

**June 19, 2001**

Council of the District of Columbia

HEARING ON BILL 14-254, "INDEPENDENCE OF THE CHIEF FINANCIAL OFFICER ESTABLISHMENT ACT OF 2001", AND BILL 14-247, "INDEPENDENT BUDGET OFFICE ESTABLISHMENT ACT OF 2001"

## **Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee of the Whole**

Good afternoon, Madam Chairman and members of the committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer (CFO) of the District of Columbia. I am here today to testify on the two bills noted in your announcement: Bill 14-254, the "Independence of the Chief Financial Officer Establishment Act of 2001"; and Bill 14-247, the "Independent Budget Office Establishment Act of 2001". I appreciate the Council's work on both of these proposals and the opportunity to appear before you to share my views on them.

I would like to present my views in the context of key contributing factors in the financial turnaround of the District of Columbia over the past six years. I prefer the concept of these factors for two reasons: first, I believe these factors are essential, and, if they are present, a number of organizational configurations could be effective; and second, I believe the organization of the District government in the post-control period is properly a matter for the elected leaders in the District.

Certainly one of the major factors in the District's financial turnaround is the leadership shown by Mayor Williams and this Council in solving some extremely difficult problems facing the city. The Chief Financial Officer has not been elected to anything, but the Mayor and the Council have, and your guidance and support are critical for the CFO's success.

Another major factor in the District's recent success story is the combined efforts of the Chief Financial Officer's "cluster", consisting of Deputy CFOs and Agency CFOs. I believe this group of talented, hard-working people will be at the center of continued improvements in the District's finances. They work seamlessly with each other, agency heads, and other District officials in a way that is very important to continuing the recovery. We are currently in the process of building a financial infrastructure consisting of skilled professionals and efficient systems that could serve the District well for years to come. The successful collective performance of such an infrastructure is a strong argument for its continued integration and independence.

A final factor in the financial turnaround of the District has been the independence of the Chief Financial Officer. There are many perspectives on what exactly this independence means. Let me suggest that perhaps the best way to structure an independent CFO is to have that office, its related cluster, and all aspects of its work remain separate and insulated from the everyday political environment. In this regard, I believe I am in agreement with the Mayor, the Council and the Authority. They have expressed similar opinions about the need for the CFO to render financial judgments and share information without prior approval of other District officials. Among others, the District's business community and the New York financial markets are sensitive to these issues as well.

This kind of independence can be implemented by making the Chief Financial Officer a scorekeeper, so to speak, for financial processes, rather than a gatekeeper, a role played by the Authority. The CFO would be the transparent developer and certifier of financial data – such as revenue estimates, fiscal or contractual impact statements, and budget costing and budget monitoring. The CFO in part would become a city version of the Congressional Budget Office with respect to assessing revenues and reviewing the costs of legislation. This would allow elected leaders to focus on the direction of government knowing that the financial picture was established by an impartial, independent entity with no vested interests in the policy outcomes.

It's also important to remember what independence is *not*. I believe the Chief Financial Officer should not be independent from the District government in the same sense that the Authority is currently independent. After all, we are one government under Home Rule. With that in mind, we have already begun the process of reintegrating the Office of the Chief Financial Officer (OCFO) into the District government. For example, we are working with the Chief Technology Officer on information technology decisions, we participate directly in executive meetings, and in almost all cases we act in parallel with other components of the District government on issues like pay and personnel policy. We are also working very closely with the City Administrator on restructuring the District's system of accounts and the introduction of performance-based budgeting. In addition, I meet regularly with Council members and staff, and the CFO cluster performs a variety of analyses for the Council.

Overall, the Chief Financial Officer is a resource for both the executive and legislative branches of the city government, the Congress, and other stakeholders such as bond investors and the business community. We work with everyone as an equal opportunity sharer of information and analysis, and I believe the sort of independence I've described here today can best maintain this positive role.

We are all justly proud of the District's financial recovery, but I must remind you that it is fragile, in the sense that there is only a small margin for error due to the structural imbalance currently existing between revenues and expenditures. Extended downward changes in economic conditions or major program initiatives could be difficult to deal with financially. My attached testimony before the House and Senate oversight subcommittees addresses the District's long-term financial predicament.

Until the elected leaders in the District are firmly convinced that the District's recovery is sustainable and its finances are on firm footing – and until the financial markets agree – I believe retaining the independent Chief Financial Officer is key. The CFO organization, consistent with Home Rule, should still be an integral part of the District government. But in terms of the basic structure and authority of the Office, including legal counsel, personnel and procurement authority, I believe independence would best be preserved within a framework similar to that which currently exists. For this reason, I believe the Office of Budget and Planning should remain a part of the financial management cluster and not be an independent entity.

Thank you for the opportunity to testify today. I would be pleased to answer any questions you may have.