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Carl Vinson
Institute of Government

Proposed City of Lost Mountain

Fiscal Feasibility Study

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Executive Summary

Over the last several years, the University of Georgia's Carl Vinson Institute of Government has conducted a number of feasibility studies for proposed incorporations. Those studies, like this one, have been designed to provide the groups and legislators that have commissioned them an opportunity to investigate the potential fiscal feasibility of an area being considered for municipal incorporation. Essentially, the studies seek to determine whether the services sought to be provided by a hypothetical city, along with the necessary administrative apparatus, can be adequately funded by the revenues that would be available. The House of Representatives' Governmental Affairs Committee of the Georgia General Assembly has required by committee rule that bills proposing incorporation have a feasibility study conducted before they can be finally considered. The committee has named the Institute of Government as one of the university institutions qualified to conduct such studies.

To determine available revenues, the Institute of Government research team looked at the amounts of revenue being paid to the county government currently providing services to the area under study and any revenue streams uniquely available to municipalities such as franchise fees. To determine the likely operational expenses associated with providing planning and zoning, code enforcement, solid waste, parks and recreation, and basic administrative costs, as well as capital costs associated with those services and administration, the research team looked at three comparison governments in the metro Atlanta area, the City of Smyrna, the City of Marietta, and the City of Peachtree Corners.

It is important to note the limitations of these types of studies. They cannot predict every possible variable that may occur in the future that could potentially impact the costs of government. Additionally, the study is not intended to provide a model budget for a new city. A newly elected city council will endeavor to represent its constituencies with a set of priorities that may impact both taxing and spending patterns.

The Institute of Government is confident, however, that looking at currently available revenues and analyzing comparable municipal government spending, the methodology used in this study, reflects a realistic assessment of likely fiscal feasibility. Table 1 shows a summary of estimated revenues and expenditures for the study area in question. Based on this analysis, the Institute of Government research team finds that likely available revenues exceed likely expenditures for the services identified to be provided, and therefore conclude that a city comprising the Lost Mountain study area is fiscally feasible.

Table 1. Summary of Estimated Revenues and Expenditures

| Item | Study Area |
|--|--------------------|
| <i>Annual Expenses</i> | \$8,541,440 |
| <i>Annualized Capital Expenses</i> | \$619,634 |
| Total Annual Operating Expenses | \$9,161,074 |
| Total Annual Revenues | \$12,535,215 |
| Total Annual Revenues Less Expenses (Surplus) | \$3,374,141 |

Introduction

Preserve West Cobb, Inc. and State Representative Ginny Ehrhart engaged the University of Georgia’s Carl Vinson Institute of Government to study an area within unincorporated Cobb County to aid their consideration of the area’s possible incorporation. Lost Mountain, referred to as the “study area” in this report, is situated in the western part of Cobb County. The study area comprises the central western portion of Cobb County. The western boundary is the border between Cobb County and Paulding County. The southern boundary of the study area tracks the northern side of Macland Road. The northern and eastern boundaries for the most part track Old Stilesboro Road, the city limits of the City of Kennesaw, and Barrett Parkway. See Appendix A for a map of the study area. The 2020 census population of the area is 74,619.

This report provides estimates of revenues and expenditures that a potential City of Lost Mountain, if incorporated, could anticipate in providing certain municipal services for a single fiscal year. The revenue estimates are primarily based upon actual revenues collected for the unincorporated area by Cobb County in fiscal year (FY) 2020 as well as projections for franchise fees and other revenues. Expenditure estimates are primarily based on costs for services in the cities of Marietta, Smyrna, and Peachtree Corners. For each city that was used to establish cost estimates, the Institute of Government faculty examined its budget documents and communicated with city staff about the proper allocation of certain costs and to clarify figures and line items reported in their budgets.

The cities of Marietta and Smyrna were selected at the outset of the study to be used as the primary comparisons for expenditure purposes. These cities are the most similar in size to the study area of all cities located in Cobb County. The most recent budget documents from each city were used to estimate costs (typically budget documents for FYs 19 and 20). Because the proposed new city is projected to only provide a limited set of municipal services, for some expenditure estimates, the City of Peachtree Corners was used as a comparison because it is a new city of comparable size in the metro Atlanta area that provides a limited set of services. The

research team believes these were the best available data during the time the study was conducted.

Estimates given in this report are based on tax levies and service levels for a city not yet created; thus, they should not be viewed as certainties. Also note that the research team took a purposely conservative approach to assessing fiscal viability. This conservative approach involves providing lower estimates of revenues and higher estimates of expenditures in cases where an alternative approach might provide higher revenue estimates and lower expenditure estimates. While the research team hopes that this report assists with the public consideration of a potential municipal incorporation, it should not be construed to constitute a position either for or against the establishment of a City of Lost Mountain by the Carl Vinson Institute of Government.

Revenues

The revenue estimates outlined below include all major revenue sources a city representing the study area would have collected had it existed in 2020 and assessed taxes and fees at rates similar to Cobb County in that same period. Most of the revenue analysis is based on revenue collections by Cobb County in FY 2020. The analysis uses the most recent available data to capture the most current revenue climate in the area under study. Note, however, that the amount of revenue generated from different sources can vary from year to year due to a variety of factors. In calculating these estimates, the Institute of Government researchers applied metrics used in prior research that were accepted by stakeholders in some of the most recent incorporation studies. Thus, to the extent possible, this report uses similar revenue estimation methodologies as those provided in both Georgia State University's 2007 report, *The Fiscal Impact on DeKalb County with Possible Incorporation of Dunwoody, Georgia* and the Carl Vinson Institute of Government's 2008 report, *Revenue and Expenditure Analysis of a Proposed City of Dunwoody*. The method for determining how much revenue was assigned as coming from the study area is described in Table 2.

Special Considerations and Assumptions

For the purposes of this analysis, the proposed City of Lost Mountain is assumed to provide only the following limited set of services: planning and zoning, code enforcement, parks and recreation, and sanitation/solid waste (to be provided through either an enterprise fund or franchise arrangement). Because the proposed city would not be providing some of the more expensive services such as fire protection or law enforcement, and because some of the services to be provided (e.g., building permitting and recreation programs) involve service charges that can generate revenue, it is assumed that the proposed new city would not levy a property tax. Also, because the proposed new city is not assumed to levy a property tax, it would also not be eligible to receive revenue from real estate transfer taxes or intangible taxes.

Another special consideration is the potential for the new city to receive revenue from the county to address the issue of double taxation. Counties in Georgia are required by law to not “double tax” municipal taxpayers, i.e., tax municipal tax payers for municipal-type services that these taxpayers only receive from the city government. That is, because city taxpayers pay a municipal tax for these same services, they should not also have to pay the county for service they receive from the city. To address this prohibition of double taxation, many counties in Georgia have created a special tax district comprising the unincorporated area. By applying a property tax in this unincorporated area but not in the incorporated parts of the county, the county government ensures that the municipal taxpayers are not taxed for municipal-type services they do not receive from the county government. Cobb County has not addressed the double taxation prohibition through the creation of a special tax district. Instead, the county agreed to make yearly payments to the cities in Cobb County based on their respective property tax digests. Whether the proposed new city can participate in this payment agreement is an open question. Following the conservative fiscal analysis approach taken in this report, the research team did not allocate any revenue from this potential revenue source.

Table 2. Summary of Study Area Revenue Estimates

| Revenue Source | Data Source | Amount |
|--|---|---------------------|
| Occupation Taxes | Actual amounts provided by Cobb County Finance Department | \$1,101,487 |
| Alcoholic Beverage Excise Taxes | Actual amounts provided by Cobb County Finance Department | \$31,672 |
| Building and other Development Permits | Actual amounts provided by Cobb County Finance Department | \$109,117 |
| Insurance Premiums | Ratio of population in study area to unincorporated area | \$4,606,369 |
| Fines (Municipal Court) | Estimated based on comparison with Peachtree Corners' revenue | \$14,303 |
| Motor Vehicle Tax | Estimated based on shares of vehicle values combined with population and property value proportions | \$2,090,010 |
| Parks and Recreation Fees | Actual amounts as reported by Cobb County Parks and Recreation Department | \$325,623 |
| Franchise Fees | Regression with data set of over 300 cities | \$4,257,176 |
| Total Revenue Estimate | | \$12,535,757 |

A. REVENUES RELATED TO VARIOUS COMMERCIAL ACTIVITIES

A number of taxes currently collected in the unincorporated area of Cobb County are generated solely by commercial activity. Cobb County provided much of this data using geographic information system (GIS) mapping. Table 3 illustrates the ratios of residential, commercial, industrial, utility, and total assessed property value of the study area to the unincorporated area in Cobb County.

Table 3. 2020 Property Values in Study Area and Unincorporated Cobb

| | Study Area | Unincorporated Cobb County | Percent Study Area to Unincorporated |
|-----------------------------|------------------------|-----------------------------------|---|
| AV Residential Property | \$3,866,550,947 | \$21,283,352,031 | 18% |
| AV Commercial Property | \$245,342,507 | \$9,249,599,683 | 2.7% |
| AV Commercial & Residential | \$4,111,893,454 | \$30,532,951,714 | 13.5% |
| AV Industrial Property | \$0 | \$146,896,313 | 0% |
| AV Utility Property* | – | \$802,928,066 | 0.000% |
| AV Conservation Property | \$27,075,935 | \$84,459,078 | 32% |
| Total Assessed Value | \$4,138,969,389 | \$30,764,307,105* | 13.5% |

Note: AV=assess value.

*The Cobb County Tax Commissioner’s Office was not able to estimate the value of utility property in the study area. Consequently, in developing percentages of assessed value of study area properties to the unincorporated area properties, utility property and some other minor land-use classes were excluded.

Occupation Taxes

Occupation taxes are levied on persons and entities engaged in occupations or trades for profit-making purposes. Cobb County levies an occupation tax in the unincorporated area.

Alcoholic Beverage Excise Taxes

Alcoholic beverage excise taxes are collected on individual retail sales of alcoholic beverages.

Development Fund Zoning and Variance Fees and Permits

Development fees are fees charged for permits related to development, such as plumbing, electrical, HVAC, and building inspections. This figure also represents revenue collected from applicants for zoning changes and variances.

B. METHODOLOGIES UTILIZING RATIOS OF THE POPULATION IN THE STUDY AREA TO THE UNINCORPORATED AREA

A number of revenue sources depend more directly on the number of individuals engaging in certain behaviors such as the purchase of insurance, watching cable television, and owning a car. For these revenue sources, the research team assumed that these behaviors are fairly constant across the unincorporated population of Cobb County; thus, the ratio of the population of the study area to the entire unincorporated area was applied to the actual revenues. Table 4 gives the population figures for the study area and unincorporated Cobb County.

Table 4. Demographic Figures for Study Area and Cobb County

| | Study Area | Unincorporated Cobb County | Percent Study Area to Unincorporated |
|-----------------------------------|----------------------|-------------------------------|--|
| Population (based on 2020 Census) | 74,619 | 569,564 | 13.1% |
| | Cobb County (entire) | | |
| Median Household Income | \$118,919 | \$77,932 | |
| Poverty Rate | 3.8% | 8.3% | |

Numbers other than population are from 2019 American Community Survey data.

Insurance Premiums Tax

Insurance premiums taxes are collected on policies written for both property and casualty and life insurance policies purchased by those insured within the jurisdiction of a city or unincorporated areas of a county.

Fines

Because the proposed new city does not currently plan to operate a police department, the amount of fine revenue expected would be minimal as it would only include fines for building, zoning, and code violations. The Institute research team utilized a comparison of data from Peachtree Corners to estimate this revenue.

Motor Vehicles

Under the local title ad valorem tax (TAVT) fee, cities receive a 23% share of the local share of TAVT revenues for vehicles registered in the city jurisdiction. The local share represents 65% of the total TAVT revenue collected. The remaining 35% of the revenue is distributed to the state. The estimation method involves the following steps:

- Identify the total TAVT revenue collected in the county in 2020: \$137,201,696.
- Calculate the total local share of this revenue: \$89,181,102.
- Reduce this share by 1% to account for administrative costs. Adjusted local share: \$88,289,291.
- Calculate the municipal share (assuming all areas of the county were incorporated): \$20,306,537.
- Using 2020 motor vehicle data (which includes assessed values of motor vehicles in each jurisdiction), calculate the share of total county motor vehicle values that are attributed to the unincorporated area. This share is: 77.76%.
- Estimate the value of the municipal share of the TAVT in the unincorporated area and estimate the study area share of this unincorporated share using a per capita basis.
- Estimate the study area share of this unincorporated share using a property value basis.
- Take the average of these last two calculations.

Table 5 shows the results.

Table 5. TAVT Collection for the Study Area

| | |
|---|--------------------|
| Estimated Value of Municipal Share of TAVT in the Unincorporated Area | \$15,790,363 |
| Estimated Study Area Share Based on Pop. Share | \$2,048,320 |
| Estimated Study Area Share Based on Property Values | \$2,131,699 |
| Average of Methods | \$2,090,010 |

Parks and Recreational Fees

Because the proposed new city will provide recreation services, users of these services are expected to partially pay for their provision. While the exact fee rates and user charges that the new city would implement are not known, the research team could roughly estimate revenues by assuming that the new city would implement fees and charges that are similar in scope to those currently in place. Thus, the Institute research team requested and received fee revenue data from the Cobb County Parks and Recreation Department for the programs and services offered in the study area.

C. FRANCHISE FEES

Some revenue sources are unique to municipal corporations in Georgia. Franchise fees are essentially rental compensation by a private utility company for use of a city’s public rights-of-way. For estimating the electric, natural gas, cable, and telephone franchise fees, the Institute of Government researchers used a regression model with franchise fees paid to over 300 cities in Georgia in 2019, the latest data available. The data were only available as a total number for franchise fees and were not broken down by type. The regression output is shown in Appendix B.

Franchise Fees – Cable

Federal and state law allows cities and counties to enter into franchise agreements with cable companies to compensate the local government for their use of public rights-of-way. These fees are usually 5% of the revenue derived from cable television services.

Franchise Fees – Electric

Franchise fees for electric utilities are the result of contracts between municipal corporations and electric utility providers that occupy a city’s rights-of-way. These agreements typically provide that 4% of the gross sales of electric power within a city’s limits less sales taxes and fuel

costs be paid annually to the city to compensate it for use and occupancy of public property. The sole electric utility provider in the study area is Georgia Power. Pursuant to recent rulings by the Georgia Public Service Commission, half of the annual franchise fee paid by Georgia Power to municipal corporations is collected from the rate base of all Georgia Power customers statewide (as a cost of doing business), and the other half is collected as a fee solely on the electric bills of customers within the municipality collecting that fee. Thus, collection of the electric franchise fee would result in an increase of approximately 2% in the electric bills of city customers.

Franchise Fees – Natural Gas

Natural gas distribution utilities occupying public rights-of-way in the study area would be subject to franchise fees for the use of these rights-of-way were the study area to become a municipal corporation. Such franchise fees to cities are typically paid out of the rate base of all natural gas customers as a cost of doing business.

Franchise Fees – Phone

Because only landline telephone service requires occupancy of municipal rights-of-way, movement away from landline service to internet-based and cellphone services is making this a diminishing revenue source for municipal corporations.

D. TYPICAL MUNICIPAL REVENUES NOT ESTIMATED

Local Option Sales Taxes

To receive a share of the local-option sales tax (LOST) revenue, a city must be qualified and the county must choose to levy the tax. As Cobb County has not chosen to levy this tax, the proposed new city would not receive any revenue of this type. Moreover, the currently proposed list of services to be provided by the new city would not make it eligible to receive LOST revenue were the county to choose to levy the tax.

Local Excise Tax on Energy Used in Manufacturing

The local excise tax on energy used in manufacturing is an optional local tax. The local excise tax is levied at the same rate as local county/city sales taxes. The revenues from this tax are shared between the county and the cities based upon the same proportional share each receives from local sales taxes. Because Cobb County does not levy a sales tax, the proposed new city would also not receive revenue from the local excise tax on energy.

Hotel/Motel Taxes

Hotel/motel taxes are collected based on a percentage of the nightly room rate charged by hotels within the jurisdiction of a city or county that levies the tax. Cobb County levies a tax of 8% of the nightly room rate (O.C.G.A. § 48-13-51 (a) 5.1). Because the research team did not locate any hotels in the study area, no revenue was estimated for this tax.

Bank Shares Taxes

Cities and counties are permitted to levy a tax on depository financial institutions that have offices located in their respective jurisdictions. Currently, Cobb County does not levy a financial institutions tax. While the proposed new city could levy such a tax, the research team did not allocate revenue from this source to the new city based on an assumption that the new city would have the same level of taxation as is currently the case in the unincorporated area.

Intangible and Real Estate Transfer Taxes

Real estate transfer and intangible taxes are levied on the transfer of real estate and on the value of notes to secure debt backed by real estate. Revenue from these taxes is typically divided among all taxing jurisdictions based on the proportion that the millage rate levied by the jurisdiction bears to the total millage rate levied on that property. The research team assumed that the proposed new city would not impose a property tax and as such would also not receive any revenue from intangible and real estate transfer taxes.

Real Property Taxes

Cobb County does not levy a property tax that is exclusively used to provide for municipal-type services to the unincorporated area, i.e., a tax that the study area taxpayers would no longer have to pay once they were part of a municipality. Consequently, there is no basis on which to allocate to the proposed new city a tax revenue amount that would be equivalent to the relief from county property taxes these taxpayers would receive upon incorporation.

Personal Property Taxes

Personal property taxes are levied on personal property owned by commercial businesses. The analysis assumes that the proposed new city would not impose a property tax and as such would also not receive any revenue from personal property taxes.

Community Development Block Grant

Community development block grants (CDBG) are awarded by the federal and state governments to local governments meeting certain criteria. According to the Georgia Department of Community Affairs, "Eligible applicants selected for funding will be those having the greatest need as evidenced by poverty and per capita income and whose applications most adequately address the needs of low- and moderate-income persons and have the greatest impact." Cobb County has in recent years received some CDBG funding.

Based on the relatively low poverty rate and relatively high household income in the study area, it is unlikely that the proposed new city would receive substantial and sustained CDBG funding. As such, and in keeping with a conservative fiscal estimate, no CDBG funding is included in the accounting of the study area's fiscal viability.

Special Purpose Local Option Sales Taxes

The special-purpose local-option sales tax (SPLOST) is a potential revenue source for local governments; the use of the funds is restricted to capital projects. Cities and counties can potentially both participate in SPLOST, but there is no guarantee that cities or any particular city will receive either revenue or capital projects from this tax. Georgia law specifies the following:

“Prior to the issuance of the call for the referendum and prior to the vote of a county governing authority within a special district to impose the tax under this part, such governing authority may enter into an intergovernmental agreement with any or all of the qualified municipalities within the special district.”¹

For the purposes of the SPLOST tax, a "qualified municipality" means only those incorporated municipalities that provide at least three of the following services, either directly or by contract: law enforcement; fire protection (which may be furnished by a volunteer fire force) and fire safety; road and street construction or maintenance; solid waste management; water supply or distribution or both; waste-water treatment; storm-water collection and disposal; electric or gas utility services; enforcement of building, housing, plumbing, and electrical codes and other similar codes; planning and zoning; recreational facilities; or library.²

Two distribution methods could potentially leave a city without a share of the SPLOST revenue benefits:

1. If the county board of commissioners proposes to fund one or more Level One county projects using SPLOST, and the Level One projects would consume 100% of the estimated SPLOST revenues, no qualified municipality would receive SPLOST funds.³
2. If the board of commissioners negotiates an intergovernmental contract to determine the distribution of SPLOST funds, the agreement is effective so long as it is between the county and one or more qualified municipalities representing 50% or more of the municipal population in the county.⁴

In the first case, no city would receive a SPLOST benefit. In the second case, cities that are not included in the negotiation/agreement could potentially be excluded from the benefit. In the case of Cobb County, for example, even after the incorporation of the new city, the existing

¹ O.C.G.A. § 48-8-111.

² O.C.G.A. § 48-8-110.

³ Level One projects are capital projects for the use and benefit of the citizens of the entire county that are needed to implement state-mandated county responsibilities. See ACCG. 2016. *Special Purpose Local Option Sales Tax: A Guide for County Officials*, 6th edition. Retrieved from www.accg.org/library/legal/SPLOST%202016.pdf.

⁴ O.C.G.A. § 48-8-115.

cities would together comprise more than 50% of the municipal population and could potentially approve a revenue distribution that excluded the new city. Moreover, there is no provision in Georgia law for newly incorporated cities to get a share of currently negotiated SPLOST revenue. As such and because this analysis provides a conservative revenue estimate, no revenue for the proposed new city is estimated from this source.

Service Delivery Strategy Payments

In 2017, Cobb County and its cities extended their Service Delivery Strategy (SDS) Agreement. As part of this agreement and as part of an effort to resolve any remaining tax equity issues between the county and its cities, the Cobb County government agreed to make a series of payments to the cities. These payments increase incrementally from 2014 to 2023, at which point the agreement will be renegotiated. The payments are to be allocated to the cities based on each city's respective share of the aggregate tax digests of municipal governments in the county. The creation of a new municipality in the county could potentially trigger a renegotiation of the SDS Agreement, but for the purpose of this fiscal viability analysis, the research team assumed that the proposed new city would not be included under the existing agreement.

This potential source of revenue is not included in this analysis because the county and the existing cities may view the new city as not being a full-service city and therefore not deserving of a full share of the tax equity payments that the county has agreed to make. That is, the payments that the county has agreed to make represent a means of achieving equity between municipal and county taxpayers such that municipal taxpayers are not paying for county services that they do not receive. For cities that provide the full range of services, particularly expensive services such as law enforcement, the payment from the county is designed to compensate municipal taxpayers who are paying county taxes for county services that are only being provided to the unincorporated area (since the cities provide these services in the incorporated area). Because the proposed new city will not be providing law enforcement services, it can be argued that these new city taxpayers do not deserve the same level of compensation for the county taxes they will be paying because, unlike taxpayers in the other cities, they will be receiving some of the municipal-type services for which they have paid county taxes.

Expenditures

The expenditure estimates below are based primarily on expenditures incurred by comparable governments that provide services similar to those contemplated to be provided by a city comprising the study area. In calculating these estimates, the Institute research team first established two primary comparable governments, the cities of Marietta and Smyrna. These cities were selected based on several factors. Both cities are located in Cobb County, part of the metropolitan Atlanta area labor market. While the comparison cities are not quite as large as the

study area, they are the largest cities in Cobb County that provide the services contemplated to be provided by the proposed city. Both of these comparison cities provide the full range of services. This is not ideal from a comparison point of view in that the proposed new City of Lost Mountain is currently slated to only provide the following direct services: planning and zoning, code enforcement, parks and recreation, sanitation, and a limited municipal court to manage code violations. Because the cities of comparable size in Cobb County provide police services, the research team relied on city council, legal, and court costs from Peachtree Corners, a large city in metro Atlanta that like the proposed city, only uses municipal court for code violations. Table 6 provides demographic profile data for the study area and the comparison cities.

Table 6. Demographic Profile of Study Area and Primary Comparison Cities

| | Study Area | Marietta | Smyrna | Peachtree Corners |
|----------------------|-------------------|-----------------|---------------|--------------------------|
| Population* | 74,619 | 60,972 | 55,663 | 42,243 |
| Race–White | 70.1% | 42% | 43.4% | 44.9% |
| Race–Black | 14.7% | 28.8% | 30.6% | 22.6% |
| Race–Asian | 3.5% | 3% | 6.7% | 9.4% |
| Race-2 or more | 4.5% | 4.3% | 4.1% | 4.1% |
| Race–Other | .8% | 1.4% | .9% | .8% |
| Ethnicity–Hispanic** | 6.5% | 20.5% | 13.8% | 18.1% |
| Median Income | \$118,919 | \$57,452 | \$76,444 | \$71,149 |
| Poverty % | 3.8% | 14% | 9.4% | 9% |

* Population figures and racial makeup for the study area were determined based on 2020 Census block data using GIS mapping. **Hispanic is recognized as an ethnicity rather than a race in Census data.

For most of the cost estimates given, the figures were derived by averaging the per capita costs of expenditures made by the two comparison cities for both FY 2019 and FY 2020.⁵ Some expenditure costs were not easily allocated to specific departments. In these instances, Institute faculty interpreted the budget and other financial documents based on local government finance and accounting knowledge and expertise. The explanation for how each estimate was derived is included below. Table 7 summarizes the expenditures.

⁵ When available, actual expenditures numbers for both cities were used.

Table 7. Summary of Expenditure Estimates

| Direct Services Operational Costs | |
|--|--------------------|
| City Council | \$137,165 |
| Legal Services | \$570,960 |
| Municipal Court | \$4,752 |
| Community Development | \$1,658,904 |
| Parks and Recreation | \$3,771,440 |
| Subtotal | \$6,143,221 |
| Indirect Services & Other Operational Costs | |
| Indirect/Admin. & Support Services | \$2,258,195 |
| Contingency Fund | \$140,024 |
| Total Operating Costs | \$8,541,440 |
| Annualized Routine, Start-Up, & Park Acquisition Capital | \$309,134 |
| Annual Lease Expenditure for Facilities | \$310,500 |
| Total Annual Capital Costs | \$619,634 |
| Total Annual Expenditures (Operating + Capital) | \$9,161,074 |
| Surplus Based on Total Revenue Estimates | \$3,374,683 |

The capital amount represents costs for equipment, as well as furniture and financial software purchased for general government purposes. These costs are amortized over five years.

DIRECT AND INDIRECT SERVICES

The following sections attempt to identify the cost of providing an array of both direct and indirect (or support) services. Indirect or support services include such functions as accounting, purchasing, human resources, risk management, and the like. Typically, for a full-service city the research team would be able to delineate the specific expected expenditures for both types of services using the comparative city methodology. However, for cities that only provide a limited set of direct services (as is the case for the proposed City of Lost Mountain), the comparison city methodology is likely to grossly overestimate expenditures on indirect services.⁶ That is, total expenditures on support services in a city that provides an extensive array of direct services will be much higher than expenditures for support services in cities that provide only a few direct services. Consequently, the research team used a different approach to estimating the cost of indirect or support services. This approach involved identifying a general relationship (or ratio) between direct and indirect service expenditures. A disadvantage

⁶ Indirect services include all the back-office support functions, including executive administrative services, elections, finance, general human resources, information technology, risk management, records management, public information and marketing, and general customer service.

of this approach is that it does not allow one to specify exactly where indirect service expenditures will be made, e.g., what the expected expenditures would be on a City Manager's Office versus those made on a Human Resources Office. Because of the method used to estimate indirect service costs, no detailed breakdown of these individual service or departmental units is provided. Experience suggests that governments that provide few direct services tend to differ substantially in how they organize the individual support services under different government units. That is, often they will combine several administrative functions into just a single or a couple of offices.

Direct Expenditures

Expenditures by Function

Estimates for direct service expenditures are broken out by functional area. In most cases, these costs were estimated by averaging FYs 2019 and 2020 expenditures of the comparison cities (Smyrna and Marietta). However, in a few cases, Institute faculty based the estimates on departmental expenditures of the City of Peachtree Corners because it is the only city of substantial size that provides a limited set of services like the proposed new city.

In the following expenditure estimation methodology, we first calculate a per capita cost and then multiply this per capita cost by the study area population to arrive at an estimate for the proposed new city. Note that not all of the comparison city expenditure figures used in the calculation are directly drawn from department budget documents. This is the case because different local governments allocate costs to different departments in different ways. Hence, based on examination of the documents and communication with the city staffs, the research team adjusted how certain expenditures are properly allocated to specific functions. Also, note that same the base expenditure figures represent departmental expenditures minus capital expenditures that are sometimes included in departmental budgets.

City Council

The cities of Marietta, Smyrna and Peachtree Corners all have six council members and one mayor. Given the size and complexity of Marietta and Smyrna, these cities assign some portion of staff to the council function. Because the workload of elected officials in the proposed city is more likely to reflect those from Peachtree Corners, the research team utilized those costs for comparison purposes. In addition to salaries and benefits, these costs also include items such as education and training, travel, dues, and fees.

Table 8. Comparison Government Council Expenses

| City and Fiscal Year Budget | Dept. Budget | Per Capita |
|------------------------------------|---------------------|-------------------|
| Peachtree Corners – FY 19 | \$84,418 | \$2.00 |
| Peachtree Corners – FY 20 | \$70,884 | \$1.68 |
| Average Per Capita Expenditure | | \$1.84 |
| Study Area Estimate | | \$137,165 |

Legal Services

Estimating the cost of legal services is particularly difficult as the degree to which cities depend on legal advice varies substantially. The demand for legal services for the proposed City of Lost Mountain is likely to be somewhat less than for cities that provide more services and have more departments (e.g., police) that are subject to legal suits and issues. Consequently, the research team used Peachtree Corners as the comparison city for legal services and for municipal court as this city’s main legal issues relate to planning and zoning and code enforcement as would be the case for the proposed new City of Lost Mountain.

Table 9. Comparison Government Legal Expenses

| City and Fiscal Year Budget | Dept. Budget | Per Capita |
|------------------------------------|---------------------|-------------------|
| Peachtree Corners, FY 2019 | \$328,531 | \$7.78 |
| Peachtree Corners, FY 2020 | \$317,928 | \$7.53 |
| Average Per Capita Expenditure | | \$7.65 |
| Study Area Estimate | | \$570,960 |

Community Development

The Community Development expenditure estimate includes costs for planning and zoning, building inspections, code enforcement, and, where applicable, economic development. In the City of Smyrna, the Community Development Department also manages business licenses. In many cities, managing business licensing is a function of the finance department or other administrative departments, but the research team did not attempt to extract this cost, in keeping with its conservative approach.

Table 10. Comparison Government Community Development Expenses

| City and Fiscal Year Budget | Dept. Budget | Per Capita |
|------------------------------------|---------------------|--------------------|
| Marietta, FY 2019 | \$1,648,400 | \$27.04 |
| Marietta, FY 2020 | \$1,728,170 | \$28.34 |
| Smyrna, FY 2019 | \$989,576 | \$17.78 |
| Smyrna, FY 2020 | \$877,785 | \$15.77 |
| Average Per Capita Expenditure | | \$22.23 |
| Study Area Estimate | | \$1,658,904 |

Municipal Court

Municipal courts for small cities typically involve hiring a part-time judge and one or more clerks to handle the paperwork. However, because the proposed new city would not provide law enforcement services, the actual amount of municipal court work is expected to be quite minimal. Only code violations would be heard in such a municipal court. The closest comparison in terms of workload and expected cost to the workload and cost of the proposed new city's municipal court is that operated by the City of Peachtree Corners. Because this city tries to work with code violators before issuing citations to appear in court, the Peachtree Corners' Municipal Court only meets occasionally and incurs little cost. Additionally, because the city attorney handles most of the work of the court, most of these costs are already accounted for above in the legal expenses estimate.

Table 11. Comparison Government Municipal Court Expenses

| City and Fiscal Year Budget | Dept. Budget | Per Capita |
|------------------------------------|---------------------|-------------------|
| Peachtree Corners, FY 2017 | \$2,140 | \$0.05 |
| Peachtree Corners, FY 2018 | \$3,240 | \$0.08 |
| Average Per Capita Expenditure | | \$0.06 |
| Study Area Estimate | | \$4,752 |

Parks and Recreation

The study area currently contains all or portions of eight different parks.⁷ Two parks, only partially located within the study area, are on land owned by the United States Corps of Engineers that is leased by the county. These areas are mostly comprised of passive greenspace, although

⁷ Information on county parks is from the Cobb County website, correspondence with county personnel, and in-person inspection by the research team.

one does contain a dog park.⁸ For purposes of this study, we have assumed that the county would continue to operate and maintain the areas leased from the federal government. Among the remaining county parks (these are all completely contained within the study area), two appear to be completely undeveloped⁹, two are slightly developed, but are mainly passive walking areas, and two are well developed. The four developed parks, together making up a little over 579 acres, would require some maintenance from the proposed city. The two slightly developed parks, Green Meadows Preserve and Leone Hall Price Park, each have restrooms, picnic tables, and benches as well as many acres of meadow that require mowing once a year. The Green Meadows Preserve houses a community garden and a Cherokee garden each with attendant storage and a historic civil war era home. The two well developed parks, Lost Mountain Park and Oregon Park, include various types of ball fields and courts, playgrounds, paved and unpaved trails, picnic shelters, parking lots, batting cages, restrooms, and some undeveloped land. Within these two parks, there is also a recreation center, four concessions buildings, an escape room and two fishing ponds. The table below details some of the amenities found in these parks.¹⁰ Because a good portion of the slightly developed parks include acreage that is passive, we have only included the developed areas and the meadows which require annual mowing in calculating our estimate of maintenance costs.

| Park | Acres | Ball/Soccer/ Misc. Fields | Tennis Courts | Playground | Restrooms | Buildings |
|---------------|---------------|------------------------------|------------------|------------|-----------|------------------------------------|
| Lost Mountain | 166 | 11 | 12 | 2 | 1 | Recreation Center 3 Concessions |
| Oregon | 44.17 | 8 | 4 | 1 | 1 | Escape Room Concession |
| Total | 210.17 | | | | | |

⁸ These are Allatoona Creek Park, located at 5690 Old Stilesboro Road, and Pitner Road Park, located at 2320 & 2450 Pitner Road.

⁹ These are the Kemp Park Property, located at 4331 Burnt Hickory Road and the Schmidt Family Park Property, located at 451 Anderson Road.

¹⁰ There is also a senior center located in Lost Mountain Park. As senior centers are typically a county service, the research team has assumed the county will continue to maintain and operate this facility.

| Park | Total Acres | Approximate Passive Space | Restrooms | Unpaved Trails | Gardens | Buildings |
|------------------|---------------|---------------------------|----------------------|----------------|---------|----------------|
| Green Meadows | 126.21 | 70 | 1 | 2.7 mi. | 2 | Historic House |
| Leone Hall Price | 242.63 | 230 | 1 | 1.8 mi. | | Pavilion |
| Total | 368.84 | 300 | Net Developed | 68.84 | | |

Total Developed Park Acreage = 279.01

Parks - Maintenance Costs

Park and recreation maintenance budget data from the Cities of Marietta and Smyrna was used to estimate costs. The City of Smyrna operates thirty-six recreation sites on 321 acres. Marietta operates thirty-six sites on approximately 388 acres. As the types of facilities operated by both comparison cities is fairly similar to the those identified as being developed in the study area, using a per acre maintenance cost serves as a reasonable means of determining a cost estimate. The table below shows the comparison city maintenance costs and their application to the study area.

| City and Fiscal Year Budget | Dept. Budget | Park Acreage | Per Acre Cost |
|------------------------------|--------------|---------------|------------------|
| Marietta – FY 19 | \$1,540,370 | 387.7 | \$3,973 |
| Marietta – FY 20 | \$1,616,199 | 387.7 | \$4,169 |
| Smyrna – FY 19 | \$965,253 | 321 | \$3,007 |
| Smyrna – FY 20 | \$908,209 | 321 | \$2,829 |
| Average Per Acre Expenditure | | | \$3,495 |
| Study Area Estimate | | 279.01 | \$975,008 |

Parks - Operational Costs

Most of the youth recreation programs offered in Cobb County parks are conducted by volunteer organizations that utilize the county facilities. Both comparison cities appear to function in a similar manner. There are operational costs outside of maintenance, however, that require personnel and annual operating funds. Parks require administrators to manage park agreements with volunteer organizations, to oversee programs and activities not run by outside organizations, and to ensure capital improvements are made in a safe and timely manner. Assuming that the new city would continue to operate similarly, we examined operational cost

data from the comparison cities. Because programming and operational costs for parks are tied closely to the amount of use these services enjoy, we used a per capita cost as the means of estimating expenses. The table below shows the data used to make this calculation.

| Table 15: Parks and Recreation Operational Costs | | |
|---|---------------------|------------------------|
| City and Fiscal Year Budget | Dept. Budget | Per Capita Cost |
| Marietta – FY 19 | \$2,571,756 | \$42.18 |
| Marietta – FY 20 | \$2,873,421 | \$47.13 |
| Smyrna – FY 19 | \$1,708,330 | \$30.69 |
| Smyrna – FY 20 | \$1,664,756 | \$29.91 |
| Average Per Capita Expenditure | | \$37.48 |
| Study Area Estimate | | \$2,796,432 |

Combining maintenance and operational cost estimates for parks results in a figure of \$3,771,440.

Contingency Fund

Contingency funds are used by cities to cover unforeseen expenditures. The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy for the level of the unrestricted fund balance that should be maintained in the general fund. GFOA recommends that the adequacy of the unrestricted fund balance in the general fund should be determined based on each government’s unique circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.¹¹ Because this amount typically remains in reserve and is only rarely spent, it is not an expenditure that needs to be offset by revenue generated each year. Rather, it can typically be addressed through a multiyear allocation. The estimate given here of a needed fund amount is based on a 10-year cycle of having to use the contingency fund.

INDIRECT SERVICES AND COST CALCULATION

As outlined in the introduction to this section, the research team determined that using a ratio (of direct to indirect service costs) is the most appropriate method for estimating indirect services costs. The following sections first discuss the potential issues involved in this method and then identify two approaches to estimating an appropriate ratio for use in the estimation of indirect service costs.

¹¹ See www.gfoa.org/fund-balance-guidelines-general-fund.

Estimating a Ratio of Direct-to-Indirect Costs

One way in which the relationship between direct and indirect expenditures can fail to be proportional is due to the existence of some fairly significant economies of scale in the delivery of support services. Take the example of a single accounts payable finance clerk who is able to manage the accounts of 10 departments that provide direct services, with each department taking about a 10th of the staff member's time. A government that only has two departments would therefore be expected to only require a .2 full-time equivalent finance clerk.

Unfortunately, it is typically not possible to employ staff with these skills on this basis, even on a contractual basis. Moreover, certain tasks require the fairly constant on-site presence of a staff member. As such, there is a certain minimum quantity of support staff who need to be employed if the direct services are to be delivered in a timely and effective manner. The proposed new city would be large enough to likely need support staff that will surpass the "minimum quantity" needed to provide the support service in question.

The second way that the relationship between direct and indirect expenditures can fail to be proportional is related to the potential for some services to be much more demanding of support services than others. This is more likely when a service has higher HR or purchasing demands (e.g., police and fire) than other services. In the proposed new City of Lost Mountain, the direct services that are proposed for the city tend to be quite similar in terms of the likely demand for support services. In other words, the indirect service requirements per direct-service staff are not likely to differ dramatically between, say, community development and parks and recreation.

While the foregoing discussion suggests that using the ratio of direct to indirect expenditures as a basis for estimating support service costs in the study area would be appropriate, the data available do not allow us to address one possible way that the resulting estimate of support service cost could be skewed, i.e., the data do not allow us to make adjustments for the fact that some services may be more intensive users of support services than others. In the case of the study area, the direct services being proposed are ones that are likely to be somewhat less demanding of support services. In addition, because the proposed new city will not be providing road services or maintaining its own buildings (other than park and recreation facilities), some expenditures for indirect services for engineering and building maintenance may not be incurred, suggesting a lower ratio of indirect to direct service costs. Consequently, the Institute research team believes that the indirect services cost estimate produced based on the general ratio of direct to indirect expenditures should provide a conservative estimate of these costs.

In order to determine these costs, we compared the ratio of indirect to direct costs reported by the cities of Marietta and Smyrna. This method assumes that the ratio of expenditures on support services to direct services in the study area will tend to follow the overall ratio of support services to direct services expenditures in the comparison cities. The rationale for this

method is that the proposed new city will be in a labor market that will be most similar to the comparison cities.

Table 16. Ratio of Indirect-to-Direct Expenditures

| | |
|----------|-------|
| Marietta | 0.25 |
| Smyrna | 0.485 |
| Average | 0.368 |

Applying this ratio of indirect-to-direct costs results in a figure of \$2,258,195.¹²

CAPITAL COSTS

New cities typically incur some general start-up costs as well as ongoing capital replacement. Peachtree Corners was used as it is a new city providing a limited set of services for which data on start-up capital costs are available. The Institute research team examined the Peachtree Corners FY 2013 start-up costs and inflated this amount to 2020 dollars. After creating a start-up equipment list, we then consulted with city staff to make sure we had included the essential start up equipment and software for the proposed new city. Although certain IT costs are incurred at start-up, the estimates below treat the annualized cost as an annual ongoing capital expense to finance replacement, repair, and upgrade costs.

Annual Capital

Information Technology

Table 17 shows the annual capital cost estimate for information technology (IT). The analysis assumes all computer hardware will have a five-year replacement schedule and will be financed over a similar period.

¹² In order to confirm the reasonableness of this estimate, the research team communication with the finance staff in the City of Peachtree Corners and determined that their annual expenses for indirect services are approximately \$2,066,599. In keeping with the conservative approach, we used the larger estimate derived by applying the average of the ratios from Marietta and Smyrna.

Table 17. Annual Capital Cost Estimate – Information Technology

| Item Cost | Unit Cost | Amount | Total Cost |
|--|------------------|---------------|-------------------|
| Servers with OS and UPS | \$22,500 | 2 | \$45,000 |
| Data Storage including IPS | \$35,000 | 1 | \$35,000 |
| Telephones | \$243 | 30 | \$7,290 |
| Computers with Work Stations | \$2,000 | 30 | \$60,000 |
| Laptop Computers | \$700 | 2 | \$1,400 |
| Printers | \$400 | 15 | \$6,000 |
| Large Scanner / Large Plotter | \$5,000 | 3 | \$15,000 |
| Network Switches and Firewall | \$4,000 | 5 | \$20,000 |
| Wireless Access Points | \$500 | 10 | \$5,000 |
| AV Equipment | \$10,000 | 1 | \$10,000 |
| Other Server Software | \$10,000 | 1 | \$10,000 |
| <i>Total IT Capital</i> | | | \$214,690 |
| IT Annual Cost Estimate (Total amortized over 5 years) | | | \$46,344 |

Administrative Positions

A city manager and the department heads of the Parks and Recreation and Community Development departments would each need a vehicle, for a total of three vehicles. Vehicles are assumed to have a five-year life and cost \$25,000 each. Vehicles are financed at an interest rate of 2.6% over a five-year period.

Community Development

The only annual capital expenses (other than IT) needed for the Community Development Department are vehicles for building inspectors and code enforcement personnel. In sum, a total of eight department vehicles (likely trucks) would be needed. Vehicles are assumed to have a five-year life and cost \$30,000 each. Vehicles are financed at an interest rate of 2.6% over a five-year period.

Parks and Recreation

Additionally, the department would need an estimated five vehicles (primarily trucks) that would be shared by the department’s leadership, athletic program supervisors, and staff at the recreation facilities. Vehicles are assumed to have a five-year life and cost \$30,000 each.

Summary Annual Capital Cost Estimate

Table 18 provides a summary of the routine annual capital costs estimated in this section.

Table 18. Routine Annual Capital Cost Estimate

| Item | Amount |
|-------------------------------------|------------------|
| Information Technology | \$46,344 |
| Admin. Vehicles | \$16,190 |
| Community Development Vehicles | \$51,808 |
| Parks and Recreation Vehicles | \$32,380 |
| Annual Capital Cost Estimate | \$146,722 |

Start-up Capital

The proposed new city would incur some general start-up costs such as furniture and software that would not need to be regularly replaced. The cost estimate shown in Table 19 includes furniture for employees' work spaces (desk, chair, file cabinet) totaling approximately \$1,600 each, council chambers, reception areas, a conference room, and any additional furniture needed for the recreation facilities. Specialized software programs are necessary to appropriately meet the needs of the Finance, Community Development, and Parks and Recreation departments. The total cost has been amortized over a five-year period and assumes a 2.6% annual interest rate.

Table 19. Start-Up Capital

| Capital Item | Cost |
|------------------------------------|------------------|
| <i>Furniture</i> | |
| Administration (12) | \$19,200 |
| Community Development (14) | \$22,400 |
| Parks and Recreation (12) | \$19,200 |
| Additional Furniture | \$80,000 |
| <i>Total Furniture Setup</i> | <i>\$140,800</i> |
| <i>Software</i> | |
| Finance Software | \$30,000 |
| Community Development Software | \$208,000 |
| Recreational Software | \$303,000 |
| Total Start-Up Capital | \$681,800 |
| Annualized Start-Up Capital | \$147,178 |

Start-up capital costs are assumed to be financed over a five-year term.¹³

¹³ An interest rate of 2.6% is assumed based on communications with the Georgia Municipal Association in August, 2021.

Capital for Park Acquisition

The total cost for parkland acquisition from the county was determined by the number of acres and the statutory cost set forth in O.C.G.A. § 36-31-11.1. Although the statute is only applicable to counties with a MARTA sales tax, the research team used it as a guideline. As shown in Table 20, the total estimate for this cost is \$70,582. Once this figure is amortized over five years, the annual cost would be \$15,236. The cost of acquiring additional private property for parks would, of course, depend upon market factors.

Table 20. Estimate of Park Purchase Cost

| Park | Acres |
|--------------------------------------|-----------------|
| Green Meadows Preserve | 126.21 |
| Leone Hall Price Park | 242.63 |
| Lost Mountain Park | 166 |
| Oregon Park | 44.17 |
| Kemp Family Park Property | 93.40 |
| Schmidt Family Park Property | 33.31 |
| Total Acres | 705.72 |
| Estimated Park Purchase Costs | \$70,572 |
| Annualized over 5 years | \$15,234 |

Summary of Capital Costs

Table 21. Annual Total Capital Cost Estimate

| Item | Annual Amount |
|-------------------------------------|----------------------|
| Routine Capital | \$146,722 |
| Start-up Capital | \$147,178 |
| Park Acquisition | \$15,234 |
| Annual Capital Cost Estimate | \$309,134 |

FACILITY COSTS

Facility costs can vary depending on the kinds of facilities needed and the number of staff that need to be housed. Cities take numerous approaches to providing facilities. Some build high-end landmark-type facilities to give the city a presence in the community. Others house municipal staff in stripped-down, low-cost buildings. Still others simply lease nearby office and warehouse facilities. Because it is difficult to predict the approach that the proposed new city would take, the research team identified space needs and estimated the lease costs for office and other facilities that reflect the nature of the local real estate market.

The process for estimating facility space needs for a new city involves first identifying the number of employees in the comparison cities who would be employed in similar functions as the new city. The research team began by exploring the data on employment in the cities of Smyrna and Marietta. Similar to the problem of estimating expenditures when the proposed new city will only supply a limited set of services, these two comparison cities also employ substantially more staff in support service departments than would be needed in the new city. This was particularly true in Marietta, where the support functions also support a major utility service operated by the city. Consequently, the Institute researchers chose to use Peachtree Corners, a city that only provides a similarly limited set of services, as the comparison basis for estimating support staff facility needs. However, given large size of the proposed city and the significant amount of park acreage, the research team chose to use the average number of community development employees and the average number of parks and recreation employees likely to work in an office environment employed in the cities of Smyrna and Marietta in order to determine the overall number of employees likely to require office space. Note that because the proposed new city is expected to take over existing county recreation facilities, the analysis assumes that 8 parks and recreation employees will occupy the existing parks and recreation offices located in Lost Mountain Park.

Table 22. Estimated Office Positions

| | |
|---|----|
| Admin | 4 |
| Finance (including HR, Purchasing, Audit, etc.) | 8 |
| Community Development | 14 |
| Parks and Recreation | 4 |
| Total | 30 |

The amount of square footage per employee was then calculated using both a low-end space need estimate (125 square feet per employee) and a higher space need estimate (225 square feet per employee). The analysis assumes that the municipal court could use the city council space for court hearings. It is assumed that vehicle maintenance would be contracted out, so these employees are not included. Assuming that the new city would purchase the county's parks and recreation facilities that are within the new city boundary, there would be sufficient facilities in these park properties to accommodate some of the Parks and Recreation Department staff.¹⁴

¹⁴ In § 36-31-11.1(3), "park" is defined as any property or facility located wholly within the territory of a municipality, including but not limited to athletic fields, athletic courts, recreation centers, playgrounds, swimming pools, arts centers, historical properties, and adjacent greenspace, and the fixtures located on such property or in such facility owned by the county or subject to a lease-purchase or installment sale arrangement by the county and used by the county to provide any services authorized by Article IX,

To determine lease costs, the Institute research team reviewed real estate listings for the asking rent for lease space in the study area. The estimation model uses a low-end office/retail cost of \$16 per square foot per year and a high-end cost of \$30 per square foot per year.

For each scenario, the analysis also assumes that the new city would need 300 sq. ft. of record storage space, 500 sq. ft. of customer service and accessible record space, 100 sq. ft. of GIS station space, 200 sq. ft. for a data center, and 2,500 sq. ft. of council meeting/conference space. The total additional space would be 3,600 square feet.

Table 23 shows a low and a high estimate of the cost of leasing office space for the proposed new city government (exclusive of parks and recreation facilities).

Table 23. Facility Lease Space Based on Number of Employees

| | |
|--|--------|
| Estimated Employees | 30 |
| Low Estimate of Sq. Ft. Needed @ 125 Per Staff Member Plus 3,600 sq. ft. of Governing Body and Customer Service Space | 7,350 |
| High Estimate of Sq. Ft. Needed @ 225 Per Staff Member Plus 3,600 sq. ft. of Governing Body and Customer Service Space | 10,350 |

| Sq. Ft. Per Staff | Price per Sq. Ft. | Total Lease Expense |
|-----------------------|-------------------|---------------------|
| Low End: 125 sq. ft. | \$16.00 | \$117,600 |
| High End: 225 sq. ft. | \$30.00 | \$310,500 |

The summary analysis uses the high-end lease estimate cost in order to be conservative.

ENTERPRISE SERVICES: SANITATION

It is common for cities to provide some services on a fee basis and according to a separate accounting fund. When this occurs, the result is typically described as an enterprise fund-based service. While enterprise services occasionally receive small amounts of additional revenue or transfer small amounts of revenue to the city’s general fund, in a true enterprise fund service arrangement, such transactions are rare. Such enterprise services are ones that for reasons of fairness are meant to be entirely supported through user fees or charges—you pay for what you get. Because citizens do not pay any taxes to support the provision of the service, and only those citizens who want the service are required to pay for it, an enterprise fund-based service does not impact the viability of a new city. Whether the city provides the service itself, contracts with a private provider, or franchises the delivery of the service, consumers of the service pay for the levels and types of services they receive. In this respect, an enterprise fund service is one that

Section II, Paragraph III(a)(5) of the Constitution or to provide any services authorized by Article IX, Section II, Paragraph III(a)(10) of the Constitution.

mimics a business delivery of the service. The key difference between a city enterprise fund service and a private business is that the city organizes how the service will be delivered; in all other respects, there is little or no difference between the two.

Solid Waste

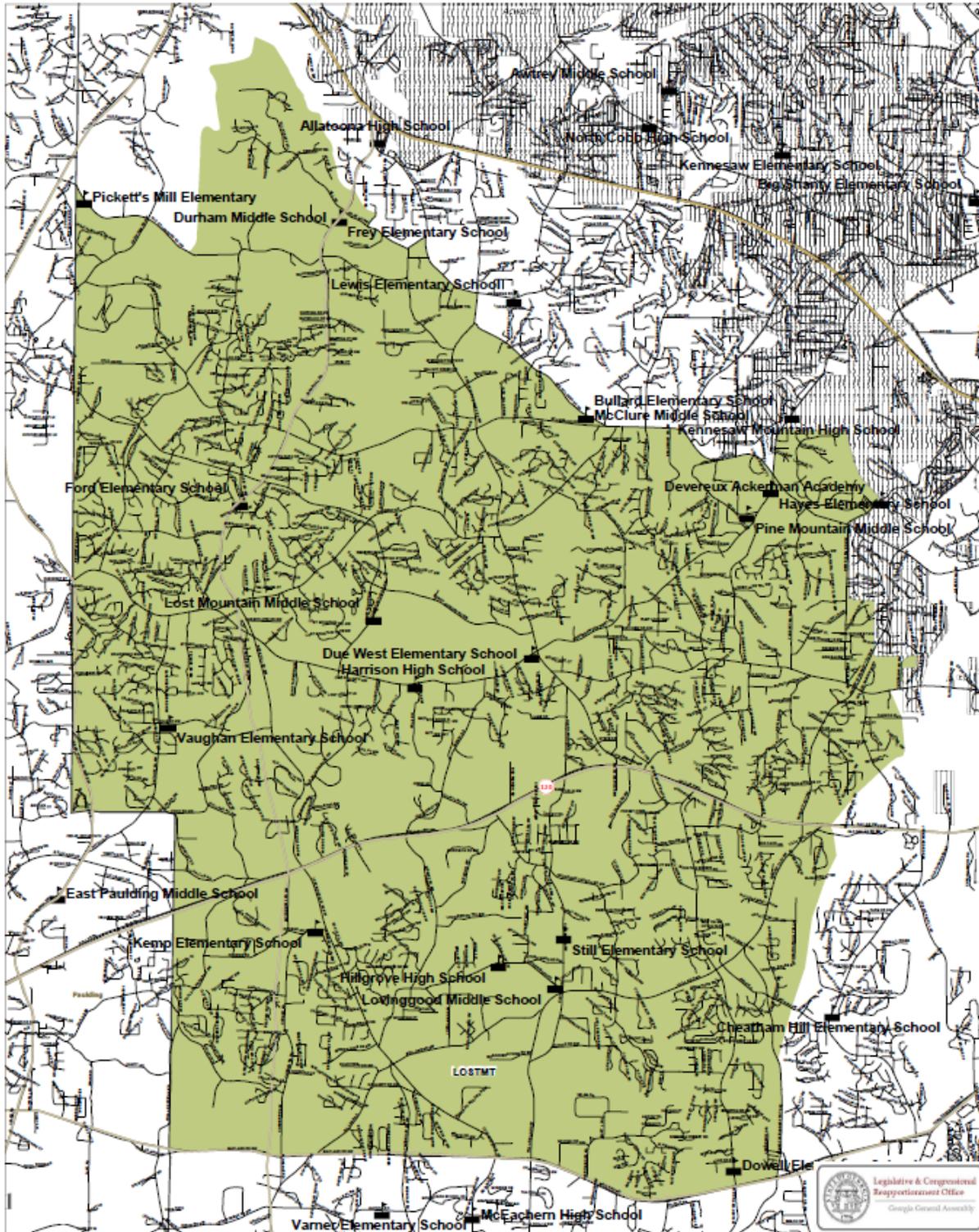
Sanitation or solid waste disposal is a service commonly provided on an enterprise fund basis, whether contracted out or as a municipal service.¹⁵ In unincorporated Cobb County, sanitation is provided through county agreements with a number of private providers; residents can choose among these providers. Some cities provide solid waste services directly for residential customers but leave commercial customers to arrange with private providers for more customized services.

Whether a city provides sanitation services directly on an enterprise basis or establishes one or more franchises for sanitation service with private haulers or simply regulates the service being provided by private haulers, the residents of the city do not experience the risk of a tax increase in order to provide the service. Consequently, there is no impact on fiscal viability for a potential new city.

¹⁵ Providing solid waste services by contract does count for purposes of establishing qualified municipality status in sales tax negotiations.

Appendix A. Map of the Study Area

City of Lost Mountain



Appendix B. Regression Output

Electric Franchise Fees

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .946 ^a | .895 | .893 | 287326.537 | 2.016 |

a. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

b. Dependent Variable: SumOffranchelectric

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|---------------------|-----|--------------------|---------|--------------------|
| 1 | Regression | 220961019686635.620 | 5 | 44192203937327.125 | 535.296 | <.001 ^b |
| | Residual | 25922753120776.105 | 314 | 82556538601.198 | | |
| | Total | 246883772807411.720 | 319 | | | |

a. Dependent Variable: SumOffranchelectric

b. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------------|-----------------------------|------------|---------------------------|--------|-------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 31895.931 | 18312.241 | | 1.742 | .083 | | |
| | population | 25.058 | 2.472 | .421 | 10.135 | <.001 | .194 | 5.150 |
| | SumOfresidential | 4.870E-5 | .000 | .032 | .736 | .462 | .182 | 5.491 |
| | SumOfcommercial | .001 | .000 | .492 | 12.469 | <.001 | .215 | 4.653 |
| | SumOfindustrial | .002 | .000 | .160 | 7.116 | <.001 | .664 | 1.505 |
| | AtlantaDummy | -426697.335 | 102580.687 | -.096 | -4.160 | <.001 | .629 | 1.590 |

a. Dependent Variable: SumOffranchelectric

Collinearity Diagnostics^a

| Model | Dimension | Eigenvalu | Condition | Variance Proportions | | | | | |
|-------|-----------|-----------|-----------|----------------------|------------|------------------|-----------------|-----------------|--------------|
| | | e | Index | (Constant) | population | SumOfresidential | SumOfcommercial | SumOfindustrial | AtlantaDummy |
| 1 | 1 | 3.573 | 1.000 | .02 | .01 | .01 | .01 | .02 | .02 |
| | 2 | .983 | 1.906 | .29 | .00 | .01 | .01 | .16 | .15 |
| | 3 | .684 | 2.285 | .58 | .01 | .00 | .01 | .17 | .19 |
| | 4 | .527 | 2.604 | .04 | .02 | .03 | .01 | .40 | .46 |
| | 5 | .136 | 5.127 | .03 | .18 | .19 | .96 | .01 | .02 |
| | 6 | .097 | 6.058 | .05 | .78 | .76 | .00 | .24 | .16 |

a. Dependent Variable: SumOffranchelectric

Residuals Statistics^a

| | Minimum | Maximum | Mean | Std. Deviation | N |
|----------------------|--------------|-------------|-----------|----------------|-----|
| Predicted Value | -262925.62 | 7798253.50 | 404414.72 | 832266.648 | 320 |
| Residual | -2382771.750 | 1678753.250 | .000 | 285065.868 | 320 |
| Std. Predicted Value | -.802 | 8.884 | .000 | 1.000 | 320 |
| Std. Residual | -8.293 | 5.843 | .000 | .992 | 320 |

a. Dependent Variable: SumOffranchelectric

Gas Franchise Fees

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .267 ^a | .071 | .042 | 476128.837 | 2.026 |

a. Predictors: (Constant), AtlantaDummy, SumOfindustrial, SumOfresidential, SumOfcommercial, population

b. Dependent Variable: SumOffranchisegas

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|--------------------|-----|------------------|-------|-------------------|
| 1 | Regression | 2794349516530.039 | 5 | 558869903306.008 | 2.465 | .035 ^b |
| | Residual | 36498485717502.734 | 161 | 226698669052.812 | | |
| | Total | 39292835234032.770 | 166 | | | |

a. Dependent Variable: SumOffranchisegas

b. Predictors: (Constant), AtlantaDummy, SumOfindustrial, SumOfresidential, SumOfcommercial, population

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 44584.650 | 43877.094 | | 1.016 | .311 | | |
| | population | 3.088 | 5.307 | .114 | .582 | .561 | .149 | 6.710 |
| | SumOfresidential | .000 | .000 | .198 | 1.042 | .299 | .160 | 6.259 |
| | SumOfcommercial | -5.429E-5 | .000 | -.058 | -.356 | .722 | .217 | 4.609 |
| | SumOfindustrial | .000 | .001 | .049 | .497 | .620 | .601 | 1.665 |
| | AtlantaDummy | -24269.113 | 172956.974 | -.013 | -.140 | .889 | .632 | 1.582 |

a. Dependent Variable: SumOffranchisegas

Collinearity Diagnostics^a

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | | | |
|-------|-----------|------------|-----------------|----------------------|------------|------------------|-----------------|-----------------|--------------|
| | | | | (Constant) | population | SumOfresidential | SumOfcommercial | SumOfindustrial | AtlantaDummy |
| 1 | 1 | 3.717 | 1.000 | .02 | .01 | .01 | .01 | .01 | .02 |
| | 2 | .927 | 2.002 | .23 | .00 | .01 | .01 | .18 | .15 |
| | 3 | .655 | 2.382 | .54 | .01 | .00 | .01 | .09 | .23 |
| | 4 | .497 | 2.734 | .13 | .01 | .03 | .01 | .37 | .43 |
| | 5 | .132 | 5.305 | .02 | .08 | .23 | .95 | .02 | .01 |
| | 6 | .071 | 7.254 | .06 | .89 | .72 | .02 | .31 | .16 |

a. Dependent Variable: SumOffranchisegas

Residuals Statistics^a

| | Minimum | Maximum | Mean | Std. Deviation | N |
|----------------------|-------------|-------------|-----------|----------------|-----|
| Predicted Value | 44737.35 | 797916.56 | 111114.57 | 129743.712 | 167 |
| Residual | -190710.062 | 5944574.500 | .000 | 468903.397 | 167 |
| Std. Predicted Value | -.512 | 5.294 | .000 | 1.000 | 167 |
| Std. Residual | -.401 | 12.485 | .000 | .985 | 167 |

a. Dependent Variable: SumOffranchisegas

Cable Franchise Fees

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .971 ^a | .942 | .941 | 57801.808 | 1.902 |

a. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

b. Dependent Variable: SumOffranchisecable

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|--------------------|-----|-------------------|---------|--------------------|
| 1 | Regression | 12387577380733.016 | 5 | 2477515476146.603 | 741.538 | <.001 ^b |
| | Residual | 758418137826.866 | 227 | 3341049065.317 | | |
| | Total | 13145995518559.883 | 232 | | | |

a. Dependent Variable: SumOffranchisecable

b. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | Sig. | Collinearity Statistics | |
|-------|------------------|-----------------------------|------------|---------------------------|--------|-------|-------------------------|-------|
| | | B | Std. Error | Beta | t | | Tolerance | VIF |
| 1 | (Constant) | -5546.457 | 4484.532 | | -1.237 | .217 | | |
| | population | 6.620 | .504 | .465 | 13.133 | <.001 | .203 | 4.932 |
| | SumOfresidential | .000 | .000 | .455 | 12.341 | <.001 | .187 | 5.338 |
| | SumOfcommercial | 5.146E-5 | .000 | .098 | 2.913 | .004 | .223 | 4.493 |
| | SumOfindustrial | 3.838E-5 | .000 | .015 | .760 | .448 | .690 | 1.450 |
| | AtlantaDummy | 433.063 | 20694.022 | .000 | .021 | .983 | .636 | 1.573 |

a. Dependent Variable: SumOffranchisecable

Collinearity Diagnostics^a

| Model | Dimension | Eigenvalue | Condition Index | (Constant) | population | Variance Proportions | | | |
|-------|-----------|------------|-----------------|------------|------------|----------------------|-----------------|-----------------|--------------|
| | | | | | | SumOfresidential | SumOfcommercial | SumOfindustrial | AtlantaDummy |
| 1 | 1 | 3.629 | 1.000 | .02 | .01 | .01 | .01 | .02 | .02 |
| | 2 | .970 | 1.934 | .22 | .00 | .01 | .01 | .19 | .16 |
| | 3 | .647 | 2.369 | .58 | .01 | .00 | .01 | .11 | .22 |
| | 4 | .522 | 2.636 | .09 | .02 | .03 | .01 | .45 | .41 |
| | 5 | .135 | 5.182 | .03 | .16 | .21 | .96 | .01 | .02 |
| | 6 | .096 | 6.141 | .06 | .80 | .74 | .00 | .22 | .17 |

a. Dependent Variable: SumOffranchisecable

Residuals Statistics^a

| | Minimum | Maximum | Mean | Std. Deviation | N |
|----------------------|-------------|------------|-----------|----------------|-----|
| Predicted Value | -4327.04 | 1688024.13 | 107050.40 | 231072.997 | 233 |
| Residual | -336663.031 | 382863.406 | .000 | 57175.552 | 233 |
| Std. Predicted Value | -.482 | 6.842 | .000 | 1.000 | 233 |
| Std. Residual | -5.824 | 6.624 | .000 | .989 | 233 |

a. Dependent Variable: SumOffranchisecable

Telephone Franchise Fees

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the | |
|-------|-------------------|----------|-------------------|-------------------|---------------|
| | | | | Estimate | Durbin-Watson |
| 1 | .775 ^a | .601 | .593 | 42835.161 | 2.019 |

a. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

b. Dependent Variable: SumOffranchisetele

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|-------------------|-----|------------------|--------|--------------------|
| 1 | Regression | 723348722561.947 | 5 | 144669744512.389 | 78.846 | <.001 ^b |
| | Residual | 480730957326.154 | 262 | 1834850982.161 | | |
| | Total | 1204079679888.101 | 267 | | | |

a. Dependent Variable: SumOffranchisetele

b. Predictors: (Constant), AtlantaDummy, SumOfindustrial, population, SumOfcommercial, SumOfresidential

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------------|-----------------------------|------------|---------------------------|--------|-------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 9046.330 | 3037.168 | | 2.979 | .003 | | |
| | population | .776 | .371 | .183 | 2.090 | .038 | .198 | 5.047 |
| | SumOfresidential | -2.273E-5 | .000 | -.209 | -2.300 | .022 | .184 | 5.421 |
| | SumOfcommercial | .000 | .000 | .821 | 9.835 | <.001 | .219 | 4.571 |
| | SumOfindustrial | -2.424E-5 | .000 | -.031 | -.649 | .517 | .676 | 1.480 |
| | AtlantaDummy | -11241.627 | 15318.636 | -.036 | -.734 | .464 | .632 | 1.582 |

a. Dependent Variable: SumOffranchisetele

Collinearity Diagnostics^a

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | | | |
|-------|-----------|------------|-----------------|----------------------|------------|------------------|-----------------|-----------------|--------------|
| | | | | (Constant) | population | SumOfresidential | SumOfcommercial | SumOfindustrial | AtlantaDummy |
| 1 | 1 | 3.602 | 1.000 | .02 | .01 | .01 | .01 | .02 | .02 |
| | 2 | .977 | 1.920 | .26 | .00 | .01 | .01 | .17 | .15 |
| | 3 | .666 | 2.325 | .58 | .01 | .00 | .01 | .14 | .20 |
| | 4 | .523 | 2.624 | .06 | .02 | .03 | .01 | .43 | .44 |
| | 5 | .136 | 5.152 | .03 | .17 | .20 | .96 | .01 | .02 |
| | 6 | .097 | 6.099 | .05 | .79 | .75 | .00 | .23 | .17 |

a. Dependent Variable: SumOffranchisetele

Residuals Statistics^a

| | Minimum | Maximum | Mean | Std. Deviation | N |
|----------------------|-------------|------------|----------|----------------|-----|
| Predicted Value | -782.70 | 460055.06 | 29473.16 | 52049.700 | 268 |
| Residual | -175126.047 | 390842.094 | .000 | 42432.187 | 268 |
| Std. Predicted Value | -.581 | 8.273 | .000 | 1.000 | 268 |
| Std. Residual | -4.088 | 9.124 | .000 | .991 | 268 |

a. Dependent Variable: SumOffranchisetele