



# Projections for State-Collected Local Government Tax Revenue *FY 21-22 & FY 22-23*

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# 1 EXECUTIVE SUMMARY

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This document summarizes and analyzes state-collected taxes distributed to local governments each year and provides a forecast of these revenue sources for the remainder of the current fiscal year (2021-2022) and the upcoming fiscal year (2022-2023). All statewide projections for each tax revenue source are both summarized in the table below and hyperlinked to the corresponding memo section, for your convenience. More information on the recent legislative history and distribution formulas for each tax listed below can be found in our [Basis of Distribution Memo](#).

The League also now publishes quarterly “Revenue Reports,” which summarize state-collected local revenues as they are distributed throughout the year. All annual projections and quarterly reports can be found on the [NCLM State-Collected Revenue Projections](#) page of our website.

Revenue Source	Projected Change from FY20-21 to FY 21-22	Projected Change from FY21-22 to FY22-23
<a href="#">Sales and Use Tax</a>	+10.25%	+3.75%
<a href="#">Electricity Sales Tax</a>	+1.25%	+1.0%
<a href="#">Local Video Programming Tax</a>	-3.0%	-1.75%
<a href="#">Telecommunications Sales Tax</a>	-13.0%	-7.5%
<a href="#">Piped Natural Gas Sales Tax</a>	-4.25%	+3.25%
<a href="#">Solid Waste Disposal Tax</a>	+2.0%	+2.5%
<a href="#">Alcoholic Beverages Tax</a>	-4.6%	+1.75%

## 1.1 PROJECTION TIME FRAME

The Local Government Commission (LGC) encourages the use of a 90-day accrual period to meet Governmental Accounting Standards Board (GASB) 33 measurement focus requirements (see "[Memo #1015 'Recognition of Sales Tax and Other Revenues at Year-End'](#)"). Because the revenues governments receive in September are derived from sales through June, we consider them to be from the previous fiscal year, corresponding to when the transaction took place. This report considers the following data to be included in a “fiscal year” of revenue:

- NC Department of Revenue (DOR) monthly distribution data for collection months August through July
- DOR quarterly distribution data beginning with the collection quarter ending in September, and stopping with the collection quarter ending in June.



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For an example of how sales month, collection month and distribution month align, see DOR's [Sales Tax Distribution and Closeout Schedule](#). For the full distribution schedule, see DOR's [Local Government Distribution Schedule](#).

## 1.2 CAUTIONARY NOTE

*Please read through the entire memo for important caveats and context related to each of the League's projections for the revenue sources above.*

Estimates included in this document should be used **only as a rough guide** in preparing your Fiscal Year 2022-23 proposed budget. Estimates should be modified as necessary to fit your local situation, its actual trends, and your own assumptions about the effects of economic and political factors. Revenue estimates are always subject to error and may fluctuate widely based on unpredictable factors such as weather conditions, policy changes and, this year, a global pandemic. Our goal is to provide municipalities with a reasonable projection of where state-collected revenues are heading.

These estimates also assume that the General Assembly will make no changes in 2022 to the formulae that govern municipal shares of State-collected revenue. **Please continue to pay close attention to the [League's Legislative Bulletins](#) throughout the session for updates on the state of any legislation.** If our revenue estimates change materially prior to July 1 due to economic circumstances or legislative action, we will advise you of the changes.

## 1.3 QUESTIONS AND CONTACTS

Any questions related to this document should be directed to [Chris Nida, Director of Research & Strategic Initiatives](#). For your convenience, this document also includes NC DOR contacts for any other questions. Special thanks to the Public Affairs team at the North Carolina League of Municipalities, Anca Grozav, Bob Coats, and Michael Cline with the North Carolina Office of State Budget and Management, and Veronica Pace with the NC DOR for their assistance in preparing this document.



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## 2 OVERVIEW OF ECONOMIC CONDITIONS

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### COVID-19 and the New Normal

Similar to last year's economic outlook, further recovery from the COVID-19 pandemic and the continuing transition to a "new normal" are major drivers causing uncertainty around projections. Within the last year, COVID-19 vaccines have become widely available, and the [NC Department of Health and Human Services estimates](#) that 76% of North Carolina adults have received at least one dose. While cases declined throughout the back half of 2021, the [rapid spread of Omicron](#) throughout the winter led to a new spike in cases. Regardless, Americans are reporting that they are [increasingly more comfortable with activities](#) such as visiting grocery stores, eating out, and attending indoor concerts and events, which is hopefully a positive indicator for economic activity.

Unfortunately, as the impact of the pandemic wanes somewhat, another source of uncertainty has emerged in the form of the Russian invasion of Ukraine. [Sanctions by the U.S.](#) and other countries throughout the world on Russia include a ban on importing Russian oil, a move that has contributed to rising fuel prices in the U.S. (see below). There may still be impacts to come on items like food prices and the availability of raw materials, to say nothing of the potential implications were the conflict to escalate.

### Employment Trends and Consumer Spending

Many jobs shifted to a remote environment during the pandemic, and organizations have continued to maintain remote and hybrid environments. [Pew Research Center](#) found that in January 2022, 77% of respondents reported working from home all or some of the time, only slightly down from 83% back in October 2020. Further, 84% noted that balancing work and their personal life was easier or about the same when working remotely, with 90% noting that it was easier or about the same to get work done and meet deadlines. The future of remote work and [return of workers to downtowns](#) are topics that will continue to be debated as pandemic recovery continues.

The [Federal Reserve Bank of Richmond](#) noted North Carolina's unemployment rate as of January 2022 is estimated to be 3.9% compared to 4.0% for the United States. They further note a labor force participation rate of 59.7%, up approximately two percentage points from the pandemic low and lagging behind the United States average of 62.2%. Total January payroll employment in NC decreased by 3.7% from the prior year, compared to 4.7% for the United States. They also note that wages and salaries in NC grew 11.9% year over year for the third quarter of 2021, outpacing national growth of 9.4%. Growth of real personal income in NC for this quarter is noted at 2.9%, outpacing a national average of 0.9%.

A [report by the NC Department of Commerce](#) noted the three sectors with the largest number of jobs increases since January 2021 are Leisure & Hospitality Services (49,600), Professional & Business Services (37,300), and Government (20,300). They further report that year over year, average hourly earnings grew by \$2.48 and average weekly earnings increased by \$76.88. [Another report by the department](#) notes as of January 2022, real taxable retail sales are at \$18.0B compared to \$15.7B as of the same month in 2021, and the number of job openings increased to 362k from 270k at the same time last year.



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Since the final round of federal stimulus checks in early 2021, consumer spending has continued to increase in North Carolina, but future outlooks grow more uncertain and less optimistic. As of late March 2022, North Carolina [total consumer spending](#) increased by 16.6% when compared to January 2020. Yet, data from the U.S. Census Bureau's [Household Pulse Survey Interactive Tool](#) notes that in the first half of March 2022, an estimated 34.4% of North Carolina adults report difficulties in covering normal household expenses up from 29.9% in the same period last year. The same data set notes that in the first half of March 2022, 23.3% were worried about their ability to pay an energy bill, up from 19.1% in summer 2022.

The Bureau of Economic Analysis estimated [personal savings as a percentage of disposable income](#) in February 2022 at 6.3% compared to 13.5% at the same point last year. At the time of this year's memo, [gas prices](#) in North Carolina hover around \$3.98/gallon, compared to \$2.63/gallon at this time last year, which will also likely impact the availability of consumers' disposable income.

Inflation is another issue which has greatly affected consumers across the country in recent months. The February 2022 [Consumer Price Index Summary](#) indicated an increase of 7.9% over the previous year. As a measure to combat inflation, [the Federal Reserve recently raised interest rates](#) from 0.25% to 0.5% and indicated that further hikes are expected throughout 2022. In addition to other factors outlined in this section, inflation and rate hikes may eat into NC consumers' disposable income.

## Housing

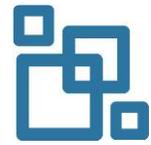
A [March snapshot of North Carolina](#) by the Federal Reserve Bank of Richmond shows that private housing starts in the state were up 34.17% year over year compared to only 0.80% across the United States. The number of new private housing units across the state rose 32.82% year over year compared to 2.70% for the United States. The [NC Department of Commerce](#) notes the number building permits in March 2022 as a five-year high of 8,405 compared to 7,453 in the same month last year.

Housing prices continue to rise rapidly in North Carolina. The Federal Reserve Bank of St. Louis, using data from the U.S. Federal Housing Finance Agency, [notes an all-time high house price index](#) for Q4 of 2021. As of February 2022, [Zillow](#) cites a 26.0% increase in NC home values year over year.

Affordable housing continues to be a pressing issue for communities. A 2022 study by Harvard's Joint Center for Housing Studies found that [every state has lost low-rent stock between 2011-2019](#), with North Carolina's drop at 26.6%. The same center found that [the highest share of households behind on rent were in the south](#), with 18.5% of North Carolina households behind during Q3 of 2021.

## Economic Forecasts and Projections

These indicators and more contribute to North Carolina forecasters projecting continued economic growth in the coming year as of March 2022. Dr. Michael Walden's [Index of North Carolina Leading Economic Indicators](#) rose 1.7% from the previous month and 6.0% from the previous year. These net increases to the index are mainly driven by gains in manufacturing and building permits.



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Dr. John Connaughton’s [presentation](#) of his [North Carolina Economic Forecast](#) noted how drastically “things have changed” even since his recent report in December 2021 when omicron was surging. His report notes forecasted GDP growth of 6.7% for 2021 over 2020 and 3.3% for 2022 over 2021. Further, he projects growth in 13 of the state’s 15 economic sectors, with hospitality and leisure services leading with a 9.3% increase.

A [survey of CFOs across the United States](#), conducted as a partnership among Duke University’s Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta, found that CFOs’ economic optimism has declined in Q1 of 2022. On a 100-point scale, optimism for the U.S. as a whole fell from 67.7 to 54.8 year over year while optimism for their own companies fell less drastically from 73.1 to 69.9 over the same period. The top three concerns cited by CFOs were cost pressure/inflation, labor quality/availability, and supply chain concerns. A [National Association of Business Economics](#) February 2022 survey of professional macroeconomic forecasters shows a downgrade in forecasted GDP growth with 3.6% projected compared to 2.9% last quarter.

### **American Rescue Plan**

North Carolina municipalities continue to plan how to spend the \$1.3 billion distributed to them across the state. Funding can be spent through 2026 and we continue to be hopeful that the funding will be transformational for our members. NCLM will continue to share information as it is known at [arp.nclm.org](http://arp.nclm.org).



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## 3 STATE-SHARED TAX REVENUE PROJECTIONS

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### 3.1 SALES AND USE TAX

#### 3.1.1 Overview of NC Sales Tax Distribution

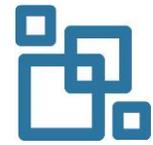
Sales and use taxes make up the largest amount of tax revenue that the state distributes to local governments in North Carolina. In fact, for the median North Carolina municipality, 28% of municipal revenue is sales tax. Local sales taxes are authorized as different “Articles” in statute. Not all Articles are levied by every county. For an overview of every sales tax article and how it is distributed, see our [Basis of Distribution Memo](#).

In addition to the state’s distribution calculations, distribution methods can vary by county as well. Every April, counties can change the method of distributing local option sales tax revenues within the county, either from per capita to proportion of ad valorem tax levies, or the other way around. The method chosen by the county board of commissioners determines the division of money within a county area among county and municipal governments. Population or tax levy changes might make some counties take a close look at the current distribution method to see if it is still advantageous to them. Previously, changes made by a county to the distribution method would go into effect for the coming July. However, a change in statute passed during the most recent legislative session now delays the effect of any distribution change until July in the calendar year after the change is made. This will give cities and towns more time to prepare for any possible county changes in distribution methods made during April 2022.

#### 3.1.2 Sales Tax Projection

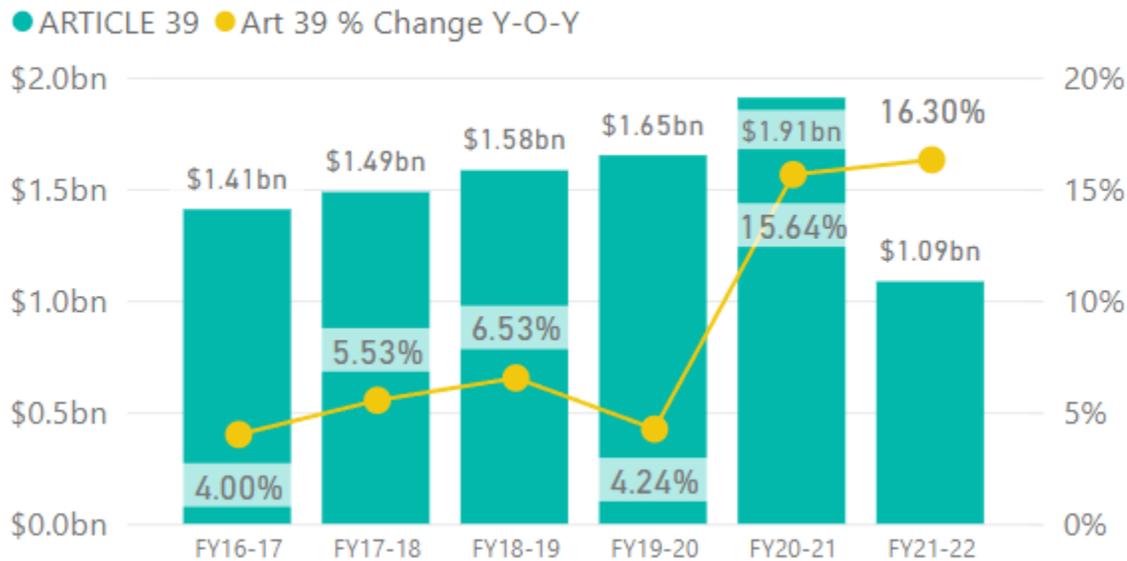
For nearly two years now, sales tax revenues have exceeded virtually all projections and expectations. There are undoubtedly numerous factors that have gone into this performance, many of which are detailed in the economic outlook above. Direct federal aid to taxpayers and programs like the enhancement of the federal child tax credit put more money in many people’s pockets. The realities of the pandemic shifted many shoppers away from services to goods, and frequently goods purchased online, where a fortuitous legislative change by NC in early 2020 allowed the state to capture virtually all sales tax revenues from online purchases. Even inflation – not usually thought of as a positive attribute – likely contributed some to recent strong sales tax collections, as higher prices taxed at the same rate lead to increased tax revenues. These are just some aspects of the complex picture that is local sales tax in NC

The end result has been easier to describe. Local sales tax revenues have grown at rates not seen in the state for many years, if ever. After years of growth in the 4-7% range, local sales tax revenues grew at a year-over-year rate of more than 15% in FY20-21. Growth for the first six months of FY21-22 exceeded even that, checking in at more than 16% (see Figure 1).



**FIGURE 1**

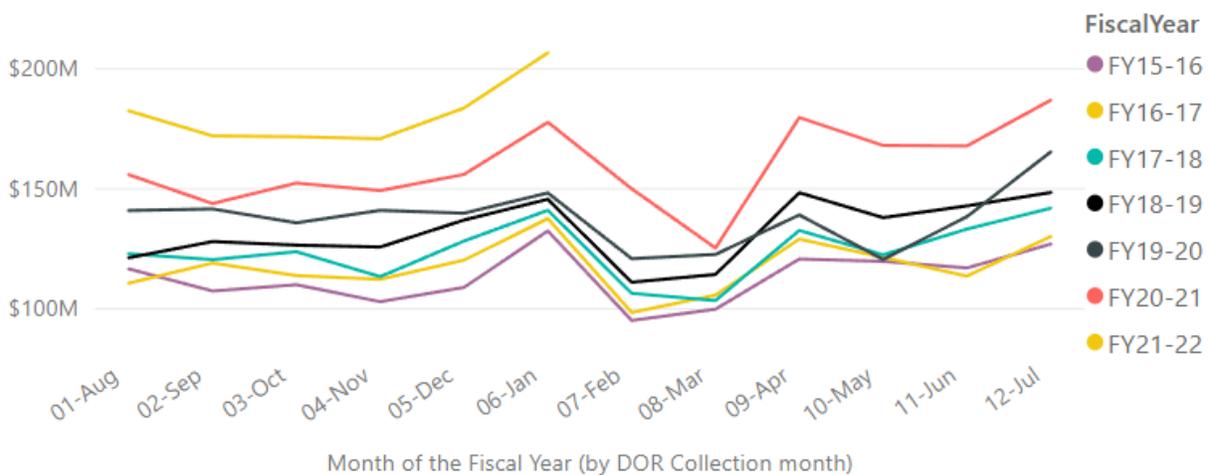
### Annual Article 39 Sales Tax Distribution (Y-O-Y Change)



The month-by-month chart below helps illustrate that there are no unusual peaks and valleys in the collections aside from the regular fluctuations in local sales taxes. The red and yellow lines atop the chart show that, for almost all of the last 18 months, sales tax collections have outpaced those from previous fiscal years.

**FIGURE 2**

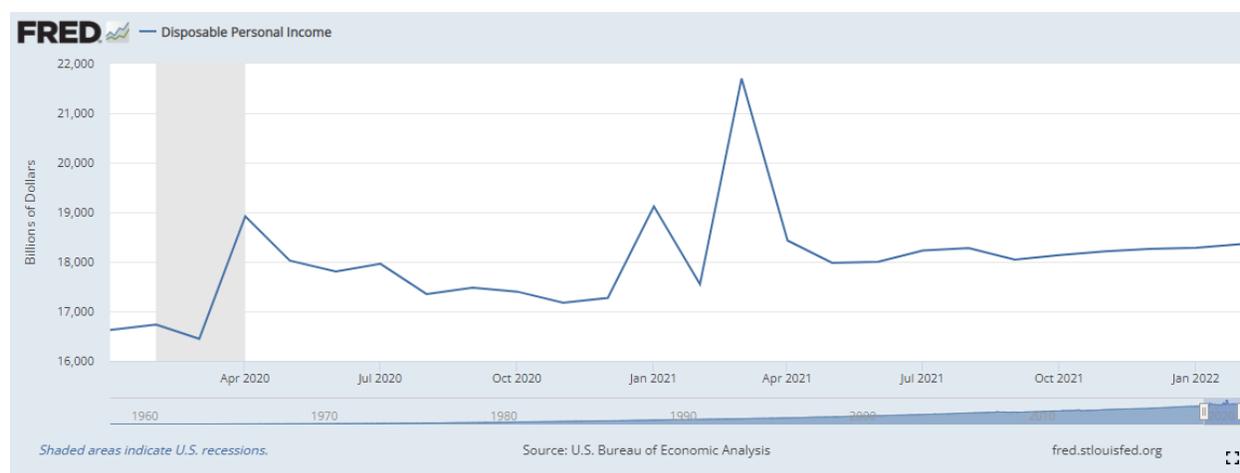
### Monthly Article 39 Sales Tax Distributions (Fiscal Year Comparison)



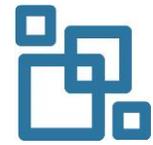


Though it is not shown in the graphs above, it may be that growth is finally beginning to slow. Early numbers provided by DOR show that sales tax revenues attributable to January sales that are set to be distributed to cities later this month are likely to be roughly 4.4% more than the same revenues in January 2021. This would be much more in line with the type of growth experienced pre-pandemic than that seen since June 2020. As the impact of federal aid to taxpayers becomes more distant and programs like the enhanced child tax credit end, the result could be a reduction in spending on the types of goods that have helped drive recent sales tax growth. Figure 3 below shows the St. Louis Federal Reserve’s tracking of [disposable personal income](#) among Americans. After several high peaks in 2020 and early 2021, the measure has returned to a much steadier level – albeit still one higher than that of January 2020.

**FIGURE 3**

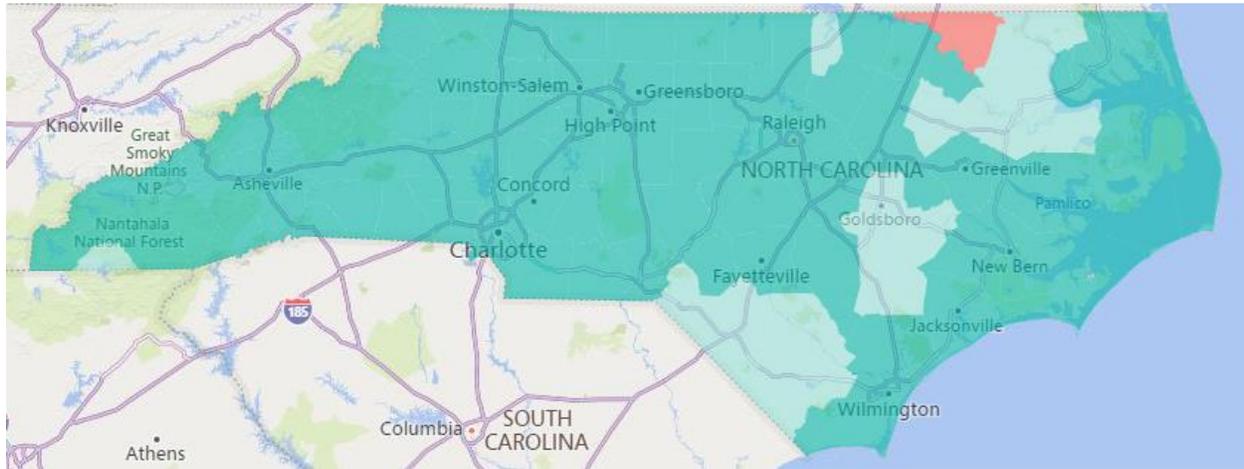


With such strong growth across the state, it is likely not surprising that almost every county has seen some increase in sales tax revenues this fiscal year. Regional variations remain, but they are primarily in degrees of growth rather than gains versus losses. Figure 4 below shows that virtually all counties have seen sales tax revenues grow in recent months, but the growth has not always been equal, with lighter colors representing slower revenue growth.



**FIGURE 4**

EACH COUNTY'S % CHANGE IN ARTICLE 39&40 DISTRIBUTIONS FY21-22 YEAR-TO-DATE



Aside from economic conditions, refunds processed are always a major factor affecting local variation in sales tax distributions. Table 1 below shows the total refunds each month so far this fiscal year, compared to refunds in the same month last fiscal year. The unpredictable timing of when tax-exempt entities file for refunds results in high volatility in the amount of sales tax taken out of total distributions each month, although on the whole, the growth in refunds this fiscal year is almost equal to the overall growth in collections (15.4% as compared to 16.3% growth).

**TABLE 1**

REFUNDS EACH MONTH FY20-21 YEAR-TO-DATE

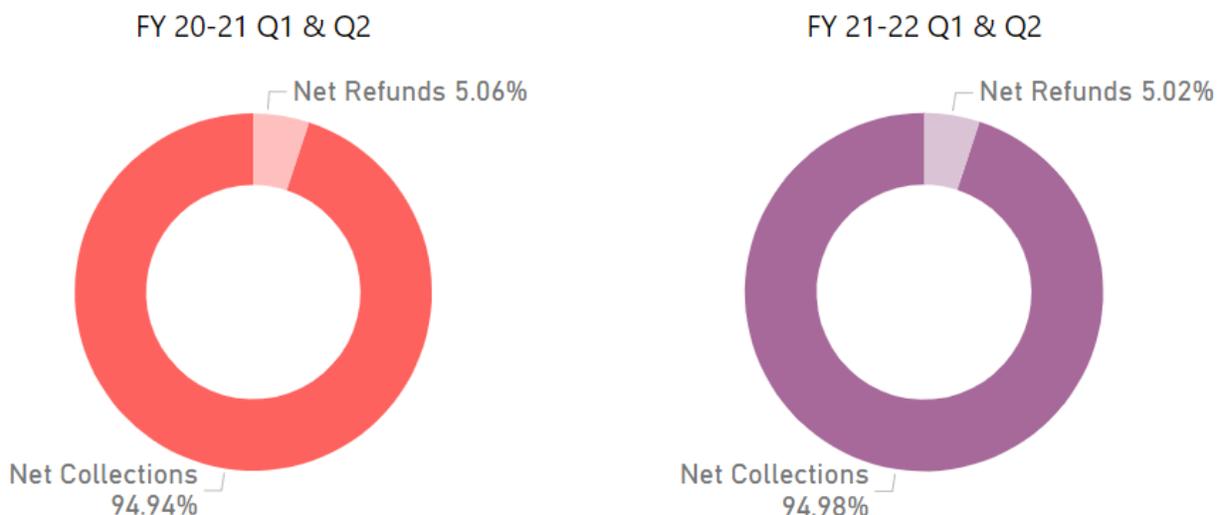
Date	Refunds This Year	Refunds Last Year	Refunds % Change YOY
August 2021	\$16,852,143.18	\$11,348,913.56	48.49%
September 2021	\$16,321,538.40	\$27,531,984.43	-40.72%
October 2021	\$32,321,873.80	\$25,665,633.07	25.93%
November 2021	\$31,759,871.06	\$23,800,629.34	33.44%
December 2021	\$14,898,805.89	\$7,711,534.88	93.20%
January 2022	\$20,037,921.59	\$18,510,798.46	8.25%
<b>Total</b>	<b>\$132,192,153.92</b>	<b>\$114,569,493.74</b>	<b>15.38%</b>



As a percent of gross collections, refunds thus far this fiscal year are almost equivalent to those in the first two quarters of FY20-21 (see Figure 5).

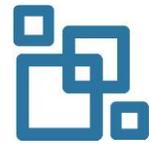
**FIGURE 5**

REFUNDS FY21-22 YEAR-TO-DATE AS A % OF GROSS SALES TAX COLLECTIONS



Almost since sales tax revenues began showing significant increases in June 2020, close observers have wondered if and when the trend might reverse itself. For much of the last year and a half, there have been no signs of it doing so. We think that a slowdown may finally be coming, though. We do not see an indication yet that revenues may actually decrease, although current data does not take into account the most recent months when gasoline prices surged and inflation in other areas remained high. But we expect that annual growth more similar to that experienced prior to March 2020 is the most likely scenario. There are reasons to believe that local sales tax revenues will remain somewhat resilient. Taking into account performance through the first six months, as well as projections for more moderate growth in the months ahead, **we project that local sales tax revenues will finish FY21-22 10.25% above FY20-21 levels.**

Our anticipation is that we will not see double-digit growth again next year, although we do not envision a drop in revenues, either. Essentially, the hope is that we have established something of a new baseline in recent months. The shift to online spending appears to be durable and should continue to benefit cities and towns. Economic development in NC continues to make headlines and population growth does not seem to be abating. Steps taken to moderate inflation, and the response of the economy to these steps, will be important factors to monitor in the months ahead. So, too, will the course of the COVID-19 virus and the impact of any new variants that might emerge. Taking these many factors and more into account, **we are projecting FY22-23 sales tax growth of 3.75% over FY21-22 levels.**



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There is certainly room for regional variation in this projection. As events and conventions return to regular schedules, larger urban counties could see growth that exceeds our projections. Local construction activity also will contribute to variation between counties. As always, your knowledge of your local conditions will best inform projections as to how this statewide forecast will relate to that for your jurisdiction.



## 3.2 UTILITY SALES TAXES

For the purpose of electricity, telecommunications, natural gas, and video programming quarterly distributions, we assume that the fiscal year accrual begins with the distribution received by local governments in December. (This is synonymous with the distribution covering DOR’s “collection quarter” ending in September.) See the League’s [Basis of Distribution Memo](#) for the recent history of how this revenue is distributed.

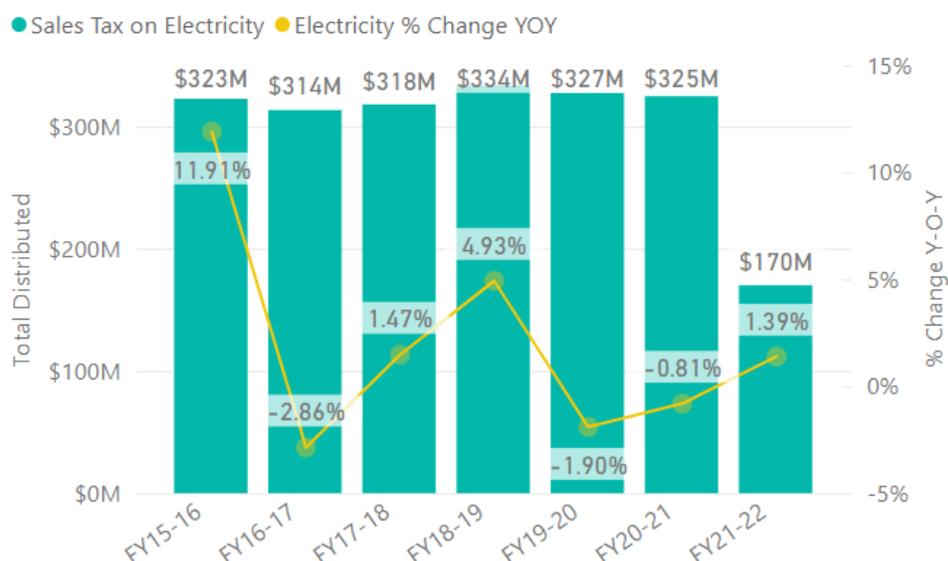
Utility tax growth during the Great Recession did not necessarily match the decline and recovery trends of the rest of the economy. Instead, underlying factors such as policy changes, energy prices, weather, and changing technologies cause growth in these revenues to swing dramatically in any given year. In the latter half of the calendar year 2020, as the COVID-19 pandemic was at its pre-vaccination peak, utilities and telecommunications companies across the state either chose on their own or were instructed by a Governor’s executive order to cease utility cutoffs, waive penalties for nonpayment and institute payment plans for customers who fell behind on payments during the pandemic. State and federal funds for utility payment assistance to customers were also made available. To the extent those changes impacted the timing and amount of payments made, they may be combining with long-term consumption changes to skew the year-over-year trends for these revenue sources somewhat.

### 3.2.1 Electricity Sales Tax

After peaking in FY18-19 at almost \$334 million, the total amount of electricity sales tax distributed has declined in each of the last two fiscal years. An almost 2% decline in FY19-20 was followed by a year-over-year decline of less than 1% last year. Given the impacts of the pandemic, that minimal decrease could be seen as a positive sign. Thus far in FY21-22, distributions have increased from the same quarters in FY20-21 by over 1%, with more than \$170 million being distributed statewide (see Figure 6).

**FIGURE 6**

Annual Electricity Sales Tax Distribution (Y-O-Y Change)



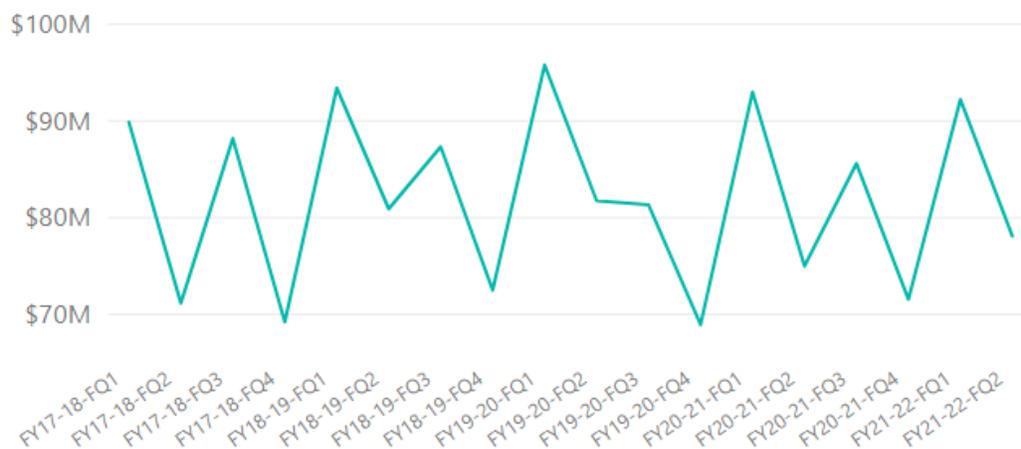


Price and consumption both play a role in year-over-year growth. The average electricity price across all sectors for the first two quarters of FY21-22 was only slightly above that of the same months in FY20-21, which means that changes in consumption – as well as the timing of utility payments mentioned above – has likely played a larger role in the year-over-year revenue increase.

As always, weather remains one of the largest contributing factors to consumption and revenue trends. As shown in Figure 7, the electricity tax distributions always peak in the first quarter, which corresponds with warm summer months. Cooling degree days, corresponding with cooling-related electricity demand, also peak during the same time period each year (see Figure 8) and are one good indicator for consumption. Cooling degree days thus far in FY21-22 have increased almost 2% from the same period in FY20-21, adding another factor that is likely leading to the revenue increase seen during the first half of this fiscal year.

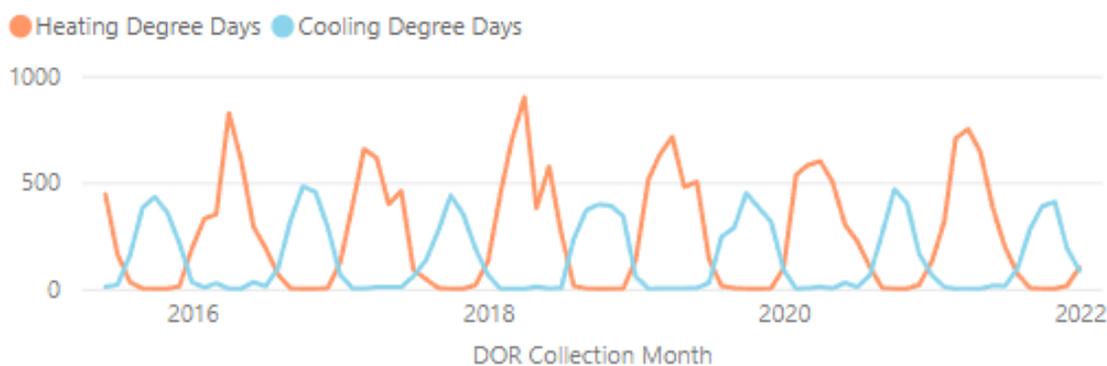
**FIGURE 7**

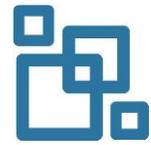
### Sales Tax on Electricity Distributions by Quarter



**FIGURE 8**

### NC Temperature Trends





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***A Note on Temperature Data:*** We assume that electricity bill payment occurs one month prior to utilities remitting the tax to DOR (the collection month). We also assume that electricity consumption occurs one month prior to the bill payment. Therefore, the temperature data used in our analysis is offset by two months. For example, temperatures in May, June, and July would affect the distribution for DOR's July, August, and September collection quarter.

Looking forward, the [Energy Information Administration \(EIA\)](#) projects electricity prices in NC's region to be almost 4% higher in 2022 than 2021, before receding slightly in 2023. Meanwhile, [EIA projections for the region](#) expect that electricity sales will continue to steadily rise.

We expect that the increase in electricity tax distributions through the first half of the fiscal year will largely remain steady in the second half as well. With rates and consumption projected to trend upward through the remainder of the fiscal year, **we project that statewide electricity sales tax revenue for FY21-22 will end up 1.25% higher than FY20-21.**

It is a trend that we are optimistic will continue into the next fiscal year as well. As always, weather will play a large role in year-over-year revenue changes, but projected coming price increases will impact utility tax revenues as well. Long-term industry predictions indicate increased energy efficiency leading to a decrease in consumption, but population projections and construction trends would indicate that North Carolina's population (and its electricity customer base) will continue to increase for the foreseeable future. We continue to expect slight growth in this revenue source, **and project that electricity sales tax revenue will increase by 1.0% in FY22-23.**

Please remember that, unlike in the past, local fluctuations in electricity consumption or population will not affect your distribution. Any excess revenues over those generated statewide in FY13-14 are distributed based on your city's percentage of total property taxes levied. As such, changes in your property tax rate or base could affect the ad valorem distribution of any excess revenues, but the change would have to be extremely significant to materially affect the statewide calculation.

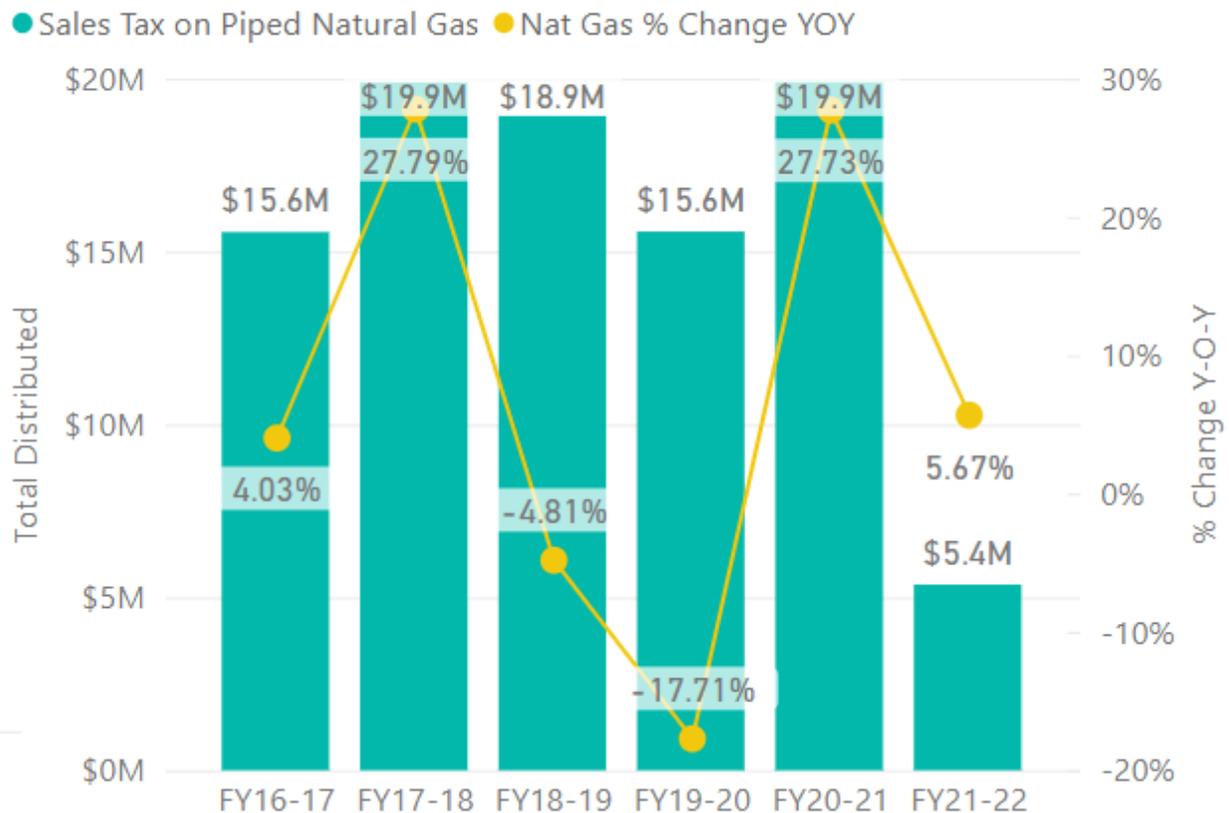


### 3.2.2 Piped Natural Gas Sales Tax

Piped natural gas tax distributions tend to fluctuate more dramatically than electricity sales tax distributions, particularly in recent years (see Figure 9). Following a nearly 18% decline in FY19-20, revenues rebounded with an almost 28% year-over-year increase in FY20-21. This year, the first two quarters' distributions are up nearly 6% over last year's totals.

**FIGURE 9**

#### Annual Natural Gas Sales Tax Distribution (Y-O-Y Change)

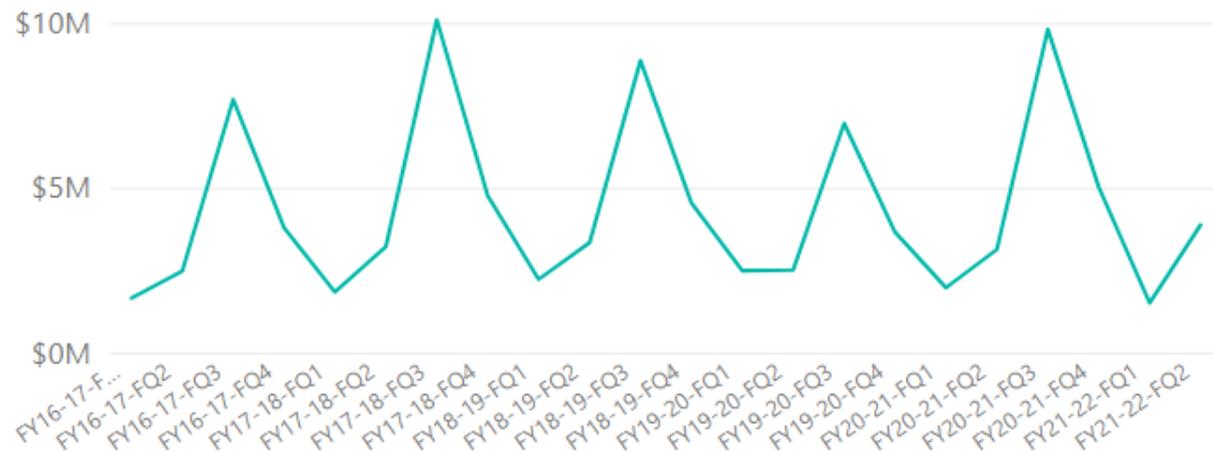


Combined, the first two quarterly distributions of FY21-22 totaled nearly \$5.37 million. The bulk of annual natural gas tax distributions don't arrive until June, covering DOR collections during the quarter ending in March (see Figure 10). On average, the first two quarters of the fiscal year represent only about 30% of the annual total distribution for piped natural gas tax.



**FIGURE 10**

### Sales Tax on Piped Natural Gas Distributions by Quarter



Like electricity taxes, price and consumption (largely driven by weather) are the main factors affecting piped natural gas tax distributions. The Q3 peaks in natural gas tax distributions match closely with Q3 peaks in the number of heating degree days (Refer back to Figure 8). As described earlier in the electricity tax section, temperatures in November, December and January will affect the natural gas consumption seen in the next distribution (covering tax collected during the third quarter ending in March). This year, the heating degree days for the months affecting the next distribution are down by about 4%.

Given the recent decline in heating degree days following a particularly cold 3<sup>rd</sup> quarter in FY20-21, we believe it is likely that the current year-over-year increase in natural gas tax revenues is not sustained throughout the fiscal year. **We project a 4.25% decrease in the total statewide FY21-22 distribution of natural gas sales tax revenues to municipalities.**

High volatility in distribution amounts over the past few years, coupled with a strong correlation with unpredictable weather patterns, make forecasting the next fiscal year highly uncertain. [Information from the EIA](#) indicates that natural gas prices in the South Atlantic are forecasted to increase for the rest of 2022 before decreasing below current levels in 2023. Based on those forecasts, combined with trends since the distribution change went into effect in 2014, **we project a 3.25% increase in natural gas sales tax revenues in FY22-23.**

Similar to electricity, because any future adjustments to this distribution will be made based on statewide property tax levies, it will not be affected by any changes in current users of natural gas in your town or on any population gains or losses you experience.

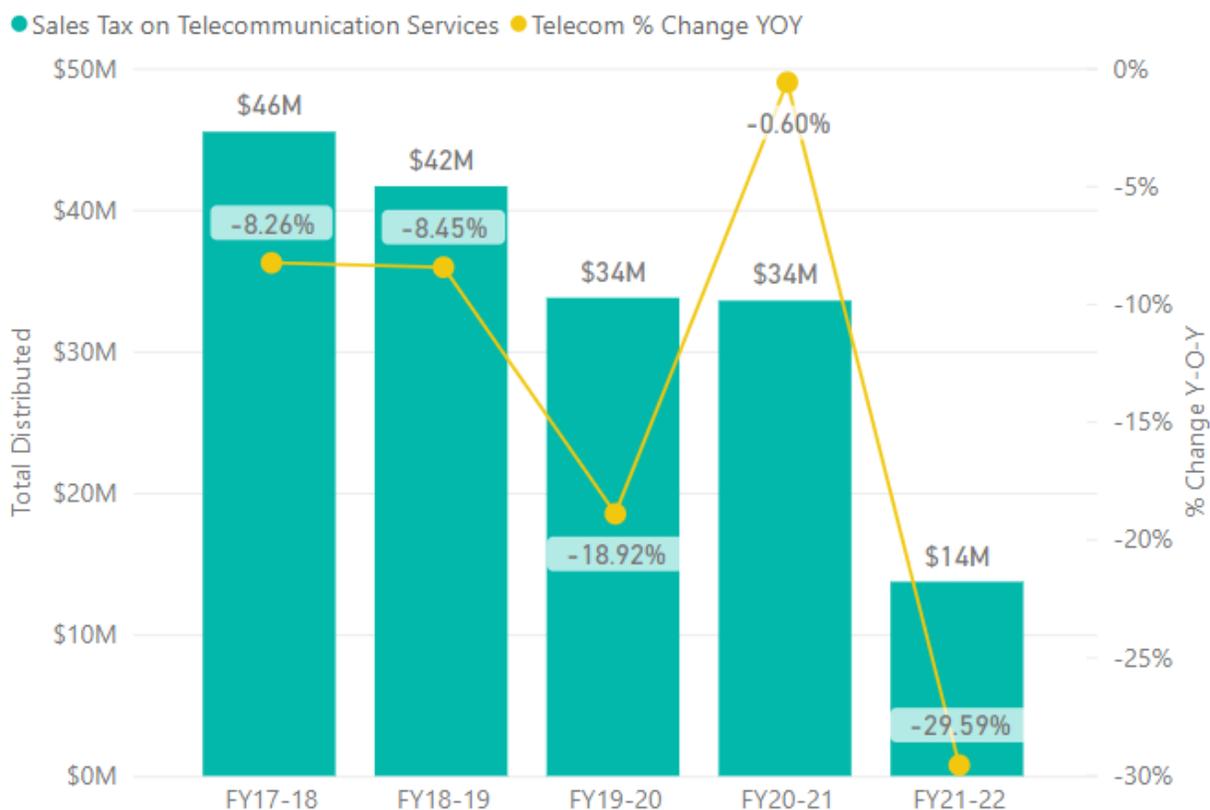


### 3.2.3 Telecommunications Sales Tax

Annual totals for telecommunication sales tax distributions have declined every year since FY08-09, although FY20-21 distributions were close to flat after a particularly steep decline in FY19-20. (see Figure 11). Like electric and natural gas utilities, some telecommunications providers increased their flexibility with regard to payments for service after the pandemic, which may have led to the particularly severe fluctuations of the last two years. That being said, the first two quarters of the current fiscal year have declined at a rate that would exceed the drop seen in FY19-20. We are currently exploring with DOR whether there were any adjustments to the data that would contribute to this significant drop.

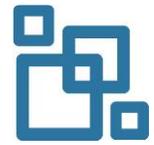
**FIGURE 11**

Annual Telecommunication Services Sales Tax Distribution (Y-O-Y Change)



Much of the decline in this distribution in recent years is related to customers abandoning landline telephone service for mobile telephone service. There is no data available to indicate that this trend has changed in the last 12 months.

Given the decline in distributions through the first two quarters of this year, **we expect that annual statewide telecommunications revenues for FY21-22 will decrease year over year by 13.0%**. We expect



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the decline to moderate only somewhat in the coming fiscal year, as **we predict telecommunications taxes will decline by 7.5% in FY22-23.**

For cities and towns **incorporated before July 1, 2001**, the distribution of this revenue is based on each municipality's past share of the old telephone franchise tax, so there should be no local economic adjustments to the statewide growth estimate. These cities and towns will also be unaffected by any population changes.

For towns **incorporated on or after July 1, 2001**, the distribution is based on population, so some local variation from the statewide percentage is possible and differences between the 2020 and 2021 Certified Population estimates will affect distributions.

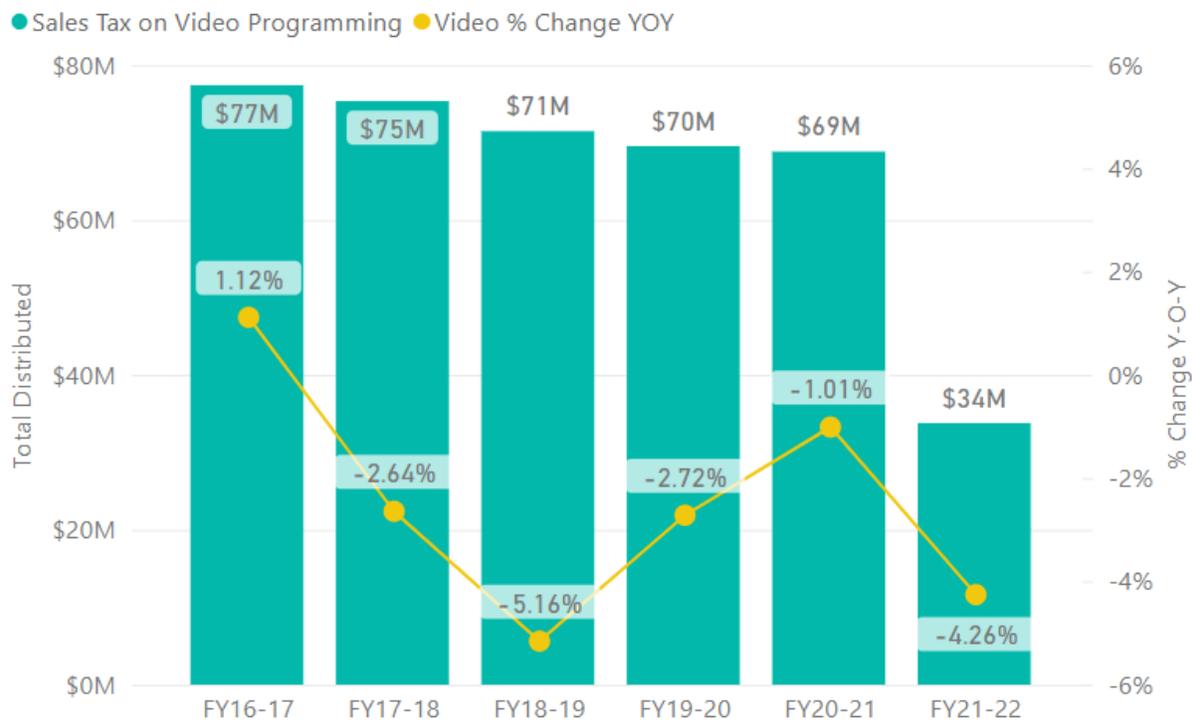


### 3.2.4 Local Video Programming Tax

With one exception in FY16-17, the general trend in annual video programming distributions has been downward in recent years (see Figure 12). The overall decline is primarily attributable to cable TV customers “cutting the cord” in favor of streaming services. Last year’s decrease was the lowest in recent years at just about 1%. The first two quarterly distributions of FY21-22, though, showed further decline of over 4% from FY20-21 levels (see Figure 12).

**FIGURE 12**

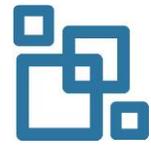
Annual Video Programming Sales Tax Distribution (Y-O-Y Change)



The number of customers abandoning traditional cable services in favor of more streaming options [continues to increase](#). Overall for the year, **we expect that the statewide annual distributions will decrease by 3.0% as compared to FY20-21.**

Based on performance in recent years, we project that future revenues will continue to decline. **We expect that video programming revenues will decrease by 1.75% in FY22-23.**

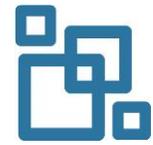
While this distribution is not based directly on population, population change is a factor in the annual distribution formula. As a result, growth or decline in population between the 2020 and 2021 [Certified Population Estimates](#) will affect these revenues, although not in the exact percentage as the increase or decline in population.



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Cities with qualifying Public, Educational, and Governmental (PEG) channels are entitled to supplemental PEG channel support funds for up to three channels. These funds must be provided to the organization that operates the channel. The amount per channel for FY21-22 is approximately \$26,316. Factors that affect PEG funding include the total number of PEG channels and any returns of PEG channel money. We do not expect these factors to change materially in FY22-23.

To receive supplemental PEG channel funds, **you must certify your PEG channels to DOR each year by July 15**. The 2022 certification forms will be available on the DOR website here: <https://www.ncdor.gov/documents/tr-peg-cable-peg-channel-certification>.

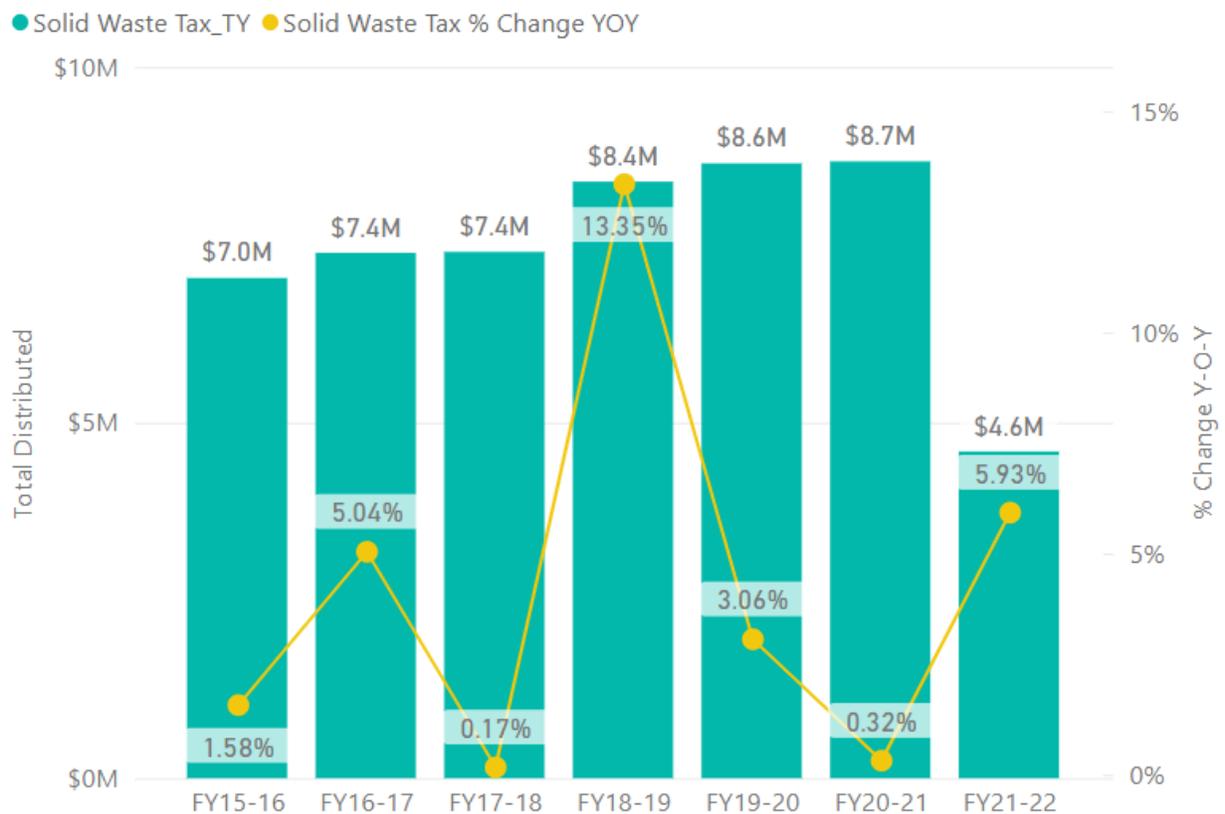


### 3.3 SOLID WASTE DISPOSAL TAX

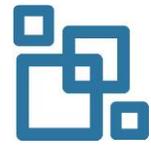
The State levies a \$2 per-ton “tipping tax” on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. Cities and counties receive 18.75% of the tax, and revenues are distributed on a per capita basis. The distribution has increased year over year for at least seven years in a row. After an early decline in FY20-21, revenues rebounded in the second half of the fiscal year to again post annual gains, and strong year-over-year growth has continued into the first half of FY21-22 (see Figure 13).

**FIGURE 13**

Annual Solid Waste Disposal Tax Distribution (Y-O-Y Change)



Activity within the construction sector is one of the largest contributing factors to solid waste revenue. As noted in our economic overview, growth in housing starts and building permits around the state remains strong year over year. At the national level, the [Association of General Contractors](#) reports that industry employment and spending continues to rise, while warning that workforce and materials challenges could limit this growth in the future. Within NC, the [Cumming Insight](#) forecast for the Research Triangle – the only NC region profiled – projects a reduction in construction activity, led by decreases in the residential sector. If this comes to pass it could be mediated somewhat by [gains in the nonresidential sector](#).

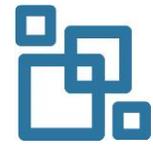


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Infrastructure spending fueled by American Rescue Plan dollars and the bipartisan infrastructure bill passed at the federal level last year could pick up as 2022 goes along.

Given the growth thus far this year and the continued evident strength of the construction industry in NC, **we expect total distributions for FY21-22 to increase 2.0% from total distributions in FY20-21.** Challenges with accessing labor and materials could be potential obstacles for the construction industry in 2022-23. But, given potential federal dollars entering the marketplace, as well as the continued growth in NC population and economic development, **we project that solid waste tax distributions for FY22-23 will increase 2.5% over FY21-22.**

Because this revenue is distributed on a per capita basis, a particularly large annexation taking effect between July 1, 2021 and June 30, 2022, could justify projecting additional revenue growth for your municipality.



### 3.4 ALCOHOLIC BEVERAGES TAX

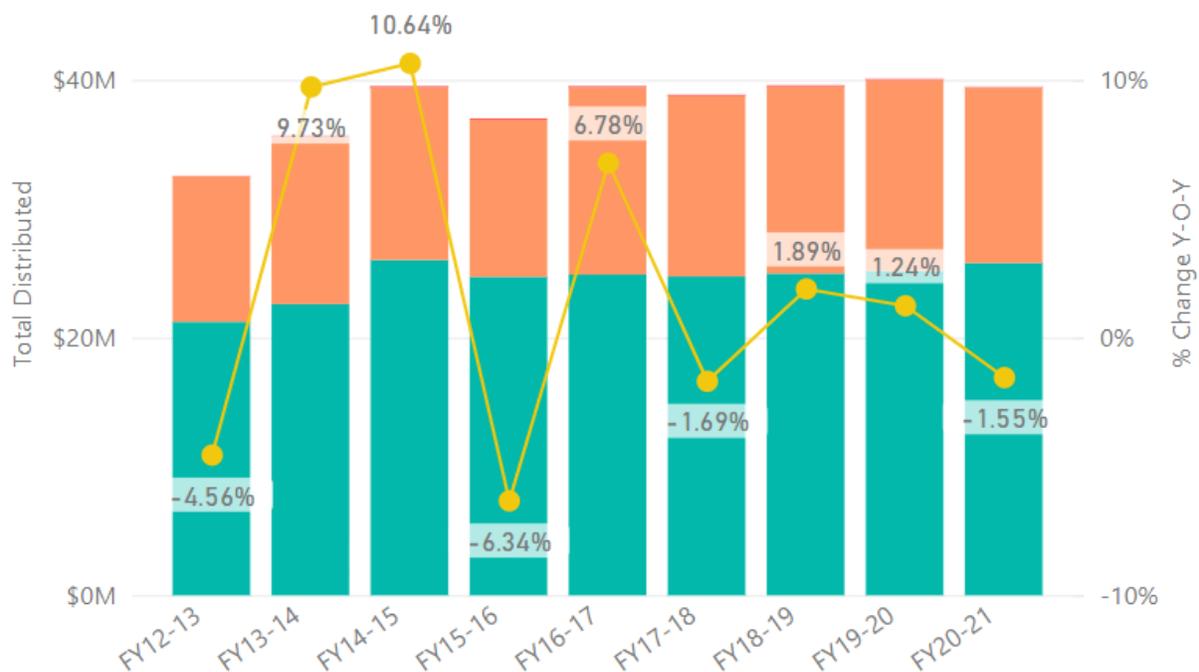
The alcoholic beverage tax is an excise tax paid by the producers of alcohol based on their sales of alcohol in North Carolina. A portion of taxes collected are distributed by DOR to municipalities based on population. With the fiscal year running from April through March, cities can expect to receive the beer and wine sales tax distribution within 60 days of March 31.

At the time of this report, the 2022 alcoholic beverage tax distribution has yet to be released. However, DOR has indicated to us that **the 2022 distribution is projected to decline by approximately 4.6%**. This would represent the biggest year to year change in this distribution in 5 years. In the early and mid-2010s, the total amount distributed fluctuated a great deal from year to year. However, each of the past 4 years' distributions have been less than a 2% change than the previous year.

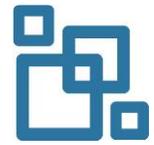
**FIGURE 14**

#### Annual Beer & Wine Tax Distribution (Y-O-Y Change)

● Beer ● Unfortified Wine ● Fortified Wine ● Total Alcohol % Change YOY



Growth in this distribution is dependent on the proportion of beer and wine sold in North Carolina, which are taxed in different amounts. An excise tax of 61.71¢ per gallon is levied on the sale of beer. An excise tax of 26.34¢ per liter is levied on the sale of unfortified wine, and an excise tax of 29.34¢ per liter is levied on the sale of fortified wine.



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For most of the past decade, declines in this revenue source have been followed by an increase in subsequent years. This now marks two consecutive years of year-over-year decline in this distribution. We do not expect this trend to continue, and **project that the distribution received in 2022 will grow by 1.75%**. Because these distributions are based on population, it is important to incorporate factors like annexations or de-annexations during the fiscal year into your municipality's projection.



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### 3.5 POWELL BILL

Entering the current fiscal year, the state's Powell Bill appropriation was set at \$147.5 million. No state budget was passed prior to the first distribution of Powell Bill funds in October, so that distribution was based on the \$147.5 million total.

However, the state budget that was passed in November 2021 increased the amount of state funds appropriated to the Powell Bill program. For FY21-22, a total of \$154.875 million in Powell Bill funds were distributed to the 509 municipalities participating in the program. The League and its members very much appreciate the General Assembly recognizing the growing transportation needs at the local level and appropriating more funds to assist municipalities in addressing them. The same total of \$154.875 million is scheduled to be appropriated to municipalities in FY22-23, though the General Assembly has the option of adjusting the FY22-23 budget during its session this summer.

There was one additional change made to the Powell Bill program along with the increase in appropriations. Statutory language in the state budget also specified that cities with a population over 400,000 would receive the same amount of Powell Bill funds that they did in FY20-21, when the state appropriation was reduced due to concerns about transportation revenues in the wake of the COVID-19 pandemic. In effect, this means that the Powell Bill distribution for the cities of Charlotte and Raleigh is currently frozen at FY20-21 levels, and the increase in the Powell Bill appropriation is shared between the remaining 507 cities in the program.

Aside from that change, the formula for distributing the existing appropriation to eligible cities has not been adjusted. Of the total annual distribution of Powell Bill funds, 75% is allocated among eligible cities based on population. If the Powell Bill totals stay at the currently appropriated total of \$154.875 million, and there are no changes made to current Powell Bill statutes, we would expect that the per capita and mileage-based allocations for FY22-23 would be similar to those of FY21-22 for all cities except Charlotte and Raleigh. **We would project the per capita allocation for the FY22-23 Powell Bill distribution to be \$21.66.** To estimate your expected population-based distribution, multiply this amount by your expected 2021 population. Your Certified 2021 Population Estimates (July 1, 2020 Estimates with July 1, 2021 Municipal Boundaries) can be found at the bottom of the Office of State Budget and Management's Municipal Population Estimates page: <https://www.osbm.nc.gov/demog/municipal-estimates>. You should adjust your 2020 Certified Population to account for any annexations going into effect between July 1, 2021 and June 30, 2022. The remaining 25% of the Powell Bill distribution is allocated based on the number of city-maintained street system miles in each municipality. **The projected value of the mileage-based allocation for the FY21-22 Powell Bill distribution is \$1,675.48 per street mile.** After calculating your estimated city-maintained street mileage as of July 1, 2022, multiply that figure by the per-mile rate to calculate your city's total street mile allocation.



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## 4 REMEMBER: REPORT YOUR BOUNDARY CHANGES!

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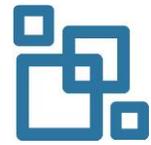
Many state-collected revenue distributions depend on accurate municipal boundary information, either to calculate populations or to determine utility sales within the municipality. **It is the responsibility of individual municipalities to notify all appropriate organizations as soon as possible of any changes in their boundaries.** The list of organizations you are required to provide with a revised boundary map and a copy of your annexation ordinance includes: 1) the Register of Deeds, Tax Assessor, Board of Elections, and GIS department for any county in which your municipality is located; 2) the Secretary of State; and 3) all gas and electric companies that have customers in your city or town. **Failing to provide this information in a timely manner could result in lost revenue for your municipality.** Do not send copies of your annexation maps to DOR, as this is no longer required.

In addition, your municipality should respond to the Annexation Survey included as part of the State Demographer's annual North Carolina Demographic Survey (NCDS), which can be found online at <https://ncds.osbm.nc.gov/>. In addition to information about annexations, the survey includes questions on group quarters and residential building activity. A letter will be mailed to all municipalities in the first part of May to confirm the current municipal point of contact for completing the annual survey. An e-mail will then be sent to the designated point of contact for each municipality by **June 28<sup>th</sup>** directing them to the online survey. The **Certified Population Estimates** – used for revenue distributions – estimate the 2021 population living in areas annexed on or before **July 1, 2022**. The State Demographer cannot include these populations if the annexations have not been reported through the survey.

Please remember, you will receive **two** boundary and annexation surveys, one from the **State (June 28** – described above) and one from the **federal** government (in **January**); **both must be completed by your municipality. If you have a “consolidated BAS agreement” with your county, this can fulfill your municipality’s requirement for the federal survey, but even with the consolidated BAS agreement you must still complete the State survey described above.** Completing just one survey will not provide the information for the other. More information on the federal BAS can be found at <https://www.census.gov/programs-surveys/bas.html>.

### **Concerned with your municipality’s 2020 Census results?**

If you have discovered that housing units or congregant housing facilities (group quarters) were missed from your municipality’s 2020 Census count, now is the time to ask for a review through the US Census Bureau’s Count Question Resolution (CQR) program. Between now and **June 30, 2023**, the US Census Bureau will accept cases regarding missing housing units, group quarters facilities, and municipal boundaries. You can find out more here: [Five Things to Know Before You Challenge 2020 Census Results | NC OSBM](#). Contact [NC Census Liaison Bob Coats](#) or [State Demographer Mike Cline](#) at the North Carolina Office of State Budget & Management for additional questions.



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## 5 DEPARTMENT OF REVENUE CONTACT LIST

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Listed below are the appropriate contacts at DOR for questions regarding municipal concerns.

- Questions about the amount of revenue included in a distribution – Veronica Pace, Distribution Unit; or Tony Garrett, Distribution Unit, (919) 814-1118.
- Questions about the status of a municipality’s sales tax refund – Veronica Pace, Distribution Unit; or Tony Garrett, Distribution Unit, (919) 814-1118.
- Questions about the allocation of sales tax refunds to a municipality – Veronica Pace, Distribution Unit; or Tony Garrett, Distribution Unit, (919) 814-1118.
- Interpretation of sales tax laws – Andrew Furusest, Director, Sales and Use Tax Division, (919) 608-1115.
- Requests for a list of claimants that received a sales tax refund in a county in which the city is located – Veronica Pace, Distribution Unit; or Tony Garrett, Distribution Unit, (919) 814-1118.
- Requests for a list of businesses that paid sales tax and may be engaged in a business subject to a food and beverages tax, room occupancy tax, vehicle rental tax, or heavy equipment rental – Veronica Pace, Distribution Unit; or Tony Garrett, Distribution Unit, (919) 814-1118.
- Requests for statistical data related to local taxes – George Hermene, Information Unit, (919) 814-1129.
- Requests for statistical data related to State-collected taxes – McKinley Wooten, Assistant Secretary for Tax Research & Equity, (919) 814-1092
- To change the email address at which you receive notification of distributions – Kathy Robinson, Financial Services Division, (919) 754-2525. If you have failed to receive an email notification of your distributions, do not contact DOR, but instead call the Office of the State Controller at (919) 707-0795.