

# **FINANCE DEPARTMENT**

## **GOALS/PURPOSE**

The Finance Department is an integral component of the administrative structure of the City of Morgantown, rendering services in a staff capacity to the other City administrative and operating Departments. In addition to providing timely management reports and information to internal users, Finance Department staff is also responsible for the financial reporting function of the City of Morgantown and its agencies to external users such as bond trustees, rating agencies, Federal and State grantors, and the State of West Virginia.

However, the principal focus of the Finance Department staff is to render professional and courteous service to the citizens and taxpayers of Morgantown. As the Finance Department is often the primary contact a resident or business taxpayer has with City personnel, the staff strives to make it a positive experience, while ensuring that all aspects of the City's financial administration are performed in an efficient and equitable manner.

## **CURRENT PROGRAMS / SERVICES**

Finance Department staff is responsible for the collection of all revenue for the various funds of the City of Morgantown, which include the General Fund, the operating fund of city government, nine special revenue funds, three capital improvement funds, three pension trust funds, and three enterprise funds - Airport, Parking Authority, and Building Commission. In addition, the Department is also responsible for all disbursements made from these funds, including bi-weekly payroll for all employees, monthly payments to retirees, as well as the overall general ledger accounting functions.

The Finance Department performs an integral function in the overall budget process of the City. This includes coordinating the budget process with all Departments, revenue forecasting, assisting in the initial budget formulation, monitoring budget progress, approving all disbursements, and making recommendations for revisions as necessary.

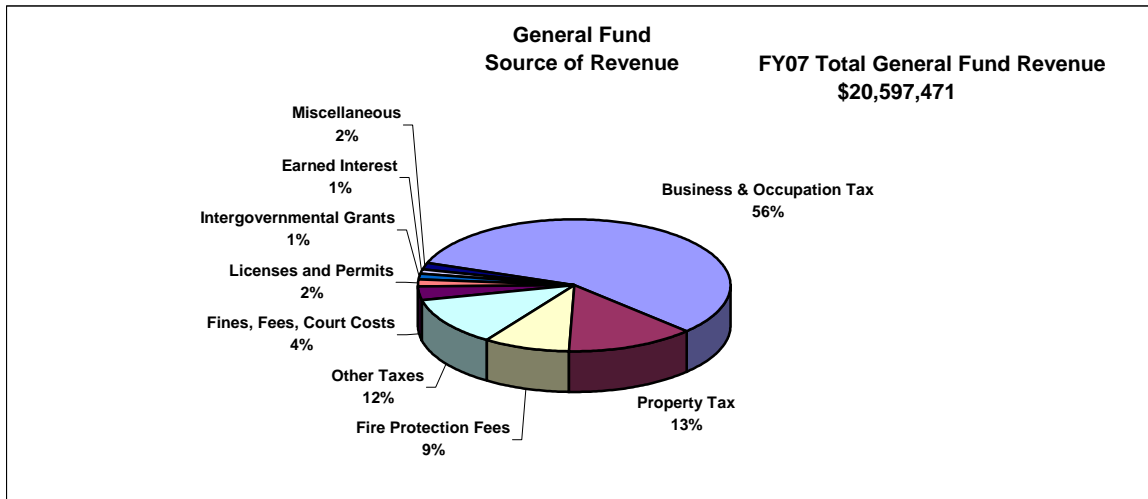
The accounting functions of the Board of Parks and Recreation Commissioners Fund (BOPARC) are also under the supervision of the Finance Director, with the Finance Director attending all BOPARC meetings and presenting the monthly financial reports to the Board.

The Finance Director also oversees the risk management and insurance programs, which include the property and liability package, workers' compensation, and the self-funded employee health benefits plan, for the City and its agencies. This encompasses the procurement process, claims administration, and coordination of risk management activities.

The Finance Director also coordinates the annual audit of the City's financial statements, which include all of the City funds listed previously, as well as the Morgantown Public Library and BOPARC. The Finance Department also provides various accounting services including payroll, accounts payable, general ledger accounting, and tax reporting, as in-kind contributions, to Main Street Morgantown and the Campus Neighborhoods Revitalization Corporation.

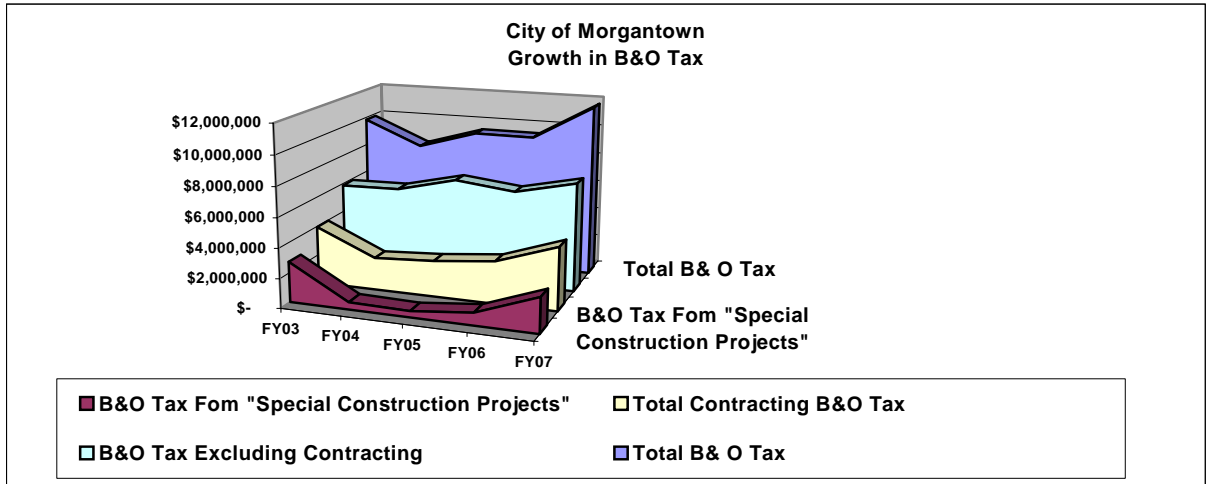
### Revenue Administration

As evidenced by the following chart, business and occupation (B&O) taxes account for approximately 56% of the City's General Fund Revenue, while Property taxes account for 13% of total revenue. Fire service fees account for 8% of total General Fund revenue, all of which must be used to support the Fire Department operations.



### Business and Occupation Taxes

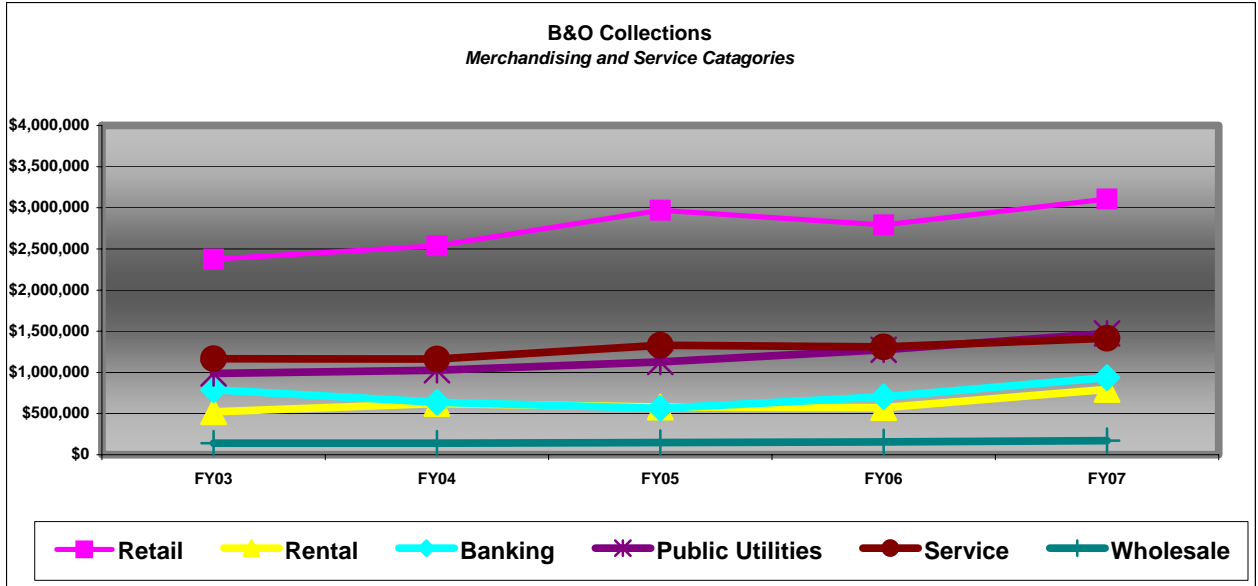
Because B&O taxes account for over half of the General Fund budget, much staff time and resources must be devoted to this revenue source. B&O tax revenue has also experienced healthy growth over the past few years as depicted by the following graph:



Total B&O taxes have grown approximately 19% since FY02, with non-contracting B&O taxes growing approximately 26% during that time. The B&O tax from “Special Construction Projects” is the tax collected from specifically identified major projects, those single projects exceeding \$5 million in total cost. All of this extraordinary B&O tax revenue, which totaled over \$6.8 million over the five years shown on the graph, is contributed to the Capital Escrow Fund for capital improvements.

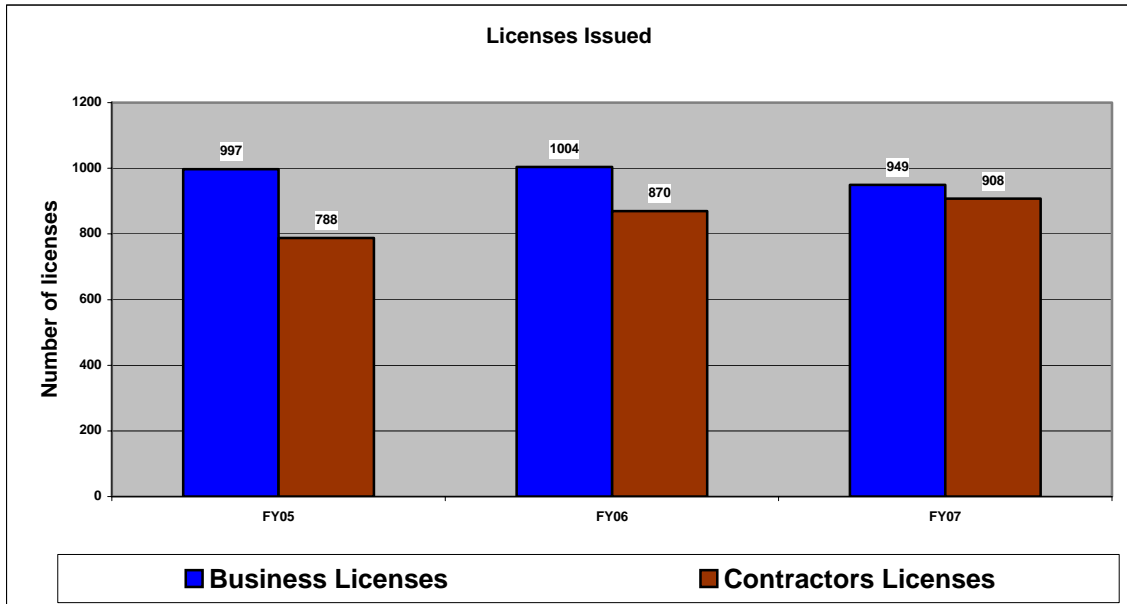
Along with the “Special Projects”, all construction projects exceeding \$500,000 are individually monitored for B&O compliance by coordinating with the general contractor on such projects to secure lists of all contractors and sub-contractors and the amounts paid to each. In addition to the tracking and monitoring of the projects described above, staff must now track certain projects on which the B&O taxes have been pledged to fund infrastructure improvements for those projects. Currently, there are three such projects underway, with B&O taxes totaling over \$740,000 going back into those specific projects, with more such projects expected to commence in the near future.

Although the monitoring of construction projects consumes a great deal of staff resources, the collection of other categories of B&O tax revenue must also be monitored and compliance enforced. Additionally, the growth in these categories is important to scrutinize in order to predict future economic conditions. The following graph depicts the trends in the major categories, other than contracting, of B&O revenues by dollar value:



Business Licenses

While business and contractors licensing generates a relatively small portion of General Fund revenue, such licensing is very important in regulating business activity in the City and monitoring compliance with B&O tax regulations. It is interesting to note that the number of business licenses issued each year has remained relatively constant, as depicted in the following chart, even though retail B&O taxes have shown moderate growth since FY03:



The primary reason for the decrease from FY06 to FY07 is that the Finance Department discontinued the practice of issuing “Special Store” licenses to service-only businesses, as there is no provision in State Code to do so. State Code allows municipalities to license the same business categories that the State of West Virginia licensed under State

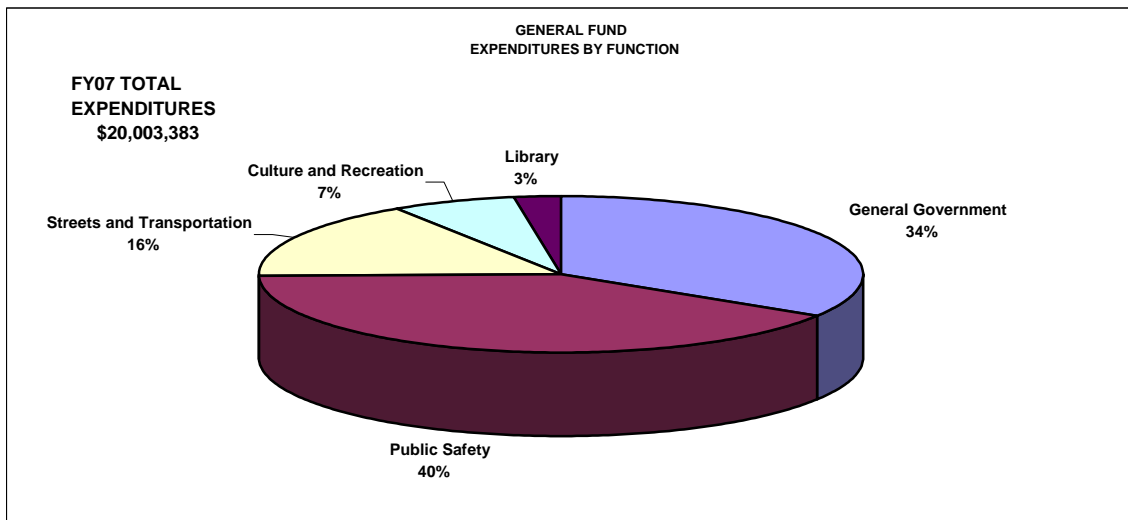
Code existing in 1970. At that time, the State eliminated its business licenses and replaced those provisions with the Business Registration Certificate, which covers a much broader spectrum of businesses. The State also allows municipalities to license other mostly professional businesses under specific sections of State Code, such as Contractors or Real Estate Brokers and Agents.

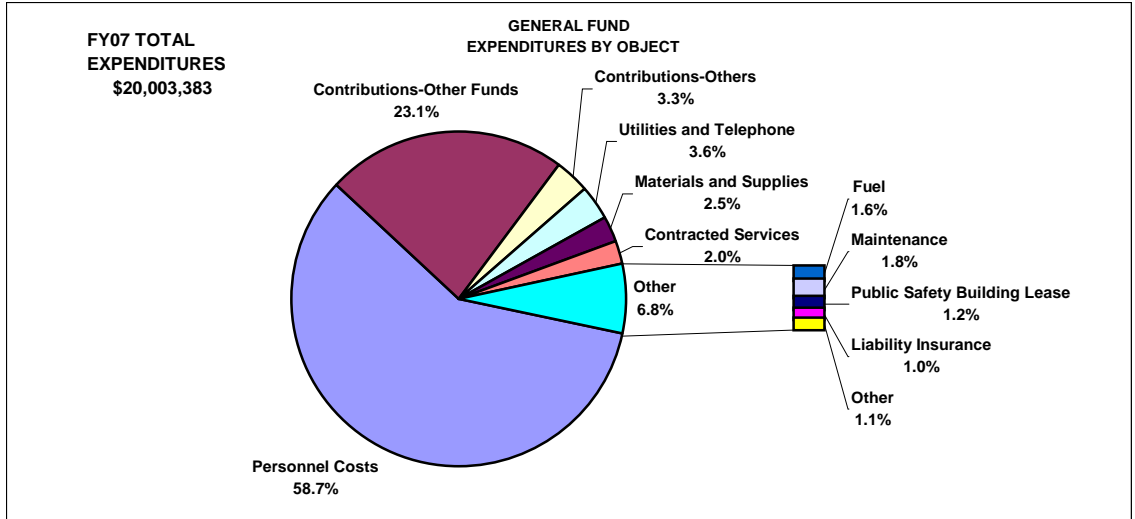
However, the City of Morgantown has not adopted many of the specific license provisions as allowed under State Code. Consequently, many businesses that have operating locations in the City are not required to obtain business licenses, even though they are required to pay B&O taxes. The City is also precluded from licensing rental operations, even though the State of West Virginia requires lessors of real property to obtain a Business Registration Certificate from the State. This does create difficulties in monitoring compliance with B&O tax regulations.

### Analysis of Expenditures

Finance Department staff is responsible for processing all purchase orders and issuing all disbursements checks for all funds of the City of Morgantown, with the exception of the Library. During the last fiscal year, approximately 6,842 invoices were processed and 4,771 accounts payable checks were issued for all City funds, the Airport, and Parking Authority. For BOPARC, 3,433 invoices were processed and 1,884 accounts payable checks were issued.

The following charts illustrate total expenditures for the General Fund by function and object:





Personnel costs comprise almost 59% of total expenditures. These expenditures include salaries and wages, payroll taxes, and fringe benefits including retirement and health insurance. The Finance Department staff processes payroll disbursements bi-weekly for approximately 236 full-time employees and 18 part-time employees. In addition, monthly pension disbursements are also processed for approximately 99 retirees and/or survivors of the City’s three pension funds.

**Treasury Management**

Another important responsibility of the Finance Department is the management and investment of all City funds. Cash accounts and investments totaled \$66.3 million at June 30, 2007. Of this amount, \$56 million represents pension fund assets, which are managed by professional money managers. For the most part, the remaining funds are held in local banks in checking and money market accounts and certificates of deposit. Currently, the Finance Department manages forty checking and money market accounts and oversees fourteen trust accounts.

**RESOURCES**

**Finance Department Staff**

The most valuable resource in the Finance Department is its dedicated and experienced staff. The staff of seven full-time employees includes the Finance Director, Assistant Finance Director, Business Tax Auditor, four accounting clerks, and a part-time accounting clerk. The full-time accounting clerks each have primary responsibility for a specific functional area, while the part-time clerk backs up the cashier function, performs data entry, mail processing, and filing for all functional areas. Of the eight full-time staff members located in the Finance Department, five have over twenty years of experience with the City of Morgantown.

The accounting assistant for BOPARC is also located in the Finance Department. This staff member performs payroll, accounts payable, and general ledger accounting for

BOPARC using the Finance Department computer system and is supervised by the Finance Director. In addition to the Finance Department staff, the Finance Director also oversees the staff of Municipal Court.

Over the past several years, the Finance Department has also utilized the services of interns from the Public Administration Program at West Virginia University. This past year, the Finance Department was fortunate to have the services of an intern with an undergraduate degree in accounting, who has also been accepted for a prestigious research position with the Governmental Accounting Standards Board (GASB) commencing in January 2008. This intern has been a great assistance to the Finance Director in keeping accounting functions up-to-date, such as depreciation schedules, bank reconciliations, and monthly adjusting entries

### **Computer System**

The Finance Department utilizes an IBM iSeries 820 computer system and New World Systems software that is used for all accounting functions including budgeting, general ledger, accounts payable, accounts receivable, payroll, and revenue collection. All staff members have PC workstations, which are networked to the main City Hall computer network and have Internet access and email capability.

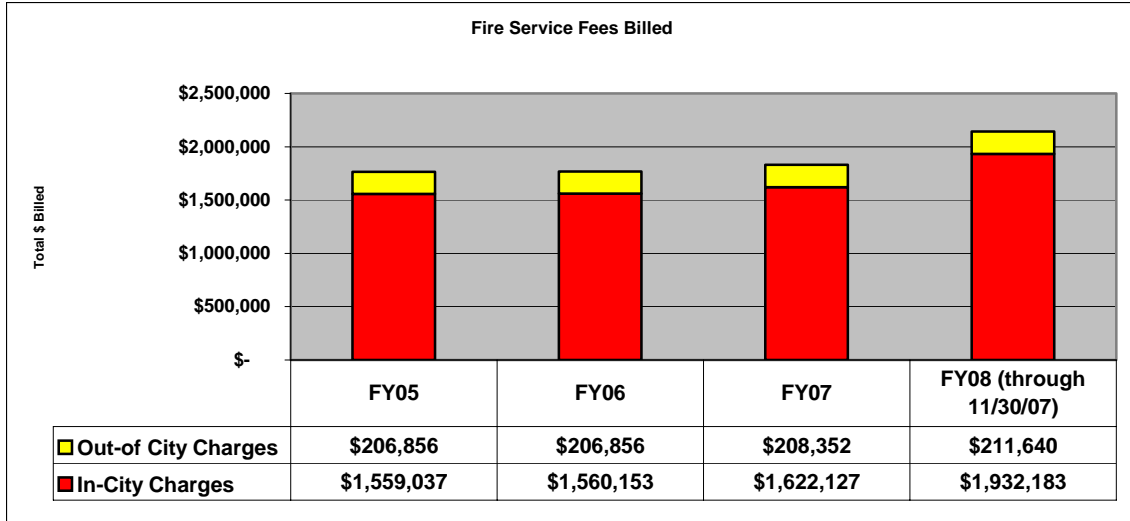
During the past fiscal year, the Finance Department added a second cashier workstation so that two staff members can assist citizens and taxpayers simultaneously. This has greatly improved customer service and has reduced wait times and lines, especially during the very busy periods of June, July, and August.

## **REVIEW OF THE PAST YEAR**

### **Fire Service Fees**

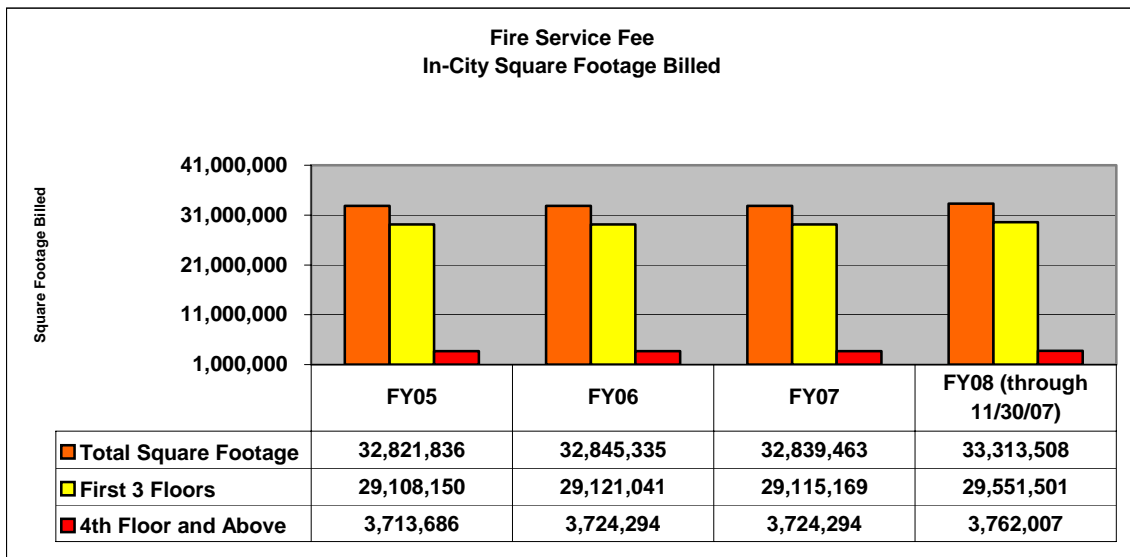
Two fire service fee increases were implemented since January 1, 2007, to fund the construction and equipping of the new North Side Fire Station, currently in the design stage. The first increase was an 8% increase effective January 1, 2007, and billed at that time for the six months remaining in FY07. This caused some confusion and consternation with the property owners, even though notices were placed in the newspaper regarding the increase and ensuing billing.

The second increase was for 13%, 5% more than what had been originally anticipated due to increased construction estimates, and was effective with the regular July 1 billing for FY08. The following graph depicts the increase in the dollar value of the fire service fee increase:



The out-of-city charges are for specific facilities located outside of the City that have contracted with the City to provide fire service. All of the fire service fees collected that are attributed to the two rate increases were transferred to the Morgantown Building Commission for the North Side Fire Station Project.

While fire service revenue has increased due to the previously detailed rate increases, it is interesting to note that total square footage billed in the City has shown very little increase. This is primarily because, even though much construction is taking place in the City, there is often a demolition associated with that construction. Even though there are not many new fire service fee accounts, there is still considerable work that must be done to maintain the data base of structures and track all ownership changes.



## **Annual Audit**

The City of Morgantown received an unqualified opinion on its financial statements from the accounting firm of Tetrick and Bartlett, PLLC for the fiscal year ended June 30, 2006. In addition, there were no reportable conditions pertaining to the system of internal controls or instances of noncompliance.

For the FY07 audit, the City was required to appoint an Audit Committee for the purpose of procuring and awarding its annual audit. This was necessary because the State Auditor's Office no longer provides the optional service of scoring proposals solicited by the City and awarding the audit. The audit committee is composed of the Finance Director, the Assistant City Manager, and one member of City Council. Six Requests for Proposals were sent to qualified firms, and two responses were received and scored by the committee. The audit contract for FY07 was awarded to Tetrick & Bartlett, PLLC, pending approval by the State Auditor's Office. It is expected that fieldwork will commence in December, and the audit report will be issued by January 1, 2008.

## **Tax Increment Financing**

The City has issued two Tax Increment Financing (TIF) bonds during the past year, with another bond to be issued before the end of the calendar year. Each bond has annual continuing disclosure requirements and fiscal responsibilities that must be met, and the Finance Department staff is responsible for meeting these requirements. In addition to the responsibilities imposed by the bond covenants described previously, the Finance Department is also responsible for certain annual reporting requirements mandated by WV State Code for each TIF District and Project.

With the addition of the two TIF Districts, Riverfront and Falling Run, the Sheriff of Monongalia County, who collects all property taxes for the City of Morgantown and remits the same to the City on a monthly basis, must now allocate and remit separately to the City the portion of the taxes collected in the respective TIF Districts that are due to increases in current assessed values over the base year assessed values. The City has established separate funds and accounts to hold these taxes and is now required to pay over all or part of these collections to the trustees for the TIF bonds.

During FY07, however, it became apparent that the amounts being remitted to the City for the TIF Districts were greatly more than expected. It was discovered that an error had been made in the distribution percentages provided by the State to the Sheriff's Tax Office and input into the computer system that calculates the distribution to the various agencies and funds. Consequently, the City issued a refund of TIF taxes in the amount of \$526,619 to the Sheriff of Monongalia County for FY07. It is expected that the redistribution of these taxes by the Sheriff will result in additional FY07 property taxes in the City of Morgantown's General Fund of approximately \$140,000. However, the redistribution is pending the final approval by the Auditor's Office of the amount calculated as overpaid by the City and refunded to the County.

## **Staff Training and Development**

The Finance Director attended the National Government Finance Officers Association's (GFOA) annual conference in May of this year. Additionally, the Finance Director and Assistance Finance Director were elected to serve as President and Vice-President, respectively, of the WV Government Finance Officers Association for the fiscal year ending June 30, 2007, and were responsible for planning and coordinating the semi-annual meetings of the Association, which included planning the agenda, securing facilities and services, and scheduling presenters. These conferences and meetings are important for keeping current on new developments in financial reporting, budgeting, State mandates, taxation issues, management, and technology.

The Finance Director also presented the Financial Management class at the spring session of the Local Government Leadership Academy and has been asked to prepare an advanced course for presentation at a future Academy session. The Finance Director, along with several other department heads, also attended the two-day risk management seminar held by Travelers, the City property and liability carrier.

## **Medicare Prescription Drug Subsidy**

With the implementation of the Medicare Part D Prescription Plan in January, 2006, health plan sponsors that prove they offer their Medicare-eligible retirees a benefit at least as beneficial as the one being offered to Medicare recipients are eligible to apply for a Federal subsidy if the current plans are kept in place. The City's plan qualified for such subsidy, and its applications for the Medicare subsidy for the 2006 and 2007 plan years have been approved.

The actuary that certified the City's plan (as to meeting the Medicare requirements) estimates the eventual subsidy to be received at approximately \$20,000 - \$25,000 per year. However, only \$8,000 has been received to date, which was for the months of January – November of 2006. The problem lies in the reporting of costs by the pharmacy benefits manager (PBM). The City's broker is currently working with the PBM to rectify this issue, and the City should be able to recoup more of the costs of the retirees' pharmacy benefits for 2006 and 2007. The application for plan year 2008 has been submitted to Medicare for approval.

## **Utilization of Debit Cards for Certain Purchases**

The Finance Department implemented the use of debit cards for certain purchases, primarily travel reservations and transactions made over the Internet for which a purchase order is not accepted. Debit cards, which draw funds from one imprest cash account, were issued to department heads and other designated individuals with preset spending limits and specific authorization procedures that must be followed. The program has been utilized quite successfully.

## **FORECAST FOR THE COMING YEAR**

The coming year will certainly bring some important new challenges and opportunities to the Finance Department.

### **Accounting for Other Post -Employment Benefits (OPEB)**

GASB Statements 43 and 45, issued in 2004, establishes the accounting and reporting requirements for post-employment benefit plans other than pensions. According to GASB, post-employment healthcare benefits are always considered to be OPEB, and, therefore, the City of Morgantown will be required to implement these statements effective with FY09.

Many of the provisions promulgated in these statements mirror the provisions already in place for pension plans. The City will be required to present the cost and the related liability associated with the provision of post-employment health care benefits in the periods in which these benefits are earned, as well as amortize the costs already incurred but not recorded. Typically, the benefits are earned during the period of active employment. In addition, actuarial valuations will be required to estimate the actuarial accrued liability (AAL).

In order to comply with GASB 45, the City of Morgantown needs to undertake the following:

- 1) Actuarial Valuation - Secure the services of a qualified actuary to perform an actuarial valuation of the postemployment benefits every two years. Additionally, the actuary must provide an update report for the years in which a valuation is not required.
- 2) Determine Funding Policy - Presently, the City of Morgantown is on a pay-as-you-go basis, funding the retirees' health care benefits in the year that they are incurred by the retirees. While GASB 45 does not require funding, establishing and funding a trust for postemployment benefits, similar to pension trust funds, will ultimately benefit the City terms of ensuring the City's ability to provide the future benefits promised to its employees and reducing or eliminating the liability for postemployment benefits to be reported on the balance sheet, which can affect an entity's credit rating.
- 3) Explore Possible Strategies to Reduce OPEB Costs

The Finance Director has received proposals to perform the initial GASB 45 valuation by two qualified actuarial firms and expects to proceed with the valuation in January 2008. Once the tentative liability is determined, steps 2) and 3) can be undertaken.

### **North Side Fire Station Bond Issuance**

As the design work is nearing completion on the new North Side Fire Station, the City, through the Morgantown Building Commission, will soon begin the process of issuing revenue bonds for approximately \$3.6 million. Although both a public offering and a

private placement of the bonds will be explored, the financing will most likely be through a private placement of the bonds using a local financial institution.

### **Other Plans for the Coming Year**

In addition to continuing with the ongoing programs and activities previously described, Finance Department staff plans to:

- Review and strengthen cross-training of department staff
- Improve and expand the assessment and lien process for delinquent taxes
- Implement the filing of certain tax returns and applications, along with the payment of the same, via the Internet
- Promulgate written operating policies and procedures for various functional areas

### **SUMMARY**

The staff of the Finance Department continually strives to be of assistance to City management and other City departments and agencies in reaching their goals. This is accomplished by providing accurate and timely information, which is necessary in making decisions critical to proper financial management and planning, as well as providing expertise in a number of different financial and managerial areas. However, the Finance Department is primarily committed to making all citizens' experience with City government a positive one by continually emphasizing equity in revenue administration, professionalism, and customer service.

As the economic growth and expansion of the City of Morgantown continues to increase, so do the duties and responsibilities of the Finance Department. The Finance Department staff is committed to rising to the challenges presented and anticipating those yet to come.