

PUBLIC OVERSIGHT HEARING
ON
THE FY 2008 AND FY 2009 SPENDING AND PERFORMANCE
OF THE OFFICE OF BUDGET AND PLANNING (OBP)

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Vincent C. Gray, Chairman

March 6, 2009, 2:30 p.m.
Room 412, John A. Wilson Building



Testimony of
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Good afternoon, Chairman Gray and Members of the Committee of the Whole. I am Gordon McDonald, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify on the FY 2008 performance and FY 2009 plans of the Office of Budget and Planning. I am honored to appear today and present testimony on the accomplishments of my office and what our plans are for improving OBP's performance and the services we offer to citizens and District agencies in the future. With me today is Mr. James Spaulding, Associate Deputy CFO. My colleague, Mr. Lasana Mack, Deputy Chief Financial Officer for Finance and Treasury, will address questions related to cash, debt service, debt management, and retiree health contributions (or OPEB).

I will cover the following areas in my remarks:

- Fiscal Years 2008 and 2009 operating expenditures;
- FY 2008 performance; and
- FY 2009 operational goals.

Fiscal Years 2008 and 2009 Operating Expenditures

In FY 2008, OBP operated within its Local funds revised budget of \$6.80 million spending \$6.79 million, or 99.9 percent of our available Local funds. The FY 2009 budget for OBP is \$6.99 million (after rescissions), all in Local funds. To date, we

have expended and obligated \$2.28 million, or 33 percent of our budget. We anticipate completing the year within our current budget. Our budget supports 62 full-time equivalent employees.

FY 2008 Performance

Our major accomplishments were in three areas.

1. FY 2009 Budget Formulation. The FY 2009 budget process was very challenging. First, the CFO delivered a baseline budget in February 2008, then we worked closely with the Mayor to produce and deliver the FY 2009 Budget and Financial Plan on March 20th, 2008, and finally we worked closely with the Council's budget office to incorporate Council's changes and deliver the District's FY 2009 budget to Congress.

The FY 2009 budget process began during the summer of 2007 with "Lessons Learned" meetings with field finance staff and stakeholders. These meetings helped us identify areas that needed improvements. The budget formulation process began in mid-September with our issuing of budget instructions to agencies in the fall for them to formulate and submit their baseline budget to OBP. We produced a baseline budget in February, then worked with the Mayor and

Council to produce the FY 2009 proposed budget and financial plan in March and June. Our staff performed outstanding work to complete all of these tasks under tight deadlines.

Last September, when the revised revenue estimates showed a reduction of \$131.7 million from the May 2008 estimates, we worked closely with the Mayor and Council to develop budget rescissions and other gap-closing solutions in November to address the revenue shortfall. As you are aware, there were further reductions in revenues in the December 2008 and February 2009 estimates, due to the national recession. We will continue to monitor FY 2009 spending to ensure we end the year with a balanced budget.

2. Capital Budget Improvements. As we have previously testified, we have continued to improve management of the capital improvements program. The District continues to enjoy “A” category bond ratings, and our income tax revenue bonds, which we plan to sell later this month, achieved the District’s first-ever AAA rating. The capital fund balance — which stood at a deficit of \$246 million in FY 2005 — had turned into a surplus of \$703 million at the end of FY 2007. Capital project spending during FY 2008 reduced the fund balance \$116 million to an ending balance of \$587 million. Approximately \$406 million of the FY 2008

year-end capital fund balance, or 69 percent, is the unspent proceeds of tobacco bonds and financings for the new mental hospital, Government Centers, and Great Streets projects. We anticipate most of these balances being spent within the next two years, which will further reduce the capital fund balance. The Chief Financial Officer's management goal is to balance the capital fund on a long-term basis.

Also, despite our high bond ratings, borrowing constraints continue to affect the District's capital program. The District has high debt ratios relative to other jurisdictions of comparable size. Debt service is anticipated to approach 12 percent of the District's operating budget by FY 2010, which is the maximum level permitted under the new Debt Ceiling Act recently adopted by the Council. In addition, our outstanding tax-supported debt per capita is in excess of \$10,000, one of the highest such figures in the country and more than twice the average of other major cities. Thus, despite recent improvements, we must still manage our capital resources very carefully.

As you are no doubt aware from previous discussions and several FY 2008 and FY 2009 reprogramming requests submitted to Council, the Capital Improvements Program has continued assistance to agencies in correcting their capital budgets in

SOAR, the District's financial system of record. This effort, first begun with the assistance of the consulting firm of BearingPoint, has been undertaken in 15 agencies and represents 75 percent of the total budget authority amount needing revision. Our capital branch has also assisted agencies with budgeting for capital project FTEs so that direct labor costs are correctly distributed to the appropriate project and payroll costs are charged directly to those projects.

3. Budget execution. Budget execution continues to be a major function in OBP as we monitor agency spending on a regular basis.

We monitor agency budget execution by working closely with the OCFO field staff and by closely reviewing agency quarterly Financial Review Process reports (FRPs) and spending pressures. As always, we worked closely with staff from the Mayor's office and Council in proposing solutions to these pressures in the form of cost-saving measures or additional budget from new revenues or the operating cash reserve.

OBP continued to improve grants management by instituting regular grant lapse reporting, processing more than 1,000 modifications and conducting agency training classes. We have also developed the process to migrate from quarterly to

monthly grant budget reconciliations for improved accuracy and analysis in FY 2008, reducing the time required for this process.

We have also worked closely with agencies to notify them of discrepancies in their spending plans regarding compliance with the local Anti-Deficiency law, and produced anti-deficiency compliance reports and submitted referrals of potential agency anti-deficiency violations to the Anti-Deficiency Review Board in a timely manner. Our ongoing analysis of possible spending pressures often leads to early identification and solution through reprogrammings to help agencies balance their budgets and avoid Anti-Deficiency violations. We worked closely with agency fiscal officers and the EOM to process approximately 380 local, capital and special purpose revenue fund reprogramming requests, of which 92 required Council approval.

Finally, we have continued to expand the cost driver initiative. Currently, the Cost Driver team is working with 57 agencies from various clusters. The team works with both program and field financial staff. Currently, the cost driver project is a module within the CFO\$ource testing folder and will be available to all CFO\$ource users in the very near future.

FY 2009 Key Program Goals and Initiatives

Our central goal for FY 2009 is to continue to build on our successes. OBP's major operational goals are to:

- Develop and publish an improved FY 2010 baseline budget and work with the Mayor and Council to develop a balanced budget and financial plan for FY 2010;
- Enhance the Budget Formulation Application (BFA) for the FY 2010 budget process to provide the capability to allow agencies to submit technical adjustments;
- Continue to improve capital budget management and oversight by (a) examining the operating budget effects from completed capital projects, (b) completing the ongoing corrections to capital budgets in the financial system, and (c) compiling better information on capital-funded full-time equivalent (FTE) positions;
- Improve the Anti-Deficiency quarterly compliance reporting process;
- Expand the Cost Driver project to make it available to all CFO\$ource users; and
- Continue to improve collaboration with the City Administrator (CA) and the Council.

Conclusion

Currently, the OCFO's staff is working with the City Administrator's office and EOM to develop the Mayor's FY 2010 Budget and Financial Plan for transmittal to the Council on March 20th as required by the FY 2010 Budget Submission Requirements Resolution. We look forward to working with the Council and other policy makers, during the consensus process, to develop a transparent and balanced budget that provides quality services to the residents of the District of Columbia. Mr. Chairman, this concludes my remarks. I will be pleased to answer any questions that you may have.