

**PUBLIC OVERSIGHT HEARING**  
**FY 2002 AND 2003 SPENDING AND PERFORMANCE 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**

**February 26, 2003, 9:30 a.m.**  
**Council Chamber**



**Testimony of**  
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Daniel L. Black, acting deputy chief financial officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony today on OTR's performance during FY 2002 and 2003 to date, and to provide a brief overview of initiatives planned for the remainder of FY 2003. At the conclusion of my statement, key members of the OTR administration and I will be available should you have specific questions you would like addressed directly.

### **Performance and Outlook**

For the sixth consecutive year, the District of Columbia ended its fiscal year with a balanced budget, surplus and a "clean opinion" from independent city auditors. OTR played a major role in these achievements.

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, and real property initiatives. In terms of goals for FY 2003 and beyond, each OTR administrator has committed to pushing the envelope on performance and streamlining operations. To this end, each administration is implementing administrative plans that focus on operational improvements, including setting benchmarks, establishing measurement mechanisms and providing periodic reporting of results.

### **Revenue Management and Compliance**

Total tax revenue collected by OTR in FY 2002 was \$3.1 billion, a decrease of

2.3 percent from FY 2001 totals. The decrease was primarily due to a weaker local economy resulting from the after-effects of September 11. OTR met the challenge by fine-tuning its business operations and focusing on collections and voluntary compliance – actions that helped minimize revenue shortfalls. We continue to improve performance in key operational areas in FY 2003, despite a 9.5 percent reduction in personnel.

Our Revenue Accounting Administration was instrumental in coordinating efforts contributing to the clean CAFR opinion by ensuring that all revenue and deposit transactions are reconciled and reported in a timely manner. In FY 2003 we continue to focus on expanding use of the Integrated Tax System (ITS) to reconcile financial transactions on a month-to-month basis.

Personnel and resource constraints in FY 2002 made reaching OTR's target accounts receivable collection goals more difficult. However, through improved management practices, the Compliance Administration increased its enforcement activities significantly during the fiscal year. We exceeded FY 2001 collection totals by more than \$10 million, for a total of \$81 million. Our audit area established a balanced program by focusing on both individual and business taxpayers at the small, medium, and high-income levels. Our criminal investigations division forwarded 17 cases of tax fraud to either Corporation Counsel or the U.S. Attorney's Office, compared to 12 cases in fiscal year 2001. Ten cases have already ended in guilty pleas with two of the later cases resulting in jail terms.

In FY 2003, we are directing compliance resources to identifying and pursuing non-filers, improving timely collection of outstanding accounts receivables,

especially in the area of sales, use and withholding taxes, and protecting the amount of revenue paid out in the form of fraudulent claims for refunds. Our overall goal is to increase program results by at least 13 percent over FY 2002 accomplishments.

### **Returns Processing**

OTR is proud of its record of performance in processing tax returns. Our returns processing accuracy rate in FY 2002 was again better than 98 percent, contributing to a reduced volume of taxpayer complaints and lower costs associated with error correction.

For the fifth straight year, the average cycle time for District refunds was 15 days or less, while the overall number of refunds issued increased by more than 33,000. The average individual income tax refund amount also increased to approximately \$712, up from \$694 last fiscal year. In calendar year 2002, our prompt deposits (deposits within 48 hours) totaled \$758 million, an accomplishment that reduced the need for cash-flow borrowings and, thus, provided savings to the city.

Much of the increased efficiency can be attributed to the agency's successful push in FY 2002 to achieve greater taxpayer use of alternative filing methods, including the District's own Electronic Taxpayer Service Center (eTSC), federal/state e-filing, and tele-filing. In total, close to 50,000 individual income tax returns were filed online. This represented 17 percent of the District's taxpaying population.

OTR also processed a substantially greater number of Earned Income Tax Credit (EITC) claims, which last tax year totaled 40,882 as compared to 33,410 in tax year 2000. Total EITC disbursements for the 2001 tax year reached nearly \$18 million, with an average refund to recipients of \$443.

In regard to paper returns, the D-40 and D-EZ forms were updated to reflect tax law changes, such as the College Savings Credit program and income eligibility modifications that allowed more residents to file D-40EZ forms.

### **Technology**

OTR technology was a driving force behind most of the agency's operational improvements. We marked many "firsts" for the District in the past two fiscal years, and our Information Systems Administration continues to work to expand and perfect OTR systems to accommodate growing demands. In recognition of our progress, the District of Columbia received the Federal Tax Administrators Technology Applications award for FY 2002. The award was presented based on the breadth of OTR system applications, efficiency and expansion of self-service capabilities.

FY 2002 saw the implementation of the Integrated Tax System's (ITS) Individual Tax Module. This system has resulted in the collection of \$10.5 million in revenue as a result of first-time automated billings. ITS development also included the expansion of eTSC, which now has over 2,000 registered taxpayers and collects between \$10 million and \$15 million per month.

OTR applications included the development and installation of the core "Clean Hands" function for the OTR Data Warehouse. This application was developed in

coordination with the OTR compliance function and the Department of Consumer and Regulatory Affairs (DCRA), and represents a major step forward for the District in executing aggressive actions to increase revenue.

FY 2003 technology efforts will focus on ITS program implementation, management and development, testing, data migration and shortening of processing times.

### **Real Property Tax**

In FY 2002, the Real Property Tax Administration collected \$804 million in real property taxes, as a result of timely and accurate billings, fair and equitable valuations, and aggressive enforcement activity.

The year marked the completion of the phase-in to annual assessments, with more than 110,000 parcels revalued for the FY 2003 reappraisal. Continued strong growth in the District's real estate market will be reflected in property tax bills mailed this week, as well as assessment notices for tax year 2004 to be delivered to property owners beginning March 1.

Real Property Tax Administration goals for FY 2003 include revaluation of 170,000 parcels and public outreach efforts to provide information to citizens on assessment procedures.

We are pleased to report that the Recorder of Deeds division completed its most successful year in history, with the collection of \$157 million in revenue and 120,000 instruments recorded. These accomplishments can be attributed in large part to enhanced online services, including the completion of the Uniform

Commercial Code electronic filing system, installation of debit card purchase of documents, and loading of all ROD forms on the Internet.

### **Customer Service and Public Outreach**

Good customer service is a universal goal at OTR that crosses all administrations and encompasses every transaction – from frontline taxpayer assistance to behind-the-scenes employee interactions. However, most customer contacts occur via our call center and customer service center; thus, I would like to share a few measures of our success in those areas.

In FY 2002 and to date in FY 2003, OTR's Customer Service Administration assisted more than 60,995 walk-in customers and 370,491 telephone callers. The administration last year convened an in-house study to further determine the needs and effectiveness of the call and customer service walk-in centers. The study found that call volumes were greatest during the months of February, March and April, when the average call volume exceeded 20,000 calls. The study found that the service center is serving customers within an average time of 10 minutes and 55 seconds. Finally, the study confirmed the effectiveness of OTR's automated Customer Service Tracking System, which has increased our ability to manage and respond to customer inquiries.

There are several initiatives underway to further enhance customer service performance. One specific goal for FY 2003 is to close the majority of all business tax registrations in one business day. The Customer Service Administration is also working to update and maintain accurate account information, expand taxpayer education and establish a customer satisfaction evaluation tool.

We believe a well-informed citizenry is more likely to understand and voluntarily comply with District tax requirements. We participate in Advisory Neighborhood Commission and other community meetings to explain issues such as the real property assessment process. New, more user-friendly information notices, pamphlets, and fliers are being developed to explain taxpayers' rights and the processes we employ in tax administration. We recently conducted our fourth annual Tax Practitioner Institute, which registered more than 100 private sector tax professionals in a two-day dialogue and exchange on tax topics of interest to our shared customer base – the District's taxpayers.

### **Summary**

We made significant strides in providing effective and efficient tax administration in FY 2002, and we continue to work to provide District taxpayers with world-class customer service. We recognize that producing the correct amount of tax due supports initiatives that help to build and sustain healthy neighborhoods. We go forward in 2003 as responsible stewards of District revenue, 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 members of the committee for this opportunity to testify. We are happy to answer your questions at this time.

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