

**PUBLIC OVERSIGHT HEARING ON
OFFICE OF BUDGET AND PLANNING
PERFORMANCE ON FISCAL YEAR 2005 AND 2006
BUDGETS**

**Before the
Committee of the Whole
Council of the District of Columbia
The Honorable Linda W. Cropp, Chair**

**March 9, 2006, 10:00 a.m.
John A. Wilson Building
Room 412**



**Testimony of
Bert Molina
Deputy Chief Financial Officer
Office of Budget and Planning**

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

Good morning, Madam Chairman and committee members. I am Bert Molina, Deputy Chief Financial Officer for Budget and Planning. It is my pleasure to appear today to testify on the Fiscal Year 2005 and Fiscal Year 2006 expenditures and performance for the Office of Budget and Planning (OBP).

This is the fifth year that I have had the honor to appear before this committee to present testimony on the accomplishments of my office and our plans for improving OBP's performance and services provided to citizens and District agencies in the future.

Appearing with me are Gordon McDonald, Associate Deputy CFO; David Meadows, Director of Budget Administration; and James Spaulding, Director of Strategic Budgeting and the Capital Improvements Program (CIP). Lasana Mack, Deputy Chief Financial Officer for Finance and Treasury, will answer questions regarding cash and debt management.

I will cover the following three areas in my remarks:

- Fiscal Years 2005 and 2006 operating expenditures and performance;
- Fiscal Year 2006 operational goals; and
- OBP's recent reorganization.

Fiscal Years 2005 and 2006 Operating Expenditures and Performance

In Fiscal Year 2005, the Office of Budget and Planning (OBP) operated within its budget of \$5,543,121, spending almost 100 percent of its available funds.

For Fiscal Year 2006, OBP's budget is \$6,590,727, an increase of \$1,119,446 above the FY 2005 budget. The increase is primarily due to personal services costs, with a net gain of 4 FTEs. This consists of 2 budget controllers to fully staff the Anti-Deficiency Compliance Team, 1 senior Medicaid analyst, and 2 data systems analysts. Operating expenditures and obligations through Feb. 27, 2006, total \$2,281,129, or 34.6 percent of the approved budget. We also project to end this fiscal year within our approved budget.

OBP Accomplishments for FY 2005

OBP achieved some major accomplishments during FY 2005. For example, we:

- Issued the first-ever reports of actual spending and obligations compared to planned spending levels,
- Produced anti-deficiency compliance reports and submitted referrals of potential anti-deficiency violations to the Anti-Deficiency Review Board for possible action,
- Reduced the loss of grant funding through the issuance of periodic potential grant lapse alerts,
- Successfully processed 1,151 grant budget modifications for 28 agencies,
- Rolled out new CFO\$ource grant lapse reports to District agencies for regular use,
- Implemented CSPIN – an online spending plan application for capital projects,
- Produced financial status reports (FSRs) for capital programs to supplement data available in CFO\$ource and the Executive Dashboard, and
- Held multiple shareholder meetings where different areas of the District were presented to OBP staff. (This series featured such discussion topics as

procurement, grants, fixed costs, public safety, and others. Guest speakers included associate CFOs, deputy mayors and outside experts.)

Fiscal Year 2006 Operational Goals

Our key business goal in FY 2006 is to build upon the performance enhancements that were successfully initiated in FY 2005. We will:

- Continue to improve our financial management systems,
- Bolster our ability to produce timely Anti-Deficiency Compliance and financial status reports (FSRs),
- Develop a sound baseline budget,
- Continue to enhance the CFO\$ource Executive Dashboard,
- Operationalize the cost driver project,
- Continue to improve the development and execution of the District's Capital Improvements Program, and
- Reorganize our structure, functions and service delivery systems to maximize the provision of services to District citizens and government programs.

Continue Budget Improvements – Systems

We remain committed to monitoring and controlling agency expenditures through the use of new budget and accounting systems. In FY 2005, we implemented CFO\$ource's online spending plan application for capital improvements. This tool allows agencies to develop and monitor annual spending allotments for all their capital projects. The online spending plan application for operating budgets was also updated to meet current anti-deficiency reporting requirements. The CFO\$ource Executive Dashboard was updated three times during FY 2005. It now

includes new features such as detailed vendor payment data and online published monthly reports.

We are currently rolling out a new release of the Executive Dashboard that will contain a “look and feel” device, as well as other features. We are working with the Office of the Chief Technology Officer’s Administrative Services Modernization Program to interface several data sources with the Executive Dashboard. These resources include PASS, human resources and, eventually, payroll. This action will provide users with additional information that will help them better manage their agency resources. We will also add more functionality to GRAMS and PROMS during FY 2006 and FY 2007.

We have implemented Web-based budget input forms for both capital and operating budgets. Agencies used these online forms to provide their agency budget request data for the FY 2007 budget formulation process. This is the first time that the District has collected agency budget requests via the Intranet. Our goal is to expand this Web-based process for all budget formulation and execution information requests.

Develop a Sound Baseline Budget

In building a baseline budget, the overall budgeting objective for the Office of Budget and Planning is to accurately determine the price or cost of current authorized services. Please note that the process of costing out the baseline budget is independent of projecting revenues. OBP’s estimated cost of current services (i.e., the baseline budget) is the starting point for the development of the Mayor’s policy budget.

Estimates of out-year expenditures in our five-year financial plan are not derived from detailed, bottom-up, agency future year budgets viewed account by account, as is the case with the baseline budget. Instead, broad assumptions are applied to personal and non-personal services costs in the proposed budget on a macro-analysis basis. There are limited exceptions to this policy, such as Medicaid and Metro, which are forecasted using separate growth rates, as well as debt service and pension costs. These items are forecasted at specific levels for each year, based on predictive knowledge of future costs.

The development of the FY 2007 baseline budget began with the FY 2006 approved expenditure budget. Adjustments were then made for one-time costs included in the prior year budget, as well as the impact of annualized costs for new programs (e.g., MPD's civilianization program) or new mid-year costs (e.g., the fourth quarter non-union pay raise). Next, budget impacts due to Congressional changes, court mandates or multi-jurisdictional agreements (e.g., WMATA – Metro Matters); increases due to recurring spending pressures (e.g., HIV – Ticket to Work); and impacts due to projections in fixed cost commodities, annual base and step salary increases, and reductions for personal services salary lapses were all factored into the development of the baseline budget. Thus, the baseline is composed of a series of costs over which there is little or no discretion, absent a change in District programs or policies.

Cost Driver Project

OBP is conducting an in-depth cost driver study in partnership with the Office of the City Administrator (OCA), which began in June 2005 with four pilot agencies. The results of this study will ultimately be used to assist in the monitoring of agency budget activity. We anticipate that this information will be useful in more

accurately identifying budget program and activity service needs, as well as providing quantitative justification for agency budget and reserve allocation requests.

This partnership initiative between the OCA and the OCFO will help achieve the citywide priority of “making government work,” as well as the following strategic goals:

- Ensuring that District spending remains within the approved fiscal year budget and or available revenue, to prevent spending deficits; and
- Developing and supporting financial systems that provide accurate and timely information.

Capital Improvements Program (CIP)

The District reduced the accumulated deficit in its General Capital Improvements Fund (the “capital fund”) during FY 2005, in part due to active management by the OCFO and the City Administrator’s office, as well as Council oversight. As you know, the capital fund had an accumulated shortfall of about \$250 million at the end of FY 2004. This consisted of a deficit of about \$346 million in the general obligation (GO) bond-financed portion of the capital fund, offset by about \$96 million of positive positions in other financing sources.

During FY 2005, the District borrowed about \$396 million in new GO bonds and spent about \$380 million on GO bond-financed projects. This resulted in a \$16 million surplus in this portion of the capital fund. This surplus reduced the GO bond-financed shortfall from \$346 million to \$330 million. Overall, the capital fund had a surplus of \$4 million in FY 2005, reducing the total shortfall from \$250 million to \$246 million.

As we all know, the city has extensive capital needs, and many projects in the CIP must go forward if the District is to maintain and improve its infrastructure. We need a plan that reduces the deficit but does not threaten the progress we are making in other areas of the city. The OCFO, working with the executive branch and the Council, is formulating a deficit reduction plan that gradually eliminates the accumulated deficit without endangering the CIP. This strategy has two components: (1) the use of fund balance or transfers from the operating budget, when available, and (2) borrowing more than the amount of new capital spending each year, then applying the excess to reduce the deficit.

As I stated last year, OBP's budget control objective is to limit each fiscal year's capital expenditures of GO bond-financed capital projects to the amount of each fiscal year's available GO bond financing. We were successful in accomplishing this in FY 2005, and we are confident that, working together, we can do the same this year. In addition, we accomplished several other objectives related to capital, including:

- Issuing the first capital Financial Status Reports;
- Reconfiguring and improving the CFO's capital cube; and
- Supporting the Technical Review Team and the Budget Review Team in their deliberations over spending plans that prioritized capital projects, set spending targets, and led to a balanced capital fund for FY 2005.

We believe that this approach will also lead to balanced capital funds for FY 2006 and FY 2007.

We are taking additional steps to better manage the CIP. These include:

- Budget clean-up in SOAR, as well as close-out of completed projects; and

- Further expanding capital CFO\$ource capabilities, including adding capital information to the Executive Dashboard and quarterly reporting on capital activity during FY 2006.

Borrowing constraints continue to affect the District's capital program. We still have high debt ratios relative to other jurisdictions, and there are limits to the amounts that the District can borrow without impacting its bond ratings and its long-term financial health. As Dr. Gandhi indicated in his letter to the Council, dated Nov. 22, 2005, on the topic of the District's debt burden, the District must be prudent in its financing decisions in order to avoid negatively impacting its financial condition.

OBP's Reorganization – Staff Roles, Strategy and Structure

OBP strives to provide greater organizational effectiveness and efficiency, staff stability and career growth opportunities through our recent structural and strategic reorganization efforts. Our span-of-control (SOC) has increased from 1 to 1.96 to 1 to 4.4. We have re-titled the Budget Formulation Division to the Budget Administration Division, to better reflect the full scope of its services. We also changed budget analyst position titles and descriptions to more accurately reflect the full scope of their duties and responsibilities. Our analysts are now called budget administration analysts. In addition, we broadened their career growth paths. Now our analysts can become careerists with the potential to amass significant years of valuable institutional knowledge and experience in serving the District, without attriting due to the pressures of the marketplace.

In the old business model, analysts had a limited role – budget formulation. The weakness in this model was its limited budget formulation-focused stream of

services. It resulted in limited opportunity for feedback on a number of other important budgeting issues. In the new model – budget administration – analysts are engaged in a full range of budget administration services, including:

- Budget development,
- Execution and reporting,
- Performance management, and
- Financial planning and analysis.

We emerge from this effort with a vision of multi-purpose service goals and objectives, enhanced service delivery and improved cooperation between OBP and our District agency partners.

Challenges remain, including establishing and maintaining long-term mutual cooperation and trust, but exciting opportunities also exist for fostering new degrees of teamwork, as well as strengthening partnerships and working relationships with District stakeholders and agencies.

Conclusion

Currently, the OCFO's staff is working with the City Administrator's office and the deputy mayors to develop the Mayor's FY 2007 Budget and Financial Plan. It will be transmitted to the Council on March 20. We look forward to working with the Council and other policy makers during this consensus building process to eagerly pursue the challenges and potential for achieving success that lie ahead.

This concludes my remarks. I would be pleased to answer any questions you may have.