

A STUDY OF THE CITY OF HUNTINGTON

by

Marshall University's Faculty

Marybeth Beller, Political Science
Paul Hamilton, Economics
Kurt Olmosk, Management
Charles Stivason, Accounting
Paul Uselding, Economics
Loren Wenzel, Accounting

Introduction

This study had its origins in a suggestion from Marshall University's President, Stephen Kopp, that a study by the faculty could yield some insights and possibly useful considerations in addressing some of the problems that have confronted the operation of the government of the City of Huntington and have been the subject of concern in recent years. The initial idea was explored with members of the area business community and elected officials of the City of Huntington in the Fall of 2005. During the Winter of 2006 a Scope of Work was developed, sponsorship from the area business community was obtained through the efforts of the Chamber of Commerce, and the study team was assembled and began work in Spring 2006.

The study itself offers a good example of the kind of public/private cooperation that is essential in meeting and finding solutions to the problems and areas of concern before the City of Huntington. Beyond the technical expertise reflected in this report and the specific suggestions, we would like to emphasize that the solutions to the problems themselves, no matter what form they may take, will require a co-operative approach from all the stakeholders: elected city officials, members of the business community, union leadership and membership, and the citizenry. In addition, all of the stakeholders must deal with each other in a climate of respect and mutual support so that leadership can emerge beyond the boundaries of an individual stakeholder group. In one sense, the report contains nothing that is new or unexpected. On the other hand, the comprehensive and systematic portrayal and an analysis of these issues provide a sobering reminder that our problems are difficult and complex. There are answers, but these answers and solutions constitute a challenge to

stakeholder co-operation and leadership. We feel honored to be called upon to help address to address these vital issues pertaining to the operation of the municipal government of Huntington, and we are mindful of the burden and trust that has been vested in this study.

If there is one overarching conclusion that can be gleaned from this work, we respectfully suggest that it is this: There are solutions to the problems confronting the City of Huntington. However, their attainment will require a realization on the part of each and every member of each and every stakeholder group that we are ‘all in this together’. Solutions will not be found through finger pointing, processing the past, or attempts on the part of one stakeholder group to place all responsibility on another. The future sustainability of the City of Huntington itself as a place to live and work depends on the sustainability of its municipal government which, in turn, depends on the co-operation and understanding of all stakeholder groups and the exertion and emergence of leadership that is recognized by all of these constituencies. The development and work of this multi-stakeholder coalition will take time, there is time, but we must use it wisely and we must also realize that all of the gains will not come at once i.e., various improvements will not begin to translate into recognizable improvements in revenue enhancement and reductions in expenditures instantly or in the same time frame. The keys to the future are patient, steady effort, co-operation and mutual respect, and broad-based leadership. With this in mind we turn to the specific, technical recommendations.

Organization of this Report

Immediately following this summary, four (4) individual studies may be found by accessing them via the URL's given at the end of this report. The first study is benchmarking analyses comparing the City of Huntington to communities that we feel are appropriate comparison cities (counterparts) for Huntington. Also included in this study are comparisons of Huntington to the cities of Morgantown and Charleston, even though they are not, in our view, appropriate counterparts for comparison to Huntington. We have included these comparisons because Morgantown and Charleston are in West Virginia. The second study is an analysis of the major health and pension plans. The third study is a look at the fiscal operations of the City, while the fourth study reflects some of the ideas plus our own analysis of areas where improvement(s) may be realized. In carrying out the third and fourth studies we also interviewed members of the following groups: elected city officials and head administrators of municipal departments. A list of interviewees is attached to this report, along with a redacted summary of the principal points covered in these interviews.

These individual reports reflect the organization of our work. Each area had a lead faculty member who was responsible for the content, but assistance, ideas, and help was provided by all members of the study team.

Recommendations

1. The largest estimated savings are to be realized by restructuring the health and benefit plans of the three unionized employee groups. As study #2 indicates the savings in health plan costs to the city require a participating contribution from covered employees. The annual savings of our recommendation in this area would be approximately \$1.7 million per year.

By converting the pension plan from a *defined benefit plan* to a *defined contribution plan* annual savings in the range of \$3 million per year would be realized.

These savings add to \$4.7 million per year, but there are several *caveats* to be considered: vesting/grandfathering in conversion of the pension plan from defined benefit to defined contribution, contract obligations, and state law. All of these considerations suggest that these projected savings can only be realized at some future point, certainly not before the expiration of the current contracts.

2. The recommendation in item 1. above and contained in study #2 are reinforced by the results of the benchmark study, #1, which indicates (Table VI.A) that the expenditures for police and fire protection in Huntington per 1000 of population are substantially above those of the average of the benchmark cities. This finding also holds in the comparison of Huntington to Morgantown and Charleston (Table VI.B).
3. While carrying out study #3 the city began two commendable courses of action. One was increased enforcement and collection efforts for the B & O tax, and a re-examination of the accounting information system utilized by the city with an eye toward replacement and improvements in the flow of fiscal information. Study #3 recommends improved enforcement, identification, and collection procedures for the B & O tax including the use of student helpers (interns) from Marshall University in this endeavor. While revenues from the B & O tax comprise about 40% of the budget of the city, we feel there are significant additions to city revenue that can be realized from improved enforcement, identification and collection procedures and practices. The specific gains are difficult to estimate precisely because of under-reporting and because many smaller establishments cannot be identified presently (i.e. or 'matched' with annual tax returns)
4. A careful look at a variety of issues including privatization was carried out in study #3. In the specific study of trash collection fees, it is recommended that the City consider utilizing an enterprise accounting system to obtain a clearer picture of the balance of costs and revenues. The issue of the financial benefit of privatization v. current arrangements depends critically on the method of accounting, and no answer to this question can be provided without a reconsideration of accounting practice.

A further recommendation from study #3 is that an improvement in the collection of existing fees might result in an annual improvement in the City's budget of up to \$8M.

5. Table V. A. in the benchmarking study (#1) indicates that the revenues available to operate the City of Huntington are approximately \$2.5 million less than would be available in comparable cities i.e., revenue 'deficiency'. In addition, Table VI. A indicates that the expenditures of the City of Huntington for police and fire protection on a combined basis are approximately \$4.5 million greater than the average of the benchmark cities. This amount includes the *potential savings* which might be realized in the next several years through a combination of converting the pension plans from defined benefit to defined contribution, increasing the co-pay provision of the health plans, and affecting other savings contained in the recommendation of this report. This finding strongly suggests that the solutions to the fiscal operation of the City of Huntington cannot be found in efficiency gains alone for the foreseeable future.
6. We would urge moving away from specific user fees toward more general taxes that are less visible. (Tax visibility is an issue in terms of voter acceptance of tax burdens. For example, few discuss the tax on gasoline yet it is a significant cost component each time we purchase gasoline i.e., the gas tax has low visibility.) We urge Huntington to explore and substitute low visibility forms of taxation for its present higher visibility levies.
7. Before the longer term savings can be realized it would be advisable for the City to demonstrate its ability to utilize available (existing) resources as efficiently as possible by continuing its effort to improve revenue streams from the B & O tax (recommendations #3 above), to upgrade the computing hardware and increase the number of support personnel in this area of financial recording keeping and reporting (also recommendation #3), and to account for its use of current revenues by specific function rather than co-mingle these resources in the general fund. We also note some tendency to have cut personnel in enforcement (collection) and fiscal reporting areas in an effort to reduce expenditures. However, attention needs to be paid to the cost/benefit ratio of such personnel action.

The individual studies we prepared merit additional study and review by the interested reader.

No summary can provide a comprehensive overview of the complexity and specificity of each study and its findings. The above summary serves only as an introduction and overview of this work, and is not intended as a comprehensive picture. The operation of the municipal government is a complex organization in and of itself. It operates in a public arena and is circumscribed not only by the provisions of state law but by considerations and judgment

rendered by the citizenry through the political process. In the event that not everything may be understood by those who read the full report, we stand ready to attempt to answer or explain any aspects of our work.

Web Links To:

- [Executive Summary of A Study of The City of Huntington](#)
- Entire Report: [A Study of the City of Huntington](#)

STUDY #1

Benchmarking: What It Is and Why It Is Used

Benchmarking is a management tool that answers the question, “What is the standard?” It is a comparative method that assumes cities similar in demographic measures should have roughly similar public service levels. For our study, then, we want to look at cities’ experience in governing to know what budgetary allocations are normal and customary. Through benchmarking we are able to determine where the city of Huntington ranks in terms of its practices compared with similar cities. While benchmarking is an effective tool for comparisons, it must be understood that it does not take into account the unique needs of a particular city. Benchmarking establishes a trend line so that we may see where Huntington is with regard to similar cities. It does not establish a specific method for solving problems.

City Selection Criteria

In order to effectively benchmark the city of Huntington we had to find cities that were similar in terms of population and resources. The geographic consideration that we gave was to cities in states that are interior to the country, looking particularly in the Midwest, Mid-Atlantic, and Appalachian states of the United States. Arkansas, which is in neither group but tangential to all three, was also considered for the study. More than geography, demographic and economic criteria formed the basis for deciding which cities to consider. The specific variables are listed below. While ideally all cities would perfectly match for Huntington, our survey of data through the United States Census Bureau found that Huntington has no perfect match. Therefore we established ranges for each criterion. Cities that were within these ranges for multiple variables were considered for the benchmarking study.

Population

We considered cities that had population sizes within a range of 12,500 of Huntington's. Given the US Census 2005 report listing Huntington's population as 49,198, we considered cities with populations ranging from just under 37,000 to just over 61,000.

Median Household Income

Median Household Income is a critical measure because it cannot be skewed by high or low values. Median tells us exactly where the middle is. By knowing the median, therefore, we know that exactly half of a city's population has household incomes above the value, and that exactly half have incomes below the value. This is crucial to help determine the resources available to a city and also to gain leverage on the possible needs of the population in terms of services due to poverty. The median household income for Huntington is \$23,234. Our comparison cities have median household incomes ranging from \$22,513 to \$29,047.

Per Capita Income

Per Capita Income is a common measure used to indicate the level of wealth in a polity. It is an average: therefore it does not provide an indication of the distribution of wealth. We used it in conjunction with median household income. The per capita income for the city of Huntington is \$16,717. Cities in our study have per capita incomes ranging from \$13,052 to \$17,621.

Housing Units

Knowing the number of housing units in a city reveals information about potential for dependence on property tax, a key form of revenue for most cities. This, in conjunction with measures of wealth, help to gain insight on the capacity a community has to produce revenue for the city. Huntington has 25,888 housing units, according to the US Census Bureau. Cities in our study have numbers of housing units ranging from 13,732 to 25,636.

FIPS Code

Federal Information Processing Standards (FIPS) Codes help to identify metropolitan areas within the United States. We considered the Level Codes of metropolitan areas, which reflect a city's proximity to urban populations. The Level Codes follow:

A = 1 million or more

B = 250,000 – 1 million

C = 100,000 – 250,000

D = less than 100,000

Some of this coding is misleading. For example, Huntington is classified as Level Code B because the Office of Management and Budget combined it into a standard metropolitan statistical area with Ashland, KY. We considered only cities with a code level of C or D.

Hospitals and Universities

Hospitals and Marshall University represent major employers in the city of Huntington. For that reason we considered only cities that have at least one hospital and at least one college or university.

Selected Cities

Nine cities were selected to provide a benchmark for the city of Huntington. These cities come from six different states, each of which is interior to the United States. Just as Huntington's population has declined over the last fifteen years, all but two of these cities has similarly experienced population decline. Each also has a proximity to a metropolitan area that is equal to or less than Huntington's. The cities vary in their government structure, sources of revenue, and services directly provided or contracted out. Brief paragraphs introducing the cities follow. Table IA compares demographic data and Table IIA compares economic data for the cities.

Altoona, PA

Altoona is home to Penn State University at Altoona and has Altoona Regional Hospital, an employer that is central to Altoona's economy. Like Huntington, Altoona's largest economic sector for in terms of employees and payroll is healthcare. In terms of sales, their largest economic sector is retail-trade. Altoona's population has decreased by approximately 4,000 in the past fifteen years. The city provides police, fire, and water services. Blair County, which includes Altoona, handles refuse collection and disposal. The city of Altoona has a Council-Manager form of government, in which the elected mayor sits on the council along with six elected representatives.

Blacksburg, VA

Blacksburg home to Virginia Tech University and has Montgomery Regional Hospital. It is the only city in the study with a median income below Huntington's (\$22,513 versus

\$23,234). Blacksburg's population is smaller than Huntington's; unlike ours, however, their population has increased by almost 4,000 in the last fifteen years. Blacksburg's largest economic sector in terms of sales is manufacturing. Professional, scientific, and technical services generate the largest annual payroll while providing fewer jobs of any sector measured. Food and accommodations industries provide the most jobs in this city. Blacksburg has a Council-Manager form of government. The city council appoints the manager, who directs all city functions with the exception of the duties of Town Attorney and Town Clerk, who are also appointed by the council. Both the mayor and council members are elected every four years. The city of Blacksburg has joined with another municipality and VPI to form authorities which provide water and sanitation. The city contracts out refuse and recycling services, and directly provides police, fire, and transportation services.

Bowling Green, KY

Bowling Green has three institutions of higher education, Bowling Green Technical College, Draughton's Junior College, and Western Kentucky University. Two hospitals, Greenview Regional and Medical Center, serve the community's health needs. Bowling Green has 3000 more residents than Huntington and its median household income exceeds Huntington's by nearly \$6,000. Unlike Huntington, Bowling Green's population has been increasing, moving from 40,000 just fifteen years ago to just over 52,000 today. Health care services provides the city's largest payroll sector, but manufacturing provides the largest sales of any sector, as well as the most jobs. Bowling Green has a Council-Manager form of government. The mayor, elected for four-year terms, serves on the council with four other representatives who are elected every two years. The manager oversees all administrative

functions for the city. Refuse collection and disposal is privatized in Bowling Green. The city provides fire and police protection and water services. The city also provides maintenance for vehicles used in the city by the Bowling Green Public Transit, and county government agency.

Chester, PA

Chester has a population that is 12,000 smaller than Huntington's, but its median household income exceeds Huntington's by nearly \$2,500. Chester is home to Widener University and Chester Community Hospital and Crozer-Chester Medical Center. Chester's population has decreased by more than 4,000 in the past fifteen years. Manufacturing remains its largest economic sector in terms of sales, number of employees, and annual payroll. Chester has a mayor-council form of government. Four representatives elected at-large make up the council along with the mayor, who serves as the presiding officer. One unique feature of Chester is that each member of the council serves as the department head of one of the city's five administrative departments. The city provides police and fire protection as well as refuse collection services. Water services are privatized in Chester.

Danville, VA

Danville is home to Danville Community College and Danville Regional Medical Center. The city of Danville's population is just 1500 less than Huntington's, but its median household income exceeds ours by \$3,600. In the past fifteen years Danville has lost nearly 7,000 residents. Manufacturing remains the city's largest economic sector in terms of jobs, annual payroll, and sales. Danville is unique in that it provides citizens with water, gas, electric, and refuse collection through the department of Danville Utilities. The city purchases

gas and electric and then sells it to residents. The city also provides fire and police protection. Danville has a council-manager form of government. The nine members of the council are elected every four years. The council elects a mayor from its members and appoints the city manager, city attorney, and city clerk. The city manager is in charge of directing the departments of the city.

Lima, OH

Lima is another city with a population smaller than Huntington (by 9,000) and a median household income that exceeds Huntington's (by \$4,000). Like Danville, this city has lost nearly 7,000 residents in the last fifteen years. The healthcare industry is Danville's largest economic sector in terms of sales, annual payroll, and jobs. St. Rita's and Memorial are the two hospitals that serve this city. Lima is also home to Ohio State University at Lima. Lima has a strong mayor form of government. The mayor, nine member council, city auditor and director of law are each elected in nonpartisan elections for four-year terms. The city provides water, sewage, fire and police protection. In the area of refuse, the city provides waste containers, recycle bins, and garbage bags, but contracts with a private company for refuse collection and disposal services.

Pine Bluff, AR

Pine Bluff is home to the University of Arkansas at Pine Bluff. The city is served by Jefferson Regional Medical Center. Pine Bluff has a population of more than 55,000, even though its population has decreased by almost 5,000 in the last fifteen years. The retail trade sector provides the most sales in the city's economy, while healthcare provides the most jobs

and the largest annual payroll. Pine Bluff's median household annual income is \$4,000 greater than Huntington's. This Arkansas city contracts out refuse collection and disposal. Pine Bluff has a strong mayor form of government and elected city council.

Terre Haute, IN

Terre Haute is home to Indiana State University and Ivy Tech State College. It has two hospitals, Terre Haute Regional Hospital and Union Hospital, which serve the community's medical needs. Terre Haute has a strong mayor form of government with a city council made up of three members elected at large and six from specific districts in the city. Terre Haute provides fire and police protection to its citizens. Other services appear to have been privatized. The city's population has fluctuated in the most recent census collections, with an increase from 1990 to 2000, but a decrease of nearly 3000 in the last five years, resulting in a net loss of 800 residents over the past fifteen years. Its median household income is \$28,000. Manufacturing provides the most sales and highest annual payroll of any economic sector in the city, but the healthcare industry provides more jobs than any other sector.

Wilkes Barre, PA

Wilkes Barre has continued to lose population over the past fifteen years, and now has 8000 fewer residents than the city of Huntington. The city's median household income exceeds Huntington's by \$4,500. Retail trade provides the most sales of any of the city's economic sectors, while health care provides the highest annual income and most jobs of any sector. Wilkes Barre has two hospitals, General Hospital and Geisinger Mercy Hospital. It is home to King's College and Wilkes University. The city has an elected mayor who appoints a

city administrator to oversee the city's departments. There are seven city council members elected at large. The city provides refuse and recycling services in addition to police and fire protection.

Interior Comparisons

Cities in West Virginia do not meet the criteria set forth above in order to be included in the benchmarking study. Nevertheless, it is perfectly logical to look at neighboring cities for answers because they share the same statutory constraints in revenue raising opportunities. Therefore we provide the data for Charleston, the state capital and the city closest to Huntington in terms of size, and Morgantown, the only other city in the state that is home to a major university. While the population of the two cities is similar, a close examination of Table I.B. reveals that Charleston's median household income is more than \$10,000 above Huntington's, and its per capita income exceeds Huntington's by \$9300.00. Not only this, but Charleston has 8,000 fewer people living below poverty. Morgantown should also not be used as a benchmark for Huntington. Morgantown's population is nearly 21,000 smaller than Huntington's, while its percentage of people in poverty is 13.7 points greater than ours.

Table I. A: City Demographic Comparisons

	Altoona	Bowling Green	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average	Huntington
Population 2005	47,176	52,272	39,130	37,058	46,143	38,608	52,693	56,893	41,337	45,701	49,198
Population 2000	49,523	49,296	39,573	36,854	48,411	40,081	55,085	59,614	43,123	46,840	51,475
Population 1990	51,881	40,461	34,590	41,856	53,056	45,549	57,140	57,483	47,523	47,727	54,844
Net (Loss)/Gain	(4705)	11,811	4,450	(4,798)	(6,913)	(6,941)	(4,447)	(590)	(6,186)	(2,026)	(5,646)
Median Household Income	28,248	29,047	22,513	25,703	26,900	27,067	27,247	28,018	26,711	26,828	23,234
Per Capita Income	15,213	17,621	13,946	13,052	17,151	13,882	14,637	15,728	15,050	15,142	16,717
Percentage of Individuals Below Poverty Level	17.7	21.8	43.2	27.2	20.0	22.7	25.5	19.2	17.8	23.9	24.7
Housing Units	21,681	21,290	13,732	14,976	23,108	17,631	22,484	25,636	20,294	17,870	25,888
FIPS Code	C	-----	-----	-----	C	C	D	C	-----	D	B*

Source: United States Bureau of the Census, <http://www.census.gov>

Table I. B: Interior City Demographic Comparisons

	Charleston	Morgantown	Huntington
Population 2005	51,176	28,292	49,198
Population 2000	53,421	26,809	51,475
Population 1990	57,287	25,879	54,844
Net (Loss)/Gain	(6,111)	2,413	(5,646)
Median Household Income	34,009	20,649	23,234
Per Capita Income	26,017	14,459	16,717
Percentage of Individuals Below Poverty Level	16.7	38.4	24.7
Housing Units	27,131	11,721	25,888
FIPS Code	B	-----	B*

Source: United States Bureau of the Census, <http://www.census.gov>

A Note on the Demographics of Huntington

Discussion above has concentrated on comparing other cities with Huntington. The data in Table I. tell us that Huntington has a large percentage of its population that live in poverty. Half of all households in Huntington have incomes that are less than \$23,234. By contrast, nationally, half of all households have incomes below \$41,994. This is a significant difference that translates into two specific realizations for Huntington's economy. First, our median household income, which is \$18,760 below the national median household income, reveals that many jobs in Huntington and the surrounding areas do not pay high wages. Second, the purchasing potential of at least half of Huntington's households is reduced because their income is so low. In addition to this knowledge, it must be noted that in Huntington, 12,152 people, nearly one in four, live below the poverty level.

City Economic Comparisons

Consideration of dominant economic sectors can help policy makers to gain insight on areas for increasing revenue. The tables in this section consider dominant economic sectors along three dimensions: sales, annual payrolls, and number of citizens employed in each sector. Of particular note are four facts these tables (Tables II, III, IV) reveal:

- Huntington's economic sectors are incongruous in terms of sales, payroll, and employment. Manufacturing brings in more sales revenue than any economic sector in Huntington, but the health care and social assistance sector provides the most jobs and largest employee payrolls.
- Huntington's retail-trade sector has only 65% of the sales of the benchmark average; 80% of the annual payrolls, and 74% of the payroll.

- Huntington's health care and social assistance sector has nearly double the sales and employment rates of the benchmark average and more than double the annual payrolls of the benchmark average.
- Huntington's accommodation and food service sector has nearly 40% more sales than the benchmark average; 31% greater annual payroll than the benchmark average, and 23% more employment than the benchmark average.
- In terms of percentage of all economic sector sales, Huntington's manufacturing and retail-trade sectors have lower percentages than the benchmark averages, while our health care and social assistance sector represents a much larger percentage of sales than the benchmark average.
- In terms of percentages of all payrolls, Huntington's manufacturing and retail-trade sectors make up a significantly lower proportion of payroll compared to the benchmark average, while health care and social assistance has an annual payroll that is 8 percentage points above the benchmark average.
- The health care and social assistance sector is the only economic sector that has a significantly higher proportion of employees in terms of the benchmark average.

Table II. A: Sales in Dominant Economic Sectors of Comparison Cities (in 1000s and in Percentages of Total Sales)

	Altoona	Bowling Green	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average	Huntington
Manufacturing ¹	283,488	3,247,273	282,207	880,071	1,389,804	*	*	2,026,152	284,160	1,199,022	820,988
Manufacturing as Percentage of Total Sales	15.7%	61.2%	31.9%	72.2%	54.3%	*	*	42.3%	15.4%	41.9%	32.9%
Retail-Trade	882,471	1,153,912	193,907	100,525	672,723	331,984	677,407	1,805,421	898,656	746,334	483,394
Retail as Percentage of Total Sales	48.9%	21.7%	21.9%	8.2%	26.3%	29.2%	57.4%	37.7%	48.8%	33.3%	19.4%
Professional, Scientific, and Technical Services	*	89,040	111,902	*	25,953	32,789	*	*	*	64,921	132,943
Professional, Scientific, and Technical Services as Percentage of Total Sales	*	1.7%	12.7%	*	1.0%	2.9%	*	*	*	4.6%	5.3%
Health Care and Social Assistance	431,030	507,284	113,459	186,983	320,446	599,268	309,912	608,737	452,826	392,156	754,423
Health Care and Social Assistance as Percentage of Total Sales	23.9%	9.6%	12.8%	15.3%	12.5%	52.6%	26.3%	12.7%	24.6%	21.1%	30.3%
Accommodation and Food Service	81,935	156,198	50,992	16,261	88,898	42,609	66,823	151,305	68,271	80,366	112,343
Accommodation and Food Service as Percentage of Total Sales	4.5%	2.9%	5.8%	1.3%	3.5%	3.7%	5.7%	3.2%	3.7%	3.8%	4.5%

Source: United States Bureau of the Census, 2002, <http://www.census.gov>

Data are not available at this time.

**Table II. B: Sales in Dominant Economic Sectors of Comparison Cities
(in 1000s and in Percentages of Total Sales)**

	Charleston	Morgantown	Huntington
Manufacturing	152,176	*	820,988
Manufacturing as Percentage of Total Sales	4.7%	*	32.9%
Retail-Trade	872,855	610,994	483,394
Retail-Trade as Percentage of Total Sales	27.0%	40.5%	19.4%
Professional, Scientific, and Technical Services	438,369	132,602	132,943
Professional, Scientific, and Technical Services as Percentage of Total Sales.	13.5%	8.8%	5.3%
Health Care and Social Assistance	1,054,857	522,935	754,423
Health Care and Social Assistance as Percentage of Total Sales.	32.6%	34.6%	30.3%
Accommodation and Food Service	180,917	85,696	112,343
Accommodation and Food Service as Percentage of Total Sales	5.6%	5.7%	4.5%

Source: US Census Bureau, 2002

* Data are not available at this time.

1. Definitions of these economic sectors are taken from the North American Industry Classification System (NAICS) as used by the US Bureau of the Census. As reported:

The **manufacturing** sector comprises establishments engaged in mechanical, physical, or chemical transformation of materials, substances, or components into new products. The **retail trade** sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The **professional, scientific, and technical services** sector comprises establishments that specialize in performing professional scientific and technical activities for others. These activities require a high degree of expertise and training. These establishments in this sector specialize according to expertise and provide these services to clients in a variety of industries and...households. Activities include legal advise and representation, accounting, bookkeeping, architecture, engineering...computer services...research services...advertising...veterinary services...The **health care and social assistance** sector comprises establishments providing health care and social assistance for individuals. The services provided by establishments in this sector are delivered by trained professionals. The **accommodation and food service** sector comprises establishments providing customer with lodging and /or preparing meals, snacks, and beverages for immediate consumption.

Table III. A: Annual Payrolls in Dominant Economic Sectors of Comparison Cities (in 1000s and in Percentages of Total Payrolls)

	Altoona	Bowling Green	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average	Huntington
Manufacturing	40,503	307,356	53,202	96,397	299,582	*	*	230,615	59,890	155,364	152,586
Manufacturing as Percentage of Total Payroll	10.7%	40.4%	24.2%	50.0%	52.0%	*	*	33.4%	13.7%	32.1%	22.5%
Retail-Trade	78,749	114,315	19,754	10,885	64,861	38,266	66,171	138,057	77,982	67,671	54,719
Retail-Trade as Percentage of Total Payroll	20.8	15.0%	9.0%	5.6%	11.3%	10.1%	27.9%	20.0%	17.8%	15.3%	8.1%
Professional, Scientific, and Technical Services	*	26,326	57,926	*	10,084	11,951	*	*	*	26,572	47,037
Professional, Scientific, and Technical Services as Percentage of Total Payroll	*	3.5%	26.4%	*	1.8%	3.2%	*	*	*	8.7%	6.9%
Health Care and Social Assistance	183,502	189,645	45,562	67,154	145,207	256,057	115,112	206,556	187,579	155,153	312,355
Health Care and Social Assistance as Percentage of Total Payroll	48.5%	24.9%	20.8%	34.8%	25.2%	67.8%	48.6%	29.9%	42.8%	38.1%	46.1%
Accommodation and Food Service	22,613	45,109	15,142	2,952	25,274	13,349	17,319	42,796	18,678	22,581	29,615
Accommodation and Food Service as Percentage of Total Payroll	6.0%	6.0%	6.9%	1.5%	4.4%	3.5%	7.3%	6.2%	4.3%	5.1%	4.4%

Source: US Census Bureau, 2002

* Data are not available at this time.

**Table III. B: Annual Payrolls in Dominant Economic Sectors of Internal Cities
(in 1000s and in Percentages of Total Payrolls)**

	Charleston	Morgantown	Huntington
Manufacturing	34,145	*	152,586
Manufacturing as Percentage of Total Payroll	3.4%	*	22.5%
Retail-Trade	90,876	55,161	54,719
Retail-Trade as Percentage of Total Payroll	8.9%	14.3%	8.1%
Professional, Scientific, and Technical Services	144,384	47,057	47,037
Professional, Scientific, and Technical Services as Percentage of Total Payroll	14.2%	12.2%	6.9%
Health Care and Social Assistance	404,259	210,016	312,355
Health Care and Social Assistance as Percentage of Total Payroll	39.7%	54.6%	46.1%
Accommodation and Food Service	48,883	24,107	29,615
Accommodation and Food Service as Percentage of Total Payroll	4.8%	6.3%	4.4%

Source: US Census Bureau, 2002

* Data are not available at this time.

Table IV. A: Number of Employees in Dominant Economic Sectors of Comparison Cities

	Altoona	Bowling Green	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average	Huntington
Manufacturing	1,410	8,189	1,447	1,705	9,024	*	*	6,095	1,686	4,222	3,924
Manufacturing as Percentage of Total Employees	8.5%	26.2%	16.8%	36.8%	40.5%	*	*	21.6%	8.7%	22.7%	15.4%
Retail-Trade	4,692	6,796	1,365	416	3,764	1,777	3,823	6,674	4,821	3,792	2,810
Retail-Trade as Percentage of Total Employees	28.2%	21.7%	15.9%	9.0%	16.9%	12.9%	32.2%	23.7%	25.0%	20.6	11.0%
Professional, Scientific, and Technical Services	*	997	1,182	*	428	394	*	*	*	750	1,752
Professional, Scientific, and Technical Services as Percentage of Total Employees	*	3.2%	13.8%	*	1.9%	2.9%	*	*	*	5.45%	6.9%
Health Care and Social Assistance	5,312	6,421	1,436	1,456	4,886	7,428	3,957	7,128	6,706	4,970	9,519
Health Care and Social Assistance as Percentage of Total Employees	32.0%	20.5%	16.7%	31.4%	21.9%	54.0%	33.3%	25.3%	34.8%	30.0%	37.3%
Accommodation and Food Service	2,430	5,312	1,866	309	2,586	1,175	1,878	4,491	1,863	2,434	2,996
Accommodation and Food Service as Percentage of Total Employees	14.6%	17.1%	21.7%	6.7%	11.6%	8.5%	15.8%	15.9%	10.0%	13.5%	11.8%

Source: US Census Bureau, 2002.

* Data are not available at this time.

Table IV. B: Number of Employees in Dominant Economic Sectors of Internal Cities

	Charleston	Morgantown	Huntington
Manufacturing	1,056	*	3,924
Manufacturing as Percentage of Total Employees	2.6%	*	15.4%
Retail-Trade	5,622	3,507	2,810
Retail-Trade as Percentage of Total Employees	14.0%	21.3%	11.0%
Professional, Scientific, and Technical Services	3,920	1,303	1,752
Professional, Scientific, and Technical Services as Percentage of Total Employees	9.8%	7.9%	6.9%
Health Care and Social Assistance	12,496	6,386	9,519
Health Care and Social Assistance as Percentage of Total Employees	31.1%	38.7%	37.3%
Accommodation and Food Service	4,020	2,681	2,996
Accommodation and Food Service as Percentage of Total Employees	10.0%	16.3%	11.8%

Source: US Census Bureau, 2002

* Data are not available at this time.

Revenues

Table V compares sources of revenue from the cities' general fund budgets. Three observations are important to note:

- Huntington's revenues per 1000 population fall \$51,037 short of the benchmarking average. To extrapolate this term to real figures, the benchmark average suggests that Huntington should have additional revenues of \$2,510,918¹, or an additional \$51.037 per person.
- City budgets are not systematically organized. While property tax remained a prominent source of revenue across the board, other cities either did not use business and occupation taxes and utility taxes or did not specify them as independent lines of revenue.
- Other cities have sources of revenue, such as sales taxes, income taxes, and shared revenue from state taxes that Huntington does not have.

Other Taxes

The comparison cities have a variety of other taxes that bring in revenue ranging from 4.65 percent of total budgetary revenues (in Bowling Green) to 52.78 percent of total budgetary revenues (in Lima). These taxes include city income taxes, state-levied shared taxes, estate taxes, cigarette, liquor, and beer taxes, emergency services taxes, city sales taxes, hotel occupancy taxes, county-levied shared sales taxes, industrial development taxes, and real estate

¹. This figure is calculated by dividing \$ 51,037 (the deficit of revenues per 1000) by 1000 and then multiplying the result by 49,198 (Huntington's population).

transfer taxes. Another tax is a "Payment in Lieu of Taxes" that non-profits contribute in the city of Wilkes-Barre. This "payment" represents 1.46 percent of revenue sources for Wilkes-Barre.

Other Fees, Licenses, and Permits

The refuse fee makes up 9.0 percent of Huntington's budgetary revenues. Other fees that we found in comparison cities include charges on city rental property, franchise fees, cable television fees, fines and court fees, charges for city services, including copying and processing fees, city contract fees, building permits, cemetery fees, parks and recreation fees, electrical permits, false alarm fees, liquor and wine licenses, street closure fees, landfill incinerator fees, amusement fees, inspection fees, and animal control fees.

Non-Tax, Non-Fee Sources of Revenue

Other sources of revenue includes grants, lottery revenue, levies, tax interest and penalties, intergovernmental transfers, bond proceeds, tax anticipation borrowing, and the sale of fixed assets.

Table V. A: Revenues of Comparison Cities

	Bowling Green*	Blacksburg	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average**	Huntington
Revenues per 1000 Population	\$950,432	\$908,255	\$2,203,931	\$775,409	\$427,078	\$719,139	\$889,010	\$778,221	\$727,184
Business and Occupation Taxes as Percent of Revenue	51.08	None specified	None specified	None specified	3.09	None specified	4.56	19.58	37.0
Property Taxes as Percent of Revenue	17.53	10.29	24.13	4.22	7.64	60.47	15.35	19.95	12.0
Utility Taxes as Percent of Revenue	None specified	None specified	***	None specified	None specified	None specified	0.08	n/a	5.0
Other Taxes as Percent of Revenue	4.65	18.80	14.08	52.78	54.07	34.41	35.69	31.68	1.52
Municipal Service Fees as Percent of Revenue	None specified	None specified	None specified	None specified	11.49	None specified	None specified	n/a	17.0
User Fees as Percent of Revenue	None specified	None specified	None specified	None specified	None specified	1.24	None specified	n/a	9.0
Other Fees, Licenses, and Permits as Percent of Revenue	20.78	6.81	5.84	15.77	9.90	1.52	6.40	9.43	12.51
Non-tax/non-fee Sources as Percent of Revenue	5.55	64.10	55.95	21.4	13.6	2.37	36.09	28.44	4.98

Sources: City Budgets and Interviews with Finance Departments of Cities

*Information for Altoona and Chester are not available at this date.

**Danville’s Revenues per 1000 Population are not factored into the average because its revenues are so large that they would skew the average.

***Danville provides water, wastewater, gas, electric, transportation, and sanitation but keeps these in a separate budget, “Business-type activities.” 2005 net revenues from these services totaled \$19,463,260.

Table V. B: Revenues of Internal Cities

	Charleston	Morgantown	Huntington
Revenues per 1000 Population	1,197,358	609,890	727,184
Business and Occupation Taxes as Percentage of Revenue	53.04	46.36	37.0
Property Taxes as Percentage of Revenue	13.87	13.62	12.0
Utility Taxes as Percentage of Revenue	3.43	4.5	5.0
Other Taxes as Percentage of Revenue	2.94	6.0	1.52
Municipal Service Fees as Percentage of Revenue	5.82	Not Specified	17.0
User Fees as Percentage of Revenue	4.08	0.00	9.0
Other Fees, Licenses and Permits as Percentage of Revenue	8.10	8.10	12.51
Other Sources as Percentage of Revenue	8.90	16.51	4.98

Sources: City Budgets and Interviews with Finance Departments of Cities

Expenditures

City expenditures are considered in two classifications. The first is the rate of expenditure, or total expenditures per 1,000 population. The second classification is by major service departments, Police, Fire, and Public Works. Following are key findings:

- Huntington's expenditures do not appear to be out of a customary range. The expenditure rate is higher than two cities, but lower than five.
- Huntington's expenditures for Police, Fire, and Public Works represent a greater percentage of expenditures relative to other cities.

Table VI. A: Expenditures of Comparison Cities

	Bowling Green*	Blacksburg	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average****	Huntington
Total Expenditures per 1000 Population	945,075	558,449	2,178,532	740,572	424,079	822,298	889,010	729,914	738,038
Police Expenditures as Percentage of Total Expenditures	20.17	24.42	Combined in budget with Fire as “Public Safety”	28.39	38.08	21.89	20.6	25.59***	30.0
Fire Expenditures as Percentage of Total Expenditures	17.95	3.29 Note: Blacksburg has a volunteer fire department	23.59	23.91	22.46	21.13	18.8	20.85****	29.0
Public Works Expenditures as Percentage of Total Expenditures**	12.64	16.24	12.90	7.68	2.86	9.74	12.52	10.53	12.0

Source: City Budgets and Interviews from City Finance Departments

*Information from Altoona and Chester is not available at this date.

**Public Works includes Publics Works Department, Highways/Streets, Buildings and Plant and Refuse Where Applicable. Some cities combine elements of these departments under “public works,” while others do not. In order to make these data systematic, I am combining all departments under these categories.

***Danville is not included in the “average” computations because their expenditure rate is so large that it would skew the data.

**** Blacksburg is not included in the computation for “average” fire dept. expenditure because it has a volunteer fire department.

Table VI. B: Expenditures of Internal Cities

	Charleston	Morgantown	Huntington
Total Expenditures per 1000 Population	1,236,439	1,010,462	738,038
Police Expenditures as Percentage of Total Expenditures	22.6	18.34	30.0
Fire Expenditures as Percentage of Total Expenditures	22.34	14.36	29.0
Public Works Expenditures as Percentage of Total Expenditures	14.5	10.98	12.0

Source: City Budgets and Interviews with City Finance Departments

Human Capital Allocations

Consideration of Huntington's human capital allocations yields three important findings:

- Huntington has an employee rate that is lower than the benchmark average.
- While Huntington's expenditures for the Police Department represent a greater proportion of the budget than Police Department expenditures in other cities, the allocation of employees for the Police Department is actually below the average benchmarked rate. Huntington has fewer employees per 1000 population in the Police Department than any other city studied.
- Huntington has a greater proportion of its employees in the Fire Department relative to comparison cities. However, standardized per 1000 population, Huntington's employees in the fire department is nearly equal to the benchmark average.

Table VII. A: 2006 Human Capital Allocations in Comparison Cities

	Bowling Green*	Blacksburg	Danville	Lima	Pine Bluff	Average	Huntington
Employees** per 1000 Population	8.21	6.59	26.01	11.27	7.48	8.39***	7.87
Percentage of City Employees in Police Dept.	31.24	31.40	12.83	25.06	40.36	27.18	24.5
Employees in the Police Department per 1000 Population	3.1	2.1	3.3	2.8	3.0	2.9	1.9
Percentage of City Employees in Fire Dept.	25.87	Volunteer – Only 1 paid staff member.	9.92	15.17	23.86	18.71***	25.8
Employees in the Fire Department per 1000 Population	2.1	Not applicable.	2.6	1.7	1.8	2.1	2.0

Source: Interviews with Human Resources Departments in Comparison Cities

*Information for Altoona, Chester, Terre Haute, and Wilkes-Barre is not available at this time.

**Employees increase in summer to maintain parks and pools. These seasonal employees are not counted in this computation.

***Danville is not included in the computation of average employees per 1,000 population.

****The City of Blacksburg was not counted in this computation.

Table VII. B: 2006 Human Capital Allocations in Comparison Cities

	Morgantown*	Huntington
Employees**	8.38	7.87
Employees per 1000 population	0.24	0.39
Percentage of City Employees in Police Dept.	29.1	24.5
Employees in the Police Department per 1000 Population	2.4	1.9
Percentage of City Employees in Fire Dept.	20.3	25.84
Employees in the Fire Department per 1000 Population	1.7	2.0

Source: Interviews with Human Resources Departments in Internal Cities

*Data for Charleston are not available at this time.

**Employees increase in summer to maintain parks and pools. These seasonal employees are not counted in this computation

Employee Benefits

Health Care

Most of the cities have self-insured health care systems, generally contracting with a third-party administrator (TPA) that administers billing and distributes benefits, passing the cost on to the city. Only one of the cities, Chester, covers all health care costs of its employees. All other cities have cost-share policies in which employees pay a portion of the premiums and have deductibles and in some cases, co-pays for office visits.

With the exception of Chester, all cities deduct health care contributions from their employees' payrolls. The lowest of these payroll deductions is 2.5 percent of the health care rate, and the highest is 50% of the health care rate, for full family coverage. All cities but one ask their employees to match health care costs at the same rate whether the employee opts for single health care coverage or family health care coverage. Huntington has employee payroll deductions that cover 20% of the costs of the health care rate, regardless of the insurance plan. This is perfectly within the range of the benchmark cities.

Almost all the plans have annual deductible amounts that employees must pay for health care before their benefit plans cover their health care costs. Most of the cities have deductible amounts that differ depending on whether the employee has single or family health care coverage. Huntington does not. The annual deductible amount for employees and their families is \$250.00 per individual, regardless of the number of family members on the employees' health care plan.

After the annual deductible is met, most cities' health benefits require employees to make a co-payment for health care services and prescriptions. With only three exceptions, the co-payment is 20 percent of the health care service. Huntington also requires a 20 percent co-payment. Most cities have tiered systems for prescription co-payments. The tiers are organized around generic prescriptions; brand-name prescriptions when generic alternatives are not available; and brand-name prescriptions based on doctor/patient preference. A few cities have other tiers for prescriptions that are accepted by the insurance formulary plan. Huntington also has a tiered system for prescription co-payments. The co-payments for each tier in Huntington are lower than what most cities in our survey require of their employees.

Most of the cities have a cap on employee out-of-pocket expenses for health care. The cap is generally tiered depending on whether the employee has a single or family health care plan. For singles, the cap ranges from \$500 to \$20,000. For family plans, the cap ranges from \$1000 to \$20,000. Huntington's cap for employee out-of-pocket health care expenses is \$400 per individual, regardless of whether the employee has a single or family health care plan.

Pension Systems

Pension systems for non-hazardous employees are required in some states. All the cities in our survey offer pension systems, ranging from employer contributions of 4.5% of gross wages to 13.5% of gross wages. The pension benchmark average is 7.65% of gross wages for non-hazardous employees. Huntington pays 10.5% gross wages.

Workers' Compensation Systems

All but one city in our survey directly pays some of the costs for workers' compensation due to injuries on the job. By directly providing some of the compensation, the city reduces the rate it must pay to insurance carrier or the third party administrator (TPA). The direct payments that cities provide range from the first full pay period of lost wages to the first \$100,000 for each occurrence. Huntington directly pays the first three days of lost wages before its TPA, CompTrol, begins payments for workers' compensation.

Table VIII. A: Employee Benefits in Comparison Cities

	Bowling Green*	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Huntington
Health Care System	Self-insured. TPA.	Contract Provider: Southern Health. Three tier system: Point-of-Service, Modified Deductible, and PPO.	Self-insured. City pays 100% for all full-time employees.	Self-insured. TPA: Anthem Blue-Cross Blue-Shield	Self-insured. TPA: JP Farley.	Contract Provider: Arkansas Municipal League.	Self-insured. TPA: Anthem Blue-Cross Blue-Shield.	Self-insured. TPA: Blue-cross Blue-shield.
Employee Cost Share of Health Care: Payroll Deductions	Single and Family: 5% of health care rate.	Single and Family: \$4.00 for PoS \$3.00 for MD \$0.00 for PPO Per Pay Check	None.	Single and Family: 30% of health care rate	Single and Family: 2.5% of health care rate	Single: 6% of health care rate. Family: 50 % of health care rate	Single and Family: 30% of health care rate.	Single and Family: 20% of health care rate
Employee Health Care Deductibles Before City Benefits	Single \$200 Family \$400	\$0.00 for PoS \$150 for MD \$1250 for PPO, of which \$750 is reimbursed on rolling basis.	None.	Single \$400 Family \$800	Single \$100 Family \$200	Single and Family \$200	Single \$500 Family \$1000	Per Individual: \$250
Employee Health Care Co-pay	20% with Network Doctors Prescription policy is not available.	\$15.00 for PoS \$0.00 for MD \$0.00 for PPO Prescription policy is not available.	None.	20% office visit Prescriptions covered in tiers. Tier 1: \$10.00 Tier 2: \$20.00 Tier 3: greater of \$50.00 or 20% cost.	20% for all services. Prescriptions covered in tiers. Tier 1: 5.00 Tier 2: 10.00 Tier 3: 20.00	None. Prescriptions covered in tiers. Tier 1: 10.00 Tier 2: 20.00 Tier 3: 30.00 Tier 4: 50.00	20% office visit; 35% emergency. Prescriptions covered in tiers. Tier 1: 10.00 Tier 2: 20.00 Tier 3: 30.00	20% office visits. Prescriptions covered in tiers. Tier 1: 5.00 Tier 2: 15.00 Tier 3: 15.00

Table VIII. A: Employee Benefits in Comparison Cities, Continued

	Bowling Green*	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Huntington
Employee Maximum Out-of-Pocket Costs	Single and Family \$1500	Single \$2500 Family \$5000	Not applicable.	Single \$3000 Family \$6000	Single \$500 Family \$1000	Single and Family \$20,000	Single \$2000 Family \$4000	\$400 per Individual
Pension System for Employees in Non-hazardous Positions	By state statute, with Kentucky retirement system. City pays 8.4% gross wages.	Through Virginia Retirement System. City pays 5% of gross wages.	Information not available.	Through Virginia Retirement System. City pays 8.5% gross wages.	Through Ohio Public Employees Retirement System. City pays 13.5% gross wages.	City has governing pension board to administer program. City pays 6% gross wages.	By state statute, with Public Employees Retirement Fund. City pays 4.5% gross wages.	By state statute, through Public Employees Retirement System. City pays 10.5% gross wages.
Workers' Compensation System	Partially self-funded. City pays first \$100,000 for each occurrence. TPA pays after that and bills city.	Self-funded. TPA: Virginia Municipal League. City pays 40% wages for time off. VML bills for deficit, reimburses for surplus.	Information not available.	Self-insured. TPA: CMI Octagon. City directly pays first check for lost time wages.	City injury leave provision pays full wages for 12 months. City pays 2.5% paid wages to managed care via state bureau.	Through Arkansas Municipal League. City pays annual negotiated rate.	Information not available.	Self-insured. TPA: CompTrol. City pays first three days of lost wages. CompTrol bills flat rate and bills city for all other costs.

*Information for Altoona and Wilkes-Barre is not available as of this date.

Table VIII. B: Employee Benefits in Internal Cities

	Morgantown*	Huntington
Health Care System	Self-insured.	Self-insured. TPA: Blue-cross Blue-shield.
Employee Cost Share of Health Care: Payroll Deductions	20% of health care rate for employees taking package with \$500 deductible. For employees taking \$1000 deductible package, payroll deductions are much lower. Payroll deductions differ by class of employee.	Single and Family: 20% of health care rate
Employee Health Care Deductibles before City Benefits	Morgantown offers two packages for singles and families. Either group can opt for deductibles of \$500 or \$1000.	Per Individual: \$250
Employee Health Care Co-pay	None for office visits. Prescriptions are covered in tiers. Tier 1: 10.00 Tier 2: 20.00 Tier3: 20.00 plus difference of cost between formulary generic and formulary preferred drug Tier 4: 50.00	20% office visits. Prescriptions covered in tiers. Tier 1: 5.00 Tier 2: 15.00 Tier 3: 15.00
Employee Maximum Out-of-Pocket Costs	Maximum out-of-pocket costs differ depending upon the package the employee selects. For the \$500 deductible packages: Single, \$1000; Family, \$3000 For the \$1000 deductible packages: Single, \$2000; Family, \$6000	\$400 per Individual
Pension System for Employees in Non-hazardous Positions	By state statute. City pays 6% gross wages.	By state statute, through Public Employees Retirement System. City pays 10.5% gross wages.
Workers' Compensation System	Self-insured. TPA: Brick Street. Negotiated annual rate.	Self-insured. TPA: CompTrol. City pays first three days of lost wages. CompTrol bills flat rate and bills city for all other costs.

*Information on Charleston is not available at this time.

Systems: Accounting, Government, and Privatization

Some of the variables we considered were accounting software systems, forms of government, and privatization. Table IX presents data for each of these variables.

Accounting Software Systems in Comparison Cities

Our interviews with other cities uncovered a range of accounting system software packages. The various types are listed below in Table IX. We found no duplication of software systems, and therefore present the information below for exploration.

Forms of Government in Comparison Cities

Cities across the United States have considerable variation in their systems of government. The two most popular forms of city governance across the country, Council-Manager and Mayor-Council, are the types that we found in our comparison cities.

Council-Manager

The council-manager form of government is the most popular in the United States in cities with more than 2,500 population. As of 2003, 48.2 percent of cities over 2,500 had adopted this form of government, which separates the administration of government from political decisions made by elected policy makers. The council-manager form of government leaves policy decisions to the city council, which hires a professional administrator, generally called a city manager, to oversee the implementation of city policies. The city manager works with the mayor, who is sometimes also a voting member of the city council or is a ceremonial figure-head. The city manager controls all hiring and promotion decisions and is the official to whom all city

departments report. In our study, four comparison cities have a council-manager form of government.

Mayor-Council

The mayor-council form of government is the second-most popular form of city government nationally, with nearly 43 percent of cities over 2,500 adopting this form of government. Cities with a mayor-council form of government separate the legislative and executive functions of the city, separately electing a mayor and city council. The power of the mayor varies in this form of government, and for that reason cities are often referred to as "weak mayor" or "strong mayor" systems.

Weak Mayor Systems

A "weak mayor" mayor-council form of government is one in which the powers of the mayor are constitutionally limited. While the mayor presides over city council, the executive is often prohibited from vetoing any city council policy. In some cases, the city council, rather than the mayor, appoints city department heads who report to the council rather than the mayor.

Strong Mayor Systems

A "strong mayor" mayor-council form of government is one in which the powers of the mayor are constitutionally strong. The mayor is the chief executive and has authority to appoint department heads, who report back to the mayor. The mayor typically has veto authority over council legislation and acts as the equivalent of a city governor.

Our Survey

In our study, five comparison cities have a mayor-council form of government. Of these, two have a weak mayor system, and three have a strong mayor system.

Privatized Services

Five of the comparison cities have privatized refuse collection. It is important to note that while Huntington provides this service, the employee rate in Huntington remains below the benchmark average (Table VII). While our calculation of public works employees included many different departments due to the changing definition from city to city, Huntington's proportion of expenditures in this category was only slightly higher than the benchmark average (Table VI), and it is lower than two of the cities (Bowling Green and Blacksburg) that do privatize refuse collection. We conclude that privatization of refuse collection would not significantly benefit the city.

Table IX. A: Systems of Comparison Cities

	Altoona	Bowling Green	Blacksburg	Chester	Danville	Lima	Pine Bluff	Terre Haute	Wilkes-Barre	Average	Huntington
Accounting Software System	*	KVS Note: The city is in the process of considering other systems for adoption.	THE Sungard Noviline Series	*	ISAS Sungard Bi-Tech	Harris Computer Systems (Formerly known as GEMS, Government E-Management Systems)	None Note: The city is currently exploring options to adopt a system.	Funware	*	Each city has a unique system.	Masterpiece A.S. 400 System
Form of Government	Council-Manager	Council - Manager	Council – Manager	Mayor-Council Weak Mayor System	Council-Manager	Mayor-Council Strong Mayor System	Mayor-Council Strong Mayor System	Mayor-Council Strong Mayor System	Mayor-Council Weak Mayor System	Four cities have a Council – Manager form; five have a Mayor-Council form.	Mayor-Council Strong Mayor System
Privatized Services	*	Refuse Collection	Refuse Collection	None	None	Refuse Collection	Refuse Collection	Refuse Collection	None	Five cities privatize refuse collection; three do not.	None

*Data are not available at this time.

Table IX. B: Systems of Internal Cities

	Charleston	Morgantown	Huntington
Accounting Software System	Inforum Gold, from Edens Software Systems; Except Kronos System for Payroll	New World Systems	Masterpiece A.S. 400 System
Form of Government	Mayor-Council Strong Mayor System	Council-Manager	Mayor-Council Strong Mayor System
Privatized Services	None	Refuse Collection	None

References

Information from the cities in this study, when not available from the United States Census or the County and City Data Book was obtained from the official websites of the cities or from documents sent by those cities. The web addresses for the cities are listed below.

Altoona, Pennsylvania	http://www.altoonapa.gov
Bowling Green, Kentucky	http://www.bgky.org
Blacksburg, Virginia	http://www.blacksburg.gov
Charleston, West Virginia	http://www.cityofcharleston.org
Chester, Pennsylvania	http://www.chestercity.com
Danville, Virginia	http://www.danville-va.gov/home.asp
Huntington, West Virginia	http://www.cityofhuntington.com
Lima, Ohio	http://www.cityhall.lima.oh.us
Morgantown, West Virginia	http://www.morgantown.com
Pine Bluff, Arkansas	http://www.cityofpinebluff.com/city_contact.htm
Terre Haute, Indiana	http://www.terrehaute.in.gov
Wilkes-Barre, Pennsylvania	http://www.wilkes-barre.pa.us

Federal Information Processing Standards 8-6, <http://www.itl.nist.gov/fipspubs/fip8-6-0.htm>, September 5, 2006.

For FIPS Codes, <http://www.itl.nist.gov/fipspubs/fip8-6-1.htm>

STUDY #2

Appendix I: Summary & Reform of Health and Pension Benefits

The city has four major employment groups – the Police, Fire, American Federation of State, County, and Municipal Employees (AFSCME), and administrative employees. The first three of these are represented by collective bargaining labor unions while the latter is non-union. In fiscal year 2006-7 the City has about 348 employees (as of 5/9/2006) of which 86 are sworn police officers, 104 are sworn fireman, 96 are part of AFSCME, and the balance of 62 are administrative employees.

All permanent, full-time employees enjoy solid and in some cases lucrative health and pension benefits. In many organizations (including the Federal government and the City) it is the soaring rise in health costs and utilization in tandem with the reality of looming pension payments that present the greatest challenges to fiscal resources. This section of the report characterizes the structure of health and pension benefits for each of the four groups. We then turn to the fiscal constraints these benefits impose and potential ways the City can begin to address these realities.

A report by the City of Huntington Forward Committee which appears to have been completed in 2001 or 2002 delineated a broad array of potential reforms most of which remain incomplete after contract negotiations in 2004. The Committee put forward for consideration the following reforms (p. 14, bracketed items are added by the author):

1. Adding disincentives for non-emergency visits to a hospital emergency room. [Cabell Huntington Hospital wrote off the deductible and co-pay effectively making emergency care free].

2. Adding medical justification for inpatient treatment [versus out-patient].
3. Expanding preventative care as a covered service.
4. Adopting a policy to exclude coverage for services that would be covered by Medicare Part B if the retiree elects not to pay for Medicare Part B.
5. Raising deductibles above the current [2001] \$100 and the co-payment limit above \$400.
6. Establishing a monthly premium sharing with employees which will reduce the City's cost and perhaps reduce the number of employee's dependents who have coverage through another employer but who still participate in the City's plan because there is no cost to do so now.
7. Raising the premium contributions [\$132 for single coverage and \$300 for family coverage] which have remained unchanged since 1992.
8. Basing monthly premium co-pays for retirees and active employees on a percentage of the total monthly premium sharing increased costs will induce participants to better utilize their health care coverage to control costs.
9. Raising or perhaps eliminating the aggregate stop loss feature.
10. Fixing the employee's cost [of prescription drugs] as a percentage of total costs.
11. Charging a separate deductible for each 30-day supply for mail order 90-day prescriptions rather than just one deductible.
12. Increase the [prescription] premiums for retirees, which have remained constant since 1992 (\$27 for single coverage and \$76 for family).

The latest round of contract negotiations mildly altered #5 and #6 but made little if any progress in the other areas identified by the Forward Committee. The next several sections give background information and data that update the Forward Committee's findings along with adding a few other potential reforms in health insurance benefits.

A1.1 City of Huntington's Role in Healthcare Insurance

- Mountain State Blue Cross / Blue Shield (MSBCBS) provide administrative services but virtually all costs are passed through to the City. The exception is the stop-loss (catastrophic) coverage that insures cases above \$100,000 up to one million dollars. MSBCBS negotiates prices with providers that are competitive with the discounts secured by other HMO's.
- In the 12 months covering February 2005 through January 2006, the City had \$5,601,032 in medical and prescription claims of which \$461,774 was covered by MSBCBS beyond the \$100,000 stop-loss coverage. The adjusted paid claims were \$5,139,258. In addition the City paid \$236,721 for the stop-loss premiums for a total health insurance cost of \$5,375,979.
- Fiscal Year 2006-7 total health and insurance costs for the City are projected to be \$6,367,467. This rise is entirely driven by charge and utilization increases of 12% to 16% on medical and prescription services.
- The city had about 348 full-time employees, 87 'older retirees' (eligible for social security and Medicare), and 92 'early retirees' (primarily police and fireman) for a total of about 527 current and former employees. Thus the health insurance benefit cost the city about \$10,220 per employee. On a per active employee basis the cost is \$15,448 which may be a more accurate measure of what the City is contributing to employees during and after their career.

A1.2 Healthcare Benefits (Actives)

All permanent, full-time employees of the city receive identical health insurance benefits during their employment.

- Employee's share of the health insurance premium is \$25/month for a family and \$12 for an individual plan. The employee contribution was nonexistent prior to July 1, 2004.
- The annual deductible is \$250 per individual. However this deductible only applies to a limited number of services such as office visits, physical therapy, chiropractic manipulations, allergy treatment, private duty nursing, medical equipment, ambulance services, and hospice care. The vast majority of preventative care, physician services, inpatient hospital and outpatient hospital services are not subject to a deductible.
- The co-payments are 20% on the vast majority of services subject to an annual \$400 co-payment limit per individual.

- Non-network services require a 60% co-pay and a \$2000 co-pay limit (\$400 of the total can be network co-pays). The types of services requiring a deductible are nearly identical across network and non-network providers.
- Prescription benefits are \$5 for generic and \$15 for brand names with total drug co-pays capped at \$150 per month. There is no formulary (e.g. expensive perhaps exotic drugs are not charged a higher amount than \$15; there is no limit on medications other than physician approval).

A1.3 Health Insurance (Retirees)

- The City’s commitment to supplying health insurance benefits extends well past the span of employment. The City contributes to health insurance benefits into retirement in two ways. First, employees can ‘buy’ monthly premiums based on the accumulation of unused sick days. Secondly, the City funds a supplemental fund for police and fireman based on a fixed percentage of aggregate annual compensation (5% and 3%, respectively).
- Retiree’s can receive full or partial premiums based on sick leave accumulation. The Police and Firemen can receive pay for up to 140 sick days accumulated over their career. Sick days beyond this (e.g. the 141st plus sick days) are converted to post-retirement *monthly* health insurance premiums coverage according to the following rates:

Table 1: Conversion rate of sick days to full monthly premiums (Police).

	Medical	Prescription	Vision
Individual	16 hours	4 hours	4 hours
Family	40 hours	12 hours	4 hours

Source: City of Huntington, WV Financial Statements, 6/30/05, p. 48

Firemen are granted a 40% monthly premium reduction according to the following rates:

Table 2: Conversion rate of sick days to partial monthly premiums (Fireman).

	Medical	Prescription	Vision
Individual	12 hours	3 hours	1 hour
Family	24 hours	6 hours	1 hour

Source: City of Huntington, WV Financial Statements, 6/30/05, p. 48

The Retiree’s Insurance Supplement Fund is funded by 5% of the budgeted base pay for sworn police officers and 5% of budgeted overtime (up to \$500,000). (see p. 33 in union agreement)

This fund is to be used to pay 60% of the medical and prescription premium for all sworn

officers retiring on or after July 1, 1990. An important caveat is stated in the union wage agreement (p. 34). "...in the event the Supplement Fund is unable to pay sixty percent (60%) of the insurance premium, the respective retiree shall be responsible for all premium payments not made by the Supplement Fund."

The Fire Retirees Insurance Supplement Fund is funded by 3% of the base pay and scheduled overtime of sworn firefighters (See p.17 in the union agreement). This fund covers 50% of the group insurance premium for all sworn firefighters who retire on or after November 1, 1999. In tandem with the potential 40% premium reduction from sick-day trade-ins, the retiree may be left with only 10% of the premium cost.

Table 3: Cash Flows for Retirees' Insurance, 2004-5.

	Police Retiree's Insurance	Retirees' Medical Insurance	Fire Retiree's Insurance
Contributions	0	609,132	0
Interest	3288	153	783
Operating transfers in	150,327	1,125,287	109,002
Other	0	10	0
TOTAL ADDITIONS	153,615	1,794,582	109,785
Benefit Payments	0	1,675,149	0
Administrative	187	35,438	0
Insurance premium payments	96,759	83,995	61,157
TOTAL DEDUCTIONS	96,946	1,794,582	61,157
NET INCREASE	56,669	0	48,628
NET ASSETS JULY 1, 2004	341,222	0	53,754
NET ASSETS JUNE 30, 2005	397,891	0	102,382

Source: City of Huntington, WV Financial Statements, 6/30/05, p. 63

Note that the "Operating transfers in" amounts represent the 5% and 3% police and fire City contributions. The City roughly doubles the other retiree's contributions. The support for Police and fire goes toward premiums (not direct benefit payments) whereas the other group has analogous benefits to active employees as the city self-insures.

AFSCME retirees can accumulate a maximum of 120 sick days. They have the option of converting up to 75 sick days to premium coverage at a rate of five days per month of coverage (a maximum of 15 months) with the balance of days being paid.

Administration retirees can accumulate a maximum of 140 sick days. They have the option of converting up to 75 sick days to premium coverage at a rate of five days per month of coverage (a maximum of 15 months) with the balance of days being paid.

- Prior to July 1, 1986 sworn police and fireman did not pay into Medicare and thus many current retirees are not covered by Medicare without buying into it (paying \$82 for part A and \$600 for part B). The city underwrites part of this expense by allowing retirees to purchase part B for \$300 with the balance of the premium being footed by the City.
- All current city employees pay Medicare taxes and are eligible for Medicare benefits (with ten years of paying into social security). They are entitled to free Part A (Hospital Services) premiums at age 65 and the standard share of the Part B (Doctor Services and Outpatient Care) premium which in 2006 costs \$82.50 per month.
- The retired employee can purchase Medicare Part D (prescription benefits) or stay with the City's prescription plan.

A1.4 Suggested Health Insurance Reforms:

1. Employee contributions towards health insurance premiums should be brought into line with local and state norms. The compensation and overall benefit packages should be competitive with comparable private sector jobs. A drop in benefits might need to be cushioned with larger wage increases. If the benefit adjustments are phased-in in tandem with solid real wage increases the attrition rate and hiring potential should be largely unaffected. A typical private insurance plan would have a *monthly* employee premium of \$225 (family) and \$112 (individual), respectively. The city would save \$1.08 million annually (145 individual and 381 family contracts times \$1200/yr and \$2400/yr, respectively) assuming no off-setting wage changes.

2. Emergency room care should have a standard co-pay regardless of other related reforms. Emergency room utilization should be monitored to ensure only true emergency cases are drawing upon this expensive service.
3. The catastrophic coverage should be maintained as long as the City self-insures. It is too risky to be fully liable for the handful of cases running into the hundreds of thousands of dollars. Note that in the 2004 the savings from this stop-loss was about twice its cost although this scenario cannot be expected to persist.
4. The City should cease self-insuring. A plan similar to PEIA would benefit the City by shifting the risk to the insurance agency and likely lead to better incentive structures for prudent use of medical resources (e.g. emergency rooms). A rough idea of the savings can be determined by comparing what the City paid for health insurance relative to nationwide averages. The National Coalition on Health Care (www.nchc.org) reports that in 2004 the annual premiums for individual and family coverage were around \$4000 and \$11,000, respectively. In 2005 the city has 145 single and 381 family plans which would imply the City's cost would have been \$4.77 million if they contracted through an insurance company. The actual experience was \$5.37 million implying that the city is paying \$600,000 more by self-insuring rather than handing these duties over to an insurance company. [Note there are several caveats such as the general health of the City's workforce and using 2004 premiums that could alter this answer.] A potential downside to turning over the insurance program would be a profit margin would be added to the costs. Another consideration is that PEIA networks are almost exclusively in WV. Out-of-state retirees would need a provision extending the choice of providers and coverage designed to match in-state retiree benefits.
5. Retirees under the age of 65 should receive limited health insurance from the city. Former employees who acquire other jobs should access their new health benefits fully with City benefits deemed secondary or supplemental rather than primary.
6. The sick day leave benefit should be decoupled from the post-retirement extension of health benefits. The sick day policy exists to accommodate relatively rare by expected absences from work due to illness or other serious personal matters. Employees who maintain excellent attendance patterns should be rewarded in ways other than retirement health insurance.
7. Actuarial studies should clarify the extent of:
 - Early retirement health benefits
 - Sick day conversions to health benefits
 - Supplements to Medicare Part B for non-qualifying police and firemen.
 - Aggregate and distributional analysis of employee out-of-pocket health costs (e.g. premium share, deductible, and co-pays)

In summary, requiring employees to pay a higher premium (\$1.08 million) and contracting with an insurance company (\$0.6 million) could save the City \$1.68 million annually in health insurance costs.

A1.5 Overview of Pension Benefits

Each of the four major groups -- Police, Fire, AFSCME, "City Hall" employees -- have strong pension benefits with the Police and Fire having nearly identical plans and the AFSCME and Administrative employees receiving very similar pension plans. All plans are defined benefit (DB) pensions in that they establish a stream of retirement income based on a percentage of pre-retirement income. There is a distinct difference between the Police and Fire pensions and the AFSCME and Administration pension plans. The Police and Fire plans represent a liability to future City budgets. The AFSCME and Administration employee pensions are supported by regular contributions by the City to the Public Employee Retirement System (PERS) which is a state-wide defined benefit (DB) pension. The city bears responsibility for the solvency of the Police and Fire pensions but is absolved of any liability for the other city employees.

Tables 4 and 5 give an overview of the recent cash flows and historical contributions by the City. The combined City contributions were about \$6.3 million in 2004-5. Note also that the assets to support future payments are only \$3.7 million and \$1.06 million. The recent history shows that the City's annual contribution to pensions has more than doubled since fiscal year 1999.

Table 4: Cash Flows for Police and Fire Pension Relief, 2004-5.

	Policemen's Pension & Relief	Firemen's Pension and Relief
Employer contributions	3,126,261	3,156,529
Employee contributions	278,663	308,811
Insurance premium tax allocation	867,724	1,183,694
Total investment returns	160,068	6224
TOTAL ADDITIONS	4,432,716	4,655,258
Benefit Payments	3,049,109	4,012,551
Refunds	24,960	803
Administrative	14,250	2,045
TOTAL DEDUCTIONS	3,088,319	4,015,399
NET INCREASE	1,344,397	639,859
NET ASSETS JULY 1, 2004	2,377,570	424,983
NET ASSETS JUNE 30, 2005	3,721,967	1,064,842

Source: City of Huntington, WV Financial Statements, 6/30/05, p. 61

Table 5: History of City's Contributions to Pensions

Fiscal Year	Employer contributions to Policemen's Pension and Relief	Employer contributions to Firemen's Pension and Relief
1999	801,627	1,540,062
2000	921,959	1,752,273
2001	1,070,000	2,020,533
2002	1,700,000	2,576,668
2003	2,705,314	2,757,035
2004	2,894,686	2,950,027
2005	3,126,261	3,156,529

Source: City of Huntington, WV Financial Statements, 6/30/05, p. 51

- Actuarial studies have been conducted for the police and fire pensions. The most recently available study (2004) estimated an actuarial deficit of \$53 million for the police and \$64 million for the fire trust fund.
- The city currently operates under an "alternative funding formula" that requires payments be at least 107% of the prior year city contribution to the pensions. Most of this money is currently paid out to retirees and other (family) beneficiaries.
- The suggestion to amortize the liability over 40 years at a fixed dollar amount will not provide huge savings. While we were not privy to all the details of the recent proposal by the unions and supported by the mayor, a few things strike

us as odd. One report suggested that the City could pay roughly \$8 million towards pensions (which is not much more than we pay under the current system) rather than seeing this ramp up from \$6+ million to over \$13 million by 2022. This would supposedly save about \$83 million in future payments over the next 17 years. However starting in 2023 the extension of the liability continues to cost about \$8 million whereas the current system (albeit with crushing 7% growth rates of City contributions) has endowed the liability. The study goes on to show that this \$7 to \$8 million annual liability is rapidly dwarfed by the City budget which they assume to grow at 8.5% annually (another study for the Forward Committee assumed the recent historical rate of 3%). The empirics underlying this study appear to be flawed.

- The system's objective are two-fold: to meet the current cash-flow necessary to fund contemporaneous retiree benefits and to build-up the trust fund such that future benefits are largely if not entirely paid out of the proceeds of the trust fund. Any funding proposal must address these two goals simultaneously.

A1.6 AFSCME and Administrative Pension Benefits

- AFSCME and Administrative employees contribute 4.5% of gross pay matched by 10.5% from the City. These groups pay into the Public Employee Retirement System (PERS) which is a state-wide defined benefit (DB) pension. In addition to this 'private' pension, AFSCME and Administrative employees pay social security taxes and receive social benefits.
- The PERS defined benefit is 2% of the average of the best five years of salary multiplied by the number of years of service. Thus someone with 25 years of experience would receive an initial pension of 50% of their pre-retirement income level. Employees can retire at age 55 if they have completed 25 years of service or at age 60 with 5 or more years of service.
- Fortunately for the City the AFSCME and Administrative pensions are in the jurisdiction of the State (the PERS is 83.6% funded as of 7/1/2005 but the unfunded accrued liability is \$669 million). The discipline of paying a fixed (10.5%) contribution appears to have kept the City out of liability issues for these two groups.

A1.7 Police and Fire Pension Benefits

- The police and fire employee contribution is 7% of gross pay. This is implicitly matched (at a much higher percentage as it turns out) by the City to provide the pension benefits (e.g. retirement, disability, and survivor).

- Current employees are vested in the plan which provides a minimum of a 60% replacement rate based on the highest gross income years which are normally the final three years of employment.
- Police and Fireman can retire with ‘full benefits’ as early as age 50 (assuming 20 years of service). There are additional benefits to working beyond 20 years and age 50 if service began in their 30’s rather than the 20’s although the latter appears to be the norm. A police officer or fireman with 25 years of experience would earn 70% of their gross pay. As they no longer contribute 7% to pension and their taxes would tend to be lower there is not much incentive to continue to work when the officer is entitled to a net pay that may exceed 80% of their work net pay.
- By way of comparison, social security is funded by a 6.2% employee contribution and employer match. It replaces on average about 40% of pre-retirement income at normal retirement age which will be 67 years old in the near future (in 2007 it will be 66 years old and then raised such that for those born after 1960 it will be 67 years old). The earliest old-age benefits is age 60 (widows) or more typically age 62 although this option permanently reduces benefits by about 30% compared to normal retirement age benefits.
- Very few police and fire personnel work beyond age 50. Those that do almost all have retired by age 55 (and this is largely due to the need to get 20 years experience to become vested.). The lucrative benefits serve to keep the police and fire corps ‘young’; it may be that there is a lack of positions that senior personnel can physically handle once they are into their 50’s and few desk jobs they can move into. In this sense the lucrative benefits are a convenient way to avoid personnel staying beyond their prime.
- There are considerable opportunities to pad the final year’s income through voluntary overtime and credits for sick leave. Up to 140 days of unused sick leave can be cashed in at retirement. This amount adds to the final year’s gross salary which can distort it by \$10,000’s.

These post-retirement benefits can extend up to ten years and in practice often translate into several years of coverage. Police are granted fourteen (14) legal holidays including the officer’s birthday, ten (10) personal vacation days after one year of employment, and five additional days at each five year anniversary up to a maximum of 25 annual vacation days. These days are not necessarily meant to accrue over several years. The wage agreement states:

“All due vacation or holidays not granted by the Chief of Police in a calendar year shall be compensated to the Officer at his/her regular pay rate or accumulated time not to exceed eighty (80) hours by January 31st of the following year. The intent of the above paragraph is to assist the Administration of the Police Department in clearing the holiday/leave accounts and starting the new calendar year with accurate records. It shall be the City’s responsibility to ensure the Officer an opportunity to exhaust his/her vacation/leave time within the calendar year and maintaining the appropriate staffing of the shift or unit during his/her time off” (p. 17)

Police officers are entitled to up to 24 sick days with the first day on five separate occasions being paid leave. The balance of days must be made up within 60 days of returning from illness or the Officer sacrifices their pay for those missed sick days. The officer may convert up to 140 accrued sick leaves as vacation immediately prior to retirement.

Firefighters have similar vacation and sick day policies. There are thirteen (13) national holidays (one less than the police -- no day off for birthdays) and annual personal vacation leave according to the schedule below. It is left up to the Fire Chief’s discretion as to whether accrued vacation time will be paid out or allowed to roll over into the next year.

Table 6: Fireman’s Personal Annual Vacation Allowance.

Years of Service	Vacation Time
1	15 days (5 shifts)
7	24 days (8 shifts)
14	33 days (11 shifts)
21	36 days (12 shifts)
23	39 days (13 shifts)
26	42 days (14 shifts)

Source: IAFF Local Wage & Benefit Agreement 2004-7, p. 5

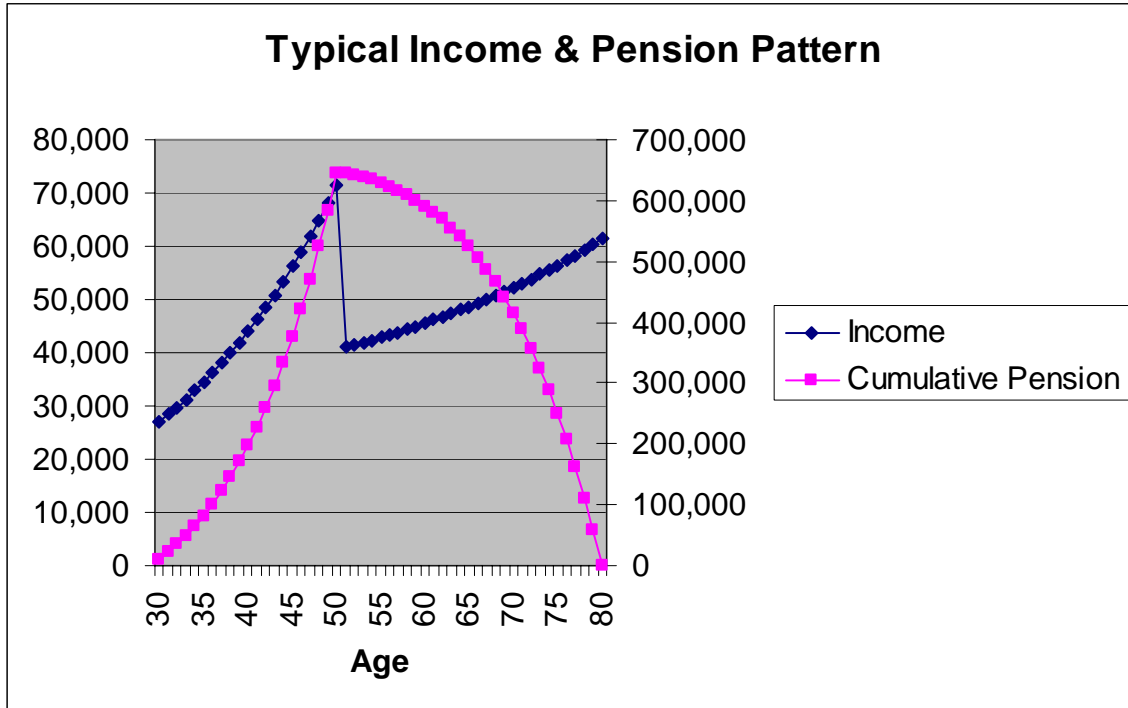
A1.8 What Does the Police and Fire Pension Cost the City?

The City’s defined benefit (DB) plan is quite lucrative. To illustrate just how rich it is, a simple model was constructed of the time path of a new police or fireman’s compensation, his/her pension contributions, and the implicit City pension contributions to satisfy the pension promises. The parameters of the model are as follows:

Table 7: Simulation Model Parameters.

Employee contribution	7%
City contribution	32%
Age at initial employment	30
Retirement Age	50
Return on investment	6%
Life Expectancy @ 50	30
Starting Salary	\$27,000
Annual nominal raise	5%
Initial pension = avg best 3 years	
COLA on \$15K of pension	3%

These parameters are reasonable as they match the statutory rate or historical averages that were also used in the actuarial reports. The story is chosen to be a relatively conservative picture of what type of commitment the City makes with its DB plan. The employee begins employment at age 30 and works for 20 years retiring at age 50. They contribute 7% of gross salary and the city, as it turns out, will need to contribute 32% of their gross salary to a trust fund earning 6% annual return. Upon retirement the city has fully endowed the pension which continues to earn a 6% return. The 32% amount was found by a guess-and-check approach which built up a large enough nest egg to last the retiree to age 80 at which point the fund is fully exhausted. The following chart presents the time paths of the employee’s cash flow and trust fund.



The employee's income rises from \$27,000 at age 30 (the left axis) to \$71,639 at age 50. It then falls to 60% of the average of the last three years income which is \$40,969. With 15,000 of this adjusted by 3% annual inflation, his pension grows in nominal terms to \$61,318 at age 80 (The current life expectancy for men reaching age 50 is another 28 years according to the SSA life tables). The trust fund begins at zero at age 30, builds up to \$646,122 (the right axis) at age 50, and then is slowly depleted to zero by age 80 (the assumed age of death).

It is easy to squabble with the details of this simple yet fundamentally sound model. It leaves out some relevant details such as disability and survivor benefits (which are about 60% of the full pension benefit). However the inclusion of these practical details would clutter the story without changing its central message – police and fire pensions are quite generous relative to the plans offered in the private sector and to other municipal employees. One important note is that the 32% contribution is not solely from the City but also is supported by the state via

insurance premium tax allocations. Nevertheless a 32% outside match to a 7% employee contribution is unheard of in defined contribution (DC) plans where this amount is explicitly invested on behalf of the employee. A DB plan does not have to follow any strict annual contribution plan but ultimately it must face an equivalent liability. We believe the potency of this benefit is bore out by the fact that the City has not been able to accumulate anything more than a miniscule trust fund. Essentially the answer to the question, “Where has all the money paid into the system by employees gone to?” is that it has been diverted to contemporaneous benefit payouts rather than invested for the future liabilities. That is, the City’s police and fire pensions are a de facto pay-as-you-go system.

As mentioned above, this estimate is designed to be on the conservative side. In practice most police and fireman begin employment in their twenties resulting in perhaps 25 years of service which would boost the initial percentage of pre-retirement income from 60% to 70%. Furthermore there is some antidotal evidence that the three-year average is bolstered by cashing in vacation and sick leave and perhaps volunteering for more over time.

A defined contribution (DC) plan would have several advantages over the current DB plan. These advantages are described in the next section. One advantage is the opportunity for the employee to seek a higher return by investing their pension account as they saw fit. This may lead to a higher return if the portfolio shifts towards stocks and other historically high-return assets albeit with an accompanying higher risk. The same model used to evaluate the implicit City contribution to the DB plan can be altered to evaluate a DC plan. If the city doubles the contribution of the employee such that the employee pays 7% of gross pay and the city is

paying 14% of their gross pay (for a total of 21%) and the return is 9% on the accumulating assets, then an identical pension can be achieved in retirement (e.g. 60% of pre-retirement income with \$15,000 inflation protected). This shift to a DC plan would more than **halve** the City's Police and Fire Pension costs (e.g. an explicit 14% rather than an implicit 32% contribution). This cost saving would amount to about \$3 million annually. The 14% 'double matching' rate is roughly equivalent to a 7% 'private' pension contribution in tandem with a 7% 'public' pension contribution as the City does not current pay the employer portion of social security taxes.

A1.9 Pension Recommendations:

The City has shown no ability to track police and fire pension contributions and match them in any but a trivial way. The conversion to a *defined contribution* plan would accomplish the following:

1. Make plain the large contributions necessary to fund very early retirements (age 50) with net payments of 67% to upwards of 80% of pre-retirement earnings.
2. Move the system from a de-facto pay-as-you-go system to a trust fund based system. The returns of stocks and other investment instruments are not put to use in the current system.
3. Avoid unusual overtime and sick leave distortions in the calculation of benefits.
4. Encourage our capable police and fire personnel to work into their 50's and retire based on their ability to further contribute to the city's welfare rather than bowing to irresistible financial incentives to prematurely fully retire or begin a second career.
5. Avoid difficult situations such as job changes prior to the 20 year vesting date, firing or layoffs. A DC plan could fully be vested from day one allowing these departures to be expeditiously handled with respect to their accrued pension benefits.

In summary the pension reforms the City should give serious consideration to are as follows:

1. Convert to a Defined Contribution plan for the reasons outlined above. A 14% City contribution would reduce pension liabilities by about \$3 million annually.
2. Curtail benefits to early retirees. Retirement age should be moved from 50 to 55. This would match the age WV State Police become eligible for pensions. A hybrid approach of semi-retirement at age 50 with part-time employment for police and fireman up to age 55 or 60 could be a scenario where everyone wins. The City keeps highly qualified police and fireman and these employees maintain income and benefit flows.
3. Consider moving police and fire into the social security system. This would qualify them for pension benefits and full Medicare benefits.
4. For those employees that remain under a DB plan, the City should frown upon padding of three-year averages with OT, vacation days, and sick days. Extend averaging period to 5 or more years, possibly with inflation adjustments.
5. For the most part these reforms will have little or no effect in the short to medium run as almost certainly current employees would be grandfathered under the status quo programs. Given that that is the case, the imposing liabilities will need to met in the short term (next few years if not this year) by increased revenue sources (e.g. taxes).

STUDY #3

A review of the revenues and expenses of the city of Huntington with an emphasis on the internal controls.

Internal controls have been reviewed by the Auditors and their findings have been forwarded to the city in a Management Letter dated February 6, 2006. The city has started to address these issues and the recovery of payments from retirees has been moved from the payroll office to the finance office effective July 1, 2006. There does not appear to be any other improvements in the city's internal control structure not addressed by the management letter.

Based on our review the revenues are not adequate to cover the expenses over the long term for the City. Revenues must be raised and expenses lowered or controlled.

The items which were discussed to raise revenues include the following:

Improve the collection of the Business and Occupation tax. There are two areas of unreported B&O revenues and one area of possible underreporting of B&O revenues.

The first area of unreported revenues is rental property. All rental property owners are required to file a B&O return and pay an appropriate fee. Estimates indicate there are 4,000 listed non-owner residential properties in the city, and up to 75% of the properties may not be paying their B&O tax. The city needs to match up the city B&O list with the county records for non-owner residential property.

The second area of unreported revenues is small businesses located through out the city not paying their B&O taxes. The only way to address this issue is to start on one end of the city and going door to door asking to see their B&O license.

A possible underreporting may occur if businesses currently paying the B&O tax don't report their real revenues. It does not appear that the city audits the reported income. One possible way to address this issue is to compare the B&O returns to the state income tax returns on an annual basis.

Each of these suggestions would require additional manpower. One possible source of this manpower could be Marshall interns. During the interviews it was also suggested that the necessary manpower may already be available and that the city may reassign present employees to the above tasks.

The city appears to be looking at updating the accounting system as noted in the Herald-Dispatch article dated 06-17-2006. Upgrading the reporting system is necessary to get the information to city and council officials in time to make informed decisions. Several benefits would accrue to all city stakeholders:

1. The city could improve the collection of currently assessed fees. The city has hired an outside entity to address this area but it is unclear what the return is for this investment. It has been suggested that current city hall staff may be able to help in this function. If the system is upgraded city officials should have the information necessary to help locate nonpaying individuals in a more timely fashion. The current collection rate has been estimated at 93% for the municipal fee and 82% for the refuse fee, these rates include vacant properties. Using the city's revenue reported in the fiscal year 2004-05 budget the improvement in collections could result in additional revenue of up to \$800,000.

	<u>2004-5 Budget</u>
Municipal Service Fee	5,100,000
Estimated Uncollectible rate	<u>7%</u>
Estimated Uncollectible amount	<u>357,000</u>
Refuse Fees	2,500,000
Estimated Uncollectible rate	<u>18%</u>
Estimated Uncollectible amount	<u>450,000</u>
Total Uncollectible amount	<u><u>\$ 807,000</u></u>

2. The city could improve allocation of expenses. For example, prior to this year the city allocated workmen's compensation expense evenly based on a percentage of salaries. Most workmen's compensation expenses were believed to be in the sanitation department. Thus, the cost of service upon which the refuse fee was based may have been understated. Therefore, the refuse fee may have been lower than allowed. It also was brought to our attention that employees are frequently reassigned to the sanitation and trash departments from other areas such as the streets and public works without reallocating their wages. This fact results in understatement of refuse collection expenses. A new system should allow city officials to properly allocate wage costs to activities and improve timekeeping capabilities.
3. It is the City Council's charge to oversee the budget of the city. Any budget revisions within a division may be approved by the Finance Director of the city. Any budget reallocations between divisions must be approved by the City Council, who has the final authority for the budget. With the current system City Council often receives the request for reallocation between divisions after the reallocation has already been made by city officials. A new system should enable the city officials to submit budgeted reallocations between divisions before the reallocations are actually made.
4. Upgrading the accounting system would enable financial and budgetary reporting to be more transparent to all concerned stakeholders including the taxpayers. A current example is the City user fee. Presently the revenues in the audited financial statements do not include the user fees. The user fees are shown as reimbursement for general services and are allocated arbitrarily as needed. Due to the stated purpose of the User Fee, the annual financial statements should reflect the allocation and/or uses to which the user fee was applied.

Changing the reporting of services for enterprise type funds (i.e. garbage collection, etc) may provide the City with more useful information upon which decisions will be made. The

present reporting (including such funds in the general fund) does not account for all expenses such as depreciation on the garbage trucks etc. This practice results in consistently understating expenses for such funds. If expenses are understated decision makers cannot determine appropriate fees or make informed decisions. Thus the preferred method of reporting recommended by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA) is to account for these activities through an enterprise fund.

Therefore, the city may be able to generate additional revenue by increasing the refuse fee by accounting for the refuse collection on an enterprise fund basis. The state allows for the city to charge residents for the cost of the service plus 15%. Reviewing the city's 2004-05 budget shows the possible increase in the refuse fee could have generated up to \$600,000 in revenues during the 2004-05 fiscal year. The city has raised the refuse fee since then and the amount of additional revenue may not be substantial at this point. However, by treating it as an enterprise fund it would be clear if the refuse fee is covering the cost of garbage and trash collection. The EPA recommends that municipal solid waste management systems should use full cost accounting as well as an enterprise system.

Additionally, if the city had been using full cost accounting as recommended above, the total annual expense would have included an allocated charge (over the estimated life of the landfill) for the *estimated future closure costs* of the Dietz Hollow landfill. The closure will cost approximately \$10,000,000 to close over 5 years. An annual amount would be deposited to ensure funds were available when expenditures to close the landfill were actually required.

There is approximately \$800,000 in a state controlled fund for this purpose. However, the city was using a cash basis system and was not able to collect enough fees to fund the closure.

	<u>2004-5 Budget</u>
Refuse Fees	2,500,000
Sanitation - Expenses (530)	1,975,676
Trash - Expenses (570)	<u>725,344</u>
Total Expenses	2,701,020
<hr/>	
Loss from Sanitation and Trash collection	<u>(201,020)</u>
<hr/>	
Total expense and 15% charge	<u>\$ 3,106,173</u>
<hr/>	
Additional revenues allowable	<u>\$ 606,173</u>

It is recommended that the guidelines established in EPA 530-R-95-041 (September 1997) be followed. Not only does the publication offer guidance with respect to full cost accounting for solid waste disposal but also offers guidance with respect to the option of privatizing. The full publication is available on the EPA's web site along with additional literature on solid waste management. The information is located at:

<http://www.epa.gov/epaoswer/non-hw/muncpl/fullcost/docs.htm>

It appears that the only other new revenue that the city could create is through a coalition of cities to work out a piggyback sales or income tax system. If the city were to pursue this option it would need state approval. The state is very restrictive on how the cities can raise revenue. This appears to be one possible venue to pursue.

Possible ways of reducing expenses are noted below:

Place better controls over the garage inventory. Inventory is a minimal expense for the city and theft of items is not a material item. However, the city may be able to reduce any losses by increasing the controls over the parts and gasoline at the city garage. One possible solution discussed was the use of a subcontract with an auto parts company to supply all of the maintenance items required on a short notice. It is unclear of the possible cost savings of this approach since the city will lose any discounts for bulk purchasing.

The city may be able to cede control of some of the road maintenance to the state. This is another item that may be reviewed.

The city employee's medical coverage is through a self insured plan administered by Blue Cross. This is a major expense for the city and it is unclear if anyone is properly managing the costs of the program, by reviewing for double billing and making sure that the costs were appropriate, etc. This issue needs to be reviewed. Based on the 2004-05 budget the insurance cost amounted to 11% of the city's total budget.

The major expense item for the city is the defined benefit pension of the fire and police departments. This item must be reduced and controlled for the city to continue to function. This item continues to be funded according to state statutes, which are less than the annual liability. The actual liability for the 2004-05 year as reported in the audited financial statements shows that the cost is 23% of the city's total budget and growing.

A separate schedule is attached showing the revenue by type and the major sources of expenses. The allocation of expenses includes a flat rate for the workers compensation. This item will need to be reallocated. It appears that there is an under allocation of this expense to the sanitation department. This information is being reported for the current fiscal year.

The data processing and accounting system used by the city needs to be reviewed. It currently relies on one part time employee for all maintenance. We requested information on the accounting systems used by the peer cities in hopes of finding a common system for cities of comparable size. Unfortunately, no two of the peer cities used the same accounting system. Therefore, we plan on conducting a larger survey of similar sized city governments on the adequacy of their accounting software.

STUDY #4

General Consulting

The city of Huntington, WV was incorporated in 1871. In the 1950's it has grew to a peak population of almost 87,000. The city has been losing population since then and now has an estimated population of 49,891. Its geographic size is 15.9 square miles and has not changed much in the last 50 years.

The city is now faced with the problem of rising costs and a shrinking population. Contracts signed with the city employees (AFSCME), police (FOP), and firefighters (IAFF) unions provide for automatic pay increases and for generous health and pension benefits. These automatic increases add almost \$2 million dollars to the budget each year. Pension benefits alone now represent approximately 20% of the total budget and will represent 40% of the total budget with in 10 years at the current rate of increase. The contract with the firefighters expires on December 31, 2007. The contracts with AFCSME and the police expire on June 30, 2008. The renewal of these contracts is likely to be very contentious.

The city provides fire, police, refuse collection, sewer/sanitation, and public works services. The fire department has been a paid service since 1896. The city employs 380 people in all departments. The three major unions represent 310 or 82% of all employees. In 1975, the police force was reduced by 27%.

Substantial reductions in force were made to all areas in the early 1990's. As a result of these cuts, the city has a fairly lean staffing pattern. In some areas, it may be too lean. For example,

two (2) employees are responsible for all data processing for the city. As a result, the city cannot adequately follow-up on the non-payment of taxes and fees. There is only one (1) employee in the city planning department which is responsible for all building permits.

The National Fire Protection Agency standard NFPA 1710 became effective August 2, 2001. This standard was the culmination of 10-years of scientific research, expert testimony, debate, and finally consensus. The standard sets minimum criteria for the staffing of fire fighter crews, and how they will respond and operate at emergency scenes. The standard requires a minimum of four personnel on each apparatus. Huntington currently has three people to each major apparatus. Any further cuts in the fire department may jeopardize the ISO Class 2 insurance rating. A downgrade to Class 3 would result in increases in insurance rates for businesses. In spite of these earlier cuts and the current budget uncertainty, morale appears to be good and turnover among employees is low.

The city is faced with several strategy choices:

- 1. Increase revenues through increased taxes and fees.** This option faces substantial constraints from state law. Any major new sources of revenue, e.g. a city income tax, will require changes in state law. An increase in the user fee and/or the municipal fee is possible without state approval but is not likely to gain council or citizen approval without major concessions in the next union contracts.
- 2. Decrease or eliminate services through layoffs and/or privatization.** Candidates for privatization are trash collection, street paving, city vehicle maintenance, and the parking garage. The city started closing its landfill in 1996 and is under a Federal mandate to complete the job within the next year. Trash is now being hauled to Kentucky. The city uses a "task system" for collecting trash. Under this system, workers are allowed to go home after they have finished their routes even if they have not worked a full eight hour day. This has caused some council members and citizens to question whether more could be achieved by making them work eight hours.

In a study published by Anna Berger and Bill Tomes (2002), they reported on a five year study of fourteen cities in South Carolina. About one third of the cities participating in the project used a “task system”. “During the five-year period in which data were collected, no significant differences were found between the productivity (defined as tons collected per FTE) of employees under the task system compared to the productivity of employees working a traditional eight day”. The one variable that consistently had an effect on productivity and “cost per ton” was the type of equipment used to collect residential trash.

The city is spending about \$500,000 per year on street paving. It is not clear how much of this could be saved through outsourcing.

Overall, this does not seem to be a long-term solution to the cities problems. The city will still be faced with the growing problem of crumbling bridges and an aging sewer system that will also require attention in the near future.

3. **Collect all taxes and fees owed to the city.** Currently, the city collects 93% of all municipal service fees, 82% of garbage fees, and an unknown percentage of Business and Occupation taxes.

The city has only recently begun to threaten businesses with foreclosure and homeowners with law suits for the non-payment of these fees. The recent increase in enforcement appears to be helping but may require more staff. If all fees currently owed to the city could be collected, it might generate a \$6 million one time windfall. While this would not solve the cities long term problem, it would go far to reassuring the average citizen that everyone was paying their fair share. This in turn might make it easier to raise fees and taxes in the future.

A few additional suggestions to cut costs and increase revenues were suggested during the interviews.

1. **Establish a city impound lot for all towed cars.** Vehicle towing would still be done by private companies but income from fees and fines might raise \$350,000 per year based on other cities’ experience. Capital costs for lot paving, lighting, and fencing should be relatively low if the city has the vacant land available.
2. **Change all traffic lights to LED lights.** The city has 110 signalized intersections. An earlier traffic study suggested that changing all signals from incandescent bulbs to LED’s could save \$12,000 per year in energy savings. Capital costs are unknown at this time.
3. **Turn traffic and law enforcement of I-64 from exit 5 to exit 15 over to the State Police.** Savings from this are unknown.