

**PUBLIC HEARING ON**  
**THE FISCAL YEAR 2008 BUDGET 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**

**April 4, 2007; 11:00 a.m.**  
**Council Chamber, John A. Wilson Building**



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

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia Government. I am here for your annual budget hearing to testify on the proposed budget of the Office of the Chief Financial Officer (OCFO) for FY 2008.

All of my deputy chief financial officers are with me today to help address specific issues or answer questions as needed: Sherryl Hobbs-Newman for the Office of Tax and Revenue (OTR), Bob Ebel for the Office of Revenue Analysis (ORA), Lasana Mack for the Office of Finance and Treasury (OFT), Tony Pompa for the Office of Financial Operations and Systems (OFOS), and Bert Molina for the Office of Budget and Planning (OBP). In addition, Jeanette Michael, executive director of the D.C. Lottery, has testified today on behalf of the Lottery.

### **OCFO HISTORY SINCE 1995**

The District's financial recovery has been phenomenal, from junk bond status to A+ bond ratings, from a half a billion dollar fund balance deficit to a billion and a half dollar surplus. The District has balanced 10 consecutive budgets and received 10 consecutive clean audit opinions. Since 2000, when I assumed the role of Chief Financial Officer for the District of Columbia, we have transformed the OCFO, with Mayoral guidance and Council oversight, into one of the most efficient and best-performing agencies of the District government. In that time, our team of experienced and highly professional public administrators:

- Developed new tax compliance initiatives that generated millions of dollars in previously uncollected tax revenues – \$2.0 billion more in FY 2006 than in FY 1997;
- Integrated highly sophisticated financial systems (i.e., SOAR, CFO\$ource, Executive Dashboard, etc.) into the fabric of the District government, generating operational efficiencies, accountability, and transparency;
- Achieved historic bond ratings from all three rating agencies, thereby reducing the District’s borrowing costs;
- Made the audit process routine, timely, and one that can be performed completely in-house; and
- Aggressively looked for ways to save taxpayer dollars through cutting-edge finance and investment techniques (e.g., tobacco securitization).

This shows that we, as a jurisdiction, can manage our financial operations well and also take care of emergencies as they arise. Attachment 1 depicts this history in terms of annual surpluses, cumulative fund balances, and bond ratings.

As I have testified before, most recently at the oversight hearing on February 28, we in the OCFO are committed to enhancing the fiscal and financial stability, accountability and integrity of the District government by working with the Mayor and the Council, the residents of Washington, D.C., our federal partners, and the financial markets of this nation. The rebuilding of the financial management infrastructure is virtually complete, and it functions well in support of the District’s elected leaders, who demonstrate a strong commitment to maintaining fiscal balance. See Attachment 2 for an organizational chart of the entire OCFO.

We also take very seriously our responsibility to submit budgets that ask for the minimum resources necessary to protect the District's financial integrity and to preserve and enhance its revenue stream. We seek to maximize gains from technology investments, the upgrading of staff skills and organizational improvements as the primary means to address our ever-increasing workload. We are currently operating under an approved FY 2007 budget that has 1,060 FTEs – a decrease of 9 FTEs since FY 2000. Increases to our authorized FTE level during the past three years are primarily the result of Council-imposed tax compliance initiatives and legal mandates. Of the increase of 62 FTEs from FY 2006 to FY 2007, 57 FTEs are solely dedicated to revenue-generating activities in OTR and 5 relate to the conversion of contract employees to District staff. The 57 OTR FTEs are on track to raise a total \$249 million from FY 2007 through FY 2010 at a total cost of \$21.5 million, for a ratio of revenues to expenses of almost 12 to 1.

### **OCFO OVERARCHING GOALS**

As the Chief Financial Officer, my objective is to preserve and enhance the overall financial stability of the District in the short- and long-term. My colleagues and I are busy working on this at all times, in activities such as estimating reliable revenues, exercising control of the budget, improving relationships with the financial community, working closely with the Mayor and Council, and interacting with Congress.

As we work to further strengthen the District's financial viability, we keep five key goals in mind in formulating our budget. In all instances, it is our intent to present to this committee, the Mayor and the Council the minimum OCFO resource request consistent with attaining these goals. In each case, I believe the

achievement of these goals is absolutely necessary to maintain and increase the District's financial independence. These are:

### **1. Produce Reliable Estimates of Revenue and Fiscal Impacts**

Reliable and timely revenue estimates and fiscal impact statements are critical to the legislative process and to building budgets that are realistic. Realistically conservative estimates are at the heart of a balanced budget and adequate cash flow. We issue detailed revenue estimates every quarter. In addition, in 2006 we prepared fiscal impact statements for 235 bills considered by Council, and we expect a significantly higher workload in FY 2007. All revenue estimates and fiscal impact statements are retrievable on the OCFO Web site ([www.cfo.dc.gov](http://www.cfo.dc.gov)).

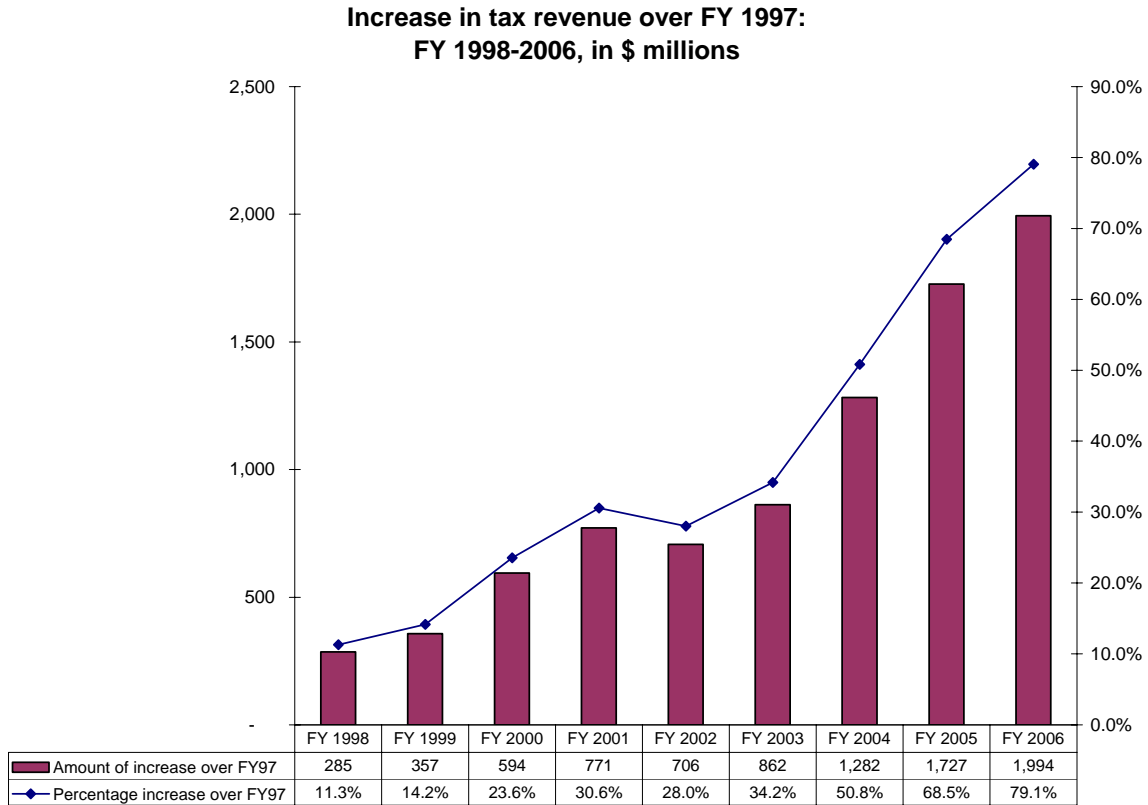
### **2. Ensure Balanced Budgets**

Budgets built on quality analysis that include all foreseeable costs ensure smooth execution of programs approved by the Mayor and Council. Online monitoring of expenses helps control costs and spot operations that are off-course. During the past few years, we have built capacity in this program area, and I believe the District is now being better served as a result.

### **3. Protect and Enhance District Revenues**

OTR must efficiently process all tax returns voluntarily remitted, and must aggressively pursue enforcement actions to both increase revenue and reduce the rate of noncompliance each year. Every year since 1997, OTR has significantly increased revenue collections – both those voluntarily remitted and those collected as a result of enforcement actions.

Of the \$5.2 billion in local source revenue reported to the general fund in FY 2006, OTR’s total tax collections equaled about \$4.5 billion, a 6.3 percent increase from FY 2005. The increase was attributed, in part, to increased real property, sales and use, and income tax collections. To put this in perspective, this amount is about \$2 billion more than in FY 1997, when collections were \$2.5 billion.



Revenues collected as a result of enforcement actions more than tripled, from \$26 million in 1997 to \$93 million in FY 2006. As a result of your investments in additional staff and process improvements, productivity in the compliance area increased 16% between FY 2005 and 2006, a return on investment of more than 3 to 1. So far in FY 2007, OTR’s collections activity is running \$18.3 million ahead of the same time last year (a 39 percent increase), with yields per FTE topping \$1 million. OTR is on target to collect the \$49 million from the revenue initiatives

approved for the FY 2007 budget. Through the end of February, OTR collected \$60.1 million in delinquent taxes, of which almost \$14 million is attributable to the revenue initiatives, and billed another \$7 million as part of its homestead and possessory interest compliance initiatives. (See Attachment 3 for the revenue initiatives.)

#### **4. Maintain Financial Controls and Safeguard Assets**

Throughout the OCFO, we have the goal of safeguarding, managing, and investing assets in accordance with governing law and with efficient, professional and state-of-the-art financial management practices and standards. This requires the maintenance of internal checks and balances, effective internal audits and the maintenance of systems to record and check financial transactions.

#### **5. Prepare Audited Comprehensive Annual Financial Reports (CAFRs)**

Our ability to know the status of financial transactions and record them properly is critical to our capacity to produce audited financial statements on time and maintain and improve the District's bond rating. Formal activities for the annual fiscal year closing process begin on October 1 and culminate with the issuance of the CAFR prior to the February 1 deadline.

Like many recent years, the FY 2006 closing process was uneventful in that there were no "surprises" and nothing even remotely threatened the schedule or calendar. This is due in large part to the philosophy that we have regarding the CAFR or closing exercise – it is a 365-days-a-year process. Through "lessons learned" assessments, monthly and quarterly closings, training, accounting system manager assignments, closing workshops, and variance analyses, the closing period has become routine.

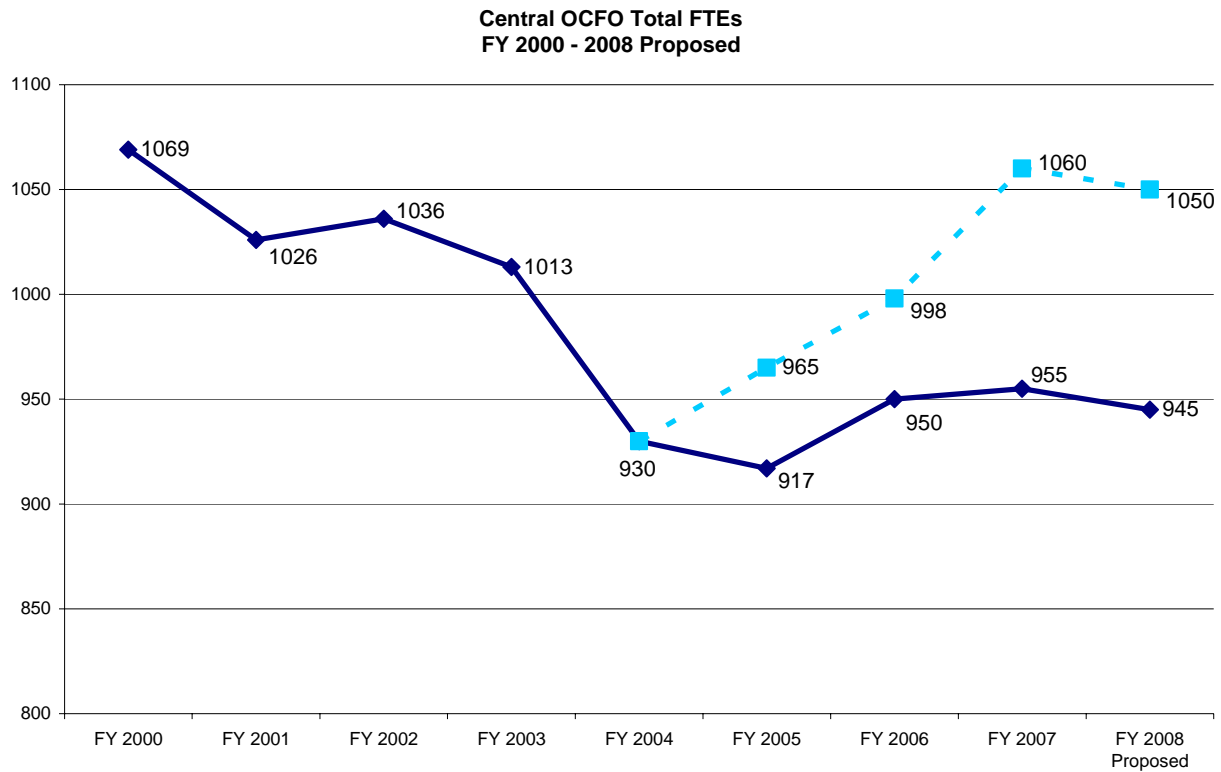
Besides timely completion of the financial statements, receiving a clean audit opinion is imperative. In light of the auditor's citing of D.C. Public Schools (DCPS) as a material weakness in FY 2006, which, if not reduced, could adversely affect the reliability of the District's financial statements, the OCFO is diligently working with DCPS officials to remedy this situation.

### **MULTI-YEAR CHANGE IN NUMBER OF FTEs IN CENTRAL OCFO AND DISTRICT-WIDE**

#### **Downward Trend in Central OCFO**

From FY 2000 to FY 2004, the number of FTEs in the central OCFO dropped from 1,069 to 930, or 13 percent. (See chart on the following page and Attachment 4.) Our strategy since FY 2002 has been to build, throughout the OCFO, a highly qualified and trained staff that is paid accordingly. This has allowed us to operate more efficiently and with less outside support.





*Note: The dotted line includes the effect of FTEs in OTR for compliance initiatives.*

The FY 2005 budget authorized an increase in the number of FTEs in the central OCFO only because of the addition of 48 FTEs for a tax compliance initiative to produce additional revenue to support District operations. Without this initiative the FTEs would have declined further to 917 in FY 2005, or another 1.4 percent reduction. The FY 2006 budget increased the FTEs by 33 in the central OCFO, including 17 for mandated functions and 16 for real property assessors. As I mentioned earlier, the FY 2007 approved budget reflects an increase of 62 FTEs, 57 FTEs solely dedicated to revenue generating activities in OTR and 5 related to the conversion of contract employees to District staff.

From FY 2007 to FY 2008 proposed, the number of FTEs in central OCFO is down by 10. Throughout the Mayor's FY 2008 proposed budget, agencies had to reduce their local fund plans for FY 2008 to help fund recurring pressures and policy initiatives from FY 2007. The OCFO's FY 2008 budget, therefore, reflects

a drop of 10 FTEs and their associated costs, as well as some non-personnel reductions that I will discuss later.

## **OCFO FY 2008 PROPOSED BUDGET**

The agency's proposed budget is \$153,076,930, representing a decrease of \$1,744,950, or 1.1 percent from the FY 2007 approved budget of \$154,821,880. This funding supports 1,049.9 FTEs, a decrease of 10.2 FTEs, or 1.0 percent from the FY 2007 approved level.

From local fund sources, our proposed budget is \$112,025,935, a decrease of \$6,854,558, or 5.8 percent from the FY 2007 approved budget of \$118,880,493. This funding supports 900.9 FTEs, a decrease of 31.1 FTEs, or 3.3 percent from the FY 2007 approved level. (See Attachments 5 and 6 for a summary of changes from the FY 2007 approved budget.)

The gross budget request reflects a net decrease of 10 FTEs and \$1.7 million, or 1.0 percent and 1.1 percent respectively, from the approved FY 2007 gross budget of 1,060 FTEs and \$154.8 million.

Major changes from the FY 2007 approved budget include:

- A decrease of \$7,757,000 for one-time costs associated with the revenue initiative projects approved in FY 2007 for the tax administration program;
- A decrease of \$150,000 for one-time costs to fund Earned Income Tax Credit outreach and free tax preparation for low-income District residents in the tax administration program;

- A decrease of \$3,432,462 in nonpersonal services costs across the agency due to savings and reductions primarily in contractual services and equipment;
- An increase of \$4,064,132 in personal services to account for District-wide pay adjustments, fringe benefits adjustments, and additional gross pay;
- A net increase in fixed costs of \$876,888, which includes increases primarily in rent (\$785,893), to account for annual lease escalators, and telephone (\$117,538);
- An increase of \$2,851,970 in contractual services for the Integrated Tax System (ITS) and related support systems to administer and process the District's tax collections for the tax administration program; and
- An increase of \$300,000 in contractual services for the Office of Budget and Planning to provide an annual financial review of the District's information technology (IT) projects.

Like last year, appropriations are requested for the on-going operational costs of capital projects (including maintenance and support of the Integrated Tax System), for the temporary relocation of the Recorder of Deeds to new space during the construction of the capital project at 515 D Street, and for the payment of fees if the District is successful in FY 2008 in a class action lawsuit against online hotel reservation services (though no revenues or expenses are now expected before FY 2008). With respect to ITS, OTR is undertaking a strategic planning process to provide a road map for improvements that will be necessary during the next five years. A critical goal for FY 2008 is decreasing the dependency on contractors for system support and upgrades.

We need to maintain our skill base and performance capability to ensure that the Mayor and the Council have timely and accurate budget and accounting information – controls that are central to effective financial operations – and an efficient tax administration as the city’s primary revenue generator. One does not have to go back many years to find a time when we were doing poorly on all of these critical functions. I urge the committee to consider the gains that have been made in financial management and to continue to provide the resources we need to operate at this level of excellence, and to keep in mind that this level of resources, particularly for OTR, is absolutely necessary to ensure and protect the projected revenue stream.

### **CAPITAL BUDGET REQUEST**

The OCFO is committed to making periodic, necessary investments to ensure that the aging, critical financial systems of the District remain reliable and functional. There are several challenges that the OCFO must face going forward. The greatest challenge is ensuring that our financial systems, which are running on hardware and software that is no longer supported by the manufacturer, are updated or replaced in an orderly fashion. The second is ensuring that these systems can be maintained and supported primarily by the District’s IT workforce. The third is to take advantage of investments made on the part of the District by the Office of the Chief Technology Officer (OCTO), as well as embracing good information technology practices.

Rather than embarking on a large-scale financial systems modernization program, the OCFO feels that a sounder approach is to make relatively modest incremental

changes to our underlying systems, to take advantage of the strengths of the District's workforce and leverage our existing investments.

### **EIS – CFO\$ource**

The OCFO and all District agencies depend on reporting and analysis tools to accurately report and interpret the information in the District's underlying general ledger and accounting systems.

In keeping with the need to maintain and keep these critical systems operational and current with changes in their underlying technology, we continue to provide life-cycle upgrades to enhance reliability and add functionality. Our FY 2008 capital budget request includes \$2 million for EIS (Executive Information System) and other financial applications.

We are upgrading the underlying business intelligence engine, from a product that is no longer supported by the manufacturer to a more current version that moves away from mainframe architecture, to allow the District to take advantage of newer Web-based tools.

This also allows us to change our hardware investment to replace aging equipment with more reliable, redundant and robust servers.

### **SOAR Modernization**

The District's accounting foundation is based upon the general ledger system. Our system is the mainframe-based R-Stars system, which is approaching mid-life in its normal life cycle. At this time the OCFO needs to either make a major investment

in the existing mainframe, a COBOL DB2 system, or needs to see if a replacement with software that takes advantage of newer technology is warranted.

During the next several months, the OCFO will study these alternatives by taking advantage of the technical expertise of key OFOS support staff before their upcoming retirement. The result of this study, as well as consultation with our customer agencies, will result in a competitive procurement beginning in the fourth quarter of FY 2007.

### **OTR Customer Service Upgrade**

The OCFO has been reviewing the existing customer support systems in OTR that provide mail, Web, telephone, and in-person support services to the general public. While customer support representatives have been able to find information, the underlying system is no longer supported by the manufacturer. There are now several viable alternatives to the capital-intensive system currently in use at OTR. In keeping with good business practice, the OCFO intends to ensure that the new underlying systems will be both maintainable and will take advantage of newer, more cost effective technologies. Our FY 2008 capital budget request includes \$2 million for these upgrades.

### **OTR ITS Modernization**

ITS is a very complex system that comprises many different parts and technologies. There are mainframe components, reporting components, scanning systems, data management, and multiple tax modules.

The current project aims at ensuring that the support systems that surround the core ITS system remain maintainable and take advantage of newer technologies. In the

course of developing the architectural models for these systems, we will also be placing an emphasis on ensuring that the main ITS system remains robust and supportable by the next generation workforce.

### **OCFO – Equipment Lease – Capital**

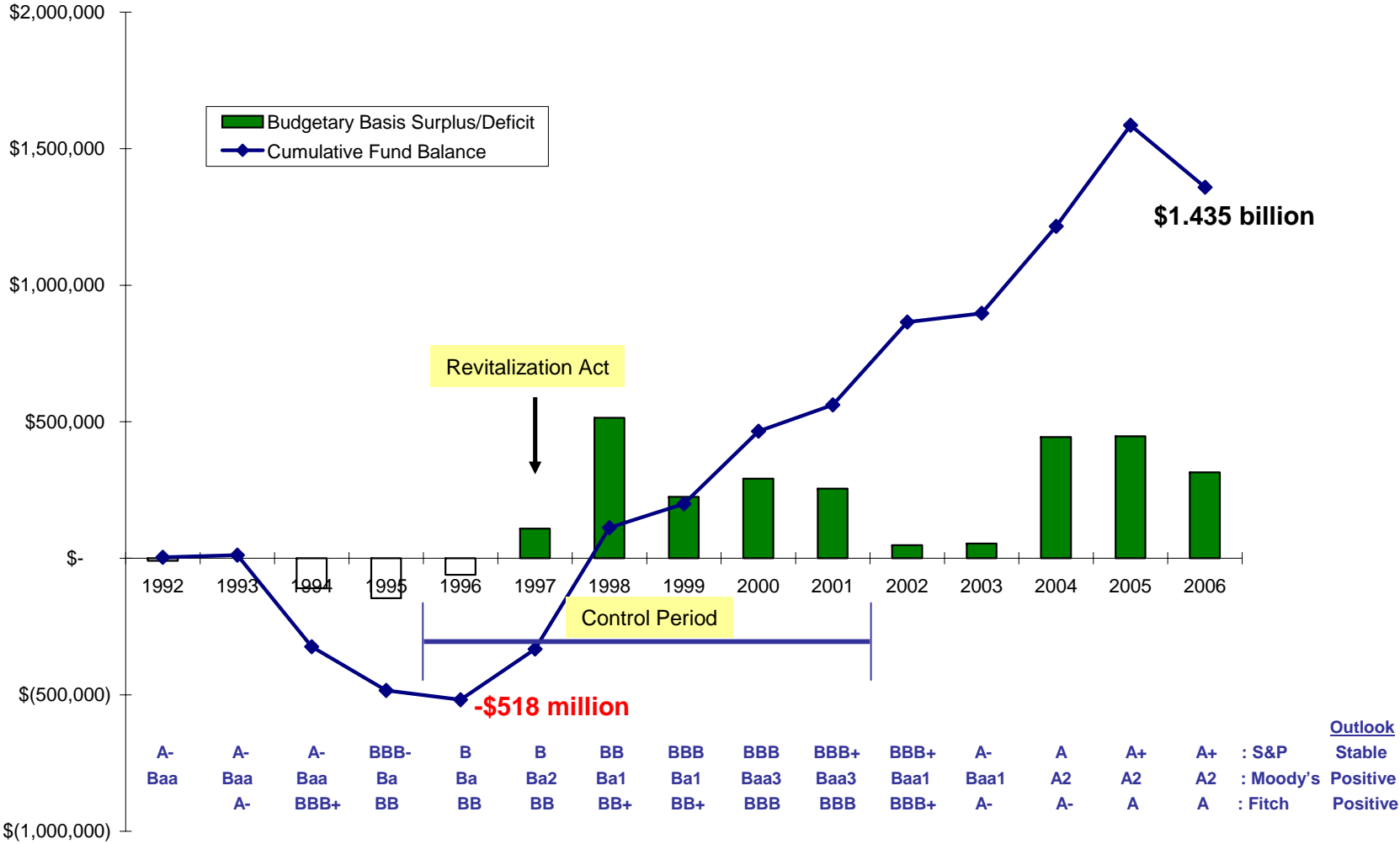
Our FY 2008 request includes \$1.2 million in master lease spending for IT improvements. The OCFO recognizes the need to keep underlying equipment and auxiliary systems current through periodic fleet replacement. One component is desktop replacement, but the main emphasis of this program is a fundamental server and support system modernization and consolidation program. Over the years, multiple systems have grown up with properly configured servers, server closets and ancillary equipment. The OCFO is performing a logical and physical consolidation to ensure greater reliability and redundancy in coordination with District-wide initiatives by OCTO.

## **CONCLUSION**

The continuing leadership provided by the Mayor, by you, Mr. Evans, and the Council has enabled the District to experience a major financial turnaround. The OCFO is committed to doing everything we can to support continued financial improvements in the city in FY 2007 and beyond. To that end we respectfully ask your support for our FY 2008 budget request.

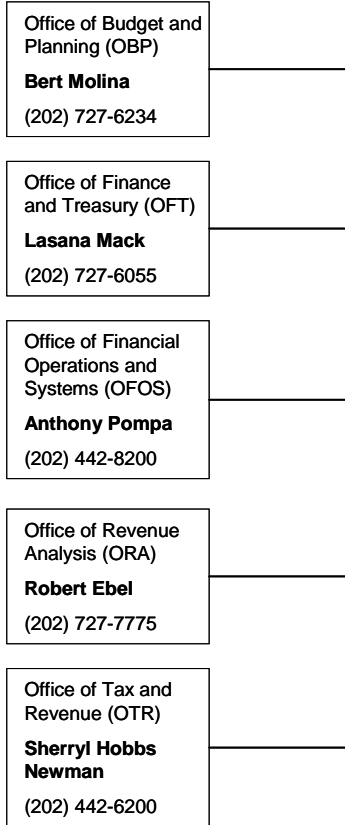
This concludes my remarks. I would be pleased to answer any questions you may have.

# Surplus and Bond Rating History

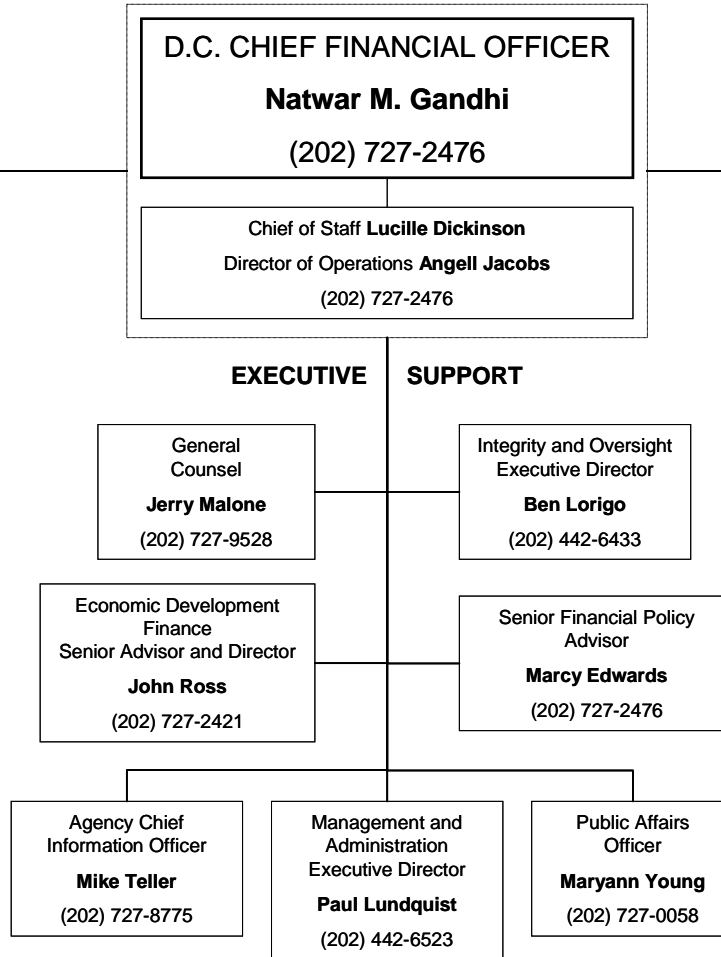




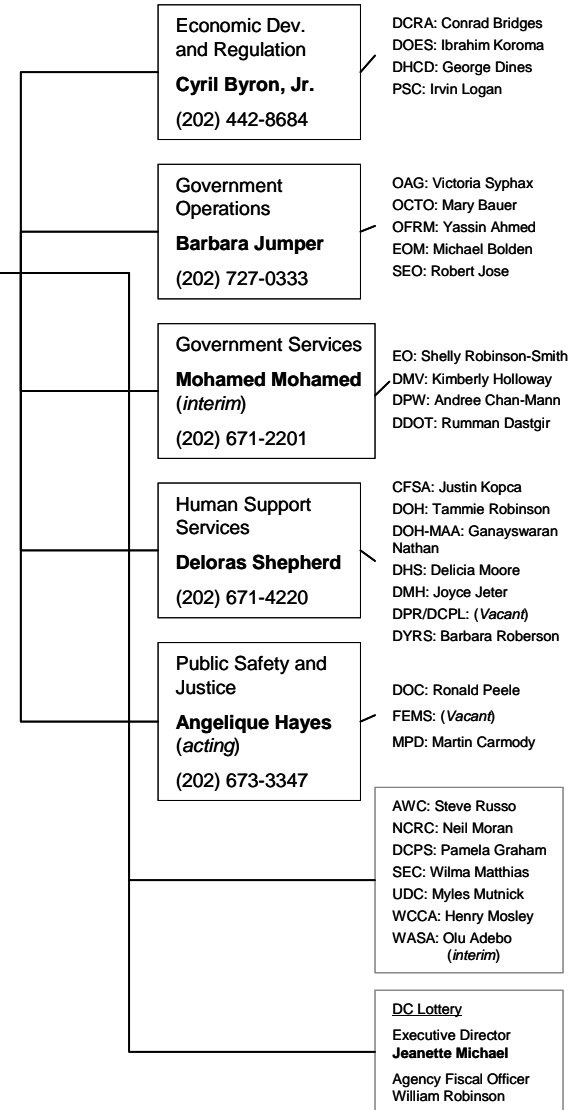
**CENTRAL FINANCIAL OPERATIONS - Deputy CFOs**



**ORGANIZATIONAL CHART**  
Government of the District of Columbia  
Office of the Chief Financial Officer



**AGENCY FINANCIAL OPERATIONS - Associate CFOs**



**ATTACHMENT 3**

	<u>Project Name and Description</u>	<u>Tax Type</u>	<u>FTE's</u>	<u>Total Costs, FY07</u>	<u>Revenue Estimates FY 2007</u>	<u>Revenue per staff year</u>
1	<b>Clean Hands</b> -- Full implementation of clean hands by all DC agencies issuing licenses and those with authority to contract will generate additional "clean hands" requests/reviews which in turn will generate additional city-wide revenue.	All	10	\$ 3,050,000	\$ 8,000,000	\$0.8 million
2	<b>Comprehensive Tax Fraud Initiative</b> - Schedule C - EITC - Income and Expense Audits of Major Commercial  - Sales - Use Tax	Income Income Real Property/ Business  Business Business	3 3 2  3 3	\$ 275,000 \$ 260,000 \$ 165,000  \$ 260,000 \$ 260,000	\$ 1,000,000 \$ 1,000,000 \$ 3,000,000  \$ 3,000,000 \$ 1,000,000	\$0.3 million \$0.3 million \$1.5 million  \$ 1 million \$0.3 million
3	<b>Vacant property (Class 3):</b> Step up identification and review of vacant properties in the District. Reduce the large number of exceptions to a more manageable level.	Real Property	8	\$ 535,000	\$ 8,000,000	\$1 million
4	<b>Homestead Audits:</b> Increase audits on the Homestead program. Currently there are 90,000 properties with the benefit. Assuming a 5% non-compliance rate, recapturing \$1,150 in back homestead benefit, and \$2,000 in back taxes, and a 50% probability of a full 3 years of non-compliance.	Real Property	5	\$ 2,235,000	\$ 10,000,000	\$2 million
5	<b>Tax Fraud Detection - W-2's</b> -- Compare Income Tax Filings with DOES withholding filings/records.	Income	6	\$ 1,335,000	\$ 6,000,000	\$1 million
6	<b>Productivity Enhancements - A/R Review</b> -- Comprehensive review and correction of accounts will result in a 25% improvement factor in the efficiency/productivity of the Audit and Collection staff, and improve the quality of revenue estimates.	All	4	\$ 1,710,000	\$ 2,000,000	\$0.5 million
7	<b>Sales Tax Verification</b> -- Compare listing of licensed businesses with those filings monthly and/or annual Sales Tax returns.	Sales	8	\$ 950,000	\$ 4,000,000	\$0.5 million
8	<b>Possessory interest.</b> Capture 100% more of commercial leases within Federal property.	Real Property	2	\$ 120,000	\$ 2,000,000	\$1 million
	<b>Total Revenue Initiatives</b>		<b>57</b>	<b>\$ 11,155,000</b>	<b>\$ 49,000,000</b>	

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>Total, FY07-10</u>
Projected Revenues	49,000,000	70,000,000	66,000,000	64,250,000	249,250,000
Expenses	11,155,000	3,460,000	3,460,000	3,460,000	21,535,000
<b>Net Revenues</b>	<b>37,845,000</b>	<b>66,540,000</b>	<b>62,540,000</b>	<b>60,790,000</b>	<b>227,715,000</b>

	4.4	20.2	19.1	18.6	11.6
<b>Ratio</b>	<b>4.4 : 1</b>	<b>20.2 : 1</b>	<b>19.1 : 1</b>	<b>18.6 : 1</b>	<b>11.6 : 1</b>

OFFICE OF THE CHIEF FINANCIAL OFFICER  
FY 2004 - FY 2008 FTEs

3/29/2007

	<b>Mandated Increases</b>	<b>Net Impact of Other FTE Changes</b>	<b>Total FTEs</b>
<b>FY 2004 Budgeted FTEs</b>			<b>930</b>
FY 05 Revenue Compliance Initiative	48	-13	35
<b>FY 2005 Budgeted FTEs</b>			<b>965</b>
<b>FY 06 Increases</b>			
Non Custodial Fathers Initiative	8		
Baseball Initiative	3		
Anti-Deficiency Act	4		
OTR - Counsel (OAH work)	2		
Real Property Assessment	16		
FY 2006 Proposed FTE Changes	33	0	33
<b>FY 2006 Budgeted FTEs</b>			<b>998</b>
Note: other changes in FY 2006 netted to zero			
<b>FY 07 Increases</b>			
Revenue Initiatives	57		
IT Staff - convert capital to operating (convert contract IT staff to DC employees)		5	
	57	5	62
<b>FY 2007 Budgeted FTEs</b>			<b>1,060</b>
PS Reductions		-10.1	-10.1
<b>FY 2008 Proposed FTEs</b>			<b>1,049.9</b>

<b>FY 2004 - FY 2008 Summary</b>	
<b>FY 2004 Budgeted FTEs</b>	<b>930</b>
Mandated Increases	138
Other FTE changes	(18.1)
<b>FY 2008 Proposed FTEs</b>	<b>1,049.9</b>

## ATTACHMENT 5

**OFFICE OF THE CHIEF FINANCIAL OFFICER  
FY 2007 - FY 2008 Operating Budget Evolution**

4-Apr-07

	\$000s	\$000s	FTEs	
<b>FY 2007 Approved Budget</b>		<b>154,822</b>	<b>1,060</b>	
<b>Local Fund Changes</b>				
Reduction of One Time Costs	(7,757)			FY 2007 Revenue Initiative IT contracts
Reduction of One Time Costs	(150)			FY 2007 EITC outreach contract
Agency-wide PS Reductions	(3,608)		(31)	Net loss of 10 FTEs in OBP, OFT and OIO; others shifted to nonlocal sources
Agency-wide NPS Reductions	(3,433)			Primarily from IT equipment, IT consulting, legal services, financial advisory services
PS Salary Increases	4,064			District-wide mandated increase
Fixed Costs	877			District-wide mandated increase
OTR - Integrated Tax System	2,852			Ongoing maintenance and support
Budget and Planning	300			Annual IT review
<b>Subtotal, Local Fund Changes</b>	<b>(6,855)</b>	<b>(6,855)</b>	<b>(31)</b>	
<b>Nonlocal Fund Changes</b>				
OTR Delinquent Tax Fees	1,300		13	Based upon FY 06 collection rates - permits transfer of compliance FTEs from local fund
Payroll Services Fees	1,200		11	Federal reimbursement for retirement benefits processing, and health benefits fees increases - transfers FTEs from local fund
OTR Revenue Discovery Contracts	1,100			Increases budget for potential higher contingency fees only if revenue is realized
Bank fees increase	1,000			Increases budget to reflect actual costs
Cashiers (intra-District)	197			Adjusts budget to reflect actual cashier costs
Integrity and Oversight auditors	183		2	Auditors at DCPS, DCLB funded by those agencies
Other nonlocal adjustments	130		(5)	Includes \$100k for Charter Schools administrative costs; also reduces grant FTEs no longer funded
<b>Subtotal, Nonlocal Fund Changes</b>	<b>5,110</b>	<b>5,110</b>	<b>21</b>	
<b>FY 2008 Budget Request</b>		<b>153,077</b>	<b>1,050</b>	

## Office of the Chief Financial Officer (AT0)

### Gross Funds

The agency's proposed budget is \$153,076,930, representing a decrease of \$1,744,950, or 1.1 percent from the FY 2007 approved budget of \$154,821,880. This funding supports 1,049.9 FTEs, a decrease of 10.2 FTEs, or 1.0 percent from the FY 2007 approved level.

### General Fund

**Local Funds.** The agency's proposed budget is \$112,025,935, a decrease of \$6,854,558, or 5.8 percent from the FY 2007 approved budget of \$118,880,493. This funding supports 900.9 FTEs, a decrease of 31.1 FTEs, or 3.3 percent from the FY 2007 approved level.

Changes from the FY 2007 approved budget include:

- A decrease of \$7,757,000 for one-time costs associated with the revenue initiative projects approved in FY 2007 for the Tax Administration program;
- A decrease of \$150,000 for one-time costs to fund the Earned Income Tax Credit outreach and free tax preparation for low-income District residents in the Tax Administration program;
- A decrease of \$3,432,462 in nonpersonal services costs across the agency due to savings and reductions primarily in contractual services and equipment;
- An increase of \$4,064,132 in personal services to account for District-wide pay adjustments, fringe benefits adjustments, and additional gross pay;
- A decrease of \$3,607,748 and 31 FTEs in personal services for a reduction in full-time equivalents across various programs, some of which will be funded through non-local sources;
- A net increase in Fixed Costs of \$876,888, which includes increases primarily in rent (\$785,893) to account for annual lease escalators and telephone (\$117,538);
- An increase of \$2,851,970 in contractual services for the Integrated Tax System (ITS) and related support systems to administer and process the District's tax collections for the Tax Administration program; and
- An increase of \$300,000 in contractual services for the Office of Budget and Planning to provide annual financial review of the District's information technology (IT) projects.

**Special Purpose Revenue Funds.** The proposed budget is \$35,932,562, an increase of \$4,874,108, or 15.7 percent over the FY 2007 approved budget of \$31,058,454. This funding supports 99.0 FTEs, an increase of 29 FTEs, or 41.4 percent from the FY 2007 approved level.

Changes from the FY 2007 approved budget include:

- An increase of \$1,300,000 to reflect projected fee collections from delinquent taxpayers; this increase permits the transfer of 13 FTEs from local funding within the Tax Administration program.

- An increase of \$1,100,000 in the Tax Administration program to budget for revenue discovery contingency fees that will be required if revenue is realized;
- An increase of \$1,000,000 to reflect actual costs for bank fees that are funded from the interest earned on District accounts;
- An increase of \$1,074,000 to account for reimbursements from the DC Lottery for administrative and legal services that were formerly recorded as intra-District transactions;
- An increase of \$400,000 and 5 FTEs in the Office of Financial Operations and Systems to reflect increases in the federal reimbursement for the processing of retirement benefits for U.S. Secret Service and Park Police.

## **Federal Fund**

**Federal Grants.** The proposed budget is \$877,443, a decrease of \$54,557, or 5.9 percent from the FY 2007 approved budget of \$932,000. This funding supports 1 FTE, a decrease 2 FTEs, or 66.7 percent from the FY 2007 approved level.

Changes from the FY 2007 approved budget include:

- A net decrease of \$54,557 and 2 FTEs in personal services to accurately reflect the actual spending activities of the grant funds.

**Intra-District Funds.** The proposed budget is \$4,240,990, an increase of \$290,057, or 7.3 percent over the FY 2007 approved budget of \$3,950,933. This funding supports 49.0 FTEs, a decrease of 6 FTEs, or 10.9 percent from the FY 2007 approved level.

Changes from the FY 2007 approved budget include:

- An increase of \$800,000 and 6 FTEs to reflect actual costs and revenue collections associated with the administration of District-wide fringe benefits programs within the Office of Pay and Retirement Services;
- An increase of \$197,000 to reflect actual costs and collections for cashiers placed by the Office of Finance and Treasury at District agency locations pursuant to memoranda of understanding;
- An increase of \$100,000 and 1 FTE to reflect the administrative cost transfer from Charter Schools for the processing of charter school payments throughout the year;
- An increase of \$80,000 and 1 FTE for an Internal Auditor to assist in auditing the District's Public Schools under the Office of Integrity and Oversight program;
- A decrease of \$883,000 and 10 FTEs from this fund for services provided to the District's Lottery board; the reimbursement for these services is included in the Special Purpose Revenue Fund budget.

**Office of the Chief Financial Officer  
FY 2006 - FY 2008 Operating Budget and Authorized FTEs Evolution By Program  
Operating Budget (\$000)**

Program	FY 2006		FY 2007 Congressional Approved		FY 06 - FY 07 % Change		FY 2008 Proposed		FY 07 - FY 08 % Change	
	FTEs	Expend's	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Budget
Management	80	9,486	81	8,786	1.3%	-7.4%	84	9,122	3.7%	3.8%
Financial Operations & Systems	126	14,409	125	13,039	-0.8%	-9.5%	125	13,596	0.0%	4.3%
Budget Development & Execution	66	6,226	66	6,691	0.0%	7.5%	58	6,799	-12.1%	1.6%
Research and Analysis	25	3,554	25	3,140	0.0%	-11.6%	25	3,276	0.0%	4.3%
Office of Tax & Revenue	566	59,094	628	91,915	11.0%	55.5%	613	88,050	-2.4%	-4.2%
Chief Information Officer	19	14,439	19	9,502	0.0%	-34.2%	35	9,627	84.2%	1.3%
Treasury Operations	91	17,277	91	18,561	0.0%	7.4%	86	19,278	-5.5%	3.9%
Integrity and Oversight	25	4,533	25	3,188	0.0%	-29.7%	24	3,329	-4.0%	4.4%
District Wide Assistance		114			#REF!	-100.0%				#DIV/0!
<b>TOTAL</b>	<b>998</b>	<b>129,133</b>	<b>1,060</b>	<b>154,822</b>	<b>6.2%</b>	<b>19.9%</b>	<b>1,050</b>	<b>153,077</b>	<b>-1.0%</b>	<b>-1.1%</b>

Notes: Agency Financial Operations are included in the Management total as follows:

Agency Financial Operations	10	882	11	1307			11	986		
-----------------------------	----	-----	----	------	--	--	----	-----	--	--

**Office of the Chief Financial Officer**  
**FY 2006 - FY 2008 Operating Budget and Authorized FTEs Evolution By Fund**  
**Operating Budget (\$000)**

<b>BUDGET BY FUND (\$000)</b>										
	<b>FY 2006</b>		<b>FY 2007 Congressional Approved</b>		<b>FY 06 - FY 07 % Change</b>		<b>FY 2008 Proposed</b>		<b>FY 07 - FY 08 % Change</b>	
<b>Fund</b>	<b>FTEs</b>	<b>Expend's</b>	<b>FTEs</b>	<b>Budget</b>	<b>FTEs</b>	<b>Dollars</b>	<b>FTEs</b>	<b>Budget</b>	<b>FTEs</b>	<b>Budget</b>
Local	870	105,555	932	118,880	7.1%	12.6%	901	112,026	-3.3%	-5.8%
Federal (150/200)	3	846	3	932	0.0%	10.2%	1	877	-66.7%	-5.9%
Other	70	13,766	70	31,059	0.0%	125.6%	99	35,933	41.4%	15.7%
Intra-District	55	8,966	55	3,951	0.0%	-55.9%	49	4,241	-10.9%	7.3%
<b>TOTAL</b>	<b>998</b>	<b>129,133</b>	<b>1,060</b>	<b>154,822</b>	<b>6.2%</b>	<b>19.9%</b>	<b>1,050</b>	<b>153,077</b>	<b>-1.0%</b>	<b>-1.1%</b>



OFFICE OF THE CHIEF FINANCIAL OFFICER  
 FY 2008 Special Purpose Revenue Summary

4-Apr-07

Fund #	Program Area	06 Fund Balance (carryover)	07 budget	08 budget	Description	Comments
0602	OPRS		350,000	350,000	Payroll Service Fees	
0603	OPRS/CIO		300,000	1,050,000	Retirement processing for Secret Svc, Park Police	Expect \$1m in revenue this year
0605	OTR/OFT		650,000	650,000	Dishonored Check Fees	
0606	OTR	5,210,044	2,668,454	2,668,454	Recorder of Deeds Surcharge	Will help pay for ROD relocation
0610	OFT		3,600,000	4,600,000	Interest earnings reserved for bank fees	Pays for bank and lockbox fees
0611	OTR		15,900,000	17,000,000	Revenue Discovery Contracts - Tax Collection Contingency Fees	Includes \$15m for potential internet hotel tax case contingency fees; will not be spent if revenue not realized.
0612	EDF		-	-	Tax Incremental Financing (TIF) Fees	Fund established to record fees upon receipt; too variable to budget.
0613	OFT		3,500,000	3,500,000	Unclaimed Property Contingency Fund	Pays for audit fees contingent upon unclaimed property revenue
0614	OFT		40,000	40,000	Defined Contribution Plan Administration Fund	
0615	OPRS		350,000	-	Program ended; will have zero revenue in FY 07	Surplus budget authority will be reprogrammed to Fund 0603 in FY 07
0618	OTR	860,827.46	3,700,000	5,000,000	Delinquent Tax Fees	New OTR fee earned \$3.5m in FY 06
0619	MGT/OIO			1,074,108	DC Lottery payment for admin and legal services	Formerly budgeted as intra-District fund.
	<b>Total</b>	<b>6,070,872</b>	<b>31,058,454</b>	<b>35,932,562</b>		

(AT0) OFFICE OF THE CHIEF FINANCIAL OFFICER  
 Summary of OCFO Capital Projects and Requests

3-Apr-07

Code	Project Name	Financing Thru FY 07	Spending to Date	Outstanding Obligations	Outstanding Pre-Encum's	Adjusted Balance	Planned FY 07 Spending	Proposed FY 08 Budget**
CSP 01/02	Data Systems Improvements	29,962,972.00	28,660,462.63	204,723.61	0.00	1,097,785.76	1,073,000.00	
CSP 03/04	Integrated Tax System	122,682,308.00	122,399,305.11	10,886.41	0.00	272,116.48		
CSP 05	Data Warehouse / Clean Hands	5,450,000.00	3,591,144.23	106,595.31	0.00	1,752,260.46	1,600,000.00	
CSP 06	Real Property Enhancements	8,000,000.00	4,969,340.07	390,185.73	70,000.00	2,570,474.20	1,200,000.00	
CSP 07	OTR Customer Service Upgrade	0.00	0.00	0.00	0.00	0.00	0.00	2,000,000.00
BF2 08	PBB System / Budget Module	14,065,000.00	10,727,799.78	916,990.00	0.00	2,420,210.22	1,000,000.00	
BF2 11	EIS/Financial Applications	6,300,000.00	4,981,383.07	534,714.65	3,296.33	780,605.95	1,500,000.00	2,000,000.00
BF3 01 *	SOAR Modernization	0.00	0.00	0.00	0.00	0.00	5,000,000.00	
AT2	Facility Consolidation	330,071.00	0.00	0.00	0.00	330,071.00		
CIS 01	Systems Integration	1,037,000.00	273,020.00	501,090.00	0.00	262,890.00	127,000.00	
<b>OCFO Totals</b>		<b>187,827,351.00</b>	<b>175,602,454.89</b>	<b>2,665,185.71</b>	<b>73,296.33</b>	<b>9,486,414.07</b>	<b>11,500,000.00</b>	<b>4,000,000.00</b>

\* BF3 01 - Amount shown is planned reprogramming of \$5 million in FY 07 which would allow this project to begin in the 4th quarter of this year.

\*\*Note: An additional \$1.2 million for IT improvements is proposed for Master Lease spending for FY 08.