

**Testimony of Natwar M. Gandhi**  
**Deputy Chief Financial Officer for Tax and Revenue**  
**Before the Committee on Finance and Revenue**  
**On Oversight of the FY 1999 and FY 2000 Budgets**  
**Friday, February 25, 2000**  
**10:00 A.M.**

Good morning, Chairman Evans and members of the Committee. My name is Natwar M. Gandhi and I am Deputy Chief Financial Officer for Tax and Revenue. I am here today to discuss our FY 1999 accomplishments and spending and our plans for FY 2000. Let me speak first to FY 1999, the year recently past. During FY 1999, we continued to put into place the key components of a first-rate tax administration system for the District. Our final operating expenditures for FY 1999 was \$35.8 million and 575 FTE. Our key accomplishments included:

**KEY ACCOMPLISHMENTS – FY 1999**

**New Home.** OTR moved to a new facility – 941 North Capitol Street, N.E. – that provides a state-of-the-art, one stop Customer Service Center and

other space consistent with efficient and secure tax administration operations.

**New Criminal Investigation Programs.** A new Criminal Investigations tax unit has investigated over 20 cases of suspected tax fraud resulting in 16 referrals to the Office of Corporation Counsel. These cases have resulted in guilty pleas or prosecution.

**Payment by Credit Card Program.** New legislation and operating programs now permit taxpayers to pay their taxes by credit card. As of Feb. 22, the credit card program has been used 120 times, resulting in the collection of \$76,678.45.

**Expanded Electronic Information Exchange.** During FY 1999, over 10,000 individual income taxpayers filed their tax returns electronically, quadrupling the 1998 number, reducing operating costs and facilitating faster refunds. For FY 2000, our goal is to have 15,000 people file electronically, and for FY 2001, we would like to increase that number to 20,000. As of Feb. 22, OTR has received 9,397 electronically filed returns.

Tax forms and other tax information are now available on the Internet at [www.dccfo.com](http://www.dccfo.com) as is the real property tax roll.

**Y2K Compliance.** All OTR computer systems are certified as Y2K compliant and we are encountering no Y2K-related operating problems.

**New Integrated Tax System.** In November 1998, OTR began a multi-year replacement and enhancement of OTR computer operating systems in partnership with Anderson Consulting LLP. Business taxes will be the first to migrate to the new system toward the end of Calendar Year 2000. The new Integrated Tax System (ITS) will provide better, more accurate and faster information with which to assist taxpayers and manage OTR programs.

**Improved Operating Programs.** All key operating programs met or exceeded their FY 1999 program goals and FY 1998 levels. Nearly 400,000 taxpayers were helped, compared to 239,600 in FY 96; nearly \$60 million in delinquent tax collected and \$63 million assessed as a result of audits. We issued refunds in less than 15 days. Through a combination of more taxpayers filing, correctly reporting and paying, coupled with improved enforcement, the tax revenue base has been increased by about \$250 million

over FY 1996 levels. The chart attached to the end of my testimony shows trends for our key performance indicators. Virtually, all show improvements in the range of 80 percent to 90 percent compared to my first report to you in February 1997, three years ago.

## **KEYS TO SUCCESS**

I must admit I ask myself how did all this happen? On reflection, I believe there are four major reasons that may serve as guideposts for the future.

First, starting in FY 1997, we were able to attract and retain senior managers experienced in tax administration. Their in-depth knowledge of the steps needed to create an effective tax administration has led us to where we are today. In addition, these managers have imparted a new attitude and expectation for excellence to all employees who work in the Office of Tax and Revenue.

Second, OTR received and continues to receive the management tools needed to motivate work force performance. Being able to separate poor performers is part of the answer but the chance for promotion, training and the opportunity to work with first class equipment and systems is now driving the improvement in employee attitudes and competencies.

Third, by most public sector standards, OTR has been able to move quickly to put in place the programs, policies and infrastructure necessary to support the kind of tax administration system the City deserves. I think this demonstrates how quickly performance can be turned around if executives and managers are held accountable for achieving broad objectives and give the latitude to execute their plan for accomplishing them.

Fourth, the City has been willing to invest significantly in its Tax Office – more people, new equipment, better offices, and new automated systems with the promise that this investment would pay measurable dividends. I believe you are seeing the results in terms of more and better taxpayer assistance, increased collection of delinquent tax, rising voluntary compliance and tighter financial controls.

### **FY 2000 PLANS**

Our operating budget for FY 2000 is approximately \$39 million and 613 FTE. This includes an additional \$2.5 million and 38 FTE approved by the Authority to help close the City's significant tax gap – the difference between taxes owed each year and taxes paid. Because of its open borders

and mobile population, it is reasonable to expect that the District has an 18 percent tax gap, much like the IRS's estimated tax gap of 13 percent.

Here are our major initiatives for this fiscal year:

**Discovery of Non-filers.** In conjunction with a vendor, MBIA MuniServices Corp., that has extensive experience in the area of identifying and collecting overdue taxes from non-filers, we expect to collect an additional \$10 million on an annualized basis. I am convinced that businesses and individuals who neither file returns nor pay tax represent the largest segment of the City's tax gap. Over a three-year period, we estimate that this effort will produce \$60 million in improved voluntary compliance and enforcement collections that would otherwise be lost to the City.

**Increased Audit Assessments and Delinquent Account Collections.** With the additional FTE provided in FY 2000, we expect to bring in an additional \$6.6 million in audit assessments and \$6.4 million in delinquent account collections. We also expect to forestall approximately \$11 million in questionable claims that would otherwise be paid in the form of refunded amounts or reduced tax liability. We will also be testing a new tool to identify instances where individual income taxpayers have underreported

their liability. This automated tool allows us to match returns filed with the Federal government with those filed with D.C. to identify potential discrepancies.

**Expanded Electronic Interchange.** We start the year with taxpayers able to pay by income tax by credit card, get tax returns from the Internet, and file electronically. We are meeting with tax practitioners to see what can be done to further increase the number of taxpayers who use this method of filing individual income tax returns. In FY 2000, we have the capability to pay business tax due by credit card and file simple income tax returns by telephone, or as its known, telefiling. In fact, as of Feb. 22, OTR has received 1,115 tax returns by people using the telefiling method. We also plan to add the capability to allow businesses to remit tax payments via electronic funds transfer. This latter capability reduces potential for errors, simplifies tax payments for businesses and makes funds available to the Treasury faster.

**Tax Models.** This fiscal year, we start the installation of new, automated tax models for individual income tax, business and sales tax, real property tax and economic and demographic factors. All components of the system

will be operational in FY 2001 with the real property tax model being operational this fiscal year. Once all tax models are fully operational, OTR will be able to prepare economic and tax analyses on a “what if” basis much faster and in greater detail than is currently possible so we can meet the needs of policy makers.

**Real Property Automation.** Virtually all aspects of a real property automation plan approved in FY 1997 will be operational this year. These include a Geographical Information System containing 6,000 bloc plats whose characteristics can be accessed on a point and click basis. This system will be used not only by OTR but also by other City agencies such as the Department of Public works and by the public. Land records are now being imaged into a computer system and we are in the process of loading old records back to 1973. By the end of the year, all records will be computer accessible at the Recorder of Deeds or on the Internet. Tax billing in March 2000 will be accomplished on a new system. Without these capabilities, OTR would be unable to support legislation of the sort contemplated in Bill 13-370, The Uniform Commercial Code Secured Transaction Act of 1999, under which D.C. would be a jurisdiction of record for national and international exchanges of tangible and intangible assets – a development



that would have benefits for both the D.C. economy and its tax base.

Currently, the District receives approximately \$200,000 annually in revenue from 10,000 UCC filings. A 10-fold increase in filing would generate revenue in the amount of \$2,000,000; while a 100-fold increase in filing would generate \$20,000,000, resulting in a net increase of \$1,800,000 to \$19,800,000 in additional funds for the District. For the fourth quarter of FY 2001, \$450,000 to \$4,959,000 in additional funds could be generated.

In today's world, local jurisdictions must match the information systems and communications sophistication of the private sector if they are to keep abreast of their responsibilities and compete in the marketplace.

**Triennial Assessment.** This fiscal year we will complete the final phase of triennial reassessment cycle of D.C. properties.

**Integrated Tax System.** We are on schedule with bringing up the new Integrated Tax System which will replace the masterfile systems that have been at the root of so many billing and accounting problems over the years. This fall, data conversion from the current system to ITS will begin for

business taxes. The business tax module itself is scheduled to be operational in November.

## **OUR STRATEGY AND VISION**

When I first testified before this Committee in February 1997, I outlined the Business Principles OTR would adopt:

- Customer Service Comes First;
- City Revenues Must Be Protected and Enhanced;
- We Must Bring Financial Integrity and Accountability to Tax Administration in the District.

Our vision is to provide D.C. taxpayers with a world-class tax administration system that is effective, efficient, and equitable. Tax notices and bills must be timely and reflect accurate, up-to-date account information. Taxpayer's rights and privacy will be protected. Our staff will be courteous and knowledgeable and we will provide convenient and cost-effective methods of receiving information and for filing returns, payments and tax documents.

To provide these benefits, OTR needs integrated technical and business systems that reflect state-of-the-art technology and business methods.

Finally, we must have an organization that fosters a culture of trust and respect, one that fosters free exchange of ideas and open communication and one that builds the professionalism of the work force and provides fair and equitable compensation.

We had a three-phase business plan for achieving this vision of improved tax administration. Phase one was to regain control over basic tax administration processes such as receiving and controlling tax returns, payments and documents, accounting for tax revenues and providing avenues for taxpayers to resolve. Phase two was to initiate work processing reengineering to improve productivity, resulting in more revenue being collected at lower per unit cost. Phase three calls for implementing best practices in tax administration including an across-the-board enhancement to employee knowledge, skills and abilities.

Phase one is complete and we are now toward the end of Phase two of this plan and I believe the results are evident. I am truly excited about the prospects for the next three years as we implement a state-of-the-art information system to support our efforts to have the best tax administration

system in the country supported by a highly trained and motivated workforce.

Thank you very much for your support. I would be pleased to answer any questions you have on OTR's FY 1999 and FY 2000 Budgets or related issues.