

REQUEST FOR BOARD ACTION

HENDERSON COUNTY

BOARD OF COMMISSIONERS

MEETING DATE: 3 April 2006

SUBJECT: Local option sales tax distribution method

ATTACHMENT(S): Memo on distribution methods

SUMMARY OF REQUEST:

According to N.C. Gen. Stat. §105-472, “during the month of April of each year” the Board of Commissioners must determine whether to use the “*per capita*” method of distributing the revenue from the optional sales taxes authorized by the County between the County and its municipalities, or to use the “*ad valorem*” method of distribution. A short memorandum explaining each method, and pointing out the differences in effect each choice makes, is attached.

Should the Board determine that the *ad valorem* method is appropriate, no decision on whether to adjust fire district tax rates is required at this meeting.

BOARD ACTION REQUESTED:

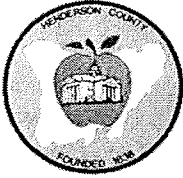
The Board is requested to determine which method of local option sales tax distribution it chooses. Proposed motions for the three methods mentioned in the accompanying memorandum follow:

1. If the *per capita* method is to be retained:

I move that the Board approve the continued use of the per capita method of optional sales tax distribution for Henderson County.

2. If the *ad valorem* method is to be used:

I move that the Board approve the use of the ad valorem method of optional sales tax distribution for Henderson County.



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Memorandum

TO: Board of Commissioners
DATE: 22 March 2006
RE: Comparison of Sales Tax Distribution Methods

This document is a public record pursuant to the terms of Chapter 132 of the North Carolina General Statutes.

The two methods of distribution of option sales tax revenue in North Carolina involve not only different ways of calculating how much the municipalities and the County receives, but also includes different sets of actual recipients.

- Under the *per capita* method, only the municipalities and the County share in the sales tax revenue.
- Under the *ad valorem* method, any taxing entity (in Henderson County, the municipalities, the County **and** the fire districts) share in the sales tax revenue.

NOTE: The following figures use the most current data available, but do *not* project sales tax revenue for Fiscal Year 2007. Sales tax is presumed to \$27,933,655.00, which are the projected gross estimated sales tax proceeds for next fiscal year (FY2007).

PER CAPITA METHOD

The *per capita* method adds the population of each municipality to the population of the County as a whole (including the municipalities) to reach a "total" population (which is actually greater than the real total population of the County, because municipal populations are counted twice). Then the sales tax revenues are divided in proportion to the "total" population. Using current population figures, this method would yield the following result:

	POPULATION	% of "total"	Receipts
Henderson County	96,124	77.323552%	\$21,599,294.15
Flat Rock	2,798	2.250752%	\$628,717.33
Fletcher	5,121	4.119407%	\$1,150,701.03
Hendersonville	12,106	9.738243%	\$2,720,247.34
Laurel Park	2,127	1.710990%	\$477,942.02
Mills River	6,038	4.857056%	\$1,356,753.13
"TOTAL"	124,314	100.00%	\$27,933,655.00

AD VALOREM METHOD

Under the *ad valorem* method, the gross amount of *ad valorem* property taxes collected by or on behalf of each taxing entity is added together, and each entity receives the sales tax revenue in the same proportion as their property taxes bear to the total of all property taxes in the county. If employed without adjusting downward the property taxes collected for the fire districts, this method would result in an over \$1.4 million windfall for the fire districts, shown as follows:

	PROPERTY TAX		
	LEVY	% of total	Receipts
Henderson County	\$47,094,457.00	76.672821%	\$21,417,521.29
Fire Districts	\$4,830,088.00	7.863696%	\$2,196,617.59
Flat Rock	\$1,038,185.00	1.690232%	\$472,143.66
Fletcher	\$1,908,445.00	3.107072%	\$867,918.73
Hendersonville	\$5,216,608.00	8.492975%	\$2,372,398.37
Laurel Park	\$875,586.00	1.425511%	\$398,197.22
Mills River	\$459,253.00	0.747694%	\$208,858.14
TOTAL	\$61,422,622.00	100.00%	\$27,933,655.00

An alternative method is an "adjusted" *ad valorem* method, whereby the sales tax rate for the fire districts is adjusted downward, so that the combined total – property tax plus sales tax -- that the fire districts receive is the same as the property tax alone would be under the *per capita* method. (In this case, the fire districts receive in property tax, before any adjustment, a total of \$4,830,088.00. This amount would be lowered so that the new total of fire district property tax plus fire district portion of sales tax equals \$4,830,088.00.) This result is shown as follows:

	PROPERTY TAX		
	LEVY	% of total	Receipts
Henderson County	\$47,094,457.00	78.63981880%	\$21,966,975.68
Fire Districts	\$3,293,739.54	5.49999081%	\$1,536,348.46
Flat Rock	\$1,038,185.00	1.73359426%	\$484,256.24
Fletcher	\$1,908,445.00	3.18678202%	\$890,184.70
Hendersonville	\$5,216,608.00	8.71085758%	\$2,433,260.90
Laurel Park	\$875,586.00	1.46208129%	\$408,412.74
Mills River	\$459,253.00	0.76687523%	\$214,216.28
TOTAL	\$59,886,273.54	100.00000000%	\$27,933,655.00

ADDITIONAL NOTE:

In FY 2006, Henderson County receives payments from Mills River and Flat Rock in lieu of changing away from *per capita* sales tax distribution: from Flat Rock, \$205,864.00; from Mills River, \$433,742.00.)