Projections for State-Collected Local Government Tax Revenue

FY 20-21 & FY 21-22

Prepared by:
Tammy DePhillip, 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 (2020-2021) and the upcoming fiscal year (2021-2022). All statewide projections for each tax revenue source are both 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 listed 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 FY19-20 to FY 20-21</th>
<th>Projected Change from FY20-21 to FY21-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Use Tax</td>
<td>+13.5%</td>
<td>+2.5%</td>
</tr>
<tr>
<td>Electricity Sales Tax</td>
<td>-1.0%</td>
<td>+1.25%</td>
</tr>
<tr>
<td>Local Video Programming Tax</td>
<td>0.0%</td>
<td>-1.25%</td>
</tr>
<tr>
<td>Telecommunications Sales Tax</td>
<td>+3.5%</td>
<td>-9.5%</td>
</tr>
<tr>
<td>Piped Natural Gas Sales Tax</td>
<td>+9.75%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Solid Waste Disposal Tax</td>
<td>-3.6%</td>
<td>+1.5%</td>
</tr>
<tr>
<td>Alcoholic Beverages Tax</td>
<td>+2.5%</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’](#)”). Because the revenues governments receive in September are derived from sales through June, we consider them to be from the previous fiscal year, corresponding to when the transaction took place. This report considers the following data to be included in a “fiscal year” of revenue:

- DOR monthly distribution data for collection months August through July
- DOR quarterly distribution data 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 2021-22 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, policy changes, and, this year, a global pandemic. 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 2021 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 **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, Bob Coats, and Michael Cline with the North Carolina Office of State Budget and Management, Barry Boardman with the N.C. General Assembly’s Fiscal Research Division, and Cindy Matthews Wilkes and Ernest Irving with 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 largely focused on the recovery from COVID and a transition to a post-COVID era. The immediate health crisis will hopefully dissipate over the next year, but the potential longer-term and widespread economic impacts are still unknown. There is optimism of early signs of recovery, but the reality will be complicated as different sectors adjust to the next “new normal.”

The American Rescue Plan (ARP) will provide $5.6 billion in state fiscal relief and $1.35 billion earmarked for North Carolina cities and towns. Funding can be spent through 2024 and we are hopeful that the funding will be transformational for our members. We expect further guidance and clarification on expenditures these funds are eligible to be used for to be forthcoming from the U.S. Treasury and others in the coming weeks and months. NCLM will share information as it is known at arp.nclm.org. There are currently and will continue to be restrictions on how these funds can be spent, though, and recurring needs are not intended to be permanently funded through one-time dollars such as those allocated by the ARP, so state-collected local revenues will remain crucial in cities’ and towns’ ability to meet the needs of their citizens.

A January 2021 report from the NC Department of Commerce shows that job openings have returned to pre-pandemic levels, but the number of employed North Carolinas has yet to fully recover. Total January payroll employment in the state decreased by 4.1 percent from the prior year. Wages and salaries grew year over year for the third quarter of 2020, outpacing national growth, while growth of real personal income (see p.4) was slower than national growth.

North Carolina’s unemployment rate (see p.3) was 5.9 percent in January, exceeding the prior year rate of 3.5 percent. The Federal Reserve System cautioned that unemployment data excludes millions of people who have left the workforce since the beginning of the pandemic, misrepresenting the severity of impact the labor market has experienced. Following the rest of the nation, North Carolina leisure and hospitality services were hardest hit by the pandemic, with a reported job loss of 16 percent since February 2020. Wells Fargo anticipates labor force growth in the spring and summer as businesses re-open and pull job seekers back into the workforce.

A National Association of Business Economics recent survey of professional macroeconomic forecasters shows optimism in national GDP growth, but 59 percent of respondents expect nonfarm payrolls to be lower than pre-COVID-19 levels until 2023 or later. Many jobs adapted to accommodate public health restrictions and those changes can be permanent. Of unemployed adults who responded to recent survey from Pew Research Center, 66 percent have seriously considered a change in occupation or field of work in response to market changes. With the potential for some low-wage jobs not returning, more job training may be needed for many in the workforce.

The current housing market can be defined by delayed new construction and low inventory of existing homes. Based on the most recent data collected by the Federal Reserve Bank of Richmond, private housing starts in the United States had declined by 2.3 percent from the same period 12 months ago (see p.5). In North Carolina housing starts were down 1.5 percent (see p.5). Single-family home building
permits across the state, which typically lead housing starts by two to three months, increased 24.3 percent between January 2020 and 2021.

The number of houses on the nationwide real estate market is low, driving up the price of home sales. Housing price data varied between the state’s metropolitan statistical areas, but all were positive year over year, leading to an overall 9.5 percent growth in North Carolina’s housing price index (see p.6). For the 4th quarter of 2020, the U.S. housing price index grew by 6.0 percent, while North Carolina was up 6.6 percent.

These indicators and more contribute to North Carolina forecasters projecting continued economic growth in the coming year. Dr. Michael Walden’s Index of North Carolina Leading Economic Indicators dropped due to a spike in COVID cases in the winter, affecting unemployment claims, building permits, and manufacturing earnings. However, Dr. Walden predicts that the drop is temporary and that vaccination rates will accelerate economic growth as restrictions are eased. In his latest Economic Forecast, Dr. Connaughton at the University of North Carolina-Charlotte predicts that North Carolina Gross State Product (GSP) will finish 2020 with a decrease of 2.6 percent but will grow 5.1 percent above that level in 2020. Of importance to North Carolina local government revenues, he predicts that construction (3.6 percent) will grow slower than overall GSP, while retail trade will outpace overall growth at 6.7 percent.

A third round of stimulus checks are being received by 89 percent of North Carolina adults through the American Rescue Plan. The Census Bureau’s Household Pulse Survey reports that about 13 million adults nationwide are uncertain of their ability to pay their next month’s rent or mortgage. An estimated 35 percent of North Carolina adults report difficulties in covering normal household expenses. Households without an income disruption over the past year experienced an increase in personal savings as consumers cancelled vacations and stayed out of restaurants.

March 2021 consumer spending in North Carolina has increased 3 percent compared to January 2020 (see consumer spending chart). As of December 2020, retail sales are $902.2 million higher over the prior year. Consumer spending is expected to experience a strong but unequal recovery among age and income groups, with low-income groups spending less as stimulus measures expire. The spending habits of consumers has changed, possibly for good. McKinsey Global Institute predicts that online grocery shopping, virtual healthcare visits, and spending on at-home living is here to stay. Consumer behaviors expected to revert to pre-pandemic patterns are remote learning, vacationing, and live entertainment.
3 STATE-SHARED TAX REVENUE PROJECTIONS

3.1 SALES AND USE TAX

3.1.1 Overview of NC Sales Tax Distribution
Sales and use taxes make up the largest amount of tax revenue that the state distributes to local governments in North Carolina. In fact, for the median North Carolina municipality, 28 percent of municipal revenue is sales tax. Local sales taxes are authorized as different “Articles” in statute. Not all Articles are levied by every county. For an overview of every sales tax article and how it is distributed, see our Basis of Distribution Memo.

In addition to the state’s distribution calculations, distribution methods can vary by county as well. 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 2021.

A change in the distribution method made by a county in April 2021 will become effective for the distribution made in July 2021. As a result, it will affect both your FY20-21 and FY21-22 sales tax revenues.

3.1.2 Sales Tax Projection
At this time a year ago, the future of local sales tax revenues was even more uncertain than usual. The distributions in the first half of the 2019-2020 fiscal year had grown by more than 8 percent over the previous year’s time frame. However, widespread lockdowns were beginning to be instituted across the country, and it seemed entirely possible that the national economy could experience significant disruption for months to come. Using a variety of economic projections available at that time, our most optimistic projections predicted that local sales tax revenues could grow by 3 percent in the second half of the current fiscal year.

Those optimistic projections turned out to be far too pessimistic. At the time of this writing last year, we could not have foreseen the public health response or the trajectory of the COVID-19 virus throughout calendar year 2020. Significantly for sales tax revenues, we also could not have predicted the federal fiscal response to the global pandemic. After sales tax downturns in the months equating to March, April, and May sales, revenues rebounded strongly for sales in the month of June, and they have remained strongly positive in the months since. Thus far in FY20-21, local government sales tax distributions have grown by more than 10 percent above FY19-20 levels (See Figure 1). The N.C. Consensus Revenue Forecast released in February has state sales tax revenues growing by just over 8 percent, with growth over the next two years projected at 3.1 and 3.8 percent, respectively.
What has contributed to the virtually unprecedented year-over-year sales tax growth thus far in FY20-21? A variety of factors related to the pandemic, to be sure. As of this writing, there have now been three federal COVID-19 relief packages that have included direct financial assistance to American taxpayers. The effect of these stimulus payments, combined with federal unemployment assistance and other economic aid to a wide variety of Americans, is in part reflected in Figure 2, the St. Louis Federal Reserve’s tracking of disposable personal income among Americans. Fluctuations within the last calendar year all represent significant increases over the same measure of disposable income as of January 2020. They do not take into account the most recently passed American Rescue Plan, a $1.9 trillion federal COVID-19 response bill that included more direct aid to the majority of U.S. taxpayers.
In addition to federal aid received by consumers, other sometimes more anecdotal factors have likely contributed to the strong sales tax growth experienced thus far in FY20-21. During the pandemic consumer spending appears to have shifted more toward taxable goods and away from services not subject to sales tax. Additionally, N.C. passed legislation in recent years to ensure that state and local sales taxes were collected on all online purchases. As more consumer spending shifted online, more of the applicable local sales taxes were collected. And in N.C., groceries are subject to sales tax at the local level. As consumers spent less at restaurants and more at grocery stores, local sales taxes did not suffer a result. The overall outcome was unexpectedly strong local sales tax revenues in the first 2 quarters of FY20-21, culminating with a nearly 20 percent increase in December 2020 sales as compared to sales one year prior (See Figure 3).
Though the growth has been almost universal across the state, regional variations remain. In recent years, much of the discussion has centered on sales tax growth being disproportionately experienced in more urban and tourist-heavy counties. For the past year, the largest growth has been in more rural counties. This is likely due to areas that more commonly drive urban sales tax revenues – including conventions, concerts, sporting events, and the hospitality industry in general – experiencing significant disruption as a result of the COVID-19 pandemic. Meanwhile, grocery and home improvement stores that may be the largest sales tax drivers in more rural counties have experienced strong sales throughout the pandemic. Figure 4 below shows that virtually all counties have seen sales tax revenues grow in recent months, but the growth has not always been equal, with lighter colors representing slower revenue growth.

**Figure 4**

*Each County’s % Change in Article 39&40 Distributions FY20-21 Year-to-Date*

One caution to the strong growth experienced thus far in FY20-21 relates to sales tax refunds. Aside from economic conditions, refunds processed are always a major factor affecting local variation in sales tax distributions. 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. Overall, they are down a little over 12 percent compared to this time last year.
TABLE 1

REFUNDS EACH MONTH FY20-21 YEAR-TO-DATE

<table>
<thead>
<tr>
<th>Date</th>
<th>Refunds This Year</th>
<th>Refunds Last Year</th>
<th>Refunds % Change YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2020</td>
<td>$11,348,913.56</td>
<td>$16,477,858.36</td>
<td>-31.13%</td>
</tr>
<tr>
<td>September 2020</td>
<td>$27,531,984.43</td>
<td>$17,188,939.61</td>
<td>60.17%</td>
</tr>
<tr>
<td>October 2020</td>
<td>$25,665,633.07</td>
<td>$29,808,911.41</td>
<td>-13.90%</td>
</tr>
<tr>
<td>November 2020</td>
<td>$23,806,629.34</td>
<td>$9,673,837.31</td>
<td>146.03%</td>
</tr>
<tr>
<td>December 2020</td>
<td>$7,711,534.88</td>
<td>$14,298,365.17</td>
<td>-46.07%</td>
</tr>
<tr>
<td>January 2021</td>
<td>$18,510,798.46</td>
<td>$43,182,256.66</td>
<td>-57.13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$114,569,493.74</strong></td>
<td><strong>$130,630,168.52</strong></td>
<td><strong>-12.29%</strong></td>
</tr>
</tbody>
</table>

At this time last year, sales tax refunds were 6.28 percent of gross collections. Thus far in FY20-21, they are just over 5 percent of gross collections (See Figure 5).

FIGURE 5

REFUNDS FY20-21 YEAR-TO-DATE AS A % OF GROSS SALES TAX COLLECTIONS

What does all this mean for sales tax growth the remainder of the current fiscal year? Given the federal American Rescue Plan passed in recent weeks, and the fact that the biggest retail sales impact of pandemic-related economic disruptions were experienced in March-April-May of last year, it seems likely that year-over-year growth in the coming months could be among the largest seen to date this fiscal year. Revenues are up more than 10 percent thus far in FY20-21, and they appear likely to finish the year even
higher. Given historical trends and the sales decline experienced in quarters 3 and 4 of FY19-20, we project that local sales tax revenues will finish FY20-21 13.5 percent above FY19-20 levels.

The significant disruption experienced over the last 12 months makes projecting for FY21-22 even more difficult than usual. Recent trends in N.C. retail spending have no doubt been positive. It seems unlikely, however, that revenue growth will continue at its current pace. As of this writing the American Rescue Plan seems likely to be the final significant federal aid package for the foreseeable future. Some consumers may opt to travel out of state and do more of their spending there as vaccinations become more widespread and travel conditions begin to approximate those prior to the pandemic. There may also be more spending on in-person services that consumers were hesitant to engage in during the height of the COVID-19 outbreaks. Still, if the shift to more online sales remains consistent in a post-pandemic world, that will lead to more local sales tax revenues being collected in N.C. Some models point to another year of strong sales tax revenue growth in N.C. However, we believe that as the effects of federal stimulus wane and the country settles into an environment where the effects of the pandemic are lessened, sales tax growth is likely to slow somewhat. We are projecting FY21-22 sales tax growth of 2.5 percent over FY20-21 levels.

There is certainly room for regional variation in this projection. Larger urban counties that see more large events and conventions scheduled in FY21-22 may see growth in excess of that projection. Meanwhile, more rural counties could see slower growth as spending patterns change in the coming months. As always, your knowledge of your local conditions will best inform projections as to how this statewide forecast will relate to that for your jurisdiction.
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.) See the League’s [Basis for Distribution Memo](#) for the recent history of how this revenue is distributed.

Utility tax growth during the Great Recession did not necessarily match the decline and recovery trends of the rest of the economy. Instead, underlying factors such as policy changes, energy prices, weather, and changing technologies cause growth in these revenues to swing dramatically in any given year. This year, utilities and telecommunications companies across the state either chose on their own or were instructed by a Governor’s executive order to cease utility cutoffs and waive penalties for nonpayment, and institute payment plans for customers who fell behind on payments during the pandemic. State and federal funds for utility payment assistance to customers have also been made available in recent months. This combination of factors has made disentangling whether trends are related to issues such as timing of payments or long-term consumption changes particularly challenging. As more information becomes available in the months ahead, we will continue to provide ongoing updates.

3.2.1 **Electricity Sales Tax**

The total amount of electricity sales tax distributed each year has fluctuated in recent years. After an almost 5 percent increase in FY18-19, distributions for FY19-20 declined almost 2 percent year over year despite a 1.85 percent increase over the first two quarters of the year. For FY20-21, the distributions for the first half of the year have declined even further, by almost 5.4 percent (See Figure 6). The electricity sales tax total for the first six months of this fiscal year was $167,813,340.

**FIGURE 6**

![Annual Electricity Sales Tax Distribution (Y-O-Y Change)](image-url)
Price and consumption both play a role in year-over-year growth. The average electricity price across all sectors for the first two quarters of FY20-21 was almost identical to the same months in FY19-20, which means that it is likely that changes in consumption – as well as the timing of utility payments mentioned above – has likely played a larger role in the revenue decline so far this year.

One thing that has not changed during the pandemic is that weather remains one of the largest contributing factors to consumption and revenue trends. As shown in Figure 7, the electricity tax distributions always peak in the first quarter, which corresponds with warm summer months. Cooling degree days, an indicator of cooling-related electricity demand, also peak during the same time period each year (See Figure 8) and are one good indicator for consumption. Cooling degree days thus far in FY20-21 are down approximately 1 percent from the same period in FY19-20, adding another factor that is likely leading to the revenue decline seen during the first half of this fiscal year.

**FIGURE 7**

![Sales Tax on Electricity Distributions by Quarter](image)

**FIGURE 8**

![Cooling Degree Days by Quarter](image)
**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.

Looking forward, the [Energy Information Administration (EIA)](https://www.eia.gov) projects an almost 2 percent rise in electricity prices through the end of the FY21-22 fiscal year. [EIA projections also show](https://www.eia.gov) that electricity sales are expected to increase by about 1 percent over the same period of time.

Though electricity tax distributions are down by more than 5 percent for this first half of the fiscal year, we are optimistic that there will be something of a rebound in the second half of the year. As more commercial businesses return to operations approaching pre-pandemic conditions, customers make payments on past due amounts, and utility assistance programs continue to distribute money to consumers, utility tax revenues will hopefully show signs of reversing the first half of the year’s trends. It may not be enough to lead to a year-over-year increase, though. **We project that statewide electricity sales tax revenue for FY20-21 will end up 1.0 percent lower than FY19-20.**

That projected decline will hopefully not carry over into FY21-22. Weather will always play a large role in year over year revenue changes, but projected coming price increases will impact utility tax revenues as well. 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 1.25 percent in FY21-22.**

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
Piped natural gas tax distributions tend to fluctuate more dramatically than electricity sales tax distributions. For instance, after growth in excess of 25 percent in FY17-18, last year’s decline exceeded 15 percent. Following last year’s decline, distribution for this fiscal year are up by almost 2 percent. (See Figure 9)

**Figure 9**

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

Combined, the first two quarterly distributions of FY19-20 totaled $5,081,757.56. The bulk of annual natural gas tax distributions don’t arrive until June, covering DOR collections during the quarter ending in March (See Figure 10). 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.
Like electricity taxes, price and consumption (largely driven by weather) are the main factors affecting piped natural gas tax distributions, though changes in payment timing could be playing a similar role with this energy source as well. The Q3 peaks in natural gas tax distributions match closely with Q3 peaks in the number of heating degree days (Refer back to Figure 8). 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 affecting the next distribution are up by 2.6 percent (see Figure 8). Duke Energy, one of the most prominent energy providers in N.C., has already alerted customers that February bills may be significantly higher than normal due to a much colder month that led to an average energy consumption increase of 20 percent.

Given the steep decline experienced last year and recent temperatures, as well as issues related to late payments that may be resolved in the coming months, we believe it is likely that the increase in natural gas tax revenues will rise in the coming months. We project a 9.75 percent increase in the total statewide FY20-21 distribution of natural gas sales tax revenues to municipalities.

High volatility in distribution amounts over the past few years, coupled with a strong correlation with unpredictable weather patterns, make forecasting the next fiscal year highly uncertain. Information from the EIA indicates that natural gas prices in the South Atlantic are forecasted to fall in the coming months. Based on those forecasts, combined with trends since the distribution change went into effect in 2014, we project a 2.0 percent decrease in natural gas sales tax revenues in FY21-22.

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 even among those consistent decreases the FY19-20 decline stands out as particularly significant. Total distributions for FY19-20 declined by almost 19 percent, more than double the decline in the previous fiscal year (See Figure 11). Like electric and natural gas utilities, some telecommunications providers increased their flexibility with regard to payments for service after the pandemic. It may be that the delay in some of these payments in the final quarter of FY19-20 contributed to the particularly steep decline in revenues. It may also be that customers making some of these delayed payments in the early months of the current fiscal year have contributed to the 2.65 percent increase in distributions thus far in FY20-21 (See Figure 11).

**Figure 11**

Much of the decline in this distribution in recent years is related to customers abandoning landline telephone service for mobile telephone service. There is no data available to indicate that this trend has changed in the last 12 months.
Despite this continuing trend, given the steep drop-off last year and the revenue increase seen already this year, we expect that annual statewide telecommunications revenues for FY20-21 will increase by 3.75 percent. However, we expect that this will be a one-time exception to the long-running historical trend. We predict telecommunications taxes will decline by 9.5 percent in FY21-22.

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 2019 and 2020 Certified Population estimates will affect distributions.
3.2.4 Local Video Programming Tax

With one exception in FY16-17, the general trend in annual video programming distributions has been downward in recent years (See Figure 12). The overall decline is primarily attributable to cable TV customers “cutting the cord” in favor of streaming services. Last year’s decrease was a relatively modest 2.7 percent. The first two quarterly distributions of FY20-21 totaled $35,293,643, representing another 2.1 percent decline (See Figure 12).

The pandemic may have slowed the rate of cord-cutting last year, but it is projected to increase again in the months ahead. Overall for the year, we expect that the statewide annual distributions will end up flat in relation to 19-20.

Based on performance in recent years, we project that future revenues will continue to decline. We expect that video programming revenues will decrease by 1.25 percent in FY21-22.

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 2019 and 2020 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 FY20-21 is approximately $26,316. 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 FY21-22.

To receive supplemental PEG channel funds, you must certify your PEG channels to the Department of Revenue each year by July 15. The 2021 certification forms will be available on the Department of Revenue website here: 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. The distribution has increased year-over-year for at least six years in a row. However, the first two distributions of FY20-21 have fallen slightly below FY19-20’s pace. These first two quarterly distributions of FY20-21 totaled $4,337,590 which is a 0.71 percent decrease over the same period last year (See Figure 13).

The health of the construction sector tends to be a contributing factor to solid waste revenue. While demand has reportedly remained strong through the pandemic – particularly in the residential sector – firms are reporting recent issues with both materials prices and supply chain delays. This may be contributing to the figures noted in the Economic Overview, where single-family home permits are up nearly 25 percent year over year, but housing starts have declined by 1.5 percent.

Given the declines thus far this year, and projections that current challenges in the construction sector could linger in the short term, this may be the year for the first overall downturn in solid waste revenues in some time. We expect total distributions for FY20-21 to decrease 3.6 percent from total distributions in FY19-20. Construction sector forecasts are projecting a rebound for the industry in 2022 and beyond. For that reason, we expect the current year’s decline to be short-lived, and we project that solid waste tax distributions for FY21-22 will increase 1.5 percent over FY20-21.
Because this revenue is distributed on a per capita basis, a particularly large annexation taking effect between July 1, 2020 and June 30, 2021, could justify projecting additional revenue growth for your municipality.
3.4 **Alcoholic Beverages Tax**

The 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 2021 alcoholic beverage tax distribution has yet to be released. In the early and mid-2010s, the total amount distributed fluctuated a great deal from year to year. However, each of the past 3 years’ distributions have been less than a 2 percent change than the previous year. The most recent fiscal year distribution (2019-20) totaled $40,083,680, which was an increase of 1.24 percent compared to the previous year.

**Figure 14**

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.
Studies have found that alcohol consumption has increased during the COVID-19 pandemic. This may be a factor in a slightly higher increase in the beer and wine tax distribution for the current fiscal year. We project that this fiscal year’s upcoming distribution will increase by 2.5 percent, subject to change pending any last collections or refunds for the year. It may be that alcohol sales will decline somewhat as conditions return to something approximating that prior to the pandemic. However, that should not eliminate growth in this revenue source entirely. We would expect that the distribution received in 2022 would grow by 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.
3.5 Powell Bill

Prior to the pandemic, Powell Bill funds distributed to municipalities were scheduled to increase in FY20-21. After years of the total amount of Powell Bill funds remaining flat, this year’s distributions were scheduled to rise from a total FY19-20 distribution of $147.5 million to $154.875 million in FY 20-21.

As noted, of course, that was pre-pandemic. Once stay-at-home orders were issued and commuting dropped significantly, transportation-related revenues fell as well. Though Powell Bill funds are now a legislative appropriation and are not directly dependent on motor fuels tax proceeds or other revenue sources, they remain a part of the state’s transportation budget. And when the transportation budget for FY20-21 was cut across the board to reflect falling revenues, the Powell Bill appropriation was also reduced. The total appropriation for FY20-21 was set at $137.1 million. A further statutorily allowed cut due to excessive needs in the area of snow and ice removal meant that the funds distributed to municipalities in FY20-21 totaled $132.7 million.

Recent updates on the N.C. Department of Transportation’s finances indicate that revenues have been higher than expected during the current fiscal year. Both Powell Bill allocations for the current year have already been distributed. Public discussions of the FY21-22 transportation budget are still in the very early stages. However, if the state’s transportation revenues do continue to exceed expectations hopefully at a minimum some of this year’s cuts to the Powell Bill allocation can be restored.

Throughout all these adjustments to the Powell Bill allocations, the formula for distributing the existing appropriation to eligible cities has not changed. Of the total annual distribution of Powell Bill funds, 75 percent is allocated among eligible cities based on population. If the Powell Bill totals stay at the currently appropriated total of $137.1 million, and 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 FY21-22 Powell Bill distribution to be $17.48. To estimate your expected population-based distribution, multiply this amount by your expected 2020 population. Your Certified 2019 Population Estimates (July 1, 2019 Estimates with July 1, 2020 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. You should adjust your 2019 Certified Population to account for any annexations going into effect between July 1, 2020 and June 30, 2021. 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 FY21-22 Powell Bill distribution is $1,458.01 per street mile. After calculating your estimated city-maintained street mileage as of July 1, 2021, 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 is 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** – used for revenue distributions – estimate the 2020 population living in areas annexed on or before July 1, 2021. 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 by your municipality. If you have a “consolidated BAS agreement” with your county, this can fulfill your municipality’s requirement for the federal survey, but even with the consolidated BAS agreement you must still complete the State survey described above. 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.

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

- Questions about the status of a municipality’s sales tax refund – D. Ernest Irving, Distribution Unit, (919) 814-1118.

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

- Interpretation of sales tax laws – Andrew Furuseth, Director, Sales and Use Tax Division, (919) 608-1115.

- Requests for a list of claimants that received a sales tax refund in a county in which the city is located – D. Ernest Irving, 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 – D. Ernest Irving, 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.