PUBLIC OVERSIGHT HEARING
ON THE FY 2013 AND FY 2014
SPENDING AND PERFORMANCE
OF THE OFFICE OF
THE CHIEF FINANCIAL OFFICER (OCFO)

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

The Honorable Jack Evans, Chairman

February 27, 2014
John A. Wilson Building
Council Chambers

Testimony of
Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Jeff DeWitt, Chief Financial Officer of the District of Columbia. I am very pleased to appear before you today to testify on the FY 2013 performance of the Office of the Chief Financial Officer (OCFO) and outline my vision and plans for the agency in FY 2014 and beyond.

I am joined by the deputy chief financial officers who have also prepared testimonies and are here to help address specific issues or answer questions as needed. With me at the table are Stephen Cordi, Deputy CFO for the Office of Tax and Revenue (OTR); Bert Molina, Deputy CFO for the Office of Financial Operations and Systems (OFOS); Jeffrey Barnette, Deputy CFO for the Office of Finance and Treasury (OFT); and Fitzroy Lee, Deputy CFO for the Office of Revenue Analysis (ORA), whose statements are attached. Also here to answer questions is Gordon McDonald, Deputy CFO for the Office of Budget and Planning (OBP), who will present testimony before the Committee of the Whole on Friday, February 28th. Buddy Roogow, executive director of the Lottery, is also here and testified earlier today on behalf of the Lottery. Please see Appendix 1 for an organizational chart of the entire OCFO.

FY 2013 RESULTS

I am pleased to report that the District's overall financial position is very sound.

For FY 2013, the District received an unqualified or “clean” opinion on its annual financial statements for the 17th consecutive year. Our cumulative General Fund balance increased to $1.75 billion, and our “rainy day” funds, comprised of both Congressionally and locally mandated reserve accounts, increased to $791 million. The on-going commitment of the city’s elected leadership to fully fund the reserve accounts is critically important to the District’s financial stability. Not only do these accounts provide the District with the necessary liquidity and flexibility to withstand unanticipated events, such as the most recent federal government shutdown, but they increase the city’s creditworthiness and long-term financial viability.

The CAFR shows, that for the year ending September 30, 2013, the District’s revenues and other resources exceeded expenditures by $321 million. The $321 million surplus was largely comprised of two components: $168 million in excess revenues and $153 million in agency under-spending. (See Appendix 2).

As you well know, unlike most other jurisdictions, the District is required to estimate revenues and develop its budget a full twenty months before that budget is fully executed. It is impossible to forecast changes in the economic environment and their resulting effects on District revenues over such an extended horizon with complete certainty. For this reason, we revise our revenue estimates on a quarterly basis to give elected leaders relevant information on the changing economic circumstances so that they can adjust their budgetary decisions accordingly. Since February 2012 through September 2013, we increased the estimate for FY 2013 three times. In February 2013, we increased the estimate by $190 million, by an additional $86 million in June 2013, $ and by $36 million in September 2013. Both the Mayor and the Council were briefed on each revision. There were also legislative adjustments during FY 2013 which lowered revenues by about $14 million.

The District continued to enjoy strong ratings on both its general obligation and income tax bonds.

	Standard & Poor's	**Moody's**	**Fitch**
General Obligation Bonds	AA-	Aa2	AA-
Income Tax Secured Revenue Bonds	AAA	Aa1	AA+

The District's Income Tax Secured Revenue Bonds are currently rated AAA by Standard & Poor's (S&P), AA+ by Fitch Ratings (Fitch), and Aa1 by Moody's Investors Service (Moody's). All three rating agencies have assigned "stable" outlooks to the Income Tax bonds. The credit rating agencies have also rated the District's general obligation bonds favorably with current ratings as follows: AA- from S&P, AA- from Fitch, and Aa2 from Moody's, all with stable outlooks. In our most recent visit with rating agencies last week, the city received very positive feedback on its financial management and results. Specifically, rating agencies noted the positive economic impact of strong private sector job and population growth, the District's pension and OPEB funding levels being among the strongest in the nation and our well-managed response to the federal government shutdown.

The presence of the federal government, which in the past provided the District with a measure of protection from economic downturns, is now a point of uncertainty in the District's revenue outlook as continuing austerity measures decrease federal spending and employment in the city and the region. While it is still too soon to determine the full effect these measure may have on the city's economy in the long term, we are fortunate that private sector job growth and population growth have offset the potential negative effects of decreased federal spending, at least in the short term.

Overall, the financial management infrastructure of the District is strong and functions well in support of the city's policy priorities and service delivery needs.

VISION FOR THE OCFO

As the results outlined above indicate, the District of Columbia is in better financial condition than most cities and states in the United States with strong reserves, balanced budgets and strong financial policies in place. I am fortunate to have such a firm foundation upon which to build. As the Chief Financial Officer, my mandate is clear: to preserve and enhance the overall financial stability of the District by:

1. Protecting and enhancing the District's revenue stream
2. Reliably estimate revenues
3. Exercising control of the budget
4. Preparing auditable financial statements
5. Managing our debt and bond ratings

All of which help maintain and strengthen the District's standing with its stakeholders, the Congress, the financial community and, most important, our residents.

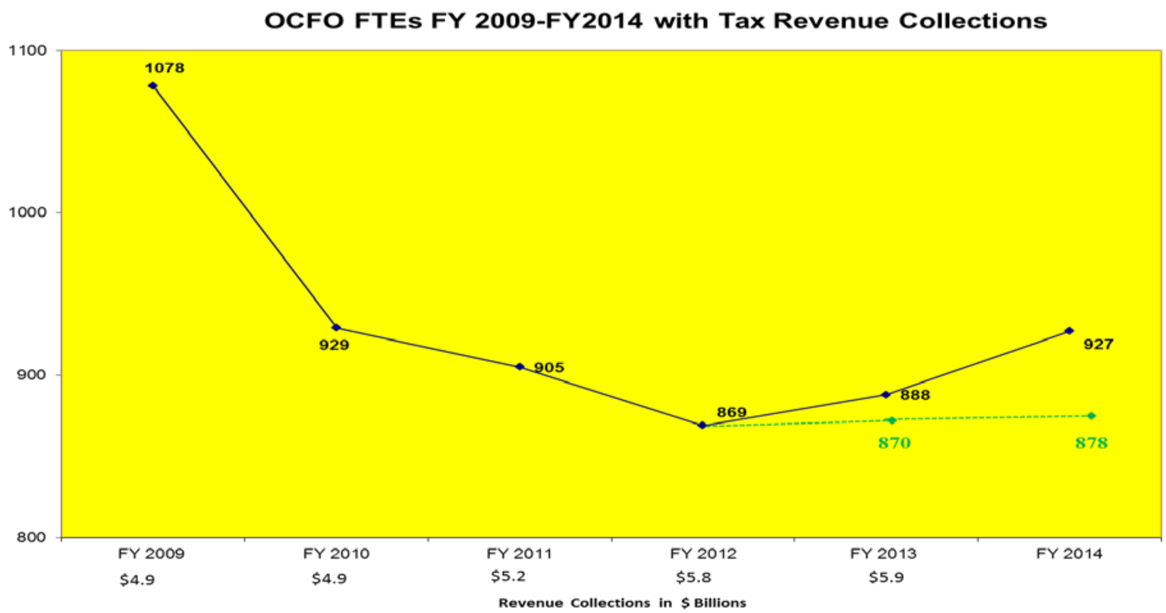
During my tenure as CFO, I will continue the District's legacy of fiscal and financial responsibility and plan to move the agency to an even higher level of performance. My vision for the OCFO is one of a highly transparent and trusted agency with superlative customer service that provides accurate and reliable information to taxpayers and other stakeholders -- an agency with high employee morale that strives to continuously improve. Customer service, transparency and continuous improvement in all that we do will be my key areas of focus.

OCFO Strategic Plan

The first step in realizing the vision is having a plan to get there. I am currently conducting a comprehensive review of the agency. Included in this is a complete review of all current and planned technology. Although not yet complete, my initial review of agency operations reveals that we will need to make significant investments in this area. Increased automation, particularly within OTR, our most outward-facing administration, will transform business operations, improving overall efficiency and internal controls, and greatly enhancing our customer service delivery. Other critical systems, such as SOAR, the District's financial management system, are also in need of replacement. My team and I are actively engaged in developing a five-year strategic plan that will lay out the timing of all system replacements and include input from all of our stakeholders (residents, elected leaders, other District agencies, business and civic groups, employees and managers of the OCFO, and labor). Once complete, the plan will lay out the goals and objectives for the agency along with expected completion dates. It will be a document of accountability and will be available and visible to all who have an interest in the OCFO.

OCFO Core Functions

As an agency, we take seriously our responsibility to operate cost-effectively, to protect the District's financial integrity, and to preserve and enhance its revenue stream. As a result, the OCFO has progressively become a leaner organization since FY 2004 collecting more revenue year over year. Please see the graph below.



Starting in FY 2004, there were increases to our authorized Full-Time Equivalent (FTE) level, primarily as a result of Council-imposed tax compliance initiatives and legal mandates. By FY 2009, the total authorized FTEs reached 1,078.

In response to the economic downturn and severe budget constraints, we reduced our FTEs in FY 2010 by 149, or 14 percent. Over the next two years, an additional 60 FTEs were eliminated, yielding a total net position loss over three years of 209, a 19 percent reduction in positions from FY 2009. These reductions were taken across the agency and did not spare OTR, our largest division. While these cuts were necessary to ensure that the District remained within budget during the recession, they were not without cost to the agency's customer service delivery capabilities. Personal and Non-personal services cuts in OTR sharply reduced the funding available for income tax filing season staff, forms printing and mailings.

In FY 2013, primarily through the “One City” Performance Review, the OCFO was directed to implement several revenue protection and enhancement initiatives, including the recovery of unpaid sales taxes through the credit card merchant reporting requirements, lowering the interest rate applied to tax refunds, enforcement of use tax returns, implementing the newly enacted law on Vendor Sales Tax, and capturing DMV ticket fines due from tax refunds. These initiatives and others increased our overall FTE count by 19 to a total of 888. The FY 2013 total cost of the initiatives was $1.8 million, but they are projected to return over $9 million to the District in the first year alone, a 5 to 1 return on investment for one year, with continuing revenues expected in the years to come. In FY 2014, OTR implemented three (3) new initiatives that enhance federal matching programs related to sales and withholding tax, target non-filers, and provide greater collection of the Ballpark fee, totaling over $13 million in additional revenue.

While the additional FTEs for the various revenue initiatives have and will continue to increase collections, they did not replace crucial personnel previously lost in the area of customer service.

It is our intent to present to this Committee, the Mayor and the Council the minimum OCFO resource request consistent with attaining our goals. I believe the achievement of these goals is absolutely necessary to maintain and strengthen the District's financial viability.

The Deputy CFOs will speak at length about the accomplishments and plans of their offices. I will give a brief summary of the highlights here.

1. Protect and Enhance District Revenues

OTR must efficiently process all tax returns voluntarily remitted and aggressively pursue enforcement action to both increase revenue and reduce the rate of noncompliance each year. The success of this effort is greatly determined by our technology. Current systems, having served us well in the past, are beyond their useful lives and are in need of replacement. OTR is now in the final stages of selecting a vendor to fully modernize the Integrated Tax System (ITS). System implementation will begin in 2015. We will also modernize the current telephony systems. Together, these new systems will enhance our compliance and enforcement efforts while significantly reducing customer wait times and improving customer service.

Over the past several years, OTR has implemented a variety of automated initiatives to increase revenue. In FY 2013, the federal vendor offset program was initiated. This program allows the District to recover unpaid taxes and other liabilities from federal vendor payments to District businesses. To date, OTR has collected over $10 million. –New this filing season is the option to receive tax refunds in the form of a pre-paid debit card. This option should be of service to those taxpayers without on-going banking relationships. Funds can be accessed through ATMs in the Citibank network. Taxpayers may still opt to receive their refund by check if they desire.

And as always, in addition to its routine efforts, OTR will conduct a series of community outreach activities designed to provide taxpayers greater access to information and the services that we provide to assist them in meeting their tax obligations. Mr. Cordi can provide more detailed information about the schedule and other details of upcoming events.

2. Produce Reliable Revenue Estimates

The ability to effectively manage the District's finances depends on sound and reasonable revenue estimates. Yesterday, my office released a new revenue certification showing an additional $ 2.7 million in FY 2014, $139 million in FY 2015, $132 million in FY 2016, and $144 million in FY 2017. The estimate for FY 2014 through FY 2017 has incorporated the impact of on-going federal austerity measures on the District's economy. At the same time, it also incorporates the benefits to the District of a growing population and a growing and diversifying private sector.

February Revenue Estimate Compared to Previous Estimate

	Preliminary Actual	Estimate		Projected	
Local Source, General Fund Revenue Estimate ($M)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
December 2014 Estimate	**6,331.4**	**6,551.5**	**6,763.6**	**6,974.7**	**NA**
February revision to estimate	2.7	139.2	132.7	144.9	NA
February 2014 Revenue Estimate	**6,334.1**	**6,690.7**	**6,896.3**	**7,119.5**	**7,276.2**
Percent change from previous year	*2.1%*	*5.6%*	*3.1%*	*3.2%*	*2.2%*

Conservative estimates remain at the heart of a balanced budget and adequate cash flow. A conservative revenue estimating philosophy recognizes that economic forecasting is an inexact science and that the economic environment can change very quickly, so even during boom years our revenue estimates err on the side of avoiding a deficit in an economic downturn. Regular revision of the revenue estimates enables the District to adjust its budget during the fiscal year in response to changing economic circumstances.

The District's economic and fiscal prospects have strengthened over the past year. The recently enacted federal budget deal eliminated much of the previous economic uncertainty for the District. Though federal austerity has decreased federal spending in the city and in the Metropolitan region, its effects have been largely offset by other economic factors such as increased private sector employment and population growth, at least in the short term. As noted above, our revenue estimate incorporates the effects on the District's finances of both the federal austerity measures as well as the positive trends of a growing population and a diversifying economic base.

3. Assure Balanced Budgets

Budgets built on quality analysis that include all foreseeable costs ensure the smoothest possible execution of programs approved by the Mayor and Council. Constant monitoring of expenses helps to control costs and highlight operations that are off-course. The major tool used to monitor agency spending is the quarterly Financial Review Process (FRP) report, prepared by the agency fiscal officers and submitted through the agency directors to OBP for review and analysis. Additionally, OBP produces monthly Financial Status Reports (FSRs) on operating budget spending and quarterly reports on capital budget spending. The FSRs are submitted to the Mayor, Council and other stakeholders on a monthly basis and are available on the website for the public to review. We have also built on-line capacity (CFO$olve, Agency Operational Dashboard, SharePoint) and made these resources available to Executive and Council staff to provide optimum service and transparency to District agencies and elected officials.

Fiscal impact statements are also a critical tool to ensure that budgets remain in balance. ORA prepares fiscal impact statements on all proposed permanent legislation, contracts, and regulations. All fiscal impact statements prepared by the OCFO since May 2001 are available on the OCFO website.

4. Prepare Audited Comprehensive Annual Financial Reports (CAFRs)

Our ability to record financial transactions timely and accurately is critical to our ability to produce audited financial statements on time and maintain and improve the District's bond ratings. This year, again, the annual closing process was uneventful in that there were no "surprises" and no serious threats to the schedule or calendar. Intense monitoring of the interim and annual closes proved to be very effective in producing a more efficient FY 2013 year-end close. As I previously stated, the District received an unqualified opinion for the 17th consecutive year.

This Yellow Book for FY 2013 listed no material weaknesses and four significant deficiencies, two of which fall under the control of the OCFO (Please see Appendix 3). These include timely recording of capital assets from work in progress and timely closing of dormant bank accounts and timely reconciliation of two payments during the period. Please note that all unreconciled items identified during the audit have been reconciled. We take these findings very seriously, and are working diligently to ensure that they will not be repeated during the next audit.

5. Manage Debt and Maintain Bond Ratings

In FY 2013 and FY 2014 to date, we continued to finance the District's ongoing Capital Improvements Program and our cash-flow needs with debt issuances in the financial marketplace. In October, we sold $405 million one-year Tax Revenue Anticipation Notes (TRANs) at a very low rate of 0.25 percent. That equates to only 25 cents for every $100 borrowed. In November, we sold $97 million of one-year Income Tax Secured Revenue Refunding Bonds at a record low floating rate of the SIFMA index plus 0.04 percent. Since issuance, the effective total interest rate on these bonds has averaged under 0.10 percent, or 10 cents for every $100 borrowed. In December, we sold $495 million of 18-year General Obligation Bonds to fund a portion of the FY 2014 Capital Improvement Plan (CIP), which received an interest rate of 3.57 percent. Once again, this was a very impressive interest rate, evidenced by the level at which it outperformed a New York City transaction that sold a week later. Part of the reason for this is extraordinarily strong municipal bond market conditions, but it is also the result of our continued excellent bond ratings. The District's GO bond ratings were upgraded in March 2013 by S&P as a result of strong financial performance and management, and the robust local economy. Investors responded with a strong appetite for both the TRANs and the GO offerings, the latter having not been issued on a traditional tax-exempt fixed rate basis since 2008. In fact, they were vastly over-subscribed: TRANs by ratio of 10 to 1; and our GO bonds by 2 to 1.

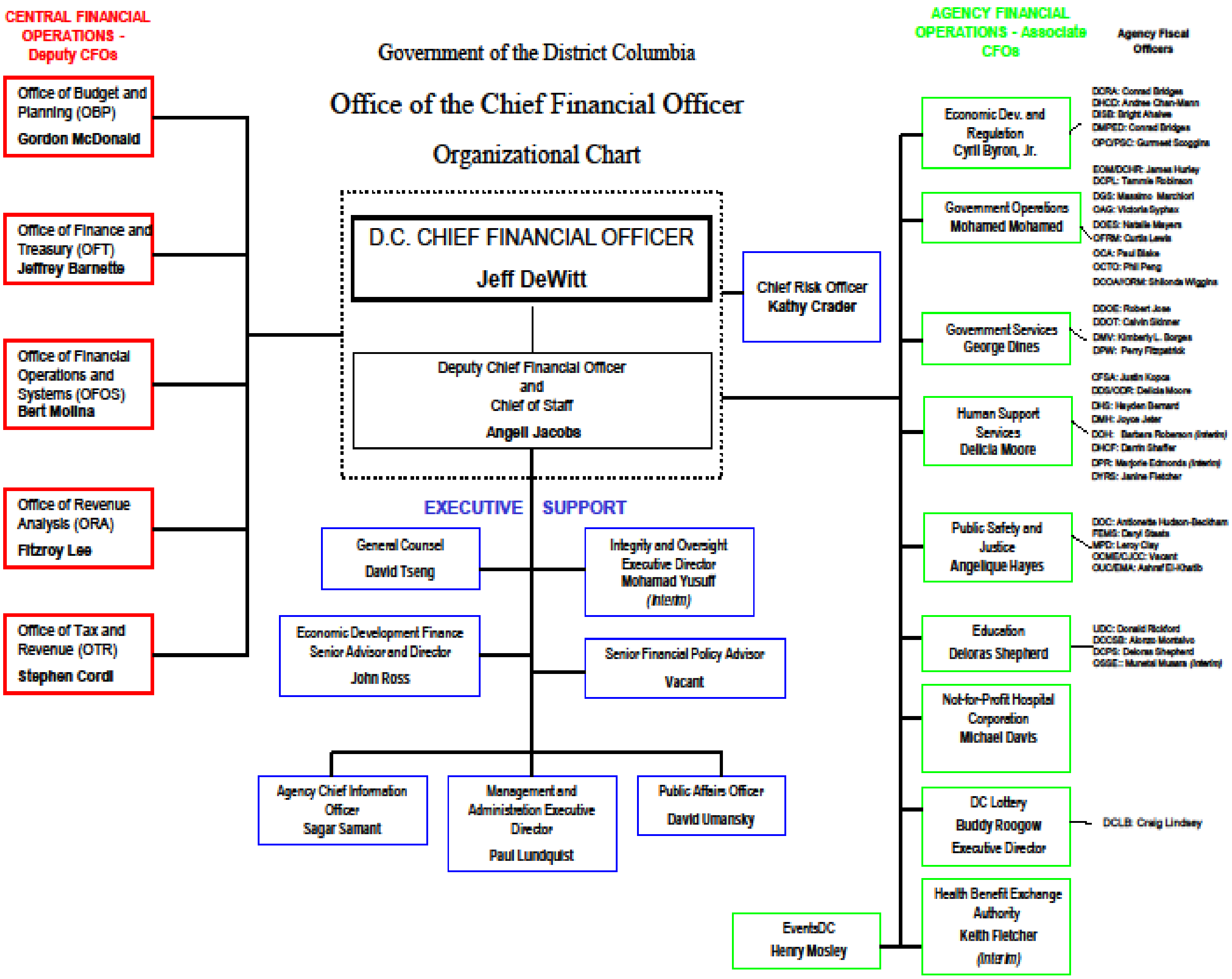
In previous years, the rating agencies had indicated that the District's use of fund balance to help balance its annual budget was cause for concern. However, the use of the FY 2011 through FY 2013 surpluses to fund deposits into the two locally established reserve accounts has increased the fund balance and significantly improved the District's working capital position. These actions were very well received by the rating agencies during our visits with them last week. Indeed, our improved working capital position has steadily reduced our need for short-term borrowing since FY 2012. Less borrowing means greater interest savings which results in more money available in the operating budget to support important programs for our residents.

CONCLUSION

If the District continues to produce structurally balanced budgets (without the use of fund balance) and to display solid financial management, I have every confidence that it will remain in sound financial health and continue to enjoy access to the capital markets for the long-term, notwithstanding the ups and downs in the economy.

This concludes my remarks. I would be pleased to answer any questions you may have.

Appendix 1



CENTRAL FINANCIAL OPERATIONS - Deputy CFOs
Government of the District Columbia
Office of the Chief Financial Officer
Organizational Chart
AGENCY FINANCIAL OPERATIONS - Associate CFOs
Agency Fiscal Officers
Office of Budget and Planning (OBP) Gordon McDonald
Office of Finance and Treasury (OFT) Jeffrey Barnette
Office of Financial Operations and Systems (OFOS) Bert Molina
Office of Revenue Analysis (ORA) Fitzroy Lee
Office of Tax and Revenue (OTR) Stephen Cordi
D.C. CHIEF FINANCIAL OFFICER Jeff DeWitt
Deputy Chief Financial Officer and Chief of Staff Angell Jacobs
Chief Risk Officer Kathy Crader
EXECUTIVE SUPPORT
General Counsel David Tseng
Integrity and Oversight Executive Director Mohamad Yusuff (Interim)
Economic Development Finance Senior Advisor and Director John Ross
Senior Financial Policy Advisor Vacant
Agency Chief Information Officer Sagar Samant
Management and Administration Executive Director Paul Lundquist
Public Affairs Officer David Umansky
Economic Dev. and Regulation Cyril Byron, Jr.
DCRA: Conrad Bridges
DHCD: Andrea Chan-Mann
DISB: Bright Ahaiwe
DMPED: Conrad Bridges
OPC/PSC: Gurmeet Scoggins
Government Operations Mohamed Mohamed
EOM/DCHR: James Hurley
DCPL: Tammie Robinson
DGS: Massimo Marchiori
OAG: Victoria Syphax
DOES: Natalie Meyers
OFRM: Curtis Lewis
OCA: Paul Blake
OCTO: Phil Peng
DCOA/ORM: Shilonda Wiggins
Government Services George Dines
DDOE: Robert Jose
DDOT: Calvin Skinner
DMV: Kimberly L. Borges
DPW: Perry Fitzpatrick
Human Support Services Delicia Moore
CFSA: Justin Kopca
DDS/OOR: Delicia Moore
DHS: Hayden Bernard
DMH: Joyce Jeter
DOH: Barbara Roberson (Interim)
DHCF: Darrin Shaffer
DPR: Marjorie Edmonds (Interim)
DYRS: Janine Fletcher
Public Safety and Justice Angelique Hayes
DOC: Antionette Hudson-Beckham
FEMS: Daryl Staats
MPD: Leroy Clay
OCME/CJCC: Vacant
OUC/EMA: Ashraf El-Khatib
Education Deloras Shepherd
UDC: Donald Rickford
DCCSB: Alonzo Montalvo
DCPS: Deloras Shepherd
OSSE: Muneiat Musara (Interim)
Not-for-Profit Hospital Corporation Michael Davis
DC Lottery Buddy Roogow Executive Director
DCLB: Craig Lindsey
Health Benefit Exchange Authority Keith Fletcher (Interim)
EventsDC Henry Mosley

Appendix 2

Explanation of the $321 Million Surplus

Excess Revenue	Amount ($ millions)
Property Taxes	$76
Miscellaneous Revenue	66
Deed Taxes	63
Individual Income Taxes	62
O-type Surplus	36
Other Revenue	3
Business Taxes	(16)
Gross Receipts	(29)
Sales Taxes	(43)
Traffic Fines	(50)
Total	**$168**
Underderspending	
Special Purpose (O-type)	$82
Other Local Funds	46
Washington Metropolitan Area Transit Authority	7
Settlements and Judgments	5
Child and Family Services Agency	5
Repayment of Loans and Interest	4
Department of Human Services	4
Total	**$153**
Grand Total, Surplus	**$321**

District of Columbia

Yellow Book Findings-Plan of Action

Capital Assets

- Implemented policies and procedures for closing out capital projects
- Currently hiring for vacant positions to ensure timely recording of assets

Cash and Investments Reconciliation

- Unreconciled items identified during audit have been reconciled
- Increased supervisory focus on timely reconciliation and dormant bank account closing
- Office of Integrity and Oversight (OIO) currently conducting an in-depth audit to verify that issues have been resolved and to provide recommendations to the CFO