

PUBLIC OVERSIGHT HEARING
ON
THE FY 2010 AND FY 2011 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 Kwame R. Brown, Chairman

March 18, 2011, 3:00 p.m.
Room 412, John A. Wilson Building



Testimony of
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Good afternoon, Chairman Brown 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 2010 performance and FY 2011 plans of the Office of Budget and Planning. I am honored to appear today and present testimony on the accomplishments of my office and our plans 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, Associate Deputy Chief Financial Officer. Also here to answer questions related to cash, debt service, and debt management is Mr. Lasana Mack, Treasurer and Deputy Chief Financial Officer for the Office of Finance and Treasury.

I will cover the following areas in my remarks:

- Fiscal Years 2010 and 2011 operating expenditures;
- FY 2010 performance; and
- FY 2011 operational goals.

Fiscal Years 2010 and 2011 Operating Expenditures

In FY 2010, OBP operated within its Local funds revised budget of \$5.84 million, spending \$5.83 million, or 99.8 percent of our available Local funds. The FY 2011 budget for OBP is \$5.37 million, all in Local funds. To date, we have expended and obligated \$2.21 million, or 41.2 percent of our budget. We anticipate completing the year within our current budget. Our authorized FTEs total 45.

FY 2010 Performance

Our major accomplishments were in four areas.

1. Development of the FY 2011 Budget and FY 2010 Budget Revisions. The budget balancing process continues to be challenging. We published the FY 2010 budget on September 28, 2009 and this budget became the approved FY 2010 budget on December 16, 2009. However, revised revenue estimates in December 2009 and February 2010 led to an FY 2010 revenue reduction of \$35 million. The revenue reductions, combined with spending pressures of \$185 million, and a \$10 million Contingency Reserve repayment, created a total budget pressure of \$230 million. As we have in the past, we worked closely first with the Mayor and then with the Council to develop and implement a gap-closing plan. The presentation of the Mayor's FY 2010 gap-closing plan was done concurrently with his presentation of the FY 2011 budget and financial plan to Council on April 1, 2010. Working collaboratively with the Council, we then rebalanced the FY 2010 budget, which was adopted on May 26 along with the FY 2011 budget, and we published the FY 2011 Budget and Financial Plan on July 1. After the FY 2011 budget was published, a revenue loss of \$99.8 million was announced in September 2010, immediately prior to the start of the fiscal year. This revenue reduction, coupled with \$88 million in FY 2011 spending pressures, led to additional FY 2011 gap-closing actions of \$188 million in November and December 2010. I am very proud of the efforts of my staff, who worked long hours and many weekends to keep the budget in balance.

2. Budget Execution. Keeping agency budgets balanced in the face of reduced revenues required greater emphasis on budget execution. Multiple consecutive quarters of declining revenues underscored the need for increased monitoring of agency spending and revenue collections. I will now discuss our key budget execution tools.

Financial Review Process - The major tool that is used to monitor agency spending is the Financial Review Process (FRP) report, prepared by the agency fiscal officers and submitted through the agency directors to OBP for review and analysis. We use the FRP to analyze agencies' projected year-end expenditures and revenue collections and compare them to agency budgets. The FRP is also used to report spending pressures. The early identification of spending pressures allows us to work with agencies to develop gap-closing action plans and avoid violating anti-deficiency laws.

Reprogrammings - In FY 2010, we worked closely with agency fiscal officers and the Executive Office of the Mayor to process approximately 424 local, capital, and special purpose revenue reprogramming requests, of which 66 required Council approval. We will continue to work with the Mayor and Council to reform and streamline the reprogramming and intra-District transfer process.

Grants Management - OBP continued to improve grants management by processing grants modifications on a regular basis and requiring quarterly grant lapse reports from the agencies. In FY 2010, OBP processed more than 630 grant

budget modifications and conducted three grants-related training classes. We performed monthly grant budget reconciliations to ensure that grant budget modifications are accurately reflected in SOAR.

Reporting - OBP produces monthly Financial Status Reports on operating budget spending and quarterly reports on capital budget spending, in addition to a variety of reports on such topics as grant budgets, capital-funded FTEs, and Anti-Deficiency Act Board referrals. With the help of the OCFO Chief Information Officer, we have now automated the operating Financial Status Report, which went live yesterday and can be accessed online.

ARRA (Stimulus funds) – Stimulus funding is still in active use in the District, and OBP continues to monitor the remaining ARRA funds. When stimulus funding was first authorized in FY 2009, OBP was designated the lead office within the OCFO and created the initial reporting structure. Since FY 2010, we have been working closely with the agencies to process their requests for budget authority to spend stimulus funds in a timely manner. We have also responded to questions from the media and other stakeholders regarding the use of stimulus funds. At this point, we do not expect additional stimulus funding to be made available from the federal government.

Cost Driver Initiative - We have continued to expand the cost driver initiative, and the information is now available on the CFO\$olve application. Approximately 21 agencies' data are available. Another 14 agencies are ready to

be loaded into the application, which will be accomplished once we have approval from the agency program and fiscal staffs. Currently, the cost driver team is working with 20 more agencies from all budget clusters. Just recently, working with the Cost Driver team, we provided an overview of the cost driver project to each Council Committee.

Support of the Annual CAFR Audit - The annual CAFR audit was the last step in FY 2010's budget execution, and OBP was heavily engaged in the audit process. A key task was providing the auditor with the necessary authorization and justification materials for the original budget and subsequent budget revisions for each fund type that occurred during the year. This is no small task, especially since agency budgets have been adjusted a number of times due to budget balancing. We also provided analyses on the contingency cash reserves, Local funds year-end reserves and designations, and the variance between year-end budget and expenditures.

3. Capital Budget Improvements. We continued to improve management of the capital improvements program. Our Capital branch implemented a Council-approved method for capturing small, unused budgets from older, inactive capital projects and was able to reduce the number of active projects by 849, a 32 percent reduction. Working with the Office of Finance and Treasury, we were also able to complete a bond reallocation plan that moved \$221.6 million of capital project financing between

projects. This reallocation has reduced FY 2011 borrowing needs by \$144.3 million, to \$520 million. Finally, for the first time in recent years and at Council's request, the proposed Highway Trust Fund budget volume was transmitted to Council on April 1st at the same time as the other FY 2011 budget volumes.

4. Policies and Procedures Development. In FY 2010, OCFO initiated a comprehensive review and update of our internal policies and procedures. As part of this initiative, OBP thoroughly documented 28 internal tasks and 9 OCFO enterprise-level tasks.

FY 2011 Key Program Goals and Initiatives

Our central goal for FY 2011 is to continue to build on our successes. OBP's major operational goals are to:

- Develop an accurate Current Services Funding Level and work with the Mayor and Council to develop a balanced budget and financial plan for FY 2012;
- Continue to monitor agency spending through FRP analysis, aggressively seek early identification of spending pressures, and work with agencies to develop gap-closing plans as appropriate;
- Continue to improve capital budget management and oversight by (a) ensuring the FY 2012 – FY 2017 Capital Improvement Plan remains within the debt cap; (b) monitoring the impact of the termination of the District Department of Transportation Unified Fund on capital budgets; and (c) continuing to monitor capital-funded full-time equivalent (FTE) positions; and

- Continue to work collaboratively with the Mayor and the Council on budget issues.

Conclusion

Currently, the OCFO's staff is working with the Mayor's Office of Budget and Finance and the Office of the City Administrator to develop the Mayor's FY 2012 Budget and Financial Plan for transmittal to the Council on April 1. I would like to take this opportunity to thank the entire OBP team for their hard work and professionalism during what has been another very challenging year for the District. We look forward to working with the Council and other policy makers during the consensus process to develop a transparent and balanced budget for FY 2012. Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions that you may have.