

February 7, 2002

Council of the District of Columbia

AGENCY PERFORMANCE OVERSIGHT HEARING ON FY 2001/2002 BUDGETS FOR THE OFFICE OF BUDGET AND PLANNING

Testimony of Bert Molina, Deputy Chief Financial Officer for Budget and Planning, before the Committee of the Whole

Good morning, Madam Chair and members of the committee. My name is Bert Molina, and I am the Deputy Chief Financial Officer for Budget and Planning. I am pleased to appear before you today to present testimony on the Fiscal Year 2001 and Fiscal Year 2002 expenditures and performance for the Office of Budget and Planning (OBP).

Because this is the first time I am appearing before the Committee of the Whole, I would like to offer a brief introduction. I have over twenty years of government finance experience. I have two years of experience with the District government, first as Associate DC Controller for the Office of Financial Operations and Systems, and more recently, as the CFO for DC Public Schools (DCPS). Prior to my association with the District, I worked with the Milwaukee Public Schools as the CFO and with the City of Houston as their Director of General Accounting.

I have been in my present position for less than two full months. A significant portion of that time was devoted to assisting DCPS complete its 2001 annual financial audit. As a result, I am still "learning the ropes", so to speak, at the budget office. I have asked Gordon McDonald, Associate Deputy CFO, and Dallas Allen, Director of Budget Formulation, to accompany me so that we can fully address any questions that you may have. Lasana Mack, Associate Treasurer, will address questions related to cash and debt management.

In my remarks I will cover the following three areas:

- Fiscal Years 2001 and 2002 Operating Expenditure Performance,
- Fiscal Year 2002 Operational Goals, and
- Fiscal Years 2001 and 2002 Capital Improvements Program.

Fiscal Years 2001 and 2002 Operating Expenditure Performance

In Fiscal Year 2001, the Office of Budget and Planning spent \$4.1 million, which was \$82,000, or 2.0 percent, below the budget of \$4.2 million.

The Fiscal Year 2002 budget for OBP is \$4.5 million, an increase of \$272,000 over FY 2001. Operating expenditures through January 2002 total \$1.6 million, or 37 percent, of the approved budget. We expect to end the fiscal year within our approved budget.

FY 2002 Operational Goals

My vision for the Office of Budget and Planning is to have the highest caliber budget and financial staff delivering quality budgetary information to the District's elected leadership, aiding your ability to effectively manage the city's funds while achieving program goals. In this task, I will demand the best from my staff and seek only the best to help turn this vision to reality.

The major operational goals of the Office of Budget and Planning are to:

1. Develop a balanced budget for Fiscal Year 2003;
2. Execute the Fiscal Year 2002 budget and end the year at budget balance;
3. Produce timely, accurate, and complete financial reports; and
4. Implement Performance-Based Budgeting (PBB) for seven agencies.

1. Develop a Balanced Budget for Fiscal Year 2003

The first major goal for Fiscal Year 2002 is to develop a balanced budget for Fiscal Year 2003. When I arrived in December, one of my first key priorities was to manage the ongoing development of the baseline budget for FY 2003 and the alignment of the baseline with the Mayor's goals. To support this

effort, we have begun to implement Performance-Based Budgeting (PBB), whereby tax dollars will be linked to programs and activities. PBB will allow the District's leadership to make policy and funding decisions on programmatic terms with measurable results. My goal is to build on last year's successes and continually improve the quality of the budget documents and supporting information that OBP provides to the stakeholders for use in the decision making process. Currently, we are on track to submit the Mayor's budget to the Council on March 18.

2. Execute the Fiscal Year 2002 Budget

While I was not a part of the management team at the time, part of the financial success in the last two fiscal years can be attributed to identifying potential overspending problems early and taking the appropriate corrective actions to ensure that expenditures stay within budget. As budget director, it is my responsibility to take appropriate actions to ensure that agencies do not overspend their Fiscal Year 2002 approved budget.

The second major goal is to execute the Fiscal Year 2002 budget so that the expenditure budget is balanced at year-end. When I became budget director, my priority, in terms of budget execution, is to improve the monitoring and reporting of agency spending. Although we have improved our ability to track and report spending, we need to put in place more budgeting controls in SOAR so that we can effectively monitor spending and identify overspending as soon as it occurs. We will use agency spending plans and the monthly Financial Review Process (FRP) to aggressively monitor agency spending. The FRP report will be used to ensure that agencies maintain budget discipline by operating within their approved budgets. This report is also used in preparing monthly Financial Status Reports. It is my objective to improve the timeliness and quality of the FRPs by leveraging technology to develop forecast models that we can use to analyze agency expenditures.

3. Produce Timely, Accurate, and Complete Financial Reports

Our third goal is to develop timely and accurate financial reports. The Office of Budget and Planning is currently revising the Financial Status Report to make it more complete. For example, the quarterly Financial Status Report will include expenditure projections based on annualized payroll costs, the current status of grant collections, cash-flow analysis, and the status of agency gap-closing actions.

We also are investigating how we can better use models and technology to enhance our ability to develop accurate expenditure forecasts and produce meaningful and timely financial reports that can be useful in management decision making.

4. Implement Performance-Based Budgeting for Seven Agencies

As required by the FY 2002 Budget Support Act, OBP began the implementation of performance-based budgeting for the FY 2003 budget process. The implementation began in May 2001 with a kick-off meeting attended by the agencies moving to PBB and co-chaired by the CFO and City Administrator.

Since May, OBP developed and began an implementation plan for PBB that is integrated with the Mayor's planning processes and District's performance management activities. Milestones accomplished include the development of seven business plans that are integrated with the citywide strategic plan, which will be published shortly, and the FY 2003 proposed budget scheduled for publication on March 18. Additionally, accounting structures within SOAR have been developed to provide financial data to program and activity managers during FY 2003.

The final stages of the PBB implementation for these seven agencies will be the revision of the business plans to reflect the consensus budget results in late May 2002 and the development of performance data collection and reporting processes within the agencies.

The PBB implementation was designed as a three-phase process, with seven agencies moving to PBB in the FY 2003 budget process, approximately 20 agencies in FY 2004, and the remainder of the District

budget in FY 2005. However, the second phase of the implementation is contingent upon the identification of funding for contractual services to assist agencies in developing their business plan and corresponding SOAR structures.

FY 2001 and FY 2002 Capital Improvements Program

We have a team dedicated to ensuring that the District's capital budget is effectively managed and used efficiently to meet the long-term infrastructure needs of the District. In FY 2001, the District's Capital Improvements Program focused on developing efficiencies, improving accountability, and reducing the backlog of capital projects.

In FY 2002, one of the most important initiatives for the District's Capital Improvement Program is the Capital Improvements Management Assessment. This assessment involves a complete independent review, analysis and evaluation of the District's capital program. Specifically, the assessment will benchmark the District's capital program to other state and local government programs and offer recommendations for management improvements. This is the first time in the District's history that such an assessment is being conducted. Ultimately, a comprehensive program will be outlined that will let the District better manage its capital projects and financial resources.

Conclusion

In closing, let me state that the Office of Budget and Planning and the OCFO are currently working with the Mayor's Chief of Staff, the City Administrator, and the deputy mayors to develop the Mayor's FY 2003 Budget and Financial Plan, which will be transmitted to the Council on March 18. I look forward to working with the Council and other policy makers to develop a consensus budget for Fiscal Year 2003.

Madam Chair, I thank you and the members of the committee for the opportunity to testify today. I will be happy to answer any questions you might have.