UNR Economics Working Paper Series
Working Paper No. 06-012

The Impact of Institutional Characteristics on the Use and Effectiveness of Rainy Day Funds: A Pilot Study of Municipal Governments in West Virginia

Michael J. Daugherty, Odd J. Stalebrink and Mehmet S. Tosun

Department of Economics /0030
University of Nevada, Reno
Reno, NV 89557-0207
(775) 784-6850 | Fax (775) 784-4728
email: tosun@unr.edu

December, 2006

Abstract

This research focuses on enhancing the understanding of the use of "rainy day funds" to deal with municipal fiscal shortfalls. It is a pilot study, examining the largest 15 cities in West Virginia. Analysis of data from state reports and interviews with finance directors are used to determine whether, how, and to the degree the cities studied use various reserve fund mechanisms. While almost every city was found to have fiscal reserves, there was great variation in the methods used and amounts in how it was done – some cities followed predictable patterns found elsewhere while others did not.

JEL Classification: H72, H77, H83

Keywords: Rainy day funds, municipal governments, West Virginia

The Impact of Institutional Characteristics on the Use and Effectiveness of Rainy Day Funds: A Pilot Study of Municipal Governments in West Virginia

Michael John Dougherty, West Virginia University, Extension Service
Odd J. Stalebrink, West Virginia University, Division of Public Administration
Mehmet Serkan Tosun, University of Nevada, Reno, Department of Economics

ABSTRACT

This research focuses on enhancing the understanding of the use of "rainy day funds" to deal with municipal fiscal shortfalls. It is a pilot study, examining the largest 15 cities in West Virginia. Analysis of data from state reports and interviews with finance directors are used to determine whether, how, and to the degree the cities studied use various reserve fund mechanisms. While almost every city was found to have fiscal reserves, there was great variation in the methods used and amounts in how it was done – some cities followed predictable patterns found elsewhere while others did not.

INTRODUCTION

Fiscal stress is a recurring phenomenon in municipal governments. Due to balanced budget requirements, cities generally respond to this stress through a combination of spending cuts, one-time financing, debt issuance, fees and excise tax increases, broad-based tax increases, and use of "rainy day funds." This research focuses on enhancing the understanding of the use of rainy day funds to deal with municipal fiscal shortfalls. The objective of this research is to determine to what degree rainy day fund policies and institutional characteristics related to the effectiveness of these policies make a difference in the financial operations at a local level. This will provide insight into the budget processes and tax and revenue policy.

However, it should be noted that this is a pilot study, examining a small group of cities in West Virginia. It examines the monies set aside for contingencies and the procedures for allocating such funds used by these cities. Information learned from this preliminary report will be used to fashion a larger study to examine a larger and more diverse group of cities and their rainy day fund policies.

This is a wide-open area for exploration. There is limited existing research on the use of rainy day funds in local governments. There have only been a handful of notable articles and papers examining the subject.[1] Hence, the focus on localities in this paper is an attempt to add to the scant literature on rainy day funds at the local level. Meanwhile, there is a wide-ranging literature on the outcome of state rainy day fund policies.[2] However, even in those state level studies, institutional performance of these policies received scant attention.

To gain initial insights into the operation of rainy day funds at the municipal level, this study used a two-step approach. Budget data and descriptive variables for the 15 largest cities in West Virginia were examined for the eight-year period from FY1999 to FY2006. This was done to determine what affect economic, demographic, and environmental situations had on the reported use of rainy day funds by city governments. To augment this information, semi-structured interviews were conducted with municipal finance directors. They were asked questions regarding the use and administration of rainy day funds in their cities.

This paper opens with an assessment of the fiscal environment facing West Virginia municipalities. It then briefly reviews the relevant existing literature regarding rainy day fund utilization. Next, the paper discusses the two-step research methodology. After that, the paper reports on the data analysis and the responses from the clarifying interviews. The paper then concludes with a discussion of the overall

[1] Michael J. Wolkoff (1987) "An Evaluation of Municipal Rainy Day Funds" *Public Budgeting & Finance* 7(2): 52–63; Kenneth A. Kriz (2002) "The Optimal Level of Local Government Fund Balances: A Simulation Approach." National Tax Association Proceedings, 95th Annual Conference on Taxation; Justin Marlowe (2005) "Fiscal Slack and Counter-Cyclical Expenditure Stabilization: A First Look at the Local Level," *Public Budgeting & Finance*, 25(3): 48-72; Rebecca Hendrick (2006) "The Role of Slack in Local Government Finances," *Public Budgeting & Finance*, 26(1): 14-46.

[2] Richard L. Pollock and Jack P. Suyderhound (1986) "The Role of Rainy Day Funds in Establishing Fiscal Stability," *National Tax Journal* 39(4): 485-497; Russell S. Sobel and Randall G. Holcombe (1996) "The Impact of State Rainy Day Funds in Easing State Fiscal Crises During the 1990-1991 Recession," *Public Budgeting & Finance*, 16(3): 28-48; James W. Douglas and Ronald Keith Gaddie (2002) "State Rainy Day Funds and Fiscal Crises: Rainy Day Funds and the 1990-1991 Recession Revisited," *Public Budgeting & Finance*, 22(1): 19-30; Yilin Hou (2003) "What Stabilizes State General Fund Expenditures in Downturn Years – Budget Generalization Fund or General Fund Unreserved Undesignated Balance," *Public Budgeting & Finance*, 23(3): 64-91; Yilin Hou (2004) "Budget Stabilization Fund: Structural Features of the Enabling Legislation and Balance Levels," *Public Budgeting & Finance*, 24(3): 38-64.

findings with respect to municipal utilization of rainy day funds, their meanings, and the next steps in this research program.

MOUNTAIN STATE SETTING

West Virginia is ideal for this exploratory research for several reasons. First and foremost, the data are available. Cities are required to submit their budgets to the state for approval more than three months prior to the beginning of the fiscal year. The General Fund budgets include a designated line items for Contingencies (Chart of Accounts Number 699) as well as places where such funds could be placed. Also, the state created what would appear to be a natural rainy day fund mechanism for cities in the Municipal Stabilization Fund Act in 2001 (State Code §8-37, see the Appendix I for full text).

In addition, the state had two Class I cities (population of 50,000 or more in the most recent census) and 13 Class II cities (population of 10,000 but less than 50,000 in the most recent census) at the beginning of the time period covered in the study. No city had a population of more than 60,000 (see Table 1). At the start of the study, the estimated population for the cities examined ranged between 9,900 and 55,400; at the end of the study, the estimated population for the cities ranged between 9,500 and 51,200. This provided cities that were large enough to require a certain level administrative expertise and that common functional activities (i.e., mayor, council, police, fire, streets, etc.) but at the same time that would be expected to be fairly straightforward in their operations.[3]

[INSERT TABLE 1 ABOUT HERE]

[3] Michael John Dougherty, Kenneth A. Klase, and Soo Geun Song (1999) The Needs and Financial Problems of Small and Rural Localities: The Case of West Virginia. *Public Budgeting & Finance*, 19(3): 16-30.

More germane to a discussion regarding rainy day funds though, is the long-held notion that West Virginia's municipalities are under constant financial distress due to demographic changes, state fiscal problems, and structural problems in municipal financing.[4] The analysis below demonstrates the difficulty of revenue generation for the general fund, experienced in recent years in West Virginia municipalities. In some ways, the revenue situation also seems to be related to the municipality size. As such, the role of population in municipal revenues is also discussed in this section.

General Fund Revenues Patterns

Over the eight-year period that this study covers, general fund revenues for the 15 cities studies increased in nominal terms by at least 10 percent (Table 2). The combined revenue increase was 31.8 percent – or just over 5 percent per year. Eight cities had increases that exceeded the average, including three that saw a 50 percent jump in their general funds. Adjusting this for inflation, the story is a bit different. Four cities actually saw revenue decreases in real terms over the period (Table 3). Overall, the increase was just over 12 percent for all cities – or roughly 2 percent per year. Eight cities had increases that exceeded the average, but only two experienced a 25 percent or more revenue increase.

Historically, the three largest revenue sources for West Virginia municipalities are the business and occupation (B&O) tax (a gross receipts tax imposed on businesses located within city limits), the property tax, and fees.[5] All had patterns that roughly mirrored the overall revenue picture – though not all cities experienced increases in each revenue source.

[4] James H. Thompson and Woo S. Kee (1967) *The Municipal Revenue Problem in West Virginia*, Bureau of Business Research, West Virginia University, West Virginia University Press, Morgantown, W.Va.; William S. Reece (1994) "Local Government Finance and Its Implications for Economic Development," in *West Virginia in the 1990s*, Robert Jay Dilger and Thomas Stuart Witt, eds. West Virginia University Press, Morgantown, W.Va.; Kenneth A. Klase (1994) "Meeting Fiscal Challenges in the 1990s: Local Government Fiscal Trends in West Virginia," *West Virginia Public Affairs Reporter*, 11(2); L. Christopher Plein and David G. Williams. (1996). "Local Government Finance in West Virginia," *West Virginia Public Affairs Reporter*, 13 (3); Mehmet S. Tosun (2003) *Municipal Financing in West Virginia: Forging a Course for Fiscal Stability.* West Virginia Public Finance Program Policy Report (August).

[5] Reece (1994).

The receipts for the business and occupational tax increased in nominal terms in all but one of the cities studied. The total increase for all the cities studied over the time period was 28.3 percent – or just over 4½ percent per year (Table 2). Only six cities had increases greater than the average, but three of those cities had gains of at least 70 percent, which somewhat skews the average increase. Adjusting for inflation, the increase is a modest 9.2 percent – less than 2 percent per year (Table 3). A total of 12 cities had increases in real terms, but only six of them experienced above average tax gains. Again, the three large increases skewed the overall results. One city almost saw its B&O taxes double in real terms while two others saw increases close to or exceeding 50 percent.

Meanwhile property tax revenue exhibited more variation. In nominal terms, nine cities saw increased property tax revenue (meaning that even before adjusting for inflation, six cities had less property tax revenues come in for FY2006 than for FY1999). Overall, property tax revenue was down by about 2 percent during the period studied (Table 2). This should not be surprising as West Virginia has had a property tax rate limitation since 1932 and property tax increase limits since the 1980s. But there was great variability as nine cities had their revenues from property taxes increase by at least 25 percent, including one city that experienced over an 80 percent jump in such monies and two others that saw increases close to or exceeding 50 percent. In real terms, only seven cities had inflation adjusted increases in property taxes collected while combined revenues fell by almost 17 percent (Table 3). This occurred despite one city seeing over a 50 percent in its property tax revenues in real terms over the period.

The use of fees varied among the cities studied. One city did not report any revenue in the category while another city indicated it collected more in fees than in either B&O taxes or property taxes in FY2006. Also in FY2006, four other cites stated they received more in fees than in property taxes but no other cities stated they collected more in fees than in B&O taxes. Fee revenues increase in all but one of the cities using that revenue source (13) during the study period (Table 2). The overall increase was 29.4

percent – almost 5 percent per year and greater than the overall increase for either B&O taxes or property taxes (Table 2). However, only five cities had increases that exceeded the average, including two that saw increases of over 70 percent in their fees revenues. Thus, the increase appears to be driven by just a few cities raising fee rates and utilization. This conclusion is strengthened when fees revenues are adjusted for inflation as less than half the cities (6 of 14) reported increases in real terms but the overall combined increase in real revenue was over 10 percent (Table 3).

[INSERT TABLE 2 ABOUT HERE]

[INSERT TABLE 3 ABOUT HERE]

The Role of Population in Municipal Revenues

Population is another crucial important factor in municipal financing. It provides the tax base and justifies the provision of public services. Thus, strong relationship between population and municipal revenue would be expected. A historical study highlighted this in the context of West Virginia local governments and showed that population loss affects county and school finances.[6] However, he has not confirmed this for a small sample of cities included in his study.

West Virginia is known to have a low population density due to its rural landscape. It has had very low population growth rates in recent decades with periods of actual population losses. Only two of the state's 15 largest cities had population increases between 1990 and 2000; the other 13 lost anywhere from 1 to 3,866 people. Greater competitive pressures faced by larger municipalities of the state can partially explain this situation. This group of larger cities also experienced population loss at a rate higher than all municipalities in the state. Overall, roughly three-quarters of all cities and towns had fewer residents in 2000 than they did one decade before. The population loss trend appears to have continued throughout the

[6] John L. Mikesell (1972) *The Impact of Population Loss on Local Government Finances in West Virginia*, Regional Research Institute, West Virginia University, Morgantown, W.Va.

years covered by the study, given that the census estimates show only two of the largest cities in the state gaining population.

Furthermore, the *2002 Census of Governments* shows that the two municipalities with the largest populations (population 50,000 to 74,999) had greater total revenue per capita, tax revenue per capita, and intergovernmental revenue per capita than municipalities in all other population classes (Table 4). Revenue from the federal government was particularly high for these municipalities compared to municipalities in other population classes. Meanwhile, the next three largest municipalities (population 25,000 to 49,999) had the lowest total revenue and general revenue per capita than any other group of municipalities. This marked a drastic decline from five years earlier when that group of cities had the highest per capita revenues (Table 5). The decline appears to be a result of a large reduction in the amount of charges and other miscellaneous revenues received.

[INSERT TABLE 4 ABOUT HERE]

Overall, the two largest municipalities reported a 17.2 percent increase in revenue and the third largest grouping of cities (nine cities with a population 10,000 to 24,999) reported a 16.3 percent increase in revenue. However, adjusting for inflation, the increases become 4.7 percent and 3.8 percent respectively. All cities and towns in the state showed a 6.1 percent revenue increase, but this was actually a 5.3 percent decrease when inflation was considered. This appears to be a product of the large revenue decline reported by the three municipalities in the second-largest population group (a 55.7 percent drop in nominal terms and a 60.5 percent drop in real terms).

[INSERT TABLE 5 ABOUT HERE]

Finally, a recent study compared West Virginia municipal finances with the municipalities of the Appalachian states by looking at the revenue structures of those municipalities that are grouped into eight

population-size classes using the 1997 Census of Government data.[7] It found that West Virginia is the only state that lacks municipalities with population greater than or equal to 75,000. West Virginia municipalities with larger populations seem to have had a greater revenue-generating capability compared to municipalities with smaller population sizes.

At the same time, West Virginia municipalities are below the Appalachian states' average in both total and general revenue per capita in all population-size classes except the "25,000 to 49,999" class – and the marked drop reported in revenue for that class of city in the 2002 Census of Government data would eliminate that positive indicator. In terms of tax revenue per capita, only the West Virginia municipalities in the "50,000 to 74,999" class rank above the average for the Appalachian states. West Virginia municipalities, as a whole, have lower revenue per capita than both the average of all municipalities in Appalachian states and the average of all municipalities in the United States.

PREVIOUS RAINY DAY FUND STUDIES

Rainy day funds play an important role in the financial operations of the states. Most importantly, rainy day funds provide a means of responding to fiscal stress without causing many of the adverse economic affects brought about by tax increases, cuts, and borrowing. These adverse affects include:

- Instability and uncertainty: These effects result from tax increases and cuts, due to the fluctuations they create in tax payer burden and receipt of services.
- Increase borrowing costs and intergenerational equity issues: These effects arise because borrowing often pushes burdens onto future generations, and may adversely affect credit ratings.

[7] Tosun (2003).

There is a wide-ranging literature on state rainy day funds. This literature may be categorized into three research areas. The first research area include studies that have explored the extent to which governments puts away enough rainy day funds to alleviate the effect of economic downturns. These studies have repeatedly found that government rainy day funds tend to be significantly underfunded.[8]

Bond rating agencies recommends governments to have rainy day funds amounting to 15 percent of annual general expenditures. An Urban Institute Study reports that 18 percent rainy day fund needed to come through a three-year fiscal crisis similar to early 1990s. Despite this, the majority of Governments have rainy day funds that fall below 5 percent of annual general expenditures. Adding to the severity of the funding gap is the fact that most of the funds fail to reflect the volatility characteristics of the individual states expenditure and revenue structure. Many of the more "stable" states have been reported to have large size rainy day funds, while more volatile have very limited funds set aside.[9]

The second area of research has focused on the role of rainy day fund practices and polices in assuring that these funds are used in the most effective manner.[10] Research has found that the contribution of rainy day funds is being significantly compromised by number of rainy day policies set in place by state agencies. These policies include:

[8] Iris J. Lav and Alan Berube (1999) *When It Rains, It Pours.* Center on Budget and Policy Priorities, Washington, D.C. (March); Bob Zahradnik and Rose Ribeiro. (2003). *Heavy Weather: Are State Rainy Day Funds Working?* Center on Budget and Policy Priorities, Washington, D.C. (May 13). [www.cbpp.org/5-12-03sfp.htm]; E. Matthew Quigley (2003) "Preparing for the Storm: Rainy Day Funds in New England," New England Fiscal Facts, Federal Reserve Bank of Boston, (Summer, No. 31).

[9] Philip G. Joyce (2001). "What's So Magical About Five Percent? A Nationwide Look at Factors That Influence the Optimal Size of State Rainy Day Funds." *Public Budgeting & Finance* 21(2): 62-87.

[10] Jon David Vache and Brad Williams (1987) "Optimal Governmental Budgeting Contingency Reserve Funds," *Public Budgeting & Finance* 7 (1): 66-82**;** Zahradnik and Ribeiro (2003); Hou (2003); Hou (2004).

- *Fund cap policies:* Caps that limit the size of rainy day funds that may be set aside. Currently most states report maximum rainy day funds in the 2 percent to 7 percent range.[11] This includes about two-fifths of the state have caps that limit rainy day funds to exceed 5 percent or less of state spending restriction.[12]

- *Replenishment policies:* These policies require states to rebuild their rainy day funds within a specific time frame. Many of these require rebuilding even if economic conditions have not improved.[13]

- *Restrictions on use:* Many states have restrictions on how much you may use.[14] The rationale is often motivated by possible adverse affects the use may have on bond ratings.[15]

- *Deposit policies:* Often rainy day fund considerations are not part of regular appropriations. The common contribution procedure is to make a deposit based on portion of year-end surplus, long after spending or tax cut decision are made, resulting in rainy day funds being treated as "leftovers."[16]

The final area of research on rainy day funds has been centered on determining the contribution of these funds. Specifically, they have explored the extent to which rainy day funds alleviate fiscal stress, finding that fund structure impacts their utilization,[17] though the works have offered different perspectives as to whether the difference is directed by internal factors[18] or dependent upon external factors.[19]

[11] Hou (2004).

[12] Zahradnik and Ribeiro (2003).

[13] Zahradnik and Ribeiro (2003); Hou (2004).

[14] Vache and Williams (1987).

[15] Zahradnik and Ribeiro, (2003).

[16] Hou (2004).

[17] Sobel and Holcombe (1996); Douglas and Gaddie (2002); Hou (2003); Hou (2004).

A major limitation in the literature on rainy day funds is that it has almost exclusively been centered on states. As part of the literature review conducted for this paper, very few studies were found at the local level. A study from almost two decades ago examines the need for rainy day funds at the local level.[20] It reported that these might be of particular importance for localities because economic changes tend to impact localities particularly hard. At the time of the study of large cities two decades ago, only a handful had rainy day funds in place. The municipal rainy day funds that existed at that time ranged in size between 4 percent and 8 percent of the budget.

More recent work has examined reserve funds at the local level. An initial piece over a decade ago found the use of reserve funds within the main budget rather than in separate funds to be quite common.[21] More recent studies have examined how large that reserve should be and what other uses it could have. An examination of Minnesota localities found that a 30 percent cash reserve balance was necessary to provide fiscal security, rather than the 5 percent rule of thumb commonly applied in the state.[22] Similarly, another report on Minnesota localities found that fiscal slack could be used for counter-cyclical purposes, but was limited in its effectiveness by the 5 percent cap on reserve funds.[23] Most recently, a study of suburban Chicago municipalities made the connection between fiscal health and organization administration. It also offered a model on how localities operate their reserve funds:

---

[18] Sobel and Holcombe (1996).

[19] Douglas and Gaddie (2002).

[20] Wolkoff (1987).

[21] Charlie B. Tyer (1993) "Local Government Reserve Funds: Policy Alteratives and Political Strategies." *Public Budgeting & Finance*. 13(2): 75-84.

[22] Kriz (2002).

[23] Marlowe (2005).

> Consistent with organization theory, this analysis shows that slack resources are an important factor in how governments respond to their external and internal environments, and that these resources affect governments' current fiscal condition and budgetary changes. *These municipalities accumulate more reserves when faced with some risk or when they have slack resources in other areas of fiscal flexibility* (emphasis added).[24]

METHODOLOGY

Two distinctly different methodological approaches were taken for this preliminary study on the use of rainy day funds in municipalities. The first approach was quantitative, examining budgetary data for the eight-year period of FY1999 to FY2006. The second approach was qualitative, asking city finance directors about the use of rainy day funds in their communities.

This dual approach was used for several reasons. First of all, as this is exploratory research with very little in the way of previous studies, it was not clear whether and to what degree meaningful differences in the use of rainy day funds would exist. Thus, by exploring both the budget calculus and the budgetary rationale behind these funds, a more complete picture could be created to direct future research. Related to this, since there were several different ways for cities to create rainy day funds in their budgets, it was not known whether or not a there would be the expected findings if only the budgetary data were to be examined Third, studying the budgetary data provides a "check" against cases where cities reported to have a rainy day fund but in reality had not established such an account.

Even among this small group of cities there are some differences in population and professional wherewithal. Thus, two straightforward hypotheses were designed to test what difference – if any – structural elements had on the utilization of rainy day funds. Budgetary size and local population were the

[24] Hendrick (2006): 42.

independent variables in the hypotheses. The measured resources available provided a proxy for service needs. That led to a pair of hypotheses to be explored, respectively. The hypotheses put forth were:

- Hypothesis One (H1): Cities with more people would make greater use of rainy day funds.
- Hypothesis Two (H2): Cities with larger budgets would make greater use of rainy day funds.

In the quantitative part of the analysis, the proportion of the total municipal general revenue placed into a contingency "fund" is examined. This revenue analysis is based mainly on budget data from the West Virginia State Auditor's Office. This showed to what degree finance directors were preparing for the future by setting aside monies in the General Fund to prepare for a "rainy day."

The qualitative portion of the research involved semi-structured interviews with finance directors of the cities studied. Interviews were conducted with officials from all 15 cities in late 2004 through early 2005, though in two cases officials were not able to provide detailed information. The interviews opened by asking the finance directors whether their cities used a rainy day fund. From that opening, they were asked how they implemented their rainy day fund policies and where they placed those funds in the budget. They were also asked specifically regarding the use of the Contingency line item (Chart of Accounts 699), capital reserve funds, and the Municipal Stabilization Fund as rainy day fund mechanisms in their city budgets.

Data Analysis

There is considerable variation in contingencies as a share of total municipal general revenue (Table 6). The most striking feature though it the rather small amount allocated to contingencies. Only one city ever allocated the state maximum of 3 percent of its budget into the Contingencies Line Item. Only six cities ever set aside even 1 percent of their budgets in any one of the eight fiscal years studied. Only

Morgantown and Vienna began every fiscal year in the period with at least 1 percent of their budgets allocated for contingencies. This low level of contingency funds is surprising, especially given the 5 percent standard for rainy day funds at the state level.[25]

[INSERT TABLE 6 ABOUT HERE]

An interesting pattern emerged over time. More cities put money into the Contingency Line Item and cities put more money into the contingency line item during the most recent economic downturn. The mean and median for the amount of the budget placed in contingencies was highest in FY2001. Meanwhile, the number of cities placing money in contingencies peaked in FY2002. This demonstrates that city officials have at least an implicit understanding of the counter-cyclical use of slack resources at the local level.[26]

Among the 15 cities, Morgantown and Vienna consistently had some of the highest amounts placed in the Contingency Line Item. Morgantown budgeted the maximum 3 percent amount three times in eight years and had the largest amount set aside on two other occasions as well. Meanwhile, Vienna was the only city that placed at least 2 percent of its budget in contingencies in each year examined. Both cities experienced major increases in revenue during the study period. Thus, they may have had the wherewithal necessary to support the creation of a rainy day fund.

Another city that has had a high share of contingencies is Weirton. This allocation went from almost zero in the first three years of the study period to exceeding 2 percent of the budget in the last four. This is an interesting case because the city has been suffering recently from a declining steel industry. Thus, it may have had no other choice but to be prepared for the unexpected loss of revenues and did so through the

[25] Joyce (2001).

[26] See Kriz (2002) and Marlowe (2005).

expansion of its rainy day fund. Both of these cases point support the proposition put forth recently that cities set aside more in reserve when faced with risk or when they have the resources to do so.[27]

On the other hand, three of the smaller cities in the city, Moundsville, St. Albans and South Charleston did not report any money in the Contingency Line Item. These cities each lost population during the study period. They also had mixed budgetary trends with overall revenue gains in real terms but a reduction in at least one major revenue source. Interestingly among the state's two largest cities, Charleston and Huntington, there was limited use of the line item. Both reported putting money there, but the amounts budgeted were very small levels compared to other cities. In both cases, these results may indicate that these cities have developed other means than direct allocation of monies for their "rainy day funds."

These similar outcomes among small and large cities in the study throw into question the proposed hypotheses stated earlier. Correlation analysis confirms that the hypotheses as they are stated do not in fact have much explanatory power (Table 7). While the relationships are positive, the correlation of determination shows that the differences in budget size explains only 15 percent and that difference in population size explains just under 25 percent of the variation in the amount allocated to the Contingency Line Item for FY1999. The strength of the relationships falls precipitously in FY2006 as they each explain less than 3 percent of the variation in contingency utilization.

[INSERT TABLE 7 ABOUT HERE]

The analysis in this section, while preliminary, point to a number of interesting factors that may be affecting reserve fund policies in West Virginia municipalities. These include structural revenue generation problems, population changes and size, state fiscal stress and industry concentration.

[27] Hendrick (2006).

Interview Responses

The interviews conducted with city finance officials demonstrated much more variation in the use of rainy day funds in West Virginia municipal governments than anticipated (see Appendix II for a list of questions). Contrary to the data results, all the cities appeared to have some type of rainy day fund. But the similarities virtually ended there.

The most interesting finding is that few cities said they had a Municipal Stabilization Fund (MSF). This is surprising since on the surface, the MSF appears to be structured to be a municipal rainy day fund. Only one city – Clarksburg – reported having such a fund. "We have an MSF fund," said the Clarksburg Finance Director. "We put in as much as possible – up to 30 percent, which is maximum allowed by law." The official added that they have no minimum acceptable balance for the city's MSF. At the time of the interview, the fund was roughly 5 percent of the city's budget.

In some places though, other funds predominate. Though not an MSF according to the state statutes, these funds nevertheless serve the same purpose. "We also have a 15-year old fund that they are not using that could be called a 'rainy day fund,'" said one city official; "It is left over from a bond financing scheme 15 years ago (the Mortgage Bond Fund). We would only draw on it during times of high fiscal stress."

Along the same lines, another finance director said, "I have a Capital Reserve Fund. If it's an unbudgeted item – I'm in the process of doing that right now – we need a new roof on the police department and city hall. Those items are funded out of the capital reserve." It should be noted that this particular city strived to have at least $1 million in its reserve fund and because of that does not use the Contingency Line Item.

Conversely, an official in another city talked about a future MSF-type fund. “We don’t have one yet. We would like to have one. Hopefully someday we will. You want to use an actual bank account – not just a line item. Hopefully one day we can get to that point.”

Most cities used other mechanisms at their disposal for their rainy day fund. At least one finance director was not even aware of that type of fund could be established under the law. And the presence of an MSF did not necessarily mean it was used as a rainy day fund. “That money – that’s our cash flow we want to have at the end of every month,” stated the finance director. “The city always has two payrolls and bills in the following month. We always want to have a month’s worth of money on hand and that’s what we have in our Municipal Stabilization Fund.”

However, this is not to say that the cities do not prepare for the unexpected. Most of the cities that responded indicated they put money in a contingency line item. Many of these used the specific Contingency Line Item (699) specified in the state Chart of Accounts. “Formally, it’s referred to as contingency fund,” explained one finance director. “The entity appropriates money a part of the regular appropriation process. The monies are not treated any different than the regular cash mgmt activities. Hence, in practice they do not have a specific set of monies put away. Further, more because it is part of the regular budget process funds are not carried over to next fiscal year.”

One city has something similar in a different place in the budget. It puts that type of monies in the Office of the Mayor’s line item in the Chart of Accounts (409). “In the Mayor’s budget, line item called ‘Emergency Funds,’” said that finance director. “It’s not a different fund but it is money that can be used. … We don’t have anything like that (contingencies) in our budget.”

How much is put into those line items is highly variable, however. One finance director said it put 2 percent of its gross revenues into the contingencies. Another said it tries to keep cash for between 12 and

15 percent of expenditures. A third strove to maintain a balance of 30 percent of the general fund budget in the MSF. Two finance directors mentioned they followed state law when determining how much to put into their rainy day fund – but they each cited different figures. Most cities though appear to use more informal calculations to determine how much to set aside. "During the budget process we always try to put a certain amount of money in Contingency line item," explained one finance director. "Experience (is how we make the determination). We're using the (amount) that we've used over the past several years. It seems to work out."

Other city officials made similar observations. One said: "Nine times out of 10, we allocate X amount year in Contingency (Line Item) – 2 percent of gross revenues." Another noted: "We don't currently have a rainy day fund … but (council) does put some monies aside … into a Contingency Line Item."

It was best summarized by the finance director who said: "It's an expenditure line item that is available. When we do our budget process every year, we start out with a figure. It's a guess. If we need to reduce or increase, that's the line item we balance out in." And a third stated, "It's based on year-to-year situational context. No formal policy. Rather it is decided by city council in the regular budget process."

But that does not mean it is always done. One city official remarked: "It's based on circumstances. My understanding was that they only put monies away when they can afford it, but not under tight fiscal conditions. Hence, in years where they may really need the funds, it is likely that they have not put contingency funds aside."

Finance directors also reported using (or being able to use) a variety of other mechanisms to provide for "rainy day funds." In some cities, capital reserve funds were available for large, unexpected projects. In one city, such funds were "really the only rainy day fund we have," according to its finance director. In other cities, the rainy day funds are savings maintained in bank accounts and not part of the regular

budgeting process. Finally, short-term borrowing, especially from other city funds, was mentioned as an option for raising emergency contingency funds. Responses from finance directors on this subject included the following.

- "We don't use the contingency line item. It [the reserve] is not reflected there."
- "We have money in capital reserve"
- "We have a CD tucked away – not for everyday use"
- "We build slack into the general fund"
- "We have a cash reserve that sits in three different bank accounts and an investment pool"

There was not even a common theme on how decisions regarding the use of rainy day funds. In most cases, city council or its budget committee would make the decision based upon the recommendations of the finance director. In some cases though, the finance director has been empowered to make those decisions unilaterally, so long as other city officials (such as the mayor) are kept informed.

Finally, some places also reported that they replenish the funds during the year – or increase them to their legal limit (the general fund contingency line item cannot exceed 3 percent of the budget). Regardless of the placement of the "rainy day funds," several finance directors indicated that funds are replenished or increased during the year. The additional funding is based upon guidelines in each locality, which might examine tax receipts or cash collections. In other words, if there are available resources, more money is allocated for contingencies during the fiscal year. This should not be surprising, as previous research has shown that as during the budget revision process, local finance officials in West Virginia generally attempt to move unused funds into areas where they can be spent prior to the end of the fiscal year.[28]

[28] Because of this rebudgeting phenomenon, only the original budgeted amounts were examined as part of this research. See Kenneth A. Klase, Michael John and Soo Geun Song (2001) "Exploring Within-Year Budget Adjustments in Small to Medium-Sized Cities in West Virginia," *Journal of Public Budgeting, Accounting & Financial Management* 13(2): 245-279 and Michael John Dougherty, Kenneth A. Klase and Soo Geun Song (2003). "Managerial Necessity and the Art of Creating Surpluses: The Budget Execution Process in West Virginia Cities," *Public Administration Review* 63(4): 484-497.

DISCUSSION

The financial data shows that contingency monies are almost never funded in municipal budgets and sometimes not even funded at all. The comments of the finance officials present a different story as almost all report using some mechanism to create reserve resources in the budget. Together, these demonstrate the near total lack of consistency on how rainy day funds are handled at the municipal level in West Virginia.

In reality, the "rainy day" funds are put into a variety of "Rainy Day Funds." Cities use a combination of the Contingency Line Item, the newly-permitted Municipal Stabilization Funds, previously-created capital reserve funds, or other places within the city budgetary structure such as specific departmental line items. This "creative" budgeting also makes it difficult to truly assess the utilization and impact of such funds in the state because the data is not reported in any consistent way to it to be tracked. For example, state reports do not include data on the Municipal Stabilization Fund or any other capital reserve funds. This could be found in financial reports, but without additional information from the city, it is doubtful that reviewing the reports would provide any additional insight. Upon review, it is evident that the analysis of the Contingency Line Item is a good starting point but certainly does not capture all sufficient that is occurring with respect to "rainy day" fund activity.

Even with the data and informational limitations, one point is apparent. Some cities do follow the patterns of funding reserves in times of flush revenues (because they can) and in times of uncertainty (as a hedge) that was seen elsewhere.[29] Some cities even understand the counter-cyclical purpose of such reserve funds.[30] But this understanding and utilization is far from universal as some cities use vastly different

---

[29] See Hendrick (2006).

[30] See Kriz (2002) and Marlowe (2005).

approaches to prepare to accumulate reserve funds. Instead, it is in line with some previous findings which showed localities used any means available to accumulate reserve funds.[31]

Given the wide variation, some might suggest that additional rules and regulation would lead to more consistent use of rainy day funds among West Virginia municipalities. However, it is doubtful that such an action would be highly effective in achieving its objectives. Existing regulations, such as the *Municipal Stabilization Fund Act*, have not led to standardization in rainy day fund operations.

However, it is more likely that strict regulation would inhibit innovation. The different rainy day funds mechanisms currently in use demonstrate that municipal officials can find a wide range of solutions to the same problem. If all cities had to use the same process, this would be lost.

Also, the background of the officials in charge of the budget administration may limit the effectiveness of any regulation. Many of the finance directors are not formally trained. Their lack of knowledge with respect to budgeting and financial management matters could result in new rules not being followed or not being followed properly. Also, there appears to be a fair degree of turnover in the position of finance director. These new finance directors probably are not as knowledgeable about the state laws regarding municipal finance. Thus, rules and regulations sometimes might not be followed out of ignorance.

Taken together, these factors can lead to a situation that would make it more difficult for these officials to make the necessary and common connection between policy and theory.[32] Even with straightforward and detailed instructions from state officials, it would not be surprising if the implementation of any newly imposed uniform policy went awry because of misunderstandings, misstatements, or mistakes.

[31] See Tyer (1993).

These and other factors discussed above point to need for education to improve the capacity of finance directors. Training in general governmental operations is already available through the Local Government Leadership Academy offered through the Institute of Public Affairs of the West Virginia University Department of Political Science. However, this would involve more specialized course offerings. Such course(s) could be as added as electives to the existing curriculum for pubic officials and could employ other WVU units (such as the Division of Public Administration, the Extension Service, etc.) as well as other institutions of higher education around the state and professional organizations for public officials (in this case the West Virginia Municipal League).

Of course, all of this points to the need for additional research on the subject. An extension of the quantitative portion of this research would involve using regression analysis to directly examining how factors such as structural revenue generation problems, population changes and size, state fiscal stress and industry concentration affect the rainy day fund. The qualitative portion of the research would be furthered by pointed questions asking about all types of rainy day fund mechanisms mentioned by finance directors. It also would be beneficial to gain input from other city administrative officials – most notably the city managers – regarding the use of rainy day funds in their communities.

[32] Jeffrey L. Pressman and Aaron Wildavsky. (1984). *Implementation*, 3rd ed (expanded). University of California Press, Berkeley, Calif.

APPENDIX I

CHAPTER 8. MUNICIPAL CORPORATIONS.
ARTICLE 37. MUNICIPAL FINANCIAL STABILIZATION FUND ACT.

§8-37-1. Short title.

This act may be known and cited as the "Municipal Financial Stabilization Fund Act".

§8-37-2. Findings and declarations.

The Legislature finds and declares that:

(1) Municipalities should maintain a prudent level of financial resources to try to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls, unpredicted one-time expenditures or emergency situations; and

(2) The creation, maintenance and use of a financial stabilization fund will provide municipalities with assistance to meet these challenges, as well as enable them to improve their financial management and practices.

§8-37-3. Budget stabilization fund; creation; appropriation; maximum.

(a) A municipality may create a financial stabilization fund by a majority vote of its governing body. The fund may receive appropriations, gifts, grants and any other funds made available.
(b) The governing body may appropriate a sum to the fund from any surplus in the general fund at the end of each fiscal year or from any other money available.
(c) The amount of money in the fund may not exceed thirty percent of the municipality's most recent general fund budget, as originally adopted. When the fund exceeds the thirty percent, the governing body shall transfer the excess to any fund it considers appropriate.

§8-37-4. Fund investment; usage.

(a) The governing body may invest the money in the fund as it considers appropriate, with the earnings retained by the fund.
(b) The governing body may appropriate money in the financial stabilization fund upon a majority vote for the following purposes:
(1) To cover a general fund shortfall; or
(2) Any other purpose the municipality considers appropriate

APPENDIX II

Finance Director Interview Questions

1. Do you use a General Fund (GF) Contingency line item?

2. How do you decide how much to put into GF Contingency?
   Mayor's Policy? Council Policy? Departmental Policy? Rule of Thumb?

3. What rules do you have for using GF Contingency funds?
   What do you do if GF Contingency Funds not spent at end of fiscal year?
   What do you do if GF Contingency Funds overspent before end of fiscal year?

4. Do you have a minimum threshold for GF Contingency Funds?

5. Do you have a Municipal Financial Stabilization Fund (MSF)?

6. How do you decide how much to put into MSF?
   Mayor's Policy? Council Policy? Departmental Policy? Rule of Thumb?

7. What rules do you have for using MSF?
   What do you do if MSF not spent at end of fiscal year?
   What do you do if MSF overspent before end of fiscal year?

8. Do you have any replenishment requirements for MSF?
   Mayor's Policy? Council Policy? Departmental Policy? Rule of Thumb?

9. Do you have a minimum acceptable balance for MSF?

10. Do you have a Capital Reserve Fund? Are those monies ever used for non-planned emergencies? If so, site examples or types

11. Do you have any other rainy day fund (RDF) mechanisms?

12. If so, how do they operate? What rules do you have for using?
    Mayor's Policy? Council Policy? Departmental Policy? Rule of Thumb?

13. Do you have any replenishment requirements for MSF?
    Do you have any minimum acceptable balance for MSF?
    Mayor's Policy? Council Policy? Departmental Policy? Rule of Thumb?

TABLE 1: The 15 Largest Cities in West Virginia

City	1990 Census	1998 Pop. Est.	2000 Census	2005 Pop. Est.	City Manager*	Finance Director*
Beckley	18,274	19,345	17,254	16,936	NO	YES
Bluefield	12,756	12,458	11,451	11,119	YES	NO*
Charleston	57,287	55,304	53,421	51,176	YES	YES
Clarksburg	17,970	17,487	16,743	16,439	YES	YES
Fairmont	20,210	20,336	19,097	19,049	YES	YES
Huntington	54,844	52,589	51,475	49,198	YES	YES
Martinsburg	14,073	15,601	14,972	15,996	YES	YES
Morgantown	25,879	29,181	26,809	28,292	YES	YES
Moundsville	10,753	9,929	9,998	9,567	YES	NO
Parkersburg	33,862	32,590	33,099	32,020	NO	YES
St. Albans	12,241	11,992	11,567	11,105	NO	YES
S. Charleston	13,645	14,332	13,390	12,700	NO	YES
Vienna	10,862	11,304	10,861	10,770	NO	YES
Weirton	22,124	21,263	20,411	19,544	YES	YES
Wheeling	34,882	32,968	31,419	29,639	YES	YES

SOURCES: U.S. Census Bureau. W. Va. Municipal League *2003-2004 Municipal Directory*.
NOTE: Bluefield normally has a Finance Director but the position was open during the study (2004).

TABLE 2: General Revenue Growth – Overall and By Major Category – Nominal Dollars

	FY1999 Revenues	FY1999 B&O Taxes	FY1999 Prop. Taxes	FY1999 Fees	FY2006 Revenues	FY2006 B&O Taxes	FY2006 Prop. Taxes	FY2006 Fees	Change Revenue	Change B&O Tax	Change Prop Tax	Change Fees
Beckley	$11,093,997	$ 6,250,000	$ 1,440,016	$ -	$12,729,995	$ 7,937,000	$ 1,793,334	$ -	14.75%	26.99%	24.54%	N/A
Bluefield	$ 6,348,848	$ 2,340,000	$ 824,260	$ 1,108,100	$ 7,096,810	$ 2,200,000	$ 916,241	$ 970,000	11.78%	-5.98%	11.16%	-12.46%
Charleston	$48,355,305	$27,870,000	$ 5,911,003	$ 2,150,000	$63,276,260	$32,500,000	$ 4,218,225	$ 4,606,000	30.86%	16.61%	-28.64%	114.23%
Clarksburg	$ 8,662,124	$ 4,322,000	$ 1,279,539	$ 894,060	$11,799,702	$ 5,802,000	$ 1,639,611	$ 1,333,600	36.22%	34.24%	28.14%	49.16%
Fairmont	$ 7,538,744	$ 2,750,000	$ 1,226,224	$ 992,300	$ 8,730,100	$ 3,689,000	$ 1,410,937	$ 1,000,000	15.80%	34.15%	15.06%	0.78%
Huntington	$26,580,192	$11,476,390	$ 4,365,853	$ 4,515,000	$36,309,898	$13,400,000	$ 3,770,114	$ 6,388,000	36.61%	16.76%	-13.65%	41.48%
Martinsburg	$ 6,608,000	$ 2,300,000	$ 905,000	$ 450,000	$10,000,000	$ 5,200,000	$ 1,321,552	$ 635,000	51.33%	126.09%	46.03%	41.11%
Morgantown	$11,189,136	$ 5,352,000	$ 1,624,814	$ 1,662,000	$17,415,942	$ 9,200,000	$ 2,512,255	$ 1,808,000	55.65%	71.90%	54.62%	8.78%
Moundsville	$ 4,217,724	$ 1,350,000	$ 369,164	$ 375,600	$ 5,318,095	$ 1,600,000	$ 499,479	$ 669,400	26.09%	18.52%	35.30%	78.22%
Parkersburg	$16,585,064	$ 7,429,395	$ 3,063,602	$ 2,325,000	$19,349,830	$ 9,460,046	$ 2,983,633	$ 2,505,000	16.67%	27.33%	-2.61%	7.74%
St. Albans	$ 5,710,725	$ 2,250,000	$ 1,090,699	$ 1,390,000	$ 8,642,248	$ 2,800,000	$ 992,918	$ 1,502,000	51.33%	24.44%	-8.96%	8.06%
S.Charleston	$12,272,075	$ 6,000,000	$ 3,301,082	$ 569,000	$16,408,006	$ 7,406,822	$ 2,574,748	$ 610,000	33.70%	23.45%	-22.00%	7.21%
Vienna	$ 3,646,763	$ 1,662,000	$ 717,248	$ 310,000	$ 5,076,081	$ 2,325,000	$ 1,293,364	$ 310,000	39.19%	39.89%	80.32%	0.00%
Weirton	$10,636,680	$ 1,650,000	$ 2,765,680	$ 2,576,000	$14,542,904	$ 3,000,000	$ 2,315,582	$ 3,150,000	36.72%	81.82%	-16.27%	22.28%
Wheeling	$18,264,982	$ 6,785,000	$ 2,795,282	$ 2,015,000	$23,794,958	$ 8,700,000	$ 2,709,731	$ 2,120,000	30.28%	28.22%	-3.06%	5.21%
TOTAL	$197,710,359	$89,786,785	$31,679,466	$21,332,060	$260,490,829	$115,219,868	$30,951,724	$27,607,000	31.75%	28.33%	-2.30%	29.42%

SOURCE: West Virginia State Auditor, Chief Inspector Division, Fiscal Years 1999-2006.

TABLE 3: General Revenue Growth – Overall and By Major Category – Real Dollars

	FY1999 Revenues	FY1999 B&O Taxes	FY1999 Prop. Taxes	FY1999 Fees	FY2006 Revenues	FY2006 B&O Taxes	FY2006 Prop. Taxes	FY2006 Fees	Change Revenue	Change B&O Tax	Change Prop Tax	Change Fees
Beckley	$11,093,997	$ 6,250,000	$ 1,440,016	$ -	$10,828,362	$ 6,751,355	$ 1,525,442	$ -	-2.39%	8.02%	5.93%	N/A
Bluefield	$ 6,348,848	$ 2,340,000	$ 824,260	$ 1,108,100	$ 6,036,674	$ 1,871,359	$ 779,371	$ 825,099	-4.92%	-20.03%	-5.45%	-25.54%
Charleston	$48,355,305	$27,870,000	$ 5,911,003	$ 2,150,000	$53,823,922	$27,645,083	$ 3,588,098	$ 3,917,946	11.31%	-0.81%	-39.30%	82.23%
Clarksburg	$ 8,662,124	$ 4,322,000	$ 1,279,539	$ 894,060	$10,037,038	$ 4,935,285	$ 1,394,683	$ 1,134,384	15.87%	14.19%	9.00%	26.88%
Fairmont	$ 7,538,744	$ 2,750,000	$ 1,226,224	$ 992,300	$ 7,425,980	$ 3,137,930	$ 1,200,168	$ 850,618	-1.50%	14.11%	-2.12%	-14.28%
Huntington	$26,580,192	$11,476,390	$ 4,365,853	$ 4,515,000	$30,885,851	$11,398,280	$ 3,206,927	$ 5,433,747	16.20%	-0.68%	-26.55%	20.35%
Martinsburg	$ 6,608,000	$ 2,300,000	$ 905,000	$ 450,000	$ 8,506,179	$ 4,423,213	$ 1,124,136	$ 540,142	28.73%	92.31%	24.21%	20.03%
Morgantown	$11,189,136	$ 5,352,000	$ 1,624,814	$ 1,662,000	$14,814,313	$ 7,825,685	$ 2,136,969	$ 1,537,917	32.40%	46.22%	31.52%	-7.47%
Moundsville	$ 4,217,724	$ 1,350,000	$ 369,164	$ 375,600	$ 4,523,667	$ 1,360,989	$ 424,866	$ 569,404	7.25%	0.81%	15.09%	51.60%
Parkersburg	$16,585,064	$ 7,429,395	$ 3,063,602	$ 2,325,000	$16,459,313	$ 8,046,885	$ 2,537,932	$ 2,130,798	-0.76%	8.31%	-17.16%	-8.35%
St. Albans	$ 5,710,725	$ 2,250,000	$ 1,090,699	$ 1,390,000	$ 7,351,251	$ 2,381,730	$ 844,594	$ 1,277,628	28.73%	5.85%	-22.56%	-8.08%
S.Charleston	$12,272,075	$ 6,000,000	$ 3,301,082	$ 569,000	$13,956,944	$ 6,300,376	$ 2,190,127	$ 518,877	13.73%	5.01%	-33.65%	-8.81%
Vienna	$ 3,646,763	$ 1,662,000	$ 717,248	$ 310,000	$ 4,317,806	$ 1,977,687	$ 1,100,159	$ 263,692	18.40%	18.99%	53.39%	-14.94%
Weirton	$10,636,680	$ 1,650,000	$ 2,765,680	$ 2,576,000	$12,370,455	$ 2,551,854	$ 1,969,676	$ 2,679,447	16.30%	54.66%	-28.78%	4.02%
Wheeling	$18,264,982	$ 6,785,000	$ 2,795,282	$ 2,015,000	$20,240,418	$ 7,400,376	$ 2,304,946	$ 1,803,310	10.82%	9.07%	-17.54%	-10.51%
TOTAL	$197,710,359	$89,786,785	$31,679,466	$21,332,060	$221,578,174	$98,008,088	$26,328,092	$23,483,010	12.07%	9.16%	-16.89%	10.08%

SOURCE: West Virginia State Auditor, Chief Inspector Division, Fiscal Years 1999-2006.
NOTE: South Urban, Not Seasonally Adjusted CPI (1982-84 = 100) used to deflate FY2006 revenues.

TABLE 4: West Virginia Municipal Revenues by Population Size: FY2002

	WV Cities & Towns	50,000 to 74,999	25,000 to 49,999	10,000 to 24,999	Less than 10,000
Number of Municipalities	234	2	3	9	220
Population (2000)	644,404	104,896	91,327	135,746	312,435
Per Capita Amounts (Dollars)					
Total Revenue	1,083.63	1,338.57	758.13	1,011.72	1,124.42
General Revenue	947.75	1,320.65	592.78	868.59	960.71
Intergovernmental Revenue	68.09	139.51	66.34	51.11	52.00
Federal Government	34.95	96.01	43.80	30.87	13.64
State Government	29.19	42.87	9.01	19.53	34.70
From Own Sources	879.66	1,181.14	526.44	817.48	908.70
Taxes	341.27	603.26	274.28	399.79	247.47
Property	95.57	124.09	58.36	122.80	85.04
Other	245.70	479.17	215.92	276.99	162.43
Charges and Miscellaneous	538.39	577.88	252.16	417.69	661.23
Utility and Liquor Store Revenue	114.25	---	93.46	112.33	159.51
Employee Retirement Revenue	X	X	X	X	X

SOURCE: U.S. Census Bureau: *2002 Census of Governments.*

NOTE: Current Charges include fees, assessments, and other reimbursements for services such as hospitals, sewerage, solid waste management and other services. Miscellaneous general revenue includes interest earnings, special assessments, sale of property and all other general revenue.
Employee Retirement Revenue not calculated because of negative revenue.
Totals may not add up because of rounding.

TABLE 5: West Virginia Municipal Revenues by Population Size: FY1997

	WV Cities and Towns	50,000 to 74,999	25,000 to 49,999	10,000 to 24,999	Less than 10,000
Number of Municipalities	232	2	3	10	217
Population (1996)	666,039	110,039	92,996	150,939	312,065
Per Capita Amounts (Dollars)					
Total Revenue	1,021.50	1,142.10	1,711.83	870.16	846.45
General Revenue	889.88	1,111.85	1,497.49	734.27	705.80
Intergovernmental Revenue	54.84	108.35	56.50	72.02	27.16
Federal Government	33.30	87.71	41.50	40.50	8.18
State Government	19.90	17.02	11.68	30.93	18.03
From Own Sources	835.04	1,003.50	1,441.00	662.25	678.64
Taxes	312.07	546.75	334.21	342.48	208.01
Property	87.89	136.61	88.96	87.04	70.81
Other	224.18	410.15	245.25	255.44	137.20
Charges and Miscellaneous	522.98	456.75	1,106.79	319.77	470.64
Utility and Liquor Store Revenue	103.92	---	135.05	92.78	136.68
Employee Retirement Revenue	27.69	30.24	79.28	43.11	3.96

SOURCE: U.S. Census Bureau: *1997 Census of Governments.*

NOTE: Current charges include fees, assessments, and other reimbursements for services such as hospitals, sewerage, solid waste management and other services. Miscellaneous general revenue includes interest earnings, special assessments, sale of property and all other general revenue. Totals may not add up because of rounding.

TABLE 6: Share of Total Municipal General Revenue Budgeted for Contingencies

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	Min*	Max*	Mean	Median	NonZ*
Beckley	0.00%	0.00%	0.00%	0.77%	0.00%	0.00%	0.00%	0.00%	0.00%	0.77%	0.10%	0.00%	1
Bluefield	0.00%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%	0.01%	0.00%	1
Charleston	0.39%	0.31%	0.39%	0.32%	0.36%	0.26%	0.57%	0.27%	0.26%	0.57%	0.36%	0.34%	8
Clarksburg	0.67%	0.88%	1.39%	0.73%	0.78%	0.76%	1.56%	1.30%	0.67%	1.56%	1.01%	0.83%	8
Fairmont	1.80%	0.85%	2.44%	0.79%	0.85%	0.08%	0.16%	0.12%	0.08%	2.44%	0.89%	0.82%	8
Huntington	0.36%	0.60%	0.48%	0.34%	0.00%	0.00%	0.27%	0.00%	0.00%	0.60%	0.26%	0.30%	5
Martinsburg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.80%	0.00%	0.80%	0.10%	0.00%	1
Morgantown	3.00%	2.71%	2.84%	3.00%	1.56%	2.94%	1.13%	3.00%	1.13%	3.00%	2.52%	2.89%	8
Moundsville	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0
Parkersburg	0.00%	0.00%	0.21%	0.23%	0.34%	0.56%	0.00%	0.47%	0.00%	0.56%	0.23%	0.22%	5
St. Albans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0
S.Charleston	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0
Vienna	2.43%	2.69%	2.35%	2.27%	2.15%	2.88%	2.88%	2.96%	2.15%	2.96%	2.58%	2.56%	8
Weirton	0.19%	0.20%	0.56%	1.53%	2.54%	2.99%	2.95%	2.35%	0.19%	2.99%	1.66%	1.94%	8
Wheeling	0.82%	0.67%	1.74%	0.76%	0.51%	0.00%	0.00%	0.00%	0.00%	1.74%	0.56%	0.59%	5
Mean	0.64%	0.60%	0.83%	0.71%	0.61%	0.70%	0.64%	0.75%					
Median	0.19%	0.20%	0.39%	0.34%	0.34%	0.00%	0.00%	0.12%					
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
Maximum	3.00%	2.71%	2.84%	3.00%	2.54%	2.99%	2.95%	3.00%					
Non Zero	8	9	9	10	8	7	7	8					

SOURCE: West Virginia State Auditor – Chief Inspector Division, Fiscal Years 1999-2006.
NOTES: "Min" stands for Minimum; "Max" stands for Maximum; "NonZ" stands for Non-Zero.

TABLE 7: Coefficients of Determination (R^2) for Contingency Line Item

	Contingency & Budget	Contingency & Population
FY1999	0.150	0.246
FY2006	0.012	0.027