

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2011 AND 2012 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

**February 27, 2012
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. Thank you for the opportunity to present testimony regarding the operation and performance of my office for FY 2011 and FY 2012 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, and also includes managing the District's issuance and repayment of bonds and notes in the financial marketplace.

CAFR Audit. We are pleased to report that the recently completed audit conducted by the independent auditing firm KPMG had an excellent outcome with respect to OFT and its various functions. There was only one lower-level audit finding related to OFT (with zero high-level findings), which represents a remarkable outcome given the size, volume and complexity of the transactions and functions that we manage on behalf of the District. This outcome is the result of a focused effort to ensure a high level of operational efficiency for all of OFT's functional areas, with the appropriate processes and personnel management in place to accomplish this. I would like to acknowledge and thank my management team for their diligent and quality work in this regard.

Debt Management. On behalf of the District, OFT issues bonds and notes 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.

Starting in FY 2009, the District has funded its Capital Improvements Program primarily 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. Our General Obligation Bond ratings are A+, Aa2 and AA-, respectively, by these three rating agencies. Collectively, these are the highest bond ratings in the District's history and are the result of prudent financial management. The rating agencies have cited strong financial management and a history of solid financial results among their reasons for the rating increases that the District has achieved over the years. As Dr. Gandhi has indicated and as you are aware, Mr. Chairman, the rating agencies had previously indicated that the District's continued use of fund balance to help balance its annual budget over the past few years was cause for concern. However, the FY 2011 surplus and bolstering of the fund balance with deposits to the new reserve accounts improved the District's working capital position and was well-received by the rating agencies in our recent visits with them. If the District has structurally balanced budgets (without the use of fund balance) and continues to display solid financial management, it will keep us in sound financial health for the long-term and we will stay in good standing on Wall Street, notwithstanding the ups and downs in the economy.

In FY 2011 and FY 2012 to date, we successfully financed the District's on-going Capital Improvements Program and our intra-year cash flow needs with debt issuances in the financial marketplace. The District's bond and note issuances were very well received by investors. Due to the low levels of market interest rates and the District's high credit ratings, we were able to complete these issuances at very favorable interest rates and produce debt service savings for the District.

In October 2010 and October 2011, we issued \$700 million and \$820 million, respectively, of Tax Revenue Anticipation Notes (TRANs) to finance the District's seasonal cash flow needs. The FY 2012 TRANs issuance produced a record-low interest rate of 0.27%. The District's seasonal cash flow needs increased in recent years as its fund balance and working capital levels decreased due to the use of fund balance to help balance the budget during the challenging economic times that the nation and the District experienced. However, as indicated above, the FY 2011 financial results increased the District's fund balance and working capital position, and we expect that to translate into a lower level of short-term borrowing next fiscal year. OFT issued bonds in FY 2011 to fund capital project expenditures for last fiscal year, and in December 2011, we issued approximately \$400 million of Income Tax Secured Revenue Bonds to finance FY 2012 capital projects at a weighted average interest rate of 3.78 percent, an excellent rate for long-term financing.

Cash Management and 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 conservative in its investments, reflecting the fact that the preservation of principal is the primary investment objective. We competitively procure banking services to meet the District's banking needs. One of our objectives is to have District funds on deposit with local financial institutions, and we have been proactive in doing this. Currently, approximately \$100 million of our funds are placed with local financial institutions.

Grants. In FY 2011, 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 electronic 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 increasing the percentage of our payments that are made electronically, and implementing a 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, the 457(b) Deferred Compensation Plan, and the Other Post Employment Benefits (OPEB) trust 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 extensive advertisements that are done semi-annually with local newspapers as well as on-line operations. In FY 2011, OFT returned approximately \$12.1 million to over 17,000 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.