



Projections for State-Collected Local Government Tax Revenue *FY 25-26 & FY 26-27*

Prepared by:

Chris Nida, Director of Technical Assistance for Cities
Shelly Linker, Research Program Manager



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1 EXECUTIVE SUMMARY

This document summarizes and analyzes state-collected taxes distributed to local governments by the N.C. Department of Revenue (DOR) and provides a forecast of these revenue sources for the remainder of the current fiscal year (2025-26) and the upcoming fiscal year (2026-27). Statewide projections for each tax revenue source are summarized in the table below and explained later in this document.

Please read through this entire report, including the cautionary note below, for important caveats and context related to each of the League’s projections.

Revenue Source	Projected Change from FY24-25 to FY25-26	Projected Change from FY25-26 to FY26-27
Sales and Use Tax	+3.40%	+3.10%
Electricity Sales Tax	-2.50%	+0.85%
Piped Natural Gas Sales Tax	+11.00%	+5.00%
Telecommunications Sales Tax	-0.50%	-3.25%
Local Video Programming Tax	-9.75%	-6.75%
Solid Waste Disposal Tax	+7.50%	+3.25%
Alcoholic Beverages Tax	-2.00%	+0.75%

More information on the recent legislative history and distribution formulas for each tax described in this report can be found in our [Basis of Distribution Memo](#). The League also 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.

1.1 CAUTIONARY NOTE

Estimates included in this document should be used only as a rough guide in preparing your Fiscal Year 2026-27 proposed budget. Estimates should be modified as necessary to fit your local situation, your community’s actual trends, and your own assumptions about the effects of various 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, or, as we have seen in recent years, pandemics and international conflicts. Our goal is to provide municipalities with a reasonable projection of where state-collected revenues are heading based on available information and guidance from subject-matter experts.



These estimates also assume that the General Assembly will make no changes in 2026 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 due to economic circumstances or legislative action, we will communicate this information to our members as soon as possible.

1.2 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:

- DOR monthly distribution data for collection months August through July
- DOR quarterly distribution data begins with the collection quarter ending in September and stops with the collection quarter ending in June.

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](#).

1.3 QUESTIONS AND CONTACTS

Any questions related to this document should be directed to [Chris Nida, Director of Technical Assistance for Cities](#). We would like to thank NCLM's Strategic Communications and Member Engagement team and our partners at the N.C. DOR and the N.C. Office of State Budget & Management (OSBM) for their assistance in preparing this document. Please see Section 5 of this document for additional topics that the DOR may be able to assist your municipality with and their related contacts. As always, any errors or oversights are the League's alone.



2 OVERVIEW OF ECONOMIC CONDITIONS

National Outlook

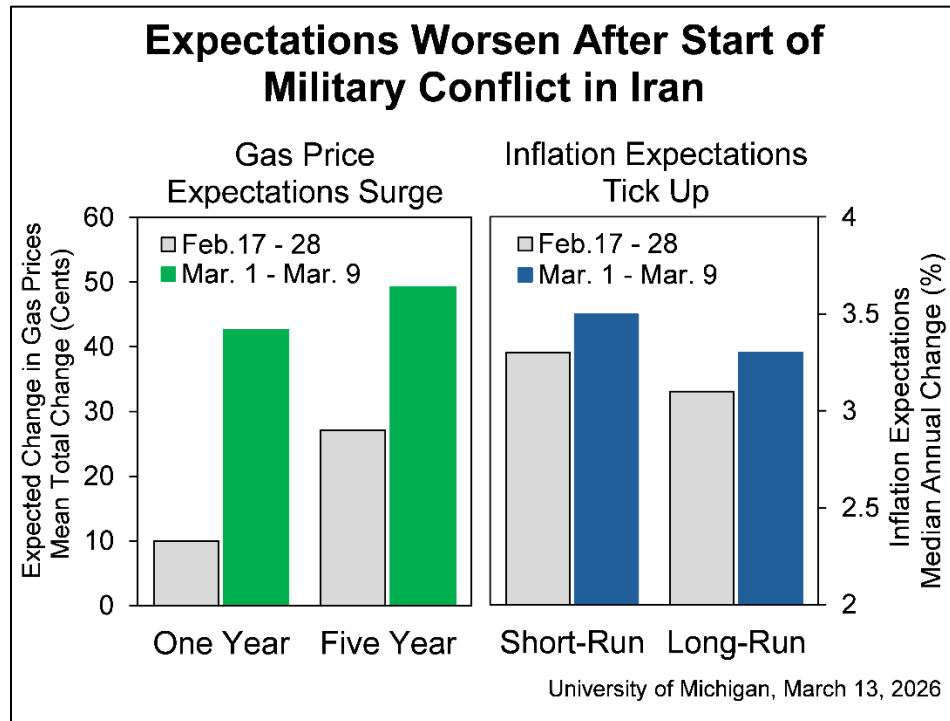
For much of the early part of 2026, the outlook for the U.S. economy was in about the same place that it had been in recent months. There was some mixed data at the national level, and some concern about obstacles that could impede continued growth in the months ahead, but by and large, forecasters seemed to be calling for moderate expansion of the economy with inflation levels tempering throughout 2026.

Then came the end of February and the beginning of the United States' conflict with Iran. That has led to a sharp uptick in energy prices in March, as well as rapid shifts in global markets and rising concern about the duration of the conflict and what, if any, impact it will have on the economy in the long run. Without answers as to what the ultimate resolution of the conflict might be, economic experts are left to decide how to factor that uncertainty into their projections for the remainder of the calendar year and beyond.

The beginning of the conflict came on the heels of a disappointing February jobs report. Data showed that in February, the nation [lost more jobs than expected](#), and the December and January data were revised downward as well. Labor strikes and winter weather likely played a role in the job loss data, while the national unemployment rate also rose.

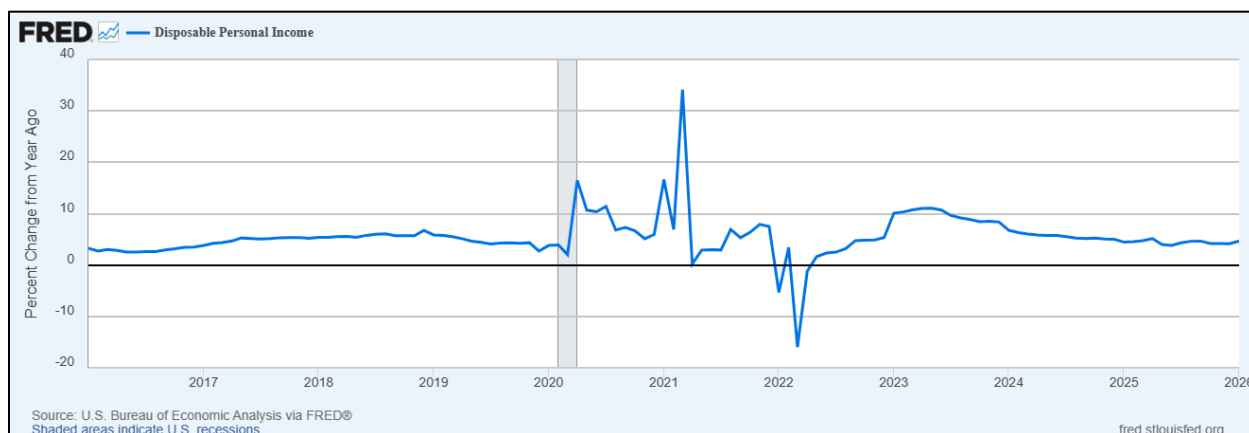
Meanwhile, overall inflation appeared to steady, though it remained over the Federal Reserve's 2% benchmark for target inflation. The [February Consumer Price Index](#) registered at 2.4% above the same month in 2025, the same annual increase as shown in the month of January. The impact of these increased prices on consumer behavior was unclear. The [U.S. Census Bureau's monthly data](#) on food and retail sales showed a decline in sales from December 2025 to January 2026 and a 2.9% increase year-over-year. However, [the National Retail Federation](#)—which bases its data on anonymized credit and debit card purchases—showed a monthly increase in sales of 0.28% and an annual increase of over 6% for February.

Consumer confidence has appeared to take a hit since then, though. In February, [the Conference Board's](#) measurement of consumer sentiment showed that expectations had ticked up from the previous month, though it was still below the recent high-water mark from 2024. [The University of Michigan's](#) consumer survey, a different tool than the Conference Board's and one that collected data into March, showed a marked difference in responses before and after the beginning of the Iran conflict (see below). UM's overall index of consumer sentiment had declined both from the previous month and from the same month the year before.



Whether waning consumer confidence is a sign of things to come, of course, remains to be seen. For the time being, on a national level, many analysts continue to predict a growth in consumer spending in 2026, though perhaps not as rapid a growth as seen in previous years. [Wells Fargo](#) forecasted personal consumption to grow by less than 2% until the fourth quarter of the year, while the [Economic Committee of the American Bankers Association](#) pegged the number right at 2% or slightly above. [The Conference Board](#) predicted personal consumption to grow by as little as 1.1% in the second quarter of the year.

[Bain](#) noted in its March update that consumers remained in a “weak position,” but that sentiment seemed to have stabilized at a “subdued” level rather than cratered. The firm did note some evidence of a so-called “K-shaped economy,” where individuals in the highest income brackets make up a disproportionate share of consumer expenditures. They noted that lower-income consumers are showing signs that they will rein in their spending, whereas those on the higher end report “modestly positive” spending plans. Overall, there are [mixed views](#) as to how clearly the available data points to a K-shaped economy. Data from the U.S. Census shows that the year-to-year change in disposable income has remained relatively stable for much of the past year (see below).

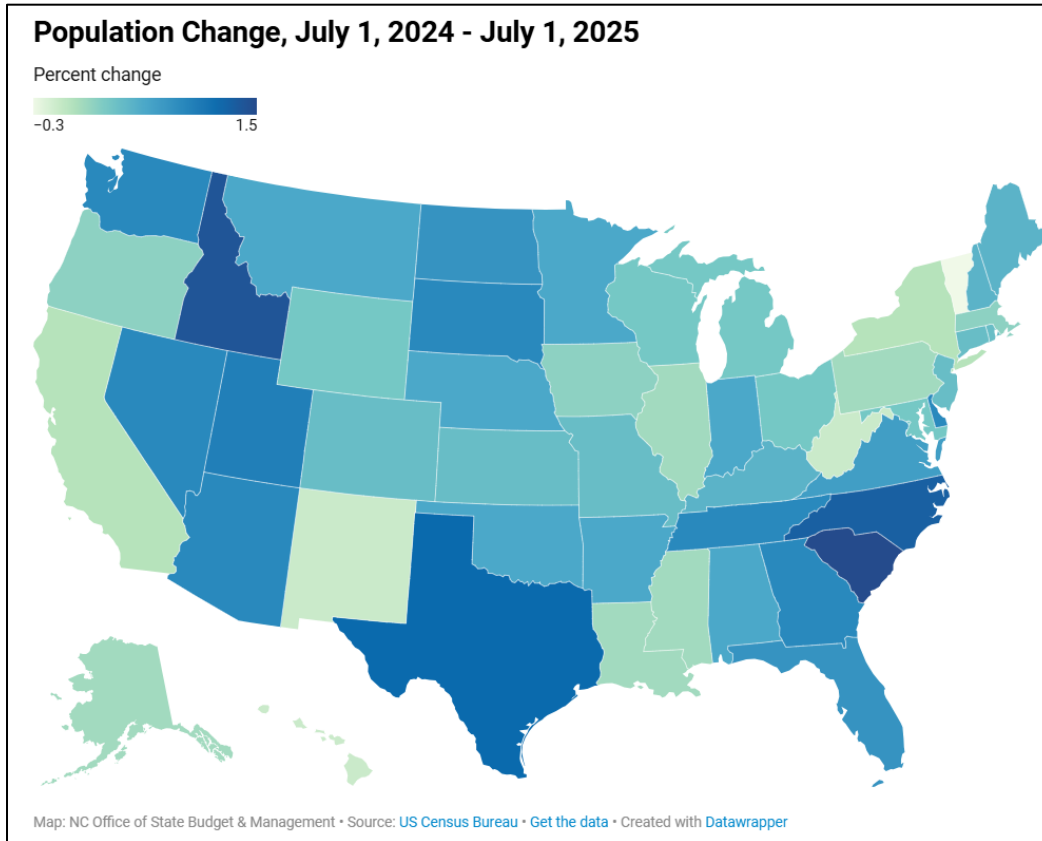


The ongoing global conflict and the resulting economic turmoil and consumer impact have led most forecasters to revise their projections for U.S. economic growth downward and overall inflation upward. This is what [Goldman Sachs](#) does in an extensive report on the conflict in Iran. Researchers such as [Deutsche Bank](#) and [Vanguard](#) forecast total GDP growth for 2026 around 2.5%. Any economic weakening that impacts consumer spending could be offset by rising inflation. [U.S. Bank](#), [RSM](#), and [J.P. Morgan](#) all see price increases peaking at as much as 3.5% in 2026. As a result, most forecasters see at most one rate cut from the U.S. Federal Reserve the remainder of the year.

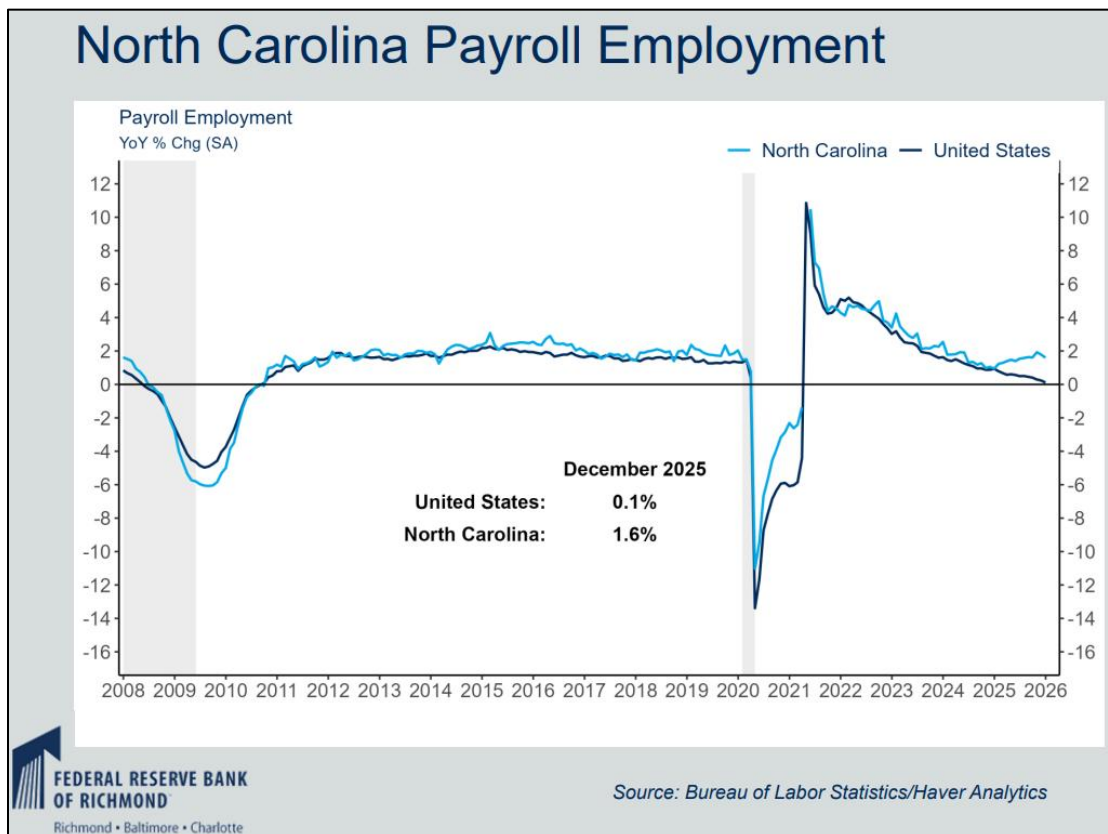
N.C. Economy: Looking Ahead

The story of the N.C. economy looking ahead to 2026 and beyond is a familiar one. Analysts continue to foresee a growing economy that stands out among its regional peers as the state sees economic development successes and continues to add to its population. Even if the growth projections are somewhat lower than in past years, there are few predictions that the state will see anything less than moderate growth.

One factor, as mentioned above, is that the state continues to add people. As noted in [a recent blog from the N.C. State Demographer](#), between July 1, 2024, and July 1, 2025, more people moved to N.C. from other states than in any other state in the nation. Our overall population growth in that time period was 1.3%, trailing only the smaller states of Idaho and South Carolina in terms of overall percentage growth (see below). It is mentioned elsewhere in the memo, but it bears repeating here as well—this growth is obviously not experienced equally throughout the state, so the population patterns in your city and county can be a key factor in projecting revenues and deciding how your jurisdiction’s change may compare to that of the state as a whole.



N.C. continues to outpace much of the rest of the country in economic indicators as well. [The Federal Reserve of Richmond](#) produces periodic snapshots of various economic statistics for all the states in its region. To take just one measure, at this time last year, N.C.'s payroll growth largely tracked that of the nation as a whole. This year, the most recent figures show that N.C.'s growth eclipsed that of the rest of the country for virtually all of 2025.



Much of the forecasting of N.C.’s economic performance in 2026—albeit written before the conflict in Iran—is in sync, predicting continued overall growth for the state. [TD Economics](#) writes that entering 2026, N.C. had “a stronger growth profile than previously anticipated” and forecasted 2.6% growth for the calendar year. As part of an economic forecast roundtable published by [BusinessNC](#) in late January, Campbell professor Mark Steckbeck said much the same, calling for 2.4% growth. [N.C. State University professor Jeffrey H. Dorfman](#) also predicted N.C. would continue to exceed national growth averages in 2026.

Property Tax Reform

These revenue projections, produced annually by the League, typically focus on state-collected local revenues. That is, the projections are for local revenues that flow through the State of N.C.— primarily the N.C. DOR—and are based on data released by the state throughout the year. We do not typically comment on property tax revenues, as those are decided locally through a combination of counties’ processes of property valuation and local governments setting a tax rate to apply to properties within their jurisdiction.

As you prepare your budget for Fiscal Year 2026-27, though, it is worth acknowledging discussions around the property tax in the N.C. General Assembly. The N.C. House of Representatives has formed a [House Select Committee on Property Tax Reduction](#)



[and Reform](#), while N.C. Senate President Phil Berger has announced [a group of Senators](#) who will review property tax-related proposals.

So far, only the House committee has met publicly. It has heard presentations from groups like the League and the N.C. Association of County Commissioners regarding the value of local government services and the importance of property tax revenue in funding those core services. Conversely, the committee has also heard from groups advocating for strict limits on year-to-year property tax growth, such as limiting growth rates to no more than the growth in population and inflation, and rhetoric from committee members has stated that local governments have a spending problem. Some legislators view it as their responsibility to protect taxpayers from property tax rates that fuel this spending.

At its March meeting, the committee produced [four pieces of draft legislation](#) based on discussion from its previous meetings. Three of them focused either on property tax or sales tax exemptions that groups like hospitals and owners of low- to moderate-income housing benefit from. The fourth proposed [a Constitutional amendment](#) to be placed on the ballot in November 2026 that, if approved as written, would direct the N.C. General Assembly to limit local government property tax levies in some way.

All of these proposals must first be officially recommended by the committee before they are eligible to be considered during the 2026 legislative session. At that time, they would need to be further debated and voted on by both the N.C. House and the N.C. Senate prior to becoming law. The same can be said for a [proposed 12-month moratorium on county property tax revaluations](#) championed by Sen. Berger in late February, though it has not been part of the House discussion and has not been publicly released in the form of legislation.

All of this is to say that, at this time, any proposed reforms to the local property tax must take several steps through the legislative process before becoming law, and no legislation that would adversely impact FY27 budgets has yet been officially proposed. The League is actively involved in discussions with legislators surrounding the local property tax, and we will continue to inform the membership as these discussions progress and any proposed legislation makes its way through the approval process. If you would like to sign up for the League's legislative mailing list to ensure you receive direct communications on this and other important issues of note, please [email Shelly Linker](#) and let her know your interest.

American Rescue Plan

As a reminder, all Local Fiscal Recovery Funds (LFRF) appropriated to North Carolina municipalities as part of the American Rescue Plan legislation were required to be obligated by December 31, 2024. **All LFRF dollars must be spent by Dec. 31, 2026.** Many local governments obligated funds using the "revenue replacement" category detailed by the U.S. Treasury. If your municipality did so, you likely have already also spent those funds well in advance of the deadline at the end of this calendar year.



Some local governments that have done so have received an invitation from the U.S. Treasury to officially close out their LFRF spending in the Treasury’s portal. If you have not received an invitation, or have not yet closed out your spending in the portal, you must continue to file reports with the U.S. Treasury on the status of your LFRF funds, even if there has been no change in that status since the previous year. Some larger cities are required to file quarterly reports, but the majority of N.C. municipalities only file annually. Those annual reports must be completed in the U.S. Treasury portal by April 30, 2026. If you need assistance or have any questions about completing your required Treasury report, please [visit our ARP webpage](#) or email the League at arp@nclm.org.



3 STATE-SHARED TAX REVENUE PROJECTIONS

3.1 SALES AND USE TAX

3.1.1 Overview of N.C. Sales Tax Distribution

Sales and use taxes represent the largest source of state-shared revenue distributed to local governments in North Carolina, accounting for approximately one-quarter of the median municipality's revenues, excluding utilities. Local sales taxes are authorized under several different statutory "Articles," and not all Articles are levied in every county. For an overview of each sales tax Article and its distribution method, please refer to the [Basis of Distribution Memo](#).

After the state's distribution formulas are applied, the resulting county allocation is divided between the county and its municipalities using one of two methods selected by the county. Each April, counties may choose to change their distribution method between per capita and proportion of ad valorem tax levies. The method selected by the county board of commissioners determines how revenues are divided between county and municipal governments.

Population changes or shifts in tax levies may prompt counties to reevaluate whether their current distribution method remains advantageous. Any change in distribution method does not take effect until the start of the subsequent fiscal year. For example, a county submitting a change in April 2026 would see that change take effect in July 2027.

3.1.2 Sales Tax Projection

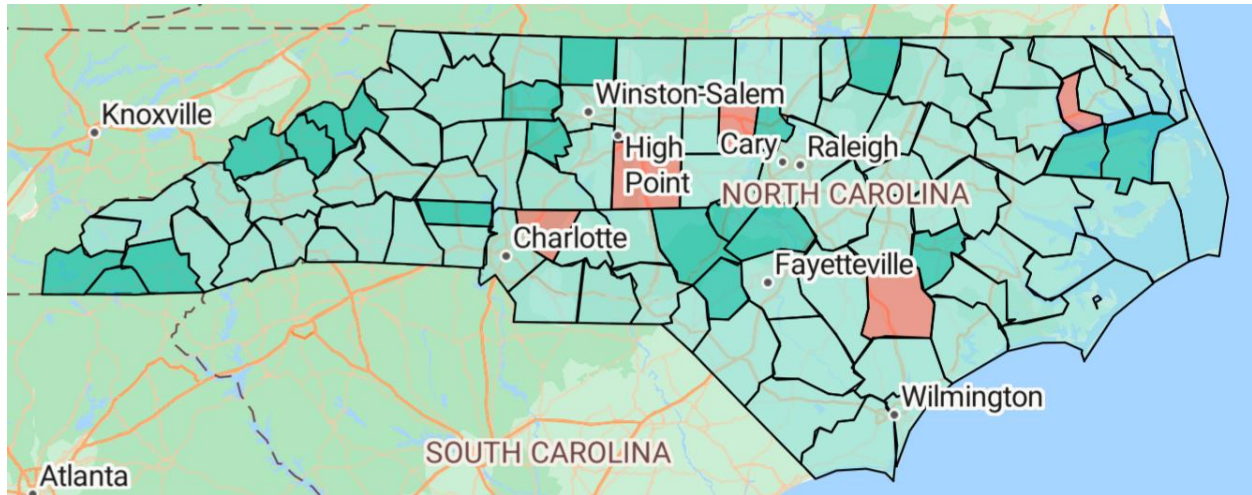
Sales tax growth has moderated compared to the immediate post-COVID years, particularly FY 2021 and FY 2022, which experienced double-digit increases in sales tax revenue compared to the prior year. FY 2025 saw the first slight increase in the growth rate in several years, though the change was modest, a 0.12% increase in the growth rate from FY 2024 to FY 2025.

Through the first half of FY 2025-2026, statewide sales tax collections are 4.6% higher than in the same period in the prior fiscal year.

As noted throughout this memo, statewide growth does not necessarily translate into growth in every county. While some counties are experiencing strong increases compared to last year, others are seeing declines in sales tax revenues. The map of Article 39 and Article 40 distributions through the first half of the fiscal year illustrates this variation, with counties shown in red receiving distributions below their totals from the same period in the previous fiscal year. Overall, however, positive sales tax growth appears to be more widespread across the state than in recent years, when growth tended to be concentrated in fewer regions.



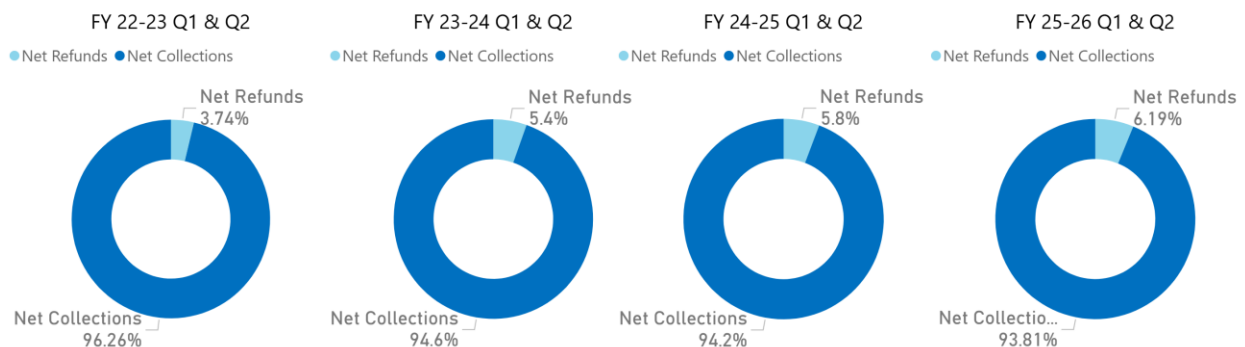
Articles 39 and 40 YoY by County, FY26 YTD



North Carolina has also experienced steady population growth. According to [state demographer data](#), statewide population growth has ranged between 1.3% and 1.5% annually over the past three years. Population growth generally expands the tax base and supports continued increases in sales tax collections.

One element of the sales tax distribution cycle that remains difficult to predict is the timing of sales tax refunds. Eligible entities have up to three years to submit refund claims, and the DOR processes refunds as they are received. Because there is no consistent timeline for when refunds are submitted or processed, refund activity can appear volatile.

As shown in the chart below, refunds as a percentage of total distributions are higher than they were at this point last year. When viewed in isolation, refunds appear to be 24.6% higher than in the same period last year. However, when examining net distributions (which account for refunds), total distributions are up 4.6% year-over-year for this period.

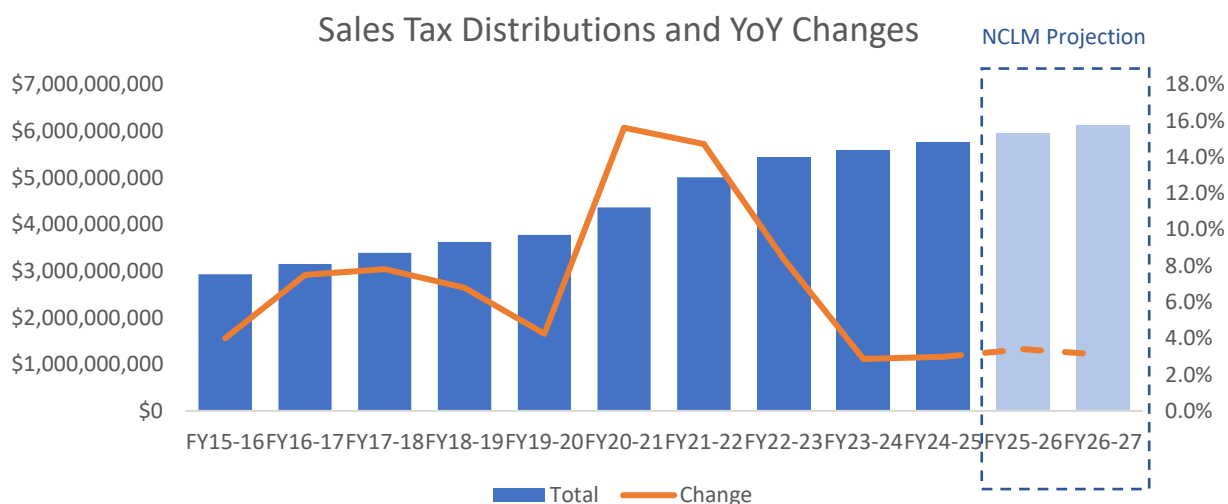




As noted in the economic overview earlier in this memo, broader economic uncertainty, particularly related to inflation and international conflicts, continues to complicate sales tax forecasting. In the near term, we expect the remainder of the fiscal year to remain generally consistent with trends observed during the first half of the year. Persistent inflation may contribute modestly to sales tax growth, though current consumer sentiment suggests that a significant increase in taxable sales is unlikely.

Another factor supporting modest growth is recent changes in tax law. Individuals filing 2025 income taxes are expected to receive somewhat higher refunds than in previous years, which may increase discretionary spending and provide a modest boost to taxable sales.

Taking these factors into account, we currently project statewide sales tax revenue to finish FY 2025-2026 approximately 3.4% higher than FY 2024-2025.



Looking ahead to FY 2026-2027, we anticipate continued growth in statewide sales tax revenues, though at a slightly slower pace than in the current fiscal year. In other words, total sales tax collections are expected to increase year-over-year, but the rate of growth is projected to moderate modestly.

Several economic factors, including immigration policy changes, labor shortages affecting the North Carolina workforce, and tariff-related inflation, appear to have stabilized somewhat over the past two years. At the same time, a significant unknown (at the time this projection is compiled) is the potential economic impact of ongoing conflict in the Middle East, which could affect global markets and domestic economic conditions, i.e., prices at the pump and grocery store.



Taking these factors into account, and considering continued population growth in North Carolina, we project **statewide sales tax revenues to increase by approximately 3.1% in FY 2026-2027.**

3.2 UTILITY SALES TAXES

For the purpose of analyzing electricity, natural gas, telecommunications, 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.

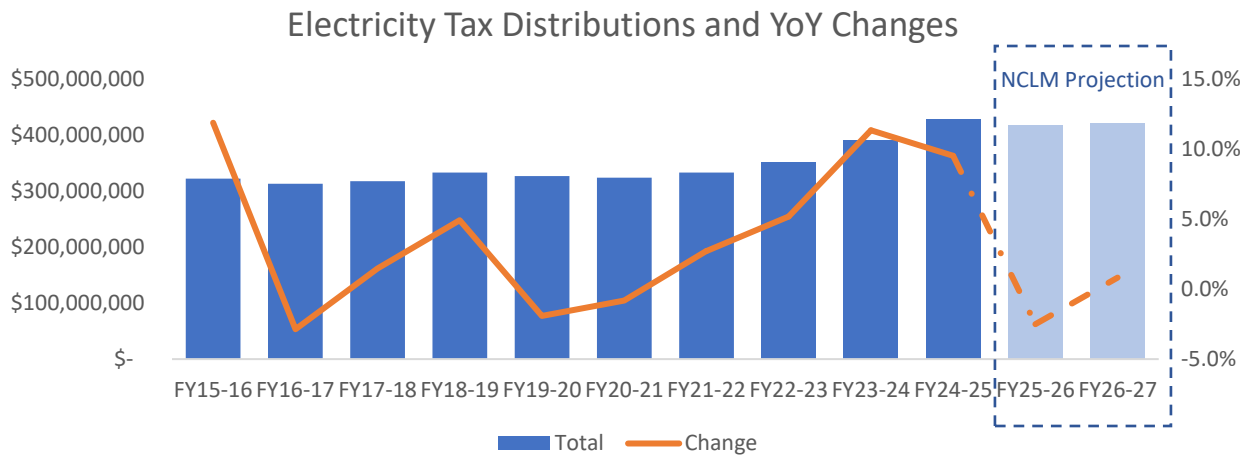
3.2.1 Electricity Sales Tax

During the late 2010s and early 2020s, electricity sales tax revenue remained relatively stable and predictable. However, this trend shifted over the past three fiscal years, with increases of 5.2%, 11.3%, and 9.5%, respectively. These changes are largely attributed to rising electricity prices and increased volatility in weather patterns, both of which can influence electricity consumption and taxable sales.

The first half of FY 2025-2026 shows a 1.1% decrease compared to the same period last year, which itself saw a 12.8% increase over the previous year. Historically, when a mid-year decline has occurred relative to the prior fiscal year, the full fiscal year has tended to finish with a modest decrease.

Unlike natural gas revenues, which tend to experience a significant spike in the third quarter during peak heating months, electricity sales tax revenues are generally distributed more evenly throughout the year. This results in a more consistent revenue pattern across quarters.

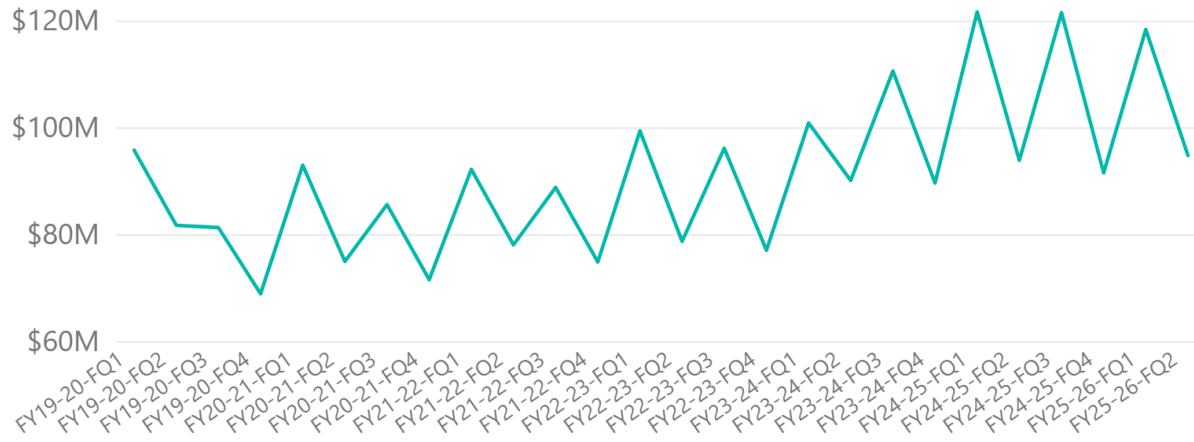
The [Energy Information Administration Short-Term Integrated Forecasting](#) (March report) projects an increase in electricity prices for both 2026 and 2027. However, given the year-over-year decline observed in the first half of FY 2025-2026, **we project an overall 2.5% decrease in electricity sales tax revenue for FY 2025-2026.** Looking ahead, and taking into account projected electricity price increases, **we anticipate a return to modest growth and project a 0.85% increase in electricity sales tax revenue for FY 2026-2027.**



As always, weather remains one of the largest contributing factors to consumption and revenue trends. January 2026’s average temperature of 39°F was among the coldest January averages in at least a decade, though January 2025 remains the coldest during that period. This will impact upcoming distributions of both the electric sales tax and sales tax on natural gas (see below). To illustrate the relationship between weather and collections, the graphs below show the relationship between spikes in collections and [cooling degree days](#) by quarter.



Sales Tax on Electricity Distributions by Quarter



Cooling Degree Days by Quarter



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 quarters.

Please remember that 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 and other utility revenues, making year-over-year projections more challenging. Over the last five fiscal years, natural gas revenue has experienced double-digit percentage swings each year. Following a steep decline in FY 2020, natural gas sales tax revenue increased sharply before declining again in FY 2024. As anticipated, North Carolina finished FY 2025 with a rebound, posting a 13.5% increase in natural gas sales tax revenue.

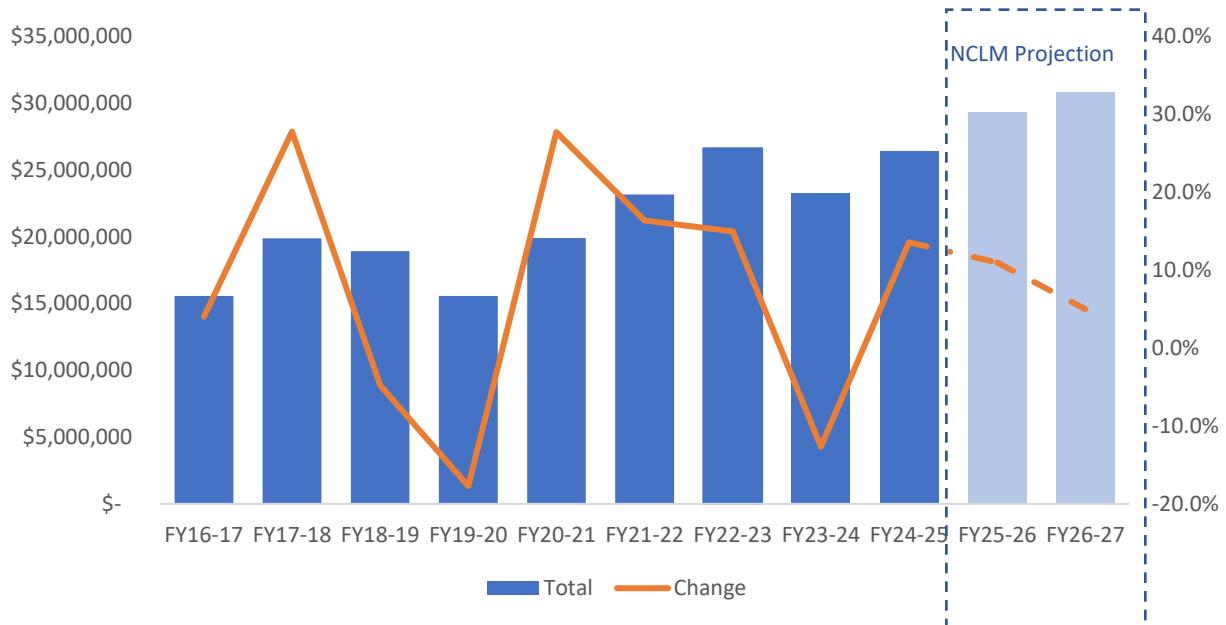
Looking at the first two quarters of FY 2025-2026, distributions are 13% higher than the same period in FY 2024-2025, which itself recorded a 14% increase over the same period the year prior. Historically, the third quarter of the fiscal year generates the largest share of natural gas revenue, aligning with the coldest months when heating demand peaks.

Natural gas consumption tends to be relatively inelastic for consumers, with usage driven primarily by weather conditions rather than price changes. Colder temperatures increase heating demand, which directly increases natural gas consumption. While price fluctuations can influence consumption at the margins, weather patterns, particularly the number of heating degree days, play a much larger role. The Energy Information Administration is currently projecting a decrease in natural gas prices over the next two years. At the same time, North Carolina experienced a colder winter this year, with several significant ice and snow events occurring in January and February. Compared to the same period last year, the winter months of FY 2025-2026 saw approximately 60 more heating days, suggesting stronger heating demand.

Based on the available data and historical trends, **we project an 11% increase in natural gas sales tax revenue for FY 2025-2026.** Looking ahead to FY 2026-2027, projections from the [Energy Information Administration](#) indicate declining natural gas prices. Combined with the assumption of more typical winter weather patterns, we anticipate a more moderate growth rate and **project a 5% increase in natural gas sales tax revenue for FY 2026-2027.**



Natural Gas Tax Distributions and YoY Changes



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 by any population gains or losses you experience.

3.2.3 Telecommunications Sales Tax

Annual telecommunications tax distributions have declined almost every year over the past decade. Given the underlying tax base associated with this revenue source, this trend is not unexpected. A portion of telecommunications sales tax revenue is tied to landline telephone subscriptions and related services, which have steadily decreased as households continue to shift toward wireless-only service.

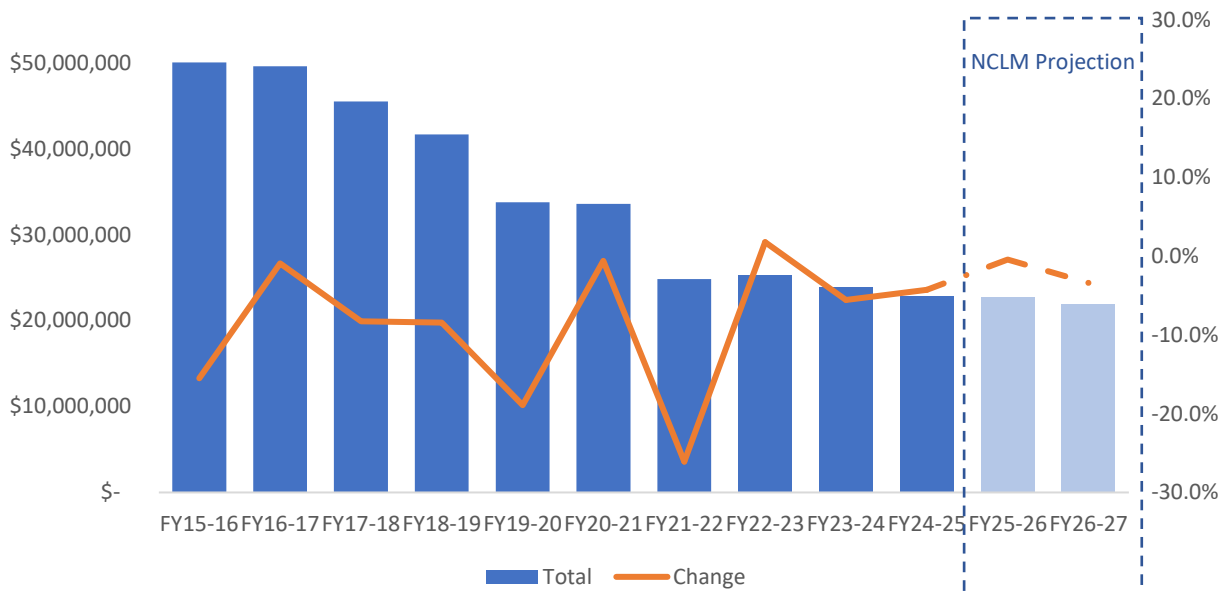
The first half of FY 2025-2026 shows a 3.2% increase compared to the same period last year, which itself recorded a 6.9% decrease from the previous year. The last time the first half of the fiscal year showed positive growth compared to the prior year was in FY 2021, when the full fiscal year ultimately finished with a 1% decline in telecommunications tax distributions.

Long-term trends continue to support expectations of declining revenues. According to the CDC's [Wireless Substitution: Early Release of Estimates](#), which has tracked landline and wireless usage in households since 2003, the share of wireless-only households continues to grow. Most recently, 78.7% of adults and 86.9% of children live in wireless-only households, further reducing the tax base associated with traditional telecommunications services.



Based on the first half trends in FY 2025-2026 and the consistent long-term decline in the tax base, we project that FY 2025-2026 will close with a 0.5% decrease in telecommunications sales tax revenue. Looking ahead, we expect the longer-term decline to continue and project a 3.25% decrease in FY 2026-2027.

Telecommunications Tax Distributions and YoY Changes



For municipalities incorporated before July 1, 2001, telecommunications tax distributions are based on each municipality’s historical share of the former telephone franchise tax. As a result, these cities and towns should not experience local economic variation from the statewide growth estimate, nor will population changes affect their distributions. For municipalities incorporated on or after July 1, 2001, distributions are based on population. Consequently, some local variation from the statewide percentage is possible, and annual changes in the Certified Population Estimates may affect distributions.

3.2.4 Local Video Programming Tax

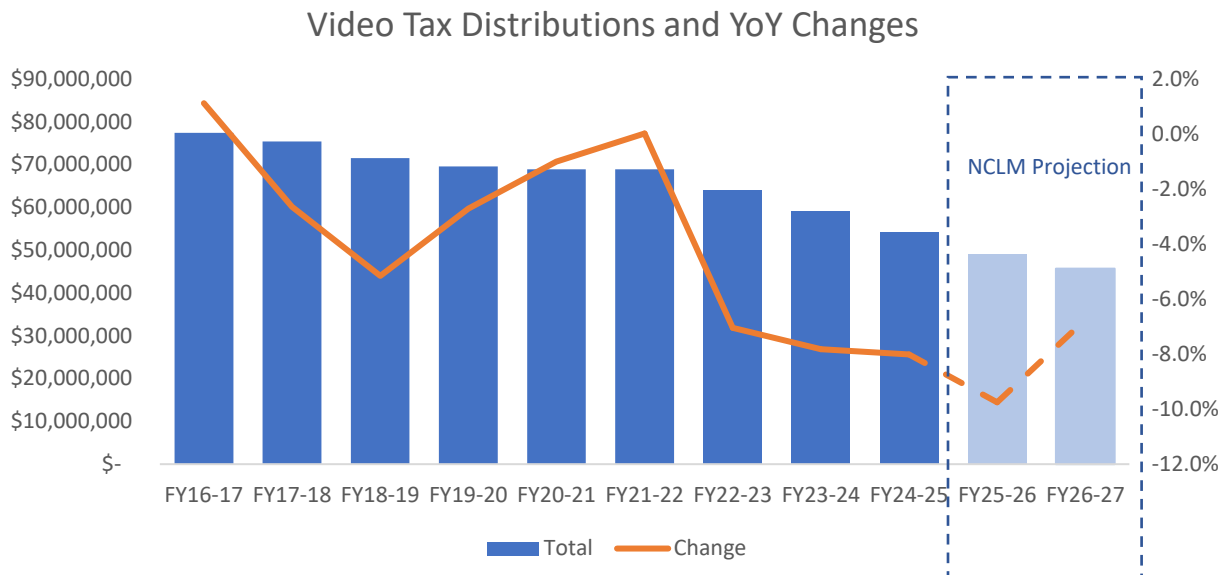
Local Video Programming tax revenue has been in steady decline over the past eight fiscal years. Local governments receive 23.6% of sales tax collections from video programming services, 7.7% of the telecommunications sales tax, and 37.1% of sales tax collections on satellite television services.

The first half of FY 2025-2026 shows a significant decline of 15% compared to the same period last fiscal year. Given the continued shift away from traditional video programming services and the ongoing erosion of the underlying tax base, we do not anticipate meaningful growth during the remainder of the fiscal year. As a result, we



project an 9.75% decline in Local Video Programming tax revenue for FY 2025-2026.

Looking ahead, we expect the long-term structural decline in this revenue source to continue as the subscriber base for traditional video services continues to contract. Based on current trends, we project a 6.75% decline in Local Video Programming tax revenue for FY 2026-2027.



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. Factors affecting PEG funding include the total number of PEG channels statewide and any returned PEG funds. At this time, we do not anticipate material changes to these factors in the upcoming fiscal year.

To receive supplemental PEG channel funds, municipalities must certify their PEG channels to the North Carolina DOR each year by July 15. Certification forms for 2025 are available now. When the 2025 certification forms are available, they should be able to be found on the DOR website here: [TR-PEG Cable PEG Channel Certification | NCDOR](#).



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 disposed of in landfills within North Carolina or transferred at a transfer station for disposal outside the state. Cities and counties each receive 18.75% of the tax proceeds, and the revenues are distributed on a per capita basis.

Collections during the first half of FY 2025–2026 were 7.8% higher than the same period last year, marking the largest first-half collections in the past 10 years. Construction activity is a significant contributor to solid waste tax revenue. Increased construction activity generates additional construction and demolition debris, which in turn increases tipping tax collections.

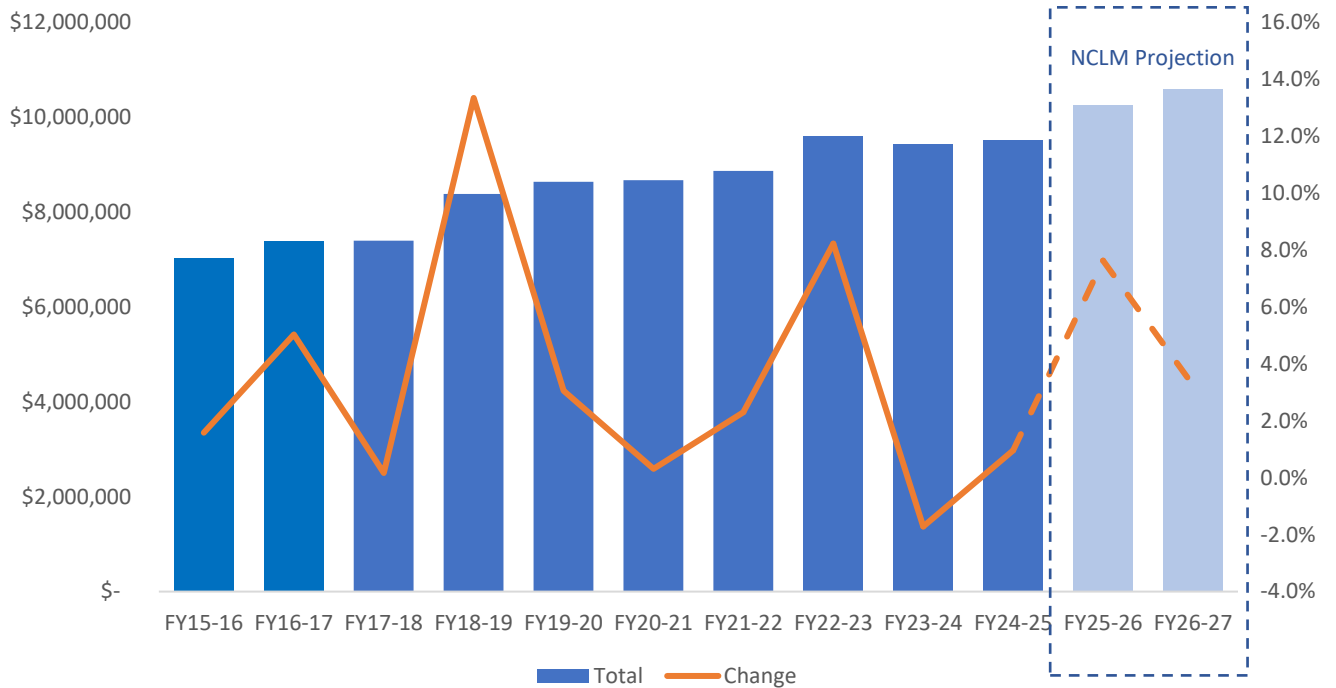
According to a [National Association of Home Builders survey](#) conducted in January 2026, rising interest rates remain the top concern for builders heading into 2026. However, federal policy discussions aimed at lowering interest rates, partly to stimulate housing development, could support increased construction activity. Additionally, provisions currently under consideration in the [ROAD to Housing Act](#) at the national level may further influence new single-family housing construction. If these factors encourage additional development, they could contribute to increased solid waste tax revenues.

It is also important to note the per capita distribution structure of this revenue source. When evaluating local projections, municipalities should consider their own population trends, as local growth will affect the share of statewide revenues received.

Based on current trends, **we project FY 2025–2026 solid waste tax revenue to increase by 7.50% over the previous year.** While this represents a notable increase, we do not anticipate this level of growth continuing annually. For FY 2026–2027, **we project a more moderate 3.25% increase in solid waste tax revenue.**



Solid Waste Tax Distributions and YoY Changes

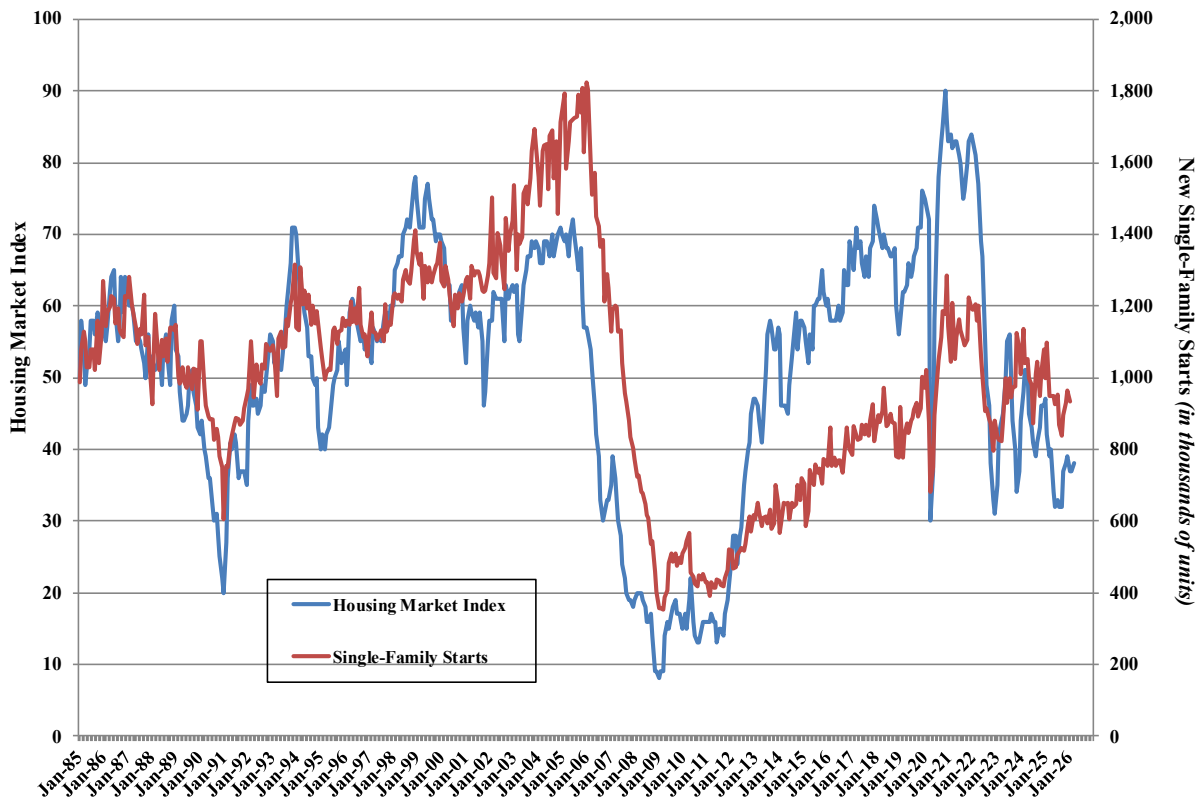


The most recent [NAHB/Wells Fargo Housing Market Index](#) declined to 39, marking its lowest level in seven months (see below). This index measures builder sentiment based on three components: current sales of new single-family homes, expected sales over the next six months, and traffic of prospective buyers.

Several key factors influence this index, including interest rates, employment levels, and material costs. Over the past two years, these factors have remained areas of concern, shaped by evolving immigration policies, tariff-related pressures, and shifts in Federal Reserve policy, most of which have been discussed throughout this memo in the National Outlook section. Despite the low HMI sentiment, we are projecting a year-over-year increase in this tax revenue. This outlook is driven in part by improving conditions in key underlying factors, including stabilizing interest rates and recent federal policy initiatives aimed at expanding affordable housing.



Chart: NAHB/Wells Fargo Housing Market Index (HMI) and New Single-Family Starts



Source: NAHB/Wells Fargo Housing Market Index.
U.S. Census Bureau.

3.4 ALCOHOLIC BEVERAGES TAX

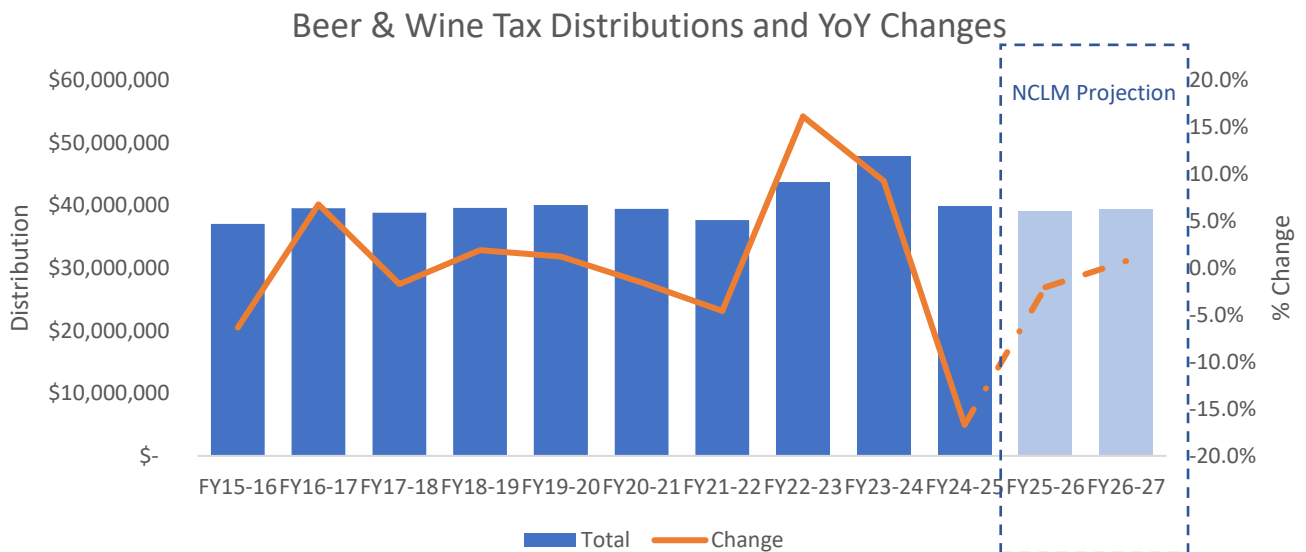
The alcoholic beverage tax is an excise tax paid by producers based on their sales of alcohol in North Carolina. A portion of the taxes collected is distributed by the DOR to municipalities on a per capita basis. These revenues are collected during a period running from April through March of the following year, with distributions typically made to municipalities by June.

Growth in this revenue source is influenced by the overall volume and mix of beer and wine sold in North Carolina, as these products are taxed at different rates. An excise tax of 61.71¢ per gallon is levied on the sale of beer and malt beverages. An excise tax of 26.34¢ per liter is levied on the sale of unfortified wine, and 29.34¢ per liter is levied on the sale of fortified wine.

Based on current trends, we project that the upcoming annual distribution covering April 2025 through March 2026 will reflect a 2% decrease compared to last year's distribution. Details on the exact amount of this year's distribution, expected shortly after the publication of this memo, will be included in upcoming [Quarterly Revenue Reports](#).



Looking ahead, we project that FY 2027 distributions will increase by approximately 0.75%.



Because these distributions are based on population, municipalities should also consider their own population growth relative to other jurisdictions when developing local projections.

3.5 POWELL BILL

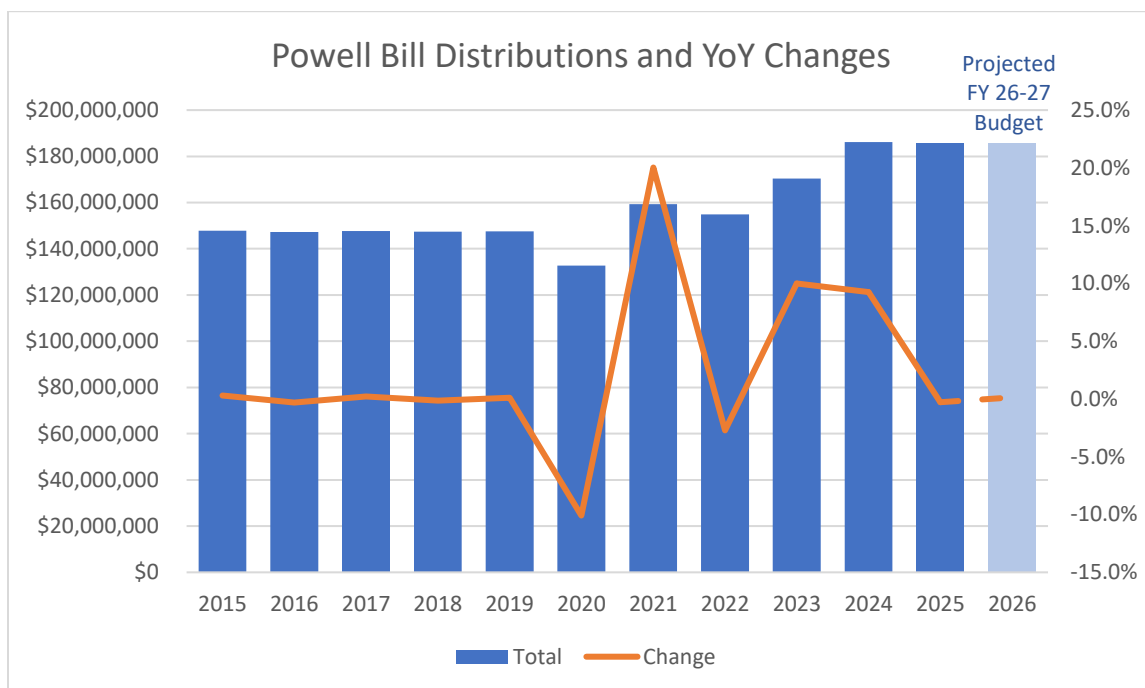
State Street-Aid (Powell Bill) funds are distributed to eligible municipalities twice a year in October and January. Funding is tied to the passage of the state budget. As no comprehensive budget was adopted in 2025 that included additional allocations for the program, the previously authorized funding level remained unchanged. If legislators pass budgeting measures in the 2026 Short Session, they could impact distributions received in the 2026-27 fiscal year.

During the 2025 Long Session, the Senate’s [proposed budget](#), which was not ultimately adopted, included a substantial reduction in funding for State Aid to Municipalities, commonly referred to as the Powell Bill program, along with a significant change to the allocation formula. The proposal would have reduced Powell Bill funding by \$50 million, lowering annual funding from \$185 million to \$135 million during each year of the 2025–2027 fiscal biennium. In addition, the proposal would have eliminated funding for municipalities with populations greater than 150,000.



The North Carolina League of Municipalities continues to advocate for stable and sufficient Powell Bill funding to support municipal street maintenance and transportation infrastructure across the state. At present, the Powell Bill appropriation for FY 2026–2027 remains \$185.875 million, according to the OSBM Certified 2025–2027 Biennium Transportation Budget. Accordingly, this projection assumes funding will remain at the currently certified level unless modified through future legislative action. For more information, see the [Certified 2025-2027 Biennium Transportation Budget](#).

The graph below summarizes overall Powell Bill distribution trends:



Of the total annual distribution of Powell Bill funds, 75% is allocated among eligible cities based on population, and 25% is based on mileage. Statutory language around the Powell Bill budget currently in place 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 has been frozen at FY20-21 levels, and the increase in the Powell Bill appropriation is shared between the remaining cities in the program.



4 MUNICIPAL BOUNDARIES AND U.S. CENSUS

Many state-collected revenue distributions depend on accurate municipal boundary information, either to calculate populations or to determine utility sales within the municipality's geographic boundaries. It is the responsibility of individual municipalities to notify all appropriate organizations as soon as possible of any changes in their boundaries.

The N.C. General Statutes require local governments to maintain current legal boundary information with their clerks. When a local government annexes land, it is required to prepare an updated map, register the annexation with the applicable register(s) of deeds, and report the change to the Land Records Management Section of the N.C. Secretary of State's Office within 30 days. The locality also should share the information with the Tax Assessor, Board of Elections, and GIS department for any county in which your municipality is located. The locality should also notify all gas and electric companies that have customers in its city or town. (Do not send copies of your annexation maps to DOR, as this is no longer required.) Failing to provide this information in a timely manner could result in lost revenue for your municipality

Local governments also should review and update the geographic information on file with the U.S. Census Bureau through the annual [Boundary & Annexation Survey \(BAS\)](#). The N.C. Geographic Information Coordinating Council (GICC) has created an online [Municipal Boundaries Tool](#) to provide a single, authoritative source of municipal boundary data. Instead of submitting boundary information several times each year to different agencies with their own deadlines, a local government now can submit their boundaries once for use in four federal and state programs: Boundary & Annexation Survey (Census Bureau), Powell Bill Funding (N.C. Department of Transportation), State Demographer's Population Program (N.C. Office of State Budget and Management), and the Floodplain Mapping Program (N.C. Department of Public Safety).

We encourage all local governments to verify their boundaries as soon as possible and begin using the online tool to submit annexations and boundary corrections. The tool is still being phased in, so at the moment, local governments should respond to individual boundary surveys they receive, as well as use the Municipal Boundaries tool. When the boundary verification process is fully implemented, the new tool will reduce the number of requests you receive. Local governments should verify their boundary information in the Municipal Boundary Tool.

This year, the State Demographer will begin using the annexations reported through the [Municipal Boundary Tool](#) to prepare the certified population estimates. However, additional information regarding residential construction and group quarters facilities will be requested through the annual North Carolina Demographic Information



Survey (NCDS). The State Demographer will email the municipalities in May and June providing further instructions on how to respond to the survey.

For questions related to municipal boundaries or the U.S. Census, please contact [State Demographer Mike Cline](#) or [N.C. Census Liaison John Quintero](#) at N.C. OSBM for additional questions.



5 DEPARTMENT OF REVENUE CONTACT LIST

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

- Questions about the amount of revenue included in a distribution – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov
- Questions about the status of a municipality’s sales tax refund – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov
- Questions about the allocation of sales tax refunds to a municipality – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov
- Interpretation of sales tax laws – Tax Practitioner Line, (919) 754-2500
- Requests for a list of claimants that received a sales tax refund in a county in which the city is located – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov
- 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 – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov
- Requests for statistical data related to local taxes – George Hermene, Information Unit, (919) 814-1129
- Requests for statistical data related to state-collected taxes – Michelle Felker, Public Engagement and Strategic Planning Officer, (919) 800-9430
- To change the email address at which you receive notification of distributions – financial_services_tax_services@ncdor.gov, (919) 814-1118, or via email at ncdor_distributionunit@ncdor.gov