

BUDGET HEARING

FY 2013 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 19, 2012
John Wilson Building
Council Chamber**

**Testimony of
Stephen M. Cordi
Deputy Chief Financial Officer
Office of Tax and Revenue**

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

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 2013 budget request.

FY 2013 Budget Request

The FY 2013 budget request for OTR is \$59.0 million in Gross Funds and 481 FTEs, an increase of \$2.7 million (5%) and 11 FTEs from the FY 2012 Approved Budget. Of this amount, approximately \$880,000 funds normal cost increases associated with current services operating levels. Two FTEs and \$122,000 are being requested in Intra-District funding, to support the administrative costs associated with collecting and accounting for various dedicated taxes. The remaining increase of \$1.8 million is attributable to revenue initiatives, which I will go over in more detail later in my testimony.

Of the total Gross Funds request of \$59 million, the total Other-type request for FY 2013 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 remains at \$1.1 million, with funding for ongoing automation that will include software upgrades and integration

work that will complement the Real Property systems modernization. The remaining \$200,000 in Other-type funds supports Tobacco Tax compliance projects and the collection of dishonored checks.

FY 2013 Revenue Initiatives

OTR continues to look for opportunities to increase revenue collections or, alternately, reduce the loss of revenue.

In the area of sales tax, OTR proposes to take advantage of a federal law change that will provide us, through the IRS, with information from credit and debit card processors on gross payments for each merchant served by the processor. This will not only allow our Audit Division to compare these amounts to reported sales and select the most productive cases for audit, but will also allow for increased collections through automated billing. In order to support this initiative, OTR is requesting 8 new audit positions (which will be filled for only half of FY 2013, for a net increase of 4 FTEs) at a cost of \$267,000, plus another \$100,000 to develop an automated data matching and billing process based on data from the IRS.

Additionally, the FY 2013 budget request contains \$200,000 for the programming and forms necessary to support an annual business use tax filing requirement,

which is projected to result in an additional \$2.2 million in annual revenue.

Because many businesses do not file a sales tax return, they are likely not to report use tax liabilities, and no return is demanded of them because the District does not have a method to identify only those with an obligation to file and pay. The proposed legislation imposes no new taxes, no new obligation to verify that all use taxes have been paid, and no new obligation to file a return if use taxes are due.

We believe this is an area of significant non-compliance. One additional FTE and \$100,000 is being requested to follow up on non-filers and audit use tax returns.

Over the last 12 months, OTR has also been working to increase the amount of revenue that we can collect through offset agreements with neighboring jurisdictions and the federal government, and later this year we will implement the State/Federal Vendor Offset program, allowing us to receive offsets of Federal vendor payments to satisfy District tax liabilities, and providing similar offsets to satisfy taxpayer liabilities with the IRS. This budget request also contains \$500,000 to develop a similar offset program with the Department of Motor Vehicles, applying tax refunds to delinquent taxes, fees or fines owed to the District. It is estimated that this will yield \$2.5 million in revenue collections annually.

One primary source of revenue loss to the District comes from inadequate support of real property tax values under appeal. Approximately 1,200 assessment appeals have been filed with the Superior Court. While many of these cases are settled, rather than litigated, those that do go to a hearing are generally large commercial cases. Historically, OTR hires third-party appraisers to serve as expert witnesses in these cases, but the costs of these experts was often prohibitive. In order to accommodate budget reductions, OTR has recently relied on our own highly qualified appraisers to serve as experts, which puts additional pressure on the already short-staffed Assessment Division. A return to using outside witnesses would prove as cost-prohibitive as before, so we are instead proposing to hire 3 additional FTEs at a cost of \$256,000 to staff fully the litigation unit to defend these high-dollar cases.

We are also requesting \$300,000 to program a change in the interest rate calculation in ITS, linking the annual rate to the Federal Reserve Prime Credit Discount Rate, to represent more fairly the time value of money. The impact of this change is estimated at \$1.8 million in interest savings annually.

Conclusion

OTR remains committed to the mission of collecting revenue due to the District, while ensuring fair and equitable tax administration. The FY 2013 budget makes necessary and timely investments in several key program areas to ensure that we meet these goals. Thank you for this opportunity to testify.

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