

BUDGET HEARING
FY 2004 BUDGET REQUEST 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

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Council Chambers



Testimony of
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Good morning, Mr. Chairman and members of the committee. I am Julia Friedman, deputy chief financial officer for the Office of Research and Analysis (ORA), and I am pleased to present the following testimony on the FY 2004 budget request for ORA for the record.

The mission of ORA is to provide up-to-date, analytical research that will enhance and assist the decision-making and performance capacity of the Office of the Chief Financial Officer (OCFO), as well as the Office of the Mayor, the Council, the Congress and others who are involved in the policies and administration of the District of Columbia.

ORA is organized to support the following key responsibilities: (1) development of revenue estimates for the District; (2) analysis of the District's economic base and economic development issues; (3) preparation of legislative fiscal impact statements and special studies; (4) development and improvement of financial statements and long-term financial plans; and (5) management of sub-grant competitions for District agencies.

FY 2004 Budget Request

The FY 2004 budget request for the Office of Research and Analysis is 33 FTEs and \$3.033 million. Compared to our FY 2003 approved budget, this represents a decrease of 9 FTEs and a budget cut of 12%, or \$404,941. This includes a transfer of 7 FTEs out of ORA as a result of transferring the grants management function within OCFO from ORA to OBP.

FY 2004 Plans

Estimating Revenues. In view of our reduced resources for the coming year, our motto in FY 2004 will be to do more with less. We anticipate that the pace of monitoring and projecting revenues, one of our most critical responsibilities, if not the most critical, will continue for the foreseeable future to be as demanding as it has been during the past year. For this reason, we plan to devote a significant level of staff and resources to the analysis and forecasting of District revenues. This requires developing more accurate and comprehensive tax databases to support our economic and revenue forecasting models, as well as maintaining the quality of our staff and providing appropriate professional training. While the level of this activity is significant in ORA's budget, the pay-off is also significant. During the past year Council and city officials were able to take prompt corrective action to revise the FY 2002 and FY 2003 budget and financial plans and achieve a balanced FY 2002 budget for the District for the sixth year in a row.

Expanding Economic Research Capacity. A second important objective in FY 2004 will be to strengthen our research capacity in tax policy and economic analysis. The capability we have to engage in in-depth analytical research underlies everything we do in ORA, from estimating revenues to assessing economic development projects to preparing fiscal impact statements. Much of this work depends on our ability to provide up-to-date research and analysis of the District's economy and tax base. We track and model the D.C. economy; we provide projections for quarterly revenue estimates; we support the OCFO's long-range financial planning efforts; and we devote significant staff and resources to financial analysis of the District's economic development projects. In FY 2004 staff and resources will be dedicated to improving data management and quality, improving our econometric forecasting models and continuing the ongoing work of evaluating

the financial feasibility of major District economic development projects, such as tax increment financing projects and retail, hotel and residential projects.

Improving Financial Planning and Fiscal Analysis. Key objectives in FY 2004 also include making the District's financial plan more useful to financial managers and policy makers and improving the quality and timeliness of fiscal impact statements. During the past year the financial plan was consistently used to show the effects on the District's net operating margin of proposed revenue initiatives, including tax policies and programmatic options. As the financial and economic landscape continues to change, the financial plan will be a key tool to assess the impact of these changes. In FY 2003 and 2004 we expect the plan to merge more aspects of the Comprehensive Annual Financial Reports (CAFR) with those of the traditional budget.

We also plan to continue our examination and estimation of O-type revenue sources, an effort begun last year which proved invaluable in addressing the FY 2002 and FY 2003 budget gaps. ORA will also continue to carry out its new responsibility for certifying Medicaid revenues.

In FY 2004 we will work to produce accurate and timely fiscal impact statements. A significant level of staff time in ORA is dedicated to preparing the statements and insuring that the data and information conveyed accurately reflects the impact of proposed policy changes on the District's expenditures and revenues. The purpose of the fiscal impact statements, or fiscal notes as they are called in other jurisdictions, is to determine the net cost of achieving proposed policy changes compared to other goals in allocating a finite budget. Nearly 200 fiscal impact statements were prepared during the last fiscal year. Currently, over 300 fiscal

impact statements prepared by the OCFO since May 2001 are retrievable on the OCFO Web site (www.cfo.dc.gov).

Finally, it should be noted that ORA still retains a responsibility to assist city agencies to get grant funds for programs that can deliver services to D.C. citizens. During FY 2002 ORA handled 30 grants competitions for agencies, which resulted in making over \$31 million available for District residents.

Despite a decrease in resources and fewer staff, we expect to continue to deliver the high level of service necessary to insure the fiscal stability of the city. We look forward to continuing our work with the Council and agencies of the District government to achieve this critical goal.

Chairman Evans, I thank you and the members of the committee for the opportunity to present testimony today. I will be happy to answer any questions you might have.

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