

PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2003 AND 2004 SPENDING AND
PERFORMANCE BY THE OFFICE OF BUDGET AND
PLANNING, INCLUDING RESERVES, DEBT SERVICE,
TOBACCO TRANSFER, CERTIFICATES OF
PARTICIPATION, AND THE TAX INCREMENT
FINANCING PROGRAM

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Linda W. Cropp, Chairman

February 17, 2004, 2:45 PM
Council Chambers, John A. Wilson Building



Testimony of
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Good afternoon, Chairman Cropp and members of the committee. I am Bert Molina, deputy chief financial officer for budget and planning. I am pleased to appear before you today to present testimony on the Fiscal Year 2003 and Fiscal Year 2004 expenditures and performance of the Office of Budget and Planning (OBP).

Tony Calhoun, the deputy chief financial officer for finance and treasury, and Lasana Mack, associate treasurer, will address questions related to cash and debt management and other treasury issues.

I am pleased to report on the good work that my office is accomplishing. I believe we are poised to accomplish tremendous milestones over the next several months and look forward to describing in detail what they are.

In my remarks I will cover the following four areas:

- Fiscal Years 2003 and 2004 operating expenditures and performance,
- Fiscal Year 2004 operational goals,
- The District's Capital Improvements Program, and
- Current initiatives underway to improve budgeting in the District.

Fiscal Years 2003 and 2004 Operating Expenditures and Performance

In Fiscal Year 2003, the Office of Budget and Planning operated within its budget of \$4.6 million, spending almost 100 percent of its available funds.

The Fiscal Year 2004 budget for OBP is \$4.9 million, an increase of \$320,000 over FY 2003. Operating expenditures through the end of December 2003 total \$1.16 million, or 30 percent, of the approved budget. We expect to end the fiscal year within our approved budget.

Over the course of the past fiscal year, the Office of Budget and Planning has achieved some significant accomplishments. For example, we

- guided the District to a balanced budget,
- transitioned another 25 agencies to performance-based budgeting, bringing the total to 58 agencies,
- trained over 800 program managers throughout the District on the core concepts of budgeting and performance management in conjunction with the Center for Workforce Development, and
- received the Distinguished Budgeting Award from the Government Finance Officer's Association, with special recognition for our capital and performance management presentation.

FY 2004 Operational Goals

In FY 2004, we expect to build on our accomplishments of the past year. The major operational goals of the Office of Budget and Planning are to:

1. develop a balanced budget for Fiscal Year 2005,
2. execute the Fiscal Year 2004 budget and end the year at budget balance,
3. produce timely, accurate, and complete financial reports, and
4. complete the implementation of performance-based budgeting (PBB) in the District of Columbia.

1. Develop a Balanced Budget for Fiscal Year 2005

The first major goal for Fiscal Year 2004 is to develop a balanced budget for Fiscal Year 2005. We expect to complete the baseline budget, our independent assessment of the cost of current services, on schedule with its release at close of business today. While many challenges still remain, we expect to deliver a balanced budget on March 22.

2. Execute the Fiscal Year 2004 Budget

The second major goal is to execute the Fiscal Year 2004 budget so that the expenditure budget is balanced at year-end. The District's anti-deficiency law makes this responsibility even more important. To help in this task, we have developed numerous reports with the goal of providing financial information to managers so that agency directors can manage their resources. We will also be using agency spending plans and the monthly Financial Review Process to aggressively monitor agency spending. New technologies that we will demonstrate shortly will also be powerful tools in helping to maintain the integrity of the FY 2004 and future budgets.

3. Produce Timely, Accurate, and Complete Financial Reports

Our third goal is to develop timely and accurate financial reports. The Office of Budget and Planning has revised the Financial Status Report to make it more complete. For example, the monthly Financial Status Report will include details on revised budgets, expenditures, and obligations by agency and fund type, with detail at the object class level for local funds. It also will include payroll information, including FTEs and the cost of salaries and fringe benefits. In

addition, each quarter we will produce a more detailed report that includes expenditure projections based on annualized payroll costs, the current status of grant collections, and the status of agency gap-closing actions. We are also making these reports available via the CFO Intranet so that agency performance is transparent to all.

In addition, we have developed a powerful tool called CFO\$ource to empower agency program staff to retrieve financial information so they can make informed management decisions based on their program's financial status. This tool provides succinct, easy to understand overviews of agency and program activities, current and long-term trends, statistics on program cost drivers, and links to published reports and near real-time ad hoc data queries (updated through the previous business day's activities). This tool, I believe, will have a positive impact on the understanding and control of agency costs.

4. Complete the transition to Performance-Based Budgeting (PBB) in the District of Columbia

As required by the FY 2002 Budget Support Act, OBP began the implementation of performance-based budgeting for the FY 2003 budget process. The implementation began in May 2001 with a kick-off meeting attended by the agencies moving to PBB and co-chaired by the CFO and City Administrator.

Since then, OBP has transitioned over 55 agencies to the new budget structure, including facilitating the creation of agency strategic business plans with all of these agencies. These business plans, while creating a new program and activity budget structure, allow agencies the opportunity to develop in-depth management plans,

complete with performance measures, that link to their new program budget structure. We expect by the end of this summer to transition the remaining agencies to the new system, including the Council's budget. Transitioning every agency will be an important milestone for us as we also transition to a new budget system for the District. We have learned a great deal since our initial seven agencies. These lessons learned are being incorporated into each successive phase of PBB. We are pleased to see that the Council has taken notice of these plans and is requiring agencies to submit their strategic business plan in preparation for the upcoming FY 2005 budget hearings.

The District's Capital Improvements Program

I am pleased to report today that agencies are continuing to make progress in implementing their capital improvements programs. As of September 30, 2003, total expenditures for District agencies were \$639 million. However, there still remain challenges to overcome. Current requests put the District's FY 2005 capital improvements need at around \$775 million. To maintain our current financial position without jeopardizing our bond ratings and standing in the financial markets, the capital program will have to reduce spending by approximately \$375 million over the next year. In order to sustain the District's debt burden at manageable levels in terms of debt service cost to operating revenues, annual borrowings will have to be limited to an average of approximately \$300 million, with a maximum of \$400 million in any one year, which will provide a stable long-term investment without adversely impacting the program.

Initiatives to Improve Budgeting in the District

Lastly, I would like to speak about some of our current initiatives aimed at improving how we budget in the District. Completing these initiatives, I believe, would significantly improve the tools available to us for improving our budgeting processes and techniques.

The New Budget and Performance Management System: Along with PBB, we are developing a new budget system to take advantage of the program, activity, and service budget structures, as well as the Key Result and related measures flowing from that work. The new budget system will help us improve the quality of our budgeting and the District's overall efficiency. The three modules – planning, scorecard, and analyzer – will empower program staff to have greater control over the budgets for their respective areas of responsibility.

In addition, the budget system will be integrated with the new human resources system (PeopleSoft), as well as with our general ledger (SOAR), capital and grants databases, and other administrative and operational systems in the District. This will allow for improved information sharing and accuracy in budgeting and planning for positions, capital, grants, and other key areas. The development of the new budget system affords us a valuable opportunity to simplify, standardize, and systematize our budgeting and planning processes. Ultimately, our goal is to provide District program and finance staff with cutting edge technology and tools in order to better manage their programs and the resources that support them.

CFO\$ource: Another powerful tool is CFO\$ource, which is available to everyone in the District. This Web-based tool provides agency program and finance staff

standardized financial reports from SOAR. Analytical cubes allow users to look at high-level financial data while being able to drill down to specific programs, activities, funds, or objects. We currently have two analytical cubes – operating funds and grant funds. We are developing a third cube that will provide financial data for capital projects. Bringing all this information and more together into one place will be the CFO\$ource Dashboard. The Dashboard, which we will demonstrate for you shortly, provides District stakeholders, agency heads and their staff the ability to get financial and programmatic information to help inform their decision-making. Information related to budget, payroll, procurement, and performance measures are included along with trend data, major events and metrics. Links to published monthly financial reports and customized analytical cubes will give users the necessary information to monitor their agencies properly. Future releases will provide District users with more detailed information on payroll, procurement, and agency performance, as well as other key information.

Conclusion

In closing, let me state that the Office of Budget and Planning and the OCFO are currently working with the Mayor's Chief of Staff, the City Administrator, and the deputy mayors to develop the Mayor's FY 2005 Budget and Financial Plan, which will be transmitted to the Council on March 22. I look forward to working with the Council and other policy makers to develop a consensus budget for Fiscal Year 2005.

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