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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 has been released following the [League's most recent revenue report](#).

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax ¹	May, June, July 2026	July, August, September 2026
Taxable Sales Data	May, June, July 2026	July, August, September 2026
Utility Sales Tax	April, May, June 2026	September 2026
Solid Waste Tax	April, May, June 2026	September 2026
Alcohol Sales Tax	April 2025-March 2026	June 2026

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 Q4 of the 2025-2026 fiscal year:

FY26 Q4 Summary		
Revenue Source	Total Distributed FY26 Q4	% Change from FY25 Q4
Sales & Use Tax	\$1.557 B	+ 2.92%
Sales & Use Tax Refunds	\$99 M	+ 57.26%
Electricity Sales Tax	\$96 M	+ 4.81%
Video Programming Sales Tax	\$11 M	-7.06%
Telecommunication Services Sales Tax	\$5 M	- 11.59%
Natural Gas Sales Tax	\$6 M	+ 4.81%
Solid Waste Tax	\$ 2.38M	- 0.38%

LOCAL GOVERNMENT SALES & USE TAXES

Sales taxes make up the largest portion of state-shared revenue received by local governments. Sales tax revenue for the fourth quarter of FY26 fell below the growth for this quarter last year. Despite this, the state experienced a 4% growth in sales tax this fiscal year compared to the last.

Q4 Sales Tax Distributions, YoY % Change, by Article

	FY22-23-FQ4	FY23-24-FQ4	FY24-25-FQ4	FY25-26-FQ4
Art 39 % Change Y-O-Y	2.48%	3.24%	5.05%	3.10%
Art 40 % Change Y-O-Y	2.48%	3.24%	5.05%	3.10%
Art 42 % Change Y-O-Y	2.45%	3.25%	5.04%	3.08%

Summary data from the DOR indicates that local government sales tax distributions increased by 3% compared to the fourth quarter of FY25:

Monthly Sales Tax Distributions Year-to-Date

Date	Total % Change Y-O-Y	Difference from Last Year	TOTAL DISTRIBUTED
May 2026	2.14%	\$10,533,215	\$503,222,444.03
June 2026	1.23%	\$6,107,489	\$502,609,524.67
July 2026	5.25%	\$27,526,920	\$551,533,703.29
Total	2.92%	\$44,167,624	\$1,557,365,671.99

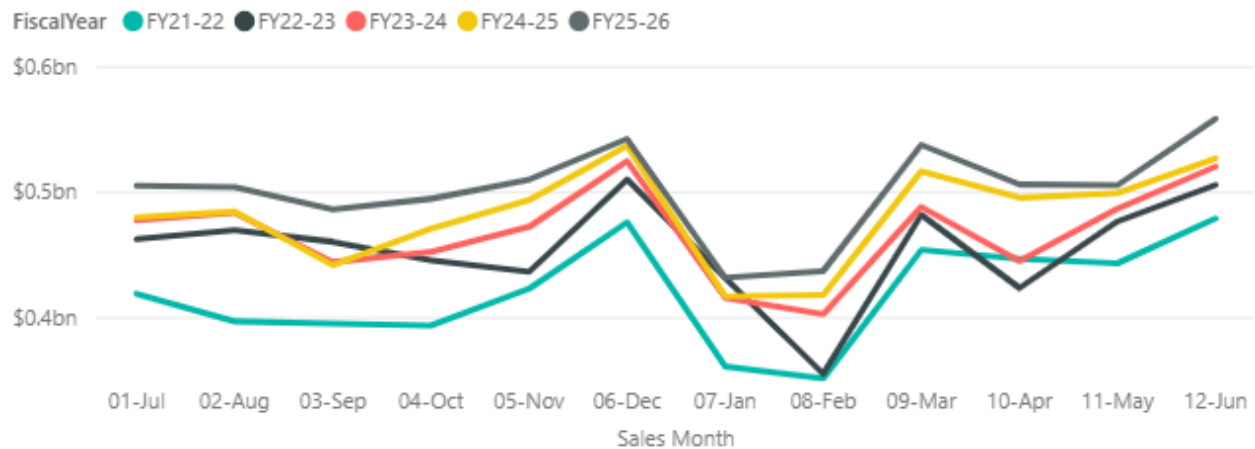
At a gross level, prior to refunds being taken out, sales tax collections have grown slightly faster than net collections and distributions. Sales tax refunds are up 23% this year over the previous fiscal year.

Gross & Net Sales Tax Collections (by Sales Month)

Date	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
May 2026	\$534,219,430	4.21%	\$505,524,911	2.13%
June 2026	\$539,929,875	3.39%	\$504,877,843	1.22%
July 2026	\$590,886,200	8.07%	\$557,967,408	6.01%
Annual Total	\$1,665,035,506	5.27%	\$1,568,370,162	3.18%

It is always difficult to pinpoint just one factor to explain the year-over-year trends in sales tax. Within the framework of the national economy, this year has been exceptionally difficult to predict. Given ongoing uncertainty around trade policy, geopolitical events, and broader economic conditions, it remains difficult to predict if we expect to see the same growth next fiscal year. Modest growth between 2-5% seems reasonable based on existing patterns.

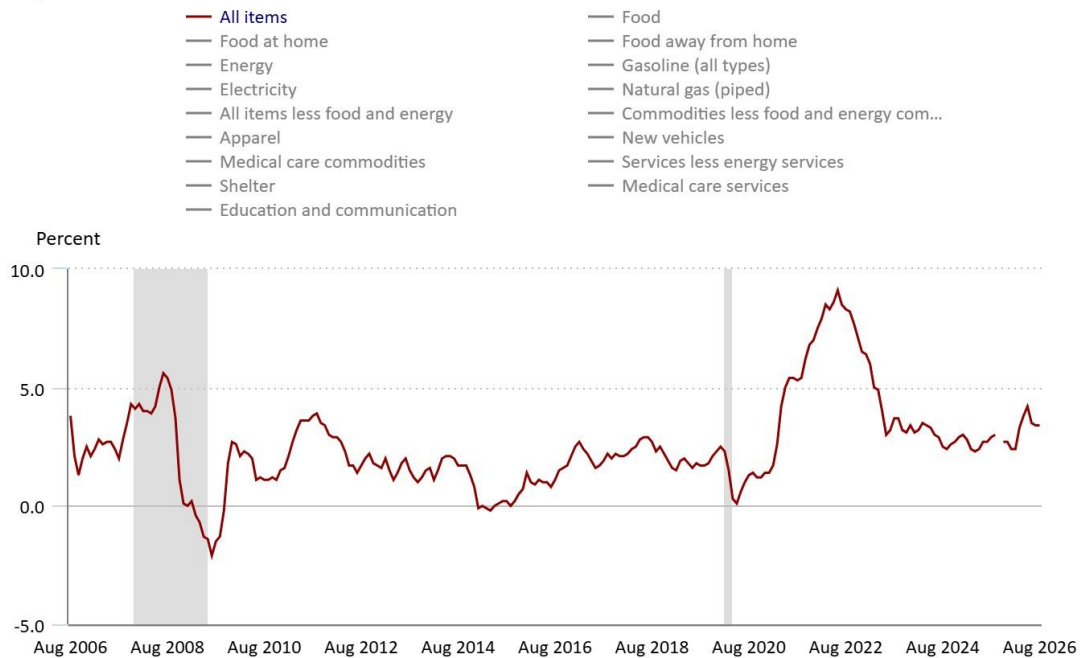
NET Sales Tax Monthly Collection



Inflation increased further in August, with the [Consumer Price Index](#) (CPI) rising 0.4% for the month and 3.4% over the past year. Energy prices remain elevated, up 16.3% over the year, largely due to gasoline prices being 27.4% higher than a year ago. This overall CPI is above the target 2% threshold goal of the Federal Reserve.

For our local governments, the takeaway is to continue to budget your sales tax conservatively. With growth moderating and refunds increasing, finance officers should monitor FY27 collections closely and consider modest growth assumptions as they begin developing FY28 revenue projections.

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



Source: U.S. Bureau of Labor Statistics.



Note: The shaded areas are representative of a recession.

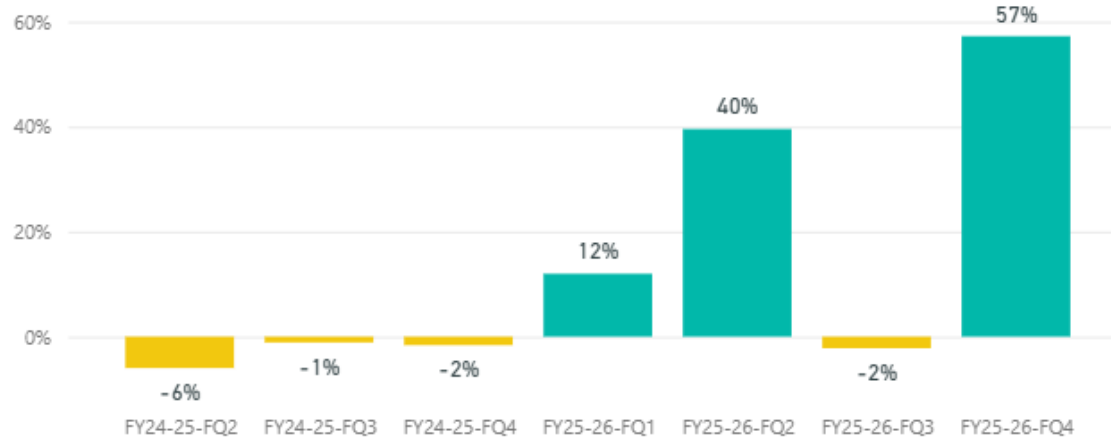
SALES TAX REFUNDS

Sales tax refunds contribute to the general volatility of sales tax data; there are no apparent trends that appear within the refund data. The timing of organizations filing for refunds, combined with the DOR's capacity to process these requests, can make refunds spike or drop during any given month. Refunds for the fourth quarter of FY26 were up nearly 60% from the previous year, but as a percentage of collections (roughly 6%), they were in line with the trends throughout the year (6%). The up and down nature of refund totals is shown in the line graph at the bottom of page seven.

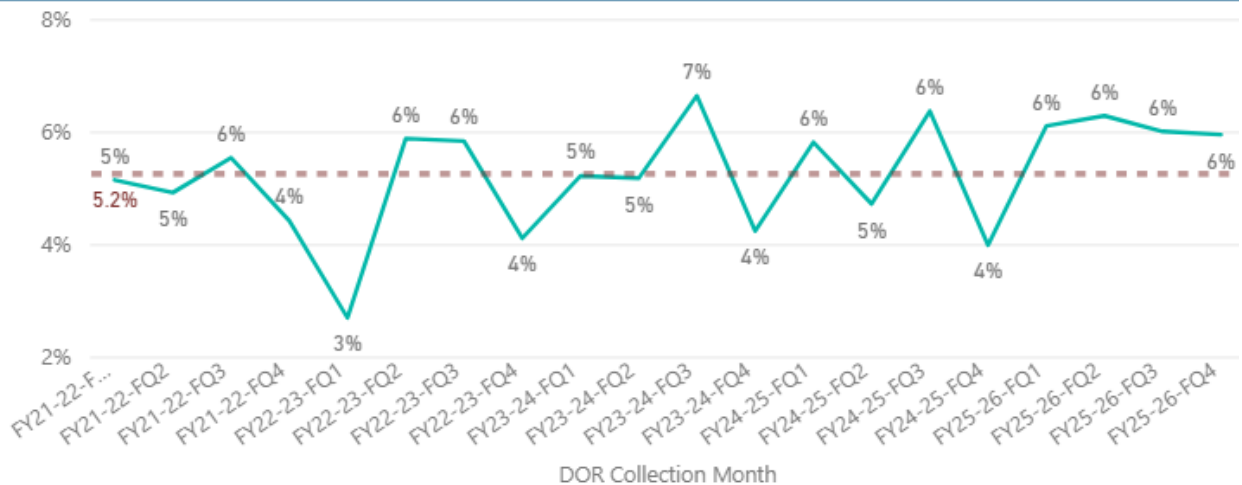
Refunds, by Quarter

Sales_FY.FQ	Refunds This Year	Refunds Last Year	Refunds as % of Collections	Refunds % Change YOY
FY25-26-FQ4	\$99,085,915	\$63,020,610.79	5.94%	57.23%
FY25-26-FQ3	\$89,669,232	\$91,689,104.63	6.00%	-2.20%
FY25-26-FQ2	\$103,516,586	\$74,189,132.57	6.28%	39.53%
FY25-26-FQ1	\$96,964,608	\$86,588,515.41	6.10%	11.98%
Total	\$389,236,342	\$315,487,363.40	6.08%	23.38%

Quarterly Refunds YoY % Change



Monthly Refunds as % of Collections



UTILITY SALES TAXES

The DOR distributes quarterly taxes from the sales of four utility types—electricity, natural gas, telecommunication services, and video programming. The table below reflects the estimated time between when a customer uses the utility and the time at which the DOR distributes the report.

1- Customer Uses Utility	January	February	March
2- Billing Month	February	March	April
3- Payment Due	March	April	May
4- DOR Collection Month	April	May	June
5- Report Distributed	September		

Utility tax distributions during FY26 Q4 saw a moderate growth in electric and natural gas revenues, unlike the double-digit increase in Q3 of FY26 for natural gas. The decrease in telecom and video sales tax revenue is not unexpected and is part of the continual erosion of that revenue base for local governments:

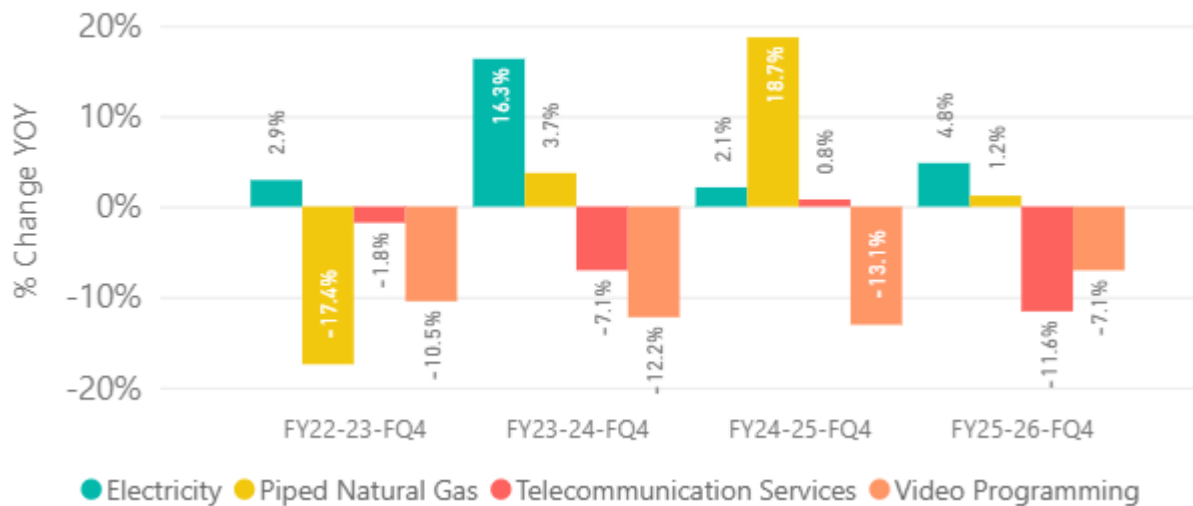
Q4 Utility Tax Distributions, YoY % Change			
	FY23-24-FQ4	FY24-25-FQ4	FY25-26-FQ4
Electricity % Change YOY	16.34%	2.13%	4.81%
Nat Gas % Change YOY	3.71%	18.71%	1.21%
Telecom % Change YOY	-7.06%	0.79%	-11.59%
Video % Change YOY	-12.24%	-13.07%	-7.06%

Historical dollar amounts for Q4 utility collections are shown below:

Q4 Utility Tax Distributions, YoY \$ Change			
	FY23-24-FQ4	FY24-25-FQ4	FY25-26-FQ4
Sales Tax on Electricity	\$89,570,141	\$91,474,292	\$95,874,615
Sales Tax on Piped Natural Gas	\$4,942,188	\$5,867,101	\$5,937,886
Sales Tax on Telecommunication Services	\$5,760,106	\$5,805,366	\$5,132,509
Sales Tax on Video Programming	\$13,701,218	\$11,910,572	\$11,070,229

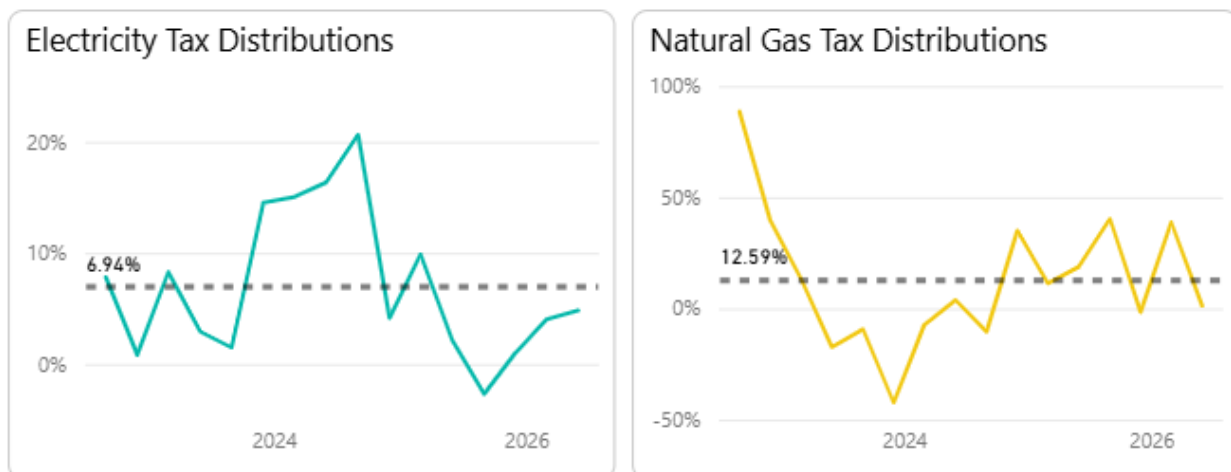
The trendline for telecommunications revenues is at a -2.14% year-over-year. For this last quarter, the decline was a bit more pronounced at -11%. Video programming revenues continue their decline, reporting a -7% decline in revenues for the fourth quarter compared to the previous fourth quarter of last fiscal year.

Q4 Utility Tax Distributions, year-over-year change (%)



ELECTRICITY & NATURAL GAS

Natural gas revenues are largely dependent on weather patterns, though price is definitely a factor. The [national natural gas index](#) increased 4.4% over the 12 months ending in August, and the electricity index rose 3.8%. In trying to form correlations between the tax revenue generated from these utilities, there is a bit of date conversion. As noted in the first table under utility sales, the utility consumption happens in the quarter preceeding the distributions. Therefore we are reviewing data from the third quarter for Electric and Natural Gas prices to determine the correlation between pricing, consumption and the amount of sales tax revenues generated.



Electricity sales tax distributions appear to generally move with changes in electricity prices, while consumption has remained comparatively stable with marginal increases and decreases in Q4 year-over-year. These trends suggest a relationship but should not be interpreted as a direct correlation.

Electricity Prices in NC		Electricity Consumption in NC	
FY.FQ Utility	Avg Retail Electricity Price (All Sectors) % Change YOY	FY.FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
▼		▼	
FY25-26-FQ4	5.35%	FY25-26-FQ4	1.02%
FY24-25-FQ4	-3.72%	FY24-25-FQ4	-0.24%
FY23-24-FQ4	15.37%	FY23-24-FQ4	0.84%
FY22-23-FQ4	4.29%	FY22-23-FQ4	-0.15%
Average YTD	5.32%	Average YTD	0.37%

Natural gas sales tax distributions shows a less consistent relationship to changes in gas prices. Natural gas tax distributions appear to reflect the combined movement of residential and commercial prices, with opposing price trends tending to offset one another and produce smaller changes in distributions, while prices moving together, either upward or downward, are associated with more pronounced changes in tax revenue.

In Q4 FY25, for example, commercial and residential natural gas prices increased sharply with 67% and 28% increases, respectively, while the natural gas tax distributions increased 18%. In Q4 FY26, however, commercial prices increased 8%, residential prices declined -19%, and tax distributions grew just 1.2%.

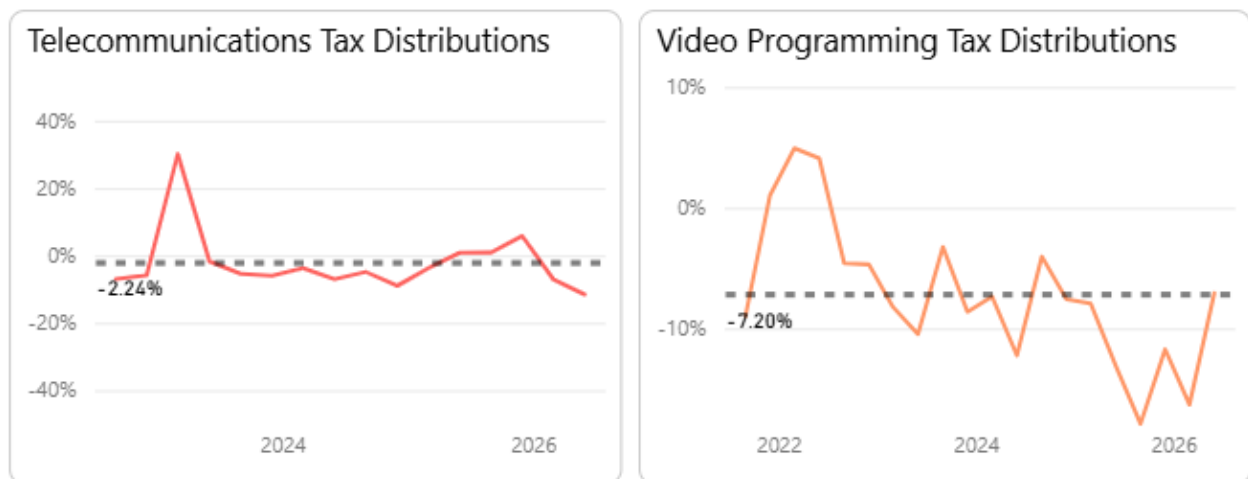
Natural Gas Prices in North Carolina		
FY.FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
▲		
FY22-23-FQ4	-6.83%	-17.41%
FY23-24-FQ4	-17.41%	15.68%
FY24-25-FQ4	67.00%	28.94%
FY25-26-FQ4	8.36%	-19.08%
Average YTD	12.78%	3.73%

As we close out FY26, natural gas sales tax revenue is up 24%. Though a significant increase, this type of year-over-year change in sales tax revenue from this source is

not uncommon, with the last seven fiscal years showing double digit increases or decreases year-over-year.

TELECOMMUNICATIONS & VIDEO PROGRAMMING

Revenue from both telecommunications and video programming declined this quarter, falling -11% and -7%, respectively. These decreases are consistent with the long-term downward trend in telecommunications and video programming tax revenues and mark the third consecutive year of year-over-year fourth-quarter declines. The only exception was a modest increase of nearly 1% in telecommunications revenue in Q4 last year.

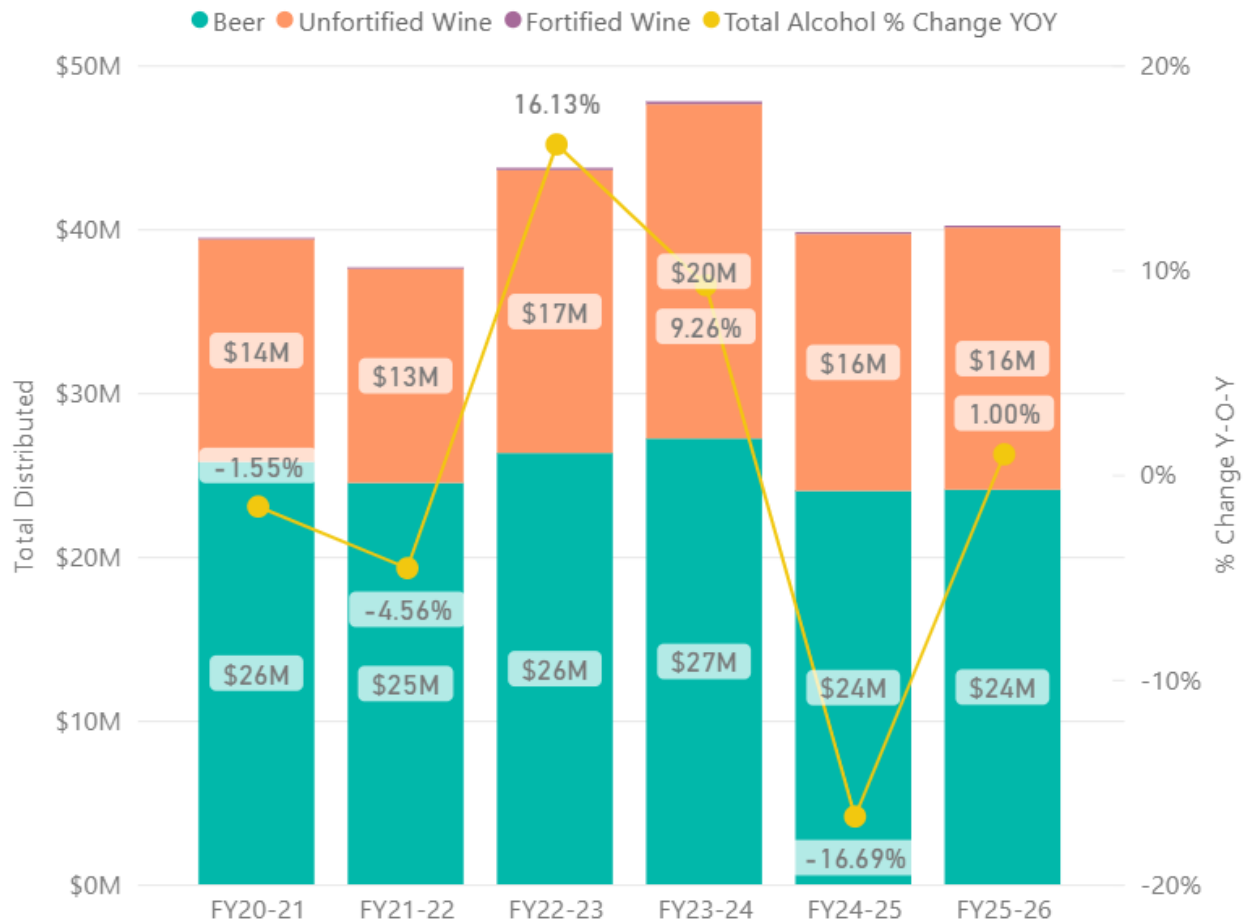


BEER & WINE TAX

The alcoholic beverage tax is an excise tax paid by producers based on their sales of alcohol in North Carolina. A portion of the taxes collected is distributed by the DOR to municipalities on a per capita basis. These revenues are collected during a period running from April through March of the following year, with distributions typically made to municipalities by June.

Growth in this revenue source is influenced by the overall volume and mix of beer and wine sold in North Carolina, as these products are taxed at different rates. An excise tax of 61.71¢ per gallon is levied on the sale of beer and malt beverages. An excise tax of 26.34¢ per liter is levied on the sale of unfortified wine, and 29.34¢ per liter is levied on the sale of fortified wine. One year after an unexpected double-digit decline in these revenues, this year we saw a 1% increase in this revenue source.

Annual Beer & Wine Tax Distribution (Y-O-Y Change)

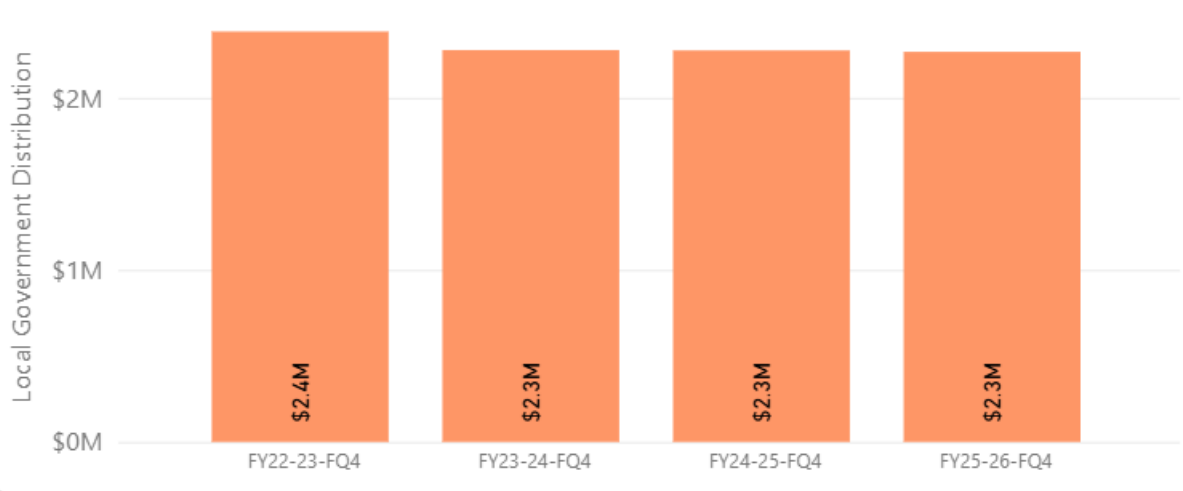


SOLID WASTE DISPOSAL TAX

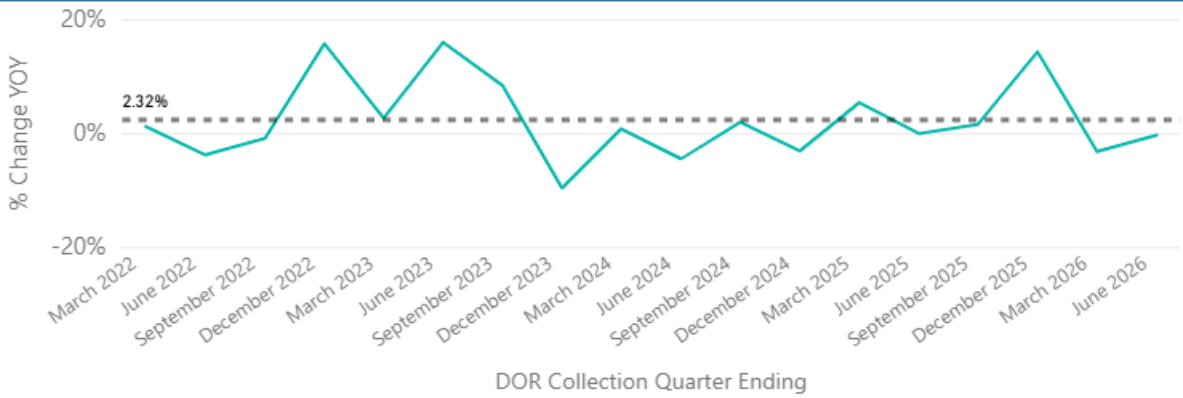
Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The DOR distributes this revenue to local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

Solid waste distributions have decreased by -0.38% this quarter when compared to the same time period last fiscal year. These revenues typically have alternating growth and decline patterns, making this revenue source relatively stable. The current -0.38% decline year-over-year is consistent with the historical volatility shown in the quarterly trendline, which alternates between periods of growth and decline.

Q4 Solid Waste Disposal Tax History



Solid Waste Tax, Quarterly YoY % Change



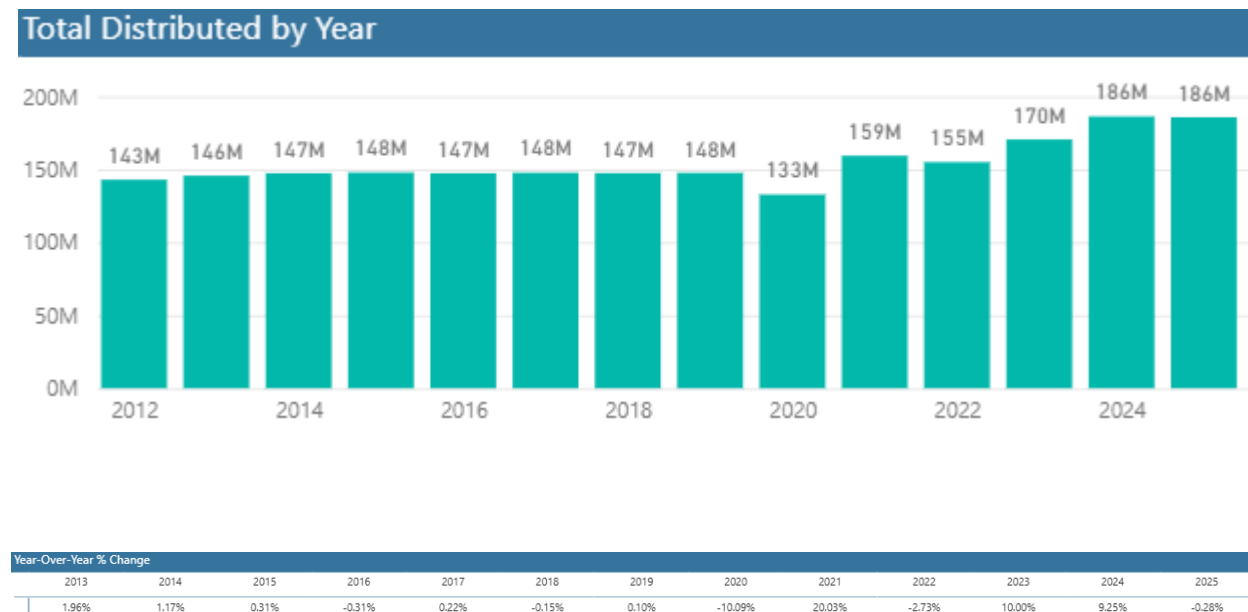
FY26 YTD Solid Waste Tax Distributions

FY FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
▲		
FY25-26-FQ1	\$2,515,124	1.54%
FY25-26-FQ2	\$2,694,884	14.29%
FY25-26-FQ3	\$2,340,186	-3.26%
FY25-26-FQ4	\$2,267,457	-0.38%
Total	\$9,817,651	3.02%

POWELL BILL FUNDS

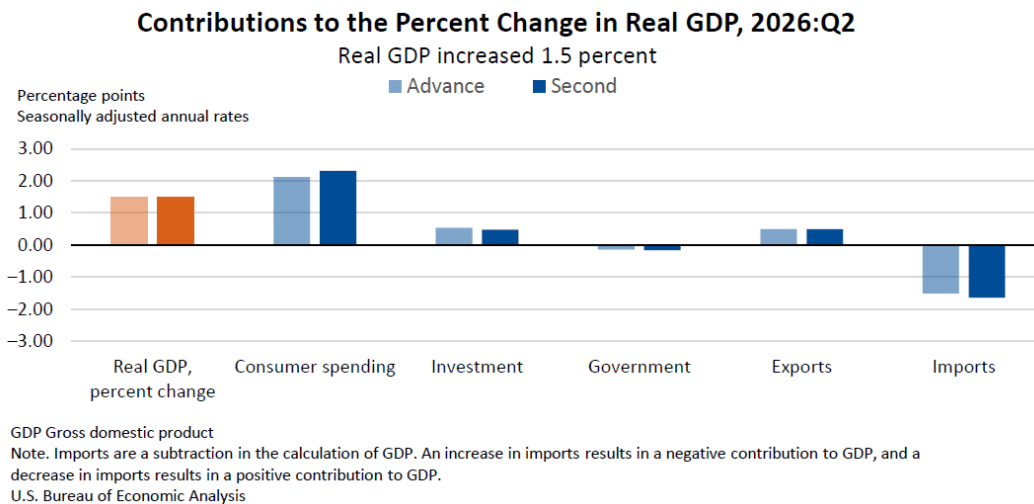
State Street-Aid (Powell Bill) funds are distributed to eligible municipalities in October and January. Seventy-five percent of the annual distribution of Powell Bill funds is allocated among eligible cities based on population, while 25% of the distribution is based on mileage.

The 2023-25 biennial budget increased Powell Bill appropriations by \$15.5 million per year, bringing total funding to \$170.417 million in FY 2023-24 and \$186 million in FY 2024-25. Because a new state budget was not enacted for FY 2025-26, Powell Bill distributions remained at the FY 2024-25 level, and municipalities received \$186 million. The General Assembly subsequently enacted [SB 257](#), the Current Operations Appropriations Act of 2026 which continued funding for municipal street aid through the Powell Bill program. As a result, municipalities can expect Powell Bill distributions to remain stable at current funding levels.

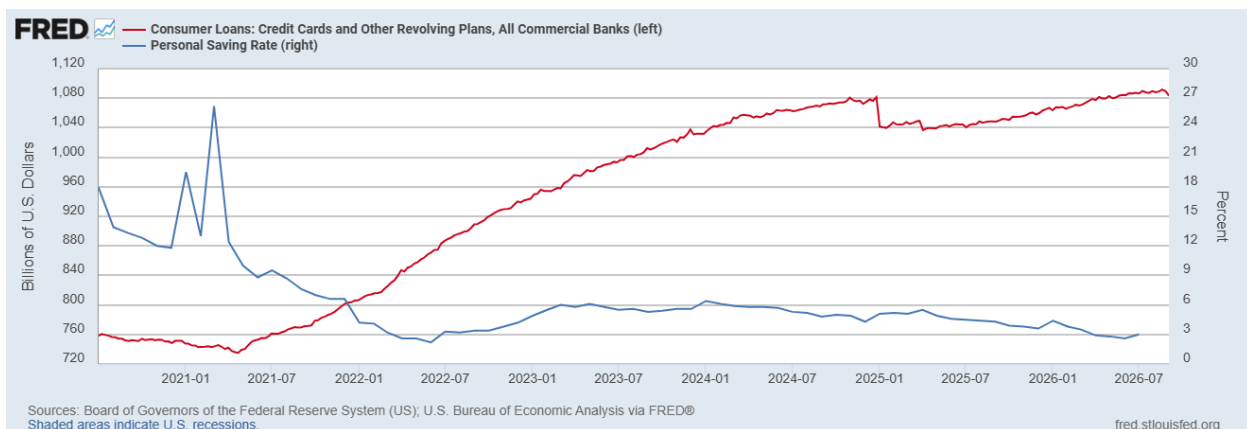


ECONOMIC UPDATE: NATIONAL OUTLOOK

The U.S. economy continued to grow during the second quarter of 2026, though at a slower pace than earlier in the year. Real gross domestic product (GDP) increased at an [annual rate of 1.5%](#) from April through June, down from 2.1% during the first quarter. Consumer spending, exports and private investment contributed positively to growth, while declines in government spending and an increase in imports weighed on the overall figure.

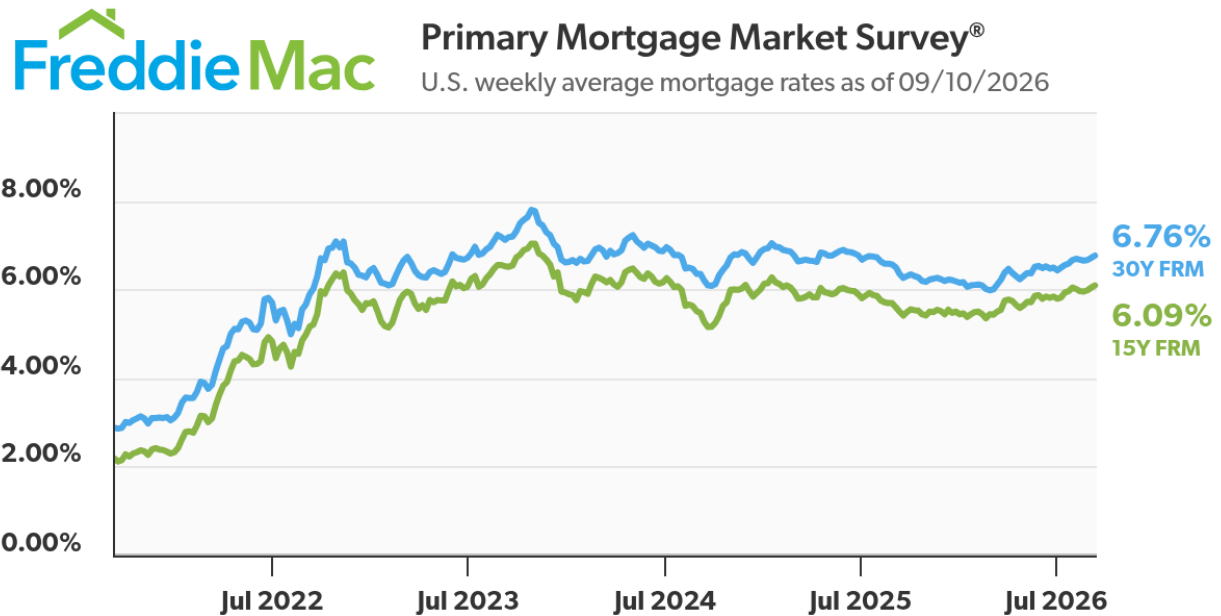


Consumer spending continues to be an important source of strength for the economy. Personal consumption expenditures increased again in July, while disposable [personal income rose 0.5%](#). At the same time, the personal saving rate stood at just 3%, suggesting households have relatively little cushion compared with historical norms, as further highlighted by the [widening gap between consumer loans and personal savings](#). These trends are particularly important for local governments because continued consumer spending supports sales tax collections, but the combination of low savings and higher prices raises questions about how long consumers can maintain their current pace of spending.



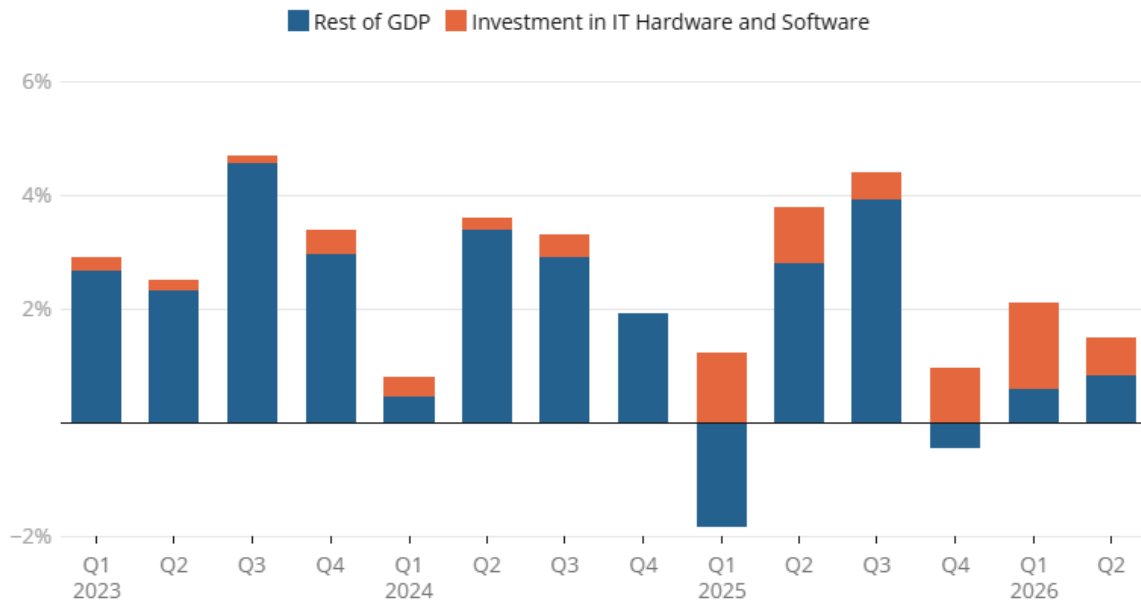
Housing remains another area of weakness. Elevated borrowing costs continue to constrain affordability and activity in the housing market. The average 30-year fixed mortgage rate was 6.76% in early September, compared with 6.35% a year earlier.

[Freddie Mac](#) has noted that elevated mortgage rates continue to affect housing-market activity, even as home prices have continued to post modest gains.



Taken together, the national economy remains resilient but uneven. Consumer spending and private investment continue to support economic activity, while slower overall growth, elevated energy prices, housing affordability and geopolitical and trade uncertainty present risks moving forward. This is consistent with the mixed outlook highlighted in the League’s earlier FY26 reports: economic growth has continued, but the sources of that growth are not broad enough to eliminate concerns about the durability of the expansion.

Drivers of GDP Growth



Source: Bureau of Economic Analysis

On the topic of uneven growth, AI. Recent warnings from within the AI industry add uncertainty to the sustainability of this investment. Former AI safety researchers have [publicly raised concerns](#) about the pace of development, while leaders at several major AI companies have called for slowing development to address safety risks. The White House has taken the opposite position, arguing that slowing U.S. AI development could undermine the country's competitive position.

The [University of Michigan's economic forecast](#) similarly points to AI-related investment as an increasingly significant contributor to U.S. economic growth, while noting uncertainty about whether the current pace of investment can be sustained.

While these concerns have not yet translated into a measurable pullback in investment, the conflicting signals are notable given the growing contribution of technology investment to GDP growth. A slowdown in AI and data center investment could therefore have broader implications for economic growth in future quarters.

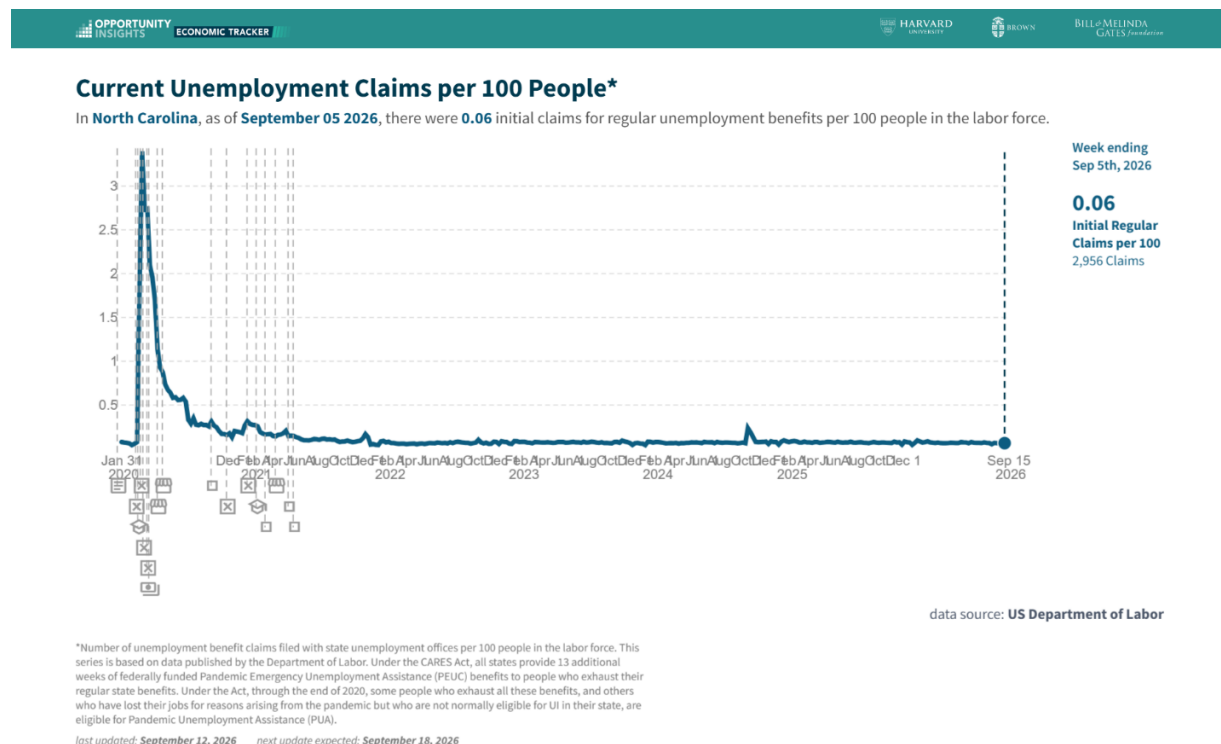
The [Federal Reserve](#) raised the federal funds rate by 0.25 percentage points at its September meeting, bringing the target range to 3.75%–4%. [The Federal Reserve cited](#) continued economic expansion and resilient domestic spending but emphasized

that inflation remains elevated and that geopolitical uncertainty continues to complicate the outlook. Chair Kevin Warsh also pointed to strong capital investment, particularly among large technology companies, as an important contributor to economic activity and rising demand for capital.

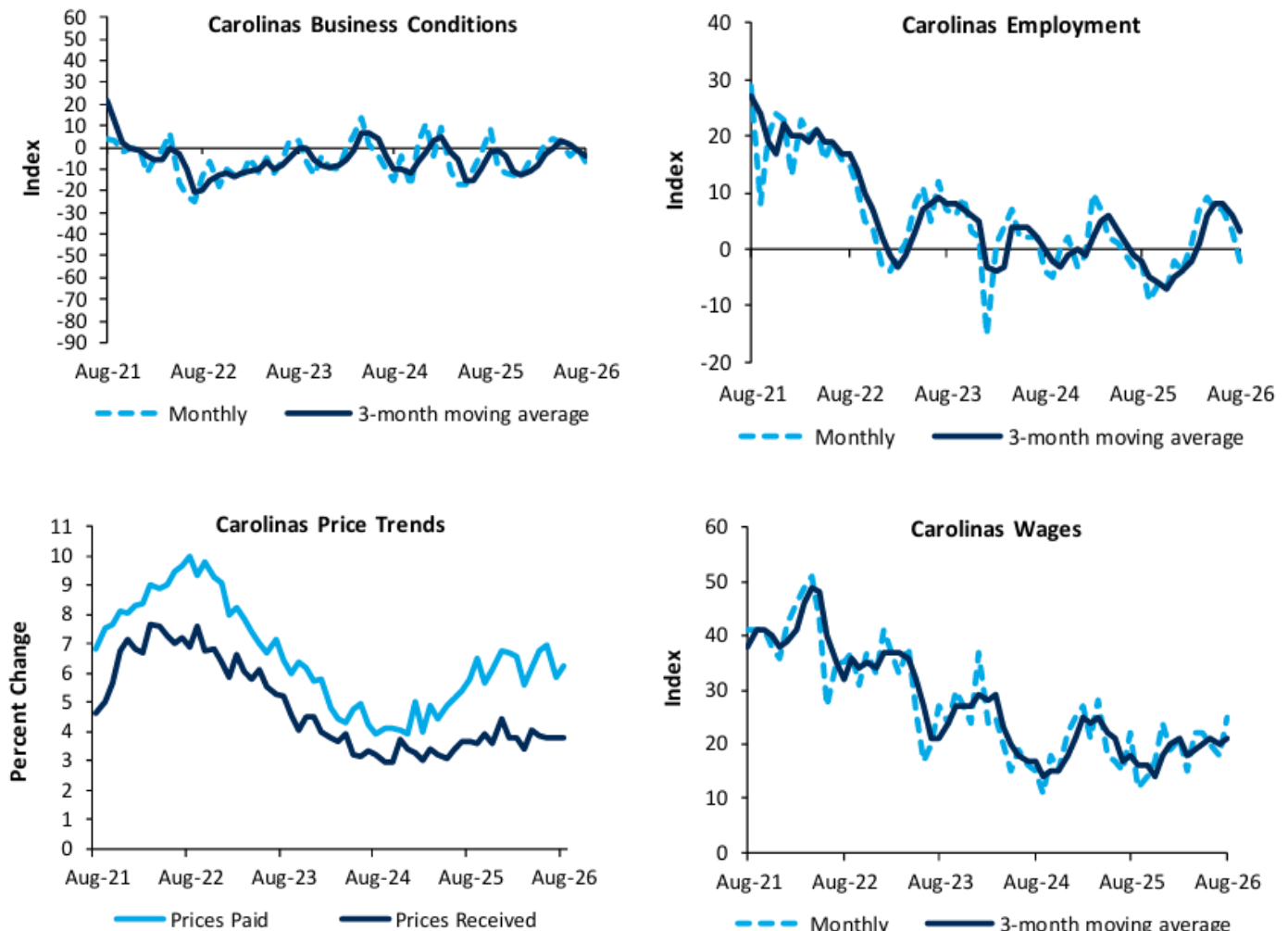
Taken together, these indicators suggest a national economy that remains resilient but increasingly reliant on a narrow set of growth drivers. Consumer spending and significant AI-related investment continue to support economic growth, though questions are emerging about whether the current pace of technology and data center investment can be sustained. For local governments, the near-term outlook remains generally positive, but slower consumer spending or a pullback in AI investment could affect sales tax growth, development activity and other economically sensitive revenues in future quarters.

ECONOMIC UPDATE: STATE OUTLOOK

North Carolina's labor market remains relatively stable, with [unemployment in North Carolina](#) low and limited hiring and firing activity. As a state, North Carolina is in a low-hire and low-fire employment environment. Unemployment claims for the United States at the beginning of September were 0.11 initial regular claims per 100. This is higher than the 0.07 claims per 100 in North Carolina, based on data published by the [Department of Labor](#). With the exception of October 2024, unemployment in North Carolina has been steady at or near 0.07 per 100 claims.



The Richmond Federal Reserve Bank's [August 2026 Survey of Business Activity](#) points to a North Carolina economy that remains steady but somewhat sluggish. Business conditions and employment show limited growth, consistent with Department of Labor data showing a low-hire, low-fire labor market. At the same time, wages and other business costs remain elevated. For local governments, that combination means continued pressure on personnel, construction and other operating expenses, without stronger economic growth to necessarily help revenues keep pace.



[North Carolina State University's Index of NC leading economic indicators](#) point to continued but more cautious growth ahead. Weakness in construction, manufacturing and building permits suggests local governments should anticipate moderating revenue growth, particularly in economically sensitive revenues such as sales taxes, while continued cost pressures could further constrain municipal purchasing power. This is similar to what we are seeing nationally and with the national indexes.

[UNC's Kenan Institute](#)'s recent work similarly points to a slower, more uneven economic environment, with labor-market and household pressures becoming more important even as North Carolina retains longer-term growth advantages. North Carolina's economy has remained more resilient than expected through mid-2026, prompting upward revisions to growth forecasts, even as persistent inflation and weakening job growth create growing pressure on households and businesses. At the same time, an increasing share of U.S. growth is being driven by AI-related investment, creating uncertainty about how durable current growth will be if technology investment slows.

For local governments, this reinforces a cautious revenue outlook: slower employment and consumer momentum could temper economically sensitive revenues while communities continue to face elevated service and infrastructure demands.

As we get further into FY 2027 and the start of local government budgeting season, there are a few legislative actions that may have an impact on local government revenues. The constitutional amendment on the November ballot instructing the General Assembly to place a limit on property tax levies remains an ongoing policy priority at the League. Beyond the property tax conversation, local government sales tax may experience lower 2028 distributions due to the SNAP Benefit cost-sharing provision in [SL 2026-41](#). For those interested in legislative changes and wishing to follow along with the League's work on these and other topics, please subscribe to NCLM's Legislative Bulletin for the latest updates.

As always, the League recommends that, in addition to statewide 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/local-government>

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:

[Research & Surveys | NCLM](#)

CONTACT

For questions on this report, contact Shelly Linker, Research Program Manager, at slinker@nclm.org.