BUDGET HEARING

FY 2007 BUDGET REQUEST FOR THE OFFICE OF BUDGET AND PLANNING (OBP)

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

The Honorable Linda W. Cropp, Chairman

March 28, 2006, 2:30 p.m.
John A. Wilson Building, Room 412

Testimony of
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Good afternoon, Madame Chairman and members of the Committee of the Whole. I am Bert Molina, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify in support of OBP's budget request for FY 2007. With me today are Gordon McDonald, Associate Deputy CFO; David Meadows, Director of Budget Administration; and James Spaulding, Director of Strategic Budgeting and the Capital Improvements Program. My colleague Lasana Mack, Deputy Chief Financial Officer for Finance and Treasury, will address questions related to cash and debt management.

FY 2006 Accomplishments

Faced with unusual challenges in the FY 2007 budget process, my staff worked diligently to produce the Mayor's budget on time, and I am very proud of their effort. During the past year, we:

- Developed a fiscally sound Mayor's FY 2007 Budget and Financial Plan, including:
  - ➢ A budget highlights volume,
  - ➢ An executive summary volume, and
  - ➢ A special studies volume and addendum that provide decision makers with additional information upon which to make budget and management decisions regarding the District's finances. In its third year of publication, the special studies volume includes chapters on baseball, benchmarking, fixed costs, the capital fund deficit, the children's budget, and the budget for District-wide CFO operations.
- Facilitated agency strategic business plans for 2 new agencies – the Department of Youth Rehabilitation Services and the Office of Unified

Communications – as part of the Phase V transition to Performance-Based Budgeting (PBB);

- Developed an online spending plan application for capital;

- Recently rolled out the latest release of the Executive Dashboard in CFO$ource; and

- Received the Distinguished Budget Award from the Government Finance Officers Association for the FY 2006 budget.

OBP's FY 2007 Budget Request

Operating Budget Request

Our operating budget request is $6,690,801 and 66 FTEs, an increase of $122,538, or 1.9%, with no change in FTEs over the FY 2006 budget of $6,568,263 and 66 FTEs. The majority of this increase is due to **increased personal services** costs for step increases. OBP had no program enhancement requests for FY 2007.

FY 2007 Key Program Initiatives

Cost Driver Project

This partnership with the Office of the City Administrator (OCA) began in June 2005 with 4 pilot agency programs. The study objectives are:

- Assist in monitoring agency budgets;

- Provide quantifiable justification for program budgets and reserve allocation requirements; and

- Help achieve the citywide priority of *Making Government Work* and the following strategic goals:
    - Ensuring spending remains within approved budget and or available revenue, to prevent deficits, and

o   Developing and support financial systems to provide accurate and timely information.

FY 2007 – FY 2012 Capital Improvements Program (CIP)

The District's accumulated deficit in the General Capital Improvements Fund (Capital Fund) was reduced in FY 2005, due to active OCFO and OCA management, along with Council oversight.

Background

The Capital Fund accumulated a $250 million shortfall by the end of FY 2004. It consisted of a $346 million deficit in the G.O. bond-financed part of the fund. This was offset by a $96 million positive position in other financing.

During FY 2005, the District borrowed about $396 million in new G.O. bonds and spent about $380 million. This resulted in a $16 million surplus in the G.O. portion of the CIP fund. The surplus reduced the G.O. bond-financed shortfall from $346 million to $330 million and created an overall surplus of $4 million in FY 2005. The overall shortfall was, in turn, reduced from $250 million to $246 million.

The OCFO, in collaboration with the executive branch and the Council, has formulated a plan that gradually reduces this deficit without endangering the CIP. The plan has three key elements:

- Using fund balances and transfers from operating, when available;
- Borrowing more than the amount needed to fund new capital spending for each year and applying any excess toward reducing the deficit; and

- Limiting each fiscal year G.O. bond financed capital expenditures to the amount of each year's available G.O. bond financing by aggressively monitoring spending plans.

This strategy was successful in FY 2005, and we are confident of its success again in FY 2006 and beyond.

Several other capital-related objectives have been achieved in FY 2006, including:
- Issuing the first quarterly capital Financial Status Report (FSR),
- Reconfiguring and improving the CFO$ource capital reports module, and
- Supporting the Technical Review Team and the Budget Review Team.

Fulfillment of these objectives will continue in FY 2007.

Additional steps needed to better manage the CIP include undertaking a budget clean-up in SOAR, as well as a close-out of completed projects, and further expanding CFO$ource capabilities by adding capital information to the Executive Dashboard and expanding the level of reporting on capital projects.

FY 2007 Operational Goals

Our fiscal year 2007 operational goals are:
- Re-configure OBP's performance measures for FY 2008,
- Continue to improve our financial management systems,
- Bolster our ability to produce timely Anti-Deficiency compliance and financial status reports,
- Develop a sound baseline budget for FY 2008,
- Continue to enhance the CFO$ource Executive Dashboard,
- Operationalize the cost driver project, and

- Continue to improve the development and execution of the District's Capital Improvements Program.

Madame Chairman, this concludes my remarks. I will be pleased to answer any questions you may have.