



Legislation Details (With Text)

**File #:** 18-594      **Version:** 1      **Name:**

**Type:** Other Items of Business      **Status:** Agenda Ready

**File created:** 1/2/2019      **In control:** City Council Special Meeting

**On agenda:** 1/9/2019      **Final action:**

**Title:** Discussion of Sales Tax Distribution Interlocal Agreement

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Attachment A - County's Proposed Amendment 10 5 18, 2. Attachment B - City Proposal 10 10 18, 3. Attachment C - County's PowerPoint Presentation Dec 18 2018 Mayors Coalition Meeting, 4. Attachment D - County's Proposal 12 18 18, 5. Attachment E - Per Capita vs Ad Valorem Comparison for FY18

Date	Ver.	Action By	Action	Result
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**TO:** Mayor and Members of City Council

**THRU:** Douglas J. Hewett, City Manager ICMA-CM  
Telly C. Whitfield, Ph.D., Assistant City Manager

**FROM:** Tracey Broyles, Budget and Evaluation Director

**DATE:** January 9, 2019

**RE:** Discussion of Sales Tax Distribution Interlocal Agreement

**COUNCIL DISTRICT(S):**  
All

**Relationship To Strategic Plan:**

Goal V: Sustainable Organizational Capacity  
Objective A: To ensure strong financial management with fiduciary accountability and plan for future resource sustainability by aligning resources with City priorities

**Executive Summary:**

In February, 2016, City Council authorized a three-year extension of the Sales Tax Distribution Interlocal Agreement with the County and other local municipalities which will conclude at June 30, 2019.

At a special meeting held on October 10, 2018, City Council authorized staff to forward a proposal for

an amendment and extension of the agreement to Cumberland County.

At a meeting of the Mayor's Coalition on December 18, 2018, Cumberland County shared a proposal for an amendment and extension of the agreement. The County has imposed a deadline of January 31, 2019 for all jurisdictions to execute the proposed agreement.

The Sales Tax Committee is being asked to consider the County's proposal and provide direction for next steps for consideration of the full Council.

**Background:**

State statute authorizes the County to choose the distribution method for sales tax revenues among the County and municipalities using either the per capita (population based) method or the ad valorem (tax levy based) method. The County must decide in April of each year which method will be used for distribution for the next fiscal year.

Historically, sales taxes within Cumberland County have been distributed on a per capita basis. As municipal populations grew through annexation, the County's relative share of per capita distributions declined. In October, 2003, the County and each of the local municipalities reached an interlocal agreement under which municipalities reimburse the County and other municipalities for 50% of lost sales tax revenues due to annexations in exchange for the County maintaining the per capita basis of distribution.

Modifications to the agreement have included a provision to reimburse the County 100% for sales tax distribution impacts of the annexed population on Fort Bragg, and the addition of Eastover at its initial incorporation and its subsequent release from required reimbursements due to its population at the time of incorporation.

The original agreement was effective for a three-year term, and has been renewed four times. The current extension was approved in February, 2016 for fiscal years 2017 through 2019 and included a provision that the parties would begin discussions of a new agreement not later than January, 2017.

On January 3, 2017, Council selected the Mayor Robertson, Mayor Pro Tem Colvin and Councilmembers Arp and deViere to represent the City in negotiations with the County. The County convened a meeting of the Sales Tax Distribution Committee on April 12, 2017, including appointees from the County commission, other municipalities and 2 members from City Council. It was determined that further discussions on the issue would be deferred until operating budgets were adopted for fiscal year 2018. The County convened a second meeting of the Sales Tax Distribution Committee on Oct 9, 2017, however, appointed City representatives were unable to attend. It was requested that any future meetings be deferred until early 2018 due to the November election and the change of one of the two appointed City members.

On January 19, 2018 and again on October 5, 2018, the County forwarded an initial proposal to extend the sales tax agreement in its current form for four years (Attachment A). Mayor Colvin initiated the Council's Sales Tax Committee to discuss the proposed agreement and prepare a recommendation for further action to the Council.

The Sales Tax Committee consisted of Mayor Colvin (chair), Mayor Pro Tem Mohn and Councilmembers Waddell and Culliton, and it met on October 9, 2018 and developed an alternative

proposal (Attachment B). At a special meeting on October 10, 2018, the full Council endorsed the proposal and it was subsequently shared with the County. The proposal was reviewed with County Manager Amy Cannon and Assistant County Manager Melissa Cardinali at a meeting with the City Manager and myself on October 19, 2018.

At a called meeting of the Mayor's Coalition on December 18, 2018, the County presented a PowerPoint (Attachment C) and an updated proposal to amend and extend the agreement (Attachment D). The County's deadline for action in response to the proposal is January 31, 2019.

### **Issues/Analysis:**

The County's proposal would continue the terms of the current agreement for the first year, FY2020. Staff understands that the revenues received by each entity and the reimbursements made between the entities during that year will determine the base distributions for the three subsequent years of the agreement. For the three remaining years, the County's share would increase by 40% of the growth or decrease by 40% of any decline in county-wide sales tax distributions as compared to FY2020. Collectively, the municipalities would receive 60% of any growth or lose 60% of any decline based upon proportionate shares of sales tax distributions from the state under the per capita method.

City staff has requested numerical illustrations of the proposed calculation method for the subsequent years from County staff to ensure shared understanding.

### **Budget Impact:**

Staff prepared a comparison of estimated net revenues for Fiscal Year 2018 under the per capita and ad valorem distribution methods included as Attachment E. Using this data (which is the most recent complete fiscal year for which data is available), it is estimated that the City would lose a minimum of \$5 M should the County elect to transition to the ad valorem method of distribution. In fiscal year 2018, 1 cent on the City's ad valorem property tax rate generated approximately \$1.37 M in revenue. On that basis, it would require a tax rate increase between 3.5 and 4.0 cents to make up for lost sales tax revenues should the County elect the ad valorem method of distribution.

It is difficult to assess comparisons between the City and County proposals for amendment as sales tax growth is uncertain. Currently, the County receives approximately 57.7% of sales tax reimbursements within Cumberland County. In the County's proposal, revenue growth beyond the FY2020 base year would be shared 40% County/60% municipalities, so that would be beneficial to the municipalities.

### **Options:**

- Accept the proposal as put forth by Cumberland County
- Accept the proposal put forth by Cumberland County with negotiation for additional considerations
- Reject the County's proposal
- Other direction from Council

**Recommended Action:**

Staff requests direction from the Sales Tax Committee for next steps.

**Attachments:**

- Attachment A - Original Proposal from Cumberland County, January 2018 and October 2018
- Attachment B - Alternative Proposal from City to County, October 2018
- Attachment C - County PowerPoint Presentation for the Mayor's Coalition on December 18, 2018
- Attachment D - Revised Proposal from Cumberland County, December 2018
- Attachment E - Comparison of Per Capita and Ad Valorem Sales Tax Distribution Methods based upon FY2018