

Ad Hoc Committee for City Revenue and Growth Analysis (Know the facts)

FACT SET ONE: Mobile's tax structure is grossly imbalanced, in comparison with neighbors and with national norms.

Its sales taxes (when combining local, county, and state) are (with one very recent exception) effectively tied for the highest in the nation... while its combined property taxes are among the lowest 9 percent in the country.

(This is not to make a judgment, for purposes of this document, as to whether the comparative imbalance is wise or unwise, but only that it exists.)

Sales Tax Information

- Aside from Indian reservations and special jurisdictions, the highest sales tax rate (combined state/county/local) in the country, as of July, is in Chicago, at 10.25%. ([Click to read the PROOF](#))
No other municipality with a population of 200,000 or more (Mobile is within a rounding error of 200,000) is above Mobile's combined rate of 10%.
- In 36 of the 46 states that allow sales taxes, but not Alabama, some or all of basic food/groceries are exempt from sales taxes. ([Click to read the DETAIL](#)) Mobile's 10% rate without exemptions is thus, comparatively, even higher than in those few other places with the same rate.
- Mobile's sales tax of 10% is more than 3% greater than the national median sales tax rate of 6.79%, found in Nebraska ([Click to read the FACTS](#)).
- Of cities outside of Alabama usually seen as southern regional competitors to Mobile, rates range from 9.25% in major Tennessee cities to 8.5% in Charleston, 7.5% in nearby Pensacola, and 7% in nearby Biloxi. (The rate in Norfolk, Virginia, another southern port city with a population under 250,000, is just 6%.) The Tax Foundation reports that "avoidance of sales tax is most likely to occur in areas where there is a significant difference between two jurisdictions' sales tax rates. Research indicates that consumers can and do leave high-tax areas to make major purchases in low-tax areas, such as from cities to suburbs. Businesses sometimes locate just outside the borders of high sales tax areas to avoid being subjected to their rates."

Property Tax Information

- Of 1,833 counties in the United States with populations over 20,000, 1,626 of them feature higher real-estate taxes as a percent of median home value. In actual dollars, the median Mobilian pays less than residents of 1,509 out of the 1,833 counties. Likewise, as a percent of median income, Mobilians pay less than residents of 1,610 counties. ([Click to see the DATA](#))
- The Urban Institute reports that, statewide, Alabama relies less on property taxes than any other state. Alabama gets just 22 percent of total in-state revenue from property taxes, compared to a national average twice as high, at 48 percent.

FACT SET TWO: It is absolutely undisputed that sales taxes are among the most regressive taxes in common use.

- The Institute on Taxation and Economic Policy this year confirmed the widely known fact that "sales and excise taxes are the most regressive, with poor families paying almost eight times more of their income in these taxes than wealthy families, and middle-income families paying five times more. Property taxes are typically regressive as well, but less so than sales and excise taxes." Later, the same report characterized sales and excise taxes as "very regressive" [meaning they fall more heavily, as a proportion of income, on poor families] while calling property taxes "somewhat regressive" and "far less regressive than sales and excise taxes." ([CLICK to read the FACTS](#))

- From the same report: “The treatment of groceries is the most important factor affecting sales tax fairness. Taxing food [as Mobile does] is a particularly regressive policy because poor families spend most of their income on groceries and other necessities. Of the 10 most regressive sales taxes in the country, five apply the tax to groceries in some form.”
- The same report notes that property tax systems with widely available homestead exemptions, like Alabama’s “very large” exemption, may not be regressive at all. (Indeed, the report notes that low-income Alabamians and high-income Alabamians all pay between just 1 percent and 1.5 percent of their total income on property taxes, making Alabama’s property tax almost entirely neutral rather than regressive.)

FACT SET THREE: Sales tax revenues are more volatile than property taxes, and more likely to fall farther in economic down times.

A system balanced fairly equally among various revenue sources provides more revenue stability. (And, although this is not an official “finding” because we have no conclusive data on this, it also is widely believed – and supported from extrapolations from numerous data sources – that with Internet sales growing, sales taxes are not likely to produce revenue growth commensurate with the city’s economic growth.)

- The U.S. Census reports that in every single decade from 1940 through 2000, median home prices in the United States rose (thus making property taxes in each decade a “growth” tax for purposes of government revenue). ([Click to DATA](#))
- Even despite the great recession of 2008-09, median home values today (\$180,800) -- ([Click to DATA](#)) are greater, in constant 2000 dollars (\$130,640) -- ([Click to DATA](#)), than they were in 2000 (\$119,600).
- A 2009 University of Georgia study found that “empirical work on the implications of state-level revenue diversification has generally found that diversification decreases revenue volatility... [and] revenue diversification leads to better fiscal performance.” Also, “local governments with stability as their primary goal should select revenue portfolios with greater dependence on stable sources like property taxes.” ([Click to STUDY](#))
- The same study found that, as long as revenue sources are not “complex,” or “hidden,” the data “suggest that revenue stability might best be achieved with a diversification strategy utilizing tax sources other than sales and income taxes.”
- In the book: A Primer on Property Tax: Administration and Policy ([Click to BOOK](#)), Chapter 1 notes, as widely accepted reality, that “it is generally agreed that the property tax meets the criteria for good local tax better than the alternatives of personal income or consumption based taxes. Its tax base is largely immobile. Revenue is generally predictable and stable in that it does not vary with the cyclical swings in economic activity as much as personal income and consumption based tax revenues.”

FACT SET FOUR: All taxes naturally have at least some effects deterrent to economic growth. Broad-based sales taxes are at least marginally more deterrent to growth than property taxes and other common taxes.

Evidence

- According to the Tax Foundation ([Click to DATA](#)), “empirical studies typically find that corporate and personal income taxes are the most damaging to economic growth, followed [in order] by consumption taxes and property taxes.”
- Further: Economists affiliated with the (international) Organization for Economic Cooperation and Development “have determined a ranking of the most harmful taxes for economic growth. They find that corporate taxes are the most harmful, followed by personal income taxes, consumption taxes, and, finally, property taxes.
- As summarized by the Tax Foundation, a 2008 study in the National Tax Journal ([Click to READ](#)) found a “robust negative effect [on economic vitality] of state and local tax burden.”
- A 2003 study by the Beacon Hill Institute, specifically focused on Mobile, found that cutting a penny of sales or gross-receipts tax would, within four years, result in extra economic growth strong enough that city government would recoup 28 percent of the revenue originally “lost” by the cut. In other words, a penny tax is such a deterrent to the economy growth that (extrapolating for today’s numbers) cutting the penny would result in a “loss” to city coffers not of approximately \$30 million, but only as little as \$22 million.
- [For other, less demonstrably data-driven, but very plainly stated, analysis of the economic effects of various taxes.] ([Click to DATA](#))

FACT SET FIVE: Plenty of cities other than Mobile charge fees for various services that Mobile provides for free, at a loss. The most prominent of these free services provided by Mobile is garbage collection.

- Montgomery (\$24 per household per month) and Huntsville (\$16.50) charge fees for basic garbage collection.
- By law, a municipality in Alabama may charge a “fee” only large enough to cover the actual cost of the service. Mobile somehow manages its garbage collection comparatively inexpensively, at \$6.47 per household per month (or about \$7 when capital costs are included), so it could cover the costs while charging its citizens far less than half of what residents of our sister cities pay.

FACT SET SIX: The city’s revenue and budget outlook is noticeably improving. Among the coming improvements are:

- Nearly \$2 million in net revenue from the cruise ship; up to \$2 million from private redevelopment of the Civic Center; Airbus production beginning; the city’s Tyler computer program producing savings by better integrating city departments;
- New big-box stores opening; the redevelopment of the Admiral Semmes Hotel and building of the Hilton Garden Inn; the mayor’s tourism initiative and rebranding of the Convention Center; various other potential improvements in collection capabilities.

Cost comparisons across jurisdictional and regional lines are, of course, only approximations, and numbers reported with apparent specificity should be considered not as exact predictions but merely as valuable guides, give or take a few dollars. That said, we have analyzed the average amount of sales-taxable purchases by average American households, per dollar of income, and extrapolated from those figures the following estimations:

How much would a median household in Mobile save per year if a penny of sales tax were eliminated? **\$157.14**

How much would a median home-owning household in Mobile pay in extra property taxes per year, after adjusting for the homestead exemption, if the rate were raised by 10 mills? **\$79.30**

How much would a homeowner pay in garbage fees per year under the commission’s proposal? **\$85.00**

Total added costs for median homeownership households: **\$164.30**. Total savings for median homeownership households: **\$157.14**. Net costs before federal tax deductions: **\$7.14**. Homeowning households can take the added property taxes as a deduction from federal income taxes, giving them a net gain of roughly **\$30**.

Non-home owning households would benefit from the savings without incurring additional costs.

One other method of figuring the sales tax savings under our plan would be to use a slightly different number of disposable income as calculated from a study by the University of Alabama, which sets average household disposable income in Mobile at \$32,000. Eliminating a penny then would yield savings of **\$320**. While this analysis makes our proposal look like an even better deal, we have more confidence in the more cautious estimate of **\$157.14**.

Ad Hoc Committee for City Revenue and Growth Analysis (Recommendations)

Purpose of Recommendations

The Ad Hoc Committee for City Revenue and Growth Analysis recommends that the city's revenue sources be re-balanced so that Mobile relies less heavily on the unstable, less growth-oriented, regressive sales tax – where its total rate of 10 percent is effectively the highest in the country – and more heavily on sources that are more stable, less regressive, and at least marginally less detrimental to job growth and economic vitality. These other sources are ones where Mobile is considerably less expensive/punitive than most places in the country, and thus can be tapped more heavily while Mobile still would keep a significant competitive advantage vs. almost the entire nation. The goal is to help Mobile create jobs, find a more reliable revenue base for city government, and create a tax structure that falls less heavily on the working poor.

Recommendation One

The city should **eliminate half a penny of sales tax** via two simple steps.

1. As most cities do, Mobile should charge a fee for garbage collection.
 - a. By law, based on the cost to the city of running its garbage-collection program (including capital costs), the city can raise up to about \$6.5 million in fees.
 - b. The cost per household, if Mobile had a means of monthly collection, would be about \$7 each month. (Compare to \$24 per month in Montgomery.)
 - c. The committee recommends that the easiest way to collect the fee would be as a separate line item on the annual property tax assessment. Taking various technical factors into consideration, the annual fee would be \$85.
2. With the City Council's embrace, the mayor and his administration have indicated they will commit to identifying and recommending additional annual revenues or accrued annual savings that will be required to replenish city coffers specifically in lieu of a portion of sales tax collections. The citizen's commission recommends that such revenues and savings can and should total at least \$8.5 million. (See "Findings Fact Set Six" for details.)

Recommendation Two

The city should eliminate another half-penny of sales tax and replace it (and provide an extra \$4 million) with a ten-mill property tax, upon a vote of the public, with the money dedicated (and guaranteed to be used) for the public-infrastructure fund divided equally among the seven Council districts.

1. The millage would raise \$19 million per year
2. It would provide a stable source of revenue for \$19 million of the \$21 million fund.
3. The millage would sunset, and be automatically placed on the ballot again, every four years.*

* For details on ways and means, and wording, of sponsoring the referendum, see notes on next page.

Ad Hoc Committee for City Revenue and Growth Analysis (Ballot language)

Proposed Local Amendment

The City of Mobile is hereby authorized to hold a public referendum, at the earliest available opportunity, to the following effect:

Shall the city be permitted to levy an additional 10 mills of ad valorem tax, its proceeds allowed and only allowed for the purposes of public infrastructure spending divided equally among the seven City Council districts, and renewable once every four years upon approval in a subsequent public referendum each time, with each subsequent referendum held automatically without further action by the state Legislature –

- Provided that, the first time the millage is approved, the city shall be prohibited from charging a local sales tax of more than 4 percent for the duration of the first millage;*
- Further provided that, upon each subsequent, automatic referendum for this purpose, the Mobile City Council may or may not, at its discretion and upon approval of five of its seven members, attach a sales tax limitation provision of any kind.*

Optional Proposed Statewide Amendment

(Note: This would be in addition to, not in place of, the local amendment above.)

This amendment shall be styled “The City of Mobile Home-Rule Amendment.”

Shall the city of Mobile, notwithstanding any other provision of the state Constitution in effect before 2015, be allowed through the year 2030, as a local “laboratory of democracy,” to exercise authority to adjust or create any revenue measure approved by five members of its City Council and approved by its Mayor, without petition to or approval by the state Legislature;

- Provided that any increase in the total local ad valorem assessment, above that existing at the time of the adoption of this amendment, shall automatically be subject to a referendum among those citizens within the jurisdiction of the millage, at the next regularly scheduled election, or at a special-election called by the Council and Mayor within 18 months of Council approval of the millage?*