

County governments in NC (by state law) have the option of distributing Articles 39, 40, 42, and 44 sales tax revenue between municipalities by a “Per Capita” distribution or an “Ad Valorem” distribution. Each of these methods have their own methodologies, quirks, and strengths and weaknesses.

Prior to 2008 Durham County had a long standing interlocal agreement (starting in 1995) with the City of Durham where the County would choose to distribute collected sales tax “Per Capita”, as allowed by state law, but then layer over that distribution another that distributed the sum amount collected by both the City and County by an interlocal agreement specified percentage of 56.86% County and 43.14 % City. In effect the interlocal agreement overrode the “Per Capita” distribution with an agreed upon split between the City and County.

In 2008, after County Budget Office research into moving to an “Ad Valorem” form of distribution, which would have been significantly more beneficial to Durham County, the County decided to propose a “middle ground” approach to difference between the current interlocal described above and the possible switch to “Ad Valorem” distribution by proposing a revised City/County interlocal agreement that proposed staying with a “Per Capita” distribution, but then layering over that a split of 58% County and 42% City of the total amount collected between the two municipalities. This was a slight increase from the original interlocal and increased sales tax revenue coming to the County while minimizing the sales tax revenue loss for the City (versus an “Ad Valorem” distribution).

This revised interlocal with a 58%/42% split was proposed for a five-year time frame and was subsequently agreed to by the Board of County Commissioners and City Council. In 2013 this interlocal was extended for an additional five-year time frame by both governing bodies. In 2018 the interlocal was again extended for an additional five-year time frame. It should be noted that each interlocal, starting with the 2008 versions, had a clause included where either the City or County could terminate the current agreement with a specified amount of notice. The following pages highlight options being considered with the FY 2020-21 Sales Tax Distribution.

1) Current City (42%)/County (58%) ILA using estimated FY 2020-21 sales tax collection (taking into consideration potential significant economic downturn)

Per Capita Distribution	1/2 Cent (40)	1/2 Cent (42)	1 Cent (39)	1/2 Cent (44)	City Hold Harmless	Total Distrib.
Durham County	\$ 14,028,246	\$ 17,328,568	\$ 34,652,025	\$ -	\$ (9,591,010)	\$ 56,417,829
Durham City	\$ 11,904,157	\$ 14,703,875	\$ 29,403,272	\$ -	\$ 9,426,603	\$ 65,437,906
Chapel Hill	\$ 147,938	\$ 182,706	\$ 365,355	\$ -	\$ 117,161	\$ 813,159
RTP	\$ 60,238	\$ 74,411	\$ 150,701	\$ -	\$ 47,247	\$ 332,598
Grand Total	\$ 26,140,578	\$ 32,289,561	\$ 64,571,352	\$ -	\$ (0)	\$ 123,001,492

Current Interlocal	
\$121,855,735	Total DCo and DCity Sales Tax (minus Art. 46)
\$70,676,326	58% DCo Share
\$51,179,409	42% DCity Share
\$14,258,497	58% DCity Distribution To DCo

The current interlocal agreement takes the total per capita distribution of the above sales taxes (in green) for the City and County and then breaks that amount (\$123,001,492) into 58% for the County and 42% for the City. The City remits part of its “per capita” sales tax distribution back to the County (\$14,258,497) to get to the ILA agreed upon split of 58%/42%.

2) City sales tax ILA proposal

The latest City proposal offered by the City is a similar setup, but with a revised percentage split of **56% County/44% City**.

Per Capita Distribution	1/2 Cent (40)	1/2 Cent (42)	1 Cent (39)	1/2 Cent (44)	City Hold Harmless	Total Distrib.
Durham County	\$ 14,028,246	\$ 17,328,568	\$ 34,652,025	\$ -	\$ (9,591,010)	\$ 56,417,829
Durham City	\$ 11,904,157	\$ 14,703,875	\$ 29,403,272	\$ -	\$ 9,426,603	\$ 65,437,906
Chapel Hill	\$ 147,938	\$ 182,706	\$ 365,355	\$ -	\$ 117,161	\$ 813,159
RTP	\$ 60,238	\$ 74,411	\$ 150,701	\$ -	\$ 47,247	\$ 332,598
Grand Total	\$ 26,140,578	\$ 32,289,561	\$ 64,571,352	\$ -	\$ (0)	\$ 123,001,492

Current Interlocal	
\$121,855,735	Total DCo and DCity Sales Tax (minus Art. 46)
\$68,239,212	56% DCo Share
\$53,616,523	44% DCity Share
\$11,821,383	56% DCity Distribution To DCo

Everything about the City proposal works the same as the current ILA except that the City would give the County less distribution back to the County than the Current ILA.

Of the \$123,001,492 million collected by “per capita” distribution, under the City proposal the County would receive \$68,239,212 and the City would receive \$53,616,523. The City would remit part of its “per capita” distribution back to the County to get to the proposed % split. The key difference between the current ILA and the City proposal is that the amount remitted to the County from the City would decrease from \$14,258,497 to \$11,821,383. In simplified terms the City would keep \$2,437,114 more sales tax under the City propped ILA while the County would lose that same amount.

3) Ad Valorem sales tax distribution (no ILA)

The County needed to compare the City proposal with what the County loss might be under a switch from “per capita” sales tax distribution to “ad valorem” distribution, with no agreed upon City/County ILA. Below is the FY 2020-21 estimate for both the City and County under Ad Valorem distribution. The County would receive an estimated \$68,357,190, while the City would receive \$53,579,768. With no ILA there would be no City remittance of sales tax to the County.

Ad Valorem-No Interlocal	1/2 Cent (40)	1/2 Cent (42)	1 Cent (39)	1/2 Cent (44)	City Hold Harmless	Total Distrib.
Durham County	\$16,200,231	\$20,010,971	\$40,017,127	\$0	(\$7,871,140)	\$68,357,190
Chapel Hill	\$143,433	\$177,173	\$354,303	\$0	\$113,576	\$788,485
Durham City	\$9,746,698	\$12,039,389	\$24,075,881	\$0	\$7,717,801	\$53,579,768
Morrisville	\$3,032	\$3,746	\$7,490	\$0	\$2,401	\$16,669
Raleigh	\$47,184	\$58,283	\$116,551	\$0	\$37,362	\$259,380
TOTAL	\$26,140,578	\$32,289,561	\$64,571,352	\$0	(\$0)	\$123,001,492

The key to note here is the City would do “equal” to an Ad Valorem distribution under the proposed City ILA. In simple terms, the City ILA proposal costs the County approximately \$36,755 more than choosing to go to Ad Valorem distribution with no ILA, a negligible difference in over \$120 million in sales tax collection.

It is worth noting that moving to Ad Valorem distribution with no ILA would mean the County would have to figure out how to deal with allocated some of its sales tax distribution to other County taxing districts such as Volunteer Fire Districts (approximately \$2 million). The City too would have to give up some of its sales tax collection to its Business Tax District (approximately \$300,000). The County would like to avoid these issues, by proposing to the City an “Ad Valorem equivalent” ILA

There are two important outcomes from the City proposed sales tax ILA.

- 1) Both the City and County would avoid having to potentially distribute sales tax to other taxing districts...that would occur under Ad Valorem distribution with no ILA
- 2) The City ILA proposal is for one year, but the proposed County/City percentage split is so close to an Ad Valorem equivalent, that it is hoped that an ongoing ILA can be reached for FY 2021-22 and beyond that establishes an Ad Valorem equivalent distribution for the City for future years, negating the need for future ILA discussions.