East Cobb Cityhood Independent Finance Group

Review of the *Feasibility Study for the Proposed City of East Cobb*

MAJORITY OPINION

"…wherever the people are well informed they can be trusted with their own government; that whenever things get so far wrong as to attract their notice, they may be relied on to set them to rights."

— Thomas Jefferson, 1789

Abstract

The Independent Finance Group (IFG) is a team of finance and legal professionals, all residents of the East Cobb community. Before the IFG first convened in May 2019, these individuals were doubtful about the need for a City of East Cobb. The IFG decided, unanimously, to remain independent of the Cityhood Committee, and to undertake two primary tasks. If this *Review* (Task 1) were to confirm the financial viability of a proposed City, as claimed by Georgia State University's *Feasibility Study for the Proposed City of East Cobb,* the IFG would prepare a strawman 2023 annual budget (Task 2) for public review and debate.

The IFG considered several possible scenarios for a future City. Analysis of the "Intended" scenario indicates Revenues of $50.8 million (a $1.0 million net increase versus the GSU *Study*'s $49.8 million). The Intended scenario includes three initial City services: Police, Fire, and Community Development. This scenario contains no new taxes and excludes $6.1 million of new Franchise Fees contained in the GSU *Study.* The IFG estimate includes an additional $8.1 million of transferred general fund revenue associated with assuming policing responsibilities from the County. This is a shift of property tax millage rate from the County to the new City. (Obtaining this millage rate shift may require lengthy negotiation or even litigation if the County resists the transfer.) After $4 million of Fire Department increases, recurring Expenditures amount to $41.0 million.

The resulting recurring Surplus (excess of Revenues over Expenditures) is $9.8 million, amounting to almost one-fifth of Revenues. The IFG projects non-recurring startup expenditures of $5.8 million. This reduces the first-year Net Surplus to $4.0 million (versus the year 2 recurring Surplus of $9.8 million). The resulting accumulation of reserves for any number of years may not be politically viable; consequently, the City's governing body may be inclined to reduce taxes in year 2 or year 3, depending on the desired level of reserves. A meaningful cut is possible because the property taxes currently paid to the County by East Cobb taxpayers far exceed the expenditures made by the County for services benefitting East Cobb. This Revenues to Expenditures imbalance is fundamental to the financial rationale for incorporation.

The IFG believes the Intended scenario could take several years to implement, thus a City Police Department may not be achievable in year 1 or 2. Obtaining the appropriate police-related millage rate shift from the County to the City may involve litigation or, at best, a lengthy negotiation. A more likely near-term scenario that delays implementation of the City Police Department yields lower Revenues ($40.3 million), lower expenditures ($27.9 million), and a higher recurring Surplus ($12.4 million) than the Intended case.

Having conducted the *Review* and having made substantial adjustments to the *Study* assumptions, **the IFG concurs with the GSU *Study*'s overall conclusion that the proposed City of East Cobb is financially viable.** Our next task is to prepare a more detailed strawman budget for public debate.

Background Information and Purpose

The Independent Finance Group (IFG) is a team of four finance professionals and one attorney, whose initial members, all residents of the East Cobb community, attended East Cobb Cityhood informational meetings in March and April 2019. Before the formation of the IFG in May 2019, these individuals were skeptical of the need for a City of East Cobb. Our skepticism remained after the informational meetings. We immediately had noticed problematic assumptions within the *Feasibility Study.* Although Cityhood Committee members stated the *Study* was not to be relied on as a budget, the meeting audiences, social media, and the mainstream press may not have received the message. Given that there has been no better information available, the *Study* has provided ample material with which to attack the Cityhood effort. **The IFG believes the East Cobb electorate would benefit from an *Independent Review* of the *Study* and from a strawman budget to inform the debate.**

The *Study*, published December 18, 2018, was prepared by Georgia State University's Andrew Young School of Policy Studies' Center for State & Local Finance. The *Study* was requested by State Representative Sharon Cooper of the 43rd District. Cityhood Committee members funded the *Study* effort. Quoting the *Study*'s Executive Summary on page 1: "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... [The only input allowed from] the Committee for Cityhood in East Cobb [was] to list the services that the proposed City [may] provide." A feasibility study, conducted either by Georgia State University or by the University of Georgia, is a prerequisite to the introduction of any cityhood bill in the Georgia Legislature. House Bill 718 subsequently was introduced by State Representative Matt Dollar of the 45th District. This bill provides for a 2020 referendum on incorporation, to be voted on by residents of the proposed City of East Cobb.

Out of a desire to understand the facts, we separately contacted Committee members either directly at the meetings or via the eastcobbcityhood.com website. The Committee then suggested we contact each other. We decided to form the IFG to study the Cityhood issues, with an emphasis on City financial matters. The initial members, previously unknown to each other, were [redacted], Bill Dennis, Bill Green, and Ken Pollock. [redacted] is a corporate treasurer and MBA, Bill Dennis is an analyst and Master of Economics, Bill Green is a retired corporate finance executive and MBA, and Ken is a public finance attorney. Subsequently, we were joined by Russ Morrisett, a retired corporate finance professional and MBA.[1]

The IFG members unanimously agreed to remain independent of the Cityhood Committee, our intent being that any opinions expressed by the IFG not be biased. The Committee's role is to promote East Cobb cityhood[2]; whereas, the IFG's purpose is different. We decided to undertake two primary tasks,

[1] Mr. Morrisett was invited to join the IFG by Bill Green. They have been neighbors for more than 20 years. Additional highly qualified individuals have expressed interest in joining our Group and we welcome new members. Although partisan politics are not at all a factor influencing the IFG's work, some may take comfort in knowing that the IFG members represent a reasonably wide swath of the political spectrum: Democrat, independent, libertarian, and Republican.

[2] The Cityhood Committee is a 501(c)(3) corporation whose formal purpose is to educate the public. The practical effect of this education effort is the perceived "promotion" of cityhood. The Committee insists it will abandon its efforts in the event financial feasibility is not apparent, given reasonable assumptions.

always employing professional skepticism. The first was to perform an *Independent Review* of the *Feasibility Study.* The focus of the *Review* is to identify any material issues with the assumptions contained in the *Study* and any material issues not addressed by the *Study.*[3] When the IFG found no material issue for a given line item, we either deliberately chose not to comment or we may have commented on some aspect of the line item. This document represents the results of our *Review.* Herein, the IFG critiques the major assumptions used to prepare the *Study*'s estimates and provides what we consider to be more appropriate assumptions resulting in some material departures from those provided in the *Study*.

The IFG further decided that if our *Review* were to confirm the viability of a proposed City, the second contemplated task would be to prepare a strawman 2023 annual budget for public review. The IFG is keenly aware that it is a self-appointed, unelected body that has no formal mandate. Of course, any strawman budget developed by the IFG would not be binding on a future elected City Council.[4] Nevertheless, **it is our hope that our findings will encourage robust, informed debate as residents of East Cobb make up their minds on the Cityhood proposition.**

PAGE-BY-PAGE *FEASIBILITY STUDY* REVIEW

The *Review* is a technical document that should be read side-by-side with the *Feasibility Study* and follows nearly the same general format. The *Study* document (December 18, 2018 version) is available on the eastcobbcityhood.com website. Section headings below are the same as those in the *Study*.

Table Ex-1. Summary of Financial Analysis

The IFG totaled the figures in this summary table on page 2 of the *Study.* There was a $900,000 error in the Public Safety expenditure category. The amount should have been listed as $20,579,624 rather than $19,671,224. The correct Public Safety Total is found on the *Study*'s page 15 within Table 8, and on page 18 within Table 11.

Introduction

The expected annual Revenues (from page 12, Table 3) and the annual Expenditures (from page 18, Table 11) are correctly presented in the Introduction on page 3, based on the GSU *Study*'s assumptions.

Economic and Demographic Characteristics

The map boundaries of the proposed City of East Cobb are the purview of the State Legislature. There have been a few proposed changes to these boundaries since the *Study* was published. One such

[3] For *Review* purposes, the materiality threshold is set at a $500,000 estimated difference for a single line item, or for several items whose estimated differences together exceed $500,000.

[4] The incorporation legislation (HB 718) calls for a two-year transition period (2021-2022) during which an elected council and mayor prepare to transfer Police, Fire, and Community Development responsibilities, or another combination of services, from the County to the City at the beginning of 2023, or earlier. For purposes of this *Review*, 2023 is considered Year 1, and 2024 is Year 2. As responsibility for the services transition, the City and County will have planned the timing of revenue shifts and service-delivery handoffs.

proposal involves expanding the boundaries in the northwestern quadrant of the map (portions of Pope and Lassiter High School areas). The IFG believes these proposed boundary changes are not likely to have a material impact on the conclusions contained in the *Study* nor on the further analyses and opinions of the IFG. Boundary expansion is likely to result in economies of scale for the City, i.e., more tax revenue with relatively less incremental expense.

In order to obtain additional insight, members of the IFG met with management and financial staff from other newly-created cities in metro Atlanta. These individuals provided general guidance on incorporation and budgeting matters and helped us compare characteristics of their cities to those of the proposed East Cobb. For example, comparing the City of Milton to the proposed East Cobb, we find East Cobb to have greater economies of scale resulting from a larger population in a more compact land mass. Relative to the City of Sandy Springs, in East Cobb we find fewer multi-unit residences. As a result, the higher proportion of single-family residences may benefit East Cobb with respect to police and fire expenditures. After a number of these meetings, it appears that the Cities of Johns Creek[5] and Milton may provide the closest matches to East Cobb's characteristics.

Revenue Analysis

The *Study* on page 4 states: "…we assumed the rates will be the same as those that Cobb County is currently imposing." This statement is reasonable with respect to the 2017 fire millage rate (2.96 mills); however, the IFG identified a material issue involving the insufficient revenues to fund the East Cobb Police. This important subject could have been considered by the *Study*, and the IFG believes it should have been. The *Study* simply assumes East Cobb would be allocated a relatively small amount of intergovernmental revenues, i.e., transfers from the County to the various cities in Cobb County. The problem is that an estimated incremental $8.1 million of revenue was left out of the *Study*. The *Study* allocated $2.5 million for the County-to-City of East Cobb intergovernmental transfer, while estimating $13.1 million in annual expenditures for the Police Department. Given this obvious disparity, funding the Police is the most significant issue not appropriately addressed by the *Study*. This issue will be discussed at length in the Intergovernmental Revenue section below.

Returning to the assumed fire millage rate, it had been 2.96 in 2017 and was reduced to 2.86 in 2018. It remains 2.86 in the most current property tax bills due October 15, 2019. County revenues have increased despite the fire millage rate reduction because property values have increased significantly, creating a larger tax digest. The 2018 reduction reflected the larger tax digest. Additionally, the County raised the General Fund millage rate from 6.76 to 8.46. Any forthcoming strawman budget would contain current millage rates and the larger tax digest.

PROPERTY TAXES

On page 5, the *Study* states the unincorporated Cobb millage rate (excluding fire) as 6.76 in 2017. In 2018, the Cobb County BOC raised this rate to 8.46, where it remained in 2019 and is budgeted to remain in 2020. This is relevant because the larger General Fund millage rate possibly would make

[5] Johns Creek is one of the five comparison cities listed by the GSU *Study.*

available a larger revenue amount (a shift of a portion of this millage rate) to fund the East Cobb Police.[6] Again, this will be discussed at length in the Intergovernmental Revenue section below.

SELECTIVE SALES & USE TAXES: ***Franchise Fees***

On page 7, the *Study* states: "Other than for cable, county governments generally do not collect franchise fees…Municipalities collect Franchise Fees from cable operators, natural gas providers, electricity companies, and telephone companies." The *Study* goes on to assume that the City of East Cobb, in addition to maintaining the existing cable fee, would collect new franchise fees that East Cobb residents currently do not pay. The imposition of new franchise fees effectively would amount to a tax increase on the citizens and businesses of East Cobb. Social media commentators have speculated that a future City Council would raise revenues by imposing new franchise fees (e.g., electricity, natural gas, telephone). This commentary may have been damaging to the Committee's cityhood promotion efforts and the issue was highlighted in an *Atlanta Journal-Constitution* article. Despite this ongoing debate, **the majority of the IFG believes new franchise fees are not needed as a revenue source for the City and thus should not be part of a future City budget.**[7] It matters not that other cities have resorted to franchise fees. Many citizens of East Cobb are unlikely to accept any new taxes or fees, unless the property tax millage rate were reduced to offset the new franchise fees.[8] Foregoing new franchise fees assumed by the *Study* would reduce estimated revenues by approximately $6.1 million annually. In the Intended [9] scenario, the foregone franchise fee revenues would be more than offset by the incremental General Fund revenues ($8.1 million minimum, on top of the $2.5 million transfer included in the *Study*) that would fund the East Cobb Police. Obtaining this funding will pose a challenge to the new City. Again, more on this subject will follow.

LICENSES & PERMITS: ***Building Permits***

Page 9 of the *Study* describes the method used to estimate Building Permit revenue, a $925,000 line item. After meeting with other new city staff, we were cautioned that building activity has been declining; moreover, East Cobb is largely built out. Any shortfall in Building Permit revenue from the *Study* estimate necessarily would reduce any available surplus or reduce budgeted contingency funds.

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[6]The actual mechanism by which the Police revenue "shifts" from the County to the City would involve the County reducing its General Fund millage rate in an amount equal to the portion of General Fund property taxes paid by East Cobb taxpayers for the County Police. The City would then enact an equivalent millage rate. The net effect to East Cobb taxpayers would be neutral.

[7] When an IFG opinion is stated in this *Review* document, it invariably was reached by a 4 to 1 majority decision of the five-member group. The one member not in agreement often argued that the group should not draw any conclusions from the facts and, at the very least, should not disclose those opinions. This member's name was redacted on page 2 of this document, at his request. He resigned from the IFG as this Review was being published.

[8] For example, during the transition period, the City Council may chose to enact franchise fees and offset the revenue increase with a property tax millage rate cut.

[9]The "Intended" scenario derives its name from the initial intent (three City services: Police, Fire, Community Development) of the Cityhood Committee, as communicated to the GSU *Feasibility Study* team.

INTERGOVERNMENTAL REVENUES

The *Study* on page 9 states:

> In Cobb County, all residents pay a millage rate of 6.76 to the county general fund. Rather than roll this millage rate back to 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 [of] the six cities total digest value… 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.

The simplified assumption of East Cobb's 50-percent share of intergovernmental revenue ($2.5 million) sidesteps the required future intergovernmental agreement among the six existing cities, the new East Cobb, and Cobb County. The IFG's understanding is that, under Georgia law, when a new city is created, the new city, the home county, and the other existing cities within the county are required to negotiate a new service delivery strategy within the county.[10] We understand that a service delivery strategy is required by the Service Delivery Strategy Act of 1997, also known as House Bill 489. The IFG has reviewed the SDS Act and consulted with several new cities in Fulton County to understand their experience in negotiating their MOUs. Additionally, the IFG consulted the East Cobb Cityhood Committee's legal counsel and the Georgia Municipal Association's (GMA) chief counsel. Based on our review and consultations, we believe the existing intergovernmental contract referenced in the *Study* should be subject to renegotiation after the creation of the City of East Cobb.[11]

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[10] The Mableton Cityhood effort could result in eight cities within the County, including East Cobb.

[11] The key provisions of the SDS Act require that county services which are primarily of benefit to the unincorporated area—and the county share of county/city jointly funded services—must be funded with unincorporated area revenues including assessments and fees, insurance premium taxes, and property taxes derived from the unincorporated area. Furthermore, counties must account for and report these unincorporated area expenditures and revenues in unincorporated area special service districts… (O.C.G.A. § 36-70-24(3)).

Quoting Burgess and Brown:

[A required component of SDS plans submitted by local governments for approval by the Georgia Department of Community Affairs is] …a description of the source of funding for each service identified…the plan should specify the exact source of revenue for each service, **especially county services in the unincorporated area** [e.g., Cobb County Police]...**County general fund revenues and Local Option Sales Taxes (LOST) cannot be used to fund services that primarily benefit the unincorporated area (see Criterion Three described below) without the consent of cities and inclusion of this consent in the SDS**…Criterion Three: 3(A) The strategy shall ensure that the cost of any service which a county provides primarily for the benefit of the unincorporated area of the county shall be borne by the unincorporated area residents, individuals, and property owners who receive the service…**Criterion Three is the heart of the Service Delivery Act, especially in the sense that it addresses the**

Contrary to the intent of the SDS Act, the General Fund millage rate paid not only by unincorporated Cobb County property taxpayers, but also by residents of the six Cobb cities is an identical 8.46 mills. This indicates that the cities are burdened by double taxation for County police services that support unincorporated areas and that are not provided to the cities; otherwise, the cities would have lower County General Fund millage rates than do unincorporated areas, compensating for the County Police services not provided to the cities. (One should compare this state of affairs to that in Fulton County, where county millage rates have been reduced in incorporated areas of Fulton County relative to unincorporated areas.) Rightly or wrongly, it appears, to the detriment of city taxpayers, that the six existing cities in Cobb County, whether knowingly or not, have agreed that their taxpayers may be double taxed.[12] In return, these cities appear to have accepted insufficient intergovernmental transfers from the County. Moreover, in 2014, they renewed these potentially unfavorable terms for another ten years.

The IFG expects, but cannot predict with certainty, that the existing cities will recognize the inequity of the existing contract and will join the City of East Cobb (and Mableton), once established, in negotiating a new agreement with Cobb County, presumably taking effect in 2023. The Committee's legal counsel has commented that the cities should be prepared to litigate aggressively, if necessary, to force County compliance with the SDS Act's spirit and letter. The IFG, with input from Cobb County staff, calculated the General Fund property tax revenue generated by East Cobb taxpayers to fund the County Police Department. It amounts to at least $10.5 million [13] and is expected to grow. This revenue (millage rate

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ongoing double taxation identified by GMA…Counties that fail to meet these tests are not in compliance with the SDS statute, and city residents are being double taxed ("Service Delivery Strategy," updated February 2018).

Prior to the SDS Act of 1997, counties could charge residents of their cities the same general fund millage rates as paid by residents of unincorporated areas within the county. This resulted in the double taxation problem identified in a GMA report: "…The disparity that exists either when citizens of municipalities pay county and city taxes, and receive benefits or services only from the city, or when city-county agreements provide for the joint financing of services with city residents also financing part of the county share…" (*Double Taxation Handbook: A Guide to Determine the Impact* (Georgia Municipal Association, 1972, p. 1). James Burgess Jr. and Michael Brown explain the Act in a Georgia Bar Journal article, "The Issue of Double Taxation in Georgia," Georgia Bar Journal 21(7) (June 2016).

[12] The IFG does not suggest that Cobb County is *willfully* violating the SDS Act. The current and previous contracts may comply with Georgia law; however, the IFG contends that the current contract is not equitable and, accordingly, not in keeping with the *spirit* of the law.

[13] County Police expenditures comprise 17% of the County General Fund expenditures (per County Finance Director, Bill Volckmann). The County's current General Fund millage rate is 8.46. Seventeen percent of 8.46 mills is 1.44 mills. This represents the amount that Cobb County property taxpayers pay for the County Police. The 2017 tax digest (used in the *Study*) for East Cobb was $7.3 billion. $7.3 billion x 1.44 mills = $10.5 million. The tax digest has increased since 2017. Note that the $10.5 million taxes paid by East Cobb exceed the amount spent on County Police currently patrolling within the proposed boundaries of East Cobb (annual variable cost: 50 officers x $75,000 = $3.8 million, allowing an additional $2 million for administration and overhead). However, the amount the future City would spend on a Police Department might exceed the specific revenues to be made available for this purpose. The City would most likely increase the number of officers. In other words, transferring Police services is not anticipated to contribute to the City's surplus, regardless of the amount of negotiated revenue shift from the County to the City. Parallel to the case of County Police, the property tax revenues from East Cobb for County Fire protection services are $24 million, while the IFG estimates the cost to serve East Cobb is less than half

shift) is not contemplated by the *Study*, other than to assume a 50-percent East Cobb intergovernmental revenue share of $2.5 million out of a pool of $5 million. In the GSU *Study* team's defense, they privately have acknowledged the SDS Act double-taxation issue, but have reflected the status quo agreement, as they have done in other cityhood studies. **Until the Cobb cities negotiate a new, more equitable agreement, as did the new cities of Fulton County, the future City of East Cobb should delay taking on police services. In fulfilling its fiscal responsibilities, the City should not take on costs without negotiating the appropriate associated revenues. The same principle applies to taking on future contemplated services (e.g., Culture & Recreation, Road Maintenance)** currently provided by the County.

State Local Maintenance and Improvement Grant (LMIG)

The Georgia Department of Transportation LMIG program provides municipalities with grants to improve road quality, regardless of whether the municipality or the county manages the roads. Although a new City of East Cobb would receive the LMIG revenue, the funds would be restricted to road-related activities. The GSU *Study* estimates $1.065 million of LMIG revenue but does not explicitly account for the offsetting road-maintenance expenditures.

CHARGES FOR SERVICES: *Municipal Court*

Page 10 of the *Study* states: "Revenue from the operation of a municipal court is largely from traffic fines." The IFG consulted other new-city finance staff who cautioned us against budgeting high levels of traffic fines. The *Study* estimates $2.7 million of "Charges for Services" levied by the Municipal Court, a figure that may be somewhat excessive for budgeting purposes, even though the *Study*'s estimate could be perfectly accurate. The IFG traffic fine revenue (together with building permit revenue) reduction provides a more conservative target for budgeting.

The *Study*'s total Revenues estimate is slightly understated relative to what would appear in a future strawman budget for the Intended-case City of East Cobb scenario. The anticipated adjustments for budgeting are summarized in the table below. After making these revenue adjustments (relative to *Study* estimates), we emphasize there would be ***no new taxes*** in a future strawman budget proposal prepared by the IFG.[14] Many East Cobb taxpayers and voters would consider tax increases to be unwelcome and unnecessary. Analysis of the various scenarios indicates there is room for a meaningful future property tax cut to be discussed below. The surpluses associated with these scenarios obviate the need for new revenue sources.

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these revenues. The *Study* (on page 15) estimates annual expenditures for a City Fire Department to be $5.9 million; however, the IFG is skeptical of this figure, given our benchmarking of other cities. We will request County budgetary expenditures for East Cobb's Police Precinct 4 and for the five fire stations within the proposed City's boundaries as we prepare the strawman City budget. In both cases (Police and Fire), we find roughly a 2:1 ratio of property taxes to expenditures in East Cobb. One might speculate that a similar imbalance exists with respect to other County services such as Culture & Recreation, and Road Maintenance.

[14] This statement refers to both the Intended scenario and the Near-term scenario. The Intended scenario is not expected to occur in the near term. The most-likely Near-term case delays implementation of the City Police, results in reduced Revenues and Expenditures, and yields a greater Surplus. This Near-term scenario will be described later in this *Review*.

REVENUE SUMMARY

Intended-case Adjustments to *Study* Revenue Estimates	**(in millions)**
Incremental Shift of General Fund Millage	$ 8.1
Remove: new Franchise Fees	(6.1)
Reduce: Building Permits & Traffic Fines	(1.0)
Net Revenues Increase	**$ 1.0**

Expenditure Analysis

GOVERNANCE and CITY ADMINISTRATION

While the IFG takes no initial position on the reasonableness of the $473,000 Governance estimate on page 13, and on the $12.2 million Administration estimate on page 14, one city finance director we interviewed indicated the Administration total amount is high. The *Study* based its estimates at least in part on the large population of East Cobb, relative to the populations of comparison cities. That assumption causes the East Cobb total to be materially higher (by $1.4 million) even than the highest comparison city, Roswell. The IFG believes these costs to be relatively fixed over somewhat large population intervals (i.e., not closely correlated with city population), but dependent more on the number and structure of city departments, based on services provided. To the extent the Administration expenditures estimate is excessive, the IFG assumes this excess would absorb LMIG-related road-maintenance expenditures not explicitly accounted for in the GSU *Study*.

PUBLIC SAFETY

The *Study* assumption of 142 police officers has drawn significant attention. The police force estimate is based on the population of East Cobb relative to that of the other cities used for comparison. Finance staff from other cities have told us a population basis for the estimate is not necessarily appropriate. There are varied opinions as to whether the 142-officer number is too high given the number of calls, crime statistics, and the nature of the East Cobb Community.[15] Moreover, such a large force would be a vast departure from the current minimal police coverage of East Cobb. The current coverage of East Cobb is, approximately, 50 response officers, possibly closer to 40 full-time-equivalents. (Fifty-three response officers are assigned to Precinct 4, which has substantially broader geographic responsibilities than East Cobb alone.) The IFG believes we should consider a range of possibilities within the extremes of 40 and 142 (90 ± 50).

The rationale for a large force (according to a retired law enforcement professional we interviewed) is to staff for community policing. According to one city management professional, such a policing model often is employed in relatively high-crime urban communities.[16] Another retired law enforcement officer suggests that a police force with fewer than 100 officers would suffice. A force of 90 officers (the midpoint between the two extremes) would reduce cost by approximately $3.9 million [17] annually from that of a 142-officer force. **This midpoint expenditure level would provide approximately double the police coverage that East Cobb currently receives, while remaining closer to the property tax revenue amount associated with the police-related General Fund millage rate expected to shift from the County to the City.** More precise estimates will be made as part of the strawman budgeting process, with the range of options considered.

One city finance director opined the fire department costs would be lower than their city's because East Cobb has a low proportion of multi-unit residential housing and fewer tall buildings. Nevertheless, individuals on the Committee and within the IFG are concerned the *Study* may not have included all necessary fire protection expenditures. The *Study* estimate is based on comparison to other cities; however, the IFG has added $4 million to the *Study*'s Fire Expenditures estimate, as a placeholder, pending more detailed budgeting for Public Safety (Police and Fire protection).

The *Study* (page 15) states the building transfers [18] from the County to the City would be accomplished at the "statutorily [prescribed] amount of $5,000 each." [This bears emphasis because we have seen at least one social-media claim to the effect that the City would have to purchase the assets (buildings, vehicles, etc.) at full, negotiated value.] The reasoning behind this law is that East Cobb, or any new city,

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[15] Johns Creek, for example, has an 86-officer police force.

[16] "Community policing for East Cobb may imply nothing more than robust coverage and "ownership" of specific areas within the City. This could be described as "proactive" policing, intended to prevent crime and to improve response times. Thus, proactive policing in East Cobb would not necessarily involve all the tactics successfully employed in high-crime areas.

[17] All else equal, the 52-officer reduction (142 - 90) should result in estimated annual variable cost savings of 52 x $75,000 = $3.9 million. Nevertheless, the IFG is hesitant to adjust total estimated Police expenditures downward. Comparing other cities and considering the need for enhanced police compensation, the IFG prefers to keep the $3.9 million in reserve. The *Study* may have underestimated the total cost of City Police, especially in view of the *Study*'s 142-officer assumption. (Startup expenditures would be reduced by $2.8 million, a subject to be discussed below.)

[18] The buildings expected to be transferred are four or five existing fire stations and one police precinct/East Cobb Government Center (the latter not mentioned by the *Study*). These transfers beg the question as to the disposition of existing equipment within the police and fire buildings, i.e., does the equipment transfer to the new City, along with the buildings?

already has paid for County assets through taxation.[19] Regarding E-911 (call center and dispatching), one new city informed us they outsource these services to a neighboring city that has this infrastructure in place. This same out-sourcing arrangement, either with Cobb County or with another city, would avoid East Cobb having to purchase its own infrastructure.

STARTUP EXPENDITURES

The largest portion ($7.8 million of the $8.6 million) of estimated startup expenditures is for training and equipping the 142-officer police force. Until further detailed budgeting is complete, the IFG proposes a 90-officer force. That represents a 52-officer reduction from the 142 assumed in the *Study.* This reduces startup expenditures by $55,000 per officer, or by $2.8 million in total. The *Study* assumes startup expenditures would be financed with a one-year Tax Anticipation Note presumably to be issued during the second year of the two-year transition period between incorporation and fully-functioning cityhood. Issuing a large amount of such short-term debt may not be necessary, in that the police force would staff up over an extended time period.

At least one social media commentator implied large startup expenditures would be a recurring part of annual budgets. This logic fails to account for the fact that startup costs are non-recurring, by definition.[20]

Table 11. Summary of All Expenditure Estimates

The initial IFG adjustments to the *Study*'s Expenditure estimates are to reduce Police startup expenditures by $2.8 million, and to increase Fire Department Expenditures by $4.0 million. The $2.8 million Police startup expenditure reductions, together with the $4.0 million Fire increase, raise the Year 1 Total—All Expenditures line from $45.6 million to $46.8 million. Furthermore, excluding the IFG-estimated remaining $5.8 million of startup expenditures from future recurring expenditures brings future (Year 2 and beyond) Total Expenditures to $41.0 million. Additional reductions or increases to estimates are expected as part of the strawman budget development process.

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[19] Note that the City of South Fulton currently is pursuing litigation against Fulton County to force transfers of library facilities and an amphitheater to the city. Fulton County is resisting the desired transfers.

[20] In the event the *Study* has double-counted ongoing expenditures by including them in startup expenditures or, alternatively, if the *Study* failed to include adequate future equipment replenishment costs in recurring annual expenditures, detailed budgeting would be necessary to quantify these potential errors.

Intended-case Adjustments to *Study* Expenditure Estimates	(in millions)	
	Startup Year 1	Recurring Year 2
Study's Total Expenditures	$45.6	$37.0
Fire Revision recurring	4.0	4.0
Police Revision non-recurring	(2.8)	
Adjusted Total Expenditures	$46.8	$41.0

Conclusion

For the problematic Intended scenario, IFG net adjustments to Revenues amount to a $1.0 million increase. The IFG adjustment to Recurring Expenditures (expenditures that exclude non-recurring Startup Expenditures) is a $4.0 million increase to Fire Department expenditures. Additionally, the IFG has reduced police-related Startup Expenditures by $2.8 million. The Fire Department increase relates to an IFG comparison to other city fire departments. Combining the Revenues and Expenditures adjustments and removing the Startup Expenditures yield annual Revenues of $50.8 million and annual recurring Expenditures of $41.0 million. Subtracting the adjusted annual Expenditures from the adjusted annual Revenues yields a **recurring annual surplus of $9.8 million.**

This surplus amounts to nearly one-fifth of annual Revenues. Running such a large surplus for any number of years may not be politically viable. Either the City Council would increase spending; or they would build financial reserves;[21] or they would enact meaningful tax cuts, leaving expenditures at efficient levels, while improving services (relative to the current unincorporated baseline).[22] In any event, the **surpluses might enable a substantial future tax cut. The Financial Estimates Summary table (below) includes an illustrative $6 million tax cut[23] that would reduce revenue in Year 2 from**

[21] The future City Council, for example, could elect to build reserves in Year 2 and postpone a tax cut until Year 3.

[22] The potential for enhancing Public Safety involves increasing police coverage (arguably underfunded, currently), and in using a portion of the large amount of revenues available to fund improvements within a future City Fire Department. This statement not at all implies the County and our first-responders are doing a poor job of protecting the public in East Cobb or elsewhere.

[23] The $6 million represents a 0.82 mills reduction.

$50.8 million to $44.8 million.[24] **A meaningful cut is possible because the taxes currently paid to the County by East Cobb taxpayers far exceed the expenditures made by the County for services benefitting East Cobb. The imbalance is created by East Cobb's relatively high tax digest and relatively low cost-to-serve, and by the County's spending priorities. Political considerations aside, these circumstances make East Cobb cityhood not only financially *viable,* but *compelling* from a purely financial standpoint.** Cityhood would keep more of our tax revenues in East Cobb and enable more local control of expenditures.

The Intended scenario has been the primary focus of this *Review*. It is all too easy to criticize this Intended scenario as well as the *Feasibility Study.* As stated previously, the IFG has considered the financial ramifications of various other scenarios. Given that **we believe the Intended scenario is not the most-likely outcome, at least in the near term**, a comparison of the scenarios is helpful and necessary. This comparison is made in Addendum 1, which represents a sensitivity analysis of sorts. It provides confidence that the projected surpluses are robust in the sense that they are present across all the reasonable scenarios. Although, in this *Review*, the IFG has proposed substantial adjustments to the *Feasibility Study*'s assumptions, and has offered alternative scenarios, **we concur with the *Study*'s overall conclusion that the proposed City of East Cobb is financially viable. Further analysis of the *Feasibility Study* may yield diminishing returns because it cannot serve, unmodified, as a realistic blueprint for a new City. The IFG's next task is to prepare a more detailed strawman budget**, starting with the most-likely Near-term scenario.

Proposed City of East Cobb: Financial Estimates Summary

(in millions)

	***Feasibility Study* Estimate**	**Adjustments**	**Intended-case Estimates**	
	Year 1		**Year 1**	**Year 2**
Revenues	$ 49.8	$ 1.0	$ 50.8	$ 50.8
Recurring Expenditures	(37.0)	(4.0)	(41.0)	(41.0)
Surplus	$ 12.8	$ (3.0)	$ 9.8	$ 9.8
Startup Expenditures	(8.6)	2.8	(5.8)	
Illustrative Tax Cut				(6.0)
Net Surplus	**$ 4.2**	**$ (0.2)**	**$ 4.0**	**$ 3.8**

[24] $50.8 million is the before-tax-cut Revenues figure. After the $6 million illustrative tax cut, Year 2 Revenues are $44.8 million, reducing the Net Surplus to $3.8 million, or 8.5% of Revenues.

Addendum 1

Scenario Summary

	($ in millions)					
	With New Franchise Fees			Without New Franchise Fees		
	Revenues	Recurring Expenditures	Recurring Surplus	Revenues	Recurring Expenditures	Recurring Surplus
GSU *Feasibility Study* Assumptions (Police, Fire, Community Development)	49.8	37.0	12.8	43.7	37.0	6.7
Intended Scenario (Police, Fire, Community Development)	56.9	41.0	15.9	50.8	41.0	9.8
Most-likely Near-term Scenario (Fire, Community Development, Solid Waste)	46.4	27.9	18.5	**40.3**	**27.9**	**12.4**
SDS Act Non-compliance Scenario (Police, Fire, Community Development)	48.8	41.0	7.8	42.7	41.0	1.7

In addition to reviewing the GSU *Study* assumptions, the IFG has considered three additional scenarios for the proposed City of East Cobb. These scenarios are summarized in the table above. The GSU *Study* Assumptions case is provided for comparison purposes. Note that the *Study* included $6.1 million of new franchise fees. The table presents all the scenario amounts both including and excluding the new franchise fees.

The Intended Scenario was discussed throughout this *Review* document and includes adjustments to the Revenues and Expenditures contained in the *Feasibility Study.* As does the GSU *Study* case, the Intended Scenario assumes three services: Police, Fire, Community Development. As stated previously in the *Review* document, implementation of City Police services may not be achievable in the near term. Obtaining the funding could become a lengthy ordeal. There is a risk the County may not agree voluntarily to shift the appropriate amount of General Fund millage/revenue to fund the new City Police Department. In other words, the County may elect not to comply with the SDS Act until faced with a court order. The IFG believes the City should not absorb the costs of a new Police Department without the appropriate revenues to fund it. Consequently, the IFG contemplates an alternative: the Most-likely Near-term Scenario.

The Near-term Scenario excludes City Police services and includes Solid Waste Disposal as the City's third service (Fire, Community Development, Solid Waste Disposal). Several city management professionals have informed the IFG that Solid Waste services can be implemented with additional revenue at little incremental cost. The services could be provided by a private sector company selected in a competitive bidding process.[25] To simplify the analysis, the IFG has assumed that this service could be accomplished with no additional revenues and expenditures. The IFG did not consider other services, such as culture & recreation (parks) and road maintenance, because funding these services would raise the same issues involved in funding the City Police.

The last scenario (SDS Act Non-compliance) contemplates a City Council decision to implement the City Police Department prior to negotiating the appropriate revenues to fund it. This scenario is neither likely nor fiscally responsible, and resembles the case presented in the *Feasibility Study,* with a few adjustments. The IFG believes adopting this worst-case course of action would be unwise, but theoretically possible. **The examination of all the listed scenarios provides further evidence of the proposed City's financial viability.** Addendum 2 provides Revenue and Expenditure detail for the three scenarios highlighted in the above Scenario Summary table.

[25] The primary benefits of city-supervised solid waste services are to reduce traffic congestion and to minimize the number of days unsightly trash receptacles are present on the City's curbs. A secondary benefit could be reduced pricing obtained through the competitive bidding process.

Addendum 2

Scenario Revenues and Expenditures

	GSU *Feasibility Study*	Long-term Intended Case	Near-term Most Likely
Revenues:			
Property Tax	24.9	24.9	24.9
Alcoholic Beverages	0.6	0.6	0.6
Insurance Premium	4.6	4.6	4.6
Franchise Fees	7.3	1.2	1.2
Licenses & Permits	4.2	4.2	4.2
Intergovernmental	3.4	11.5	3.4
Planning & Development	0.0	0.0	0.0
Municipal Court	2.7	1.7	1.7
Public Safety: E-911	2.1	2.1	2.1
Budgetary Reserve	0.0	0.0	(2.4)
Total Revenues	**49.8**	**50.8**	**40.3**
Expenditures:			
Mayor/Council	0.5	0.5	0.5
Other Admin	12.2	12.2	12.2
Fire	5.9	9.9	9.9
Police	13.2	13.2	0.0
E-911	1.5	1.5	1.5
Code Enforcement, Planning	0.3	0.3	0.3
Facility Leasing	0.6	0.6	0.6
Contingency	2.8	2.8	2.8
Startup Expenditures (Year 1)	8.6	5.8	0.8
Total Expenditures (Year 1)	45.6	46.8	28.6
Recurring Expenditures	**37.0**	**41.0**	**27.9**
Surplus (Year 1)	4.2	4.0	11.6
Recurring Surplus	**12.8**	**9.8**	**12.4**