

BUDGET HEARING

FY 2014 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

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Council Chamber



Testimony of
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Good morning, Chairman Evans and members of the Committee. I am Stephen Cordi, Deputy Chief Financial Officer for the Office of Tax and Revenue. I am pleased to present testimony on OTR's FY 2014 budget request.

FY 2014 Budget Request

The FY 2014 budget request for OTR is \$57.5 million in Gross Funds and 511 FTEs, a decrease of \$1.9 million, or 3%, from the FY 2013 Approved Budget.

This change is comprised of reductions of \$6.4 million in Special Purpose budget authority, offset by \$4.5 million in Local fund increases. The majority of the local fund increase, \$4.1 million, is attributable to revenue and performance enhancements, which I will detail later in my testimony.

Of the total Gross Funds request of \$57.5 million, the total Special Purpose or Other-type request for FY 2013 is \$7.5 million, \$5.9 million of which is designated to fund ongoing collection outsourcing, discovery and section 482 audits. All of these are contingency contracts, meaning that no expenses are incurred unless collections are realized. The Recorder of Deeds Surcharge budget request is \$1.4 million, to fund software upgrades and document imaging work that will support our systems modernization plans. The remaining \$200,000 in Other-type funds supports tobacco tax compliance projects and the collection of dishonored checks.

FY 2014 Revenue and Performance Enhancements

OTR continues to look for opportunities to maintain and enhance revenue collections and to improve the effectiveness of our operations. For FY 2014, OTR is requesting an increase of \$3,733,993 and 30 FTEs for 7 separate initiatives, as follows:

- Enhanced federal matching programs, including the IMF Non-filer/Stop-filer program, the Taxpayer Delinquency Identification (TDI) program, and the federal audit adjustments program. Additional resources will allow OTR to address tens of thousands of audit and collection cases that require intensive correspondence and taxpayer account review. We estimate this initiative will yield \$4.4 million in additional revenue.
- Enhanced federal matching programs for AGI, EITC, itemized deductions and IRS audits (Revenue Agent Reports), and to support the use of direct debit to improve compliance for taxpayers on payment plan agreements. We estimate that the federal matching programs can yield \$5.6 million in additional revenue, and that another \$2 million can be generated by reducing the number of taxpayers defaulting on their payment agreements.
- Improved Ballpark Fee Compliance Program. OTR is requesting a law change that will allow us to use standard enforcement tools to collect

delinquent Ballpark Fees, including liens, offsets, and collection outsourcing. We estimate that \$1.5 million in additional revenue can be collected through this enforcement program.

- Implementation of the recommendations of the OIG report, “*Evaluation of the District’s Management and Valuation of Commercial Real Property Assessments*,” by augmenting the staffing in the commercial appraisal unit, creating in-house resources to develop a capitalization rate study, adding support staff to ensure more timely update of property records for building permits and other changes, developing data systems to support a commercial appraisal model, leverage income & expense filing data for valuation purposes, and improve tracking of real property appeals.
- Enhancement of OTR’s refund fraud detection process by hiring a full time staff member to manage the data systems used to identify suspicious returns, and provide staffing to perform additional detective control work to identify fraud trends, follow up on questionable refunds that might otherwise be released, manage the inventory of questionable refunds, and issue timely notices to taxpayers whose returns are flagged for additional information.
- Improved processing of problem returns. These returns are generally the result of taxpayer errors or return information flagged for additional review. Reducing the turn-around time for correcting these items will shorten the

time to issue refunds and bills, improve customer service and reduce the amount of interest paid on refunds that cannot currently be cleared within the prescribed time frames.

- Merchant services credit card reporting initiative – This is a technical adjustment to provide full year funding for the, initiative authorized in FY 2013. This initiative is designed to detect under-reporting of sales for sales and franchise tax purposes by utilizing sales data reported by credit card merchants and recover the underreported taxes.

Other Program Enhancements

Additionally, the OCFO's Capital request includes \$14.5 million for Phase I of the Modernized Integrated Tax System. This project remains OTR's highest priority, and we believe it will result in significant customer service and compliance improvements, as well as operational efficiencies from both a tax processing and an IT support perspective. The current ITS system requires significant resources to maintain, and does not offer the flexibility needed to quickly implement tax code and other changes designed to improve compliance and collection efforts.

Conclusion

OTR remains committed to the mission of collecting revenue due to the District, while ensuring fair and efficient tax administration. The FY 2014 budget makes necessary and timely investments in several key program areas to ensure that we meet these goals. Thank you for this opportunity to testify.

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