

April 16, 2002

Council of the District of Columbia

BUDGET HEARING ON THE BUDGET REQUESTS OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER FOR FISCAL YEAR 2003

Testimony of Anthony Calhoun, Deputy Chief Financial Officer, Office of Finance and Treasury, before the Committee on Finance and Revenue

Good afternoon, Chairman Evans and members of the committee. My name is Anthony Calhoun, and I am the Deputy Chief Financial Officer and Treasurer for the Office of Finance and Treasury (OFT). I appreciate the opportunity to present information on the FY 2003 budget request for OFT, as well as our accomplishments in generating revenue, managing assets, and serving District residents.

OFT administers the assets and liabilities of the District government. As such, OFT manages the District's cash and liquid assets, processes all cash disbursements, conducts capital market borrowings, collects non-tax accounts receivable, and administers District retirement programs.

During FY 2001 and FY 2002, OFT has continued to improve the various financial processes of the District, with very positive results. These include the awarding of the contract for a new provider of the District's 457 Deferred Compensation Plan, the implementation of the Treasury Workstation, the introduction of the College Saving Plan ("529 Plan"), bonding of all OFT employees, and increasing the number of claimants reunited with their unclaimed property by 8 percent.

FY 2003 Budget Request

The FY 2003 budget request for OFT totals 90 FTEs and \$15,636,978, which represents no change to FTEs but a net decrease of \$199,000 from the FY 2002 approved level. The decrease is the result of internal program reorganizations related to the transition of the Office of the Chief Financial Officer (OCFO) budget to a performance-based budget format for the FY 2003 request, and does not affect the staff or program capabilities of OFT.

The request was formulated in accordance with the office's strategic objectives:

- to reduce costs associated with Treasury financial transactions;
- to increase revenue from Treasury revenue producing units;
- to improve the service provided to District residents and other District agencies;
- to manage the District's asset and liabilities to improve financial performance; and
- to facilitate economic development through financial transactions.

OFT Organization and Programs

OFT is divided into the five core competencies: debt management, cash management and investments, disbursement activities, cash receipts and accounting, and asset management for special programs.

The debt management unit issues general obligation bonds in the financial marketplace to provide for the payment of costs incurred in the acquisition or development of capital projects and to refund outstanding indebtedness. In March 2001, the District's credit rating on its outstanding general obligation bonds was raised to the level of BBB+. While this is an accomplishment that is attributable to the improvement in the finances and operations of the District government as a whole, OFT, as the primary point of contact with the rating agencies, plays a significant role in this process by providing the rating agencies with information on an on-going basis and maintaining good working relationships with them.

In December 2001, OFT issued general obligation bonds on behalf of the District to finance capital projects. OFT took advantage of market conditions at the time and utilized an interest-rate swap mechanism, resulting in historically low interest rates (an average rate of 4.4 percent) on these bonds, and producing debt service savings estimated at \$37 million over the life of the bonds in comparison to a typical bond issuance. In addition, OFT has continued to focus on issuing its bonds based on actual

capital spending needs (as opposed to previously planned spending levels), reducing the amount of unspent bond proceeds on hand and thereby reducing the debt service expense.

The cash management and investment unit encompasses the banking service unit, cash and investments, and grants. The cash management and investment unit provides for the management of cash resources for the District, so that the District can meet its cash obligations and maximize interest income from cash resources. Most recently, the cash management and investment unit has implemented the Treasury Workstation. This new system will assist the unit with consolidating bank reports, tracking investments and debt spending, reconciling bank fees, assisting with daily electronic payments, and cash forecasting. With the full implementation of the Treasury Workstation in conjunction with SOAR and DBC, our new debt management software, OFT's technological systems will be state-of-the art and will facilitate enhanced efficiency in our day-to-day operations.

The reduction in the number of District bank accounts has been a goal of OFT over the past year or so, and I am pleased to report that the number has been reduced from a little over 1,000 accounts at this time last year to 480 accounts currently. This has been accomplished in part through the implementation of the use of purchasing cards for certain agencies. Purchasing cards allow agencies (such as DC Public Schools) and sub-entities (such as individual schools) to have funds at their disposal without having to have a bank account.

The disbursement unit provides check writing and dissemination services for District agencies, so that they can fulfill their financial obligations to their stakeholders. Three departments are included in the disbursing activity: disbursing operations, vendor center, and electronic benefits transfer. In the summer of 2001, OFT implemented a new system for paying summer youth employees through the issuance of a debit card, similar to the EBT card that is used for TANF benefits. Previously, students were paid via check, which caused several problems (duplicate checks, checks never received, difficult to cash). This new payment vehicle was very well received, and all parties involved were pleased with the outcome, including the youth employees.

Late in FY 2001, the disbursing operations unit began printing unemployment insurance checks. This was an operation that was previously done by the Department of Employment Services. OFT has incorporated this new endeavor into its rigorous routine of printing checks and earning statements, and mailings as well. Because of the recent increase in postage rates, OFT's net request includes funding to support increased postage costs, which will allow us to mail all agency earning statements and payroll checks.

The cash receipts and accounting unit encompasses revenue accounting, cashiering services, and dishonored checks. This unit provides revenue collection, auditing, and recordation services for District agencies so that they can have accurate and timely revenue information.

Asset management for special programs encompasses pension management, the 529 College Savings Plan, and the Unclaimed Property unit. The pension management unit is responsible for the financial administration of the District's 401(a) defined contribution plan and the 457 deferred compensation plan. In FY 2002, OFT contracted with a new service provider, Aetna ING, for the District's 457 deferred compensation plan. This new plan has significant new features that the prior plan did not, including expanded investment options, lower administrative fees, and better use of information technology to provide greater access to account/plan information.

OFT will launch the 529 College Savings Plan within the next few months. The plan will offer District residents (parents/guardians) the opportunity to establish college savings accounts to set aside funds for the future college expenses of their children. OFT has contracted with a consultant to assist in the process of establishing the plan, which is expected to be operational within the last quarter of FY 2002. OFT has completed a study of existing plans of similar size, and has also studied surrounding jurisdictions (e.g., Maryland and Virginia).

OFT has continued to increase the amount of unclaimed property returned to its owners through expanded public awareness and community outreach activities. This amount increased from \$4.2 million in FY 2000 to \$5.1 million in FY 2001. We have established a goal for FY 2002 of \$6.5 million.

Mr. Chairman, this concludes my prepared testimony. I would be happy to answer any questions you or the other members may have.