

MINUTES OF THE SPECIAL MEETING OF THE  
CITY COUNCIL OF THE CITY OF SANFORD  
SANFORD, NORTH CAROLINA

A special meeting of the City Council was held at the Sanford Municipal Center, 225 E. Weatherspoon Street, on Monday, April 2, 2012 at 1:00 P.M. to discuss Ramifications of Loss of Revenue due to Lee County's Discussion of a Potential Change in the Method of Distributing Sales Tax. The following people were present:

Mayor Cornelia P. Olive	Council Member L. I. (Poly) Cohen
Mayor Pro Tem Sam Gaskins	Council Member Rebecca Wyhof
Council Member Jimmy Haire	Council Member Walter H. McNeil, Jr.
Council Member James G. Williams	City Attorney Susan C. Patterson
City Manager Hal Hegwer	City Clerk Bonnie D. White

Absent:

Council Member Charles Taylor

Mayor Cornelia Olive called the meeting to order.

**ITEM FOR CONSIDERATION**

**Ramifications of Loss of Revenue Due to Lee County's Discussion of a Potential Change in the Method of Distributing Sales Tax**

Mayor Olive said that this special meeting has been called to discuss the possibility of a change in the distribution of sales tax that the City would be receiving from Lee County.

City Manager Hal Hegwer referred to a memo sent to council members regarding this matter. Every April of each year, Lee County has the option of changing the method of sales tax distribution. Mayor Olive asked how long has the County recognized this process. Financial Services Director Melissa Cardinali stated that Lee County has always utilized the per capita method of sales tax distribution.

Mrs. Cardinali advised that the businesses within the City are producing 80 percent of the sales tax revenue and the City is only receiving 35 percent of that currently. Mr. Hegwer added that the business community generates that sales tax. The property owners and businesses will have to endure a higher burden on the property tax to cover the impacts such as public safety, streets, and traffic. The portion of sales tax received in the City offsets these services used for wrecks, shoplifting, and traffic in the City. The City's reduction in sales tax would go from 35 percent to 27 percent. Mayor Olive added that businesses are also paying County taxes and the County is receiving the ad valorem tax now. Mrs. Cardinali pointed out that almost half of the County residents reside within the incorporated areas so those county residents are paying County taxes too.

Council Member Williams explained that last year during the budgetary process, the City decided to give their employees a cost-of-living increase and the County did not. The County wrote a letter saying that the only way the City could afford to give a raise was that the City was not paying its fair share on the contracts with the County. He said his answer to this was that the County did not give the majority of their employees a raise, but they did give one employee a huge raise. He felt this is what has

initiated this change; the County is looking for ways to redo some of the contracts they have with the City. He said we need to be mindful as to how this came about and he feels this is one way the issue came about.

City Manager Hal Hegwer said the county manager shared with him that they made some adjustments to their budget for a couple of years and one of the areas they could not affect was the contractual relationships with the City. As they were doing things to cut some of their salaries/costs, they were not able to cut the cost in the contracts with the City. Mr. Hegwer said the City was providing a certain level of service and if the County wants a much lower level of service, we could consider it. Mr. Hegwer said he felt the County thought we were charging them too much for the service being provided to the County. This is an area they did not have control over and cut in the budget.

Mayor Olive said she thought the object for years was to consolidate as many city/county government functions as we could as a cost-saving measure and that has been accomplished. She asked if this has been threatened. Mr. Hegwer said there were certainly some cost savings in that consolidation but the intent was the quality and level of service to the citizens. Mayor Olive added that planning and development is located in a County building which the City is paying rent to the County.

Mr. Hegwer pointed out that the elimination or reduction of some services would have a resulting negative impact on the County's budget. For example, if the City eliminated a service such as bulk trash collection or disposal, the County would have to allow for City residents to pay a fee so that they could use convenience centers for bulk trash disposal. The County currently charges the Lee County residents either a \$40 or \$80 annual fee. If you have trash collection at your household, you pay a \$40 fee; if not, you are charged \$80. This fee covers the convenience centers. If the City cuts some of their services, there will be an additional fee on the County's side that will take up that transfer. Where a property owner receives a reduction in County taxes, they may receive an additional fee for a service such as the convenience centers. The reduction in the City service would thereby increase a demand on County services. Further analysis might reveal that this would be evident in other services.

Mayor Pro Tem Sam Gaskins stated that it seems to him that the County implied they were going to talk with Council about this issue before they took action. Mr. Hegwer said that he spoke with the county manager and he said that the county commissioners would like to meet with the Council one-on-one. He is not sure if that has changed or whether they would be willing to meet. Mr. Gaskins said that before anything else happens, he suggested having a meeting with the county commissioners to know what is going on. Mr. Gaskins said that as Council Member Williams pointed out, if the way we pay our employees was a question, it did not bother them too much to give their county manager a \$20,000 raise. If he remembers what he read in the *Sanford Herald* where they talked about \$14.5 million over five years, that is \$2.9 million each year and \$1.5 million of that is being shifted to Broadway and Sanford. So that is not really cost reduction, they are just trying to move the money over. In addition, they had \$1.2 million reduction from the schools; so there is \$2.7 million, so they are only talking about \$200,000 to \$300,000 a year savings out of this Evergreen Solutions. Mr. Gaskins said that \$250,000 out of a \$60 million budget is the most they could come up with not taking it from somebody else. Part of the school issue was a typical bully tactic; we are going to take your kid's lunch money as well. If they are only going to save \$200,000 to \$300,000, they picked the second most expensive audit out of the five quotes. It does not seem to bother them to spend the money - \$20,000 raise to the county manager and \$140,000 for the audit; taking EDC under their wing - so they would lose the funding from the City of Sanford and

Town of Broadway. If they are not worried about what they are spending, he would like to know why they want the extra money.

Council Member Haire said it would be interested in meeting with them and stake out all seven members to see who is pro and who is con as far as changing the method of distribution. Mr. Haire suggested inviting them to come to City Hall for a meeting.

Mayor Olive said that pending the outcome of a joint meeting, we might want to have a public hearing to see what the residents in the City think about this issue, because the property owners who live within the City, live in the County and pay County taxes also. Council Member Wyhof said she was going to bring up the issue of a public hearing because this is the start of a very important public conversation that we need to be having. In looking at some of the options of what we can do, whether we cut services or shift things around, we need the input on the values that our community has on this issue. If 50 percent of the county residents are city residents, this conversation is even more important because that is not how the rhetoric of the conversation has been going. She felt a public hearing as an off-shoot of the joint meeting could be a great benefit for everybody to hear and have their voice heard.

Mr. Hegwer continued on with the following points:

- The revenue reduction is equivalent to 6.27 cent increase on the tax rate based on the current year. In other words, a 6.27 cent tax rate increase on city residents would be necessary to be revenue neutral.
- Public safety expenditures make up 52.5 percent of the General Fund budget. These expenditures are the ones that are utilized the heaviest when dealing with activities that relate to businesses such as traffic issues; people utilizing the city streets and maintenance issues of the streets; crime; theft issues driven from retail, etc.

Mr. Gaskins said that since public safety is over 50 percent of the budget, we would be looking at cutting over 20 police officers just to break even if we tried to recoup the money this way. He recommended going ahead, (if we have to because the County is suggesting that they are going to lower property tax rates), and raise the tax to 6.27 cent on the \$100 valuation and name it the “Jim Womack Redistribution Tax” because that is precisely what he is trying to do – to redistribute the way we pay taxes in Lee County, reduce the burden on those people who are outside the incorporated areas, and increase the burden on those people who are inside the incorporated areas.

Council Member Cohen asked if Pfizer is the biggest piece of property in valuation in the County. Mr. Hegwer replied he thought it was. Mr. Cohen said that if we annex them into the City that would help solve the problem.

Mr. Hegwer said that if they change this distribution, moving forward, it would be more incumbent to be more aggressive about things being annexed in the City. We have somewhat been okay with existing businesses utilizing the City’s utilities (water and sewer) located outside. If we are going to be penalized for that value being created outside the City limits, it not only hurts us from the ad valorem tax revenue but also from a sales tax perspective. We will need to make sure we are much more aware of

an industry locating outside the city limits and utilizing the utilities because it affects us in two ways instead of one way.

Mr. Hegwer asked Attorney Patterson to explain a city initiated annexation. He said the City has the purview of not allowing the utilities being extended into the unincorporated areas under the existing authority Council has now.

Attorney Patterson said that laws did change recently as to what the City can and cannot do. An annexation by petition and voluntary annexation are always allowed so anyone can ask to be annexed into the City. We can request that new customers that are going to use our utilities, petition for annexation so we can accept them into the City and give them City utilities. The City-initiated annexation, where the City decides to annex a piece of property without their request, is what has been tightened up mainly by a function at the end where the voters in that area have the ability to have a petition to protest the annexation at the end. There are also a few other issues - like you would have to annex certain areas that requested you to and provide them services more quickly than before if they are in the low and moderate income category. All these changes by the Legislature make more steps to follow; they don't make them impossible.

Mr. Gaskins said we would be much better off negotiating with Pfizer to the effect that their water and sewer rates would go down considerably if they were annexed into the City limits. If Pfizer and the City would both break even on that (between the property tax and utility rates), then the City would come out ahead on the sales tax. With the state's interest in our having a higher rate for large bulk water users, it would be another factor in Pfizer's point of view that it is always possible for large users to have their rates increased because of the large usage. It would be more of a reason to be in the City limits.

Mrs. Cardinali stated that our sales tax and ad valorem make up 75 to 78 percent of our General Fund.

Mr. Hegwer continued with the below points.

- A reduction in sales tax will increase the reliance on property tax in the incorporated areas of the County (Sanford and Broadway). This means Sanford and Broadway will have to rely more heavily on the property tax generated from businesses and residents as a revenue source.
- According to the last North Carolina Department of Revenue report, 82 percent of sales taxes in Lee County were collected within the City limits. Currently, the City is receiving only 35 percent of those collections. If the County changes to the ad valorem method, the City's percentage share will be reduced to 27 percent. This increased revenue disparity will place a higher burden on taxpayers within the City limits, who bear the cost related to public safety and transportation needs generated by business activities.
- A shift to the ad valorem method would impose a higher burden not only on residents but on businesses. The City is made up of significantly more businesses than the unincorporated areas of the County. Businesses are generating the bulk of the sales tax but will lose the benefit of those collections if the distribution of the revenue is weighted more heavily to the unincorporated areas.

- Changing to the ad valorem distribution method would make revenue projections more erratic and difficult for all units of government because every time the tax rate is changed by one of the units, it would have an effect on the other.
- Almost half of the population within Lee County resides in the City of Sanford. Shifting the revenue from the City to the County would provide the unincorporated areas of the County the greatest benefit. Only half of Lee County's residents will see the benefit.

Mr. Hegwer added that the City reduced its taxes by \$.01 from 2007-2008 to 2008-2009.

We did that on our own and it was not through additional revenue we could receive through the County.

Council Member Haire said he can completely understand what the County services and their need for funds; however, they are going about getting them in the wrong way.

After a lengthy discussion, Council decided to invite the Lee County Board of Commissioners to a joint meeting on Wednesday, April 11, at 2:30 P.M. in the Council Chambers, to discuss the issue further.

**ADJOURNMENT**

Having no further business to come before the council, the meeting was adjourned upon the motion of Mayor Pro Tem Sam Gaskins. Seconded by Council Member Rebecca Wyhof, the motion carried unanimously.

Respectfully submitted,

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CORNELIA P. OLIVE, MAYOR

ATTEST:

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BONNIE D. WHITE, CITY CLERK