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THE  
CENTER  
FOR  
STATE  
AND  
LOCAL  
FINANCE

# Feasibility Study for the Proposed City of East Cobb



ANDREW YOUNG SCHOOL  
CENTER FOR STATE & LOCAL FINANCE

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## Executive Summary

The Center for State and Local Finance (CSLF), Andrew Young School of Policy Studies, Georgia State University was contacted by State Representative Sharon Cooper to develop a fiscal feasibility study for a newly incorporated city of East Cobb. This study provides a detailed analysis of the expected revenues and expenditures for the proposed city using generally accepted methodologies that the CSLF has used for similar studies. The main purpose of the analysis is to estimate the ability of the proposed city of East Cobb to meet its expenditures with available revenue sources. Based on this analysis, the proposed city of East Cobb could expect annual revenues of approximately \$49.82 million and annual expenditures of approximately \$45.62 million (see Table Ex-1) yielding a surplus of approximately \$4.21 million. *Based on these estimates and given the assumptions that are detailed in this report, we find that the proposed city of East Cobb is financially feasible.*

The revenues from the various sources depends on the tax rate or fee structure. For some of the revenue sources, the proposed city of East Cobb will have no say as to what the rates are. For the other taxes and fees, it is assumed that the rates will be the same as those that Cobb County is currently imposing. To the extent that the proposed city of East Cobb might adopt different tax rates or fee structures, the revenues will differ from the estimated revenue. To produce the estimates of expenditures for the proposed city of East Cobb, we relied on the Committee for Cityhood in East Cobb, Inc. to list the services that the proposed city of East Cobb will provide. These are public safety, fire management, and community development. Note that community development is a broad category that for this study includes zoning and code enforcement. We relied heavily on the budgets of several other cities in Georgia with similar populations, including Alpharetta, Dunwoody, Johns Creek, Roswell and Smyrna. In both the revenue and expenditure analysis, we have taken a conservative approach to the estimation, as detailed in the report. The analysis provides the best estimate given available data and information from Committee for Cityhood in East Cobb, Inc. and Cobb County regarding the proposed city's expenditures and assumes no "shocks," such as unanticipated capital expenses or a major economic downturn. This report updates a previous report dated December 7, 2018 and revises our estimate for the Title Ad Valorem Tax. No other material changes were made.

**Table Ex-1. Summary of Financial Analysis**

<b>REVENUE CATEGORY</b>	<b>AMOUNT</b>	<b>EXPENDITURE CATEGORY</b>	<b>AMOUNT (PREFERRED EST.)</b>
Property Tax	\$24,899,921	Mayor/City Council	\$473,020
Alcoholic Beverages	\$551,199	Other Administration	\$12,209,302
Insurance Premium	\$4,555,491	Public Safety	\$19,671,224
Franchise Fees	\$7,297,282	Code Enforcement, Planning and	\$349,732
Licenses and Permits	\$4,203,489	Facility Leasing	\$600,000
Intergovernmental Revenues	\$3,421,674	Startup Expenditures	\$8,605,000
Planning and Development	\$38,800	Contingency	\$2,800,973
Municipal Court	\$2,742,050		
Public Safety: E-911	\$2,114,592		
Total Revenue	\$49,824,497	Total Expenditures	\$45,617,651
Revenue in Excess of Expenditures	\$4,206,846		

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## Introduction

The Center for State and Local Finance (CSLF), Andrew Young School of Policy Studies, Georgia State University was contacted by State Representative Sharon Cooper to develop a fiscal feasibility study for a newly incorporated city of East Cobb. This study provides a detailed analysis of the expected revenues and expenditures for the proposed city using generally accepted methodologies that the CSLF has used for similar studies. The main purpose of the analysis is to estimate the ability of a proposed city of East Cobb to meet its expenditures with available revenue sources. Based on this analysis, the proposed city of East Cobb should expect annual revenues of approximately \$49.82 million (Table 3) and annual expenditures of approximately \$45.62 million (Table 11). *Based on these estimates and given the assumptions that are detailed in this report, we find that the proposed city of East Cobb is financially feasible.*

The purpose of the study is to provide, in as much detail as possible, an estimate of the revenues and expenditures of the proposed city. However, it is not intended to be a budget. The Committee for Cityhood in East Cobb, Inc. provided a list of services that it envisions the proposed city undertaking. These are public safety, fire management, and community development. Note that community development is a broad category that for this study includes zoning and code enforcement. Other services and activities as required by law were included in the analysis. The proposed city has a limited, prescribed set of revenues that are analyzed in this report. Important limitations regarding the data or assumptions made to develop the estimate, or places where there is discretion regarding an item, are noted in the text.

The first section of this study provides a summary of economic and demographic characteristics of the proposed city of East Cobb and a selected group of comparison cities in the metropolitan Atlanta area with populations similar to the proposed city of East Cobb. The second section provides detailed revenue analysis. The third section provides the expenditure analysis followed by the conclusion.<sup>1</sup>

## Economic and Demographic Characteristics

The proposed city of East Cobb analyzed in this report is comprised of land area in Cobb County. The land area (nearly 40 square miles) is similar to that of Roswell. Based on data from the U.S. Census and other governmental agencies, the population of the proposed city of East Cobb would be 96,858. This population is similar to both Roswell and Johns Creek.

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<sup>1</sup> This report updates a previous report dated December 7, 2018 and revises our estimate for the Title Ad Valorem Tax. No other material changes were made.

The socioeconomic characteristics of the proposed city of East Cobb and comparison cities are summarized in Table 1. In general, the population of the proposed city of East Cobb has a greater share of its population age 65 and older (14.1 percent) than the average of the comparison cities (10.1 percent). However, East Cobb is similar in this demographic to Dunwoody. East Cobb's per capita income is \$46,648, which is similar to the average of the comparison cities (\$44,437). Median house values in East Cobb are \$314,000, while the average median house value in comparison cities is \$322,900. These comparisons are helpful for understanding the expected demand for services of the citizens of East Cobb and for developing reasonable estimates of the ability of these citizens to support reasonable expenditures by the city of East Cobb.

**Table 1. Demographic and Socioeconomic Characteristics for the Proposed City of East Cobb and Selected Comparison Cities**

	<b>EAST COBB</b>	<b>ALPHARETTA</b>	<b>DUNWOODY</b>	<b>JOHNS CREEK</b>	<b>ROSWELL</b>	<b>SMYRNA</b>
Population	96,668	65,799	49,609	84,350	94,786	56,685
Land Area (sq. miles)	39.79	26.91	12.95	30.73	40.72	15.35
Percentage of 65 or older	14.1%	8.2%	13.5%	8.6%	11.7%	8.4%
Number of Households	33,589	22,938	19,853	26,880	34,413	24,399
Per Capita Income	\$46,648	\$46,113	\$47,761	\$45,579	\$43,953	\$38,779
Median House Value	\$314,000	\$344,100	\$381,500	\$348,600	\$315,100	\$225,200
Number of Businesses (2012)	3,345	9,144	6,137	9,066	11,594	6,575

Sources: U.S. Census Bureau, Census Quickfacts (2016-17); CSLF calculations based on East Cobb property and demographic estimates

## Revenue Analysis

This section presents the revenue estimates for the proposed city of East Cobb and a discussion of how each revenue estimate was developed. The estimated total for each revenue source is presented in Table 3. The revenue from the various sources depends on the tax rate or fee structure. For some of the revenue sources included in this analysis, the city of East Cobb will have no say as to what the rates are. For other taxes and fees, we assumed the rates will be the same as those that Cobb County is currently imposing. To the extent that the city of East Cobb might adopt different tax rates or fee structures, the revenues will differ from the revenue estimated herein.

For property taxes, we assume a millage rate of 2.96 mills. This is the property tax rate that would be available to the new city of East Cobb for the services the city plans to provide that would not alter the current property tax levy in the unincorporated area.

## PROPERTY TAXES

To approximate the total property tax revenue, we estimated the revenue for individual components of the property tax base as it existed in 2017. For real property taxes, we used the property tax base data for the proposed city of East Cobb provided by the Cobb County Tax Commissioner's Office. For the other components, we allocated a portion of the property tax base for the unincorporated area to the proposed city of East Cobb. In all cases we assumed a millage rate of 2.96 mills. The unincorporated Cobb millage rate was 6.76, in 2017. Unincorporated Cobb County also paid an additional 2.96 millage for the fire fund as of 2017. As East Cobb plans to provide fire services the 2.96 county rate is rolled back to the new city residents. We assumed a collection rate of 95 percent, which is a reasonable collection rate given the high value of residential property in the digest; a large percentage of the delinquent property tax liability that is not collected in the first year will be collected in subsequent years.

### *Real Property Tax Revenue*

The real property tax base for 2017 for the proposed city of East Cobb was provided by the Cobb Tax Commissioner's Office. We provided a digital map of the proposed city of East Cobb to the Cobb County Tax Commissioner, who returned consolidated real property tax base data. These data include the taxable values for residential, commercial, brownfield, utility, and conservation properties. (Note that there is no industrial property in the proposed city of East Cobb.) Because of limitations with the Commissioner's property tax information program, data for personal property and automobiles were not included in the data provided. The revenue from these sources had to be estimated separately.

**Table 2. Proposed City of East Cobb Real Property Taxable Value**

	RESIDENTIAL	COMMERCIAL	UTILITY	CONSERVATION	TOTAL	M&O EXEMPTIONS	NET TAXABLE
Total	\$6,618,123,291	\$675,656,863	\$1,225,921	\$14,998,020	\$7,385,547,985	\$74,899,766	\$7,310,648,219

Table 2 shows the assessed values by major property class as well as the net taxable value after exemptions. The estimated real property tax revenue from a levy of 2.96 mills and a 95 percent collection rate is \$20,557,543.

### *Personal Property Taxes*

The property tax records obtained from Cobb County did not contain detailed information on personal property. Using the property tax consolidation sheet for the unincorporated area, we calculated the share of commercial personal property compared to commercial real property for the unincorporated area, and applied that share to the estimated value of the proposed city of East Cobb's commercial real property. We then multiplied that commercial personal property value estimate by the 95 percent collection rate and the 2.96 millage rate (see Table 3)

### *Mobile Home Property Taxes*

The property tax records obtained from Cobb County did not contain information on mobile home property. Using Census data, we calculated the share of mobile homes in the unincorporated area of Cobb that are in the proposed city of East Cobb. We multiplied the mobile home property tax base for

unincorporated area by this share to estimate the mobile home tax base in the proposed city of East Cobb. We multiplied this amount by the proposed millage rate (2.96 mills) for the proposed city of East Cobb and the assumed collection rate (95 percent).

### ***Motor Vehicles Property Taxes (TAVT)***

Beginning in 2013, the state of Georgia changed how motor vehicles are taxed, from a one-time sales tax combined with an annual ad valorem tax to a one-time title ad-valorem tax. Under the new system, when a motor vehicle is sold, the buyer pays a Title Ad Valorem Tax (TAVT) Fee upon registration. This fee is then distributed to the state, counties, cities, and school districts. Effective July 1, 2019, the method for allocating TAVT is as follows. First, 35 percent of total funds are remitted to the state revenue commissioner; the remaining 65 percent go to local governments. One percent of those local funds are retained by the county's tag agent to offset administration expenses. Next, the funds are distributed to match any local water and sewerage authority and/or Transportation Special Purpose Local Sales Tax receipts from the old ad-valorem system they received in 2012. Then, the remaining funds are divided among the county government, any municipality governing the area in which the owner resides, and the relevant school district. For sales registered to owners in unincorporated areas of the county, the county governing authority receives 51 percent and the county's school district 49 percent of the local government funds. In incorporated areas, the county governing authority receives 28 percent, the municipal government receives 23 percent, and the remaining 49 percent goes to the relevant school district (either the county's or the municipal independent school district, whichever serves the owners registration address).

Based on this system, we estimated East Cobb's likely TAVT revenue as follows. The total TAVT receipts for Cobb County in 2016 (the most recent year of data available) was reduced by the 35 percent state remittance. The remainder was further reduced by the 1 percent administration cost. We estimated that the proportion of total Cobb County sales occurring to people that reside within the boundaries of the proposed city of East Cobb would approximately reflect the share of all motor vehicles within the proposed city out of all vehicles in Cobb County. Therefore, we scaled down the total Cobb County local government receipts, less administration, to reflect the amount likely to be collected from vehicles registered within the proposed city's boundaries. We then multiplied this collections amount by the statutorily set 23 percent for a municipality to estimate the proposed city of East Cobb's revenue for TAVT.

### ***Intangible Personal Property Taxes***

Revenue from intangible personal property taxes are divided among all taxing jurisdictions according to the proportion that the millage rate levied by the jurisdiction bears to the total millage rate levied on that property. Currently, there is no state millage rate; the proposed East Cobb millage is 2.96, and the Cobb unincorporated millage rate is 6.76. We estimated intangible personal property taxes by first multiplying Cobb's 2017 receipts for this category by the current total millage (county and school district) divided by the proposed millage. We then multiplied the resulting value by the proposed city's share of all of Cobb's real estate sales and by the proposed millage divided by the new total millage



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(county, school district and proposed city).

### ***Real Estate Transfer***

Revenue from intangible real estate transfer taxes are divided among all taxing jurisdictions according to the proportion that the millage rate levied by the jurisdiction bears to the total millage rate levied on that property. Currently, there is no state millage rate, the proposed East Cobb millage is 2.96, and the Cobb unincorporated millage rate is 6.76. We estimated real estate transfer fees by first multiplying Cobb's 2017 receipts for this category by the current total millage (county and school district) divided by the proposed millage. We then multiplied the resulting value by the proposed city's share of all of Cobb's real estate sales and by the proposed millage divided by the new total millage (county, school district and proposed city).

### **SELECTIVE SALES & USE TAXES**

Selective sales and use taxes are imposed on activities that place a burden on county or city operations to benefit a private enterprise. This burden may come from the use of government property, such as utility easements used by certain private utility providers, or by increasing the demand for certain services, such as roads or policing. By taxing these activities, the local government can recoup part of the activities' costs, preventing them from burdening residents.

### ***Alcoholic Beverages***

Cobb County provided the estimated alcoholic beverage tax revenue for the proposed city of East Cobb.

### ***Insurance Premium***

Insurance premium tax revenue collected in the county is required by law to be allocated on a per capita basis. Thus, we allocated a share of the revenue from the insurance premium taxes, as reported by the Cobb County, to the proposed city of East Cobb based on its share of the population of the unincorporated area.

### ***Franchise Fees***

Municipalities are allowed to impose fees on utilities for the use of the municipality's right-of-way and related costs. Other than for cable, county governments generally do not collect franchise fees. The fee is some percentage of the receipts for specified services collected by the utility within the municipality. Municipalities collect Franchise fees from cable operators, natural gas providers, electricity companies, and telephone companies. We estimated the revenue that the city of East Cobb might expect for each type of franchise fee per person based on per-capita franchise fee revenues for each type of fee from various comparable Georgia cities, adjusted for differences in population and related qualities. For example, cities with a higher percentage of commercial parcels feature more business activity, which requires more electricity. This in turn increases the utility company's total receipts, the franchise fees received as a percent of those receipts and the per capita franchise fee amount. The following provides some details of the estimating procedures for each franchise fee.

### **Electricity**

We inspected the electric franchise revenues of multiple comparable cities as reported by their Consolidated Annual Financial Reports (CAFRs) and the Carl Vinson Institute of Government's Tax and Expenditure Data Center. There was a positive relationship between the percent of each city's parcels zoned commercial and the per-capita electricity franchise fee. We estimated the proposed city's per-capita electricity franchise fee as the average of the four comparable cities with the most similar share of commercial parcels.

### **Cable**

We collected data on the cable franchise revenues of multiple comparable cities as reported by their Consolidated Annual Financial Reports (CAFRs) and the Carl Vinson Institute of Government's Tax and Expenditure Data Center. For cable franchise revenue we started with the revenues for Alpharetta, Dunwoody, John's Creek, Marietta, Smyrna and unincorporated Cobb. The revenue per capita differs a little across these six areas. The average for the area is \$12.12 per capita, lower than unincorporated Cobb's \$16.53. To be conservative, we used the lower per-capita estimate to calculate the proposed city's revenue.

### **Natural Gas**

The natural gas franchise revenues of multiple comparable cities were collected from their Consolidated Annual Financial Reports (CAFRs) and the Carl Vinson Institute of Government's Tax and Expenditure Data Center. There was a negative relationship between the percent of each city's parcels zoned commercial and the per-capita natural gas franchise fee. We estimated the proposed city's per-capita gas franchise fee as the average of the three comparable cities with the most similar share of commercial parcels.

### **Telephone**

Franchise fee revenue for telephone services depends on both population and employment. Per-capita telephone franchise fees have a negative relationship with population and a positive relationship with employment. We estimated the proposed city of East Cobb's per-capita telephone franchise fees as the average of the per-capita telephone franchise fees of the two comparison cities with the nearest population levels and unemployment rates.

## **LICENSES & PERMITS**

### ***Alcoholic Beverage Permits and General Business Licenses***

There are several categories of business licenses, which we combined into two categories: general business licenses (sometimes called the occupation tax) and licenses for liquor. The latter includes licenses for package liquor stores, stores that sell beer and wine, establishments that sell liquor by the drink and adult entertainment establishments. Cobb County provided business license revenue information for businesses within the proposed city of East Cobb. We allocated the current alcoholic beverage permit revenue for Cobb County using the proposed city of East Cobb's share of the employment in alcohol-serving establishments for the unincorporated area (employment data from the Quarterly Census of Employment and Wages, 2017).

### ***Building Permits***

Building permit revenue comes from registration, permits, and inspection fees associated with construction and renovations, including installation of plumbing, electrical and HVAC systems. We estimated it as the total building permit revenue of Cobb County, scaled by the ratio of the proposed city of East Cobb's residential plus commercial parcels divided by the unincorporated area's total of the same categories.

#### ***Penalty and Interest***

Cobb County additionally provided the estimated amounts of penalties and interest in the proposed city of East Cobb could likely expect.

#### ***Qualifying Fees***

Qualifying fees are imposed on each person qualifying to run for an elected office. The rate is 3 percent of the position's salary. We assumed that there would be a mayor and six city council members, with salaries of \$16,000 for each position. We assumed that there would be three people qualifying for each position.

### **INTERGOVERNMENTAL REVENUES**

Municipalities often receive revenue from other levels of government. Two of the most relevant are described here.

#### ***Cobb County Millage Rate and City Services Agreement (Cobb Six Cities MOU)***

In Cobb County, all residents pay a millage rate of 6.76 to the county general fund. Rather than roll this millage rate back for those that live in the cities within Cobb County, the county provides funds to offset the cost of city service provision. This arrangement is contained in an intergovernmental agreement dated July 9, 2014, between Cobb County and the existing six cities of Acworth, Austell, Kennesaw, Marietta, Powder Springs and Smyrna. The amount of funds available annually is set out in the agreement, starting at \$4.55 million in 2014 and increasing slowly to \$5.45 million by 2023. The amount available in 2017 was \$4.85 million. The cities are allocated a share of these funds based on the taxable real property in the digest of each city as a share the six cities total digest value. We estimate the share the proposed city of East Cobb would receive based on its taxable real property digest relative to those of the other six cities. Note that the digest value in East Cobb is roughly 50 percent of the new seven-city total and would reduce the amount received by the remaining six cities accordingly.

#### ***State Local Maintenance and Improvement Grant (LMIG)***

As of 2010, Georgia's Department of Transportation provides all municipalities in the state with grants to improve road quality in their areas, funded by state motor fuel tax collections. The stated intent of this grant is to allow local governments more flexibility and speed in maintaining and improving their roads, and grant funds are restricted to road-related activities. Allocation is based on an area's road miles and population, regardless of whether the municipality or county manages the roads in question. The amount of the grant is determined by formula: one-third of the local population divided by the state's population, plus two-thirds of the local mileage divided by the total state mileage, multiplied by the total grant amount available state-wide for the granting year.

## CHARGES FOR SERVICES

In addition to the above revenue sources, municipalities also charge fees for certain services they provide.

### *Planning and Development*

Municipalities undertake planning and development activities, such as managing zoning needs. The revenue also includes sign permits, zoning variance permits and certificates of occupancy. We allocated a share of the revenues from these activities, as reported by the Cobb County, based on the proposed city of East Cobb's share of the unincorporated area's residential, commercial and industrial property tax base.

### *Municipal Court*

Revenue from the operation of a municipal court is largely from traffic fines. Comparable cities in Georgia also offer police services and maintain their own municipal courts. Therefore, we assume that the proposed city of East Cobb will do the same. To estimate potential revenue from such a court, we found the per capita court fees for ten comparable cities and averaged them, then multiplied by the proposed city's population.

### *Public Safety: E-911*

The proposed city of East Cobb will be taking on policing duties for its territory, including managing emergency calls. Accordingly, it is entitled to certain charges to pay for this activity. We estimated its revenue as Cobb County's total receipts for E-911, shared down by the ratio of the proposed city's population to that of the unincorporated area.

## REVENUE SOURCES THAT ARE NOT APPLICABLE TO EAST COBB

There are additional potential revenue sources that we assume are not applicable to the proposed city of East Cobb or that would generate no revenue.

### *Financial Institutions Tax*

Cobb County reported no revenue from the financial institutions tax in 2016 or 2017, meaning the proposed city of East Cobb's share would be \$0.

### *Heavy Equipment Property Taxes*

The proposed city of East Cobb has a very small commercial and no industrial base. Additionally, the entirety of unincorporated Cobb County reports only 233 items of heavy equipment in its 2017 consolidated summary. Based on these dynamics, we estimate that the receipts of a tax on any heavy equipment in the proposed city of East Cobb is likely to be close to zero.

### *Hotel/Motel Taxes*

We assume that the proposed city of East Cobb will not have a promotion office. Thus, we assume that the proposed city of East Cobb will not impose a hotel-motel tax. If the proposed city decides to have such a function, at least 40 percent of the hotel/motel tax revenue must be earmarked for that purpose. The other 60 percent could be used to fund the general operations of the city. Using employment in

hotels, motels and inns in the proposed city as a share of this employment in the unincorporated area, it is estimated that a hotel/motel tax would generate \$496,476 in available revenue.

#### ***Investment Income***

Investment income represents income on reserves and non-cash asset balances. We assume that there will be no such revenue in the first year of operation.

#### ***Special Purpose Local Option Sales Tax (SPLOST)***

The proposed city of East Cobb will be eligible for a portion of Cobb County's SPLOST revenue. However, such revenue is allocated on a project basis (not by formula) upon application, and its use is restricted to capital projects. Therefore, SPLOST revenues have no bearing on ongoing operations for the proposed city of East Cobb.

#### ***Storm Water Fees***

Currently, Cobb County imposes a storm water utility fee to cover the cost of handling storm water. The proposed city of East Cobb has not opted to provide this service and thus will not impose this fee. In the future, should the proposed city of East Cobb take up storm water services and collect this fee, this revenue would be earmarked for this activity, as it is an enterprise fund.

#### ***Culture and Recreation***

The proposed city of East Cobb will not assume responsibility for parks and recreation. No revenue from cultural events or other recreation services is included.

#### ***Federal Community Development Block Grant (CDBG)***

The proposed city of East Cobb will not be eligible for a federal Community Development Block Grant (CDBG). The size of the grant is determined by a formula. Key elements in the formula include extent of poverty and housing overcrowding in census tract. Based on demographic data it does not appear that the proposed city of East Cobb would qualify for these funds.

## REVENUE SUMMARY

Table 3 contains the estimates for all of the revenue items discussed above for which we developed revenue estimates, totaling \$47,156,412.

**Table 3. Revenue Estimates**

REVENUE CATEGORY	PROPOSED CITY OF EAST COBB REVENUE
<b>Property Taxes</b>	
Real & Personal Property	
<i>Real Property Tax</i>	\$20,557,543
<i>Personal Property Tax</i>	\$1,943,518
Public Utilities	\$3,447
Mobile Home	\$1,599
Motor Vehicles (TAVT)	\$1,398,987
Intangible Personal Property	\$720,827
Real Estate Transfer	\$274,000
<b>Selective Sales &amp; Use Taxes</b>	
Alcoholic Beverages	\$551,199
Insurance Premium	\$4,555,491
Franchise Fees	
<i>Electricity</i>	\$4,923,292
<i>Cable</i>	\$1,173,919
<i>Natural Gas</i>	\$736,121
<i>Telephone</i>	\$463,950
<b>Licenses &amp; Permits</b>	
Alcoholic Beverage Permits	\$322,016
General Business Licenses	\$2,810,402
Building Permits	\$925,454
Penalty and Interest	\$135,537
Qualifying Fees	\$10,080
<b>Intergovernmental Revenues</b>	
Cobb County MOU	\$2,356,568
State LMIG	\$1,065,106
<b>Charges for Services</b>	
Planning and Development	\$38,800
Municipal Court	\$2,742,050
Public Safety: E-911	\$2,114,592
<b>TOTAL REVENUE</b>	<b>\$49,824,497</b>

## Expenditure Analysis

To produce the estimates of expenditures for the proposed city of East Cobb, we relied heavily on the budgets of several other cities in Georgia with similar populations and median income levels. These cities include Alpharetta, Johns Creek and Roswell in Fulton County, Dunwoody in DeKalb County and Smyrna in Cobb County. While the population and median income of the proposed city of East Cobb is expected to be in line with all of these cities, several of these cities have more established municipal governments that offer a larger array of government services than is initially expected of the proposed city of East Cobb. Several of the comparison cities also offer sanitation and storm water management services, which will not be offered, at least initially, by the proposed city of East Cobb.<sup>2</sup>

Municipal expenditures reflect not only the cost of service provision but also the level of service that is desired by the municipal taxpayers. Higher levels of expenditures may not necessarily reflect an ineffective government but are more likely to represent a higher quality or increased level of service provision, such as a greater public safety presence or stricter building code enforcement. Therefore, it is important to understand that including several comparison cities in the analysis captures a fairly wide array of preferences for services. The choice of how much to spend on a particular service must be left to the citizens of the proposed city of East Cobb.

### GOVERNANCE

The governance of the city includes the position of mayor and members of the city council. Most of the comparison cities have council sizes of six members, although Smyrna has seven members. Smyrna council members serve an average of 7,513 persons, while those in Roswell serve 15,561. On average, council members in the comparison cities serve 10,987 persons each. Data from the 2017 Department of Community Affairs Municipal Wage and Salary survey for elected officials show that compensation for council members in our comparison cities ranges from \$12,000 in Dunwoody to \$18,900 in Smyrna. Compensation for the position of mayor ranges from \$16,000 in Dunwoody to \$40,000 in Roswell.

**Table 4. Governance Estimate**

	PREFERRED ESTIMATE
Mayor/City Council	\$473,020

Average expenditures over the 2013-17 period for the mayor and city council department range from \$230,886 in Dunwoody to \$455,705 in Roswell. Based on budget data from 2013-17, we compute the per capita expenditures associated with this department for each of the comparison cities. From these per capita figures, we compute the average ratio for the comparison cities. The average per capita expenditures ratios are then applied to the anticipated population of the proposed city of East Cobb to determine the estimate presented in Table 4. Based on this methodology, we estimate an annual expenditure for governance for the incorporated area of East Cobb of \$473,020.

<sup>2</sup> It is assumed that Cobb County will continue to collect the appropriate storm water fees on behalf of East Cobb.

## CITY ADMINISTRATION

For the purposes of this analysis, city administration is defined as the departments of city manager, finance, general administration, legal and city clerk. Average administrative expenditures over the 2013-17 period for the comparison cities ranged from a low of \$5.9 million in Dunwoody to a high of \$10.8 million in Roswell.

Determining the expenditures associated with each department is challenging because each city allocates the responsibilities of city management amongst the administrative departments in various ways that best suit their needs. Therefore, comparing the expenditures of finance departments across two different cities may not provide a relevant comparison. For example, while all of our comparison cities have a finance office, the responsibilities of this office may not be the same across all of the cities. This is particularly problematic for administrative services. To the extent possible, we reallocated expenditures among departments to construct departments with similar responsibilities across our comparison cities.

The expenditures associated with the general administration are constructed to include human resources, risk management, information technology, municipal courts and building services/facilities. The offices of city clerk and city manager are fairly consistently defined over our comparison cities. It is also important to note that the administration departments of smaller cities take on many responsibilities that may be performed by separate departments in larger cities. For this reason, we caution readers against focusing solely on the expenditures of each department and advise, instead, to focus on the expenditure estimate for administration as a whole.

**Table 5. Administration Estimate**

DEPARTMENTS	PREFERRED ESTIMATE
City Manager	\$1,384,611
Finance	\$3,085,204
General Administration	\$6,793,543
Legal*	\$586,534
City Clerk*	\$359,409
Total Administration	\$12,209,302

\*Omits Smyrna, which does not itemize legal or city clerk costs

We employ the same methodology used previously: we compute the average per capita expenditures ratio for the comparison cities and then apply the ratio to the anticipated population of the proposed city of East Cobb to determine the preferred estimate. Table 5 shows the preferred expenditure estimates for the proposed city of East Cobb, based on the average per capita expenditure ratios of the comparison cities over 2013-17.



## PUBLIC SAFETY

The proposed city of East Cobb plans to provide police, fire and E-911 services. Police services include administration, logistics, criminal investigations, uniform patrol, traffic control and jails. Fire services include administration, fire suppression, prevention, logistics and training. Other potential services may be offered for both police and fire. E-911, the Enhanced 911 service, is a centralized emergency response communication channel; the enhanced function of this 911 service provides emergency responders with the geographic location of mobile phone users.

The methodology employed in the previous sections—using the per capita average of the comparison cities applied to the estimated population of East Cobb—is used for the fire services and E-911 expenditure estimates. To assess police services, we estimate the average spending per officer and population per officer for the comparison cities from FY 2013-17. We then divide the estimated East Cobb population by the population per officer estimate and multiply the result by the estimated spending per officer. This calculation yields a police force of roughly 142 officers. The proposed city of East Cobb will also include five existing fire stations. Per Georgia law, the proposed city plans to purchase these fire stations for the statutorily proscribed amount of \$5,000 each.<sup>3</sup> Table 8 shows the best estimates for police services as well as fire and E-911 services.<sup>4</sup>

**Table 8. Public Safety Estimate**

DEPARTMENTS	PREFERRED ESTIMATE
Police Subtotal	\$13,171,316
Fire Subtotal	\$5,933,137
E-911 Subtotal	\$1,475,171
Public Safety Total	\$20,579,624

## TOURISM

For this analysis, we assume East Cobb will not undertake this function. A minimum of 40 percent of hotel-motel taxes must be set aside for tourism. If East Cobb decides to do so, the expenditures in this category would be at least \$330,984 and are paid exclusively by the revenue from the hotel/motel tax.<sup>5</sup>

## CODE ENFORCEMENT AND COMPREHENSIVE PLANNING AND ZONING

The proposed city of East Cobb will be responsible for developing a comprehensive strategic plan and enforcing all zoning decisions and ordinances. In addition, the estimate below includes the cost of administering business licenses and providing building inspections. The estimated expenditures for code enforcement and planning and zoning are shown in Table 9 and are based on a per capita calculation of

<sup>3</sup> These fire stations are numbers, 3,15,19,20, and 21. The statute governing this purchase by a new city is O.C.G.A. 36-31-11.1.

<sup>4</sup> We also reviewed 911 call data for the proposed new city of East Cobb. Due to the low volume of 911 calls in the data, using the standard cost benchmarks per 911 call in the public safety industry did not yield credible estimates of the cost of operating a police department.

<sup>5</sup> This expenditure level is equal to 40 percent of the anticipated revenue from the hotel/motel tax.

expenditures of code enforcement in the comparison cities. Based on budget data from FY 2017, Alpharetta and Smyrna had three code enforcement officers and one zoning inspector. In addition, these cities employed additional personnel to address issues of planning and zoning.

**Table 9. Code Enforcement and Comprehensive Planning and Zoning Estimate**

DEPARTMENTS	PREFERRED ESTIMATE
Code Enforcement/Planning & Zoning	\$349,732

### FACILITY LEASING AND MANAGEMENT

To account for office space and equipment in East Cobb, we estimate the total cost based on the facilities costs of Dunwoody and Brookhaven. Dunwoody leases approximately 24,000 square feet of office space. Commercial leasing rates for Dunwoody are not necessarily representative of the proposed city of East Cobb commercial leasing market, so we use an estimated value of advertised leasing for the East Cobb area of \$25 per square foot per year and assume that the proposed city of East Cobb would lease approximately 24,000 square feet of space. Expenditures for utilities are already accounted for in the estimates for the various departments and are not included in this estimate for leasing expenditures. The estimated expenditures for facility leasing are shown in Table 10.

**Table 10. Other Estimated Expenditures**

EXPENDITURES	PREFERRED ESTIM
Facility Leasing	\$600,000
Startup Expenditures	\$8,605,000
Contingency	\$2,800,973

### STARTUP EXPENDITURES

To account for general startup expenditures, we estimated that East Cobb will employ 35 people in various capacities, not including police and fire. This estimate is in line with the comparison cities, which employ from roughly 23 people in Johns Creek to 60 people in Alpharetta. We estimate that each employee will require furniture and office equipment, software, computers, and communication equipment, totaling an estimated expense of \$8,000 per employee. In addition, a central computer system, software and GIS equipment will cost approximately \$140,000. Finally, we estimate that the new city will also need five vehicles at a cost of \$35,000 each. The total start-up cost for the above expenses is \$595,000 in year one.<sup>6</sup> The overall startup costs will vary if the city leases equipment instead of purchasing equipment and will depend on the number of employees initially hired. In addition, to cover the initial costs incurred before the first property tax collection, the city can offer a one-year bond, called a Tax Anticipation Note (TAN). Assuming the city floats a one-year bond for \$10,000,000 at the current LIBOR one-year interest rate of 2.1 percent, interest on this note would be \$210,000 for the

<sup>6</sup> This amount is calculated based on various estimates for the items listed above in previous incorporation studies done by CSLF and the Carl Vinson Institute of Government.

first year. Table 10 provides the estimates for interest expense associated with the TAN and other estimated startup expenditures.

The total startup costs also include significant initial investments in a police department. Based on police startup costs in nearby cities, we estimate startup costs of \$55,000 per officer, for a total investment of \$7.8 million. This includes police equipment, uniforms, vehicles, radio equipment and other necessary items for law enforcement. Notably, many cities amortize these costs over five years and may not pay the full \$7.8 million in the first year. The entire expenditure is included here.

### **CONTINGENCY**

To account for unforeseen expenses and deviations from an original plan, we have included a contingency budget equal to one month of expenditures, excluding one-time expenditures such as startup expenditures. This amount is shown in Table 10.

A foreseeable area of additional expense for the new city of East Cobb could be in maintaining roads. In 2015, OCGA 36-31-7.1 was enacted that requires that: “any new city created must assume the ownership, control, care, and maintenance of county road rights of way located within the area incorporated unless the municipality and the county agree otherwise by joint resolution.” As the city of East Cobb does not plan to provide public works, it will be relying on the county to continue to maintain the roads in the area. This is a reasonable assumption, as the county is still receiving all funding sources used for road maintenance. Thus, this analysis assumes that an agreement is reached between Cobb County and the new city of East Cobb, that maintains the status quo.

Table 11 provides a summary of all the estimated expenditures associated with the proposed city of East Cobb.

**Table 11. Summary of All Expense Estimates**

<b>DEPARTMENTS</b>	<b>PREFERRED ESTIMATE</b>
Mayor/City Council	\$473,020
City Manager	\$1,384,611
Finance	\$3,085,204
General Administration	\$6,793,543
Legal	\$586,534
City Clerk	\$359,409
<i>Sub Total Administration</i>	\$12,682,322
Public Safety	\$20,579,624
Code Enforcement/Planning & Zoning	\$349,732
Facility Leasing	\$600,000
Startup Expenditures	\$8,605,000
Contingency	\$2,800,973
Total – All Expenditures	\$45,617,651

## Conclusion

Total estimated revenues and total estimated expenditures for the proposed city of East Cobb are shown in Table 12. The proposed city can anticipate \$4.21 million of revenue in excess of expenditures under the assumptions made in this report, including the data we developed and the list of expenditures that East Cobb anticipates undertaking.

**Table 12. Total Estimated Revenues and Expenditures**

PREFERRED ESTIMATE	
Revenues	\$49,824,497
Expenditures	\$45,617,651

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## About the Center for State and Local Finance

The Center for State and Local Finance (CSLF) mission is to develop the people and ideas for next generation public finance. Key initiatives include: 1) Developing executive education programs in public finance to provide professional development for the next generation of practitioners in state and local finance; 2) Building technical assistance capacity in next generation technologies for the public sector that include the use of “big data” and improved analytics to better inform policy-makers and to better target solutions to public sector problems; 3) Supporting scholarship on critical challenges in state and local fiscal and economic policy; and 4) Building a strong capacity to translate and communicate academic research for the practitioner audience.

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