

**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
N. Anthony Calhoun
Treasurer and Deputy Chief Financial Officer
Office of Finance and Treasury**

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

Good morning, Chairman Evans and Members of the Committee. My name is Anthony Calhoun, and I am the Treasurer and Deputy Chief Financial Officer for the Office of Finance and Treasury (OFT). I appreciate the opportunity to present testimony regarding the operations and performance of my office for FY 2003 and 2004.

The OFT manages the assets and liabilities of the District Government. As such, OFT manages and invests the District's cash balances, handles all disbursement of funds, receives and deposits payments to the District, conducts capital market borrowings, and administers the District's retirement programs.

During FY 2003 and FY 2004, OFT has continued to improve the various financial processes of the District, with very positive results. These include managing the D.C. College Savings Plan ("529 Plan") and increasing the number of claimants reunited with their unclaimed property by 22%. OFT's accomplishments also include the issuance of general obligation bonds to finance capital projects through a complex transaction that produced historically low interest rates; the refunding (refinancing) of outstanding general obligation bonds at lower interest rates; the refunding and issuance of new Certificates of Participation at significantly lower interest rates, and the issuance of additional variable-rate bonds to take advantage of the historically low short-term interest rates. All of these transactions resulted in substantial debt service savings in FY 2003 and FY 2004. OFT also continued its efforts to minimize the number of District bank accounts, and continued to upgrade its technological capabilities and electronic payment processing. OFT is divided into five core functions: Debt and Grants Management, Cash Management and Investments, Disbursement Activities, Cash Receipts and Accounting, and Asset Management for Special Programs.

The Debt and Grants Management Unit issues general obligation bonds in the financial marketplace to provide for the payment of costs incurred in the acquisition or development of capital projects and to refund outstanding indebtedness. This unit also manages the cash and accounting aspects of the drawing down of Federal Grants. OFT has implemented procedures for daily monitoring of grant reimbursements due to the District and any unidentified grant receipts applicable to a given agency. This has resulted in improved collection of grant monies due to the District and improvements in the meeting the reporting requirements associated with such grants.

In the first quarter of FY 2003, OFT issued general obligation bonds on behalf of the District to finance District capital projects and to refund (refinance) certain outstanding bonds at lower interest rates. OFT took advantage of market conditions at that time and utilized an interest-rate swap mechanism, resulting in historically low interest rates (an average rate of approximately 4%) on a portion of these bonds. Another portion of these bonds was issued as variable-rate demand bonds, allowing the District to benefit from the extremely low interest rates on the shorter end of the yield curve (approximately 1% currently). In addition, OFT refunded the District's outstanding Certificates of Participation at much lower interest rates (an average rate of 4.38% vs. approximately 7%). These transactions produced debt service savings totaling approximately \$20 million. Later in FY 2003 and in the first quarter of FY 2004, OFT issued additional bonds at historically low interest rates, including another portion issued as variable-rate bonds, to finance the District's on-going Capital Improvements Program.

In FY 2003, OFT worked closely with the Office of the Chief Technology Officer to raise \$43 million in the capital markets for the District's new emergency command center (the "UCC") and \$19 million for the District's new telecommunications network ("DC-NET").

The Cash Management and Investments Unit handles banking services, cash, and investments. The Cash Management and Investments Unit manages cash resources for the District, so that the District can meet its payment obligations and maximize interest income from cash resources. During FY 2003 and FY 2004 to date, this Cash Management and Investment unit has implemented a Treasury Workstation to assist with consolidating bank reports, better tracking and reporting of investments and debt spending, reconciling of bank fees, processing of daily electronic payments, and cash forecasting. The implementation of the Treasury Workstation provides OFT with state-of-the-art technological systems and enhanced efficiency in our day-to-day operations.

OFT is working on an initiative to electronically collect payments from business taxpayers owing the District using Automated Clearinghouse (ACH) transactions through the Federal Reserve System. We are currently establishing pilot projects with the Office of Tax and Revenue to collect Withholding tax payments and the Department of Employment Services to collect Unemployment tax payments. The benefits of this initiative are to accelerate cash flow and to allow for a more efficient method to pay the District.

The reduction in the number of District bank accounts continued to be a goal of OFT over the past year, although we are now down to a number that we believe is within our minimal range, given the wide variety of functions that we serve and the

various legal requirements and mandates under which we operate. Currently, the number stands at 440, including 79 related to the District's debt. This is a significant improvement from the 1,053 bank accounts that existed in FY 2001.

The Disbursement Unit provides check writing and dissemination services for District agencies so that they can fulfill their financial obligations to their stakeholders. Three departments are included in disbursement activity: Disbursing Operations, Vendor Center, and Electronic Benefits Transfer.

In FY 2003, OFT implemented a debit card program for the payroll of summer employees of the Department of Parks and Recreation. In previous years students were paid via check, which caused several problems, such as duplication of checks, checks never being received, and checks that were difficult to cash. The conversion to the new payment instrument was very well received, and the department will be using the debit card program again this year. Also in FY 2003, the Disbursing Operations unit converted all earnings data from hand-delivered tape cartridges to online transmission to accelerate payroll processing.

The Cash Receipts and Accounting Unit encompasses revenue accounting, cashiering services, and dishonored checks. This unit provides revenue collection, auditing, and recordation services for District agencies so that they can have accurate and timely revenue information. In FY 2003, the unit reduced the number of days needed to enter revenue into SOAR from three weeks to three days by eliminating duplicate registrations and reengineering business processes. OFT is currently implementing electronic re-presentment, which allows OFT to collect funds electronically from a consumer's active checking account after a check has been dishonored.

Asset Management for Special Programs includes the Unclaimed Property Unit and the financial administration of the District's 401(a) Defined Contribution Plan, 457 Deferred Compensation Plan, and 529 College Savings Plan. In FY 2003, OFT launched the 529 College Savings Plan, which has been awarded an "A" grade by *SmartMoney Magazine*. This plan allows parents, grandparents and others to establish tax-advantaged savings accounts to set aside funds for the future college expenses of children. Since its inception, the plan has enrolled 3,468 participants (2,937 District residents and 531 non-residents), with total contributions of \$24.2 million. We implemented online enrollment in September 2003, which accounted for a third of the total enrollment gains in the most recent quarter. A three-minute Public Service Announcement promoting the plan and featuring appearances by Mayor Williams, Chairman Cropp and me has been running on DC Cable channel 16 and DC Public Schools channel 28. In addition, we are continuing our Metrobus and Metrorail marketing campaign.

OFT has continued to increase the amount of Unclaimed Property returned to its owners through expanded public awareness and community outreach activities. This amount increased from \$5.3 million in FY 2001 to \$6.6 million in FY 2002 to \$7.5 million in FY 2003. We have established a goal for FY 2004 of \$8.5 million.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you or other committee members may have.

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