

PUBLIC OVERSIGHT HEARING
FY 2002 AND 2003 SPENDING AND PERFORMANCE OF
THE OFFICE OF THE CHIEF FINANCIAL OFFICER
(OCFO)

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

February 26, 2003, 9:30 a.m.
Council Chamber



Testimony of
Dr. Julia Friedman
Deputy Chief Financial Officer
Office of Research and Analysis

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good afternoon, Mr. Chairman and members of the committee. I am Julia Friedman, deputy chief financial officer for research and analysis. I am pleased to appear before you today to testify on the FY 2002 performance and FY 2003 plans for the Office of Research and Analysis (ORA).

The mission of ORA is to provide innovative and sophisticated research that will enhance and assist the decision-making and performance capacity of the Office of the Chief Financial Officer, as well as the Office of the Mayor, the Council of the District of Columbia, the Congress and others who are involved in the policies and administration of the District of Columbia.

In FY 2002 the Office of Research and Analysis had a budget of \$3.2 million and a staffing level of 43 employees. The FY 2003 budget for ORA is \$3.4 million with 42 employees. Operating expenses through January 2003 total \$1.2 million, or about 33 percent of our budget. We expect to end the fiscal year within our approved budget.

Carrying Out the Mission of ORA in FY 2002

Revenue Estimation

One of the most critical responsibilities of ORA is the preparation of revenue estimates. As this committee is well aware, revenue estimation turned into a year-long activity during FY 2002. Working with improved econometric forecasting models, a more sophisticated database, and in consultation with the local business community and regional experts, ORA prepared estimates on a quarterly basis, with improved monitoring of revenues during each quarter. As a result, the

Council and city officials have been able to take prompt corrective action to revise the FY 2002 and FY 2003 budget and financial plans. The end result of these efforts was a balanced FY 2002 budget for the District for the sixth year in a row.

Just a few days ago we released our planning estimates for mid-year FY 2003 and FY 2004. As in FY 2002, we will be monitoring revenues closely.

Economic Analysis

A second key function of ORA is to provide up-to-date research and analysis of the District's economic and revenue base and economic development projects. A major research push during FY 2002 was additional analysis of the District's long-term divergence between expenditure needs and revenues. ORA worked both with the McKinsey Group and the U.S. General Accounting Office to improve understanding of the long-term problems and to quantify the financial impacts.

Financial analysis of major economic development projects was also a focus of ORA during FY 2002. Analysis by ORA is used by the OCFO in determining the expected financial feasibility of all District tax increment financing projects, other financing proposals, and legislation. Two major TIF projects were approved in FY 2002, Gallery Place and the Mandarin Oriental Hotel. ORA also maintains oversight of the TIF projects currently under construction and reviews TIF proposals before formal submission to the city. Other financial feasibility analyses in FY 2002 included studies for the DC USA retail project in Columbia Heights, the Capitol Hill Towers residential and hotel project near the Navy Yard, and the Convention Center hotel projects.

ORA also provides OCFO representation on the National Capital Revitalization Corporation Board of Directors, the Redevelopment Land Authority, the Board of the Washington Convention Center, and the Sports and Entertainment Commission. In these roles, ORA serves as a financial steward, analyzing the financial structure and viability of potential projects undertaken by these entities.

Fiscal Analysis and Financial Planning

A third major responsibility of the Office of Research and Analysis is the preparation of fiscal impact statements on legislation introduced for Council consideration. These statements analyze the impact of proposed policy changes on the District's expenditures and revenues, with the purpose of estimating the net cost to the government of achieving policy goals. In this way the proposed policy changes may be compared to other goals in allocating a finite budget. During FY 2002 ORA analyzed and prepared fiscal impact statements on nearly 200 bills considered by the Council of the District of Columbia.

During the past year ORA also made the process of requesting and accessing fiscal impact statements much easier. Currently, all fiscal impact statements prepared by the OCFO since May 2001 are retrievable on the OCFO Web site, www.cfo.dc.gov. Requests for fiscal impact statements may also be made electronically from the Web site.

A fourth area of responsibility for ORA is maintaining the District's five-year financial plan that helps to insure the long-term financial health of the District. During FY 2002 the financial plan was consistently used to show the effects on the District's net operating margin of various revenue initiatives, including tax policies and certain programmatic options. The plan aided in the decision making process

of the Council and the Mayor's office. As the financial and economic landscape of the District continue to change, the financial plan will remain a key tool to assess the impact of those changes. In FY 2003, the plan will begin to merge more aspects of the Comprehensive Annual Financial Reports (CAFR) with those of the traditional budget.

During the spring of FY 2002 ORA instituted a special project to examine dedicated revenue sources, commonly referred to as O-type revenue. Our initial focus was the fiscal effectiveness of the District's monitoring and management of O-type revenue. This work later proved invaluable as O-type revenue became an option for assisting in closing both the FY 2002 revenue shortfall and the FY 2003 budget gap.

Grants Management Progress and Reorganization

During FY 2002 ORA made significant progress in improving the administration of grants. In FY 2002 the District spent \$1.404 billion in grant funds. Of the total grant funds available, \$2.8 million lapsed, representing 0.2 percent of total grant authority. This is a marked improvement over FY 2001 when \$1.3 billion in grant funds were spent and \$4.3 million lapsed, representing 0.3 percent of total grant authority.

ORA also made progress on the goals it established for FY 2002 in this area. The control period ended with no legislative guidelines for approval of budget modifications to grants or O-type revenue, creating the need for passage of a separate bill for each modification. Working with the Council and the OCFO, we successfully streamlined the approval process, thereby expediting the expenditure

of grant funds. A total of 713 grant and O-type modifications were processed in FY 2002.

A significant effort also was made to develop and implement a risk assessment system that would enable District agencies to avoid the potential loss of grant funds due to insufficient information on expenditure data and deadlines. During this work we discovered that acceptable grant risk assessments could not be efficiently accomplished without systems modifications in SOAR, and programming changes in the SOAR system are now underway. Also during FY 2002 the Grants Council met regularly under the leadership of the chief financial officer and the city administrator to address issues related to the nexus between financial and operational concerns in administering grants.

As part of its overall restructuring plan, the OCFO transferred the grants administration function in December 2002 to more logical locations with the associate CFOs and the Office of Budget and Planning. These changes will improve both efficiency and communication between program and financial staff. ORA will retain the function of subgranting through its Competitive Services unit. During FY 2002 ORA handled 30 grants competitions for agencies, which resulted in making over \$31 million available for District residents. ORA also has responsibility for estimating revenue from O-type sources and for certifying Medicaid revenues.

Goals for FY 2003

During FY 2003 we will continue our efforts to provide timely and effective research and analysis on District financial and tax policy issues. Our key objectives include:

- Developing more accurate and comprehensive tax databases to support our economic and revenue forecasting models;
- Improving the quality and timeliness of fiscal impact statements;
- Strengthening and expanding our research capacity in tax policy and economic analysis;
- Making the District's financial plan more useful to financial managers and policy makers; and
- Utilizing available resources to assist city agencies to get grant funds into programs that can deliver services to D.C. citizens.

Chairman Evans, 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.

###