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Council of the District of Columbia

PUBLIC OVERSIGHT HEARING ON THE PERFORMANCE OF THE OFFICE OF THE
CHIEF FINANCIAL OFFICER DURING FISCAL YEARS 2001 AND 2002

Testimony of Herbert J. Huff, Deputy Chief Financial Officer, Office of Tax and Revenue, before the Committee on Finance and Revenue

Good morning, Chairman Evans and members of the Committee. I am Herbert Huff, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony today on the Office of Tax and Revenue's performance during Fiscal Years 2001 and 2002, and to provide a brief overview of initiatives planned for the remainder of Fiscal Year 2002.

By all measures, Fiscal Year 2001 and Fiscal Year 2002 to-date have been banner years for OTR, in terms of both productivity and progress. With cutting edge technology and a heightened focus on customer service, OTR marked many milestones in tax administration and revenue collection, all of which contributed to a stronger financial picture for the District of Columbia in FY 2001. It also has been a challenging period in which the agency expanded a number of its operations and business processes, while successfully implementing several far-reaching tax law changes with no disruption of service to District taxpayers.

My testimony today will provide a comprehensive look at our performance agency-wide, particularly in terms of revenue collection and protection, customer service enhancements, technological advancements, public outreach efforts and implementation of tax law changes.

Revenue Management and Compliance

For the fifth consecutive year, the District of Columbia ended its fiscal year with a balanced budget and surplus and a "clean opinion" from independent city auditors. OTR played a considerable role in these achievements, with total FY 2001 tax revenue collections of \$3.3 billion – a 6 percent increase over FY 2000 tax revenue totals.

The average cycle time for District refunds was, for the fourth year in a row, 14 days or less in Fiscal Year 2001, while the overall number of refunds issued increased by more than 5,000. In calendar year 2001, our zero-day deposits totaled \$865 million, an increase of \$350 million over calendar year 2000. This accomplishment resulted in savings to the city from the reduced need for cash-flow borrowings.

In Fiscal Year 2002 we are focusing on expanding our use of the Integrated Tax System (ITS) and developing procedures to reconcile financial transactions on a month-to-month basis.

We also exceeded our enforcement tax collection goals of \$68 million by more than \$10 million. We continue to apply more of our compliance resources to identifying businesses that file fraudulent returns or that fail to file and pay. The expansion of the revenue protection program prevented more than \$4.5 million in erroneous refunds from being issued. In addition, we successfully negotiated with two large, tax exempt organizations to begin collecting sales taxes. As a result of our stepped up enforcement efforts, we forwarded 12 cases to Corporation Counsel for prosecution of tax fraud and collaborated with the U.S. Attorney's office on a number of investigations. We oversaw the development and successful implementation of a multi-agency strategy to help protect the District's \$44 million annual payment received under the Tobacco Settlement Agreement.

We believe the opportunity for continued success lies with effective management and use of data, most of which is already available within the District government. Therefore, our administrations have been proactive in developing partnerships with other District, state and federal agencies to establish information exchange and data matching arrangements. As a result, OTR is being recognized and accepted as the premier data site for the city in its data-building and collections efforts.

In addition to tax revenue, OTR assists in the collection of several special or dedicated revenues for other District agencies, including the 911/311 fee. OTR worked closely with the Metropolitan Police Department and other agencies to analyze, reconcile and accurately transfer revenues collected by OTR on their behalf. As the ITS rollout is completed and we are able to leverage more of the information contained in our data warehouse, OTR anticipates that we will be able to use our existing resources to collect delinquent receivables due to agencies District-wide.

Customer Service and Public Outreach

Customer service is an integral component of any successful organization. But at OTR, delivering world class customer service is a top priority, for it is at the core of everything we do. The agency's progress in the customer service area was evident by a consistently high level of performance throughout the year. In Fiscal Year 2001 and Fiscal Year 2002 to-date, OTR's Customer Service Administration assisted more than 73,000 walk-in visitors and 353,000 telephone callers. Call center representatives now address most inquiries on the spot; however, those inquiries requiring further research are quickly and courteously transferred to the appropriate department. OTR's enhanced call center environment has yielded very positive results for OTR customers as well as staff, including faster answer time, better targeted referrals, more strategic use of service representatives, and an all-time low abandoned call rate.

OTR is working toward full implementation this fiscal year of the Customer Service Tracking System, an automated program of managing customer calls and requests that has been in pilot phase at the agency. To better serve our diverse customer base, OTR last year began use of AT&T's Language Line, a system that provides translation services for foreign language-speaking customers. This service is available to assist all OTR components, but is used primarily in the call center and walk-in customer service areas. In addition, in Fiscal Year 2002, OTR produced several foreign language brochures that provide information about OTR services and District tax relief programs.

Outreach efforts shifted into high gear in Fiscal Years 2001 and to date in 2002. Through its Communications Administration, OTR embarked on an ambitious public education program to help taxpayers understand their tax-related rights, responsibilities, and opportunities in light of new tax laws and other changes. We redesigned and distributed a series of new and revised information brochures and fact sheets and, in conjunction with the Customer Service Administration, made numerous presentations at community meetings to explain taxation issues, such as the new tax forms and real property assessment process.

In January, OTR launched "Tax Friendly," a major public education campaign to announce District tax law changes, the new D-40 and D-40EZ tax forms, and individual income online tax filing, all of which debuted during the 2002 tax filing season.

Finally, OTR offers an extensive array of customer service training sessions. All OTR employees – from our front line staff to senior managers and administrators – have had an opportunity to attend these training sessions, and we all have made the commitment to applying the tenets of customer service excellence in our daily activities and customer interactions.

Returns Processing

Using the latest innovations in computerized document imaging, OTR continued to set the standard for efficient processing of tax returns and timely deposits and issuance of refunds. In addition, our returns processing accuracy rate increased to better than 98 percent, contributing to a reduced volume of taxpayer complaints and lower costs associated with error correction.

Electronic filing was big news in FY 2001, with 37,778 individual income tax returns filed online. This total exceeded our projected goal by 38.9 percent, and surpassed the prior year total by 62 percent.

In Fiscal Year 2001 and 2002 OTR introduced several revamped District tax returns, including completely redesigned D-40 and D-40EZ tax booklets and forms. Sporting a bright new color and easier to understand instructions, the new forms were revised to make filing simpler and less "taxing" for everyone.

Social Security numbers have been eliminated from the address label for greater taxpayer protection. The redesigned D-40 also incorporates the newly updated D.C. Earned Income Tax Credit (EITC), which was increased from 10 percent to 25 percent of the federal credit. This change raises the maximum DC EITC from last year's \$389 to \$1,002 for the 2002 tax season.

This year's filing season continues to be one of progress and high volume efficiency. To date in Fiscal Year 2002, OTR already has received 61,000 paper and electronically filed returns, which is 4,000 more returns than year-to-date last year. Of those, more than 16,000 were e-file and telefile returns, including returns filed through OTR's brand new, online tax filing service.

Technology

I would now like to share with you OTR's efforts in the area of technology. In Fiscal Years 2001 and 2002, we saw the successful conversion of the business and individual tax modules to the ITS. The final portion of the ITS system will be the addition of the real property module currently under development. This module will link the current billing and assessment systems to ITS for true integration of real property and tax records.

For hands-on customer use, however, there is no better example of user-friendly technology than the Electronic Taxpayer Service Center (eTSC). With the Fiscal Year 2001 launch of this Internet-based tax filing program, the District became the first U.S. city to offer businesses online access to full tax services, 24 hours a day, seven days a week. The business module of the eTSC service collects between \$1.5-2.5 million per month through a one-day credit transfer.

OTR again made history in January 2002 with the expansion of the eTSC to individual income tax filers. Now, any resident taxpayer who filed a paper return in the District last year is eligible to register and file and pay their taxes online, for free.

We also continue to build upon technological accomplishments in the area of real property. OTR's Real Property Tax Database provides online access to real property information that was formerly available only through manual searches. Customers may now obtain property value, assessment roll, real estate sales and other information for more than 170,000 parcels. The site provides customized billing summaries and general tax information to registered mortgage and title company users.

The new Recorder of Deeds (ROD) Land Records Management System also was greatly expanded in Fiscal Years 2001 and 2002. The site now includes all ROD forms and templates, as well as a landmark achievement – the addition of electronic Uniform Commercial Code (UCC) filing. This service allows users to file UCC financing statements, addenda, and amendments online.

Real Property Tax

In Fiscal Year 2001 the Real Property Tax Administration collected \$814 million in property taxes, as a result of timely and accurate billings, fair and equitable valuations, and more aggressive enforcement activity.

Fiscal Year 2001 was particularly busy for our assessments division. This year marked the second of a three-year phase-in to annual assessments. To date, 106,000 properties have been revalued – two thirds of the city's property. Strong growth in the District's real estate market will be reflected in reassessment notices to be mailed this week.

Finally, OTR conducted extensive audits of the District's Homestead/senior citizen deductions, vacant and abandoned properties and nuisance properties in FY 2001. From more than 23,000 mailings, the department reversed nearly 6,500 erroneous claims. These activities represent an estimated \$4.5 million in additional revenue from reversals, collections and billings, and \$413,000 already collected. In addition, we will be billing these properties for prior year receivables.

In May 2001, OTR implemented a new phase of its RPT 2000 automated system. The system audits homestead and senior citizen accounts at the time of property ownership transfer. This improvement,

along with audit efforts, has led to an improved (approximately 80 percent) accuracy rate among homestead/ senior citizen deduction claims.

Our goal for Fiscal Year 2002 is to mail 40,000 confirmation notices in our ongoing effort to refine homestead/senior citizen records and recoup uncollected revenue.

Legislative

Fiscal Year 2001 was a tremendous year for tax law changes affecting and benefiting private citizens and our private sector business partners. All OTR divisions worked in concert to ensure the smooth implementation of a number of complex measures, including the E-Conomy Transformation Act of 2000, the Tax Clarity Act, the Earned Income Tax Credit amendment, the Tax Clarity and Tax Parity acts, repeal of the Snack Food Tax Credit, the Sales Tax Holiday Emergency acts, as well as pending changes for the Tax Increment Financing program, and the Unemployment Compensation Act exemption.

One lesson learned from these changes is that successful implementation calls for early involvement by OTR, before and after enactment, to ensure timely adjustments to tax forms and a coordinated outreach strategy.

OTR's Office of the General Counsel this year will complete a review of the body of tax regulations to clarify, amend and streamline major provisions, to correct ambiguities, and make the regulations more user-friendly and consistent with tax statutes and policies. In Fiscal Year 2001, the General Counsel's office handled a considerable volume of actions and cases, including 31 civil, 12 criminal and 63 disclosure cases; 95 Freedom of Information Act requests; 35 letter rulings; 85 real property exemptions; and 65 refund review cases. The Office of Tax Appeals handled 45 appeal actions.

Summary

The Office of Tax and Revenue is proud of its accomplishments in Fiscal Year 2001. We are equally well positioned to continue this progress for the remainder of Fiscal Year 2002 and in 2003. Our optimism is tempered by the tests of a precarious national economy and the calamitous events of September 11. The terrorist attacks and their aftermath have already taken a toll on local revenue streams, and we approach Fiscal Year 2003 with prudence. And yet, OTR's underlying mission is unchanged by economic projections. We are stewards of District revenue, and we are committed to working with the city's leadership to ensure the continued growth and financial stability of the city to meet the needs of its citizens.

Thank you, Mr. Chairman, and esteemed members of the Council for this opportunity to testify. We are happy to answer your questions at this time.