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**Letter Report: Comparative Analysis of
Actual Cash Collections to the Revised Revenue
Estimate Through the 3rd Quarter of
Fiscal Year 2010**

November 30, 2010



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The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Letter Report: Comparative Analysis of Actual Cash Collections to the Revised Revenue Estimate Through the 3rd Quarter of Fiscal Year 2010

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

This letter report presents the Office of the District of Columbia Auditor's (ODCA) comparison of the District of Columbia's (District) actual cash collections through the 3rd quarter of fiscal year (FY) 2010 to the revised FY 2010 revenue estimate for the 3rd quarter.

BACKGROUND

In September 2009, pursuant to the Home Rule Act, as amended by Public Law 104-8,¹ and Public Law 106-522, the District of Columbia Appropriations Act for Fiscal Year 2001,² the District's Chief Financial Officer (CFO) issued a certified FY 2010 original revenue estimate of \$4.879 billion.³ The \$4.879 billion non-dedicated Local Fund revenue estimate was used as the baseline for the FY 2010 budget. Revisions to the \$4.879 billion estimate are presented below:

Revision #1 In December 2009, the CFO revised the FY 2010 revenue estimate upward to \$5.182 billion which was a net increase of \$303 million from the \$4.879 billion FY 2010 original revenue estimate;⁴

¹ See Pub. L. 104-8, (109 Stat; D.C. Code Section 1-204.24c (5) (A) and (B)).

² See Pub. L. No. 106-522 114 Stat. 2440.

³ See FY 2010 Proposed Budget and Financial Plan, Volume I, Executive Summary, dated September 28, 2009, page 4-18, "Operating Revenue by Source, Fiscal Years 2008 - 2013." The FY 2010 revenue estimate presented in this report represents the non-dedicated local fund revenue estimate and does not include the FY 2010 special purpose revenue fund (O-type) estimate of \$454.38 million. However, an overall discussion of special purpose revenue fund (O-type) is included in a later section of this report.

⁴ The CFO's certified FY 2010 original revenue estimate was \$4.879 billion. In December 2009, the CFO reduced the \$4.879 billion estimate by \$17.1 million. Additionally, the FY 2010 Budget and Financial Plan, dated September 28, 2009, included \$319.95 million in policy changes. The revenue reduction of \$17.1 million and the impact of the policy changes of \$319.95 million resulted in a net increase of \$303 million over the \$4.879 billion FY 2010 original estimate.

Revision #2 In February 2010, the CFO revised the FY 2010 revenue estimate downward to \$5.164 billion which was a net decrease of \$17.7 million from the \$5.182 billion December FY 2010 revised revenue estimate, and a \$285 million increase over the \$4.879 billion FY 2010 original estimate; and

Revision #3 In June 2010, the FY 2010 revenue estimate remained unchanged from the CFO's February 2010 revenue estimate of \$5.164 billion.

METHODOLOGY

In conducting the comparative analysis, the Auditor reviewed: (1) the \$5.164 billion estimate; (2) the FY 2010 3rd quarter Comparative Report of Cash Collections by Funds prepared by the Chief Financial Officer's Office of Revenue Analysis (ORA); and (3) other relevant information. Additional information reviewed by the Auditor included economic data from several sources, including George Mason University's Center for Regional Analysis, Eagle Eye Inc., the Federal Reserve Beige Book, the District's Department of Employment Services (DOES), the Greater Capital Area Association of Realtors (GCAAR), United States Department of Labor's Bureau of Labor Statistics (BLS), the Conference Board, the Office of the Chief Financial Officer's Office of Finance and Treasury (OFT), National Oceanic and Atmospheric Administration (NOAA), the District of Columbia Lottery and Charitable Games Board (D.C. Lottery), and Destination D.C.⁵

The Auditor interviewed ORA officials regarding cash collections through the 3rd quarter of FY 2010 and representatives from other governmental organizations regarding their knowledge of overall economic conditions that affect the District.

This analysis was conducted at the discretion of the D.C. Auditor, for legislative oversight purposes.⁶ The scope of the work performed for this purpose does not constitute an audit under government auditing standards (GAGAS).⁷

⁵ Formerly called the Washington D.C. Convention and Tourism Corporation.

⁶ See GAGAS A3.02 which states: "Audit organizations in government entities frequently provide nonaudit services that differ from the traditional professional services provided by an accounting or consulting firm to or for the audited entity. These types of nonaudit services are often performed in response to a statutory requirement, at the discretion of the authority of the audit organization, or for a legislative oversight body or an independent external organization and do not impair auditor independence. (See paragraphs 3.20 through 3.30 for the requirements for evaluating whether nonaudit services impair auditor independence)."

⁷ See GAGAS 1.33.

RESULTS OF ANALYSIS

Actual cash collections from: (1) tax, (2) non-tax, and (3) other financing sources through the 3rd quarter of FY 2010 totaled \$3.266 billion, which were \$128 million, or 3.8%, below the \$3.394 billion revised estimate through the 3rd quarter.⁸ The \$3.266 billion in actual cash collections represented 63.24% of the \$5.164 billion FY 2010 revised revenue estimate.⁹ Collections through the 3rd quarter from tax, non-tax, and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$3.01 billion, which were \$93 million, or 3%, below the revised tax estimate of \$3.103 billion through June 2010.

- ◆ **Non-tax** - total non-tax collections were \$205.69 million, which were \$34.99 million, or 14.5%, below the revised non-tax estimate of \$240.68 million through June 2010.

- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$50.3 million. These collections were \$535,000, or 1.1%, below the revised other financing sources estimate of \$50.83 million through June 2010.

Table I compares actual cash collections to the revised estimate through the 3rd quarter of FY 2010 for tax, non-tax, and other financing sources. Appendix I presents a graphical depiction of the information in Table I as well as other tables presented in this report.

⁸ Rounding may affect some calculations presented in this report.

⁹ The \$3.394 billion revised revenue estimate and \$3.266 billion in collections through the 3rd quarter of FY 2010 are presented net of funds transferred to dedicated purposes including the Washington Convention and Sports Authority, formerly called the Washington Convention Center Authority. The estimate and transfer also does not include special purpose revenue fund (O-type).

TABLE I
Cash Collections Summary
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Collections Category	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Tax	\$ 3,009,951	\$ 3,102,910	(\$ 92,959)	(3%)
Non-Tax	205,689	240,678	(34,989)	(14.5%)
Other Financing Sources	50,300	50,835	(535)	(1.1%)
Total Collections	\$ 3,265,940	\$ 3,394,423	(\$ 128,483)	(3.8%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

In conducting the analysis of cash collections through the 3rd quarter of FY 2010, the Auditor compared the 3rd quarter collection trends for the five prior fiscal years from FY 2006 through the 3rd quarter of FY 2010. 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 in general property taxes and gross receipts taxes have steadily increased over the five-fiscal year period. Further, 3rd quarter collections in income taxes increased from FY 2006 through FY 2008 but decreased in FYs 2009 and 2010. A discussion of the fluctuation in each of the tax and non-tax revenue categories is presented later in this report.

Appendix III presents a comparison of collections through the 3rd quarter of FY 2010 to 3rd quarter collections for FY 2009 in each tax and non-tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (C) public space rental. The FY 2010 revised estimate for general property taxes is \$1.816 billion. Collections of general property taxes through the 3rd quarter of FY 2010 totaled \$924.17 million, which were:

- ◆ \$34.35 million, or 3.9%, above the \$889.83 million 3rd quarter FY 2010 revised estimate; and
- ◆ \$16.23 million, or 1.8%, above collections for the same period in FY 2009.

Collections of general property taxes through the 3rd quarter represent 50.9% of the annual total revised revenue estimate for this category. Table II compares actual collections of general property taxes to the revised estimate through the 3rd quarter of FY 2010.

TABLE II
General Property Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

General Property Taxes	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Real Property	\$922,770	\$886,925	\$35,845	4%
Personal Property	1,402	2,902	(1,500)	(51.7%)
Public Space Rental ¹⁰	0	0	0	0%
Total General Property Taxes	\$924,172	\$889,827	\$34,345	3.9%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

A. Real Property Tax Collections

Real property tax collections through the 3rd quarter of FY 2010 totaled \$922.77 million. These collections were \$35.84 million, or 4%, above the \$886.93 million revised estimate. The real property tax category is the largest component of general property taxes.

According to an ORA official, real property tax collections were above the estimate through the 3rd quarter, in part, due to much stronger collection rates and payments of prior year liabilities. According to statistics obtained from ORA, 12.5% of delinquent taxes were paid through April 2010 versus 6.4% through April 2009. Additionally, according to ODCA's analysis, 50.9% of the FY 2010 real property tax estimate was collected through the 3rd quarter of FY 2010. This is approximately 2% above the average 3rd quarter collections to estimate for the prior five fiscal years.

The Auditor noted that real property tax refunds through the 3rd quarter totaled \$22.92 million and were \$2.65 million, or 10.4%, below the \$25.57 million estimate. However, refunds through the 3rd quarter of FY 2010 were \$1.35 million, or 6.3%, higher than refunds through the 3rd quarter of FY 2009.

¹⁰ Public space rental collections are not used for General Fund purposes but are dedicated to the District Department of Transportation.

B. Personal Property Tax Collections

Personal property tax collections through the 3rd quarter of FY 2010 totaled \$1.4 million. These collections were \$1.5 million, or 51.7%, below the \$2.9 million revised estimate. The annual due date for personal property tax returns is July 31st. Therefore, according to an ORA official, most of the personal property taxes are estimated to be collected in the 4th quarter.

GENERAL SALES AND USE TAXES

The FY 2010 revised estimate for general sales and use taxes is \$858.42 million.¹¹ Collections of general sales and use taxes through the 3rd quarter totaled \$589.57 million, which were:

- ◆ \$56.55 million, or 8.8%, below the \$646.11 million 3rd quarter FY 2010 revised estimate; and
- ◆ \$33.04 million, or 5.3%, below collections for the same period in FY 2009.

General sales and use tax collections through the 3rd quarter represented 68.68% of the total FY 2010 revised estimate for this category. Table III compares actual collections to the revised estimate through the 3rd quarter of FY 2010.

TABLE III
General Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

General Sales and Use Taxes	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
General Sales and Use Taxes	\$589,568	\$646,113	(\$56,545)	(8.8%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

The fact that general sales and use tax collections were below the estimate may be due, in part, to reduced consumer spending. According to the Conference Board, the consumer confidence index declined sharply in June 2010. Consumers' short-term outlook, which had improved significantly in May, turned more pessimistic in June. Furthermore, the Conference Board stated that increasing uncertainty and apprehension about the future state of the economy and labor market are the primary reasons for the sharp reversal in confidence.

¹¹ Presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention and Sports Authority.

Also, according to information obtained from Destination DC, the hotel occupancy rate through the 3rd quarter FY 2010 was .9% lower than FY 2009, and revenue generated through the 3rd quarter FY 2010 was \$22.52 million, or 2%, less than the same period in FY 2009.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (C) motor vehicle excise taxes. The FY 2010 revised estimate for selective sales and use taxes is \$67.47 million. Collections through the 3rd quarter of FY 2010 totaled \$47.46 million, which were:

- ◆ \$1.6 million, or 3.2%, below the \$49.05 million 3rd quarter FY 2010 revised estimate; and
- ◆ \$5.85 million, or 11%, below collections for the same period in FY 2009.

Selective sales and use tax collections through the 3rd quarter represented 70.3% of the total FY 2010 revised estimate for this category. Table IV compares actual collections to the revised estimate through the 3rd quarter of FY 2010.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Selective Sales and Use Taxes	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Alcoholic Beverage	\$4,511	\$3,660	\$851	23.3%
Cigarette	21,494	22,779	(1,285)	(5.6%)
Motor Vehicle Excise	21,457	22,613	(1,156)	(5.1%)
Total Selective Sales and Use Taxes	\$47,462	\$49,052	(\$1,590)	(3.2%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections through the 3rd quarter totaled \$4.51 million. These collections were \$851,000, or 23.3%, above the \$3.66 million revised estimate.

B. Cigarette Tax

Cigarette tax collections through the 3rd quarter totaled \$21.49 million. These collections were \$1.29 million, or 5.6%, below the \$22.78 million revised estimate. The fact that collections were below the estimate may be due, in part, to the fact that both the federal excise tax and the District tax on cigarettes increased in FY 2009. The tax increase may have caused some consumers to quit smoking or to purchase their cigarettes in other jurisdictions where the cost of cigarettes is lower. An ORA official indicated that the ban on smoking in restaurants and bars might also have negatively affected cigarette purchases.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections through the 3rd quarter totaled \$21.46 million. These collections were \$1.15 million, or 5.1%, below the \$22.61 million revised estimate. An ORA official indicated that collections were below the estimate, in part, because the severe winter weather during the 2nd quarter resulted in fewer customers purchasing vehicles, which affected overall collections through the 3rd quarter.

INCOME TAXES

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (C) unincorporated business franchise tax. The FY 2010 revised estimate for the income taxes category is \$1.573 billion. Collections through the 3rd quarter of FY 2010 totaled \$1.1 billion, which were:

- ◆ \$85.52 million, or 7.2%, below the \$1.18 billion 3rd quarter FY 2010 revised estimate; and
- ◆ \$24.2 million, or 2.2%, below collections for the same period in FY 2009.

Income taxes collected through the 3rd quarter represented approximately 69.93% of the total FY 2010 revised revenue estimate for this category. Table V compares actual collections to the revised estimate through the 3rd quarter of FY 2010.

TABLE V
Income Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Income Taxes	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/Under Revised Estimate	Percentage Difference
Individual Income Tax	\$819,954	\$904,256	(\$84,302)	(9.3%)
Corporate Franchise Tax	174,246	188,856	(14,610)	(7.7%)
Unincorporated Business Franchise Tax	103,367	89,973	13,394	14.9%
Total Income Taxes	\$1,097,567	\$1,183,085	(\$85,518)	(7.2%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

A. Individual Income Tax

Individual income tax collections through the 3rd quarter totaled \$819.95 million. This tax is the largest in the income tax category. These collections were \$84.3 million, or 9.3%, below the \$904.25 million 3rd quarter FY 2010 revised estimate.

The fact that individual income tax collections were lower than the estimate may be due, in part, to the fact that individual income tax declarations (estimated tax payments) were \$28.34 million, or 19%, below the estimate, and income tax payments through the 3rd quarter were \$97.64 million, or 43.1%, below the estimate.

Also, collections may have been below the estimate due to higher unemployment rates. According to DOES statistics, the year-to-date average District of Columbia unemployment rate for FY 2010 was 2% higher than the same period in FY 2009.

B. Corporate Franchise Tax

Corporate franchise tax collections through the 3rd quarter totaled \$174.25 million. The collections were \$14.61 million, or 7.7%, below the \$188.86 million revised estimate. The fact that collections were below the estimate may be due, in part, to the fact that declarations and payments for corporate franchise taxes were lower than anticipated. Declarations of corporate franchise tax were \$18.96 million, or 23.7%, below the estimate, and payments were \$7.5 million, or 5.5%, below the estimate.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections through the 3rd quarter totaled \$103.37 million. The collections were \$13.4 million, or 14.9%, above the \$89.97 million 3rd quarter FY 2010 revised estimate.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities tax, (B) toll telecommunications tax, and (C) insurance premium tax. The total FY 2010 revised estimate for the gross receipts taxes category is \$265.87 million. Collections of gross receipts taxes through the 3rd quarter of FY 2010 totaled \$218.44 million, which were:

- ◆ \$17.46 million, or 8.7%, above the \$200.98 million 3rd quarter FY 2010 revised revenue estimate; and
- ◆ \$5.3 million, or 2.5%, above collections for the same period in FY 2009.

Gross receipts taxes collected through the 3rd quarter represent 82.16% of the total FY 2010 revised estimate for this category. Table VI compares actual collections to the revised estimate through the 3rd quarter of FY 2010.

TABLE VI
Gross Receipts Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Gross Receipts Taxes	Actual Collections Through the 3rd Quarter FY 2010	Revised Estimate Through the 3rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Public Utilities Tax	\$103,921	\$105,420	(\$1,499)	(1.4%)
Toll Telecommunications Tax	46,256	48,215	(1,959)	(4.1%)
Insurance Premium Tax	68,266	47,340	20,926	44.2%
Total Gross Receipts Taxes	\$218,443	\$200,975	\$17,468	8.7%

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010, prepared by ORA.

A. Public Utilities Tax¹²

Public utilities tax collections through the 3rd quarter totaled \$103.92 million. The collections were \$1.5 million, or 1.4%, below the \$105.42 million revised estimate.

According to data from the NOAA, the average temperature in April, May, and June of FY 2010 was about 1-4 degrees higher than the same period in FY 2009. However, the utilities tax collections were slightly lower than collections during the same period in FY 2009, and this may be due to consumer thriftiness.

B. Toll Telecommunications Tax

Toll telecommunications tax collections through the 3rd quarter totaled \$46.26 million. The collections were \$1.96 million, or 4.1%, below the \$48.22 million revised estimate.

C. Insurance Premium Tax

Insurance premium tax collections through the 3rd quarter totaled \$68.27 million. The collections were \$20.93 million, or 44.2%, above the \$47.34 million revised estimate. According to an ORA official, collections were above the estimate primarily due to Health Maintenance Organizations (HMO) filing insurance premium tax returns with the District for the first time. According to ORA, prior to 2009, HMOs were exempt. Insurance premium tax is paid in the year following the year the tax is collected, so the premium tax collected in 2009 is payable in FY 2010.

OTHER TAXES

Other taxes include: (A) estate tax, (B) deed recordation tax, (C) deed transfer tax, and (D) economic interest transfer tax. The total FY 2010 revised estimate for the other taxes category is \$170.83 million. Collections of other taxes through the 3rd quarter of FY 2010 totaled \$132.74 million, which were:

- ◆ \$1.12 million, or .8%, below the \$133.86 million 3rd quarter FY 2010 revised estimate; and
- ◆ \$45.49 million, or 25.5%, below collections for the same period in FY 2009.

¹² The public utility tax is imposed on the gross receipts of television, radio and telephone companies; the usage per gallon for heating oil; per therm for natural gas; and per kilowatt hour for electric distribution.

Collections of other taxes through the 3rd quarter represented 77.7% of the total FY 2010 revised estimate for this category. Table VII compares actual collections to the revised estimate through the 3rd quarter of FY 2010 for other taxes.

TABLE VII
Other Taxes:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Other Taxes	Actual Collections Through the 3rd Quarter FY 2010	Revised Estimate Through the 3rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Estate Tax	\$ 24,280	\$ 28,190	(\$ 3,910)	(13.9%)
Deed Recordation Tax	53,658	48,373	5,285	10.9%
Deed Transfer Tax	42,202	48,075	(5,873)	(12.2%)
Economic Interest Tax	12,600	9,220	3,380	36.7%
Total Other Taxes	\$ 132,740	\$ 133,858	(\$ 1,118)	(.8%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report, June 2010 prepared by ORA.

A. Estate Tax

Estate tax collections through the 3rd quarter totaled \$24.28 million. The collections were \$3.91 million, or 13.9%, below the \$28.19 million revised estimate. This tax is imposed on the estate of every decedent who died while still a resident of the District, and on the estate of every nonresident decedent owning property having a taxable status in the District at the time of his or her death. Collections from this tax are largely unpredictable in that there is no reliable basis upon which to project the amount of revenue that may be generated during the fiscal year.

B. Combined Deed Recordation and Transfer Tax

Combined deed recordation and transfer tax collections through the 3rd quarter totaled \$95.86 million. The recordation tax is imposed on the recording of real estate deeds in the District while the transfer tax is imposed on each transfer of real property at the time the deed is submitted for recordation. These combined collections were \$588,000, or .6%, below the \$96.45 million revised estimates. The decrease in collections for these combined taxes may be due, in part, to the mixed real estate market in the 3rd quarter. According to information obtained from the GCAAR, although more contracts were ratified in April 2010 than any month since June 2009, the number of contract ratifications decreased in May and June 2010.

C. Economic Interest Tax

Economic interest tax collections through the 3rd quarter totaled \$12.6 million. The collections were \$3.38 million, or 36.7%, above the \$9.22 million revised estimate.

According to an ORA official, this tax is difficult to forecast because of the infrequent transfer of corporate ownership interests in the District of Columbia. As a result, ORA does not attempt to estimate this tax using any economic factors. In addition, the economic interest tax rate was reduced in FY 2009. According to an ORA official, equalizing the rate with the deed recordation and transfer taxes reduced the incentive for entities to structure sales through limited liability companies.

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 total FY 2010 revised estimate for the non-tax revenue category is \$345.47 million. Collections through the 3rd quarter totaled \$205.69 million, which were:

- ◆ \$34.99 million, or 14.5%, below the \$240.68 million 3rd quarter FY 2010 revised estimate; and
- ◆ \$26.47 million, or 11.4%, below collections for the same period in FY 2009.

Non-tax revenue collections through the 3rd quarter represented 59.5% of the total FY 2010 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate through the 3rd quarter of FY 2010 for non-tax revenue.

TABLE VIII
Non-Tax Revenue:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Non-Tax Revenue	Actual Collections Through the 3rd Quarter FY 2010	Revised Estimate Through the 3rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Licenses and Permits	\$40,206	\$48,285	(\$8,079)	(16.7%)
Fines and Forfeitures	93,131	97,321	(4,190)	(4.3%)
Charges for Services	32,860	26,487	6,373	24.1%
Miscellaneous Revenue	39,491	68,585	(29,094)	(42.4%)
Total Non-Tax Revenue	\$205,688	\$240,678	(\$34,990)	(14.5%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010 prepared by ORA.

A. Licenses and Permit Fees

Licenses and permit fees collected through the 3rd quarter totaled \$40.21 million. Collections were \$8.08 million, or 16.7%, below the \$48.29 million 3rd quarter revised estimate. According to an ORA official, licenses and permits were below the estimate due to continued weakness in demand for construction business permits, driver's licenses, motor vehicle registrations, and non-business permits. The weakness in motor vehicle registrations corresponds with weakness in the motor vehicle excise tax.

B. Fines and Forfeitures

Fines and forfeitures collected through the 3rd quarter totaled \$93.13 million. The collections were \$4.19 million, or 4.3%, below the \$97.32 million 3rd quarter revised estimate.

C. Charges for Services

Charges for services collected through the 3rd quarter totaled \$32.86 million. The collections were \$6.37 million, or 24%, above the \$26.49 million 3rd quarter revised estimate. An ORA official indicated that collections were above the estimate, in part, because of increased collection of emergency ambulance fees.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfers,¹³ and (5) other revenue.¹⁴ Miscellaneous revenue collected through the 3rd quarter totaled \$39.49 million. The collections were \$29.09 million, or 42.4%, below the \$68.58 million revised estimate through the 3rd quarter.

Collections for miscellaneous revenue were below the estimate, in part, because of lower than expected collections from interest income earned on investments. According to data obtained from OFT, the average interest rate earned during the 3rd quarter of FY 2010 was .107% while the average interest rate for FY 2009 was .493%. Collections of interest income through the 3rd quarter were also 55.1% lower than collections through the same period in FY 2009.

According to an ORA official, collections of miscellaneous revenue were also below the estimate, in part, due to the fact that other revenue collections were below the estimate through the 3rd quarter. Other revenue, such as fund transfers and adjustments are included in miscellaneous revenue. According to an ORA official, many of the transfers and adjustments are not included in the 3rd quarter but are accounted for at the end of the fiscal year.

¹³ Includes the WASA Pilot (payment in lieu of taxes) transfer.

¹⁴ Includes revenue from dishonored checks, payroll service fees, or other revenue from agencies.

OTHER FINANCING SOURCES

Other financing sources consist of legalized gambling (transfers to the General Fund from the D.C. Lottery). The total FY 2010 revised estimate for the other financing sources category is \$67.35 million. Collections through the 3rd quarter totaled \$50.3 million which were:

- ◆ \$535,000, or 1.1%, below the \$50.84 million 3rd quarter FY 2010 revised estimate; but
- ◆ \$825,000, or 1.7%, above collections for the same period in FY 2009.

Collections from other financing sources through the 3rd quarter represented 74.7% of the total FY 2010 revised estimate for this category. Table IX compares actual collections to the estimate through the 3rd quarter of FY 2010.

TABLE IX
Other Financing Sources:
Comparison of Actual Cash Collections to the Revised Estimate
Through the 3rd Quarter of Fiscal Year 2010
(\$000s)

Other Financing Sources	Actual Collections Through the 3 rd Quarter FY 2010	Revised Estimate Through the 3 rd Quarter FY 2010	Difference: Actual Over/(Under) Revised Estimate	Percentage Difference
Legalized Gambling	\$50,300	\$50,835	(\$535)	(1.1%)

Source: Comparative Report of Cash Collections by Funds, Revenues Financing the Appropriation: Fiscal Year 2010, Monthly OCFO Cash Report June 2010 prepared by ORA.

According to a D.C. Lottery official, transfers were below the estimate, in part, due to lower than anticipated sales for the D.C. Four game.

SPECIAL PURPOSE REVENUE FUND (O-TYPE)

The special purpose revenue fund (O-type) estimate for FY 2010 is \$454.38 million. Collection of special purpose revenue funds (O-type) through the 3rd quarter of FY 2010 totaled \$305.49 million. These collections were \$20.46 million, or 6.3%, below the \$325.95 million 3rd quarter revised estimate. Collections through the 3rd quarter of FY 2010 were \$19.95 million, or 6.1%, below the collections for the same period in FY 2009.

An ORA official stated there were numerous funds which comprise special purpose revenue funds (O-type) and that the collection pattern varied for each fund.

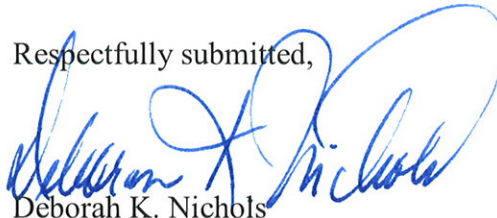
CONCLUSION

The Auditor's analysis indicated that, overall, actual cash collections were below the revised estimate through the 3rd quarter of FY 2010. The District's cash collections through June 2010 (excluding special purpose revenue fund (O-type) totaled \$3.266 billion, which were \$128 million, or 3.8%, below the \$3.394 billion revised estimate through the 3rd quarter. The \$3.266 billion in actual cash collections represented 63.24% of the total \$5.164 billion revised FY 2010 revenue estimate.

Specifically, collections were above the estimate through the 3rd quarter in the following categories: 1) general property taxes; 2) total gross receipts taxes; and 3) charges for services. On the other hand, collections were below the estimate in the following categories: 1) general sales and use taxes; 2) selective sales and use taxes; 3) income taxes; 4) other taxes; 5) licenses and permits; 6) fines and forfeitures; 7) miscellaneous revenue; and 8) legalized gambling (transfers to the General Fund from the D.C. Lottery). Collections were also below the estimate in the special purpose revenue fund (O-type).

Based on our review and analysis of economic data from various sources, as well as revenue collection patterns through the 3rd quarter, it appears, overall, that after transfers of revenues to dedicated sources, the District may not achieve the \$5.164 billion FY 2010 revised revenue estimate.

Respectfully submitted,



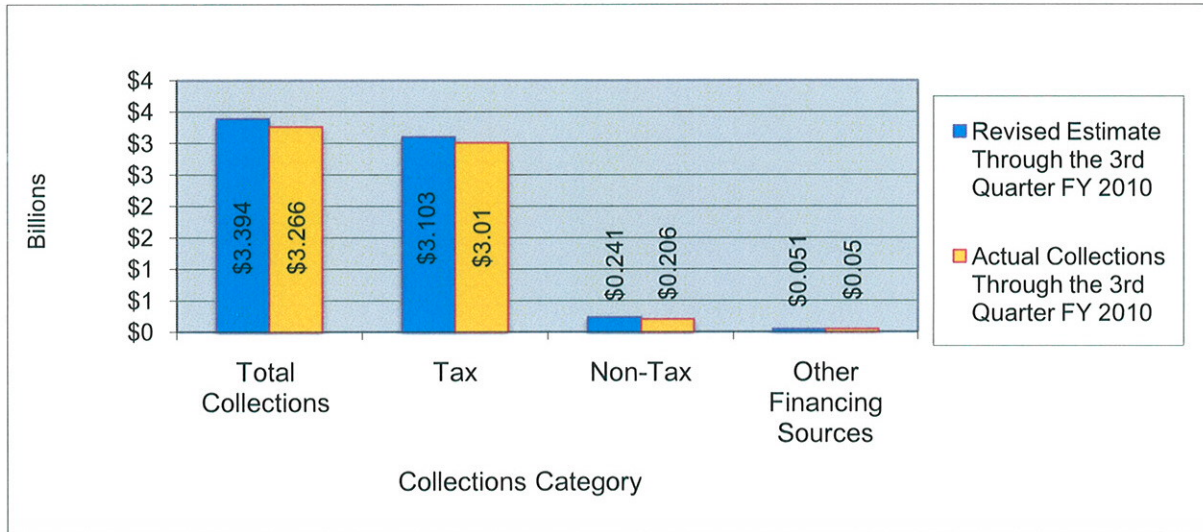
Deborah K. Nichols

District of Columbia Auditor

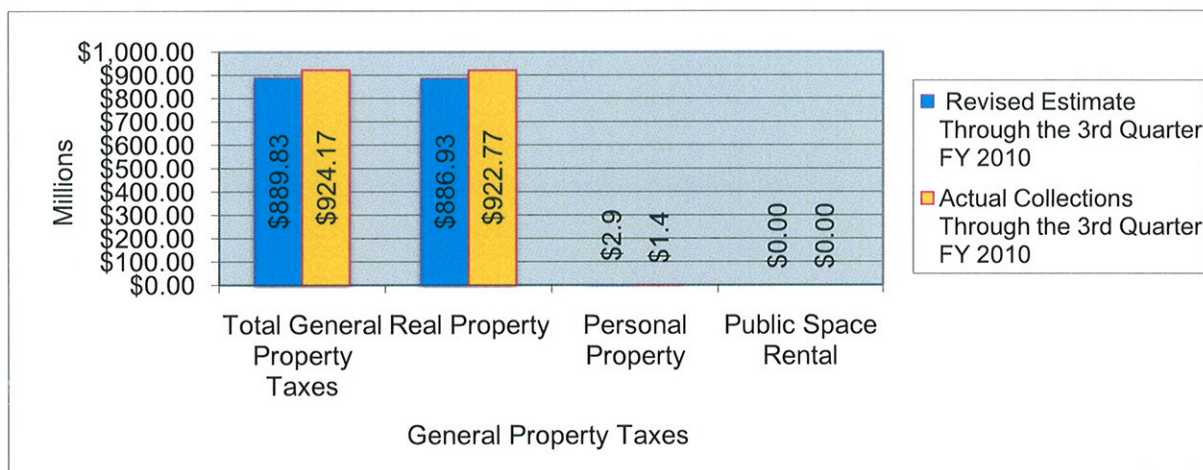
APPENDICES

APPENDIX I

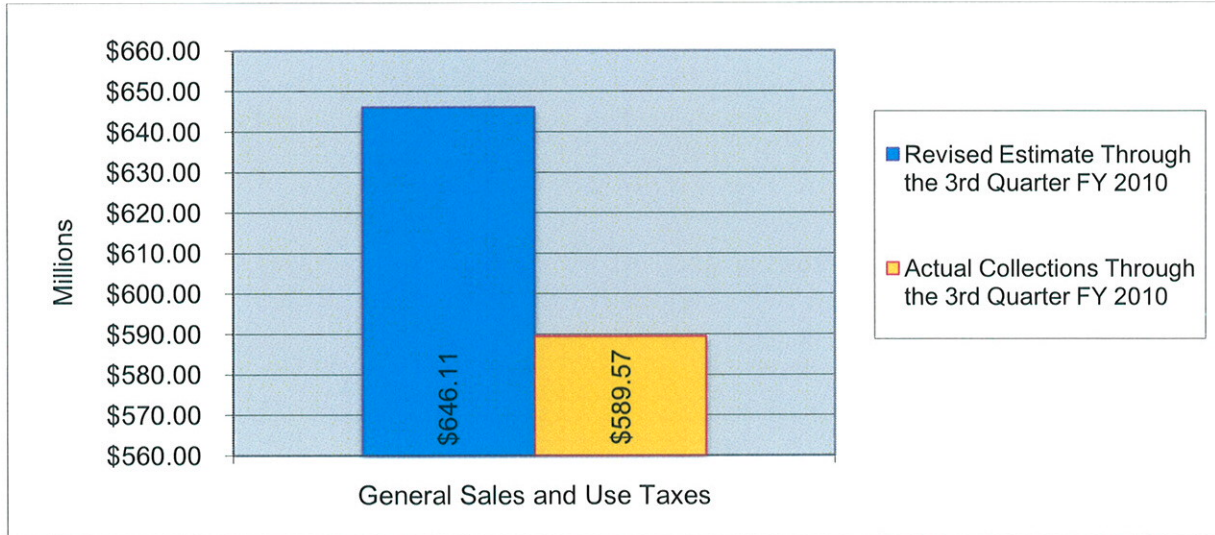
GRAPH I
 Summary of the Revised Revenue Estimate
 Through the 3rd Quarter FY 2010 to Actual Cash Collections



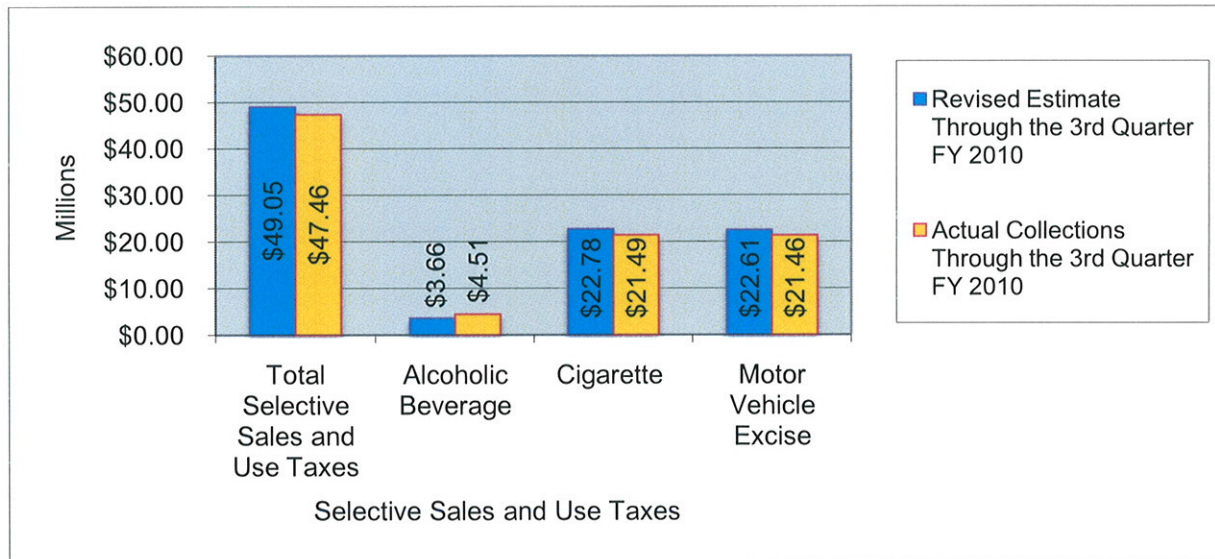
GRAPH II
 General Property Taxes:
 Comparison of the Revised Revenue Estimate
 Through the 3rd Quarter FY 2010 to Actual Cash Collections



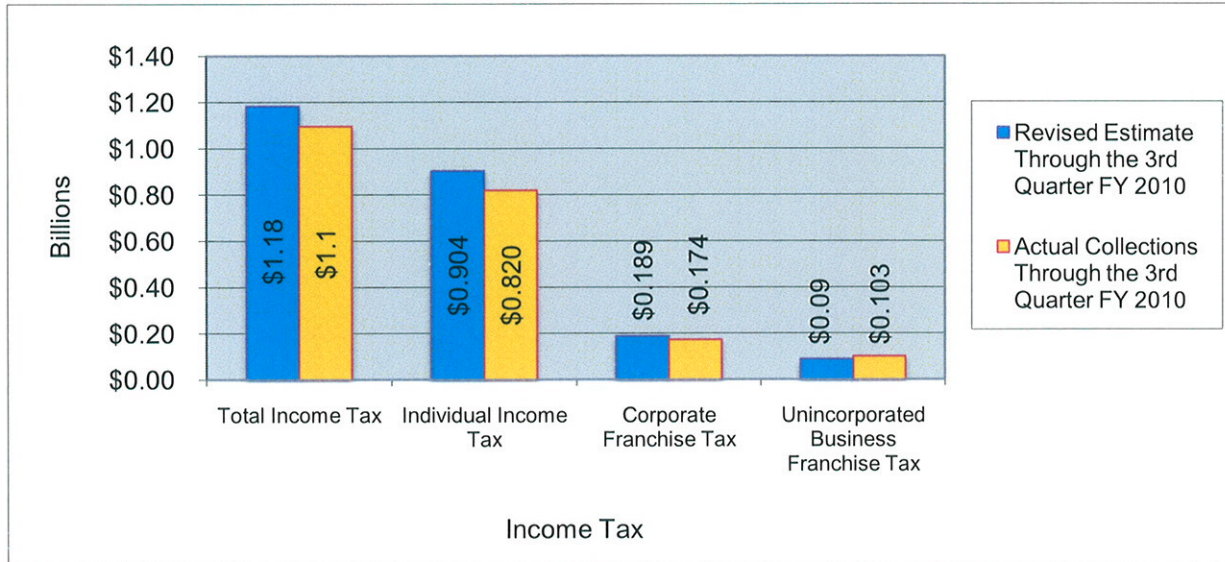
GRAPH III
General Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2010 to Actual Cash Collections



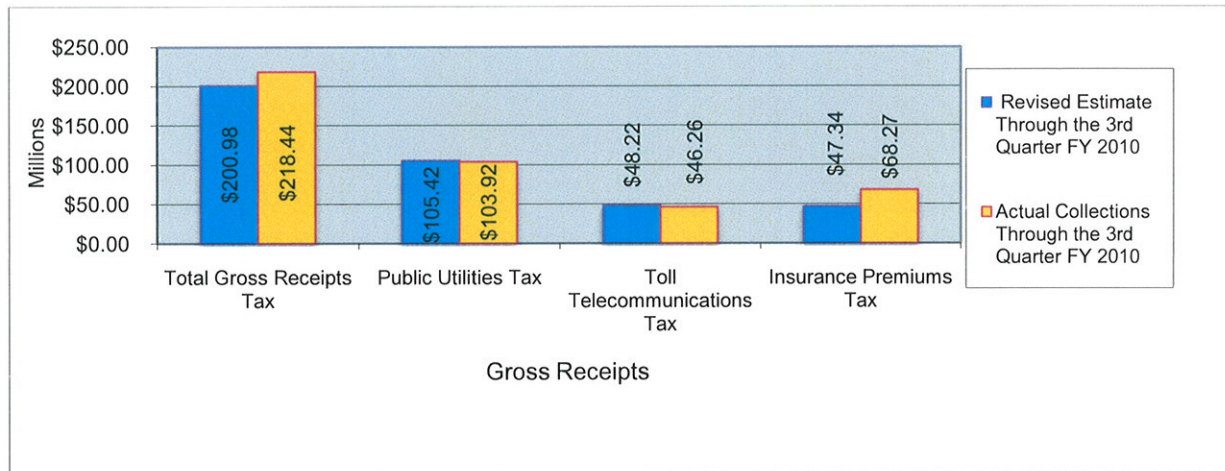
GRAPH IV
Selective Sales and Use Taxes:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2010 to Actual Cash Collections



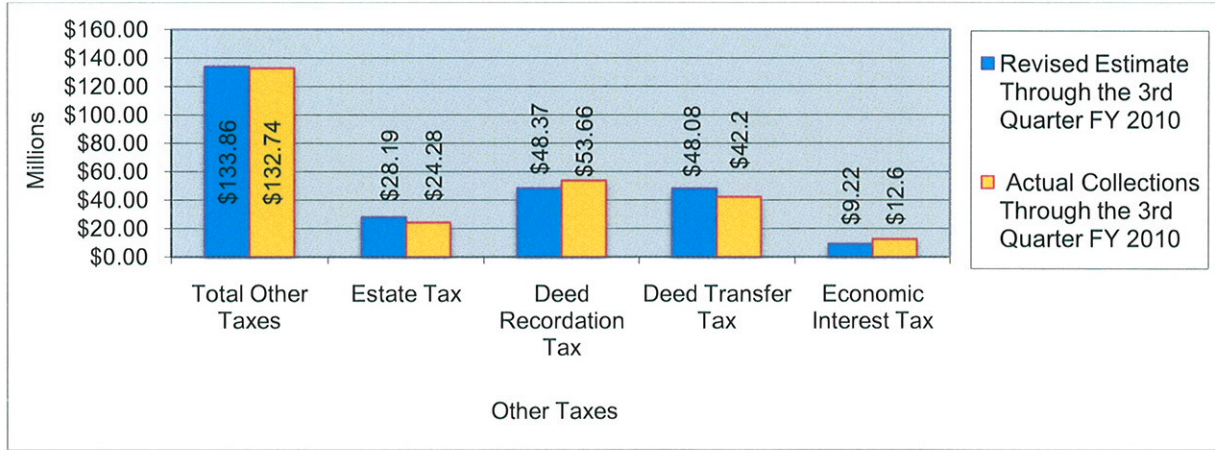
GRAPH V
Income Tax:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2010 to Actual Cash Collections



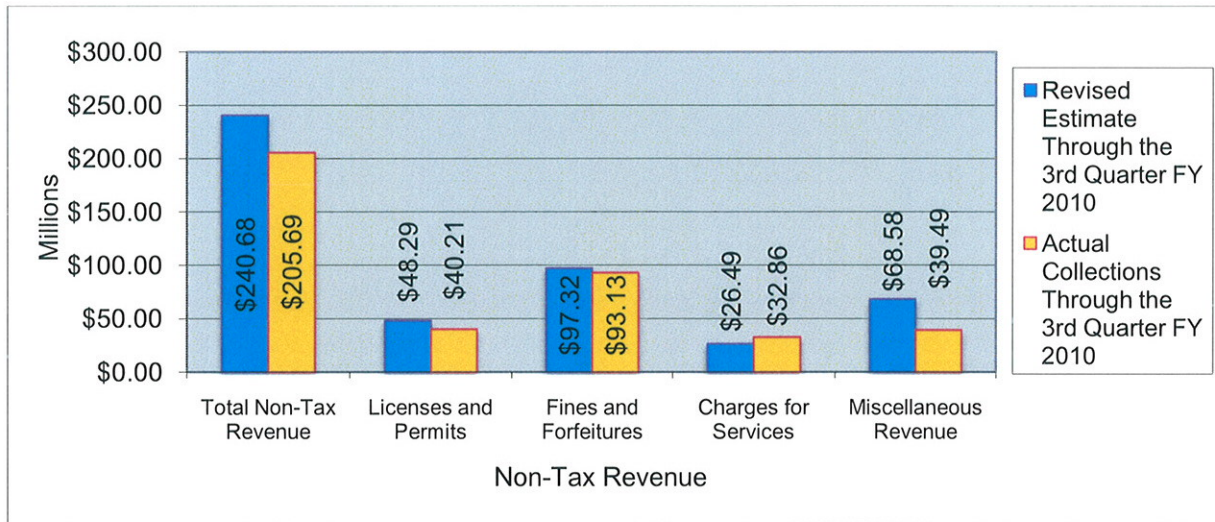
GRAPH VI
Gross Receipts Tax:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2010 to Actual Cash Collections



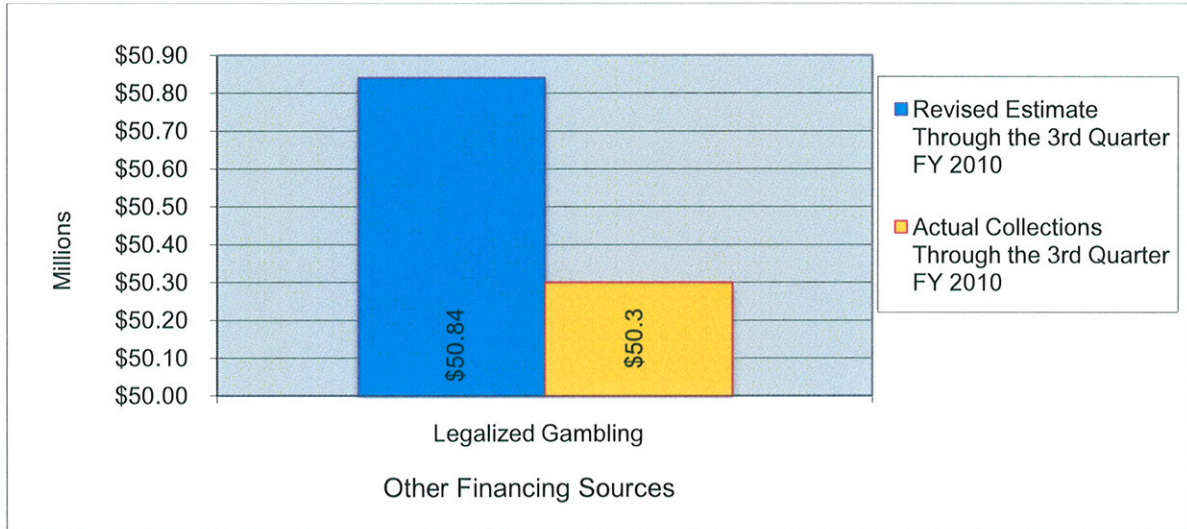
GRAPH VII
Other Taxes:
 Comparison of the Revised Revenue Estimate
 Through the 3rd Quarter FY 2010 to Actual Cash Collections



GRAPH VIII
Non-Tax Revenue:
 Comparison of the Revised Revenue Estimate
 Through the 3rd Quarter FY 2010 to Actual Cash Collections



GRAPH IX
Other Financing Sources:
Comparison of the Revised Revenue Estimate
Through the 3rd Quarter FY 2010 to Actual Cash Collections



APPENDIX II

**Comparison of Cash Collections through the 3rd Quarter
Fiscal Years 2006 - 2010¹⁵
(\$000s)**

Collections Categories	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
General Property Taxes	\$573,412	\$717,568	\$855,556	\$907,940	\$924,172
General Sales and Use Taxes*	594,319	521,815	657,333	622,610	589,568
Selective Sales and Use Taxes	50,488	51,375	50,509	53,315	47,462
Income Tax	1,235,469	1,329,931	1,330,958	1,121,769	1,097,567
Gross Receipts Tax	190,351	190,870	196,773	213,147	218,443
Other Taxes	250,616	380,088	279,838	178,230	132,740
Non-Tax Revenue	251,346	256,885	223,578	232,161	205,688
Other Financing Sources	50,275	47,850	50,875	49,475	50,300
Total Cash Collections Financing the Appropriation¹⁶	\$3,196,276	\$3,496,382	\$3,645,420	\$3,378,647	\$3,265,940

Source: OCFO ORA

*Collections of general sales and use taxes are reported on a net basis after the transfer of tax revenue to dedicated purposes including the Washington Convention and Sports Authority

¹⁵ Differences in totals presented in this table are due to rounding.

¹⁶ Total collections presented in this Appendix does not include special purpose revenue fund (O-type) and are presented net of dedicated taxes transferred to dedicated purposes.

APPENDIX III

**Comparison of Collections through the 3rd Quarter
Of FY 2010 to Collections through the 3rd Quarter of FY 2009¹⁷**
(\$000s)

Collections Category ¹⁸	Collections Through the 3 rd Quarter Fiscal Year 2010	Collections Through the 3 rd Quarter Fiscal Year 2009	Difference 3 rd Quarter FY 2010 Over/(Under) 3 rd Quarter FY 2009	Percentage Difference
General Property Taxes:				
Real Property	922,770	904,750	18,020	2%
Personal Property	1,402	3,182	(1,780)	(55.9%)
Public Space Rental	0	8	(8)	0%
Total general Property Taxes	\$ 924,172	\$ 907,940	\$ 16,232	1.8%
General Sales and Use Taxes	\$ 589,568	\$ 622,610	(\$ 33,042)	(5.3%)
Selective Sales and use Taxes:				
Alcoholic Beverage	4,511	3,953	558	14.1%
Cigarette	21,494	26,470	(4,976)	(18.8%)
Motor Vehicle Excise	21,457	22,892	(1,435)	(6.3%)
Total Selective Sales and Use Taxes	\$ 47,462	\$ 53,315	(\$ 5,853)	(11%)
Income Taxes:				
Individual Income Tax	819,954	850,421	(30,467)	(3.6%)
Corporate Franchise	174,246	173,371	875	.5%
Unincorporated Business Franchise	103,367	97,977	5,390	5.5%
Total Income Taxes	\$ 1,097,567	\$ 1,121,769	(\$ 24,202)	(2.2%)
Gross Receipts Taxes:				
Public Utilities	103,921	107,403	(3,482)	(3.2%)
Toll telecommunications	46,256	49,355	(3,099)	(6.3%)
Insurance Premiums	68,266	56,389	11,877	21.1%
Total Gross Receipts Taxes	\$ 218,443	\$ 213,147	\$ 5,296	2.5%
Other Taxes				
Estate Tax	24,280	69,481	(45,201)	(65.1%)
Deed Recordation	53,658	57,494	(3,836)	(6.7%)
Deed Transfer	42,202	42,884	(682)	(1.6%)
Economic Interests	12,600	8,371	4,229	50.5%
Total Other Taxes	\$ 132,740	\$ 178,230	(\$ 45,490)	(25.5%)
Total Tax Collections	\$ 3,009,952	\$ 3,097,011	(\$ 87,059)	(2.8%)
Non-Tax Revenue:				
License and Permits	40,206	49,270	(9,064)	(18.4%)
Fines and Forfeitures	93,131	86,226	6,905	8%
Charges for Services	32,860	34,437	(1,577)	(4.6%)
Miscellaneous Revenue	39,491	62,228	(22,737)	(36.5%)
Total Non-Tax Revenue	\$ 205,688	\$ 232,161	(\$ 26,473)	(11.4%)
Other Financing Sources	\$ 50,300	\$ 49,475	\$ 825	1.7%
Total Revenues	\$ 3,265,940	\$ 3,378,647	(\$ 112,707)	(3.3%)

Source: OCFO ORA

¹⁷ Rounding may affect some calculations presented in this table.

¹⁸ Total collections presented in this Appendix does not include special purpose revenue fund (O-type). General sales and use taxes are presented net of dedicated general sales and use taxes transferred to other dedicated purposes including the Washington Convention and Sports Authority.