

BUDGET HEARING
FY 2004 BUDGET REQUEST 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

April 4, 2003, 9:00 a.m.
Council Chambers



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

Good morning, 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 FY 2004 budget request for the Office of the Chief Financial Officer (OCFO).

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

In addition, Jeanette Michael, executive director of the D.C. Lottery, already has testified and addressed issues relating to the Lottery.

Overview of OCFO Budget Request

The total FY 2004 budget request for the OCFO from all funding sources is 930 FTEs and \$88.6 million. This is a decrease of 83 FTEs and \$4.2 million, or 8% and 5% respectively, from the revised FY 2003 budget approved in October 2002. In gross terms this puts the OCFO below FY 2002 levels in both FTEs and funds. From local sources, we are requesting 821 FTEs and \$73.4 million, also reductions of 8% and 5% respectively. I should point out that this is the largest proportionate reduction taken by any operating agency in the District government. I believe our

FY 2004 request recognizes the budget realities of the times. Details of the request are included in the chart at the end of my testimony.

Our strategy in making these reductions is to maintain in FY 2004 current levels of service at a reduced cost. We did this by reducing personnel, and related costs, and by holding down fixed costs as much as possible. This budget essentially allows us to hold the line, producing the same programs and services with fewer people, rather than producing additional programs and services with the same number of people. Resources at the proposed level are adequate for us to execute our key responsibilities, but there is no room whatsoever to maneuver on our request without adversely affecting the quality or quantity of our work products.

OCFO Goals and Objectives for FY 2004

Financial Viability. As we all know, these are exceedingly stressful financial times for the District. A balanced budget and appropriate financial controls that ensure the continued financial viability of the District are keys to managing our way through these hard times and, by extension, maintaining and enhancing home rule in the District of Columbia. Without effective and responsive financial information and analysis, we will not be able to navigate through the problems ahead.

The OCFO needs to maintain its skill base and performance capability to ensure that the mayor and the council have timely and accurate budget and accounting information, and the controls central to effective financial operations. Any diminution below the FY 2004 proposed level would, I fear, put at risk the hard won improvements that have been made to all our financial systems.

Maintaining Program Gains. The District government I joined six years ago could not find tax returns, reconcile its cash balances or obtain an unqualified audit opinion. It has been a long slow climb to our current position, but a fall in capability could happen quickly.

The OCFO has made significant progress in the performance in all program areas. We have a new tax system that is contributing to improved customer service and higher collection of taxes due every year. The payroll system has been stabilized, systems costs reduced, and a plan for its replacement devised. CAFRs are being produced on-time with a clean opinion and with the least external support in recent years. Budget systems are beginning to perform up to expectation, providing real-time information on the status of accounts and more accurate projections of future expenditure and program costs. We must build on these accomplishments and, in no circumstances, lose hard won gains.

Support Economic Development. For the long run, building the economic capabilities of the District is central to providing the tax base needed to support city services. The analyses provided by the Office of Research and Analysis are critical to ensuring that the investments the District makes in the economic development arena give us the desired outcomes.

The Judgement of the Marketplace

The support provided by this committee and you, Mr. Evans, have been instrumental in the improvements cited above. Without the investments made by the mayor and council in tax administration and financial management, we would not be where we are today. It is exactly this enhanced emphasis on fiscal prudence

and investment in financial systems that gave the District the positive outlook noted recently by Moody's, when other entities are being downgraded.

Moody's Investors Service recently raised its outlook on the District's \$3 billion in outstanding general obligation bonds, rated Baa1, from "stable" to "positive." This is a major development, which we hope will lead to a rating upgrade. The description used by Moody's in its announcement of this change is worth noting, and reads in part:

The District has managed its finances to a positive outcome through a period of significant economic uncertainty. As required by law, the District has maintained significant reserves, much of which is in cash, at a time when many states and cities have depleted much of their fiscal cushion. Future rating action will hinge on the District's efforts to improve the quality and efficiency of its public services within its limited resource base, and on the progress of the District economy in maintaining its positive momentum.

Improved OCFO Efficiency and Effectiveness

The budget reductions we are proposing in our request are possible because of the prior support we have received from the mayor and the council in investing in productivity enhancing systems, such as the Integrated Tax System (ITS) at OTR and the System of Accounting and Reporting (SOAR) in OFOS. In addition, we have continuously updated the OCFO Web site (www.cfo.dc.gov) to include many online services for District citizens.

In a perfect world, rather than reduce the OCFO budget, it would be my recommendation to reinvest FTE savings into front line operations, particularly in

the Office of Tax and Revenue. This would allow us to continue to increase accounts receivable collections and tax audits over FY 2003 levels, just as we have done for all previous years since FY 1997. If the Congress endorses the restoration of the District's "two-for-one" authority, as recommended in the mayor's proposed FY 2004 Budget Request Act, I will subsequently recommend to this committee that we reestablish certain OTR positions.

I am also very pleased with the results we are achieving from various OCFO restructuring efforts. The new associate CFO configuration, which aligns our "field" CFO structure with the deputy mayor structure, is already contributing to faster, more accurate communication of financial information. We are also proceeding with the consolidation of accounting and accounts payable activities into five shared services units. This is permitting us to realize savings throughout the agency CFO structure, although we may not be able to quantify the savings until the new consolidation is complete in FY 2004.

We have also restructured our own administrative services organization, now called the Office of Management and Administration. As a result of this restructuring, we are performing the same work with 40 FTEs that was previously performed by over 50 FTEs. We will begin to realize savings from this effort by summer, well before the start of FY 2004.

Contract Support

I recognize there is an on-going concern on the part of the council that agencies build in-house capability to provide program and analytical services, rather than relying on private sector contractors. I share this concern. Agencies, including the OCFO, should use contractors only in situations where doing so is the least costly

alternative for the District, or where key objectives cannot be reached without outside support. Since becoming CFO, this office has worked to reduce our reliance on contract support. For example, in the payroll area, such costs have been reduced from \$9.9 million in FY 2001 to a planned \$4.8 million in FY 2004. Similarly, contract support required for the SOAR system and its component modules has decreased from \$6.3 million to a planned \$3 million over the same period.

However, there are certain areas where contract support remains absolutely critical to maintaining our effectiveness, principally in the area of information systems support. Key systems maintained by the OCFO – the accounting system (SOAR), the tax system (ITS), and the payroll system (UPPS) – rely on vendor support and cannot be maintained without such support. It is simply not possible for us to attract and retain sufficient, qualified staff to ensure that necessary programming and other changes are made in a timely fashion. Without this support, we could not be assured of quality accounting data, accurate tax bills, and timely, correct paychecks. In many cases, these contract costs are reflected in our capital budget and these investments are essential.

The OCFO Capital Budget

Our capital budget request for FY 2004 totals \$22.515 million for projects that are essential if the OCFO is to accomplish the goals and objectives noted earlier.

These projects are exactly the kind of investments that have worked in the past and can and will provide productivity savings and effectiveness improvements to the District in the future.

Our FY 2004 projects are summarized below.

- Executive Information System Financial Application/CFO\$ource – \$2 million. The system will provide agency heads and stakeholders with timely financial information on which to base sound management and policy decisions.
- Real Property System Enhancements – \$2.5 million. This project will fully integrate the Computer Assisted Mass Appraisal System, the Real Property Billing System, and the Integrated Tax System with the Geographic Information System to support a comprehensive review and assessment of the District’s real property tax base.
- Payroll/Personnel System – \$5.5 million. This project supports the legacy payroll system, UPPS, until the District implements a new payroll system.
- Budget System Module – \$3.5 million. Implementation of this module will allow replacement of existing legacy systems and address a critical need in formulating both the operating and capital budgets for the District.
- Performance-Based Budgeting (PBB) – \$3.19 million. These funds support the implementation of PBB throughout the remaining 50 District agencies, in addition to providing assistance to those agencies that have recently adopted PBB.
- Interim System Improvements – \$2.325 million. This project supports improved tax administration by perfecting multiple data sources for access through a centralized data warehouse, by upgrading hardware and software, and by developing a comprehensive correspondence and customer contact tracking system.
- Data Warehouse Implementation – \$3.5 million. This project leverages integrated tax systems and supports comprehensive implementation of “Clean Hands” legislation, which will allow an agency to review all debts and obligations owed by an entity to any District agency.

Accomplishments Reflect Continuing Support

The continuing leadership provided by the mayor, by you, Mr. Evans, and the council has enabled the District to experience a major financial turnaround. The OCFO is committed to doing everything we can to support continued financial improvements in the city in FY 2004 and beyond, and to that end we respectfully ask your support for our FY 2004 budget request.

My colleagues and I are available to answer any questions you and the members may have.

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Attachment

**OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)
SUMMARY OF FY 2004 BUDGET REQUEST**

(\$ in thousands)

	FY03 Rev.		FY04 Request		Change from FY03 to FY04			
	FTEs	Budget	FTEs	Budget	FTEs	% Chg.	Budget	% Chg.
Management*	63	\$ 6,690	68	\$ 6,283	5	+ 8%	\$ (407)	- 6%
OBP	56	\$ 4,385	59	\$ 4,793	3	+ 5%	\$ 408	+ 9%
ORA	42	\$ 3,439	33	\$ 3,034	- 9	- 21%	\$ (405)	- 12%
OTR*	572	\$ 43,177	510	\$ 40,558	- 62	- 11%	\$ (2,619)	- 6%
OFT	90	\$ 15,447	86	\$ 14,371	- 4	- 4%	\$ (1,076)	- 7%
OFOS	148	\$ 11,733	134	\$ 11,849	- 14	- 9%	\$ 116	+ 1%
CIO	19	\$ 6,032	18	\$ 5,795	- 1	- 5%	\$ (237)	- 4%
OIO	23	\$ 1,874	22	\$ 1,888	- 1	- 4%	\$ 14	+ 1%
TOTAL	1013	\$ 92,777	930	\$ 88,571	- 83	- 8%	\$ (4,206)	- 5%

** Management and OTR areas were affected by realignments subsequent to passage of the FY 2003 revised budget. The chart below describes the management effect of these changes.*

OPERATING FINANCIAL PLAN CHANGES

FTEs	FY03 Current (as of April 2003)	FY04 Request	Change in FTEs
Core Management	34	30	- 4
OMA	40	38	- 2
Management Total	74	68	- 6
OTR Total	561	510	- 51