NC LEAGUE OF MUNICIPALITIES

FY 17-18 Revenue Projections

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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 FY15-16 to FY 16-17	Projected Change from FY16-17 to FY17-18
Local Sales Tax	4.75%	4.25%
Powell Bill	n/a	0.0%
Electricity Sales Tax	1.0%	2.0%
Telecommunications Sales Tax	- 1.0%	- 7.0%
Sales Tax on Piped Natural Gas	- 18.0%	- 8.5%
Solid Waste Disposal Tax	7.0%	4.5%
Local Video Programming Revenues	2.5%	- 1.0%
Beer and Wine Taxes	0.0%	1.0%

Any questions related to this document should be directed to Chris Nida, Director of Research & Policy Analysis. For your convenience, this document also includes North Carolina Department of Revenue contacts for any other questions. Special thanks to the Public Affairs team at the North Carolina League of Municipalities, Dr. Linda Millsaps and Paige Worsham of the North Carolina Association of County Commissioners, and Cindy Matthews and Ernest Irving of the Local Government Division in the North Carolina Department of Revenue for their assistance in preparing this document.

Overview

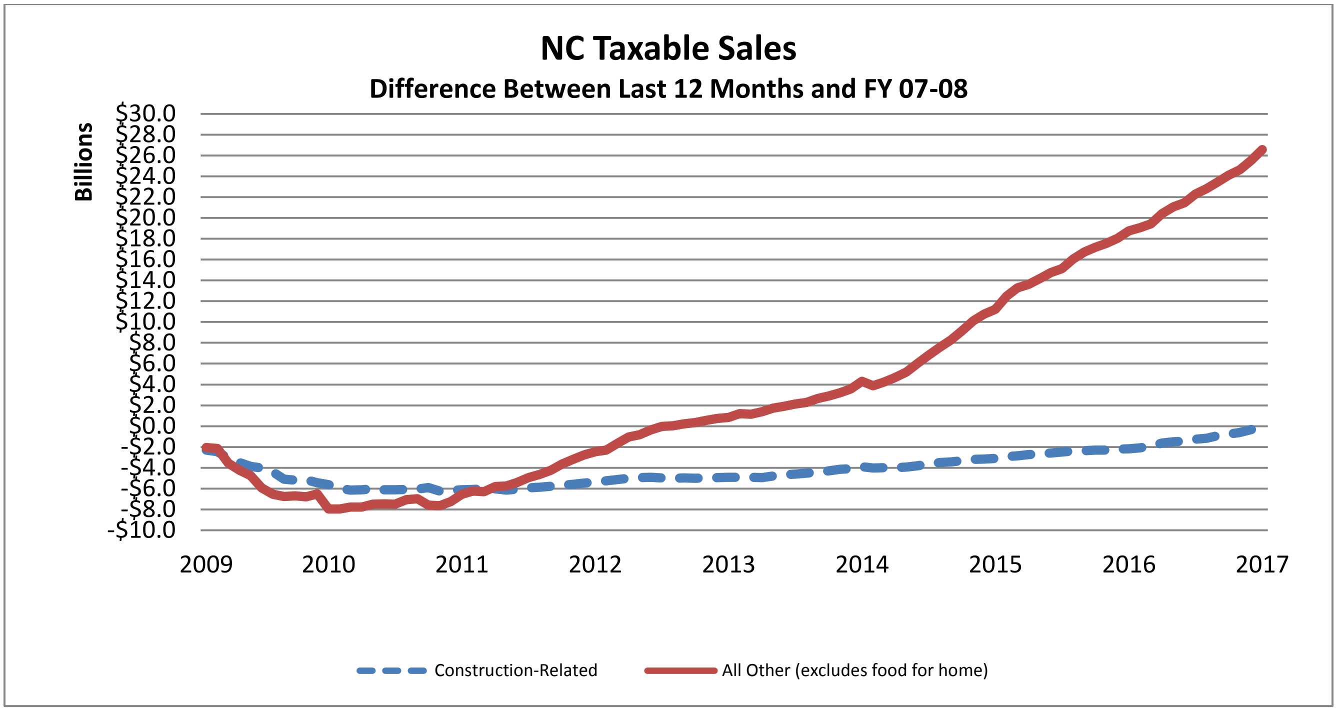
Since the publication of this memo at this time last year, there has been relatively little structural change in the local revenues covered in this memo at the state level. The state and local sales tax base was expanded effective March 1, 2015, and beginning with the distribution for July 2016 sales tax revenues a statutory reallocation of nearly $90 million in local sales tax revenue began. Even after that reallocation, though, combined Article 39 and 40 sales tax distributions are up in 98 of 100 North Carolina counties. (More on that below.)

More significant change may actually have occurred at the federal level. The results of the November 2016 presidential election came as a surprise to many observers, and there was some uncertainty as to what impact the change in leadership at the national level would have on the U.S. economy. Nearly three months into 2017, though, there have been few obvious economic setbacks. The Federal Reserve this month raised its key interest rate to between 0.75 and 1 percent and expects to increase rates again later this year. The national unemployment rate was at 4.7 percent in February, consistent with recent months. As of this writing the Dow Jones index is down slightly in March but still up nearly 5 percent for the calendar year. In PwC's annual survey of CEOs, the percentage of U.S. CEOs "very confident" in revenue growth in the next 12 months increased from this time last year. More than half (56 percent) of U.S. CEOs are "very confident" in revenue growth in the next three years. The American Institute of CPAs' Economic Outlook survey for the first quarter 2017 found higher optimism for the next 12 months of the U.S. economy than at any point since 2004. February's Consumer Confidence Index increased from January and is at a 15-year high.

It remains to be seen how federal decisions on a host of issues – including health care, infrastructure spending, the federal budget, and the tax code, to name a few – impact economic performance and optimism. But heading into April, the national economy appears strong.

Much the same can be said for North Carolina, though perhaps tempered somewhat from an overall economic perspective. Wells Fargo noted that the number of nonfarm payroll jobs in N.C. declined by 6,600 in January, though revised data still showed the state adding almost 100,000 jobs overall in 2016. Dr. Michael Walden of N.C. State reported that his index of economic indicators rose slightly in January by 0.4 percent. John Connaughton of UNC-Charlotte most recently projected a 2.3 percent increase in real Gross State Product from 2016 to 2017. The Carolinas Survey of Business Activity from the Federal Reserve Bank of Richmond was positive, with its index for general business conditions increasing in February to its highest point since last April.

The news may be even more encouraging for local sales tax revenue, though, in particular due to continued activity in the construction sector. Even while Wells Fargo was noting the state's January decline in jobs, it cited the construction sector for adding more than 1,000. One of the more positive indicators in Dr. Walden's report was a 20 percent increase in building permits from December 2016 to January 2017. The chart below compares the last 12 months of sales taxes to the pre-recession year of 2007-08. Non-construction-related sales continue to rise strongly and steadily, but construction-related sales are also now almost at the point of finally reaching pre-recession levels.



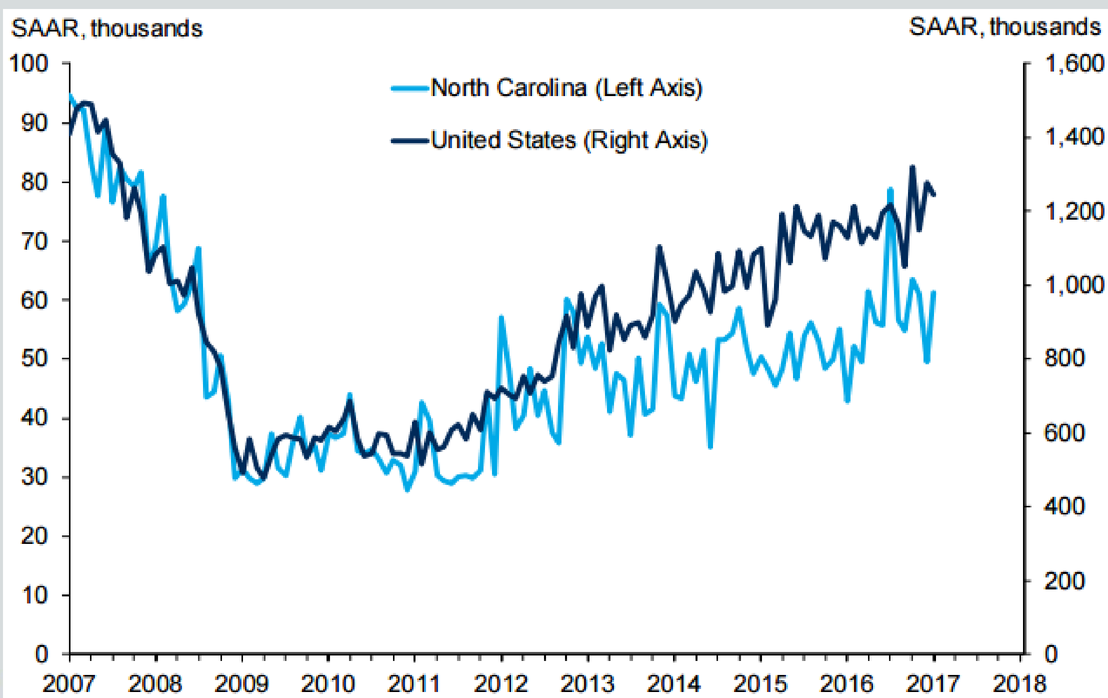
Two additional charts from the [Federal Reserve Bank of Richmond]() support the trends in the chart above. Housing starts in North Carolina declined less significantly this winter than in years past and were already signaling a strong rebound to begin 2017. Meanwhile, while we continued to see variation around the state, housing prices in all the MSAs measured increased in December as compared to the year before. Continued demand even in the face of a continued increase in inventory can only be seen as a positive for construction-related sales tax revenue and for the economy as a whole.

NORTH CAROLINA

Real Estate Conditions

House Price Index (2000=100)	Period	Level	MoM % Change	YoY % Change
United States	December	186	0.82	7.17
Fifth District	December	188	0.22	4.43
North Carolina	December	145	-0.03	4.91
Asheville MSA	December	194	-1.07	8.27
Charlotte MSA	December	148	0.24	6.06
Durham MSA	December	151	-0.09	5.67
Fayetteville MSA	December	121	-0.97	0.54
Greensboro-High Point MSA	December	121	0.27	3.78
Greenville MSA	December	128	1.97	5.26
Hickory MSA	December	137	0.97	5.04
Jacksonville MSA	December	142	0.19	2.52
Raleigh-Cary MSA	December	144	-0.05	5.91
Wilmington MSA	December	165	-1.16	2.14
Winston-Salem MSA	December	131	0.28	2.20

North Carolina Housing Starts



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.

Legislation has already been introduced this year that could affect some of the revenue sources discussed below. SB 126 Change the LOST Adjustment Factor would eliminate per capita adjustment factors currently applied to the Article 40 ½-cent sales tax. While this would not impact the total amount of local sales tax revenues it would lead to gains in revenues from this sales tax for some counties and losses for others. As it currently stands, HB 63 Citizens Protection Act of 2017 would make municipalities ineligible to receive distributions of natural gas, telecommunications, and video programming sales taxes; beer and wine taxes; and Powell Bill funds while in violation of so-called "sanctuary city" statutes. HB 321 Study Solid Waste Disposal Tax would call for the General Assembly to study the solid waste disposal tax. None of these bills have yet passed either chamber of the General Assembly. Please stay tuned to the League's legislative bulletins for updates on the progress of these and many more pieces of legislation that could impact cities and their finances.

One last note before moving on to the projections: the League this year began publishing interim "Revenue Reports" to provide an update on the revenue sources covered below in between publications of this memo. We hope that these will be helpful in tracking revenues throughout the year. The goal is to continue to publish these reports quarterly, roughly timed with the quarterly distributions local governments receive from the Department of Revenue. Links to the two reports already published, as well as the URL for the NCLM web page where they are housed, are below.

- Revenue Report: August 2016
- Revenue Report: December 2016
- NCLM State-Collected Revenue Projections Home

Cautionary Note

The estimates included in this document should be used **only as a rough guide** in preparing your Fiscal Year 2017-18 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 2017 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

Sales tax collections continue to exceed most expectations in the aggregate. Through the first half of Fiscal Year 2016-17, combined Article 39 and 40 distributions were about 5.2 percent ahead of FY15-16. The growth was not uniform across the state, but it was positive in 98 of 100 North Carolina counties. In 31 of these counties the increase exceeded 6 percent.

Collections at the state level were actually even stronger. Through March, state sales taxes were up more than 7 percent, and the consensus revenue forecast jointly issued in March by the legislature's Fiscal Research Division and the Office of State Budget and Management revised its sales tax projections for the current year upward by 1.3 percent.

As noted in the overview above, near-term economic projections are generally positive, and consumer confidence in the economy is high. Motor fuel prices, while frequently volatile, are projected to rise only moderately. Real personal income has been on the decline in North Carolina, but for the third quarter of last year it was still nearly 3 percent ahead of where it had been the year before. Growth may slow some in the remainder of this fiscal year due to sales tax base expansion now being in effect for a full year, but **we expect that FY16-17 statewide sales tax distributions will finish 4.75 percent above FY15-16 distributions.**

Right now, projections for Fiscal Year 2017-18 are optimistic as well, for most of the reasons noted above. Retail sales have been up over the year prior early in 2017, and there does not seem to be any immediate slowdown ahead. That, of course, can change quickly. The prospect of major shifts in federal policy could impact the amount of money in consumers' pockets. So, too, could any unexpected increase in energy prices. Barring such an event, though, by most all accounts North Carolina seems set for another year of steady, moderate growth. The state's consensus revenue forecast for Fiscal Year 2017-18 projects 4.7 percent growth in sales tax revenues at the state level. **We expect that FY17-18 <u>statewide</u> local sales tax distributions will be 4.25 percent above FY16-17.**

As always, the League cautions readers of this projection that local conditions should dictate to what extent you adjust the statewide number for your particular jurisdiction. 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 amount that your county is gaining or losing sales tax revenue as a result of reallocation can be found in your monthly distribution reports from the Department of Revenue under the column heading "G.S. 105-524 Adjustments."

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 17-18 sales tax forecast year runs from the October 15, 2017 distribution through the September 15, 2018 distribution, reflecting July 2017 through June 2018 retail sales.[1]

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 2016-17.** 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 4.75 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.

[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]

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 2017-18.** 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 16-17 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 FY17-18 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, 2016, and July 1, 2017, 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 2017. **A change in the distribution method made by a county in April 2017 will become effective for the distribution made in July 2017. As a result, it will affect both your Fiscal Year 2016-17 and Fiscal Year 2017-18 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. Two years ago, 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. As it is an odd-numbered year, the State is again developing a two-year budget this year to cover the 2017-2018 biennium. The Senate – which is beginning the budget process this year – has not yet released its proposed budget. The League has not received any indication that Powell Bill funds would be increased or decreased in the Senate's budget proposal, so our best projection is that they will remain consistent at $147.5 million. Governor Roy Cooper included that figure in his recently released proposed budget, although the General Assembly is under no obligation to adopt that proposal. We appreciate the legislature's commitment to keeping Powell Bill funding steady at a time of declining gas tax revenues. If the General Assembly chooses to adjust the amount of Powell Bill funds in its budget, the League will let its members know.

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. Assuming the total amount of Powell Bill funds remains consistent at $147.5 million, and the state's municipal population increases at approximately the same rate as it did between the last two Powell Bill years, **we would project the per capita allocation for the FY17-18 Powell Bill distribution to be $19.74.** To estimate your expected population-based distribution, multiply this amount by your expected 2017 population. Your Certified 2015 Population Estimates (July 1, 2015 Estimates with July 1, 2016 Municipal Boundaries) can be found on the Office of State Budget and Management's Municipal Population Estimates page: https://www.osbm.nc.gov/demog/municipal-estimates. You should adjust your 2015 Certified Population to account for any annexations going into effect between July 1, 2016 and June 30, 2017.

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 FY17-18 Powell Bill distribution is $1,612.69 per street mile.** After calculating your estimated city-maintained street mileage as of July 1, 2017, 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

Collectively, cities experienced significant growth in revenue related to sales of electricity after a change in distribution method that began with the 2014-15 Fiscal Year. That is still the case – the most recent distribution was approximately 60 percent greater than the same quarter's final distribution under the old formula. However, prior to that most recent distribution, five straight quarters of double-digit revenue growth year over year had been followed by four straight quarters of decline.

The good news is that the most recent distribution represented an increase over the same quarter's distribution last year, albeit one of 2.3 percent. The League has confirmed with the Department of Revenue that there have been no significant utility refunds processed in recent months and there are likely to be no large refunds in the near future. It appears that the variability in recent revenues is most likely a function of consumption and price. As we note every year in this space, utility-related revenues are extremely weather-dependent. While heating and cooling days are not markedly decreased thus far in the fiscal year, the Energy Information Administration (EIA) reported a lower average price for electricity through the first six months of FY2016-17. This may have led to some of the revenue decline in the first three months of the year.

Nevertheless, based on historical distributions, electricity revenues are slightly ahead of last year's pace. That, combined with EIA projections for an increase in electricity rates, make us optimistic that revenues will finish the fiscal year at least not having declined from Fiscal Year 2015-16. As always, significant drops in temperature – and thus consumption – could impact this projection. But assuming that temperatures rise, or at least remain somewhat constant from last year, **we project that statewide electricity sales tax revenue for FY16-17 will increase by 1.0 percent.**

Similarly, the coming fiscal year's revenues will likely depend on weather and electricity prices as much as anything. Based on the experience of the last 5 quarters in particular, going forward it seems reasonable to temper expectations regarding growth in this revenue source. The EIA is predicting a moderate rise in both consumption and prices through calendar year 2017 and into 2018, despite the fact that it also projects fewer cooling degree days. Assuming continued growth in the economy, **we project that electricity sales tax revenue will increase by 2.0 percent in FY17-18.**

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

On a percentage basis, revenues related to natural gas sales have declined sharply under the new distribution formula. That trend shows no signs of slowing this fiscal year. Through two quarters, natural gas revenues were down more than 22 percent from the past fiscal year. Based on historical performance, if this trend were to continue, revenues for Fiscal Year 2016-17 would finish approximately 20 percent below total revenues from FY15-16.

There was a small adjustment in natural gas revenues for the first quarter distribution this year, but it was minimal enough as to not materially affect overall totals. Once again, weather and price are the most likely factors affecting this distribution. The EIA reported more heating degree days in North Carolina's region in November and December of last year. At the same time, though, the price of residential natural gas in December was reported to be $1.79 less per thousand cubic feet than in December 2015. Prices are projected to rise the remainder of the fiscal year. However, average temperatures for most of the first two months of the year have been above historical averages. There have been days already this year where the low temperature was above the day's historical average high temperature. Even with an increase in natural gas prices, this does not bode well for this revenue source. **We project the statewide FY16-17 distribution of natural gas sales tax revenues to municipalities to be 17.5 percent lower than in FY15-16.**

Some of the future projections provide reason for optimism in this revenue source. Long-term weather forecasts project more heating degree days in FY17-18 than FY16-17. The EIA projects a decrease in residential gas prices for much of FY17-18 but a concurrent increase in commercial and industrial prices. Continued population increase in the state and relatively strong economic conditions will help, but given the recent amount of these revenue distributions it is difficult to find reason to justify a significant reversal in their trends. **We project an additional decrease of 8.5 percent in natural gas sales tax revenues in FY17-18.**

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

Thus far in FY2016-17, telecommunications sales tax distributions are up nearly 8 percent over the previous year, but that figure is misleading. A refund effective for the second quarter in FY15-16 decreased that distribution, which has the effect of making the most recent quarter's distribution appear higher than it actually is in comparison to other recent distributions. That quarter's distribution was the first year over year growth in this revenue source in two years. Much of that decline is related to customers abandoning landline telephone service and going solely mobile. While that trend may level off at some point, there does not appear to be any indication that it is currently happening. Mobile penetration and engagement continues to increase among virtually all age levels. [A recent Gfk MRI survey] showed that 57 percent of households in the South have no landline telephone but do have a cell phone. In 2010, that figure nationwide was 26 percent.

Given those trends, we do not see any reason to project a turnaround in these revenues. Even considering the growth in the most recent distribution, **we expect that annual statewide telecommunications revenues for FY16-17 will decrease by 1.0 percent**. We expect these revenues to decline further next year. **We predict telecommunications taxes will decline by 7.0 percent in Fiscal Year 2017-18.**

For cities and towns **incorporated <u>before</u> 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 2016 and 2017 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.)

A combination of increased recycling in the state and a decrease in solid waste generated – particularly from the construction industry post-recession – had caused this revenue to decrease over a period of several years. However, there have been recent positive indicators. A strong finish to the last fiscal year led to a year over year growth in this revenue source. Through two quarters of this fiscal year solid waste disposal tax revenue is up even further. Given the recent construction activity in the state, **we expect total distributions for FY16-17 to increase 7.0**

percent from total distributions in FY15-16. Current indications are that positive revenue growth should continue into the next fiscal year, and **we project that revenues for Fiscal Year 2017-18 will increase 4.5 percent over FY16-17.** Because this revenue is distributed on a per capita basis, a particularly large annexation taking effect between July 1, 2016 and June 30, 2017, could justify projecting additional revenue growth for your municipality.

Local Video Programming Revenues

On an annual basis, video programming revenues have decreased year over year for four of the last five fiscal years. That trend may be stabilizing somewhat, though – of the last eight distributions, four have decreased from the previous year, and four have increased, including the first two of the current fiscal year. The most recent quarter's increase is attributable in part to coming 12 months after the same refund that affected telecommunications revenue, but even taking that refund into account it appears that the decline in revenues may have leveled off somewhat. That decline had been primarily attributable to cable TV customers "cutting the cord" in favor of streaming services. Most projections forecast a continued decrease in cable TV customers, although there is some indication of an increasing popularity for more streamlined cable packages. Taking last year's refund into account, **we expect that the statewide annual distribution will increase by 2.5 percent in Fiscal Year 2016-17 levels.** Based on performances in recent quarters, we project that while future revenues may still decline, the decrease will be more moderate than in recent years. **We expect that video programming revenues will decrease by 1.0 percent in Fiscal Year 2017-18.** 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 2016 and 2017 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 FY16-17 is approximately $27,587, and it is expected to remain relatively constant in FY17-18, 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 2017 certification forms will be available on the Department of Revenue website here: http://www.dornc.com/downloads/property.html.

Beer and Wine Taxes

Beer and wine sales taxes are distributed from the Department of Revenue 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 60 days of March 31. Prior to last year, collections of alcoholic beverage taxes at the state level had served as a reasonable proxy for the amount of revenue distributed to local governments. However, despite collections of that tax increasing in Fiscal Year 2015-16, the amount distributed to local governments decreased by more than 6 percent from the previous year. State alcoholic beverage tax collections through the end of February were up nearly 5 percent over the previous year, but DOR officials have indicated to the League that beer and wine sales tax distributions for the current fiscal year will be similar to those of last year. With that in mind, **the League is projecting no increase or decrease in beer and wine distributions to local governments in Fiscal Year 2016-17 as compared to FY15-16.** We are optimistic that a continued strong economy and population growth in the state will eventually translate into year over year increases in this revenue source, and **we project a 1.0 percent increase in these revenues in Fiscal Year 2017-18.** 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 28 by the State Demographer (N.C. Office of State Budget and Management); notify the Demographer if you do not receive the survey by July 7; and return it by the deadline.

Please note: OSBM may distribute this survey via email this year, so it is important that they have updated email addresses for those in your municipality who receive this survey. Email Assistant State Budget Officer Anca Grozav at Anca.Grozav@osbm.nc.gov with any email address updates.

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. More information on the federal BAS can be found at https://www.census.gov/programs-surveys/bas/information/annual-response.html.

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.