

BUDGET HEARING

FY 2006 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 13, 2005
Council Chamber**



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

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 2006 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 2006 Budget Request

The FY 2006 budget request for OTR is 567 FTEs and \$60.7 million, a net increase of 24 FTEs or 4% from the FY 2005 authorized staffing level, and an overall increase in gross funding of \$9.2 million or 18% from the current operating budget. Sixteen of the requested additional FTEs support a comprehensive performance enhancement in the Real Property Tax Administration, improving the ratio of assessors to parcels from approximately 1 : 7,000 to 1 : 4,300, and providing much needed support to the mapping, exemption and statistical modeling functions. The remaining 8 FTEs are dedicated to implementation of the non-custodial parent tax credit, providing key additional resources in our compliance, customer service, returns processing, and information systems administrations.

The Real Property initiative makes up \$1.2 million of the \$9.2 million requested. Of the remaining \$8 million, \$2.1 million is included for baseline increases in salary and maintenance costs, \$1 million reflects the FY 06 cost of pay harmony, \$1.2 million reflects additional costs of rent and occupancy at our 941 North Capitol Street facility, \$425,000 supports the ongoing administration of the baseball stadium fees, \$172,000 supports the costs of adjudicating tax assessments

through the Office of Administrative Hearings, and \$900,000 supports the implementation of the non-custodial parent tax credit. In addition, OTR has proposed shifting a net \$2.3 million of operating costs to an Other-type revenue source generated by collection fees. It is anticipated that this shift will reduce the cost of taxpayer delinquency on compliant citizens of the District. Additionally, OTR has requested \$600,000 for the technical refresh of the front end imaging system of ITS, which is critically needed to prevent system failure, and \$300,000 to fund expert witnesses for Real Property appeals to ensure that the District's assessments are adequately supported during the appeals process, particularly on large commercial assessments. These initiatives are included in the proposed funding for the Resident Dividend.

FY 2006 Performance Objectives

In FY 06, OTR will continue to focus on enhancing revenue collections and improving customer service. Having completed the full implementation of the Integrated Tax System (ITS), we have identified ways to leverage this technology to further increase our efficiency. Currently, OTR is undertaking a strategic planning process that will provide a roadmap for the next five years. We are anticipating and preparing for a future that includes more electronic filing and self-service opportunities for customers, continued automation of manual processes and integration between systems, and enhanced compliance efforts.

OTR continues to focus resources on implementing tax law changes that occur during each year, such as the Ballpark Fee, the various proposals to provide low income property tax relief, and newly proposed TIF districts. To administer these large and often complicated 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. On average, each change costs OTR between \$200,000 and \$300,000 to implement.

For instance, the Mayor's proposal to allow deferral of property tax payments for low income residents will cost OTR approximately \$300,000 to reprogram our systems, but no additional dollars are included in the budget for this policy change. OTR has estimated that it will cost \$900,000, included in the proposed budget, to implement the non-custodial parent tax credit because of the huge potential for abuse, and the lack of source data to identify potential fraud cases. The Mayor's budget also includes 3.5 FTEs and \$425,000 for administration of baseball-related taxes and fees, with staffing allocated to revenue accounting, returns processing, customer service, and compliance. As you can see, various tax law changes passed by the City Council have a substantial impact on OTR operations and resources. We ask that the Committee support our FY06 baseline funding requests supporting our operations for the tax law changes mentioned above and provide a funding assurance associated with any tax law changes in the future.

OTR will also continue its efforts to make improvements in serving the taxpayers in FY 2006. As part of a multi-pronged strategy, OTR is conducting a thorough review of all the processes involved in handling and tracking customer contacts and looking for ways to better use technology in managing the effort to ensure that all requests for assistance are closed timely. Similarly, we are implementing a "One Call" initiative, to reduce the number of repeat calls or transfers necessary to resolve taxpayer questions. Finally, we are establishing an Accounts Maintenance Group, which will be responsible for working with complex and long standing taxpayer account issues to improve the accuracy of billings and accounts receivable. This effort will benefit not only the taxpayers involved, but will

identify systemic issues that will result in improved accuracy and customer service across the board.

Technology

We continue to reap the benefits of the technology enhancements of the last 5 years, with particularly strong growth in electronic commerce. In calendar year 2004, more than 92,000 individual income returns were filed online, up from 71,000 the prior year, with e-filers representing 33 percent of the District's individual income tax population. We expect this number to reach 105,000 this year, a 13 percent increase. Across all tax types, 325,247 taxpayers filed and paid more than \$1.18 billion in income and business taxes electronically in 2004. This represents a 100% increase in the number of electronic filers compared to calendar year 2003. We expect that number to exceed 400,000 returns and more than \$1.5 billion in payments in 2005. As part of OTR's long term strategy to increase efficiency and reduce burden to the taxpayer, we plan to have all types of returns available for electronic filing by 2007. In order to facilitate this change, it is essential that we continue to invest in our technical infrastructure.

OTR's Integrated Tax System is nearly six years old and needs to be continually upgraded and refreshed with the newest and latest technology. Failure to adequately maintain and refresh the components of this technological investment will quickly lead to inefficiency and ineffectiveness in OTR's day-to-day operations. Therefore, OTR requested \$600,000 in operating pay-go funds (included in the Resident Dividend) to replace the aging imaging front-end – the engine that runs our tax administration. Without the ability to timely image returns, refund cycle times are elongated, customer service and compliance

programs are brought to a standstill as account information cannot be adequately accessed, and cash deposits are delayed.

Customer Service

One of OTR's primary initiatives is focusing on improvements in customer service. Although staffing in the Customer Service Administration has not increased over the last 3 years, OTR is continually looking for innovative ways to leverage technology to meet our goal of high quality customer service.

Implementation of an Interactive Voice Response (IVR) system in FY 04 has led to steady improvements in the number of callers that can access the Call Center, relieving our contact representatives of routine caller interactions, such as refund status inquiries. This allows our Call Center to focus on more complex inquiries and work more efficiently and effectively. We are continuing to seek ways to reduce waiting times, talk times and abandonment rates, while providing privacy, extended service hours, flexibility and choice for our customers.

Compliance and Enforcement

In FY 2005, OTR has undertaken a comprehensive revenue initiative, adding staff to both audit and collection functions and implementing a multi-year audit strategy. We are in the final stages of hiring for the authorized positions, and are designing a training program for staff to maintain the high productivity rates indicative of our audit and collections staff that we realized in FY 04. OTR projects that in FY06, our compliance staff will collect an additional \$19.2 million in revenue -- a direct result of this initiative.

As our recent successes in compliance and enforcement indicate, it is essential that OTR maintain its current level of effort. At the same time, our compliance

operation is being called upon to enforce ever more complex tax policies. This requires our leadership team to continually find ways to leverage technology to efficiently manage our compliance and enforcement programs. These internal efforts tax existing resources and make it even more critical that we have sufficient resources for these tax changes and program enhancements, without which the administration would be forced to rely on outdated and inefficient processes. It is this kind of manual process that would make administration of the non-custodial parent tax credit complex and resource intensive.

The Collections Division is undergoing dramatic change, as new leadership with significant tax collection experience is reorganizing the unit to improve the focus on reducing the accounts receivable balance. OTR is also proposing a shift in the way we view and fund this collection activity. As part of the FY06 Budget, OTR has proposed the creation of an Other-type revenue source based on collection fees for delinquent accounts. Currently, OTR does not assess a collection fee on in-house collection efforts of delinquent accounts, but has contracted with outside collection agencies to notify and secure payments on approximately 9,600 delinquent accounts. For delinquent accounts placed with the outside collectors, OTR charges the taxpayer a collection fee of 25% of the tax due. This fee is remitted to the outside collector upon receipt by OTR. The collection fee on in-house compliance activity, as proposed, would be assessed during the creation of the second notice and calculated on the total amount due including tax, penalty, and interest. This fee would be calculated as 10% of the delinquent tax, capped at \$500. OTR projects that the revenue from this fee would be approximately \$2.9 million. Our proposal also includes a \$40 fee to set up installment agreements, which require time to establish and monitor. By establishing these fees, the cost of

collecting delinquent accounts is correctly shifted to delinquent taxpayers rather than being borne by all taxpayers of the District of Columbia.

Returns Processing

Our Returns Processing Administration (RPA) continues to operate with a staffing level of 81 FTEs, the lowest level in more than 5 years, while maintaining its exemplary record of prompt deposits, quick average refund cycle, and timely processing of returns.

As we enter the peak filing season, the administration expects once again to achieve an average turn-around time of 15 days for the issuance of tax refunds from paper returns, and 4 to 7 days for electronically filed returns. These hallmarks of operational efficiency depend on ever increasing rates of electronic filing and our continued efforts to leverage technology to meet these goals. Processing refund cycle time for over 77,000 refunds issued through the end of March was 5 days, with an average refund of \$694.00 (the rate was 14 days for paper returns). To date, approximately 71% of refund returns have been received electronically, compared to 40% for all of FY04.

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, and ensures the prompt deposit of nearly \$2 billion in tax payments.

Real Property

The current proposed budget includes 16 additional staff for the Real Property Tax Administration, including 8 assessors. At full staffing, this will bring us in line with the industry standard ratio of 1 assessor for every 5,000 parcels. We continue to find that these positions are hard to fill, based on the competition for the skill and the relative attractiveness of employment in the District. The remaining 8 FTEs will allow us to fund a cartographer position that is critical to keeping up with our map products, a statistician to provide in-house expertise in developing the assessment model, an exemptions specialist to ensure more timely completion of requests, and 5 support/technical positions that will allow us to keep more assessors in the field rather than transcribing data or developing the complex data queries routinely received by the administration.

OTR's proposed program enhancements also include \$300,000 (included in the Resident Dividend) for expert witnesses in real property assessment appeals, necessary to provide sufficient evidence and protect more than \$38 million in at-risk tax revenue. Our request for \$670,000 for equipment, training and other projects needed to support new and existing staff and improve the overall quality of the assessment program, is not included in the Mayor's budget as presented.

Real Property, in particular, is relying heavily on technology to improve the assessment and billing processes, and has completed the implementation of the billing module. The successful integration of the billing and assessment systems, with planned enhancements for Homestead and Senior credits, electronic payment and account management, and bulk filing by mortgage companies, will dramatically improve customer service in this area.

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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