

December 7, 2000

Council Chambers

PUBLIC HEARING ON FY 2001 IMPLEMENTATION OF EXPENDITURE SAVINGS

Testimony of Natwar M. Gandhi, Chief Financial Officer of the District of Columbia, before the DC Council Committee of the Whole

Good morning Chairman Cropp and members of the committee. I am Natwar M. Gandhi, Chief Financial Officer (CFO) for the District of Columbia. With me is Wayne Upshaw, Deputy CFO for Budget and Planning (OBP). We are testifying today on the certification of FY 2001 savings initiatives and the status of spending pressures. In this testimony we will make two points:

First, we have certified \$39.4 million of \$47 million savings that must be made to balance the District's FY 2001 Budget. This is also required by the Budget Support Act before approximately \$75 million in contingent spending may be authorized. At our request, the City Administrator has attested that he concurs with the savings, and understands both the programmatic implications and permanence of the baseline budget reductions. These amounts are being removed from the operating plans of affected agencies and were made possible by such actions as retirements, reductions-in-force and cost transfers from local to non-local funds. I should note that Congress has not yet authorized the \$75 million in contingent spending and that this remains an issue to be resolved.

Second, we presently estimate that the District faces FY 2001 budget pressures in excess of \$200 million. Budget pressures are typically spending patterns or unanticipated costs that, if unaddressed, could result in a deficit. Identification of potential overspending at the beginning of the fiscal year is a sign of fiscal responsibility. The FY 2001 pressures consist primarily of potential expenditures related to health care, settlements and judgments, as well as mandatory spending associated with the \$75 million in contingent spending as yet not appropriated. By mandatory spending, I mean expenditures that have been directed by statute or court order.

It is not unusual for operating financial plans to become unbalanced as requirements unforeseen in the budget-building process come to the forefront. The key is to take early and decisive action to reconcile planned expenditures with financial availability. We are taking action now to recommend how these pressures can be addressed.

Certification Process

The Budget Support Act for FY 2001 requires that the CFO certify \$47 million in Management Reform Productivity Savings (\$37 million) and Operational Improvement Savings (\$10 million). Another \$5 million

in required savings was contemplated to implement cafeteria plan provisions for employees, but this savings does not require certification.

Certification is a three-step process. First the City Administrator (CA), deputy mayors and agency directors agree on savings targets by agency. Second, savings are proposed to the OCFO for review. This includes a review of statutory requirements and mandates that could preclude proposed savings from being achieved. Third, prior to the certification, we require the CA to attest to the savings.

Currently, we are certifying \$39.4 million in savings. This is an ongoing process, with the goal of certifying \$47 million in savings by early February. We will then monitor agency spending to assure reductions are sustained. We will either disapprove reprogramming requests to replace reduced budget authority or require budget base reductions to areas from which funds are proposed to be reprogrammed. In either case, the FY 2002 budget will be built with certified savings intact.

The FY 2001 Budget Support Act uses CFO certification of Management Reform and Operational Improvement savings to trigger an allocation of the \$75 million in contingent spending. These funds are to be made available by authorizing the expenditure in FY 2001 of amounts unexpended from the FY 2000 budgeted reserve. Because the District's FY 2001 Appropriations Act does not yet address the use of these funds for the purposes specified in the Budget Support Act, further Federal legislation is required to access \$75 million in additional spending authority. In coordination with the Mayor's Office, we have been working to obtain this authority and are hopeful of success.

Savings

The \$39.4 million that I am certifying includes \$26.3 million in personal services savings and \$13.1 million in non-personal services savings.

Personal services savings are primarily comprised of retirements, transfers from local to non-local funding, eliminated vacancies and Reductions-in-Force (rifs). Retirements yield \$6.9 million in savings by eliminating 171 positions. OBP has reduced agency budgets in the System of Accounting and Reporting (SOAR) to reflect the elimination of these positions. Transfers of personal services costs from local to non-local funding sources save \$4.2 million in local expenditures. In addition to transfers, the elimination of funded vacancies save \$12.4 million in local funding. FY 2000 rifs save \$1.9 million and \$900 thousand in overtime reductions were made.

We have also certified \$13.1 million in non-personal services savings. This amount is comprised of \$6.2 million in Contractual Services savings, \$3.3 million in Other Services and Charges savings, \$1 million in

Equipment Purchases savings and \$2.6 million from supplies, subsidies, equipment rentals and master lease debt service savings.

Approximately \$8.4 million in proposed savings from the D.C. Public Schools, District-wide fixed costs, and the settlements and judgments fund are not certifiable for the following reasons:

- \$1.5 million in proposed savings from Public Schools was not certified due to statutory limitations. The school's budget mark is defined by the per-pupil funding formula. The District cannot reduce the amount allocated to schools, as this would be analogous to impounding funds without authorization;
- \$5.7 million in fixed costs proposed savings was not certified because such agency costs are largely defined by external factors outside of management controls, such as consumption patterns and market-determined rates; and
- \$1.2 million in proposed savings from the settlements and judgments fund was not certified, because no statistical evidence or legal strategy has emerged to support these proposed savings.

We are currently reviewing additional information provided by the CA's office regarding proposed savings from fixed costs and settlements and judgments. As information is provided, we will certify savings target that is viable. We will also work with the Office of the Inspector General (IG) to ensure that we have a documented process for assuring savings that can be audited at the end of the fiscal year. Attached to my testimony is a summary of the certification status of the proposed savings targets, by category. (See *Attachment A*).

FY 2001 Spending Pressures

As I said at the outset, overall the District needs to resolve \$200 million in spending pressures to assure that we remain within budget. Working with the City Administrator and agency directors, we are making progress in this regard. For example, the Fire Department's initial spending pressure was \$4.5 million and is now estimated at \$1.1 million due to management actions to close the gap. This reduction reflects the implementation of an action plan to eliminate the potential shortfall. (See *Attachment B*).

Budget pressures often fluctuate as new information becomes available and management undertakes gap-closing measures. The District faces such pressures every year--in fact, these pressures have exceeded \$100 million in each of the past 3 fiscal years (1998, 1999, and 2000). Nevertheless, in fiscal years 1998 and 1999, the District ultimately posted budget surpluses despite these pressures. We expect the same result when the fiscal year 2000 audit is completed.

The majority of the FY 2001 projected spending pressures are due to the following:

- The Public Benefit Corporation (PBC). The PBC spending pressure total is about \$70 million, with

the bulk of this cost—roughly \$65 million--related to potential one-time restructuring efforts. The precise amount will depend on the outcome of current efforts to restructure the PBC.

- Medicaid. Congressional changes to allocation formulas, made after budget preparation and an increase in enrollees from enhanced program outreach could cost the District an additional \$37 million.
- Citywide Labor costs. Citywide labor costs could increase once union contracts are renegotiated. Generally, each one percent pay increase to all union and non-union employees would cost the city \$17 million.
- Settlements and Judgments. Settlements of certain lawsuits and judgments against the District could cost \$13 million in FY 2001, and another \$11 million related to cases from prior years.

Included in our budget pressures is the portion of the \$75 million in contingent spending not yet authorized by Congress that we deem mandatory. This amount is approximately \$ 32 million Attached to my testimony is a table listing all current spending pressures. (*See Attachment C*).

We will submit a plan to resolve the FY 2001 spending pressures to the Mayor, Council and Financial Authority by December 15th. We are continuing to develop options to address these budget pressures. While traditional approaches such as reprogramming funds within an agency's budget will certainly be employed, all available resources must be considered.

Madam Chairman, 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.

ATTACHMENT A
Certification Status of Proposed Savings Targets

Table A: Personal Services Savings (000s)

Proposed Savings	Certified
Retirement Incentive Program	\$6,942
<u>Transfers to Non-local Funding:</u>	
-Private/ Other	\$273
-Federal	\$958
-Capital	\$2,934
Funded Vacancies	\$12,441
Reductions-in-Force	\$1,875
Other Savings	\$860
TOTAL	\$26,283

Table B: Nonpersonal Services Savings (000s)

Proposed Savings	Certified	Non-certifiable
Supplies	\$927	\$0
Utilities	\$0	\$1,834
Telecommunications	\$0	\$4,291
Occupancy Costs	\$0	\$1,039
Settlements & Judgments	\$0	\$1,238
Other Services and Charges	\$3,285	\$75
Contractual Services	\$6,163	\$0
Subsidies	\$97	\$0
Fleet Management	\$500	\$0
Equipment Purchases	\$1,000	\$0
Equipment Rentals	\$893	\$0
Debt Service Savings	\$200	\$0
TOTAL	\$13,065	\$8,477

ATTACHMENT B

Fire and EMS FY 2001 Spending Pressures	
Initial Estimated Spending Pressure:	(\$4,500,000)
<u>Gap-Closing Actions</u>	
Reduce 5th person on truck companies in an overtime status from 16 to 13.	\$544,219
Eliminate overtime in Fire Prevention Division	\$148,019
Improve Leave Management	\$1,749,835
Reduce Training Overtime Details	\$437,459
Reduce Communications Assignments and Overtime Usage	\$419,555
Reduce Academy Class Time from 22 weeks to 18 weeks	\$145,820
Sub-Total	\$3,444,907
Current Spending Pressure:	(\$1.1 million)

ATTACHMENT C
FY 2001 Budget Pressures: By Agency
(\$ in millions)

Agency		Amount
(1) Public Benefit Corporation:		
Restructuring Plan	\$65.4	
Arbitration Award - 1995 award to D.C. Nurses Assoc.	5.0	
Subtotal, PBC		\$70.4
(2) Department of Health (Medicaid):		
Medicaid Expansion & Utilization	15.9	
DSH Lawsuit	3.5	
Cost Settlements	7.5	
DSH Cap Increase (\$3 million in FY 2000 and an additional \$7 million in FY 2001)	10.0	
Subtotal, DOH		\$36.9
(3) Metropolitan Police Department		10.3
(4) Fire and Emergency Medical Services		1.1
(5) Settlements/Judgments		13.0
(6) Disability Compensation Fund		3.0
(7) Office of Property Management:		
Wilson Building Relocation		10.1
(8) Dept. of Public Works - Additional Snow Removal Costs		4.0 - 6.0
Subtotal, Agency Pressures		\$148.8 - \$150.8
District-Wide Pressures		
(1) Labor Costs		TBD
(2) Gap Between \$47 Million in Savings and CFO Certified Savings		12.3
Subtotal, District-Wide Pressures		\$12.3
Total Budget Pressures		\$161.1 - \$163.1
Freed-Up Appropriations Pressures		
(1) LaShawn Receivership	\$6.3	
(2) Commission on Mental Health	13.0	
(3) D.C. Public Schools	12.1	
(4) Human Resources Development	1.0	
(5) Department of Health	4.2	
Subtotal, Freed-Up Appropriations Pressures		\$36.6
Grand Total Budget Pressures		\$197.7 - \$199.7