

MEMORANDUM

To: Mayor and City Council

From: Chris Pike, Finance Director

Date: July 23, 2018

I'll apologize in advance for the length of this memo, but the matter is very important so I hope you'll indulge me a few minutes to read through all of this. I've debated the past few months on how best to express this thought or to even express it at all. I deeply value Council's responsibility to set policy while equally valuing my responsibility to implement those policies. Any government works best when those two roles are done properly. So best I start off by saying I'm not trying to set policy here at all. I also want to share a little story about what got me to write this. A few weeks ago, I got an urgent phone call followed by several texts and emails that our holding cell was about to flood. Seems there is a pan under the HVAC component that was positioned inside the holding cell and condensation was building inside the pan. Drip by drip, the water was building. The pan easily handling each drip individually, but the sum of all the drips too much for the pan and evaporation to handle until the pan bent into a V-shape. A call went out to address the immediate concern. However, the drips continued as we failed to address the cause of the problem. It wasn't until the technician was able to properly repair the issue allowing the drip, evaporation and strength of the pan to sustain itself did the problem go away.

I realize our city is in a similar position as that pan right now. Looking back over the years quickly approaching a decade since we incorporated, I've watched our city government grow. I am expressing a growing concern with what we all know to be termed as "scope creep". I feel that's a fair description because it really does creep little by little. Any one scope item added works with our budget, but the sum of all the "drips" can be too much. Continuing to add more and more services without altering our ability to meet those financial burdens is causing the pan to bend with a mess soon to follow. We are providing services far beyond we ever anticipated when the city was formed. Over the years, we have added Economic Development, Marketing and Communications, and Parks Programming. We've also expanded departments that existed in the beginning but are now larger. Including sworn and civilian, DPD is over 50% larger with support departments like HR, Court, Finance and City Manager's office also larger to service the higher internal customer service demands. All are good investments, and I don't single those out to say they shouldn't be done by us to some extent. My only point is that our current revenue structure is not sufficient to meet an ever-growing list of

services to be provided. I looked back to the cover letter to our 2010 budget. In that letter, we talked of an enhancement to include \$250,000 in the 2010 budget to maintain and improve our parks. As of this morning, the initial requested budget requested by Parks is at \$10.6 million. In 2013, city staff conveyed the message to council that we would always have resurfacing needs that exceeded our resources, but that we would put our dollars to where they would do the most good. At that time, it was noted that we could consistently sustain around \$1.75 million per year in paving without it critically hindering other priorities. Excluding special areas such as Austin, Georgetown Gateway and intersections, this year's initial budget includes \$3.4 million requested from the department with comments coming from non-staff that we need to increase the amount we have in budgeting. Other Public Works construction requests total \$6.5 million on top of that. My last example is when we took over the parks from DeKalb County, it was the opinion of Council that because of the strong programs offered by our neighbors (such as those at Murphy Candler and Verizon Amphitheater and the multiple swim and tennis clubs in the area), the city's attention would be to provide passive parks with open field and picnic areas. Our 2014 agreement with Treetop Quest states, "WHEREAS, the City of Dunwoody is interested in providing a passive recreational activity for its citizens in Brook Run Park". Now we're talking of multiple active programmed fields and courts; adding expense to both the maintenance of the park and the operational staff required to maintain such programs. We've gone from partnering with the community to taking over for the community. That's a policy decision and certainly has its merits.

Unfortunately, the list of scope increases over the years would make this way too long to keep anyone's attention. But my hope is that seeing these three examples can help make the point I'm trying to stress. So here's that point ... we are there! I hear of millions for park improvements, millions above what we ever felt was sustainable for paving, millions more for redoing facilities such as the library or old Austin site. We simply cannot do all these with our current revenue structure. The scope is increasing far beyond our revenue growth. More importantly is that we cannot operate these improvements even if we had the capital funding to build them. Our operations budget has reached a point where we can maintain what we have now, but cannot maintain more. We've made wise investments in capital over the years. We've also made wise investments to see those capital items are properly maintained. It's a critical balance.

When Dunwoody was formed, we routinely expressed a common vision that we could provide a better government and a more responsive government at the same price. We've done that; no one could make an educated argument otherwise. But we are now doing far more than we ever promised or set out to do. To continue adding even more, we need to take a closer look to see what it is we want to do as a government, what we will allow other governments to do for us, and what we expect the private sector to do. We then need to see what

it will cost to do the things we want to do. Find revenues that will cover those costs. This is true for both the capital and the operations. In 2008, we had a clear vision of which services we wanted to provide. In 2018, I'm not sure we have that same clarity and we certainly lack the financial resources to do what is in front of us now. When we look at property we don't own, when we look at property we do own that needs improving, when we consider offering new programs never before considered, we need to keep in mind our financial foundation was intended to provide the most basic of services.

I don't have a silver bullet that everyone will gravitate to; it doesn't exist. Instead, it's time for Council to make the decision of what we want to do and how it will be financed over the long term. There is so much that government can do when it comes to providing services. The painful truth is that we have limited alternatives. Most of our revenue sources are fixed as a percentage (such as franchise fees) and even some costs are fixed absolutely now that we have the property tax freeze in place. You can't grow programs and new services with fixed revenues, let alone discussions over the years to decrease the millage rate. So the crossroad I see our great city is do we continue to provide the basic of services at a superior level at the millage we inherited at incorporation or provide better services, more services at rates our citizens are willing to pay for those services. Bonds will get you so far in that they cover the capital our citizens may want, but I want to stress the operations needs to be covered as well and more will be needed there too.

I also want to put this out there for your consideration. It's a little technical but bear with me. Prior to our incorporation, our citizens paid into the special service district for police, street maintenance and parks. With that millage to the county, they received a HOST credit for all three of those services. They lost that credit when we became a city so our charter included a 1 mill "HOST-like" exemption to offset what they were receiving previously. That's why today our homeowners pay 1.74 mills and the commercial pays 2.74 mills. When SPLOST was approved and then implemented in 2018, the HOST credit rolled off of the special service districts and is now applies to the countywide tax lines. That means the homeowners in Dunwoody got back the 1 mill they lost because of incorporation. But they also are now keeping the 1 mill exemption on the Dunwoody city tax line too. Whether you do it or not, it's worth realizing that it is completely reasonable to remove the 1 mill credit from the city line since they are now getting that on the county tax line. That's a policy decision but I want everyone to see that it's there ... along with a homestead freeze that will hurt our ability to meet growing costs in years down the road. I feel it's time to look at the charter's tax structure and ask the citizens to decide how much they want to receive in services based on how much they are willing to pay. If that answer is to keep the revenues where they are, we need to significantly alter the pace we are growing in regards to the services being offered.

These are important decisions to make and I'm not suggesting a reply to this. The purpose of this is to get everyone thinking. Then maybe we follow up those thoughts with discussions across all lines of services we do or could offer to determine if it's time for us to change from what we set out to do. Perhaps a retreat or workshop focused primarily on scope of services and financing them. I'll help wherever I can with data. I know Eric and all the department heads will do the same. I work with an incredibly talent team. In the end though, it's a policy decision only you can make. Eric has suggested the budget meetings in September could be the launching pad for those discussions. That's about six weeks away and would give us all some time to start thinking. Regardless of when that discussion starts, I would ask that council considers what I've said above in the meantime when faced with large expenditures.