Analysis of the FY 2001
Proposed Revenue Forecast
and FY 2000 Revised Revenue Forecast

April 7, 2000
The Honorable Linda W. Cropp, Chairman
Council of the District of Columbia
441 4th Street, N.W., Suite 704
Washington, D.C. 20001


Dear Chairman Cropp:

Pursuant to your request of February 9, 2000, the District of Columbia Auditor analyzed the fiscal year 2001 general fund proposed revenue forecast and fiscal year 2000 revised general fund revenue forecast developed by the Office of the Chief Financial Officer’s (OCFO) Office of Tax and Revenue.


The Auditor interviewed officials of the OCFO’s Tax and Economic Policy and Real Property Tax Administrations, which are within the Office of Tax and Revenue (OTR). The Auditor discussed the revenue forecasting practices of Maryland and Virginia with officials in those states. Additionally, certain District agency officials were interviewed to gain a better understanding of the revenue projections for fiscal years 2000 and 2001. The Auditor also met with officials in the Council of the District of Columbia’s Budget Office.

The review of the fiscal year 2000 revised revenue forecast and the fiscal year 2001 proposed revenue forecast was complicated by the fact that the District had not issued the Comprehensive Annual Financial Report for the fiscal year ended September 30, 1999. Therefore, the report of
actual revenue for fiscal year 1999, as prepared by the OCFO, was preliminary and subject to significant revision. For example, the OCFO’s Tax and Economic Policy Administration revised the fiscal year 1999 preliminary actual revenue on March 8, 2000 to reflect more up-to-date information.

BACKGROUND

The District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198 (Home Rule Act), approved December 24, 1973, as amended, granted limited home rule authority to the District of Columbia. The Home Rule Act requires the Mayor to annually submit a balanced appropriated budget for the general fund. The provisions governing the submission of a budget for the District of Columbia were changed by Public Law 104-8 entitled, "Financial Responsibility and Management Assistance Authority Act of 1995" (Authority Act). The Authority Act created the Financial Responsibility and Management Assistance Authority and established the position of Chief Financial Officer of the District of Columbia with responsibility for preparing the financial plan and budget of the District for use by the Mayor during a control year. (See Appendix I for events that initiate and terminate a control period) The purpose of the Authority Act is:

"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."

Public Law 104-8, Section 302(c)(5), states the following with regard to the Chief Financial Officer’s duties during a control year:

"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."

Prior to the enactment of Public Law 104-8, the Mayor of the District of Columbia was responsible for developing the annual estimate of revenues in support of the District’s budget.
The Office of Tax and Revenue’s Assumptions Supporting the Fiscal Year 2000 Revised Revenue Forecast and the Fiscal Year 2001 Proposed Revenue Forecast

Officials of OTR’s Tax and Economic Policy Administration indicated that the assumptions supporting the fiscal year 2000 revised revenue forecast and the fiscal year 2001 proposed revenue forecast are based on a very detailed and comprehensive review and analysis of several sources of information, including:

a. economic data from firms that provide regional and national economic data such as DRI/Standard & Poors and Regional Finance Associates (RFA);

b. information obtained from REMI - D.C. and regional economic forecasting model, the Congressional Budget Office (CBO), and a regional economist from George Mason University; and

c. historical data.

OTR noted that these sources of information were considered in developing a set of revenue estimating assumptions. For example, OTR’s assumptions supporting the fiscal year 2000 revised revenue forecast and the fiscal year 2001 proposed revenue forecast included the following variables: real gross domestic product; real gross state product; real personal income; population; residential employment; employment in D.C.; and the consumer price index. Additionally, in preparing the fiscal year 2000 revised and the fiscal year 2001 proposed revenue forecast, OTR met with two recently established advisory groups who provided advice on “technical estimating issues” and “current economic trends.” OTR also used various models to assist in developing the forecasts.\footnote{One model used by OTR is the Autoregressive Integrated Moving Average (ARIMA). This model is used primarily to assist in forecasting cash collection for certain tax revenues. Another model used by OTR is ordinary least squares (OLS). According to OTR, the ARIMA and OLS models consider economic measures such as inflation, employment levels, and the gross state product and their relationship to the applicable tax.}
AUDITOR’S ANALYSIS

FISCAL YEAR 2000 REVISED REVENUE FORECAST AND FISCAL YEAR 2001 PROPOSED REVENUE FORECAST

The Auditor’s review of the fiscal year 2000 revised and the fiscal year 2001 proposed revenue forecasts indicated that:

- the original revenue forecast for fiscal year 2000 was $3.114 billion and was revised upwards by approximately $97.2 million to $3.212 billion;

- the fiscal year 2000 revised revenue forecast of $3.212 billion represents a net increase of $121 million, or 3.9 percent, above the preliminary actual revenue\(^2\) of $3.091 billion for fiscal year 1999; and

- the proposed revenue forecast for fiscal year 2001 of $3.196 billion represents a net decrease of approximately $15.7 million, or 0.5 percent, below the fiscal year 2000 revised revenue forecast of $3.212 billion.

The Office of the Chief Financial Officer’s Office of Tax and Revenue Characterized Fiscal Years 2000 and 2001 Revenue Forecasts as Conservative

The Office of the Chief Financial Officer’s OTR characterized fiscal years 2000 and 2001 revenue forecasts as conservative. The Auditor notes that the District’s fiscal year 2001 financial plan states that:

"The outlook for the Washington Metropolitan Regional Economy is favorable and consistent with national trends. In December 1999, Stephen S. Fuller, a George Mason University economist, observed that calendar year 1999 ended with the Washington Coincident Index and the Leading Index both registering positive performances for the 4th quarter. However, the region’s current rate of growth no longer exceeds its rate of a year ago and may be poised to slowly change direction in the coming months. Standard and Poor’s DRI anticipates that growth in the Washington Metropolitan Region will change with the national economy.

Against the backdrop of a strong national and regional economy, the District of Columbia economy is forecast to show steady growth in FY 2000 and FY 2001, with increases in jobs and in employment of the [SIC] District residents. Inflation-adjusted gross state product (GSP) and personal income are forecast to increase at average annual rates of 1.0 percent and 2.6 percent respectively. Activities

---

\(^2\)Preliminary actual revenue was used for FY 1999 because the District’s CAFR for the year ended September 30, 1999 was not complete as of the date of this report. In accordance with Public Law 104-8, the District’s CFO is required to have a completed CAFR by February 1st of each year following the close of a fiscal year.
currently underway that will boost the economy include new retail and restaurant development associated with the MCI Center, the transfer of jobs to the D.C. Navy Yard, and construction of the new Convention Center."

Table 1 presents a comparison of the fiscal year 1998 actual revenue, fiscal year 1999 preliminary actual revenue, and the fiscal years 2000 revised and 2001 proposed revenue forecasts.

### TABLE I
($000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Property Tax</td>
<td>$695,440</td>
<td>$679,642</td>
<td>$652,250</td>
<td>-4.0%</td>
<td>$644,360</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Total Sales Tax</td>
<td>582,379</td>
<td>595,920</td>
<td>617,565</td>
<td>3.6%</td>
<td>639,230</td>
<td>3.5%</td>
</tr>
<tr>
<td>Total Income Tax</td>
<td>1,077,301</td>
<td>1,166,648</td>
<td>1,247,300</td>
<td>6.9%</td>
<td>1,250,100</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total Gross Receipts Taxes</td>
<td>236,637</td>
<td>207,290</td>
<td>213,035</td>
<td>2.8%</td>
<td>218,106</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total Other Taxes</td>
<td>139,882</td>
<td>148,216</td>
<td>143,951</td>
<td>-2.9%</td>
<td>141,200</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Total Tax Revenue</td>
<td>2,731,639</td>
<td>2,797,716</td>
<td>2,874,101</td>
<td>2.7%</td>
<td>2,892,996</td>
<td>0.7%</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>235,188</td>
<td>228,640</td>
<td>228,852</td>
<td>0.09%</td>
<td>205,772</td>
<td>-10.09%</td>
</tr>
<tr>
<td>Tobacco Settlement 30%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>-0-</td>
<td>-0-</td>
<td>16,049</td>
<td>100.0%</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Total Non-Tax Revenue</td>
<td>235,188</td>
<td>228,640</td>
<td>244,901</td>
<td>7.1%</td>
<td>205,772</td>
<td>-16.0%</td>
</tr>
<tr>
<td>Federal Payment</td>
<td>198,000</td>
<td>-0-</td>
<td>23,750</td>
<td>100.0%</td>
<td>28,211</td>
<td>18.8%</td>
</tr>
<tr>
<td>Lottery</td>
<td>81,300</td>
<td>64,225</td>
<td>69,000</td>
<td>7.4%</td>
<td>69,000</td>
<td>0.0%</td>
</tr>
<tr>
<td>General Fund Allocable Revenue</td>
<td>$3,246,127</td>
<td>$3,090,581</td>
<td>$3,211,752</td>
<td>3.9%</td>
<td>$3,195,979</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

Source: FY 2001 and FY 2000 Revised Revenue Forecast data prepared by the District’s OCFO and the FY 2001 Proposed Operating Budget and Financial Plan

<sup>3</sup>Each revenue source contains more than one tax category. The Auditor’s analysis of individual revenue projections includes the three largest tax categories in addition to selected others.

<sup>4</sup>As part of its settlement under the Master Settlement Agreement with tobacco manufacturers, the District of Columbia received its first installment payment of $16 million in December 1999. In accordance with D.C. Law 13-38 entitled, "The Service Improvement and Fiscal Year 2000 Budget Support Act of 1999" the first payment of $16 million was allocated as general fund revenue. All remaining payments are scheduled to be deposited into the Tobacco Settlement Trust Fund established pursuant to D.C. Law 13-38 and only "be used for purposes set forth in legislation adopted by the Council."
The fiscal year 2000 revised revenue forecast reflects growth of 3.9 percent above the fiscal year 1999 preliminary actual revenue. The fiscal year 2000 revised revenue forecast includes approximately $59 million in revenue reductions due to tax cuts associated with the Tax Parity Act.5

The fiscal year 2001 proposed revenue forecast reflects a decline in growth of 0.5 percent below the fiscal year 2000 revised revenue forecast. The fiscal year 2001 proposed revenue forecast includes $134.6 million in revenue reductions due to tax cuts associated with the Tax Parity Act.

ANALYSIS OF INDIVIDUAL REVENUE PROJECTIONS

Real Property Tax

Real property tax cash collections for January 2000 totaled $4.7 million. This is approximately $2.7 million above the January 2000 estimate of $2 million. Year-to-date real property tax collections of $37.6 million are approximately $25.1 million, or 200.9 percent, above the estimate of $12.5 million. As compared to January 1999, the year-to-date collections through January 2000 are $30.1 million, or 403.4 percent, above collections through January 1999 of $7.5 million. Real property tax revenue for fiscal years 1997 to 2001 (actual and projected) are presented in Table II:

| TABLE II |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Real Property Tax Revenue |
| Fiscal Years 1998 through 2001 |
| ($000) |

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$617,694</td>
<td>$616,935</td>
<td>$597,605</td>
<td>$572,900</td>
<td>$573,500</td>
</tr>
</tbody>
</table>


The fiscal year 2000 revenue forecast for real property taxes is $572.9 million. This represents a reduction of $24.7 million, or 4.1 percent, below the preliminary actual revenue for fiscal year 1999 of $597.6 million. By comparison, the fiscal year 2001 proposed forecast of $573.5 million represents a slight increase of $600,000, or 0.1 percent, above the fiscal year 2000 revised revenue forecast.

Table II indicates that real property tax revenue, the District’s second largest source of

5The fiscal year 2000 and 2001 revenue estimates include the impact of Title XXVII of the "Service Improvement and Fiscal Year 2000 Budget Support Act of 1999" (the Tax Parity Act). In accordance with this legislation, rate reductions were approved for individual income tax, commercial and rental real property tax rates, and franchise taxes.
revenue, declined steadily during fiscal years 1997 through 1999. OTR projects a further decline in real property tax revenue during fiscal year 2000 with only a slight increase in fiscal year 2001. OTR attributed the decline to a fall in real property values and to refunds from successful assessment appeals. OTR officials indicated that the continued decline in fiscal year 2000 and the "slight" increase projected in fiscal year 2001 are due to reductions associated with Tax Parity. Notwithstanding OTR's position, actual collections indicate an increase of real property tax revenue through January 2000.

As a result of changes in the property assessment and appeals processes, OTR projects fewer refunds of real property tax revenue in the future. Under a new administrative appeals process, the first level of appeal is to the assessor; the second appeal is to the Board of Real Property Assessments and Appeals; and a third appeal may be filed with the District of Columbia Superior Court. Previously, there were only two levels of appeal: to the Board of Real Property Assessments and Appeals and then to the District of Columbia Superior Court. According to officials of the Real Property Tax Administration, assessments are now more in line with market values. As a result, OTR officials believe that there are fewer instances in which property owners are able to successfully challenge their assessments.

In fiscal year 1998, the Council of the District of Columbia enacted legislation establishing a triennial assessment system which divides District properties into three tri-groups (each group contains one-third of the District's real property) for assessment purposes. Under this system, each tri-group is reassessed once every three years. Increases in assessed values will be phased-in over a three-year cycle. Decreases in assessed values, however, take place immediately. According to OTR, the first phase of assessments under the triennial system was completed in 1998, the second phase during 1999, and the third during 2000. Because triennial assessments are phased-in over a three year period, the fiscal impact from any increases in assessed values will not be immediately reflected in the District's tax revenues but will be gradually phased in over a three-year period. As a result of the gradual realization of revenue under the triennial assessment cycle and the fact that reductions in property values are realized immediately, OTR officials anticipate a reduction in the annual growth rate of the real property tax base.

OTR officials in the Tax and Economic Policy Administration also noted that, after many years with no appreciation, the District is finally experiencing increases in housing prices as well as some commercial growth which increased substantially during 1997 and continued into 1998 and 1999. OTR notes that there may be some growth in real property taxes as a result of increased housing prices and the value of new construction. By OTR's estimate, the value of new construction increased to over $1 billion for the first time since 1990. This trend is continuing with major projects including the construction of the new convention center at Mount Vernon Square. Further, OTR officials noted that other large development projects are also planned for the District. These projects include revitalization at Logan Circle and affordable housing units in Anacostia. Additionally, real property taxes may be favorably stimulated by the Federal Taxpayer Relief Act
of 1997 which provides, in part, temporary Federal tax benefits of $5,000 for first time home-buyers in the District of Columbia.

**Individual Income Taxes**

The individual income tax category is the District’s largest source of revenue. Individual income tax collections for January 2000 totaled $135 million. The collections exceeded the estimate by $15 million. The individual income tax revenue for fiscal years 1997 through 2001 (actual and projected) are presented in Table III:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual Income</strong></td>
<td>$753,475</td>
<td>$861,505</td>
<td>$948,100</td>
<td>$998,800</td>
<td>$1,007,700</td>
</tr>
</tbody>
</table>


The fiscal year 2000 revised estimate for individual income taxes is $998.8 million. This represents a $50.7 million, or 5.3 percent, increase above the fiscal year 1999 preliminary actual revenue of $948.1 million. The fiscal year 2000 revised forecast includes approximately $21.2 million in reductions associated with the Tax Parity Act which reduced individual income tax rates and changed the threshold for the top bracket beginning with fiscal year 2000 and continuing over a five-year period. The fiscal year 2001 proposed revenue forecast is $1.008 billion. This estimate represents a $9.2 million, or 0.9 percent, increase above the fiscal year 2000 revised estimate of $998.8 million.

Individual income taxes increased by $108 million, or 14.3 percent, in fiscal year 1998 over fiscal year 1997. According to information obtained from the OCFO, the average annual growth for fiscal years 1984 to 1998 was 4.3 percent. However, between 1998 and 1999 individual income taxes increased by $86 million, or 10 percent. OTR attributed part of the increase to improvements in compliance with tax laws and increases in capital gains revenue from a strong economy and a booming stock market, neither of which are forecast to continue at such a strong pace.

---

6. The other benefits provided by the Federal Taxpayer Relief Act of 1997 include elimination of the capital gains tax for investments in selected areas of the District. The Act also provides employers in selected areas of the District with Federal tax credits for wages paid to employees who live in the District.

7. According to OTR, approximately $8 million of the $50.7 million increase is due to revenue from OTR’s "2 for 1" proposal.
Corporate Franchise Tax

Collection of corporate franchise taxes through January 2000 totaled $71.9 million. The collections were $27.9 million, or 63.5 percent, above the year-to-date estimate and approximately $20 million, or 38.4 percent, above January 1999 collections. The increase in corporate franchise taxes is due to stronger growth in corporate activity and the one-time collection, in fiscal year 2000, of $10 million from a business taxpayer. The corporate franchise tax revenue for fiscal years 1997 to 2001 (actual and projected) are presented in Table IV:

TABLE IV
Corporate Franchise Taxes
Fiscal Years 1997 through 2001
($000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Franchise Taxes</td>
<td>$144,563</td>
<td>$170,029</td>
<td>$164,652</td>
<td>$193,000</td>
<td>$185,700</td>
</tr>
</tbody>
</table>


The fiscal year 2000 revised revenue forecast for corporate franchise taxes is $193 million. This estimate represents an increase of $28.3 million, or 17.2 percent, above the preliminary actual revenue of $164.7 million for fiscal year 1999. According to OTR, the fiscal year 1999 corporate franchise tax revenue was reduced by $22 million to reflect the District’s settlement of a lawsuit involving Sovran Bank\(^1\) and Scholl Street Association.

The fiscal year 2001 proposed revenue forecast for corporate franchise taxes is $185.7 million. This revenue forecast represents a reduction of $7.3 million, or 3.8 percent, below the fiscal year 2000 revised revenue forecast.

\(^1\) In connection with the settlement of this case, OTR noted that the District has a maximum exposure of up to $100 million from similar cases. The Auditor notes that this exposure is substantial and could negatively impact revenue projections should the District experience losses that require payments of this magnitude.
General Sales and Use Taxes

General sales and use taxes represent the third largest source of revenue for the District. This revenue is derived from taxes imposed on the sale of tangible personal property, food, beverages, and services within the District of Columbia. Revenue for general sales and use taxes for fiscal years 1997 to 2001 (actual and projected) are presented in Table V:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$482,354</td>
<td>$524,878</td>
<td>$543,258</td>
<td>$566,000</td>
<td>$588,000</td>
<td></td>
</tr>
</tbody>
</table>


The general sales and use tax revenue forecast for fiscal year 2000 is $566 million. This estimate represents an increase of $22.7 million, or 4.2 percent, above the preliminary actual revenue of $543.3 million for fiscal year 1999. By comparison, the fiscal year 2001 revenue forecast of $588 million represents an increase of $22 million, or 3.9 percent, above the fiscal year 2000 revised revenue forecast.

According to OTR officials, the fiscal years 2000 revised and 2001 proposed revenue forecasts are impacted, in part, by two elements: (1) internet sales, and (2) changes in the Federal government’s method of payment for travel expenses. Federal employees can now use smart cards to charge travel related expenditures. Purchases charged to smart cards are tax exempt and, as a result, the District will not receive sales tax revenue from such purchases. Additionally, OTR projects that internet sales will increase. As a result of this increase, OTR believes sales tax revenue for the District will decrease by approximately $0.75 million in fiscal year 2000 and $1.6 million in fiscal year 2001 because of the difficulty of enforcing the payment of sales taxes on internet purchases.

---

9 The District’s Sales and Use tax is collected on the basis of a five-tier rate structure as follows: 5.75 percent on general retail sales; 8 percent for alcoholic beverages consumed outside the premises; 10 percent for restaurant meals, auto rentals and prepaid phone cards; 12 percent for commercial parking; and 14.5 percent for hotel room accommodations. Of the 10 percent for restaurant meals, 1 percent supports the Washington Convention Center Authority, and of the 14.5 percent for hotel room charges, 4.45 percent of this tax also supports the Washington Convention Center Authority.
Non-Tax Revenues

The non-tax cash collections for January 2000 totaled $8.6 million. This is approximately $6.2 million below the January 2000 estimate of $14.8 million. The year-to-date collections of $53 million for this category are $17.8 million, or 25.2 percent, below the estimate of $70.7 million. As compared to January 1999, the year-to-date collections through January 2000 are $7.5 million, or 12.5 percent, below fiscal year 1999. The non-tax revenue for fiscal years 1997 to 2001 (actual and projected) are presented in Table VI:

<table>
<thead>
<tr>
<th>TABLE VI</th>
<th>Nontax Revenue</th>
<th>Fiscal Years 1997 through 2001</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenses and Permits</td>
<td>$45,489</td>
<td>$48,123</td>
<td>$48,080</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>51,664</td>
<td>53,177</td>
<td>47,710</td>
</tr>
<tr>
<td>Court Charges</td>
<td>6,009(^{10})</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>70,919</td>
<td>99,136</td>
<td>94,824</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>37,801</td>
<td>34,752</td>
<td>38,026</td>
</tr>
<tr>
<td>Tobacco Settlement (30%)</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Total Non-Tax Revenue</td>
<td>$211,882</td>
<td>$235,188</td>
<td>$228,640</td>
</tr>
</tbody>
</table>


The fiscal year 2000 revenue forecast for non-tax revenue is $244.9 million. This estimate includes $16 million in tobacco settlement funds\(^{11}\). The $244.9 million represents an increase of $16.3 million above the preliminary actual revenue for fiscal year 1999. The fiscal year 2001 proposed revenue forecast is $205.7 million which represents a decrease of $39.1 million, or 16

---

\(^{10}\) Because the Federal government assumed the District’s court related functions, the District no longer collects court charges or court fines.

\(^{11}\) With the exception of the $16 million received during fiscal year 2000, all future tobacco settlement proceeds are to be deposited into the Tobacco Settlement Trust Fund. The trust fund was created by the Council of the District of Columbia in the Service Improvement and FY 2000 Budget Support Act of 1999. In accordance with this legislation, tobacco settlement funds can only be used for purposes set forth in legislation adopted by the Council.
percent, below the revised fiscal year 2000 estimate. OTR attributes the decrease to reductions in collections from interest income, miscellaneous revenue, and the elimination of reimbursement to the Department of Corrections from the Federal Bureau of Prisons. Also, tobacco settlement funds were not included in the general fund for fiscal year 2001.

In a report dated August 12, 1994 entitled, “Certification of the FY 1994 Revenue Estimates in Support of General Obligation Bonds (Series 1994B) and General Obligation Refunding Bonds (Series 1994C),” the Auditor raised questions concerning OTR’s methodology in estimating non-tax revenue. In the report, the Auditor determined that OTR was not aware of the specific method used by agencies in developing their estimates. At that time, the District’s chief economist noted that OTR had no authority to institute changes at the agency level and therefore accepted agency estimates as submitted. Based on current observations and discussions with OTR officials, it appears that the process described in the August 1994 report has not changed significantly. Subsequent to the August 1994 report, the Office of the Chief Financial Officer was established and vested with the necessary authority to institute substantial changes in non-tax revenue estimating policies, procedures, and practices. The Auditor reiterates that the process of estimating non-tax revenue must be substantially improved. Further, there should be much better coordination between OTR and individual agencies in developing non-tax revenue estimates to ensure consistency in the District’s estimating policies and procedures.

The Auditor also found instances in which non-tax revenues were not collected timely. For example, information obtained from the Department of Consumer and Regulatory Affairs (DCRA) indicated that approximately $3.5 million in outstanding fines levied for various licensing and health code violations had not been timely collected by DCRA. These fines, some of which dated back to fiscal year 1996, remained outstanding as of March 2000.

**Lottery Board**

The year-to-date cash collections for D.C. Lottery revenue through January 2000 were $24.2 million. These collections were $2.6 million, or 12.4 percent, above the estimate through January 1999. D.C. Lottery revenue for fiscal years 1997 to 2001 (actual and projected) are presented in Table VII:

<table>
<thead>
<tr>
<th>TABLE VII</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lottery Board</strong></td>
</tr>
<tr>
<td><strong>Fiscal Years 1997 through 2001</strong></td>
</tr>
<tr>
<td><strong>($000)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legalized Gambling</td>
<td>$69,200</td>
<td>$81,300</td>
<td>$64,225</td>
<td>$69,000</td>
<td>$69,000</td>
</tr>
</tbody>
</table>


12
The fiscal year 2000 revised revenue forecast and the fiscal year 2001 proposed revenue forecast for the transfer from the D.C. Lottery is $69 million. The $69 million revenue forecasts for fiscal years 2000 and 2001 represent an increase of approximately $4.8 million, or 7.4 percent, above the fiscal year 1999 preliminary actual revenue transfer of $64.2 million.

The executive director of the Lottery indicated that growth in fiscal years 2000 and 2001 could be impacted by sales, changes in player interest, competition from nearby states, and the inability to offer certain lottery products. For example, Maryland has Keno -- a very successful game. Under current legislation, the District cannot offer the same type of products as neighboring jurisdictions. The Lottery’s success in realizing growth of 7.4 percent in fiscal year 2000 is also affected by the number of Powerball jackpots that exceed $100 million and the number of jackpot winners from this region. According to Lottery officials, sales are likely to increase when the Powerball jackpot exceeds $100 million.

During fiscal year 1998, the D.C. Lottery transferred revenues of $81.3 million to the general fund. This represented the second largest transfer in the D.C. Lottery’s history and appears to have been fueled by four (4) Powerball jackpots that exceeded $100 million. According to D.C. Lottery officials, the fiscal year 1999 transfer of $64.2 million did not include any Powerball jackpots in excess of $100 million and also reflected the impact of increased payouts on some games to maintain the District’s competitiveness with other jurisdictions.

**DISTRICT’S COLLECTION PATTERNS HAVE YIELDED MIXED RESULTS**

During the past 10 years (fiscal years 1990 through 1999), the District of Columbia government’s actual collection of revenue has:

- exceeded the revised revenue budget five (5) times out of 10; and
- exceeded the original revenue budget six (6) times out of 10.

A comparison of the District’s original, revised, and actual local source revenues for fiscal years 1990 to 1999 is presented in Table VIII:
### TABLE VIII
Comparison of Original, Revised, and Actual Local Source Revenues
Fiscal Year 1990 to 1999
(000's)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Original</th>
<th>Revised</th>
<th>Actual</th>
<th>Actual/Original Difference</th>
<th>%</th>
<th>Actual/Revised Difference</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$2,907,422</td>
<td>$3,065,546</td>
<td>$3,090,581*</td>
<td>$183,159</td>
<td>6.3%</td>
<td>25,035</td>
<td>0.8%</td>
</tr>
<tr>
<td>1998</td>
<td>2,393,700</td>
<td>2,823,416</td>
<td>3,048,127**</td>
<td>454,427</td>
<td>17.5%</td>
<td>224,711</td>
<td>8%</td>
</tr>
<tr>
<td>1997</td>
<td>2,510,249</td>
<td>2,551,465</td>
<td>2,701,918</td>
<td>191,669</td>
<td>7.6%</td>
<td>150,453</td>
<td>5.9%</td>
</tr>
<tr>
<td>1996</td>
<td>2,511,546</td>
<td>2,510,961</td>
<td>2,580,864</td>
<td>69,318</td>
<td>2.7%</td>
<td>69,903</td>
<td>2.8%</td>
</tr>
<tr>
<td>1995</td>
<td>2,676,675</td>
<td>2,684,188</td>
<td>2,587,592</td>
<td>(89,083)</td>
<td>3.3%</td>
<td>(96,596)</td>
<td>-3.6%</td>
</tr>
<tr>
<td>1994</td>
<td>2,634,559</td>
<td>2,681,211</td>
<td>2,666,614</td>
<td>32,055</td>
<td>1.2%</td>
<td>(14,957)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>1993</td>
<td>2,609,781</td>
<td>2,758,981</td>
<td>2,739,924</td>
<td>130,143</td>
<td>0.5%</td>
<td>(19,057)</td>
<td>-0.7%</td>
</tr>
<tr>
<td>1992</td>
<td>2,606,536</td>
<td>2,603,531</td>
<td>2,587,687</td>
<td>(18,849)</td>
<td>-0.7%</td>
<td>(15,844)</td>
<td>-0.6%</td>
</tr>
<tr>
<td>1991</td>
<td>2,729,557</td>
<td>2,556,754</td>
<td>2,557,860</td>
<td>(171,697)</td>
<td>-6.29%</td>
<td>1,106</td>
<td>0.04%</td>
</tr>
<tr>
<td>1990</td>
<td>2,591,011</td>
<td>2,525,649</td>
<td>2,450,680</td>
<td>(140,331)</td>
<td>-5.4%</td>
<td>(74,969)</td>
<td>-2.97%</td>
</tr>
</tbody>
</table>

* The $3,090,581 for FY1999 represents preliminary actual collections.
** The $3,048,127 does not include $198,000 federal payment authorized in fiscal year 1998.
Source: OCF's Fiscal Year 2000 Revised and Fiscal Year 2001 Revenue Forecast Data

As shown in Table VIII, the fiscal year 1999 preliminary actual revenue of $3.090 billion was
$25 million, or .8 percent, above the revised revenue forecast of $3.066 billion. The fiscal year 1999
preliminary actual revenue collection also exceeded the original forecast by $183.2 million, or
approximately 6.3 percent. During fiscal years 1996 through 1999, the actual collection of local
source revenues exceeded both the original and the revised revenue forecasts. For example, during
fiscal year 1998, the actual local source revenue collection of $3.048 billion was $225 million, or
8 percent, above the revised revenue forecast and $454 million, or 17.5 percent, above the original
revenue forecast.

The variance between the original revenue budget to actual collections during the ten-year
period ranged from a low of -6.29 percent to a high of 17.5 percent. The variance between the
revised revenue budget to the actual collection ranged from a low of -3.6 percent to a high of 5.9
percent. Officials in the State of Virginia noted that they strive to achieve a 2 percent or less
variance in actual collections to their revised forecast.
FACTORS WHICH COULD IMPACT THE OCFO'S FISCAL YEAR 2000 REVISED AND FISCAL YEAR 2001 PROPOSED REVENUE FORECASTS

The Auditor notes that the following recent developments in fiscal year 2000 should be considered when reviewing the revenue forecasts. These developments include:

- the growth in the national economy;
- the growth in neighboring jurisdictions; and
- the District’s fiscal year 2000 year-to-date cash collections.

Growth in the National Economy

The Auditor’s review of relevant data all appear to confirm that the growth on the national level is continuing. This growth may have a positive effect on the District’s economy.

Information obtained from the Congressional Budget Office (CBO) supports continuing growth in the national economy. The CBO’s Budget and Economic Outlook: Fiscal Years 2001-2010, dated January 2000, states:

“The performance of the U.S. economy in recent years has been exceptional. The combination of rapid economic growth, low inflation, and falling unemployment experienced since 1995 is unprecedented this far into an economic expansion. Largely for that reason, most recent economic forecasts have turned out to be too pessimistic. Although history suggests that boom periods are temporary, the economy shows few signs of slowing down. Domestic confidence on the part of businesses and consumers is very high, as evidenced by the sustained boom in both investment and consumer spending...”

Also, according to recent information published by the Commerce Department, “The red-hot U.S. economy, powered by heavy spending by consumers and the federal government, roared ahead at an annual rate of 7.3 percent in the final three months of 1999, the fastest pace in nearly 16 years, the government reported yesterday.” The information published by the Commerce Department went on to note that this growth continues despite the Federal Reserve raising interest rates three times last year and two times during calendar year 2000.

Further, information published in ValueLine’s Investment Survey12 as of February 11, 2000, indicated that the nation’s economy continued to grow at an accelerated pace during the fourth quarter of 1999. The information also indicated that this growth does not appear to be moderating in spite of increasing oil prices. ValueLine also indicated that the national economy is projected “to proceed at a rapid clip.”

Other sectors of the economy are also showing positive growth. For example, according to

12ValueLine is an entity that provides investment and business information services.
information obtained from the National Association of Realtors, housing starts continue to grow despite an increase in interest rates. This in turn may mean increased assessments and higher housing prices for the District. Additionally, growth has continued in the service employment industry during the last three years. District employment in this industry averaged 269,100 for 1997; 271,800 for 1998; and 275,800 for 1999.

It appears that growth in the economy may continue despite higher prices for gasoline, higher interest rates, and significant volatility in the stock market.

Growth in Neighboring Jurisdictions

The Auditor spoke with representatives from the states of Maryland and Virginia. Both representatives indicated that their forecast was for continued growth in revenue. Virginia officials indicated that they expected their overall economy to remain very strong over the next several years. Virginia’s growth rate for fiscal year 2000 is 10.9 percent and 6 percent for fiscal year 2001. In particular, Virginia officials indicated that collection of individual income and corporate franchise taxes continues to be very strong. As a result, Virginia has incorporated some of the capital gains tax growth into its individual income tax base.

While Maryland officials indicated that they expected growth to continue during 2000 and 2001, the growth during this period is expected to be much slower than the growth of 1998 and 1999. Maryland officials also indicated that they adjusted their individual income tax base to include some of the growth from capital gains. By comparison, the District’s chief economist indicated that the District has not adjusted the individual income tax base to include growth from capital gains.

District’s Local Source Fiscal Year 2000 Cash Collections Are Above the Estimate

As of October 1, 1998, the District of Columbia government replaced its Financial Management System with a new System of Accounting and Reporting (SOAR). Since the introduction of the new SOAR system, the District noted in its Cash Collection Reports the following: "Cash collections used to develop this report are based on the new financial management system (SOAR) that came on line October 1, 1998. Patterns of deposit recognition periods and continuing education about the new system will reduce the value of year-to-year and collection-to-estimate comparisons for this first year."

Notwithstanding the above, according to the January 2000 District of Columbia Report of Cash Collections (preliminary data) developed by the OCFO’s Office of Tax and Revenue, total tax collections through January 2000 were $781.2 million. This is $113.2 million, or 16.9 percent, above the revised estimate and $79.9 million, or 11.4 percent, above collections for the same period last year. Tax and non-tax cash collections financing the appropriation were $860.7 million through January 2000. The collections were $95.6 million, or 12.5 percent, above the fiscal year-to-date estimate and $75.3 million, or 9.6 percent, above the same period last year. The OCFO’s Office of
Tax and Revenue indicated that the significant variance between actual collections year-to-date and the fiscal year 2000 estimate is primarily attributed to increased collections in real property tax, individual income tax, and corporate franchise tax.

To the extent collections continue at the rate realized through January 2000, the District appears to be on track to realize, if not exceed, its $3.212 billion fiscal year 2000 revised revenue forecast.

**THE DISTRICT SHOULD ACT QUICKLY TO IMPLEMENT INITIATIVES THAT COULD INCREASE REVENUES OR RESULT IN BUDGETARY SAVINGS AND SHOULD CORRECT KNOWN DEFICIENCIES IN ITS OPERATIONS THAT HAVE REVENUE IMPLICATIONS**

District officials should move swiftly to implement initiatives, programs and projects that are designed to generate new or increase existing revenue, or that result in savings to the District. The Auditor found instances in which delays in implementing certain initiatives and correcting identified deficiencies may have resulted in foregone revenue. Additionally, the fiscal year 2000 and 2001 spending plans are based on the District achieving significant savings from the implementation of management reform and other savings initiatives. Although each of these areas is discussed in more detail below, the discussions do not address all factors that may impact the District’s revenue for fiscal year 2000 and 2001. For example, the Auditor’s discussions do not address issues related to unresolved court cases and potential judgments for liability which could impact the District’s revenues.

**District Government’s Failure to Timely Promulgate Rules Has Impacted Its Ability to Collect An Estimated $13.4 Million in Right-of-Way Fees**

The Department of Public Works (DPW) failed to timely promulgate rules regarding fees charged to utilities and other entities for their use of the public right-of-way for conduits, pipes, aerial wires, or structures housing transmission facilities. As a result of this failure, the Auditor estimates that revenues totaling approximately $13.4 million\(^{12}\) might have been, but were not, collected during fiscal years 1998 and 1999.

In 1997, the Council of the District of Columbia approved legislation authorizing the Mayor to collect right-of-way fees. According to a discussion with DPW officials, an "evaluation analysis and economic impact" were completed in fiscal years 1997 or 1998. The proposed rulemaking for right-of-way fees was published in the District of Columbia Register dated December 24, 1999. According to DPW, the final rulemaking is scheduled to be published shortly. The fiscal year 2000 revised revenue forecast for right-of-way fees is $4.5 million. According to Economic Development

---

\(^{12}\) The Auditor’s calculation of $13.4 million was based on the District’s projection that approximately $6.7 million in right-of-way fees would be collected in each of two fiscal years—1998 and 1999. This revenue may have been collected if DPW had timely promulgated rules in order to assess the fees.
officials, the actual collection of fees should begin July 1, 2000, which will provide the District with only 3 months of revenue, or approximately $1.6 million, for fiscal year 2000 rather than the projected $4.5 million. The fiscal year 2001 revenue forecast for right-of-way fees is projected to increase to $6.7 million, or $2.2 million over the $4.5 million fiscal year 2000 estimate. However, the achievement of this revenue estimate is contingent upon DPW’s ability to timely adopt and implement rules to collect these fees. This area needs to be monitored regularly to ensure compliance.

**OTR Wrote Off $20 Million in Erroneous or Unsupported Business Tax Receivables**

In a review of the District’s fiscal year 1998 management letter\textsuperscript{14} comments, the District’s independent auditor reported that the Office of Tax and Revenue wrote off $20 million in erroneous or unsupported business tax receivables. The District’s fiscal year 1998 management letter stated that:

"The Office of Tax and Revenue’s (OTR) internal control environment provides opportunities for erroneous or unsupported assessments to be recorded in its individual income and business tax systems. Further, these errors may either remain undetected or may not be systematically detected in a timely manner by current internal control procedures. In addition, OTR’s tax administration efforts are substantially handicapped by old and inflexible systems that do not readily allow for data analysis of tax information to facilitate timely and accurate determination of taxes owed..."

The management letter comments also indicated that OTR: (1) had numerous unresolved or improperly recorded individual income tax account assessments; (2) could not reconcile detailed cash receipts tax system records to tax receipts deposited by the District which resulted in millions of dollars in unresolved differences; and (3) had to resort to labor intensive and arduous manual efforts for tax administration that could be burdensome to taxpayers. These labor intensive efforts also contributed to external and internal reports that were prone to significant risk of error. The Auditor does not know the extent to which OTR has corrected these deficiencies since fiscal year 1998, however, the current status should be reflected in the fiscal year 1999 management letter.

The Auditor notes that deficiencies such as those related to accounts receivable are serious and if not corrected have the potential to negatively impact the District’s revenue collections in the future.

**District Should Examine Its Nontax User Fee Revenue**

The Auditor notes that the District should reexamine the existing fee structure for user fees to determine what, if any, changes need to be made to update this area. During fiscal year 1994, the

District's Office of the Budget commissioned Coopers and Lybrand to conduct a review of the major user fees. Some objectives of the study included identifying the fees and the revenues the District raises, determining the appropriate level for each fee, and identifying potential new fees. The analysis indicated that the District had over 5,000 user and revenue fees with an estimated value of $150 million.

The report concluded that the District government did not have a viable process to review and revise user revenue fees. The report also concluded that there was room for the District to "significantly increase its revenues by increasing existing user fees and imposing new ones."

The Auditor believes an updated current review is needed to determine how District agencies are tracking and accounting for user fees, whether the fees are being timely collected, and whether any of the fees should be increased.

**OTR's "2 for 1" Funding Proposal**

The fiscal year 2000 revised revenue forecast of $3.212 billion includes $24 million identified as "2 for 1" funding. Under the "2 for 1" funding program, an agency’s budget could be increased if the agency demonstrates that it can collect additional revenue at the rate of two times the amount of the budget increase. For example, OTR’s budget was increased by $2.5 million for fiscal year 2000. Officials of OTR indicated that as a result of the increase in budget, they would be able to produce an additional $24 million in tax revenue. The projected revenue of $24 million exceeds the required "two times the budget cost" and represents nearly 10 times the budget cost of $2.5 million. The programs included in OTR’s "2 for 1" proposal and the amounts to be realized are presented below in Table IX.

**TABLE IX**

**OTR’s "2 for 1" Funding Proposal for Additional Revenue**

<table>
<thead>
<tr>
<th>Program</th>
<th>Current Plan Prior to 2 for 1</th>
<th>Proposed Plan</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Protection</td>
<td>$10.0</td>
<td>$11.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>Audit Assessments</td>
<td>50.0</td>
<td>56.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Delinquent Accounts</td>
<td>60.0</td>
<td>66.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquent Returns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discovery</td>
<td>N/A</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>$120</td>
<td>$144</td>
<td>$24</td>
</tr>
</tbody>
</table>

Source: OTR Proposal Package for Additional Revenues dated September 21, 1999
The following represents a brief description of each program:

- Revenue Protection: Provides for a review of tax returns at the first level of receipt by OTR. At the time returns are received in the mail, OTR staff will review returns for missing or incomplete data and for obvious inaccurate information. This review ensures that OTR will perform at least one review of each tax return received.

- Audit Assessments: Provides for more returns to be audited, primarily on those returns that may not have reported all income. This process is based on the premise that the more audits that are conducted, the more revenue is likely to be collected.

- Delinquent Accounts Collection: Provides for tax collection services on tax account receivables for which the taxpayer has not provided OTR with a signed agreement to pay or a payment plan.

- Delinquent Returns Discovery: Program to find taxpayers that should have filed a District tax return but have never filed.

**Economic Development Initiatives**

The Auditor observed that the District has planned a number of economic development initiatives that have revenue implications. For example, there are a number of properties owned by the District government that may be sold. However, according to economic development officials, it appears that the sale of these properties will not have an impact in fiscal year 2000 since the timetable for selling the properties has not been firmly established. These properties include:

<table>
<thead>
<tr>
<th>Property</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOES Building</td>
<td>Pennsylvania Avenue</td>
</tr>
<tr>
<td>Mather Building</td>
<td>G Street N.W.</td>
</tr>
<tr>
<td>Recorder of Deeds</td>
<td>5th and D Streets, N.W.</td>
</tr>
<tr>
<td>Lot</td>
<td>New York &amp; Florida Ave.,</td>
</tr>
</tbody>
</table>

According to economic development officials, a Request for Proposals (RFP) for the sale of the DOES building is not scheduled to be released until April 2000. Further, RFPs for the sale of other properties have not yet been developed. The Auditor notes that other District agencies may also have surplus properties that may be sold thereby generating additional revenue for the District.

**Savings of $83 Million In Management Reform Initiatives Have Been Included in the Fiscal Years 2000 and 2001 Budget**

According to the FY 1999 Operating Budget and Financial Plan, in fiscal year 1998, the District was in the process of investing approximately $257 million in management reform projects which consisted of $92 million for operating purposes and $165 million for capital purposes.
District agencies were to use these funds to improve the District’s overall service delivery system. Table X presents the management reform and other savings initiatives budgeted for fiscal years 1999 through 2001.

TABLE X
Management Reform and Other Savings Initiatives
Fiscal Years 1999 through 2001

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Initiative</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Productivity Savings</td>
<td>$10 million</td>
</tr>
<tr>
<td></td>
<td>Management Reform Savings</td>
<td>7 million</td>
</tr>
<tr>
<td></td>
<td><strong>Total FY 1999</strong></td>
<td><strong>$17 million</strong></td>
</tr>
<tr>
<td>2000</td>
<td>General Supply Schedule Savings</td>
<td>$14 million</td>
</tr>
<tr>
<td></td>
<td>Management Reform Savings</td>
<td>7 million</td>
</tr>
<tr>
<td></td>
<td><strong>Total FY 2000</strong></td>
<td><strong>$21 million</strong></td>
</tr>
<tr>
<td>2001</td>
<td>Management Reform Savings</td>
<td>$37 million</td>
</tr>
<tr>
<td></td>
<td>Risk Management Savings</td>
<td>15 million</td>
</tr>
<tr>
<td></td>
<td>Operational Improvement Savings</td>
<td>10 million</td>
</tr>
<tr>
<td></td>
<td><strong>Total FY 2001</strong></td>
<td><strong>$62 million</strong></td>
</tr>
</tbody>
</table>

Source: Fiscal Year’s 1999, 2000 and 2001 Operating Budgets and Financial Plan

The Auditor has not yet reviewed these initiatives to determine what savings were actually achieved during fiscal year 1999. To the extent that the District is able to fully achieve management reform and other savings, additional funds will be available for other purposes.

SUMMARY

The fiscal year 2000 revised revenue forecast of $3.212 billion represents a net increase of $121 million, or 3.9 percent, above the preliminary actual revenue of $3.091 billion for fiscal year 1999. The fiscal year 2001 proposed revenue forecast of $3.196 billion represents a net decrease of $15.7 million, or 0.5 percent, below the fiscal year 2000 revised revenue forecast of $3.212 billion.

Most economic data reviewed by the Auditor indicated that the growth in the national economy appears to be continuing which may ultimately benefit the District’s economy. Certain economic factors may impact the OCFO’s fiscal year 2000 revised and fiscal year 2001 proposed revenue forecast including: growth in the national economy; growth in neighboring jurisdictions; and the magnitude of the District’s fiscal year 2000 revenue collections as reflected in the year-to-date collection trends in certain categories.
Overall, year-to-date tax and non-tax collections financing the appropriation were $860.7 million through January 2000. The collections were $95.6 million, or 12.5 percent, above the fiscal year-to-date estimate of $765.1 million. Specifically, the actual collections for real property taxes and corporate franchise taxes through January 2000 exceeded their estimates by 200.9 percent and 63.5 percent respectively. If overall collection trends remain at the level achieved through January 2000, the District is on course to meet and possibly exceed, the fiscal year 2000 revised and fiscal year 2001 proposed revenue forecasts.

Respectfully submitted,

[Signature]

Deborah K. Nichols
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."