

**PUBLIC OVERSIGHT HEARING ON  
THE FISCAL YEAR 2004 AND 2005 SPENDING AND  
PERFORMANCE BY 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**

**March 9, 2005, 10:00 a.m.  
John A. Wilson Building  
Council Chambers**



**Testimony of  
Dan Black  
Deputy Chief Financial Officer  
Office of Tax and Revenue**

**Natwar M. Gandhi  
Chief Financial Officer  
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Daniel L. Black, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony today on OTR's performance during Fiscal Years 2004 and 2005 to date. At the conclusion of my statement, members of the OTR administration and I will be available should you have specific questions you would like addressed.

### **Overview**

OTR's performance in Fiscal Year 2004 (FY04) demonstrates our commitment to leveraging technology to expand services to taxpayers, while generating and protecting revenue for the District. FY 2004 saw the implementation of a new Interactive Voice Response (IVR) unit to improve responsiveness in the Customer Service Call Center, new electronic filing options at the Recorder of Deeds, and other e-commerce improvements. At the same time, OTR played a critical role in helping the District attain a balanced budget and clean Comprehensive Financial Report (CAFR) opinion for the eighth consecutive year, working to enhance revenues through compliance efforts and properly accounting for all receipts.

Of the \$4.3 billion in revenue reported to the General Fund in FY 2004, OTR total tax collections equaled more than \$3.7 billion, an 11 percent increase from Fiscal Year 2003 (FY03). The increase was attributed, in part, to increased real property, deed recordation, sales and use, and income tax collections.

In FY05, OTR is focused on several key areas, including customer service improvements and enhanced taxpayer compliance. In addition, OTR is

undertaking a multi-year strategic planning project, and is working to fill key leadership vacancies, including permanent Directors for the Real Property and Compliance Administrations. Along those lines, we have recently welcomed a new Director of Operations, Matthew Braman; a new Deputy Director of Compliance, Terry Hallihan; and a new Chief of Collections, Bedell Terry.

Of particular importance this year, OTR is dedicating significant resources to implement and ensure proper collection of the various baseball taxes, which include changes to sales, telecommunications and utility, and real property taxes, as well as the new Ballpark Fee. This effort requires clarifying regulations, forms changes and reprogramming of the ITS system and Electronic Taxpayer Service Center to facilitate payment, as well as staffing to support taxpayer outreach and customer service, audit and examination to ensure compliance with the new tax laws, and to account accurately for and transfer revenues to the Baseball Revenue Fund.

In FY05, OTR is placing particular focus on ensuring that high quality customer service is provided throughout the organization, by implementing an OTR-wide Quality Assurance initiative. Already this emphasis has yielded results, as OTR showed marked improvements in the Mayor's First Quarter FY05 Customer Service Performance Report.

In addition, we are focused on the ongoing class action litigation concerning property tax assessments, as this represents an area of critical concern for OTR and the District of Columbia, and on the significant workload being generated by the Office of Administrative Hearings.

## **Spending and Performance**

In FY04 the Office of Tax and Revenue had a budget of \$46.7 million and 501 employees. The Fiscal Year 2005 budget for OTR is \$52.2 million and 535 employees. The majority of this increase is associated with funding for significant revenue initiatives. This increase is offset by programmatic and other staff reductions throughout the organization. Operating expenses through January 2005 total \$14.3 million, or about 27 percent of our budget.

The comprehensive compliance strategy supported by funding for revenue initiatives is but one goal for FY05. Given the fiscal constraints and responsibilities facing the District, it is imperative that a tax administration be vigilant about applying its resources in ways that expand and protect the city's revenue stream. At OTR, our employees and automated systems are the cornerstones of such efforts. OTR is investing in its employees, by developing comprehensive training programs for compliance officers, customer service representatives, and other front line employees to ensure that we live up to our mission of maximizing revenue collections while minimizing the burden on taxpayers. By investing in employees, reaching out to taxpayers, and continuing to use technology to improve the quality and timeliness of service, we help ensure the financial future of the District of Columbia.

The balance of my testimony this morning will discuss OTR's performance by administration and how we are meeting goals in terms of revenue collection and protection, customer service, technology, and real property services.

## Revenue Accounting

A significant portion of the District's overall tax revenue increase in FY04 was attributable to increases in real property tax assessments and individual income taxes paid. We continued to see additional revenue gains which occurred as a result of increases in deed recordation fees and deed transfer taxes in association with the sustained rise in the number of homes refinanced during the fiscal year.

OTR's Revenue Accounting Administration contributes to the clean CAFR opinion by ensuring that all revenue and deposit transactions are reconciled in an appropriate manner. Through these efforts, OTR recovered \$3.5 million in dishonored checks (an increase of \$800,000 over FY03) and \$133,000 in dishonored check fees. RAA is also significantly involved in providing the requisite funding to the Convention Center from the related Hotel Taxes and the special 1 percent sales tax on certain food and beverages.

## Compliance

Compliance and enforcement are critical components of effective tax operations. The Compliance Division is in the process of restructuring to enhance enforcement of tax compliance in the District. It should be noted that this comprehensive compliance strategy is both aggressive and fair, using market segmentation and other means to focus on specific populations in a deliberate endeavor to close the tax gap. The Compliance Division is in the final stages of filling the 48 FTEs authorized under the revenue initiative, and fully expects to meet the associated revenue targets.

In FY 2004, the Compliance Administration (CA) continued to realize operational achievements and casework results, even as staffing and resources decreased. The various Compliance Administration divisions collected \$82.1 million in FY 2004.

The Audit Division exceeded its FY 2004 objective with a year-to-date total assessment of \$37.2 million and 5,114 completed audits. Despite decreased staffing in FY 2004, dollars per FTE averaged \$562,000, exceeding the 7-year average of \$528,000 largely as a result of increased efficiencies from automation of portions of the Revenue Protection and EITC programs. Increased emphasis on the Division's Voluntary Compliance program yielded another \$1.5 million, bringing the 5-year total to \$22.9 million.

In FY04, the productivity as measured by dollars collected per revenue officer increased to \$807,167 per FTE from \$744,360 per FTE in FY 2003, an 8.5 percent increase. Due to decreased staffing in the collections unit from FY03, the total dollars collected by revenue officers in FY 2004 was \$82 million, 89 percent of the total collected in FY 2003.

OTR's Criminal Investigation Division (CI) has had a very productive year, and just recently played a key role in a joint investigation with the FBI and IRS that resulted in the arrest of a major telecommunications entrepreneur for tax evasion. Taxes owed to the District are approximately \$40 million, not including penalties and interest. Media coverage of such high profile criminal cases has been an added deterrent to non-compliant taxpayers, serving to increase voluntary compliance through the inherent threat of criminal prosecution. In FY04, Criminal Investigations forwarded a total of 26 cases of tax fraud to either the District's

Office of the Attorney General or the US Attorney's Office, compared to 18 cases in FY03.

In a similar vein, OTR operates and maintains the Clean Hands Program, through which we provide information to District agencies on the tax compliance status of individuals or businesses seeking to obtain licenses or permits from those agencies. This program has been of great assistance to OTR in bringing individual taxpayers and businesses into tax compliance.

Other major compliance initiatives in FY 2005 include: ongoing programs to identify non-filing taxpayers; promoting our voluntary disclosure program; audit emphasis on franchise, excise and trust fund taxes; and enhancing procedures for identifying fraudulent refund claims

### Returns Processing

District taxpayers enjoy one of the swiftest and most improved tax return processing systems among U.S. cities. The administration again achieved an accuracy rate of better than 98 percent, which resulted in fewer taxpayer inquiries and lower costs associated with error correction. In calendar year 2004, prompt deposits (deposits within 48 hours from paper and e-commerce) reached the \$ 1.6 billion mark, reducing the need for cash-flow borrowings and thus providing savings to the city.

The average individual income tax refund amount increased slightly in 2004 to approximately \$768. For the sixth straight year, the average refund cycle time for clean tax returns was 15 days or less. Taxpayers who filed electronically received their refunds in an average of 7 days.

Alternative filing, which includes the District's award-winning electronic Taxpayer Service Center (eTSC) and federal/state e-filing, saw dramatic growth in calendar year 2004, particularly in the number of business returns filed electronically. More than 92,000 individual income returns were filed online, up from 71,000 last tax year. E-filers represented 33 percent of the District's individual income tax paying population, up from 24 percent in 2003. In 2003, the District launched a new online service site, govONE, which accepts tax returns and payments. In 2004, govOne received 4,216 returns and \$24 million in tax revenue up from 227 returns and \$1.9 million in tax revenue received in 2003. As part of OTR's long term strategy to increase efficiency and reduce burden to the taxpayer, we plan to have all types of returns available for electronic filing by 2007.

EITC claims increased slightly 2004 to 44,949, from 43,917 in 2003. Total EITC disbursements were approximately \$20 million, with an average refund to recipients of \$452. As part of our outreach efforts this year, OTR sent out 10,000 letters to taxpayers identified as potentially eligible to inform them of the EITC program and the process for filing.

### Technology

OTR continues to reap benefits from the implementation of the Integrated Tax System (ITS) in terms of enhanced revenue collections and electronic filing/payment opportunities for taxpayers, and has completed the last phase of work under the development contract. Building on these successes, OTR has made rapid expansion of e-commerce a key strategic goal for the Information Systems Administration. In all, 325,247 taxpayers filed and paid income and business taxes electronically in 2004. This represents a 100 percent increase in the number of



electronic filers as compared to calendar year 2003. However, the real success stories are in the business tax withholding and sales tax categories. As a result of new regulations requiring e-filing of certain Sales tax returns along with 2003 withholding returns mandates, as well as OTR's successful e-filing promotional efforts, well over 88,000 business taxpayers filed electronically and paid more than \$1.18 billion in taxes online. The stage is set for another banner year in electronic filing. We expect that number to exceed 400,000 returns and more than \$1.5 billion in payments in 2005. Already, through February 25, 2005, more than \$205 million dollars in taxes were received electronically, almost doubling comparable 2004 receipts of \$115 million. This is a truly enviable record for District of Columbia e-commerce year in 2005.

Final programming of the Real Property Tax Module in 2005 will result in the potential collection of millions in electronic real property payments as a result of first-time e-commerce availability for RPTA billings. Further ITS programming improvement efforts include enhancement to the Real Property Tax module and other software enhancements to ensure responsiveness and user-friendly functions for our internal and external customers. For example, taxpayers will be able to use e-check (electronic bank withdrawals) to pay both first half Real Property and estimated tax payments.

OTR continues to perform additional enhancements and maintenance of ITS to ensure its long-term viability and continued productivity. For example, the 2005 filing season will mark the first time ITS will be able to accept scanned images from our lockbox vendor. This programming enhancement eliminates duplicative re-scanning of images the lockbox was capturing under its contract with the District, and allows the Returns Processing Administration to operate with fewer

seasonal staff. Another critical initiative is the issue of ITS security, particularly for the web-based applications, to maintain overall taxpayer confidence in the integrity of the tax system and taxpayers personal data.

### Real Property Tax

The District's "hot" real estate market continues to translate into increased tax revenue as a result of rising property values. In FY04, the Real Property Tax Administration billed and collected \$948 million in real property taxes, through a combination of timely billings, fair and equitable valuations, and aggressive enforcement activity.

Two weeks ago, RPTA mailed FY05 property tax bills and FY06 property assessment notices for the District's 176,000 residential and commercial parcels. This will mark the first property tax billing cycle completed in the Integrated Tax System. Future planned enhancements to the billing module will eliminate additional manual processes, such as Homestead and other deductions. The FY06 assessment notices reflect the continued rise in District real estate values. The average citywide assessment increase for this cycle is approximately 14.6 percent.

In FY05, the Assessment Division was granted 7 additional FTEs. Despite aggressive recruiting, only 3 of these positions have been filled to date, and such additions are offset by other staffing losses. Recruiting is ongoing, and we anticipate that all positions can be filled by the end of May. When all of the positions are filled, OTR will be able to fine-tune its assessment program and reduce the burden on individual assessors, bringing caseloads down to 5,000 parcels per assessor. RPTA is working to institute a comprehensive training and

certification program for assessors, which should further enhance the accuracy of appraisals.

Substantial revenue gains were also attributable to increased activity and fees at the Recorder of Deeds (ROD). In FY04, the division collected \$362 million, compared to \$255 million in FY03, which represents a 41 percent increase. In FY04, 208,000 instruments were recorded; these recordings represent an increase of 35,000 over FY03. ROD continues to experience process improvements as a result of its automation project, including the ability to accept electronic filing of liens and other documents.

#### Customer Service and Public Outreach

Customer service has been defined as the ability of an organization to consistently give customers what they want and need. At OTR, we work to achieve that basic goal, but we strive to meet a higher definition of good customer service: the ability to consistently exceed the customer's expectations.

In FY04, the Customer Service Administration assisted 53,246 walk-in customers and 369,204 customers via telephone. The call center volume and face-to-face traffic increased slightly over the last fiscal year. We feel this increase is attributable to changes in the tax laws and calls received by the new Interactive Voice Response (IVR) unit. The IVR is the first of its kind for the citizens of the District. Now taxpayers can receive basic refund information through self-service efforts instead of having to talk with a live assistor.

OTR is a regular participant in community forums explaining tax-related issues. For example, once a month the Customer Service Administration assists the

Mayor's Enhanced Business Information Center by helping customers to register their businesses in the city.

OTR hosted its first "Tax Resolution Day" in the fall of 2004. This event was another first for the city and represented a one-stop-shopping opportunity for taxpayers to address their individual tax issues. We again participated in Congresswoman Eleanor Holmes Norton's annual tax fair, and we continue to work with nonprofit community organizations to spread the word about the Earned Income Tax Credit program and other tax benefits that may assist the District's neediest taxpayers.

### **Summary**

Integrity. Responsibility. Accountability. OTR puts a premium on upholding these simple, core principles in our mission and business culture for an important reason: the public's trust is crucial to our continued progress and to efficient tax operations. As we go forward in 2005 and beyond, we remain 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. I am happy to answer your questions at this time.

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