FY 16-17 Revenue Projections

North Carolina League of Municipalities

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Executive Summary

Please read through the entire memo for important caveats and context related to each of the League's projections for the revenue sources listed below. However, we have collected all of the projections in the memo in the table below for your reference and for simplification purposes. The hyperlinks will direct to the section of this document that provides further information. These are all statewide projections, and as is explained in the memo below, your local economic conditions may dictate deviations from these statewide forecasts.

Revenue Source	Projected Change from FY14-15 to FY 15-16	Projected Change from FY15-16 to FY16-17
Local Sales Tax	4.5%	3.75%
Powell Bill	n/a	0.0%
Electricity Sales Tax	9.0%	3.5%
Telecommunications Sales Tax	- 12.0%	- 2.0%
Sales Tax on Piped Natural Gas	- 2.0%	- 2.0%
Solid Waste Disposal Tax	- 2.0%	1.5%
Local Video Programming Revenues	- 5.5%	- 2.0%
Beer and Wine Taxes	- 6.0%	5.0%

Any questions related to this document should be directed to Chris Nida, Director of Research & Policy Analysis. For your convenience, this document also includes N.C. Department of Revenue contacts for any other questions. Special thanks to NCLM Advocacy Communication Associate Ben Brown, Dr. Linda Millsaps and Paige Worsham of the N.C. Association of County Commissioners, and Cindy Matthews of the Local Government Division in the N.C. Department of Revenue for their assistance in preparing this document.

Overview

At this time last year, a great deal of uncertainty surrounded the municipal revenue picture. Bills had been filed to significantly alter local sales taxes in North Carolina. They included proposals to transition the locally levied sales tax to a state sales tax shared with local governments, and legislation that would have eliminated city hold harmless payments that total in excess of $100 million for municipalities annually. Revenue projections were made with the caveats that major changes to sales tax revenues could be coming.

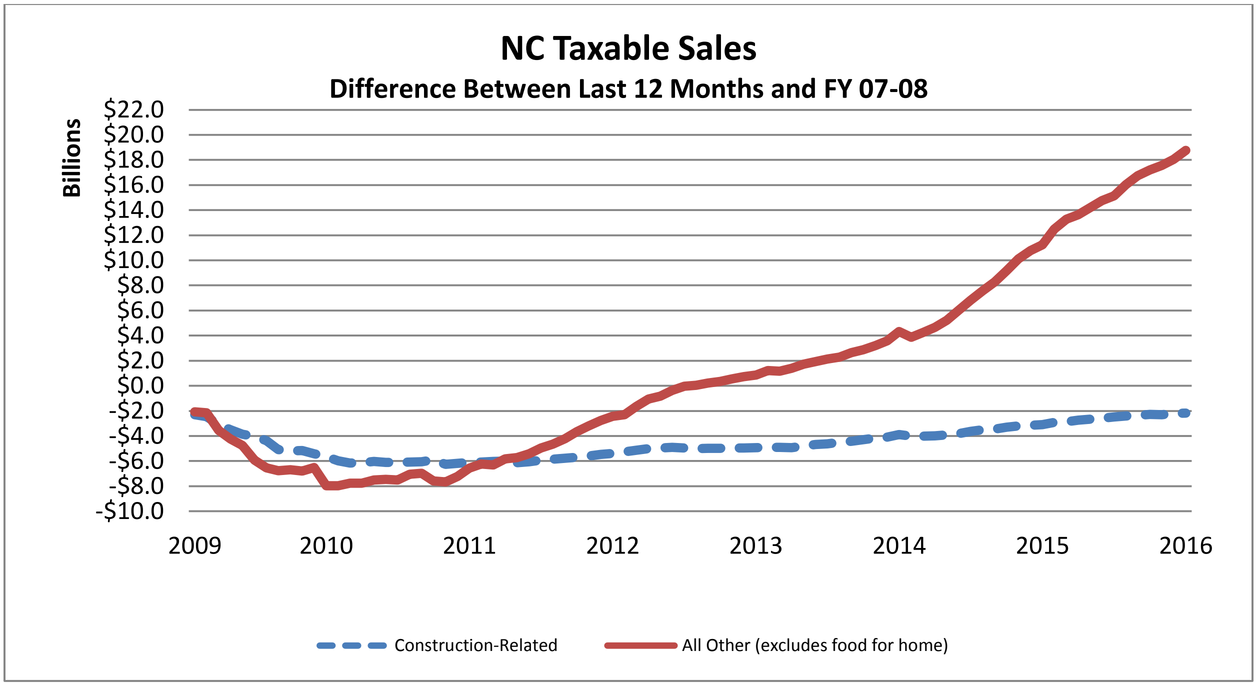
The League worked extensively with legislators on all of these proposals last year, and in the end the changes to the state's sales tax structure – while still meaningful – were much less concerning than they had initially appeared. The League continues to thank legislators for reaching a compromise solution that, as designed, is not scheduled to result in any cities losing revenue in the coming year.

The question for 2016 is whether that solution will work as intended. We know how the proposed reallocation of sales tax revenues is scheduled to work statutorily for Fiscal Year 2016-17. Beginning with sales tax distributions for sales made in July, a total of $84.8 million will be removed from the regular distribution formula. That money will instead be distributed to 79 counties based on percentages written into statute. (To check if your county is among the 79 receiving a portion of these funds, see page 426 of last year's state budget.) A total of $17.6 million in state funds will be added to local sales tax collections and distributed in the same manner as Articles 39, 40, and 42.

The difference between the $84.8 million being reallocated and the $17.6 in state funds being contributed is $67.2 million. That is the amount projected to be generated next fiscal year from the expansion of the sales tax base to additional repair, installation, and maintenance services. If that expansion produces at least $67.2 million in additional revenue, no local government is projected to lose any revenue. If it does not, then the mechanics of reallocation could mean that some counties and cities receive less revenue than they otherwise would have. The base expansion went into effect March 1, which means as yet there have been no distributions with that revenue included. How much revenue is generated from this expanded sales tax base is one of the biggest questions of the next fiscal year.

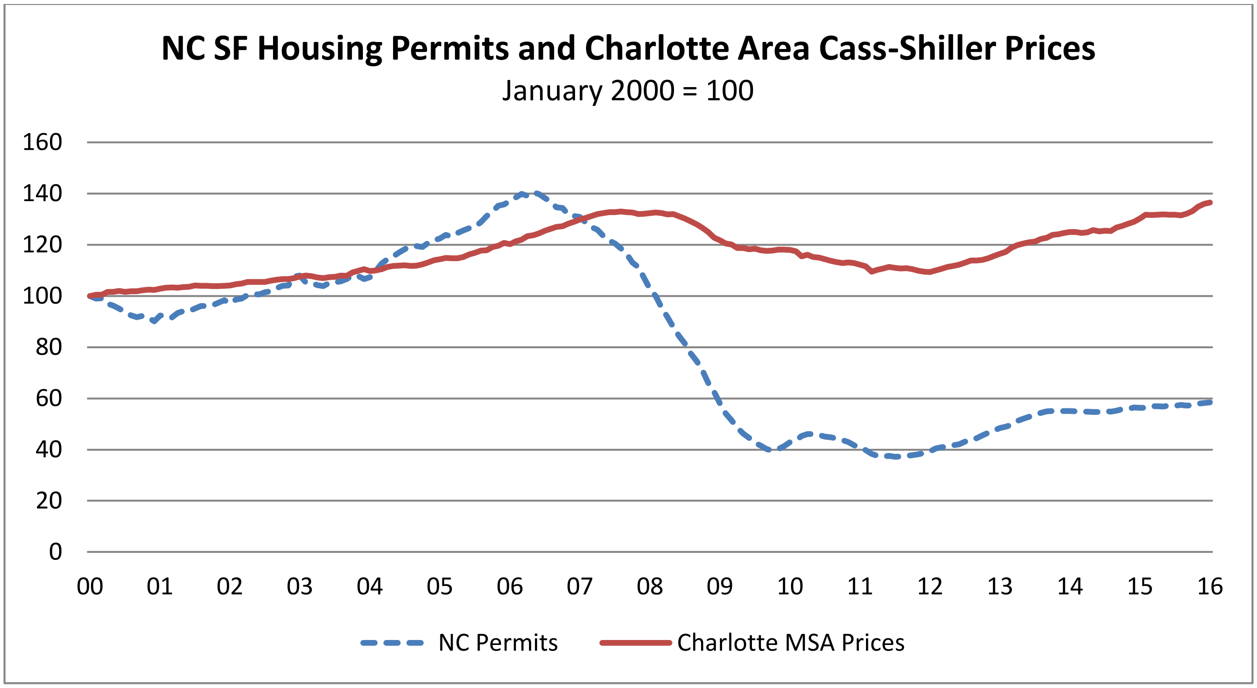
The answer to that question, of course, will be in large part dependent on the performance of the North Carolina economy. While no one seems to be forecasting a contraction in the N.C. economy in the months ahead, there is enough caution in most projections that it would seem safest to bet on more moderate growth in FY16-17. Shortly before this memo was completed, the N.C. General Assembly's Fiscal Research Division revised their sales tax projections for the coming year downward, even as strong income tax collections are pointing toward a projected revenue surplus. Meanwhile, Wells Fargo entitled its most recent monthly look at the state's economy "North Carolina's Economy Is on a Roll." Employment and population continue to rise – both of which, Wells Fargo notes, drives demand for retail sales specifically. This is a positive sign for sales tax revenues in the coming year. Nationally, some economists have lowered expectations for the coming year after a weak start to 2016. Thus far, North Carolina's economy seems to be faring somewhat better than that of the nation as a whole.

There may, however, be some reason for caution in the construction industry, particularly when it comes to single-family homes. The construction industry is always a significant barometer of the economy as a whole and is thus an important indicator for future economic performance as well. Wells Fargo is among several forecasters for the coming year who note the employment growth in the construction industry and expect it to continue. But some of the most recent data could show a slowdown in actual construction activity. The chart below shows the last 12 months of sales taxes as compared to the pre-recession year of 2007-08. While non-construction-related sales continue to rise well above pre-recession levels, construction-related sales have shown much more restrained growth, and even some evidence of recent leveling off.



We see somewhat similar trends in the two tables on the next page. The first table compares the statewide level of single-family building permits issued to the Cass-Shiller housing price index for the Charlotte metro area (the only monthly price index for the state). It shows that home prices are rising, and while permits are increasing slightly, they are not doing so at the same rate of prices. This is consistent with other reports suggesting that there may be sufficient housing inventory, leading buyers to purchase more existing homes. While not necessarily a bad sign for the economy as a whole, a slowdown in construction could mean slower sales tax growth in the year ahead.

The second table, from the Federal Reserve Bank of Richmond, only underscores this point. Housing starts in North Carolina have fallen recently at a rate higher than usual for this time of year, and have now dropped to a level below that at any time in 2015. Given past history, starts are likely to rebound at least moderately, but a slower recovery could again mean slower sales tax growth than North Carolina experienced in Fiscal Year 2015-16.


NC SF Housing Permits and Charlotte Area Cass-Shiller Prices
January 2000 = 100
160
140
120
100
80
60
40
20
0
00
01
02
03
04
05
06
07
08
09
10
11
12
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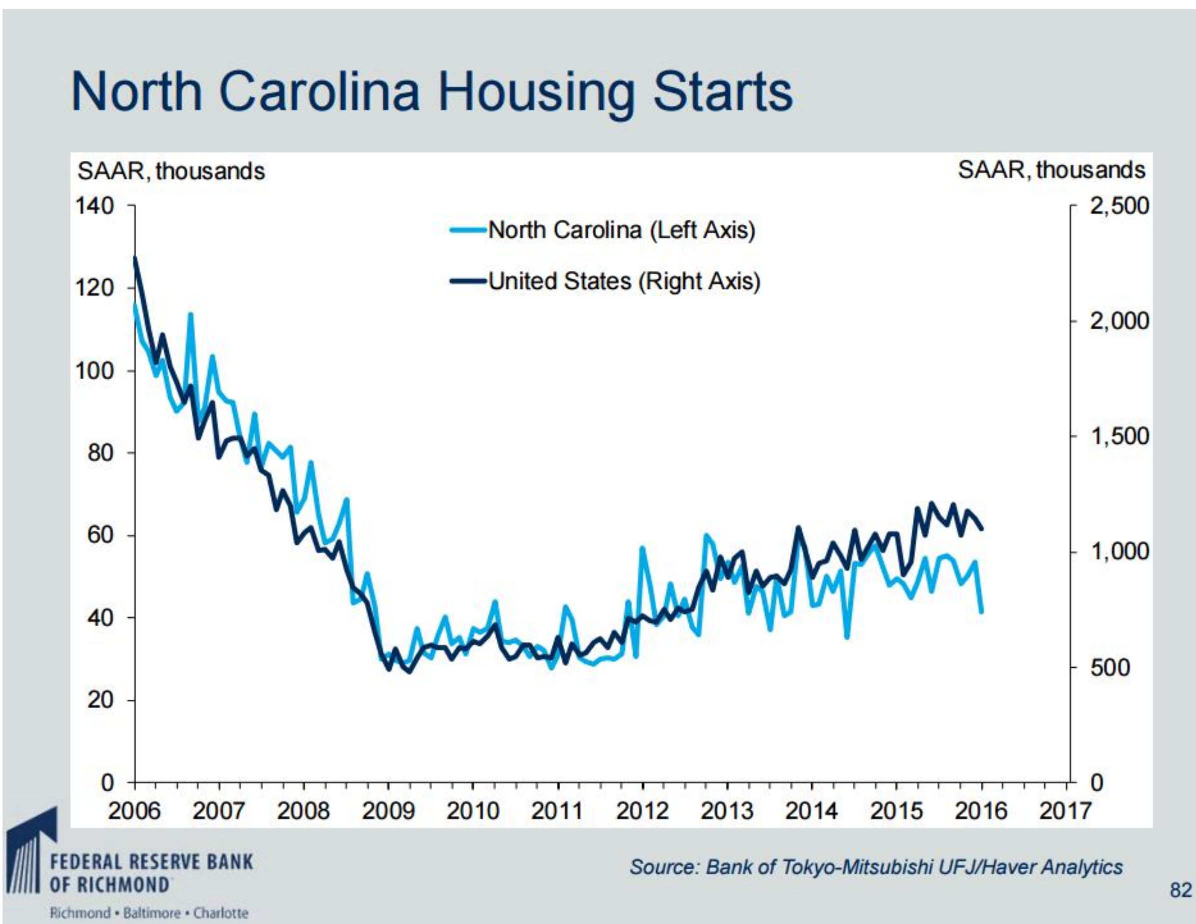
15
16
NC Permits
Charlotte MSA Prices


North Carolina Housing Starts
SAAR, thousands
SAAR, thousands
140
120
100
80
60
40
20
0
2,500
2,000
1,500
1,000
500
0
North Carolina (Left Axis)
United States (Right Axis)
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
FEDERAL RESERVE BANK OF RICHMOND
Richmond • Baltimore • Charlotte
Source: Bank of Tokyo-Mitsubishi UFJ/Haver Analytics
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As with all of the projections below, but perhaps even more so in the case of construction, your local situation may vary widely from the statewide projections. The number of people seeking housing and the availability of housing will continue to be key factors on the demand side of the housing market. To the extent possible, please always incorporate knowledge of your local situation into any projections you make for the coming year. You will be most aware of your specific local situation and should take that into account when considering to what extent your local projections should differ from the statewide projections presented below, particularly in terms of those revenues that are most affected by construction and housing.

Cautionary Note

The estimates included in this document should be used **only as a rough guide** in preparing your Fiscal Year 2016-17 proposed budget. The revenue change figures 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, especially for taxes that fluctuate widely based on unpredictable factors such as long-term weather conditions. Our goal is to provide municipalities with a reasonable projection of where State-collected revenues are heading. **Please read the entire document because any caveats about the estimates are as important as the estimates themselves.**

These estimates also assume that the General Assembly will make no changes in 2016 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.

Local Government Sales Taxes

Local Sales Tax Estimates

Through the first half of Fiscal Year 2015-16, sales taxes remained a strong point for revenues at both the state and local levels. As of the distribution for January sales, distributions were up approximately 4.6 percent from the same point in FY 14-15. Ninety-three counties had experienced positive sales tax growth, while only 2 counties had experienced decreases in sales tax revenues greater than 1 percent. Nineteen counties had seen year-over-year growth in excess of 6 percent.

There were some indications at both the state and national level that sales may be headed for a slow-down. Forecasters had revised their projections for national first-quarter growth downward following January and February sales. There will be some sales tax base expansion for the final four months of the fiscal year, but projections are that it will be a relatively small percentage of overall sales tax collections. The economy seems likely to rebound from a relatively slow beginning to the year, but it may be that the growth originally projected for this year is not fully realized. **We expect that FY15-16 statewide sales tax distributions will finish 4.5 percent above FY14-15 distributions.**

Because of the aforementioned changes to the sales tax statutes, looking ahead to Fiscal Year 2016-17 is more complicated. Overall, the projection for sales tax growth is as straightforward as any such projection can be. The reallocation of sales taxes is done with revenues from the existing sales tax base, along with $17.6 million in state revenues that are added to the overall pot. The reallocation in and of itself will not subtract any revenues from overall local sales tax revenues. North Carolina continues to add population, and the most recent data on construction industry activity and employment reflects that. Tempering expectations for the coming year are recent economic projections that envision less robust growth for the upcoming year than had previously been expected. This includes the Fiscal Research Division's updated forecast from late March. These factors suggest that taking a conservative approach to sales tax growth may be prudent, and **we expect that FY16-17 <u>statewide</u> sales tax distributions will be 3.75 percent above FY15-16.**

The League always cautions readers of this projection that local conditions should dictate to what extent you adjust the statewide number for your particular jurisdiction. That is perhaps even more true this year. The impact of the new sales tax reallocation law will be felt either positively or negatively at the local level, depending upon whether your county is one of the 79 that receives a share of the $84.8 million that will be reallocated under G.S. 105-524(c).

That $84.8 million will be subtracted in 12 even amounts from Articles 39, 40 and 42 on a monthly basis beginning with the distribution you will receive in October of this year. Added to those Articles is $17.6 million in state contributions this fiscal year, also split up evenly among the 12 months of distributions. In order for the 21 counties not receiving any of the reallocated funds to be held harmless, the expansion of the sales tax base to additional services will need to generate the $67.2 million difference between the two amounts. Because the sales tax was expanded to those services as of March 1, we do not yet have any figures on sales tax revenues under the expanded base, and even when we do we will not be able to isolate how much revenue is being derived specifically from the expanded base. If the additional services taxed fail to generate $67.2 million in the coming fiscal year, though, it is possible some cities could see less sales tax revenue than they would have received in the absence of the law.

The League's sales tax calculator below can help project your sales tax growth **independent of the sales tax reallocation in G.S. 105-524.** The N.C. Association of County Commissioners has put together a comprehensive spreadsheet that will allow you to test how much revenue you will receive from sales tax reallocation in a variety of scenarios. That document, along with other information regarding sales tax reallocation, can be found here. You can also review estimates of the impact of the new reallocation here.

As a reminder, for budget estimation purposes, we assume that each municipality accrues the September 15 sales tax distribution to the prior fiscal year. Therefore, the FY 16-17 sales tax forecast year runs from the October 15, 2016 distribution through the September 15, 2017 distribution, reflecting July 2016 through June 2017 retail sales.[1]

[1] Because of the change from quarterly to monthly sales tax distributions, the Local Government Commission (LGC) encourages the use of a 90-day period for determining if revenues are available. By extending the accrual period from 60 to 90 days, the September 15 sales tax distribution can be accrued. This meets GASB 33 measurement focus requirements. 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. [https://www.nctreasurer.com/slg/Memos/1015.pdf]

Sales Tax/City Hold Harmless Calculator

To estimate changes in your sales tax and city hold harmless distributions, you can use the League's sales tax calculator spreadsheet. For split cities, you must calculate the sales tax for each county separately. Please remember that this calculator does not include any funds related to the aforementioned reallocation. The calculator will provide much of the data that you need, but there are several figures that you must provide:

1) **Your estimate of the rate of growth in sales for your county (or counties) for Fiscal Year 2015-16.** The spreadsheet will indicate the county growth rate so far this year and the statewide growth rate. Use these rates to decide what, if any, difference you expect there to be between the forecasted statewide sales tax growth rate of 5.0 percent and the expected rate of growth in your county. Changes in construction activity, employment, and the number of businesses in the county all will have an effect on the rate at which sales taxes will grow or decline. Sales tax growth also can be affected by significant one-time events, such as destructive storms, heavy snowfalls that limit travel, or tourism events that do not occur every year. Those factors also should be taken into account when adjusting the statewide change percentage to local circumstances. Finally, if your municipality is located in a small county, recognize that sales taxes in these counties can change dramatically from one year to the next due to a small number of large purchases in one year that may lead to a high rate of increase in that year and a large rate of decrease in the next.

2) **Your estimate of the rate of growth in sales for your county (or counties) for Fiscal Year 2016-17.** The spreadsheet will indicate the forecasted statewide growth rate. You will need to decide what, if any, difference you expect there to be between the forecasted statewide rate and the rate of growth in your county. Changes in construction activity, employment, and the number of businesses operating in the county all will have an effect on the rate at which sales taxes will grow or decline. Sales tax growth also can be affected by significant one-time events, such as destructive storms, heavy snowfalls that limit travel, or tourism events that do not occur every year. Those factors also should be taken into account when adjusting the statewide change percentage to local circumstances.

3) **Your municipality's share of your county's FY 15-16 sales taxes.** These figures are available from the monthly sales tax distribution reports, available on the DOR website at http://www.dornc.com/publications/reimbursement.html.

4) **Your municipality's estimated share of your county's FY16-17 sales taxes.** For *ad valorem counties,* a large tax increase or decrease by another unit of government in your county for FY15-16 may result in a change in your percentage for the FY16-17 allocations. For *per capita counties,* an annexation of population by your municipality or by another in the county, effective between July 1, 2015, and July 1, 2016, may change your municipality's percentage.

County Sales Tax Distribution Method

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 for the next year. 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. Cities and towns need to prepare for possible county changes in distribution methods during April 2016. **A change in the distribution method made by a county in April 2016 will become effective for the distribution made in July 2016. As a result, it will affect both your Fiscal Year 2015-16 and Fiscal Year 2016-17 sales tax revenues.**

Powell Bill

In past years, Powell Bill funds for the upcoming year could be projected based on the sale of gasoline, because the amount of funds for the program was based on a percentage of gas tax revenues. That is no longer the case. Last year, the General Assembly eliminated the tie between the gas tax and Powell Bill funds and instead made the Powell Bill a direct appropriation of state dollars. Because 2016 is the second year of the legislative biennium, we already know that legislators have allocated $147.5 million – the same amount as was available to the program in 2015 – in Powell Bill funds for 2016. We appreciate the legislature's commitment to keeping Powell Bill funding steady at a time of declining gas tax revenues. The General Assembly could choose to adjust the amount of Powell Bill funds when it returns to Raleigh this summer, but the best projection at this time is that there will be no change in Powell Bill funds in the coming fiscal year.

The formula for calculating Powell Bill distributions has not changed from previous years. Of the total annual distribution, 75 percent is allocated among eligible cities based on their population. If the state's municipal population increases slightly as it did last year, **we would project the per capita allocation for the FY16-17 Powell Bill distribution to be $20.15.** To estimate your expected population-based distribution, multiply this amount by your expected 2016 population. Your 2015 Certified Population (July 1, 2014 Estimates with July 1, 2015 Municipal Boundaries) can be found on the Office of State Budget and Management's Municipal Population Estimates page: http://www.osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/municipal_estimates.shtm. You should adjust your 2015 Certified Population to account for any annexations going into effect between July 1, 2015 and June 30, 2016.

The remaining 25 percent 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 FY15-16 Powell Bill distribution is $1,624.41 per street mile. After calculating your estimated city-maintained street mileage as of July 1, 2016, multiply that figure by the per-mile rate to calculate your city's total street mile allocation.

State-Collected Local Taxes

For the purpose of the quarterly distributions (electricity, telecommunications, natural gas, and video programming) **we assume that the fiscal year accrual begins with the distribution made in December.**

Electricity Sales Tax

Cities have now received six quarters worth of electricity and natural gas distributions with the general sales tax being applied to their sales, and the most recent distribution may indicate that some relative stability is returning. Prior to the most recent distribution, cities' electricity and natural gas distributions under the new distribution formula have varied significantly from those they had received in previous years. In the case of electricity, this meant double-digit percentage increases in year-over-year distributions. However, the distribution covering the last three months of 2015 was 1.1 percent *below* the previous year's distribution, which is a much less drastic change from the previous year than prior distributions.

Because electricity sales tax distributions are so weather-dependent, and the final quarter of 2015 was one of the warmest on record, a decrease in the distribution amount is reasonable. Even with that lower distribution, electricity revenues are still up more than 20 percent over the first two distributions of FY14-15. We expect that the remaining two distributions this fiscal year will look more like the most recent quarter, and the federal Energy Information Administration projects a slight decrease in electricity prices and consumption in the coming months. Given that, **we project that statewide electricity franchise revenue for FY15-16 will increase by 9.0 percent.**

Looking ahead to the coming fiscal year, year-over-year changes will presumably look more like the most recent quarter as this distribution formula becomes more entrenched. The amount of electricity revenues will continue to depend on the weather to a large degree, but the Energy Information Administration is predicting a rise in both consumption and prices toward the end of this year and the beginning of 2017. As long as the economy remains strong, and there are no legislative changes to the distribution formula, **we project that electricity sales tax revenue will increase by 3.5 percent.**

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 Fiscal Year 2013-14 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.

Sales Tax on Piped Natural Gas

Whereas electricity sales tax revenue has increased under the new distribution formula, natural gas revenues have decreased sharply. Distributions in the 2nd and 3rd quarter of the last fiscal year were down approximately 40 percent, followed by a 94 percent drop in the final quarter that was partly attributable to a large refund request that was processed.

The current fiscal year's distributions have shown less marked change from the previous year. Similar to electricity revenues, first quarter distributions were up, which was likely largely attributable to the timing of the new system's implementation in the initial year. Second quarter distributions were down roughly 6 percent, which would be expected given the warmth of the last three months of 2015. January was colder than usual, but with temperatures projected to be warmer in the coming months, **we project the statewide FY15-16 distribution of natural gas sales tax revenues to municipalities to be 2.0 percent lower than in FY14-15.**

The long-term weather projections of warmer temperatures into next year that are helping to boost electricity sales could have the opposite effect on natural gas. Those projections are of course inherently uncertain, but taking them into account, **we project another decrease of 2.0 percent in natural gas sales tax revenues in FY16-17 as well.**

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.

Telecommunications Sales Tax

Telecommunications distributions have decreased from the same quarter the year before in 11 of the 12 most recent quarters. A refund request processed by the Department of Revenue led to the most recent distribution decreasing more than 35 percent from the previous year. That will likely make the current fiscal year's revenue decline look even more severe than it otherwise would have. **We expect that annual statewide telecommunications revenues for FY15-16 will decrease by 12.0 percent**. Much of the non-refund related decrease has been attributed to more customers going with solely a mobile phone and canceling landline phone service. There does not seem to be any indication that this trend is slowing down. One positive side for next year is that revenues may look better in comparison to this year due to the refund that was processed in the second quarter. Taking that into account, **we predict telecommunications taxes will decline by 2.0 percent in Fiscal Year 2016-17.**

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 2013 and 2014 Certified Population estimates will affect distributions.

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.

The distribution of the proceeds of this tax were changed during the 2013 session of the General Assembly, though the changes did not affect the amount of the tax going to local governments. Cities (along with counties) will continue to receive 18.75 percent of the tax, with the revenues being distributed on a per capita basis. Fifty percent of the tax proceeds will also continue to go to the Inactive Hazardous Sites Cleanup Fund to help pay for the assessment and remediation of pre-1983 landfills. The change was made to the remaining 12.5 percent of the tax. Whereas previously those funds went to the Solid Waste Management Trust Fund for grants to local governments and state agencies, the State budget passed in 2013 repealed the Solid Waste Management Trust Fund and instead directs those funds to the State's General Fund. (The budget did also create the Solid Waste Management Outreach Program within the Department of Environment and Natural Resources.)

Proceeds from this tax have declined in recent years due a combination of factors. During the recession, generation of solid waste decreased, particularly from the construction industry. At the same time, expanded recycling programs from the state and local governments – along with increased recycling in the construction industry – has limited the amount of solid waste being sent to landfills. This in turn limits the revenue generated by the Solid Waste Disposal Tax.

Though construction industry employment has grown over the past year, housing starts are down slightly from where they were at the same point last year. Distributions for the first two quarters of Fiscal Year 15-16 reflect that and are down slightly from the year before. For the entirety of this fiscal year, **we expect total distributions for FY15-16 to decrease 2.0 percent from total distributions in FY14-15.** Our projection is that activity will rebound moderately in the coming year, and **we project that revenues for Fiscal Year 2016-17 will increase 1.5 percent over FY15-16.** Because this revenue is distributed on a per capita basis, a particularly large annexation taking effect between July 1, 2015 and June 30, 2016, could justify projecting additional revenue growth for your municipality.

Local Video Programming Revenues

For the first time in four years, Fiscal Year 2014-15 video programming revenues increased above the previous year. It was a somewhat unexpected increase, as the trend in the cable industry has been away from set-top TV providers to more reliance on streaming services. Unfortunately, the first two distributions of the 2015-16 fiscal year are more in line with that trend, as distributions are down 8 percent from the first two quarters last year (although that is due in part to the same refund that reduced telecommunications revenues). Decreases for the next two distributions this year are likely to be less severe than the first two quarters, but even taking that into account **we expect that the statewide annual distribution will be 5.5 percent below Fiscal Year 2014-15 levels.** Industry projections predict a continuing move away from cable television services next year, but this year's refund may mean a smaller year-over-year reduction in FY15-16. **We expect that video programming revenues will decrease by 2.0 percent in Fiscal Year 2015-16.** While this distribution is not based directly on population, population change is a factor in the annual formula. As a result, growth or decline in population between the 2015 and 2016 Certified Population estimates will affect these revenues, although not in the exact percentage as the increase or decline in population.

Cities with qualifying Public, Educational, and Governmental (PEG) channels are entitled to supplemental PEG channel support funds for up to three channels. The amount per channel for FY15-16 is approximately $28,369, and it is expected to remain constant in FY16-17, barring an increase or decrease in the number of PEG channels or any returned PEG channel money, which the Department of Revenue does not currently have. These funds must be provided to the organization that operates the channel. Bear in mind that to receive supplemental PEG channel funds, **you must certify your PEG channels to the Department of Revenue each year by July 15.** The 2016 certification forms are available on the Department of Revenue website here: http://www.dornc.com/downloads/trpeg.pdf.

Beer and Wine Taxes

Beer and wine sales taxes are distributed from the Department of Revenue (DOR) to cities 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 sixty days of March 31. Due to a procedural change at DOR, collections for Fiscal Year 2012-13 were lower than originally projected. It is expected that the fluctuation from this change has leveled out and collections will be more consistent as time progresses. Actual collections at the state level through February of this year appear strong. However, DOR has let the League know to expect that beer and wine distributions to local governments for **Fiscal Year 2015-16 are projected to decrease 6.0 percent below FY14-15 levels.** As yet the Department has not been able to identify a specific reason for this decline. We will continue working with DOR to determine any possible reason for this decrease in revenues and update you if any conclusions are reached. In the meantime, national trends in the beverage industry would seem to point toward future increases in these revenues. Based upon national beer and wine sales projections – and a continuing trend toward “premium” beverages in all categories – we expect **Fiscal Year 2016-17 distributions to increase by 5.0 percent**. Because these distributions are based on population, it is important to incorporate factors like annexations or deannexations during the fiscal year into your municipality’s projection.

Remember: Report your boundary changes!

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 the Department of Revenue, as this no longer is required.

In addition, your municipality should respond to, and check for accuracy, the Boundary and Annexation Survey sent to you on or before June 28th by the State Demographer (N.C. Office of State Budget and Management); notify her if you do not receive the survey by July 7; and return it by the deadline. The Boundary and Annexation Survey contains a list of all final annexations adopted since the last Census. It includes housing and population counts and total acreage. If you represent a rapidly growing municipality, it is especially important that you check the correctness of the survey and update data where necessary, particularly for older annexations. Otherwise, the State Demographer will have to base growth for older annexations on the average growth rate of your jurisdiction.

If you do not respond to the State Boundary and Annexation Survey, **the State Demographer will assume that there are no changes and will not credit your new annexations** when estimating your population for the next year. The State Demographer should also be informed of any address and personnel changes for those who receive the survey in your municipality.

Please remember, you will receive **two** boundary and annexation surveys, one from the **State (June 28)** and one from the **federal** government **(January 1)**; **both must be completed**. Completing just one survey will not provide the information for the other.

Department of Revenue Contact List

Listed below are the appropriate contacts at the Department of Revenue for questions regarding municipal concerns. (Please note that the former Cindy Honeycutt is now Cindy Matthews, so while the name has changed, the contact remains the same):

- Questions about the amount of revenue included in a distribution – Cindy Matthews, Distribution Unit, (919) 814-1118.

- Questions about the status of a municipality's sales tax refund – Cindy Matthews, Distribution Unit, (919) 814-1118.

- Questions about the allocation of sales tax refunds to a municipality – Cindy Matthews, Distribution Unit, (919) 814-1118.

- Interpretation of sales tax laws – Eric Wayne, Director, Sales and Use Tax Division, (919) 814-1082.

- Requests for a list of claimants that received a sales tax refund in a county in which the city is located – Cindy Matthews, 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 – Cindy Matthews, Distribution Unit, (919) 814-1118.

- Requests for statistical data related to local taxes – Michael Connolly, Manager, Information Unit, (919) 814-1129.

- Requests for statistical data related to State-collected taxes – Trevor Johnson, Director of Public Affairs/PIO, (919) 814-1010.

- To change the email address at which your 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.