

Huntsville, Alabama 2014 Budget Analysis

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POLI 7140

Spring 2016

EXHIBIT ONLY

The City of Huntsville, Alabama is located in Madison County in the northern part of the state. The city's 2014 population of 188,142 people are a big part of what makes their town an anchor for the region (Big Picture). With a large percentage of the population working for government space programs or the U.S. Department of Defense, as well as private research and contracting, it has shown near continuous growth over the past several decades. These governmental and private investments have contributed to the Huntsville area boasting an average family income of over \$90,000 in 2014 (Big Picture). It was one of only a handful of Alabama cities to emerge quickly from the Great Recession relatively quickly thanks in part to its significant asset reserves and debt spending coupled with industry success.

The city published its adopted budget for their 2014 fiscal year on or about September 13, 2013, and their Comprehensive Annual Financial Report for the same year on or about September 30th. The Government Finance Officers Association awarded Huntsville with its Certificate of Achievement for Excellence in Financial Reporting at that time. In addition to the city's administrative services and boards, Huntsville's government has partial legal oversight authority of: Huntsville Public Library, Art Museum, Alabama Constitution Village Museums, Burritt Museum, Public Building Authority, Huntsville Tennis Center, Von Braun Center, Benton H. Wilcoxon Municipal Iceplex. The Huntsville Utilities Electric, Gas and Water Systems, the Huntsville/Madison County Convention and Visitors' Bureau, and the Downtown Redevelopment Authority all also separate, but financially connected, entities. These institutions are all included in the city's fiscal summaries.

What follows is an analysis of that budget and financial report.

Introduction and Overview

Mandatory elements of table of contents, priorities and issues, and budget overviews were all present and excellently itemized. Both documents had clearly labeled tables of contents with introductory comments from Mayor Tommy Battle, the current Huntsville mayor at the time of writing. Several strategic goals and strategies were identified, albeit not in a consolidated manner.

Strategic goals and strategies include:

- Aggressive cultivation of partnerships with state and federal agencies
- Diversification of the business base in order to mitigate city revenue swings resulting from sales tax variations
- Public infrastructure spending priorities set by established ten-year capital improvement plans
- Reduction of the city's interest costs through refinancing
- Improvement of city department operations efficiency

Diversification is a key concern for the city. Like all Alabama municipalities, Huntsville derives a large share of its revenue from sales tax. In 2014, it accounted for 43% of total revenue. As a result, the city has recognized that a significant amount of its income is susceptible to consumer market volatility, and therefore uncertain. Huntsville has worked to address this by successfully recruiting two manufacturing companies, Remington Outdoor Company and Polaris Industries, to the area during the 2014 fiscal year. Their combined employment was anticipated to be around 3,700 jobs.

The city has also shown that it can improve some of its efficiencies. In 2014, four departments spent less general fund money than originally budgeted. Huntsville Sports Commission, Inc.; Huntsville/Madison County Convention and Visitors Bureau; Meadow Hills Initiative, Inc.; and Northwest Huntsville Community Services Org., Inc. all finished the fiscal year with a general fund surplus. The result was a \$750,707 surplus in the general fund.

The city's adopted budget identifies several priorities and objectives. In it, the mayor lays out priorities that focus on effectively continuing recovery from the national recession while sustaining high levels of service. Maintaining the city's dual triple-A rating is also identified. Budget goals include the management of healthcare costs, providing a small cost-of-living adjustment to city employees, and reducing overall workforce costs by attrition of positions.

Financial Structure, Policy, and Process

The City of Huntsville's government is organized into five primary entities: the mayor and the City Council, General Government, Public Safety, Public Services, and Urban Development. They operate off money dispensed from four city funds: the General Fund, Special Revenue Fund, Capital Improvement Fund, and the Water Pollution Control Fund.

The General Fund is the largest of all funds and pays for the majority of city operations. It generates over half of its revenue from sales tax, the rest from licenses and other taxes. The largest city expense, personnel costs, is paid from this fund.

The Special Revenue Fund is maintained through state gas taxes, school taxes, and various Tax Increment Finance districts. As such, most of the money in this fund is restricted to specified purposes.

The Capital Improvement Fund pays for most of the city's infrastructure improvement. Since the city finances most of these activities with long-term debt, a significant amount of the city's total debt is found here.

The Water Pollution Control Fund pays for the operations of the sanitary sewer system and Water Pollution Control Department. The city also maintains thirteen other separate non-major funds to pay for a variety of cultural, community, and economic development facilities and initiatives. Although the Retirement System of Alabama (RSA) administers the City of Huntsville's pension plan, the State of Alabama provides no financial assistance for its benefits. The City provides 100% of costs after employee contributions and plan earnings.

Significant fiscal policies include:

- Financial statements reported in accordance with Governmental Accounting Standards Board (GASB) standards
- Assets and liabilities are reported using the accrual basis of accounting, meaning that all revenues and expenses are accounted for, regardless of when cash is received or paid
- 11.5% of General Fund revenue budget must be kept in unassigned fund balance – this is equivalent to 42 days of primary operating costs for the city as reserve for financial crisis
- Investments held conservatively in Certificates of Deposit, Money Market Accounts, and Federal Securities
- All bank deposits must be covered by federal depository insurance or the Security for Alabama Funds Enhancement (SAFE) Program

The city's budgetary process is not shown in detail. No timeline is provided demonstrating the disciplined approach to budget development. This does not mean Huntsville was undisciplined in its method, just that none is represented within either report.

Financial Summaries

Huntsville provided detailed financial schedules for all its departments and funds. These schedules mirror the generally positive fiscal year that contributed to the General Fund surplus mentioned earlier. The General Fund balance at the end of the 2014 fiscal year was \$40,591,384. Total city revenue equaled \$325,600,000.

The financial report concedes that neither the 2009 nor the 2011 Financial Statements were filed by the March 31st deadline. It also failed to link its annual reports to the Electronic Municipal Market Access (EMMA) for the years 2009, 2010, 2011, and 2012. Additionally, three-year fund financial schedules were not consolidated. Instead, yearly trend comparisons beginning in 2011 were present for specific funds, such as the city's pension funds. This method meant that no consolidated historical schedules were presented. Also, long range financial planning was limited to statements concerning the funding of ten-year capital improvement plans with long-term debt.

Capital and Debt

Capital expenditures for all funds equaled \$416,518,757 in 2014. The four primary funds provided for 87.5% of expenditures, \$240,490,037 of which was from the General Fund. Personnel costs made up the lion's share, 55%. Transfers to city funds and agency appropriations were 16%, each. The operating costs of keeping lights on and flushing municipal

toilets accounted for 13%. Of the Capital Improvement Fund, 74%, or \$37,069,000, of the all expenditures were for capital projects.

Total city debt equaled \$623,715,000 in 2014. This is down from the original debt amount of \$862,935,000. Payments made towards this balance came from minor funds. As mentioned in the *Financial Structure, Policy, and Process* section, the city funds its capital improvements through issuing long-term debt. The city plans to pay off this debt over a period of 23 years, by 2037. Debt payments in 2014 were more than \$44.8M, and were scheduled to rise to a peak of \$46.3M in 2015. Subsequent payments would steadily decrease after that to \$29.1M in 2025 and then to a final payment of just over \$3M in 2037.

No mention is made in either document concerning the impact of capital investments on the operating budget.

Departmental Information

Departments' financial schedules as well as their descriptions are found within the adopted budget. They explain the purpose of each and how funds are utilized. However, this section is the weakest of all summaries with regard to detail.

Although the goals and priorities of the city are clearly outlined at the beginning of each document, details of each department's own goals and objectives are nearly non-existent. Worse, no measures of performance are described. This oversight prevents the reader from knowing if the departments are meeting their appointed goals for efficient and equitable service. If added, these would provide citizens with a substantive tool of transparency for their government and its employees.

Document-wide Criteria

Both documents utilize charts and graphs to clearly describe the city's financial situation. Statistical/supplemental sections provide greater explanations for the itemized schedules. Together, these factors make the financial report and accompanying budget understandable and relevant. Missing were any glossaries, which could have improved their usability.

In all, the City of Huntsville's 2014 Budget and its Comprehensive Annual Financial Report are highly descriptive documents. They provide significant details of the city's financial outlook during the year 2014. From them, we see how the city's departments have adhered to their budgets and, in some cases, finished the fiscal year with a surplus. This demonstrates that the city is a faithful steward of taxpayer money, using it with calculated purpose.

Huntsville's reports do have room for improvement, as identified earlier. More detail could be provided regarding the city's strategic goals and strategies as well as more clearly identifying factors that influence short-term organization-wide decisions. The budget process could be better explained in order for citizens to have greater understanding of when and how their input could create an impact on financial decisions. Fund schedules and long-range financial plans should be better consolidated. Departmentally, goals and objectives for each would provide significant understanding in decision-making. Perhaps most significantly, measures of performance need to be included for more indication of how each department is measuring up to stated goals.

As a communication document, the Financial Report is the more complex by far, containing more quantitative data than descriptors. Exceptions to this are the thoughtful introductory from Mayor Tommy Battle and the summaries contained in the *Notes* section. The

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adopted budget, however, is extremely reader friendly. It provides explanations of terms and policies as well as itemized reports grouped by uses that Joe Citizen can relate to.

Works Cited

City of Huntsville, Alabama. Comprehensive Annual Financial Report 2014:

<https://s3.amazonaws.com/gfoa/CAFR/2014/HuntsvilleAL.pdf>

City of Huntsville, Alabama. Adopted Budget for Fiscal Year 2014:

http://www.huntsvilleal.gov/finance/COH_Adopted_Budget_FY14.pdf

City of Huntsville, Alabama. The Big Picture:

<http://bigpicturehuntsville.com/plan/demographics/>