

**PUBLIC HEARING**  
**ON**  
**THE FISCAL YEAR 2013 BUDGET**  
**OF THE OFFICE OF**  
**THE CHIEF FINANCIAL OFFICER**

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

**The Honorable Jack Evans, Chairman**

**April 19, 2012**  
**John A. Wilson Building**  
**Council Chambers**



**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 2013 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 April 27<sup>th</sup>, but is here today to answer questions. In addition, Buddy Roogow, Executive Director for the DC Lottery, who testified earlier today, is here. (Please see Attachment 1 – OCFO Organization Chart)

### **OCFO BUDGET EVOLUTION**

As an agency, the OCFO takes seriously its responsibility to operate cost-effectively in order to protect the District's fiscal and financial viability and to

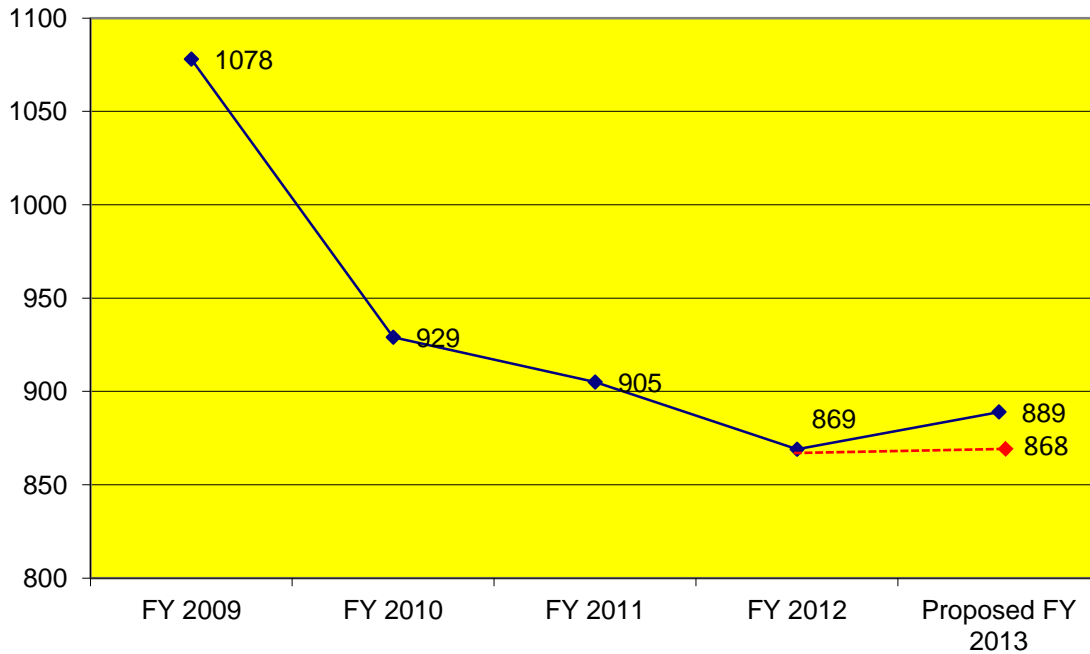
preserve and enhance its revenue stream. Since 2009, when total authorized FTE's reached 1,078, the OCFO has progressively become a leaner organization. In FY 2009, facing budgetary pressures, we restructured our office to better align available resources. Since that time, OCFO FTE's have declined by 19 percent, with a corresponding decrease in our gross funds budget of 14 percent. (See Figure 1)

The FY 2012 gross funds budget for the OCFO is \$127.4 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 2010 through FY 2013.

For FY 2012, 869 FTEs are approved -- 4 percent fewer than the FY 2011 approved FTE level, and 7 percent less than the FY 2010 approved FTE level of 929.

Despite these 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, known as Certified Business Enterprises or CBEs.

**Figure 1**  
**OCFO Budgeted FTEs FY 2009-FY 2013**



**OCFO FY 2013 PROPOSED BUDGET**

The proposed FY 2013 gross funds budget for the OCFO is \$135.4 million, an increase of 6.3 percent above the FY 2012 approved level and includes a net increase of 20 FTEs. This increase in funding and FTEs is not based on OCFO requests. Rather, it is the result of both Mayoral and Council mandated initiatives designed to maintain and enhance the District's revenue stream.

As Figure 1 indicates, without the inclusion of the initiatives, the OCFO FTE level would decrease to 868 in FY 2013, and our gross funds budget would remain stable. Briefly, these initiatives include:

- A central collections unit – to be established in the Office of Finance and Treasury to collect the City’s delinquent debts, comprised primarily of Department of Motor Vehicles’ tickets, fines and fees.
- Enhanced Sales Tax Recovery – by cross checking tax returns against data provided through the new federal credit card merchant payment reporting requirement, the District will be able to recover substantial amounts of unpaid sales and franchise taxes through noticing.
- Improved Defense of Property Tax Assessments in Superior Court – hiring additional staff in this area will eliminate the need to hire expensive private sector appraisers to defend the Office of Tax and Revenue’s assessments. Lack of sufficient staff in this area creates pressure to settle cases that should be litigated. Currently, the District has to hire 60 private sector appraisers per year at a cost of approximately, \$10,000 per appraisal. Hiring in-house staff would be significantly less expensive.
- Use Tax Audits – This initiative provides staff to audit the annual filing

requirement for voluntary remittance of the use tax. Because many businesses do not file a sales tax return, they are likely not to report use tax liabilities, and no return is demanded of them because the District does not have a method to identify those with an obligation to file and pay. The proposed initiative imposes no new taxes and no new obligations.

- Maximizing unclaimed property – through expanded auditing of businesses and financial institutions, the District will increase the amount of unclaimed property received and ultimately retained for the City’s use.

Taken together, the initiatives are expected to return approximately \$34.2 million in revenue in FY 2013, and a total of \$113 million throughout the financial plan period. A complete list of the initiatives is located in Attachment 4 of my testimony.

The OCFO will also receive additional FTEs to conduct fiscal analyses of tax exemptions and abatements as required by Council through the Exemptions and Abatements Information Requirements Act of 2011. This law requires the OCFO to provide information to the Council for the initial approval of an exemption or abatement of taxes. Additionally, the law requires that any

taxpayer receiving a real property tax exemption or abatement, regardless of when the exemption or abatement was received, shall file an annual report with the Office of the Chief Financial Officer “certifying that the real property has been used during the preceding real property tax year for the purpose for which the exemption or abatement was granted.”

Finally, the OCFO will receive two FTEs through the intra-District process to support administrative and compliance costs associated with OTR’s role in supporting the Department of Health Care Finance in collecting the hospital bed tax and the Department of Environment in facilitating transfers to the Anacostia River Fund.

Previous cuts to the OCFO make it impossible to perform these additional functions within our existing resources. To do so would compromise our ability to support core functions and deliverables such as revenue estimation, tax collection, treasury functions, budget and CAFR production.

I am confident that the proposed FTE level of 889 will ensure our ability to meet both our core obligations and to successfully implement the new initiatives as required. I remain steadfast in my commitment to maintain the

effectiveness of the OCFO in FY 2013 and beyond, and believe that we will continue to be successful in accomplishing our goals.

To that end, 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, 79 percent of all returns received to date have been filed electronically. Investments in improved information technology comprise our capital budget – including replacing SOAR in FY 2013, and ITS by FY 2015.

As you review the OCFO's FY 2013 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.

### **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 residents, the financial community and the Congress.

We keep six 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.
6. Manage Debt Effectively

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 2013 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, revenue estimation, 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 a 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.

I am quite pleased to report that the Office of Tax and Revenue, previously cited in the yellow book findings for control weaknesses from 2007 through 2010, no longer appears there. 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 where they exist and ensure that our assets are properly safeguarded.

### **Produce Reliable Revenue Estimates**

Conservative revenue estimates are at the heart of a balanced budget and adequate cash flow. A conservative estimating philosophy recognizes that economic forecasting is an inexact science and that the economic environment can change very quickly, so that even during boom years, our revenue estimates err on the side of avoiding a deficit in an economic downturn. Quarterly revision of the estimates enables the District to adjust its budget during the fiscal year in response to changing circumstances.

Although the District's economic and fiscal prospects have improved over the past year, the uncertain nature of the current economic recovery will continue to affect the District's financial condition in future fiscal years. Over the past few months, forecasts for the District's economy have been similar to those for the US: weak growth, no double dip recession. The primary concern is the federal government's budget decisions. Previous federal government expansion cushioned the District and metro area economies from the worst effects of the

recession over the past four years. Now, federal cutbacks pose a risk to the District’s revenue outlook. In February, my office released a new revenue certification showing an additional \$35 million in FY 2012, and illustrating the revised impact of sequestration on revenues in FY 2013 through FY 2015. (See Figure 2 below)

**Figure 2**

**February 2012 Revenue Estimate Compared to Previous Estimate**

Local Source, General Fund Revenue Estimate (\$ millions)	Estimate		--- Projected ---		
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>December 2011 Forecast</b>	<b>5,670.1</b>	<b>5,727.4</b>	<b>5,856.2</b>	<b>6,004.3</b>	
Revisions to estimate	34.8	13.1	(14.1)	(19.4)	
Additional revenue from lower impact of federal sequestration*		22.6	24.9	22.2	
<b>Total Changes</b>	<b>34.8</b>	<b>35.7</b>	<b>10.8</b>	<b>2.8</b>	
<b>February 2012 Revenue Estimate</b>	<b>5,704.9</b>	<b>5,763.0</b>	<b>5,867.0</b>	<b>6,007.1</b>	<b>6,164.7</b>
<i>Percent growth over previous year</i>	<i>5.8%</i>	<i>1.0%</i>	<i>1.8%</i>	<i>2.4%</i>	<i>2.6%</i>

\* The December 2011 forecast included an estimate of the impact of federal sequestration on the District. The estimate has been updated to be consistent with the latest Congressional Budget Office’s estimate. The additional revenue is the difference between the revised estimate and our December estimate as shown below.

In addition to federal government cutbacks, the District faces other downside risks, including financial market shocks from the on-going Euro-zone debt crisis, the possibility of a slowing or reversal of a still fragile economic recovery,

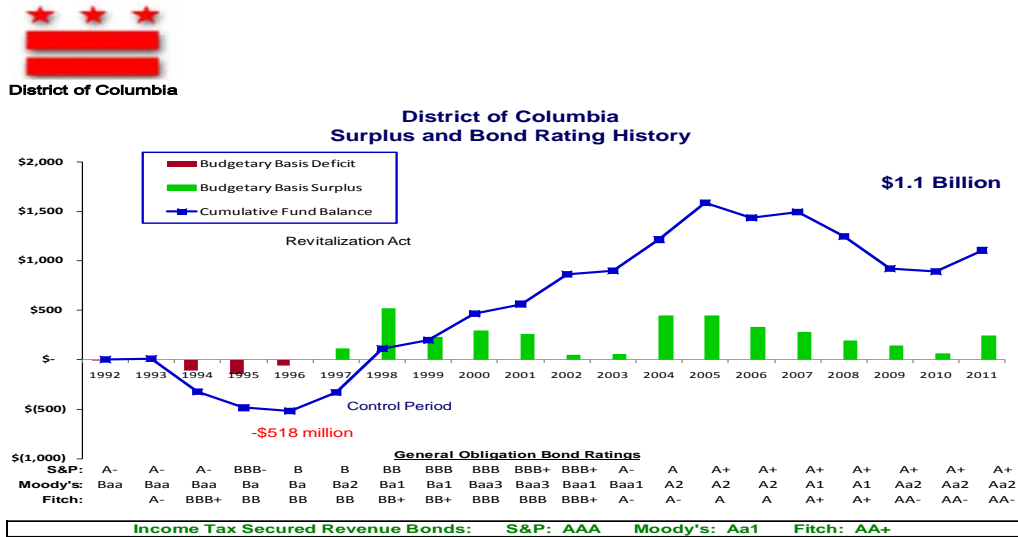
possible disruptions to oil supplies in the Middle East, and given our status as the nation's capital, the on-going threat of a national security event. Given the potential risks and current uncertainty, the ability to effectively manage the District's finances depends on developing reasonably conservative estimates based on available economic data and trends.

### **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 2011, 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 followed for the past dozen years. As you are well aware, Mr. Chairman, 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 and our current \$1.1 billion fund balance. (See Figure 3 below)

**Figure 3**



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.

In 2010, the Council enacted the Sustainable Capital Investment and Fund Balance Restoration Act of 2010. The Act established a fiscal stabilization reserve account and cash flow reserve account for the purpose of rebuilding our general fund balance and reducing the need to borrow from external sources for cash flow purposes. In Fiscal Year 2011, this Act led to an increase in fund balance to more than \$1.1 billion. I commend the elected leadership for enacting this legislation, along with the previously established 12 percent debt cap. These

sound financial management practices serve to increase the District's creditworthiness and long-term financial viability.

## **CONCLUSION**

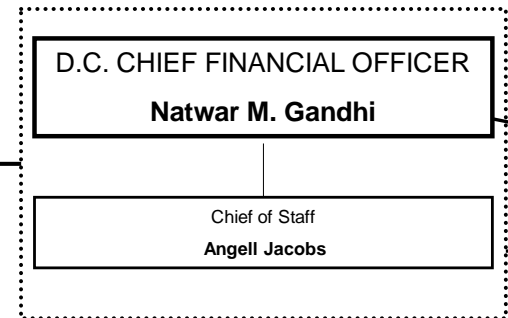
The continuing leadership provided by the Mayor, by you, Chairman Evans, and the Council has enabled the District to weather the recent economic crisis and provided a sound foundation to meet the challenges that lie ahead. The OCFO is committed to doing everything that it can to support continued financial improvements in the City in FY 2013 and beyond.

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

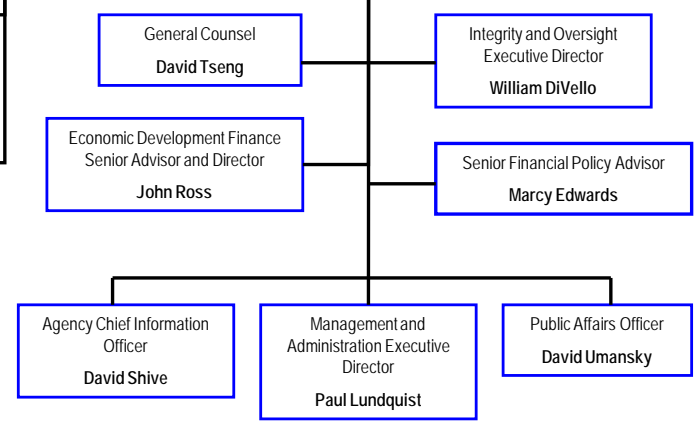
**CENTRAL FINANCIAL OPERATIONS - Deputy CFOs**

- 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**

- Economic Dev. and Regulation  
**Cyril Byron, Jr.**
- Government Operations  
**Mohamed Mohamed**
- Government Services  
**George Dines**
- Human Support Services  
**Delicia Moore (acting)**
- Public Safety and Justice  
**Angelique Hayes**
- Not-for-Profit Hospital Corporation  
**Ronald Walker (Interim)**
- Primary & Secondary Education  
**Deloras Shepherd**
- DC Lottery  
**Buddy Roogow**  
Executive Director

**Agency Fiscal Officers**

- DCRA: Conrad Bridges
- DHCD: Andree Chan-Mann
- DISB: Bright Ahaive
- DOES: Curtis Lewis
- DMPED: Conrad Bridges
- OPC/PSC: Gurmeet Scoggins
- EOM/DCHR: James Hurley
- DCPL: Tammie Robinson
- DGS: Massimo Marchiori
- DCCSB: Jeremy Williams
- OAG: Victoria Syphax
- OFRM/OCA: Paul Blake
- OCTO: Phil Peng
- DCOA/ORM: Shilonda Wiggins
- UDC: Ibrahim Koroma
- DDOE: Robert Jose
- DDOT: Rumman Dastigar
- DMV: Kimberly L. Borges
- DPW: Perry Fitzpatrick
- CFSA: Justin Kopca
- DDS/ODR: Delicia Moore
- DHS: Hayden Bernard
- DMH: Joyce Jeter
- DOH: Keith Fletcher
- DHCF: Darrin Shaffer
- DPR: Barbara Roberson
- DYRS: Calvin Skinner
- DOC: Antionette Hudson-Beckham
- FEMS: Daryl Staats
- MPD: Leroy Clay
- OCME/CJCC: Vacant
- OUC/EMA: Ashraf El-Khatib
- DCPS: Deloras Shepherd
- OSSE: Diedra Barksdale
- DCLB: Bill Robinson



**Office of the Chief Financial Officer**  
**FY 2010 - FY 2013 Operating Budget and FTEs, Evolution By Program**  
**Fiscal Year 2010 and FY 2011 Actuals**  
**Operating Budget (\$000)**

Program	FY 2010 Actuals		FY 2011 Actuals		FY 10 - FY 11 % Change		FY 2012 Approved		FY 11 - FY 12 % Change		FY 2013 Mayor's Policy MARC		FY 12 - FY 13 % Change	
	FTEs	Exp's	FTEs	Exp's	FTEs	Dollars	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars
Management	73	11,072	72	8,991	-1.4%	-18.8%	70	8,539	-2.8%	-5.0%	69	8,695	-1.4%	1.8%
Financial Ops & Systems	94	13,337	90	9,887	-4.3%	-25.9%	92	10,711	2.2%	8.3%	92	11,173	0.0%	4.3%
Budget Devt & Execution	44	5,834	42	5,076	-4.5%	-13.0%	42	5,404	0.0%	6.5%	42	5,818	0.0%	7.7%
Research and Analysis	24	3,704	25	3,118	4.2%	-15.8%	25	4,228	0.0%	35.6%	26	3,897	4.0%	-7.8%
Office of Tax & Revenue	484	61,861	465	44,283	-3.9%	-28.4%	470	56,282	1.1%	27.1%	481	59,043	2.3%	4.9%
Chief Information Officer	65	23,260	74	23,436	13.8%	0.8%	78	20,662	5.4%	-11.8%	78	21,081	0.0%	2.0%
Treasury Operations	70	15,584	69	14,280	-1.4%	-8.4%	71	16,740	2.9%	17.2%	80	21,254	12.7%	27.0%
Integrity and Oversight	21	5,305	21	3,812	0.0%	-28.1%	21	4,799	0.0%	25.9%	21	4,399	0.0%	-8.3%
<b>TOTAL</b>	<b>875</b>	<b>139,957</b>	<b>858</b>	<b>112,883</b>	<b>-1.9%</b>	<b>-19.3%</b>	<b>869</b>	<b>127,365</b>	<b>1.3%</b>	<b>12.8%</b>	<b>889</b>	<b>135,360</b>	<b>2.3%</b>	<b>6.3%</b>

**Office of the Chief Financial Officer  
 FY 2010 - FY 2013 Operating Budget and FTEs, Evolution By Fund  
 Fiscal Year 2010 and FY 2011 Actuals  
 Operating Budget (\$000)**

Fund	FY 2010 Actuals		FY 2011 Actuals		FY 10 - FY 11 % Change		FY 2012 Approved		FY 11 - FY 12 % Change		FY 2013 Mayor's Policy MARC		FY 12 - FY 13 % Change	
	FTEs	Budget	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars
Local	718	115,222	725	87,780	1.0%	-23.8%	783	94,642	7.9%	7.8%	806	99,153	2.9%	4.8%
Federal (150/200)	1	950	0	1,044	-100.0%	9.9%	0	0	0.0%	-100.0%	0	0	0.0%	0.0%
Other	110	15,154	99	16,328	-10.0%	7.7%	41	24,932	-58.6%	52.7%	45	29,140	9.8%	16.9%
Intra-District	33	8,631	34	7,731	3.0%	-10.4%	46	7,791	33.8%	0.8%	39	7,067	-15.4%	-9.3%
<b>TOTAL</b>	<b>862</b>	<b>139,957</b>	<b>858</b>	<b>112,883</b>	<b>-0.5%</b>	<b>-19.3%</b>	<b>869</b>	<b>127,365</b>	<b>1.3%</b>	<b>12.8%</b>	<b>889</b>	<b>135,360</b>	<b>2.3%</b>	<b>6.3%</b>

Private Donations

<b>Revenue Proposals for OCFO Implementation</b>				
(\$ thousands)				
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Revenue Source</b>	<b>Original</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>plus Local Fund Policy Proposals</b>	<b>28,630</b>	<b>24,295</b>	<b>24,303</b>	<b>24,309</b>
<b>SALES / USE</b>	<b>17,700</b>	<b>11,300</b>	<b>11,300</b>	<b>11,300</b>
Increase recovery of unpaid sales taxes	15,500	9,100	9,100	9,100
Implement annual use tax returns	2,200	2,200	2,200	2,200
<b>NONTAX</b>	<b>10,930</b>	<b>12,995</b>	<b>13,003</b>	<b>13,009</b>
Lower interest rate on overpayments	1,800	1,800	1,800	1,800
Lower threshold for requiring electronic payments of tax	125	125	125	125
Adopt the use of ghost cards as payment vehicles	171	171	171	171
Maximize the escheat of unclaimed property to the District	1,500			
Increase the collection of fees and fines for non-compliance with rental housing regulations	414	429	437	443
Create central collection unit	4,420	7,970	7,970	7,970
Refund offset program to collect DMV receivables	2,500	2,500	2,500	2,500
<b>plus Special Purpose Policy Proposals</b>	<b>5,580</b>	<b>2,030</b>	<b>2,030</b>	<b>2,030</b>
Create central collection unit	5,580	2,030	2,030	2,030
<b>All Proposals</b>	<b>34,210</b>	<b>26,325</b>	<b>26,333</b>	<b>26,339</b>