Notes on Spring 2017 PARCA (Public Affairs Research Council) report

How Alabama City Finances Compare

General.

The latest municipal financial analysis for the top 22 Alabama cities can be found at: http://parcalabama.org/wp-content/uploads/2017/04/How-Alabama-City-Finances-Compare.pdf

These data reflect municipal finances only (revenue and spending) and do not include money associated with County or State government. So things like tax rates, for example, may not seem accurate as the tax levies from County and State are not reflected in the statistics presented.

The PARCA report is full of selected graphics in support of their report. They also have the entire set available if you want to really assess a particular city or subject. All graphics can be found at http://tinyurl.com/parcacities2014 . You can sort / display most data in many ways – even by city... so play around with the sorting feature located on the bottom of the chart.

Also, most data is presented in a "per capita" fashion – this helps normalize PARCA's analysis to an "apples to apples" assessment. But the reader needs to understand these cities have a wide range in population – up to a factor of 10.

Smallest is Mountain Brook with 20,691 people. And it is adjacent to the largest city in the analysis (Birmingham with 212,231 citizens)! Madison is similar. We have about 48,000 residents and we're surrounded by Huntsville with over 180,000.

The caution associated with analysis using per capita data is that population must always be considered too. Two cities, with similar per capita revenue, may prioritize spending much differently as their city's revenue balance will scale with population. For example, the cost (say $40M) of a new school that is essential to a community, has a much larger impact on debt to a small municipality than one ten times as large. Hence, the ability to afford it is affected by population.   The cost of that school will be the same regardless of where it is built.

22 Cities Studied
(>20,000 in population[1])

Birmingham (212,237)	Gadsden (36,856)
Montgomery (201,332)	Vestavia Hills (34,033)
Mobile (195,111)	Prattville (33,960)
Huntsville (180,105)	Phenix City (32,822)
Tuscaloosa (90,468)	Opelika (28,635)
Hoover (84,848)	Bessemer (27,456)
Dothan (65,496)	Enterprise (26,562)
Auburn (63,118)	Homewood (25,708)
Decatur (55,683)	Anniston (23,106)
Madison (48,194)	Athens (21,897)
Florence (39,319)	Mountain Brook (20,691)

Municipal Revenue.

PARCA looks at six categories of revenue. Sales & Property taxes, Charges / Fines / Fees, Intergovernmental revenue; Business Licenses, and Occupational taxes. Below is a brief recap of these with respect to Madison:
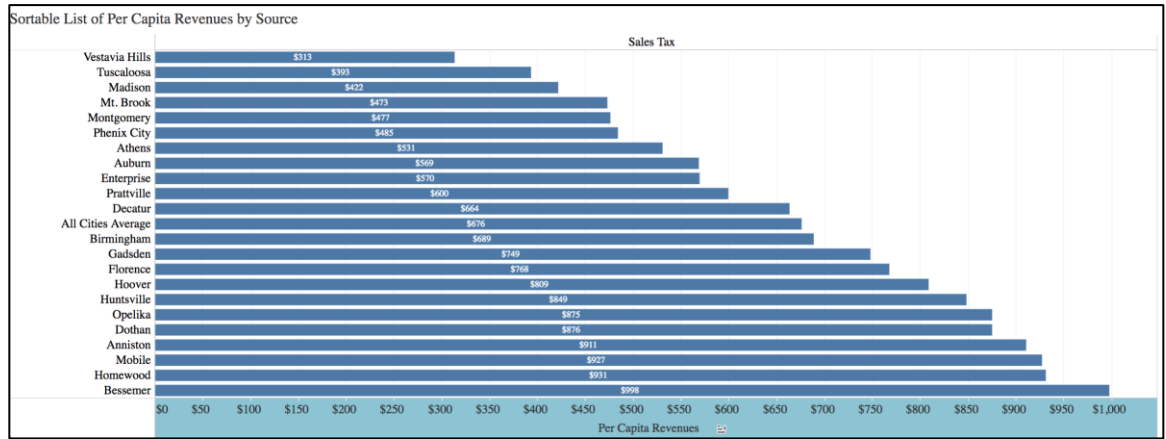
1. **Sales Taxes**.

    a. Madison has a 9% gross sales tax in Madison City / Madison County and a 9.5% gross sales tax in Madison City / Limestone County.

    b. A half-cent of Madison's sales taxes goes to MCS to pay off the QCSB loans to build James Clemens and the BRAC bond money which paid for the Bob Jones renovations. City of Madison Ordinance 2009-222, Resolution 2010-11-R and Resolution 2012-350-R are the governing documents on this sales tax. The QSCB bond will be paid off in September of 2027.

    c. Only 3.5 % of the City's gross sales tax comes to the City of Madison. The State gets 4% and the Counties get either 1.5% (in Madison County), or 2% (in Limestone County). The City of Madison uses 2.5% of its 3.5% for operating the City; 0.5% goes to City debt service, and 0.5% to Madison

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[1] Population data was taken from either 2010 census or current estimates found in Wikipedia articles. Population data did not come from PARCA.

Schools (~$2.8M) – see "b." above.

d. The County-level sales taxes support education - not county government. MCS gets a pro rata share from Madison County sales; however, Limestone doesn't share its sales taxes with MCS. The gross annual sales tax revenue generated by Madison businesses in Limestone County is estimated to be ~$1.15M. However, the pro rate share of Limestone County sales tax would be close to $2M. This is the number Dr. Fowler used as "lost MCS revenue".

e. Over all, Madison's per capita sales tax revenue is the 3rd lowest among the 22 municipalities included in the PARCA study! The $422/citizen figure is reflective of the fact that until the last decade, Madison's growth priority has been residential. This has recently improved, albeit slowly. A half-cent sales tax brings in over $350K more per year today than it did in 2010 when James Clemens was funded.


Sortable List of Per Capita Revenues by Source

Sales Tax

City	Per Capita Revenue
Vestavia Hills	$313
Tuscaloosa	$393
Madison	$422
Mt. Brook	$473
Montgomery	$477
Phenix City	$485
Athens	$531
Auburn	$569
Enterprise	$570
Prattville	$600
Decatur	$664
All Cities Average	$676
Birmingham	$689
Gadsden	$749
Florence	$768
Hoover	$809
Huntsville	$849
Opelika	$875
Dothan	$876
Anniston	$911
Mobile	$927
Homewood	$931
Bessemer	$998

Per Capita Revenues

2. **Property (ad valorem) Taxes**.

a. All property tax data in PARCA's report are dollars directly ported to the municipality. Any property tax dollars that may flow to a municipality via Intergovernmental revenues would be included in that discussion.

b. All counties in Alabama collect a 5.5 mill property tax to support schools. As in the County sales tax situation, Madison County does share on a pro rata basis the property taxes collected in Madison County; however, the County no longer counts the students from Madison City / Limestone County in MCS's numbers – hence, another revenue "loss" of ~$0.5M/yr.

c. The Madison City Council cannot enact ad valorem taxes by City Ordinance or Council Referendum. It must be done by State legislation that calls for a referendum vote by the citizens. Such a process is: 1) time consuming and 2) subject to outside influence. City officials must have our

State legislators on board, have the referendum drafted and reviewed. Then an election must be held – either a special election or piggybacking on another scheduled election. If passed, the new property tax becomes effective on the next 1 Oct. Hence, it is important to hold a vote prior to the end of a fiscal year. As property taxes are collected in arrears, the City and MCS would not see revenue until the next January. For example, if Madison passed a property tax in June of 2018, it would become effective 1 Oct 2018 (FY2019), not collected until 31 Dec 2019. The City would not see any of those tax dollars until January 2020.

d.   If the City of Madison should raise their ad valorem taxes for education, the City of Triana is obliged to match the increase for their City's property owners within two years.

e.   Madison's per capita property tax revenue is approximately $291 per resident. This reflects the 11 mill tax which funded the establishment of the Madison City School system. Because of this millage, Madison is ranked 6 of 22 in per capita property tax revenue. But if you compare it to the top five, you will see that both Opelika and Auburn have occupational tax revenues (discussed below) and Mt Brook, Vestavia Hills and Homewood all have significantly 2 to 2.5 times the per capita property tax revenue. Yet MCS consistently competes well with the schools of these top-funded municipalities.
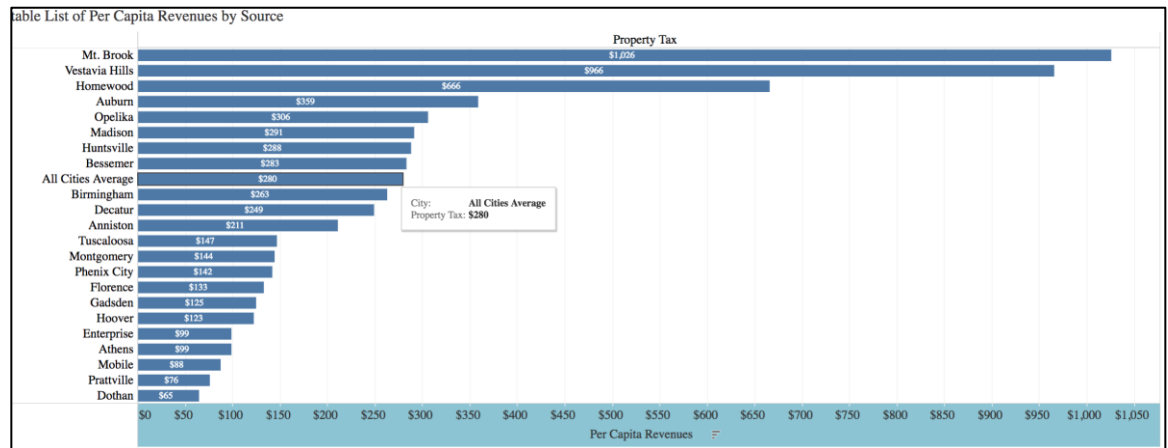

3. **Charges, Fines and Fees.** The City gains revenue from various charges, fines and fees; however, none of those go to MCS. It is also against Alabama law for MCS to charge tuition to city residents; however, many of the activities offered by MCS do have fees associated with them and extracurricular activities heavily depend on fees and fundraisers. None of these dollars are considered in the PARCA report.

4. **Intergovernmental Revenue.** The City of Madison receives grants, cost share dollars, and other outside City support from legislators, agencies (such as ALDOT). The dollars received from TVA in-lieu-of tax payments is a good example.

5. **Business Licenses.** No MCS revenue comes from any business license revenue collected by City of Madison's Revenue Department.

6. **Occupational Taxes.**

   a. This tax is commonly thought of as a "city income tax", but it is actually a license tax levied on employers and passed through to their employees working in that city.
   b. It normally is a 1 to 2% levy on income. If Huntsville had such a tax, anyone with a job in Huntsville would have to pay that tax each day that he or she actually worked in Huntsville. Hence, the employer must track how many days you work within the corporate limits of the municipality.
   c. Only 5 cities have this in Alabama: Gadsden, Birmingham, Opelika, Bessemer and Auburn. Alabama law prohibits any Occupational tax levies in Madison County. You can see the impact of this tax on these cities in the funding chart showing per capita funding sources. Note Opelika and Auburn.


Other Key PARCA Report Graphics.

The following graphics from the PARCA report were selected to illustrate how Madison ranks in finances with other cities in Alabama. Financial data is from FY2014.

1. **Madison's Revenue by Source:** Overwhelmingly, the City of Madison depends on sales taxes (which can fluctuate with the local economy) followed by property taxes. Keeping north Alabama vibrant, attractive to businesses and reflective of a high quality of life should be in the interest of every Madison citizen. Growing shopping opportunities inside Madison is critical in
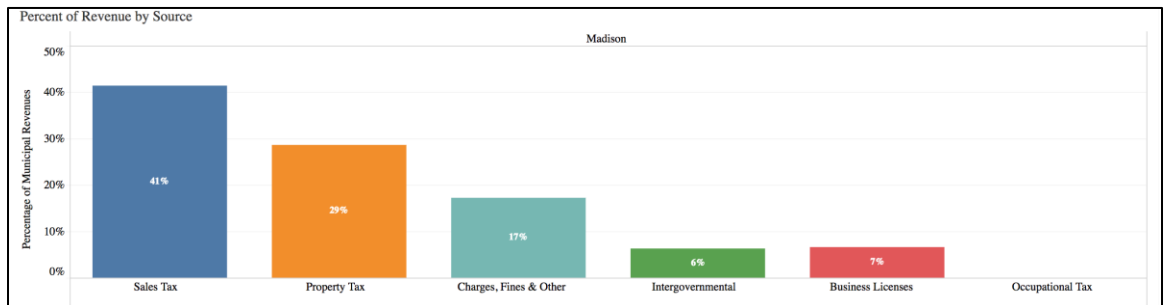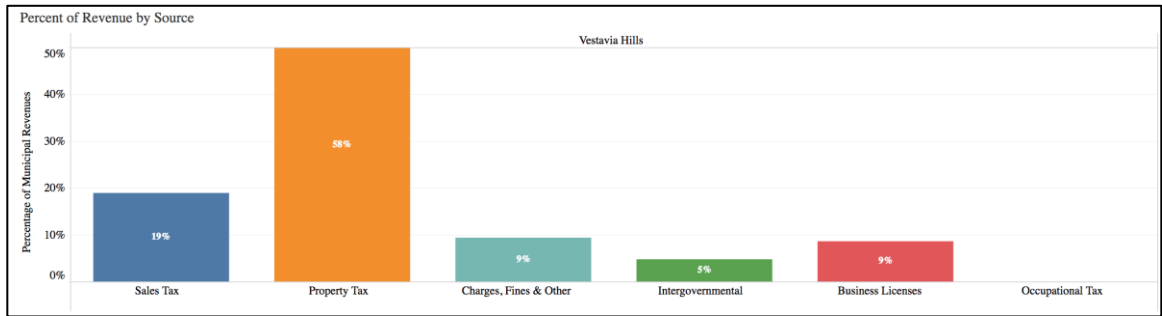

supporting both City services and schools.

As a comparison to a city half our size, but with a top-tier school system, the same data for Mt Brook is shown below. Half of their revenue is from property taxes - a stable revenue stream.
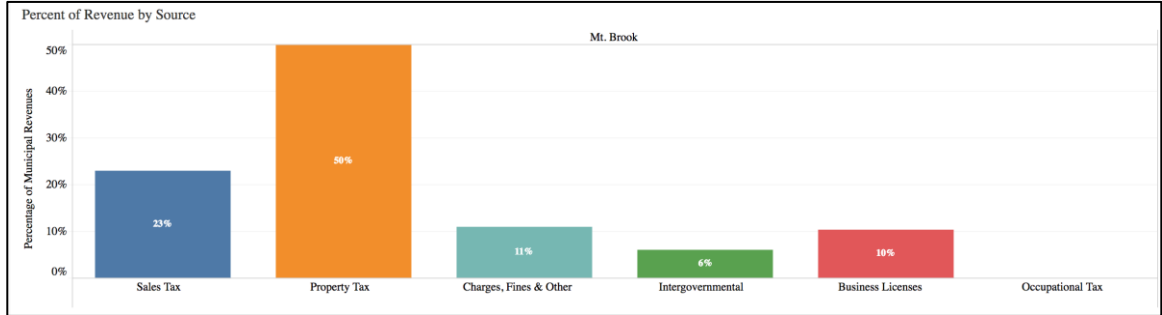

Vestavia Hills is closer to Madison in population and it also has a very stable city property tax funding base.


Unfortunately, while Madison did use property taxes to stand up its school system in the late 1990s, it did not recognize it was closer to a bedroom community than a balanced municipality. For more than a decade, Madison did not include additional property taxes for the City to keep up with population growth, nor did it aggressively annex revenue-generating commercial property. The City is now trying to make up lost ground; however, our schools have already become the best educational value in Alabama and we attract more and more families with students (residential growth).

2. **Per Capita Revenue by Source.** On a per capita basis, Madison's total revenue ranks 21 out of 22 in the State. In general, except for Mt Brook, Homewood, and Vestavia Hills, most cities rely on sales taxes for the majority of their revenue. Note Tuscaloosa's Intergovernmental revenue and the six cities that have occupational tax levies.
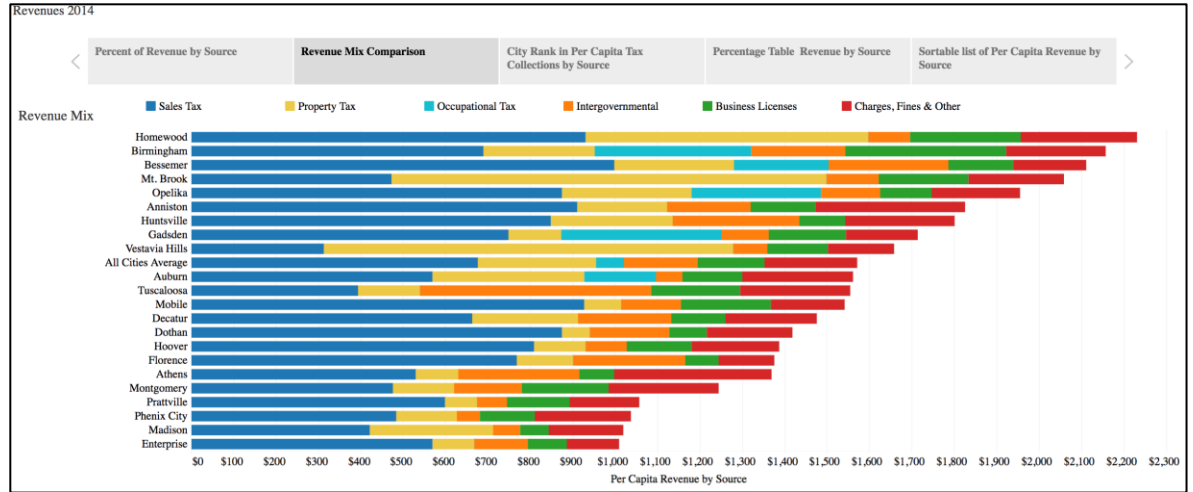
3. **Per Capita Debt.** Not a "good news" story, Madison is number 1! Both MCS and the City are servicing debt and we have valid reasons for that debt; however, without more revenue, both the City and MCS are hard pressed to borrow significant money. The City typically borrows $20M every few years for its capital improvement needs. But when you have to build a school, you need much more capital. Not including land, an elementary school is about $25M, a middle school is $35M and a high school is about $75M. As of October 1, 2016, MCS's debt was $173,918,854. MCS could not look at funding another building project with current revenue before 2029. For comparison, note the per capita debt for Mt Brook and Hoover.
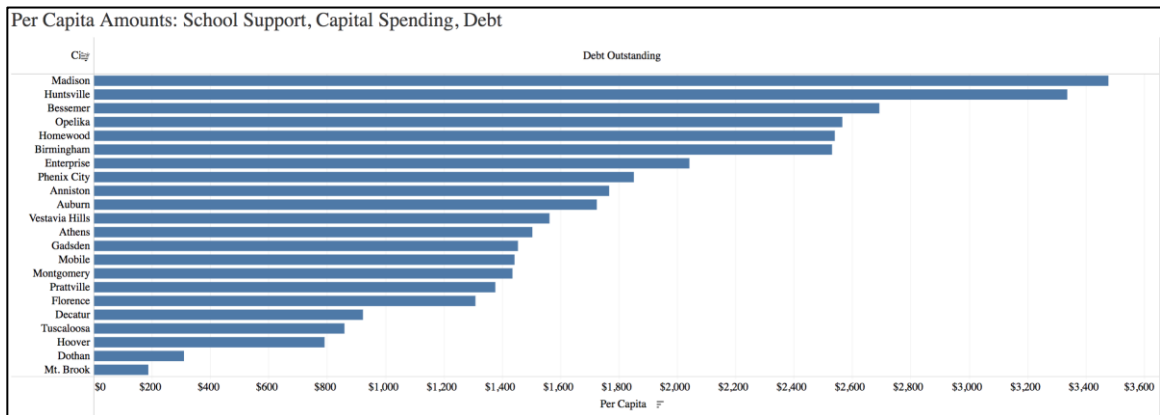

4. **Municipal Support for Schools.** Looking at all 22 Cities assessed by PARCA, Madison is 12 out of 22 in direct support to our schools – about $60 / person. Huntsville is ~$110 / citizen – with 3 to 4 times Madison's population and almost twice the per capita support, Huntsville would have approximately 7 times the dollars in their school system as does Madison. As we consistently out perform Huntsville, MCS provides citizens an outstanding value.

Per Capita Amounts: School Support, Capital Spending, Debt
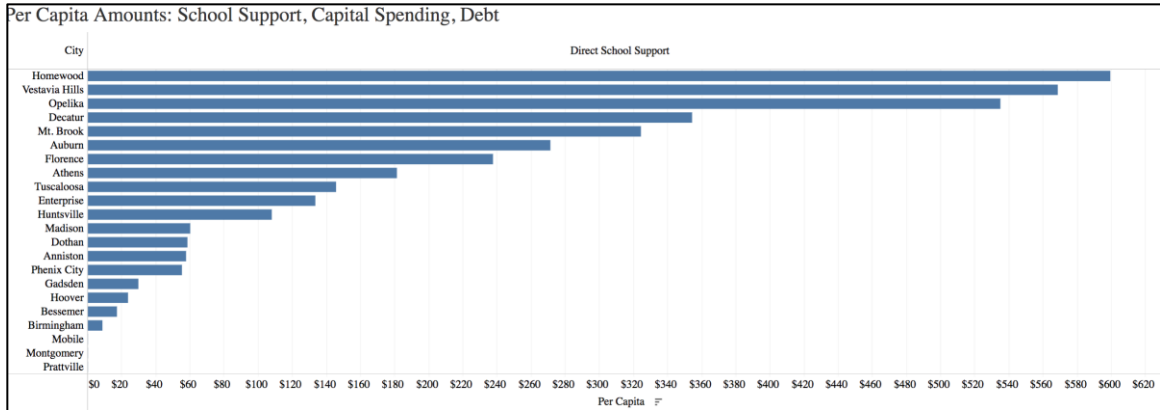
Summary.

- It is important to remember PARCA data is taken from 2014 finance – it is a recent snapshot. Hence, they give trends and relative judgment, not absolute answers.

- Madison is very dependent on sales taxes that are subject to local economics. While north Alabama's economy is currently robust, that is not a guarantee. Our economy was impacted in 2008 and it can happen again.

- All the municipalities with school systems that routinely beat MCS performance have very stable and robust funding from ad valorem taxes.

Municipal Tax Rates and Tax Yield
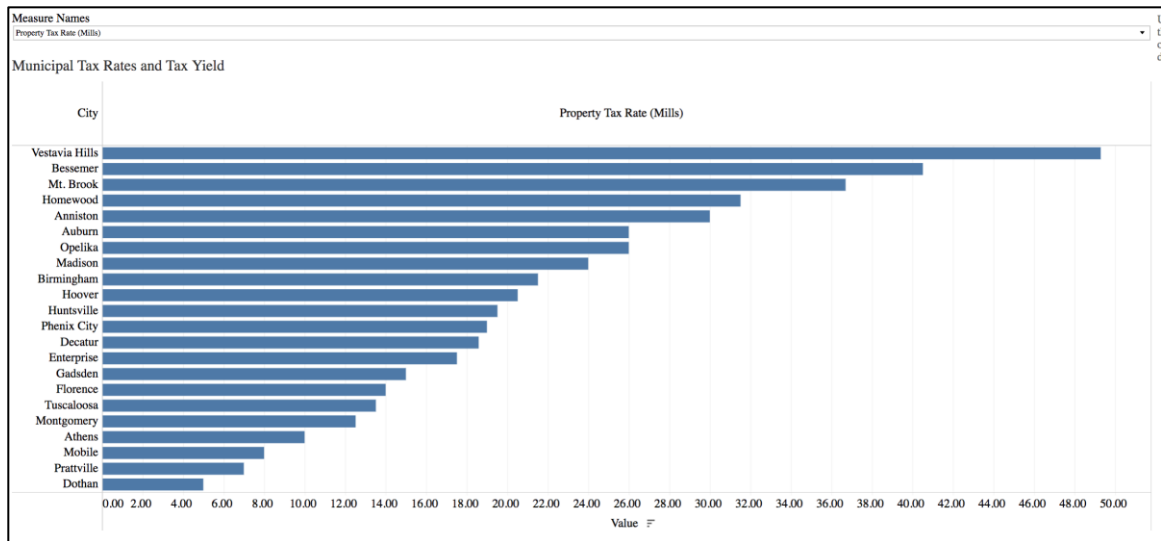
- Madison and MCS have significant debt. At current revenue levels, it will be more than a decade before any new construction can be considered.