



**DATE:** November 5, 2013

**TO:** Thomas J. Bonfield, City Manager

**THROUGH:** Wanda S. Page, Deputy City Manager

**FROM:** David Boyd, Finance Director

**SUBJECT:** Property Tax Interlocal Amended Agreement with Durham County

### **EXECUTIVE SUMMARY**

The proposed amendment is to the Interlocal Agreement between the City of Durham and Durham County for the collection of property taxes. The amendment addresses changes in how motor vehicles taxes and fees are collected by the State through its new Tax and Tag Together program.

### **RECOMMENDATION**

That the amended interlocal agreement between the City of Durham and Durham County for property tax collections be approved and the City Manager be authorized to execute.

### **BACKGROUND**

The City and County entered into an Interlocal Cooperation Agreement for the collection of property taxes effective July 1, 2012, for a term of five years. Changes to the motor vehicle tax system brought about by House Bill 1779, adopted in the 2005 session of the General Assembly, have been implemented by the State this year. Under the new procedure, these taxes will be collected by the State through the DMV State Titling and Registration System (STARS) and distributed to counties one month in arrears through the Department of Transportation (DOT) finance department. The new system, marketed to taxpayers as "Tax and Tag Together," eliminates tax collections in arrears by the County and requires the taxpayer to pay the property tax on their vehicles at the time of registration. This new system for motor vehicle taxes requires the parties to change the manner in which administrative costs are apportioned and paid between the City and County. The City and County are amending the original agreement, while keeping in effect all terms and conditions of the original agreement. It is anticipated the Board of County Commissions will approve the amended interlocal agreement at its meeting on November 25, 2013.

### **ISSUES/ANALYSIS**

Pursuant to N.C.G.S. statutes, all collections of Tax and Tag Together revenues will be remitted to the County from DOT Fiscal. The County will then allocate Tax and Tag Together revenues to the City and other taxing jurisdictions. The proposed amendment specifies that the administrative collection cost charged by the State will be allocated to the City and other taxing jurisdictions on a *pro-rata* basis; each jurisdiction will be assessed a percentage of the total administrative costs which is equal to their percentage of the tax revenues received.

### **ALTERNATIVES**

If the City chooses not to amend the existing agreement, it will have an interlocal agreement with the County which does not address recent changes in State statutes.

### **FINANCIAL IMPACT**

Both the amount of motor vehicle tax revenue generated, and the expenses associated with collecting those taxes, will be higher. It is anticipated that the amount of tax revenue collection under the new procedure will be higher because under the old system the tax collection rate for motor vehicles was approximately 90 percent. Under the new system, taxpayers are required to pay motor vehicle taxes at the time of tag registration, which is expected to result in a higher tax collection rate for motor vehicles. The FY2013-14 budget anticipated that the annual administrative cost charged by the State will be approximately twice as much as what would have been charged by the County under the old system (\$209,281.00 new vs. \$104,249.00 old). Under the old system, the County charged the City a flat 1 percent rate. Under the new system, the State will charge a fee of \$1.69 per transaction, and the cost of transactions processed by credit cards will be higher (\$3.62 per transaction). Changes to revenue and expenses related to the implementation of the new procedures will be monitored closely and reported on periodically throughout the year.

### **SDBE SUMMARY**

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

### **Attachment:**

First Amendment to the Interlocal Cooperation Agreement for the Collection of Taxes between Durham County and the City of Durham