

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2010 AND 2011 SPENDING AND
PERFORMANCE BY 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

**March 7, 2011
John A. Wilson Building
Council Chambers**



**Testimony of
Lasana K. Mack
Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury**

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

Good morning, Chairman Evans and members of the committee. My name is Lasana Mack, Deputy Chief Financial Officer and Treasurer, in the Office of Finance and Treasury ("OFT"). Thank you for the opportunity to present testimony regarding the operation and performance of my office for FY 2010 and FY 2011 year-to-date.

OFT's mission is to efficiently and effectively manage the financial assets and liabilities of the Government of the District of Columbia. This involves receiving, investing, disbursing, and recording District financial resources, including the District's issuance and repayment of bonds.

We are pleased that for the second consecutive year, the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, more commonly known as the Yellow Book, that accompanied the recently-completed FY 2010 Comprehensive Annual Financial Report (CAFR) audit did not contain any findings related to the Office of Finance and Treasury. This outcome is the result of a very focused effort to systematically address the prior-year issues and put enhanced processes in place to ensure a high level of operational efficiency for all of OFT's functional areas.

Debt Management. As you are aware, the District currently enjoys the highest bond ratings it has ever had. The credit ratings on our general obligation bonds are Aa2, A+ and AA- by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively. The rating agencies have cited strong financial management and a history of strong financial results among their reasons for the rating increases that the District has achieved over the years. However, the rating agencies have recently indicated that the District's continued reliance on its

fund balance to help balance its annual operating budget could result in a negative rating action. As you are aware, Mr. Chairman, the District's elected leadership, including the Mayor and yourself, have committed to producing structurally balanced budgets—budgets that do not use the fund balance to help balance the budget—in FY 2012 and going forward. Starting in FY 2009, the District has funded its Capital Improvements Program mostly through the issuance of Income Tax Secured Revenue Bonds, which are rated AAA, the highest possible rating, by Standard and Poor's, Aa1 by Moody's and AA+ by Fitch. It is noteworthy that the District's inaugural issuance of income tax bonds in FY 2009 was a national finalist and regional winner of the Deal of the Year award given by The Bond Buyer, a national municipal finance publication. To be nationally recognized in this manner represents a great achievement for the District.

On behalf of the District, OFT issues bonds, notes and other securities in the public financial markets to fund capital projects and cash flow needs, and manages the District's Master Equipment Lease/Purchase Program, which provides financing for equipment acquisition. Despite the continued volatility in the financial marketplace over the past year, the District has been able to successfully meet its short-term and long-term financing needs.

In March 2010, the District issued approximately \$800 million of bonds to refund (refinance) outstanding District bonds. This debt refunding, also considered a debt restructuring because it changed the amortization structure of the District's debt portfolio, reduced the District's debt service payments in FY 2010 and other years without extending the final maturity of any particular bond issue. The primary reason for doing this refunding/restructuring transaction was to allow the District to continue making important long-term investments in its infrastructure with on-

going financing of its Capital Improvements Program, including Schools Modernization.

In October 2009 and October 2010, we issued \$500 million and \$700 million, respectively, of Tax Revenue Anticipation Notes at very favorable interest rates to finance the District's seasonal cash flow needs. The District's seasonal cash flow needs have increased in recent years as its fund balance and working capital levels have decreased due to the use of fund balance to help balance the budget during the challenging economic times that the nation and the District have experienced. In December 2009 and December 2010, respectively, we issued Income Tax Secured Revenue Bonds and General Obligation Bonds to fund approved projects in the District's FY 2010 and FY 2011 capital improvements program, and took advantage of the Build America Bonds provisions of the American Recovery and Reinvestment Act (ARRA) to achieve very low interest rates and produce significant debt service savings for the District.

Cash Management/Banking. OFT manages the cash, investments and banking relationships of the District, ensuring that the District's payment obligations are met and that interest income is earned on the funds on hand. Investment interest rates have been very low in recent times, producing lower levels of interest income than in the past. The District is very conservative in its investments, reflecting the fact that the preservation of principal is the primary investment objective. Another objective is to acquire banking services and have District funds on deposit with local financial institutions, and we have been proactive in doing this. Currently, approximately 8% of our funds resides with local financial institutions.

Grants. In FY 2010, the District received approximately \$3 billion in federal grant funding (including Medicaid and ARRA funding). OFT manages the cash and accounting aspects of agencies' federal grant drawdowns. We have continued to enforce the principles of the federal Cash Management Improvement Act and meet its requirements in a timely manner, and are working with other agencies to enhance the process for monitoring agency grant-related payments and receipts, and ensuring the timely reimbursement of expended grant funds.

Operations. Two of OFT's primary operations are Cashiering and Payment Operations. These units perform the important functions of revenue collection and check and ACH (automated clearinghouse) payment production and disbursement for agencies throughout the District government on a daily basis. We have continued to work to enhance the efficiency of these operations, including the implementation of a new, state-of-the-art cashiering system at all of our revenue collection sites.

Special Savings/Investment Programs. OFT manages or assists in managing the administration of the DC College Savings Plan, the 401(a) Retirement Plan and the 457(b) Deferred Compensation Plan, and the Other Post Employment Benefits (OPEB) fund. We ensure that the District contracts with outside firms that will perform high-quality funds management and investment functions with the highest level of professionalism, and we work with those firms to seek to provide the best result for District employees and District residents. We have encouraged and facilitated increased investor education about the investment arena and the various options available to them to assist them in meeting their savings and retirement goals.

Unclaimed Property Program. The District's Unclaimed Property program continued community outreach activities that included two extensive advertisements that are done semi-annually with local newspapers. In FY 2010, OFT returned approximately \$7 million to over 5,200 owners of unclaimed property that had been turned over to the District.

Mr. Chairman, this concludes my testimony. I would be pleased to answer any questions that you or other committee members might have.