

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2003 AND 2004 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

**February 25, 2004, 9:00 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
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**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 2003 and 2004 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 2003 (FY03) demonstrates our commitment to expanding services to taxpayers, while generating and protecting revenue for the District. A prime example of this was OTR's role in helping the District attain a balanced budget and clean Comprehensive Financial Report (CAFR) opinion for the seventh consecutive year. Significant strides were made in several other critical areas, in spite of a still tenuous economy and volatile markets.

Of the \$3.8 billion in revenue reported to the General Fund in FY 2003, OTR total tax collections equaled more than \$3.2 billion, a 5.5 percent increase from Fiscal Year 2002 (FY02). The increase was attributed, in part, to increased real property, deed recordation, sales and use, and personal property tax collections.

Spending and Performance

In FY03 the Office of Tax and Revenue had a budget of \$43.2 million and 550 employees. The Fiscal Year 2004 budget for OTR is \$41.9 million and 500 employees. Operating expenses through January 2004 total \$11.3 million, or about 28 percent of our budget.

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. The revenue generated from these resources more than offsets the costs. With cutting edge technology and top-flight technicians, OTR is gaining greater taxpayer compliance and collecting additional tax dollars from new and previously noncompliant taxpayers. In 2003, for instance, OTR received 25,518 more individual income tax returns than in 2002, though the city's total population has decreased, from 572,059 residents in 2000 to an estimated 563,384 in 2003.¹ Much of the increase in the number of returns can be attributed to new Earned Income Tax Credit (EITC) claims, new District residents, and OTR compliance and enforcement efforts.

The balance of my testimony this morning will discuss OTR's overall performance by its various administrations 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 FY03 was attributable to tax increases established in the Budget Support Act of 2002. OTR's Revenue Accounting Administration (RAA) reports that as a result of this act, OTR collected \$73 million in additional revenue. This total exceeded the projected \$52 million increase by 40 percent. Additional revenue gains occurred as a result of increases in deed recordation fees associated with the tremendous rise in the number of homes refinanced during the last half of the fiscal year.

¹ Source: U.S. Census Bureau web site

RAA 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 \$2.7 million in dishonored checks and \$87,000 in dishonored check fees.

Compliance

Compliance and enforcement are critical components of effective tax operations. The Compliance Administration (CA) continued to realize operational achievements and casework results in FY 2003, even as staffing and resources decreased.

FY03 compliance collections of \$91.4 million reflected an increase of \$10 million, or 12% over FY02 levels of \$81.4 million. CA exceeded its own target goal for FY03 of \$78 million by 17% and continued a 5-year growth trend from FY99. Improved caseload monitoring and management techniques have improved our staff efficiency. The audit division's assessments peaked at \$45 million compared to \$33 million in FY02 due to the culmination of several major cases (corporate and individual audits) and enhanced business practices. The increases also reflect benefits from improved management and more aggressive enforcement over the past 3 years, despite field agent staff reductions of more than 30 positions since FY99. Revenue officer productivity as measured by dollars collected has increased to \$102,616 per person for the first four months in FY 2004 compared to \$89,600 for the first four months of FY 2003. Tax auditor productivity as measured by assessments per case-hour increased to \$953 per person for FY03 compared to \$594 in FY02.

A key component to maintaining a high level of voluntary compliance in the District is the inherent threat of criminal prosecution for noncompliance. Our criminal investigations division forwarded 18 cases of tax fraud to either Corporation Counsel or the US Attorney's Office, compared to 12 cases in FY02.

Major compliance initiatives in FY04 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. In fact, OTR's Returns Processing Administration (RPTA) and its director were winners of two prestigious awards in FY03 in recognition of consistently superior performance in refund cycle time and overall productivity.² 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 2002, prompt deposits (deposits within 48 hours) reached the \$1 billion mark, reducing the need for cash-flow borrowings and, thus, providing savings to the city.

The average individual income tax refund amount increased to approximately \$761. And for the fifth straight year, the average refund cycle time for all District tax returns was 15 days or less. Taxpayers who filed electronically received their refunds in an average of 7 days.

² The OTR Returns Processing Administration received a CFO Operations Team Award; Director Richard Sella was awarded the Morris and Gwendolyn Cafritz Foundation Award for Distinguished DC Government Employees.

Alternative filing, which includes the District's award-winning electronic Taxpayer Service Center (eTSC) and federal/state e-filing, saw dramatic growth in FY03.³ More than 71,000 individual income returns were filed online, up from 47,000 last fiscal year. E-filers represented 24 percent of the District's taxpaying population. The District also launched a new online service site, govONE, which accepts tax returns and payments. In 2003, govONE received 227 returns and \$1.9 million in tax revenue.

EITC claims increased slightly in 2003 to 43,917, from 40,882 in 2002. Total EITC disbursements were more than \$19 million, with an average refund to recipients of \$450.

Technology

OTR has made rapid expansion of E-commerce a key strategic goal for the Information Systems Administration. In all, 154,958 taxpayers filed and paid income and business taxes electronically in 2003. This represents a three-fold increase in the number of electronic filers as compared to calendar year 2002.

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 withholding returns, as well as OTR's successful e-filing promotional efforts, well over 88,000 business taxpayers filed electronically and paid more than \$332 million in taxes online. We expect that number to exceed 200,000 returns and more than \$700

³ Tele-filing was discontinued in the District in 2003, due to underused and as a cost-saving measure. Former users were notified in advance by post-card.

million in payments in 2004. Already, through February 10, 2004, more than \$65 million dollars in taxes were received electronically, signaling a record District of Columbia E-commerce year in 2004.

Final programming of OTR's Integrated Tax System's (ITS) individual tax module resulted in the collection of \$15 million in revenue as a result of first-time automated billings. Further ITS programming improvement efforts include completion of the Real Property Tax module and software enhancements to ensure responsiveness and user-friendly functions for our internal and external customers.

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 FY03, the Real Property Tax Administration billed and collected \$838 million in real property taxes⁴, through a combination of timely billings, fair and equitable valuations, and aggressive enforcement activity.

This week the RPTA will mail FY04 property tax bills and FY05 property assessment notices for the District's 170,000 residential and commercial parcels. Both notices will reflect the continued rise in District real estate values, although the general rate of increase has moderated from FY04 to FY 05 levels. The average citywide assessment increase will be approximately 9 percent.

Full funding of assessor staffing in FY04 will allow OTR to fine-tune its assessment program and reduce the burden on individual assessors, bringing caseloads to 5,000 parcels per assessor.

Substantial revenue gains were attributable to increased activity and fees at the Recorder of Deeds. The division in FY03 collected \$255 million as compared to \$157 million in FY02 and recorded 172,000 instruments, up 2,000 from FY02.

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 FY03, OTR's Customer Service Administration assisted more than 49,922 walk-in customers, which represents a marked decrease from the total number of 60,995 walk-in customers in FY02. OTR call center volume was reduced, as well, to 258,441 in FY03 from 370,491 callers in FY02. We are very pleased with these considerable declines in the number of on-site visitors and callers because it shows that: A) increased electronic filing is having a positive effect on customer traffic by reducing overall inquiries and complaints, and B) taxpayer problems and inquiries are successfully being closed via telephone, thus saving customers a trip downtown.

The administration also met an important goal this year: the majority of all business tax registrations are now completed in one business day. FY04 initiatives include increased use of a computerized correspondence tracking system and reestablishment and/or expansion of taxpayer education programs.

⁴ This figure does not include personal property tax or Recorder of Deed collections.

OTR is a regular participant in community forums to explain tax-related issues, such as how to apply income tax law changes to returns and the real property assessment process. This month, 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 EITC program and other tax benefits that District taxpayers may be eligible for.

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 2004 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. We are happy to answer your questions at this time.

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