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Buckhead De-Annexation Fiscal Analysis

Executive Summary

This report assesses the fiscal impacts of the Buckhead area of the City of Atlanta de-annexing (leaving) the City of Atlanta, from the City of Atlanta and the Atlanta Public School (APS) perspectives. The analysis finds that the City of Atlanta would lose approximately \$252 million in recurring revenues from the Buckhead area derived mainly from property taxes, sales taxes, lodging taxes, and business license fees. However, this study also finds that the City of Atlanta would enjoy cost savings of between \$136 million and \$178 million by not having to provide various services such as public works and general government to the Buckhead area.

Despite the cost savings, the City of Atlanta would be financially worse off if the Buckhead area de-annexes, with net fiscal losses to the City of Atlanta ranging from an estimated \$80 million to \$116 million annually.

From the APS perspective, the district stands to lose approximately \$332 million in recurring revenues from the Buckhead area, saving only \$98 million in student service costs. Similar to the outcome for the city, the school district coffers would be substantially depleted due to Buckhead de-annexation, with an estimated \$232 million annual loss to the district budget.

In addition to the quantitative estimates, this analysis considered qualitative aspects of the possibility of the Buckhead region de-annexing from the City of Atlanta. Issues regarding service of current debt and future debt, economic development disunity, and reduced community services are all likely to be significant difficulties for both the City of Atlanta and the Buckhead area if a de-annexation should move forward. Overall, if the Buckhead area of the City of Atlanta de-annexed from the city, both entities, as well as APS, would stand to lose financially, economically, and socially.



Introduction

This report assesses of the potential fiscal impacts of the area known as Buckhead de-annexing from (leaving) the City of Atlanta, Georgia. The analysis estimates revenue losses to the city government and Atlanta Public Schools (APS), potential cost savings as municipal and school service obligations decline, and the corresponding overall net fiscal impact of the possible de-annexation. Additionally, the report provides a qualitative assessment of other issues important to consider in order to fully understand the consequences of Buckhead de-annexation.

The analysis detailed herein was conducted by KB Advisory Group, in conjunction with key staff members at George Mason University's Center for Regional Analysis who participated as consultants to this study.

KB Advisory Group, formerly Bleakly Advisory Group, is an Atlanta-based consulting firm founded in 2001. KB provides real estate and economic development consulting services to cities, counties, developers, community improvement districts, nonprofits, and design firms throughout the Southeast. These services typically focus on the overlap of three drivers that shape the built environment: land and buildings, public policy, and money and finance.

The analysis herein relies on readily available public revenue and expense data related to the Buckhead area for the City of Atlanta, and uses widely accepted approaches to assess fiscal impact, based on proportionality of local population and employment. This analysis does not reflect a detailed operational impact assessment and cannot be considered an "investment-grade" analysis. However, the data, analysis, and conclusions can provide city leaders and planners important information on the potential impacts of losing a culturally and economically important area of Atlanta.

This report first examines the magnitude of revenue losses to the City of Atlanta if the Buckhead area were to de-annex from the rest of the city. We then estimate operating cost savings as municipal services in the Buckhead area shift from Atlanta's responsibility. Comparing operating savings to revenue losses offers an estimate of the net annual fiscal impact of the proposed de-annexation on the City of Atlanta and APS. In addition to this empirical analysis, the report offers a qualitative assessment of other important impacts for which there are no immediately available data, including topics like the sharing of debt service burdens for in-place infrastructure, the potential impacts on city bond ratings, potential impacts on economic development, and other issues that will likely arise if the Buckhead area leaves the City of Atlanta. The report ends with several conclusions based on the presented analyses.

Area of Study

For this analysis Buckhead is defined as the northern portion of the City of Atlanta, generally north of the I-75/I-85 split (Figure 1). The Buckhead area accounts for approximately 18% of the total land area of the City of Atlanta and about 20% of the City's population, according to data gathered and analyzed by KB Advisory Group.

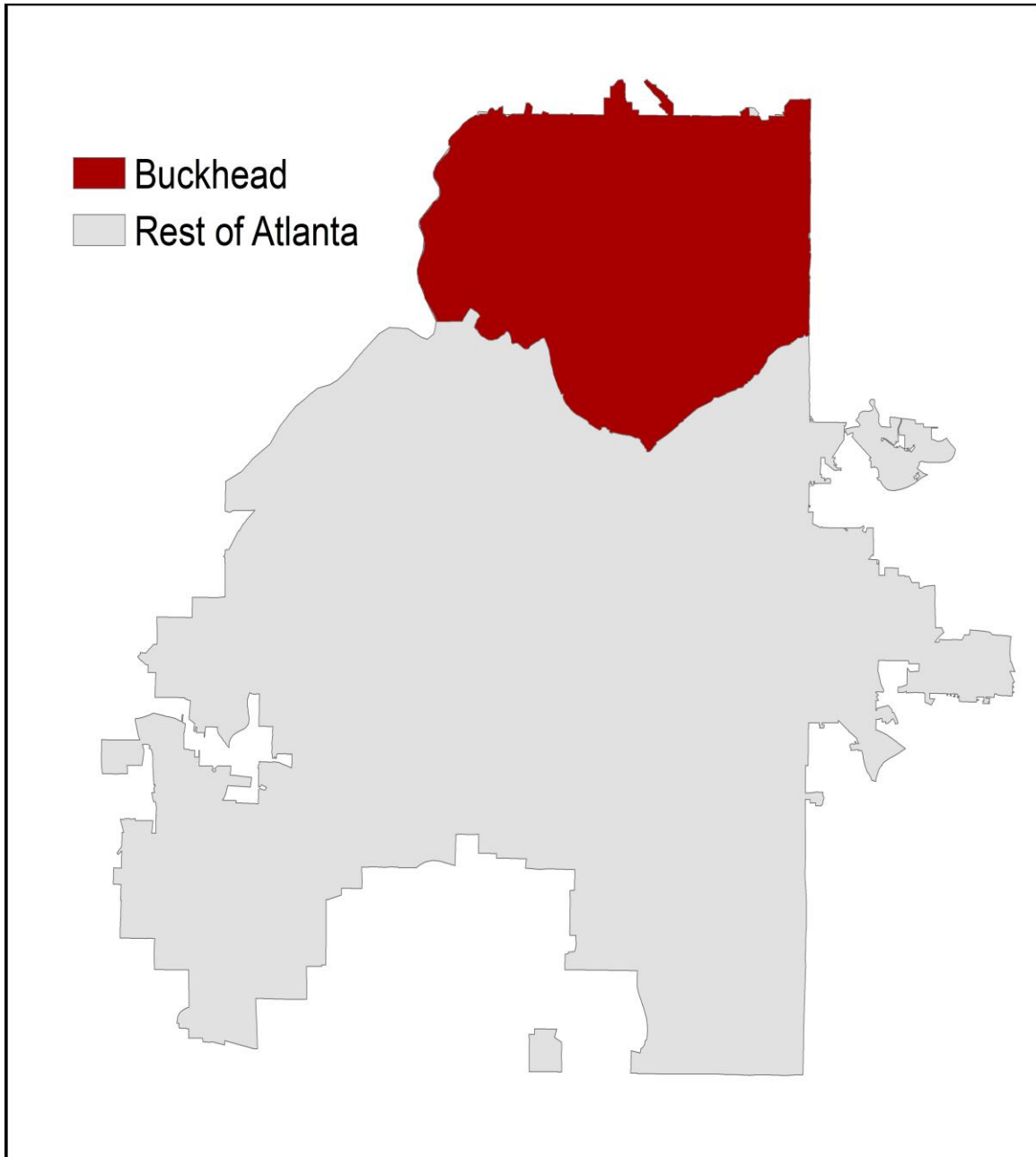


Figure 1

Municipal Revenue Analysis

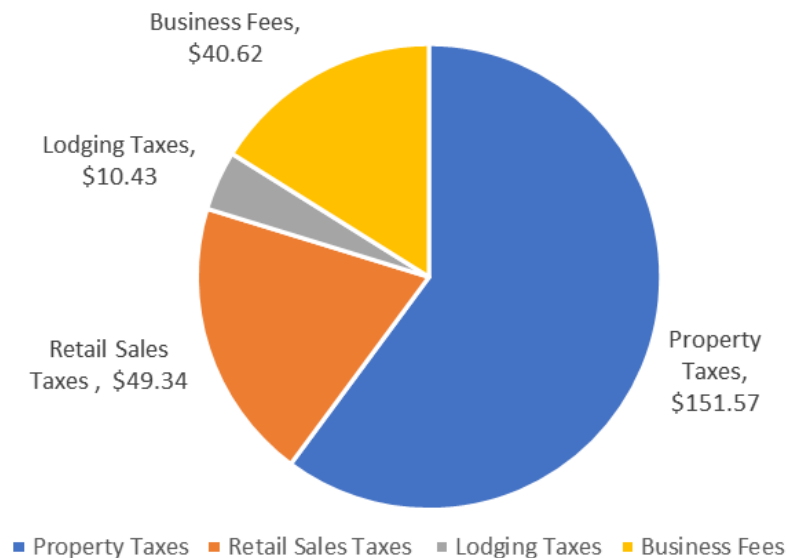
Atlanta receives revenue from the Buckhead area from four main sources: property taxes, retail sales taxes, lodging taxes, and business license taxes. Property taxes derived from the Buckhead area are estimated using the assessed taxable real estate values and millage rates. Retail sales taxes are estimated using total retail sales in the Buckhead area. Lodging taxes are estimated by applying tax rates to room nights for lodging in the Buckhead area. Finally, business license taxes are estimated by applying the appropriate tax rate and fees to the number of businesses, number of employees, and sales within the study area. Given that the pandemic disrupted lodging and retail sales dramatically, this analysis relies on 2019 revenue estimates for some components of the analysis. Our assessment does not include other revenue sources such as fees for permits and licenses issued to households, fines (speeding tickets, etc.), and other relatively minor sources of revenue for the city.

Table 1 summarizes total city revenues by source generated from the Buckhead area. As shown, approximately \$152 million, or 60%, of Atlanta's revenues that are derived from Buckhead come from property tax collections. In total the city collects just under \$251 million annually in recurring revenues from Buckhead. This represents 38% of the City of Atlanta's 2019 local revenues, which total \$667 million.

Table 1. Revenue Estimates (millions)

Revenue Source	City of Atlanta Revenue from the Buckhead Area
Property Taxes	\$ 151.57
Sales Taxes from Retail Spending	\$ 49.34
Lodging Tax	\$ 10.43
Business License Fees	\$ 40.62
Total Recurring Revenues	\$ 251.96
<i>Sources: City of Atlanta, KB Advisory Group</i>	

Figure 2: City of Atlanta Revenue Distribution (millions)



Municipal Cost Analysis

This analysis estimates the cost of the City of Atlanta providing municipal services to the Buckhead area using two different estimation methods, based on Atlanta's 2020 Comprehensive Annual Financial Report (CAFR). Interviews of city officials revealed that the actual municipal spending did not vary dramatically as a result of COVID-related impacts; therefore, spending in 2020 is a reasonable approximation of city spending on the Buckhead area in the coming years. The total budgeted costs are adjusted to account for only the locally funded share in both the methodologies described below. The locally funded share is determined as the share of total expenses that are accounted for by property taxes, sales taxes, local option sales taxes, etc. This step ensures that only the expenses reliant on general revenue funds are estimated and do not include for-purpose, targeted tax levies.

- Estimation 1: Weighted Share** – The weighted share method of service costs for the Buckhead area weights total expenses according to its share of business activity, residential population, and property valuation in the Buckhead area. Each expense category is first disaggregated by the approximate shares allocated to businesses, the residential population, or property valuation for the entire city. These disaggregated shares are then weighted by the portion of each value category that occurs in the Buckhead area. When added together, the sum provides an estimate of the total cost of providing city services to the Buckhead area.
- Estimation 2: Average Costing** – The average costing method used here estimates the costs of city services on a per unit basis for each of the major expense categories.



General government costs to provide services to the Buckhead area are estimated using an average of the share of jobs and population in the Buckhead area. Police and Fire service costs are estimated by removing the police zone and fire battalion, which broadly coincide with the Buckhead area. Corrections costs are estimated using the share of serious crimes that occurs in the Buckhead area. Public Utilities are estimated using the share of local road miles that are within the Buckhead study area, which does not include state roads and highways. The cost to service parks is estimated as the share of park acreage that is within the Buckhead area. Finally, the cost to service debt is estimated as the percent of assessed property value that is located in the Buckhead area. The analysis also used the proportionate share of total household income in the Buckhead area compared to all the City of Atlanta in assigning debt service costs. This alternative method offered nearly identical results to using the share of assessed property value.

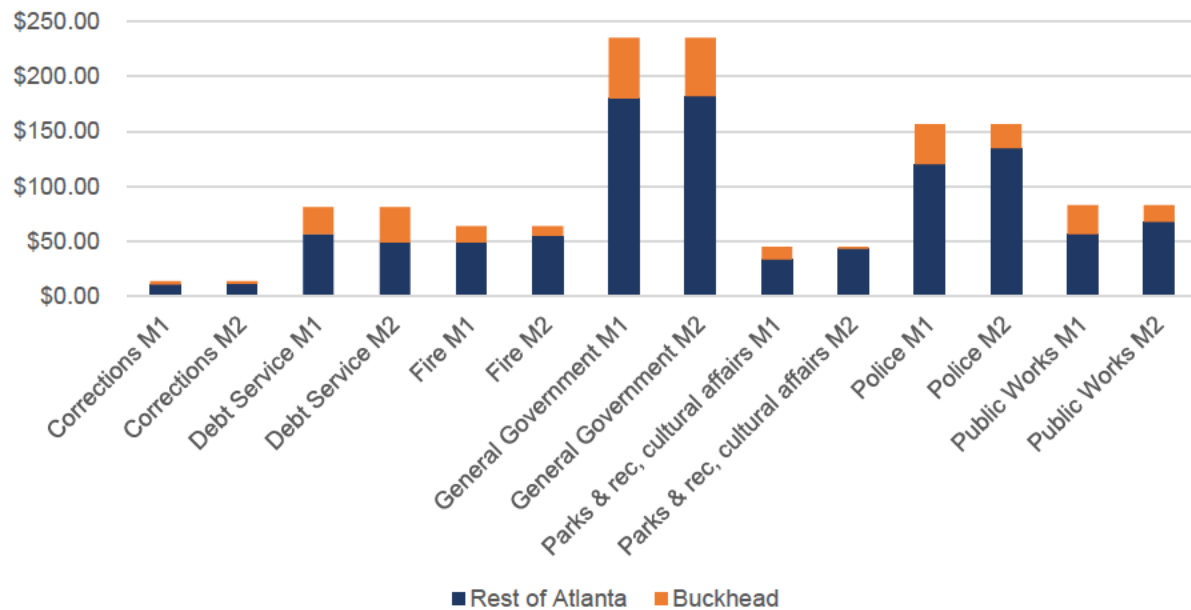
In sum, the amount that the City of Atlanta spends on the Buckhead area is estimated using two notably different techniques. Despite the differing methods, the estimates are broadly similar. The results of the two analyses provide a range of estimated costs to the Buckhead service area of \$135.7 million and \$171.7 million annually.

The expenditure categories that vary the most between the two methods are Police, Fire, Parks and Rec., and Debt Service, as shown below in Table 2.

Table 2. Expense Estimates for Major Expense Categories

Expense Categories	City of Atlanta Total (Millions \$)		Cost to Service Buckhead Area (Millions \$)	
	Budgeted Cost	Locally Funded Share of Costs	Estimation Method 1	Estimation Method 2
General Government	\$ 355.6	\$ 235.2	\$ 55.0	\$ 52.9
Police	\$ 237.2	\$ 156.9	\$ 36.7	\$ 22.4
Fire	\$ 96.4	\$ 63.8	\$ 14.9	\$ 9.1
Corrections	\$ 20.4	\$ 13.5	\$ 3.2	\$ 2.6
Public Works	\$ 124.8	\$ 82.6	\$ 26.0	\$ 15.1
Parks, Rec, Cultural Affairs	\$ 67.6	\$ 44.7	\$ 11.3	\$ 1.5
Debt Service	\$ 122.4	\$ 81.0	\$ 24.6	\$ 32.1
Total City of Atlanta	\$ 1,024.5	\$ 677.6	\$ 171.7	\$ 135.7
<i>Sources: City of Atlanta, KB Advisory Group</i>				

Figure 3. Allocated Costs: Methods 1 & 2 (millions \$)



Net Fiscal Impacts: City of Atlanta

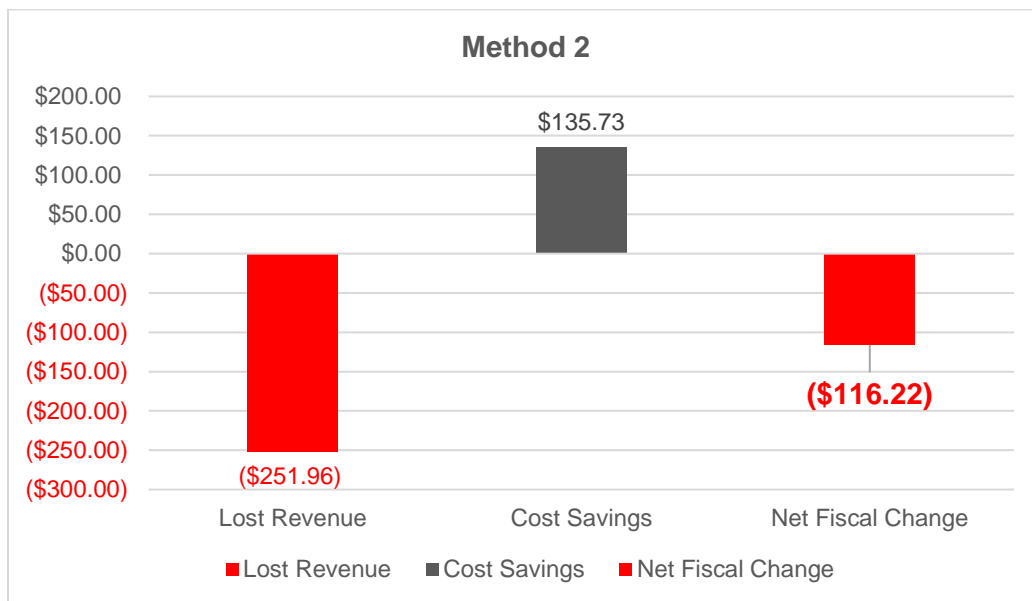
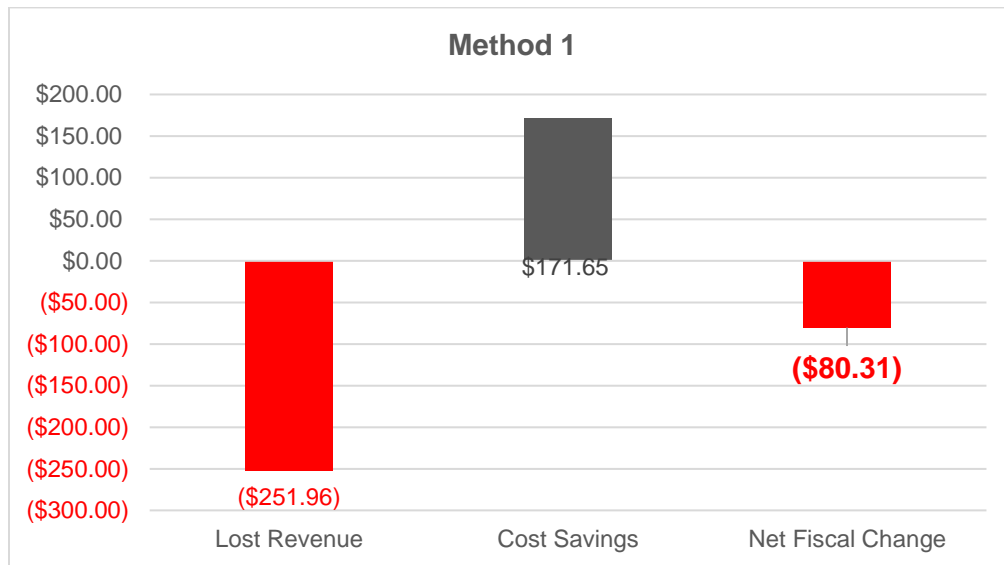
The total fiscal impacts to the City of Atlanta are calculated using both cost savings estimations. Using either cost saving method, the City of Atlanta will have a net fiscal loss if the Buckhead area completes a de-annexation. Depending on actual cost savings, we estimated that total annual net losses will range from \$80.3 million to \$116.2 million (Table 3). To put these losses into perspective, these net losses represent between 11.9% and 17.2% of the \$673.4 million budgeted general funds in 2020.

Narrowing this range of potential losses will require detailed assessments of potential cost savings by city division and department and would be impacted by the outcome of de-annexation negotiations.

Table 3. Net Fiscal Impacts

	Estimation Method 1	Estimation Method 2
Lost Revenue	\$ (251.96)	\$ (251.96)
Cost Savings	\$ 171.65	\$ 135.73
Net Fiscal Change	\$ (80.31)	\$ (116.22)
<i>Sources: City of Atlanta, KB Advisory Group</i>		

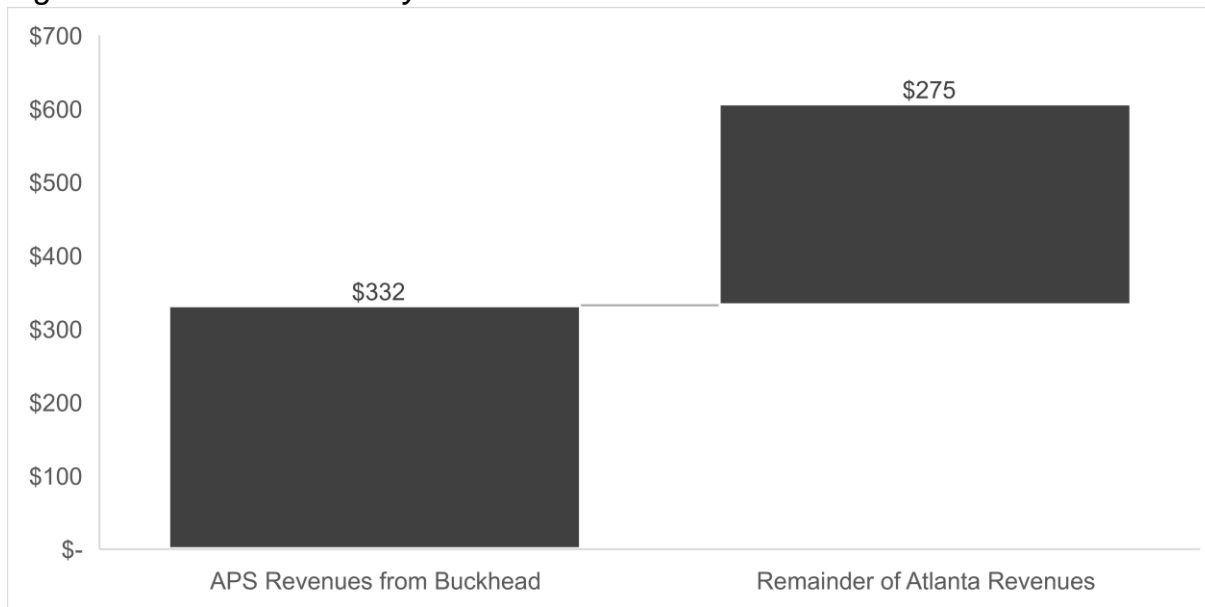
Figures 4 & 5. Net Fiscal Impacts Methods 1 & 2



Net Fiscal Impacts: Atlanta Public Schools

Atlanta Public Schools receives revenue from the Buckhead area from three main sources: property taxes, retail sales taxes, and lodging taxes, with property and retail taxes making up the vast majority of the collections. Similar to the municipal analysis, APS's property taxes originating from the Buckhead area are estimated using the assessed taxable real estate values and millage rates, and retail sales taxes using total retail sales in the Buckhead area. Lodging taxes are estimated by applying tax rates to room nights for lodging in the Buckhead area. Again, similar to the municipal analysis, the APS analysis relies on 2019 revenue estimates.

Figures 6. APS Revenues by Location



As shown above, of the \$607 million that APS collected in local tax revenues from the three sources noted above, \$332 million (55%) are collected in Buckhead.

On the cost side, APS spends approximately \$12,200 annually per student in local funds. Based on data from APS collected in a separate assignment, the official enrollment for all schools in the North Atlanta cluster in 2019 was 8,550. While the cluster boundaries generally approximate the study area for this analysis, adjustments were necessary to account for a somewhat smaller area. Using demographic and geographic data, this study estimates that there are approximately 8,170 students in the Buckhead study area that attend APS schools. This enrolment level represents 16% of all APS students.

Applying the \$12,200 annual local spend to each Buckhead student, yields an estimate of approximately \$99.8 million in service costs originating in Buckhead that are covered from local APS fiscal revenues.



Thus, while only 16% of student service costs emanate from Buckhead, 55% of local revenue comes from Buckhead, leaving a significant net fiscal loss if the Buckhead area completes a de-annexation. The total APS annual net losses from de-annexation would range up to \$232.4 million. To put these losses into perspective, this amount would represent approximately 28% of the \$843 million 2020 APS budget, and even larger expected relative loss than experienced by the City of Atlanta.

Other Municipal Impacts

There are other notable fiscal and economic consequences of a de-annexation that are beyond the scope of this assessment. This assessment qualitatively addresses potential impacts on municipal bond ratings, implications for economic development, and other community focused activities. Perhaps the most economically important issue for the City of Atlanta and the Buckhead area deals with servicing the debt on existing bonds and cost of financing for future city projects.

Determining a method to fairly and adequately separate the service of debt on existing municipal infrastructure will, by itself, likely be contested aggressively by the principal parties, as well as community groups who would have standing to litigate any agreement between the city and the Buckhead area. This will include existing bonded debt that was used to expand or improve roads, water and wastewater systems, parks, and other infrastructure. Given the term of municipal bonds (usually 20 years), this will require unraveling decades of city investments to determine a basis for allocating what debt service would remain a burden on Atlanta taxpayers and how much should be borne by a new Buckhead municipality. However, the largest impact could be on the cost of future debt.

As noted, Buckhead represents an outsized share of overall revenue generation in Atlanta. The city's current debt rating explicitly counts Buckhead area revenues in considering the city's overall ability to service existing and new debt to support the infrastructure needed for a growing community. There is little in previous examples to indicate how much a debt rating could drop if the city were to lose over \$250 million in annual revenue, but it is known that any drop in ratings could result in substantially higher interest rates on newly issued bonds, which would result in higher taxes and delays in the building of needed infrastructure. Existing bondholders could also challenge the terms of any negotiated agreement for de-annexation based on their on-going interests in receiving promised payments on issued bonds.

For Buckhead area taxpayers, the ability of a new municipality to establish the municipal equivalent of a credit rating could result in increased tax rates as the new entity looks to refinance debt assumed for existing infrastructure and engages in start-up spending. It is

almost certain that both the City of Atlanta and a newly financially independent Buckhead will see tax rates rise because of a loss of combined financial resources.

Economic development initiatives for the City of Atlanta may also suffer after a Buckhead departure. While the city currently competes with suburbs and surrounding counties for business investment and jobs, splitting off Buckhead results in two comparatively weaker entities – weaker from having fewer financial resources to engage in business recruitment activities, and less cohesion in overall economic development strategic planning. This is important as competition among cities in southern, mid-Atlantic states, and Texas has been building in intensity since the end of the Great Recession. Should Buckhead de-annex, Atlanta will not only continue to compete with Charlotte, Nashville, Raleigh-Durham, Houston, and Dallas, but it will find itself competing with a part of its former self. A newly independent Buckhead will likely find it almost irresistible to offer incentives to firms to move across a new city boundary. Atlanta will also want to attract current Buckhead businesses. The result could easily be a race to the bottom with both entities giving away critical financial resources in a zero-sum game of economic development gamesmanship.

From another economic development perspective, it is often said that 21st Century economic development is primarily about talent attraction and retention. Having the Buckhead area and Atlanta offering separate “products” is not as attractive as the current whole. Separating the Buckhead area from the City of Atlanta will likely result in lower overall performance for the region in attracting and retaining workers. Buckhead is a part of the unique Atlanta culture that has seen the city in recent years become one of the best major cities in the nation in developing and deploying talent attraction strategies. The public fight that will occur during a drawn-out de-annexation process could be a deterrent for young, talented workers who can easily choose another regional city.

Increasingly, cities are finding that the most cost-effective strategy for meeting the social, health, and other needs for community members is by having municipal funds go to non-profit entities who then provide services. The loss of revenue for the City of Atlanta from a Buckhead area de-annexation will almost certainly lower the level of funding going to area non-government service providers. Moreover, the non-profits operating in the Buckhead area may see municipal funding cuts, with little likelihood that a new public entity would have the financial wherewithal to make up for those cuts anytime in the near future. Overall, the residents of Atlanta and Buckhead could see less support for community-based services that will reduce overall community welfare and detract from the local quality of life.

Operational and capital spending on parks and recreation facilities and resources is among the first to be cut during time of fiscal distress. As noted above, Atlanta and a new Buckhead municipality will experience fiscal challenges after a de-annexation. While it cannot be known for certain how local leaders will alter city spending under conditions of



revenue constraint, historic precedence from the Great Recession and other previous economic downturns shows that operational and investment spending in parks and other public amenities will decline if the Buckhead area leaves the city. Not only will this decrease the quality of amenities available to existing residents, but it will also negatively impact the city's talent attraction efforts.



Principal Report Authors

Geoff Koski leads the real estate and economic development consulting firm **KB Advisory Group**. Geoff has 20 years of experience researching, analyzing, and reporting real estate and community development trends across the U.S. and leads a real estate and economic development consulting firm. His expertise facilitates clients' wide-ranging real estate and economic development advisory needs.

Geoff often assists public and private sector clients in maximizing the value of their real estate and development opportunities and helping Georgia cities create and use tax allocation districts (TADs). He also assesses the economic impacts of new real estate projects and directs assignments that lead to crucial development implementation strategies and tactics for cities, counties, and community improvement districts (CIDs) throughout Georgia. Geoff is frequently cited in the press and at professional events as a local real estate development expert and participated as the market analyst on prestigious Urban Land Institute (ULI) Advisory Service Panels in Montgomery County, MD, Georgetown, SC, Denver, CO, and Indianapolis, IN.

Dr. Terry L. Clower is Northern Virginia Chair in Local Government and Professor of Public Policy at George Mason University. He is also director of GMU's Center for Regional Analysis. The Center provides economic and public policy research services to sponsors in the private, non-profit and public sectors. Prior to joining GMU, he was director for the Center for Economic Development and Research at the University of North Texas. Dr. Clower is also principle of Clower & Associates, an economic analysis and advisory services firm. Dr. Clower spent 10 years in the private sector in logistics management.

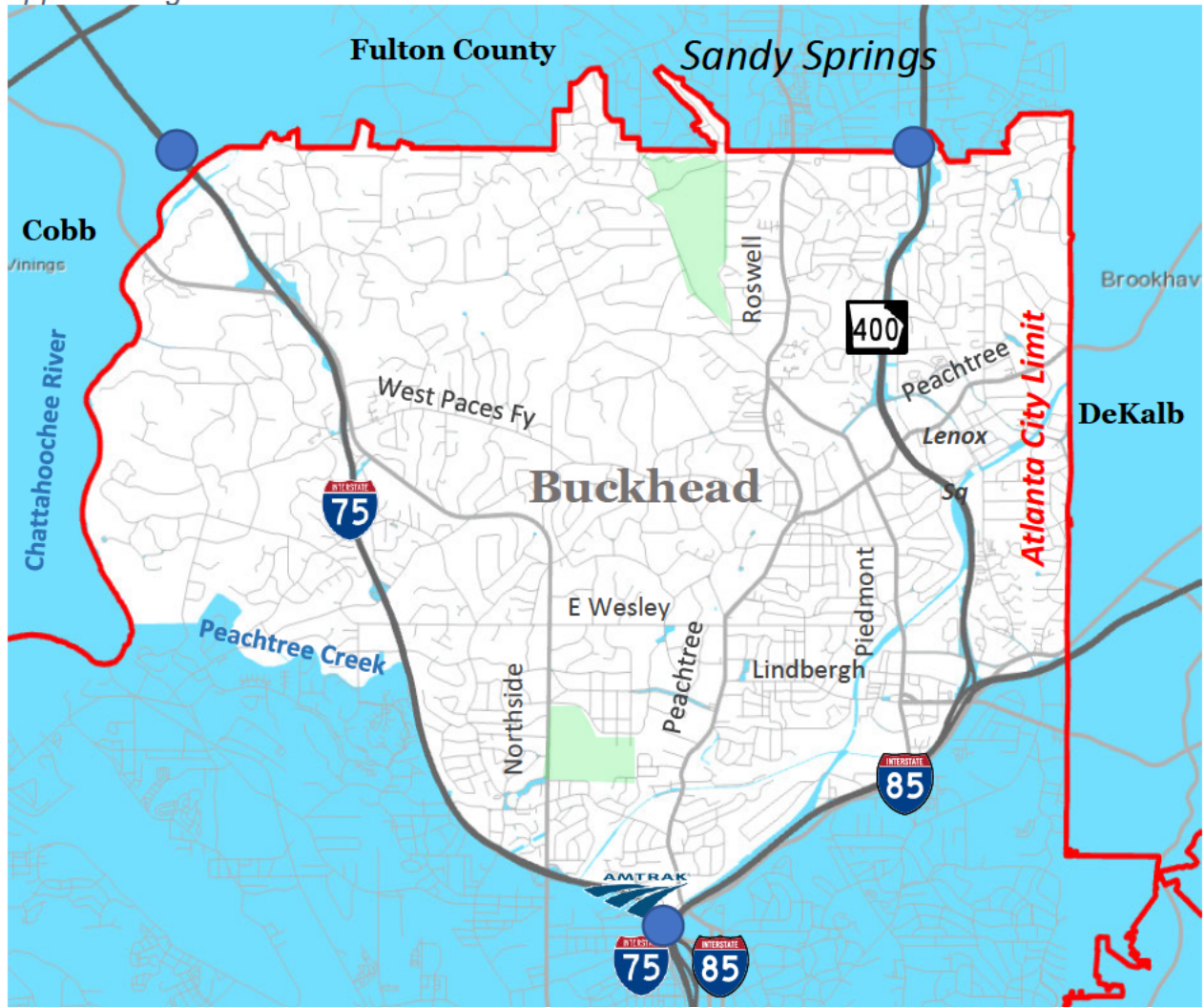
Dr. Clower has authored or co-authored over 250 articles, book chapters, and research reports reflecting experience in economic and community development, economic and fiscal impact analysis, labor market analysis, housing, transportation, land use planning, and economic forecasting.

Dr. Keith Waters is Senior Research Associate at George Mason University's Center for Regional Analysis. He is also principal of Adaptive Regional Solutions, a data analytics consultancy.

Dr. Waters areas of specialization include data analytics, geographic information systems, economic and fiscal impact analysis, and regional economic performance. Dr. Waters has broad experience in regional economic analysis and planning. His academic research focuses on regional economics from a complex adaptive systems perspective. In applied work, he uses cutting edge metrics to measure the ecological cohesion of regional economies. His theoretical work uses agent based modeling to better understand how and why regional economies effectively compete for talent and corporate investment.

Appendix

Appendix Figure 1: Detailed Buckhead Boundaries

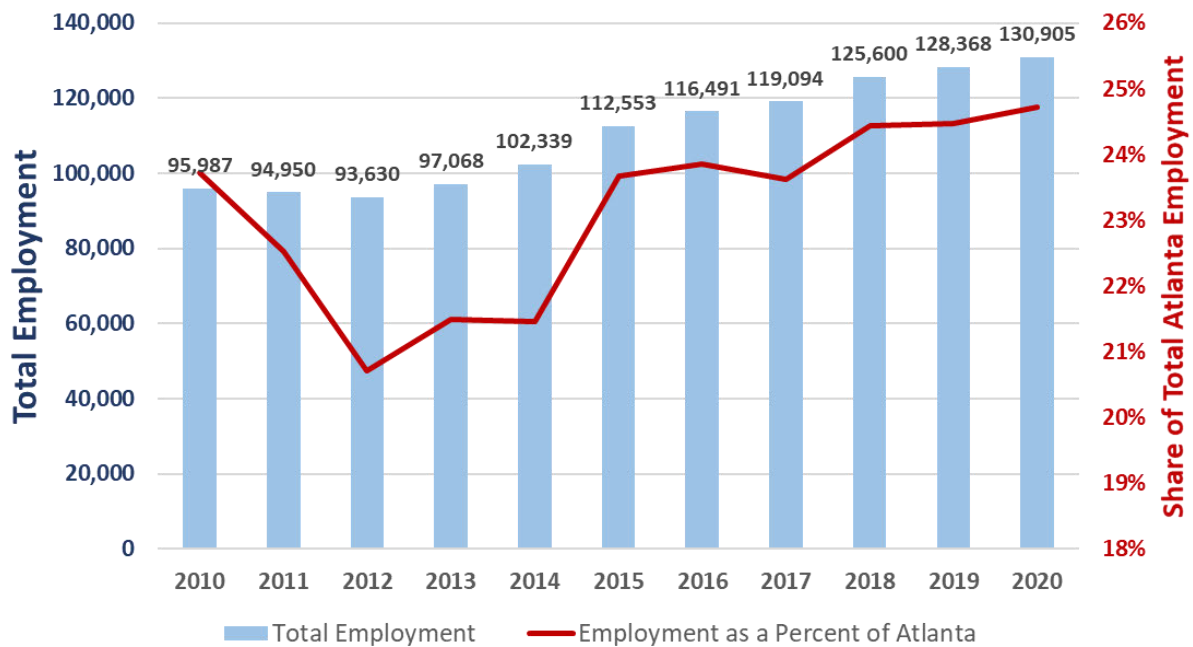


Appendix Figure 2: Population Estimates, Source: ESRI, 2020

Population	Buckhead	City of Atlanta
2000 Census	67,208	418,156
2010 Census	79,921	420,003
2020 Estimate	101,564	503,991



Appendix Figure 3: Buckhead Employment Estimates, Source: KB Advisory Group based on data from US Census.



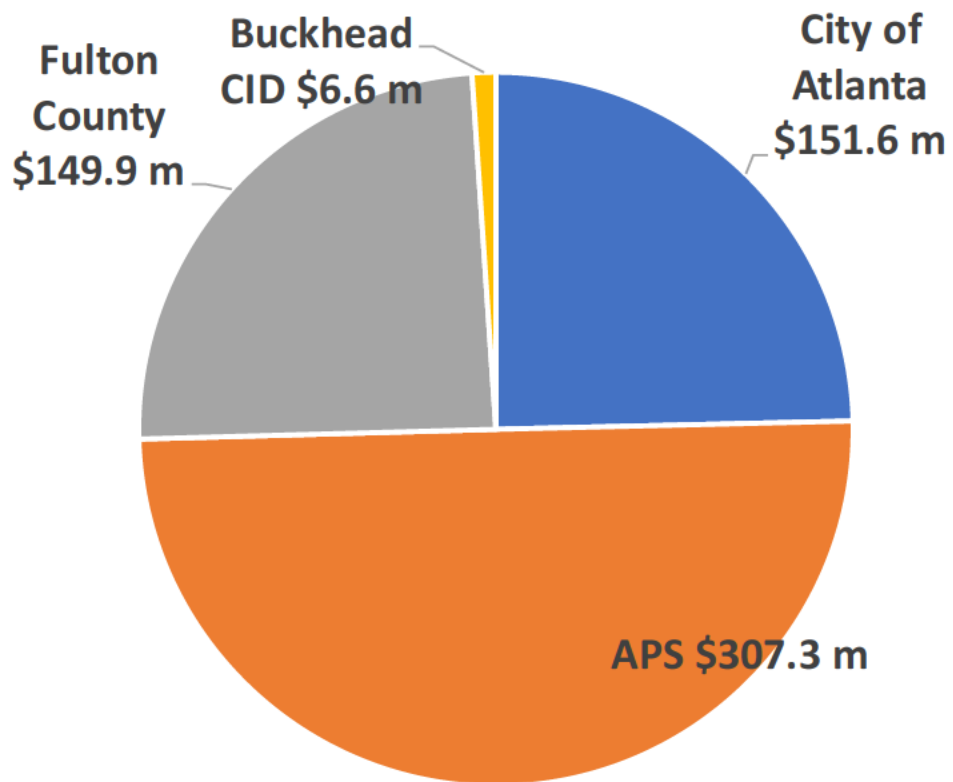
Appendix Figure 4: 2020 Public Revenues from Buckhead (\$Millions), by source and recipient, Source: KB Advisory Group.

Total shown also includes revenues to CID and CVB.

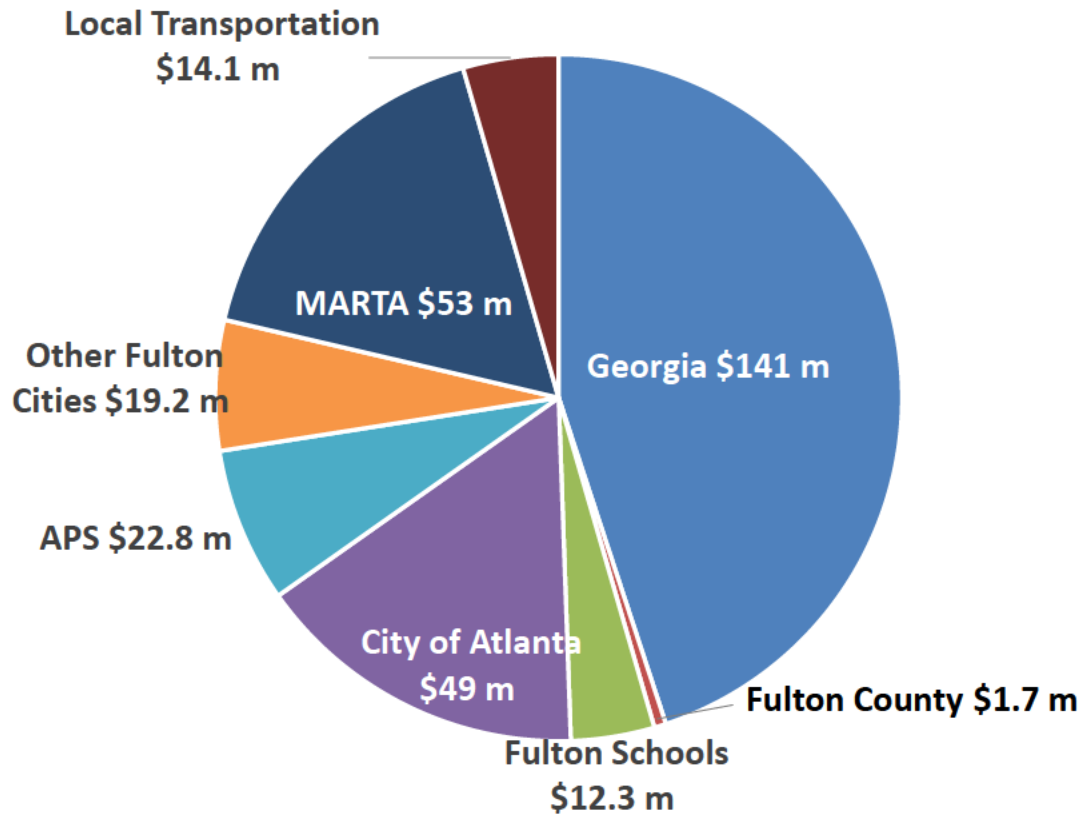
	Total	To City of Atlanta	To Atlanta Public Schools	To Fulton County	To Fulton County Schools	To MARTA & Local Transport.	To Other Fulton Cities	To State of Georgia
Property Taxes	\$ 615.4	\$ 151.6	\$ 307.3	\$ 149.9	\$.0	\$.0	\$.0	\$.0
Sales Taxes from Retail Spending	\$ 312.7	\$ 49.3	\$ 22.8	\$ 1.7	\$ 12.3	\$ 66.8	\$ 19.2	\$ 140.5
Income and Corporate Taxes	\$ 597.2	\$.0	\$.0	\$.0	\$.0	\$.0	\$.0	\$ 597.2
Liquor and Tobacco Excise Taxes	\$ 8.0	\$.0	\$.0	\$ 4.5	\$.0	\$.0	\$.0	\$ 3.5
Hotel & Motel Revenues	\$ 62.3	\$ 10.4	\$ 2.1	\$.2	\$ 1.1	\$ 6.1	\$ 1.7	\$ 22.9
Business License Revenues	\$ 40.6	\$ 40.6	\$.0	\$.0	\$.0	\$.0	\$.0	\$.0
Total Recurring Revenues	\$ 1,636	\$ 252	\$ 332	\$ 156	\$ 13	\$ 73	\$ 21	\$ 764



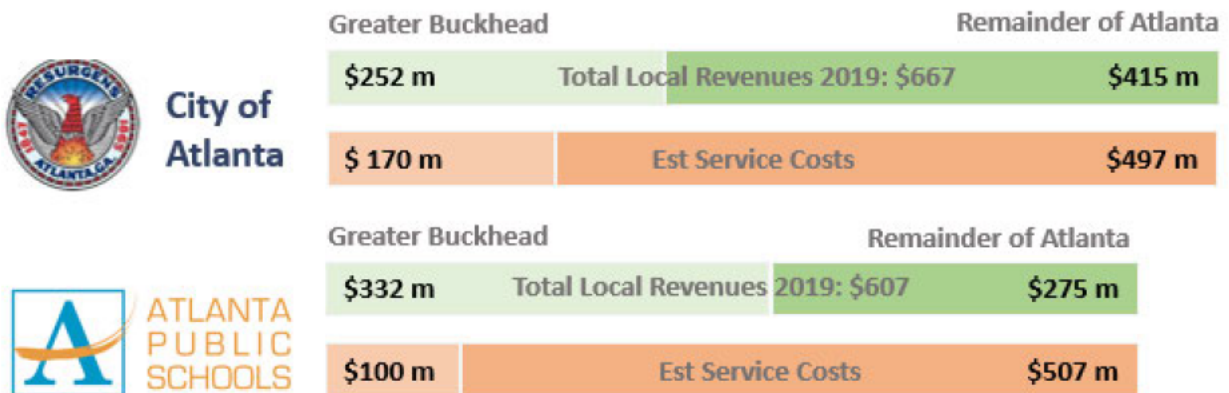
Appendix Figure 5: Property Tax Revenues from Buckhead (\$Millions), by source and recipient, Source: KB Advisory Group, based on data from Fulton County Tax Assessor.



Appendix Figure 6: Sales Tax Revenues from Buckhead (\$Millions), by source and recipient, Source: KB Advisory Group, based on data from Georgia Dept. of Revenue.



Appendix Figure 7: 2019 Net Fiscal Impact from Buckhead, Source: KB Advisory Group, based on data from various sources.





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