

**November 6, 2002**

Council of the District of Columbia

PUBLIC OVERSIGHT HEARING ON THE FY 2002 PERFORMANCE AND FY 2003 PLANS OF THE  
OFFICE OF THE CHIEF FINANCIAL OFFICER

## **Testimony of Natwar M. Gandhi, Chief Financial Officer**

Before the Committee on Finance and Revenue

Good afternoon, Mr. Chairman and members of the Committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the District of Columbia. I am here today to testify about the overall performance of the Office of the Chief Financial Officer (OCFO). My statement will be relatively brief, to allow time for any questions you and the members wish to pose.

All of my deputy chief financial officers are with me today to help address specific issues or questions as needed. They are Herbert Huff, from the Office of Tax and Revenue (OTR); Julia Friedman, from the Office of Research and Analysis (ORA); Bert Molina, from the Office of Budget and Planning (OBP); Anthony Pompa, from the Office of Financial Operations and Systems (OFOS); and Anthony Calhoun, from the Office of Finance and Treasury (OFT).

When I was confirmed as the Chief Financial Officer in mid-2000, I noted three overarching goals that had to be achieved for the OCFO to be successful: (1) obtaining clean opinions on schedule from the District's independent auditor; (2) ensuring balanced budgets; and (3) providing effective, efficient financial systems and business methods to support the decision processes of District policymakers. We have met the first two goals and are making progress on the third, although additional improvements are needed and possible.

Because many of the components of OCFO performance continue from one year to the next, I will cover fiscal years 2001, 2002 and 2003 in the following discussion.

### **Review of OCFO Performance**

Through the collective efforts of the officials with me and their many fine employees, the OCFO works to maintain the financial viability of the District in the short, medium, and long term.

#### *Maintaining Financial Integrity*

- In FY 2001, we initiated monthly closing of accounts on the District's accounting system, along with monthly reconciliation of cash, to ensure that the District has a more accurate reflection of its financial position on a monthly basis. During FY 2002, the closing instructions were posted on the OCFO Intranet, and we plan to make the reports more comprehensive during FY 2003.
- We developed options, including reprogrammings, and implemented decisions to close FY 2001 spending pressures of \$250 million. A supplemental appropriation was approved for the District for the first time since FY 1994. In FY 2002, we repeated the process, successfully addressing \$306 million in spending pressures and an additional \$96 million in revenue shortfall. For FY 2003, we provided budget options to the Mayor and the Council in their recent deliberations to address a \$323 million revenue shortfall.
- In FY 2001, we collected approximately \$70 million in delinquent taxes and prevented \$6 million in erroneous claims from being issued. In FY 2002, we collected an additional \$11 million through improved enforcement programs, an effort which also probably caused an additional 16,000 tax returns to be filed. In FY 2003, Mr. Calhoun will begin programs that will collect taxes and other payments electronically.
- In FY 2001, we delivered the District's FY 2000 Comprehensive Annual Financial Report (CAFR) on schedule with a balanced budget, paving the way for the end of the control period. In FY 2002, we delivered the FY 2001 CAFR a week early, again with a clean opinion—the fifth in a row. Now that

we are in FY 2003, Mr. Pompa and his staff are busily working on the FY 2002 CAFR and are making that process more routine each year.

- In FY 2001, we began efforts to reduce the number of District bank accounts. By FY 2002, we had reduced that number from 2,000 to 421, and during FY 2003 we plan to eliminate another 50 accounts, with no loss in service.
- During FY 2002, we transitioned to a post-control period revenue certification process for tax, non-tax, "O" type and Medicaid revenue estimates. We also established post-control period procedures for grants and "O" type budget modifications and reprogrammings.

#### *Assuring Fiscal Balance*

- In FY 2001, we securitized tobacco settlement funds and applied the proceeds to debt reduction, resulting in debt service savings of \$684 million over the next 14 years. In FY 2002, we refinanced general obligation bonds at lower rates, resulting in debt service savings of approximately \$3 million. We also took advantage of market conditions and an innovative financing structure to save \$37 million in long-term debt service on the issuance of general obligation bonds to finance FY 2002 capital projects. We have recently refinanced the District's Certificates of Participation and certain general obligation bonds at lower rates, resulting in substantial FY 2003 debt service savings.
- In FY 2001, we facilitated increases in the District's bond ratings as a result of cumulative financial actions, lowering the cost to the District of borrowing money. We are constantly seeking ways to facilitate further rating increases.
- In FY 2001, we restructured the FY 2002 budget development process to produce a better estimate of expenses and involve top policy officials in key decisions. In FY 2002, we developed the FY 2003 budget in alignment with the Mayor's priorities and the citywide strategic plan, a process that will continue with the formulation of the FY 2004 budget.
- In FY 2003, we will apportion the budgets of selected agencies, with other agencies to be phased in later as systems improvements are made to SOAR. We will testify next week before the Committee of the Whole on Mr. Mendelson's bill, which the OCFO supports with some changes. Also this fiscal year, we will enhance SOAR to initiate a new financial plan monitoring system, in which all agencies and the Council will have access to online reports on the status of spending by agency and category of expense.

#### *Addressing Economic Viability*

- In FY 2001, we completed measurement of the causes and dimensions of the District's structural financial imbalance as a result of its unique status as a federal city. During FY 2002, we provided detailed comments on the September report of the General Accounting Office (GAO). In FY 2003, we plan to continue to work closely with GAO as they undertake further research and study of the structural imbalance.
- Since FY 2001, we have developed and marketed alternative ways for addressing the structural imbalance with all key public and private stakeholders, a process that will continue.
- During FY 2002, we completed three Tax Increment Financing (TIF) projects, the first in the District's history.
- We also implemented the District's Section 529 College Savings Plan and recomputed the District's Section 457 Deferred Compensation Plan during FY 2002.

#### *Improving Financial Systems*

- In FY 2000, we reviewed risks associated with continued implementation of the CAPPs payroll system. In FY 2001, with the City Administrator and the Office of the Chief Technology Officer (OCTO), we devised and implemented an alternative payroll strategy pending implementation of an enterprise-wide solution integrating the District's key management information systems. During FY 2002, we completed the migration to UPPS and worked with OCTO on systems requirements for a new payroll regime.
- During FY 2002, we began working with OCTO on implementing a new budget system as part of the Administrative Services Modernization Program (ASMP). Work is proceeding according to plan, and we expect to have the system operational within the next two years.

- During FY 2001 and 2002, we completed implementation of and training on the District's accounting system, SOAR.
- During the same period, we implemented fixed assets accounting, in accordance with GASB 34.
- In FY 2001 and 2002, with the City Administrator, we facilitated the strategic business planning necessary to transition seven selected agencies, including the OCFO, to performance-based budgeting (PBB) for the FY 2003 budget. For the FY 2004 budget process, an additional 26 agencies participated in strategic business planning and will produce performance-based budgets. Moreover, benchmarks will be developed for critical agency programs. In preparation for the FY 2005 budget process, the remaining agencies will receive strategic business planning and will present performance-based budgets.
- In FY 2001, we converted all business taxes to a new Integrated Tax System (ITS), designed to provide taxpayers and tax administrators with faster, better information on the status of tax accounts. In FY 2002, OTR received the Federation of Tax Administrators' "Award for Outstanding Technology Applications for State Administrations" for ITS.
- We completed the first comprehensive review of the administrative structure of the District's tax system, which was enacted as the Tax Clarity Act of 2001.
- In FY 2003, we are implementing a Web-based reporting tool called "CFO\$ource." CFO\$ource will allow agency directors and CFOs to track their budgets more quickly, accurately, and effectively, thus giving them more time to make informed operational and policy decisions. CFO\$ource also will provide the OCFO, deputy mayors, and the Council the tools for better financial oversight of the agencies.
- Throughout the fiscal year, the payroll office within OFOS and the Chief Information Officer worked to modify the District's payroll systems to support several new labor agreements.

#### **OCFO Performance Supports District Leadership**

As the OCFO works to improve financial management functions in the District, we also are integrating them into the broader governmental functions of the executive branch, to improve programs and better deliver services. This effort is intentional and entirely consistent with the concept of "one government", which was the theme of the OCFO retreat last fall. Each of the major program areas in the OCFO, comprising the central financial operations of the city, has made significant contributions to District management. For example:

- The Office of Research and Analysis supports the District's economic development efforts by assisting with tax increment financing, as noted earlier, and by publishing monthly the "DC Economic Indicators" newsletter;
- The Office of Finance and Treasury assists in special financing and disbursement activities that support policymakers' initiatives, such as emergency aid funding after the floods in summer 2001, the creative tobacco securitization transaction, and the interim emergency loan program after the events of September 11;
- The Office of Financial Operations and Systems and the Chief Information Officer are supporting the performance-based budgeting implementation by ensuring that SOAR is structured to provide expenditure information for the activities and programs depicted in the FY 2003 budget submission;
- The Office of Budget and Planning is working closely with the Office of the City Administrator and agencies to better tie funding to program results; and
- The Office of the Chief Information Officer is represented on OCTO's Administrative Services Modernization Program, to ensure that the OCFO's information technology systems are integrated in the District's enterprise resource planning initiatives.

#### **OCFO Restructuring**

A recent development that we feel will contribute to the performance of the OCFO is our restructuring of agency chief financial officers. In prior testimony before this committee, I have stated that operations could be improved and costs reduced by reengineering the manner in which financial services are provided to the various agencies throughout the District Government. Last fiscal year, we completed our review and this fiscal year we are engaged in implementation of those recommendations. Our estimate is

that restructuring could save \$2 million. These savings have already been taken from the budget and our implementing actions will make them a reality.

- ❑ *Shared Services.* We are in the process of streamlining the “back office” activities of the agency CFO’s and our central offices. Rather than perform accounts payable, accounting and similar activities across all agencies, we will consolidate these activities into five shared service centers. This will allow us to achieve economies of scale, maintain productivity and quality standards, and implement other management and technological improvements that cannot be implemented by the 21 agency CFO organizations we now have.
- ❑ *Associate Chief Financial Officers.* We have established five Associate Chief Financial Officers that parallel the responsibility areas of the deputy mayors – Economic Development, Human Support Services, Public Safety, Public Works and Government Direction and Operations. Each will have a small staff and, working with financial personnel in the agencies, will directly manage the day-to-day financial operations throughout their cluster. I see this step as one that will provide the Mayor and Council with much improved responsiveness to their issues and concerns and gives me, as CFO, a manageable number of senior financial officials to execute our management agenda. We will finance the associates and their staff from savings realized through restructuring.
- ❑ *Other Actions.* We are also examining how we can be more efficient in our central operations, an objective worthy in itself but made more pressing by the need for the OCFO to do its share in addressing our reduced budget availability in FY 2003. I believe we can make savings without adversely affecting our effectiveness in such areas as administrative services and information systems support.

### **Structural Imbalance Status**

A major issue for the District is that its solutions for dealing with current economic conditions are curtailed by the structural imbalance between revenues and expenditures, an issue that we have been raising for over three years with various stakeholders. On the one hand, we have the programmatic obligations of a municipality, a county, and a state and cannot walk away from these obligations. We also are the nation’s capital, and this status, in and of itself, carries with it certain cost consequences not borne by other U.S. jurisdictions. On the other hand, we are restricted by federal statute from many revenue options that would otherwise be available to a state or municipality to resolve a long-term financial imbalance.

This is an issue that has been raised at the highest federal levels with both the executive and legislative branches. At the direction of the Congress, the matter is under review and study by both the Congressional Research Service and the General Accounting Office. However, the District cannot count on any change in the current relationship between the federal government and the District in this arena. To avoid a return to a control period, it is imperative that the District maintain a balanced budget at the end of each fiscal year and maintain a healthy cash position to meet its obligations on a timely basis. Your leadership, Mr. Chairman, and that of the Council and the Mayor has been instrumental in the progress made in this regard in the last five years.

Mr. Chairman, this concludes my statement. My colleagues and I will be pleased to answer any questions you and the members may have.

# # #