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

Testimony of
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Good morning Chairman Evans and members of the committee. I am Phil Brand, deputy chief financial officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony for the record on OTR's FY 2004 budget request and key performance objectives.

I look forward to working with you and the Committee in my new position as Deputy CFO for the Office of Tax and Revenue. I am hopeful that my experiences in the private sector and as a federal tax administrator will be beneficial to OTR and our customers.

FY 2004 Budget Request

The FY 2004 budget request for OTR is 510 FTEs and $40.6 million, a reduction of 62 FTE or 11% from the FY 2003 authorized staffing level, and an overall reduction in gross funding of $2.6 million or 6% from the current operating budget. This constitutes an 18% reduction from the 620 FTE's realized in FY 2002 at the peak of the ITS conversion. In order to meet this challenge, OTR will have to make tough decisions in allocating resources to ensure that the office can meet critical revenue collection goals, relying heavily on our newly implemented technologies to support taxpayer service objectives.

Since 20% of OTR's total budget is fixed in the current budget year - 17% is associated with fixed facility costs and another 3% is made up of dedicated funding for outsourced collection activity and ongoing improvements at the Recorder of Deeds - and 70% of OTR's total budget is associated with staffing, most cuts in FY 2004 will have to come from personal services. Given these

constraints, OTR will have to take decisive action to reduce on-board staffing. As we do this, it is critical that we make these reductions strategically, determining the appropriate resource levels for each function in light of the programmatic expectations of the CFO, the Mayor and the Council. Of equal importance will be communicating to our many stakeholders the level of service that they can expect, and encouraging them to take advantage of the multiple electronic methods of accessing tax services.

FY 2004 Performance Objectives
Despite the budget reductions, there are some key activities that OTR must continue to perform, the most important of which are processing returns and tax payments, ensuring compliance with tax laws, and enabling taxpayer access to information.

To some extent, the budget challenges we face now are issues we would have addressed in the course of normal business following the completion of the Integrated Tax System. We have already seen return on the investment in that system, not only in increased compliance revenues, but also in meeting the budget challenges of FY 2003. At this time last year, the Returns Processing Administration had reached its peak staffing of 211 on boards. Current levels are just over half of that, and going into the peak processing period we are operating within the 14 day processing goal for refunds.

One of the reasons we are able to maintain this early filing season momentum despite the reduced staffing is the dramatic increase in the number of individuals filing electronically, which is nearly double the rate for the same period last year, although still well below the average nation-wide (58% for other states versus

44% in the District). Average cycle time on electronically filed refund requests currently stands at 7 days. Each paper filing with OTR is very costly to process, both in terms of staff time and supply/equipment costs, and OTR has substantially increased our use of lockbox processing to meet our objectives on paper returns. The efficiency improvements to be gained from all of our electronic filing enhancements will come primarily from reducing the handling, keying, storing, and disposing of documents. Timely processing of tax returns and refunds remains a key performance goal for OTR in FY 2004, and it will be essential to identify the optimal resource allocation for this activity as we transition to a growing electronic environment.

We must also continue to identify non-compliant taxpayers and collect taxes due, and we are using technology to do so. In FY 2003, the Compliance Administration is operating with 18% fewer staff than were authorized in FY 2000. However, while the staffing in this administration has been on a downward trajectory, compliance revenues increased more than 20% between FY 2000 and 2002, and we are working diligently to meet our collection goals in FY 2003 and FY 2004 in spite of the combined effects of reduced staffing and a declining economy. We are relying on technology to aid us in meeting these targets, giving us the ability to mine multiple sources of data to identify tax fraud and non-filers. The Compliance Administration makes up 29% of OTR's personal services budget, and cannot be held harmless in the current budget environment, but we will attempt to ensure that staffing reductions do not significantly impact our ability to ensure compliance with tax law.

One way in which we will seek to maintain the strength of our compliance programs is through the continued development of the Clean Hands Data

Warehouse. Building upon data in ITS, and using it in conjunction with other data sources, this tool will help us further identify the non-filing population and ensure improved collection of debts across multiple District agencies. This project was authorized in FY 2003, and while the Continuing Resolution significantly delayed the pilot activity planned for this year, we expect to begin seeing returns on planned activity in FY 2004.

Finally, OTR will continue to support taxpayers by providing information and quality customer service. We are using technology to closely monitor wait times and other performance metrics for our Call Center and Walk-In facilities, but limited resources mean that we must also provide more opportunities for self-service in order to maintain customer satisfaction. We must do more to leverage technology by increasing our outreach on electronic filing for individuals and for real property transactions, requiring electronic filing for certain businesses, and encouraging use of online technology to inquire about account and refund status and answer other basic questions.

As I'm sure you understand, Real Property concerns account for a significant portion of the total customer service contacts every year. As part of our efforts to improve accessibility and quality of tax data, OTR has requested $6 million in capital funding for a series of Real Property system enhancements. The improvements contained in this new project request are especially critical in helping the Real Property Tax Administration keep up with the demands of the annual assessment cycle without increased staff, while improving the accuracy and productivity of the Assessment Division by integrating property photos and sketches with the Computer Assisted Mass Appraisal, or CAMA, system, and linking property data to building permit records and the District's GIS

application. OTR is building model systems for real property appraisal and billing and when these web-enabled systems are fully integrated with ITS they will offer taxpayers one of the most robust tools available in any jurisdiction for accessing real property tax information.

I would like to thank the chairman and the members of the committee for your support as we address the challenges ahead, and look forward to working together.

Thank you for this opportunity to present testimony for the record. I would be pleased to answer any questions that you or the other members may have.

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