

October 2007, Number 169

REPORT ON THE CITY OF SOUTH FULTON: POTENTIAL REVENUES AND EXPENDITURES

The task of this brief is to provide a series of revenue and expenditure estimates for the new municipality of the City of South Fulton.

To establish the estimates for the City of South Fulton, we examined numerous documents, spoke with many individuals at Fulton County and other related governments and institutions and researched current legislation at the state and local level. These estimates include areas annexed in the unincorporated South Fulton Tax District as shown in Georgia House Bill 725, signed into law by Governor Sonny Perdue on May 18, 2007.

In this brief we offer the reader the opportunity to review our assumptions. Our revenue estimates are based on the following assumptions 1) that the City of South Fulton would continue the current tax and fee policies, a millage of 5.731 per \$1000 in tangible property value; 2) the City of South Fulton would receive, based on the US Census of 2000, a share of the local option sales tax (LOST) fund revenue. This revenue is based on the current established formula by Fulton County and the incorporated cities within the county; and 3) the City of South Fulton would continue with the current zoning and planning projections and growth estimates as provided by the Fulton County Demographer and the Atlanta Regional Commission.

Our expenditure estimates are based on 1) the City of South Fulton will continue to provide a similar set of services, at the same range and level, as currently provided by the South Fulton Tax District; 2) the City of South Fulton would incur similar administrative, general governance, and infrastructure costs as those found in Fulton County cities and other cities in Georgia; and 3) the City of South Fulton would provide all current services unequivocally to all citizens of the City.

We estimate the capital expenditures of the City of South Fulton by the established precedent set by the Fulton County Commission for the three assets, park land, greenspace, and fire stations. That precedent was a cost of \$100 per acre for park land and \$5000 for the capital asset of the firehouse building. Based on these costs, the assets currently owned by Fulton County but residing within the new boundaries of the City of South Fulton are valued at \$1,460,700. This total asset value includes the Fulton County Police assets, assets in which the Fulton County Commission has not addressed value. Thus we use 2006 tax assessor value for these assets. Given the dollar value of these assets, we offer two alternatives to acquire the assets based on length of time. The first is a 10 year-term note with a current market rate of 4.27

TABLE 1. CITY OF SOUTH FULTON EXPENDITURES AND REVENUES

	Conservative Basis¹	Metro Basis²	Fulton County Budget Basis²
Estimated Annual Revenue	\$54,009,275	\$54,009,275	\$52,292,321
Estimated Annual Expenditure	<u>\$53,130,361</u>	<u>\$40,932,694</u>	<u>\$51,885,097</u>
Estimated Surplus (Deficit)	\$878,914	\$13,076,581	\$407,224

1. The findings in this brief are reflected in this column.

2. These findings are for reference only, and do not reflect our opinion.

percent. The second is a 20 year-term note based on the current market rate of 4.66 percent. Both notes are based on a single A rating by the rating agencies.

Although we are confident in our verification of the data, the task of predicting service costs and the revenue potentials of a new city from a county based municipal-like service base assumes that the new city will provide the identical set of services currently offered through the County. This assumption introduces error into our estimates. To compensate for this effect we approach the estimates based on conservatism. That is, we under-estimate potential revenues while over-estimating potential expenses. We acknowledge and recognize the limitations of revenue and expenditure projections.

An important assumption in our analysis is a growth rate of zero percent. Although the South Fulton area has been growing on average at a rate of about 5.28 percent annually as projected through a thorough assessment of the Atlanta Regional Commission and the Fulton County Demographer's estimations, we assume no growth in the area to provide a conservative financial estimate. We have also assumed no change in the appraised value of properties in the area from the FY2006 tax digest. While we know that Fulton County property valuations are increasing on an ongoing basis, the exact changes are not yet available, and the extent of the property value change is controlled by the County Assessor's Office. These two assumptions, zero growth and zero change in property values from FY2006, result in an under-reporting of anticipated revenues, providing again a model that generates a conservative financial estimate.

Conclusion

We find that the City of South Fulton is financially viable under our estimations. A summary of the following discussion is shown in Table I.

Our estimates show that for 2008 the City of South Fulton would have a reserve of approximately 1.6 percent of total revenues based on our conservative estimates. Our finding shows that under the current mill levy on property of 5.731 per \$1000 property value and the use of municipal bonds to finance the debt for the current infrastructure assets owned by Fulton County (fire stations, parks & recreation, and greenspace), in 2008 the City of South Fulton would have a reserve of \$878,914.

This reserve outcome in the conservative estimate includes the City of South Fulton's acquisition of all current assets from Fulton County, including fire and police capital assets, parks, and greenspace. We show a municipal bond debt of \$1,889,080 (includes 3.5 percent issuance cost) at a rate of 4.27 percent over a 10 year term. The debt payment of \$188,908 includes both principal and interest. This cost would fall if the City of South Fulton chose a coupon (interest) payment only. The City of South Fulton could also choose to increase the length of time on the debt payment, thereby reducing annual expenses; however that would increase the total cost of the debt.

We offer a second estimate for the City of South Fulton based on the Department of Community Affairs (DCA) Metropolitan Atlanta areas average municipal costs. We find that using this estimation technique, the City of South Fulton has a reserve of \$13,076,581 or about 24.2 percent of total revenues. This cost estimate includes debt service for the Fulton County asset and the average costs of Public Works in the Atlanta Metropolitan area.

We offer a third estimate using the 2007 Approved South Fulton Tax District budget and allocate the Local Option Sales Tax by population to the City of South Fulton. This estimate of the annual expenditures and revenues indicate that the City of South Fulton would have a surplus of \$407,224 or 0.78 percent of total revenues. This cost estimate includes debt service for the Fulton County assets and the proportion of Public Works based on population currently shown in the Fulton County General Fund.

We reallocate the Public Works since the costs associated with this item are for road construction and repair in the unincorporated areas.

Findings

It is our opinion and supported by our overall findings that the City of South Fulton is financially viable under our analyses. We find that the conservative estimates can provide the City of South Fulton with a 1.6 percent of revenues reserve balance. Ideally, this balance would increase over time to the guidelines set by the Government Finance Officers Association (GFOA). We also find that using the metro area basis or the like-size basis estimates may be overly optimistic. New cities incur costs that older, more established cities will not be burdened with. It is our opinion that the estimates under the conservative basis provide the City of South Fulton with a reasonable reserve fund and indicate the viability of this potential new city.

ABOUT THE AUTHORS

Robert J. Eger III is an Associate Professor in the Reubin O'D. Askew School of Public Administration and Policy at Florida State University and Principal Associate in the Fiscal Research Center in the Andrew Young School of Policy Studies at Georgia State University. Dr. Eger's research interests are in the areas of public financial management, government and non-profit accounting, applied quantitative analysis, taxation, and policy analysis.

John Matthews is a Senior Research Associate in the Fiscal Research Center in the Andrew Young School of Policy Studies at Georgia State University and a visiting professor in both GSU's Public Administration and Urban Studies and The Graduate School of City Planning at the Georgia Institute of Technology. Dr. Matthews' main research interest is in urban growth policy.

ABOUT FRC

The Fiscal Research Center provides nonpartisan research, technical assistance, and education in the evaluation and design of state and local fiscal and economic policy, including both tax and expenditure issues. The Center's mission is to promote development of sound public policy and public understanding of issues of concern to state and local governments.

The Fiscal Research Center (FRC) was established in 1995 in order to provide a stronger research foundation for setting fiscal policy for state and local governments and for better-informed decision making. The FRC, one of several prominent policy research centers and academic departments housed in the School of Policy Studies, has a full-time staff and affiliated faculty from throughout Georgia State University and elsewhere who lead the research efforts in many organized projects.

The FRC maintains a position of neutrality on public policy issues in order to safeguard the academic freedom of authors. Thus, interpretations or conclusions in FRC publications should be understood to be solely those of the author. For more information on the Fiscal Research Center, call 404-413-0249.

RECENT PUBLICATIONS

Report on the City of South Fulton: Potential Revenues and Expenditures. Using Fulton County revenue and expenditure data and benchmarks developed from other Georgia city data, this report evaluates the fiscal consequences of incorporating a new city of South Fulton. (October 2007)

Report on the City of Chattahoochee Hill Country: Potential Revenues and Expenditures. Using Fulton County revenue and expenditure data and benchmarks developed from other Georgia city data, this report evaluates the fiscal consequences of incorporating a new city of Chattahoochee Hill Country. (October 2007)

Selected Fiscal and Economic Implications of Aging. This report considers pressures and potential benefits of an increased elderly population in Georgia. (October 2007)

Subnational Value-Added Taxes: Options for Georgia. This report considers the implications of levying a subnational value-added tax in Georgia as a replacement for the state corporate income and sales tax. (September 2007)

Distribution of State and Local Government Revenue by Source. This report compares the reliance on various revenue sources across Georgia compared with eight other states. (September 2007)

Tax Revenue Stability of Replacing the Property Tax with a Sales Tax. This policy brief discusses the implications for tax revenue stability of proposals that would replace the property tax with an increased sales tax. (September 2007)

For a free copy of any of the publications listed, call the Fiscal Research Center at 404/413-0249, or fax us at 404/413-0248. All reports are available on our webpage at: [//frc.aysps.gsu.edu/frc/index.html](http://frc.aysps.gsu.edu/frc/index.html).