Comparative Analysis of Actual Cash Collections
to Revised Revenue Estimates Through
the 3rd Quarter of Fiscal Year 2004

September 7, 2004
The Honorable Linda W. Cropp  
Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue, NW, Suite 504  
Washington, D.C. 20004

**Letter Report:** Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 3rd Quarter of Fiscal Year 2004

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

This letter report presents the Office of the District of Columbia Auditor’s comparison of the District’s actual cash collections through the 3rd quarter of fiscal year (FY) 2004 to the revised FY 2004 revenue estimates for the 3rd quarter.

**BACKGROUND**

The FY 2004 revenue estimate certified by the District’s Chief Financial Officer (CFO) in February 2003 was $3.738 billion. However, the Office of the Chief Financial Officer’s Office of Revenue Analysis (ORA) revised the FY 2004 estimate in September 2003 to $3.758 billion, an increase of $20 million above the February 2003 estimate.\(^1\) Then in February 2004, the CFO submitted to the Mayor and Council a revised revenue estimate of $3.798 billion, an increase of $60 million from the February 2003 estimate of $3.738 billion and an increase of $40 million from the September 2003 $3.758 billion estimate.\(^2\)

\(^1\)In December 2003, the CFO submitted to the Mayor and Council of the District of Columbia (Council) an “unofficial” FY 2004 revised revenue estimate of $3.835 billion, excluding the estimate of $191.9 million for dedicated non-tax “O” type revenue. This estimate represented an increase of $98 million over the February 2003 estimate of $3.738 billion and an increase of $78 million over the September 2003 estimate of $3.758 billion. According to ORA officials, this estimate was used only for planning purpose. Therefore, the $3.835 billion estimate is not reflected in the Auditor’s analysis of the 3rd quarter cash collections.

\(^2\)These estimates do not include the FY 2004 dedicated non-tax “O” type revenue estimate of $191.9 million.
METHODOLOGY

To conduct this comparative analysis, the Office of the District of Columbia Auditor used: (1) the $3.798 billion revenue estimate; (2) the FY 2004 3rd quarter Comparative Report of Cash Collections by Funds prepared by ORA; and (3) other relevant information.

The Auditor interviewed ORA representatives regarding cash collections through the 3rd quarter of FY 2004. We interviewed representatives from private as well as governmental organizations regarding their knowledge of overall economic conditions that affect the District of Columbia. We reviewed economic data from several sources, including the National Oceanic and Atmospheric Administration (NOAA), the District’s Department of Employment Services (DOES), the Travel Industry Association of America (TIA), the Bureau of Economic Analysis (BEA), and the Greater Capital Area Association of Realtors.
RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 3rd quarter of FY 2004 totaled $2.811 billion, which were $162.2 million, or 6%, above the $2.648 billion revised estimate for the 3rd quarter. The $2.811 billion in actual cash collections represented 74% of the total $3.798 billion FY 2004 revised revenue estimate. Collections through the 3rd quarter from tax and non-tax revenues and other financing sources are presented below.

- **Tax** - total tax collections were $2.522 billion, which were $135.4 million, or 6%, above the revised tax estimate of $2.386 billion through June 2004.

- **Non-tax** - total non-tax collections were $229.9 million, which were $19.7 million, or 9.3%, above the revised non-tax estimate of $210.3 million through June 2004.

- **Other financing sources** - collections from other financing sources, which consisted of legalized gambling (transfers from the D.C. Lottery), totaled $58.9 million, which were $7.1 million, or 13.8%, above the revised other financing sources estimate of $51.8 million through June 2004.

Table I compares actual cash collections to revised estimates through the 3rd quarter of FY 2004 for tax, non-tax, and other financing sources. Appendix I presents a graphic depiction of the information in Table I as well as other tables presented in this report.

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3 Rounding may affect some calculations presented in this report.

4 The $2.648 billion revised estimate and $2.811 billion in collections through the 3rd quarter of FY 2004 are presented net of the Washington Convention Center Authority estimate and transfer, and also do not include the estimate and collections for dedicated non-tax “O” type revenue.
TABLE I
Cash Collections Summary
Through the 3rd Quarter of Fiscal Year 2004
($000)

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Collections</td>
<td>$2,521,799</td>
<td>$2,386,361</td>
<td>$135,448</td>
<td>5.6%</td>
</tr>
<tr>
<td>Non-Tax Collections</td>
<td>229,946</td>
<td>210,294</td>
<td>19,652</td>
<td>9.3%</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>58,900</td>
<td>51,775</td>
<td>7,125</td>
<td>13.8%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$2,810,645</td>
<td>$2,648,430</td>
<td>$162,215</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2004, June 2004 prepared by ORA

In conducting the analysis of cash collections through the 3rd quarter of FY 2004, the Auditor also compared the 3rd quarter collection trends for the five-fiscal years of 2000 through the 3rd quarter of 2004. These comparisons are presented in Appendix II.

During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that 3rd quarter collections for FY 2004 in the general property taxes, gross receipts, and non-tax revenue categories have increased each year since FY 2000. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this analysis.

Appendix III presents a comparison of collections through the 3rd quarter of FY 2004 to 3rd quarter collections for FY 2003 in each tax category.

**GENERAL PROPERTY TAXES**

General property taxes include: (A) real property tax, (B) personal property tax, and (C) revenue from public space rentals. The FY 2004 revised estimate for general property taxes is $977 million. Collections of general property taxes through the 3rd quarter of FY 2004 totaled $485 million, which were:

- $8.8 million, or 1.8%, above the $476.6 million 3rd quarter FY 2004 revised estimate; and

- $39.4 million, or 8.8%, above collections for the same period in FY 2003.
Collections of general property taxes through the 3rd quarter represented 50% of the total revised revenue estimate for this category. Table II compares actual collections of general property taxes to the revised estimates through the 3rd quarter of FY 2004.

**TABLE II**

*General Property Taxes: Comparison of Actual Cash Collections to Revised Estimates Through the 3rd Quarter of Fiscal Year 2004* ($000)

<table>
<thead>
<tr>
<th>General Property Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property</td>
<td>$474,412</td>
<td>$465,932</td>
<td>$8,480</td>
<td>1.8%</td>
</tr>
<tr>
<td>Personal Property</td>
<td>2,624</td>
<td>4,942</td>
<td>(2,318)</td>
<td>(46.9%)</td>
</tr>
<tr>
<td>Public Space Rental</td>
<td>8,365</td>
<td>5,770</td>
<td>2,595</td>
<td>45%</td>
</tr>
<tr>
<td>Total General Property Taxes</td>
<td><strong>$485,401</strong></td>
<td><strong>$476,644</strong></td>
<td><strong>$8,757</strong></td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. **Real Property Tax Collections**

Real property tax collections through the 3rd quarter totaled $474.4 million. These collections were $8.5 million, or 1.8%, above the $465.9 million estimate. The real property tax category is the largest component of general property taxes.

Collections were higher than the estimate, in part, because of the overall robust real estate market in the District which has resulted in increased assessed values for both residential and commercial properties. Based on a review of data reported in the District’s FY 2003 Comprehensive Annual Financial Report (CAFR), the total taxable portion of combined assessed values for commercial and residential properties in the District have increased each year from fiscal years 1999 through 2003. Overall, the assessed values for taxable properties increased over $15 billion, or 35%, from $42.4 billion in FY 1999 to $58.1 billion in FY 2003. The Council enacted the “Owner-Occupant Residential Tax Credit Act of 2002,” D.C. Law 14-160, which became effective June 25, 2002. The law stipulated that District homeowners will pay no property tax on assessments above 25% of the prior year’s assessment. This law may result in reduced real property tax collections for some residential properties. The impact of this law is not reflected in the $58.1 billion assessed values reported in the CAFR. However, the largest increase in real property assessed values from

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5 The Council passed the Owner-Occupant Residential Tax Credit and Homestead Deduction Clarification Emergency Act of 2004, effective in FY 2004 which changed the 25% to 12%.
FY 1999 to FY 2003 was for commercial properties which increased $11 billion, or 59%, from $18.7 billion to $29.7 billion. Commercial properties are not included in the 25% limit imposed by the law.

The Auditor notes that real property tax refunds through the 3rd quarter totaled $21.3 million. These refunds were $10.9 million, or 105.7%, higher than the $10.3 million estimate. By comparison, refunds through the 3rd quarter of FY 2004 were $12.8 million, or 149.8%, higher than refunds through the 3rd quarter of FY 2003.

Despite the fact that real property tax collections were above the estimate through the 3rd quarter, ORA officials should monitor this revenue source closely. The Auditor notes that decisions in approximately 80% of the appeals heard by the Board of Real Property Assessments and Appeals (BRPAA) in FY 2004 were not included in property tax bills sent out in March 2004. As a result, any adjustments to assessed values related to successful appeals were not reflected in the March bills but will be reflected in payments due in September. If a substantial number of appeals resulted in a reduction in assessed values, collections of real property taxes due in September 2004 may be reduced.

B. Personal Property Tax Collections

Personal property tax collections through the 3rd quarter totaled $2.6 million. These collections through the 3rd quarter were $2.3 million, or 46.9%, below the $4.9 million estimate. The annual due date for personal property tax is on or before July 31st. Personal property tax refunds totaled $1.4 million through the 3rd quarter and were $238,000, or 20.2%, higher than the $1.2 million estimate. Also, refunds through the 3rd quarter of FY 2004 were $156,000, or 12.3%, higher than refunds through the 3rd quarter of the previous fiscal year. Collections are presented net of refunds, therefore, the decrease in collections in this tax category may be due, in part, to the increase in refunds.

C. Public Space Rental Fees

Public space rental fees collected through the 3rd quarter totaled $8.4 million. Actual collections through the 3rd quarter were $2.6 million, or 45%, above the $5.8 million estimate. According to a representative of the District’s Department of Transportation, factors positively affecting collections include increased enforcement activities and ongoing efforts to improve

6 Refunds reflect the reduction in real property tax assessments resulting from successful appeals.

7 According to information contained in the D.C. Tax Facts, published by ORA, personal property tax is levied on all tangible property, except inventories, used in a trade or business. Such property includes machinery, equipment, furniture and fixtures.
compliance in the payment of public space rental fees. Inspectors are conducting inspections more often and at different times. For example, inspectors are conducting more inspections at night.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the general property taxes category in FY 2004.

**GENERAL SALES AND USE TAXES**

The FY 2004 revised estimate for general sales and use taxes is $661.1 million.\(^8\) Collections of general sales and use taxes through the 3rd quarter of FY 2004 totaled $505.8 million, which were:

- $4 million, or .8%, above the $501.8 million 3rd quarter revised FY 2004 estimate; and
- $43.2 million, or 9.3%, above collections for the same period in FY 2003.

General sales and use tax collections through the 3rd quarter represented 77% of the total FY 2004 revenue estimate for this category. Table III compares actual collections of general sales and use taxes to the revised estimate through the 3rd quarter of FY 2004.

**TABLE III**

<table>
<thead>
<tr>
<th>General Sales and Use Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimate Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimate</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Sales and Use Taxes</td>
<td>$505,791</td>
<td>$501,767</td>
<td>$4,024</td>
<td>.8%</td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

Collections of general sales and use taxes through the 3rd quarter totaled $505.8 million. Actual collections through the 3rd quarter were $4 million, or .8%, higher than the 3rd quarter estimate. The fact that collections are above the estimate may be due, in part, to an increase in tourism. According to a forecast by the Travel Industry Association of America (TIA), an overall 3.2% increase in leisure travel is expected for the 2004 summer season. This increase in travel is expected to continue through August 2004. The increased travel appears to have benefitted the District. According to data obtained from the Washington D.C. Convention & Tourism Corporation,

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\(^8\)Presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.
the hotel occupancy and average room rate in the District through April 2004 increased over the same period in 2003. Also, according to information obtained from the Federal Reserve Board Beige Book, “the dedication of the National World War II Memorial drew large crowds from outside the region and hotels across the city reported 100% occupancy rates.”

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the general sales and use taxes category in FY 2004.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) the motor vehicle excise tax. The FY 2004 revised estimate for selective sales and use taxes is $65.3 million. Collections through the 3rd quarter of FY 2004 totaled $49.4 million which were:

- $1.9 million, or 3.9%, above the $47.6 million 3rd quarter revised FY 2004 estimate; and
- $4.6 million, or 10.3%, above collections for the same period in FY 2003.

Selective sales and use tax collections through the 3rd quarter represented 77% of the total FY 2004 revised revenue estimate for this category. Table IV compares actual collections of selective sales and use taxes to the revised estimates through the 3rd quarter of FY 2004.

<table>
<thead>
<tr>
<th>Selective Sales and Use Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoholic Beverage</td>
<td>$3,897</td>
<td>$3,416</td>
<td>$481</td>
<td>14.1%</td>
</tr>
<tr>
<td>Cigarette</td>
<td>15,227</td>
<td>15,429</td>
<td>(202)</td>
<td>(1.3%)</td>
</tr>
<tr>
<td>Motor Vehicle Excise</td>
<td>30,313</td>
<td>28,730</td>
<td>1,583</td>
<td>5.5%</td>
</tr>
<tr>
<td>Total Selective Sales and Use Taxes</td>
<td>$49,437</td>
<td>$47,575</td>
<td>$1,862</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis
A. **Alcoholic Beverage Tax**

Alcoholic beverage tax collections through the 3rd quarter totaled $3.9 million. These collections were $481,000, or 14.1%, above the $3.4 million revised estimate.

B. **Cigarette Tax**

Cigarette tax collections through the 3rd quarter totaled $15.2 million. These collections were $202,000, or 1.3%, below the $15.4 million revised estimate. The Auditor notes that the tax on cigarettes was increased from 65¢ to $1 per pack in January 2003. The fact that collections are below the estimate through the 3rd quarter of FY 2004 may be a result of consumers purchasing cigarettes from other jurisdictions that have a lower cigarette tax.

C. **Motor Vehicle Excise Tax**

Motor vehicle excise tax collections through the 3rd quarter totaled $30.3 million. These collections were $1.6 million, or 5.5%, above the $28.7 million revised estimate. The increase in this tax category may be due in part to improvements in the procedures used to determine and levy the exact amount of excise tax on vehicles titled in the District of Columbia. These factors are expected to result in at least a 5% increase in excise tax collections for FY 2004. According to the FY 2005 Proposed Budget and Financial Plan, the District’s Department of Motor Vehicles has implemented procedures to ensure the application of the correct excise tax rate on a vehicle’s fair market value on a more consistent basis.

Based on collections through the 3rd quarter it appears that the District is on course to achieve the revenue estimate in the selective sales and use taxes category in FY 2004.

**INCOME TAXES**

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2004 revised estimate for the income taxes category is $1.2 billion. Collections through the 3rd quarter of FY 2004 totaled $982.3 million which were:

- $55.3 million, or 6%, above the $927 million 3rd quarter revised FY 2004 estimate; and
- $114.2 million, or 13.2%, above collections for the same period in FY 2003.

Income taxes collected through the 3rd quarter represented 82% of the total FY 2004 revised revenue estimate for this category. Table V compares actual collections of income taxes to the revised estimates through the 3rd quarter of FY 2004.
TABLE V
Income Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 3rd Quarter of Fiscal Year 2004
($000)

<table>
<thead>
<tr>
<th>Income Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/Under Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>$795,960</td>
<td>$756,511</td>
<td>$39,449</td>
<td>5.2%</td>
</tr>
<tr>
<td>Corporate Franchise Tax</td>
<td>113,899</td>
<td>111,674</td>
<td>2,225</td>
<td>2%</td>
</tr>
<tr>
<td>Unincorporated Business Franchise Tax</td>
<td>72,452</td>
<td>58,818</td>
<td>13,634</td>
<td>23.2%</td>
</tr>
<tr>
<td><strong>Total Income Taxes</strong></td>
<td><strong>$982,311</strong></td>
<td><strong>$927,003</strong></td>
<td><strong>$55,308</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. **Individual Income Tax**

Individual income tax collections through the 3rd quarter totaled $796 million. This tax is the largest in the income taxes category. These collections were $39.4 million, or 5.2%, above the $756.5 million revised estimate. The increase in individual income taxes may be due, in part, to the fact that personal income in the District of Columbia has increased. According to data obtained from BEA for 2000 through 2003, personal income in the District has increased from $23.1 billion in 2000 to $27.2 billion in 2003.

Additionally, declarations (estimated payments) of individual income tax through the 3rd quarter were $139.3 million. These declarations were $26.3 million, or 23.3%, above the estimate of $113 million through the 3rd quarter.

B. **Corporate Franchise Tax**

Corporate franchise tax collections through the 3rd quarter totaled $113.9 million. These collections were $2.2 million, or 2%, above the $111.7 million revised estimate. According to DOES, in June 2004, the District gained 5,000 jobs over June 2003. The increase in job growth in the District may indicate that corporate profits are beginning to grow. The increase in corporate profits may account, in part, for the modest gain in corporate franchise tax collections.

C. **Unincorporated Business Franchise Tax**

Unincorporated business franchise tax collections through the 3rd quarter totaled $72.5 million. These collections were $13.6 million, or 23.2%, above the $58.8 million revised estimate.
According to ORA representatives, many of the unincorporated business franchise taxpayers are partnerships associated with the real estate management industry. The overall strength in the District’s real estate market has contributed to increased collections in unincorporated business franchise taxes.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the income taxes category in FY 2004.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities taxes, (B) toll telecommunications tax, and (C) a tax on insurance premiums. The revised estimate for gross receipts taxes is $265.6 million. Collections of gross receipts taxes through the 3rd quarter of FY 2004 totaled $218.2 million, which were:

- $20.4 million, or 10.3%, above the $197.9 million 3rd quarter revised FY 2004 estimate; and
- $16.7 million, or 8.3%, above collections for the same period in FY 2003.

Gross receipts taxes collected through the 3rd quarter represented 82% of the FY 2004 revised estimate for this category. Table VI compares actual collections of gross receipts taxes to the revised estimates through the 3rd quarter of FY 2004.

**TABLE VI**

**Gross Receipts Taxes:**

*Comparison of Actual Cash Collections to Revised Estimates Through the 3rd Quarter of Fiscal Year 2004 ($000)*

<table>
<thead>
<tr>
<th>Gross Receipts Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Utilities</td>
<td>$130,244</td>
<td>$116,377</td>
<td>$13,867</td>
<td>11.9%</td>
</tr>
<tr>
<td>Toll Telecommunications</td>
<td>$42,329</td>
<td>$40,986</td>
<td>$1,343</td>
<td>3.3%</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td>$45,663</td>
<td>$40,487</td>
<td>$5,176</td>
<td>12.8%</td>
</tr>
<tr>
<td><strong>Total Gross Receipts</strong></td>
<td><strong>$218,236</strong></td>
<td><strong>$197,850</strong></td>
<td><strong>$20,386</strong></td>
<td><strong>10.3%</strong></td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis
A.  **Public Utilities Taxes**

Public utilities taxes collected through the 3rd quarter totaled $130.2 million. These collections were $13.9 million, or 11.9%, above the $116.4 million revised estimate. The increased collections may be due, in part, to an increase in energy prices. According to the Consumer Price Index (CPI) released in June 2004, natural gas and fuel oil prices each rose 4.4%, while electricity prices increased 1.1%.

B.  **Toll Telecommunications Tax**

Toll telecommunications tax collections through the 3rd quarter totaled $42.3 million. These collections were $1.3 million, or 3.3%, above the $41 million revised estimate. One reason collections were above the estimate may be due, in part, to the increasing use of cell phones. Collections in this tax category were 13.7%, or $5.1 million, above collections for the same period in FY 2003.

C.  **Insurance Premiums Tax**

Insurance premiums tax collections through the 3rd quarter totaled $45.7 million. These collections were $5.2 million, or 12.8%, above the $40.1 million 3rd quarter estimate. Collections for the 3rd quarter of FY 2004 were 12.4%, or $5 million, above collections for the same period in FY 2003.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the gross receipts taxes category in FY 2004.

**OTHER TAXES**

Other taxes include: (A) estate, (B) deed recordation, (C) deed transfer, and (D) economic interest transfer taxes. The FY 2004 revised estimate for other taxes is $264.6 million. Collections of other taxes through the 3rd quarter of FY 2004 totaled $280.6 million, which were:

- $45.1 million, or 19.1%, above the $235.5 million 3rd quarter revised FY 2004 estimate; and
- $95. million, or 51.2%, above collections for the same period in FY 2003.

Collections of other taxes through the 3rd quarter represented 106% of the total FY 2004 revised revenue estimate. Table VII compares actual collections of other taxes to the revised estimates through the 3rd quarter of FY 2004.
TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to Revised Estimates
Through the 3rd Quarter of Fiscal Year 2004
($000)

<table>
<thead>
<tr>
<th>Other Taxes</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estate Tax</td>
<td>$21,017</td>
<td>$27,568</td>
<td>($6,551)</td>
<td>(23.8%)</td>
</tr>
<tr>
<td>Deed Recordation</td>
<td>144,502</td>
<td>113,875</td>
<td>30,627</td>
<td>26.9%</td>
</tr>
<tr>
<td>Deed Transfer</td>
<td>103,031</td>
<td>79,117</td>
<td>23,914</td>
<td>30.2%</td>
</tr>
<tr>
<td>Economic Interest</td>
<td>12,073</td>
<td>14,962</td>
<td>(2,889)</td>
<td>(19.3%)</td>
</tr>
<tr>
<td><strong>Total Other Taxes</strong></td>
<td><strong>$280,623</strong></td>
<td><strong>$235,522</strong></td>
<td><strong>$45,101</strong></td>
<td><strong>19.1%</strong></td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. Estate Tax

Estate tax collections through the 3rd quarter totaled $21 million. These collections were $6.6 million, or 23.8%, below the $27.6 million 3rd quarter estimate. Collections from this revenue source are difficult to estimate due to the unpredictable event that triggers the tax. One factor that may have resulted in collections below the estimate is that the District’s estate tax is calculated as a percentage of the federal estate tax. The federal estate tax is gradually being phased out while the District’s is not. The change in federal law may have created confusion among affected taxpayers as to whether they must continue to pay the District’s estate tax.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes collected through the 3rd quarter of FY 2004 totaled $247.5 million. These combined collections were $54.5 million, or 28%, above the $193 million 3rd quarter estimate. The continued strength of these collections reflects the District’s robust real estate market in residential and commercial properties. According to information obtained from CBRE Richard Ellis, “in terms of investment sales, downtown Washington remains one of the, if not the, most highly sought after markets in U.S. and perhaps the world.” Also, according to data obtained from the Greater Capital Area Association of Realtors for June 2004, the number of contracts and settlements for condo/co-ops and for single family homes increased by 417, or 12%, in 2004 from the same period in 2003.

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9 According to information published on its website, CBRE Richard Ellis is a full service real estate services company.
C. **Economic Interest Tax**

Economic interest tax collections through the 3rd quarter totaled $12.1 million.\(^{10}\) These collections were $2.9 million, or 19.3%, below the $15 million estimate. This tax is imposed on the amount paid for the transfer of ownership interest in a corporation. According to ORA representatives, this tax is difficult to forecast because of its unpredictable nature or the infrequent transfer of ownership interests.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the other taxes category in FY 2004.

**NON-TAX REVENUE**

Non-tax revenue includes: (A) licenses and permit fees, (B) fines and forfeitures, (C) charges for services, and (D) miscellaneous revenue. The FY 2004 revised estimate for non-tax revenue is $286.7 million. Collections through the 3rd quarter totaled $229.9 million, which were:

- $19.7 million, or 9.3%, above the $210.3 million 3rd quarter revised FY 2004 estimate; and
- $17.9 million, or 8.5%, above collections for the same period in fiscal year 2003.

Non-tax revenue collections through the 3rd quarter represented 80% of the FY 2004 revised estimate for this category. Table VIII compares actual collections of non-tax revenue to the revised estimates through the 3rd quarter of FY 2004.

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\(^{10}\) According to the D.C. tax facts published by the District's CFO, the economic interest transfer tax is triggered by two elements: 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. If these two elements are met then the tax rate is 3% of the consideration paid for the interest transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.
**TABLE VIII**

**Non-Tax Revenues:**
Comparison of Actual Cash Collections to the Revised Estimates Through the 3rd Quarter of Fiscal Year 2004
($000)

<table>
<thead>
<tr>
<th>Non-Tax Revenues</th>
<th>Actual Collections Through the 3rd Quarter FY 2004</th>
<th>Revised Estimates Through the 3rd Quarter FY 2004</th>
<th>Difference: Actual Over/(Under) Revised Estimates</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenses and Permits</td>
<td>$34,105</td>
<td>$43,550</td>
<td>$(9,445)</td>
<td>(21.7%)</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>76,547</td>
<td>65,324</td>
<td>11,223</td>
<td>17.2%</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>32,265</td>
<td>35,005</td>
<td>(2,740)</td>
<td>(7.8%)</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>87,029</td>
<td>66,415</td>
<td>20,614</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Total Non-Tax Revenues</strong></td>
<td><strong>$229,946</strong></td>
<td><strong>$210,294</strong></td>
<td><strong>$19,652</strong></td>
<td><strong>9.3%</strong></td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

A. **Licenses and Permit Fees**

Licenses and permit fees collected through the 3rd quarter totaled $34.1 million. Collections were $9.4 million, or 21.7%, below the $43.6 million revised estimate. Collections from the renewal of insurance licenses were down. This source is one of the largest in the licenses and permit fees category. According to a representative of the Department of Insurance, Securities and Banking, collections were below the estimate, in part, because electronic payments from vendors that collect license renewal fees have not been timely submitted to the District. Based on collections through the 3rd quarter, the District may not achieve the FY 2004 estimate for licenses and permit fees.

B. **Fines and Forfeitures**

Fines and forfeitures collected through the 3rd quarter totaled $76.5 million. These collections were $11.2 million, or 17.2%, above the $65.3 million estimate. The increase in collections in this category may be due, in part, to an increase in collections from photo radar cameras. According to ORA officials, program enhancements such as the purchase of additional photo radar cars have contributed to increased collections from red light and speeding violations.

C. **Charges for Services**

Charges for services collected through the 3rd quarter totaled $32.3 million. These collections were $2.7 million, or 7.8%, below the $35 million estimate through the 3rd quarter. Collections were below the estimate in various areas including elevator inspections and home occupancy licenses. According to a representative of DCRA, revenue from elevator inspections may have decreased
because of the implementation of a program in which the District certifies private companies to perform elevator inspections and re-inspections that previously would have been performed by District employees. According to the DCRA representative, these certified companies performed 975 inspections and re-inspections from October 2004 through June 2004. The District does not charge for initial elevator inspections but does charge for re-inspections. Therefore, District revenue was reduced as a result of fewer re-inspections performed by District employees.

Additionally, revenue from home occupation permit fees has decreased. According to a DCRA representative, this may be due, in part, to the fact that prior to a change in the law, all businesses with gross receipts in excess of $2,000 were required to obtain a master business license. The law was subsequently amended and currently only certain businesses are required to obtain a basic business license. Prior to the change, more businesses obtained a home occupation permit in order to comply with the master business license requirements. With the change in the master business license requirement, businesses may not be obtaining home occupation permits. Based on collections through the 3rd quarter, the District may not achieve the FY 2004 estimate in the charges for services category.

D. **Miscellaneous Revenue**

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer, and (5) other revenue. Miscellaneous revenue collections through the 3rd quarter totaled $87 million. These collections were $20.6 million, or 31%, above the $66.4 million estimate. The increase in miscellaneous revenue is due, in part, to an increase in collections for unclaimed property. According to a representative of the Office of Unclaimed Property, several one-time receipts totaling approximately $9 million were received from life insurance companies that changed their status from mutual fund companies to stock companies. The change in status resulted in excess retained earnings which were distributed to owners of life insurance policies. When the life insurance companies could not locate policy holders, the distributions became unclaimed property. Unclaimed property collections also increased because of an increase in the value of certain securities held by the Office of Unclaimed Property.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the non-tax revenue category in FY 2004.

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11 Includes the WASA Pilot Transfer.

12 Includes revenue such as dishonored check fees, payroll service fees, or other revenue from agencies.
OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling. The FY 2004 revised estimate for other financing sources is $70.2 million. Collections through the 3rd quarter totaled $58.9 million, which were:

- $7.1 million, or 13.8%, above the $51.8 million 3rd quarter revised FY 2004 estimate; and
- $3.7 million, or 6.7%, above collections for the same period in FY 2003.

Collections from other financing sources through the 3rd quarter represented 84% of the FY 2004 revised estimate for this category. Table IX compares actual collections of other financing sources to the estimate through the 3rd quarter of FY 2004.

<table>
<thead>
<tr>
<th>Other Financing Sources</th>
<th>Actual Collections Through the 3rd Quarter FY 2004 ($000)</th>
<th>Revised Estimate Through the 3rd Quarter FY 2004 ($000)</th>
<th>Difference: Actual Over/(Under) Revised Estimate ($000)</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legalized Gambling</td>
<td>$58,900</td>
<td>$51,775</td>
<td>$7,125</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis

Legalized Gambling

Collections from legalized gambling (transfers from the D.C. Lottery to the General Fund) through the 3rd quarter totaled $58.9 million. These transfers were $7.1 million, or 13.8%, above the $51.8 million revised estimate. According to D.C. Lottery representatives and a review of D.C. Lottery reports, collections were above the estimate, in part, because prize payouts, as a percentage of sales, for the Lucky Numbers and D.C. Four games have been lower than the estimate through June 2004. Payouts through the 3rd quarter of FY 2004 have been lower than payouts through the same period in FY 2003.

Based on collections through the 3rd quarter, it appears that the District is on course to achieve the revenue estimate in the other financing sources category in FY 2004.
DEDICATED NON-TAX “O” TYPE REVENUE

The dedicated non-tax “O” type revenue estimate for FY 2004 is $191.9 million.\(^{13}\) Collection of dedicated non-tax “O” type revenue through the 3\(^{rd}\) quarter of FY 2004 totaled $155.1 million. These collections were $43.4 million, or 38.9%, above the $111.7 million estimate through the 3\(^{rd}\) quarter. Collections through the 3\(^{rd}\) quarter of FY 2004 were also $35.8 million, or 30%, above the $119.3 million in collections for the same period in FY 2003.

Based on collections through the 3\(^{rd}\) quarter, it appears that the District is on course to achieve the revenue estimate in the dedicated non-tax “O” type revenue category.

CONCLUSION

Overall, the Auditor’s analysis indicated that cash collections were above the revised estimate through the 3\(^{rd}\) quarter of FY 2004. The District’s cash collections through June 2004 (excluding dedicated non-tax “O” type revenue) totaled $2.811 billion, which were $162.2 million, or 6.1%, above the $2.648 billion revised estimate through the 3\(^{rd}\) quarter. The $2.811 billion in actual cash collections represented 74% of the total $3.798 billion revised revenue estimate.

Based on a review and analysis of economic data from various sources as well as collection patterns through the 3\(^{rd}\) quarter, it appears that the District is on course to achieve the FY 2004 revenue estimate.

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor

\(^{13}\) In addition to the $191.9 million expected to be collected in FY 2004, there are $52.6 million in carryover non-tax “O” type revenue from the previous fiscal year. Therefore, a total of $244.5 million is estimated to be available for FY 2004. According to ORA and Office of Budget and Planning (OBP) representatives, certain District agencies are authorized to spend from their designated fund balance (revenues carried forward from the previous fiscal year that remain unspent and did not lapse at the end of the fiscal year).
APPENDICES
APPENDIX I

GRAPH I
Summary of Revised Revenue Estimates
Through the 3rd quarter FY 2004 to Actual Cash Collections

GRAPH II
General Property Taxes:
Comparison of Revised Revenue Estimates
Through the 3rd Quarter FY 2004 to Actual Cash Collections
GRAPH III
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Comparison of Revised Revenue Estimate
Through the 3rd Quarter FY 2004 to Actual Cash Collections

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GRAPH VI
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Non-Tax Revenues:
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Through the 3rd Quarter FY 2004 to Actual Cash Collections
GRAPH IX
Other Financing Sources:
Comparison of Revised Revenue Estimate
Through the 3rd Quarter FY 2004 to Actual Cash Collections

Revised Estimate
Through the 3rd Quarter FY 2004

Actual Collections
Through the 3rd Quarter FY 2004

$51,775
$58,900

Other Financing Sources

($000)
## APPENDIX II

### Comparison of Cash Collections Through the 3rd Quarter
**Fiscal Years 2000 - 2004**

($000)

<table>
<thead>
<tr>
<th>Tax Categories</th>
<th>FY 2000</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004(^{14})</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Property Taxes</td>
<td>$325,990</td>
<td>$336,152</td>
<td>$368,760</td>
<td>$445,957</td>
<td>$485,401</td>
</tr>
<tr>
<td>General Sales and Use Taxes(^*)</td>
<td>432,449</td>
<td>476,029</td>
<td>451,197</td>
<td>462,625</td>
<td>505,791</td>
</tr>
<tr>
<td>Selective Sales and Use Taxes</td>
<td>40,607</td>
<td>44,015</td>
<td>39,387</td>
<td>44,813</td>
<td>49,437</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>1,038,612</td>
<td>1,138,642</td>
<td>893,965</td>
<td>868,119</td>
<td>982,311</td>
</tr>
<tr>
<td>Gross Receipts Taxes</td>
<td>148,767</td>
<td>164,630</td>
<td>179,053</td>
<td>201,520</td>
<td>218,236</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>106,331</td>
<td>137,544</td>
<td>221,985</td>
<td>185,547</td>
<td>280,623</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>133,382</td>
<td>157,566</td>
<td>173,120</td>
<td>211,966</td>
<td>229,946</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>55,531</td>
<td>63,508</td>
<td>48,501</td>
<td>55,225</td>
<td>58,900</td>
</tr>
<tr>
<td><strong>Total Cash Collections Financing the Appropriation</strong></td>
<td><strong>$2,281,669</strong></td>
<td><strong>$2,518,086</strong></td>
<td><strong>$2,375,968</strong></td>
<td><strong>$2,475,772</strong></td>
<td><strong>$2,810,645</strong></td>
</tr>
</tbody>
</table>

* Source: Office of the Chief Financial Officer, Office of Revenue Analysis

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

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\(^{14}\) Differences in totals presented in this table are due to rounding.

\(^{15}\) Dedicated non-tax "O" type revenue collections of $155.1 million through June 30, 2004 are not presented in this Appendix.
## Comparison of Collections Through the 3rd Quarter of FY 2004 to Collections Through the 3rd Quarter of FY 2003 ($000)

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Collections Through the 3rd Quarter Fiscal Year 2004</th>
<th>Collections Through the 3rd Quarter Fiscal Year 2003</th>
<th>Difference 3rd Quarter FY 2004 Over/(Under) 3rd Quarter FY 2003</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Property Taxes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Property</td>
<td>$473,412</td>
<td>$432,162</td>
<td>$42,250</td>
<td>9.8%</td>
</tr>
<tr>
<td>Personal Property</td>
<td>2,264</td>
<td>6,517</td>
<td>(3,893)</td>
<td>(59.7%)</td>
</tr>
<tr>
<td>Public Space Rental</td>
<td>8,365</td>
<td>7,279</td>
<td>1,087</td>
<td>14.9%</td>
</tr>
<tr>
<td><strong>Total Property Taxes</strong></td>
<td>$485,401</td>
<td>$445,957</td>
<td>$39,444</td>
<td>8.8%</td>
</tr>
<tr>
<td><strong>General Sales and Use Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Selective Sales and Use Taxes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alcoholic Beverage</td>
<td>$3,897</td>
<td>$3,566</td>
<td>$331</td>
<td>9.3%</td>
</tr>
<tr>
<td>Cigarette</td>
<td>15,227</td>
<td>15,152</td>
<td>76</td>
<td>0.5%</td>
</tr>
<tr>
<td>Motor Vehicle Excise</td>
<td>30,313</td>
<td>26,095</td>
<td>4,219</td>
<td>16.2%</td>
</tr>
<tr>
<td><strong>Selective Sales and Use Taxes</strong></td>
<td>$49,437</td>
<td>$44,813</td>
<td>$4,624</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>Income Taxes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$795,960</td>
<td>$708,104</td>
<td>$87,856</td>
<td>12.4%</td>
</tr>
<tr>
<td>Corporate Franchise</td>
<td>113,899</td>
<td>96,615</td>
<td>17,284</td>
<td>17.9%</td>
</tr>
<tr>
<td>Unincorporated Business</td>
<td>72,452</td>
<td>63,400</td>
<td>9,053</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>Total Income Taxes</strong></td>
<td>$982,311</td>
<td>$868,119</td>
<td>$114,192</td>
<td>13.2%</td>
</tr>
<tr>
<td><strong>Gross Receipts Taxes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Utilities</td>
<td>$130,244</td>
<td>$123,677</td>
<td>$6,567</td>
<td>5.3%</td>
</tr>
<tr>
<td>Toll Telecommunications</td>
<td>42,329</td>
<td>37,225</td>
<td>5,104</td>
<td>13.7%</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td>45,663</td>
<td>40,618</td>
<td>5,046</td>
<td>12.4%</td>
</tr>
<tr>
<td><strong>Total Gross Receipts</strong></td>
<td>$218,236</td>
<td>$201,520</td>
<td>$16,717</td>
<td>8.3%</td>
</tr>
<tr>
<td><strong>Other Taxes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estate Tax</td>
<td>$21,017</td>
<td>$22,441</td>
<td>(1,424)</td>
<td>(6.3%)</td>
</tr>
<tr>
<td>Deed Recordation</td>
<td>144,502</td>
<td>95,116</td>
<td>49,387</td>
<td>51.9%</td>
</tr>
<tr>
<td>Deed Transfer</td>
<td>103,031</td>
<td>66,608</td>
<td>36,424</td>
<td>54.7%</td>
</tr>
<tr>
<td>Economic Interests</td>
<td>12,073</td>
<td>1,383</td>
<td>10,690</td>
<td>773.2%</td>
</tr>
<tr>
<td><strong>Total Other Taxes</strong></td>
<td>$280,623</td>
<td>$185,547</td>
<td>$95,076</td>
<td>36.4%</td>
</tr>
<tr>
<td><strong>Total Tax Collections</strong></td>
<td>$2,521,799</td>
<td>$2,208,580</td>
<td>$313,221</td>
<td>14.2%</td>
</tr>
<tr>
<td><strong>Non-Tax Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>$34,105</td>
<td>$37,412</td>
<td>(3,306)</td>
<td>(8.8%)</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>$76,547</td>
<td>64,409</td>
<td>12,138</td>
<td>18.8%</td>
</tr>
</tbody>
</table>

---

16. Rounding may affect some calculations presented in this table.

17. Total revenue presented in this appendix does not include dedicated non-tax "O" type revenue collections of $155.1 million through the 3rd quarter of FY 2004. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.
<table>
<thead>
<tr>
<th></th>
<th>32,265</th>
<th>29,882</th>
<th>2,383</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous Revenue</td>
<td>87,029</td>
<td>80,263</td>
<td>6,767</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Total Non-Tax Revenue</strong></td>
<td>$229,946</td>
<td>$211,966</td>
<td>$17,980</td>
<td>8.5%</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>$58,900</td>
<td>$55,225</td>
<td>$3,675</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$2,810,645</td>
<td>$2,475,771</td>
<td>$334,876</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Source: Office of the Chief Financial Officer, Office of Revenue Analysis