Projections for State-Collected Local Government Tax Revenue

*FY 18-19 & FY 19-20*

Prepared by:
Caitlin Saunders, Research Strategist
Chris Nida, Director of Research & Strategic Initiatives
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1 EXECUTIVE SUMMARY

This document summarizes and analyzes state-collected taxes distributed to local governments each year and provides a forecast of these revenue sources for the remainder of the current fiscal year (2018-2019) and the upcoming fiscal year (2019-2020). All statewide projections for each tax revenue source are summarized in the table below, and hyperlinked to the corresponding memo section, for your convenience. More information on the recent legislative history and distribution formulas for each tax below can be found in our Basis of Distribution Memo.

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

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Projected Change from FY17-18 to FY18-19</th>
<th>Projected Change from FY18-19 to FY19-20</th>
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<tbody>
<tr>
<td>Sales and Use Tax</td>
<td>5.1%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Electricity Sales Tax</td>
<td>4.8%</td>
<td>1.5%</td>
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<tr>
<td>Local Video Programming Tax</td>
<td>-1.3%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Telecommunications Sales Tax</td>
<td>-3.3%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Piped Natural Gas Sales Tax</td>
<td>-18.3%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Solid Waste Disposal Tax</td>
<td>4.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Alcoholic Beverages Tax</td>
<td>2.1%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

1.1 PROJECTION TIME FRAME

The Local Government Commission (LGC) encourages the use of a 90-day accrual period to meet GASB 33 measurement focus requirements (See “Memo #1015 ‘Recognition of Sales Tax and Other Revenues at Year-End’”). As a result, this report assumes that each municipality accrues the monthly sales tax and quarterly utility distributions received in mid-September to the prior fiscal year. 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 beginning with the collection quarter ending in September, and stopping 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.
1.2  CAUTIONARY NOTE

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

Estimates included in this document should be used only as a rough guide in preparing your Fiscal Year 2019-20 proposed budget. Estimates should be modified as necessary to fit your local situation, its actual trends, and your own assumptions about the effects of economic and political factors. Revenue estimates are always subject to error and may fluctuate widely based on unpredictable factors such as weather conditions and policy changes. Our goal is to provide municipalities with a reasonable projection of where State-collected revenues are heading.

These estimates also assume that the General Assembly will make no changes in 2019 to the formulae that govern municipal shares of State-collected revenue. Please continue to pay close attention to the League’s Legislative Bulletins throughout the session for updates on the state of any legislation. If our revenue estimates change materially prior to July 1 due to economic circumstances or legislative action, we will advise you of the changes.

1.3  QUESTIONS AND CONTACTS

Any questions related to this document should be directed to Caitlin Saunders, Research Strategist, or Chris Nida, Director of Research & Strategic Initiatives. 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, Anca Grozav and Michael Cline with the North Carolina Office of State Budget and Management, and Cindy Matthews and Ernest Irving of the North Carolina Department of Revenue for their assistance in preparing this document.
2 OVERVIEW OF ECONOMIC CONDITIONS

The economic outlook at the time of this year’s annual revenue forecast is much the same as it has been for all recent revenue forecasts. Indicators continue to point toward slow, steady economic growth for North Carolina in the coming months. Talk about fears of a coming recession has grown somewhat louder since this time last year, but the bulk of the currently available data does not seem to indicate that a slowdown is imminent.

At a fundamental level, part of the reason recession speculation has increased seems to be that it’s been an additional year since the last recession. The economy has continued to grow over the last 12 months. If the expansion continues through mid-year, it will mark the longest such sustained period of growth on record. January’s jobs report marked 100 consecutive months of job growth in the United States. North Carolina’s seasonally adjusted job growth in January was the best in the entire country. This included a 2.8 percent increase in construction employment.

The increase in construction employment reflects a generally strong housing market in N.C., which is a key indicator we look toward when analyzing sales tax trends. Based on the most recent data collected by the Federal Reserve Bank of Richmond, private housing starts in the United States had declined by over 14 percent from the same period 12 months ago (see p.5). However, in North Carolina, housing starts were up 5.56 percent (see p.5). Housing price data varied between the state’s metropolitan statistical areas, but all were positive year over year, leading to an overall 4.2 percent growth in North Carolina’s housing price index (see p.6). For the 4th quarter of 2018, the U.S. housing price index grew by 6.0 percent, while N.C. was up 7.5 percent. One negative point of data was single-family home building permits in N.C., which declined 5.3 percent between January 2018 and 2019.

The primarily positive housing data was consistent with the state’s labor numbers. North Carolina’s unemployment rate (see p.3) remained under 4 percent in January, below that of the country as a whole. Total payroll employment increased by 1.7 percent in the state in January. Both wages and salaries and real personal income (see p.4) grew year over year for the third quarter of 2018, outpacing national growth in both instances.

These indicators and more contribute to N.C. forecasters projecting continued economic growth in the coming year. Dr. Michael Walden’s Index of North Carolina Leading Economic Indicators declined following Hurricane Florence and has not yet fully recovered, but it ticked upward in January, leading Dr. Walden to write that “the upward movement in the Index since October suggests economic growth continues to be in North Carolina’s future.” Dr. John Connaughton at the University of North Carolina-Charlotte has a similar prediction. In his latest Economic Forecast, Dr. Connaughton predicts that N.C. Gross State Product (GSP) will finish 2018 with growth of 2.6 percent and will grow another 3.3 percent above that level in 2019. Of import to N.C. local government revenues, he predicts that two of the top economic sectors for 2019 growth will be construction (4.8 percent) and retail trade (4.5 percent).

There is similar optimism in the national retail sector. Sales data from December 2018 was surprisingly low, leading some to wonder whether the federal government shutdown had an impact on the quality of the data. But sales data rebounded in January, and overall the National Retail Federation is still calling for between 3.8 and 4.4 percent growth in retail sales during the calendar year of 2019. The consensus...
revenue forecast for the State of North Carolina projects 5.3 percent growth in sales tax for the coming fiscal year (followed by 4.6 percent growth the year after).

With all this positive data, why the talk of a recession? Even the Governor’s budget, which projects the sales tax increases mentioned above, spends an entire page discussing whether a recession is on the horizon (see p.34). That includes discussion of the flattening yield curve, which the League cited in its June 2018 Revenue Report. The flattening of that curve has preceded previous recessions, though some research has explored whether current conditions may contribute to the flattening of the curve without an increasing chance of a recession. More recently, the Federal Reserve indicated that it was unlikely to raise interest rates this year, revising its overall economic growth forecast down to 2.1 percent.

Much of the concern is based on expert sentiment, and while it may be growing, the recession speculation primarily centers on 2020 and beyond. The League’s most recent Revenue Report cited the Duke University CFO survey in which 48.6 percent of respondents expressed belief that the U.S. would be in a recession by the end of 2019, and 82 percent believed that a recession will have begun by 2020. The National Association for Business Economics’ most recent Economic Policy Survey found that more than 75 percent of its panelists expected the U.S. to enter a recession by the end of 2021. The UCLA Anderson Forecast is also forecasting weaker future economic growth, citing many of the global concerns – including current U.S. trade policies and the uncertainty surrounding Brexit – others have indicated are contributing to future pessimism. More locally, the Business Activity Indexes for General Business Conditions and Sales were up to 4 and 17, respectively, in the most recent Carolinas Survey of Business Activity. This represents an improvement from negative indexes in the previous two months, but is an overall decline from where the index was one year ago.

All this to say, while the drumbeat around a potential recession may be growing louder, there does not seem to be any immediate concern (with the obvious caveat that global and local circumstances can change unexpectedly at any time). Our revenue projections in this document reflect the sentiment of all that was outlined above – the short-term prognosis for the economy, and, in turn, local revenues affected by the economy, are relatively positive. The longer term remains more uncertain.
3 STATE-COLLECTED GOVERNMENT TAX REVENUE PROJECTIONS

3.1 SALES AND USE TAX
Of the taxes distributed to local governments by the state, sales and use taxes make up the largest amount of revenue received. Local sales taxes are divided into different Articles, though not all are levied by every county. This report focuses mainly on Article 39 sales tax distributions. Article 39 tax is charged in every locale and distributed to counties based on where the Article 39 sale occurred. Because of this, Article 39 sales tax revenue trends perhaps best reflect the general trends in local government sales tax revenue.

For the past five fiscal years, Article 39 sales tax distributions have seen positive growth each year. Figure 1, below, shows that although the growth rate declined in FY15-16 and FY16-17, it ticked back up to 5.53 percent in FY17-18.

FIGURE 1

Annual Article 39 Sales Tax Distribution (Y-O-Y Change)
So far in FY18-19, each monthly distribution has exceeded prior years, except for August, which was 1.34 percent below August in FY17-18 (See Figure 2). The remaining months’ growth ranged from two to 11 percent. The Article 39 tax total for the first six months of this fiscal year is $782,473,171.22. This amount is 4.58% higher than the same period last fiscal year (See Figure 3).

**Figure 2**

Monthly Article 39 Sales Tax Distribution

**Figure 3**

Article 39 Sales Tax Distributions (% Change From Same Month Last Year)
Through the first half of FY18-19, combined Article 39 and 40 revenue was not uniform across the state, but it was positive in 93 of 100 North Carolina counties. In 25 of these counties, the increase exceeded six percent. The map in Figure 4 below shows the FY18-19 year-to-date trends in combined Article 39 and 40 sales tax distributions, by county. Counties in red are experiencing a decrease, counties in light green are experiencing an increase, and counties in dark green are experiencing an increase greater than six percent. This map illustrates how local trends can vary dramatically from the statewide trends observed.

**FIGURE 4**

Each County's % Change in Article 39 & 40 Distributions Received (FY 18-19 Year-to-Date)

Aside from economic conditions, one major factor affecting local variation in sales tax distributions is the amount of refunds processed during a particular time period. Table 1 below shows the total refunds each month so far this fiscal year, compared to refunds in the same month last fiscal year. The unpredictable timing of when tax-exempt entities file for refunds results in high volatility in the amount of sales tax taken out of total distributions each month. Refunds were up 145 percent in August and 225 percent in December. Overall, they are up nearly 37 percent compared to this time last year.

**TABLE 1**

<table>
<thead>
<tr>
<th>Date</th>
<th>Refund_This Period</th>
<th>Refund_Last Period</th>
<th>Refund % Change From Last Year</th>
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</thead>
<tbody>
<tr>
<td>August 2018</td>
<td>$36,619,923.00</td>
<td>$14,967,259.49</td>
<td>144.67%</td>
</tr>
<tr>
<td>September 2018</td>
<td>$27,469,332.41</td>
<td>$21,988,838.72</td>
<td>24.92%</td>
</tr>
<tr>
<td>October 2018</td>
<td>$28,522,400.52</td>
<td>$21,022,497.58</td>
<td>35.68%</td>
</tr>
<tr>
<td>November 2018</td>
<td>$32,791,095.41</td>
<td>$28,627,128.09</td>
<td>14.55%</td>
</tr>
<tr>
<td>December 2018</td>
<td>$5,740,796.23</td>
<td>$1,766,347.16</td>
<td>225.01%</td>
</tr>
<tr>
<td>January 2019</td>
<td>$26,721,918.88</td>
<td>$26,972,691.69</td>
<td>-0.93%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$157,865,466.45</strong></td>
<td><strong>$115,344,762.73</strong></td>
<td><strong>36.86%</strong></td>
</tr>
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</table>

This fiscal year to date, sales tax refunds were 8 percent of gross collections, compared to only 6 percent of gross collections at this point last year (See Figure 5).
The legislature’s Fiscal Research Division and the Office of State Budget and Management point out in this year’s consensus revenue forecast that, for the first seven months of FY18-19, state Sales and Use tax gross collections are actually 1.5 percent above their previously forecasted 5.0 percent growth. This forecast adjustment is attributed to an increase in online sales tax collected. A June 2018 Supreme Court ruling (South Dakota v. Wayfair, Inc.) now gives the state the authority to require online retailers without a physical presence in the state to collect and remit sales taxes.

Unfortunately, net sales tax collections (with refunds, distributions, and transfers taken out) did not fully reflect this increase due to the high refunds so far this fiscal year. According to the Fiscal Research Division, refunds in August were $70 million higher than projected, and included refunds that had been expected back in June.

With this taken into account, the growth seen in FY17-18 was probably slightly high, and the growth seen so far this year is slightly low. Because of the Wayfair decision, the Fiscal Research Division predicts $125 million in additional sales tax revenue statewide for FY19-20. As a result, their prediction is for sales and use tax collections to increase at the state level by 5.3 and 4.6 percent for FY18-19 and FY19-20, respectively.

As noted in the Economic Overview earlier in this report, near-term economic projections are generally positive. Taking that into account, along with the additional internet sales tax and high refunds affecting distributions so far this year, we expect that FY18-19 statewide sales tax distributions to local governments will finish 5.1 percent above FY17-18 distributions.

Growth is predicted for next year as well, although as noted in the Economic Overview, there is growing concern of a slowdown. We expect that FY19-20 statewide local sales tax distributions will be 4.5 percent above FY18-19.
3.1.1 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 2019. A change in the distribution method made by a county in April 2019 will become effective for the distribution made in July 2019. As a result, it will affect both your FY18-19 and FY19-20 sales tax revenues.

3.1.2 Sales Tax/City Hold Harmless Calculator
Again, the League cautions readers that local conditions dictate to what extent you should adjust the statewide number for your particular jurisdiction. The League’s sales tax calculator can help project your sales tax growth independent of the sales tax reallocation in G.S. 105-524. The amount of your county’s adjustment to its 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.”

The League’s sales tax calculator spreadsheet can be found on the NCLM State-Collected Revenue Projections page of our website. 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 2018-19.** 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 5.1 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 FY19-20.** 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 FY18-19 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 FY19-20 sales taxes. For ad valorem counties, a large tax increase or decrease by another unit of government in your county for FY18-19 may result in a change in your percentage for the FY19-20 allocations. For per capita counties, an annexation of population by your municipality or by another in the county, effective between July 1, 2018, and July 1, 2019, may change your municipality’s percentage.
3.2 Utility Sales Taxes
For the purpose of electricity, telecommunications, natural gas, and video programming quarterly distributions, we assume that the fiscal year accrual begins with the distribution received by local governments in December. (This is synonymous with the distribution covering DOR’s “collection quarter” ending in September.) The League has confirmed with the Department of Revenue that there have been no significant utility tax refunds processed in recent months, and there are likely to be no large refunds in the near future. See the League’s Basis for Distribution Memo for the recent history of how this revenue is distributed.

3.2.1 Electricity Sales Tax
During FY14-15, cities experienced significant growth in electricity tax revenue following a legislative change to the distribution method. As shown in Figure 6 below, the total amount distributed each year has gone both up and down since FY14-15, but saw a 1.47 percent increase in FY17-18. The increase is either a function of increased consumption, price, or both. Unfortunately, the most recent revenue and consumption data for electric utilities in N.C. is from calendar year 2017, which only covers half of FY17-18.1 In 2017, N.C. electric utilities’ revenue decreased by 3.8 percent, and megawatt hours sold decreased by 2.2 percent, but the count of customers increased by 1.4 percent. This data only aligns with the first half of FY17-18, but may have contributed to relatively low growth experienced over the course of the year.

As for price, the all-sector average for FY17-18 was 9.195 cents per kilowatt-hour, which was 1.24 percent higher than the average price in FY16-17. This would indicate that an increase in electricity price played the bigger role in FY17-18 growth.2

![Electricity Sales Tax (Y-O-Y Change)]

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1 Annually, electric utilities report revenue, sales, and customer count to the Energy Information Administration (EIA) through Form EIA-861.
2 Quarterly average electricity prices, by state and sector are also available through the Energy Information Administration’s Electricity Data Browser.
The first two quarterly distributions for FY18-19 (for the DOR collection quarters ending in September and December) were 3.9 and 13.7 percent higher than the first two quarters the previous year (see Figure 7). The electricity sales tax total for the first six months of this fiscal year was $174,144,511.74, an increase of 8.2 percent over the same period last year.

The all-sector average electricity price for the first two quarters of FY18-19 was 9.435 cents per kilowatt-hour, which is a 3.3 percent increase over the average price from the same period last year, thus likely a contributing factor in revenue growth so far this year. As far as electricity consumption, weather is likely the largest contributing factor. The total number of cooling degree days (an indicator of cooling-related electricity demand) for the first quarter of FY18-19 was 4.6 percent higher than the same quarter in 2017, according to data from the National Centers for Environmental Information (See Figure 8). Therefore, both price and consumption appear to be up for the current fiscal year thus far.

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

**Figure 7**

Electricity Sales Tax Quarterly Distribution (Y-O-Y Change)
Looking forward, the Energy Information Administration (EIA) projects electricity price increases roughly two percent in the South Atlantic region between mid-calendar year 2018 through the start of 2020 (See Figure 9). EIA projections also show that electricity sales are expected to decrease for all sectors, from mid-calendar year 2018 through the start of 2020 (See Figure 10).

**Figure 8**

Cooling Degree Days During Each Fiscal Year Q1

**Figure 9**

EIA SOUTH ATLANTIC ELECTRICITY PRICE PROJECTIONS, INDEXED TO 2017

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Source: U.S. Energy Information Administration
Electricity tax distributions so far this year are ahead of last year’s pace. Based on data since 2014’s distribution policy change, and considering further projected average price increases this fiscal year, we project that statewide electricity sales tax revenue for FY18-19 will increase 4.8%.

Similarly, the coming fiscal year’s revenues will depend on weather (and consumption in general) and electricity prices. While long-term industry predictions indicate increased energy efficiency leading to a decrease in consumption, North Carolina’s population (and its electricity customer base) continues to increase. We continue to expect slight growth in this revenue source, and project that electricity sales tax revenue will increase by 1.5 percent in FY19-20.

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

Unlike electricity tax, natural gas tax revenues declined sharply under the new distribution formula that went into effect in FY14-15. In the years since, natural gas tax revenue has increased each year, though it still remains below annual totals prior to the formula change. The annual distribution for FY17-18 was 27.8 percent higher than FY16-17. (See Figure 11)

**Figure 11**

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

Quarterly distributions for natural gas sales tax revenue vary dramatically throughout the year, with the highest distribution typically received in June (which covers DOR collections during the quarter ending in March) (See Figure 12). While the September 2018 distribution was up 21 percent, the December distribution was only up 3.51 percent. Combined, the first two quarterly distributions of FY18-19 totaled $5,544,991.3, which was 9.9 percent higher than the same period last year.

Despite growth, 9.9 percent is much less than the 23 percent increase experienced for Q1 and Q2 last fiscal year (2017-18). Like electricity taxes, price and consumption (largely driven by weather) are the main factors affecting piped natural gas tax distributions. Piped natural gas distributions are very highly correlated with the number of heating degree days each quarter (See Figure 13). In fact, during the first two quarters of FY18-19, heating degree days were up 9.85 percent, while the first two quarters of FY17-18 heating degree days were up 22.8 percent – percentages nearly identical to the percent changes in the distribution amounts for those two periods.
On average, the first two quarters of the fiscal year represent only about 30 percent of the annual total distribution for piped natural gas tax. Growth each year depends mainly on the distributions during the second half of the year. As described earlier in the electricity tax section, temperatures in November, December and January will affect the natural gas consumption seen in the next distribution (covering tax collected during the third quarter ending in March). This year, the heating degree days for the months included in the next distribution are down 19 percent (see Figure 14).
Due to the large decrease in the number of heating degree days, and because of last year’s high growth, we project an 18.3 percent decrease in the total statewide FY18-19 distribution of natural gas sales tax revenues to municipalities.

High volatility in distribution amounts over the past few years, coupled with such a strong correlation with unpredictable weather patterns, make forecasting the next fiscal year highly uncertain. Based on trends since the distribution change went into effect in 2014, we project a 1.3 percent decrease in natural gas sales tax revenues in FY19-20.

Similar to electricity, because any future adjustments to this distribution will be made based on statewide property tax levies, it will not be affected by any changes in current users of natural gas in your town or on any population gains or losses you experience.
3.2.3 Telecommunications Sales Tax
Annual totals for telecommunication sales tax distributions have declined every year since Fiscal Year 2008-09, though to varying degrees. The total distribution for the most recent fiscal year (2017-18) was 8.3 percent lower than the prior fiscal year (2016-17) (See Figure 15).

**Figure 15**

The September 2018 quarterly distribution was down 4.5 percent from the same quarter last year, and the December 2018 quarterly distribution was down 8.7 percent from the same quarter last year. The total amount distributed for these first two quarters was $21,621,513.20. This amount is down 6.6 percent compared to the same period the previous year (See Figure 16).

**Figure 16**
Much of the decline is related to customers abandoning landline telephone service for mobile telephone service. Mobile penetration and engagement continue to increase among virtually all age levels. The CDC’s [2018 National Health Interview Survey](https://www.cdc.gov/nchs/nhis/) showed that more than one-half of American homes have only wireless telephones, and more than 75 percent of adults aged 25-34 live in wireless-only households.

Given this continuing trend, we expect that annual statewide telecommunications revenues for FY18-19 will decrease by 3.3 percent. We expect these revenues to decline further next year. We predict telecommunications taxes will decline by 3.9 percent in FY19-20.

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 2017 and 2018 Certified Population estimates will affect distributions.

### 3.2.4 Local Video Programming Tax

Annual total video programming distributions have seen both growth and decline year-over-year in the last five fiscal years, though the overall trend is downward (See Figure 17) The overall decline is primarily attributable to cable TV customers “cutting the cord” in favor of streaming services. For FY17-18, there was a 2.6 percent decrease in video programming tax distributions.

![Figure 17](image-url)
The September and December 2018 quarterly distributions were down 4.4 and 1.2 percent, respectively. These first two quarterly distributions of FY18-19 totaled $36,566,984.62 -- down a combined 2.9 percent from FY17-18 (See Figure 18).

**FIGURE 18**

We expect that the statewide annual distribution will decline by 1.3 percent in FY18-19. Based on performance in recent years, we project that future revenues will also decline, though at a slightly slower rate. **We expect that video programming revenues will decrease by 0.1 percent in FY19-20.**

While this distribution is not based directly on population, population change is a factor in the annual distribution formula. As a result, growth or decline in population between the 2017 and 2018 [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. These funds must be provided to the organization that operates the channel. The amount per channel for FY18-19 is approximately $27,027. Factors that affect PEG funding include the total number of PEG channels and any returns of PEG channel money. We do not expect these factors to change materially in FY19-20.

To receive supplemental PEG channel funds, **you must certify your PEG channels to the Department of Revenue each year by July 15.** The 2019 certification forms will be available on the Department of Revenue website here: [https://www.ncdor.gov/documents/tr-peg-cable-peg-channel-certification](https://www.ncdor.gov/documents/tr-peg-cable-peg-channel-certification).
3.3 **Solid Waste Disposal Tax**

The State levies a $2 per-ton “tipping tax” on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state, or transferred at a transfer station for disposal outside the state. Cities and counties receive 18.75 percent of the tax, and revenues are distributed on a per capita basis. Two of the past five years have seen over 5 percent growth in this distribution. However, FY17-18 experienced only 0.2 percent growth (See Figure 19)

**Figure 19**

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

So far this year, the September and December quarterly distributions rose by 3.8 and 6.4 percent. These first two quarterly distributions of FY18-19 totaled $4,154,642.70, which is a 5.1 percent increase over the same period last year. (See Figure 20) The health of construction sector tends to be a contributing factor to solid waste revenue, and as mentioned earlier in the Economic Overview section of this report, housing starts in North Carolina were up 5.56 percent in December over the year prior.
The first two quarters of this distribution represent 53 percent of the annual total, on average. Therefore, with the current 5.1 percent growth, we expect this to be a higher growth year for this revenue source than last year. **We expect total distributions for FY18-19 to increase 4.0 percent from total distributions in FY17-18.** Taking into account historical data as well as economic forecasts for the upcoming fiscal year, **we project that solid waste tax distributions for FY19-20 will increase 0.4 percent over FY18-19.**

Because this revenue is distributed on a per capita basis, a particularly large annexation taking effect between July 1, 2018 and June 30, 2019, could justify projecting additional revenue growth for your municipality.
3.4 **Alcoholic Beverages Tax**

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

At the time of this report, the 2019 alcoholic beverage tax distribution has yet to be released. The Department of Revenue was unable to provide any indication of anticipated growth or decline this year. Each fiscal year the total distribution has varied and seen both growth and decline, though with a general upward trend. The most recent fiscal year distribution (2017-18) totaled $38,859,777, which was a decrease of 1.7 percent compared to the previous year. Growth in this distribution is dependent on the proportion of beer and wine sold in North Carolina, which are taxed in different amounts. An excise tax of 61.71¢ per gallon is levied on the sale of beer. An excise tax of 26.34¢ per liter is levied on the sale of unfortified wine, and an excise tax of 29.34¢ per liter is levied on the sale of fortified wine.

During the 2018 legislative session, the “brunch bill” (**S.L. 2017-87**) was passed, which allows local governments to permit the sale of alcohol on Sunday mornings beginning at 10 A.M. This legislative change, along with a strong economy this past year, as well as historical trends, lead us to project a **2.1 percent increase in the upcoming 2018 distribution.** Based on long-term speculation of an economic slow-down, and assuming no further legislative change, **we would expect the 2020 distribution to see a slower rate of growth of 1.0 percent.** Because these distributions are based on population, it is important to incorporate factors like annexations or de-annexations during the fiscal year into your municipality’s projection.

A number of changes to the state’s system of alcoholic beverage sales are currently being discussed in the General Assembly. The League will continue to update municipalities on these changes and how they may affect future revenue in our quarterly Revenue Reports.
3.5 POWELL BILL

Beginning three years ago, the General Assembly began appropriating state dollars for Powell Bill funds, rather than the previous method of basing distribution on a percentage of gas tax revenue. In 2018, the General Assembly maintained an appropriation of $147.5 million to the Powell Bill program for the 2018-19 fiscal year. Budget discussions are currently underway at the General Assembly. For the purposes of this memo, we are assuming that the Powell Bill appropriation from the state will be held constant at $147.5 million. 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.

Of the total annual distribution of Powell Bill funds, 75 percent is allocated among eligible cities based on 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 has over the last five years, **we would project the per capita allocation for the FY18-19 Powell Bill distribution to be $19.33.** To estimate your expected population-based distribution, multiply this amount by your expected 2018 population. Your Certified 2017 Population Estimates (July 1, 2017 Estimates with July 1, 2018 Municipal Boundaries) can be found at the bottom of the Office of State Budget and Management’s Municipal Population Estimates page: [https://www.osbm.nc.gov/demog/municipal-estimates](https://www.osbm.nc.gov/demog/municipal-estimates). You should adjust your 2017 Certified Population to account for any annexations going into effect between July 1, 2018 and June 30, 2019.

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 FY18-19 Powell Bill distribution is $1,591.15 per street mile.** After calculating your estimated city-maintained street mileage as of July 1, 2019, multiply that figure by the per-mile rate to calculate your city’s total street mile allocation.
4  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 is no longer required.

In addition, your municipality should respond to the Annexation Survey included as part of the State Demographer’s annual North Carolina Demographic Survey (NCDS), which can be found online at [https://ncds.osbm.nc.gov/](https://ncds.osbm.nc.gov/). In addition to information about annexations, the survey includes questions on group quarters and residential building activity. A letter will be mailed to all municipalities in the first part of May to confirm the current municipal point of contact for completing the annual survey. An e-mail will then be sent to the designated point of contact for each municipality by June 28th directing them to the online survey. The **Certified Population Estimates** – the estimates used for revenue distributions – include population living in areas annexed on or before July 1, 2019. The State Demographer cannot include these populations if the annexations have not been reported through the survey.

Please remember, you will receive **two** boundary and annexation surveys, one from the State (June 28 – described above) and one from the federal government (in January); **both must be completed.** Completing just one survey will not provide the information for the other. More information on the federal BAS can be found at [https://www.census.gov/programs-surveys/bas.html](https://www.census.gov/programs-surveys/bas.html).
5 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 – Ginny Upchurch, Director, Sales and Use Tax Division, (919) 814-1085.

- 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 – George Hermene, Information Unit, (919) 814-1129.

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

- To change the email address at which you receive notification of distributions – Kathy Robinson, Financial Services Division, (919) 754-2525. If you have failed to receive an email notification of your distributions, do not contact DOR, but instead call the Office of the State Controller at (919) 707-0795.