

**FISCAL YEAR 2001 BUDGET REQUEST HEARING
FOR THE OFFICE OF TAX AND REVENUE**

**before
The Committee on Finance and Revenue
Jack Evans, Chairman
Council of the District of Columbia**



**Testimony of Dr. Natwar M. Gandhi
Deputy Chief Financial Officer**

**Valerie Holt
Chief Financial Officer**

**March 20, 2000
Council Chambers, One Judiciary Square**

Testimony of Natwar M. Gandhi
Deputy Chief Financial Officer for Tax and Revenue
Before the Committee on Finance and Revenue
Monday, March 20, 2000
10:00 A.M.

Good Afternoon, Chairman Evans and members of the Committee. I am Natwar M. Gandhi, Deputy Chief Financial Officer for Tax and Revenue. I am here today to discuss our program plans contained in the FY 2001 Budget Proposal. Before speaking to these plans, let me say a few words on how tax administration is progressing in FY 2000.

FY 2000 Year-to-Date Recap 613 FTE \$39.0 million

Tax return processing is proceeding smoothly. We are meeting our goal to issue individual income tax refunds within 15 days for returns without significant problems. Through February, we have received almost 12,000 returns from taxpayers electronically or through our new Telefile program. This is 2000 more than we received for all of last year and I feel confident we will reach our goal of 15,000 returns electronically filed.

Our Audit and Collection programs are running ahead of FY 1999, a year in which collections of delinquent taxes hit an all time high. We expect to reach approximately \$66 million in delinquent collections by the end of the

year and make approximately \$56 million in audit assessments. This month we began a vendor-supported effort to identify businesses and individuals who owe the District taxes but are not filing returns. We expect this project to result in several million dollars in additional tax revenue as well as improved voluntary compliance with filing requirements. These results are possible in part because OTR's FY 2000 Budget was augmented by \$2.5 million using the so-called "two-for-one" authority provided in the D.C. Appropriations Act.

In the real property arena, we have completed the third and final phase of the triennial reassessment of D.C. properties. Real property tax processes have been substantially automated. Recorder of Deeds files are being imaged and we expect them to be accessible on the Internet by the end of the year. A new billing system is operating. Forms and information, including the tax roll is available on the Internet. A new Geographic Information System is working that permits OTR and other government agencies to obtain block and plat characteristics by pointing and clicking on a digitized map.

I believe OTR has reached "take-off" speed toward becoming a "benchmark" organization for improvement within the City and a standard for tax administration throughout the country. In FY 2001, starting this coming November with business taxes, we will put in place the final component needed for a first-rate tax system when we begin operations in the new integrated tax system (ITS) environment. Individual income tax will follow in FY 2002 and all other taxes in FY 2003.

Proposed FY 2000 Budget 525 FTE \$35.6 million

The proposed OTR budget for FY 2001 is \$35.6 million dollars and we estimate will support approximately 525 FTE. This is \$3.4 million below the current FY 2000 level – a 9% reduction – and is approximately the funding level OTR received in FY 1998. It removes from our budget the \$2.5 million and 38 FTE approved this year to increase tax revenues by approximately \$24 million a year. It requires absorbing approximately \$1 million needed to fund the scheduled pay raise for non-union employees this April. To accommodate this salary cost increase, OTR will have to reduce its staffing by 21 FTE. It permits no internal realignment of 7 FTE in productivity savings and it requires a further staff reduction of approximately 17 FTE to pay for mandatory within-grade increases. We will also have to scale back considerably planned technological and outreach improvements funded from the non-personal services component of the budget. The proposed FY 2001 budget provides approximately \$1.5 million less than we plan to spend this fiscal year in such areas as printing, postage, training and contract supported outreach and contact programs.

While OTR can and will operate a viable tax administration program at this level, I must tell you that we will not be able to produce the kind of customer service, revenue and program enhancement results we were planning if the FY 2001 budget permitted a roll-over of FY 2000 levels adjusted for mandatory cost increases.

Major FY 2001 Program Goals

Here are the most important things we want to do in FY 2001 and our current assessment on how possible it may be to accomplish them at the proposed level.

- Provide business taxpayers with the *capability to remit payment of taxes and trust fund amounts (withheld taxes) by electronic funds transfer* thereby reducing processing errors and making funds available to the District up to five days sooner than under current manual processes. Seed money for information systems interfaces and project management is necessary to make this happen. **This project will not be able to move forward at the proposed level.**
- Work with tax preparers and taxpayers to *increase the number of income tax returns filed electronically or via telephone* to over 20,000 thereby reducing OTR processing costs, cutting errors and reducing processing time. We are well underway on individual income tax electronic filing and expect to meet this goal. **However, we will not be able to support electronic filing efforts for other types of tax, for example sales tax.**
- *Increase the number of taxpayers assisted* to approximately 410,000 using the efficiencies permitted by our new customer service center and telephone answering capability. With the proposed budget, staffing reductions will be necessary. **Perhaps 60,000 fewer taxpayers will be served and wait times will be longer.**

- Continue our commitment to *process individual income tax refunds on returns that have no processing problems within 15 days of receipt*. **We will try to maintain this objective but some slippage is likely.**
- *Increase delinquent account collections to \$73 million and audit assessments to \$63 million*. These accomplishments could flow from carry-over of the FY 2000 Compliance Initiative. **However, at the proposed level, we can expect to produce \$20 million less in collections, \$20 million less in assessments and perhaps \$10 million in revenue protection.**
- Complete and put into operation all major facets of *Real Property Tax Administration automation*, including automated mass appraisal systems, electronic files research, automated deed recording and mapping and on-line information on real property accounts receivable. Assuming legislation is passed throughout the country, OTR will be prepared for electronic filing of Uniform Commercial code liens. **This project is on-track**
- *Advance proposals for simplifying administrative tax law provisions to lower the burden of compliance and eliminate provisions not in concert with current concepts of fair and equitable tax administration*. **We will implement all Tax Parity provisions passed by the Council in FY 2001.**
- *Complete the quinennial homestead reapplication process* using new forms and procedures that will allow us to resolve eligibility issues

quickly and accurately. **We will have to rethink our plan to execute this statutory requirement using contractual support for forms design, mail out and data analysis.**

The Need for a Continuing Commitment

In some respects, tax administration is similar to roads, water and sewage. It is part of the infrastructure of any well functioning jurisdiction. If these systems are not maintained, and from time-to-time upgraded, a major financial commitment must be made to avoid catastrophe. Over the FY 1997 – FY 2000 period, the City faced just such a situation with its tax administration system. I believe it is important to protect the gains that have been made in tax administration and maintain the momentum. With the implementation of ITS over the next few years, we can expect productivity gains, the ability to perform today's work with fewer resources -- or tomorrow's work with today's resources.

However, without an effective tax administration system, the City's entire tax base can, over time, be endangered. We expect and welcome close scrutiny of our proposals and to be held accountable for results with the recognition that OTR is the City's most significant revenue center. Over the FY 1997 –FY 2000 period, OTR will have added \$110 million in collections, \$74 million in audit assessments and \$31 million in revenue protection compared to the FY 1996 baseline. While we are proud of these accomplishments, the other side of the coin is that the tax system had fallen into near complete disrepair to make such improvement necessary.

Thank you very much. We appreciate your support. Attached to my testimony are our key FY 2001 goals and performance indicators for the past several years. I would be pleased at this time to answer any questions you have on our FY 2001 Budget Proposal and our plans for tax administration.



**Government of the District of Columbia
Office of the Chief Financial Officer
Office of Tax and Revenue**

KEY FY 2001 GOALS

- Increase the number of returns received electronically to 20,000.
- Establish an electronic funds transfer capability for business tax payments.
- Migrate all business tax accounts to the new Integrated Tax System.
- Complete the quinennial homestead reapplication process.
- Collect \$21 million in delinquent tax from delinquent returns secured.
- Increase delinquent account collections to \$73 million.
- Process individual income tax return refunds in 15 days or less.
- Provide customer service to 410,000 taxpayers.
- Establish a Customer Service post of duty at Penn Station, S.E.

3/14/00



Government of the District of Columbia
Office of the Chief Financial Officer
Office of Tax and Revenue

| | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01(est.) | FY 01(Current) |
|--|-------------|-------------|-----------|-----------|-----------|-------------|----------------|
| Budget | \$207m. | \$220m. | \$354m. | \$363m. | \$390m. | \$424m. | \$35.6 |
| FTE | 458 | 467 | 573 | 573 | 613 | 608 | 525 |
| Total Tax Collections | \$2403m. | \$2409m. | \$2,785m. | \$2,798m. | \$2,874m* | \$2,893m* | \$2,893m* |
| A/R Collections | \$262m. | \$379m. | \$508m. | \$586m. | \$664m. | \$728m. | \$52.0 |
| Del. Return Collections** | \$60m. | \$N/A | \$61m. | \$113m. | \$213m. | \$213m. | \$160m. |
| Audit Assessments | \$326m. | \$426m. | \$422m. | \$63.1m. | \$566m. | \$632m. | \$43.0m. |
| Revenue Protection | \$0 | \$0 | \$65m. | \$13.7m. | \$11.0m. | \$15.0m. | \$6.0 |
| Taxpayers Assisted | 239,600 | 241,126 | 329,338 | 393,893 | 400,000 | 410,000 | 350,000 |
| Electronic/Telefile Retns. Input Processing | 0 | 0 | 2,630 | 10,686 | 15,000 | 20,000 | 20,000 |
| Error Rate | 25% | 25% | 3% | 3% | 3% | 3% | 3% |
| Refund Time | 60 Days | 45 Days | 15 Days | 11 Days | <15 Days | <15 Days | <15 Days |
| Remittance Deposit Cycle Time | 1 - 6 Weeks | 1 - 6 weeks | Same Day | Same Day | Same Day | Same Day | Same Day |

* Proposed revenue estimate, not certified.
 **Del. Retn. Collections are included in total A/R Collections.

3/14/00