

Introduction

This report presents an index of fiscal capacity for each county in Georgia, and is the first part of an analysis of local government fiscal viability. Future reports will present measures of fiscal capacity for subcounty jurisdictions and measures of fiscal need.

The index of fiscal capacity represents the revenue per capita that would be raised in 1994 in each county using a common revenue structure expressed as a percent of the state average. Table 1 presents the index with the counties listed alphabetically, while Table 2 lists the counties ranked by the value of the index. The report begins with a discussion of the distribution of the index. The second section contains a brief description of how the index was constructed.

Analysis of the Fiscal Capacity Index

An index of fiscal capacity measures the relative ability of various jurisdictions to raise revenue. In particular, the index of fiscal capacity represents the revenue per capita that would be raised in 1994 by a given revenue structure expressed as a percent of the state average. Table 1 presents the index with the counties listed alphabetically, while Table 2 lists the counties ranked by the value of the index. To illustrate, the fiscal capacity index of 135 for Appling county means that for the given revenue structure and rates the revenue per capita that would be raised in Appling county is 135 percent more than the state average revenue. Likewise, the index value of 64 for Atkinson county means that the per capita revenue that would be raised in that county would be 64 percent of the state average. A county with an index of 50, for example, would have to impose tax rates that are twice as high as the state average in order to generate revenue per capita equal to the state average. The index is not related to the revenue that

counties actually collect, since that is dependent upon the county's choice of revenue sources and rates.

The wide variation in the index, the index ranges from 31 to 250, implies that there is substantial variation in fiscal capacity across Georgia. Excluding the highest and lowest five counties, the index still ranges from 53 to 128. Only 23 counties have an index value greater than 100.¹

The value of the index is positively related to per capita income. The simple correlation coefficient between the index and per capita income is 0.47.

The geographic distribution of the index is seen in the map. The county with the highest index, Burke, has very high value of assessed property per capita because of the existence of Plant Vogel. Counties with high values of the index are generally urban counties since they have greater sales per capita, higher assessed property per capita, and higher per capita incomes. While a greater percent of the counties in the southern part of the state have low values of the index, both low and high values are found throughout the state.

How the Index of Fiscal Capacity Was Constructed

¹ The reason why so few counties have an index greater than 100 is that counties with above average revenue per capita have large populations, thus "pulling up" the state-wide average that is used as the denominator in constructing the index. We could have used the average of county per capita revenue as the denominator. That would change the value of the index for each county but would not change the ranking.

An index of fiscal capacity measures the relative ability of various jurisdictions to raise revenue. In order to compare the relative revenue raising ability of various jurisdictions, we must estimate the revenue that every jurisdiction (or geographic area) would raise if they all used the same revenue sources and imposed the same rates. Thus, the first step in the construction of the index of fiscal capacity is the specification of what revenue sources to be included.

The revenue sources included in the analysis are called the “representative revenue structure.” While the specification of the representative revenue structure is arbitrary, we focus on the revenue sources of county and municipal governments since those are the governments we are interested in. In particular, we specify a representative revenue structure that captures most of the revenue sources that county and municipal governments in Georgia can use. We do not consider intergovernmental transfers, i.e., grants, or revenue from the operation of utilities, e.g., water and sewer systems and electrical utilities. The revenue sources in our representative revenue structure consist of

- property taxes,
- sales taxes,
- business license (now called the occupational tax),
- charges,
- other tax revenue.

Other tax revenue consists of revenue from numerous taxes, including insurance premium taxes, franchise taxes, and taxes on liquor.

The second step is to select the rates for each revenue source. The rates for each revenue source were chosen so that in general the total state-wide revenue for each revenue source is

approximately equal to the actual state-wide revenue collected from that source. Since we are not concerned with school districts or with special districts, e.g., hospital authorities and public transit authorities, we excluded their revenue in determining the rates to be used.

For the property tax we set the millage rate so as to approximate the total state-wide revenue for non-school purpose. That implied a millage rate of 15.46.

For the sales tax, we assume a 1 percent rate, i.e., a local option sales tax (LOST). Many jurisdictions impose an additional 1 percent sales tax (SPLOST). But since the SPLOST is used for special purposes, i.e., infrastructure, and not general operating purposes, we used only the 1 percent sales tax rate.

For the occupation tax, we first reviewed the structure of the existing occupational taxes as of 1994. Many jurisdictions do not impose such a tax, and among those that do there is substantial variation across the state in what is taxed (employees versus gross receipts) and the rates imposed. We used a recent survey regarding the use of the occupation tax conducted by the Association County Commissioners of Georgia.² This survey showed that most counties that have an occupation tax base the tax on employment and have a fixed filing fee per business or a high rate for the first employee. Based on the survey we selected a charge of \$50 per establishment and \$10 per employee. Employees in agriculture and government were excluded from the calculations.

Charges include revenue from such sources as fees for use of golf and tennis courts, sales of maps and documents, fees for solid waste collection and disposal, rental charges for the use of facilities, etc. We assume that charges are related to personal income. Based on reported state-

wide revenue from charges and state-wide aggregate personal income, we selected a “rate” of 6.72 percent of total personal income.

Given the large number of taxes included under other tax revenue, there was no way to determine a specific base for each of these taxes. Instead, we assume that the revenue from these sources were related to aggregate personal income. Given the relationship between state-wide revenue from other taxes and total personal income, a “rate” of 3.5 percent of total personal income was selected.

From a variety of sources we determined the value of the base for each of the revenue sources for each county in Georgia (see Appendix). Note that the base refers to the base for the entire county. Applying the rates we selected to each revenue source yields the estimated revenue that would be generated from each revenue source in the representative revenue structure within each county. These amounts were summed for each county, converted to per capita terms and then divided by the state per capita revenue. The state per capita revenue was calculated by dividing total revenue for all counties by state population.

The result of these calculations is an index that allows comparison across counties of revenue raising ability. Note that the revenue is not related to the revenue that any county actually collects, since that is dependent upon the county’s choice of revenue sources and rates.

It should be noted that the index depends upon the revenue sources included in the representative revenue structure and the rates chosen. We did experiment by altering the rates by small amounts and found that the ranking of counties did not change very much. However,

²We thank John Keys for making this survey available.

making large changes in the rates would likely change the values of the index by large amounts since some counties have relatively high sales tax bases while others have relatively high property tax bases.

Appendix

This appendix describes the sources of data used in constructing the index.

Actual revenue from each source was obtained from Government Finances: 1990-91, Bureau of the Census. Personal income was obtained from the Regional Economic Information System of the Bureau of Economic Analysis.

Sales tax base was constructed from actual LOST or SPLOST receipts (for calendar year 1994) by jurisdiction obtained from the Georgia Department of Revenue³. For DeKalb county we used the estimate generated in Research Atlanta's report on DeKalb county's recent sales tax proposal.

For the property tax, net assessed value of regular property and net utility property for 1994 for counties was taken from the Georgia Department of Revenue's 1995 Statistical Report (Table 13). The exemptions are the value of the state authorized exemptions, not what local actual governments provide.

The number of establishments and number of employees for the occupational tax came from County Business Patterns, 1993.

³ We thank D. Langley for providing us with this data.