

BUDGET HEARING
FY 2006 BUDGET REQUEST FOR THE OFFICE OF
BUDGET AND PLANNING (OBP)

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Linda W. Cropp, Chairman

April 12, 2005, 2:30 p.m.
John A. Wilson Building, Room 412



Testimony of
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Good afternoon, Madame Chair and Members of the Committee of the Whole. My name is Bert Molina, and I am the Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify in support of OBP's budget request for FY 2006. With me today are Mr. Gordon McDonald, Associate Deputy CFO, Mr. Dallas Allen, Director of Budget Formulation, and Mr. James Spaulding, Director of Strategic Budgeting and the Capital Improvements Program. Mr. Anthony Calhoun, Deputy Chief Financial Officer for Finance and Treasury, and Mr. Lasana Mack, Associate Treasurer, will address questions related to cash and debt management.

FY 2006 Budget Development

The development of the FY 2006 Proposed budget proved to be very challenging this year. These challenges were primarily the result of (1) implementing a new budget system, and (2) staying within a legislative growth cap in a year with projected excess revenues.

Implementing a New System

OBP began the formulation cycle implementing a new budget system – ARGUS. As with the implementation of any new system, there were bugs that hampered the use of the system. Faced with time constraints for submitting the baseline and the Mayor's proposed budgets, and the numerous delays in trying to resolve ARGUS issues, OBP decided to delay the implementation of ARGUS until after the approval of the FY 2006 consensus budget. This decision required OBP to rely on its existing systems to complete the budget process in a truncated period of time. Nearly six weeks was lost in trying to implement ARGUS. Because of this delay,

CFO and EOM staff had to work diligently and efficiently to ensure that budget submission requirements were met timely. I am proud to say that both the baseline budget and the Mayor's proposed budget were submitted on time and balanced.

The OCFO remains committed to implementing the ARGUS system, and we have established an ARGUS Planning Task force that will take the lessons learned from the initial implementation and work to redesign the system to meet the District's needs in an efficient and user friendly manner. Additionally, we are examining the implementation strategies used by other entities so that we can apply those strategies that were successful, while addressing the common issues shared with us. We are confident that once ARGUS has been implemented properly, it will provide substantial benefits to the District for both budget formulation and execution.

The Legislated Growth Cap

As you know, the Council legislated an expenditure growth cap for FY 2006 based on the approved FY 2005 Financial Plan. While this was a fiscally prudent action to constrain growth to a reasonable level, it was quite challenging to implement given the higher revenue projections. The FY 2006 baseline budget that assessed the cost of providing current service levels exceeded the growth cap by approximately \$71 million. This required the Mayor to cut the baseline budget by that amount while addressing his policy initiatives and enhancements. Working closely with the Mayor and City Administrator, we were able to produce a fiscally sound budget that kept the core budget within the growth cap and allowed the Mayor to provide additional tax relief and programmatic enhancements.

FY 2005 Accomplishments

Let me begin by saying how proud I am of the staff in OBP. As I stated previously, despite the challenges we faced in the FY 2006 budget process, my staff worked diligently to produce the Mayor's budget on time. During the past year, we:

- Developed a fiscally sound Mayor's FY 2006 Budget and Financial Plan, including:
 - An Executive Summary volume and
 - A Special Studies volume that provides decision makers with additional information upon which to make budget and management decisions regarding the District's finances. This is the second year the Special Studies volume has been published, and this year it includes chapters about Baseball, Benchmarking, Fixed Costs, Service-Level Budgeting, and MPD Overtime. In particular,
 - The Benchmarking study includes a total of 71 benchmarks, for 53 programs in 26 agencies.
 - The Service-Level Budgeting study includes service-level budgets for portions of seven agencies, primarily in the Public Safety and Justice and Public Works appropriation titles.
- Facilitated agency strategic business plans for 11 agencies this year, as part of the Phase IV transition to Performance-Based Budgeting (PBB)
- Developed an on-line spending plan application for capital
- Rolled out the latest release of the Executive Dashboard in CFO\$ource
- Received the Distinguished Budget Award from the Government Finance Officers Association for the FY 2005 budget.

Additionally, OBP will soon issue its first capital expenditures report, covering the first two quarters of FY 2005. We will report quarterly on capital expenditures going forward. These reports will inform the District's stakeholders of progress on capital projects as well as help OBP ensure that FY 2005 capital spending stays within allowable limits, to avoid worsening the deficit in the capital fund. OBP has also begun working with the Technical review Team (TRT) in reviewing capital budget reprogrammings. The TRT, which was first created for the FY 2006 capital budget formulation process, provides technical and policy input to the review of reprogrammings, allowing the District to better target its scarce capital funding.

OBP's FY 2006 Budget Request

Operating Budget Request

Our operating budget request is \$6,768,263 and 67 FTEs, an increase of \$1,225,141 and 5 FTEs over the FY 2005 budget of \$5,543,121 and 62 FTEs.

The majority of this increase is due to program initiatives designed to improve our overall effectiveness. These include the costs for two Comptrollers (to serve in a budget examiner role) and a Financial Analyst to staff our new Anti-Deficiency Compliance group; two Data Managers to support the ARGUS system; and a Senior Medicaid Analyst to support the Senior Medicaid Advisor in conducting in-depth financial analyses and reviews of District agencies' Medicaid programs.

FY 2006 Key Program Initiatives

Anti-Deficiency Compliance group - At OBP's Performance Oversight Hearing in February 2005, I indicated that we might need to devote more resources to the area

of budget execution because of the importance of Anti-Deficiency compliance and the new requirement to apportion agencies' budgets in SOAR no later than April 2006. Budget execution's activities include managing the District's financial review process, analyzing agency projections, managing spending pressures, coordinating the District's reprogramming process, costing the impact of proposed labor contracts and preparing the monthly financial status reports, as well as implementing the compliance activities required by the Board of Review for Anti-Deficiency Violations (BRADV).

In FY 2005, OBP merged our Cost Analysis unit into the Budget Execution unit to increase staffing from three to five. This has helped us to get caught up with the production of the monthly financial status reports. We have issued the December 2004 financial status report and will issue the January 2005 report this week with the February report to follow shortly. We also issued the first quarter Anti-Deficiency Report, but with limited analysis. While we will continue producing the quarterly Anti-Deficiency Report on a timely basis during FY 2005, the depth of analysis will be limited until additional resources are secured.

To fulfill the requirements of the District's Anti-Deficiency Act in FY 2006, OBP has proposed hiring two budget comptrollers who possess sophisticated analytical skills and are experienced in preparing budget to actual narratives and financial reports. With the assistance of a financial analyst, the budget comptrollers will review variances from budgets and spending plans, and analyze the operations events driving the variances. Each of the two comptrollers along with a current FTE would be allocated about \$2.3 billion, or one third, of the District's annual operating budget to review and report on. The financial analyst would provide support to the budget comptrollers. The annualized costs (salaries, benefits and

NPS) for of the three additional full-time equivalent (FTE) positions would be \$287,000.

The new Anti-Deficiency group would have three major goals: (1) produce the monthly financial status reports two weeks after each month's closing; (2) produce the Anti-Deficiency compliance reports four weeks after each accounting period closing; and (3) submit referrals to the BRADV, follow up for agency responses, submit the responses to the BRADV and participate at the BRADV hearings.

Medicaid Oversight Group – The Medicaid program is one of the largest and fastest growing programs in the District. The District's Medicaid budget totals \$1.4 billion, or 20 percent, of the District's entire \$7.2 billion operating budget proposed for FY 2006. Over the last several years, spending pressures, revenue shortfalls, and the write-off of uncollectible receivables have plagued the District's Medicaid program. While some challenges remain, OBP has "right-sized" the Medicaid budgets of the public provider and stateside agencies to minimize the financial risks to the District.

In addition, OBP has recently hired a Senior Medicaid Advisor, with an extensive background in managing both programmatic and financial operations of complex Medicaid organizations throughout the nation, to monitor the fiscal administration of the District's Medicaid program and to work with the program staff on current and future issues impacting the District's finances. Specifically, OBP's Senior Medicaid Advisor will:

- Assess current operations and make recommendations designed to maximize the District’s access to federal Medicaid dollars and minimize the burden on the District’s local budget;
- Design and manage in-depth analyses and reviews of District agencies’ Medicaid fiscal operations;
- Perform special fiscal impact analyses of proposals that affect Medicaid fiscal operations; and
- Help develop the Medicaid cost driver metrics and other information as part of OBP’s citywide cost driver .

The District’s FY 2006-2011 Capital Improvement Plan

The proposed FY 2006 capital budget is \$583 million (non-streets funds, and excluding securitizations and baseball financing), and the 6-year budget is \$1.99 billion for all fund types (other than Highway Trust Fund, which will be included in June). This budget includes:

- \$341 million in new General Obligation bond funding,
- \$199 million in PAYGO,
- \$27 million in equipment lease, and
- \$16 million in sales of assets.

D.C. Public Schools constitutes the majority of the planned expenditures, with a significant portion of the funding going toward the Washington Metropolitan Area Transit Authority, the Deputy Mayor for Planning and Economic Development, and the Office of the Chief Technology Officer. These four agencies account for 64 percent of new capital budget allotments for FY 2006.

In addition, the budget includes planned FY 2006 spending for the following items with separate funding sources:

- \$37 million in Rights-of-Way funding, and an additional \$15 million from parking taxes (50 percent of this source) to further support Local Streets Maintenance;
- additional funds from prospective securitizations of revenue streams related to bus shelters (\$88 million), Housing Production Trust Fund (\$50 million), and parking taxes (the other 50 percent of this source) (\$15 million); and
- funds from borrowing for baseball stadium (\$267 million).

To maintain good standing with Wall Street, we must reduce annual capital borrowing to approximately \$340 million in FY 2006 and \$300 million annually in future years. The Mayor's budget proposes to use \$199 million of fund balance in FY 2006 to support additional capital spending. The budget also proposes using \$54 million of fund balance to begin reducing the \$250 million deficit in the capital fund.

The OCFO is working to reduce this shortfall by monitoring FY 2005 capital expenditures and developing an FY 2006 capital budget that accounts for total expenditures. To this end, the FY 2006 capital budget includes only \$477 million of new budget allotments, recognizing that \$106 million of expenditures are planned against allotments from prior years. The \$583 million of financing will thus be sufficient to pay for all planned expenditures during the year.

FY 2006 Operational Goals

OBP plans to continue its reporting on capital expenditures and its work with the TRT. We will also make changes to the capital portion of CFO\$ource to provide better real-time data on capital to District stakeholders.

OBP will help transition the remaining 11 agencies into PBB in Phase IV of the PBB implementation as FY 2006 begins. Phase IV is intended to be the final year of transition; however, as new agencies are created, and existing agencies restructured, the implementation of PBB will continue as appropriate.

OBP will also:

- Continue developing benchmarks for key District programs;
- Enhance cost driver analysis through the development of efficiency measures; and,
- Continue transition to service-level budgeting, adding agencies in the Governmental Direction and Support appropriation title as we formulate the FY 2007 budget.

Establishment of a High Caliber Central Budget Office

Since my last testimony before this committee, we have hired three new employees and a fourth will join us on May 16th. My goal is to continue to develop a stable budget office with capabilities and competencies that enable us to provide expert financial and budgetary advice to stakeholders and program staff. To underscore this commitment to excellence, we will soon implement a special training program designed to further strengthen the budget execution, administration and reporting skills of OBP staff. Also, as redesigned ARGUS comes online, we will intensify our efforts to streamline our operations.

Madame Chair, this concludes my remarks. I will be pleased to answer any questions you may have.

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