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THE
CENTER
FOR
STATE
AND
LOCAL
FINANCE

Proposed Incorporation of Skidaway Island

Feasibility Study

Executive Summary

The Center for State and Local Finance (CSLF), Andrew Young School of Policy Studies, Georgia State University was contacted by The Landings at Skidaway Island to conduct a feasibility study for incorporating the whole of Skidaway Island. This study provides a detailed analysis of the expected revenue 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 city of Skidaway Island to meet its expenditures with available revenue sources. Based on this analysis, the city of Skidaway Island should expect annual revenue of approximately \$6.4 million and annual expenditures of approximately \$4.6 million to \$4.8 million. *Based on these estimates and given the assumptions that are detailed in this report, we find that the proposed city of Skidaway Island is financially feasible.*

Table Ex-1. Summary of Financial Analysis

	Chatham County Average	DCA Average
Revenues	\$6,421,805	\$6,421,805
Expenditures	\$4,598,047	\$4,818,879
Surplus/Deficit	\$1,823,758	\$1,602,926

INTRODUCTION

The Center for State and Local Finance (CSLF), Andrew Young School of Policy Studies, Georgia State University was contacted by The Landings at Skidaway Island to conduct a feasibility study for incorporating the whole of Skidaway Island. This study provides a detailed analysis of the expected revenue 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 city of Skidaway Island to meet its expenditures with available revenue sources. Based on this analysis, the city of Skidaway Island should expect annual revenue of approximately \$6.4 million (Table 3) and annual expenditures of approximately \$4.6 million to \$4.8 million (Table 4). *Based on these estimates and given the assumptions that are detailed in this report, we find that the proposed city of Skidaway Island 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. The representatives of the proposed city of Skidaway Island provided a list of services that they envision the city undertaking; other services and activities as required by law are included in the analysis. The proposed city has a limited prescribed set of revenues that are analyzed in this report. Where there is discretion regarding an item, an important limitation regarding data, or assumptions made to develop the estimate, those are noted in the text.

The first section of this study provides a summary of economic and demographic characteristics of the proposed city of Skidaway Island. The second section provides detail regarding the revenue analysis. The third section provides the expenditure analysis followed by the conclusion.

ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

The proposed city of Skidaway Island analyzed in this report is comprised of the entirety of Skidaway Island. The socioeconomic characteristics of the proposed city of Skidaway Island are summarized in Table 1.

TABLE 1. DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS FOR THE PROPOSED CITY OF SKIDAWAY ISLAND, 2014

	Skidaway Island
Population	7,635
Land Area (sq. miles)	18
Percentage of Population 65 or older	48%
Total Housing Units	4,190
Number of Occupied Housing Units	3,553
Median Income	\$111,152

Source: U.S. Census Bureau American Community Survey for 2014

REVENUE ANALYSIS

This section presents the revenue estimates for the proposed city of Skidaway Island. Table 3 contains the revenue estimates by source. The section also contains a discussion of how each of the revenue estimates was developed.

The revenue from the various sources depend on the tax rate or fee structure. For some of the revenue sources, the city of Skidaway Island will have no input as to the rates. For the other taxes and fees we assume the rates will be the same as those that Chatham County is currently imposing. To the extent that the city of Skidaway Island adopts different tax rates or fee structures, the revenues will differ from the revenues estimated herein.

For the property tax we assume a millage rate of 4.13 mills. This is the current property tax rate that Chatham County imposes on the unincorporated area for the services that will be offered by the city of Skidaway Island.

Property Taxes

To estimate property tax revenue we estimated the revenue for individual components of the property tax base. For real property taxes we use the property tax base data for the proposed city of Skidaway Island provided by the Chatham County Board of Assessors' office. For the other components we allocate a portion of the property tax base for the unincorporated area to the proposed city of Skidaway Island. In all cases we assume a millage rate of 4.13 mills. We also assume a collection rate of 95 percent; 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 2015 for the proposed city of Skidaway Island was provided by the Chatham Tax Assessor's office. We provided a digital map of the proposed city of Skidaway Island to the Chatham County Board of Assessor's office, which returned consolidated real property tax base data. These data include the taxable values for residential, commercial, industrial, agricultural, and conservation properties. Because of the limitations of the Board of Assessor's office computer program, data for personal property, automobiles, and utility property were not included. The revenue from these sources was estimated separately.

TABLE 2. PROPOSED CITY OF SKIDAWAY ISLAND REAL PROPERTY TAXABLE VALUE

Residential	Commercial	Industrial	Agriculture Conservation	Total	M&O Exemptions	Net Taxable
\$829,941,590	\$49,274,778	\$0	\$263,480	\$879,591,900	\$176,373,622	\$703,218,278

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 4.13 mills and a 95 percent collection rate is \$2,759,077.

Utility Property Taxes

The property tax records obtained from Chatham County did not contain information on utility property. We first estimate the utility tax base for the proposed city of Skidaway Island by allocating a share of the utility property for the unincorporated area using the consolidation sheet

from the Georgia Department of Revenue by the population share. We then multiply the estimated utility tax base by the proposed millage rate for the proposed city of Skidaway Island of 4.13 mills and a collection rate of 95 percent.

Personal Property Taxes

The property tax records obtained from Chatham County did not contain information on personal property. Most (98.6 percent) of the personal property tax base for the unincorporated area is in the commercial and industrial property categories. Using the consolidation sheet for the unincorporated area, we calculate the share of personal property of the total property for the commercial and industrial categories. We use these shares and the value of commercial real property and industrial real property for the proposed city of Skidaway Island to estimate the personal property tax base. We multiply this base by the proposed millage rate (4.13 mills) for the proposed city of Skidaway Island and the assumed collection rate of 95 percent.

Mobile Home Property Taxes

The property tax records obtained from Chatham County did not contain information on mobile home property. Using U.S. Census Bureau data we calculate the share of mobile homes in the unincorporated area that are in the proposed city of Skidaway Island. We multiply the mobile home property tax base for the unincorporated area by this share to estimate the mobile home tax base in the proposed city of Skidaway Island. We multiply this amount by the proposed millage rate (4.13 mills) for the proposed city of Skidaway Island and the assumed collection rate of 95 percent.

Motor Vehicles Property Taxes

The property tax records obtained from Chatham County did not contain information on motor vehicle property. Motor vehicles can be either commercial or non-commercial. The Census provides an estimate of the number of non-commercial vehicles in the unincorporated area. Dividing this number by the number of vehicles as reported on the property tax consolidation sheet from the Georgia Department of Revenue (DOR) gives us an estimate of the percentage of

vehicles in the unincorporated area that are non-commercial. We multiply the vehicle property value as reported on the consolidation sheet by this percentage to obtain the non-commercial vehicle property tax base for the unincorporated area. We allocate a share of the non-commercial vehicle property tax base to the proposed city of Skidaway Island using Census data to estimate the share of vehicles owned by residents of the unincorporated area that are in the proposed city of Skidaway Island. We then allocate the commercial vehicle property tax value using the ratio of commercial and industrial property in the proposed city of Skidaway Island to that for the unincorporated area. We sum these two amounts and then multiply the sum by the proposed millage rate (4.13 mills) for the proposed city of Skidaway Island and the assumed collection rate of 95 percent.

Beginning in 2013, the state of Georgia changed how motor vehicle are taxed. Under the new law, the buyer pays a Title Ad Valorem Tax Fee when the vehicle is registered. The revenue from this fee is distributed to local jurisdictions that were in existence on January 1, 2013. Thus, the city of Skidaway Island should not expect any revenue from this fee. Furthermore, under this law, new vehicles do not become part of the property tax base, and when a used motor vehicle is sold it ceases to be part of the property tax base. Thus, over time, the value of the motor vehicle property tax base will decline.

Intangible Property Taxes

There are two intangible taxes. A tax is levied on the value of real estate when it is transferred and a tax is levied on the value of real estate mortgages. Revenue from these 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. Because the millage rate in the unincorporated area is the same as the proposed millage rate in the proposed city of Skidaway Island, we allocate the intangible tax using the share of the population of the proposed city of Skidaway Island to 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 television, county governments do not collect franchise fees. The fee is some percentage of the receipts for specified services collected by the utility within a municipality. Franchise fees are collected from cable operators, natural gas providers, electricity companies, and telephone companies. We estimate the revenue that the city of Skidaway Island might expect for each of these franchise fees. We find the franchise revenue for several cities in Georgia and calculate revenue per capita for each of the four categories of franchisees. For cable, phone and gas we use the average revenue per capita for each to estimate the revenue for the city of Skidaway Island.

There was wide variation in the revenue per capita for the franchise fee for electricity. These differences are driven by differences in the amount of commercial and industrial activity in the city. Given that the city of Skidaway Island has very little commercial and no industrial activity, we believe the revenue per capita would be at the lower end of the distribution of revenue per capita from the sample of cities. We thus use a per capita amount that was the minimum of our sample.

Life, Property and Casualty Insurance

Insurance premium tax revenue collected in the county is required by law to be allocated on a per capita basis. Using data from financial reports from Chatham County and several cities in the county, we calculate the insurance premium revenue per capita. We multiply this by the estimated population for the city of Skidaway Island to estimate the revenue from this source.

Mixed Drink Tax and Alcohol Excise Tax

Using data from financial reports of several cities in Chatham County we calculate the revenue per capita for these two revenue sources. Given that the proposed city of Skidaway Island has very few restaurants and bars, we use the smallest revenue per capita for the estimate for the proposed city of Skidaway Island.

Business License

Chatham County provided the business license revenue collected from businesses located in the proposed city of Skidaway Island. We use this as the estimate of business license revenue for the proposed city of Skidaway Island.

Bank Share Tax

The bank share tax is imposed on the gross receipts of banks, including savings and loan offices. We allocate a share of the revenue, as reported by Chatham County, from this tax to the proposed city of Skidaway Island based on the relative employment in the banking industry.

Building, Development, Zoning Fees

Building, development and zoning fee revenue generally comes from registration, permits, and inspection fees associated with construction and renovations, including installation of plumbing, electrical, and HVAC systems. The revenue can also include sign permits, zoning variance permits and certificates of occupancy. We allocate a share of the revenues in the unincorporated area from these activities, as reported by the Chatham County Department of Finance, to the proposed city of Skidaway Island based on its share of the unincorporated area's residential, commercial, and industrial property tax base.

Local Option Sales Tax (LOST)

The proposed city of Skidaway Island will be eligible to receive part of the county's LOST revenue. We were unable to determine the factors that were used to determine the current distribution of the LOST revenue between the various jurisdictions, but our analysis suggests that it is not simply on a per capita basis. It appears that the county revenue share is greater than the share of the county population in the unincorporated area. The remaining LOST revenue, which is the total LOST revenue less the allocation to the county government, appears to be shared basically on a per capita basis. Thus, our estimate of the revenue for the proposed city of Skidaway Island is based on the total LOST revenue to the municipalities per capita.

Municipal Court

Revenue from the operation of the Municipal Court is largely from traffic fines. There will also be a small amount of revenue associated with violation of municipal ordinances. We were unable to identify a way to estimate such revenue, but we believe it will be small. We somewhat arbitrarily assumed an annual revenue of \$20,000.

Revenue Sources That Are Not Applicable

There are several potential revenue sources that we assume are not applicable to the proposed city of Skidaway Island.

Qualifying Fees

Qualifying fees are imposed on each person qualifying to run for an elected office. The rate is 3 percent of position's salary. Because the salaries that are proposed are zero, there will be no revenue from this source.

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.

Hotel/Motel Taxes

We assume that the proposed city of Skidaway Island will not have a promotion office. Thus, we assume that the proposed city of Skidaway Island will not impose a hotel-motel tax.

Storm Water Fees

Currently, Chatham County imposes a storm water utility fee to cover the cost of handling storm water. We assume that the proposed city of Skidaway Island will not be responsible for handling storm water and thus will not impose this fee. Because this would be an enterprise fund, if the proposed city of Skidaway Island was to be responsible for storm water, this revenue would be earmarked for this activity.

Revenue Summary

Table 3 contains the estimates for all of the revenue items listed above. Based on the estimates, the estimated revenue for the city of Skidaway Island is \$6,421,805.

TABLE 3. REVENUE ESTIMATES

Revenue Category	Skidaway Island Revenue	Revenue Category	Skidaway Island Revenue
Property Tax:		Life & Property & Casualty Insurance	\$374,749
Real Property	\$2,759,077		
Utilities	\$34,724	Mixed Drink Tax	\$114,525
Personal Property	\$144,869	Business Licenses	\$42,654
Motor Vehicles	\$58,007	Municipal Court	\$20,000
Mobile Homes	\$181		
Intangible Recording	\$16,524	Bank Share Tax	\$7,505
Franchise Fees		Building, Development, & Zoning Fees	\$22,367
Electricity	\$305,400	LOST	\$2,360,888
Cable	\$83,985		
Natural Gas	\$45,810		
Telephone	\$30,540		
		TOTAL	\$6,421,805

EXPENDITURE ANALYSIS

The analysis presents the cost estimates of the services currently provided by Chatham County through the Special Service District (SSD). These include the following: governance, city administration, planning and zoning and code enforcement, police, municipal court, and public works. The analysis also includes an estimate for a contingency fund for unexpected expenditures.

This analysis presents two sets of estimates for each expenditure category. The first series of estimates, referred to as the Chatham County Average, is computed as the average expenditure for that service based on the expenditures from the following cities located in Chatham County: Bloomingdale, Garden City, Port Wentworth, Thunderbolt, and Tybee Island. The budget figures for this set of municipalities are from the Georgia's Department of Community Affairs (DCA) Report of Local Government Finance (RLGF) database for the fiscal year (FY) ending in 2015.¹ All expenditure costs include employee salaries and benefits. The remaining cities in Chatham County, Savannah, Pooler, and Vernonburg, were excluded from the analysis. In the case of Pooler and Savannah, the municipal populations were too large to serve as appropriate comparisons. The population of Vernonburg, approximately 130, was judged to be too small. The characteristics of these comparison cities vary greatly. Several of these cities, including Bloomingdale, Thunderbolt, and Tybee Island are significantly smaller in population than the proposed city of Skidaway Island, all have lower median incomes, and all have greater public access. Because of these differences, the expenditures of these comparison cities may not be completely representative of the proposed city of Skidaway Island but are likely to represent an upper bound of expenditures that the proposed city will face.

Because of these differences, especially in population size, we present an alternative set of estimates based on the average expenditures from cities in Georgia with populations between 7,000 and 8,000 in 2015.² We found eight such cities in Georgia.³ These include Auburn, Austell,

¹ The data for Morrow is for 2014 which is the latest available data for that municipality.

² Georgia Department of Community Affairs publication, "All Active Georgia Governments, Alphabetical By Type with Latest Population".

³ Port Wentworth also has a population in this range but was not included in this set of municipalities because its expenditures were included in the construction of the Chatham County Average.

Centerville, Hampton, LaFayette, Morrow, Swainsboro, and Tyrone. On average, these cities have a population of 7,344. The budget figures for this set of municipalities are from the Georgia's DCA RLGf database for FY 2015.⁴ All expenditure costs include employee salaries and benefits. This series of estimates is referred to as the DCA Average. At the conclusion of this expenditure analysis we also present information on total budget expenditures for Kiawah Island and Sullivan's Island which are gated communities located along the Atlantic coast of South Carolina. The data for Kiawah Island and Sullivan's Island are from their budget documents.

Other estimation strategies were attempted for this analysis. A common approach used in feasibility studies relies on the budgets of other municipalities and prorates the estimates based on the relative populations of the comparison cities to the proposed city. For example, we developed a set of estimates by prorating the FY 2015-2016 expenses of the Chatham County Special Service District (SSD) by the share of Skidaway Island's population to the unincorporated county population. In addition, we developed a series of estimates based on the budgets of several smaller communities and adjusted these figures to reflect the larger population of Skidaway Island. Both of these approaches assume the cost of services is linearly related to population but this assumption does not hold well for smaller municipalities. There are significant fixed costs associated with providing services that are applicable to small and somewhat larger cities alike. Conversely, the additional cost of providing services to a slightly larger population, once a service is established, may not be significantly greater. For these reasons, the approaches that rely on scaling an existing budget expense by population or any other factor did not yield reliable estimates and are not applied in this analysis.

Governance

The governance of the city includes the position of mayor and members of the city council. Most of our comparison cities have six members on the city council. Data from the 2015 Georgia DCA Municipal Wage and Salary survey for elected officials show that compensation for council members equaled \$900 per year in Thunderbolt and \$2,400 per year in Tybee Island, and compensation for the mayor equaled \$2,400 in Thunderbolt and \$6,000 in Tybee Island.

⁴ The data for Morrow is for 2014 which is the latest available data for that municipality.

Based on our discussions with the sponsors of the proposed city of Skidaway Island, we estimate \$0 for this expense. Under the current arrangement, the members of the Board of Directors of The Landings serve in their positions without compensation. The sponsors envision a similar arrangement for the elected officials of the city of Skidaway Island.

City Administration

For the purposes of this analysis, the expense category of city administration includes such services as general administration, legal, geographical information systems, information technology, human resources, finance, accounting, and utilities and maintenance for municipal buildings. Based on the average expenses of these services from the comparison cities in Chatham County, average cost for these services in FY 2015 are \$1,024,337. Using the DCA average, costs in FY 2015 are \$1,543,699.

Code Enforcement and Planning and Zoning

The proposed city of Skidaway Island will be responsible for developing a comprehensive strategic plan and for enforcing all zoning decisions and ordinances. The estimate also includes the cost of administering business licenses and conducting building inspections. The average cost for these services for our Chatham County comparison cities in FY 2015 is \$115,184, while the DCA average is \$104,551.

Police

Under the SSD agreement, police services are provided to the unincorporated area by the county through a contractual agreement with the city of Savannah. Once incorporated we assume that the proposed city of Skidaway Island will contract directly with the city of Savannah for these services. The average cost for this service for our Chatham County comparison cities in FY 2015 is \$1,958,611. Using the DCA average, the average cost of policing services in FY 2015 equals \$1,695,976.

Municipal Court

As with the police, under the current agreement, the services associated with the municipal court are provided to the unincorporated area by the county through a contractual agreement with the city of Savannah. Once incorporated we assume that the proposed city of Skidaway Island will contract directly with the city of Savannah for these services. The average cost for this service for our Chatham County comparison cities in FY 2015 is \$86,674. Using the DCA average, the cost of municipal court services in FY 2015 equals \$131,344.

Public Works

Currently, the residents of Skidaway Island receive public works services from Chatham County. Based on the description in the 2015-2016 Chatham County SSD budget, public works includes the following services: department administration, fuel distribution, storm drain/water maintenance, roadway/roadside maintenance, utility location, traffic control and signage, safety and training, and storm drain inspection for permitting requirements. Based on the average expenses of these services by the comparison cities in Chatham County, average costs for these services in FY 2015 equal \$756,378. Using the DCA average, costs in FY 2015 equal \$654,899.

Contingency

To account for unforeseen expenses and deviations from an original plan, we include a contingency budget equal to two month of expenditures. The estimated contingency amount based on the Chatham County series of costs equals \$656,864. The estimated contingency amount based on the DCA average series equals \$688,411.

Expense Summary

Table 4 provides a summary of all the estimated expenditures associated with the proposed city of Skidway Island.

TABLE 4. SUMMARY OF ALL EXPENDITURE ESTIMATES

Departments	Chatham County Average	DCA Average
Governance	\$0	\$0
City Administration	\$1,024,337	\$1,543,699
Code Enforcement/Planning & Zoning	\$115,184	\$104,551
Police	\$1,958,611	\$1,695,976
Municipal Court	\$86,674	\$131,344
Public Works	\$756,378	\$654,899
Contingency	\$656,864	\$688,411
TOTAL – All Expenditures	\$4,598,047	\$4,818,879

Comparison to Expenditures of Kiawah Island and Sullivan’s Island

The estimates presented in Table 4 reflect the experience of communities with a different demographic mix than that likely to exist in the proposed city of Skidway Island. As gated communities are often more affluent than the communities used in the analysis so far, they may demand a different level of service provision. We include as additional points of comparison the budgets for Kiawah Island and Sullivan’s Island which are located along the coast of South Carolina and are more similar demographically to the proposed city of Skidaway Island. The General Fund budget in FY 2015 for Kiawah Island is \$3.8 million and is \$3.6 million in the case of Sullivan’s Island.⁵ Therefore, it is possible that the city of Skidaway Island may experience budget expenditures slightly less than those shown in Table 4.

⁵ Expenditures for fire protection and recreation are excluded from these figures.

CONCLUSION

Total estimated revenues and total estimated expenditures for the proposed city of Skidaway Island are shown in Table 5. The proposed city can anticipate a surplus of \$1.6 million to \$1.8 million under the assumptions made in this report including the data we have been able to develop and the list of expenditures that the proposed city representatives anticipate undertaking. The estimate is largely based on the 2014 population estimate from the American Community Survey from the U.S. Census and the assessed values of property provided by the Chatham County Tax Assessor's office. If the assessed values or population figures are underestimated or if the proposed city of Skidaway experiences lower cost of services than those assumed in this report, the expected surplus would likely increase.

TABLE 5. TOTAL ESTIMATED REVENUES AND EXPENDITURES

	Chatham County Average	DCA Average
Revenues	\$6,421,805	\$6,421,805
Expenditures	\$4,598,047	\$4,818,879
Surplus/Deficit	\$1,823,758	\$1,602,926

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