

Existing Conditions Assessment

City Fiscal Conditions

DRAFT

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This document presents a summary of Tuscaloosa's city revenue, expenditures and other financial conditions based on over 12 years of budget statements provided by the City and other publicly available financial information. This information is intended to serve as context for development of the city's comprehensive plan.

A city's fiscal health greatly impacts the type and quality of services it provides. Fiscal health is a government's financial condition based upon revenues, expenditures, and debt load. These factors can be impacted by policies established in the comprehensive plan. To understand Tuscaloosa's fiscal health, the planning team reviewed City financial reports from 2005 through 2017.

Key Findings

Total City revenue is growing and has tracked above operating expenses with an average growth rate of 4.45% per year. Expenses are categorized as Current Operations, Capital Outlay, Debt Service, and Intergovernmental Expenditures. Some of the expenses reflect shared costs and are accounted for in the budget through transfers between funds. The City adopts a balanced budget each year which is periodically revised to reflect changes in projections or anticipated economic impacts which can affect both revenues and expenditures. See Figures 1 and 2.

Taxes as a proportion of total revenue have remained stable. Major revenue categories include Taxes, Licenses and Permits, Fines and Penalties, Use of Property, Charges for Services, Intergovernmental revenues, and Other Operating Revenue. Taxes are the largest source and make up about half of total revenue (fluctuating between 48% to 51%). See Figure 3.

Intergovernmental revenue is declining. This subcategory, which includes revenue from State, Federal, County or other shared sources, has declined as a proportion of total revenue from about 30% to just over 20% between 2005-2017. See Figure 3.

Revenue increases have been from "Charges for Services" and "Other Operating Revenue". While, intergovernmental revenue is declining, two categories have increased. Charges for services has increased from approximately 2% to 4% of revenue between 2005-2017. Other Operating Revenue, which includes interest on investments, grew from 3% to 6% during that time period. See Figure 3.

Tax revenues are diversifying with sales tax as a proportion of revenue declining. In Alabama, local governments rely heavily on sales taxes. Sales tax is Tuscaloosa's largest revenue source. However, sales tax revenue has grown more slowly than other sources and has declined as a proportion of total tax revenue has from 64% in 2005 to 53% in 2017. Use Tax, Property Tax, and Lodging Tax Revenues have been increasing at faster rates than sales tax. Growing sales tax revenue requires either an increase in the number of households (assuming average spending remains the same), or an increase per-household spending (the same number of households but more spending per household), or an increase in the tax rate. See Figures 4, 5, and 6.

Tuscaloosa has a low level of debt. Local governments borrow to pay for infrastructure, rather than use annual tax collections and other revenues. Public buildings, roads, and bridges are used for

decades but entail large upfront costs; borrowing enables the city to spread out those costs. Borrowing also makes infrastructure projects more affordable by reducing the pressure on a budget in any given year. Tuscaloosa has approximately \$211 million in debt, which is the lowest amount of total debt among the five large cities in Alabama. Huntsville, which has twice the population, has the largest debt load of \$784 million. See Figure 7.

Tuscaloosa has a relatively low sales tax rate. In Alabama, the total sales tax rate that consumers pay varies by location. The State collects 4%, and there is usually additional tax paid to counties, cities, and special assessments. The total combined sales tax rate in Tuscaloosa is 9%, which is similar to Huntsville and other mid-large cities in Alabama. The three largest cities, Birmingham, Montgomery, and Mobile, as well as smaller cities in Tuscaloosa County and elsewhere have 10% rates. Figure 8 shows the relative breakdown of tax rates among the five large cities in Alabama. The City of Tuscaloosa collects only 2% directly, the lowest of the State's five largest cities. Tuscaloosa County collects 3%, which is among the highest County sales rates. However, the County sales tax revenue is shared with several local entities, Tuscaloosa receiving 19%.

Since 2015, Tuscaloosa County's sales tax revenue is allocated as follows:

- City of Tuscaloosa: 19 percent.
- Tuscaloosa County Commission: 14.3 percent.
- Tuscaloosa city schools: 20 percent.
- Tuscaloosa County schools: 25 percent.
- City of Northport: 5 percent
- Tuscaloosa County Road Improvement Authority: 10 percent.
- DCH Regional Medical Center: 6.7 percent.

The city has a high credit rating. Bond credit ratings represent a city's relative level of credit risk as a borrower. Standard and Poor's Financial Services and Moody's Investors Service provide credit ratings for municipalities according to different scales. Tuscaloosa received equivalent scores from Standard and Poor's (AA+) and Moody's (Aa1), the second highest possible ratings according to each system, indicating a low level of risk to investors and favorable interest rates on loans.

Figure 1. Revenues and Fund Balance
General Fund

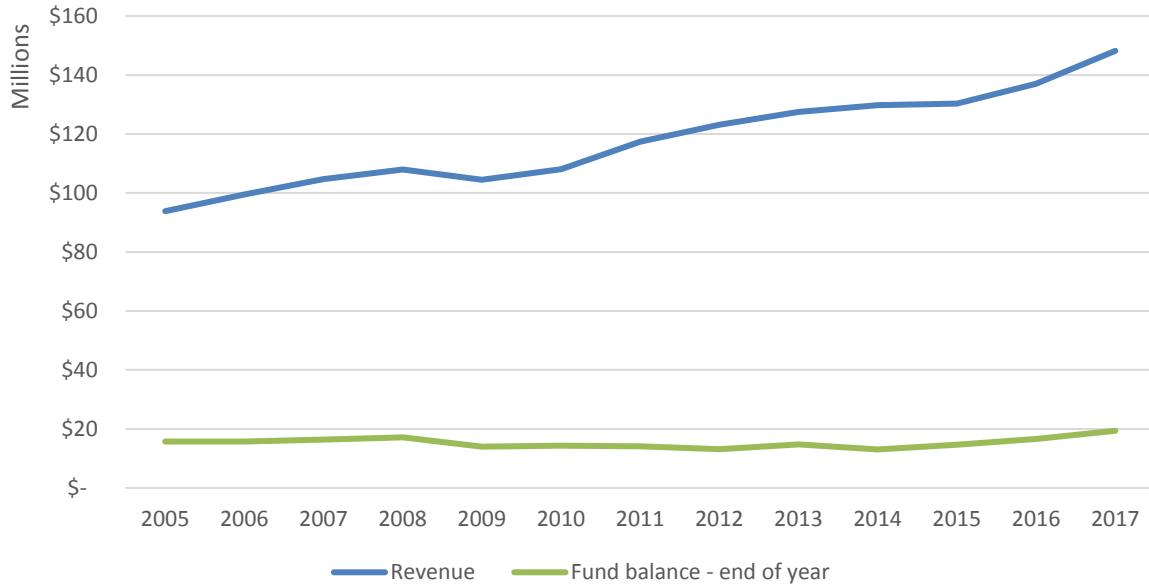
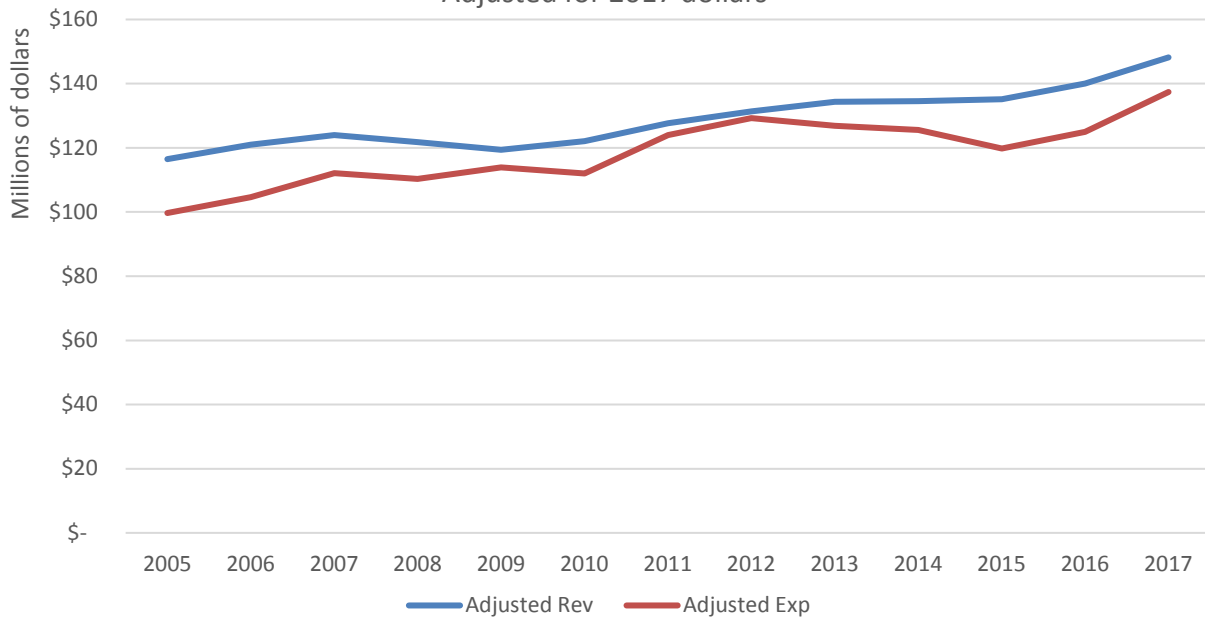


Figure 2. Revenues and Operating Expenditures (does not include capital outlay)
Adjusted for 2017 dollars



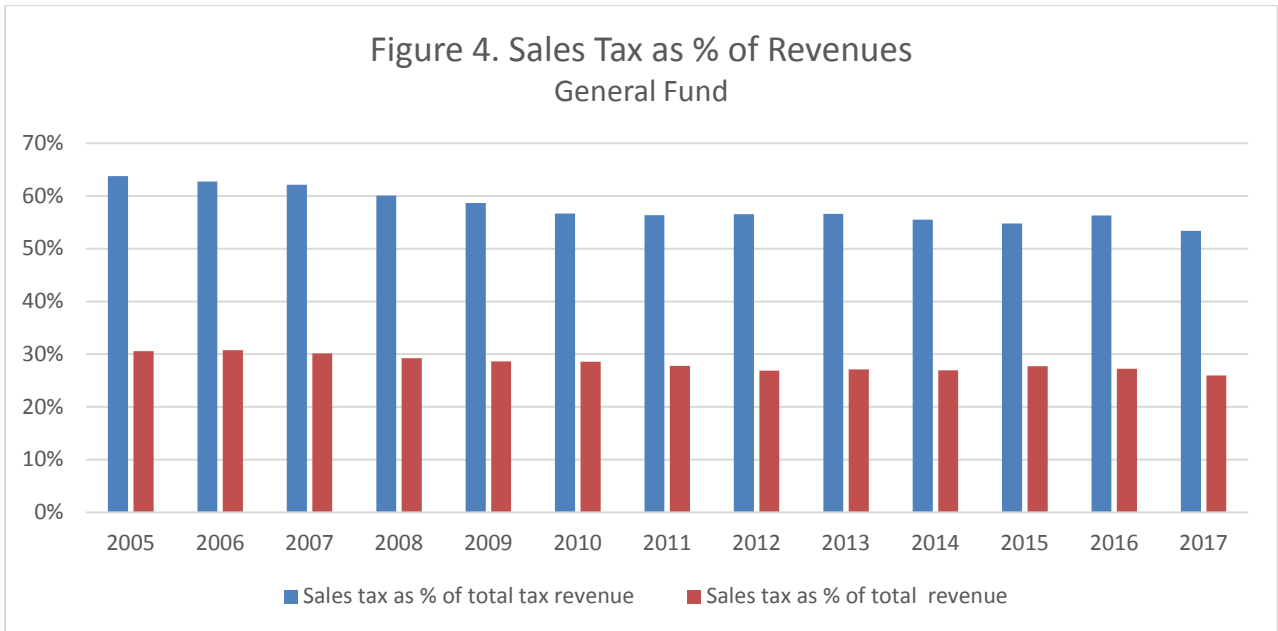
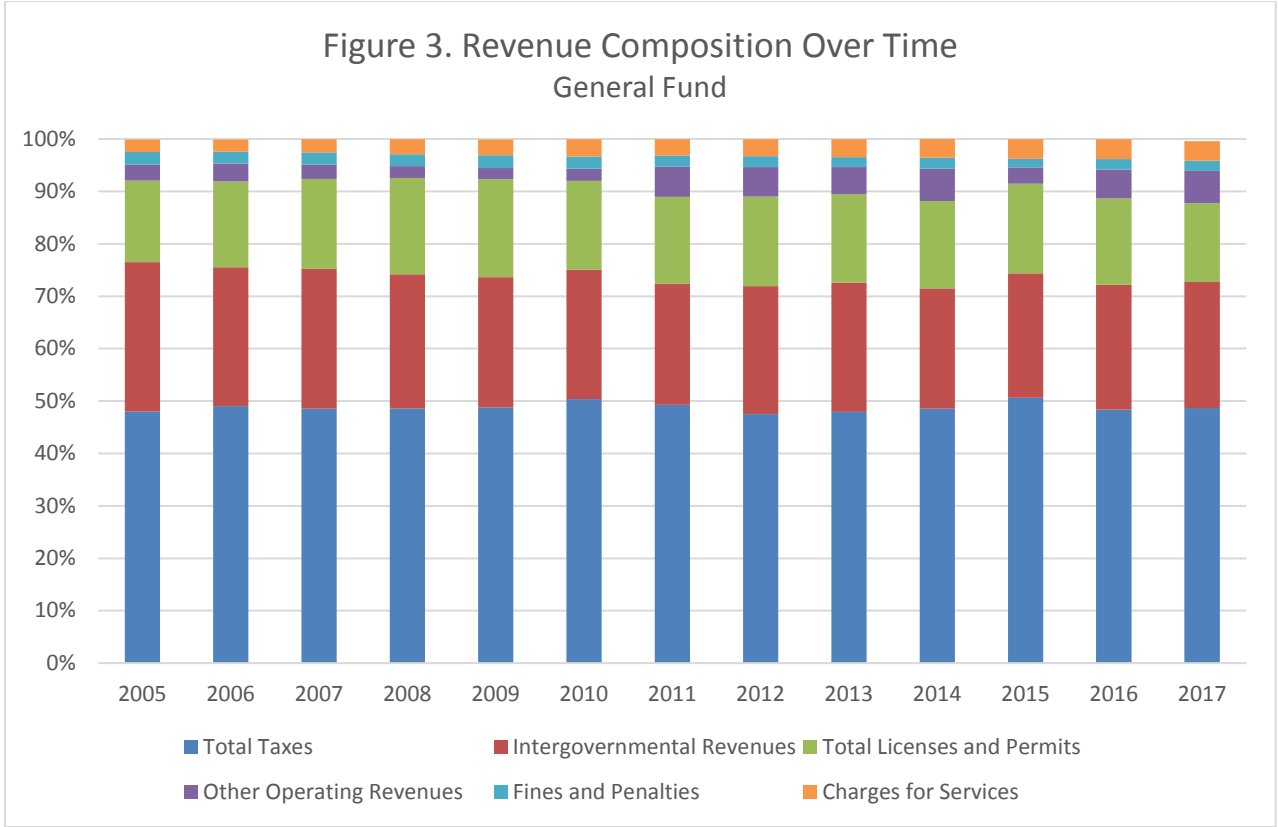


Figure 5. Change in Revenue Over Time by Tax Category
General Fund

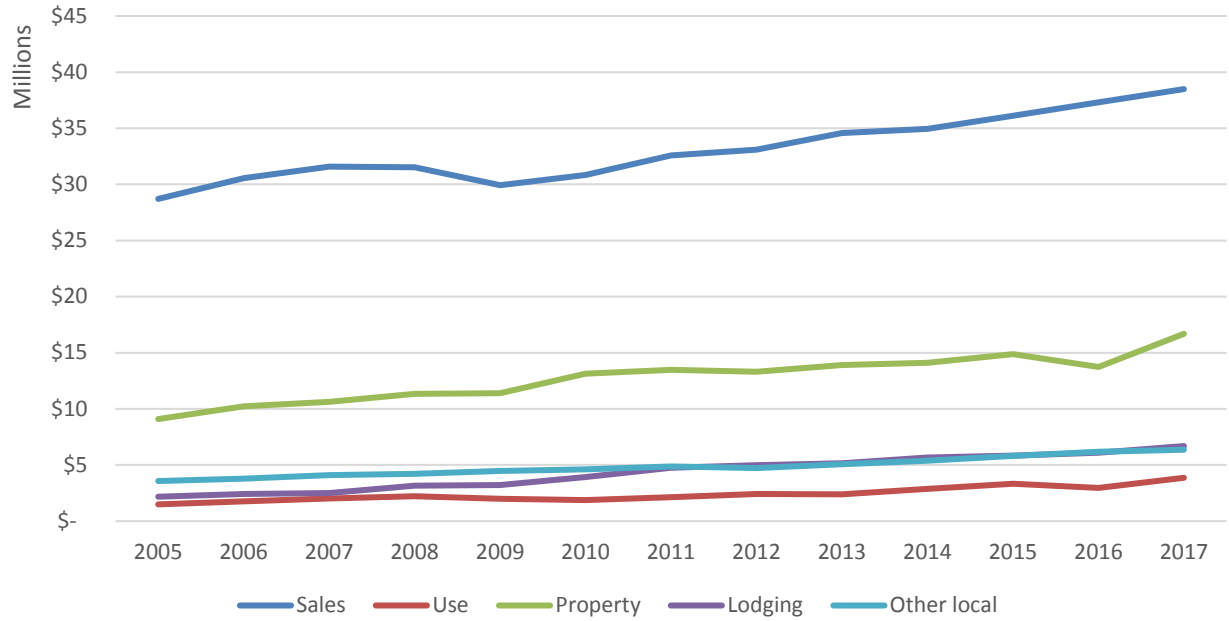


Figure 6. Tax Category as a Percentage of Total Tax Revenue
General Fund

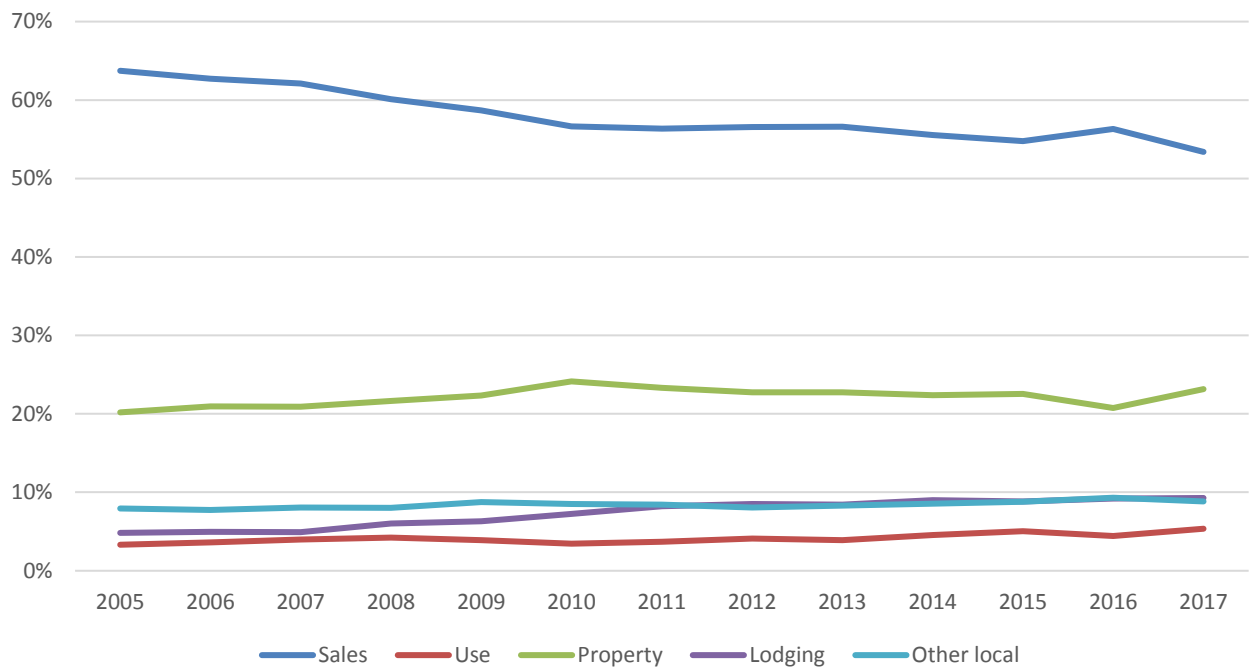


Figure 7: Debt Relative to Comparable Cities

	2017 DEBT	2017 POPULATION	DEBT PER CAPITA
TUSCALOOSA	\$ 219,731,143	100,287	\$ 2,191
MOBILE	\$ 259,000,000	190,265	\$ 1,361
MONTGOMERY	\$ 303,000,000	199,518	\$ 1,519
BIRMINGHAM	\$ 542,000,000	210,710	\$ 2,572
HUNSTVILLE	\$ 784,000,000	194,585	\$ 4,029

Sources: www.assets.caboosecms.com; www.montgomeryadvertiser.com; www.alabama-demographics.com

Figure 8: Sales Tax Rate Relative to Comparable Cities

	SALES TAX RATE				
	CITY	COUNTY	STATE	SPECIAL	COMBINED
TUSCALOOSA	2.0%	3.0%	4.0%	--	9.0%
MOBILE	5.0%	1.0%	4.0%	--	10.0%
MONTGOMERY	3.5%	2.5%	4.0%	--	10.0%
BIRMINGHAM	4.0%	1.0%	4.0%	1.0%	10.0%
HUNSTVILLE	4.5%	0.5%	4.0%	--	9.0%

Source: www.avalara.com