COST OF COMMUNITY SERVICES ANALYSIS

FAYETTE COUNTY, GA

Georgia Tech Enterprise Innovation Institute
Center for Economic Development Research

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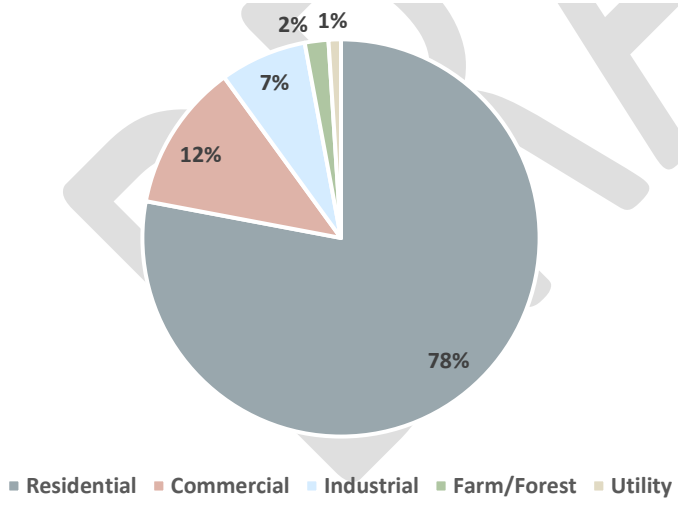
1. INTRODUCTION

Fayette County

Fayette County is in the southwestern portion of the Atlanta metropolitan area. Its population has grown by nine percent in the last five years, totaling 125,284 in 2024. Over the next five years, Fayette County's population is expected to grow by another seven percent. Fayette County Schools educate more than 19,800 students, and that number will continue to grow alongside the total population. Total employment in Fayette has grown by six percent to 55,612 in 2024. This is slightly lower than the growth in population, but outpaces the four percent job growth observed at the national level in the last five years.

The county tax digest reflects this population growth, as residential property makes up 78 percent of the county's net tax digest (Figure 1). Commercial and industrial property make up a combined nineteen percent of the net tax digest. The Fayette County Development Authority reached out to the Center for Economic Development Research (CEDR) at Georgia Tech for a better understanding of the benefits and costs associated with this high share of residential property. New developments always increase a local government's tax base, but an increased tax base does not always result in an improved financial position. There is a growing body of empirical evidence that shows that commercial and/or industrial development can improve the financial situation of local government. However, residential development, with its demands for local government services, often has the opposite effect. The American Farmland Trust (www.farmland.org) has collected more than 150 studies across the country and every single one shows that the average cost of providing local government services exceeds the average revenue generated by residential development.[1] Obviously, the results can and do vary quite a bit from state to state and county to county, depending on several factors. The results presented in *this* report are specific to Fayette County, Georgia, for fiscal year 2024 (FY24).

FIGURE 1: FAYETTE COUNTY NET TAX DIGEST (2023)



Source: Georgia Department of Revenue Tax Consolidation Summaries

[1] American Farmland Trust (2016). *Cost of Community Service Studies*. https://farmlandinfo.org/publications/cost-of-community-services-studies/

Cost of Community Service Studies

Cost of Community Service (COCS) studies involve organizing the revenues and expenditures of a local government into different classes of land use or development, such as residential, commercial, industrial, farm, etc. For example, a county's expenditures on senior citizens' programs would be classified as all benefiting residential land use. The cost of the county extension service would most likely be allocated to agricultural land. These are easy, straightforward examples, but most expenditures benefit multiple land uses. For example, the road network would be allocated across all types of development, as would the court system, the fire department, the sheriff, etc. The resulting totals for revenues generated and expenses incurred can be presented as a ratio of expenditures to revenues for different land use types. To the extent that the ratio is over one (e.g., expenditures exceed revenues) that land use does not pay for the benefit it receives from the local government.

In cases where expenses are difficult to allocate to specific land use categories, the expert knowledge of county staff is used to estimate service expenditures by land use category. For this study, the senior staff for the Fayette County Board of Commissioners provided their expert knowledge in the allocation of expenditures. In some cases, acreage, population share, and/or property value in each land use category are used in determining allocations. For "back-office" and administrative expenses (i.e., finance, human resources, legal, IT, county administration, etc.), the combined share of all other expenses is calculated, and then that share is applied to these departments.

It is very important to note that COCS studies look at average revenues and expenditures for a particular year, not changes at the margin. As such, these studies should not be used to predict the impact of future decisions. Even so, they can provide insight and allow for more informed decision-making on such policies as tax abatements for farm/forestland, zoning, or commercial development. That said, COCS results can support educated guesses as to the likely marginal cost of development, as well as how land use transition might impact the financial situation of the local government. Finally, these studies look at the ongoing operational cost of growth, not one-time capital expenditure impacts.[2]

Data Collection Issues for Fayette County

As previously mentioned, sometimes it is necessary to rely on expert knowledge of county staff to estimate service expenditures by land use category. This is especially true for the court system. The case load across the different courts — Superior, State, Magistrate, etc. — can differ significantly from court to court with respect to residential versus commercial. Given that the court system is often a significant expenditure for most counties, it is important that this information be as accurate as possible. Court officials evaluated cases and determined whether the case involved a crime against a resident or a business; a civil matter between two individuals or two

[2] *The Fiscal Impacts of Land Uses in Lee County: Revenue and Expenditure Streams by Land Use Category*, Jeffrey H. Dorfman, May 2018. Used with permission.

businesses; a civil matter between a resident and a business, etc. The results were used to allocate the expenses and revenues related to the court system by land use.

Another issue to be considered is the rapid increase in property values over the past few years. When this study began, the latest data available was that for FY24. The 2023 digest was used to generate the property tax revenue for FY24. In 2023, the average home value (according to the digest) was $471,079. However, according to the 2024 digest, that grew to $506,472 (or eight percent). While these increases will have little impact on the ratios presented in this report, it is important to note that the "break-even" home values presented here represent 2023 values rather than current home values.

2. ANALYSIS RESULTS

Expenditure/Revenue Ratios

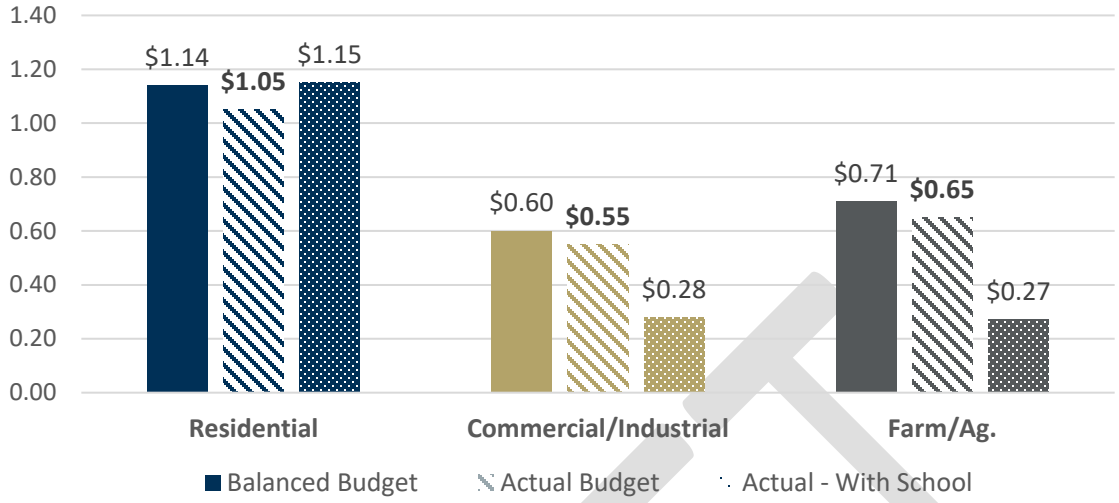
This study uses the audited financial statements for Fayette County for fiscal year 2024, as well as financial information from the 2024 *Fayette County Annual Comprehensive Financial Report*, and the 2023 tax digest submitted to the Georgia Department of Revenue. For the schools, the data was collected from the Georgia Department of Education School Systems Revenue report for FY24.

The land use categories used in this study were residential, commercial/industrial, and farm/forest. Revenues and expenditures were allocated to these land uses based on various county records as well as data collection from county officials and service providers. All operational revenues were included in the funds that were a part of this study (General Fund, Fire Fund, Emergency Services Fund, etc.), including local option sales tax (LOST).

Figure 2 below presents the results for Fayette County's actual budget, its actual budget with schools included, and a balanced budget scenario. As expected, the expenditure-to-revenue ratio for residential land use came in above one at 1.05 for the actual budget. Again, because this is greater than one, it means that residential property in Fayette County does not cover the costs of the services the county provides.

It is important to note that this analysis includes only operational costs and does not include the capital expenditure impacts of residential development. This deficit related to residential operational service demand is countered by the surplus generated by commercial/industrial property. Although less than a third of the size of the residential digest (Figure 1), the expenditure-to-revenue ratio for commercial/industrial land use is only 0.55, meaning that for every $1 of revenue the county brings in from commercial and industrial property, it only costs the county $0.55 to provide services. Similarly, the farm/agricultural digest in the county has a ratio of 0.65, meaning that it only costs $0.65 to provide services to this sector for every $1 of revenue it brings to the county. The surplus of both the commercial and agricultural sectors offsets the residential service cost deficit (Figure 2).

FIGURE 2: EXPENDITURES PER $1 OF REVENUE BY LAND USE



Source: Center for Economic Development Research, Georgia Tech

Figure 2 also shows the expenditures-to-revenues ratios that would exist if Fayette County operated on a balanced budget. In FY24, revenues exceeded expenditures by $10.4 million. Under a balanced budget, ratios would increase for each category of land use, but mostly for the residential category. If revenues equaled expenditures, the residential digest ratio would see the largest shift, with a new ratio of 1.14 compared to the 1.05 observed for the actual budget excluding the school system.

Once schools are included in the analysis, residential land use becomes more of an operational cost burden, generating $1.15 in service costs for every $1 of revenue (Figure 2). However, once again, revenues generated by commercial/industrial land use, as well as agricultural land, help to offset the residential service costs as they both have expenditure-to-revenue ratios well below one at 0.28 and 0.27, respectively.

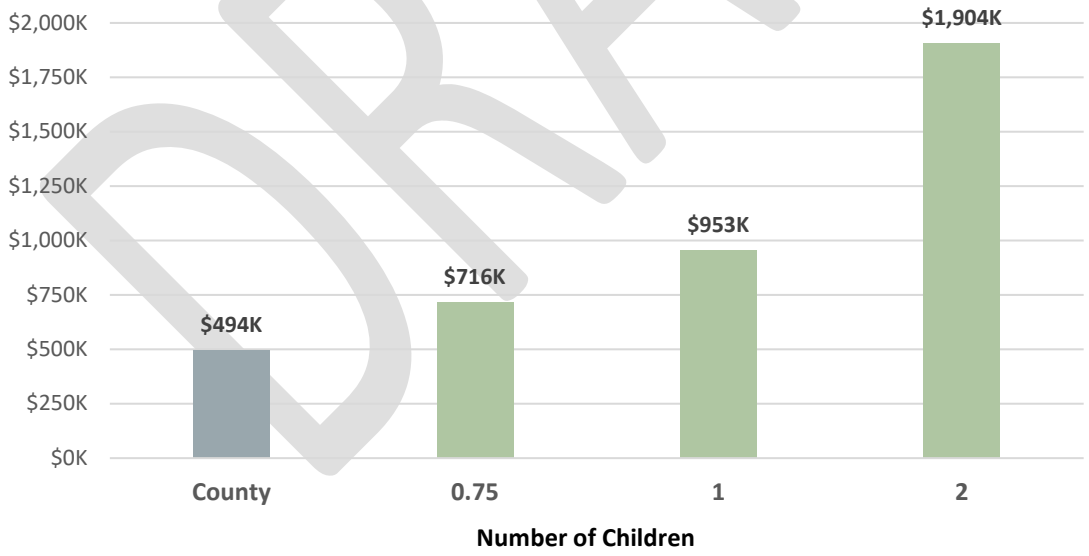
Break-Even Home Values

The ratios presented above can be used to calculate the home value necessary for a county and/or school board to break even relative to the cost of providing their services. This assumes that the service cost is reasonably constant from house to house relative to the home value. While local government service costs will vary based on lot size, location, and, in the case of schools, the number of children in the home, they are not usually correlated with the home's value. As such, the average service cost per household can be easily calculated, as can the average non-property tax revenue per household. The difference between these two is the amount of money that an average house needs to generate to cover the service cost. Using the standard county homestead exemption and the current county millage rate, the home value that will generate enough revenue to equal service cost (the break-even value) is easily calculated.

Figure 3 below shows that the break-even home value for Fayette County in FY24 was $493,832. In other words, on average, any house valued at less than $493,832 in FY24 did not cover the cost of the county services it consumed. According to the 2023 tax digest (which again, generated the revenue for the FY24 budget), the average price of a home in Fayette County was $471,079 – below the break-even value for county services. This means that the average home does not generate enough revenue to offset its service costs. Naturally, this value is very sensitive to the county's millage rate. As that rate goes up, the break-even value for a home will naturally go down. As previously mentioned, this analysis does NOT include any potential new capital costs needed for infrastructure as the county grows.

While the county government may break even on a $494K home, the schools do not. When evaluating the break-even home price for schools, the starting point is the average per-pupil cost ***from local tax revenue***. (For this analysis, state and federal money is excluded.) Adjustments are made for the average car value per home and the local school homestead exemption. Then, given the school millage rate, a break-even home value can be calculated that will cover the local cost given the number of children in the home. Fayette County spends $7,322 per student from local revenues alone. Again, Figure 3 below shows the various break-even values for Fayette County given the number of children in the home. To generate that level of revenue, for a home with just one school-age child that attends the local public schools, the break-even home value from the school's perspective would be $953,242. While the school would break even, clearly, the county budget would earn a fiscal surplus from this house.

FIGURE 3: FAYETTE COUNTY AND COUNTY SCHOOLS BREAK-EVEN HOME VALUES

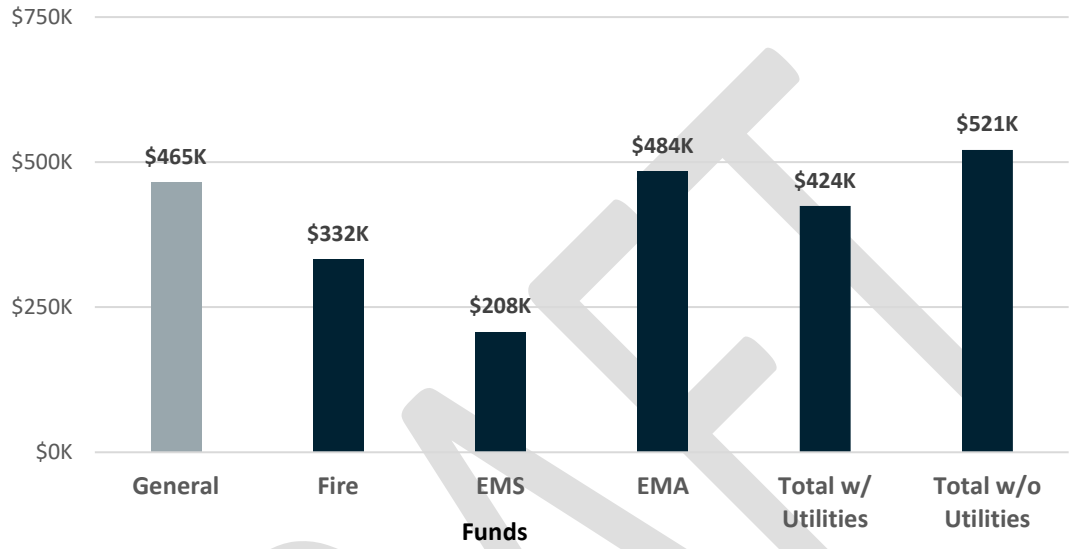


Source: Center for Economic Development Research, Georgia Tech. All values displayed in thousands. Values do not account for dedicated capital fund revenue and expenditure.

Based on data from the U.S. Census, a more realistic estimate of the average number of school-age children in a new home is between 0.65 and 0.75. The break-even value for a home in Fayette County with 0.75 students is $715,511. This is much higher than the average value for homes in

Fayette County. It is also higher than the average home value of $506,472 observed in 2024. This means that public education in Fayette County will need to be subsidized by either other land uses (which is clearly happening and was demonstrated in Figure 2) and/or homeowners without children in the school system. As with the county, this value is highly sensitive to the school millage rate. As that rate goes up, the break-even value of a home would go down.

FIGURE 4: FAYETTE COUNTY FUND BREAK-EVEN HOME VALUES



Source: Center for Economic Development Research, Georgia Tech. All values displayed in thousands. Values do not account for dedicated capital fund revenue and expenditure.

Figure 4 shows the break-even home values across Fayette County's various governmental funds. Fire and Emergency Medical Services funds have break-even values that are significantly lower than the average home price of $471,079. As noted previously, these results are sensitive to the millage rates that are set for these funds. The break-even home values for total governmental funds vary based on the inclusion or exclusion of utilities. Excluding utilities, the break-even value of a home soars to $520,993. This means revenues generated by residential utilities exceed the costs to provide residential utilities services. When utilities revenues and expenditures are included in the analysis, the break-even home value is reduced to $424,255.

3. CONCLUSION

As expected, the residential digest in Fayette County does not pay for the local government services it consumes, and, conversely, businesses pay more than they get back in services. It is the fiscal surplus from businesses that covers the residential deficit.

Once schools are included, these businesses provide an even bigger surplus. Even with only 19 percent of the digest, the large surplus provided by commercial/industrial land use covers the combined county/school service deficit generated by the growing population ($1.15 in combined expenses for every $1 in revenue).

For the county, the break-even value of a home is slightly above the average home value for the year under review. Because of rapid home price appreciation, the average value of a home rose even higher above the break-even level in 2024. For the school system, the break-even value of a home is higher than the average home value in Fayette County. But, even with this rapid appreciation, balanced growth will be needed to continue to keep the county in a fiscally positive position while at the same time keeping the millage rate constant.

It is important to note that the results of this type of analysis should not be used to promote one form of land use over another, nor should it be used to support or oppose a particular development project. This analysis uses countywide averages and may not reflect the cost or revenue structure of any particular development. Further, this study looks at operating costs only. A new development may have significant marginal capital costs, which would either need to be financed using impact fees or spread to all residents through the tax process.

Finally, this type of analysis shows the importance of balanced growth. A county must have enough commercial/industrial development to cover the costs of its residential growth, especially once the cost of the schools is considered. Further, not only commercial land use, but also having and maintaining agricultural land is beneficial because it too generates a fiscal surplus (once schools are considered) and it provides environmental amenities and benefits to the community. Having a well-balanced tax digest can help distribute the cost of government while keeping taxes lower for everyone.[3]

[3] *The Fiscal Impacts of Land Uses in Lee County: Revenue and Expenditure Streams by Land Use Category*, Jeffrey H. Dorfman, May 2018. Used with permission.

4. REFERENCES

American Farmland Trust (2016). *Cost of Community Service Studies*.

Dorfman, Jeffrey H. (2018). *The Fiscal Impacts of Land Uses in Lee County: Revenue and Expenditure Streams by Land Use Category*

5. APPENDIX A

Tables 1 and 2 below provide the results of both the revenue and expenditure allocations, and the resulting COCS ratios.

TABLE 1: FINAL REVENUE AND EXPENDITURE ALLOCATIONS

Revenue Allocations				
Total	**Residential**	**Commercial/Industrial**	**Farm/Forest**	**Outside**
$126,550,931	$88,976,950	$30,241,682	$2,008,575	$5,323,724
	70.3%	23.9%	1.6%	4.2%
Expenditure Allocations				
Total	**Residential**	**Commercial/Industrial**	**Farm/Forest**	
$116,147,657	$97,372,510	$17,404,170	$1,370,976	
	83.8%	15.0%	1.2%	

Source: Center for Economic Development Research, Georgia Institute of Technology; Totals may not add due to rounding.

TABLE 2: COST OF COMMUNITY SERVICE RATIOS FOR FAYETTE COUNTY

		Residential	**Commercial/Industrial**	**Farm/Forest**
No School	**Exp/Rev**	1.05	0.55	0.65
	Rev/Exp	0.95	1.81	1.53
With School	**Exp/Rev**	1.15	0.28	0.27
	Rev/Exp	0.85	3.57	3.65

Source: Center for Economic Development Research, Georgia Institute of Technology property