October 11, 2001
Council of the District of Columbia
PUBLIC HEARING ON BILL 14-30, "FEE COLLECTION INCENTIVE ACT OF 2001," AND BILL 14-101, "HOMESTEAD AND SENIOR CITIZEN REAL PROPERTY TAX AMENDMENT ACT OF 2001"

Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee on Finance and Revenue

Good morning, Chairman Cropp and members of the Council. I am here today to speak to you regarding Bill 14-30, the "Fee Collection Incentive Act of 2001." Herbert Huff, Deputy Chief Financial Officer for the Office of Tax and Revenue, has a separate statement on Bill 14-101, the "Homestead and Senior Citizen Real Property Tax Amendment of 2001."

I want to speak to you today about some of my concerns with the "Fee Collection Incentive Act of 2001" as currently drafted. Let me first say I understand and appreciate the goal of the legislation. Agencies should be encouraged to collect all fees due and owing. Establishing a new fund from the excess of fee revenues over the estimate is, however, not the most effective way to provide that encouragement.

The CFO's Comprehensive Financial Management Policy discourages extensive use of O-type revenue in favor of revenue allocated through the budget and appropriation process. The latter approach generally promotes better budgeting and spending practices.

There are, however, cases where payment of operations from revenues received is arguably a good practice; for example, when the cost of a particular program is highly unpredictable and the related fee, fine, or receipt is expected to exceed the cost of program operations. As a case in point, the Office of Tax and Revenue is authorized to pay rewards to informants in tax cases from the amounts recovered. In the case of Bill 14-30, the goal of promoting collections is laudable; however, implementation and accounting problems outweigh these benefits.

Accounting Issues Proprietary funds require that the CFO not only account for revenue receipts, but also for dedicated revenue expenditures. Further and more importantly, a dedicated revenue stream received and managed by an agency increases the opportunities for "working" the revenue source rather than the program itself. For example, following an underestimate in one year an agency has more revenue in the next. To maintain the "extra" budget in future years, the agency must continue to underestimate revenues.

In summary, we encourage District policymakers to reserve the use of proprietary receipts to a very limited number of cases. When fee payers request that the District provide the service and pay the fee exactly for that service, administrative problems are minimal, expenditures are transparent, and when demand for service changes, so does the revenue.

That concludes my remarks. I will be happy to answer any questions you may have.