



Agenda Action Form Overview

The Board is requested to approve a one-year interlocal cooperation agreement for the division of sales tax between the County of Durham and the City of Durham for the period July 1, 2026, through June 30, 2027. This interlocal pertains to Sales Tax Articles 39, 40, & 42 and 44 (including Local Government Hold Harmless Provisions). City administration has agreed to amending the current interlocal agreement per agreed upon guidelines for an additional year.

Background/Justification

For the past 10+ years the County has had an ILA with the City regarding the distribution of local sales tax revenue collected monthly. State law allows counties to determine whether they will distribute sales tax based on an Ad Valorem (Property Tax levy) or Per Capita (proportionate population of all areas), distribution. The City and County have mutually agreed (for many years) that it is in the best interest of both governments to use the Per Capita distribution method and then, using an ILA, make revenue distribution adjustments from there. This ILA setup maximizes the amount of available sales tax revenue to the City and County and allows both parties to not be obligated to further distribute sales tax funds to ancillary districts (such as Fire Districts). At the highest level, the intent of the ILA is to ensure that the City and County maximize their distributions as if the distribution method was Ad Valorem, by amending the Per Capita distribution from the State per the split agreed upon in this ILA.

Prior to FY 2020-21 the ILA split of Article 39, 40, 42, 44 and City Hold Harmless sales tax revenue was 58% for the County and 42% for the City (of the total collected between the two). In FY 2020-21 the city requested out of the ILA as it had existed. After negotiations and analysis in the Winter and Spring of 2020, an ILA split of 56%/44% (County / City respectively) was entered into. This revised split was renewed annually, for 3 fiscal years. For FY 2024-25 and FY 2025-26 the split was amended to 55.5% County and 44.5% City after joint discussions between the two governments. Due to recent property tax increases by both governments (with the City’s outpacing the County as a percentage increase) an adjustment is merited for FY 2026-27. For the fiscal year starting July 1, 2026 the split will be amended to 55.0% for the County and 45% for the City. This change is supported by a detailed analysis completed and thoroughly discussed by both government’s Budget Office.

The actual split will vary over fiscal years based on two primary factors: 1) Each government’s property tax levy that is affected by tax rate changes made by the respective governments; 2) A more nuanced item that is related to actual sales tax collection recording for City Hold Harmless (resulted from the repeal of Article 44). The budget offices of both governments work together each Fall to establish an agreement for future years. This agreement is then reviewed with both Management teams before being brought forward to the elected officials of each respective government.

Policy Impact

Amending this ILA is in line with best practice to maximize revenues for the County as can be reasonably projected and agreed upon with the City.

Procurement Background

N/A

Fiscal Impact

Amending the split from 55.5% for the County in FY 2025-26 to 55% for FY 2026-27 (44.5% and 45% respectively for the City) will have a net effect of approximate loss of revenue to the County of \$1



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million. Despite this loss, continuing this ILA remains in the best interest of the County as it simplifies distributions as well as avoids having Sales Tax support other taxing districts with county-wide revenues.

Recommendation

The County Manager recommends that the Board approve a one-year interlocal cooperation agreement for the division of sales tax between the County of Durham and the City of Durham for the period July 1, 2026, through June 30, 2027, and authorize the County Manager to sign this agreement.