



**DATE:** May 22, 2012

**TO:** Thomas J. Bonfield, City Manager  
**THROUGH:** Wanda S. Page, Deputy City Manager  
**FROM:** David Boyd, Finance Director  
**SUBJECT:** Interlocal Agreement between the City of Durham and the County of Durham for Collection of Property Taxes

### **EXECUTIVE SUMMARY**

The current interlocal agreement for the collection of property taxes between the City of Durham and Durham County expires on June 30, 2012. The County and City desire to modify the existing agreement for several reasons which make portions of the current interlocal agreement obsolete. The proposed new interlocal agreement with Durham County will allow the County to continue to collect tax revenues on the City's behalf for the next five years.

### **RECOMMENDATION**

The Administration recommends that the City Council authorize the City Manager to execute a five year interlocal agreement with the County of Durham for the collection of property tax revenues.

### **BACKGROUND**

Durham County has collected certain taxes for the City since 1989. Over the years, a series of interlocal agreements have delineated the terms and conditions for the provision of tax collection by the County of the taxes levied by the City. The most recent of these interlocal agreements was signed on June 19, 2007 and has a term of five years. Under the terms of this agreement, the County collects any current or delinquent real estate, personal property, motor vehicle taxes and fees, and gross receipts tax levied by the City pursuant to N.C.G.S. Chapter 160A-215.1.

**Collection Rate Improvement:** The fee structure contained in the current interlocal agreement dates back to negotiations that occurred between the City and County during 2002. At that time, the collection rate of City taxes by the County consistently underperformed its peer group. The subject of lagging collection rates was brought to the attention of the County, and to help improve the tax collection rate the 2002 and 2007 interlocal agreements included an incentive payment from the City to the County. The incentive equaled one-sixth of the amount of City taxes collected in excess of 97 percent of the City tax levy for real and personal property. Over the years, the sums generated by these annual incentive payments were held by the County in a technology account designed and used for the purpose of technology improvements to the tax collection function or other related activities designed to increase revenues to the City. In FY 2011, the amount of the technology incentive payment from the City to the County was \$395,406.57. In part because of this incentive plan, the tax collection rate has increased from 95.3% in 2001 to 98.75% in 2011.

Durham now has one of the highest property tax collection rates in the state, and therefore it is no longer necessary to include the technology incentive in the new agreement. However, going forward one of the main issues in maintaining high collection rates is the necessity to keep technology current. The proposed new agreement allows that annually, if mutually agreed upon, the City may allocate additional resources to the County to fund technology initiatives. The proposed new agreement specifies that as part of the annual budget process, the Tax Collector, County Manager, and City Manager, or their designees, can identify and reach an understanding of any funding necessary for technology or other improvements that the Tax Collector will undertake. The purpose of the improvements will be to enhance the tax collection function or other related activities designed to increase revenues, and amounts may be budgeted by the City and the County to jointly support these initiatives.

**Upcoming Changes:** It is anticipated that as early as July 2013, the collection of registered motor vehicle taxes will become the responsibility of the North Carolina Department of Motor Vehicles. The assessment and situs responsibility will remain at the local level. When this transition occurs, it will become necessary to amend certain elements of the proposed new interlocal agreement. However, due to the uncertainty surrounding the exact timing of implementation of this state-led initiative, the County and City will address the impact of these new processes when the timing becomes more certain.

### **ISSUES/ANALYSIS**

The current interlocal agreement between the City of Durham and Durham County for collection of property tax is effective through June 30, 2012, and the proposed new agreement will be effective through June 30, 2017. The differences between the existing and proposed new interlocal agreements are highlighted below:

1. Under both the existing and proposed new interlocal agreements, the City pays the County one percent of actual collections. This portion of the agreement remains unchanged. Based on current budget projections, it is anticipated that this one percent base fee will equal \$1,312,787.77 for FY13.
2. Under both the existing and new interlocal agreement, it is possible on a periodic basis that the Tax Collector will utilize the services of external consultants, contractors, or tax auditors to enhance tax collection results. Under both agreements, in the event that the Tax Collector utilizes the services of an outside party to perform audits, then the audit fees associated with this activity will be apportioned between the City and County on a mutually agreed upon and equitable pro rata basis. This has been the practice in the past, and it will continue under the proposed new agreement. The City's share of audit fees is projected to equal \$200,000.00 for FY12.
3. As discussed above, the existing interlocal agreement contained a technology incentive payment and the proposed new agreement eliminates the technology incentive payment. The incentive payment is projected to equal \$408,483.00 for FY12.
4. The remaining balance in the technology account will be spent after the City and County have jointly discussed and agreed upon the appropriate use of these funds.

### **ALTERNATIVES**

The City Council could elect to reject the proposed interlocal cooperation agreement. However, the City and County Managers have agreed that the proposed agreement is fair and mutually beneficially. Moreover, the City Council could elect for the City to collect its own property taxes. However, the separation of City and County tax functions into two separate departments would be a more expensive business model for Durham taxpayers. If the City reverted back to collecting its own taxes, the cost savings achieved by merging the City and County tax departments during FY1988-89 would be lost.

### **FINANCIAL IMPACT**

First, both the existing proposal and the new proposal include a fee for tax collection services of one percent. It is anticipated that this one percent base fee will equal \$1,312,787.77 for FY13. Second, under the existing proposal, the City would be obligated to pay a technology incentive of \$328,483.00 for FY13; under the proposed new agreement, the technology incentive fee has been eliminated and replaced with an annual negotiation that will be part of the budget process. Third, under both the existing and proposed new agreement, the City is obligated to pay the County its fair share of any audit fees incurred during the fiscal year for the purposes of increasing revenues. The exact amount of future audit fees is unknown; however, there will be incremental tax revenues to pay the costs of audit fees.

### **SDBE SUMMARY**

The City's SDBE Ordinance is not applicable to this item.

Attachments: Interlocal Cooperation Agreement for the Collection of Taxes between Durham County and the City of Durham