

Do cities need pay czars?
Excess compensation and fringe benefits in the municipal sector

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Abstract

This paper investigates determinants of municipal manager perquisites. Findings indicate that municipal managers who are political insiders, defined as individuals with prior careers in government positions, have a higher incidence of perks, including cash car allowances, personal use of municipal cars, larger severance pay packages, and less restrictive severance provisions such as severance pay under accusations of moral turpitude. Such evidence is generally consistent with entrenched managers receiving more generous perquisites. We also find that political risk, which is the risk of job termination due to political pressure, is associated with significantly higher amounts of severance pay. This suggests that municipal managers are compensated for the risk of losing employment due to political uncertainty. Finally, the analysis finds that managers with excess annual salaries are positively associated with the provision of perquisites, consistent with agency problems, and inconsistent with corporate sector findings.

1. Introduction.

A prevailing view among the popular press, politicians, and general public is that the compensation of many corporate executives is excessive (Core and Guay 2010). This point of view is reflected in recent and proposed regulations over corporate CEO pay, including appointment of the special master of compensation at the U.S. Treasury Department, or the so-called “pay czar.” Recent media reports suggest that the pay czar will reduce compensation of the 25 highest-paid corporate employees at firms receiving the most government aid. In particular, salary decreases of an average of 90% are anticipated, and in addition, perquisite packages that total more than \$25,000 will have to be approved by the pay czar (McGregor 2009).

While many focus on the pay and perquisites awarded to top corporate executives, relatively fewer consider the pay and perks received by government employees. Yet some government reports suggest the existence of excessive compensation practices in the public sector. For example, the State of New Jersey documents excessive compensation and fringe benefit practices for school superintendents, including compensation in excess of contractual agreements, large amounts of accumulated leaves (including vacation and paid sabbaticals), large bonuses, and lucrative severance pay packages (State of New Jersey, 2006). Perhaps more serious, high labor and benefits costs contributed to the city of Vallejo’s filing for Chapter 9 bankruptcy protection, the largest filing of its kind in California history (Marois 2008).

We investigate determinants of municipal managers’ compensation and fringe benefits, including whether compensation practices are associated with agency issues, political factors, and municipal efficiency. To our knowledge, the study is the first in the literature to conduct a broad examination of manager compensation and perquisites in the municipal setting.

Our first analyses explore determinants of a set of municipal perquisites, focusing on both the most common perks, as well as those most likely to be associated with agency issues between managers and citizens. Specifically, we investigate the use of bonuses, car-related perquisites, and severance pay packages. As part of this analysis, we explore whether factors unique to the governmental setting, such the manager's standing as a political "insider" and exposure to political risk affect compensation packages offered. Drawing on literature that suggests unelected officials can become entrenched and behave in bureaucratic manner, we define political insiders as individuals with prior careers in government positions. We also consider the risk of termination imposed on managers due to elections. That is, unlike corporate CEOs, city managers can be fired solely due to a political regime change, which we designate "political risk."

Our findings indicate that municipal managers who are political insiders have a higher incidence of perks, including cash allowances for car use, personal use of municipal cars, larger severance pay packages, and less restrictive severance provisions, such as severance pay awarded under accusations of moral turpitude. Such evidence is generally consistent with entrenched managers receiving more generous perquisites. While we do not find a relation between political risk and bonuses or car-related perquisites, we do find political risk is associated with significantly higher amounts of severance pay. This finding suggests that municipal managers are compensated for the risk of losing employment due to political uncertainty.

We also investigate the relation between fringe benefits and "excess" compensation, defined as observed compensation less a measure of expected compensation using economic determinants, following corporate sector literature (e.g. Core et al. 2009). To the extent that

excess compensation reflects underlying agency problems, as commonly characterized by prior literature, highly compensated managers will also receive high levels of perquisites. This suggests a complementary relation between excess compensation and fringe benefits.

Alternatively, other studies view perquisites more benignly, for example, as an alternate form of compensation – that is, if managers are underpaid, firms can compensate by paying additional fringe benefits (Fama 1980). This characterization suggests a substitute relation between excess compensation and fringe benefits. We generally find significant positive relations between excess compensation and fringe benefits, consistent with agency characterizations, and inconsistent with corporate sector findings (e.g., Yermack 2006).

Rajan and Wulf (2006) argue that expenditures on CEO perquisites are rational if they allow executives to be more productive. Similarly, if municipal managers receive high levels of pay and perks because they are more productive, then such municipalities should exhibit relatively better performance. We therefore investigate whether excess municipal manager compensation and perks vary with municipal efficiency, a measure of organizational performance commonly used in nonprofit sector research. Results are inconsistent with the premise that more talented managers receive higher pay and perquisites. Specifically, we find that cities with managers receiving excess salary compensation and bonuses are relatively *less* efficient. In contrast, we find no statistically significant relation between municipal efficiency and the provision of other perks.

Our study contributes to the literature in several respects. First, we document determinants of municipal manager fringe benefits and investigate their relation with excess compensation. In particular, we differentiate between pay-for-talent and agency problems. Second, we explore whether higher levels of compensation and fringe benefits are associated

with increased municipal efficiency. Finally, we investigate whether factors unique to the municipal sector, such as political risk and status as political insiders, affect municipal manager compensation and perquisites. Such relations are not investigated previously.

The results of our study also have broader implications for public policy. In contrast to their corporate and nonprofit sector counterparts, governments are not required to disclose compensation and perquisite information within their annual reports, and seldom do so voluntarily. Thus, research about municipal perquisite and pay practices is important to help assess whether governments are fulfilling their stewardship responsibility, one of the primary roles of governmental accounting standards (GASB 2006).

The remainder of the paper is organized as follows. In Section 2, we explain the motivation for the paper and detail the hypotheses. Section 3 describes the sample selection and descriptive statistics, while Section 4 summarizes the empirical methodology and results. In Section 5, we explore the relationship between excess compensations, perquisites, and municipal efficiency. Section 6 concludes the paper.

2. Motivation and Hypotheses

Background on municipal manager wages and perquisites

Municipal managers are hired (and fired) by city councils, which are roughly equivalent to corporate boards. The councils also set manager wages and benefits. The majority of managers work under employment contracts that specify salaries and benefits, and undergo annual reviews (ICMA, 2002).

Many city managers serve “at will” of the council, and thus can be fired with a majority of the council’s vote (Albrecht 2009). Because employment is not guaranteed, and council members can potentially change with each election, municipal manager severance packages are

common. Further, because of the political uncertainty imposed by elections, some cities institute “cooling-off” periods surrounding elections. For example, Oakdale, California has a cooling-off period of 90 days before and 180 days after an election, during which time the city manager cannot be fired (Albrecht 2009). Another means of compensating for the uncertainty surrounding elections is to increase severance pay packages based on whether the dismissal occurs close to an election. Accordingly, the International City/County Manager Association (ICMA) has a model employment agreement which suggests that in the case of termination immediately following an election, the city manager should be paid six months’ salary in addition to that provided by the severance agreement.

Determinants of municipal fringe benefits.

In this section, we discuss the determinants of municipal manager perquisites, including the relation between these perquisites and excess salary compensation. We hypothesize that the following factors are associated with municipalities’ incentives to provide perquisites to city managers.

Excess salary compensation. Excess salary is awarded for two potential reasons: i) the employee is extremely talented and compensated accordingly or ii) there are agency related issues that the employee is compensated for (e.g., risk, moral hazard). Elected officials and the popular press often argue that government employees are underpaid.¹ Consequently, cities offer these employees perquisites in order to attract and retain talented employees. Such an argument implies that excessive compensation and perquisites are substitutes for one another. In contrast, finding a complementary relationship between compensation and perquisites is indicative of agency issues as the manager is able to extract rents via two separate mechanisms: excessive salary compensation and perquisites.

¹ See, for example, Hampton (2009).

Political risk. The corporate sector literature generally suggests that managers facing uncertainty are more likely to be compensated for this additional risk. For example, CEOs of firms operating in risky operating environments face greater termination risk, and therefore are more likely to demand higher pay and perquisites as compensation. Although municipalities are not commonly subject to high operating risk, city managers are subject to job uncertainty related to the political environment in which they operate. Many municipal managers are appointed by councils, which are typically associated with a particular political regime. If there is turnover in the political regime, or dissatisfaction with the regime, the managers' positions are potentially at risk. We hypothesize that managers under higher political risk, defined as the risk of job loss due to potential changes in the political environment, are more likely to receive perquisites.

Political insider. Anecdotal evidence suggests that managers with long careers within government are more likely to become entrenched, and consequently, more able to extract rents in the form of excessive pay and perquisites.

We therefore hypothesize that municipal managers' tenure in prior government positions is associated with the provision of pay and perquisites.

We also include several controls, following Gore (2009). We control for manager age and tenure to consider the manager's decision horizon (Dechow and Sloan 1991). Some municipal managers earn advanced degrees, which presumably reflect increased manager training and quality. Municipal size considers that larger municipalities likely pay managers higher salaries due to increased job responsibilities. Finally, performance of the municipality might affect the salary and perquisites offered to the employee. We control for this effect by including an indicator variable that reflects municipalities with deficit positions (Baber and Gore 2008; Zhang 2009).

3. Sample Selection and Descriptive Statistics

We focus on the chief administrative officer, or CAO, because this position is present across a broad cross-section of municipalities. In the case of cities, the CAO is typically the city manager, while in the case of towns, the CAO is the top administrator.² Detailed CAO compensation and perquisite data are available through surveys provided by the ICMA. ICMA survey data are commonly used in the economics literature, and the survey response rates are typically high (i.e., 52% for 2003 compensation data). We use two such surveys in the tests that follow - the salary surveys, which provide CAO base salaries, and the fringe benefit surveys, which provide data for CAO perquisites, as well as manager characteristics such as age, tenure, and level of education. Data for municipal characteristics such as population and debt per capita are from the Census Bureau's Annual Survey of Governments.³

Descriptive statistics are presented in Table 1. Municipal managers receive a variety of fringe benefits, including bonuses, car usage, severance pay packages, vacation days, sick leave, and sabbaticals. We focus on three of the most common and distinctive municipal perquisites in the tests that follow - namely, bonuses, municipal car-related benefits, and severance pay packages. Each of these perquisites is occasionally the subject of media scrutiny, as they can be construed by citizens as evidence of excessive pay practices.⁴

CAOs earn \$80,247 (\$75,660) in mean (median) base salary, and in addition, 22% are eligible for bonuses. A little more than half (57%) of municipal managers receive a car-related perquisite, with some receiving the use of a car, while others receiving a cash car allowance.

² In contrast, the majority of elected officials hold part-time positions with relatively low salaries.

³ Note that the sample period ends in 2002 because the ICMA fringe benefits surveys are only available for 2000 and 2002.

⁴ As examples, see...

Approximately 51% of managers that receive municipal cars are permitted to use them for personal reasons. While most CAOs receive severance pay packages (mean of 83%), comprised of an average (median) of 18 (15) weeks of base salary pay, the package provisions vary. Around 8% of managers receive severance if they quit voluntarily or if they are fired under accusations of malfeasance or moral turpitude.

Interestingly, an average (median) of only 1% (0%) of CAOs consider their job at risk due to political pressures. This evidence contradicts the common assumption that municipal managers are broadly subject to job insecurity caused by political uncertainty. On average, city managers are between 46 and 50 years of age, as evidenced by the mean age category of 5.13, have eleven years' experience in prior government positions, and seven years' tenure in the current position as CAO.

Table 1, Panel C presents Pearson correlation coefficients for our dependent and independent variables. Political insiders are significantly associated with excess salaries, the provision of cars for personal use, and higher average severance pay. Political insiders also tend to be older, and, not surprisingly, have shorter current job tenure. The longer that a CAO remains in his/her current position (tenure), the less likely that he/she considers their job at risk of termination due to political uncertainty (political risk).

Excess salary is positively correlated with all perquisites, with the exception of severance pay awarded if the manager voluntarily leaves. Although a univariate analysis, this implies that salary and perquisites do not serve as substitutes for each another, but rather, are used in a complementary manner. The univariate results also imply that bureaucrats, or political insiders, derive more compensation through both excess salary and perks. This evidence is broadly consistent with prior literature on bureaucrats that suggests that managers who have worked in

government longer are able to extract more benefits. Not surprisingly, managers with advanced degrees are generally offered more perquisites. Finally, larger municipalities are more likely to offer personal car use and severance under accusations of malfeasance, while municipalities experiencing deficits are less likely to offer such benefits.

4. Empirical Methodology and Results

Determinants of municipal fringe benefits.

We use the following regression model to explore determinants of municipal manager perquisites:

$$Perqs_{it} = \alpha_0 + \alpha_1 Excess\ salary_{it-1} + \alpha_2 Political\ risk_{it} + \alpha_3 Political\ insider_{it} + \alpha_4 Tenure_{it} + \alpha_5 Age_{it} + \alpha_6 Degree_{it} + \alpha_7 Size_{it} + \alpha_8 Deficit_{it} + \sum \alpha_k State_k + \sum \alpha_t Year_t \quad (1)$$

where *Perqs* is a series of perquisites, namely, an indicator variable equal to one if the manager receives a bonus or use of a municipal car, or the log of the number of weeks of severance pay; *Excess salary* measures excessive compensation, defined as the residuals from a regression of manager salary on a series of variables that measure expected compensation;⁵ *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is the number of years' work experience in government prior to the current position;⁶ *Tenure* is the number of years the manager is in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages>70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; and *Size* is the log of population.

⁵ Following prior literature (e.g., Core et al. 2007), we estimate a model of expected salary compensation that controls for standard economic determinants and use the residuals to measure excessive salary compensation.

⁶ Note that approximately 15% of sample observations have city managers with no prior experience in government prior to becoming city manager. As an additional test, we also examine managers' specific backgrounds prior to working in government, and find that in 2002, 25% had prior positions outside of government. This data is not available for 2000, however.

If perquisites serve as a substitute for monetary compensation (i.e., for underpaid managers), then we expect the coefficient for *Excess Salary* to be negative and significant. Alternatively, a positive coefficient for *Excess Salary* reflects agency concerns. Similarly, if long prior tenure in government positions reflects agency concerns, we anticipate a positive coefficient on *Political insider*. Political risk reflects the possibility that a CAO's job is tenuous; a positive relationship between perquisites and political risk indicates that the CAO is compensated for job riskiness or uncertainty.

Empirical results

We first estimate OLS regressions to determine expected salary and present the results in Table 2, Model 1. The dependent variable is the log of the manager's base salary compensation, and the independent variables are tenure, age, degree, size, and deficit. We include state and year indicators in the regressions, but do not tabulate them. All regression specifications report t-statistics adjusted for robust standard errors clustered on municipality (Rogers 1993). To mitigate the influence of potential outliers, the continuous variables are winsorized at the top and bottom 1% of the distribution. Although we estimate the model using annual cross-sectional regressions, for brevity, we present the results of a pooled, cross-section, time-series estimation with year indicators in Table 2.

Results indicate that manager salaries vary positively with municipal size, and the manager's tenure, age, and degree. Manager salaries are negatively related to the presence of a deficit in the municipality. All of the model's explanatory variables are significant in the predicted direction. The explanatory power of the full model is 72%, which is similar to that reported in Gore (2009).

Model 2 presents results after including variables that reflect potential agency concerns – namely, political risk and political insider. We find that managers with higher tenure in prior government positions receive significantly higher salaries, after controlling for current job tenure, age, and level of education. Political risk is not significantly associated with managers’ salaries. We use the residuals from Model 1 as our proxy for excess salary.

Determinants of municipal managers’ bonus

We explore determinants of municipal managers’ bonuses in Table 3. The dependent variable is an indicator variable equal to one if the manager received a bonus. Note that while ICMA data identify whether managers receive a bonus, the data do not disclose the dollar amounts. Note further that the bonus is not included in the regressions of annual base salary presented in Table 2, so this specification does not replicate the salary specifications.

Table 3 presents results for a specification that includes the *Excess Salary* residuals, which are residuals from the model of expected salary compensation (Table 2, Model 1). The results show a positive and significant relation between excess salary compensation and the provision of bonuses. CAOs that are offered higher salaries are also more likely to receive bonuses, which indicates the two are complementary forms of compensation. Corporate sector literature suggests such evidence is consistent with employees’ ability to extract rents via both of these mechanisms. Neither *Political risk* nor *Political insider* is correlated with the probability of receiving a bonus. However, managers with longer tenure in the current position are more likely to receive bonuses.

With respect to the control variables, managers with advanced degrees are more likely to receive bonuses, while older managers are less likely to receive bonuses. Municipal size is

positively associated with the provision of bonuses. The model likelihood ratio of 292 is fairly comparable to prior literature (i.e. Gore 2009).

Determinants of municipal managers' car use

We next investigate managers' car perquisites in Table 4. Recall descriptive statistics in Table 1 indicate that 57% of city managers in our sample receive some benefit related to cars, with some receiving a car allowance, and others the use of a car. In the first model, we examine the determinants of overall car perquisites. The dependent variable is an indicator variable equal to one if the CAO receives either a car or a car allowance. The overall model reveals several interesting findings. Managers with excessive salaries are significantly more likely to receive a car-related perquisite (chi-square statistic of 13.97). City managers that have been in the position longer are more likely to receive a car-related benefit, and older managers are less likely to receive such benefits. Political insiders are not associated with the provision of car perks.

Empirically considering the use of a car as equivalent to a car allowance might provide an incomplete picture. Specifically, managers receiving car allowances are awarded additional cash, often in the form of an unrestricted monthly stipend, which could be construed as additional salary in the managers' hands. To the extent that cash car allowances provide the manager with greater latitude than car use, we consider such perquisites as more likely to reflect agency issues.⁷

To further investigate car benefits, we delineate the benefits into the receipt of a car allowance in Model 2, and the use of a car in Model 3. Note that the car allowance data are only available through the ICMA for 2002, so model 2 uses a subset of the data. Unreported

⁷ Cursory review of several city manager contracts where managers are awarded car allowances suggests such allowances are relatively unrestricted. For example, the contracts do not typically require documentation of expenses or other restrictions that the manager use cash car allowances solely toward actual car costs.

descriptive statistics for 2002 reveal that 33% of managers receive car allowances, 41% are given cars, and 26% do not receive any car perquisite.

Both models 2 and 3 indicate that managers with excess compensation are more likely to receive car perquisites. Specifically, managers with excess compensation are more likely to receive car allowances (coefficient 1.81, chi-square statistic of 12.41) and more likely to receive the use of a car (coefficient .68, chi-square statistic of 7.73). Several other points are noteworthy when comparing results between models 2 and 3. Model 2 suggests political insiders are significantly more likely to receive car allowances (coefficient .28, chi-square 6.32), while current job tenure is not relevant. Such evidence is consistent with managers that are more politically savvy negotiating car allowances at the beginning of their employment, perhaps via exerting their clout. In contrast, model 3 shows that prior tenure in government positions does not significantly affect the likelihood of receiving the use of a car, but higher current job tenure results in a significantly higher likelihood of receiving a car (coefficient .22, chi-square 9.77). Thus, it appears that managers with previous government experience possess the savvy and clout to negotiate extra cash payments in the form of car allowances. For other managers, the longer that they are in the current position, the more likely they are to receive the use of a car. Prior corporate sector literature suggests such evidence is consistent with the manager becoming more entrenched.

Managers with degrees are more likely to have car allowances, while older managers are marginally less likely to receive cars. Finally, cities in a deficit position are significantly less likely to reward their managers via car allowances (coefficient -.79, chi-square 4.15).

Among the city managers that receive use of a municipal car, approximately 51% are allowed to use them for personal reasons. Such personal use of municipal vehicles is often

characterized negatively by citizens and the popular press, who highlight periodic abuses. We therefore consider this variable to reflect agency problems within governments, and examine it in more detail in model 4.

The dependent variable for model 4 is an indicator variable to reflect managers that have personal use of municipal cars. Note that the number of observations is smaller than in model 3 because we delete municipalities that do not provide cars to city managers (1284 observations), as well as those that do not provide details on personal versus business use (238 observations).⁸ Results show that managers with excessively high salaries are more likely to use cars for personal reasons. Model 4 indicates that excess salary residuals are significantly associated with personal use of cars (coefficient of 3.17, chi-square of 26.67). Although results from model 3 suggest that being a political insider is not related to the probability of receiving a car, model 4 reveals that, given they possess city-owned cars, political insiders are significantly more likely to engage them for personal use (coefficient .33, chi-square 12.12). Thus, as further evidence that managers with prior government experience are more likely to extract rents, political insiders are more likely to use cars for personal use.

The combined evidence about the provision of car perquisites in the form of car allowances or personal use of city-owned vehicles is consistent with an agency characterization.

Determinants of municipal managers' severance pay

Determinants of severance pay and provisions are presented in Table 5. Model 1 examines the number of weeks of severance pay managers will receive in the event they are no longer employed with municipalities. Note that because none of the managers have left employment, this is considered an *ex ante* severance measure, and recall descriptive statistics in

⁸ Specifications tests run a first-stage specification of determinants of car provision and incorporate the inverse Mills ratio in the second stage. Untabulated results are qualitatively consistent with those presented.

Table 1 show managers are offered 18 weeks of severance pay on average.⁹ Results for model 1 indicate that managers with excess salary compensation ($t=8.85$), or who are political insiders ($t=5.99$) receive significantly more severance compensation. In contrast to Brown's (2009) corporate sector findings, current job tenure is marginally positively associated with the amount of *ex ante* severance compensation ($t=1.81$). Overall, our findings are generally consistent with an agency characterization.

We also note that political risk is a significant determinant of the *ex ante* amount of severance pay ($t=2.57$). Recall that political risk is specifically defined as managers who feel under pressure to resign due to political pressures. We interpret such evidence as consistent with municipal managers with significantly higher risk of job loss due to political uncertainty or other political pressures demanding higher *ex ante* severance pay packages to compensate for the perceived job loss risk.

With respect to control variables, we find manager age is associated with significantly less severance pay, consistent with corporate sector results (e.g. Brown 2009). Managers with advanced degrees and employed by larger municipalities are eligible for significantly more severance pay.

In addition to the amount of severance pay, ICMA data provides details of circumstances under which severance pay is offered. Specifically, approximately 8% of managers who are eligible for severance packages are allowed to receive it if they are required to leave their positions under conditions of malfeasance or moral turpitude. We therefore consider this provision as a test of whether perquisite-associated agency issues are present in municipal governments. Model 2 of Table 5 displays results. We find that managers with excess salary

⁹ Because some managers retain accumulated sick leave, vacation leave, car allowances, and other benefits subsequent to termination (see, for example, the ICMA model contract), our severance measure likely understates the amount of severance pay available.

compensation (coefficient of 1.20, chi-square of 5.00) or who are political insiders (coefficient of .27, chi-square of 4.90) are more likely to retain severance pay in the event of dismissal over allegations of malfeasance, consistent with agency problems. In addition, severance under moral turpitude is positively associated with current job tenure (chi-square of 5.55). Older managers (chi-square of 23.07) and those with degrees (chi-square of 4.96) are less likely to receive severance under these conditions.

Finally, descriptive statistics in Table 1 show approximately 8% of managers are eligible to receive severance pay if they depart voluntarily. Such a benefit is puzzling because it appears to contradict the basic premise behind characterizations of severance – that is, severance is proffered to managers to reduce employment risk in the event of involuntary departure (cites). We therefore consider this another test of agency problems within governments. Results for a multivariate specification of voluntary severance, presented in model 3 of Table 5, shows no significant association between our independent variables and the provision of severance under voluntary departure.

Similar to the analyses of car allowances, the results in Table 5 are consistent with agency problems being an underlying determinant of perquisite packages. In addition to political risk being a primary driver of both the number of weeks of severance and the receipt of severance under moral turpitude, political insiders receive both perquisites more than those who are not entrenched in government. This suggests managers who are more familiar with the system are able to extract excess rents.

Though we argue that the results in this section are consistent with agency theory, they might also be the result of pay-for-talent. For example, it might be the case that managers with prior government experience, and current experience, are more talented and consequently, are

paid more both in salary and perquisites. However, if this is the case, we would expect the municipalities with these *talented* managers to perform better, on average, than others who do not receive excess salaries and perquisites. In the next section, we further investigate the relationship between excess compensation packages and municipal efficiency.

5. Do excess compensation and fringe benefits affect municipal efficiency?

This section explores associations between municipal efficiency, perquisites, and excess compensation. Rajan and Wulf (2006) argue that expenditures on CEO perquisites can result in increased productivity. If municipal managers with extensive perks are also more talented and productive, then the related municipalities should be more efficient than those providing managers with fewer perquisites.

Nonprofit sector research measures efficiency through the program expense ratio, defined as the ratio of program expenses/total operating expenses. The program expense ratio measures the efficiency with which funds are spent toward production of the nonprofit's main programs rather than toward overhead expenses such as fundraising or administration. Prior research suggests that lower program expense ratios (i.e., inefficiencies) are evidence of agency problems between managers and donors (Core et al. 2006). If these agency problems result in employees extracting rents in the form of excess salaries and perquisites, then there will be a positive relation between inefficiency (or administrative overhead expenses) and excess pay and perquisites. In contrast, if municipalities providing excessive pay and perks to city managers are rewarding talent, then there will be a negative relation between administrative overhead or inefficiencies and excessive pay and perquisites.

To explore these relations, we use the following OLS regression model, following Gore (2009):

$$Admin_{it} = \alpha_0 + \alpha_1 Excess\ salary_{it} + \alpha_2 Perks_{it} + \alpha_3 Debt\ per\ capita_{it} + \alpha_4 Size_{it} + \sum \alpha_k State_k + \sum \alpha_t Year_t \quad (2)$$

where *Admin* is defined as the ratio of administrative overhead expenses deflated by total operating expenses; *Perks* is a series of perquisites, and the remaining variables are defined previously. If municipal managers with higher compensation and perks are more productive, then we anticipate that coefficients for *Excess Salary* and *Perks* will be negative and significant.

We use the administrative expense ratio rather than the program expense ratio typically used in nonprofit sector research because measuring total services in the municipal sector is somewhat problematic. In contrast to nonprofit organizations, municipalities do not typically disclose program service expenses separately. For example, while a municipality may disclose the total expenditures towards roads, the accounting numbers are likely to include both direct road expenses and an administrative overhead component. Nonetheless, Census data contain sufficient detail to distinguish certain administrative expenses from program services. We measure the amount of administrative expenses following Figlio and O'Sullivan (2001) and Gore (2009), and include central staff services, financial administration, and unallocable expenses.

We include several control variables. Subjecting municipalities to outside monitoring by voters, such as by requiring a vote on new bond issues, likely increases efficiency. Following Core et al. (2006), who find a positive relation between debt and efficiency, and Gore (2009), who finds an inverse relation between administrative expenses and debt, we include total debt per capita as a control. Larger municipalities are more likely to spend funds efficiently on administrative costs due to economies of scale in operations, so we include the log of population to control for size. Finally, we incorporate year and state indicator variables.

Results are presented in Table 6. Models 1 thru 6 investigate excess salary and each of the perquisites individually, model 7 examines the relation between municipal inefficiency and

all perquisites, and model 8 includes both excess salary and perquisites. Only excess salary and bonus are significantly related to municipal inefficiency; the other perquisites offered do not seem to be related to municipal inefficiency. Both excess salary and bonus are positively related to municipal inefficiency. As expected, larger municipalities are less inefficient (or more efficient). Overall, the results imply that our earlier tests are not driven by a pay-for-talent story. In fact, it appears that the highest paid managers work for the most inefficient municipalities, further lending support to a characterization of agency issues in these municipalities.

6. Conclusion

Governmental entities are a significant and growing sector of the economy, comprising 20% of gross domestic product and paying out approximately \$53 trillion in salaries in March, 2002 (U. S. Census). As such, the lack of research investigating municipal managers' compensation packages is surprising. We investigate the determinants of perquisites offered to municipal managers, including whether agency problems and factors unique to the municipal setting affect these relations. Such research provides evidence about municipal managers' stewardship over citizens' resources, which is one of the primary purposes of governmental financial reporting (GASB 2006).

Anecdotal evidence suggests that municipal managers are underpaid compared to corporate executives. Consequently, in order to attract and retain quality employees, municipalities offer managers additional perquisites. We investigate whether this substitute relationship is evidenced by the data. In contrast, if a complementary relationship is observed, it implies an agency problem, after controlling for factors commonly associated with manager talent.

Our findings are generally consistent with the existence of agency issues in municipalities with high levels of perquisites. We find that excess salary, our proxy for agency issues, is positively related to most perquisites, including bonuses, car allowances, personal car use, average severance pay, and severance provisions (i.e., severance is provided under accusations of moral turpitude). Furthermore, the evidence suggests managers who are considered “political insiders,” that have extensive prior experience within government positions, are able to extract rents in the form of perquisites. Specifically, political insiders are more likely to receive car allowances, personal use of municipal vehicles, more severance pay, and severance when terminated under accusations of malfeasance or moral turpitude. Together, the evidence is consistent with the view that awarding high levels of perquisites is associated with agency problems between municipal managers and citizens.

We also explore whether a factor unique to the municipal setting, political risk, affects the salary and perquisites provided to managers. Political risk reflects the extent to which the managers’ job is threatened due to political uncertainty. We find that while political risk is positively correlated with the amount of severance offered to managers, it is not related to other perquisites.

To further differentiate between whether our results are consistent with an agency characterization or pay-for-talent, we explore whether higher-paid managers are associated with more efficient municipalities. That is, if higher-paid managers are more talented, and their higher pay reflects this skill, we expect the municipalities for which they work to perform better. Surprisingly, the results indicate that excess salary and bonuses are associated with increased municipal *inefficiency*. These results further support the notion that agency problems are inherent in municipalities awarding high levels of perquisites to city managers.

The study is subject to limitations, however. The data are limited to municipalities who report Census data for at least five years, as well as to those who respond to ICMA salary and fringe benefit surveys. However, the use of ICMA data also affords richer tests, because compensation data are not disclosed in municipal financial reports, unlike their corporate and nonprofit counterparts.

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Table 1
Descriptive statistics

Panel A. Descriptive statistics for CAO prerequisites

<i>Variable</i>	<i>n</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Median</i>	<i>25th percentile</i>	<i>75th percentile</i>
Base salary	3,057	80,246.94	30,047.86	75,660.00	59,000.00	96,800.00
Bonus	3,030	0.22	0.41	0.00	0.00	0.00
Car prerequisite	2,963	0.57	0.50	1.00	0.00	1.00
Personal car use	1,056	0.51	0.50	1.00	0.00	1.00
Severance pay provided	2,516	0.83	0.38	1.00	1.00	1.00
Severance pay (weeks)	1,790	18.18	17.25	15.00	3.50	26.00
Severance if moral turpitude	1,790	0.08	0.26	0.00	0.00	0.00
Severance if quit voluntarily	1,790	0.08	0.27	0.00	0.00	0.00
Vacation days	2,654	17.61	5.35	18.00	15.00	20.00
Vacation days retained	2,852	0.90	0.29	1.00	1.00	1.00
Vacation days capped	3,057	0.68	0.47	1.00	0.00	1.00
Sick days	2,648	12.98	6.17	12.00	12.00	12.00
Sick days retained	2,806	0.40	0.49	0.00	0.00	1.00
Sick days capped	3,057	0.38	0.49	0.00	0.00	1.00
Spouse travel	3,057	0.06	0.24	0.00	0.00	0.00
Sabbatical	3,057	0.01	0.08	0.00	0.00	0.00

Panel B. Descriptive statistics for select test variables.

<i>Variable</i>	<i>n</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Median</i>	<i>25th percentile</i>	<i>75th percentile</i>
Political risk	3,057	0.01	0.08	0.00	0.00	0.00
Political insider (unlogged)	3,057	11.17	8.15	10.00	5.00	17.00
Tenure (unlogged)	3,057	7.08	6.04	5.00	2.00	10.00
Age	3,057	5.13	1.65	5.00	4.00	6.00
Degree	3,057	0.65	0.48	1.00	0.00	1.00
Size (unlogged)	3,057	22,460.71	56,816.53	8,982.00	4,155.00	22,122.00
Deficit	3,057	0.06	0.24	0.00	0.00	0.00
Debt per capita	2,071	1.15	0.79	1.24	0.29	1.57
Admin ratio	1,964	0.17	0.11	0.15	0.10	0.21

Variable definitions are as follows: *Base salary* is the municipal manager salary in dollars; *Bonus* is an indicator variable equal to 1 if the municipal manager received a bonus while in his current position, 0 otherwise; *Car prerequisite* is an indicator variable equal to 1 if the municipality provides the manager with a car or car allowance; *Personal Car Use* is an indicator variable equal to 1 if the car provided can be used for personal reasons, while 0 if the car provided is solely for business use; *Severance pay provided* is an indicator variable equal to 1 if a municipal manager is eligible for severance pay; *Severance pay (weeks)* is the number of weeks severance pay awarded in the event of termination; *Severance if moral turpitude* is an indicator variable equal to 1 if the manager is eligible to receive severance pay if he involuntarily leaves his position under accusations of malfeasance or moral turpitude; *Severance if quit voluntarily* is an indicator variable equal to 1 if the manager is eligible to receive severance pay if he voluntarily leaves his position; *Vacation days* is the annual number of vacation days received; *Vacation days retained* is an indicator variable equal to 1 if the manager can receive payment for unused vacation leave if he resigns; *Vacation days capped* is a dummy variable equal to 1 if there is a cap on the annual amount of vacation leave the manager can accumulate; *Sick days* is the annual number of sick days received; *Sick days retained* is an indicator variable equal to 1 if the manager can receive payment for sick leave in the event of resignation; *Sick days capped* is a dummy variable equal to 1 if there is a cap on the annual

amount of sick leave the manager can accumulate; *Spouse travel* is a dummy variable equal to 1 if the municipality pays for the manager's spouse to attend conferences; *Sabbatical* is a dummy variable equal to 1 if the municipality has paid for the manager's sabbatical leave; *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages>70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years; *Debt per capita* is total debt deflated by total population; and *Admin ratio* is the ratio of total administrative expenses/total operating expenses.

Panel C. Pearson correlation coefficients

	<i>Political risk</i>	<i>Political insider</i>	<i>Tenure</i>	<i>Age</i>	<i>Degree</i>	<i>Size</i>	<i>Deficit</i>	<i>Excess salary</i>	<i>Bonus</i>	<i>Car perquisite</i>	<i>Personal car use</i>	<i>Avg. severance under MT</i>	<i>Severance if quit voluntarily</i>	
Political risk	1.00													
Political insider	0.02	1.00												
Tenure	-0.06***	-0.10***	1.00											
Age	0.003	0.20***	0.32***	1.00										
Degree	0.02	0.17***	-0.02	-0.10***	1.00									
Size	-0.03*	0.36***	0.14***	0.23***	0.24***	1.00								
Deficit	-0.01	-0.07***	-0.02	-0.02	-0.05***	-0.07***	1.00							
Excess salary	-0.002	0.19***	-0.003	0.01	-0.01	-0.004	-0.01	1.00						
Bonus	-0.03*	0.03*	0.19***	-0.01	0.08***	0.08	-0.03*	0.08***	1.00					
Car perquisite	-0.01	0.03*	0.07***	0.03	0.06***	0.14***	0.01	0.07***	0.06***	1.00				
Personal car use	-0.002	0.27***	0.09***	0.08***	0.19***	0.37***	-0.07**	0.24***	0.22***	n.a.	1.00			
Avg. severance	0.04	0.31***	-0.02	-0.04*	0.29***	0.27***	-0.09***	0.25***	0.10***	0.08***	0.36***	1.00		
Sev. if moral turpitude	-0.01	0.02	-0.001	-0.10***	-0.03	-0.03	-0.03	0.05**	0.02	0.04	0.07*		1.00	
Sev. if quit voluntarily	-0.01	0.01	0.05**	0.03	0.01	0.02	0.01	0.003	0.03	0.02	-0.003	0.09***	0.04	1.00

*, **, *** indicate significance at $p < .10$, $.05$, and 01 ; based on two-tailed tests.

Variable definitions are as follows: *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages >70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years; *Excess salary* is the residuals from the OLS regression model in Table 2, model 1; *Bonus* is an indicator variable equal to 1 if the municipal manager received a bonus while in his current position, 0 otherwise; *Car perquisite* is an indicator variable equal to 1 if the municipality provides the manager with a car or car allowance; *Personal Ca user* is an indicator variable equal to 1 if the car provided can be used for personal reasons, while 0 if the car provided is solely for business use; *Severance pay (weeks)* is the average number of weeks severance pay awarded in the event of termination; *Severance if moral turpitude* is an indicator variable equal to 1 if the manager is eligible to receive severance pay if he involuntarily leaves his position under accusations of malfeasance or moral turpitude; and *Severance if quit voluntarily* is an indicator variable equal to 1 if the manager is eligible to receive severance pay if he voluntarily leaves his position.

Table 2
Determinants of municipal manager salary

<i>Variable</i>	<i>Model 1</i> (<i>n=3,070</i>)	<i>Model 2</i> (<i>n=3,057</i>)
Intercept	9.19 (131.29)***	9.16 (133.50)***
Political risk		-0.02 (-0.41)
Political insider		0.05 (11.53)***
Tenure	0.05 (11.10)***	0.08 (13.63)***
Age	0.01 (3.98)***	-0.00 (-1.60)
Degree	0.11 (12.73)***	0.10 (11.80)***
Size	0.20 (54.94)***	0.18 (50.28)***
Deficit	-0.06 (-3.65)***	-0.05 (-3.42)***
Year indicators	Included ¹	Included ¹
State indicators	Included ¹	Included ¹
Adjusted R ²	71.52%	71.30%

*, **, *** indicate significance at $p < .10$, $.05$, and 01 ; based on two-tailed tests.

¹For brevity, the year-specific and state-specific intercept terms are not reported.

This table presents estimates for an OLS regression model where the dependent variable is the log of annual base salary compensation. Regressions are estimated separately for each year, and for brevity, results are tabulated as a pooled regression with year indicators. t-statistics are reported in parentheses, using robust standard errors clustered on municipality.

Variable definitions are as follows: *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages>70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; and *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years.

Table 3
Determinants of municipal manager bonus

<i>Variable</i>	<i>Bonus</i> (<i>n=3,030</i>)
Intercept	-2.09 (-8.61)**
Excess salary _t	1.21 (14.63)***
Political risk	-1.36 (-1.63)
Political insider	0.09 (1.99)
Tenure	0.80 (96.76)***
Age	-0.17 (-20.32)***
Degree	0.32 (6.72)***
Size	0.09 (2.72)*
Deficit	-0.29 (-1.52)
Year indicators	Included ¹
State indicators	Included ¹
Likelihood ratio	291.74

*, **, *** indicate significance at $p < .10$, $.05$, and $.01$; based on two-tailed tests.

¹For brevity, the year-specific and state-specific intercept terms are not reported.

This table presents estimates for a logit regression model where the dependent variable is an indicator variable equal to 1 if the manager received a bonus. Chi-square statistics are reported in parentheses, using robust standard errors clustered on municipality.

Variable definitions are as follows: *Excess salary* is the residuals from the OLS regression model in Table 2, model 1, and is calculated separately for each year; *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages >70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; and *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years.

Table 4
Determinants of municipal manager car perquisites

Variable	Car allowance (2002 only)			
	Car perquisite	Car use	Personal car use	
	Model 1 (n=2,963)	Model 2 (n=696)	Model 3 (n=2,578)	Model 4 (n=1,056)
Intercept	0.12 (0.89)	-4.45 (-6.91)***	0.03 (0.00)	-6.77 (-22.99)***
Excess salary _t	0.87 (13.97)***	1.81 (12.41)***	0.68 (7.73)***	3.17 (26.67)***
Political risk	-0.18 (-0.16)	-0.14 (-0.04)	-0.16 (-0.11)	-0.30 (-0.08)
Political insider	-0.05 (-0.87)	0.28 (6.32)***	-0.09 (-2.39)	0.33 (12.12)***
Tenure	0.16 (5.91)***	0.04 (0.08)	0.22 (9.77)***	0.12 (0.87)
Age	-0.05 (-3.04)**	-0.05 (-0.54)	-0.06 (-3.23)*	-0.09 (-2.03)
Degree	0.13 (1.53)	0.74 (13.38)***	0.05 (0.17)	0.49 (6.00)***
Size	0.16 (13.54)	0.36 (12.83)***	0.12 (6.28)***	0.66 (41.71)***
Deficit	0.09 (0.26)	-0.79 (-4.15)**	0.21 (1.29)	-0.24 (-0.59)
Year dummies	Included ¹	Included ¹	Included ¹	Included ¹
State dummies	Included ¹	Included ¹	Included ¹	Included ¹
Likelihood ratio	597.34	186.10	447.34	402.95

*, **, *** indicate significance at $p < .10$, $.05$, and 01 based on two-tailed tests.

¹For brevity, the year-specific and state-specific intercept terms are not reported.

This table presents estimates for a logit regression model where the dependent variable is an indicator variable equal to 1 if the municipality provides the manager with a car or car allowance (model 1); an indicator variable equal to 1 if the municipality provides the manager with a car allowance (model 2); an indicator variable equal to 1 if the municipality provides the manager with a car (model 3);, or if the car provided can be used for personal reasons (model 4). Chi-square statistics are reported in parentheses, using robust standard errors clustered on municipality.

Variable definitions are as follows: *Excess salary* is the residuals from the OLS regression model in Table 2, model 1, and is calculated separately for each year; *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages >70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; and *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years.

Table 5
Determinants of municipal manager severance pay

<i>Variable</i>	<i>Average severance (in weeks)</i>	<i>Severance under moral turpitude</i>	<i>Severance under voluntary departure</i>
	<i>Model 1 (n=1,790)</i>	<i>Model 2 (n=1,790)</i>	<i>Model 3 (n=1,790)</i>
Intercept	-0.06 (-0.15)	-0.60 (-0.19)	-11.62 (-151.18)***
Excess salary _t	1.61 (8.85)***	1.20 (5.00)**	0.00 (0.00)
Political risk	0.61 (2.57)***	0.27 (0.05)	0.18 (0.02)
Political insider	0.23 (5.99)***	0.27 (4.90)**	0.06 (0.33)
Tenure	0.09 (1.81)*	0.34 (5.55)**	0.19 (1.85)
Age	-0.11 (-4.99)***	-0.36 (-23.07)***	0.07 (0.90)
Degree	0.52 (7.05)***	-0.49 (-4.96)**	0.04 (0.03)
Size	0.22 (7.13)***	-0.02 (-0.03)	0.01 (0.01)
Deficit	-0.27 (-2.18)**	-0.55 (-1.12)	0.16 (0.18)
Year indicators	Included ¹	Included ¹	Included ¹
State indicators	Included ¹	Included ¹	Included ¹
Adjusted R ²	31.50%		
Likelihood ratio		106.66	82.09

*, **, *** indicate significance at $p < .10$, $.05$, and 01 ; based on two-tailed tests.

¹For brevity, the year-specific and state-specific intercept terms are not reported.

This table presents estimates for an OLS regression model where the dependent variable is the log of the average weeks of severance pay provided in the event the manager leaves his position (model 1); a logit model with an indicator variable equal to 1 if the manager is eligible to receive severance pay if he leaves his position under accusations of malfeasance or moral turpitude (model 2); and a logit model with an indicator variable equal to 1 if the manager is eligible to receive severance pay if he voluntarily leaves his position (model 3). t-statistics and chi-square statistics are reported in parentheses, using robust standard errors clustered on municipality.

Variable definitions are as follows: *Excess salary* is the residuals from the OLS regression model in Table 2, model 1, and is calculated separately for each year; *Political risk* is an indicator variable equal to one if the city manager thinks his/her job is at risk due to political pressure; *Political insider* is log of 1 plus the number of years the manager has been in the government prior to his / her current job; *Tenure* is log of 1 plus the number of years the manager has been in the CAO position; *Age* is the manager's age category, where 1=ages <30, 2=ages 31-35,...10=ages >70; *Degree* is a dummy variable equal to one if the manager has an undergraduate or graduate degree; *Size* is the log of population; and *Deficit* is a dummy variable indicating whether the municipality has a deficit in the current or previous four years.

Table 6
Municipality Inefficiency, Excess Compensation, and Perks

<i>Variable</i>	<i>Model 1</i> <i>(n=1,970)</i>	<i>Model 2</i> <i>(n=1,953)</i>	<i>Model 3</i> <i>(n=649)</i>	<i>Model 4</i> <i>(n=1,024)</i>	<i>Model 5</i> <i>(n=1,760)</i>	<i>Model 6</i> <i>(n=1,760)</i>	<i>Model 7</i> <i>(n=1,964)</i>	<i>Model 8</i> <i>(n=1,964)</i>
Intercept	0.35 (11.51)***	0.36 (11.79)***	0.35 (10.90)***	0.34 (8.41)***	0.34 (9.94)***	0.34 (9.98)***	0.35 (8.70)***	0.35 (8.64)***
Excess salary	0.04 (2.75)***							0.03 (1.93)**
Bonus		0.01 (2.04)**					0.01 (1.83)*	0.01 (1.70)*
Car Perquisite			-0.00 (-0.64)				-0.00 (-0.60)	-0.01 (-0.76)
Upper quartile of severance pay				0.01 (1.20)			0.01 (1.20)	0.01 (0.80)
Severance under moral turpitude					0.01 (0.53)		0.00 (0.08)	-0.00 (-0.03)
Severance under voluntary departure						-0.00 (-0.06)	-0.00 (-0.05)	-0.00 (-0.03)
Debt per capita	-0.01 (-1.62)*	-0.00 (-1.20)	-0.00 (-1.03)	-0.00 (-1.26)	-0.00 (-0.66)	-0.00 (-0.68)	-0.00 (-1.33)	-0.01 (-1.66)*
Size	-0.02 (-6.97)***	-0.02 (-7.17)***	-0.02 (-6.84)***	-0.02 (-6.11)***	-0.02 (-6.77)***	-0.02 (-6.77)***	-0.02 (-6.12)***	-0.02 (-5.98)***
Year indicators	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹
State indicators	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹	Included ¹
Adjusted R ²	19.05%	18.86%	18.22%	20.79%	19.10%	19.09%	20.87%	21.08%

*, **, *** indicate significance at $p < .10$, $.05$, and 01 ; based on two-tailed tests.

¹For brevity, the year-specific and state-specific intercept terms are not reported.

This table presents estimates for an OLS regression model, where the dependent variable is the ratio of total administrative expenses/total operating expenditures. t-statistics are reported in parentheses, using robust standard errors clustered on municipality.