HEARING ON H.R. 733
DISTRICT OF COLUMBIA
BUDGET AUTONOMY ACT OF 2007

Before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
The Honorable Danny K. Davis, Chairman

June 7, 2007, 2:00 p.m.
Room 2247, Rayburn Building

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

Good morning, Mr. Chairman and members of the Committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the Government of the District of Columbia. I am here today to testify on the issue of budget autonomy for the District of Columbia.

Before I begin, I want to express my view that, both as a citizen of the District of Columbia and the District's senior financial manager, I wholeheartedly endorse expanding the authority of the District to manage its own financial affairs. Not only do I believe that the District's leadership has demonstrated its ability to adhere to principles of fiscal responsibility, I also believe that without greater budget autonomy, the citizens of the District as well as visitors have been and may continue to be denied access to certain public services in a timely manner.

Fiscal Recovery 1996 – 2006

The chart that appears as Attachment A to my testimony and that appears here before you is a history of the remarkable fiscal comeback achieved by the District over the past decade. It is a great testimony to the financially responsible budgeting and fiscal prudence exercised by the District's elected leadership. Our fiscal low point occurred in FY 1996, when the General Fund balance hit a negative $518 million. Through the efforts of Mayor Williams, the District Council and the Congressionally mandated Control Board, we were able repeatedly to balance the District's fiscal operations, and the Control Board was de-activated in 2001. Between FY 1996 and the end of FY 2001 there had been a $1.1 billion increase in the fund balance, to a positive $562 million by the end of FY 2001.

But the real test for the District was the challenge of sustaining fiscal stability in the post-control period. As you can see, at the end of FY 2005, the General Fund balance had risen another $1.0 billion – to $1.6 billion total. I believe that it is significant that of the $2.1 billion increase in General Fund balance between FY 1996 and FY 2005, the amount of gain since the Control period ended was about equal to the gain during the Control period. In FY 2006 planned use of fund balance, offset by higher than anticipated revenues, resulted in a drawdown of $149.5 million, bringing the total fund balance to $1.4 billion. This compares favorably to the original budget projections, which included use of over $500 million of fund balance.

This is concrete evidence of the District's practice of conservative budgeting to ensure fiscal stability, which continues under Mayor Fenty's leadership as exhibited in his proposed fiscal year 2008 budget. The District Council, under the leadership of Chairman Gray, has recently adopted the District budget using the same conservative budgeting principles and sound financial practices.

The measure of this success is reflected in the District's bond ratings. All three rating agencies, Fitch Ratings, Moody's Investors Service and Standard & Poor's, recognize the improved creditworthiness of our bonds by raising the District's bond ratings from "junk bond" status during the Control period to "A" category ratings – the highest level ever achieved by this municipality. It is notable that compared to other major cities that experienced periods of financial stress, including New York, Philadelphia, Cleveland and Detroit, this turnaround is the fastest both in terms of the time it took to return to investment grade and in the time to achieve their highest ratings. In this regard the District was helped in part by our strong local economy, which added tax revenues that were used to provide essential services to our population.

A great deal of the increase in fund balance was driven by the growth in local revenues, specifically by real estate, income and sales taxes resulting from the strong regional economy. Table 1 below shows a comparison of tax revenues, General Fund balance and reserve funds in FY 1996 compared to FY 2006 that reflects the revenue growth (an increase of 85 % in current dollars and 50% in inflation adjusted "real dollar" terms) and prudent financial management that contributed to the increased General Fund balance.

Table 1
Comparison of Key Financial Measures
($ in thousands)

	FY 1996	FY 2006
Tax Revenues *	$2,422,144	$4,494,126
Operating Surplus/(Deficit)	($33,688)	$325,162
General Fund Balance	($518,249)	$1,435,142
Reserves Available for Operations **	($332,357)	$431,654
Operating Reserves as % of Expenditures	--	8.1%

* *Net of Dedicated taxes.*
** *Includes Congressionally-mandated Emergency and Contingency Reserves plus unreserved undesignated General Fund balance.*

Budget Autonomy

I would now like to speak about why I believe, from a financial management perspective, the District should have discretion with respect to the allocation of funds raised from local sources.

Under current law, all District of Columbia spending is authorized by the Congress through the federal appropriations process, irrespective of the source of revenue underwriting such spending. In the District's FY 2007 approved gross budget of \$7.76 billion, about \$5.72 billion, or 74 percent, was comprised of revenues raised through local taxes, fees, fines, and user charges. Of the remaining \$2.04 billion in federal funds and private grants, \$2.057 billion was comprised of formula based federal grants which are available to all jurisdictions nationwide. Only \$120.1 million in federal payments were specifically appropriated from federal revenues for programs and projects unique to the District of Columbia.

I would argue that only the federal payments that are specifically and uniquely earmarked for District programs or federal initiatives must be appropriated by the Congress. In the case of local funds, the Congress has only rarely altered an allocation made by the District. Federal grants to the District have already been appropriated to the federal agency responsible for program administration and awarded to the District. Having already been appropriated to a federal transferring agency, these federal grants should not need to be "reappropriated" to the District.

Were the Congress to modify current law in the direction of reducing its role in the District's appropriation process, a range of possibilities would still remain to exercise oversight over the District's budget and operations. These might include periodic audits, after-the-fact review of the District's locally enacted budget, or review of the District's locally enacted budget by the appropriate oversight group in the Congress. Federal payments directly appropriated to the District would remain within the federal appropriations process.

Benefits to the District

Faster enactment of budgets. Because the District currently receives all its authority to spend funds through the federal appropriations process, the District cannot enact the budget approved by its elected representatives until Congress passes and the President signs the District's appropriations bill. This situation guarantees a five-month lag between local approval and federal enactment. However, federal appropriations bills are often delayed beyond this period. There are adverse consequences for the District since it is tied to the federal appropriations cycle. In the case of new or expanded programs approved and financed locally, no action can be taken during the fiscal year until Congress passes its appropriations act. This unnecessarily delays the start of programs and virtually guarantees programs will not be executed as planned. In recent years, there have been a number of instances where lack of budget autonomy has directly affected the District's ability to deliver needed services to citizens:

In fiscal year 2001: The District began cracking down on owners of blighted properties to improve living conditions. As we did so, however, we noted that residents of these properties needed to be relocated during the renovation process. The District had to wait over a year for the federal government to approve the necessary budgetary change in our local budget to implement this process.

In FY 2002: The 3-month delay affected service improvements such as new school nurses, prescription drug benefits, police equipment and staffing, fire fighter hiring, and the tenant relocation fund discussed earlier.

In FY 2003: The 5-month delay jeopardized new investments in foster care, public schools, and improved compensation for police and firefighters.

In FY 2004: The District needed to reallocate funds to support the movement of children from foster care to adoption. This transfer of funding could not be conducted until the actual appropriation in January, a delay of 4 months.

In FY 2005: The District had to wait 3 months for a supplemental appropriation to add additional authority to carry out critically important Lead Services Program activities in the District of Columbia. The Lead Services Program directly involves roughly 24,000 residences. An increase in appropriation authority was required to conduct Water Filter Replacement and Cartridge Distribution and to provide community Public Education, Risk Communication and Health Advice.
In FY 2007: The District enacted the Community Access to Health Care Omnibus Amendment Act of 2006, which would fund both operating and capital expenditures to improve health care in the District. The District had to wait 4 months for congressional action through an amendment to the Continuing Resolution to adjust the District's budget to fund the healthcare initiatives detailed in this statute.

Also, the more time that elapses between the formulation of a budget and its execution, the more likely the operating assumptions underlying that budget will not hold true. Thus another aspect of faster budget enactment would be that budgets could be based on more current revenue estimates. If the District Council were able to enact a budget closer to the beginning of a fiscal year, that is, in August rather than May for an October 1 start date, the Mayor and legislators could rely on revenue estimates based on more current data. Currently, budgets are based in large part on revenue estimates completed in February, some seven months before the start of the new fiscal year in October and a total of 19 months before the end of that fiscal year. The District does not get actual data on how accurate these revenue estimates are, and whether budgeted expenditures are fully covered, until after the end of that fiscal year, perhaps 24 months after the original revenue estimates were made.

Increased Local Financial Flexibility. Providing the District with the authority to direct the spending of its locally raised revenue would substantially increase the District's ability to react to changing program and financial conditions during a fiscal year. Under current law, the District must follow the federal supplemental appropriation process to appropriate additional revenues that become available during the course of the fiscal year or to make any significant realignment in resources among its appropriations. All program plans premised on supplemental appropriations are held in abeyance while Congress considers the request. The same problem is encountered on more mundane financial transactions, such as interappropriation transfers and reprogramming requests. For example, all reprogrammings from one object class of expense to another in excess of $3 million require a congressional review period of 15 days before enactment.

As you can see from these examples, because of the lack of budget autonomy, the District cannot always react as swiftly or effectively as possible to the needs of residents and visitors. To the best of my knowledge, no other municipality in the nation functions under such restrictions.

It should be noted that Congress has provided a certain degree of budget flexibility to the District. Currently, if our revenues exceed projections, the District is allowed to increase our appropriations ceiling. Specifically, if local tax base revenues increase, spending of that revenue source may be increased up to 6 percent. Similarly, if dedicated revenues or O-type revenues increase, spending in that category may be increased up to 25%. However, this authority still requires a 30-day Congressional review period during which the monies cannot be spent. Also, the authority is not permanent but is derived both from a general provision in an annual appropriations bill that must be continually renewed and from a temporary provision in the 2005 Omnibus Authorization Act that expires at the end of this fiscal year.

Conformance to the Standard Local Government Fiscal Year. The federal appropriations cycle runs on an October 1st through September 30th fiscal year, a fiscal cycle unsuited to local government, particularly with regard to operation of a school system. Were the District to have autonomy to appropriate its own funds like other local jurisdictions, my recommendation to the Mayor and Council would be to revise the fiscal year to a July 1st through June 30th fiscal year. This would have immediate advantages.

First, it would conform the fiscal year to the school year, greatly enhancing the ability of D.C. Public Schools (DCPS) and the University of the District of Columbia to manage their funds effectively. This is important because public education spending accounts for nearly 25% percent of District general fund expenditures. In the DCPS planning cycle, the July-September period is the largest spending quarter. Under current budget law, this period falls at the end of the fiscal year, after DCPS has had to deal with all the exigencies of the prior three quarters. In fact, in past years, DCPS has had to rely on funds advanced from the upcoming year's expected appropriation to support start-up costs for the upcoming school year. Thus, it would clearly be better for DCPS management, and make greater budgetary sense, to fund school year start-up costs – purchase of books, start-up maintenance and the like – at the beginning of the year and with current fiscal year funds, and then cope with remaining issues as they occur.

Second, it would more closely conform the District's fiscal year to its revenue cycle. The annual income tax payments are due in April, and the first semiannual real property tax payment is due on March 31. Information on these payments is key to updated revenue projections for the upcoming fiscal year. Were the District to execute its fiscal year budget beginning in July, it would be proceeding on the most recently available, and therefore most accurate, revenue information.

Finally, changing the fiscal year also could improve cash flow management and reduce some budgeting risks. Larger tax payments received in September, particularly the local half-year real property taxes due on September 15, essentially "back load" the cash stream toward the end of the fiscal year. Even as some $8 billion in cash flows through our financial systems to pay for District expenditures, the District needs additional cash – at additional cost of borrowing -- to negotiate the timing of expected tax receipts during the year. Changing the fiscal year mitigates this by reducing uncertainty about year-end revenue accounting, particularly for real estate tax payments received after September 30, and by reducing the impact of the distribution of this revenue between fiscal years.

Mechanisms and Safeguards for Assuring Financial Integrity

The District of Columbia Financial Responsibility and Management Assistance Act of 1995 (the Act), coupled with the continuation of an independent Office of the Chief Financial Officer, provides the framework for assuring financial integrity without the need for imposing the federal appropriation process on local fund budgets. The Act details specific benchmarks for financial management within the District and provides for the reinstitution of a control board and other constraints should the District fail to meet these major financial obligations. These financial benchmarks remain in effect under the proposed Budget Autonomy legislation.

Further, in October 2006, Congress enacted in the 2005 District of Columbia Omnibus Authorization Act. This legislation that created, within the District's Home Rule Act, a permanent Office of the Chief Financial Officer. The Office of the Chief Financial Officer provides an independent assessment of key financial data – annual comprehensive financial reports, revenue estimates, fiscal impact statements, and all other consequential financial data. The Chief Financial Officer's duties are not changed by the proposed Budget Autonomy legislation. I believe that the existence of an independent Chief Financial Officer, chartered by the Congress to oversee the fiscal stability of the District, along with the prudent leadership demonstrated by our elected officials, is sufficient to ensure fiscal discipline without the added complexity of putting local spending plans through the federal appropriations process.

An example of this commitment to fiscal responsibility is that the District enacted a local anti-deficiency law that essentially mirrors the federal anti-deficiency law to stipulate the responsibilities of management officials in the financial arena and provide sanctions for those that are not in compliance.

Fiscal Condition and Financial Improvements

There is no question that the District has the financial infrastructure to permit it to manage its local funds effectively. We have a strong accounting system linked to our budget oversight processes. Monthly closings and cash reconciliation are in place. Financial managers have a clear understanding of expectations. The improved financial reporting infrastructure has enabled the OCFO to supply elected leaders with sound fiscal analysis. Unqualified opinions by the District's independent auditors have become routine and the number of management findings is substantially reduced from a decade ago. In summary, the District's leadership has the information necessary to make informed decisions and the District has a proven record of functioning in a fiscally responsible manner.

Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions you might have.

# # #

District's Surplus and Bond Rating History