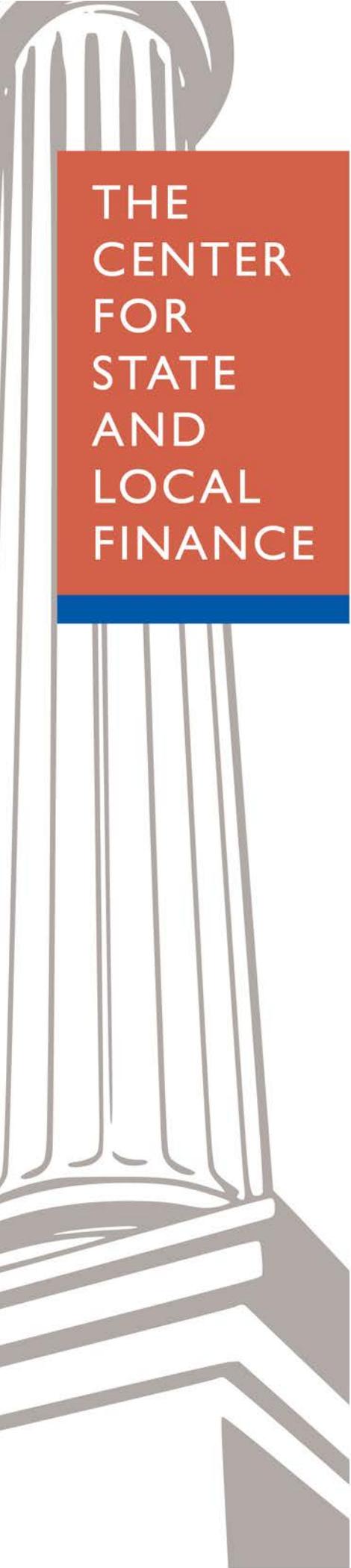


FEBRUARY 5, 2018



THE
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Forsyth County: The Fiscal Impact of a Proposed City of Sharon Springs

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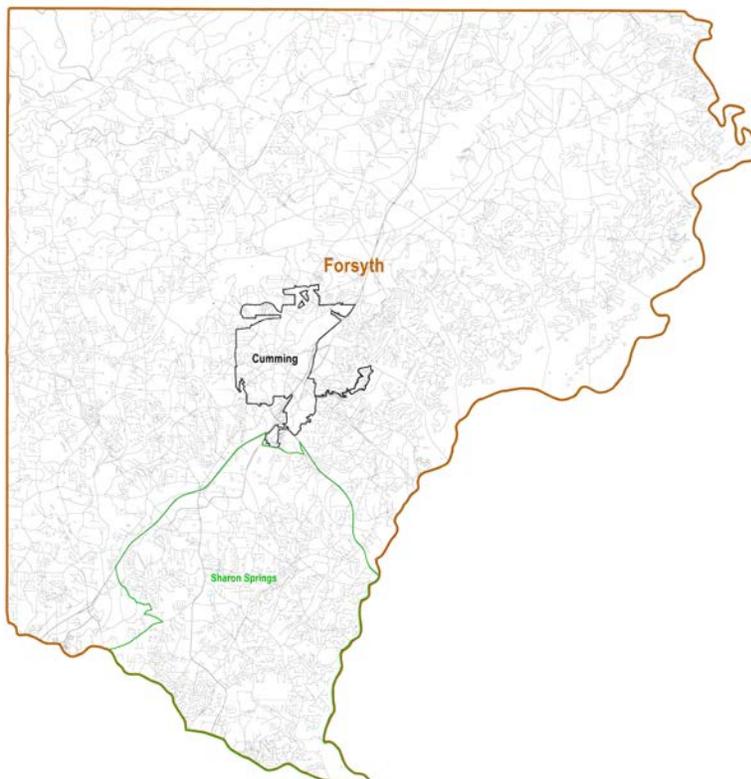
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Executive Summary

The Center for State and Local Finance in the Andrew Young School of Policy Studies at Georgia State University was contacted by Forsyth County to conduct an analysis of a potential incorporation of a city of Sharon Springs on the county's revenues and expenditures. This study examines the impact of a proposed city of Sharon Springs on Forsyth County, Georgia. For this report, we rely on the boundaries and services outlined in the Carl Vinson Institute of Government 2015 incorporation study (*A Study of Fiscal Feasibility for a Proposed City of Sharon Springs*, February 2015, Carl Vinson Institute of Government).

State Representative Todd Jones introduced a bill in the Georgia General Assembly that would provide for the incorporation of a significant portion of south Forsyth County into the city of Sharon Springs. As proposed, Sharon Springs would be a large city in Georgia (as seen in Figure 1E). The population of the proposed city of Sharon Springs would make it the 13th largest city in Georgia, falling just behind Warner Robins, Albany, and Alpharetta, and it would be 11 times larger than Cumming, the only other city in Forsyth County and its county seat. While accounting for just 16.5 percent of the land area in Forsyth County, the proposed city would include approximately 30 percent of the county population, 41 percent of the gross residential property value, 28 percent of the gross commercial property value, and 20 percent of the gross industrial property value.

Figure 1E. Map of Forsyth County, the City of Cumming, and the Proposed City of Sharon Springs



The potential incorporation of the city of Sharon Springs would provide the new city with numerous sources of revenue. Many of these sources are the same as those currently funding Forsyth's county-wide services (e.g., property taxes, business taxes, alcohol excise taxes, etc.). Beyond this set of revenues, as a newly incorporated city, the city may qualify for revenue sources that are only available to municipalities, such as utility franchise fees and Local Option Sales Taxes (LOST). As the proposed city chooses to adopt some of these revenue sources, that portion will no longer be available to the county.

The incorporation of a new city may have mixed effects on Forsyth County's government and residents. For example, a city of Sharon Springs may provide new benefits to its residents in the form of self-governance and the ability to provide service levels that meet their needs. The incorporation may also impose additional costs for all county residents, due to lost county-wide revenues. On the other hand, the county may have savings if it no longer provides some county-level services to the newly incorporated city and its residents. This report quantifies the costs and benefits to Forsyth County's government of the potential incorporation.

The potential incorporation of the city of Sharon Springs will have significant revenue implications for Forsyth County's government, but limited expenditure savings. The proposed city of Sharon Springs intends to provide only two services that the county currently provides, code enforcement and planning and zoning. Using county financial data from 2016, we estimate that the county will save approximately \$735,000 by eliminating positions in code enforcement and planning and zoning expenses for services provided to the proposed city of Sharon Springs. While the county would realize savings in these areas, they are relatively small, as the costs to provide the services are low and the county benefits from its current economies of scale. It is also possible that county expenditures for road maintenance could decline, providing additional savings, which is shown in the high estimate of Table 1E.

The impact of the potential incorporation of Sharon Springs on Forsyth County's operating revenues would be substantial. The six major revenue categories impacted (alcohol license, alcohol excise tax, business license and occupation tax, cable franchise fees, planning and zoning, and insurance premium tax) generated a total of \$21.13 million in 2016 for the county. It is estimated that Forsyth County would have received \$6.70 million less in operating revenues had the proposed city of Sharon Springs existed in 2016, a decline of 32 percent. Because the Sharon Springs area includes a relatively large share of county residential, commercial and industrial property, much of the lost county revenue is from business licenses, permits, and fees.

Using the estimates generated for changes in revenues and expenditures for services, the revenue gap to the county government could range from a low of \$3.11 million to a high of \$4.79 million. This revenue gap would likely require an increase in the county-wide millage rate of 6.6-10.2 percent (see Table 1E).

Table 1E. Net Fiscal Impact to Forsyth County

| | 2016 Estimate – Low | 2016 Estimate – High |
|---|--------------------------------|---------------------------------|
| Estimated Decrease in Operating Expenses | \$735,000 | \$1,911,323 |
| Estimated Loss of Operating Revenues | \$6,703,446 | \$6,703,446 |
| Insurance Premium Tax Paid to County | \$2,861,803 | \$0 |
| Revenue Gap | \$3,106,643 | \$4,792,123 |
| 2016 Net M&O Tax Digest | \$10,107,200,098 | \$10,107,200,098 |
| 2016 Unincorporated County Millage Rate | 4.642 | 4.642 |
| Additional Millage Rate Needed to Cover Revenue Gap | 0.317 | 0.474 |
| Property Tax Increase | 6.60% | 10.20% |

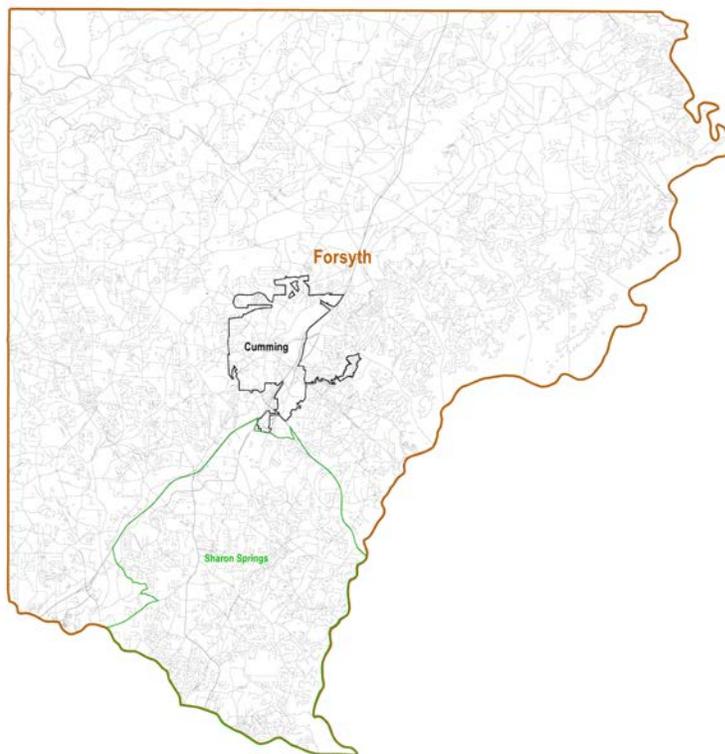
It is important to note that the purpose of the report is to provide additional information to both the public and policymakers about the fiscal impact of the creation of the city of Sharon Springs on Forsyth County and its taxpayers. This report should not be taken as a position either for or against the establishment of the city of Sharon Springs by the authors or the Center for State and Local Finance.

Introduction

The Center for State and Local Finance in the Andrew Young School of Policy Studies at Georgia State University was contacted by Forsyth County to conduct an analysis of a potential incorporation of a city of Sharon Springs on the county's revenues and expenditures. This study examines the impact of a proposed city of Sharon Springs on Forsyth County, Georgia. For this report, we rely on the boundaries and services outlined in the Carl Vinson Institute of Government 2015 incorporation study.¹

State Representative Todd Jones introduced a bill in the Georgia General Assembly that would provide for the incorporation of a significant portion of south Forsyth County into the city of Sharon Springs. As proposed, Sharon Springs would be a large city in Georgia (as seen in Figure 1). The population of the proposed city of Sharon Springs would make it the 13th largest city in Georgia, falling just behind Warner Robins, Albany, and Alpharetta, and it would be 11 times larger than Cumming, the only other city in Forsyth County and its county seat. While accounting for just 16.5 percent of the land area in Forsyth County, the proposed city would include approximately 30 percent of the county population, 41 percent of the gross residential property value, 28 percent of the gross commercial property value, and 20 percent of the gross industrial property value.

Figure 1. Map of Forsyth County, the City of Cumming, and the Proposed City of Sharon Springs



¹ A Study of Fiscal Feasibility for a Proposed City of Sharon Springs, February 2015, Carl Vinson Institute of Government.

In a prior report, the feasibility of the city of Sharon Springs was analyzed by the Carl Vinson Institute of Government (CVIOG) at the University of Georgia. The report is required by the rules of the Georgia House of Representatives' Governmental Affairs Committee. The report found that given the services the new city intended to provide, sufficient revenue would exist to fund them from within the borders of the new city.

The potential incorporation of the city of Sharon Springs would provide the new city with numerous sources of revenue. Many of these sources are the same as those currently funding Forsyth's county-wide services (e.g., property taxes, business taxes, alcohol excise taxes, etc.). Beyond this set of revenues, as a newly incorporated city, the city may qualify for revenue sources that are only available to municipalities, such as utility franchise fees and Local Option Sales Taxes (LOST). As the proposed city chooses to adopt some of these revenue sources, that portion will no longer be available to the county.

The incorporation of a new city may have mixed effects on Forsyth County's government and residents. For example, a city of Sharon Springs may provide new benefits to its residents in the form of self-governance and the ability to provide service levels that meet their needs. The incorporation may also impose additional costs for all county residents, due to lost county-wide revenues. On the other hand, the county may have savings if it no longer provides some county-level services to the newly incorporated city and its residents. This report quantifies the costs and benefits to Forsyth County's government of the potential incorporation. It answers:

- How much revenue that currently funds services that will remain county-wide will the county lose after the proposed incorporation?
- How much will the county save by no longer providing some services to the new city?
- How will the county-wide millage rate change for all county residents to reflect the net change in county revenue and service provision?
- How will county's capital expenses be impacted?

For this study, the revenue and expense estimates are based on the most recent complete data available, such as financial reports and documents, tax digests, tax rates, and service levels for 2016. Data has been gathered from Forsyth County's government that allow most revenues and expenses to be allocated based on geography. However, when geographic data is not available, ratios are relied upon. In addition, relevant county employees and department heads were interviewed to find out how various county-wide services would be affected by the creation of the proposed city.

For the remainder of this report, we first consider changes in future operating expenditures for Forsyth County's government. We then show the proposed new city's impact on current revenue sources for the county and discuss the net impact to Forsyth County's government and budget. We outline separately the changes to the capital revenues and expenditures and conclude the report.

It is important to note that the purpose of the report is to provide additional information to both the public and policymakers about the fiscal impact of the creation of the city of Sharon Springs on Forsyth

County and its taxpayers. This report should not be taken as a position either for or against the establishment of the city of Sharon Springs by the authors or the Center for State and Local Finance.

Impact on Forsyth County's Operating Expenditures

One of the provisions in Georgia law for the incorporation of a new city is that the area must agree to provide at least three services from a list of the following: police protection, fire protection, parks, road maintenance, solid waste management, water, sewer, storm-water, utilities (electric or gas), planning and zoning, and code enforcement. The proposed city of Sharon Springs plans on providing solid waste, planning and zoning, and code enforcement.

SOLID WASTE

Forsyth County does not currently offer curbside solid waste services. The existing services provided through drop-off convenience centers will not change for any residents of the proposed city. Solid waste will continue to be an enterprise fund for the proposed city as well as the rest of Forsyth County. Thus, there is no fiscal impact to Forsyth County's operating expenses associated with this service offered by the proposed city.

CODE ENFORCEMENT

The proposed city of Sharon Springs accounts for 16.5 percent of the land area in Forsyth County. We expect a decrease in the amount that Forsyth County's government spends on code enforcement due to the proposed city taking on this role in its geographic boundaries. Currently, the code enforcement staff includes five code enforcement officers, three park rangers, a supervisor and an administrative specialist.

According to information gathered from Forsyth County's Code Enforcement Department, the proposed city's land area is monitored by two code enforcement officers — this area consumes most of one officer's time and approximately half of another's. To allocate the expenses of these officers, data from the Forsyth County 2018 adopted budget is used. In 2016, Forsyth County budgeted \$407,300 in full-time salaries for code enforcement and \$26,400 for part-time salaries. The savings to the county would be realized by eliminating one full-time position and the part-time expenses. This amount is estimated to be approximately \$85,000 including salary, benefits, and various other expenses, e.g., office supplies, forms, cell phones, uniforms, etc.

Code enforcement also provides three park rangers to patrol all 26 parks within the county. This is a historical arrangement in Forsyth County that has roots in special expertise of some of the county personnel in code enforcement. While Sharon Springs plans to provide code enforcement, it does not

plan to offer parks and recreations services; thus, the county does not plan to alter its current arrangement or the number of park rangers.²

In total, the proposed city of Sharon Springs should save the county approximately \$85,000 on code enforcement if existing positions are eliminated. That represents about an 11 percent reduction in the amount the county spent on code enforcement in 2016.

PLANNING AND ZONING

The planning and zoning department is tasked with managing building permits and the associated inspections involved in new construction. Currently, the department employs 20 inspectors for various aspects of the building process, including framing inspectors as well as those for plumbing and electrical work. In addition, there are roughly eight full-time administrative positions involved in scheduling the inspections and issuing building permits.³

While the proposed city of Sharon Springs would make up only 16.5 percent of the land area in Forsyth County, it incurred a bit over one-third of the building permits in 2016. Based on conversations with the head of the Planning and Community Development Department, the number of building permits is what drives staffing levels. Thus, it would be expected that roughly one-third of the inspectors' and administrative staff's time is dedicated to the geographic area of Sharon Springs. Based on the above, the creation of Sharon Springs would allow Forsyth County's government to eliminate six inspector positions and two administrative staff positions.

Based on the 2016 Forsyth County budget, these reductions would save the county approximately \$600,000. Note that the savings to the county of eliminating these inspector positions do not reflect the exact share of the department's costs on this geographic area, as fixed costs exist in such a large department and benefits due to economies of scale that may be lost if the county no longer provides these services for the area of the proposed city.

The Planning and Community Development Department of Forsyth County is also responsible for business license issuance. We estimate that the Forsyth County government could reduce one staff position in the business license area for a total savings of just over \$50,000. The group that handles the business license issuance is relatively small, and the reduction of two people would leave the county unable to meet the service demand.

Using data from 2016, we estimate that the county will save approximately \$735,000 by eliminating positions as shown in Table 1. This is a result of the savings of \$85,000 in code enforcement and \$650,000

² The proposed city of Sharon Spring will have seven parks located within its borders. In discussions with the supervisor of code enforcement, even if Sharon Springs were to take up parks and recreation services, the savings to the county on park rangers from the incorporation of the proposed city would be negligible due to the greater amount of activity that occurs in the parks in the remainder of the county.

³ There are also two planners who review permits for land disturbance impacts on things such as storm water and drainage as well as two planners who review commercial building permits. These staffing levels would need to be maintained to allow the department to function.

in planning and zoning expenses for services provided to the area included in the proposed city of Sharon Springs.

Table 1. Estimated Savings in Operating Expenses to Forsyth County

| | 2016 |
|---|------------------|
| Solid Waste | \$0 |
| Code Enforcement Officers (1 full time, 1 part time) | \$85,000 |
| Planning and Zoning (6 inspectors, 2 support staff, 1 business license staff) | \$650,000 |
| Total | \$735,000 |

Impact on Forsyth County's Operating Revenues

If the incorporation of Sharon Springs is successful, some of Forsyth County's revenues will flow to the municipal government of Sharon Springs instead of to the county's government. Decreased revenues to the Forsyth County government include fees and taxes that support the county's general fund as well as a limited use fund. Revenues that will impact the general fund include: alcohol licenses and excise taxes, business licenses and occupation taxes, cable franchise fees, building permits, and zoning and variance fees. The insurance premium tax, which has conditions on how it can be spent per state law, is considered separately.⁴ Below is an analysis of each of these revenue sources and the anticipated loss to the Forsyth County government due to the incorporation of the proposed city of Sharon Springs.

It is important to note several differences in our estimates versus those in the CVIOG feasibility study. First, the CVIOG report uses county data from 2013 and our data is from 2016. Second, the CVIOG report uses ratios of related values to allocate revenue to the proposed city of Sharon Springs. This study uses the actual number of licenses, permits or fees paid by businesses or property owners within the boundaries of the proposed city, when available. For example, CVIOG uses the ratios of commercial property values and the count of alcohol establishments within the proposed city of Sharon Springs to allocate the alcoholic beverage license revenue. For our study, we have the amount paid for each licensee for 2016, and it is allocated to the proposed city based on the property parcel ID number (see Table 2).

ALCOHOL LICENSE AND BEVERAGE EXCISE TAXES

In 2016, Forsyth County generated \$720,329 from alcohol licenses and roughly \$2.11 million in alcohol excise taxes. Firms applying for licenses located within the proposed boundaries of Sharon Springs accounted for roughly 37 percent of the county total, generating \$264,790. This area also accounted for

⁴ We do not consider the hotel/motel tax fund here as the proposed city of Sharon Springs does not intend to implement a hotel/motel tax. However, even if the city did, the revenues from this tax must be used for tourism and economic development and are not available as general revenues. As such, these county funds are simply passed on to the Cumming-Forsyth Chamber of Commerce for that purpose. If a city of Sharon Springs imposed the tax, any decline in county revenue would be exactly offset by a decline in county expenses on economic development resulting in a net fiscal impact of zero.

about 35 percent of the license count (170 out of 482). We estimate that the county will lose approximately \$774,906 in alcohol excise tax revenue to the proposed city, based on the share of the dollar value of licenses in Sharon Springs.⁵

BUSINESS LICENSE & OCCUPATION TAXES

In 2016, there were roughly 3,750 unique businesses purchasing some type of business license from the Forsyth County government for a total of \$1.56 million in general fund revenue. Of these, 918 are located in the proposed Sharon Springs area. These businesses represented roughly \$571,725 (30 percent) of the total business license revenue for Forsyth County. In addition, the occupation tax (which is the county name for the financial services tax) generated approximately another \$356,975 countywide.⁶ Allocating this tax using the share of business license revenue results in the county government losing \$107,092 to the proposed city of Sharon Springs.

FRANCHISE FEES — CABLE

In Georgia, counties can charge franchise fees to cable companies for right of way.⁷ In 2016, Forsyth County received \$2.57 million in cable franchise fees. Cable companies pass these fees on to their subscribers. Thus, we use the ratio of the population in the proposed Sharon Springs area to that of the population in the remaining unincorporated area of the county (30 percent). By this method, Forsyth County is estimated to lose roughly \$774,252 in franchise fee revenue to the proposed city of Sharon Springs.

PLANNING AND ZONING

In 2016, there were an estimated 5,800 building permits issued in Forsyth County. Of the building permits, nearly 1,800 were in the proposed Sharon Springs area. In total, planning and zoning building permit revenue was roughly \$4.32 million in Forsyth County in 2016. The revenue from the 1,800 permits issued in Sharon Springs accounted for 34 percent of county building permit revenue, about \$1.46 million.⁸

The combined impact of the incorporation of Sharon Springs on Forsyth County's operating revenues is presented below in Table 2. The six major revenue categories impacted generated a total of \$21.13 million in 2016. It is estimated that Forsyth County would have received \$6.70 million less in operating revenues had the proposed city of Sharon Springs existed in 2016, a decline of 32 percent.

⁵ The city of Cumming generated \$8,750 in alcohol license fees in 2016, suggesting it receives a very small share of the alcohol excise tax.

⁶ Most of the financial data in this report come from the publicly available 2016 audited financial statement of Forsyth County. However, some items are not available from that report. For these, we rely on the county's 2018 budget, which has actual collections for 2016.

⁷ In Georgia, municipalities can charge franchise fees to many utility providers. These include telephone companies, natural gas providers, electric utilities and cable companies.

⁸ In addition to building permits, there are other permits issued associated with new construction, such as electrical permits, plumbing permits (often referred to as trade permits) and various inspection fees, which are all included in this amount.

Table 2. Sharon Spring Impact on Forsyth County's Operating Revenues

| REVENUE CATEGORY | 2016 FINAL REVENUE | ESTIMATED LOSS TO SHARON SPRINGS | SHARE OF 2016 FINAL |
|-----------------------------------|-----------------------|-------------------------------------|------------------------|
| Alcohol License | \$720,329 | \$264,790 | 37% |
| Alcohol Excise Tax | \$2,105,723 | \$774,906 | 37% |
| Business License & Occupation Tax | \$1,916,530 | \$571,725 | 30% |
| Cable Franchise Fees | \$2,572,265 | \$774,252 | 30% |
| Planning and Zoning | \$4,319,574 | \$1,455,970 | 34% |
| Insurance Premium | \$9,498,521 | \$2,861,803 | 30% |
| Total | \$21,132,942 | \$6,703,446 | 32% |

Impact on Forsyth County's Insurance Premium Tax Fund

In Georgia, the insurance premium tax may be imposed by counties as well as municipalities. The rate of the tax is 1 percent at the county level and up to 1 percent for municipalities.⁹ The tax is remitted to the Georgia Commissioner of Insurance and then distributed to the counties and municipalities based on a population ratio formula. State law requires that these funds be utilized for certain specified purposes including: police and fire protection, curbs, sidewalks, street lights, etc. If the funds are not used for one of the specified services, then they must be used to reduce the millage rate in the unincorporated areas of the county. In Forsyth County, the county has a dedicated operating fund for the insurance premium tax that is distinct from the general fund. The insurance premium fund is used for county-wide transportation, specifically the design and engineering of roads. Insurance premium collections in Forsyth County in 2016 were \$9.5 million. Based on the population of Sharon Springs area, the proposed city would have received \$2.86 million.

Net Fiscal Impact to Forsyth County's Government

In this section, we outline two estimates for the net fiscal impact on Forsyth County's government. The first represents a high estimate and the second a low estimate. The variation is due to the dedicated nature of the insurance premium tax revenue, which in Forsyth County is used for road maintenance.

Using the assumptions and methods outlined above, had the city of Sharon Springs existed in 2016, Forsyth County would have received \$6.70 million less in operating revenue and would have spent \$735,000 less in operating expenses, resulting in a revenue gap of \$4.79 million.

⁹ The rate will never exceed 1 percent, as an insurance company either pays the municipal tax or the county tax but never both.

LOW ESTIMATE – ALL OPERATING FUNDS

A substantial portion of the revenue gap is from the change in the insurance premium tax related to the maintenance of roads in Forsyth County. However, due to recent changes in state law it is possible that most or all of the insurance premium revenue would be returned to the county in exchange for continued road maintenance and service. In 2015, state law changed such that newly incorporated cities are responsible for the care and maintenance of the roads within their boundaries. The law allows for new cities to maintain the roads themselves or contract with the county government (or other entity) to provide these services.

Based on the CVIOG report of Sharon Springs' feasibility, Sharon Springs will not be providing a public works department. While we do not attempt to assume the details of what a potential intergovernmental agreement would contain between Forsyth County and Sharon Springs, we refine our analysis by presuming the two entities would come to an agreement regarding road maintenance. Assuming the new city remits its share of insurance premium tax back to the county in exchange for the county continuing to maintain the roads in the geographical boundaries of Sharon Springs, the county government's revenue gap would be reduced from \$4.79 million to \$3.11 million.

For Forsyth County to continue to provide the same level of service to all residents (adjusting for the services provided by the city of Sharon Springs to the residents in that area), the revenue gap would need to be made up, most likely in the form of property taxes. The net Forsyth County maintenance and operating (M&O) property tax digest in 2016 was \$10.1 billion and the general fund M&O millage rate was 4.642 mills. With that level of net tax digest, it would take 0.317 mills to make up the \$3.11 million revenue gap. This would result in a millage rate of 4.959, which represents a 6.6 percent property tax increase for all Forsyth County property owners (see Table 3).

Table 3. Net Fiscal Impact and Millage Rate Adjustment – Low Estimate

| | 2016 |
|---|------------------|
| Estimated Decrease in Operating Expenses | \$735,000 |
| Estimated Loss of Operating Revenues | \$6,703,446 |
| Insurance Premium Tax Paid to County | \$2,861,803 |
| Revenue Gap | \$3,106,643 |
| 2016 Net M&O Tax Digest | \$10,107,200,098 |
| 2016 Unincorporated County Millage Rate | 4.642 |
| Additional Millage Rate Needed to Cover Revenue Gap | 0.317 |
| Property Tax Increase | 6.60% |

HIGH ESTIMATE – GENERAL FUND ONLY

It is also possible that the proposed city of Sharon Springs and the county do not reach an intergovernmental agreement, and the county is not retained to provide the care and maintenance of the roads in Sharon Springs. In this scenario, the new city would keep the insurance premium tax revenue, and the county would save money by not having to service roads in Sharon Springs. The proposed city of

Sharon Springs contains about 23 percent of the total road miles in the county.¹⁰ In 2016, the county spent \$5.17 million on road maintenance. Reducing Forsyth County's spending on road maintenance by the share of road miles in the area of a proposed Sharon Springs yields savings of \$1.18 million to the county. Adding these savings to the other decreases in county-wide expenses of \$735,000, Forsyth County would have \$1.91 million less in operating expenses, resulting in a revenue gap of \$4.79 million.

For Forsyth County to continue to provide the same level of service to all residents (adjusting for the services provided by the proposed city of Sharon Springs to the residents in that area), the revenue gap would need to be made up, most likely in the form of property taxes. Using the net Forsyth County M&O property tax digest in 2016, it would take 0.474 additional mills to make up the \$4.79 million revenue gap. That would result in a millage rate of 5.126, which represents a 10.2 percent property tax increase for all owners of taxable property in Forsyth County (Table 4).¹¹

Table 4. Net Fiscal Impact and Millage Rate Adjustment – High Estimate

| | 2016 |
|---|------------------|
| Estimated Decrease in Operating Expenses | \$1,911,323 |
| Estimated Loss of Operating Revenues | \$6,703,446 |
| Insurance Premium Tax Paid to County | \$0 |
| Revenue gap | \$4,792,123 |
| 2016 Net M&O Tax Digest | \$10,107,200,098 |
| 2016 Millage Rate County Unincorporated | 4.642 |
| Additional Millage Rate Needed to Cover Revenue Gap | 0.474 |
| Property Tax Increase | 10.2% |

Impact on Forsyth County's Revenues for Capital Projects

Forsyth County's government uses several revenue streams to fund its capital improvement program, including impact fees, sales tax revenue, and bonds. Impact fees are tied to the issuance of building permits. As part of a comprehensive intergovernmental agreement it is assumed the proposed city of Sharon Springs would collect the county's impact fee, as these fees would go to fund county capital improvements that would benefit residents of the county as well as the new city. Currently, Forsyth County utilizes impact fees to partially or fully fund public safety, library, parks, transportation, and E-911

¹⁰ These data on road miles come from the US Census TIGER files. The ideal measure would be lane miles, as it takes into account the number of lanes in the road, while road miles does not. But for Forsyth County, road miles are a good proxy for lane miles, which are not readily available for Forsyth County. In Forsyth County, 91 percent of public road miles are defined as local neighborhood roads, rural roads, or city streets, which are usually two-lane roads. In Sharon Springs, these same types of roads comprise 93 percent of the public roads.

¹¹ The public works department has a high level of fixed costs and benefits from economies of scale countywide; thus, it is possible that the county's costs would not fall by the full 23 percent. We note that if the county realized no savings on road maintenance, the millage rate would need to increase by 0.600 mills to cover the revenue gap.

projects. In 2016, the county collected roughly \$4.92 million in impact fees. Roughly \$1.38 million of these impact fees in 2016 were generated in the proposed Sharon Springs area. The current capital improvement program through 2021 has several planned projects using impact fee funds, which are listed in Table 5.¹²

Table 5. Planned Capital Improvement Projects Funded by Impact Fees

| PROJECT | 2017 | 2018 | 2019 | 2020 | 2021 | EST. COST | % ELIGIBLE |
|---------------------------------|------|------|------|------|------|--------------|------------|
| Fire Station 8 (replacement) | ● | | | | | \$2,900,000 | 84% |
| Fire Station 6 (new) | ● | | | | | \$2,900,000 | 100% |
| Fire Station 9 (replacement) | ● | | | | | \$3,460,000 | 67% |
| Fire Station 15 (replacement) | | ● | | | | \$3,460,000 | 64% |
| Fire Station 11 (new) | | | ● | | | \$2,615,550 | 100% |
| Fire Station 10 (replacement) * | | | ● | | | \$3,460,000 | 64% |
| Fire Station 13 (new) | | | | ● | ● | \$3,460,000 | 100% |
| Sharon Forks Library | ● | ● | ● | | | \$5,919,646 | 53% |
| Matt Community Park | ● | ● | ● | ● | ● | \$12,400,000 | 65% |
| Lanierland Park | ● | ● | ● | ● | ● | \$21,000,000 | 86% |
| PEI114 SR 369 Interchange | | | | | | \$18,000,000 | 100% |

Source: 2017 Updated Forsyth County Comprehensive Plan

Forsyth County collects both a Local Optional Sales Tax (LOST) and a Special Purpose Local Option Sales Tax (SPLOST). The LOST is dedicated to operating expenses, while the SPLOST can only be used for capital expenditures. Municipalities are eligible to receive distributions of both taxes. However, to receive a share of the LOST funds, a city must provide at least three of the following qualified services: water, sewer, garbage, police, fire or library. The city of Cumming receives LOST revenue as a qualifying city, but the proposed city of Sharon Springs would not qualify based on the current list of services it intends to provide.

¹² It is possible that the county and city do not reach an agreement regarding impact fees. In discussions with the Forsyth County Manager, he stated that failure to reach such an agreement would have wide-ranging consequences on the costs of county service provision to the new city. It is beyond the scope of this report to speculate as to those consequences. However, should county impact fee collections decline due to the incorporation of Sharon Springs, it would likely affect the timing of the projects listed in Table 4.

The current SPLOST program (SPLOST VII) has been used recently to complete a new county courthouse and jail expansion. The county intends to use the additional funds for improvements to roads, streets, bridges and sidewalks; building an animal shelter, libraries, and an emergency water generator; and public safety improvements. SPLOST revenue is distributed to cities based on the intergovernmental agreements between each city and its county government. Due to the timing of the potential creation of the new city of Sharon Springs, it is uncertain if it would qualify for a distribution under the next round of SPLOST funding. It is also unclear if the new city would have sufficient time to generate a list of qualified projects necessary to be approved by the county voters. Thus, any forecast of a SPLOST distribution to the proposed city of Sharon Springs is highly speculative. We provide several forecasts of county-wide SPLOST revenue and estimated distributions to qualified cities in the Appendix to illustrate the potential impact on county SPLOST receipts due to the incorporation of Sharon Springs. Again, it is important to note that SPLOST funds would not be able to fund city operating costs and could only be used for capital expenditures.

Conclusion

The potential incorporation of the city of Sharon Springs will have revenue and expenditure implications for Forsyth County's government. The proposed city of Sharon Springs intends to provide only two services that the county currently provides, code enforcement and planning and zoning. While the county would realize savings in these areas, they are relatively small, as the costs to provide the services are low and the county benefits from its current economies of scale. It is also possible that county expenditures for road maintenance could decline, providing additional savings. Because the Sharon Springs area includes a relatively large share of county residential, commercial and industrial property, the county would lose significant business license, permit, and fee revenue. Using the estimates generated for changes in revenues and expenditures for services in previous sections, the revenue gap to the county government could range from a low of \$3.11 million to a high of \$4.79 million. This revenue gap would likely require an increase in the county wide millage rate of 6.6-10.2 percent (see Table 6).

Table 6. Net Fiscal Impact to Forsyth County

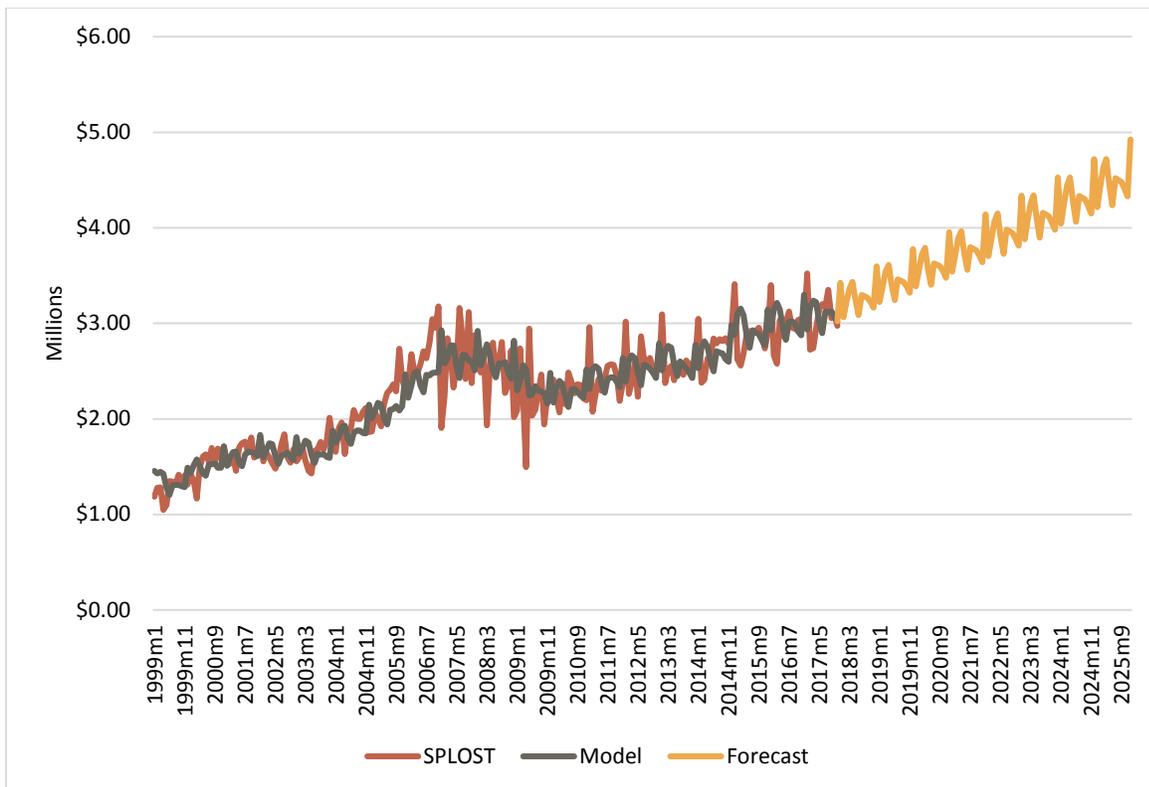
| | 2016 Estimate – Low | 2016 Estimate – High |
|---|------------------------|-------------------------|
| Estimated Decrease in Operating Expenses | \$735,000 | \$1,911,323 |
| Estimated Loss of Operating Revenues | \$6,703,446 | \$6,703,446 |
| Insurance Premium Tax Paid to County | \$2,861,803 | \$0 |
| Revenue Gap | \$3,106,643 | \$4,792,123 |
| 2016 Net M&O Tax Digest | \$10,107,200,098 | \$10,107,200,098 |
| 2016 Unincorporated County Millage Rate | 4.642 | 4.642 |
| Additional Millage Rate Needed to Cover Revenue Gap | 0.317 | 0.474 |
| Property Tax Increase | 6.60% | 10.20% |

Appendix

In this Appendix, we provide estimates and distributions of Forsyth County’s Special Purpose Local Option Sales Tax (SPLOST). Municipalities are eligible to receive distributions of SPLOST. For instance, the city of Cumming currently receives SPLOST distributions, which can only be used for capital expenditures. The current SPLOST program (SPLOST VII) expires at the end of fiscal year 2018 (June of 2019). Based on the population projections in the county’s comprehensive plan as well as U.S. Census data, we forecast that a five-year SPLOST that begins in July 2019 could generate \$282 million in total revenue. If the county and any city within the county have an intergovernmental agreement in place with regards to SPLOST allocations, the law allows for collections to occur for six years. An additional year would generate an additional \$54 million, totaling \$336 million for a six-year SPLOST (Figure 1A).

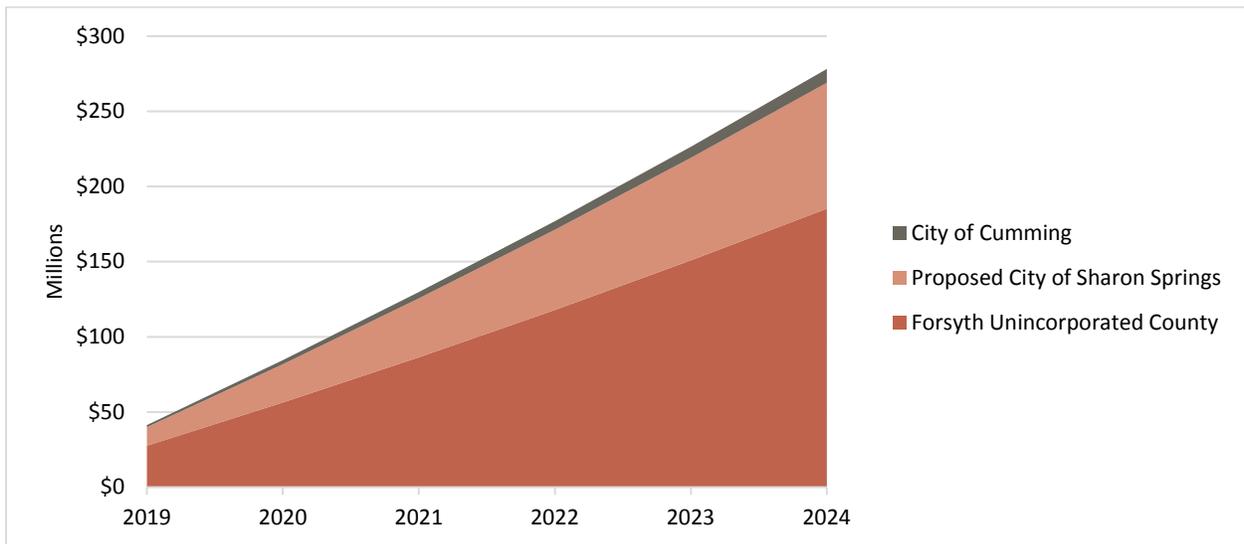
Note, the statistical process used to create the forecast model is an autoregressive integrated moving average (ARIMA) method. ARIMA models are commonly used for this type of forecasting and utilize time series data including a lagged value of the variable of interest. This model was created using 16 years of Forsyth County SPLOST revenues, the population of Forsyth County, and various explanatory variables for economic performance. The model explained 90 percent of the variation in SPLOST collections and has a mean absolute percent error of 9 percent. This model provides reasonable long-term guidance on county SPLOST revenues. It does not adjust for future short-term volatility that might be caused by asset bubbles or recessions.

Figure 1A. Forsyth County SPLOST Monthly Snapshots: 1999-2025



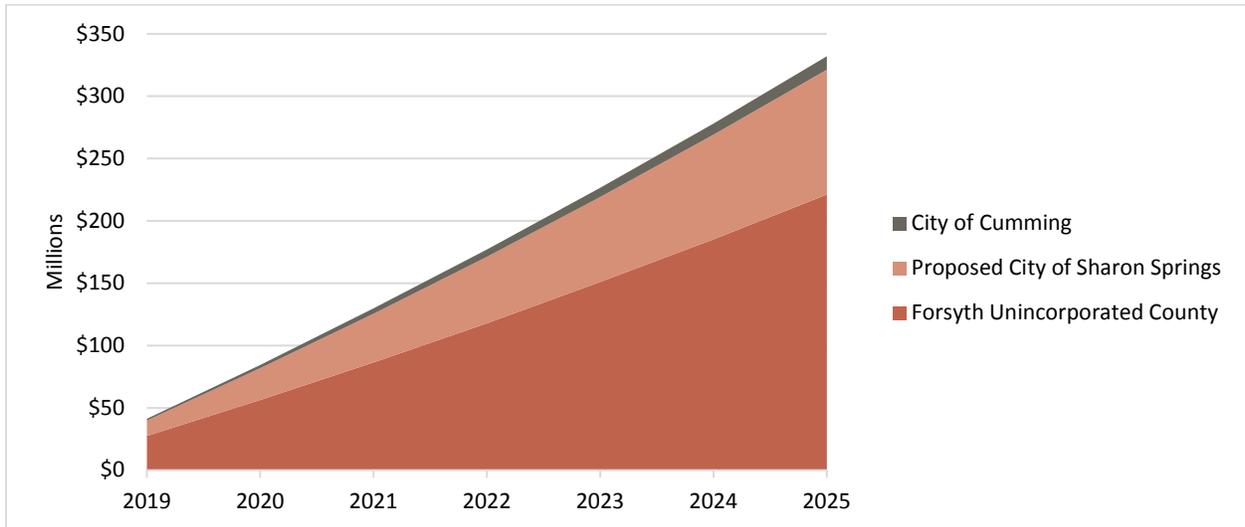
SPLOST revenue is distributed to cities based on the intergovernmental agreements between each city and its county government. If no agreement exists, the distribution is based on the share of the county population within the city’s boundaries. The population allocation method is used here for the proposed city of Sharon Springs as well as Cumming to best estimate the SPLOST funds left for the Forsyth County government. For the five-year SPLOST revenues shown in Figure 2A, the proposed city of Sharon Springs would receive approximately \$85 million, the city of Cumming would receive \$9 million, and the county government would receive \$188 million.

Figure 2A. SPLOST VIII Distribution by Population – Five-Year SPLOST (\$282 million)



If an intergovernmental agreement is in place, the six-year SPLOST estimate shown in Figure 3A would allocate \$100 million of SPLOST revenue to the proposed city of Sharon Springs. The city of Cumming would receive almost \$11 million, and the county would be left with \$224 million of the initial \$336 million. Again, these funds would not be able to fund operating costs and could only be used for capital expenditures.

Figure 3A. SPLOST VIII Distribution by Population – Six-Year SPLOST (\$332 million)



While a new city of Sharon Springs would be eligible to receive considerable SPLOST funds, it is important to recall that SPLOST revenue can only be used for capital expenditures previously approved by voters countywide. They cannot be used to fund any government operations by the city or county.

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