

**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
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Deputy Chief Financial Officer
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**Natwar M. Gandhi
Chief Financial Officer
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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 2008 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 2008 Budget Request

The FY 2008 budget request for OTR is \$88.1 million and 613 FTEs, a reduction in gross funds of \$3.9 million (4.2%) and 15 FTEs from FY 2007. However, in local funds, the reduction is \$6.3 million, or 9% of the FY 2007 level. This reduction is made up of nearly \$8 million in one-time costs appropriated in FY 2007 for revenue initiatives and Earned Income Tax Credit (EITC) outreach, \$600,000 in programmatic reductions, \$1.3 million in reallocations within the OCFO, and \$1.3 million in transfers to O-type sources, offset by \$2.3 million in pay rate and fixed cost increases and \$2.7 million in technical adjustments for systems maintenance.

This level of funding allows OTR to maintain the staffing levels required to continue work on the revenue initiatives, which are expected to yield \$70 million in revenue for FY 2008. The cost of this staffing is \$3.2 million in local funds. I will address the current status of the revenue initiatives specifically later in my testimony.

Among the revenue initiatives approved in FY 2007 were specific improvements to the process of identifying and properly billing vacant property at the Class III rate. The “Nuisance Properties Abatement Reform and Real Property Classification Emergency Amendment Act of 2006” transferred responsibility for identifying vacant property to the Department of Consumer and Regulatory Affairs (DCRA). OTR is currently completing an intra-district memorandum of understanding with DCRA to fund FY 2007 FTEs, so that they may begin their efforts in this area. OTR’s FY 2008 local funds budget contains 6 FTEs and \$244,000 to support DCRA’s implementation of the vacant property initiative.

The total O-type budget proposed for FY 2008 is \$24.8 million, a \$2.4 million increase for discovery efforts and in-house collection fees. Although OTR’s O-type budget appears to be high, it contains \$15 million in budget authority carried over from FY 2007, in the event that the District is successful in a class action lawsuit against online hotel reservation services. We are working closely with the Office of the Attorney General, and procurement is underway to retain outside counsel, with the contract structured on a contingency fee basis. However, we do not currently expect any revenues or expenses to be recorded before FY 2008.

The O-type budget also contains \$2 million to fund outsourcing of collections and discovery efforts (an increase of \$1.1 million from FY 2007), and \$5 million from collection fees to support the activity of our collections unit (a \$1.3 million increase), as well as \$2.8 million for the Recorder of Deeds’ surcharge and dishonored check fees.

In both FY 2007 and FY 2008, the budget for the Recorder of Deeds contains \$1.4 million for the temporary relocation of that office to new space during the construction of the capital project scheduled for 515 D Street, NW. Conditions in the building continue to be poor, both for employees and visitors to the building, but to-date we have been unable to secure a lease for a new location.

FY 2008 Performance Objectives

Revenue

In FY 2008, OTR will continue to focus on enhancing revenue collections. Return on investment from previous enhancements is impressive. So far in FY 2007, OTR's collections activity alone is running \$18.3 million ahead of the same time last year (a 39% increase), with per-FTE yields topping \$1 million. With the additional O-type authority contained in our request, the Compliance Administration will be able to maintain staffing levels that would otherwise have been reduced to meet local budget targets. These fees fairly 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.

Through the end of February, OTR collected a total of \$60.1 million in delinquent taxes, of which almost \$14 million is attributable to revenue initiatives, and billed another \$7 million as part of our homestead and possessory interest initiatives. We are on target to meet the revenue target of \$49 million. We expect results to improve as we complete the necessary programming to support several of the more complex initiatives, including City Clean Hands, and as audit programs begin to yield tax assessments in our comprehensive fraud initiatives (sales and use, Schedule C, EITC, and W-2 initiatives).

Customer Service

Improving customer service also remains a priority for OTR. We answer approximately 300,000 calls a year, and serve nearly 50,000 taxpayers through our walk-in service centers. Through the first five months of FY 2007, we have experienced an abandoned call rate of just 2.5%, well below the industry standard. Several factors are contributing to this success: increased utilization of self-service options; a modest increase in staffing; and usage of monitoring and workforce allocation software that allows us to respond dynamically to service level demands. The average combined wait and handled time in the call and walk-in centers have remained under the goal of 25 minutes through the beginning of FY 2007; although we are currently experiencing somewhat longer waits as is normal at the beginning of the filing season and after real property bills are mailed.

During FY 2007, we are implementing quality monitoring software to ensure that taxpayer concerns are handled both quickly and correctly. This is one critical element of our focus on quality. We are also exploring opportunities to improve the management of correspondence and other customer contacts to shorten response time and reduce the need for multiple contacts to resolve a single issue. The FY 2008 capital budget request includes a \$2 million initiative to upgrade our customer service applications and improve our business processes to ensure that taxpayers receive consistent information and handling without regard to their method of contacting the office, or whether they make their first contact through one of the customer service centers or through another program area.

Technology

Having completed the full implementation of the Integrated Tax System (ITS), we are continuing to identify ways to leverage this technology to improve efficiency.

Currently, OTR is undertaking a strategic planning process to provide a roadmap for the next five 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, and improved system integration.

This technology, however, does not come without cost. OTR's dependency on contractors for system support has reached critical levels financially and technically. This dependency limits the strategic options available to OTR in the vital areas of scanning and processing tax returns, real property tax billing, and yearly tax filing season development, among others. Decreasing this dependency is a critical goal for FY 2008.

We are currently completing replacement of the imaging system that performs front-end processing in ITS and will soon begin the upgrade and integration of the associated software applications. Currently, filing season maintenance and tax policy changes are highly resource and time intensive. We expect to complete this process in FY 2008, ensuring that the new system architecture is founded on industry best-practices and will provide OTR the flexibility to integrate modifications to tax returns with less development effort.

In addition, OTR is undertaking several major maintenance efforts, including upgrades to the software that generates bills and notices, the software that extracts data from ITS to support compliance and other research through database queries, and other ancillary software that impacts our ability to make code and other systemic changes in response to legislative and policy changes. These efforts require a high level of skilled resources to complete. The FY 2008 budget request includes \$2.7 million to support this ongoing level of effort.

Beginning in FY 2010, the capital budget includes funding to do a major update of ITS, to ensure the ongoing viability of our tax systems. These improvements will focus on more Web-based applications to input and query data in the mainframe system, reducing current complex maintenance requirements, and with the clear intention of maximizing opportunities for e-commerce and electronic filing, and building on the models of best practices used by other state tax agencies.

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 may have.

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