

BUDGET HEARING
FY 2005 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

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Council Chamber



Testimony of
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Good morning Chairman Evans and members of the committee. I am Dan Black, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony on OTR's FY 2005 budget request and performance objectives. With me this morning are several key members of the OTR executive staff who are available to help respond to any inquiries you or other members of the Council have about specific OTR programs and services.

FY 2005 Budget Request

The FY 2005 budget request for OTR is 550 FTEs and \$52.2 million, a net increase of 50 FTEs or 10% from the FY 2004 authorized staffing level, and an overall increase in gross funding of \$11.7 million or 28.8% from the current operating budget. The requested additional FTEs would be for a performance enhancement package dedicated to OTR's Compliance Administration to strengthen the agency's ability to collect tax revenue and for increased staffing to support improvements in Real Property Assessment, administration of the Healthcare Provider tax, and reductions associated with streamlining of administrative functions.

Of the \$11.7 million requested, \$4.4 million supports the request for additional revenue-producing FTEs, \$3.9 million reflects the ongoing operating costs of the ITS and Data Warehouse capital projects, \$600,000 reflects an adjustment to accurately budget non-local funds associated with compliance activity and the Recorder of Deeds Surcharge; and \$3.3 million is associated with the allocation of budget for pay adjustments for current staff, offset by a \$600,000 net reduction to administrative activity.

FY 2005 Performance Objectives

Budget challenges remain for most operating areas within OTR, requiring all administrations to find innovative ways to compensate for previous year reductions and which allow us to maintain, if not increase, productivity and service levels. To illustrate, OTR has experienced a reduction of nearly 14% in staffing from the 580 FTEs authorized in FY 2001 (not including FTEs subsequently transferred out because of reorganizations). In FY 2002 OTR had 563 FTEs versus 500 FTEs in FY 2004, for an 11% decline in FTEs while revenues increased 5.5%.

In FY 2005 OTR's primary goal is to achieve greater organizational efficiency while maximizing yields from the existing tax revenue stream. This goal may be accomplished through the following key activities: maintain stringent oversight of program areas and resources; expand compliance efforts; complete automated systems integration; clean databases; and implement planned enhancements to the real property assessment functions. The more efficiently we are able to administer tax programs, the more taxpayer compliance is gained, which translates into greater returns in terms of revenue collection.

The agency would be hard-pressed to provide this level of service if required to withstand further reductions in resources. In addition, allowances must be made for the demands associated with implementing various tax law changes that occur throughout each year, such as the new taxes on healthcare providers slated to go into effect in FY 2005, and the new low-income, long-term homeowner credit which became effective this fiscal year. To administer these large tax law changes, as well as numerous smaller tax relief initiatives, OTR must routinely divert a considerable

number of staff and other resources away from regular revenue-related functions. The FY 2005 request before the Committee includes two (2) FTEs and \$250,000 for implementation of the Healthcare Provider Tax.

Compliance and Enforcement

In FY 2005, OTR plans to implement a compliance program that covers a broader array of non-compliant areas. Thus, we are requesting funds to expand our audit and collections staff by 56 positions in FY 2005. This expansion is expected to yield approximately \$8.4 million in additional revenue in FY 2005. To accommodate an expansion of this size, our Compliance Administration will implement a formal recruitment process to add staff gradually during the year - approximately 12 compliance officers per quarter - along with a structured audit training program to equip newly hired staff, at a cost in FY 2005 of approximately \$4.2 million. For FY 2006, we project additional audit revenue of \$19.2 million, which reflects the first full year's deployment of the newly hired staff.

Returns Processing

Adjusting for personnel shortages is particularly critical for the Returns Processing Administration (RPA), which in FY 2005 will strive to maintain its exemplary record of same-day deposits, quick average refund cycle, and timely processing of returns. The administration again has achieved an average turn-around time of 14 days for the issuance of tax refunds from paper returns, and from 4 to 7 days for electronically filed returns. Processing refund cycle time for over 77,000 refunds issued to date, is 6 days, with an average refund of \$661.00. These are service levels that our customers appreciate and have come to expect.

Throughout each year, RPA processes close to one million individual income and business tax returns, along with hundreds of thousands of taxpayer documents and attachments. The administration also handles several other District taxes, including sales, estate and personal property taxes.

Technology

A critical tool in OTR's ability to maintain filing season momentum is increased use of electronic filing. Our Information Systems Administration again reports phenomenal growth last year, and this year to date, in the use of e-filing by District taxpayers. Options include fed-state electronic tax filing services – both via the Internet and computer software package programs, and the District's own Electronic Taxpayer Service Center (eTSC). FY 2005 promises to be another record year in this area. E-filed individual income tax returns already exceed 65,000 in the current filing season, representing a 25% increase over last year at this time and exceeding our total for the entire 2003 filing season. Total business electronic filing has performed at an even higher rate of increase, with over 55,595 business returns filed to-date compared to only 1,260 by the same date last year. The sharp increase in business returns also increases the accuracy rate of our processing and substantially reduces the costs of processing paper returns. As an added benefit, the use of electronic payment options has increased same-day availability of funds for the District. Current electronic same day deposits exceed \$175 million compared to only \$24 million in FY-2004.

For the remainder of this fiscal year and into FY 2005, OTR has a multi-dimensional plan to expand E-commerce:

(1) Expand our outreach publicity efforts with multi-media announcements to the

public using the tax packages, news releases, brochures, and selected E-commerce ads;

(2) Expand usage of GovOne as an electronic payment receiver by initiating E-payment for 2nd half real property tax bills in Sept 2004;

(3) Continue enforcing new, mandatory e-filing regulations for Sales and Use taxpayers with monthly taxes in excess of \$25,000 for any one month.

Implementation began March 2004 for the period ending in February 2004; and

(4) Expand eTSC to allow for payment of income tax extensions and income tax declarations.

Customer Service

OTR will continue to support taxpayers by providing information and innovative avenues to quality customer service. One initiative we are quite excited about is OTR's Interactive Voice Response (IVR) system. IVR is technology that automates interaction with telephone callers. Our IVR will use pre-recorded voice prompts and menus to present information, options to callers, and touch-tone keypad entry to gather responses regarding individual income refund status. This application is expected to reduce waiting times, talk times and abandonment rates, while providing privacy, extended service hours, flexibility and choice. The IVR also will relieve our contact representatives of routine caller interactions, such as refund status, so they can focus on inquiries that are more complex. The system also provides the option of requesting live assistance from an agent when needed.

Real Property

Dr. Gandhi is reviewing the entire OCFO budget to determine the best way to reallocate resources and bring 14 additional real property tax assessors on board at

the OTR by FY 2005 to increase overall productivity in assessment activities. Specifically, these additional personnel will allow the agency to conduct more physical inspections, building permit inspections, exempt property audits and possessory interest assessments, and are included in the net increase of 50 positions in the FY 2005 budget request. We are currently recruiting for 7 new positions.

Conclusion

I would like to thank the chairman and the members of the Council 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. We would be pleased to answer any questions that you or the other members may have.

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