



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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**Letter Report: Certification of the Fiscal Year 2011
Total Non-Dedicated Revised Local Source Revenues in
Support of the District's \$181,330,000 General Obligation
Bonds (Series 2010A)**

June 14, 2011



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The Honorable Kwame R. Brown, Chairman
and Members of the Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Letter Report: Certification of the Fiscal Year 2011 Total Non-Dedicated Revised Local Source Revenues in Support of the District's \$181,330,000 General Obligation Bonds (Series 2010A)¹

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

On November 10, 2010, 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 the Chief Financial Officer's Office of Finance and Treasury (OFT),³ requested that the District of Columbia Auditor (Auditor) certify the fiscal year (FY) 2011 estimated non-dedicated revised local source revenues (local source revenue estimate). The CFO requested the Auditor's certification in connection with the District's issuance of \$181,330,000 in General Obligation Bonds (Series 2010A). 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 capital improvements program; and (2) pay the costs and expenses of issuing and delivering the Series 2010A Bonds.

This report sets forth the results of the Auditor's analysis of the FY 2011 local source revenue estimate of \$5,030,667,000.

¹ Concurrently with the \$181,330,000 General Obligation Bonds, the District also issued Income Tax Secured Revenue Bonds in an aggregate principal amount not to exceed \$340 million to fund certain capital projects plus the costs and expenses authorized by the Income Tax Bond Act.

² See D.C. Code § 1-206.03 (b)(1).

³ See the Home Rule Act, as amended by Pub.L.No. 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995 ("FRMAA"), approved April 17, 1995, and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001, approved November 22, 2000, which indicates that 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to review, analyze and assess the reasonableness and attainability of the CFO's FY 2011 local source revenue estimate of \$5,030,667,000. The FY 2011 local source revenue estimate includes tax collections by the Office of Tax and Revenue (OTR) and non-tax revenues generated by other District agencies.

In connection with this certification review, the Auditor: (a) analyzed actual local source revenues for FY 2008 through FY 2010, as of September 30, 2010, and the estimated local source revenue for FY 2011; (b) reviewed the District's FY 2009 and FY 2010 Budget and Financial Plans, and statistical and economic data published by various sources,⁴ D.C. Act 18-607,⁵ the preliminary official statement supporting the bond issuance; and (c) interviewed Office of Revenue Analysis (ORA) officials, the D.C. Treasurer and Deputy Chief Financial Officer, local economists,⁶ representatives of Destination DC and the Restaurant and Hotel association.

The certification review was in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the certification analysis to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion that is expressed in our report. The Auditor believes this review provides a reasonable basis for certifying the CFO's \$5,030,667,000 FY 2011 local source revenue estimate.

Based upon our examination of available information as well as representations made by officials in the CFO's ORA, the Auditor determined that, barring any significant unforeseen events that could adversely impact revenues, the FY 2011 local source revenue estimate of \$5,030,667,000 should be achieved by the District during FY 2011. Therefore, on December 22, 2010, the Auditor certified the CFO's September 2010 FY 2011 local source revenue estimate of \$5,030,667,000.

⁴ The Auditor reviewed information obtained from Destination DC, the Federal Reserve Board, the U.S. Department of Labor's Bureau of Labor Statistics, the District's Department of Employment Services, Greater Capital Area Association of Realtors (GCAAR), The Conference Board and reports on the regional economy published by the School of Public Policy's Center for Regional Analysis, at George Mason University.

⁵ See D.C. Act 18-607 entitled, "Fiscal Year 2011 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Emergency Approval Act of 2010," approved November 17, 2010. The Council of the District of Columbia approved on an emergency basis "the borrowing of funds by the District through the issuance and sale of income tax secured revenue bonds... and general obligation bonds..."

⁶ Reviews were conducted of information published by Professor Stephen S. Fuller, Dwight Schar Faculty Chair and University Professor, Director, Center for Regional Analysis, School of Public Policy, George Mason University and Professor Rodney Green, Executive Director, Center of Urban Progress, Department of Economics, Howard University.

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, [Auditor's Emphasis] 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, and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001, approved November 22, 2000, 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's certification was based upon an evaluation of the \$5,030,667,000 FY 2011 local source revenue estimate prepared by officials in the CFO's ORA.⁷ 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 ORA officials provided a sound and reasonable FY 2011 local source revenue estimate and fully disclosed and provided reliable and accurate information to the Auditor regarding the District's FYs 2010 and 2011 revenue collections.⁸

⁷ See transmittal letter from the Chief Financial Officer to the Mayor and Council Chairman, dated September 27, 2010.

⁸ A Management Representations Letter concerning the CFO's disclosures and accuracy of the financial data on which the Auditor's certification was based was signed by the District's CFO on December 22, 2010.

RESULTS OF ANALYSIS

In reviewing the FY 2011 local source revenue estimate of \$5,030,667,000, the Auditor relied on preliminary revenue collection results for FY 2010 as of September 2010, as well as economic indicators, trends and projections in that there were only two months FY 2011 actual revenue collection data available at the time for review and analysis.⁹

Based on the Auditor's review and analysis of historical and other economic data, the Auditor believed the FY 2011 local source revenue estimate was achievable.

Again, based on historical and other economic data, at the time, the Auditor believed the FY 2011 \$1.621 billion revised estimate for real property taxes would be achieved. According to an ORA official, the District's commercial real estate market remained one of the most desirable as evidenced by the low vacancy rates. Further, according to data published by GCAAR, the residential real estate market in the District of Columbia continued to show improvement as compared to the same period one year ago. GCAAR reported contracts of single family homes were up 14.7% and 10.5% and settlements were up 23.4% and 21% for August and September 2010¹⁰ respectively as compared to the same period in 2009. Additionally, ORA reported in its October 2010 District of Columbia Economic and Revenue Trends report that "the value of property sold in the District during the past 12 months was 42.4% higher for the year ending in August compared to the comparable period of the prior year. The value is calculated from the taxes paid on transfers of (or transfers of economic interest in) real property in the District of Columbia."¹¹

Further, the Auditor believed the District would achieve the \$831.8 million revised general sales and use taxes estimate for FY 2011. According to data from Destination DC, there was an overall increase in hotel occupancy rates, room rates, and total revenue in October 2010 as compared to the same period in 2009. The Auditor notes that increases in District tourism have historically had a positive impact on the District's general sales and use tax collections. While collections of general sales and use taxes through September 2010 were 2.2% below the FY 2010 revised estimate, collections were \$117.2 million, or 16.4%, above collections for the same period in FY 2009. Further, airport travel also increased as of October 2010 as reported by the Metropolitan Washington Airports Authority and Maryland Aviation Administration Authority. The increases as reported by Regan National Airport (DCA), Dulles International Airport (IAD) and Baltimore Washington International Airport (BWI) were 5.9%, 6.4% and 7.2% respectively.

⁹ Given the timing of the issuance of the District's \$181,330,000 General Obligation Bonds (Series 2010A), issued in the first quarter of FY 2011, collection data for FY 2011 was available only through October 2010.

¹⁰ See GCAAR Housing Reports for August 2010 and September 2010.

¹¹ See Office of the Chief Financial Officer, Office of Revenue Analysis, District of Columbia Economic and Revenue Trends: October 2010 report.

The FY 2011 revised estimate for income taxes also appeared achievable. Individual income tax withholdings increased each month during the last quarter of FY 2010. Withholdings were up: (1) 1% in July; (2) 1.6% in August; and (3) 1.9% in September. For the month of October 2010, fiscal year 2011, withholdings were up 13.7% and 22.5% overall as compared to the previous fiscal year.

The Auditor also considered the following data in analyzing and certifying the FY 2011 local source revenue estimate of \$5,030,667,000:

- the overall economic conditions in the Washington metropolitan region were projected to remain favorable;
- the rate of inflation was still relatively low;
- withholding for income taxes was growing which supported increased revenue going forward; and
- the growth in the stock market.

The Auditor's analysis of historical revenue and other economic factors indicated that the District should achieve the \$5,030,667,000 local source revenue estimate. Therefore, on December 22, 2010, the Auditor certified the FY 2011 \$5,030,667,000 local source revenue estimate.

Table I presents the FY 2011 local source revenue estimate prepared by the CFO and certified by the Auditor.

TABLE I
FY 2011 Local Source Revenue Estimate
Prepared by the CFO and Certified by the Auditor
(000s)

Revenue Source	CFO's September 2010, FY 2011 Local Source Revenue Estimate as Certified by the Auditor on December 22, 2010.
Property Taxes	\$1,621,436
General Sales and Use Taxes	831,786
Selected Sales and Use Taxes	63,657
Income Taxes	1,561,429
Gross Receipts Taxes	254,809
Other Taxes	205,108
Total Taxes	4,538,225
Total Non-Tax Revenues	423,942
Lottery	68,500
Revised Local Source Revenue Estimate	\$5,030,667

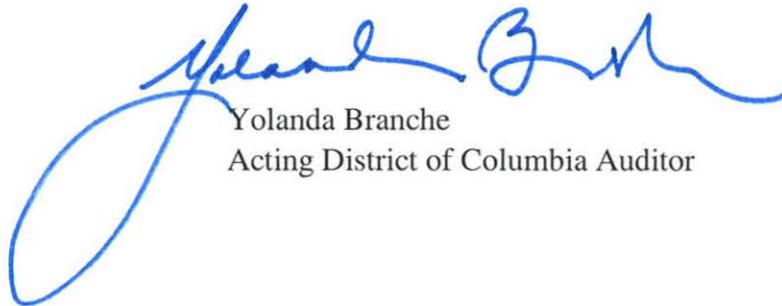
Source: Transmittal letter from the Chief Financial Officer to the Mayor and Council Chairman dated September 27, 2010.

CONCLUSION

Based on the analysis of information provided by the District's CFO through ORA including the actual collections for FY 2010, as of September 30, 2010, the assumptions supporting the FY 2011 revenue estimate, and other relevant data, the Auditor found that the September 27, 2010, FY 2011 non-dedicated revised local source revenue estimate of \$5,030,667,000 appeared to be reasonable and achievable.

Therefore, on December 22, 2010, the Auditor certified the \$5,030,667,000 FY 2011 non-dedicated revised local source revenue estimate as prepared by the CFO.

Respectfully submitted,



Yolanda Branche
Acting District of Columbia Auditor