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Chapter 1: Executive Summary

In October 2018, the City of Avondale Estates requested that the Carl Vinson Institute of Government conduct a study of the fiscal impacts of a possible annexation of three separate areas. This report presents an analysis of how these annexations would affect the city's finances. More specifically, we studied whether the estimated municipal revenues derived in the study areas would be greater or less than the cost to provide levels of service in the study areas comparable to that currently received by Avondale Estates residents and businesses. This study should not be viewed as a statement supporting or discouraging annexation; rather it is an information tool for the elected and appointed officials and the citizens of Avondale Estates.

The study areas were identified by the Board of Mayor and Commissioners (BOMC) for the City of Avondale Estates. The areas are shown on a map in Chapter 2 of this report. To carry out the analysis, we focused on two questions: 1) how much revenue would Avondale Estates have collected from the study areas in fiscal year 2017 (January 1, 2017 to December 31, 2017) if the land had been annexed into the city and 2) how much would Avondale Estates have spent in 2017 to provide services to the study areas.

Population, Households, and Businesses in the Study Areas

The analysis began with an examination of the demographic composition of the study areas, since both revenues and expenditures depend largely on the numbers of households and businesses that an annexation would bring into the city. Using 2010 U.S. Census Block data, Census estimates for 2017, and tax maps, we estimated the 2017 population of each study area and applied Avondale Estates' average household size of 2.57 to the annexation areas. We also calculated the additional road miles that would belong to the City under the different annexation scenarios.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Avondale + Annexation Areas
Population	3,360	2,781	1,714	77	7,932
Miles	15.65	5.11	6.19	2.81	29.76

The following table shows the current 40% assessed value of commercial, industrial, and residential property for Avondale Estate as well the residential, commercial and industrial 40% assessed property values for the proposed annexation areas.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Avondale + Annexation Areas
Commercial	\$13,457,816	\$10,127,855	\$7,229,892	\$2,372,375	\$33,187,938
Industrial	\$5,422,413	\$0	\$0	\$19,378,519	\$24,800,932
Residential	\$182,079,414	\$50,601,289	\$70,278,490	\$1,710,153	\$304,669,346
Total	\$200,959,643	\$60,729,144	\$77,508,382	\$23,461,047	\$362,658,216

Estimated Study Area Revenues for FY 2017

To estimate revenues that would have been generated from the study areas, we collected actual numbers for revenue categories where data was available, and estimated other revenues using information on the study area’s population, number of households, number of businesses, and property tax information.

Avondale Estates generated \$4,723,655 in revenue in FY 2017, including sanitation revenue. We estimated that if the study areas had been part of the City of Avondale Estates in FY 2017, they would have generated the following revenue.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Avondale + Annexation Areas
Revenue	\$4,723,655	\$1,884,484	\$1,775,712	\$621,684	\$9,005,880

We assumed that the residents and businesses of the annexed area would have been charged the same tax rates, fees, and service charges that were in effect for city residents during FY 2017, with the exception of the Homestead Option Sales Tax (HOST) which has been replaced with the Equalized Homestead Option Sales Tax (EHOST) and a new Special Purpose Local Option Sales Tax (SPLOST).

Estimated Study Area Expenditures for FY 2017

In calculating general fund expenditures, we used two methodologies that create a range of cost estimates. The methodologies represent different underlying assumptions; however, we generally believe that the best estimates come from detailed examinations of costs as done

with the case study approach. That said, we *estimated* costs for a reality that did not exist (i.e., that the study areas were a part of the City of Avondale Estates in 2017). The *actual* future costs to provide services in the annexation will depend upon the policy and implementation decisions of Avondale Estates’ elected officials and governmental employees.

Method 1: Department-Specific Unit Measures

The first method is based on the underlying assumption that citizens and businesses in the study area are similar to those in Avondale Estates. However, we used unit measures that were tailored to the individual services. In other words, we used measures that attempted to capture service demands. For police, per parcel costs were the unit of measurement which best reflected the demand for services while for others, like public works, we chose miles of road as a better reflection of service demands. In the case of public works, which provides many different kinds of services, a single basis of measurement may not be particularly accurate, necessitating a more detailed analysis, such as the case study approach (Method 2). The expenses estimated with this methodology are shown below:

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Avondale + Annexation Areas
Expenses	\$4,831,819	\$1,715,903	\$1,559,846	\$386,626	\$8,494,195

Method 2: Case Study

The second method we used to estimate general fund expenditures was the case study method. This method required interviewing department heads to discuss the level and cost of service delivery to the annexed area as well as the annexation’s possible impact on the existing city. In addition, we reviewed financial documents and adjusted operating expenditures based on individual line-items, rather than treating all operating costs similarly, as we did in the department-specific-measure methodology. The case study method allows us to account for excess or deficient capacity to provide services, and therefore provides a more accurate estimate of expenditures that will be needed.

We interviewed department heads and asked them to consider their individual departmental budgets for FY 2017. We then asked them to project the effect the total

annexation would have on their department’s budget, including personnel-related expenditures, operating expenditures, and equipment. The expenses based on this methodology are shown below:

	Avondale Estates	Combined Annexation Areas	Avondale + Annexation Areas
Expenses	\$4,831,819	\$2,048,521	\$6,880,340

The reader of this report should understand that the methodologies can only estimate the amount that would actually be needed to pay for services in the study area. Until the annexation is implemented and the city experiences demands for additional services, it is impossible to know if our assumptions are correct.

Net Fiscal Impact: Comparing Revenues and Expenditures in the Study Area

Our analysis provides a range of results depending upon the expenditure methodology used. The following tables show the current revenues and expenses for Avondale Estates along with the estimated revenues, expenditures, and the difference between the two for the proposed annexation areas.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Combined Annexation Areas	Avondale + Annexation Areas
Revenue	\$4,723,655	\$1,884,484	\$1,775,712	\$621,684	\$4,281,880	\$9,005,535
Expenses	\$4,831,819	\$1,715,903	\$1,559,846	\$386,626	\$3,662,376	\$8,494,194
Difference	(\$108,164)	\$168,581	\$215,866	\$235,057	\$619,504	\$511,340

	Avondale Estates	Annexation Areas	Avondale + Annexation Areas
Revenue	\$4,723,655	\$4,281,880	\$9,005,535
Expenses	\$4,831,819	\$2,048,521	\$6,880,340
Difference	(\$108,164)	\$2,233,359	\$2,125,195

Some factors to keep in mind in analyzing the estimated revenues and expenditures following annexation are as follows:

Factors which would make expenditures higher than revenues:

- If the study area has relatively less commercial and industrial property compared to Avondale Estates on percentage of total assessed value basis.
- If the city has little excess capacity in terms of personnel and equipment to accommodate any significant growth from annexation (which is not the case here).

On the other hand, some factors which favor a positive balance between revenues and expenditures are:

- If the municipal services that Avondale Estates provides do not require major investments in infrastructure in order to serve a larger area (i.e., they do not need to add buildings or extend sewer or water lines).
- If proportionally to residential properties and population, the study area has a substantial number of commercial and industrial properties.

Chapter 2: Background Information: Avondale Estates and Study Area

Although the purpose of this study is to assess the fiscal impact of the proposed annexation on the City of Avondale Estates, we have also included brief background information on the City of Avondale Estates.

Demographic Composition

According to the U.S. Census Bureau, 2011-2017 American Community Survey 5-Year Estimates, Avondale Estates is now comprised of:

- 3,066 people (2017 estimate) of which:
- 87.4% are White
- 6.9% are African American
- 3.3% are Hispanic or Latino¹
- 4.4% are Asian
- 1.6% are two or more races

The population of Avondale Estates has increased from 2,960 in 2010 to 3,066 in 2017, an increase of 106 persons. This increase translates to an average annual growth rate of about 0.7 percent or 3.5 percent over four years. We are using the 2017 Census estimates for all our per capita calculations.

Households and Ages²

Avondale Estates had an estimated 1,366 household in 2010. From the 2010 US Census composition of households, 44.3 percent of families had children under the age of 18 living with them, 44.3 percent were married couples living together, 9.96 percent had a female head of household, and 43.5 percent were non-families. The average household size of 2.57 persons is somewhat smaller than for the state as a whole, which had an average household size of 2.71 persons in 2010.

Income, Poverty, and Education

The median income for a household in the city was \$78,750 according to the 2010 US Census, and the per capita income equaled \$38,195. In comparison, the State of Georgia's median household income in 2010 equaled \$49,179, \$29,571 less than that of Avondale Estates.

¹ According to the US Census, Hispanics may be of any race, so are also included in any applicable categories.

² US Census Bureau Quickfacts and 2013 American Fact Finder.

About 7.8 percent of the population in Avondale Estates lived below the poverty line, which is much lower than the state average of 18.2 percent. The percent of the adult population (25+) with a high school degree or higher was 98.4 percent, and the percent with bachelor’s degree or higher was 68.1 percent.

Annexation Study Area

The boundaries of the proposed annexation area are shown in Figure 1. The table below lists the estimated population and households for the study areas in 2017. Using 2010 Census block data, we determined the population for each study area. We then applied Avondale Estates’ household size of 2.57 to calculate the number of households in the study area by dividing the study area’s population by 2.57.

Estimated 2017 Population and Household Size

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Combined Annexation Areas	Avondale + Annexation Areas
Population	3,360	2,781	1,714	77	4,572	7,932
Households	1,307	1,082	667	30	1,779	3,086

Figure 1: Boundaries of City of Avondale Estates and Study Area

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Chapter 3: Study Area Revenues

In Chapter 2, we presented information about the land and demographic characteristics of the study areas. This information is important because it specifies the numbers of persons and households that would have been in the city if the study area had been annexed prior to 2017. This baseline information is needed to estimate both the revenues and expenditures that would be generated by annexing the study area.

In this section, we present our estimates of the revenues that would have been collected in the study area during FY 2017 (January 1, 2017 to December 31, 2017) if those area had been part of Avondale Estates. We begin with an underlying assumption that this area had been annexed more than a year earlier. Thus, we disregard the timing of revenue collections and any other accounting issues that immediately follow an annexation.

If the study area had been a part of Avondale Estates during FY 2017, they **would** have generated revenue from the following sources:

- Property taxes
- Personal property taxes
- Motor vehicle taxes
- Franchise taxes paid by the telephone, gas, electric, and cable television companies for the right to operate in the city
- Insurance premium taxes (an official population count by the Bureau of the Census would be required to adjust the distribution)
- Property transfer taxes
- Permit authorizations
- Traffic court receipts and probation services
- Interest earnings
- *HOST (Homestead Option Sales Tax) – (this has now been replaced with EHOST and a SPLOST)
- LMIG (Local Maintenance & Improvement Grant)
- Other fees and miscellaneous collections
- Sanitation

- Storm water

Because we are making estimates for an event that has not occurred (i.e., an annexation), by necessity we must make assumptions in determining the factors that influence revenue collections. One of the more commonly used assumptions is that people in the annexation area behave similarly to those living in the City of Avondale Estates. This assumption permits us to extrapolate Avondale Estates revenue on a per capita or other basis to the study area. We rely on several other similar assumptions that are based on our knowledge of the type of revenue and what we perceive as the primary driver of each revenue source.

The City of Avondale Estates collects several categories of revenues which will **not** be impacted by an annexation. The following sources are **not** included in the revenue analysis for either annexation area:

- Any taxes paid in a prior year
- Interest on past due taxes
- Public utilities ad valorem taxes (annexation area does not contain any utility property)
- Any taxes or fees for alcohol sales (annexation area does not contain any establishments which sell alcohol)
- Cell tower lease
- Sale of surplus equipment
- Sale of recyclables
- Fourth of July donations
- Labor Day proceeds
- City-wide yard sale
- Gazebo/Park rental fee
- Department of Justice or other grants (with the exception of LMIG)³

³ While the City may be eligible for various grants based on greater populations with annexation, grants were considered too uncertain to include.

General Fund Revenues

Most of the revenue in Avondale Estates is captured in the General Fund. We will discuss all the revenues flowing into the General Fund in this section. The city currently has two enterprise funds, one for sanitation and one for storm water. They will be discussed later.

Real Property Tax Revenue

Generally speaking, property taxes have many favorable features. They are collected through a well-established process once a year. Cities deposit these revenues into their general funds and can spend them on any city service. We show in Table 3.1 how much revenue would be generated in the annexation study areas based the city's 2017 actual tax digest which incorporates all applicable property exemptions yielding an effective millage rate of 9.501.

Table 3.1
40% Assessed Values and Tax Revenue in Avondale Estates and the Study Areas

	Avondale Estates	Area A	Area B	Area C
Commercial	\$13,457,816	\$10,127,855	\$7,229,892	\$2,372,375
Industrial	\$5,422,413	\$0	\$0	\$19,378,519
Residential	<u>\$182,079,414</u>	<u>\$50,601,289</u>	<u>\$70,278,490</u>	<u>\$1,710,153</u>
Total	\$200,959,643	\$60,729,144	\$77,508,382	\$23,461,047
Revenue	\$1,909,313	\$576,988	\$736,407	\$222,903

Assessed values include only commercial, industrial, and residential property – before exemptions are applied

Personal Property Tax Revenue

We show in Table 3.2 how much revenue would be generated from the collection of personal property taxes in the proposed annexation area. Avondale Estates collected \$24,650.24 in personal property tax in 2017. The 40% Assessed Value of Commercial and Industrial Property in Avondale Estates in 2017 was \$18,880,229 yielding a Personal Property Tax of \$.0013 per C&I AV.

Table 3.2
2017 Estimated Personal Property Revenue for the Study Area

	Area A	Area B	Area C
Commercial & Industrial AV	\$10,127,855	\$7,229,892	\$21,750,894
Avondale Estates Rev/ C&I AV	\$0.0013	\$0.0013	\$0.0013
Total	\$13,223	\$9,439	\$28,398

Motor Vehicle Tax Revenue

Motor vehicles are subject to an ad valorem tax levied on their assessed value. The revenue is derived by applying the population ratio and assumes car ownership will be consistent across the annexed area. On a going-forward basis, the city should expect its revenue from this source to decrease significantly. O.C.G.A. §48-5C-1(c)(3) provides for a two-step distribution of Local Title Ad Valorem Tax Fee (“TAVT”) proceeds on a monthly basis. Over time, as annual ad valorem taxes phase out, the first step distribution will gradually increase, eventually comprising the majority of motor vehicle property taxes. Motor vehicles purchased and titled in Georgia prior to March 1, 2013 are generally subject to annual ad valorem taxes pursuant to Chapter 5 of Title 48. Vehicles purchased on or after March 1, 2013 are subject to TAVT and are exempt from annual ad valorem tax. Thus, as Georgia taxpayers purchase new motor vehicles, the annual ad valorem tax revenue collected will decrease gradually each year.⁴ We show in Table 3.3 how much revenue would be generated from the collection of motor vehicle taxes in the proposed annexation area.

Table 3.3
2017 Estimated Motor Vehicle Tax Revenue for the Study Area

	Area A	Area B	Area C
Households	1,082	667	30
Avondale Estates Rev/Household	\$59.46	\$59.46	\$59.46
Total	\$64,342	\$39,655	\$1,781

Franchise Fees

Georgia cities are permitted by law to enter into franchise agreements with utilities that provide electric service, gas service, telephone service, cable television, and other utilities

⁴ Georgia Department of Revenue Title Ad Valorem Tax Fee Local Distribution Guidance, October 30, 2013.

within their borders that generate fees for the cities in exchange for granting rights of occupancy to municipal rights-of-way. In 2017, the City of Avondale Estates collected \$205,460.83 in franchise fees on cable, natural gas, telecommunications, and electricity. Typically, revenue estimates for the first three services are relatively stable and population driven, and therefore can be calculated on a per household basis. Table 3.4 shows Avondale Estates' total and per capita franchise fee collection for cable, natural gas, and telecommunications in 2017 and Table 3.5 applies that per capita revenue to the study area.

**Table 3.4
2017 Franchise Fees for Avondale Estates**

	Avondale Estates	Households	Avondale Estates Per Capita \$
Cable	\$33,915.03	1,307	\$25.95
Natural Gas	\$27,099.83	1,307	\$20.73
Telephone	\$15,446.36	1,307	\$11.82

**Table 3.5
2017 Estimated Franchise Fees for Study Area**

	Revenue Per Capita	Area A	Area B	Area C
Households		1,082	667	30
Cable	\$25.95	\$28,077.90	\$17,308.65	\$778.50
Natural Gas	\$20.73	\$22,429.86	\$13,826.91	\$621.90
Telephone	\$11.82	\$12,789.24	\$7,883.94	\$354.60

Our estimation for the electrical use component of franchise fees accounts for the differences in energy use in the study area and Avondale Estates. The key driver of electrical use in communities is the mix of electrical users. In particular and on average, industrial users tend to use more power than commercial users, and commercial users tend to use more than residential users. The assessed values of the various areas capture this stratification. Commercial and Industrial parcels generally have a higher assessed value than residential parcels.

Table 3.6

2017 Avondale Estates AV and Electrical Franchise Fee Revenue

Revenue Source	Revenue	Assessed Value (in \$1,000s)	Rev/AV
Georgia Power Franchise Fee	\$128,999.61	\$200,960	\$0.64

Table 3.7

2017 Avondale Estates AV and Electrical Franchise Fee Revenue

	Area A	Area B	Area C
Revenue per AV	\$0.64	\$0.64	\$0.64
Res,C&I AV	\$60,729	\$77,508	\$23,461
Elec FF Rev	\$38,983.13	\$49,605	\$15,015

Insurance Premium Tax

Another source of revenue from the study area would be insurance premium taxes. These taxes are levied by city and county governments on life insurance (1 percent) and on other types of insurance (no more than 2.5 percent). The insurance premium tax is based on a percentage of gross direct premiums received by each insurer writing insurance policies within the city or county during the preceding calendar year. Taxes are collected by the Georgia Commissioner of Insurance and distributed on a per capita basis among the government levying the taxes in the county.

Although the Georgia Insurance Department has no specific provisions for adjusting shares of insurance premium taxes following annexations, legislation does require that tax distributions be adjusted to reflect official population corrections or changes made by the Bureau of the Census. The authorizing statute requires that the Georgia Commissioner of Insurance use corrected, revised, or additional data issued by the Census Bureau as of September 1 in allocating the revenues:

...[P]opulation shall be measured by the United States decennial census of 1990 or any future such census plus any corrections or revisions contained in official statements by the United States Bureau of the Census made prior to the first day of

September immediately preceding the distribution of the proceeds of such taxes by the Commissioner and any additional official census data received by the Commissioner from the United States Bureau of the Census or its successor agency pertaining to any newly incorporated municipality. Such corrections, revisions, or additional data shall be certified to the Commissioner by the Office of Planning and Budget on or before August 31 of each year [O.C.G.A. §33-8-8.1].

As noted, the insurance premium tax revenue is distributed on a per capita basis using official U.S. Census figures. It would take approximately one year for the city to begin receiving these tax revenues following the proposed annexation, to allow time for the U.S. Bureau of the Census to certify the new Avondale Estates boundary with its larger population.

The amount of insurance premium tax revenue generated by the study area would have been the same per capita amount (using 2017 population figures) in the study area as received by Avondale Estates in 2017. We determined the amount per capita by dividing the total revenues the city received for FY 2017, \$96,325.71, by the Census estimated 2017 population of Avondale Estates, 3,360. This calculation showed the tax revenue per person to be \$58.43. We multiplied this amount by the calculated 2017 population of the study area to estimate the insurance premium tax revenues that would have been received if the study area had been a part of the city in 2017. Table 3.8 shows the calculation of insurance premium tax collections for Avondale Estates and the study area.

Table 3.8
2017 Estimated Insurance Premium Taxes

	Area A	Area B	Area C
Estimated Population	2,781	1,714	77
Tax per Capita	\$58.43	\$58.43	\$58.43
Revenue	\$162,493.83	\$100,149.02	\$4,499.11

Intangible Recording Taxes and Real Estate Transfer Taxes

Every holder (lender) of a long-term note secured by real estate must record the security instrument in the county in which the real estate is located within 90 days from the date of the instrument executed to secure the note. Before recording the security instrument with

the clerk of the superior court, the security instrument must be presented to the collecting officer of the county in which the real estate is located. The collecting officer collects the intangible recording tax due from the holder of the security instrument. The tax for recording the note is at the rate of \$1.50 for each \$500.00 or fractional part of the face amount of the note. The maximum amount of recording tax on any single note is \$25,000.⁵

The real estate transfer tax is an excise tax on transactions involving the sale of real property where title to the property is transferred from the seller to the buyer. Before a deed, security instrument, or other writing can be recorded in the office of the clerk of the superior court, the real estate transfer tax must be paid. The real estate transfer tax is based upon the property's sale price at the rate of \$1 for the first \$1,000 or fractional part of \$1,000 and at the rate of 10 cents for each additional \$100 or fractional part of \$100.⁶

Estimated intangible taxes in the annexation area are based on the revenue generated per 40% assessed value of all commercial, industrial, and residential property in Avondale Estates. The real estate transfer tax uses just residential property values as an estimation basis because this class of property is most frequently sold.

Table 3.9
2017 Avondale Estates AV and Property Tax Revenue

Revenue Source	Revenue	Assessed Value (in \$1,000s)	Rev/AV
Intangible Recording	\$50,496.94	\$200,960	\$0.25
Real Estate Transfer	\$15,975.60	\$200,960	\$0.08

Table 3.10
2017 Estimated Intangible Recording Tax

	Area A	Area B	Area C
Revenue per AV	\$0.25	\$0.25	\$0.25
Res,C&I AV	\$60,729	\$77,508	\$23,461
Intangible Rec Rev	\$15,259.96	\$19,476.23	\$5,895.27

Table 3.11
2017 Estimated Real Estate Transfer Tax

	Area A	Area B	Area C
Revenue per AV	\$0.08	\$0.08	\$0.08
Res,C&I AV	\$60,729	\$77,508	\$23,461
Real Estate Trans Rev	\$4,827.76	\$6,161.65	\$1,865.07

⁵ <http://dor.georgia.gov/intangible-recording-tax>

⁶ <https://dor.georgia.gov/real-estate-transfer-tax>

Occupation Taxes

We estimated the occupational taxes by first calculating the revenue per assessed value of commercial property in Avondale Estates in 2017. We then applied this revenue per assessed value to the assessed value of commercial property in the study areas.

Table 3.12
2017 Avondale Estates AV and Occupation Tax Revenue

Revenue Source	Revenue	Assessed Value of Commercial	Rev/AV
Occupation Tax	\$121,087.73	\$13,457,816	\$0.01

Table 3.13
2017 Estimated Occupation Tax

	Area A	Area B	Area C
Revenue per AV	\$0.01	\$0.01	\$0.01
Commercial AV	\$10,127,855	\$7,229,892	\$2,372,375
Occupation Tax	\$91,126.15	\$65,051.51	\$21,345.63

Permit Authorizations

We estimated the permit authorizations by first calculating the permit per assessed value of residential, commercial and industrial property in Avondale Estates. Avondale Estates collected \$305,613.97 for permit authorizations in 2017. The 40% Assessed Value of residential, commercial and industrial property in Avondale Estates was \$200,959,643. This yielded a revenue per assessed value of \$1.52. We used this amount and applied it to the 40% assessed values of each study area to calculate the estimated revenue.

Table 3.14
2017 Estimated Permit Authorization Revenue

	Area A	Area B	Area C
Revenue per AV	\$1.52	\$1.52	\$1.52
Res,C&I AV	\$60,729	\$77,508	\$23,461
Permit Authorization Rev	\$92,308.30	\$117,812.74	\$35,660.79

Traffic Court Receipts and Probation Services

The City of Avondale Estates collects traffic court receipts and revenue from probation services. In 2017, this amounted to \$218,752.20 for traffic and \$229,039.40 for probation. The road mileage in Avondale Estates is 15.65 centerline miles, therefore the revenue per mile for traffic court was \$13,977.78 and the revenue per mile for probation was \$14,635.11. We applied these amounts to the mileage for each study area.

Table 3.15
2017 Estimated Traffic Court Receipts

	Area A	Area B	Area C
Revenue per mile	\$13,977.78	\$13,977.78	\$13,977.78
Study Area Miles	5.11	6.19	2.81
Traffic Court Revenue	\$71,426.44	\$86,522.44	\$39,277.55

Table 3.16
2017 Estimated Probation Revenue

	Area A	Area B	Area C
Revenue per mile	\$14,635.11	\$14,635.11	\$14,635.11
Study Area Miles	5.11	6.19	2.81
Probation Revenue	\$74,785.39	\$90,591.30	\$41,124.65

Interest and Miscellaneous

With any proposed annexation, the city’s financial resources will increase in that the city will have more cash coming into the organization. We expect that Avondale Estates would seek to maintain the same proportion of fund balance to operating expenses after the annexation as it currently maintains, thereby resulting in a proportional increase in investment revenue. Therefore, we calculate estimated interest as a percent of all general fund revenues, which for 2017 was .11%. Because of the diverse nature of miscellaneous revenues, we use a per capita basis to calculate it. Tables 3.17 and 3.18 apply the revenue ratios from Avondale Estates to the study areas.

Table 3.17
2017 Estimated Interest Revenue

	Area A	Area B	Area C
% of GF Revenue	0.11%	0.11%	0.11%
Study Area GF Rev	\$1,769,626	\$1,649,385	\$595,632
Interest Revenue	\$2,005.68	\$1,869.40	\$675.08

Table 3.18
2017 Estimated Miscellaneous Revenue

	Area A	Area B	Area C
Per capita Revenue	\$3.30	\$3.30	\$3.30
Study area population	2,781	1,714	77
Real Estate Trans Rev	\$9,177.30	\$5,656.20	\$254.10

HOST/Energy Excise Revenue

The Homestead Option Sales tax will no longer be collected. It has been replaced with the EHOST and a SPLOST. The EHOST will provide savings to the citizens of Avondale Estates by rolling back the property tax they owe. This will benefit the citizens but will not generate revenue for Avondale Estates. Revenue will be generated through the one penny SPLOST. The proceeds of this sales tax will be shared among the County and the Cities in DeKalb on a proportional basis according to population. The estimated amount of SPLOST Avondale Estates may receive as a result of the annexation is shown in Table 3.19.

Table 3.19
2017 Estimated SPLOST Revenue

	Area A	Area B	Area C
Per capita Revenue	\$149.93	\$149.93	\$149.93
Study area population	2,781	1,714	77
Real Estate Trans Rev	\$416,942.82	\$256,972.31	\$11,544.26

Public Works Revenue

General purpose local governments in Georgia annually receive a road improvement grant from the Georgia Department of Transportation (GDOT), referred to as the LMIG. The grant's distribution is based on a local government's population and road miles. With annexation, both of these factors would increase for the City of Avondale Estates and concomitantly its LMIG award. The state population used by GDOT is 10,429,379. The total local government road miles are 108,417, and the state appropriation was \$172,050,000. The specific formula is as follows:

- 1) LMIG Formula Factor = (local government population/state total population) x 1/3 + (local government road miles/ total local government road miles) x 2/3
- 2) LMIG Factor x State Allocation = Local Govt. Grant

Table 3.20
2017 Estimated LMIG Revenue

	Area A	Area B	Area C
Study area road miles	5.11	6.19	2.81
Study area population	2,781	1,714	77
LMIG Revenue	\$20,699	\$15,974	\$3,396

Other

The City of Avondale Estates has several other revenues which will increase with an annexation. These include sign permits, other permits, rezoning and variance fees, charges for other services, and insurance reimbursement. The expected revenues for the study areas were calculated on a per capita basis. The chart below shows the additional revenue expected to be generated in each study area.

Table 3.22
2017 Estimated Other Revenue

	Area A	Area B	Area C
Per capita Revenue	\$5.02	\$5.02	\$5.02
Study area population	2,781	1,714	77
Other Rev	\$13,974.48	\$8,612.82	\$386.92

Summary of Revenues

In the following table we present the estimated revenues that would have been collected from the study area if they had been in Avondale Estates in FY 2017.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C
Property Tax	\$1,909,313.38	\$576,988	\$736,407	\$222,903
Personal property tax	\$24,650.24	\$13,223	\$9,439	\$28,398
Motor Vehicle Tax	\$77,717.02	\$64,342	\$39,655	\$1,781
Franchise - Atlanta Gas Light	\$27,099.83	\$22,432	\$13,825	\$621
Franchise Georgia Power	\$128,999.61	\$69,199	\$49,398	\$148,613
Franchise - telephone	\$15,446.36	\$12,790	\$7,883	\$354
Franchise - cable	\$33,915.03	\$28,081	\$17,307	\$777
Insurance Premiums	\$196,325.71	\$162,494	\$100,149	\$4,499
Beer & Wine, Consumption Taxes	\$27,120.48	\$4,520	\$0	\$18,080
Intangible Record	\$50,496.94	\$15,182	\$19,377	\$5,865
Occupation Tax +OT interest, penalties	\$121,087.73	\$91,126	\$65,052	\$21,346
Alcoholic Bev License	\$39,584.05	\$2,474	\$0	\$9,896
Permit Authorizations	\$305,613.97	\$92,308	\$117,813	\$35,661
Sign Permits	\$710.00	\$584	\$360	\$16
Other permits	\$12,980.00	\$10,735	\$6,616	\$297
Traffic Court receipts	\$218,752.20	\$71,426	\$86,522	\$39,278
Probation Services	\$229,039.40	\$74,785	\$90,591	\$41,125
Rezoning and Variance	\$600.00	\$501	\$309	\$14
Charges for other services	\$1,112.16	\$918	\$566	\$25
Interest earnings	\$4,720.31	\$2,003	\$1,867	\$674
Other misc reve	\$11,072.25	\$9,177	\$5,656	\$254
Insurance reimbursement	\$2,593.95	\$2,141	\$1,320	\$59
Real Estate Transfer	\$15,975.60	\$4,554	\$6,325	\$154
Homestead Option Sales Tax*	\$547,153.96	\$416,943	\$256,972	\$11,544
GA DOT LMIG	\$33,823.68	\$20,699	\$15,974	\$3,396
Total General Fund	\$4,164,767.59	\$1,769,625	\$1,649,383	\$595,630

Chapter 4: Expenditures in the Study Area

In this section, we address the question of how much the City of Avondale Estates would have spent in FY 2017 to extend services to the annexation study area. To estimate these expenditures, we utilized two methods. The first method uses departmental-specific per unit measures, and the second method involves a case study calculation. Methodology 1 does not consider any transitional or new capital costs that may be necessary due to the annexation. However, the case study methodology does include any needed capital.

Method 1: Departmental Per Unit Estimates

Based on interviews with the department directors, we developed per unit measures that best fit the services that each department provides. In other words, we examined the primary cost driver in each department and developed a per unit measure to estimate costs for the annexation area. However, we excluded spending for Recreation and Board of Mayors and Commissioners. This analysis includes some expense for Parks to account for the additional tree removal which will be required in the annexed area. Table 4.1 provides the unit measure and unit cost for each department.

Table 4.1

	Avondale Estates Expenditures	Unit of Measurement	Unit Value	Expenditure/ Unit
Professional Consul.	\$144,223	population	3360	\$42.92
General Govt Administration	\$364,366 \$818,796	population pct of budget	3360 16.90%	\$108.44 \$138,376.53
Public Safety	\$1,188,075	per parcel	3411	\$348.31
Municipal Court	\$90,713	days of court per lane mile	1.53	\$3,779.72
Sanitation	\$691,626	per parcel served	3411	\$202.76
Public Works	\$820,607	lane miles	15.65	\$52,434.97
Parks	\$338,835	lane miles	15.65	\$21,650.79
Other Financing Uses	\$304,940	population	3360	\$90.76

Professional Consultants

The need for professional consultants will increase as a result of the increase in population and in size of Avondale Estates with the concomitant increase in such things as reviews by the Architectural Review Board.

Governing and Support Services

Because of their support functions, we assume some growth in the General Government and Administration Departments as a result of any annexation scenario. This includes expenses associated with Building Inspections. Avondale Estates contracts this service out and shares a 60/40 split of Inspection fees received with the contractor.

Public Safety

Avondale Estates has its own Police Department with a full time patrol force of 13 officers. Under Method 1, we estimate the expected increase in expenses using the number of parcels in the annexation area.

Municipal Court

In our expenditure analysis, expenditures are based on the number of court days per year per lane mile. To account for additional cases that will inevitably occur, the court days per lane mile for each additional area was calculated.

Sanitation

The DeKalb County Tax Assessor's office collects sanitation taxes from the parcels in Avondale Estates. According to the Tax Assessor's Office, the study areas will have an additional 701, 771, and 159 parcels, respectively, and the study assumes they will all need Sanitation from Avondale Estates.

Public Works Administration

The Institute of Government's Information Technology Outreach Services Division (ITOS) measured the centerline miles of road in each of the annexation areas. Area A has 5.11 miles, Area B has 6.19 miles, and Area C includes 2.81 miles. Road mileage for Avondale Estates comes from the Georgia Department of Transportation (GDOT) as used in their LMIG formula. Based on GDOT data, the city has 15.65 centerline miles of road.

Parks

There will be no additional parks added under the annexation; however, Avondale Estates will be responsible for additional tree removal. This expense is included in the Parks department, and therefore it is shown under this methodology.

Summary Unit Expenditures

Table 4.2 applies the per unit expenditures from Avondale Estates to the Study Areas.

	Area A	Area B	Area C
Professional Consul.	\$119,370	\$73,571	\$3,305
General Govt	\$301,578	\$185,870	\$8,350
Administration	\$248,065	\$225,504	\$55,894
Public Safety	\$244,165	\$268,547	\$55,381
Municipal Court	\$29,619	\$35,880	\$16,288
Sanitation	\$142,135	\$156,328	\$32,239
Public Works	\$267,943	\$324,572	\$147,342
Parks	\$110,636	\$134,018	\$60,839
Other Financing Uses	\$252,392	\$155,556	\$6,988
Total	\$1,715,903	\$1,559,846	\$386,626

The underlying assumptions of this methodology are that 1) the city and the study areas are similar and that 2) the City of Avondale Estates does not have sufficient excess capacity in regards to building space to meet the service demands of annexation, and, additionally, excess capacity is unlikely when it comes to equipment. Therefore, the city will need to increase some of its capital outlays as part of the annexation.

Method 2: Case Study

The case study methodology requires interviews with the city's staff which are combined with other cost projections to create an overall estimate of fiscal impact. We interviewed Avondale Estates department heads to discuss the types of costs their programs would incur if they were to provide the same levels of service in the total annexation area as they currently do for Avondale Estates residents and businesses. From these interviews, we were able to determine the increases, if any, that would be needed to serve the study areas if they were a part of the city in FY 2017. This information was combined with data obtained from the city's 2017 end-of-year fiscal operating report and the DeKalb County Tax Digest to determine the expenditures that would be needed if the city annexed the study area. We generally follow the philosophy that those within an organization and managing programs are in the best position to estimate future demand. Furthermore, our goal is to create realistic cost estimates for providing services in the study area, and therefore we rely on Avondale Estates' current or recently incurred expenses.

Based on conversations with the City Manager and department directors, it appears that the city would not have to significantly change how it operates under the annexation. Of course, additional staff and equipment will be needed. However, the facilities in the city have reached their space limitations, and therefore the annexation would require capital facilities investment.

BOMC (Board of Mayor and Commissioners)

All members of the governing body serve on a volunteer basis, therefore there would be no additional expense for an expanded council. The DeKalb County Board of Elections and Registration negotiates the cost of elections with the city using a base amount plus additional costs due to extended voting hours and days. There is no anticipated increase in the elections expense as a result of annexation.

Professional Consultants

The need for professional consultants will increase as a result of the increase in population and in size of Avondale Estates with the concomitant increase in such things as reviews by the Architectural Review Board.

General Government

The General Government category includes many expenses which are not a function of the size of the city and which will not increase under the annexation. Costs which are variable include expenses for Public Hearings, Building Plan Review and Inspections (which are contracted out at a 60/40 split), printing and binding, GIS software, and postage. Building Plan Review and Inspection expenses are based on the assessed value of the properties in the annexation area. Postage and printing and binding are calculated based on number of households.

Administration Department

The Administration Department budget includes the salaries and benefits for the City Manager and Finance Director as well as clerical support staff. This budget also includes expenses for the buildings housing this department and repairs and maintenance to the building as well as utilities such as water/sewer, gas, and electricity. Other expenses associated with Administration such as general supplies and dues and fees also comprise a part of this budget. Under the annexation, the city will need to hire an additional budget analyst and a part-time administrator to handle permitting. These positions will require equipment, such as computer and telephone, as well as additional office space. The expenses for the total additional office space needed in Avondale Estates is found in the Capital Outlay category.

Public Safety

The Police Chief of Avondale Estates, Lynn Thomas, estimated that Avondale Estates would need six additional officers to adequately cover the annexation area, comprised of two night uniform patrol officers, three day uniform patrol officers, and one additional criminal investigator. In addition, the city would need a civilian administrative assistant. Expenses associated with hiring new officers include salary, benefits, uniforms, travel and training, gasoline, small equipment, and computers, repairs and maintenance and communications. The city would also require three additional police cruisers, with those funds appearing in the Capital Outlay category.

Municipal Court

The City of Avondale Estates holds municipal court three days a month for violations of the city's municipal ordinances and traffic violations. Court Clerk Marcella Shaw believes this

will increase to five days a month as a result of annexing the combined potential parcels. This will lead to needing an additional court clerk, as well as extra expenses for the Solicitor and the Public Defender who handle court. Additional expenses include increased printing and binding, as well as computer and software for the new clerk.

Sanitation

As a result of the annexation, the Director of Public Works, Bryan Armstead, who is also responsible for running the Sanitation Department, estimates he would need 3 additional entry-level employees as well as an additional driver. The city will also need a new garbage truck, pick-up truck, and leaf vacuum. Other expenses which will increase upon annexation are gasoline, landfill expense, recycling disposal, repairs and maintenance to the vehicles and equipment, insurance, and general supplies. The city's landfill and recycling expenses are based on the number of parcels. The gasoline expense is based on additional mileage as are the repair and maintenance costs. Insurance expense is based on the policy as written. General supplies include extra trash cans, rakes, and brooms.

Public Works

The Avondale Estates Public Works Department oversees Sanitation, Parks and Recreation, as well as Roadways and Walkways. The additional Sanitation expenses are handled elsewhere in the report. The Code Enforcement Officer is also housed in this Department. Under the annexation, there would be a need for an additional Code Enforcement officer. This includes salary, benefits, uniforms, travel and training, dues and fees, gasoline, and repairs and maintenance. The additional vehicle needed for the Code Enforcement officer is found in Capital Outlays.

Other expenses in the Public Works Department that will increase are the costs associated with street lights and traffic engineering. The additional number of streetlights was estimated based on the additional road mileage the annexation would be receiving. Similarly, the additional expense for traffic engineering was calculated on a per mile basis.

Street and Rights-of-Way Maintenance

We estimate the additional costs of road repair based on the additional mileage that would be acquired.

Parks

There will be no additional parks added under the annexation, however, Avondale Estates will be responsible for additional tree removal. Avondale Estates plans to add three additional employees in this department as a result of the annexation.

Other Financing Uses

This is where the capital outlay expenditures for the additional police vehicles, code enforcement vehicle, garbage truck, pick-up truck, leaf vacuum and office space are found. Vehicles are amortized over five years.

The table below summarizes all the estimated operational expenditures using the Case Study Method.

Table 4.3

Total Annexation Areas	
Professional Consul.	\$36,218
General Govt Administration	\$146,685
Public Safety	\$89,271
Municipal Court	\$454,478
Sanitation	\$62,486
Public Works	\$386,841
Parks	\$599,766
Other Financing Uses	\$158,613
Total	\$2,048,521

Please note that we excluded storm water expenditures from this study because they are within an enterprise fund, which according to best governmental accounting practices, should be self-funded. To adhere to this accounting standard, the storm water fund should reimburse the general fund fully for any storm water expenses incurred. For example, if public works employees spend time on storm water projects, the storm water fund would reimburse the general fund for the workers' time.

Summary of Expenditure Methods: 1 & 2

The table below summarizes the expenditure estimates for the two methodologies: department-specific unit measures (aggregated), and the case study method.

Table 4.4

	Department-Specific	Case Study
Professional Consul.	\$196,246	\$36,218
General Govt Administration	\$495,798	\$146,685
Public Safety	\$529,463	\$89,271
Municipal Court	\$568,094	\$454,478
Sanitation	\$81,787	\$62,486
Public Works	\$330,702	\$386,841
Parks	\$739,857	\$599,766
Other Financing Uses	\$305,493	\$158,613
Total	\$3,662,376	\$2,048,521

Chapter 5: Comparing Revenues and Expenditures from Annexation of the Study Area

In the preceding sections, we estimated the revenues that would have been collected from the study area if it had been in the City of Avondale Estates in FY 2017 and also estimated the expenditures that would have been needed to provide services to that area. A comparison of the estimated revenues and expenditures is presented below for the study area.

	Avondale Estates	Annexation Area A	Annexation Area B	Annexation Area C	Combined Annexation Areas	Avondale + Annexation Areas
Revenue	\$4,723,655	\$1,884,484	\$1,775,712	\$621,684	\$4,281,880	\$9,005,535
Expenses	<u>\$4,831,819</u>	<u>\$1,715,903</u>	<u>\$1,559,846</u>	<u>\$386,626</u>	<u>\$3,662,376</u>	<u>\$8,494,194</u>
Difference	(\$108,164)	\$168,581	\$215,866	\$235,057	\$619,504	\$511,340

	Avondale Estates	Annexation Areas	Avondale + Annexation Areas
Revenue	\$4,723,655	\$4,281,880	\$9,005,535
Expenses	<u>\$4,831,819</u>	<u>\$2,048,521</u>	<u>\$6,880,340</u>
Difference	(\$108,164)	\$2,233,359	\$2,125,195

Some factors to keep in mind in analyzing the estimated revenues and expenditures following annexation are as follows:

Factors which would make expenditures higher than revenues:

- If the study area has relatively less commercial and industrial property compared to Avondale Estates on percentage of total assessed value basis.
- If the city has little excess capacity in terms of personnel and equipment to accommodate any significant growth from annexation (which is the case here).

On the other hand, some factors which favor a positive balance between revenues and expenditures are:

- If the municipal services that Avondale Estates provides do not require major investments in infrastructure in order to serve a larger area (i.e., they do not need to add buildings or extend sewer or water lines).
- If proportionally to residential properties and population the study area has a substantial number of commercial and industrial properties.

Comparing the net revenues between the methodologies reveals some interesting findings and demonstrates the importance of the basis from which to calculate expenditures. As we have discussed earlier in the report, we believe the use of the case study methodology (i.e., Method 2) provides a good measure for planning what the revenues and expenditures will likely be.

Chapter 6: Impact on DeKalb County

With the incorporation of the study area, we anticipate some fiscal impact on DeKalb County. Due to our focus on the City of Avondale Estates, we did not develop cost estimates on the impact the annexation may have on the DeKalb County government. We can, however, mention several factors that influence whether the impact will be positive or negative.

First, it is important to remember that countywide services and bond payments will not be affected by the annexation. As residents of the county, property owners in the annexation area would continue to pay for countywide services regardless of whether they are within the City of Avondale Estates.

Secondly, Avondale Estates does not provide fire service, so city residents and business owners would continue to rely on DeKalb County's fire protection service, paying for it through countywide property taxes after the annexation.

The county would incur revenue losses in insurance premiums, cable franchise fees, fines and forfeitures, occupational taxes, and minor revenues associated with regulatory fees, but these losses would be fairly small in relation to the entire DeKalb County budget.