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ABOUT THIS DOCUMENT

The League’s quarterly Revenue Reports provide a general economic update and a summary of tax revenues collected by the state that are returned to local governments (municipalities and counties) throughout the year. These include a portion of local option sales and use taxes, utility sales taxes (on electricity, piped natural gas, telecommunications, and local video programming), beer and wine excise tax, and solid waste disposal tax. These taxes are distributed to municipalities throughout the year according to formulas outlined in state law, and relevant revenue sources will be highlighted in each quarterly report.

To view this information in a more interactive format, visit our most recent [quarterly revenue report dashboard](#). For more information on the different types of state-collected local taxes and distribution formulas, see the League’s most up-to-date “[State-Collected Local Taxes: Basis of Distribution](#)” memo.

WHAT’S NEW THIS QUARTER?

The following NC Department of Revenue (DOR) data has been released following the [League’s most recent revenue report](#).

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax ¹	June, July, August 2024	September, October, November 2024
Taxable Sales Data	May, June, July 2024	September, October, November 2024
Utility Sales Tax	June, July, August 2024	December 2024
Solid Waste Tax	June, July, August 2024	December 2024

¹ Distributions received are generally representative of sales three months prior and were collected by DOR two months prior. Based on state accounting guidelines, the League assumes that revenues are accrued for 90 days. Please refer to memo #1015, “[Recognition of Sales Tax and Other Revenues at Year-End](#),” issued by the LGC on March 31, 2004, for further details and guidance.

Based on the latest data, the following tables summarize our analysis of statewide trends for Q1 of the 2024-2025 fiscal year:

FY25 Q1 Summary		
Revenue Source	Total Distributed FY25 Q1	% Change from FY24 Q1
Sales & Use Tax	\$1.39 B	+ 1.27%
Sales & Use Tax Refunds	\$100 M	- 6.06%
Electricity Sales Tax	\$121 M	+ 20.62%
Video Programming Sales Tax	\$15.7 M	- 4.06%
Telecommunication Services Sales Tax	\$5.9 M	-4.93%
Natural Gas Sales Tax	\$2.3 M	-10.57%
Solid Waste Tax	\$2.5 M	+1.90%

LOCAL GOVERNMENT SALES & USE TAXES

Trends from the most recent fiscal year have continued into the first quarter of the 2024-2025 fiscal year. Sales tax distributions continue to grow at a rate much slower than the rate of growth that followed the Covid-19 pandemic. This slowdown has been happening for several quarters now; several factors seem to have exacerbated the more extreme stagnation in sales tax revenues this quarter. These factors will be discussed further later in this report.

Q1 Sales Tax Distributions, YoY % Change, by Article

	FY21-22-FQ1	FY22-23-FQ1	FY23-24-FQ1	FY24-25-FQ1
Art 39 % Change Y-O-Y	73.73%	15.96%	0.42%	1.12%
Art 40 % Change Y-O-Y	73.73%	15.96%	0.41%	1.12%
Art 42 % Change Y-O-Y	74.00%	15.97%	0.38%	1.08%
Art 43 % Change Y-O-Y	80.60%	18.13%	-4.08%	4.18%
Art 46 % Change Y-O-Y	72.57%	16.69%	-0.04%	-0.94%

Summary data from the Department of Revenue show that local governments saw an increase of 1.27% over Q1 of last fiscal year:

Monthly Sales Tax Distributions Year-to-Date

Date	Total % Change Y-O-Y	Difference from Last Year	TOTAL DISTRIBUTED
September 2024	0.23%	\$1,082,779	\$481,781,522.14
October 2024	-0.51%	(\$2,246,946)	\$439,157,089.21
November 2024	4.13%	\$18,591,894	\$468,426,164.48
Total	1.27%	\$17,427,727	\$1,389,364,775.83

Gross and net sales tax collections reflect a similar trend:

Gross & Net Sales Tax Collections (by Sales Month)

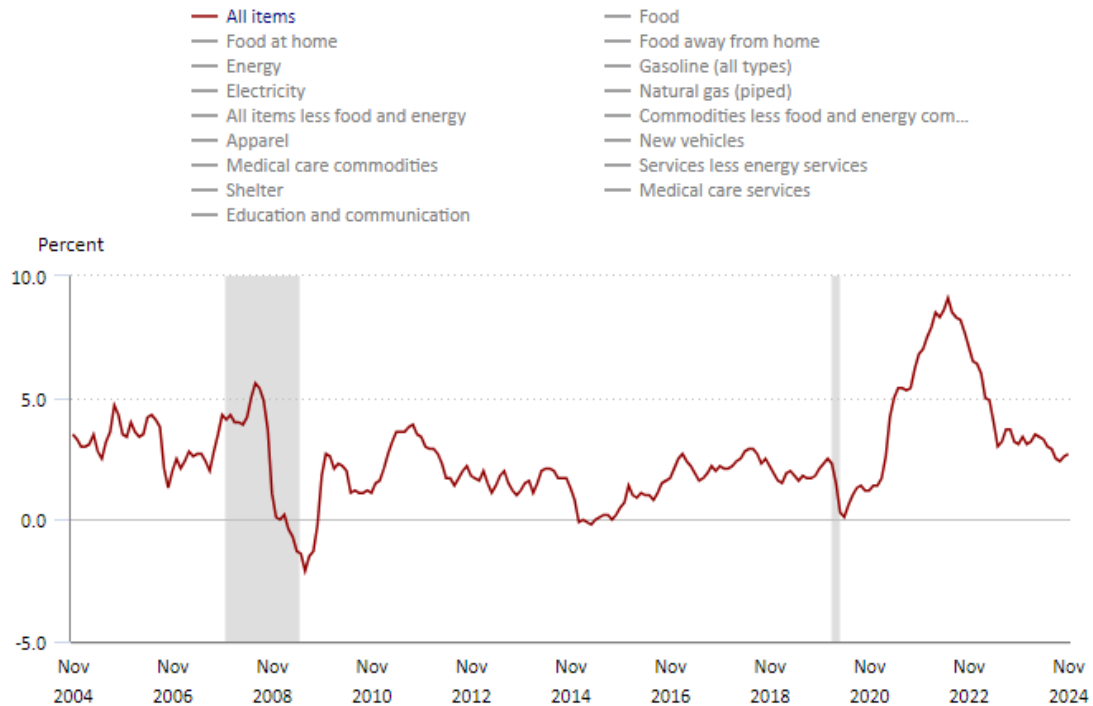
Month	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
September	\$498,332,968	0.75%	\$483,865,765	0.22%
October	\$492,559,013	-0.56%	\$441,127,387	-0.59%
November	\$502,817,758	1.71%	\$470,444,605	4.10%
Annual Total	\$1,493,709,739	0.63%	\$1,395,437,757	1.23%

The apparent slow down and slight decline in sales tax revenue this quarter is a continuation of the themes from the last several quarters, albeit to a more extreme extent in FY24-25. While it can be difficult to pinpoint the exact reasoning for these changes, some factors do play a key role. The volatility of refund issuance, natural disasters, political unrest, and the larger economic picture within the country can all play a major part in the amount of money that flows back into local governments. While inflation going down is certainly a good thing for most of us (and could free up more spending power generally), it also means that sales tax revenue will drop in the short term.

Through various forms of policy intervention, the United States economy has seemed to recover and return to a relatively steady rate of growth following the uncertain

economic time that followed the Covid-19 pandemic. Inflation has softened, with the US Department of Labor reporting that it is [resting at 2.7%](#) at the time of this writing. That number is up slightly from last quarter’s rate of 2.5%, but still down slightly from 3.1% in November of 2023 and down considerably from 7.1% in November of 2022.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.



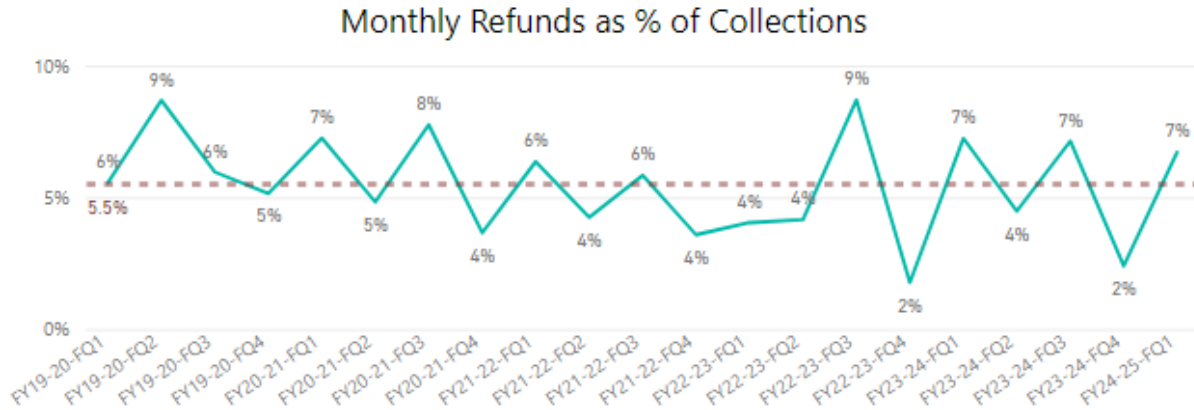
Note: The shaded areas are representative of a recession.

SALES TAX REFUNDS

Sales tax refunds contribute to the general volatility of sales tax data; there are no apparent trends that appear within the refund data. The timing of organizations filing for refunds, combined with DOR’s capacity to process these requests, can make refunds spike or drop at during any given month. As represented in the chart below, August and September saw an extreme percentage changes from the previous year’s refund data; notably, October stayed consistent with last year’s refund data from the same time frame. However, October saw a much larger percentage of refunds as a percentage of collections when compared to August and September.

Refunds, by Fiscal Year

Date	Refunds Last Year	Refunds This Year	Refunds as % of Collections	Refunds % Change YOY
September 2024	\$12,314,081	\$15,318,865	3.07%	24.40%
October 2024	\$52,122,342	\$52,145,611	10.57%	0.04%
November 2024	\$43,146,242	\$33,020,232	6.56%	-23.47%



UTILITY SALES TAXES

The Department of Revenue distributes quarterly taxes from the sales of four utility types – electricity, natural gas, telecommunication services, and video programming. The table below reflects the estimated time between when a customer uses the utility to the time in which the report is distributed by the Department of Revenue.

1- Customer Uses Utility	April	May	June
2- Billing Month	May	June	July
3- Payment Due	June	July	August
4- DOR Collection Month	July	August	September
5- Report Distributed	December		

Utility tax distributions during FY25 Q1 saw a 20.62% increase in electricity and decreases in all other utilities:

Q1 Utility Tax Distributions, YoY % Change

	FY22-23-FQ1	FY23-24-FQ1	FY24-25-FQ1
Electricity % Change YOY	7.80%	1.48%	20.62%
Nat Gas % Change YOY	88.61%	-9.37%	-10.57%
Telecom % Change YOY	-7.04%	-5.42%	-4.93%
Video % Change YOY	-4.61%	-3.25%	-4.06%

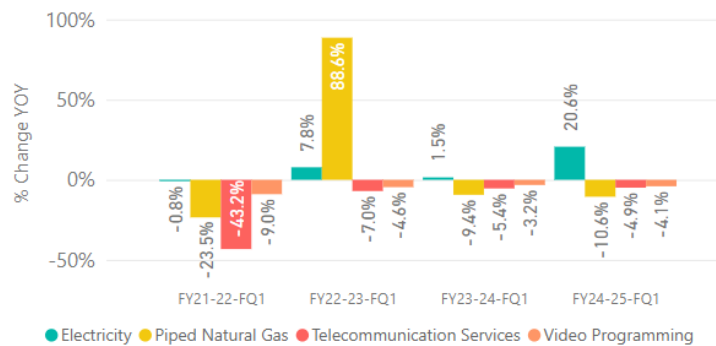
Historical dollar amounts of Q1 utility collections are shown below:

Q1 Utility Tax Distributions, YoY \$ Change

	FY22-23-FQ1	FY23-24-FQ1	FY24-25-FQ1
Sales Tax on Electricity	\$99,322,380	\$100,794,736	\$121,573,914
Sales Tax on Piped Natural Gas	\$2,829,834	\$2,564,695	\$2,293,714
Sales Tax on Telecommunication Services	\$6,556,682	\$6,201,484	\$5,895,706
Sales Tax on Video Programming	\$16,201,622	\$15,675,858	\$15,039,271

The utility sales tax distribution from Q1 of the current fiscal year seems to ebb and flow in a similar fashion to prior Q1 data. As noted in the graph below, it is not uncommon for all utilities other than electricity to decrease during this time frame. Considering that the dollar amount distributed in December likely reflects usage from April through June, the sales tax distribution aligns with the assumptions that we can make about weather patterns during this time frame.

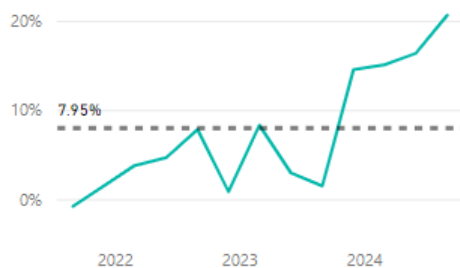
Q1 Utility Tax Distributions, year-over-year change (%)



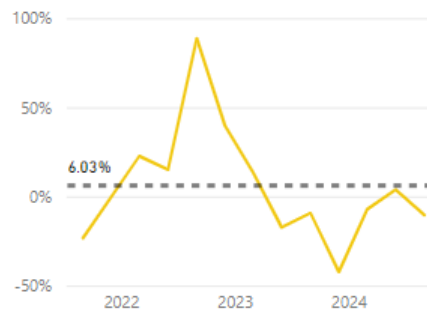
ELECTRICITY & NATURAL GAS

As shown in the tables above, electricity sales tax was up nearly 21% compared to last year's Q1. Natural gas sales tax decreased by around 10%, which is consistent with relatively dramatic upward and downward changes over the last several years. In the graphs below, the bolded percentage and dotted line represents the average change in the distribution over the last three years; while the changes can look somewhat extreme on a quarter to quarter basis, or even a year to year basis, it is important to note that price increases and usage are influential factors for these distributions.

Electricity Tax Distributions



Natural Gas Tax Distributions



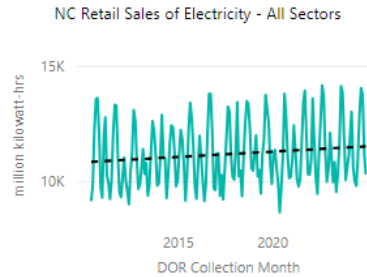
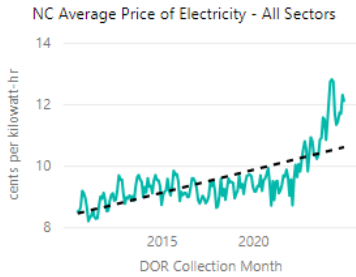
As noted in the tables and graphs below, there has been an increase in both price and consumption for the Q1 data:

Electricity Prices in NC

FY,FQ Utility	Avg Retail Electricity Price (All Sectors) % Change YOY
FY24-25-FQ1	9.80%
FY23-24-FQ1	4.59%
FY22-23-FQ1	6.41%
FY21-22-FQ1	-0.14%
Average YTD	5.17%

Electricity Consumption in NC

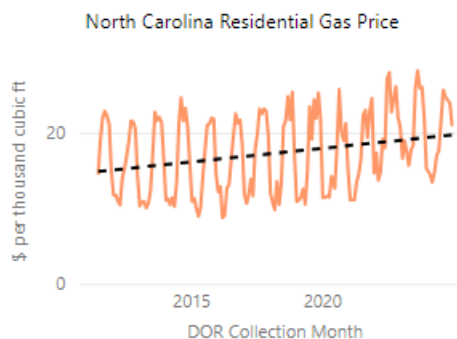
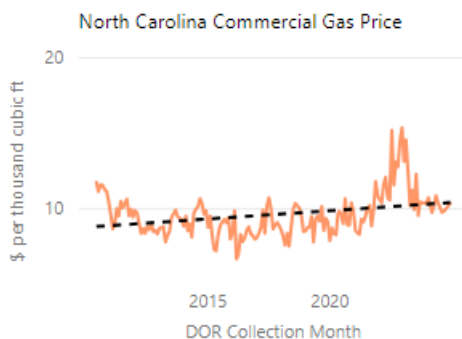
FY,FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
FY24-25-FQ1	6.09%
FY23-24-FQ1	-5.47%
FY22-23-FQ1	7.95%
FY21-22-FQ1	2.27%
Average YTD	2.71%



Natural gas prices dropped for both commercial users and residential users in North Carolina. Despite a large increase in Q1 of FY22-23, the average year-over-year percentage change for both commercial and residential users over the several Q1 timeframes has either decreased dramatically or increased modestly.

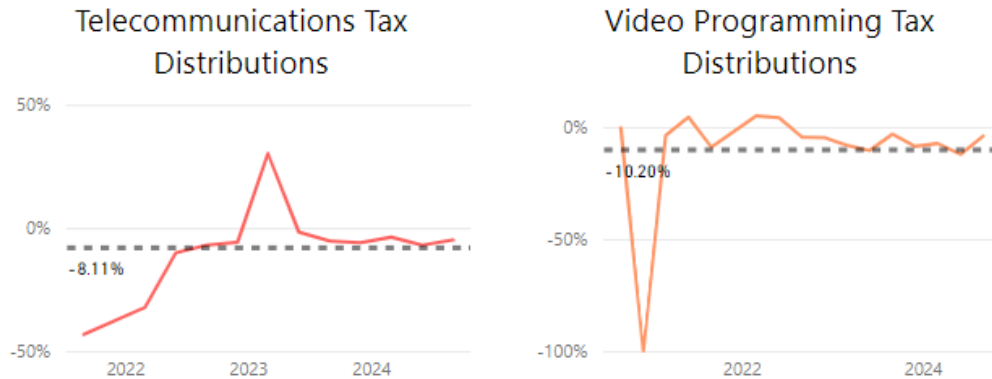
Natural Gas Prices in North Carolina

FY,FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY24-25-FQ1	-5.43%	-37.83%
FY23-24-FQ1	-14.18%	-5.13%
FY22-23-FQ1	25.35%	29.52%
FY21-22-FQ1	2.07%	13.87%
Average YTD	1.95%	0.11%



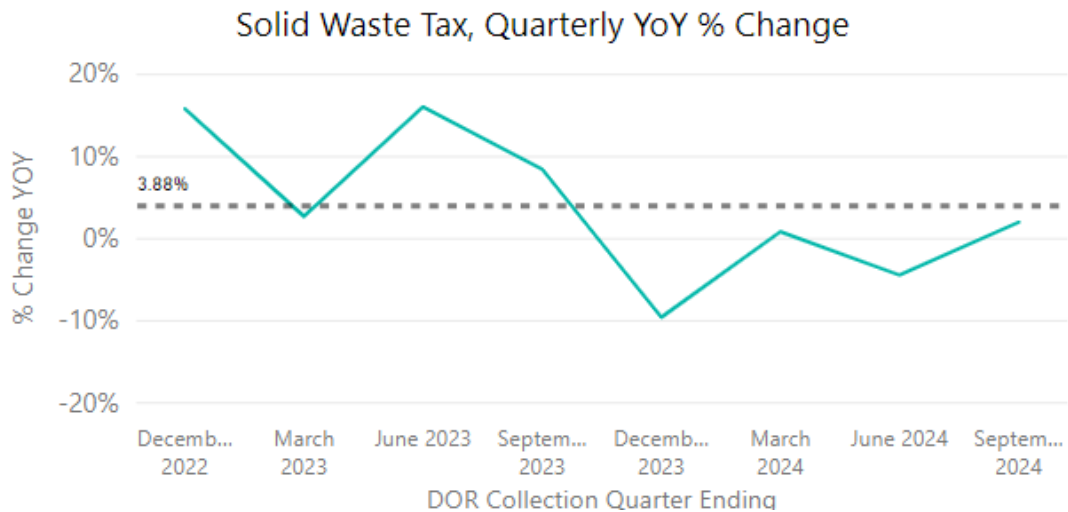
TELECOMMUNICATIONS & VIDEO PROGRAMMING

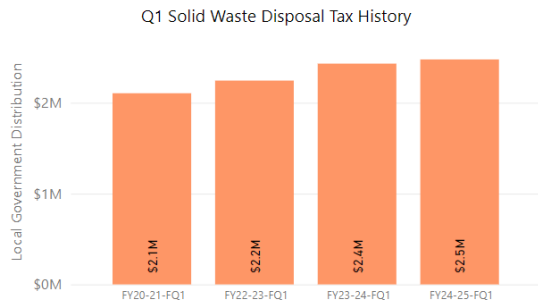
Revenue from the telecommunications tax fell 4.93% in the first quarter of FY24-25, and revenue from the video programming tax fell by 4.06%. Though there have been occasional spikes in revenue over recent years, it is expected that revenue from both sources will continue to trend downward as consumer behaviors change.



SOLID WASTE DISPOSAL TAX

Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged 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. The Department of Revenue distributes this revenue to local governments quarterly. Solid Waste distributions have increased by 1.90% this year when compared to the same time period last fiscal year. During the last quarter of FY23-24, there was a decrease of 4.52% in this tax. As noted in the table below, the net change over the last four quarters has been a decrease of 3.12%.





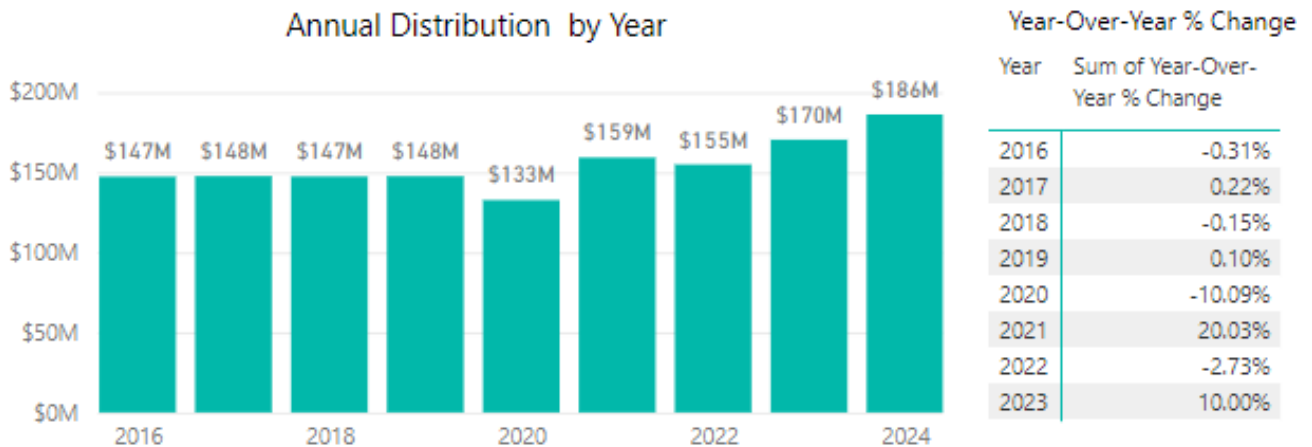
Solid Waste Tax Distributions - Last Four Quarters

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY24-25-FQ1	\$2,476,960	1.90%
FY23-24-FQ4	\$2,277,742	-4.52%
FY23-24-FQ3	\$2,295,934	0.73%
FY23-24-FQ2	\$2,434,428	-9.65%
Total	\$9,485,064	-3.12%

POWELL BILL FUNDS

State Street-Aid (Powell Bill) funds are distributed to eligible municipalities in October and January. 75% of the annual distribution of Powell Bill funds is allocated among eligible cities based on population while 25% of the distribution is based on mileage.

The 2023-2025 biennial budget increased Powell Bill appropriations from \$15.5 million in each of the two years of the biennium, making the total appropriation \$170.375M in FY2023-24 and \$185.875M in FY2024-25. The October 2024 distribution to municipalities was \$93.069M. The North Carolina General Assembly will put forth a new biennial budget for fiscal year 2025-2027 with updated Powell Bill distributions in the coming months.



DISASTER IMPACTS AND RECOVERY

In late September, western North Carolina was hit by Hurricane Helene. Mountain communities in the western part of our state have faced an unprecedented level of disaster over the last several months, and communities are still charting a path forward. Through the loss and devastation, communities across the state of North Carolina have worked together to help meet the immediate needs of those impacted. Local, state, and federal leaders continue to discuss how to best support the western part of the state in their recovery efforts.

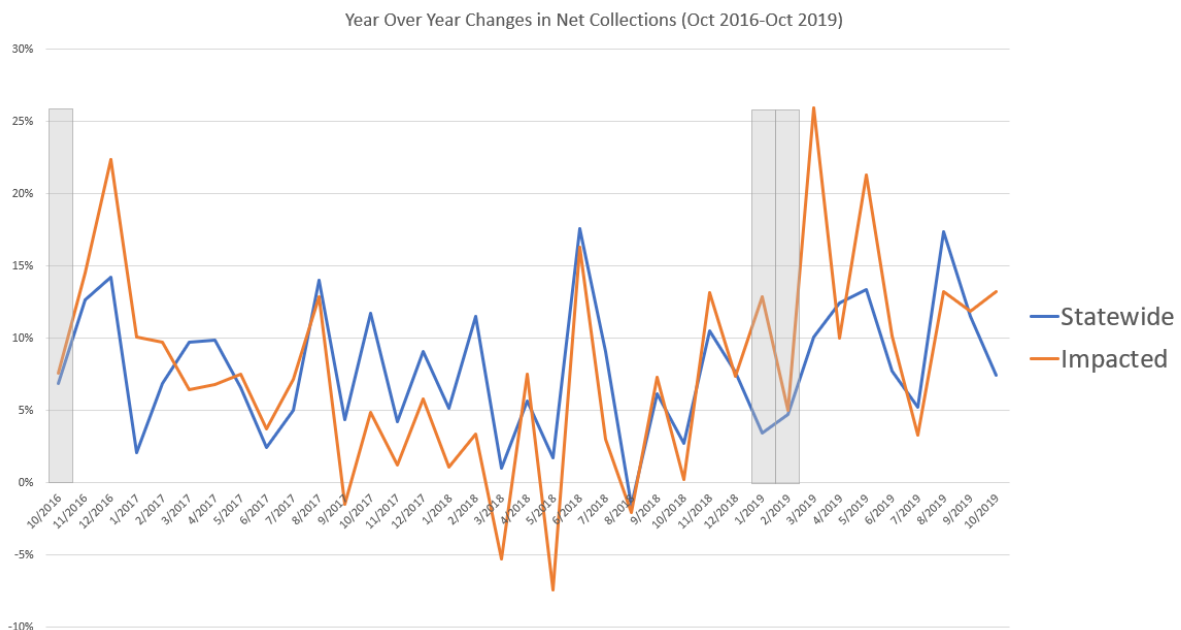
Estimating Helene's impact on sales tax revenue is difficult because it is such an unprecedented storm; most of the data that we have from previous storms comes from coastal communities. Those communities in the eastern part of the state usually get hit by hurricanes during the fall, which is their off-season in terms of tourism. It's just the opposite in the mountains, where fall is the busiest time of year. While other hurricanes have struck during a similar timeframe, the geography makes a difference. It's also important to note that economic impacts from previous storms do not exist in a vacuum. Outside factors such as national economic trends, inflationary pressures, and other variables impact sales tax data. For example, it is difficult to judge the short to medium-term impacts of more recent storms because of the Covid-19 pandemic. While there was an initial drop in sales tax revenue at the start of the pandemic, North Carolina saw consecutive quarters of double-digit growth in revenue. This growth likely cushioned the economic impacts from more recent storms. Additionally, coastal communities have experienced multiple storms in a short period of time, such as in fall 2018 when Hurricane Florence hit in September and Hurricane Michael hit in October. This makes isolating the financial impacts (and the reasoning for those impacts) of those storms difficult.

North Carolina has also seen a slowdown in sales tax revenue in recent quarters. This "cooling" of the economy is likely a return to levels of growth similar to the pre-pandemic days. That said, this could exacerbate Hurricane Helene's financial aftermath. There will likely not be double-digit sales tax growth to help mitigate the potential changes in sales tax data. Thinking about local economic changes in terms of consumption versus distribution can also help to shed light on how and when a community could feel the impact of decreasing sales tax revenue. The more immediate sales tax decrease could come from a change in consumer behavior, supply issues, businesses closing, and any other event that could decrease the flow of dollars from local governments to the NC Department of Revenue and thus, the flow of money back into counties and municipalities. The more long-term change could come from per capita and ad valorem distribution formulas. Population decreases can impact how much revenue is distributed back to communities from the state, and changes in property values could impact distributions from counties to cities. The lag

in this data certainly places it in the category of a long-term concern rather than an immediate one.

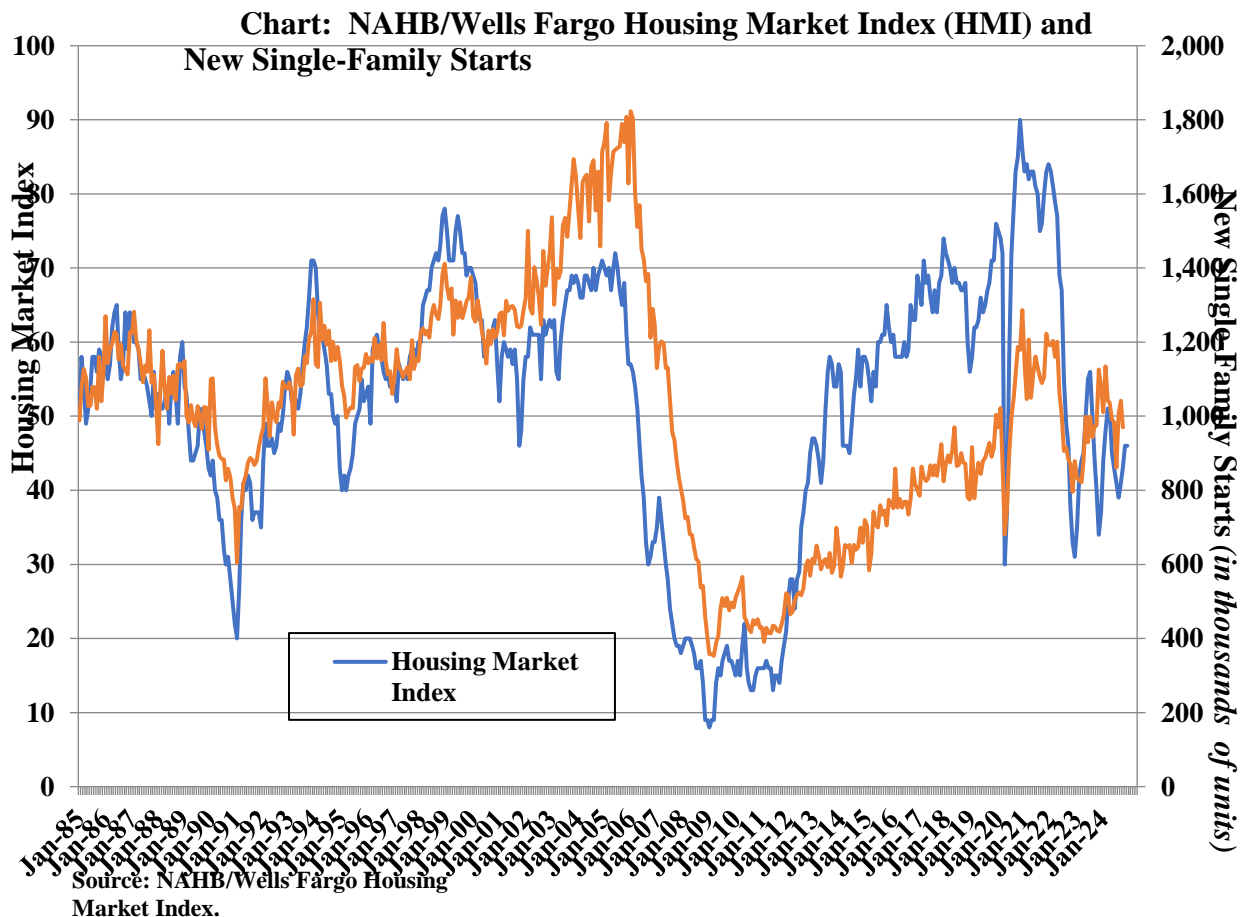
As we receive more sales tax data in the coming months, we can start to paint a clearer picture of the sales tax impact on the affected areas in western North Carolina. In addition to analyzing some of North Carolina’s sales tax data, sources from both other states and the federal government can help to contextualize some financial impacts of disasters. [A 2023 report from the Congressional Research Service](#) focused on the local fiscal effects of disasters, and it referenced a paper from 2021 that found more immediate financial impacts, such as declines in revenue, were initially offset by an influx of other dollars. However, the decade following a disaster showed a decrease in both revenue and expenditures, as well as an increase in costs related to debt.

The graph below shows the changes in net collections over a three-year period. The grey bars represent months where a hurricane struck. As represented in the graph, year-over-year changes in net collections in impacted areas sometimes trend above the statewide numbers. Once again, there are a litany of economic factors that contribute to the year-over-year changes in net collections, and sales tax is just one piece of a larger economic picture. As more sales tax data becomes available from the months immediately following Hurricane Helene, we will incorporate that data in our upcoming quarterly reports, as well as in our yearly revenue projection memo. Additionally, the League has [resources available](#) for those communities impacted by the storm.

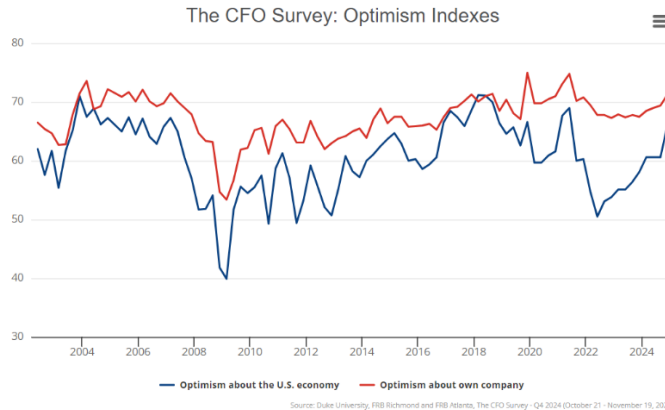


ECONOMIC UPDATE: NATIONAL OUTLOOK

At the time this report is being written, the U.S. Bureau of Labor Statistics is reporting a [CPI figure](#) of 2.7% for the 12-month period ending in November 2024. This figure has increased by 0.02% since the League’s most [recent revenue report](#). The Federal Reserve made [three consecutive rate cuts in 2024](#). In September, the Fed cut its federal funds rate by 0.5%. In both November and December, they made two separate 0.25% cuts. This brings the Federal Reserve’s key interest rate down to a rate that we have not seen since December 2022. There has been optimism around the economy in terms of inflation and employment, but the Fed does expect to slow the pace of cuts in 2025. Considering the potential for inflationary policies and a lack of positivity with regard to consumer sentiment, the rate cuts will likely slow down. As of January 9th, 2025, the average 30-year fixed rate mortgage is [6.93%](#). Though falling rates can be helpful for potential homebuyers, home ownership is still costly. Due to both supply and demand, it is likely that the housing crisis will continue well into the future.

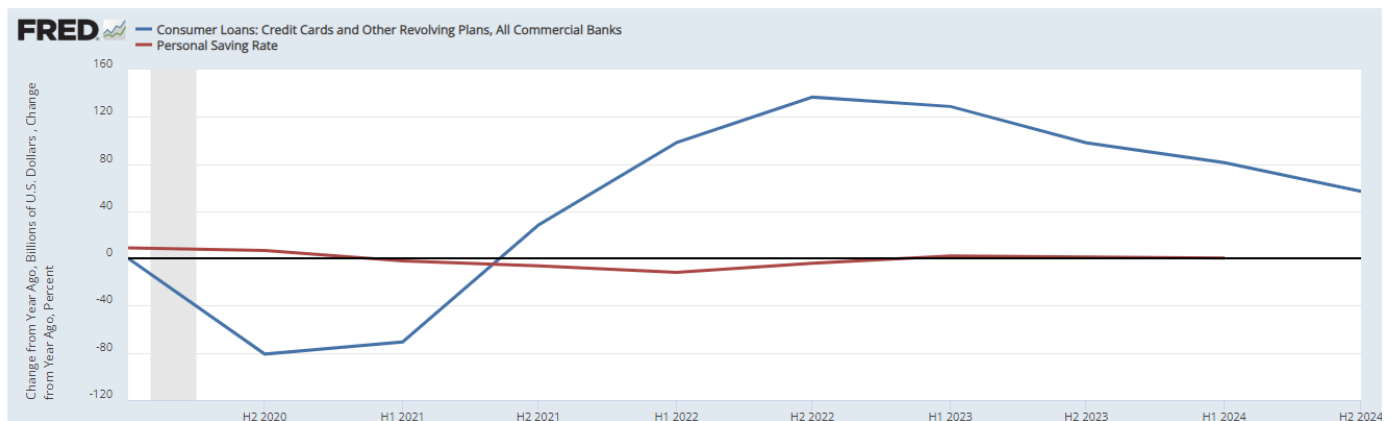


Optimism among CFO's has jumped this quarter. The [CFO Survey](#) conducted by Duke University and the Federal Reserve Banks of Atlanta and Richmond conducts a survey regarding monetary policy, cost pressure/inflation, and labor quality/availability. The graph below shows a spike in optimism regarding the economy following the election results in November.



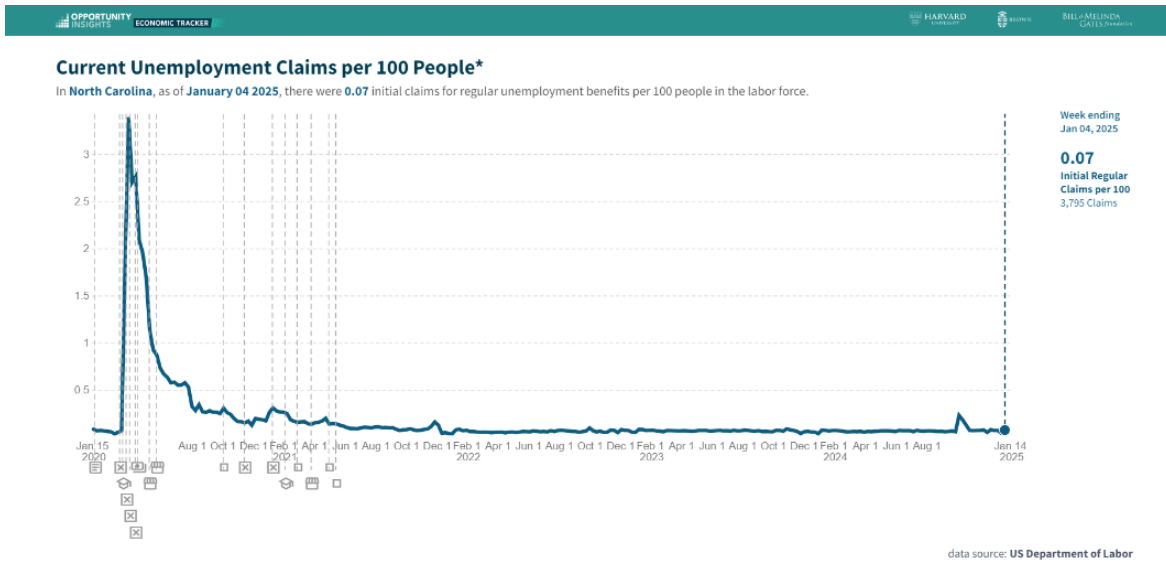
Legislators in Washington D.C. have once again passed a continuing resolution to fund the government through March 14th, 2025. Given the general political climate across the country, the upcoming change in administration, and the natural disasters that have been occurring (including several hurricanes and wild fires), there is some uncertainty around the future of the U.S. economy.

The gap between personal savings and consumer loans is also an important trend that helps to indicate economic health. Year-over-year percentage changes in personal savings and consumer loans, as represented in the graph below, seem to show less tumultuous conditions for these two indicators. While personal savings grew quickly during the pandemic, consumer lending decreased. Both measures have been largely flat in recent months, but they seem to be trending in opposite directions with the personal savings rate slowly decreasing and consumer loans staying flat.

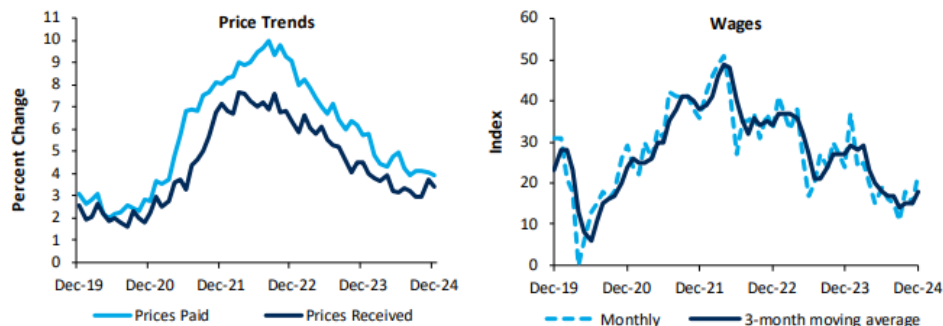


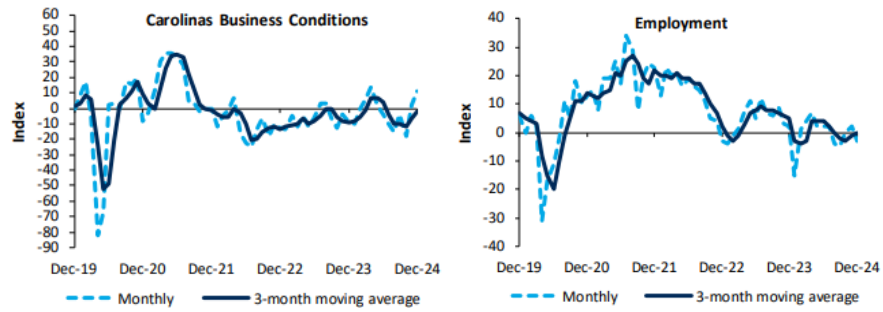
ECONOMIC UPDATE: STATE OUTLOOK

Unemployment claims in North Carolina continue to trend below the national average. As of January 4th, 2025, the United States saw 0.19 initial claims for regular unemployment benefits per 100 people in the workforce. As shown in the graph below, North Carolina saw 0.07 initial regular claims per 100 people. The number of initial claims has gone up slightly since last quarter, but still remains relatively low. Hurricane Helene and its aftermath likely contributed to this spike, and the unemployment numbers in that region could be much higher in that region of the state when compared to the statewide average.



The Richmond Federal Reserve Bank’s [December Survey of Business activity](#) reported that business activity in the Carolinas improved in December. The general business conditions index improved from November to December.





Dr. John Connaughton’s [December 2025 North Carolina Economic Forecast](#) forecasts real GDP to increase by 2.3% in 2025 versus the 2024 level. The report expects all fifteen of the state’s economic sectors to also show growth in 2025. The growth in 2025, as the report notes, will be the fifth full year of growth since Covid-19. As mentioned in a [recent NC Newsline article](#), sectors of North Carolina’s economy are strong- but there are some factors such as potential change in economic policy, impacts from Hurricane Helene, and uncertainty among the business community that could impact growth in the coming years.

[Dr. Michael Walden’s December index](#) of North Carolina leading economic indicators referenced the increase in jobless claims following Hurricane Helene in late September. While he reiterates that the economy may be slowing, he anticipates that “the slowdown will be much more moderate in North Carolina than in the nation.”

As always, the League recommends that in addition to state-wide data and broad economic indicators presented in this report, municipalities should consider and factor in their individual geographic and economic factors when finalizing projections.

ADDITIONAL RESOURCES

Useful data, including some found in this report, can be found at the following links:

NC local government revenue distribution data:

<https://www.ncdor.gov/news/reports-and-statistics/local-government-distributions>

NC taxable sales data:

<https://www.ncdor.gov/news/reports-and-statistics/monthly-sales-and-use-tax-statistics>

Energy consumption and pricing data:

<https://www.eia.gov/electricity/data.php>

<https://www.eia.gov/naturalgas/data.php>

Powell Bill distribution data and other information:

<https://connect.ncdot.gov/municipalities/State-Street-Aid/Pages/default.aspx>

Other NCLM Forecasts, Revenue Reports, and our most recent Basis of Distribution Memo:

[Research & Surveys | NCLM](#)

CONTACT

For questions on this report, contact Rachael Wyant, Research Program Manager, at RWyant@NCLM.org.