

PUBLIC HEARING
ON
**THE MAYOR'S FISCAL YEAR 2011 BUDGET GAP-CLOSING
PLAN**

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

The Honorable Vincent C. Gray, Chairman

**November 30, 2010, 9:30 a.m.
John A. Wilson Building, Room 500**



**Testimony of
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Deputy Chief Financial Officer
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Chief Financial Officer
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Good morning 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), Office of the Chief Financial Officer. I am here today to testify on the Mayor's proposed FY 2011 gap-closing plan. These are indeed difficult financial times and we have some challenges ahead of us. As we take the immediate steps to balance FY 2011, I can assure you that the Office of the Chief Financial Officer is ready to provide full support to the Mayor and the Council. That support will continue as we not only take the immediate actions necessary to close the FY 2011 budget gap, but also look ahead to balancing FY 2012 as well.

Mayor's Gap-Closing Plan - Overview

The gap-closing plan addresses \$188.4 million in budget pressures, composed of a reduction in revenue of \$99.8 million, \$88.0 million in agency spending pressures, and \$600,000 in policy decisions. The Mayor's gap-closing plan resolves \$188.6 million of budget needs, for a positive net margin of about \$200,000. The plan includes \$161.2 million of spending reductions and \$27.4 million of increased revenue and other resources. Specifically, the plan:

- Reduces Local funds spending by \$138.4 million;
- Reduces Special Purpose Revenue and Dedicated Tax spending by \$22.8 million, with the associated revenues being converted to Local funds;
- Increases revenue by \$1.2 million;

- Increases fund balance use by \$4.6 million; and
- Increases transfers in from other funds by \$21.6 million.

On November 23rd, the CFO certified that the gap-closing plan submitted by the Mayor to the Council balanced the FY 2011 Budget and Financial Plan. Our analysis revealed that some of the budget cuts, while achievable, required either legislative action to implement or close monitoring of planned implementation schedules. I'll briefly review those items here.

Mayor's Gap-Closing Plan – Expense Reductions and Items to Note

Gap-closing items of note include:

1. ***Reduction of the FY 2011 City-wide Telecommunications Budget (\$3.0 million)*** - the reduction assumes the discontinuation of unnecessary telephone circuits, a reduction in cell phones, better contracted telecommunications rates, and no unauthorized increase in usage and demand. All of these areas will require close monitoring to achieve the savings.
2. ***Healthcare Contribution Savings (\$5.0 million)*** – the reduction is achieved by decreasing the District's contribution for employee healthcare costs by 3 percent and transferring the costs to the employee. The potential savings are shown in the Retiree Health Contribution agency; however, as employee healthcare contribution expenditures

actually occur in each agency, the savings would need to be allocated to each affected agency.

3. ***Department of Human Services (\$4.6 million)*** – in order for the reduction to the Temporary Assistance to Needy Families Cash Assistance program to be sustained, a legislative change is required for families who receive cash assistance in excess of 60 months (5 years).
4. ***Department of Corrections (\$923,000)*** – the savings are to be achieved by reducing the funding for 21 vacant correctional officer positions. To achieve this savings, overtime at the agency must be reduced below the current level, which could prove difficult if the jail population increases or other uncontrollable situations occur which require overtime.
5. ***Fire and Emergency Medical Services (\$656,779)*** - the plan to hold salary steps constant in FY 2011 requires Congressional approval of the provision in the FY 2011 Budget Request Act authorizing the Mayor to do so.
6. ***Unified Per Student Funding Formula (UPSFF)*** – the plan reduces the base amount in the UPSFF to the FY 2010 level of \$8,770 to save \$17.8 million, which consists of \$11.0 million from D.C. Public Schools and \$6.8 million from D.C. Public Charter Schools. This reduction will be offset by federal EduJobs grant funds to restore the UPSFF to \$8,945.

Because the EduJobs grant is nonrecurring, the Financial Plan for FY 2012 through FY 2014 must reflect the UPSFF at the reduced level.

Mayor's Gap-Closing Plan – Revenue Proposals

There are a net \$49.9 million in Local fund revenue proposals and \$2.1 million of Dedicated Tax revenue proposals in the Mayor's gap closing plan. These include transfers and/or additional payments from existing funds, a rate increase for a dedicated tax, a measure to generate additional revenue through increased tax compliance, and a few tax abatements. Transfers from existing funds include:

- Transferring \$22.8 million from Special Purpose Revenue and Dedicated Tax funds into Local funds;
- Transferring \$21.6 million from tobacco settlement, baseball, small business survival, and Office on Aging facilities into Local funds; and
- Using \$4.6 million of FY 2010 surplus funds from the District Department of Employment Services.

Two other revenue proposals affecting Local funds are:

- ***Agreement with U.S. Treasury (\$1.2 million)*** - This proposal allows the Office of Tax and Revenue to enter into an agreement with the U.S. Treasury to capture payments for goods and services to delinquent vendors. It would be a reciprocal arrangement where the federal

government would reduce payments to vendors by the amount owed to the District and the District would do the same if the vendor had a federal tax liability. This would allow the District to collect outstanding debt and encourage increased compliance. The first year of the program, assuming implementation in July 2011, would generate about \$1.2 million. The second year would generate more—\$5.6 million—because the program would be in place for a full year, after which point the amount would decline as the backlog of liability is collected.

- ***Abatements (\$296 thousand reduction in revenue)*** – The proposed BSA also includes the repeal of “subject to appropriation” language from three bills: 800 Kenilworth Avenue NE (B18-828), 2323 Pennsylvania Avenue SE (B18-628), and Renovation Penalty Abatement (B18-483). There is also a new abatement provided for 4427 Hayes Street NE.

Finally, one proposal increases Dedicated Tax revenue:

- ***Hospital Assessment Tax (\$2.1 million)*** - The proposal includes a \$500 increase in the hospital assessment tax that is dedicated to the Hospital Fund. This tax was created in the FY 2011 Budget Support Act passed in July 2010. The new rate will be \$2,000 per licensed bed and generate an additional \$2.1 million annually.

Conclusion

The OCFO will continue to work diligently with the Mayor and the Council to develop and implement the necessary gap-closing plan to ensure that the FY 2011 budget remains balanced. Mr. Chairman, this concludes my remarks. I will be pleased to answer any questions that you may have.