

PUBLIC OVERSIGHT HEARING
ON
THE FY 2007 AND FY 2008 SPENDING AND
PERFORMANCE OF 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

February 12, 2008, 2:30 p.m.
Room 412, John A. Wilson Building



Testimony of
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Good afternoon, Chairman Gray and Members of the Committee of the Whole. I am Gordon McDonald, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify on the FY 2007 performance and FY 2008 plans of the Office of Budget and Planning. This is the first year that I have had the honor to appear before this committee as DCFO for OBP to present testimony on the accomplishments of my office and what our plans are for improving OBP's performance and the services we offer to citizens and District agencies in the future. With me today is Mr. James Spaulding, Acting Associate Deputy CFO. My colleague, Mr. Lasana Mack, Deputy Chief Financial Officer for Finance and Treasury, will address questions related to cash, debt service, debt management, and retiree health contributions (or OPEB).

I will cover the following areas in my remarks:

- Fiscal Years 2007 and 2008 operating expenditures,
- FY 2007 performance, and
- FY 2008 operational goals.

Fiscal Years 2007 and 2008 Operating Expenditures

In FY 2007, OBP operated within its revised budget of \$6,546,801, spending almost 100 percent of its available funds.

The FY 2008 budget for OBP is \$7,098,928. To date, we have expended and obligated \$1,923,220, or 27.1% of the budget. We anticipate completing the year within our current budget. Our budget supports 60 full-time equivalent employees.

FY 2007 Performance

The District's FY 2008 budget process was very challenging, with the change of administration in January 2007. We worked diligently to deliver the Mayor's budget on time, and I am very proud of that successful effort. As you know, our budget production is nearly a year-round process, beginning with our issuing of budget instructions to agencies in the fall, collecting and analyzing budget requests, producing a baseline budget in February, producing budget books in March and June, and loading the budget in September for the start of the fiscal year. Our staff performs outstanding work to complete all of these tasks under tight deadlines.

In FY 2007, our major accomplishments were in three areas:

- 1. FY 2008 Budget Formulation.** OBP has successfully designed and implemented an online budget system. Rather than sending spreadsheets back and forth, agencies now submit their budget requests to OBP through web forms, and changes during the budget process are made online as well. This has allowed us to reduce the number of manually submitted forms by over 50 percent. We also

worked closely with the Office of Property Management and other central agencies to improve fixed-cost budgeting, and we completed the automation of fleet fixed costs through the use of web forms. Implementing this system required a great deal of training of OBP staff, agency finance staff, and District stakeholders.

The new system allows us for the first time to construct a budget based on true position budgeting. Using data from the PeopleSoft Human Resources system, the system calculates agencies' Personal Services budget based on active positions. It is the first step in attaining comprehensive position control.

OBP also carried out a number of complex agency reorganizations, including (1) creation of the Office of Public Education Facilities Modernization and expansion of the Office of State Superintendent of Education, according to the Education Reform Act, and moving budget from the D.C. Public Schools and other agencies to these agencies; and (2) creation of the Unified Fund in the Department of Transportation, with corresponding changes to the capital budget.

Finally, we improved the GFOA-required Operating Expenditures and Glossary of Budget Terms chapters; published a "Budget Highlights" book that was well received by stakeholders; and published four Special Studies, including detailed

benchmarks, a summary of baseball financing, an update on the capital fund deficit, and information on the fixed cost development process.

2. Capital Budget Improvements. As we testified in detail on February 1, we have continued to improve management of the capital improvements program. The District's bond ratings continued to improve in 2007, as two of the three rating agencies upgraded the District's G.O. bond ratings, producing the current ratings of A1, A+, and A+ by Moody's, Standard & Poor's and Fitch Ratings, respectively. The capital fund deficit—which stood at \$246 million in FY 2005—has turned into a surplus of \$712 million over the past two years (based on preliminary estimates, subject to change as the FY 2007 Comprehensive Annual Financial Report is completed and published). However, about \$536 million of the FY 2007 year-end capital fund balance is the unspent proceeds of four specific financings: FY 2006 COPs and tobacco bonds and FY 2007 school modernization and Great Streets financing. We anticipate most of these balances being spent within the next two years, which will rapidly reduce the capital fund balance. The Chief Financial Officer's management goal is to balance the capital fund on a long-term basis.

Also, despite our improved bond ratings, borrowing constraints continue to affect the District's capital program. The District has very high debt ratios relative to

other jurisdictions of comparable size. Debt service is anticipated to reach 12 percent of the District's operating budget by FY 2010, reaching the maximum level recommended by the Chief Financial Officer. In addition, our outstanding tax-supported debt per capita is expected to surpass \$10,000, one of the highest such figures in the country and more than twice the average of other major cities. Thus, despite recent improvements, we must still manage our capital resources very carefully.

3. Budget execution. OBP closely monitored agency budgets and by working closely with the OCFO field staff, brought FY 2007 spending pressures down to \$189.8 million, lower than the District's nine-year average of \$203 million for the third consecutive fiscal year. As always, we worked closely with staff from the Mayor's office and Council in proposing solutions to these pressures in the form of cost savings measures or additional budget from new revenues or the operating cash reserve.

OBP also improved grant management functions by instituting regular grant lapse reporting, processing more than 1000 modifications and conducting agency training classes. We have also developed the process to migrate from quarterly to monthly grant budget reconciliations for improved accuracy and analysis in FY

2007, reducing the time required for this process by using CFO\$ource' s Grants Management System (GRAMS) application.

We have also worked closely with agencies to notify them of discrepancies in their spending plans regarding compliance with the local Anti-Deficiency law, and produced anti-deficiency compliance reports and submitted referrals of potential agency anti-deficiency violations to the Anti-Deficiency Review Board in a timely manner.

Our ongoing analysis of possible spending pressures often leads to early identification and solution through reprogrammings to help agencies balance their budgets and avoid Anti-Deficiency violations. We worked closely with agency fiscal officers and the EOM to process approximately 85 local, capital and special purpose revenue fund reprogramming requests that required Council approval.

We are also linking our spending plan application to the Office of Contracting and Procurement' s Service Level Agreement (SLA) application. This allows OCP to develop the most accurate SLAs in the District' s history, by tying them to agency spending plans.

Finally, we have developed, refined and documented a prototype model and process for identifying crucial cost drivers, built a data base of the selected

drivers, and used these drivers, their trends, and derivative calculations of those trends for budgetary analysis. This model was successfully implemented in the Department of Corrections and several other agencies are in various stages of completion. We have developed a web-based Medicaid framework and drafted an analysis of actual FY 2005 to FY 2007 Medicaid activity and projections through FY 2009, including CFSA and Health Care Safety Net claims and/or demographic data.

FY 2008 Key Program Goals and Initiatives

Our central goal for FY 2008 is to continue to build on the successes of the past year.

OBP's major operational goals are to:

- Develop and publish (a) an improved FY 2009 baseline budget, addressing prior year recurring spending pressures, (b) a balanced Mayor's proposed budget, and (c) a balanced consensus budget in June.
- Continue to improve capital budget management and oversight by (a) examining the operating budget effects from completed capital projects, (b) completing the ongoing corrections to capital budgets in the financial system, (c) compiling better information on capital-funded full-time equivalent (FTE) positions, and (d) enhancing our technological capabilities.
- Improve the Anti-Deficiency quarterly compliance reporting process.

- Expand the Cost Driver project to major service provider agencies.
- Continue to improve collaboration with the City Administrator's (CA) Budget and Analysis team.
- Consistently meet the 5-business day turnaround timeline for all reprogrammings (upon receipt of Mayor's request letter).
- Improve District-wide position control budgeting by working with DCHR, OCTO and OCA to identify problems and provide solutions.
- Improve District-wide fixed cost budgeting and forecasting by working with OFRM, OPM and OCA to identify problems and provide solutions.
- Add modules for reprogrammings and grant budget modifications to CFO\$ource.

Conclusion

Currently, the OCFO's staff is working with the City Administrator's office and EOM to develop the Mayor's FY 2009 Budget and Financial Plan for transmittal to the Council on March 20th. We look forward to working with the Council and other policy makers, during the consensus process, to develop a sound and balanced budget that provides quality services to the residents of the District of Columbia.

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