

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
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Good morning, Chairman Evans and members of the committee. My name is Anthony Calhoun, and I am the treasurer and deputy chief financial officer for the Office of Finance and Treasury (OFT). I appreciate the opportunity to present testimony regarding the operations and performance of my office for FY 2002 and 2003.

The OFT manages the assets and liabilities of the District government. As such, OFT manages and invests the District's cash balances, handles all disbursement of funds, receives and deposits payments to the District, conducts capital market borrowings, and administers the District's retirement programs.

During FY 2002 and FY 2003, OFT has continued to improve the various financial processes of the District, with very positive results. These include awarding the contract for a new provider of the District's 457 Deferred Compensation Plan with upgraded features, introducing the College Savings Plan ("529 Plan"), and increasing the number of claimants reunited with their unclaimed property by 8.3 percent. OFT's accomplishments also include the issuance of general obligation bonds to finance capital projects through a complex transaction that produced historically low interest rates; the refunding (refinancing) of outstanding general obligation bonds at lower interest rates; and the refunding of the Certificates of Participation at significantly lower interest rates. These actions resulted in substantial debt service savings, substantial reductions in the number of District owned bank accounts, implementation of a Treasury Workstation system, and other technological improvements.

OFT is divided into five core functions: Debt and Grants Management, Cash Management and Investments, Disbursement Activities, Cash Receipts and Accounting, and Asset Management for Special Programs.

The Debt and Grants Management Unit issues general obligation bonds in the financial marketplace to provide for the payment of costs incurred in the acquisition or development of capital projects and to refund outstanding indebtedness. This unit also manages the financial aspects of the drawing down of federal grants. In October 2002 OFT issued general obligation bonds on behalf of the District to finance District capital projects and to refund (refinance) certain outstanding bonds at lower interest rates. OFT took advantage of market conditions at that time and utilized an interest-rate swap mechanism, resulting in historically low interest rates (an average rate of approximately four percent) on a portion of these bonds. Another portion of these bonds was issued as variable-rate demand bonds, allowing the District to benefit from the extremely low interest rates on the shorter end of the yield curve (approximately 1.25 percent currently). In addition, OFT refunded the District's outstanding Certificates of Participation at much lower interest rates (an average rate of 4.38 percent vs. approximately seven percent). These transactions produced debt service savings totaling approximately \$20 million. Moreover, OFT has continued to focus on issuing its bonds based on actual capital spending needs (as opposed to previously planned spending levels), reducing the amount of unspent bond proceeds on hand and thereby reducing debt service expenses.

The Cash Management and Investment Unit handles banking services, cash, and investments. This unit manages cash resources for the District, so that the District can meet its payment obligations and maximize interest income from cash

resources. During FY 2002 and FY 2003 to date, the Cash Management and Investment unit has been implementing a Treasury Workstation to assist the unit with consolidating bank reports, better tracking and reporting of investments and debt spending, reconciling of bank fees, processing of daily electronic payments, and cash forecasting. With the full implementation of the Treasury Workstation, OFT technological systems will be state-of-the-art and will facilitate enhanced efficiency in our day-to-day operations.

The reduction in the number of District bank accounts continued to be a goal of OFT over the past year. Currently, the number stands at 416, including 73 related to our debt. This has been accomplished in part through the use of purchasing cards for certain agencies. Purchasing cards allow agencies (such as D.C. Public Schools) and sub-entities (such as individual schools) to have funds at their disposal without having to have a bank account.

The Disbursement Unit provides check writing and dissemination services for District agencies so that they can fulfill their financial obligations to their stakeholders. Three departments are included in the disbursing activity: disbursing operations, vendor center, and electronic benefits transfer. OFT has implemented a new system for paying summer youth employees through the issuance of a debit card, similar to the EBT (electronic benefits transfer) card that is used for TANF benefits. Previously, students were paid via check, which caused several problems, such as duplication of checks, checks never being received, and checks that were difficult to cash. This new payment vehicle was very well received, and we are working with the Department of Parks and Recreation to expand the program to their summer youth employees.

The Disbursing Operations unit is in the process of revamping the printing procedures of D.C. Public Schools' (DCPS) payroll and vendor checks. DCPS is converting its personnel/payroll system to PeopleSoft. Currently, OFT is in testing mode and is running two parallel payroll systems – UPPS and PeopleSoft. Also in FY 2002, the Disbursing Unit began mailing all checks and earning statements. Because of the recent increase in postage rates, OFT has received additional funding to support these increased costs, which will allow us to continue to mail all agency earning statements and payroll checks.

The Cash Receipts and Accounting Unit encompasses revenue accounting, cashiering services, and dishonored checks. This unit provides revenue collection, auditing, and recordation services for District agencies so that they can have accurate and timely revenue information. OFT is currently implementing electronic representment, which will allow OFT to collect funds electronically from a consumer's active checking account after a check has been dishonored.

Asset Management for Special Programs encompasses pension management, the 529 College Savings Plan, and the Unclaimed Property unit. The pension management unit is responsible for the financial administration of the District's 401(a) Defined Contribution Plan and the 457 Deferred Compensation plan. In FY 2002, OFT contracted with a new service provider, ING, for the District's 457 Deferred Compensation Plan. This new plan has significant features that were not incorporated in the previous plan, including expanded investment options, lower administrative fees, and a better use of information technology to provide greater access to account/plan information.

OFT launched its 529 College Savings Plan in November 2002. This plan allows District residents (parents/guardians) and individuals nationwide to establish college savings accounts to set aside funds for future college expenses. Since its inception the plan has enrolled 1,593 participants to date (1,482 District residents, 111 non-residents), with total contributions of \$6.9 million. OFT has contracted with a consultant to assist with an aggressive marketing plan, including billboards, radio advertisements, television advertisements, and community outreach. In addition, OFT has participated in interviews and published articles with *The Washington Post*, *Pensions and Investments Daily* and local radio stations in order to publicize the College Savings Plan.

OFT has continued to increase the amount of Unclaimed Property returned to its owners through expanded public awareness and community outreach activities. This amount increased from \$5.3 million in FY 2001 to \$6.6 million in FY 2002. We have established a goal for FY 2003 of \$7 million.

Mr. Chairman, this concludes my prepared testimony. I would be happy to answer any questions you or the other members may have.

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