responsibility for preparing the revenue estimate for the District of Columbia government, with the approval of the Authority, and submitting that estimate to the Mayor and the Council. As previously noted, the revenue estimate submitted by the Chief Financial Officer of the District of Columbia shall be binding on the Mayor and Council for purposes of preparing the District's budget during a control year.

Consistent with Public Law 104-8, the Auditor certified to the fiscal year 1998 General Fund revenue estimate of \$3,035,616,000 as prepared by the CFO rather than an estimate prepared by the Mayor of the District of Columbia.

National Capital Revitalization and Self-Government Improvement Act of 1997

On October 1, 1997, the National Capital Revitalization and Self-Government Improvement Act of 1997 (Revitalization Act) was enacted. The Revitalization Act amended certain provisions of Public Law 93-198, the "District of Columbia Self-Government and Governmental Reorganization Act," as amended. The Revitalization Act changed the District's legal debt limitation ceiling from 14 to 17 percent, and transferred the administration and financing of the District of Columbia Courts to the Federal Government. In addition, Section 11601(c)(2) of the Revitalization Act eliminated the annual Federal Payment to the District government and established the Federal contribution as follows:

"FEDERAL CONTRIBUTION.-There is authorized to be appropriated a Federal contribution towards the costs of the operation of the government of the Nations's capital-

- (A) for fiscal year 1998, \$190,000,000; and
- (B) for each subsequent fiscal year, such amount as may be necessary for such contribution."

THE FISCAL YEAR 1998 GENERAL FUND REVENUE ESTIMATE APPEARS ACHIEVABLE

The fiscal year 1998 General Fund revenue estimate of \$3,035,616,000 represents an increase of \$181,116,000, or approximately 6.4 percent, over the fiscal year 1998 approved budget level of \$2,854,500,000. According to information reported in the District's consolidated General Fund cashflow statement for the year ended September 30, 1998, the actual collection of revenue through March 1998 totaled approximately \$2,120,900,000 (excluding \$400 million in tax revenue anticipation notes received during the first quarter of fiscal year 1998 to offset seasonal variations in the District's cash balance). Based upon the actual collection of revenue and the estimated projection for the remainder of fiscal year 1998, the \$3,035,616,000 General Fund revenue estimate appears achievable.

The audit team reviewed a financial status report for March 1998 prepared by the Chief Financial Officer which attributed the majority of the projected increase in fiscal year 1998 revenue to increased collections of income taxes, sales taxes, other taxes (gross receipts, estate, deed recordation and transfers), and non-tax revenues (fines, forfeitures, miscellaneous items). Also according to the March 1998 financial status report, the "improved outlook reflects improved

collection efforts on previously uncollectible accounts, and the robust national economy that other jurisdictions are also enjoying."

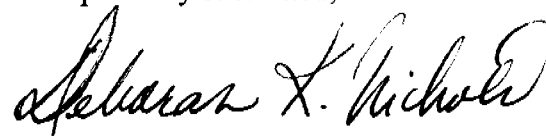
Further, according to information reported in a fiscal year 1997 stewardship report for the Office of Tax and Revenue, "The Office of Tax and Revenue took significant steps in fiscal year 1997 (FY 1997) to rebuild the tax administration system of the District of Columbia." Some of these steps included installing a reliable telephone system and cross-training taxpayer representatives. According to the report, these and other efforts have increased the collection of money owed to the District for fiscal year 1998.

CONCLUSION

The Office of the District of Columbia Auditor certified to the \$3,035,616,000 General Fund revenue estimate prepared by the Chief Financial Officer of the District of Columbia which was included in the legal debt limitation certificate signed by the Mayor on April 16, 1998.

Based on a review and analysis of the fiscal year 1998 General Fund revenue estimate and actual collections through March 1998, the District of Columbia Auditor determined that the District would achieve its fiscal year 1998 revenue estimate.

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 initial 'D'.

Deborah K. Nichols

Interim District of Columbia Auditor

INITIATION AND TERMINATION OF A CONTROL PERIOD

Public Law 104-8, Section 209(a) describes the initiation of a control period as follows:

"(a) INITIATION.- For purposes of this Act, a "control period" is initiated upon the occurrence of any of the following events (as determined by the Authority based upon information obtained through the Mayor, the Inspector General of the District of Columbia, or such other sources as the Authority considers appropriate):

(1) The requisitioning by the Mayor of advances from the Treasury of the United States under title VI of the District of Columbia Revenue Act of 1939 (sec. 47-3401, D.C. Code), or the existence of any unreimbursed amounts obtained pursuant to such authority.

(2) The failure of the District government to provide sufficient revenue to a debt service reserve fund of the Authority under subtitle B.

(3) The default by the District government with respect to any loans, bonds, notes, or other form of borrowing.

(4) The failure of the District government to meet its payroll for any pay period.

(5) The existence of a cash deficit of the District government at the end of any quarter of the fiscal year in excess of the difference between the estimated revenues of the District government and the estimated expenditures of the District government (including repayments of temporary borrowings) during the remainder of the fiscal year or the remainder of the fiscal year together with the first 6 months of the succeeding fiscal year (as determined by the Authority in consultation with the Chief Financial Officer of the District of Columbia).

(6) The failure of the District government to make required payments relating to pensions and benefits for current and former employees of the District government.

(7) The failure of the District government to make required payments to any entity established under an interstate compact to which the District of Columbia is a signatory."

Further, Public Law 104-8, Section 209(b)states that a control period can be terminated as follows:

"(b) TERMINATION.-

(1) IN GENERAL.- A control period terminates upon the certification by the

Authority that-

(A) the District government has adequate access to both short-term and long-term credit markets at reasonable interest rates to meet its borrowing needs; and

(B) for 4 consecutive fiscal years (occurring after the date of the enactment of this Act) the expenditures made by the District government during each of the years did not exceed the revenues of the District government during such years (as determined in accordance with generally accepted accounting principles, as contained in the comprehensive annual financial report for the District of Columbia under section 448(a)(4) of the District of Columbia Self-Government and Governmental Reorganization Act).

(2) CONSULTATION WITH INSPECTOR GENERAL.-In making the determination under this subsection, the Authority shall consult with the Inspector General of the District of Columbia."

A control period began in fiscal year 1995 with the enactment of Public Law 104-8, and included fiscal year 1998 as a control year. According to Public Law 104-8, Section 305(4):

"The term "control year" means any fiscal year for which a financial plan and budget approved by the Authority under section 202(b) is in effect, and includes fiscal year 1996."