

# **BUDGET HEARING**

## **FY 2012 BUDGET REQUEST OF 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**

**April 21, 2010  
Council Chamber**



**Testimony of  
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Good morning, Chairman Evans and members of the Committee. I am Stephen Cordi, Deputy Chief Financial Officer for the Office of Tax and Revenue. I am pleased to present testimony on OTR's FY 2012 budget request and performance objectives.

### **FY 2012 Budget Request**

The FY 2012 budget request for OTR is \$56.3 million and 470 FTEs, a decrease in gross funds of \$532,000 (1%) and 12 FTEs from the FY 2011 Approved Budget. The majority of this cut comes from significant reductions in forms printing and mailing costs, as well as a 50% reduction in temporary services. Some of these reductions mirror actions already taken in FY 2011 to live within the spending restrictions. However, the reductions in printing and mailing are dependent on changes in OTR's historical practices, and will require that more taxpayers continue to take advantage of electronic filing and forms available on the internet, as these forms will not be printed and distributed as they have been in the past.

Other reductions in non-personal services are offset by transfers to support the personal services budget. OTR has been able to limit staffing reductions in FY 2012 to 2.5%. The 12 FTEs being cut are positions that are currently vacant in FY 2011. In addition, OTR will need to achieve vacancy savings equivalent to nine

additional FTEs over the course of FY2012. Non-personal services makes up less than one-third of OTR's total budget, and only 6% of the local funds budget, so budget cutting necessarily means cutting positions. We believe we have done everything we can to make these cuts with minimal impacts on revenue generating functions, without further extending the returns processing cycle or wait times for customer service.

The total Other-type budget request for FY 2012 is \$13.9 million, \$12.6 million of which is designated to fund ongoing collection outsourcing, discovery and section 482 audits. All of these are contingency contracts, meaning that no expenses are incurred unless collections are realized.

The Recorder of Deeds Surcharge budget is reduced by approximately \$200,000 in FY 2012 to \$1.1 million, which is in line with the FY 2011 spending plan.

Funding is ongoing for automation, which we expect will include some software upgrades and integration work as part of the comprehensive Real Property systems modernization. The accumulated fund balance for the Surcharge has been reduced by just over \$4 million through the end of FY 2010, with another \$2.6 million scheduled to go to the general fund in FY 2011. The FY 2012 budget restricts the use of the remaining fund balance, projected to be between \$1.5 and \$2 million.

The most significant change to the Other-type budget of OTR in FY 2012 is the reclassification of the Compliance and Real Property Tax Administration Fees as local fund revenue. Because of this change, OTR's Other-type budget appears to be reduced by \$9.2 million from FY 2011. However, \$7.2 million of this is offset by increases in the local fund budget request. The remaining \$2 million cut reflects a change in the projections for the contingency contracts discussed earlier. OTR will continue to charge and collect these fees on delinquent taxpayers, but the revenue will go directly to Local revenues rather than being dedicated to the associated agency functions.

## **FY 2012 Performance Objectives**

### Taxpayer Services

We are continuing to work to minimize the impact on taxpayers from staffing reductions. Thus far in FY 2011, OTR has received approximately 80% of individual income returns electronically. Processing cycle time for electronic returns averages 4 to 5 days, compared to cycle times for paper returns that can be between 16 and 21 days. This year, OTR is sending all individual returns to our lockbox processing vendor, which is achieving cycle times at the lower end of this range, in order to live within our resource constraints.

Because so many taxpayers are taking advantage of electronic filing, our Customer Service Administration has been able to maintain reasonable wait times and low abandoned call rates during non-peak periods, in spite of staffing reductions in FY 2010 and 2011. During the real property billing cycles and the weeks preceding the individual filing deadline, wait times often approach 20 minutes, and in this last filing season we experienced very high rates of abandoned calls.

### Revenue

OTR is maintaining its focus on its mission of revenue collection even during this period of reduced resources. OTR has a new primary collections contract and the outsource vendor has started the billing process. We expect to see delinquent collections steadily improve as more cases are transferred to the vendor.

In addition, the OCFO's CIO is in the midst of programming several revenue initiatives funded by the Council. Thus far, we have piloted enhancements to our Homestead Audit program, and have implemented changes that we expect will yield improved collections from federal refund offsets. We expect that several other enhancements will be implemented in May and June, and the DC Vendor

Offset program should be automated in July. Programming on several others with FY 2012 revenue impacts will continue for the remainder of this fiscal year.

### Technology

Technology continues to be the single largest issue facing OTR, determining our ability to succeed in generating additional revenue, to better serve our customers, and to reduce the risk of fraud. We have issued an RFP for a modernized real property tax system which we hope will result in a contract award before the end of FY 2011. This is an essential element in improving customer service and internal controls in the real property tax program. We hope that the new system can be implemented in time for the 1<sup>st</sup> half billing process in 2013.

The RFP for a modernized ITS system is being finalized now, and we plan to issue it as soon as capital funding is available. In addition to the benefits to be gained by making our current compliance efforts more efficient and implementing internal controls that cannot be addressed in the current system, we expect that a new system will result in significantly improved ease of implementation for tax law changes. The OCFO's CIO has included funding for this critical systems replacement project in the FY 2012 capital budget request.

## Internal Controls

For the last two fiscal years, OTR has been working to document and improve internal controls as part of the comprehensive strategy laid out by the OCFO.

OTR has made steady progress over these two years, from 18 Yellow Book findings in 2008 to 6 findings in 2010. Of those original 18 findings, the only one that remains open pertains to the reconciliation of withholding payments. OTR has pursued significant control work in this area, and we have implemented a sound revenue protection strategy and a robust audit program to identify fraudulent or erroneous returns. Of the five remaining, work on two is substantially complete, two are underway, and the last involves work that will be done as part of preparation for year-end closing. Ongoing monitoring and enhancement of internal controls will be a significant part of OTR's work in FY 2012.

## **Conclusion**

OTR remains committed to its core mission of collecting the revenue due to the District. Although FY 2012 will be a challenge, we take seriously our responsibility to ensure that funds are available for the key functions of the District government and will continue to make resource allocation decisions that support that objective. Thank you for this opportunity to testify.

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