



**Certification of Fiscal Year 2015 Total  
Local Source General Fund Revenue  
Estimate (Net of Dedicated Taxes) in  
Support of the District's Issuance of  
General Obligation Bonds (Series 2015A  
and 2015B)**

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A Report by the Office of the District of Columbia Auditor  
Kathleen Patterson, District of Columbia Auditor

The Honorable Phil Mendelson, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue, NW, Suite 504  
Washington, D.C. 20004

**Letter Report:** Certification of Fiscal Year 2015 Total Local Source General Fund Revenue Estimate (Net of Dedicated Taxes) in Support of the District's Issuance of General Obligation Bonds (Series 2015A) and General Obligation Refunding Bonds (Series 2015B)

Dear Chairman Mendelson:

On May 7, 2015, the Deputy Chief Financial Officer and Treasurer of the District of Columbia requested that the Auditor certify the Office of the Chief Financial Officer revised fiscal year (FY) 2015 estimated total local source General Fund Revenue (net of dedicated taxes).<sup>1</sup> The Office of the Chief Financial Officer (OCFO) requested the Auditor's certification, in connection with the District's issuance of \$500,000,000 in General Obligation Bonds (Series 2015A), to finance certain approved capital projects in the District's Capital Improvements Plan and \$34,190,000 in General Obligation Refunding Bonds (Series 2015B) to refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B.

This report sets forth the results of the Auditor's analysis of the CFO's FY 2015 local source revenue (net of Dedicated Taxes) estimate of \$6,614,012,000.<sup>2</sup>

### **Objectives, Scope and Methodology**

The objectives of this analysis were to:

1. Assess the reasonableness and attainability of the OCFO's fiscal year (FY) 2015 local source revenue estimate (net of dedicated taxes) of \$6,614,012,000.
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).

The scope of this review included financial records and data for FY 2011 through FY 2015, as of April 30, 2015; and FY 2015 estimated local source revenues and economic forecast.

In conducting this analysis, we analyzed actual local source revenues for FY 2011 through FY 2015 (as of April 30, 2015), and reviewed the estimated local source revenue for FY 2015. We also reviewed the

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<sup>1</sup> Request sent from the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT) to the Office of the DC Auditor pursuant to D.C. Official Code, Section 1-206.03 (b)(1).

<sup>2</sup> See revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman, dated February 27, 2015.

District's FY 2015 budget and economic data, and the final official statement supporting the bond issuance.

To gain an understanding of the District's current economic outlook, we interviewed the OCFO Office of Revenue Analysis (ORA) staff, reviewed external local economic data sources and interviewed an economist from George Mason University's Center for Regional Analysis.

## Background

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% of the District revenues... which the Mayor estimates, **and the District of Columbia Auditor certifies**, will be credited to the District during the fiscal year in which the bonds will be issued...(emphasis added)

In compliance with D.C. Official Code, Section 1-206.03 (b)(1), the OCFO requested that the Auditor certify the OCFO revised FY 2015 total local source General Fund Revenue (net of dedicated taxes) estimate. The OCFO requested the certification in connection with the District's issuance of:

- \$500,000,000 aggregate principle amount of General Obligation Bonds (Series 2015A). The proceeds of the Series 2015A bonds will be used to (1) finance capital projects expenditures under the District's Capital Improvements Plan, and (2) pay the cost and expenses of issuing and delivering the Series 2015A Bonds.
- \$34,190,000 aggregate principle amount of General Obligation Refunding Bonds (Series 2015B). The proceeds of the Series 2015B bonds will be used to (1) refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B, and (2) pay the cost and expenses of issuing and delivering the Series 2015B Bonds.

Based on an analysis conducted by the OCFO Office of Finance & Treasury (OFT), it was determined that the issuance of the General Obligation Refunding Bonds (Series 2015B) would generate a net present value savings of \$7,586,431 spread out over the annual debt service between the years 2016 and 2027. To realize this cost savings, the proceeds of the Series 2015B bonds will be used to pay the principle and accrued interest on the refunded bonds (Series 2005B) with maturity dates in years 2025, 2026 and 2027.

The Auditor's certification was based upon an evaluation of the \$6,614,012,000 FY 2015 local source revenue estimate certified by the CFO on February 27, 2015. The CFO's estimate was based upon information that can, and often does, change rapidly thus resulting in revisions to the CFO's estimate after the Auditor's certification. The Auditor does not, and cannot, guarantee the stability of the CFO's estimate submitted for the Auditor's certification. Thus, the Auditor only certifies that the revenue estimate, at the time of certification, appeared sufficiently supported and achievable.

Relative uncertainty in the overall estimating process or unforeseen national and local events may substantially change the District’s economic outlook and could result in changes to the revenue estimate that differ significantly from the estimate certified by the Auditor. Additionally, the validity and accuracy of the Auditor’s certification analysis are predicated upon the extent to which the OCFO Office of Revenue Analysis (ORA) provided a sound and reasonable FY 2015 local source revenue estimate; fully disclosed information to the Auditor; and provided reliable and accurate information to the Auditor regarding the District’s FYs 2011 to 2015 (as of April 2015) revenue collections.<sup>3</sup>

**Results of the Auditor’s Examination**

In reviewing the fiscal year (FY) 2015 local source revenue estimate of \$6,614,012,000, the Auditor relied on revenue collection results for FYs 2011 to 2014, preliminary year to date FY 2015 revenue collections (as of April 30, 2015), as well as economic indicators, trends and projections provided by the Office of Revenue Analysis, external local economic data, and an interview held with a local economist.

Figure 1 presents the FY 2015 local source revenue estimate submitted by the CFO on February 27, 2015.

**Figure 1**

**FY 2015 Local Source Revenue (net of Dedicated Taxes) Estimate Prepared by the CFO and Certified by the Auditor**

Revenue Source	CFO’s February 2015, FY 2015 Local Source Revenue Estimate (net of Dedicated Taxes) (in thousands of dollars)
Property Taxes	\$2,242,095
Sales Taxes	1,110,136
Income Taxes	2,172,268
Gross Receipts Taxes	250,440
Other Taxes	381,639
<b>Total Taxes</b>	<b>6,156,578</b>
<b>Total Non-Tax Revenues</b>	<b>402,467</b>
<b>Lottery</b>	<b>54,967</b>
<b>Revised Local Source Revenue Estimate</b>	<b>\$6,614,012</b>

Source: Revenue certification letter from the Chief Financial Officer to the Mayor and Council Chairman dated February 27, 2015.

<sup>3</sup> A Management Representations Letter concerning the disclosures and accuracy of the financial data on which the Auditor’s certification was based on and signed by the District’s CFO June 24, 2015.

The Auditor 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**

The Auditor determined that the FY 2015 revenue estimate for property taxes of \$2.242 billion is reasonable and achievable. The FY 2015 revenue estimate increased by over \$180 million when compared to the FY 2014 revenue estimate. The residential housing market continues to show improvement, although at a slower pace than in recent years. According to the Delta Associates Washington Area Housing Outlook, in the first quarter of 2015, the average sales price of a Washington area home was up 2.5 percent from the first quarter of 2014. This rate of growth compares to 5.5 percent and 9.2 percent at the first quarter of 2014 and 2013 respectively. With the number of active listings in the region continuing to increase, price growth is expected to remain in the range of 2 to 4 percent in the short term. For commercial property, additional construction is taking place though the market tends to be mostly saturated. The commercial market is expected to remain stable for the foreseeable future.

## **Sales Tax**

For the period of FYs 2011 through 2014, the sales tax has generally seen an increase in revenues. Total annual sales tax revenue collections have increased an average of \$35.5 million or 3.82 percent from FY 2011 through FY 2014. Based on the OCFO's February FY 2015 revenues estimate, the estimated sales tax collection will be \$1.110 billion, an increase of \$80 million or 7.7 percent when compared to the same period in FY 2014. In addition, year to date actual sales tax for FY 2011 to FY 2015 generally increased an average of \$24.3 million or 4.3 percent each year. For FY 2015 sales tax collections were \$630.4 million, as of April 30, 2015, an increase of \$49.2 million or 8.5 percent increase when compared to same period last year.

We noted that increases in District's tourism and hospitality sector have historically had a positive impact on the District's general sales tax collections. According to data from Destination DC, there was an overall increase in total visitors and visitor spending in FY 2014 as compared to the same period in FY 2013. The data shows that in 2014 there were 18.34 million visitors, an increase of 5.7 percent over FY 2013. Visitor spending was \$6.8 billion, an increase of 1.9 percent over FY 2013.

In reviewing data for recent sales tax collections and forecasts the OCFO's sales tax estimate for FY 2015 appears reasonable and achievable.

## **Income Tax**

It is projected that the total income tax revenue will increase 3.7 percent in FY 2015 compared to the previous fiscal year. The Auditor has determined that the FY 2015 revenue estimate for income taxes of \$2.172 billion, representing approximately a \$77.5 million increase from FY 2014, is both reasonable and achievable.

In the four most recent complete fiscal years, total actual income tax revenue has come in both above and below revenue estimates. In FY 2011 and FY 2012, revenues came in 6.2 percent and 6.7 percent above estimates, respectively, while in FY 2013 and FY 2014 actual revenues lagged behind estimates by 1.7 percent and 4.6 percent.

As of April 2015, year-to-date total income tax revenue collections increased 13.5 percent over the same period last year. The OCFO staff informed the Auditor that this was due in large part to a windfall in individual income tax receipts as a result of stronger than expected capital gains tax payments. The strong performance of the stock markets over the past few years is likely a driving force behind this windfall. As such, it is strongly likely that the District will meet or exceed OCFO's income tax projections in the current fiscal year.

### **Additional Observations**

The Auditor also considered the following data in analyzing the FY 2015 local source revenue estimate of \$6,614,012,000:

- For the period of FYs 2011 through 2014, the other taxes category has generally seen an increase in revenues. Based on the OCFO's February FY 2015 revenue estimate, the estimated other tax revenue collections will be \$381.6 million, an increase of \$12.1 million, or 3.3 percent when compared to the same period last year FY 2014.
- The non-tax revenue components of licenses and permits and charges for services have generally increased from year to year while miscellaneous revenue has fluctuated. Licenses and permits and charges for services have increased approximately 1 to 3 percent for each year since FY 2012 while miscellaneous revenue has seen greater fluctuations due to one-time collections that may have increased in a given fiscal year.
- As of April 30, 2015, total collections for fines and forfeitures is \$67.9 million, 6.9 percent more than collections as of the same period in FY 2014. The OCFO is currently projecting a decrease in FY 2015 revenue in this tax category when compared to FY 2014. In the February quarterly revenue estimate, the OCFO acknowledged that in spite of a moderate increase in ticket issuance, collections from traffic fines were lower than anticipated in December. The forecast in December had assumed an average of about \$12 million per month; however, year to date collections have averaged \$9 million a month. As a result, the estimate for the fines and forfeitures tax category was reduced to \$127.9 million for FY 2015.

Based on the Auditor's review and analysis of historical revenue trends and other economic data, the Auditor concluded that the FY 2015 local source revenue (net of dedicated taxes) estimate is achievable.

### **Debt Limitation**

D.C. Official Code, Section 1-206.03 (b)(1) sets forth a debt limit of 17 percent of the District revenues. Specifically, it states, "...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 cannot exceed 17% of the District revenues..."

Per the DC Code, the District is only required to include the debt from all outstanding general obligation bonds and Treasury capital project loans in the debt limit calculation. Nevertheless, the District has taken a more conservative approach and included the principle and interest payments related to outstanding income tax secured revenue bonds in the debt limit calculation. Based on our review of the limitation on borrowing calculation provided by OCFO, the District's projected aggregate general obligation bond and income tax secured revenue bond debt service (principle and interest) is projected to be 9.10 percent of the District's FY 2015 estimate revenue of \$6,614,012,000. During the period in which debt is outstanding (2015-2040), the percentage of revenue ranges from 0.56 percent (2040) to 9.92 percent (2020). It does not appear that the 17 percent limitation will be exceeded as a result of the issuance of the general obligation bonds (Series 2015A) and the general obligation refunding bonds (Series 2015B).

## **Conclusion**

Based on an analysis of information provided by the Office of the Chief Financial Officer of the District of Columbia, as of June 24, 2015; the assumptions supporting the fiscal year (FY) 2015 revenue estimate; and other relevant economic data, the Auditor concluded that the February 27, 2015, FY 2015 local source revenue (net of Dedicated Taxes) estimate of \$6,614,012,000 appeared to be reasonable and achievable.

Therefore, on June 24, 2015, the Auditor certified the \$6,614,012,000 FY 2015 local source revenue (net of dedicated taxes) estimate submitted by the OCFO.

Sincerely,



Kathleen Patterson  
District of Columbia Auditor