



Consideration of Cumberland County's Proposed Sales Tax Distribution Interlocal Agreement

January 14, 2019

Sales Tax Distribution Methods

- County commissioners are authorized to choose between two methods to establish the division of sales tax proceeds among a county and its municipalities
 - Per Capita Distribution
 - The total of the county-wide population (in incorporated and unincorporated areas) and the populations of each municipality is used to calculate a proportional per capita distribution
 - Ad Valorem Distribution
 - The sum of ad valorem taxes levied by the county, each municipality and each taxing district in the immediately preceding fiscal year is used to calculate a proportional share of sales tax proceeds
 - Changes in each taxing authority's tax base and tax rate affect the shares
- County commissioners may change the method for the next fiscal year by adopting a resolution in April



Cumberland County Sales Tax Distributions

- Sales taxes in Cumberland County have historically been distributed using the population distribution method
- As municipal populations have grown through annexation, the County's relative share of sales tax distributions has declined
- In October 2003, an interlocal agreement was reached between the County and each of the municipalities
 - The County agreed to maintain the per capita distribution method
 - Generally, each municipality that annexed population during the term of the agreement was required to reimburse the County and other municipalities 50% of sales tax distribution losses that resulted from the annexation for all subsequent fiscal years



Interlocal Agreement for Sales Tax Distributions and Reimbursements

- The original agreement has since been modified and extended, with the current extension scheduled to expire June 30, 2019
- The County and City exchanged extension proposals throughout 2018 in anticipation of the pending agreement expiration, with options including:
 - Extending the current agreement terms as is for four years
 - Extending the agreement for ten years with reimbursements for the County capped at FY2018 levels and reimbursements to other municipalities reduced and then eliminated at five years



County's Current Proposal to Extend the Interlocal Agreement

- At a called meeting of the Mayor's Coalition on December 18, 2018, the County presented an updated proposal to amend and extend the agreement
- The County announced a January 31, 2019 deadline for action by all municipalities in response to the proposal
- On January 9, 2019, the Council Sales Tax Committee met to review the County's proposal with staff
 - Mayor Colvin, Mayor Pro Tem Mohn, and Council Members Culliton and Waddell unanimously voted to recommend the County's proposal for action by the full Council



County's Current Proposal to Extend the Interlocal Agreement

- City staff reviewed the proposal and received clarifying feedback from County staff regarding the proposal for the four year extension
- Key provisions of the proposal include:
 - Terms of the current agreement extend for the first year, FY2020
 - FY2020 then serves as the base year for calculation of future reimbursements
 - Reimbursement percentages for FY2021 to FY2023 set at FY2020 levels
 - Initial reimbursement amounts will be calculated using the set percentages and the total revenues distributed during the fiscal year
 - Any calculated reimbursements due to the County in excess of the FY2020 base year level will be reduced by 60%, and any reimbursement amounts due to other municipalities will be reduced by 50%
 - Similar adjustments apply should sales tax revenues decline



County's Current Proposal to Extend the Interlocal Agreement

- The proposed amendment should result in the City retaining a greater share of sales tax revenues
- Risks exist with the change to lock-in the reimbursement percentages, particularly related to annual population adjustments for Fort Bragg
 - Consensus of the Council Sales Tax Committee was that the risk of significant reductions in Fort Bragg populations over four years is low
- A decision by the County to select the ad valorem basis of distributions would significantly impact City revenues
 - Based on a comparison of the two methods for FY18, it would be expected that the City would lose in excess of \$5 million
 - It would require an ad valorem tax rate adjustment between 3.5 and 4.0 cents to make up for potential sales tax losses

Council Direction

- Council direction is needed to respond to the County's proposal to meet the January 31 ,2019 deadline
- The Sales Tax Committee's recommendation is to:
 - Accept the County's proposed interlocal agreement and request City and County staff to jointly document agreed upon processes for calculation of future reimbursements

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