

CONTENTS

ABOUT THIS DOCUMENT.....	2
WHAT'S NEW THIS QUARTER?	3
LOCAL GOVERNMENT SALES & USE TAXES	4
SALES TAX REFUNDS.....	6
UTILITY SALES TAXES.....	7
ELECTRICITY & NATURAL GAS.....	8
TELECOMMUNICATIONS & VIDEO PROGRAMMING.....	10
SOLID WASTE DISPOSAL TAX.....	11
POWELL BILL DISTRIBUTIONS	12
ECONOMIC UPDATE: NATIONAL OUTLOOK.....	122
ECONOMIC UPDATE: STATE OUTLOOK.....	Error! Bookmark not defined. 5
ADDITIONAL RESOURCES	177
CONTACT	177

ABOUT THIS DOCUMENT

The League’s quarterly Revenue Reports provide a general economic update and a summary of tax revenues collected by the state that are returned to local governments (municipalities and counties) throughout the year. These include a portion of local option sales and use taxes, utility sales taxes (on electricity, piped natural gas, telecommunications, and local video programming), beer and wine excise tax, and solid waste disposal tax. These taxes are distributed to municipalities throughout the year according to formulas outlined in state law, and relevant revenue sources will be highlighted in each quarterly report.

To view this information in a more interactive format, visit our most recent [quarterly revenue report dashboard](#). For more information on the different types of state-collected local taxes and distribution formulas, see the League’s most up-to-date “[State-Collected Local Taxes: Basis of Distribution](#)” memo.

WHAT'S NEW THIS QUARTER?

The following NC Department of Revenue (DOR) data was released since the League's FY23 Q4 report which was published in September 2023:

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax ¹	August, September, October 2023	October, November, December 2023
Taxable Sales Data	August, September, October 2023	October, November, December 2023
Utility Sales Tax	July, August, September 2023	December 2023
Solid Waste Tax	July, August, September 2023	December 2023

¹ Distributions received are generally representative of sales three months prior and were collected by DOR two months prior. Based on state accounting guidelines, the League assumes that revenues are accrued for 90 days. 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.

Based on the latest data, the following tables summarize our analysis of statewide trends for Q1 of FY24:

FY24 Q1 Summary		
Revenue Source	Total Distributed FY24 Q1	% Change from FY23 Q1
Sales & Use Tax	\$1.40 B	+ 0.91%
Sales & Use Tax Refunds	\$77.13 M	+ 100.88%
Electricity Sales Tax	\$100.79 M	+ 1.48%
Video Programming Sales Tax	\$15.68 M	- 3.25%
Telecommunication Services Sales Tax	\$6.20 M	- 5.42%
Natural Gas Sales Tax	\$2.56 M	- 9.37%
Solid Waste Tax	\$2.43 M	+ 8.32%

LOCAL GOVERNMENT SALES & USE TAXES

Sales taxes make up the largest portion of state-shared revenue received by local governments. In FY24 Q1, growth in sales tax distributions was nearly flat at 1.0%, after multiple years of double-digit or near double-digit first quarter growth:

Q1 Sales Tax Distributions, YoY % Change, by Article

	FY20-21-FQ1	FY21-22-FQ1	FY22-23-FQ1	FY23-24-FQ1
Art 39 % Change Y-O-Y	8.07%	16.41%	15.02%	1.02%
Art 40 % Change Y-O-Y	8.07%	16.41%	15.02%	1.02%
Art 42 % Change Y-O-Y	8.07%	16.60%	14.98%	1.00%

Based on summary data from the DOR, local governments saw 0.91% growth compared to last year's Q1:

Monthly Sales Tax Distributions Year-to-Date

FY.FQ	Total Distributed	Total % Change Y-O-Y	Difference from Last Year
FY23-24-FQ1	\$1,396,981,955	0.91%	\$12,611,488
October 2023	\$441,404,035	-3.55%	(\$16,255,541)
September 2023	\$480,698,743	2.96%	\$13,817,520
August 2023	\$474,879,176	3.27%	\$15,049,509

It is important to note that these growth figures should be taken into consideration alongside a huge increase in sales tax refunds for this quarter, which is explained later in this report.

When viewing gross and net collections by sales month, growth in sales tax collections looks marginally stronger at 3.62% for Q1:

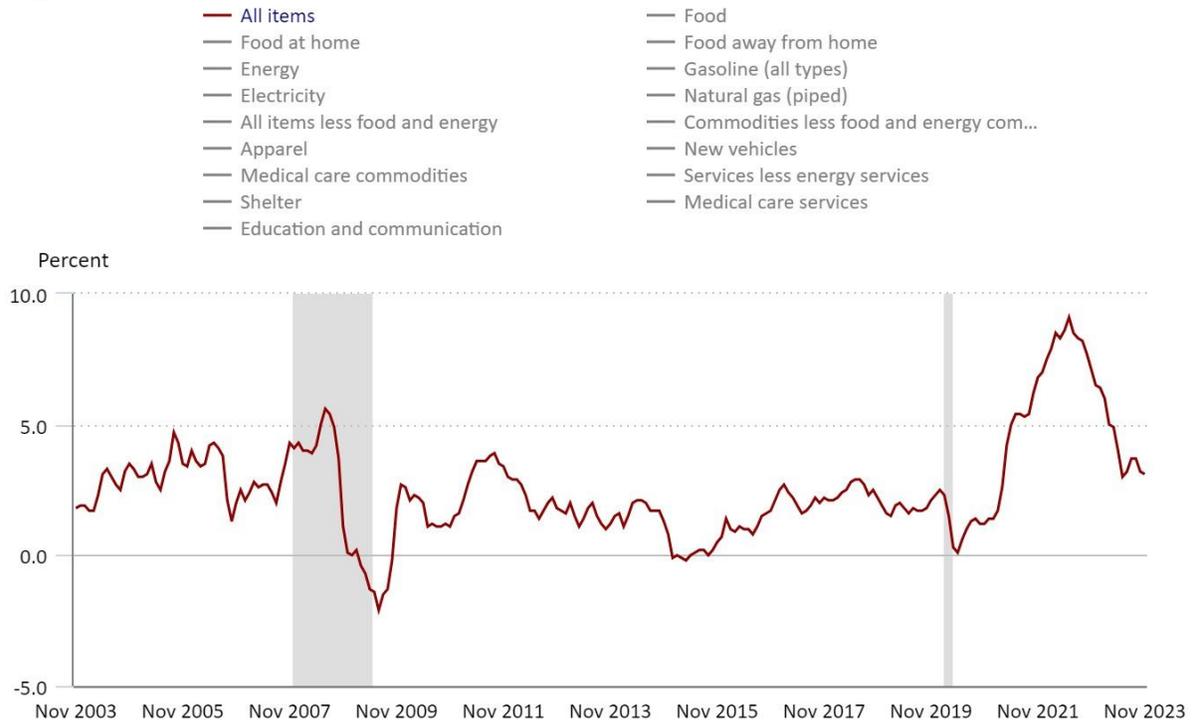
Gross & Net Sales Tax Collections (by Sales Month)

FY.FQ	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
FY23-24-FQ1	\$1,479,069,038	3.62%	\$1,403,620,083	0.91%
03-Sep	\$495,337,525	2.94%	\$443,736,595	-3.50%
02-Aug	\$494,628,494	3.57%	\$482,815,588	2.93%
01-Jul	\$489,103,018	4.38%	\$477,067,900	3.26%

Following months of double-digit year-over-year growth in post-pandemic sales tax distributions, over the last 12 sales tax distributions local governments have seen the same number of double-digit growth months (2) as they have year-over-year declines. The overall decline in distributions in October was heavily influenced by refunds, which are explained in more detail below. But the state does seem to be returning to a pattern of sales tax growth more reminiscent of pre-pandemic times – continued growth in distributions year-over-year, but growth hovering around 5 percent, give or take a percentage point or two. Population growth and a potential “soft landing” for the national economy (see below) should provide a buffer against sales tax declines, but it appears that the months of being able to count on double-digit growth are over.

One significant factor in the slowing of sales tax growth is the price of goods. The chart below showing the national Consumer Price Index illustrates how inflation has slowed in recent months after the significant peak that largely corresponded with the highest growth in local government sales tax distributions.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.



SALES TAX REFUNDS

Sales tax refunds continue to be a major factor driving the general volatility of collections. Refunds in FY24 Q1 more than doubled from Q1 FY23, with refunds for the month of October up more than 135%. This is the largest quarterly increase in refunds since at least FY18-19.

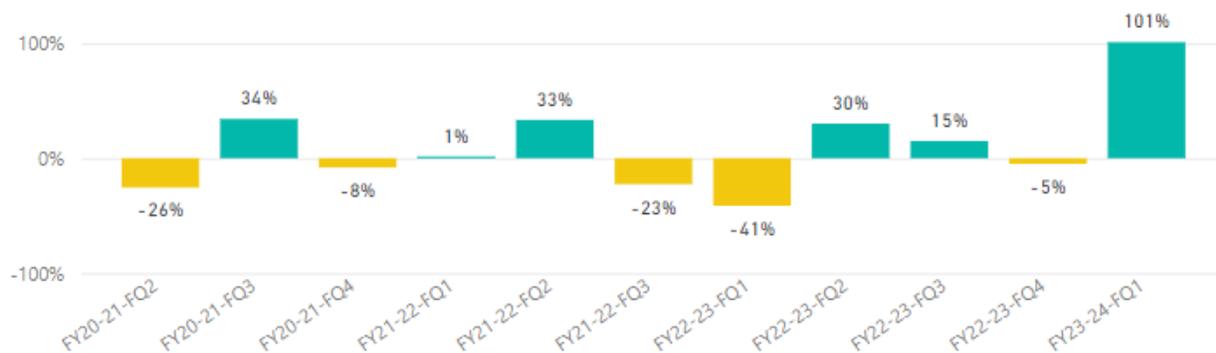
Refunds, by Quarter

FY.FQ	Refunds Last Year	Refunds This Year	Refunds as % of Collections	Refunds % Change YOY
FY23-24-FQ1	\$38,398,085	\$77,134,567	5.21%	100.88%
October 2023	\$22,168,053	\$52,122,342	10.51%	135.12%
September 2023	\$9,067,431	\$12,314,081	2.49%	35.81%
August 2023	\$7,162,602	\$12,698,144	2.59%	77.28%

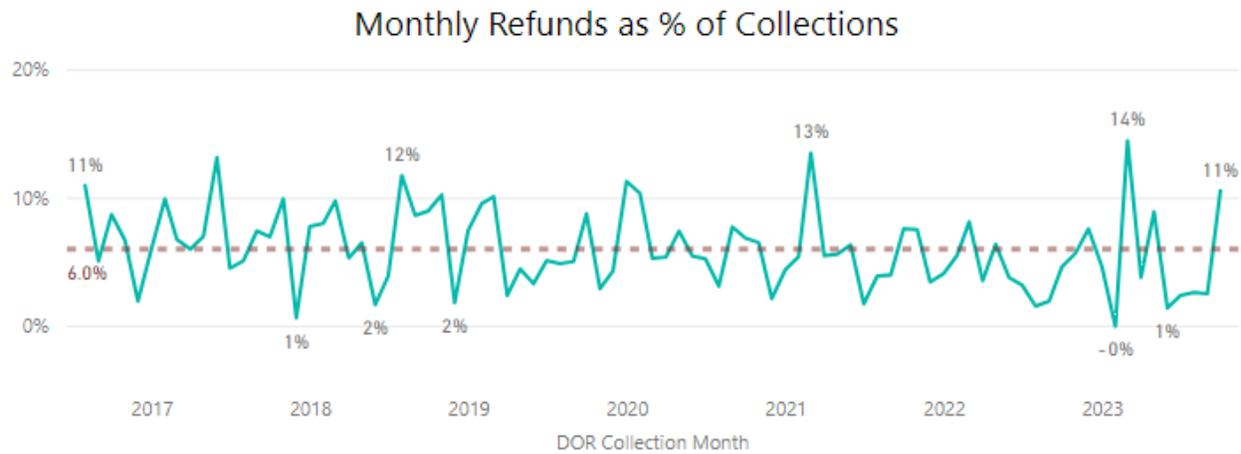
For much of 2023, refunds as a percentage of overall collections were below historical averages, so it may be that this quarter – and particularly October – represent something of a catch-up. The League and our partners continue to work with DOR to understand more about sales tax refunds and their impact on local government distributions, but the nature of the refund process in N.C. limits some of the information available. In general, refunds are volatile due to a variety of factors including the timing of organizations filing for their refunds and the DOR’s capacity to process these requests. The League will continue to update local governments as we learn new information around these topics.

As in previous years, no clear trends appear when observing refund collection growth by quarter:

Quarterly Refunds YoY % Change



As of FY24 Q1, the average of refunds as a percent of collections since FY17 is 6.1%:



UTILITY SALES TAXES

The Department of Revenue distributes quarterly taxes from the sales of four utility types – electricity, natural gas, telecommunication services, and video programming. The table below illustrates our assumptions of the timing between when a customer uses a utility and when the Department of Revenue collects the tax.

1- Customer Uses Utility	April	May	June
2- Billing Month	May	June	July
3- Payment Due	June	July	August
4- DOR Collection Month	July	August	September
5- Report Distributed	December		

Collections during FY24 Q1 saw a moderate increase in electricity revenues, and decreases in all other distributions. Overall, the total of these four utilities increased by 0.26% over last year’s Q1.

Q1 Utility Tax Distributions, YoY % Change

	FY21-22-FQ1	FY22-23-FQ1	FY23-24-FQ1
Electricity % Change YOY	-0.83%	7.80%	1.48%
Nat Gas % Change YOY	-23.46%	88.61%	-9.37%
Telecom % Change YOY	-43.21%	-7.04%	-5.42%
Video % Change YOY	-8.99%	-4.61%	-3.25%
Total % Change YOY	-6.57%	6.15%	0.26%

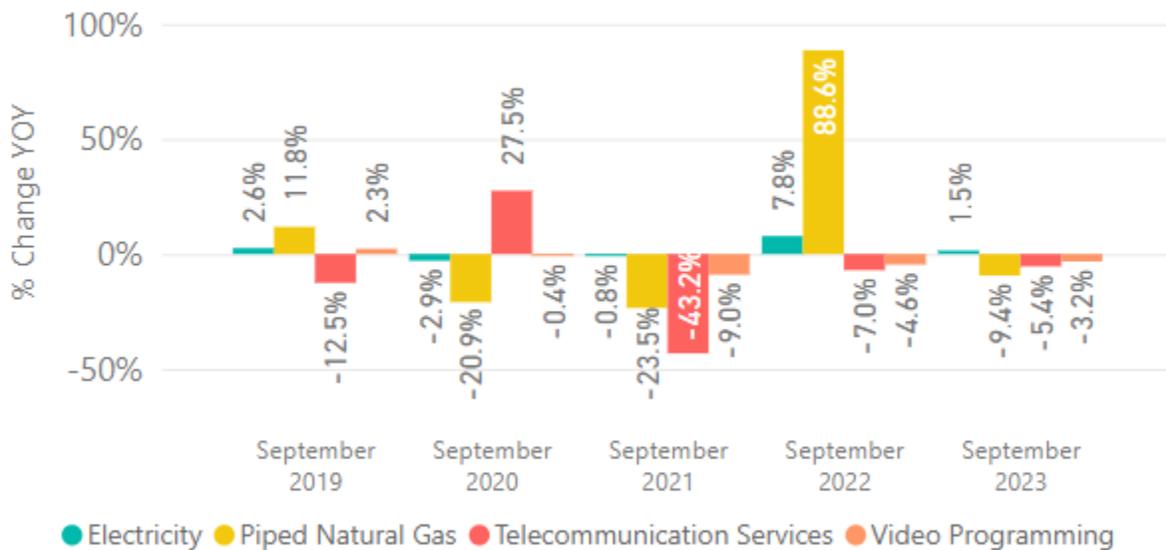
Historical amounts of Q1 utility collections are shown below:

Q1 Utility Tax Distributions, YoY \$ Change

	FY21-22-FQ1	FY22-23-FQ1	FY23-24-FQ1
Sales Tax on Electricity	\$92,135,934	\$99,322,380	\$100,794,736
Sales Tax on Piped Natural Gas	\$1,500,331	\$2,829,834	\$2,564,695
Sales Tax on Telecommunication Services	\$7,052,921	\$6,556,682	\$6,201,484
Sales Tax on Video Programming	\$16,984,347	\$16,201,622	\$15,675,858
Total Distribution	\$117,673,532	\$124,910,517	\$125,236,773

Sales tax on electricity represented more than 80% of the total quarterly utility taxes distributed, and this share of the total has trended upwards over the last three years. The below chart illustrates changes in utility revenues for previous first quarters:

Q1 Utility Tax Distributions, year-over-year change (%)



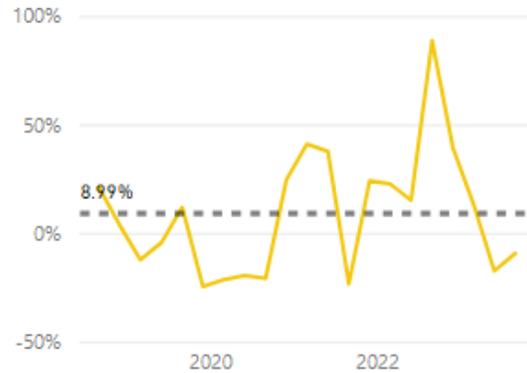
ELECTRICITY & NATURAL GAS

As shown in the tables above, electricity sales tax was up roughly 1.5% compared to last year's Q1. The remainder of the revenue sources declined quarter over quarter, highlighted by a more than 9% drop in natural gas sales tax. Natural gas prices are also down from last year's first quarter, including a decline in the price of commercial natural gas of almost 15%.

Electricity Tax Distributions



Natural Gas Tax Distributions



The factors affecting changes in electricity and natural gas distributions are typically prices and weather patterns driving demand. Collections for Q1 correspond with electricity and natural gas consumption during the months of April through June. For this period, despite the decline in natural gas revenues, heating degree days were up 18.2% percent, while cooling degree days were down 41.8%.

Electricity prices for the quarter in North Carolina rose a relatively high 4.59% year-over-year, while consumption decreased 5.47% over the same period. Over the past decade, electricity prices have trended upward slightly faster than the rate of sales.

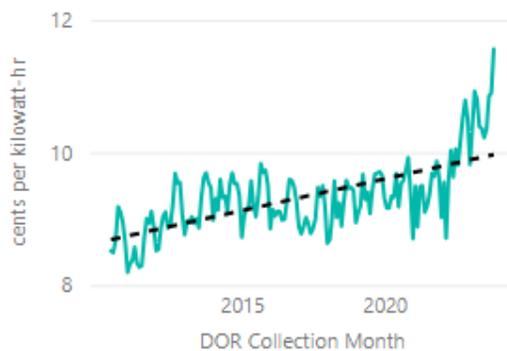
Electricity Prices in NC

FY:FQ Utility	Avg Retail Electricity Price (All Sectors) % Change YOY
FY23-24-FQ1	4.59%
FY22-23-FQ1	6.41%
FY21-22-FQ1	-0.14%
FY20-21-FQ1	0.34%
Average YTD	2.80%

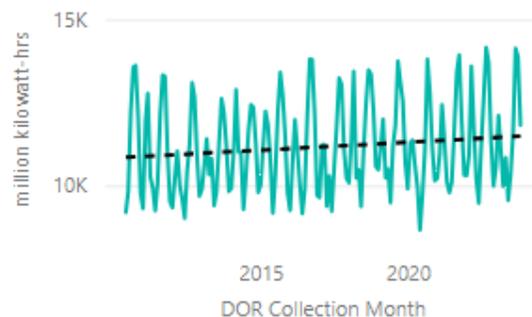
Electricity Consumption in NC

FY:FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
FY23-24-FQ1	-5.47%
FY22-23-FQ1	7.95%
FY21-22-FQ1	2.27%
FY20-21-FQ1	-6.32%
Average YTD	-0.39%

NC Average Price of Electricity - All Sectors



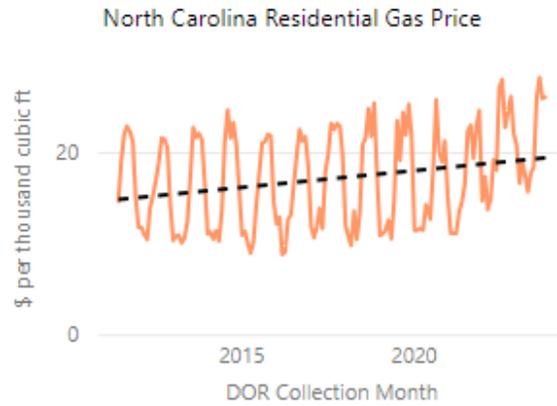
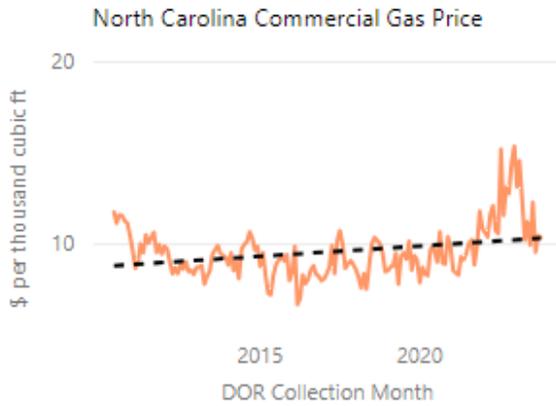
NC Retail Sales of Electricity - All Sectors



Natural gas prices declined significantly compared to previous years' Q1 periods. Commercial gas prices dropped by 14.18%, which likely played a role in the sales tax revenue drop for this quarter. Residential gas prices were also down year over year, dropping by 5.13% since the first quarter last year.

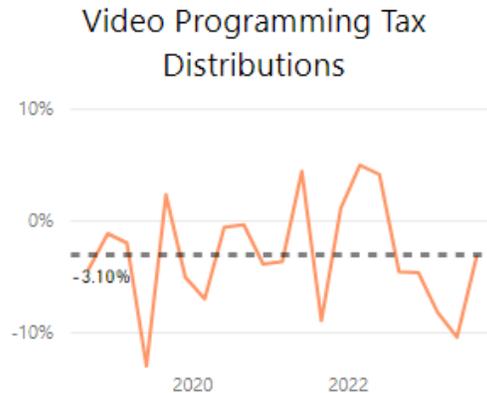
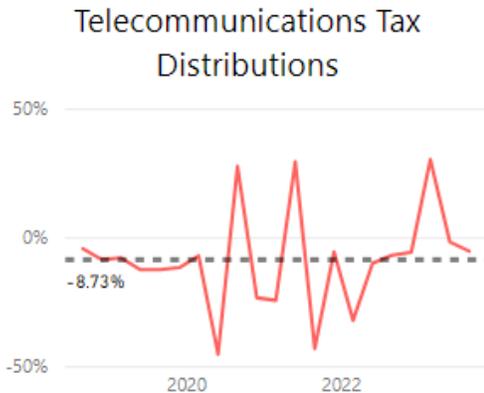
Natural Gas Prices in North Carolina

FY.FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY23-24-FQ1	-14.18%	-5.13%
FY22-23-FQ1	25.35%	29.52%
FY21-22-FQ1	2.07%	13.87%
FY20-21-FQ1	1.45%	-14.89%
Average YTD	3.67%	5.84%



TELECOMMUNICATIONS & VIDEO PROGRAMMING

Revenue from the telecommunications tax fell 5.42% year-over-year in Q1 of FY23, while video programming fell by 3.25%, which was an improvement over recent quarters. Both sources have recently trended downward on average, and are expected to continue gradually trending down as consumer behavior and technologies evolve.



SOLID WASTE DISPOSAL TAX

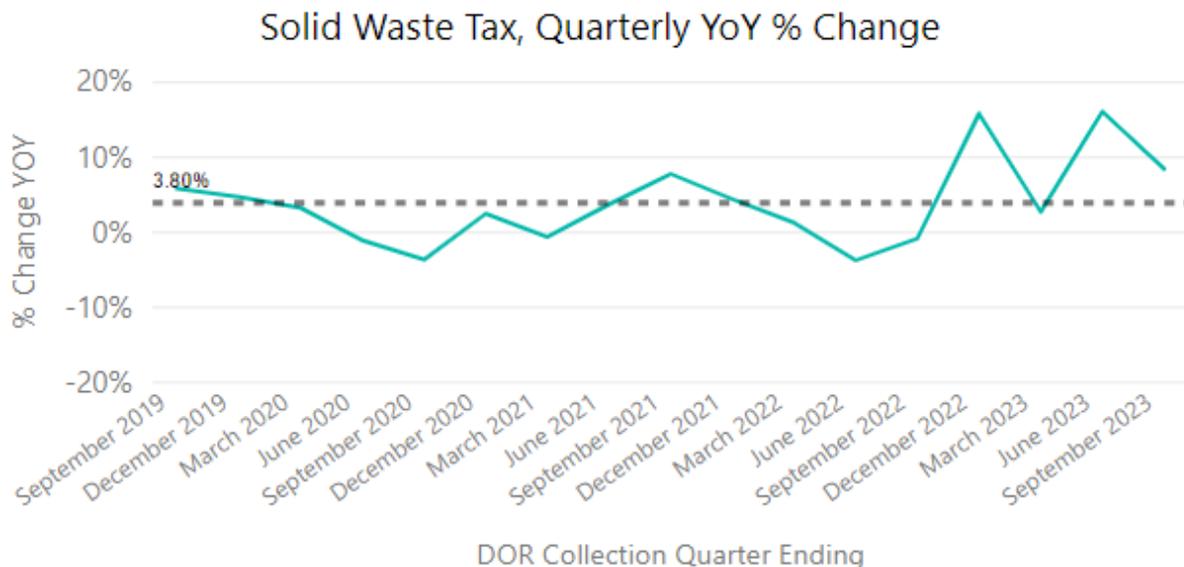
Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The Department of Revenue distributes this revenue to local governments quarterly.

Proceeds available for distribution in FY23 Q1 totaled just over \$6.5M, with \$2.43M allocated to cities and counties. This amount was 8.32% higher than last year's Q1:

Solid Waste Tax Q1 YOY Comparison

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY23-24-FQ1	\$2,430,824	8.32%
FY22-23-FQ1	\$2,244,124	-0.96%
FY21-22-FQ1	\$2,265,838	7.66%
FY20-21-FQ1	\$2,104,664	-3.77%

Solid Waste distributions have grown in the last year and have increased 3.80% on average since Q1 of 2019:

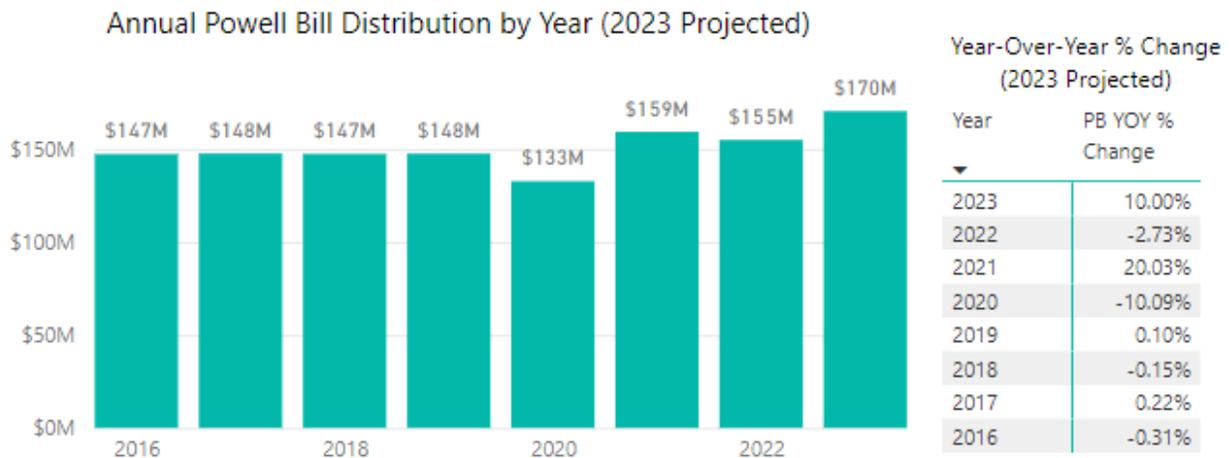


POWELL BILL DISTRIBUTIONS

State Street-Aid (Powell Bill) funds are distributed to eligible municipalities twice a year in October and January. Of the total annual distribution of Powell Bill funds, 75% is allocated among eligible cities based on population, and 25% is based on mileage.

The State of N.C. budget for the 2023-25 biennium increases overall Powell Bill appropriations by \$15.5 million in each of the two years, for a total appropriation of \$170.375m in FY2023-24 and \$185.875 million in FY2024-25. However, since that budget was not yet law at the time of the October Powell Bill distribution, the distribution municipalities received in the last week of September 2023 was based on last year’s Powell Bill appropriation of \$154.875 million and totaled just over \$77 million. The difference between that amount and the newly appropriated amount will be made up in the January distribution to municipalities.

The below tables summarize overall Powell Bill distribution trends, with the projected total for FY2023-24 included:

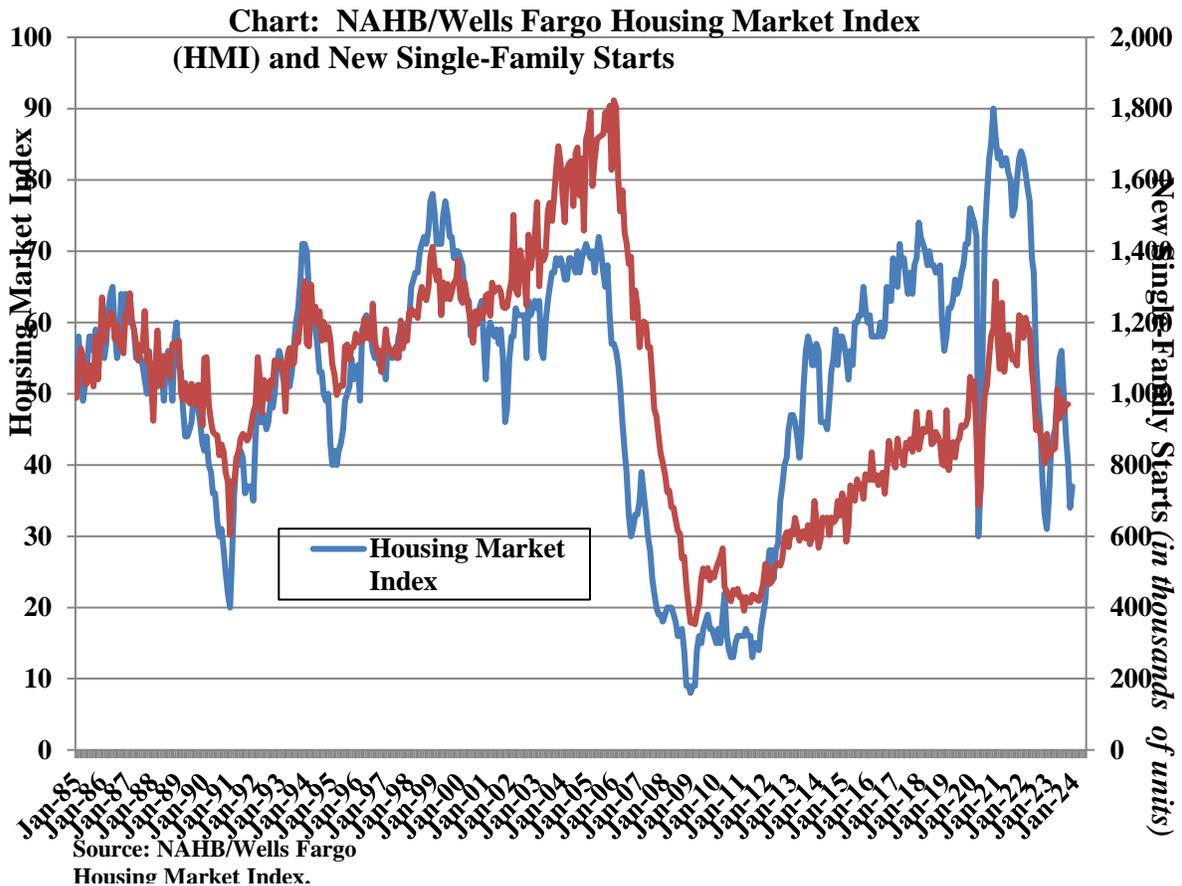


ECONOMIC UPDATE: NATIONAL OUTLOOK

As 2023 comes to a close, sentiment on the state of the national economy seems to have shifted from earlier this year. The early part of the year was marked by fears of a coming recession, and while those have not abated entirely, there seems to be optimism now regarding how the country has navigated its economic turmoil. As noted above, the rate of inflation continues to fall, with [the most recent Consumer Price Index \(CPI\) figure](#) coming in at 3.1% for all items. While the decline may be impacting local government sales tax revenues, on a broader scale, it is approaching the U.S. Federal Reserve’s overall target rate. At its most recent meeting, the Fed [left its key inflation rate unchanged](#), and indicated that it may consider rate cuts in 2024.

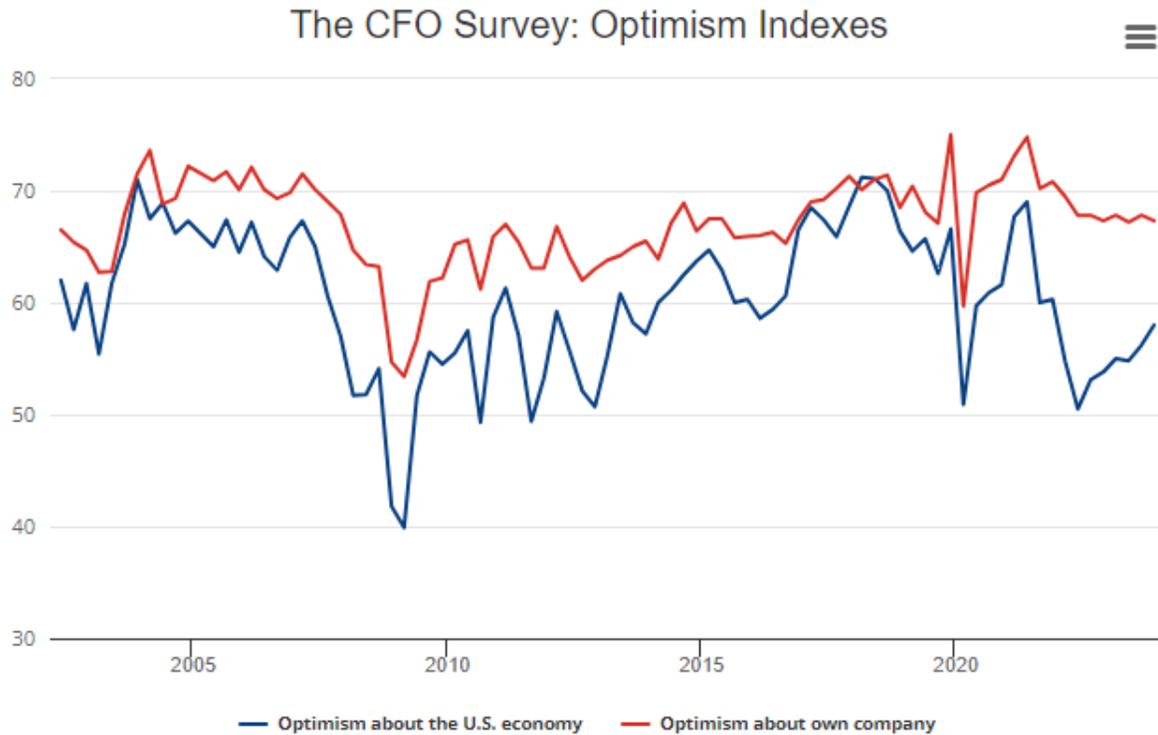
This added to the feeling that the Fed may have achieved its goal of a [“soft landing.”](#) in which inflation is reduced without the country entering a recession.

The Fed’s interest rate impacts the mortgage rates prospective home-buyers can access, and there appears to be positive movement on that front as well. For the week of Dec. 14, the [average 30-year fixed-rate mortgage](#) was 6.95%, which was below 7% for the first time since August. Sales of existing homes also [increased 0.8% from October](#), the first such increase in 5 months. However, sales are still down from the same time a year ago, while average prices increased in every region of the United States. The [National Association of Home Builders / Wells Fargo Housing Market Index](#) tracks factors such as sales and traffic of prospective buyers and has ticked up recently after declining for much of 2023, while single-family starts increased almost 15% in the month of November.



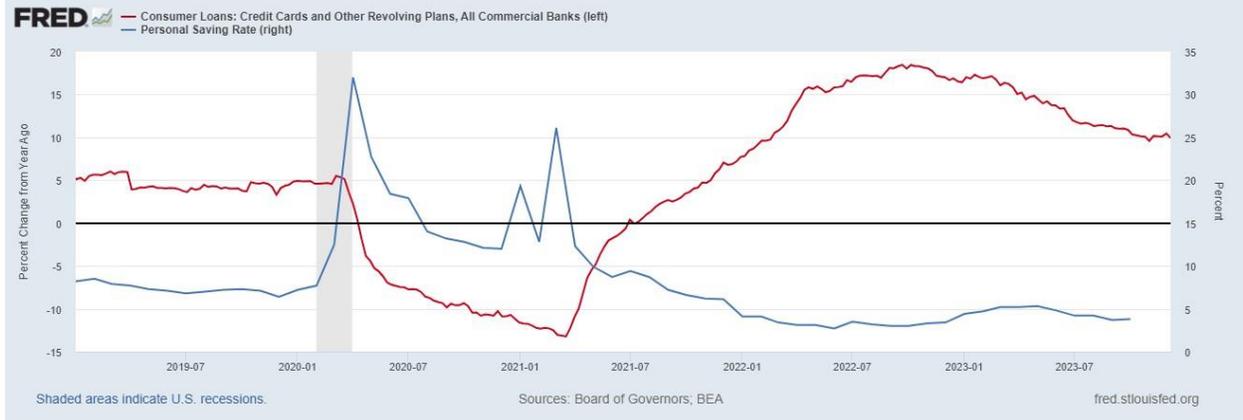
Optimism is increasing among CFOs polled for the [quarterly CFO survey](#) conducted by Duke University and the Federal Reserve Banks of Richmond and Atlanta. CFOs continue to be more optimistic about their own companies than they are for the economy as a whole, but their overall optimism continues to increase. Inflation and

cost pressures have declined as a pressing concern, with monetary policy and labor quality-availability currently topping the list.



Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey - Q4 2023 (November 14 - December 1, 2023)

At the time of writing the League’s last revenue report, one of the primary concerns was an apparently imminent government shutdown. A temporary agreement to avoid a shutdown was reached, but political turmoil in Washington, D.C., in an election year of 2024 is always one of the risk factors for the economy. So, too, are major global conflicts, though the previous impact on gas prices that the war in Ukraine was having in the U.S. seems to have lessened. National [gas prices](#) averaged \$3.12 per gallon at the time of this writing, down nearly 18 cents from a month ago. North Carolina prices averaged \$2.96 per gallon, down roughly 8 cents from 1 month ago. Meanwhile, the gap in personal savings rates versus consumer loans continues to persist, though consumer loans declined for much of 2023. During the COVID-19 pandemic, savings skyrocketed while consumer loans dropped, likely due to stimulus checks and other federal assistance. We noted in previous updates that this trend had flipped, with the percent change in loans rising and savings dropping. Both measures have been largely flat in recent months.

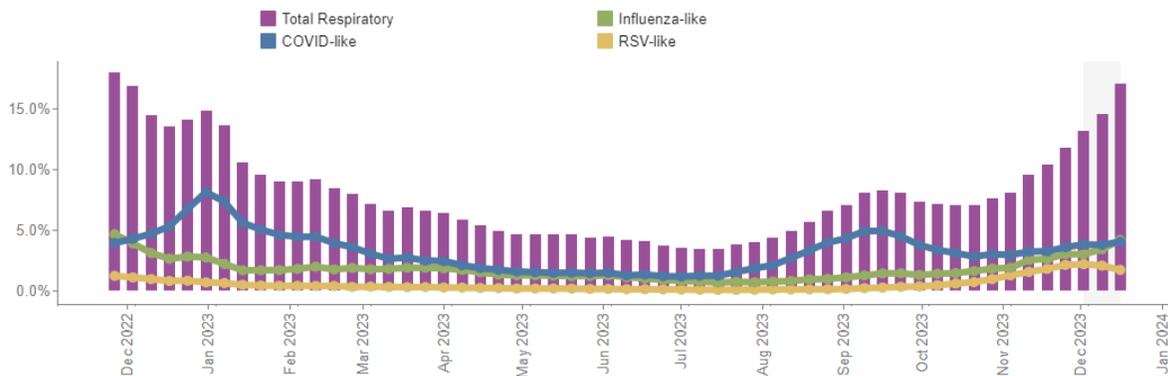


Economic Update: State Outlook

Heading into 2024, North Carolina was seeing [an uptick in emergency department visits](#) for respiratory viruses, though one that was largely in line with the same data from one year ago. A new COVID [“variant of interest”](#) has been identified, although existing vaccines and treatments were said to be effective against it.

Emergency Department Visits for Respiratory Viruses

Latest Week: **17.0% of emergency room visits** had symptoms of a respiratory virus, **an increase** from the week before. (The week before was 14.5%.)

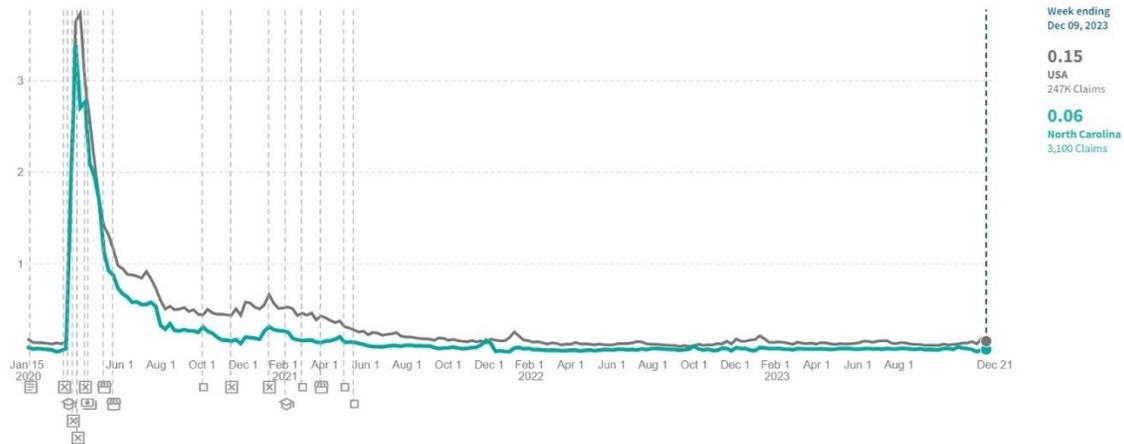


Percentage of North Carolina emergency department visits with symptoms or a diagnosis of a particular respiratory virus. [More info](#)

As seen below, unemployment continues to trend extremely low in North Carolina, with claims continuing to hover below the national average. The state’s unemployment rate had fluctuated between 3.3 and 3.4% for much of 2023.

Current Unemployment Claims per 100 People*

In North Carolina, as of December 09 2023, there were 0.06 initial claims for regular unemployment benefits per 100 people in the labor force.



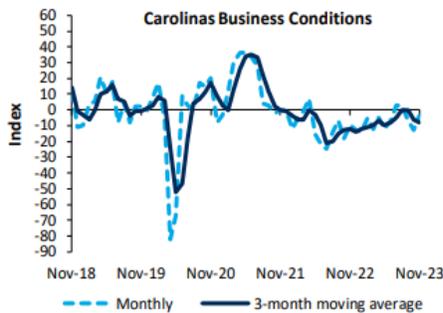
data source: US Department of Labor

*Number of unemployment benefit claims filed with state unemployment offices per 100 people in the labor force. This series is based on data published by the Department of Labor. Under the CARES Act, all states provide 13 additional weeks of federally funded Pandemic Emergency Unemployment Assistance (PEUC) benefits to people who exhaust their regular state benefits. Under the Act, through the end of 2020, some people who exhaust all these benefits, and others who have lost their jobs for reasons arising from the pandemic but who are not normally eligible for UI in their state, are eligible for Pandemic Unemployment Assistance (PUA).
last updated: December 19, 2023 next update expected: December 22, 2023

visit tracktherecovery.org to explore

Source: <https://tracktherecovery.org/>

The Richmond Federal Reserve Bank's [November 2023 Carolinas Survey of Business Activity](#) reported that business activity was “flat” in November, though many of the measures increased at least marginally. General business conditions, the expectations index, and the sales index all rose. The employment index rose slightly while the wage index was “elevated” as well.



In his [fourth quarter report](#), Dr. John Connaughton continues to see growth ahead for the State of N.C. He believes 2023 will finish with a 2.5% increase in GDP and nearly 95,000 jobs added. For the coming year, he projects to add an additional 53,400 jobs, with 14 of the state's 15 economic sectors to increase output for an overall GDP increase of 1.9%.

Dr. Michael Walden reported that his [November 2023 Index of North Carolina Leading Economic Indicators](#) rose for the 3rd month in a row, powered by a 13.1% increase in building permits. His forecast for 2024 is somewhat moderate, as he describes what he sees as “two economies” in the calendar year. Dr. Walden is projecting “a challenging but not disastrous first half of 2024 ... followed by an improving and optimistic second half of the year.”

As always, the League recommends that in addition to state-wide data and broad economic indicators presented in this report, municipalities should consider and factor in their individual geographic and economic factors when finalizing projections.

ADDITIONAL RESOURCES

Useful data, including some found in this report, can be found at the following links:

NC local government revenue distribution data:

<https://www.ncdor.gov/news/reports-and-statistics/local-government-distributions>

NC taxable sales data:

<https://www.ncdor.gov/news/reports-and-statistics/monthly-sales-and-use-tax-statistics>

Energy consumption and pricing data:

<https://www.eia.gov/electricity/data.php>

<https://www.eia.gov/naturalgas/data.php>

Powell Bill distribution data and other information:

<https://connect.ncdot.gov/municipalities/State-Street-Aid/Pages/default.aspx>

Other NCLM Forecasts, Revenue Reports, and our most recent Basis of Distribution Memo:

<https://www.nclm.org/financial-consulting/revenue-forecasts>

CONTACT

For questions on this report, contact Chris Nida, Director of Technical Assistance for Cities, at 919-715-3945, or cnida@nclm.org.