

PUBLIC OVERSIGHT HEARING
ON THE MATTER OF:
PR 19-777, “CHIEF FINANCIAL OFFICER OF THE
DISTRICT OF COLUMBIA NATWAR M. GANDHI
CONFIRMATION RESOLUTION OF 2012”

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chair

June 28, 2012, 10:00 a.m.
Council Chambers, Room 500 – John A. Wilson Building



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

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia Government. I am honored that Mayor Gray has nominated me to be reappointed as Chief Financial Officer for another term, and I appear before you today to discuss my qualifications and vision for this position.

LOOKING BACK

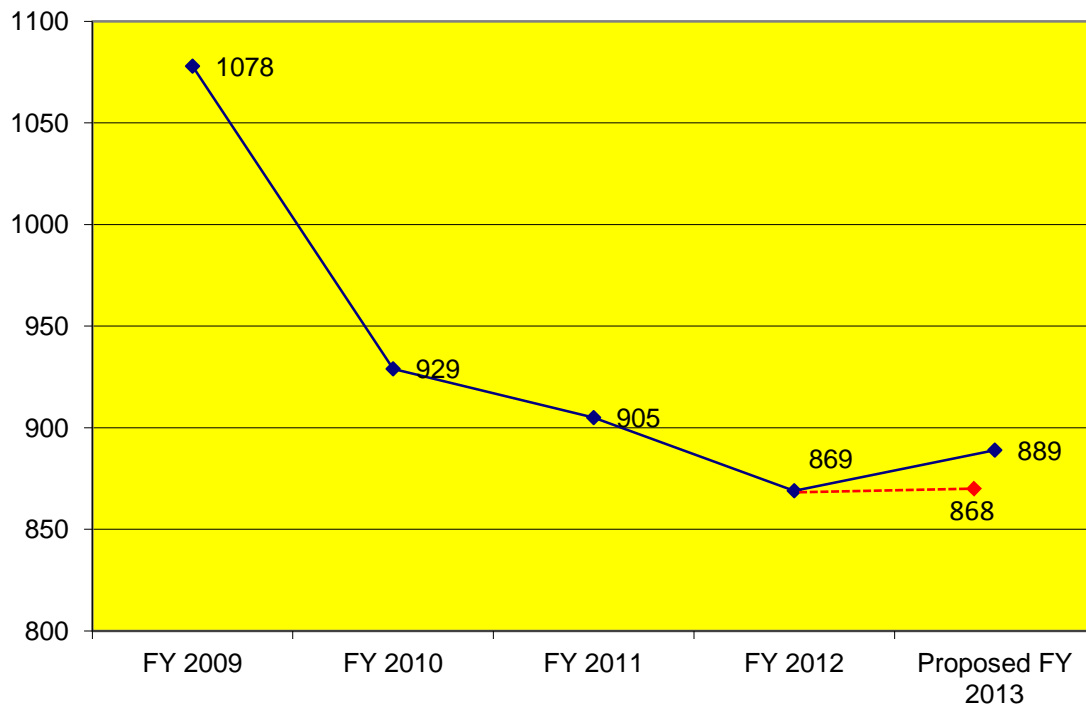
It has been fifteen years since I came to work for the Government of the District of Columbia. My first position was Deputy Chief Financial Officer for Tax and Revenue, where I reported to then Chief Financial Officer Anthony Williams. In June 2000, Mayor Williams appointed me to the position of Chief Financial Officer. I was again nominated for the position in 2002 by Mayor Williams and again in 2007 by Mayor Adrian Fenty.

Looking back over this period, I am proud of what has been accomplished. We have improved the fundamental financial management of the District. Let me review some of what I feel are the most important measures of our success. In every year of my tenure as CFO the District has:

- Delivered its Comprehensive Annual Financial Report (CAFR) with a clean audit opinion
- Achieved balanced budgets with annual budgetary surpluses at the end of each fiscal year
- Improved and made routine the function of regular financial disclosure, and provided the Mayor and Council with the tools needed to make informed policy decisions
- Established an effective structure for agency financial operations to serve the program managers and help them achieve their missions

- Recruited and developed a first rate financial management and accounting staff, including the Offices of Budget and Planning, Finance and Treasury, Financial Operations and Systems, Revenue Analysis, Tax and Revenue, Lottery and agency operations.
- And, as the District budget required, we did all of this while becoming more efficient in the use of our resources and reduced the number of OCFO staff by 18% since 2009. See Figure 1 below.

Figure 1
OCFO Budgeted FTES FY 2009-FY 2013



Above all, I believe that we have laid a strong financial foundation -- comprised of skilled staff, effective processes, and efficient technology – upon which the District will continue to build. This has been the key to achieving the other accomplishments and to regaining and sustaining financial credibility and fiscal stability.

While we have accomplished much, the past five years have not been without challenges. The greatest was, of course, the discovery of a multi-year theft of public funds by one of our own employees in the Office of Tax and Revenue. At that time, I expressed my deep regret and personal outrage and took full responsibility. Immediately, I began acting to repair what was broken and to regain the public trust that was so badly shaken. To that end, I moved quickly to hold people accountable, appointed interim leadership and then made a new permanent appointment in the tax office. I appointed a Chief Risk Officer, hired outside accounting and risk management experts, and immediately changed the business processes so as to establish new controls and procedures. Additionally, the OCFO fully implemented the recommendations from the Report of Investigation conducted on behalf of the Council by WilmerHale.

I also established an independent Audit Committee. The Committee, composed of distinguished financial experts, continues to assist us in reviewing the internal control structures of the OCFO's financial management operations, as well as its compliance with existing policies and procedures. There is no question that the District's internal controls are now stronger than ever before. However, we are all acutely aware of the need for eternal diligence in this area, and we regularly review each of our operating areas to ensure that all possible steps are being taken to protect the public's assets.

I have also been criticized for what some consider “overly” conservative revenue estimates. It is important to remember that over the past five years, the nation has experienced the longest and deepest recession since the Great Depression, which has taken a great toll on our nation, its states and local governments. The District has been most fortunate in this period, because although we have experienced the pain of having to cut spending, the degree to which the recession affected us has been less than that of nearly every other part of the country. This is attributable to the presence of the federal government and the employment opportunities and spending that it generates here.

While this has somewhat sheltered us from most economic downturns in the past, we now face great uncertainty as to what the Congress will do with regard to changing the sequestration provisions in current law. Other sources of uncertainty include the on-going debt crisis in the Euro-zone and fluctuations in oil prices stemming from Middle-East instability. Moreover, we must be mindful of the inherent and historic volatility of the District’s revenues. Although revenue growth averaged 5.2 percent over the last 10 years (FY 2002 – FY 2011), it grew as fast as 13.9 percent in FY 2007 at the peak of the real estate boom, and plummeted 5.2 percent two years later during the financial crisis.

Given the current uncertainties and the historic volatility of the District’s revenues, we must take a conservative approach to revenue estimates. The penalty for being conservative may be to limit spending to a greater degree than may prove necessary in a given fiscal year, but the penalty for not being conservative is to create the real possibility of triggering a new Control Period and the loss of Home Rule. To mitigate these consequences, we issue quarterly revisions to the

estimates which allow policy makers to adjust their spending decisions during the fiscal year in response to changing financial circumstances.

Throughout my tenure, I have been diligent in recognizing and reacting to challenges, and I believe we have faced them head-on and as a result, the District is a stronger and more stable entity.

When I took this office, it had been just a year since the District's bond ratings had emerged from below investment grade, or "junk bond" status (**see Attachment**). Bond ratings are the internationally recognized shorthand for a city's financial health. The 2000 ratings were in the lowest category that is considered investment grade. In its September 2000 report on the District's General Obligation bond ratings, Moody's Investors Service wrote:

"The District's credit, at Baa3, stands at a crossroads. As the District is poised to emerge shortly from the congressionally imposed control period, it faces myriad challenges. Many of these are not new, including constraints imposed on its revenue-generating capacity, a high debt burden, and a relatively weak economy."

Today, despite the economic stress being experienced throughout the country, and in Europe and many other parts of the world, the District is enjoying a relatively stable economy, compared to other major cities and other municipalities here in the Metro area. Thanks to the concerted effort on the part of elected leaders, in partnership with the Chief Financial Officer, our city has reestablished itself as the economic hub of the region. That said, the uncertainty we now face with regard to

the potential effects of federal spending cuts could place that stability in danger. Consequently, conservative revenue estimating and fiscal prudence remain a necessity. As a result of the District's financial record, we now enjoy greatly improved financial credibility on Wall Street, on Capitol Hill, in the District's own business community and the eyes of the general public. This success is reflected in our current General Obligation bond ratings of A+ from Standard & Poor's, Aa2 from Moody's and AA- from Fitch Ratings.

When it rated the District's General Obligation Tax Revenue Anticipation Notes in September 2011, Moody's wrote:

“Financial management in the District is characterized by institutionalized best practices. The core of these is the independent CFO, who has broad authority to manage the district's fiscal affairs. The CFO prepares the baseline budget and a required five-year financial plan, monthly financial status reports, debt affordability projections, annual revenue estimates and quarterly revenue revisions. Neither the mayor nor District Council can revise the CFO's estimates. The CFO also regularly identifies early in the budget process cost pressures that could lead to financial imbalance so that solutions can be determined before they lead to severe budgetary stress. The District's elected leadership has demonstrated its commitment to these financial management features, and also recently enacted a more restrictive statutory debt constraint.”

LOOKING AHEAD

The District faces a number of challenges. I would like now to look forward to what I believe we should consider as our highest fiscal priorities.

First, we must build on the financial gains we have realized. To lose ground at this point would be contrary to the interests of the residents of the District of Columbia who pay taxes to support this government. In the early years of my tenure, we corrected many of the glaring problems, the “low hanging fruit”, so to speak. The next stage of improving our financial condition will be somewhat more difficult, both in identifying the specifics of each problem, and in finding and implementing cost-effective ways to correct them. I pledge to continue to pursue excellence in financial management.

Second, we should continue to redefine our federal relationship. Now that we have established the District on a sound fiscal and financial footing, we deserve to be given greater budget autonomy by the Congress. For example, we should be given the ability to spend local dollars as we deem appropriate for the District’s residents without prior Congressional approval. The District balances its budget every year, and Mayor Gray has committed to balancing current year spending to current year revenues, thereby avoiding dependence on the use of fund balance. Not only do we need budget autonomy for improved efficiency and ability to deliver services promptly, but it is, very simply, the right thing to do for the 600,000 American citizens who reside in the District. Accordingly, if confirmed, I will continue to work with you and the Mayor toward accomplishing this important goal of fiscal independence.

Third, we should continue to follow responsible fiscal policies, including:

- Controlling our borrowing to avoid a heavy debt burden in the future by adhering to the local debt cap legislation
- Developing a strategy for our tax base that is fair, stable and competitive with neighboring jurisdictions while preserving adequate revenue flow, and

- Continuing to provide for rebuilding of our fund balance and fully funding the Council mandate for a Cash Flow Reserve and a Fiscal Stabilization Reserve.

It goes without saying that we must also balance our budgets every year and produce timely, clean audits of our financial activities. I believe that we can follow these policies and provide needed services to the residents of the District of Columbia. By adhering to these standards, it will be possible for the District to achieve even greater fiscal stability.

CONCLUSION

I want to take this opportunity to thank Mayor Gray for showing such a high degree of confidence in me. And to you, Mr. Chairman, I thank you for your continuing support and understanding of the challenges the District has faced, your strong commitment to fiscal prudence over the years, and your invaluable perspective as one of the District's most experienced leaders.

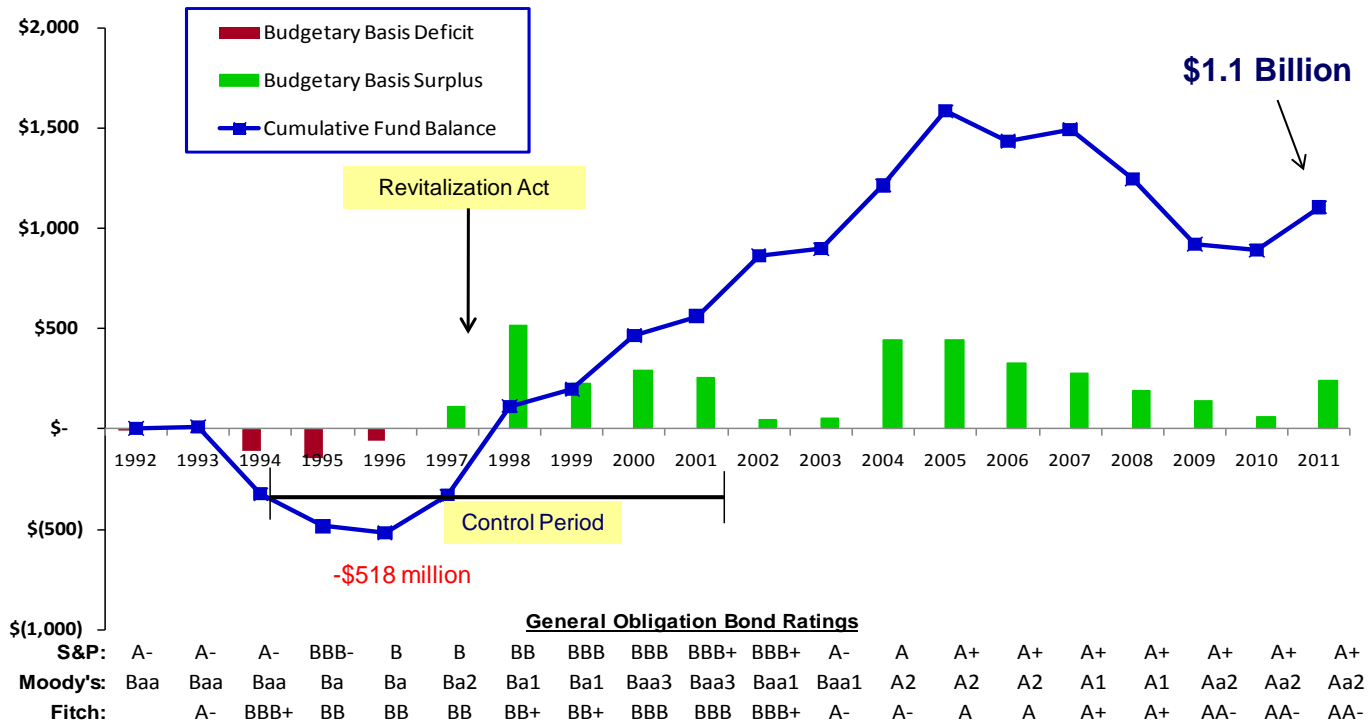
Let me also extend my deepest thanks to my staff, who helped make possible the improvements in the District's fiscal credibility by dedicating themselves to building the foundation of excellence in financial management on which we have all come to depend.

This concludes my remarks. I would be pleased to answer any questions you may have.



District of Columbia

District of Columbia Surplus and Bond Rating History



Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+