

Private Public Partnership in the City of Sandy Springs, GA

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1. Introduction

The City of Sandy Springs, GA is known for its unique management. In the city, private companies are operating most of their public services, and the government hires only less than 10 employees. The city's operation is interesting but it is not clear to me whether PPP in the City of Sandy Springs is financially effective or not. Therefore, in this paper, I'll analyze the city's fiscal condition to know whether PPPs are effective for being cost-effective government.

First, I'll talk about basic background of the City of Sandy Springs establishment. In the section 2, I'll cover the city's organization and budget structure. Next, in the section 3, I'll analyze the city's fiscal condition, and I'll examine their management method Public Private Partnership (PPP) in the section 4. After discussing about Sandy Spring's economic development policy, I'll conclude this paper and make some recommendations.

2. Background

The City of Sandy Springs is a relatively new city established in 2005. The city is located in north part of the State of Georgia (Appendix 1), and it is Georgia's sixth largest city and the second largest city in the metropolitan Atlanta area.¹ The population of the city is 93,853, almost 1% population of the State of Georgia (2010 the U.S. census²), and the population growth rate from 2010 to 2013 is 6.3% which is twice compared to the State of Georgia's 3.2%. People in the city are pretty wealthy considering the fact that their median house hold income is \$63,134, meanwhile, in the State of Georgia, it falls to \$49,179.

As we can see from those data above, the City of Sandy Springs is attracting the wealthy population. This is related to its interesting history; for 40 years, the residents in the area were hoping to be independent from the Fulton County, and obtain their own government. Their biggest motivation for this movement was their feelings that they wanted to get direct benefits for taxes they paid. The residents were concerned about the fact that the most of the county's revenue were used for welfare services for the poor, and the rich couldn't benefit from public services although they're paying higher taxes. In June 2005, more than 90 % of the residents voted for incorporation and made a new city government, the City of Sandy Springs³.

The city is famous for its unique operations; they're adopting the management method which is called Public Private Partnership (PPP). Most of their services are contracted out to private companies to provide cost-efficient, high-quality public benefits. Like other ordinary local governments, the police and fire department function are

operated by the direct-government, however, outside of that, only 8 people are working for the city as employees⁴.

3. Organization and budget Structure

The city is contracting out almost all of public services, but this does not mean that they're not providing fundamental public services such as safety, water and education. In the city's organization, there are several departments such as a financial and accounting department, a human resources department, a public works department, a capital improvement program and a call center. Some services are provided by the Fulton County or the intergovernmental agreements⁵. For example, water and sewer services are delivered to residential and commercial properties by the City of Atlanta and Fulton County through intergovernmental agreements, and their education is provided within the Fulton County School System which is operated based on the charter school model⁶.

In addition to looking at the organization chart (Appendix 2), we can understand what kind of services the city providing by analyzing their budget. The biggest part of their budget (almost 40%) is spent for the public safety. The public works such as infrastructures are the second largest part of their expenditure (about 27% of their total expenditure). Other than that, they're providing culture and recreation facilities, housing and development services, judicial services and other general government programs⁷. To understand this budget structure well, it is useful to compare it to another local government. The City of Roswell is located next to the City of Sandy Springs and they have 88,346 residents⁸. Their expenses show similar trend; the biggest part of their outlay goes to public safety, and the second largest part is spent for public works⁹. When we compare their expenditure/population ratio, Sandy Springs's ratio is 826.87 and on the other hand, Roswell's ratio is 963.75. From these numbers, it can be said the City of Sandy Springs's operation is more effective than one of the Roswell. However, this difference comes from the fact that Sandy Springs does not own their direct water and sewer services and also, services such as public safety and public works are bigger in the City of Sandy Springs. If we take the position that smaller government is better and efficient, this analysis doesn't apply to that simple logic.

When we look at the revenue side, the City of Sandy Springs's biggest revenue comes from property taxes (36.6%), and the second largest revenue is from their sales taxes (about 29% of their total revenue). Other revenue sources are insurance premium taxes, hotel/motel taxes, excise taxes, business taxes and so on. Also, this revenue structure is almost same with the one of Roswell.

The City of Sandy Springs is using the fixed millage tax rate. This means the tax portion charged by the city cannot be changed without a referendum vote by the citizens of the city¹⁰. This tax policy reflects the citizens' ideology, but it may threaten the flexibility of the city's revenue structure.

We can conclude that the Sandy Springs's budget is special considering the fact that there're departments and expenditures missing such as water services different from other local

governments, but it is not so clear they're managing their programs effectively enough or not. The expenditure/capita is not so different from the one of the city which is not employing the PPP method.

4. Financial Condition

When we look at the financial condition of local governments, we can use ratio analysis¹¹. There are several issues for us to consider when we look at fiscal statements of local governments. Liquidity, solvency, efficiency and fiscal capacity are the major examples of those ratios, and I used them to analyze the City of Sandy Springs's fiscal situation. I looked at the city's comprehensive annual financial report for year ended June 30, 2014 to calculate them. (Appendix 4 & 5)

First, the city's current liquidity ratio (= current assets / current liabilities)¹² is 8.9. From this ratio, we can understand whether the organization has enough cash and liquid resources to meet near-term obligations, and the ratio should be greater than 2 generally. The City of Sandy Springs's number (8.9) is relatively high.

Next, we can examine the government's leverage by calculating the debt to asset ratio. This is obtained by the equation which is total debt (liabilities) divided by total assets, and from this ratio, we can see what portion of total assets were paid for with debt. The city's debt to asset ratio is 0.06, which is lower than ideal number around 0.5. This means the city has enough assets to pay the debt with.

To figure out how efficient the government is operated, we can use profitability ratios, which is calculated by dividing change in net position with total revenue. The city's ratio is 0.24, and it can be said that the city is earning \$0.24 profit from each dollar of revenue. This is a good number considering that it was \$-0.15 profit in FY 2006.

Lastly, we can measure the city's fiscal capacity using several ratios. The risk exposure factor can be obtained by dividing the non-own-source revenue by own source revenue. This indicates how much taxes would have to increase if the non-own-source revenue declined. The City of Sandy Springs's number is 0.058. On the other hand, this number is 0.035 in the City of Roswell. Therefore, the City of Sandy Springs's risk exposure factor is not so low compared to the neighbor city. In addition, we can use the tax leverage factor to examine the government's fiscal capacity. This is calculated by dividing total expenses with own source revenue. The ratio explains how much own source revenue would have to increase to pay for a one percent increase in expenses. This number for the City of Sandy Springs is 1.05, and this is smaller number compared to the City of Roswell's 0.914.

From those ratios, I conclude that the City of Sandy Springs is in a good fiscal condition in terms of their liquidity, solvency and efficiency. In other words, the city is generating enough cash to pay its bills in the short-term, and they have a medium and long term balance between revenues and expenditures, assets and liabilities. Moreover, their service provision efficiency is improving since the city's establishment. However,

the fiscal capacity of Sandy Springs cannot be said better than the other cities in the State of Georgia. Overall, though, the city of Sandy Springs doesn't have major fiscal concerns so far.

4. Public Private Partnership (PPP)

Like I mentioned in earlier sections, the City of Sandy Springs's major feature is the fact that they're contracting out almost all of their public services. PPP is an arrangement in which governments and private sector firms share in a project's risks, responsibilities and rewards. Usually, the players in PPP are government agencies, government-owned corporations, non-profit corporations, private corporations, joint ventures and so on.

Of course, there are some pros and cons about the PPP approach. First positive aspect of PPP is its effectiveness. Because the private companies have expertise in the specialized service area and they're competing with other private companies, the cost is usually much lower than the direct services from direct governments. Also, the private employees' salaries are cheaper than public sectors. This is especially true to street bureaucrats' cases. In addition, the private firms are said to take less time to make decisions.

Next positive aspect about PPP is its flexibility. It is similar to the effectiveness, but HR management is much easier in the private sectors.

Lastly, the PPP model can reduce their liabilities. In the PPP scheme, the government could be free from responsibilities to keep large assets and employees, so they can decrease the liabilities regarding insurance and pensions for employees.

PPP sounds almost perfect, but there are some negative aspects. The risk management tend to be vague, especially in the emergency, it will be difficult to figure out their responsibilities. Sandy Springs is relatively new and they haven't encountered into big challenges so far, but the risk management would be the biggest problem for them.

Also, in Sandy Springs case, they don't have much competition between private companies which have that capacity to provide services. When there are not enough competitions available, the economy of scale would not work and we cannot expect large cost reduction from contracting out the services.

Lastly, this is the drawback which is special to Sandy Springs, but the area which was left after the independence of Sandy Springs is struggling a lot currently. Because the rich formed a new city, the people left in the previous area (the Fulton County) are now the ones with low income, and the county is suffering financial troubles. The county lost large revenue sources from the wealthy community and they're ending up with shutting down their public services such as public hospitals, libraries, garbage collections and so on.

From those analysis, we can understand PPP is not a perfect solution for financial problems. Contracting out all of the public services is an extreme example, and we should take into consideration the aspect that the City of Sandy Springs model is producing both of pros and cons.

5. Economic Development

Aiming to attract businesses to the area, local governments tend to promote their low business income tax rate. However, it is important to focus on specific industries to attract businesses into the area and boost economies. There are two categories of jobs in the market; export jobs and local jobs, and export jobs are multiplied up into total jobs because they lead to income circulating around the local economy. Therefore, local governments should employ policies which can attract export jobs if they want to boost their local economies.

The City of Sandy Springs has issued its economic development plan¹³, but their policies on it are vague and not specific enough. They need to be clear which kind of industries they are trying to attract to the city and the industries should be export jobs.

In addition to the market, local governments need to realize their public service levels matter in terms of economic development. Cutting tax rates usually means cutting public services, but government services interact with business decisions in important ways. Thus, the City of Sandy Springs should spend appropriate budget for their infrastructure, education¹⁴ and other public services.

6. Conclusion and recommendations

We can understand there are some aspects need to be addressed in the City of Sandy Springs PPP model.

First, they should rebuild their PPP model. It is hard to say that they're saving the public expenditure using the PPP, and the possible reason for this would be the fact that they're contracting out the services to only one company and there're no competitions in the market. Therefore, it could be worth thinking about contracting out several public services to different companies. If they could do this, they can attain partnerships with companies which have special expertise for specific areas and save their money.

Second, like I talked in the section 5, the City of Sandy Springs need to develop more detailed strategies to attract businesses. They should focus on efficient export jobs industries and provide great infrastructure and other good public services to attract businesses to the city. The information about their economic development policies should be disclosed in the way that prospective residents can understand without any difficulties.

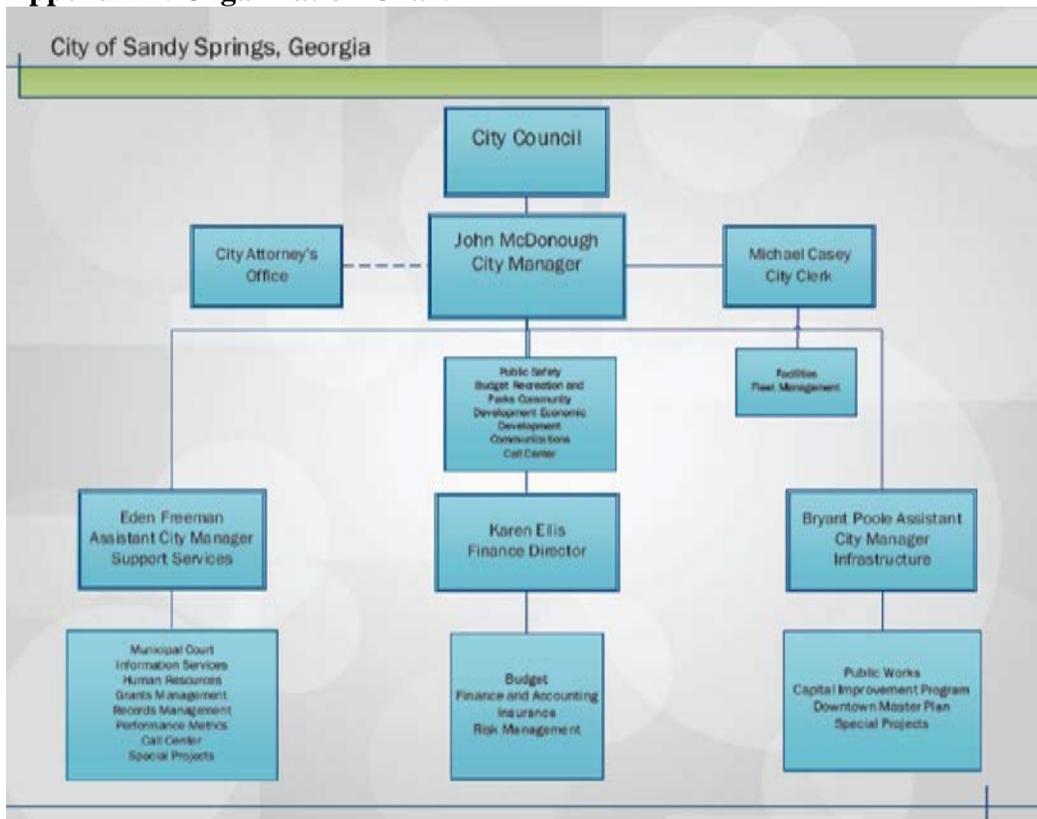
Lastly, the State of Georgia should install the revenue redistribution system to help poor local governments in the state. They cannot ignore the huge inequality between the wealthy city like Sandy Springs and others with limited budget. I propose the state impose higher sales tax and redistribute some portion of the revenue from the sales tax to help local governments with financial difficulties. Although I think local governments should build their own independent revenue system, but some interventions from higher level of governments are necessary in this kind of case.

Appendix 1: Sandy Springs Map



Source: Profile for Sandy Springs, Georgia, GA,
<http://www.epodunk.com/cgi-bin/genInfo.php?locIndex=216519>

Appendix 2: Organization Chart



Source: CAFR 2014 - Rev 1.0.indd - City of Sandy Springs
<http://www.sandyspringsga.org/home/showdocument?id=5193>

Appendix 3: The City of Sandy Springs, Statement of Net Position, June 30, 2014

	Primary Government	Component Unit
	Governmental Activities	Sandy Springs Hospitality Board
ASSETS		
Cash and cash equivalents	\$ 98,187,833	\$ 332,780
Taxes receivable	1,610,006	-
Accounts receivable	659,630	-
Due from other governments	4,059,731	-
Due from component unit	4,894	-
Due from primary government	-	233,965
Prepays	2,003	2,675
Capital assets:		
Nondepreciable	68,786,287	-
Depreciable, net of accumulated depreciation	126,082,809	-
Total assets	299,393,193	569,420
LIABILITIES		
Accounts payable	8,831,153	57,350
Accrued liabilities	2,465,013	-
Unearned revenue	254,126	-
Due to primary government	-	4,894
Due to component unit	233,965	-
Compensated absences due within one year	745,947	-
Compensated absences due in more than one year	808,109	-
Capital leases, due within one year	776,790	-
Capital leases, due in more than one year	4,629,444	-
Total liabilities	18,744,547	62,244
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement	210,000	-
Total deferred inflows of resources	210,000	-
NET POSITION		
Net investment in capital assets	189,462,862	-
Restricted:		
Infrastructure improvements	2,384,926	-
Public safety projects	826,567	-
Grant activities	75,466	-
Tourism	1,101	507,176
Recreation	106,448	-
Unrestricted	87,581,276	-
Total net position	\$ 280,438,646	\$ 507,176

Source: CAFR 2014 - Rev 1.0.indd - City of Sandy Springs
<http://www.sandyspringsga.org/home/showdocument?id=5193>

Appendix: 4 The City of Sandy Springs, Statement of Activities, June 30, 2014

	Primary Government Governmental Activities	Component Unit Sandy Springs Hospitality Board
ASSETS		
Cash and cash equivalents	\$ 98,187,833	\$ 332,780
Taxes receivable	1,610,006	-
Accounts receivable	659,630	-
Due from other governments	4,059,731	-
Due from component unit	4,894	-
Due from primary government	-	233,965
Prepays	2,003	2,675
Capital assets:		
Nondepreciable	68,786,287	-
Depreciable, net of accumulated depreciation	126,082,809	-
Total assets	299,393,193	569,420
LIABILITIES		
Accounts payable	8,831,153	57,350
Accrued liabilities	2,465,013	-
Unearned revenue	254,126	-
Due to primary government	-	4,894
Due to component unit	233,965	-
Compensated absences due within one year	745,947	-
Compensated absences due in more than one year	808,109	-
Capital leases, due within one year	776,790	-
Capital leases, due in more than one year	4,629,444	-
Total liabilities	18,744,547	62,244
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement	210,000	-
Total deferred inflows of resources	210,000	-
NET POSITION		
Net investment in capital assets	189,462,862	-
Restricted:		
Infrastructure improvements	2,384,926	-
Public safety projects	828,567	-
Grant activities	75,466	-
Tourism	1,101	507,176
Recreation	106,448	-
Unrestricted	87,581,278	-
Total net position	\$ 280,438,846	\$ 507,176

The accompanying notes are an integral part of these financial statements.

Net (Expenses) Revenues and Changes in Net Position	
Primary Government	Component Unit
Governmental Activities	Sandy Springs Hospitality Board
\$ (10,690,535)	\$ -
1,757,493	-
(30,024,617)	-
(14,489,170)	-
(4,500,925)	-
(1,672,007)	-
(122,202)	-
<u>(59,741,963)</u>	<u>-</u>
(59,741,963)	-
-	(65,416)
-	(65,416)
30,945,648	-
24,444,122	-
3,866,704	-
9,164,266	-
104,169	-
9,888,532	-
4,841,259	-
113,666	-
980,501	-
<u>84,348,867</u>	<u>-</u>
24,606,904	(65,416)
255,831,742	572,592
<u>\$ 280,438,646</u>	<u>\$ 507,176</u>

Source: CAFR 2014 - Rev 1.0.indd - City of Sandy Springs
<http://www.sandyspringsga.org/home/showdocument?id=5193>

¹ The City of Sandy Springs Website
<http://www.sandyspringsga.org/government/city-history-and-culture>

² The state and county quickfacts
<http://quickfacts.census.gov/qfd/states/13/1368516.html>

³ The City of Sandy Springs Website
<http://www.sandyspringsga.org/government/city-history-and-culture>

⁴ ibid

⁵ City of Sandy Springs, Georgia, Comprehensive Annual Financial Report for fiscal year ended June 30, 2006
<http://www.sandyspringsga.org/home/showdocument?id=421>

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- ⁶ The City of Sandy Springs Website, Economic Development
<http://www.sandyspringsga.org/business/economic-development/business-climate>
- ⁷ The CAFR 2014 - Rev 1.0.indd - City of Sandy Springs, Comprehensive Annual Financial Report for fiscal year ended June 30, 2014
<http://www.sandyspringsga.org/home/showdocument?id=5193>
- ⁸ The state and county quickfacts
<http://quickfacts.census.gov/qfd/states/13/1367284.html>
- ⁹ City of Roswell, Comprehensive Annual Financial Report for fiscal year ended June 30, 2014
<https://www.roswellgov.com/index.aspx?nid=500>
- ¹⁰ The City of Sandy Springs Website
<http://www.sandyspringsga.org/government/city-history-and-culture>
- ¹¹ The power point slides from PAI 731 “State and local government financial management” Professor. Rubinstein
- ¹² Steven Finkler, “Financial Management for Public, Health, and Non-profit Organizations”, P534-544
- ¹³ The City of Sandy Springs Website
<http://www.sandyspringsga.org/business/economic-development>
- ¹⁴ E. L. Glaeser, 2011. Done Right, New Applied Science Center for New York Makes Sense, *The New York Times*, *Economix*, March 22.
https://blackboard.syr.edu/bbcswebdav/pid-3480953-dt-content-rid-9689215_1/courses/31721.1152c/32253.1142c_ImportedContent_20140109090156/Done%20Right%2C%20New%20Applied%20Science%20Center%20for%20New%20York%20Makes%20Sense.pdf