



**Certification of Revised Fiscal Year 2014  
Total Local Source General Fund  
Revenues (Net of Dedicated Taxes) in  
Support of the District's Issuance of  
General Obligation Bonds (Series 2014A  
and 2014B)**

September 15, 2014

**Audit Team:**

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A Report by the Office of the District of Columbia Auditor  
Lawrence Perry, Acting District of Columbia Auditor



September 15, 2014

Included herein is the Office of the District of Columbia Auditor's (ODCA) report, entitled "Certification of Fiscal Year 2014 Total Local Source General Fund Revenues (Net of Dedicated Taxes) in Support of the District's Issuance of General Obligation Bonds (Series 2014A and 2014B)." On May 23, 2014, pursuant to D.C. Official Code, Section 1-206.03 (b)(1), the Chief Financial Officer (CFO) of the District of Columbia, through the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT), requested that ODCA certify the CFO's revised fiscal year (FY) 2014 estimated total local source General Fund Revenue (net of Dedicated Taxes). The CFO requested ODCA's certification in connection with the District's issuance of \$99,985,000 in Multimodal General Obligation Bonds (Series 2014A) to finance certain approved capital projects in the District' Capital Improvements Plan and \$224,315,000 in Multimodal General Obligation Refunding Bonds (Series 2014B) to refund existing General Obligation debt. This report sets forth the results of ODCA's analysis of the CFO's revised FY 2014 local source revenue (net of Dedicated Taxes) estimate of \$6,334,067,000.

We would like to thank OCFO staff for their assistance and cooperation during this certification. Their valuable time and efforts spent on providing us information was greatly appreciated.

Sincerely

A handwritten signature in black ink, appearing to read "Lawrence Perry". The signature is written in a cursive style with a large, sweeping "L" and "P".

Lawrence Perry  
Acting District of Columbia Auditor

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## Background

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D.C. Official Code, Section 1-206.03 (b)(1) states, in relevant part, that:

No general obligation bonds...or Treasury capital project loans shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid both serially and into a sinking fund in any fiscal year on the aggregate amounts of all outstanding general obligation bonds and such Treasury loans, to exceed 17 percent of the District revenues...which the Mayor estimates, and the District of Columbia Auditor certifies, [Auditor's Emphasis] will be credited to the District during the fiscal year in which the bonds will be issued...

The Chief Financial Officer (CFO) must prepare annual estimates of all District revenues for use in developing the District's budget and must prepare quarterly re-estimates of revenues during the fiscal year.

ODCA's certification was based upon an evaluation of the \$6,334,067,000 fiscal year (FY) 2014 revised local source revenue estimate certified by the CFO.<sup>1</sup> The CFO's estimate was based upon information that can, and often does, change rapidly thus resulting in revisions to the CFO's estimate after our certification. ODCA does not, and cannot, guarantee the stability of the CFO's estimate submitted for our certification. Thus, ODCA only certifies that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable. Relative uncertainty in the overall estimating process or unforeseen national and local events may substantially change the District's economic outlook and could result in changes to the revenue estimate that differ significantly from the estimate certified by ODCA. Additionally, the validity and accuracy of our certification analysis are predicated upon the extent to which the Office of the Chief Financial Officer's (OCFO) Office of Revenue Analysis (ORA) provided a sound and reasonable FY 2014 local source revenue estimate and fully disclosed and provided reliable and

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<sup>1</sup> See revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman, dated February 26, 2014.

accurate information to ODCA regarding the District's FYs 2011 to 2014 (as of April 2014) revenue collections.<sup>2</sup>

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<sup>2</sup>A Management Representations Letter concerning the disclosures and accuracy of the financial data on which ODCA's certification was based was signed by the District's CFO on June 25, 2014.

# **Objectives, Scope and Methodology**

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## **Objectives**

The objectives of this analysis were to:

1. Review, analyze and assess the reasonableness and attainability of the CFO's revised fiscal year (FY) 2014 local source revenue estimate of \$6,334,067,000.<sup>3</sup>
2. Determine if the issuance of the proposed general obligation bonds would cause the District to exceed the 17 percent revenue limitation, as outlined in D.C. Code § 1-206.03(b)(1).

## **Scope**

ODCA reviewed the District's financial records and data for FYs 2011 through 2013 and FY 2014, as of April 30, 2014. Our review also included a review of the District's FY 2014 projected revenues.

## **Methodology**

To accomplish our review objectives, we:

- Analyzed actual local source revenues for FY 2011 through FY 2013 and FY 2014 as of April 30, 2014, and the estimated local source revenue for FY 2014;
- Reviewed the District's FY 2013 and FY 2014 Budget and Financial Plans, statistical and economic data published by various sources, and the District's calculation of limitation on borrowing; and
- Interviewed officials and representatives of the Office of Revenue Analysis (ORA) and Office of Finance and Treasury (OFT).

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

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<sup>3</sup> The CFO revised the FY 2014 estimate in the certification letter to the Mayor and Council Chairman dated February 26, 2014.

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

# Audit Results

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In reviewing the fiscal year (FY) 2014 local source revenue estimate of \$6,334,067,000, ODCA relied on preliminary revenue collection results for FYs 2011 to 2013, year to date FY 2014 collections, as well as, economic indicators, trends and projections.

Based on our review and analysis of historical and other economic data, we concluded that the revised FY 2014 local source revenue estimate was achievable.

ODCA conducted detailed analysis of the following local tax and non-tax revenue sources: property tax, sales tax, income tax, gross receipts, other taxes, non-tax revenue and lottery revenue to arrive at our conclusions and subsequent certification. Key observations from our analysis conducted are noted below.

## **Property Tax**

We determined that the revised FY 2014 revenue estimate for real property taxes of \$1.971 billion is reasonable. The February 2014 revenue estimate was revised upward from the December 2013 estimate due to a rebound in the District's property values. According to the data released by Real Estate Business Intelligence (a subsidiary of MRIS), the median home price for the District experienced its 28<sup>th</sup> consecutive month of growth. The median sales price of homes sold in the District increased by 8.1 percent from May 2013 to May 2014. Although the residential real estate market growth has shown indications of moderation, District homes sales are expected to continue to increase with the average sales price expected to grow by at least 3 percent.

Regarding commercial property, for the first half of 2014, leasing activity remained largely flat for the District; with some modest growth in tenant renewals, expansions and relocations. Going forward, it is expected that the District's commercial real estate market will display improvement in the latter part of 2014 and forward; as evidenced by the addition of almost eight million square feet of office space expected to be delivered in the D.C. metro area within the next few years.

## **Sales Tax**

ODCA determined that the District should achieve the revised FY 2014 \$1.054 billion general sales and use tax estimate. Since our

previous review in December 2013<sup>4</sup>, the FY 2014 general sales and use tax estimate was revised upward. ODCA notes that both increases in District personal income and increases in District tourism have historically had a positive impact on the District’s general sales and use tax collections. According to data from Destination DC, there was an overall increase in total domestic visitors and visitor spending. As of April 2014, the District has collected 55 percent of the FY 2014 sales tax estimate.

**Income Tax**

We determined that the revised FY 2014 income tax revenue estimate of \$2.196 billion appeared reasonable. The individual income revenue estimate grew by 2 percent when compared the same revenue estimate in September 2013. The withholding tax portion as of April 2014 grew 6.9 percent when compared to the same period last year. The FY 2014 actual collections through the month of April 2014 are on pace with the collections from FY 2013, coupled with a stronger stock market, increasing personal income of District residents, and a conservative revised estimate of an increase of 4 percent when compared to FY 2013, makes the FY 2014 total income tax revenue estimate appear attainable.

**Summary**

ODCA’s analysis of historical revenue trends and other economic factors indicated that the District should achieve the \$6,334,067,000 revised local source revenue estimate. On June 26, 2014, ODCA certified the revised FY 2014 \$6,334,067,000 local source revenue estimate.

Figure I presents the revised FY 2014 local source revenue estimate submitted by the CFO on February 26, 2014 and certified by ODCA.

**Figure 1**

**Revised FY 2014 Local Source Revenue Estimate Prepared by the CFO and Certified by ODCA**

| Revenue Source         | CFO’s February 2014, FY 2014 Local Source Revenue Estimate |
|------------------------|--|
| Property Taxes         | \$2,061,389  |
| Sales Taxes            | 1,054,074  |
| Income Taxes           | 2,196,070  |
| Gross Receipts Taxes   | 248,318  |
| Other Taxes            | 317,327  |
| <b>Total Taxes</b>     | <b>5,877,178</b>   |
| Total Non-Tax Revenues | 396,708  |

<sup>4</sup> Certification of Fiscal Year 2014 Total Local Source General Fund Revenues (Net of Dedicated Taxes) in Support of the District’s Issuance of \$ 495,425,000 in General Obligation Bonds (Series 2013A), dated April 3, 2014.

|  |                    |
|--|--------------------|
| Lottery                                      | 60,181             |
| <b>Revised Local Source Revenue Estimate</b> | <b>\$6,334,067</b> |

(thousands of dollars)

**Source:** Revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman dated February 26, 2014.

## Conclusion

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Based on an analysis of information provided by the Chief Financial Officer (CFO) of the District of Columbia, as of June 25, 2014; the assumptions supporting the fiscal year (FY) 2014 revenue estimate; and other relevant data, ODCA concluded that the February 26, 2014, FY 2014 revised local source revenue (net of Dedicated Taxes) estimate of \$6,334,067,000 appeared to be reasonable and achievable.

Therefore, on June 26, 2014, ODCA certified the \$6,334,067,000 FY 2014 revised local source revenue (net of Dedicated Taxes) estimate submitted by the CFO.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence Perry". The signature is fluid and cursive, with a long horizontal stroke at the end.

Lawrence Perry  
Acting District of Columbia Auditor