



FULTON COUNTY TAXPAYERS FOUNDATION

501©(3) Non-Profit Advocate of Lower Property Taxes in Atlanta/Fulton

May 2008

How the City of Atlanta Could Balance its \$170 million Deficit without Raising Taxes

On July 9th, 2002, the highly-reputable firm of Bain & Company issued a pro-bono Turnaround Plan that was sanctioned by the Mayor. One of the 29 priorities included: “marketization and out-sourcing of certain governmental functions. Marketization describes the process whereby traditional governmental services are bid by both private firms and the existing government departments.”

For example, privatizing Garbage Collection - with private firms offering the service with one-man per truck – could save the City of Atlanta \$20-\$30 million annually. According to the Turnaround Plan, “Many other cities have turned to private contractors to provide residential sanitation”, and according to the Reason Foundation, “68% of all cities in America have privatized their Residential Garbage Collection.”

Other City of Atlanta services mentioned in the Turnaround Plan include: “Fleet Management and Maintenance, Information Systems, Airport Management & Operations, Fire Services, Recreation Facilities & Management, Park Landscaping & Maintenance, Policing Services (non-sworn), Road Maintenance Service and Water Management & Operations.”

Despite a body of research confirming that the competitive delivery of services generates cost savings on the order of 15%-25%, the City has YET to pursue competition during the current

administration. This is the perfect moment to begin. According to Leonard Gilroy, Director of the Reason Foundation:

“The City of Atlanta’s budget deficit – one of the largest among American cities - is the most recent symptom of an unchecked growth spurt. The City of Atlanta government budget has expanded by 50% and the number of city workers has risen by 32% to 9,700 employees. Even the City’s own Chief Financial Officer, Janice Davis, has recently complained about out of control spending and poor accounting practices.”

Faced with a similar budget crisis, over 50% of San Diego’s voters approved a ballot measure in 2006, allowing the City to utilize managed competition to provide less costly and better services. San Diego Mayor Jerry Sanders (and taxpayers) are delighted with the results.

If Mayor Franklin wants to demonstrate true leadership and achieve an ever lasting legacy, she should follow Mayor Sanders’ lead and develop a robust managed competition program as the centerpiece of her effort to solve the City’s budget shortfall. This would balance the budget without raising taxes.

Kind regards,

John S. Sherman, President

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Taxpayers to City Council

We, the undersigned, as residents and taxpayers of the City of Atlanta, are alarmed by the report of the City auditor dated April 1, 2008 on Atlanta's budget (the "Report") as well as news reports that Mayor Franklin plans to propose a 25% increase in property taxes. We believe that members of Atlanta's City Council should, before adopting a budget for FY 2009, require the Mayor to answer these questions about Atlanta's fiscal condition:

1. Why is Atlanta's per capita annual spending for general operations \$664 more than Charlotte's per capita spending? Why does Atlanta, according to the 2008 Census Bureau, have 184 employees per 10,000 residents, while Charlotte has 101 and the average count for Fulton, Cobb, Gwinnett and DeKalb County is 81?
2. How many current city employees reside in the City of Atlanta?
3. Why can't the City of Atlanta reduce its per capita spending to halfway between Atlanta's current spending and Charlotte, reducing its number of employees to the metro average, thereby saving \$150 million annually?
4. How could the City's financial statements be in such disarray that the Mayor and City Council spent \$241 million more than revenue over the last few years?
5. How does the Mayor and City Council propose to solve the City's fiscal structural imbalance depicted by the Report without raising taxes?
6. Is it true that the City, in order to comply with GASB 45, must increase its funding for employees' post-retirement benefits, including healthcare and other non-pension benefits, by \$70 million annually? If so, what steps can the City take to reduce these costs?
7. What services of the City should be privatized and what assets sold in order to reduce debt and operating expenses?
8. Why did the City engage in an interest rate swap on its bonds which has currently generated a \$30 million loss from that transaction? Is there a potential for higher losses?
9. How much revenue is the City giving up annually as a result of Tax Allocation Districts ("TADs") approved by the Council? Why shouldn't the City of Atlanta follow the recent court decision declaring that directing school taxes to TADs violates the constitution.
10. Does the City have to pay off \$600 million in short-term notes by February, 2009? If so, how does the Mayor plan to convince bondholders and ratings agencies they can trust Atlanta's financial statements?

We respectfully ask the City Council to refuse to adopt a new budget until these questions have been fully answered by Mayor Franklin and her administration. We also ask that the FY 2009 budget adopted by City Council not include any tax increase.



CITY OF ATLANTA
City Auditor's Office
Leslie Ward, City Auditor
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April 2008

Why We Did This Audit

The mayor and chief financial officer projected in January 2008 that the city will face a \$70M shortfall by the end of the fiscal year. The City Council passed Resolution 08-R-0186 requesting a performance audit of the City of Atlanta 2008 general fund budget process.

What We Recommended

Our recommendations are intended to better align city policies and practices with state and local budgeting guidelines and to begin to address escalating pension costs.

The City Council should:

- Amend the City Charter to remove the requirement to anticipate revenue of no more than 99% of prior year actual receipts and to eliminate Budget Commissioners' personal liability for overestimated revenues
- Establish financial policies to guide long- and short-term financial planning and monitoring, including maintaining fund balance, uses of non-recurring and surplus revenues; presentation of 5-year financial forecasts; and interim financial reporting

The chief financial officer should:

- Present alternatives to reduce pension costs or offset the increased costs
- Review revenues to consider opportunities for increased fees and charges

The chief operating officer should:

- Review service levels and goals to prioritize and make strategic budget cuts, rather than implement across-the-board budget cuts

Please contact Eric Palmer at 404.330.6455 or epalmer@atlantaga.gov for more information.

Performance Audit:

Review of the FY 2008 General Fund Budget

What We Found

While we confirmed some of the errors and poor practices that the mayor and chief financial officer have cited as reasons for the current year shortfall, the city's primary problem is structural – ongoing general fund revenues are not sufficient to cover ongoing costs. Current year expenditures exceeded current year revenues for six of the last ten years, and escalating pension costs will continue to pressure the general fund. The city's long-standing budgeting policies and practices have contributed to and largely hidden this structural deficit. The change in fiscal year also delayed identification of the current budget shortfall.

- Charter provisions dating from 1937 make revenue anticipations artificially low. Consequently, the city has relied on cash carry-forward – the difference between prior years' actual receipts and actual expenditures – to balance its annual budgets.
- The city has budgeted more carry-forward than it ended up with at the close of the year. The cumulative overestimation since 2003 was \$241M. Hence, the city drew down its fund balance even as revenues exceeded anticipations by nearly 12%.
- Budget variances did not identify the impending shortfall because the city received more revenue than projected and spent less than budgeted in fiscal years 2002 through 2005.
- The city overspent its budget in the first six months of 2006 (the transition period to a new fiscal year) and in fiscal year 2007 (July 1, 2006 – June 30, 2007). City departments (excluding non-departmental expenditures) spent nearly \$90M over the adopted budget in fiscal year 2007. However, most of this overspending was in categories not under departments' control, including \$34M in employee benefits and \$42M in internal service charges.
- The city had budgeted to use to \$64.6M carry-forward from FY 2007 in the FY 2008 budget, but had less than \$1M cash available when the FY 2007 books were closed.

Bain & Company, which provided pro bono assistance to help city officials identify the scope of the 2002 budget gap, identified similar issues. Our analysis and recommendations build on this previous work.

