

PUBLIC HEARING
ON
THE FISCAL YEAR 2021 BUDGET
OF THE OFFICE OF
THE CHIEF FINANCIAL OFFICER

Before the
Committee on Business & Economic Development
Council of the District of Columbia

The Honorable Kenyan R. McDuffie, Chairman

June 3, 2020, 9:00 a.m.
Virtual Platform
John A. Wilson Building



Testimony of
Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman McDuffie and members of the committee on Committee on Business and Economic Development. I am Jeffrey DeWitt, Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to discuss the FY 2021 budget request for the Office of the Chief Financial Officer (OCFO).

The OCFO's FY 2021 budget request supports the agency's strategic plan. I will now discuss the budget in greater detail.



Office of the Chief Financial Officer

Fiscal Year 2021 Budget

Jeffrey S. DeWitt
Chief Financial Officer
June 3, 2020



District of Columbia

OCFO Core Functions

The Independent Office of the Chief Financial Officer:

- Certifies budgets are balanced and financial statements are fairly represented
- Provides independent revenue estimates
- Monitors revenues and spending
- Evaluates fiscal impacts of all legislation
- Reviews all economic development projects
- Issues all debt, manages all investments, and oversees credit ratings
- Oversees tax collections and lottery
- Manages financial personnel (budget, accounting, and payroll functions) in all agencies



OCFO Annual Agency Outputs

District of Columbia

| | |
|---|---------------|
| ▪ Tax Returns Processed | 1,098,950 |
| ▪ Tax Refunds Processed | 355,693 |
| ▪ Taxpayer Calls Answered | 348,285 |
| ▪ Written Correspondence Answered | 73,672 |
| ▪ Deeds Recorded | 18,787 |
| ▪ Properties Assessed (Commercial and Residential) | 196,406 |
| ▪ Property Assessment Appeals-1st Level | 12,389 |
| ▪ Delinquent Payments Collected | \$251,263,311 |



OCFO Annual Agency Outputs (Cont.)

District of Columbia

| | |
|--|-----------------------|
| ▪ Wires and ACH Processed | 3,953,057 |
| ▪ Gross CCU Debt Collected (FY 2019) | \$36,488,945 |
| ▪ Total Debt Managed (FY 2019) | \$10,820,134,000 |
| ▪ Fiduciary Programs Managed (FY 2019) | \$4,241,809,751 |
| ○ OPEB Fund= \$1,509,102,271 | |
| ○ 401(a)= \$1,089,783,253* | |
| ○ 457(b)= \$903,512,987* | |
| ○ 529 College Savings=\$691,933,796 | |
| ○ UDC Endowment= \$45,706,957 | |
| ○ DC Library Trust=\$1,770,451 | |
| ▪ Payroll Payments Issued (Regular Employees Only) | 977,614*** |
| ▪ Bank Reconciliations | 5,100 (425 per month) |
| ▪ W-2s Issued | 44,151** |
| ▪ 1099s Issued (1099 MISCs and 1099Rs** only) | 8,156 |
| ▪ Approximately 160 fiscal impact studies issued per year in addition to numerous other studies, reports, and analyses | |

* Unaudited

**Reference – TAX915

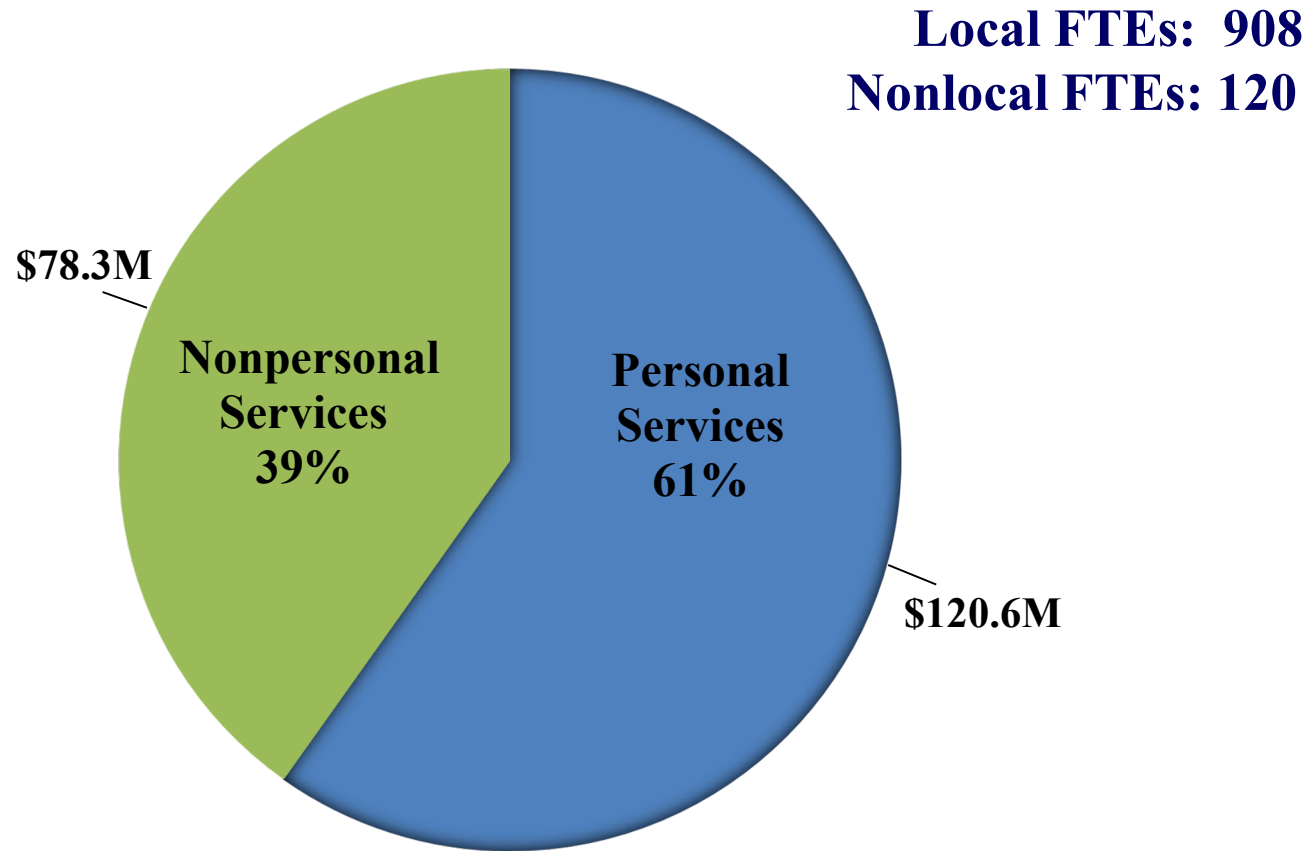
*** This number represents the total of checks/ACHs employees received from the District for the calendar year. The number is extracted from the support for the Form 941 which is populated using the U.S. Summary Report generated by PeopleSoft after each payroll processing is completed. Does not include checks generated during the year-end off-cycle payroll runs.



District of Columbia

FY 2021 Proposed Operating Budget

Gross Fund, PS vs NPS



Total = \$198.9 Million



District of Columbia

Highlights of FY 2021 Budget Request

The OCFO request represents the minimum resources needed to successfully accomplish our mission and attain our stated goals.

- The OCFO FY 2021 Gross Fund budget is \$198.9M, comprised of the following major categories:
 - Local Funds of \$143.9M
 - Federal Grant Funds of \$450K (EBT Management)
 - Intra-District Funds of \$9.2M (Health Benefits Fees - Payroll Support, Single Audit, Cashier Services, and Nursing Home Tax Administration)
 - Special Purpose Revenue (O-Type) Funds of \$45.3M (to administer Central Collections Fund, Tax Collection Fees, Bank Fees, and Unclaimed Property)



District of Columbia

Highlights of FY 2021 Budget Request (Cont.)

- **Local Fund Reductions and Realignments for Enhanced Technology**
 - **Pre-COVID FY 21 Local Fund Budget:**
 - OCFO's Request was set at \$150.1M for AT0 Local Fund.
 - **COVID FY 21 Local Fund Budget**
 - The OCFO's COVID request is \$143.9M for AT0 Local Fund. COVID related reductions totaled \$6.2M that included a reduction of 18 positions. These reductions required internal reallocations to meet our system and functional requirements.
 - 7 vacancies were reallocated for support of the new tax system (MITS)
 - 1 vacancy was reallocated for support of the new Treasury Management System (TMS).
 - Reallocated IT contract funding to create 7 FTEs for system support; no new funding requested.



District of Columbia

Nonlocal Fund Changes

- **Intra-District:**

- Decrease of 6 FTEs and \$1.6M to reallocate OPEB support from Fund 0721.

- **Special Purpose Revenue:**

- Net Increase of 9 FTEs and \$1.7M, comprised of 6 FTEs for OPEB support reallocated from Intra-District (see above), plus 3 new FTEs to support expanded Unclaimed Property efforts.



Ongoing and New Initiatives in 2020-2021

- **Major Change Management effort within OTR (ongoing)**
 - Review of business processes to maximize new technology and tools
 - Development of best-in-class key performance indicators to drive continuous improvement
 - Review and update of policies and procedures
 - Development of staff training programs for compliance division
 - Ongoing risk management assessments and testing
- **Office of the Taxpayer Advocate**
 - Assists taxpayers in resolving complex tax matters
 - Proposes solutions, including administrative changes to OTR's practices and processes
 - Prepares an annual report to identify initiatives taken and recommendations
 - Taxpayer Bill of Rights



Ongoing and New Initiatives in 2020-2021 (Cont.)

- **Artificial Intelligence (AI) Pilot Project**
 - Combining standard audit checks with computer driven data analytics to identify areas of noncompliance
- **Development of Center of Excellence**
 - Ensure that the system remains best-in-class
 - Ensure appropriate investment in staff training and learning
 - To be integrated with new Financial System implementation



- **Modernized Real Property Tax System (MRPTS)**
 - Phase V: Modernized Real Property Tax System (MRPTS) scheduled to go-live December 2020
 - Integration of all tax functions
 - Robust taxpayer notification
 - Appeals tracking module
 - E-commerce and self help



- **District Integrated Financial System (DIFS)**
 - Project to modernize/replace current budget and financial system (SOAR), including a treasury management and grants management system
 - Phase I - Treasury Management System go-live Summer 2020
 - Blueprinting of base budget and financial system in final stages
 - Planning, process analysis, prototyping and data conversion in the coming months
 - Remaining phases will roll-out (schedule under development based on planning, process analysis and prototyping)



Benefits of a Financial System Replacement (SOAR Replacement Project)

1. Improved data reliability
2. Improved controls for compliance
3. Better informed decision making
4. Less duplication of effort
5. Improved customer service/satisfaction
6. Improved productivity/efficiency
7. Reduced IT maintenance costs
8. Reduced operating and labor costs
9. Increased integration with other systems
10. Elimination of hundreds of shadow databases and spreadsheets throughout the organization

The District has an aging legacy system with declining support resources (mainframe technicians and COBOL programmers) that is at risk of inadequate support services and cannot be upgraded to take advantage of the benefits of a modern system.



Ongoing and New Initiatives in 2020-2021 (Cont.)

Enterprise Risk Management (ERM) Initiative

Ongoing focus to assess risk

- Proactively identifies and addresses organizational risks through:
 1. Organizational risk assessment
 2. Action plans developed and resources devoted to address identified risks
 3. Ongoing monitoring and emerging risk identification
- Benefits
 1. Risks are prioritized and specific mitigation strategies are developed to address issues before they occur.
 2. More efficient and effective use of resources



Ongoing and New Initiatives in 2020-2021 (Cont.)

Value Based Culture Initiatives

- New performance management system implemented focusing on SMARTER culture values
- OCFO Managerial Certification Program implemented
- Extensive executive discussions on the benefits of a strong organizational culture and development of enhancement programs
- SMARTER Awards program
- SMARTER Culture Survey



District of Columbia

Questions?



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Our Reserve Fund

The District has four reserve funds designed to provide flexibility during difficult financial times. **Three are already in use.**

IN USE:



Cash Flow Reserve - \$775M

Provides daily operating cash to pay employees, meet contract payments, and cover daily supplies.



*The **Cash Flow Reserve** is providing daily operating cash to pay employees, meet contract payments, and cover daily supplies. The cash flow reserve is expected to be at its lowest point in August as several significant obligations are due.*



Contingency Cash - \$299M

Available for unanticipated, non-recurring needs that arise. Funds must be replenished within 1-2 years.



*The District has used \$236.4M of its **Contingency Cash Reserve**, mostly for COVID-19 response.*



Fiscal Stabilization - \$213M

May be used to cover revenue shortfalls experienced by the District government.



*The full \$213M **Fiscal Stabilization Reserve** was used to balance the 4-year financial plan, and is budgeted to be replenished over the life of the plan.*



Emergency Reserve - \$149M

Available for extraordinary unanticipated, non-recurring needs, such as a natural disaster or calamity. Typically used only after Contingency Cash has been exhausted.



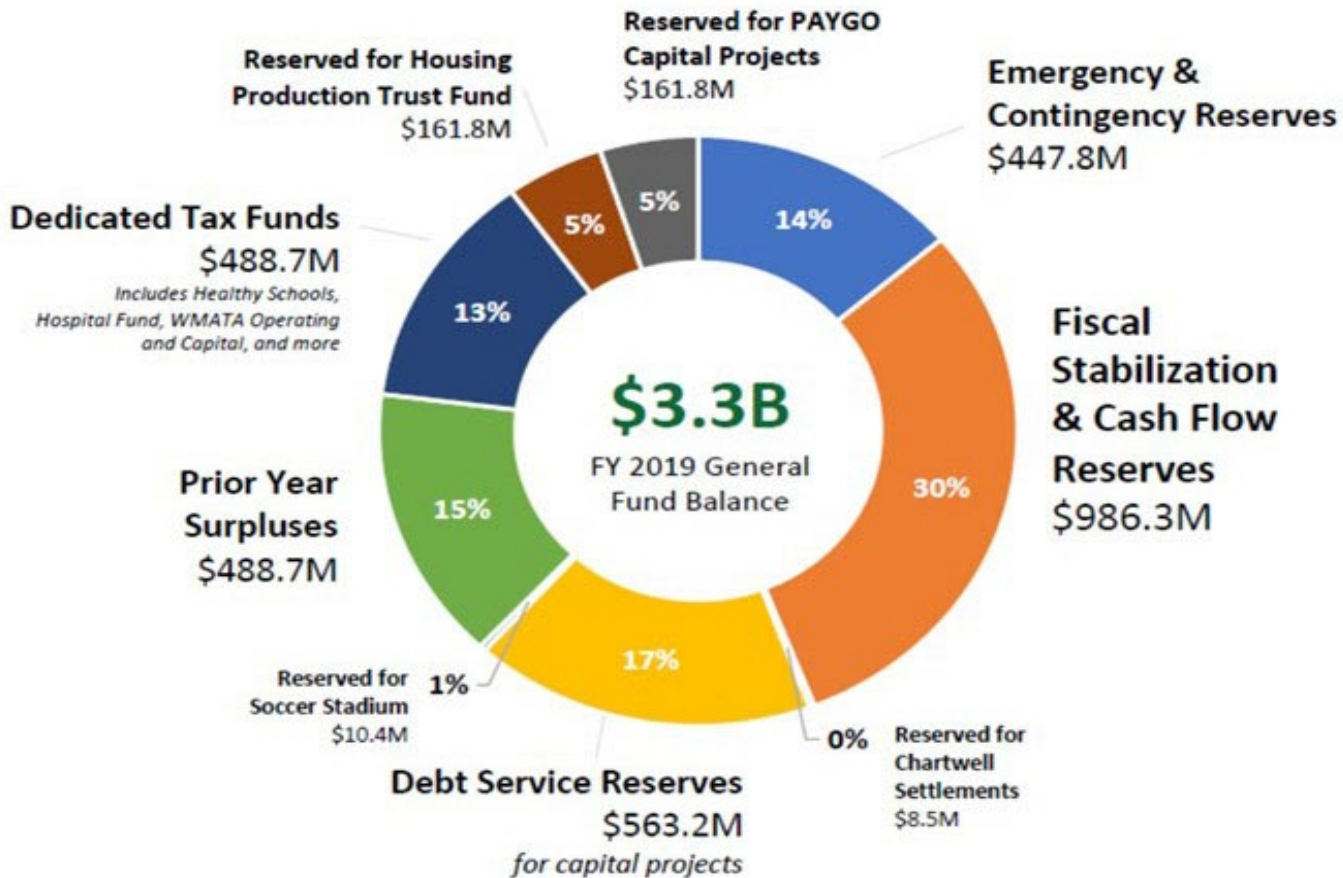
*We preserve the **Emergency Reserve** in case we have a second wave of COVID19 or another unforeseen emergency.*



District of Columbia

What Makes Up Our \$3.3B in Fund Balance?

Our Fund Balance is essentially what we have in our bank account. Only some is available for use in solving budget challenges.



Office of the Chief Financial Officer Strategic Plan

MISSION
To preserve and enhance the overall financial stability of the District by: 1. Protecting and enhancing the District's revenue stream; 2. Reliably estimating revenues; 3. Exercising budget oversight; 4. Preparing auditable financial statements; 5. Managing debt and bond ratings

CORE OBJECTIVES

Balanced Budgets

Clean Audits

Access to Quality
Credit Markets

STRATEGIC OBJECTIVES

Improve Customer
Service

1

Create a Culture of
Continuous
Improvement

2

Improve
Transparency and
Quality of Information

3

Effectively Manage
Risk to Prevent
Fraud
and Losses

4

Implement Quality
Financial Systems

5

Develop, Attract,
and Retain Highly
Qualified Employees

6

Manage a Fair and
Equitable System to
Fully Collect District
Revenues

7

STRATEGIC INITIATIVES

1 *Continue implementation of a Modernized Integrated Tax System (MITS) to replace the current tax system (1,2,3,4,5,7)*

2 *Implement Telephony System 2.0 and integrate Telephony System with a Customer Relations Management (CRM) System for all areas of the OCFO (1,3)*

3 *Implement an enterprise-focused debt and revenue collection solution for management and collection of taxes, fees, and debts owed to the District (1,2,3,7)*

4 *Enhance current practices to strengthen internal controls and ensure compliance with applicable accounting, auditing, and legal standards (2,3,4)*

5 *Improve District-wide payment process to ensure more efficient and timely payments by all agencies (1,2,3,5)*

6 *Continue to enhance the long-range (15-year) capital financial plan for the District and develop a long-range capital plan for WCSA (EventsDC) (2,3)*

7 *Implement a new enterprise-wide accounting and financial reporting system and enhance the availability of information to the public (1,2,3,4,5,7)*

8 *Implement a culture of continuous improvement based on employee-driven process improvement teams (1, 2, 3, 4, 5, 6, 7)*

9 *Continue to implement DC Lottery "best practices" findings from 2016 study, where applicable, and expand base for retail products (1,2,7)*

10 *Develop and execute a plan with hospital board and DHCF to financially stabilize UMC (1,3,4,5)*

11 *Review investment systems and strategies to maximize revenues within investment policy guidelines (2,7)*

12 *Review and implement policies, systems, and processes to ensure debt compliance with increased local and federal debt regulations (2,3,5)*

13 *Upgrade policy analysis and forecasting tools for Real Property and Sales Tax revenue stream (2,3,)*

14 *Enhance existing employee development opportunities to ensure that our human capital has the critical skills to succeed in the OCFO's SMARTER culture (2,6)*

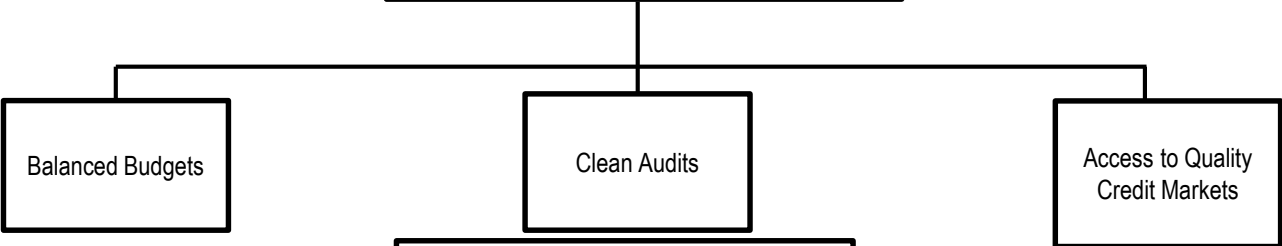
15 *Improve internal communications OCFO and District-wide by implementing dashboards, standardized reports, portals, and newsletters (1,3)*

Office of the Chief Financial Officer Strategic Plan

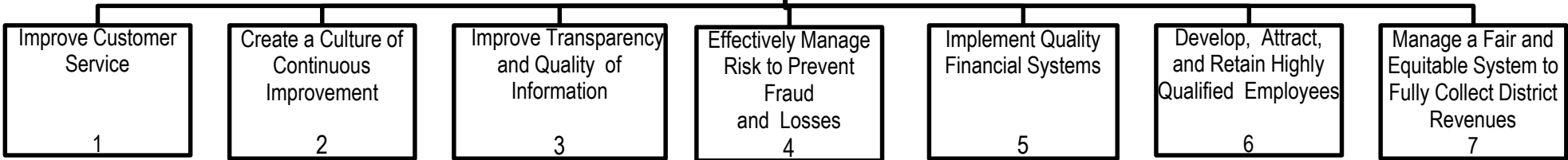
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CORE OBJECTIVES



STRATEGIC OBJECTIVES



STRATEGIC INITIATIVES

