

HEARING ON PR 15-215
“SENSE OF THE COUNCIL SUPPORTING
THE DISTRICT OF COLUMBIA BUDGET AUTONOMY
RESOLUTION OF 2003”

Before the
Subcommittee on Public Interest
Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

September 22, 2003, 10:00 a.m.
Room 412, John A. Wilson Building



Testimony of
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Good morning, Mr. Chairman and members of the subcommittee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the Government of the District of Columbia. I am here today to testify on Proposed Resolution 15-215, the “Sense of the Council Supporting the District of Columbia Budget Autonomy Resolution of 2003,” which urges the U.S. House of Representatives to adopt H.R. 2472, the “District of Columbia Budget Autonomy Act of 2003.”

At the outset, let me say that, both as a citizen of the District and its senior financial manager, I wholeheartedly endorse expanding the District’s authority to manage its own financial affairs and testified to this effect before the House this past June. In my remarks today, I would like to discuss again the major issues surrounding budget autonomy.

Implications of Allowing the District Greater Budget Autonomy

Currently, Congress authorizes all District of Columbia spending through the federal appropriations process, irrespective of the source of revenue underwriting such spending. In the District’s FY 2003 budget of \$5.573 billion, enacted by Congress on February 20, 2003, \$3.813 billion, or 68 percent, was comprised of revenues raised through local taxes, fees, fines, and user charges (\$3.602 billion plus \$211 million in private and other revenue). Of the remaining \$1.76 billion in federal funds, \$1.713 billion was comprised of federal transfer payments and grants. Only \$47 million was uniquely and especially appropriated from federal revenues for programs and projects peculiar to the District of Columbia.

In the case of local fund allocations, the Congress rarely alters allocations made by the District. Further, federal funds for transfer payments and grants have already been appropriated to the federal agency responsible for program administration, and are reflected in the District budget solely to give a complete picture of planned spending. Having already been appropriated to a federal transferring agency, these federal funds do not need to be “reappropriated” to the District. Only that portion of federal funds specifically and uniquely earmarked for District programs or projects – for example, funds provided to support federal events such as the inauguration – must be appropriated by the Congress.

Were the Congress to modify current law, a range of possibilities remains to exercise oversight over the District’s budget and operations. These might include periodic audits, after-the-fact review of the District’s locally enacted budget, or review of the District’s locally enacted budget by the appropriate oversight group in the Congress. Also, federal funds directly appropriated to the District would remain within the federal appropriations process.

Benefits to the District

- *Faster enactment of budgets.* Because the District currently receives all its authority to spend funds through the federal appropriations process, the District cannot enact its locally approved budget until Congress passes and the President signs its appropriations bill. This situation guarantees a five-month lag between local approval and federal enactment. In practice, federal appropriations bills are often delayed beyond this period. There are adverse consequences for the District since it is tied to the federal appropriations cycle. Bond rating agencies take the uncertainties of the federal process into account in assessing the District’s finances and discount, to a degree, whatever rating the District might

otherwise receive. In the case of new or expanded programs approved and financed locally, no implementing action can be taken until the federal appropriations bill is enacted. This delays program initiation and guarantees programs will not be executed as planned. Also, the more elapsed time between the formulation of a budget and its execution, the more likely the operating assumptions underlying that budget will not hold true.

- *Conformance to the Standard Local Government Fiscal Year.* Further, the federal appropriations cycle runs on an October-September fiscal year, a fiscal year cycle unsuited to local government. Were the District to have autonomy to appropriate its own funds like other local jurisdictions, my recommendation to the Mayor and Council would be to revise the fiscal year to a July-June cycle. This would have two immediate advantages. First, it would conform the fiscal year to the school year, greatly enhancing the ability of D.C. Public Schools (DCPS) and the University of the District of Columbia to manage their funds effectively. This is important because public education spending accounts for nearly 25 percent of District general fund expenditures. In the DCPS planning cycle, the July-September period is the largest spending quarter. Under current budget law, this period falls at the end of the fiscal year, after DCPS has had to deal with all the exigencies of the prior three quarters. It would clearly be better for DCPS management, and make greater budgetary sense, to fund school year start up costs – purchase of books, start up maintenance and the like – at the beginning of the year and then cope with remaining issues as they occur.

Second, it would more closely conform the District's fiscal year to its revenue cycle. The annual income tax payments are due in April, and the first semiannual real property tax payment is due on March 31. Data on these

payments is used to update revenue projections for the upcoming fiscal year. Were the District to execute its fiscal year budget beginning in July, it would be proceeding on the most recently available revenue information.

- *Increased Local Financial Flexibility.* Providing the District with authority to direct the spending of its locally raised revenue would substantially increase the District's ability to react to changing program and financial conditions. Under current law, the District follows the federal supplemental appropriation process to appropriate additional revenues that become available during the course of the fiscal year or to make any significant realignment in resources among its appropriations. Program plans premised on supplemental appropriations are held in abeyance while Congress considers the request. The same problem is encountered on other financial transactions. For example, all reprogrammings of funds from one object class of expense to another in excess of \$1 million require a congressional review period of one month before enactment.

Fiscal Condition and Financial Improvements

The District has the financial infrastructure to permit it to manage its local funds effectively. We have a strong accounting system linked to our budget oversight processes. Monthly closings and cash reconciliation are in place. Financial managers have a clear understanding of expectations. Clean audit opinions by the District's independent auditors have become routine and the number of management findings substantially reduced.

In the budget area, the District has enhanced its analytical capabilities, moving toward performance budgeting to link agency outputs to cost. Automated budget monitoring systems are in place to give program and financial managers the

capability to review their financial posture daily. Further, the District is well along on a project that will integrate all its significant administrative systems – personnel, payroll, procurement, budget, accounting, property management, and pension administration. This integration will enhance both information on and controls over all transactions affecting expenditures and do so at lower cost.

Mechanisms and Safeguards for Assuring Financial Integrity

The District of Columbia Financial Responsibility and Management Assistance Act of 1995 (the Act), coupled with the continuation of an independent Office of the Chief Financial Officer, provides the framework for assuring financial integrity without the need for imposing the federal appropriation process on local fund budgets. The Act provides for the reinstitution of a control board and other constraints should the District fail to meet its financial obligations. By itself, the Act has been a powerful motivator for our elected officials to maintain a balanced budget and strong financial controls at all times. It was the recognition of these strong financial controls that led Wall Street rating agencies to upgrade our bond rating from BBB to A-.

Further, the Office of the Chief Financial Officer provides an independent assessment of key financial data – such as annual financial reports, revenue estimates, fiscal impact statements, and all other consequential financial data. I believe a necessary corollary to increased local financial autonomy is the inclusion of the authorities and responsibilities of the Office of the Chief Financial Officer in organic law. Taken together, this legislative framework is sufficient to ensure fiscal discipline without the added complexity of putting local spending through the federal appropriations process.

The Continuing Role of the Federal Government in District Finances

Notwithstanding the advantages to the District of having the autonomy to appropriate locally raised revenue, there remains the question of the federal government's role in assisting the District in attaining a structural balance between spending needs and its revenue raising capability. In its report on Structural Imbalance and Management Issues in the District of Columbia (GAO-03-666), the General Accounting Office (GAO) demonstrates, using objective, quantifiable criteria, that the District has a substantial gap between its spending needs and its local revenue resources. This gap is calculated to be between \$470 million and \$1.1 billion annually, based on FY 2000 information. The gap is likely toward the upper end of this spectrum. While significant opportunities for efficiency improvements exist within District programs, even with such improvements, the GAO report points out that the District would still face a structural deficit.

By law, the District must balance its budget each year, but making the spending or revenue adjustments needed to do this is not the same as solving a structural deficit. Due to this structural deficit, the District is forced to choose between tax levels that are higher than the national average, service levels that are lower than the national average, or combinations of both in order to balance its budgets. The District will face this dilemma irrespective of whether the degree of autonomy it exercises over local finances is changed.

Although the GAO report makes no recommendations, it provides a strong case for federal action to assist the District of Columbia, the nation's capital. As noted, the structural imbalances in both the operating and capital areas result primarily from cost and workload factors that are beyond the District's control, and, in addition, the District must provide services to the federal government.

Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions you might have.

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