

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2006 AND 2007 SPENDING AND
PERFORMANCE BY 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

**February 28, 2007
John A. Wilson Building
Council Chambers**



**Testimony of
Lasana K. Mack
Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury**

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

Good morning, Chairman Evans and members of the committee. My name is Lasana Mack. I am the Deputy Chief Financial Officer and Treasurer, and I manage the Office of Finance and Treasury (OFT). Thank you for the opportunity to present testimony regarding the operation and performance of my office for FY 2006 and FY 2007 year-to-date.

OFT's mission is to efficiently and effectively manage the financial assets and liabilities of the Government of the District of Columbia. This includes receiving, safe-keeping, investing, disbursing, recording, and/or acquiring District financial resources. OFT diligently carried out its mission during FY 2006 and FY 2007 year-to-date, with very positive results. I would like to take this opportunity to highlight some of the accomplishments of the Office of Finance and Treasury.

Debt Management. In FY 2006, the District continued to see improvement in its general obligation bond ratings. In November 2005, Moody's Investors Service changed the outlook on their A2 rating from "stable" to "positive." In the same month, Standard & Poor's raised their rating from A to A+, the highest ever for the District. These positive rating changes allow the District to issue its notes and bonds at lower interest rates, resulting in significant ongoing debt service savings. According to Standard & Poor's, the District's improved credit standing is based on a continuation of its conservative financial management and operations, coupled with significant tax base growth and investment, and the expectation that the District will continue to operate within its statutory financial policies, which have led to strong financial operations and financial results.

OFT issues general obligation (GO) bonds, notes and other securities in the public markets to fund capital projects and cash flow needs, and manages the District's Master Equipment Lease/Purchase Program, which provides short-term financing for equipment acquisition. In FY 2006, OFT refinanced outstanding GO bonds to take advantage of lower interest rates, saving more than \$4 million in today's dollars. In total, \$447.7 million in GO bonds were issued at a weighted average interest rate of 4.57%. In addition, OFT issued \$250 million in Tax Revenue Anticipation Notes (TRANs) to provide for seasonal cash flow needs. The TRANs were priced to yield 3.3% and were repaid on schedule in September 2006. In FY 2007, OFT issued \$300 million in TRANs, which were priced to yield 3.5% and will be repaid by the end of FY 2007.

On April 20, 2006, OFT successfully sold \$211.6 million of Certificates of Participation (COPs) at a weighted average interest rate of 4.6%. The COPs were issued for the construction of a new Saint Elizabeth's Hospital and the purchase of the 95 M Street DMV headquarters. Also in FY 2006, OFT brought \$534.8 million of Ballpark Revenue Bonds to market at a weighted average interest rate of 5.35%, and \$248.3 million of Tobacco Settlement Asset-Backed Bonds were issued through the Tobacco Settlement Financing Corporation.

Cash Management. In FY 2006, OFT managed the District's investments to earn interest income in the amount of \$73.2 million. This represented a gain of \$33.4 million over the \$39.8 million earned in FY 2005, for an increase of 84%. This increase was primarily attributable to a very substantial increase in the level of short-term interest rates in the financial marketplace, which allowed the District to earn higher levels of interest income on its cash balances than in the prior

period. Interest income for FY 2007 is expected to be comparable to the FY 2006 level.

In FY 2006, OFT participated (with the Office of Financial Operations and Systems) in an update of the SOAR check purge process, which was successfully implemented before the end of the fiscal year. In addition, OFT sustained its outreach to District agencies regarding cash management and, during the past three fiscal years combined, decreased the number of expedited check requests by more than 24%. This was a result of informative and interactive sessions, which included discussions with agencies on ways to process timely payments without relying on OFT to expedite payments. Nevertheless, OFT continues to be very responsive and effective in addressing unanticipated circumstances that require immediate action to execute important payments, while ensuring that all proper approvals, documentation and internal controls remain in place.

Grants. In FY 2006, the District received \$1.673 billion in federal grant funding (including Medicaid). OFT manages the cash and accounting aspects of agencies' federal grant drawdowns. We have continued to enforce the principles of the federal Cash Management Improvement Act and enhance the process for monitoring agency grant receipts. In so doing, we increased the collection of grant monies by \$112 million in FY 2006 and met all associated reporting requirements.

Electronic Banking. In FY 2006, OFT converted an additional 6% (for a total of 71%) of its Medicaid payments to medical assistance vendors from checks to electronic ACH transactions. In FY 2006, the District received \$638 million from the federal government in same-day reimbursements for payments to medical assistance vendors. It previously took seven business days for the District to be

reimbursed. The accelerated reimbursement generated approximately \$341,000 in additional interest income. Currently in FY 2007, ACH payments are 76% of total payments. The accelerated reimbursement has generated approximately \$115,000 in FY 2007 year-to-date additional interest income.

Banking. OFT continues to manage the District's funds utilizing state-of-the-art technology and processes in handling the District's banking business. For example, OFT's use of a "Positive Pay" system prevents the cashing of fraudulent checks against a District bank account by providing a mechanism for the banks to immediately verify the validity of a check before cashing it. Within the parameters of the statutes that govern the District's management of funds, OFT has always sought ways to do business with and acquire banking services from local financial institutions. We are currently engaged in a renewed effort to increase the level of District deposits and investments with local financial institutions, an important part of which is our support for a proposed amendment to the governing statutes that would provide increased opportunities for the District to deposit or invest funds with such institutions.

Operations. OFT's operations units include accounting, cashiering, and disbursing. These units perform revenue collection, accounting and recordation services, and check printing. Collecting and recording revenue efficiently ensures that agencies and central finance personnel have accurate and timely revenue information. Disbursing is responsible for printing all checks and earnings statements, which includes both payroll and vendor payments. In FY 2006, payroll was disbursed on time without exception. A new cashiering system is in the final stages of implementation. This will automate the manual accounting process for these receipts. We also began examining e-check opportunities at our cashiering

sites. This would allow us to deposit checks electronically and reduce the number of dishonored checks. Also in FY 2006, OFT updated its Continuity of Operations Plan, which details operating policies and procedures to be followed in the event of a man-made or natural emergency.

At the end of FY 2006, the Office of Pay and Retirement Services (OPRS) asked if they could transfer the printing of W-2s and 1099s from a private contractor to OFT's disbursing office. We formed a task force with OPRS in order to examine the physical and legal requirements of this function. Through careful planning and testing, disbursing was able to print and mail these critical documents on time.

College Savings Plan. In FY 2006, Congress passed the Pension Protection Act of 2006, which made federal tax benefits that were scheduled to expire in 2010 permanent. In FY 2006, OFT developed and launched a new campaign to market the D.C. College Savings Plan across the District. Both events contributed to an increase in plan assets of 40.8% in FY 2006, to \$72.5 million. Plan assets have since grown to \$89.5 million, an increase of 23% since October 1, 2006. The plan continues to receive high marks from college savings plan rating agencies. InvestforCollege.com awarded it five out of five stars, and SavingforCollege.com rates it at four and a half out of five "caps."

401(a) Retirement Plan. In FY 2006, OFT completed its transition to a new service provider for the District's 401(a) Plan. Participants now have a choice of 17 different investment options, a new Web site, and investment advice to help them meet their retirement goals. The plan had 19,434 participants with assets of more than \$319.3 million as of September 30, 2006. Total assets are now at \$352.2 million.

457 Deferred Compensation Plan. The 457 Deferred Compensation Plan had 12,172 participants with assets of more than \$351 million as of September 30, 2006. Total assets are now at \$372.3 million.

Unclaimed Property Program. In FY 2006, the Unclaimed Property Program continued to use the Internet to auction unclaimed tangible personal property with a 100% favorable rating from auction participants. Additionally, the Unclaimed Property Program partnered with the Office of Aging to assist senior citizens in recovering lost property through its participation at Elderfest and Senior Citizen's Day.

By expanding its community outreach activities, OFT continues to increase the amount of unclaimed property returned to its rightful owners, to \$11.2 million in FY 2006. We project that enhanced compliance efforts will yield a 5% increase in unclaimed property collections in FY 2007, allowing us to return even more unclaimed property to District residents.

At this time, I would like to thank my senior management team and all of the employees of the Office of Treasury and Finance who made these accomplishments possible.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions that you or other committee members might have.