

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2004 AND 2005 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

**March 9, 2005, 10:00 a.m.
John A. Wilson Building
Council Chambers**



**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 2004 and 2005.

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. OFT is divided into five core functions: Debt and Grants Management, Cash Management and Investments, Disbursements Activities, Cash Receipts and Accounting, and Asset Management for Special Programs.

During fiscal years 2004 and 2005, 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 38 percent. OFT managed and executed the successful sale of Tax Revenue Anticipation Notes (TRANS) at a record-low interest rate yield of 1.12 percent. These notes were sold without the backing of a bank letter of credit for the first time since before the control board era. OFT executed a Tobacco Escrow Restructuring transaction that took advantage of the decline in interest rates since the original Tobacco Securitization deal was done, producing additional savings/revenue of \$9.6 million to the District and OFT accomplished the refunding (refinancing) of outstanding general

obligation bonds at lower interest rates, which resulted in net present value savings of \$22,896,590. Together, these transactions resulted in substantial debt service savings in FY 2004 and FY 2005. OFT also continued its efforts to minimize the number of District bank accounts, and continued to upgrade its technological capabilities and electronic payment processing.

Fiscal year 2004 marked the first time in the District government's 20 year-history of being rated by Wall Street that it received an "A" from all three major rating agencies. In April 2004, Moody's Investors Service upgraded the District's general obligation bond rating two notches, from Baa1 to A2, and changed the rating outlook upward. This upgrade followed actions by Fitch Ratings and Standard and Poor's to move their ratings for the District's bonds to A- from BBB+. Moreover, in fall 2004, Standard and Poor's further upgraded their rating to A, marking the second time within 18 months that they adjusted their rating of the District.

According to Moody's, "The upgrade reflects the sustained improvement in the District's economy and property tax base, as well as the District's multi-year record of improved financial management, controls, and results . . . We note that the District's favorable financial performance trend has been assisted by the permanent shift of some program costs to the federal government . . . and specific reserve requirements that have been imposed by Congress as part of its budgetary oversight role. In addition, the District's elected leadership have demonstrated a commitment to maintaining fiscal balance, as evidenced by timely actions taken to respond to a projected budget deficit in fiscal 2003."

OFT's 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, which also manages the cash and accounting aspects of the drawing down of federal grants, has implemented procedures for daily monitoring of grant receipts applicable to a given agency. This resulted in improved collection of grant monies due to the District and improvements in meeting the reporting requirements associated with such grants.

The Cash Management and Investment Unit handles banking services, cash and investments. This 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 2004 and FY 2005 to date, the Cash Management and Investment Unit initiated a cash management outreach program to District agencies to communicate how important it is for the District to strategically manage cash, and to discuss, emphasize and clarify District agencies' role in the process of managing the District's cash. As a result, OFT reduced the amount of unplanned expedited payments from \$5.5 million in previous years to \$2.5 million in FY 2004. This change in process resulted in savings of \$3.0 million a day in cash, which was then available for daily investing.

OFT also converted 46 percent of its Medicaid payments to Medical Assistance vendors from checks to electronic ACH (Automated Clearing House) transactions. This conversion resulted in the District receiving \$497 million from the federal government as reimbursement for its payments to vendors on the same day the District's electronic payments were made. This process previously took seven (7) business days for the District to receive payment from the federal government

using checks. Given the low interest rate environment, this conversion resulted in interest savings of \$64,000 to date.

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 disbursements activity: Disbursing Operations, Vendor Center, and Electronic Benefits Transfer.

In FY 2004, OFT awarded a new contract for the Electronic Benefits Transfer program (EBT). This service provides Medicaid benefits to 50,000 households within the District. This program allows members to access benefits using an ATM machine and also using the card at various merchants.

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 have accurate and timely revenue information. In FY 2004, the Cashiering Services Unit conducted an assessment of its over-the-counter (OTC) transactions and its subsequent recognition and posting of OTC revenue to the District's System of Accounting and Reporting. The OTC assessment revealed that there are five different cashiering systems operating throughout OFT's eight cashiering locations. It also revealed an average four-week lag time between the time the daily collections are deposited into the custodial bank account and when they are subsequently posted to the District's General Ledger. OFT is in the process of procuring a cashiering system that will reduce posting time from four weeks to 48 hours. This reduction will improve revenue recognition outstanding by \$79.4 million dollars.

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. 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 \$7.5 million in FY 2003 to \$10.4 million in FY 2004.

In FY 2004, OFT developed and launched an aggressive marketing plan for the D.C. College Savings Plan. This included the use of a D.C. Cable advertisement with messages from the Mayor and the Council Chair. OFT also sent letters to various federal agencies and area law firms to solicit and encourage employee payroll deduction for the 529 plan.

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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