

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2003 AND 2004 SPENDING AND
PERFORMANCE BY 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 25, 2004, 9:00 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
Julia Friedman
Deputy Chief Financial Officer
Office of Revenue Analysis**

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

Good morning, Mr. Chairman and members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for Revenue Analysis and the District's Chief Economist. I am pleased to appear before you today to testify on the performance of the Office of Revenue Analysis (ORA) in FY 2003 and year-to-date in FY 2004.

The mission of ORA is to forecast, monitor, and analyze the District's economy, revenue stream and policy proposals in a manner that permits sound budgeting practices. This mission is somewhat smaller today than at the beginning of FY2003, when it also included:

- analysis of economic development proposals and projects in a manner necessary for government budgeting purposes - that function now resides in the central Office of the Chief Financial Officer and 5 FTEs were transferred for this purpose;
- management and monitoring of grants and special purpose revenues - that function is now performed by the Associate CFOs and managed by OBP. The seven FTEs previously in ORA were moved to these areas;
- financial reporting and continuing development of the financial plan -- this unit was eliminated in ORA with transfer of Medicaid revenue and the financial planning functions to OBP along with one FTE and another FTE was detailed to the Sports Authority to serve there as Acting CFO. ORA retains the responsibility for estimating revenue from special purpose revenue funds; and
- performance of subgranting competitions - a function that has been eliminated and the 7 FTE positions also are eliminated.

This restructuring represents our effort to do more with less, and contribute to the continued modernization of the Office of the CFO. It also reflects a re-focusing of

our office on our core mission: to provide high quality, professional analysis of the revenues and economy of the District of Columbia. This renewed focus is embodied in our new name: we are no longer the Office of Research and Analysis; we are now the Office of Revenue Analysis. As part of this tighter focus, authorized staffing for ORA was reduced from 42 to 20 with 3 positions currently vacant.

In FY 2003, the Office of Revenue Analysis had a budget of \$3.4 million. The FY 2004 budget for ORA is \$3.2 million, which still supports functions and operations that have been transferred to other OCFO operations as part of our restructuring. Operating expenses through January 2004 total \$1.1 million, or 34 percent of our budget. We expect to end the fiscal year within our approved budget.

Carrying out the Mission of ORA in FY 2003

Revenue Estimation

In the best of economic times, keeping track of revenues and monitoring national and regional economic activity is a challenging task. When the national economic environment is changing, as it has been the past few years, it is that much more difficult. In September 2002 our revenue projections alerted the Council and Mayor to sudden and significant changes in income tax revenues that caused our estimate of local revenue to drop by \$285 million. In the early months of FY2003, we worked with the Council and Mayor to provide estimates of the revenues that would be generated by legislative action to close the budget gap. Starting with the binding estimates in September of 2002 and adding revenue enhancements, the binding revenue forecast for FY2003 is within \$86.4 million – or 2.1 percent – of actual collections. This is excellent performance: the benchmark standard for

quality revenue estimates is a variance of 5 percent. After adjusting for \$56 million in one-time revenue that cannot (and should not) be part of a baseline estimate, we ended the year with a variance of collections compared to estimates of just over one half of one percent.

This revenue estimating performance is a tribute to improved understanding of the D.C. economy and the dedication and expertise of ORA's staff. To continue to improve in the future, we are working toward more complete access to critical tax data that are currently restricted for technical reasons. Once we access the data, we expect to continue advancing our knowledge of the District's revenue streams.

Fiscal and Legislative Analysis

The other core responsibility of ORA, both past and present, is to prepare fiscal impact statements that analyze the impact of proposed policy changes on the District's expenditures and revenues. The purpose is to estimate the net cost to the government of achieving policy goals. In this way a proposed policy change may be compared to other goals in allocating a limited budget.

During FY 2003 ORA analyzed and prepared fiscal impact statements on 205 bills considered by the Council of the District of Columbia. 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.

ORA also conducts fiscal analysis on a broad range of special projects and issues. Our analysis has been central to understanding the District's long-term fiscal imbalance. With the release of a landmark report on structural imbalance in

FY 2003, the General Accounting Office has endorsed the research findings that we have developed over many years: the District cannot provide an average quality or quantity of services at anything like average tax rates or burdens. We will continue to provide analytical support to the Council and Mayor as the dialogue on this issue transitions from whether there is a structural imbalance to how to address the structural imbalance.

Economic Development, Financial Reporting & Competitive Services

In FY 2003 ORA analyzed the budgetary implications of financial initiatives for economic development; we also represented the CFO on the boards of the Washington Convention Center, the D.C. Sports Authority, and NCRC/RLARC. This function was spun off to be the Economic Development Finance Office of the Chief Financial Officer in early FY 2004. During FY 2003, we worked on two tax increment financing deals, the Capitol Hill Towers and the Embassy Suites Hotel. These deals closed at the beginning of FY 2004. We were involved in financial analyzes of economic several development proposals, including the potential baseball stadium, retail TIF districts, and mixed use neighborhood projects. Also we provided analysis on proposals for financing a convention center hotel, the finances of the D.C. Sports Commission. The OCFO's objective is to insure and promote financial integrity for these organizations and the District of Columbia as a whole.

In FY 2003, ORA continued to design, maintain and update the District's multi-year financial plan, using the plan to project how changes in the District's revenues, policies or expenditures will impact the future bottom line. This function was transferred to the Office of Budget and Planning in early FY 2004.

ORA retains the responsibility to improve the usefulness and availability of information about the District's Special Purpose Revenue funds (or O-type funds).

Finally, the competitive services unit, which provided subgranting services to District agencies, was disbanded at the end of FY2003. During FY 2003, ORA handled over \$26 million worth of competitions for various agencies, primarily the Department of Health and the D.C. Public Schools.

FY 2004 Performance and Plans

In FY 2004, the Office of Revenue Analysis will continue the core functions of estimating tax, non-tax, and special purpose revenues, of preparing fiscal impact statements, and of completing special projects such as the tax expenditure study now mandated by the Council. As always, we strive to enhance and assist the decision-making and performance capacity of the Office of the Chief Financial Officer, the Council of the District of Columbia, the Office of the Mayor, the Congress and others who are involved in the policies and administration of the District of Columbia.

Thank you for the opportunity to testify before you today. I would be happy to respond to any questions you may have.

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