

**PUBLIC HEARING ON
THE FISCAL YEAR 2012 BUDGET
OF THE OFFICE OF
THE CHIEF FINANCIAL OFFICER (OCFO)**

**Before the
Committee on Finance & Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**April 21, 2011
Council Chamber, John A. Wilson Building**



**Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia. I am here for your annual hearing to testify on the FY 2012 budget request for the Office of the Chief Financial Officer (OCFO).

My colleagues have also prepared testimony and are with me to help address specific issues or answer questions as needed: Anthony Pompa, Deputy CFO for the Office of Financial Operations and Systems; Lasana Mack, Deputy CFO for the Office of Finance and Treasury; Stephen Cordi, Deputy CFO for the Office of Tax and Revenue; and Fitzroy Lee, Deputy CFO for the Office of Revenue Analysis. Gordon McDonald, Deputy CFO for the Office of Budget and Planning, will appear before the Committee of the Whole on Friday, May 6th but is here today to answer questions. In addition, Buddy Roogow, Executive Director for the DC Lottery testified earlier today. (Please see Attachment 1 – OCFO Organization Chart)

FY 2012 PROPOSED BUDGET

Though it appears that the most severe U.S. recession since the 1930's has ended, and we have entered a period of muted recovery, much uncertainty remains in the current economic forecast. Despite the fact that our most recent revenue estimate increased FY 2012 expected revenues by \$105 million, the issue facing the entire District government in FY 2012 continues to be how it will do what it must with limited available resources.

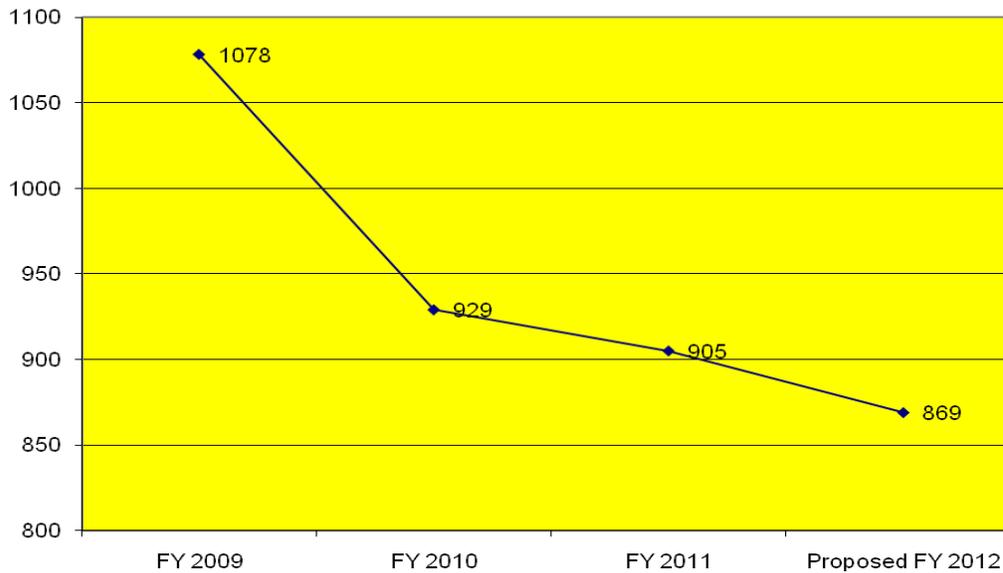
The FY 2012 proposed gross-funds budget for the OCFO is \$126.8 million, a decline of 2 percent from the FY 2011 approved budget. Attachments 2 and 3 show year-to-year changes in the OCFO budget by program and fund type from FY 2009 through FY 2012. For FY 2012, 869 FTEs are proposed -- 4 percent fewer than the FY 2011 approved, and less than the FY 2010 approved of 929.

As an agency, we take seriously our responsibility to operate cost-effectively to protect the District's fiscal and financial viability and to preserve and enhance its revenue stream. Since 2009, when total authorized FTE's reached 1078, the OCFO has progressively become a leaner organization. In FY 2009, facing budgetary pressures, we restructured our office to better align available resources. Since FY 2009, OCFO FTE's have declined by 19 percent, with a corresponding decrease in our gross funds budget of 14 percent. (See Figure 1)

Despite the reductions, the OCFO has continued to meet or exceed its performance mandates, including those related to the procurement of services from local, small, disadvantaged business enterprises, or LSDBE's.

Figure 1

OCFO Budgeted FTEs FY 2009 - FY 2012



The FY 2012 proposed budget includes cuts of 36 FTEs from FY 2011. I am confident that the proposed authorized FTE level of 869 will not compromise our ability to meet our core obligations. We made appropriate reductions to ensure that the resources required to support core functions and deliverables such as revenue estimation, tax collection, treasury functions, budget and CAFR production remained intact. I am determined to maintain the effectiveness of the OCFO in FY 2012 and beyond, and believe that we will continue to be successful despite the reductions.

To further this goal, we are maximizing our investments in technology. For example, the tax office, our most labor intensive unit, is becoming increasingly more automated, as evidenced by robust fraud prevention programs, internal-control enhancements, and higher electronic filing. During the current season, 78 percent of all returns received to date have been filed electronically, up from 71 percent during the same period last year.

Investments in improved information technology comprise our capital budget – replacing SOAR and the Real Property Tax System by FY 2013, and ITS, subject to approval of our capital funding request, by FY 2015.

As you review the OCFO's FY 2012 budget request, I ask the committee to keep our record of fiscal prudence and efficiency in mind. It is imperative that the District maintain its capability to perform core financial functions: keeping the books, financing its operations, and collecting the maximum amount of revenue that it is due. I fully understand the resource constraints that we face, and that every agency must share the collective pain to achieve a balanced budget. The OCFO is fully committed to contributing its share, and has certainly done so in developing the FY 2012 budget. However, if the OCFO is called upon to cut anymore deeply, it is likely to hurt our tax compliance and collection efforts, which could negatively affect the District's overall revenue outlook.

OCFO OVERARCHING GOALS

As the Chief Financial Officer, my primary objective – indeed, my duty -- is to preserve and enhance the overall financial stability of the District. My colleagues and I work towards this objective consistently, in activities such as reliably estimating revenues, exercising control of the budget, and improving internal controls, all of which help maintain and strengthen the District's standing with its citizens, the financial community and the Congress.

We keep five key goals in mind in formulating our budget, and they are as follows:

1. Protect and Enhance District Revenues
2. Maintain Financial Controls and Safeguard Assets
3. Produce Reliable Revenue Estimates
4. Assure Balanced Budgets
5. Prepare Audited Comprehensive Annual Financial Reports with clean audit opinions.

In each case, the achievement of these goals is absolutely necessary to maintain and increase the District's financial independence. We will assist the Mayor and program officials in executing the proposed budget for FY 2012 efficiently and effectively so that the District meets its goals. My colleagues will testify in detail about these goals as they relate to their specific areas of responsibility. I will briefly address the issues of financial controls and debt management.

Maintain Financial Controls and Safeguard Assets

Protecting District assets requires the maintenance of internal checks and balances, effective internal audits, and the maintenance of systems to record and check financial transactions. Written policies and procedures are also an important element of well-designed and effective system of internal controls, as they provide management the opportunity to establish workflows and processes that address potential risks.

Since FY 2008, substantial progress has been made in the revision and development of the District's financial policies and procedures. An OCFO cross-agency project team updated the District-wide financial policies and procedures manual, and developed manuals for each cluster and central agency.

In FY 2010, the Office of Tax and Revenue was cited in the "yellow book" for weaknesses in its financial reporting process. To address this finding, we have developed a detailed corrective action plan designed to further strengthen and institutionalize our internal control in this area. Mr. Cordi can speak at greater length about this during his testimony. I would like to emphasize that much work has been done to date to strengthen the control structure at OTR and throughout the OCFO. Our Chief Risk Officer, Kathy Crader, leads the control effort and works in close collaboration with agency management and internal auditors to address control gaps and ensure that our assets are properly safeguarded.

DEBT MANAGEMENT AND BOND RATINGS

In 2009, Standard & Poor's awarded its highest possible rating of triple-A to the District's Income Tax Secured Revenue Bonds. This was the first time that any of the District's bonds have been rated triple-A. In December 2010, S&P confirmed its triple-A rating, and Moody's and Fitch confirmed their Aa1 and AA+ ratings. This is a testament to the sound economic and financial policies that the District has been following for the past dozen years. These unprecedented ratings follow a dramatic recovery - - from junk bond status and a half a billion dollar cumulative deficit in the mid 1990s to the highest ratings ever on District bonds. (See Attachment 4)

Our steadfast objective is to sustain the high bond ratings we have achieved thus far and to continue to make financial strides in order to achieve additional upgrades. To that end, in 2009, the District's elected leaders enacted a cap on borrowing, which limits debt service on all tax-supported debt to no more than 12 percent of expenditures. The cap helps ensure that the District maintains flexibility in future budgets. Specifically, by limiting the percentage of debt service – a fixed cost – to no more than 12 percent, it ensures that the balance of the District's budget, that is, 88 percent of expenditures, is available to fund services to taxpayers. As Chief Financial Officer, I fully support the debt cap as a tool of prudent financial management.

CONCLUSION

The continuing leadership provided by the Mayor, by you, Chairman Evans, and the Council has enabled the District to weather the recent economic crisis and provided a sound foundation to meet the challenges that lie ahead. The OCFO is committed to doing everything that it can to support continued financial improvements in the city in FY 2012 and beyond.

This concludes my remarks. I would be pleased to answer any questions you may have.

CENTRAL FINANCIAL OPERATIONS - Deputy CFOs

Office of Budget and Planning (OBP)
Gordon McDonald

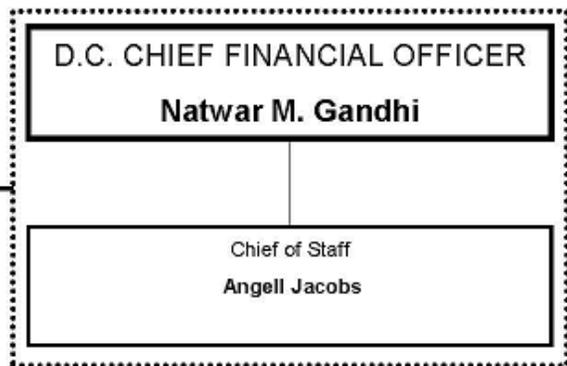
Office of Finance and Treasury (OFT)
Lasana Mack

Office of Financial Operations and Systems (OFOS)
Anthony Pompa

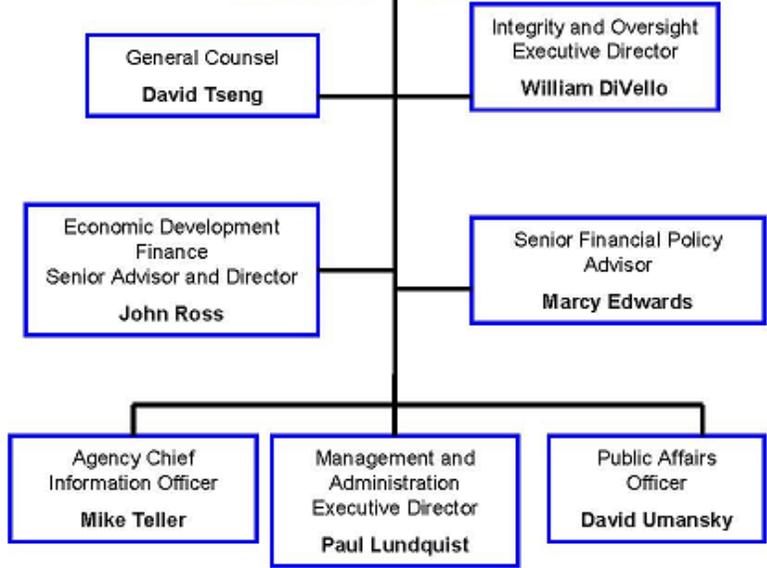
Office of Revenue Analysis (ORA)
Fitzroy Lee

Office of Tax and Revenue (OTR)
Stephen Cordi

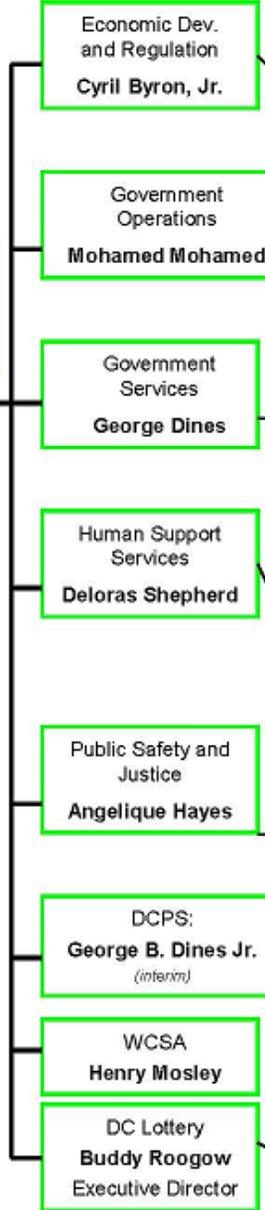
Government of the District Columbia
Office of the Chief Financial Officer
Organizational Chart



EXECUTIVE SUPPORT



AGENCY FINANCIAL OPERATIONS - Associate CFOs



Agency Fiscal Officers

DCRA: Conrad Bridges
DHCD: Vacant
DISB: Bright Ahaive
DOES: Rennie Chan
DMPED: Conrad Bridges
OPCPSC: Curtis Lewis

DCHR: James Hurley
DCPL: Tammie Robinson
DRES: Natalia Mayers
EOM: James Hurley
OAG: Victoria Syphax
OCA: Paul Blake
OCTO: Phil Peng
OFFRM: Shilonda Wiggins
OPEFM: Massimo Marchioni
UDC: Ibrahim Koroma

DDOE: Robert Jose
DDOT: Rumman Dastgir
DMV: Kimberly L. Holloway
DPW: Perry Fitzpatrick

CFSA: Justin Kopca
DDS/ODR: Delicia Moore
DHS: Kristie Steel
DMH: Joyce Jeter
DOH: Keith Fletcher
DHCF: Darrin Shaffer
DPR: Barbara Roberson
DYRS: Calvin Skinner
OSSE: Rebecca Sibilla

DOC: Leroy Clay
FEMS: Daryl Staats
MPD: Winston Jackson
OCME/CJC: Antoinette Hudson-Beckham
OUC/EMA: Ashraf ElKhatib

DCLB: Bill Robinson

04/21/11

Office of the Chief Financial Officer
FY 2009 - FY 2012 Operating Budget and FTEs, Evolution By Program
Fiscal Year 2009 and FY 2010 Actuals
Operating Budget (\$000)

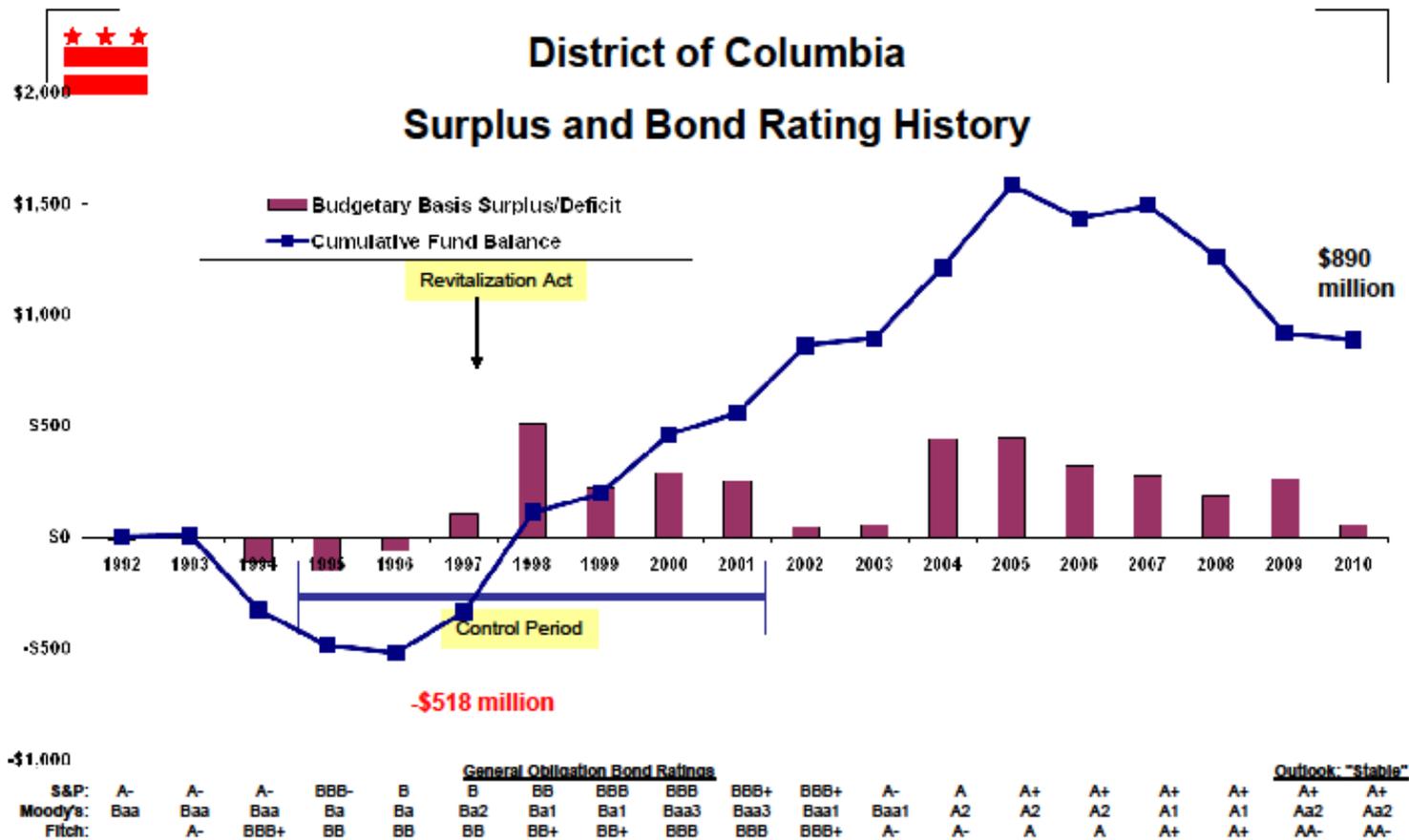
Program	FY 2009 Actuals		FY 2010 Actuals		FY 09 - FY 10 % Change		FY 2011 Approved		FY 2012 Proposed		FY 11 - FY 12 % Change	
	FTEs	Exp's	FTEs	Exp's	FTEs	Dollars	FTEs	Budget	FTEs	Budget	FTEs	Dollars
Management	75	9,747	72	11,072	-4.0%	13.6%	74	8,328	70	8,539	-5.4%	2.5%
Financial Ops & Systems	106	14,305	92	13,337	-13.2%	-6.8%	98	11,044	92	10,711	-6.1%	-3.0%
Budget Devt & Execution	49	6,309	43	5,834	-12.2%	-7.5%	45	5,373	42	5,404	-6.7%	0.6%
Research and Analysis	25	3,713	26	3,704	4.0%	-0.2%	27	3,470	25	3,621	-7.4%	4.4%
Office of Tax & Revenue	514	70,386	467	61,861	-9.1%	-12.1%	482	56,814	470	56,282	-2.5%	-0.9%
Chief Information Officer	36	16,435	73	23,260	102.8%	41.5%	82	23,027	78	20,662	-4.9%	-10.3%
Treasury Operations	72	15,683	68	15,584	-5.6%	-0.6%	75	16,952	71	16,740	-5.3%	-1.3%
Integrity and Oversight	24	5,239	21	5,305	-12.5%	1.3%	22	4,392	21	4,799	-4.5%	9.3%
TOTAL	901	141,817	862	139,957	-4.3%	-1.3%	905	129,400	869	126,758	-4.0%	-2.0%

04/21/11

Office of the Chief Financial Officer
FY 2009 - FY 2012 Operating Budget and FTEs, Evolution By Fund
Fiscal Year 2009 and FY 2010 Actuals
Operating Budget (\$000)

BUDGET BY FUND (\$000)

Fund	FY 2009 Actuals		FY 2010 Actuals		FY 09 - FY 10 % Change		FY 2011 Approved		FY 2012 Proposed		FY 11 - FY 12 % Change	
	FTEs	Budget	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Budget	FTEs	Dollars
Local	782	119,579	718	115,222	-8.2%	-3.6%	722	87,825	783	94,034	8.4%	7.1%
Federal (150/200)	1	938	1	950	0.0%	1.3%	0	0	0	0	0.0%	0.0%
Other	80	14,736	110	15,154	37.5%	2.8%	140	33,792	41	24,932	-70.7%	-26.2%
Intra-District	38	6,564	33	8,631	-13.2%	31.5%	43	7,784	46	7,792	5.8%	0.1%
TOTAL	901	141,817	862	139,957	-4.3%	-1.3%	905	129,400	869	126,758	-4.0%	-2.0%



Government of the District of Columbia
 Office of the Chief Financial Officer
 Natwar M. Gandhi, Chief Financial Officer

FY 2010 CAFR