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Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

I am able to track how many people who directly receive Common Cents actually go to the trouble to open it. Last week, I apparently touched on a subject of particular interest, because the number of 'click throughs' was significantly higher than it has been in, quite literally, months. If you didn't read it, it was about the discussion surrounding a consolidated form of local government for the Birmingham metropolitan area (MSA).

More specifically, the debate seems to be about a consolidation within Jefferson County (the County), which includes the City of Birmingham (the City) and a whole host of separately incorporated municipalities. In fact, greater "Birmingham" is more appropriately defined as the Birmingham-Hoover metropolitan statistical area, which is the Census Bureau's actual classification. However, most folks outside of the state probably aren't familiar with Hoover, which is Alabama's sixth largest city with roughly 85,000 residents.

Like many cities/towns in the County, Hoover has its own school system which helps shape its identity as a community. Ultimately, these separate school systems are and will be at the heart of the debate about a consolidated form of government in our area. Many of these areas pay significantly higher property taxes than the remainder of the state, with a large percent of the revenue going to fund (and control) their own boards of education. Perhaps as a result, some of these systems score very highly on state and national exams, far better than the outside world would think capable of public education in Alabama.

There is no way to effectively sugar coat my next point: the general consensus in our area, if not everywhere, is there is a strong positive correlation between highly performing schools and property values. So much so, the price per square foot in some of these cities shocks people moving into 'town' from elsewhere in the South. As such, if accurate, any potential change in control of the local school system could or would have a detrimental impact on local real estate valuations. Whether real or imagined, it is at least understandable, and this will be a significant hurdle for pro-consolidation proponents.

What do residents of these incorporated areas, again with their own local identities, receive in return for a potential decline in their net worth, perhaps substantial? That is the $64K Question, and the crux of the matter. The follow up, say, $35K Question is: why would residents of these areas continue to pay higher than average property taxes? Unless that money is solely earmarked for fire, safety, and schooling in their specific areas?

Seriously, if the folks in places like Homewood, Vestavia Hills, Hoover, Mountain Brook, Trussville, and others all vote to pay lower millage rates after said consolidation, the argument for it loses a little starch, at least in my opinion and probably that of many. To that end, from what I can tell, residents of unincorporated Jefferson County, AL, apparently pay 50.1 mills on their residential real estate. (Folks in New York, yes, your read that correctly). By comparison, folks in Homewood appear to pay about 85. Why would they continue to pay 70% more in relative terms for the same basic level of public services? Now, THAT really would be progressive taxation.

The obvious retort to this is simple economics: a consolidated form of local government could

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lead to greater economic growth which would lead to an influx of people to the area which would cause property values to increase. Basically, it is supply and demand, but kind of vague. If the pro-consolidation crowd can clear that substantial hurdle with something more concrete than "look what it has done in Nashville," this movement could have some legs. However, if that crowd can't do it, folks on the con side will counter with "hey, they have done something similar in Pittsburgh haven't they?" Hey, I have been in the investment industry a long time, and have found people hate to lose money for no good reason. Heck, they hate losing money.

That is about it, although I am sure to write more about it in the future as the debate heats up over the next 12 months. So, let me leave you with these pieces of advice for both pro and con camps:

Pro folks….the 'smaller' incorporated municipalities, especially south of town, will want some concrete assurances that their schools won't change and their property values won't go down, but not necessarily in that order. It is basic microeconomics. IF you can pull off a consolidated government with causing any real damage to personal financial statements, you might just win. Con folks…be willing to listen to alternatives. While a full consolidation might be a bitter pill to swallow, there might be some lesser levels of local coordination which would sense without breaking your bank. For one, I would like see form of MSA coordination for area infrastructure improvements and maintenance, including the airport, and would be willing to pay a few extra mills for it.

Seriously. My second topic for today is:

Earlier this week, a group of economists from the University of Washington released a research paper which suggested Seattle's increase to a $15/hour minimum wage has had a negative impact on the lowest skilled workers. It would seem the market clearing rate for unskilled labor out there is around $13/hour. Up to that level, hourly workers largely benefitted from the gradated rate increases, in aggregate. Past that, the report implied the well-intended $15 minimum wage has had some ironic consequences on a decent segment of the local unskilled workforce.

Intuitively, this makes sense.

A major problem with the debate about minimum wage laws is it assumes companies pay workers for their time. They don't. They pay them for the economic value of their labor, and time is simply a way of measuring it. We can legislate an hourly price floor all we want, but we can't dictate the actual hourly value of individual workers. If someone is worth, say, $12/hour to an employer, the government can mandate $15/hour all it wants. That person will eventually be out of work, because no business is going to continually pay them more than they are worth.

As for the study in Seattle, the only real take away is essentially: "upon initial examination, it appears the mandated minimum wage might be above the market equilibrium for unskilled labor in the formal local economy at the present time. Even so, a few more years of continued strong growth in the Seattle economy might make the current findings irrelevant. More research is to follow."

That's really about it, but consider this.

According to the Federal Reserve, per capita personal income in the Seattle metropolitan area was around $61,021 in 2015. By comparison, it was roughly $44,568 in Birmingham, the highest income metro area in our state. Intuitively and in general, workers are just going to cost more in Seattle than they do in Alabama. This makes a higher minimum wage more possible out there than it does here.

Still, just because $15 in Seattle might eventually work over time doesn't mean it will in places like Macon County, Alabama. There are just too many differences between local economies to have a meaningful one size fits all minimum wage across the country. As a result, the same absolute minimum wage increase could have significantly different economic impacts from state to state or even zip code to zip code. $10/hour might have been meaningless in Seattle, but absolutely disastrous for business for Tuskegee.

In some ways, it might actually be a good thing the report suggested what it did. I am not trying to be hard hearted, just realistic. Had the research been overwhelmingly positive on the matter, it is highly likely politicians in other locations would have been anxious to adopt the same or similar policies. This very easily might have led to politically popular

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increases without taking in consideration a simple fact: Seattle has a booming, vibrant, and high income economy, and most places don't.

Seriously, ask yourself how many mayors are really going to pour though Bureau of Labor Statistics data by NAICS codes to determine the clearing rate for labor, out to at least 1 standard deviation, to formulate a workable hourly minimum wage scale in their jurisdiction? A few, perhaps?

Obviously, this isn't an issue here in Alabama, as the legislature can shoot down citywide initiatives like that from afar, often somewhat arbitrarily to the outside observer.

However, that is a discussion for another time.

I hope all have a great weekend.

Disclosure