

**HEARING ON THE
FY 2008 BUDGET REQUEST FOR THE OFFICE OF
BUDGET AND PLANNING (OBP)**

**Before the
Committee of the Whole
Council of the District of Columbia**

The Honorable Vincent C. Gray, Chairman

**April 17, 2007, 1:00 p.m.
John A. Wilson Building, Room 412**



**Testimony of
Bert Molina
Deputy Chief Financial Officer
Office of Budget and Planning**

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

Good afternoon, Mr. Chairman and Members of the Committee of the Whole. I am Bert Molina, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify in support of OBP's budget request for FY 2008. With me today are Mr. Gordon McDonald, Associate Deputy CFO; Mr. David Meadows, Director of Budget Administration; and Mr. James Spaulding, Director of the Capital Improvements Program. Deputy Chief Financial Officer for Finance and Treasury Lasana Mack will address questions related to cash and debt management.

FY 2007 Accomplishments

Despite the challenges we faced in the FY 2008 budget process, my staff met OBP's deliverable to produce the Mayor's budget on time. I am very proud of their effort and achievement. During the past year, we:

- Developed a fiscally sound Mayor's FY 2008 budget and financial plan, including:
 - A budget highlights volume,
 - An executive summary volume, and
 - A special studies volume that provides decisionmakers with additional information upon which to make budget and management decisions regarding the District's finances.
 - In its fourth year of publication, the special studies volume includes chapters on baseball, benchmarking, fixed costs, and an update on the capital fund deficit.
- Introduced several new improvements to the WebForm Budget System, including Position Budgeting.

OBP worked with agencies throughout the fall and into early January on their budget formulation process and assisted them with the position control function to ensure an accurate and transparent personal services budget and corresponding Schedule A. At the request of the EOM, a preliminary passback was transmitted to District stakeholders on February 2, followed by the final passback and the baseline on February 28.

The OCFO worked with the EOM and the City Administrator during the Budget Review Team (BRT) process to accurately reflect the Mayoral policy enhancements in the Mayor's FY 2008 proposed budget submitted to Council on March 23, 2007. The Mayor's proposed budget was significantly impacted by the EOM's delay in transmitting all of the final enhancements and adjustments to OBP, leaving less than three days to complete the production process that customarily takes 10 days.

OBP is working with the Council budget office to provide information and answer questions related to the Mayor's FY 2008 budget proposal. OBP is also attending and documenting the committee budget hearings. I am confident that we will meet the June 4 date for submitting the District's FY 2008 proposed budget and financial plan to Congress.

Additionally, we

- Recently rolled out the latest release of the Executive Dashboard in CFO\$ource; and
- Received the Distinguished Budget Award from the Government Finance Officers Association (GFOA) for the FY 2007 budget.

OBP's FY 2008 Operating Budget Request

Our operating budget request is \$6,798,885 and 58 FTEs, a net increase of \$108,084, or 1.6 percent, with a decrease of 8 FTEs, or 12.1 percent from the FY 2007 budget of \$6,690,801 and 66 FTEs. The net increase of \$108,084 is primarily due to a technical adjustment to the FY 2008 baseline budget of \$300,000 for a follow-up technology audit and an increase of \$8,119 in telecommunications, partly offset by a decrease of \$200,035 in personal services. OBP did not request any program enhancements for FY 2008.

FY 2008 Key Program Initiatives

Cost Driver Project

The cost driver project, which we started in FY 2007, has created a standard process and report set that we will use in FY 2008 to perform a range of cost analysis functions, including:

- Identifying an agency's key drivers that explain at least 80% of its annual operating budget;
- Developing a basic database of driver statistics and their corresponding costs;
- Setting up standard analytical templates;
- For each agency providing an executive summary for quick analysis of the agency's most important services by their respective metrics; and
- Projecting costs of key services based on historical cost driver trends and allowing users to enter different unit costs and metric values as alternative projections.

In FY 2007, the system was developed and tested on an in-depth basis in one pilot agency – the Department of Corrections. The department views the system as a valuable tool for financial management analysis and budgeting.

We will also train OBP analysts to help rollout the cost driver project to District agencies in FY 2008.

FY 2008 – FY 2013 Capital Improvements Program (CIP)

The District's accumulated deficit in the General Capital Improvements Fund (Capital Fund) became an accumulated surplus in FY 2006. This improvement was due to active OCFO and OCA management, along with Council oversight, but was also the result of two large financings in FY 2006 against which there was little spending. Because these funds will be spent in FY 2007 and succeeding years, this portion of the surplus will diminish over time, and vigilance is still required as we manage the Capital Fund going forward.

As background, the Capital Fund accumulated a \$250 million shortfall by the end of FY 2004. It consisted of a deficit of approximately \$346 million in the general obligation (G.O.) bond-financed part of the fund. This was offset by a positive position of approximately \$96 million in other financing. During FY 2005, the G.O. bond-financed shortfall was reduced from \$346 million to \$330 million, and the overall shortfall was in turn reduced from \$250 million to \$246 million.

During FY 2006, the District borrowed about \$345 million in G.O. bonds for its usual capital needs, but it also undertook two large financings: \$196.9 million using certificates of participation, mostly for the new mental health hospital; and \$245.3 million for health care needs in the District through a securitization of future

revenues from tobacco companies. Because little of these funds were spent in FY 2006, they added to the Capital Fund balance and turned the prior deficit into a surplus.

In FY 2006, the District also used approximately \$265 million of pay-as-you-go (PAYGO) capital funding – that is, transfers from the General Fund to the Capital Fund – primarily to support new capital projects and partly for deficit reduction (\$53.8 million). As with the two large financings, some of these funds will be spent in upcoming years. While these funds added to the surplus in 2006, they will appear to contribute to the deficit in 2007 or later years as they are spent down. Overall capital spending related to G.O. bonds and PAYGO was \$409.3 million in FY 2006, compared to revenues of \$609.6 million (\$344.6 million from G.O. bond proceeds and \$265.0 million from PAYGO).

The OCFO, in collaboration with the executive branch and the Council, has formulated a plan that gradually reduces this deficit, without endangering the CIP.

The plan has the following key elements:

- Limiting each fiscal year's expenditures on capital projects financed by G.O. bonds and PAYGO to the amount of each year's available G.O. bond financing plus PAYGO transfers;
- Developing and aggressively monitoring capital project spending plans;
- Using fund balances and transfers from the operating budget, when available; and
- Borrowing more than the amount needed to fund new capital spending for each year and applying any excess towards reducing the deficit (\$50 million annually through 2011).

This strategy has been successful for the past two years, as the deficit has been reduced each year. The proposed FY 2008-FY 2013 capital budget anticipates borrowing \$50 million of G.O. bonds in excess of new capital budget allotments, as is being done in FY 2007, to continue reducing the Capital Fund deficit.

Several other capital-related objectives were achieved in FY 2006, including continuing to issue OBP's quarterly capital financial status reports (FSRs) and supporting the Technical Review Team (TRT) and the Budget Review Team (BRT). We believe these objectives will continue in FY 2007 and FY 2008.

FY 2008 Operational Goals

Our fiscal year 2008 operational goals are:

- Continue to improve our financial management systems;
- Bolster our ability to produce timely anti-deficiency compliance and financial status reports (FSRs);
- Develop a sound baseline budget for FY 2009;
- Continue to improve the CFO\$ource Budget Web-form application; this innovation replaces the manual process, providing agencies with real-time online personal services and nonpersonal services data entry and analysis capabilities;
- Continue to enhance the CFO\$ource Executive Dashboard;
- Fully operationalize the cost driver project;
- Continue to improve the development and execution of the District's Capital Improvements Program;
- Develop a real-time online reprogramming process via Web forms to enable agency program and finance staffs to find out the status of their requests almost instantly;

- Develop an online, automated FRP agency submission Web form module in CFO\$ource for ACFOs and their AFOs (the online FRP will include automated PS projections at the program level); and
- Continue to support and assist key agency staff (such as D.C. Public Schools and health and human services agencies) to provide early problem area identification and develop solutions based on analysis to maintain budget balance.

Also, during the next round of strategic plan updates this spring, we will conduct a comprehensive review of our key result measures (KRM)s. Next, we will work to realign our performance measures to better reflect our mission. KRM)s are a major element of any agency's strategic plan and must remain relevant to an agency's core mission and deliverables.

Mr. Chairman, this concludes my remarks. I will be pleased to answer any questions you may have.