

PUBLIC HEARING ON
THE FISCAL YEAR 2007 BUDGET OF THE
OFFICE OF THE CHIEF FINANCIAL OFFICER

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

April 5, 2006, 11:00 a.m.
John A. Wilson Building
Council Chamber



Testimony of
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Good morning, Chairman Evans and members of the committee. I am Sherryl Hobbs Newman, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony on OTR's FY 2007 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 2007 Budget Request

The FY 2007 budget request for OTR is \$91.8 million and 628 FTEs. It includes a net increase in gross funding of 62 FTEs or \$16.8 million in increases in Other-type revenue, primarily to establish a contingency budget in the event that the District is successful in a class action law suit against online hotel reservation services. Also included is \$1.7 million in Other-type budget for the Recorder of Deeds, to increase scanning of documents and relocate the office during renovations of 515 D Street.

The requested increase of \$14 million in local funds is made up primarily of the cost of revenue initiatives. The remaining increase of almost \$2.8 million consists of: \$3.2 million in technical adjustments for conversion of capital IT costs to the operating budget, maintenance costs for the Integrated Tax System (ITS), and rent increases; plus a net \$1.9 million for salary and fringe increases; minus \$1.6 million in reductions and offsets to the facilities budget; and minus approximately \$600,000 in across the board NPS reductions. In total, the net increase in gross funds is \$30.8 million or 51% over the current operating budget.

Five of the new FTEs (\$494,000) will convert critical contract IT support positions to regular, full-time staff, providing system maintenance and programming for the ITS Real Property module and the current data warehouse functionality. The remaining 57 FTEs (\$11.2 million) are associated with specific revenue initiatives that will yield net revenues to the District of more than \$38 million. This number also includes 4 FTEs that will support a joint initiative with DCRA to improve identification and enforcement of Class III regulations. In total, the increase in FTEs is 62, or 11% from FY 2006 authorized staffing levels.

FY 2007 Performance Objectives

In FY 07, 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 two 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, integration between systems, and enhanced compliance efforts.

Return on investment from previous enhancements is impressive. In FY 05, OTR received 48 FTEs, for tax compliance initiatives. In this fiscal year, we have increased our Compliance-related revenue collections by over 20% over these collections at this time last year. Of the 27 FTEs provided in FY 06, to support various tax law changes and improve OTR's Real Property Tax Administration, 18 have been filled, and we are working aggressively to fill the remaining vacancies. Most of these vacancies are in Real Property Assessment Division, where

recruitment and retention of employees continues to be a challenge due to competition from neighboring jurisdictions and the private sector.

Technology

The tax system is rapidly moving to E-commerce in the filing and payment of taxes. Fiscal Year 2005 was a very strong year in Electronic Tax Commerce. During calendar year 2005, more than 110,000 individual District taxpayers filed and paid their individual income taxes on-line. Across all tax types, 382,452 taxpayers filed and paid more than \$1.5 billion electronically. This is the second consecutive year of phenomenal growth as electronic receipts topped \$1.18 billion in FY 2004. OTR added to our array of electronic services with the advent of E-check payments for Real Property in 2005 which netted \$8 million in automated payments. FY 06 will see OTR's expansion of E-check to all types of business and income payments as a method to enhance customer service. Our expansion strategy is to allow corporate taxpayers to file their tax returns electronically during the next filing season.

The expansion of E-commerce has been a boon to our taxpaying customers. Over 37% of our income taxpayers file electronically and over 56% of all business revenue is now received electronically. Through February of TY 2006, over 68% of all returns were filed electronically. In order to maintain the magnitude of growth seen during the last three years, the District must invest in resources to continue our accelerated receipts. The hidden downside to the efficiency gains from E-commerce is the critical need to shift focus as the fundamental nature of taxpayer problems change. Accuracy issues, which used to limit productivity in the processing area, are subsiding, while there is significant growth in electronic funds transfer and E-security problems. OTR must continue to provide quick service in

the case of missing electronic payments and returns. With the introduction of ACH clearing houses and E-check banks, more and more OTR resources are spent technically trouble-shooting these new problems that come with e-commerce.

Customer Service

OTR continues to focus on improving customer service. Implementation of the Interactive Voice Response unit has shown consistent improvement in the number of customers calling OTR. Approximately 67,000 callers received automated refund information and did not have to wait for assistance while OTR contact representatives handled more complex issues. As the agency continues to leverage technology to meet our goal of high-quality service, another feature has been added to our call center to improve service to our customers. Customers now have access to the Estimated Wait Time (EWT) feature which allows callers to receive the approximate time they will wait to speak to a live assistor. This allows for more flexibility for the customer, in addition to providing a choice to stay on the call or call back at a later time. OTR has increased the staffing in the Customer Service Administration thus creating a more efficient and effective operation. OTR continues to seek ways of providing world-class customer service to the citizens in the District of Columbia.

Compliance and Enforcement

In FY 06, OTR is completing the FY 2005 Revenue Initiative, which included adding staff to both audit and collection functions, and implementing a multi-year comprehensive audit strategy. We have designed a training program for staff and have been conducting a series of training workshops for all Compliance personnel. Although final staffing has been delayed due to space limitations, we have already seen a significant increase in our program results. In FY 05, OTR surpassed

projected revenue initiative collections of \$5 million, and in FY 06, it is anticipated that OTR will collect revenue in excess of the \$19.2 million that was projected as a direct result of this initiative.

This success has demonstrated that when OTR receives support for our programs, we are able to increase the revenue collected in spite of the increased complexity of tax policies. Through increased use of technology and cooperation with other city agencies, OTR will be able to provide the level of enforcement necessary to assure voluntary compliance by the majority of the District taxpayers.

Once again we have been asked to increase our enforcement presence with a new FY 2007 Revenue Initiative. The addition of staff and other resources to support this new initiative will be an investment that will continue to grow with the improved efficiency brought to OTR by the new management team in Compliance.

The Collections Division has undergone a dramatic change. The new leadership has reorganized the Division and provided refresher training and uniform guidance, which has resulted in an increase in the revenue collected in excess of 20% during the first half of FY 06. With the addition of Other-Type fees, the Compliance Administration has been able to add significant resources that would not otherwise been available. These additional fees place the cost of collecting delinquent taxes on those who have made the collection effort necessary, and reduce costs borne by those taxpayers who abide by the District's laws.

Full implementation of the Clean Hands statute is part of the proposed revenue initiative, and is anticipated to include all D.C. agencies that issue licenses or have authority to contract with outside vendors. This will generate additional city-wide

revenue and ensure that those who share in the prosperity of the city through working and providing services here also help to pay for the services provided by the city.

Returns Processing

Our Returns Processing Administration (RPA) continues to maintain its exemplary record of prompt deposits, quick average refund cycle time, and timely processing of returns with a staffing level of 83 FTEs.

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 83,000 refunds issued through the end of March was 5 days, with an average refund of \$803.00 (the rate was 14 days for paper returns). To date, approximately 65% of refund returns have been received electronically, compared to 60% at this time last year.

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

Our Real Property Tax Administration continues to work vigorously to keep up with the District's dynamic real estate market. The responsibilities of our Real Property staff continue to grow with the increased taxable base of District real properties, which increased from \$105.5 billion in TY 06 to \$131.3 billion in TY 07. We are pleased to report that with the additional assessment staff we have been able to hire in the last fiscal year, we have reduced the number of real property parcels per assessor to 6,300 per residential assessor, and 2,200 per commercial assessor; we anticipate lowering these numbers even further to bring the District within industry standards when we complete our assessor hiring in this fiscal year. For FY 07, we have also requested 5 FTEs for our Assessment Services Division to implement our homestead audit initiative.

In addition, we have requested funds for FY 07 for several real property-related capital spending items. First, we need additional resources to develop our building permit software development program; our monitoring of building permits help us generate revenue from supplemental assessments resulting from improvements, additions or renovations. We have also requested funds for development of our GIS applications system that heretofore had been funded entirely out of OCTO's budget. Since OTR is assuming complete funding responsibility for the GIS applications system, which will include a new vectorized mapping system, we will require sufficient resources to maintain this multimillion dollar program. Finally, we have requested funds for 14 new employees in the Assessment Division to be trained on the latest applications, methodologies and techniques.

Conclusion

I would like to thank Chairman Evans and members of the committee 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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