NCLM
NC LEAGUE OF MUNICIPALITIES

Projections for State-Collected Local Government Tax Revenue
FY 24-25 & FY 25-26

Prepared by:
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CONTENTS

1 Executive Summary

This document summarizes and analyzes state-collected taxes distributed to local governments by the N.C. Department of Revenue (DOR) and provides a forecast of these revenue sources for the remainder of the current fiscal year (2024-25) and the upcoming fiscal year (2025-26). Statewide projections for each tax revenue source are summarized in the table below and explained later in this document.

Please read through this entire report, including the cautionary note below, for important caveats and context related to each of the League's projections.

Revenue Source	Projected Change from FY23-24 to FY24-25	Projected Change from FY24-25 to FY25-26
Sales and Use Tax	+2.4%	+2.8%
Electricity Sales Tax	+9.8%	+6.3%
Piped Natural Gas Sales Tax	+17.2%	-4.7%
Telecommunications Sales Tax	-7.7%	-6.6%
Local Video Programming Tax	-3.7%	-4.4%
Solid Waste Disposal Tax	-0.7%	-0.2%
Alcoholic Beverages Tax	-3.2%	+2.6%

More information on the recent legislative history and distribution formulas for each tax described in this report can be found in our Basis of Distribution Memo. The League also 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.

1.1 Cautionary Note

Estimates included in this document should be used only as a rough guide in preparing your Fiscal Year 2025-26 proposed budget. Estimates should be modified as necessary to fit your local situation, your community's actual trends, and your own assumptions about the effects of various 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, or as we have seen in recent years, pandemics and international conflicts. Our goal is to provide municipalities with a reasonable projection of where state-collected revenues are heading based on available information and guidance from subject-matter experts.

These estimates also assume that the General Assembly will make no changes in 2025 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 due to economic circumstances or legislative action, we will communicate this information to our members as soon as possible.

1.2 Projection Time Frame

The Local Government Commission (LGC) encourages the use of a 90-day accrual period to meet Governmental Accounting Standards Board (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 begins with the collection quarter ending in September and stops 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.

1.3 Questions and Contacts

Any questions related to this document should be directed to Chris Nida, Director of Technical Assistance for Cities. We would like to thank NCLM's Strategic Communications and Member Engagement team and our partners at the N.C. Department of Revenue (DOR), the N.C. Office of State Budget & Management (OSBM), and the N.C. Association of County Commissioners for their assistance in preparing this document. Please see Section 5 of this document for additional topics which DOR may be able to assist your municipality with and their related contacts. As always, any errors or oversights are the League's alone.

2 Overview of Economic Conditions

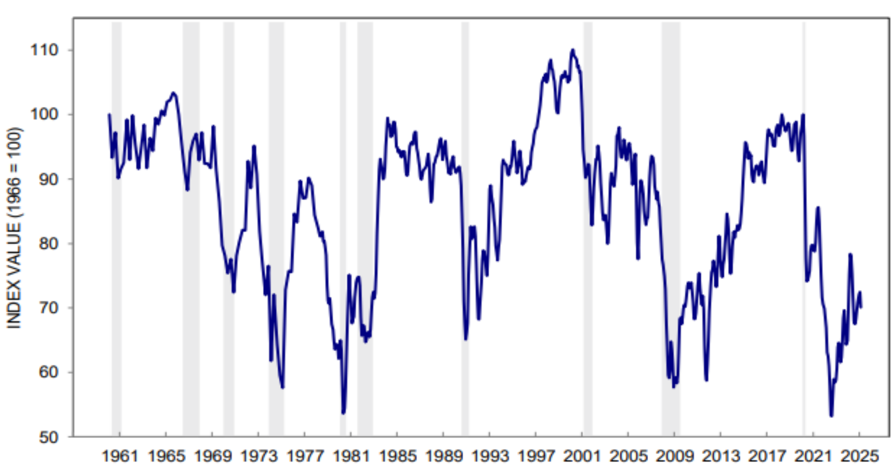
National Outlook

Uncertainty seems to be the prevailing sentiment when it comes to the 2025 U.S. economy. A change in leadership at the federal level always brings with it the prospect of a different approach to key economic issues, but that shift appears particularly pronounced at the time of this memo. For the most part, the data at this stage indicates that economic growth may be slowing but not receding. But consumer confidence measures and a lack of clarity as to the approach the federal government may take on key issues such as tariffs have led many analysts to forecast increased chances of a recession in the months ahead. What this all may mean for sales taxes and other key local government revenues in N.C. is – as we mentioned above – uncertain.

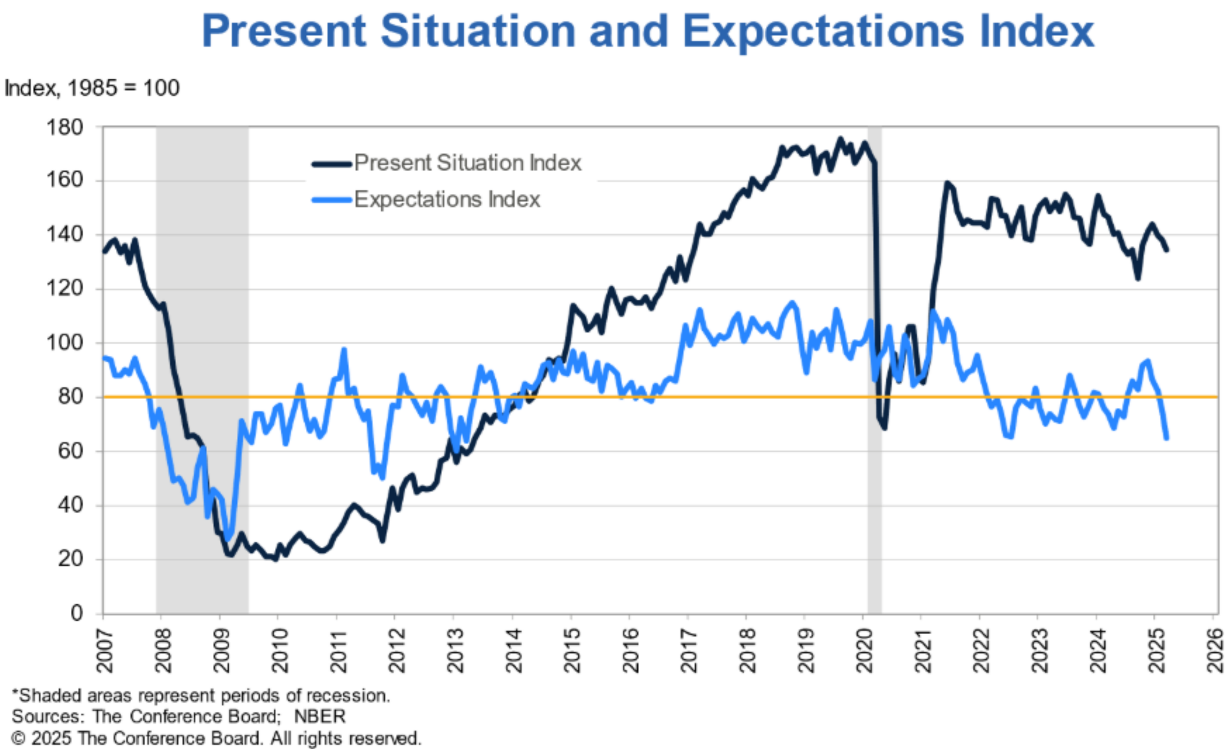
Nationally, there may be early indicators that retail sales are slowing down. February retail sales for the U.S. rose 0.2% from January, which was a half-percent below what had been forecasted. At the same time, January's retail sales numbers were revised downward, so that the decrease from December was even more pronounced than previously indicated. Despite those recent trends, February sales overall were still 3.1% above sales in February 2024. One of the stronger areas of growth was in grocery stores, where sales were 4.3% above the previous year's sales. That local sales tax in N.C. applies to groceries is one factor contributing to the general resiliency of local sales tax.

Still, the question remains as to whether the recent downturn in sales is a harbinger of what's to come. If recent measures of consumer confidence are to be believed, they may be. Overall consumer confidence has declined significantly in the early part of 2025. In the University of Michigan survey, consumer sentiment declined more than 10% from the same measure in the month of January. Economic recessions are shaded on the chart below.

CHART 1A: THE INDEX OF CONSUMER SENTIMENT



While current sentiment has declined, expectations for the future are in some cases even more dire. Another leading tracker of consumer confidence, the Conference Board, noted that in its most recent survey, the expectations index dropped to a 12-year low, and below the number of 80 that typically signals a future recession.

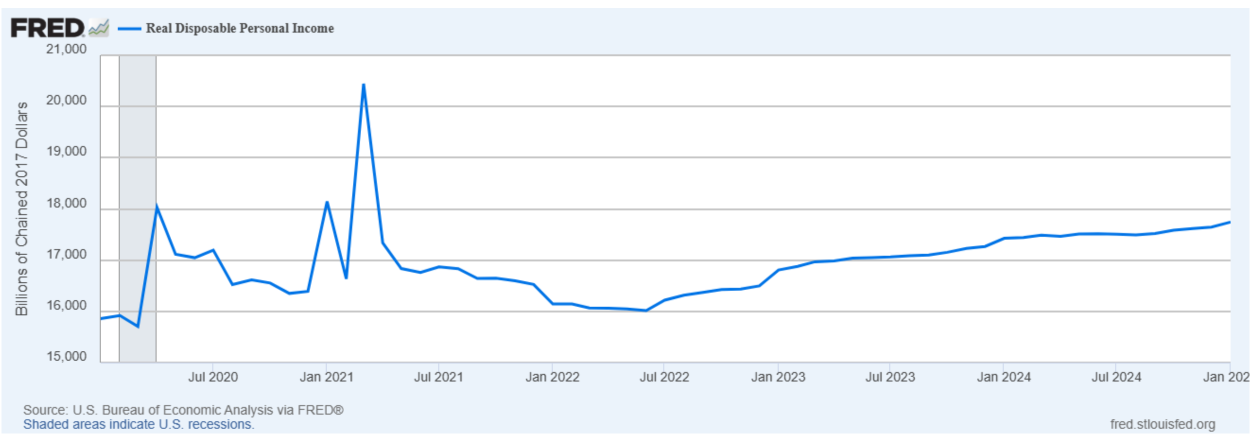


As consumer sentiment dips, inflation seems to be sticking around. The Consumer Price Index for all Urban Consumers (CPI-U) increased 0.2% from January to February, bringing total 12-month inflation for all items to 2.8%. This remains above the Federal Reserve's 2% inflation target, and in its most recent meeting, the Fed chose to keep its core interest rate unchanged at 4.5%. Inflation is a double-edged sword for local government revenues. While it has implications for the overall economy and consumer purchasing power, higher prices mean higher taxes. Much of the pandemic-era growth in local sales taxes was driven by inflation. Of course, that was also a time when federal programs were providing direct financial assistance to many consumers. Any inflation that occurs in 2025 and 2026 will come in a much different environment.

These factors are all contributing to the economic uncertainty. So, too, is the prospect of what has happened and what may yet happen on the federal level. The risks are enough that the UCLA Anderson Forecast announced a "recession watch," citing three primary areas of concern: tariff policy and potential trade wars, federal government workforce contraction, and the impact of large-scale immigration action, particularly on the construction and agriculture sectors. In the first months of the current presidential administration, we have already seen action on some of these fronts, as well as a reversal in direction after action is announced, particularly in the area of tariffs.

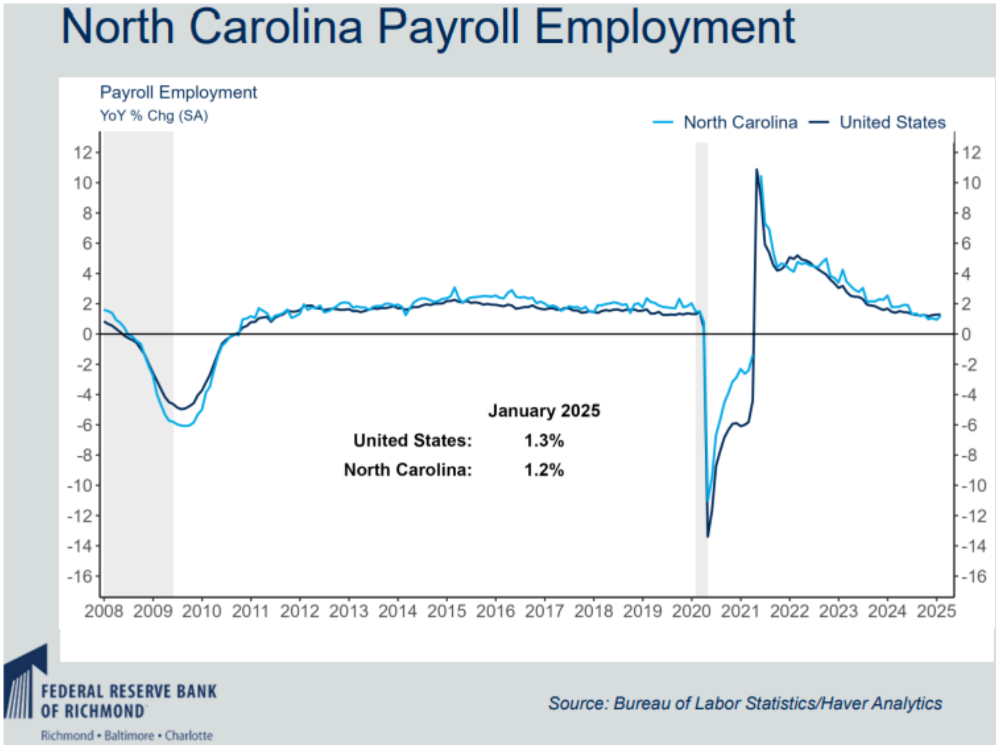
The lack of clarity on what may be implemented going forward is a primary reason that the Anderson Forecast is not the only entity mentioning the possibility of a recession. For instance, a recent Deutsche Bank survey put the possibility of recession at close to 50%, and a CNBC survey of CFOs found 60% of them predicting a recession in the second half of 2025, with 15% more expecting a 2026 recession.

Despite those concerns, there is still plenty of positive news for the economy. While firms like Goldman Sachs, Vanguard, and others have revised their GDP growth forecasts downward – 1.7% in 2025 is a common projection now – they are still expecting economic expansion. The nation added 151,000 jobs in the month of February, as the unemployment rate remained relatively constant at 4.1%. Certain measures of household wealth, such as real disposable personal income, continue to trend upward (see below). The pessimism about the economy in the face of this resilient data underscores the degree to which federal policy concerns are impacting future projections.

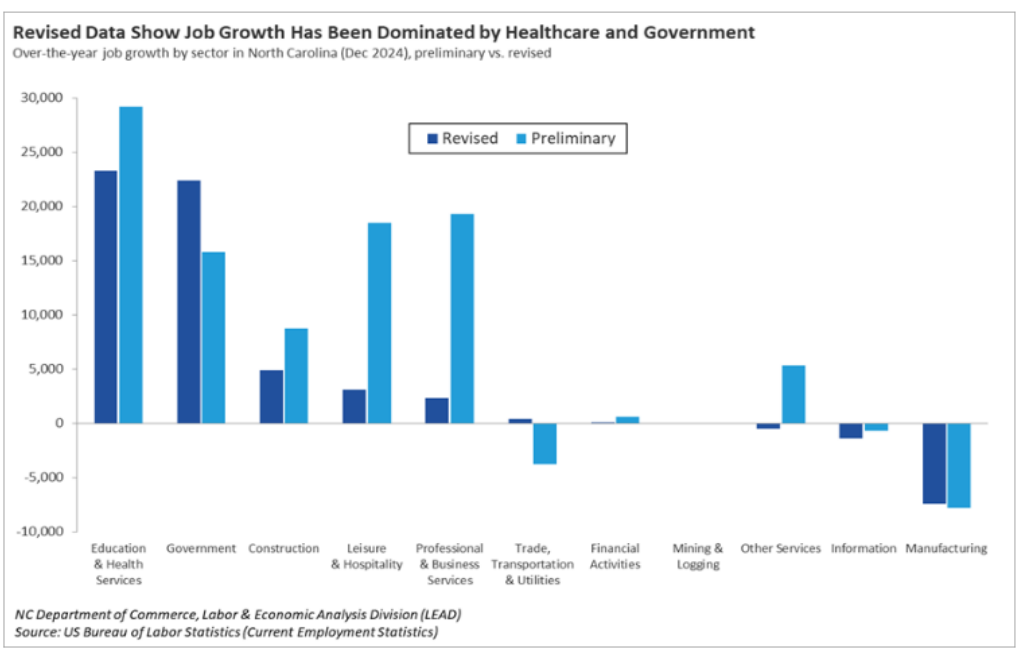


N.C. Economy: Looking Ahead

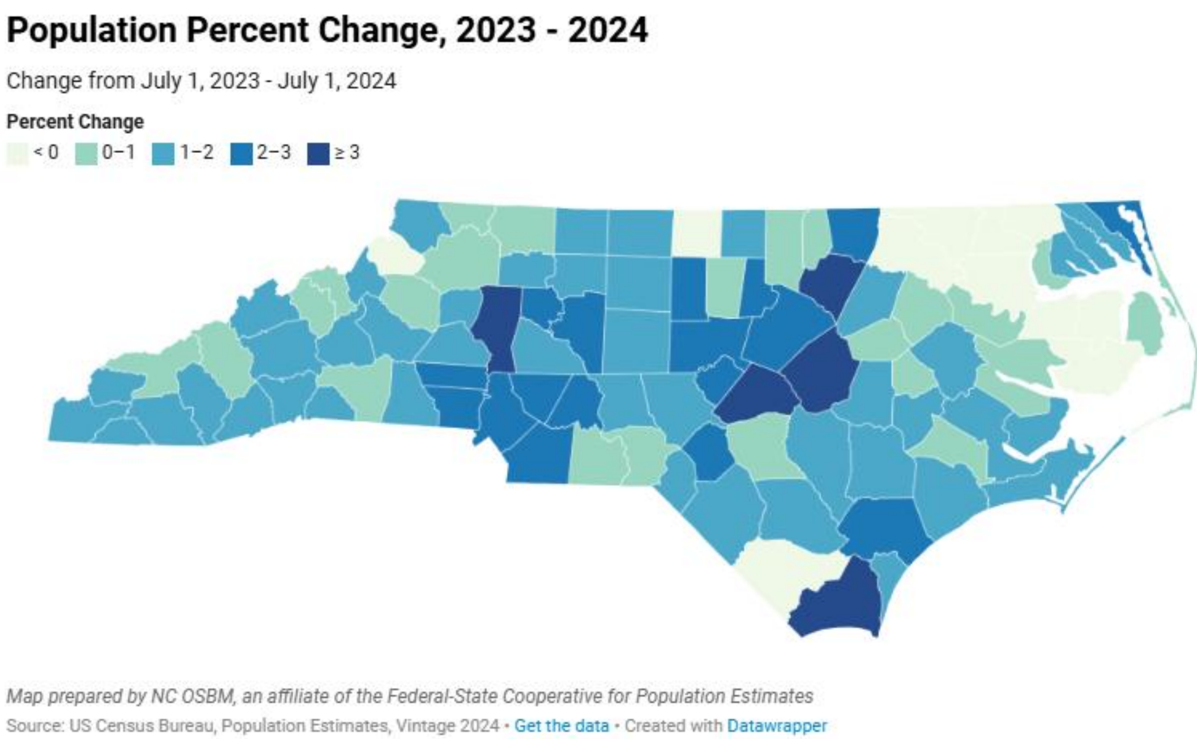
There is little economic data to suggest that the N.C. economy would fare any worse than the country as a whole in the coming year. In many metrics, N.C. continues to match or outpace national indicators. Data compiled by the Richmond Federal Reserve helps illustrate this. The January unemployment rate in the state of 3.7% was below that of the U.S. as a whole, and growth in real personal income in N.C. (4.3%) exceeded that of the nation (2.9%). One area where the state was not faring quite as well was in payroll employment growth where, after generally exceeding national employment growth for much of the past few years, the state was slightly behind national trends according to the Richmond Fed.



The [N.C. Department of Commerce's Labor & Economic Analysis Division (LEAD)] noted that the job growth number from December 2024 had been almost cut in half as well when the data was revised. The revised number showed strong growth in education & health services and government, but a continued employment decline in manufacturing (see below).



A contributing factor to N.C.'s economic strength is that the state continued to add people. U.S. Census Bureau estimates released in March 2025 and compiled by the North Carolina State Demographer showed that 87 of the state's 100 counties increased in population between 2023 and 2024. More than half of the state's overall growth was in just six counties – Mecklenburg, Wake, Johnston, Brunswick, Durham and Iredell.



None of these economic or demographic changes are experienced equally across the state, and it of course must be noted that in many of our western communities, the top priority will remain recovery and rebuilding from the impacts of Hurricane Helene. The State of N.C. estimated damage and needs of $59.6 billion in the aftermath of the storm, and for many families and businesses, there is still a long way to go before those needs are met. The N.C. General Assembly has passed multiple bills providing funding to relief efforts already, and additional legislative action is expected. The federal government has provided funding and personnel as well, but additional support will be needed to achieve the long-term goals of recovery in the area. Meeting the needs of the community should bring along with it economic activity and growth that will benefit everyone in the region, and in the state of N.C. as well.

Projections for how the state economy will fare in the coming year are largely consistent with steady, if not rapid, growth. In his fourth-quarter forecast from late last year, UNC-Charlotte professor John Connaughton predicted 2.3% GDP growth for the state over 2024 levels. Campbell University professor Mark Steckbeck called for much the same at a Business North Carolina economic roundtable early this year, saying, "Growth will be about 2.5%, maybe slightly lower, this year." Dr. Michael Walden's most recent index of North Carolina's leading economic indicators for December 2024 had declined by 4.8% for the calendar year but noted a consensus of predictions for "growth, but at a slower pace" in 2025.

American Rescue Plan

As a reminder, all Local Fiscal Recovery Funds (LFRF) appropriated to North Carolina municipalities as part of the American Rescue Plan legislation were required to be obligated by December 31, 2024. Many local governments obligated funds using the "revenue replacement" category detailed by the U.S. Treasury. If your municipality did so, you likely have already also spent those funds well in advance of the December 31, 2026, deadline. Regardless of whether your funds are fully spent, you must continue to file reports with the U.S. Treasury on the status of your LFRF funds, even if there has been no change in that status since the previous year. Some larger cities are required to file quarterly reports, but the majority of N.C. municipalities only file annually. Those annual reports must be completed in the U.S. Treasury portal by April 30, 2025. If you need assistance or have any questions about completing your required Treasury report, please visit our ARP webpage or email the League at arp@nclm.org.

3 State-Shared Tax Revenue Projections

3.1 Sales and Use Tax

3.1.1 Overview of N.C. 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 and make up approximately a quarter of a median N.C. municipality's revenues, excluding utilities. 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.

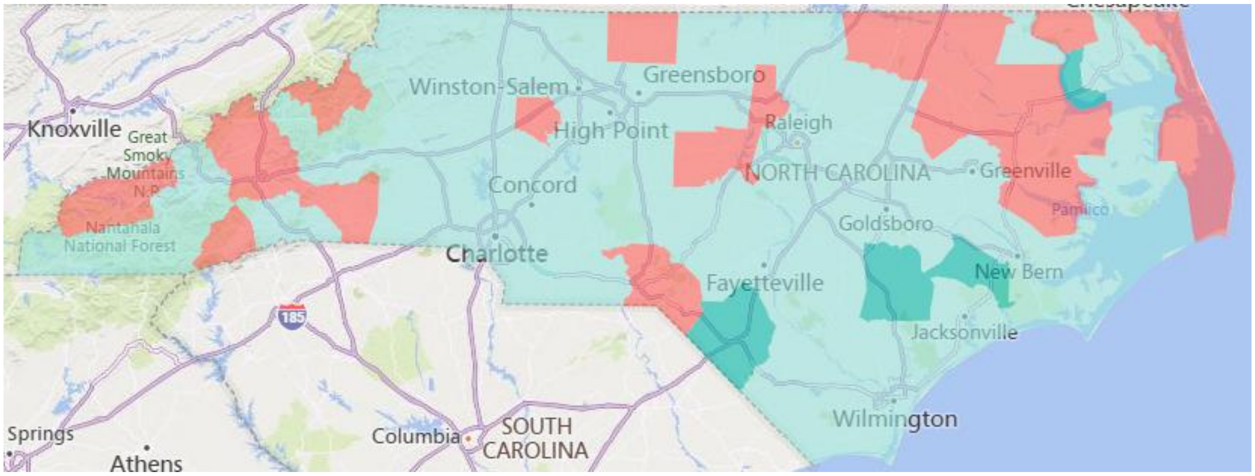
After the state's distribution methods have been applied, the result for each county then is allocated between the county and its municipalities using one of two methods chosen by the county. Every April, counties can change the method of distributing local option sales tax revenues to their municipalities, either from per capita to proportion of ad valorem tax levies, or vice versa. The method chosen by the county board of commissioners determines the division of funding among county and municipal governments. Population or tax levy changes might cause some counties to take a close look at the current distribution method to determine if it is still advantageous to them. Changes in distribution method do not take effect until the start of the subsequent fiscal year; for example, a county submitting a change to its distribution method in April 2025 would see it take effect in July 2026.

3.1.2 Sales Tax Projection

Growth in sales tax revenue continues to slow. Following years of pre-pandemic growth that ranged between 4 and 7%, and multiple years of double-digit growth in the early 2020s, we are now in the midst of the 5th year of year-over-year declines in the growth rate. Halfway through Fiscal Year 2024-25, growth statewide is hovering around 1.9%.

As we always note in this memo, positive statewide growth does not equate to positive growth in every county or in every city. While there are counties that are experiencing strong growth as compared to FY23-24, there are many more where sales tax revenues have actually declined this year. The map of Article 39 & 40 distributions halfway through FY24-25 illustrates this with counties in red having received distributions below their previous fiscal year's total.

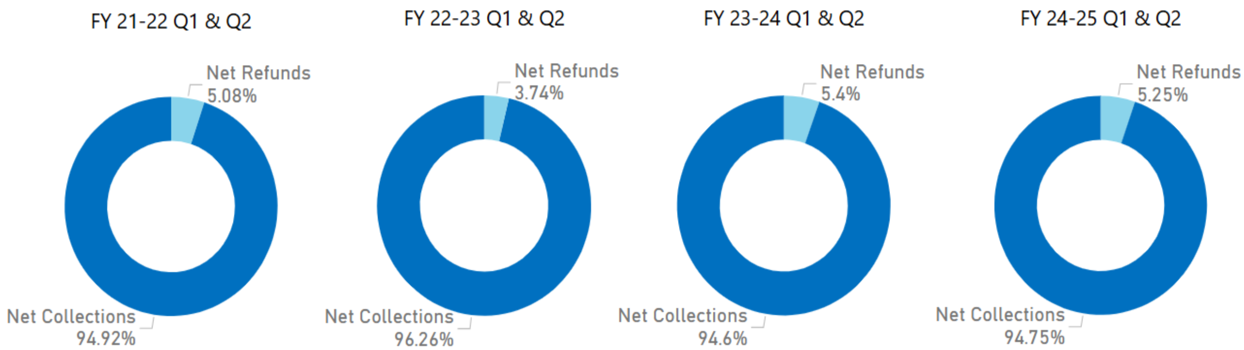
Articles 39 and 40 YoY by County, FY25 YTD



It may be worth noting on this map the experience of western N.C. counties in particular. Even in those communities hit hard by Hurricane Helene, the sales tax impact is not felt uniformly. Some counties that lost days or weeks of economic activity, not to mention the loss of tourism-related revenues, may have taken a substantial revenue hit this year. However, it is possible that counties nearby absorbed some of the economic activity that was displaced from these counties or benefited from recovery activities based out of counties in the geographic region. Likely even more so than usual it is crucial that counties take local experiences like these into account when putting together their individual revenue forecast for the coming fiscal year.

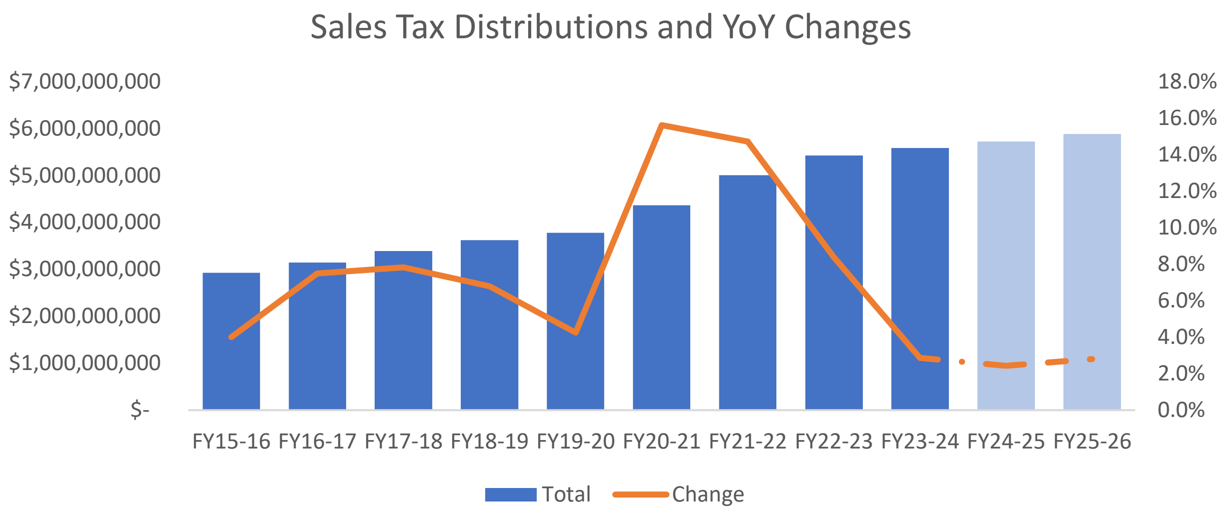
Aside from economic conditions, sales tax refunds distributed to nonprofits and governments are a major factor affecting local variation in sales tax distributions. Eligible entities have up to three years to submit for refunds. DOR typically processes them as they are filed while maintaining discretion to avoid adversely affecting local government's net collections where possible. This lack of a clear timeline creates major volatility; halfway through any given fiscal year, distributed refunds have made up anywhere between 44-60% of total refunds for the entire fiscal year.

As shown in the chart below, as of Q2 in FY24-25, refunds are comprising just about 5.25% of net collections. This is largely consistent with the total from FY21-22 and FY23-24. FY22-23 may be something of an outlier due to processing issues that took place in the middle of that fiscal year. It also may be that the previously noted timing issues when it comes to processing refunds led to an unusually low number for FY22-23. Whatever the reason, we caution local governments to take note of their refund amounts and project conservatively when anticipating their refunds and collections for the rest of the fiscal year.



As mentioned in the economic overview above, the general uncertainty around the economy makes for a particularly difficult forecast of sales tax revenues. In the short term, we foresee the remainder of this fiscal year being largely consistent with the first half. Continued persistent inflation may boost sales tax revenue some, although the current consumer sentiment seems to make it unlikely that there will be a significant uptick in taxable sales. Taking into account recent trends and data, as well as the various factors described in this memo, **we anticipate at this time that sales tax will finish FY24-25 at 2.4% over FY23-24.**

The picture for the next fiscal year is even fuzzier. Much will depend on actions at the federal level. Will significant tariffs be implemented and maintained? How much will layoffs or immigration actions impact the workforce? These actions have the potential to lead to increased inflation, which contributed to increasing sales tax revenues in recent years. But any inflation in the coming fiscal year is unlikely to be paired with direct fiscal assistance that accompanied some of the recent inflation. Regardless of federal action and its impact, though, the state is likely to continue to add population, and increased recovery work in western N.C. will hopefully lead to resurgent economic activity and a more typical tourist season in the fall. Weighing all this, **our statewide projection for FY25-26 is growth of 2.8% over FY24-25.**



As emphasized earlier in this document, these projections are meant to act as a rough guide for statewide collections. Local governments should consider factors such as your local economy, industries, and anticipated growth when utilizing these projections.

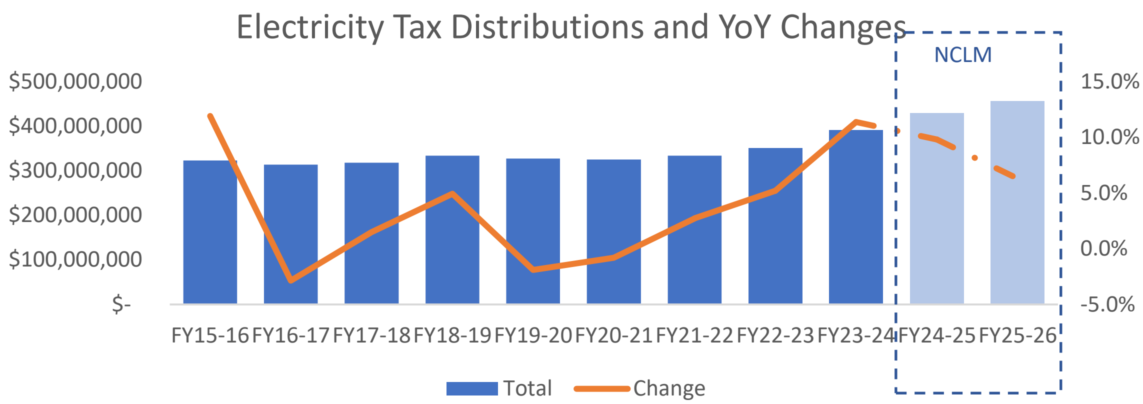
3.2 Utility Sales Taxes

For the purpose of analyzing electricity, natural gas, telecommunications, 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 of Distribution Memo for the recent history of how this revenue is distributed.

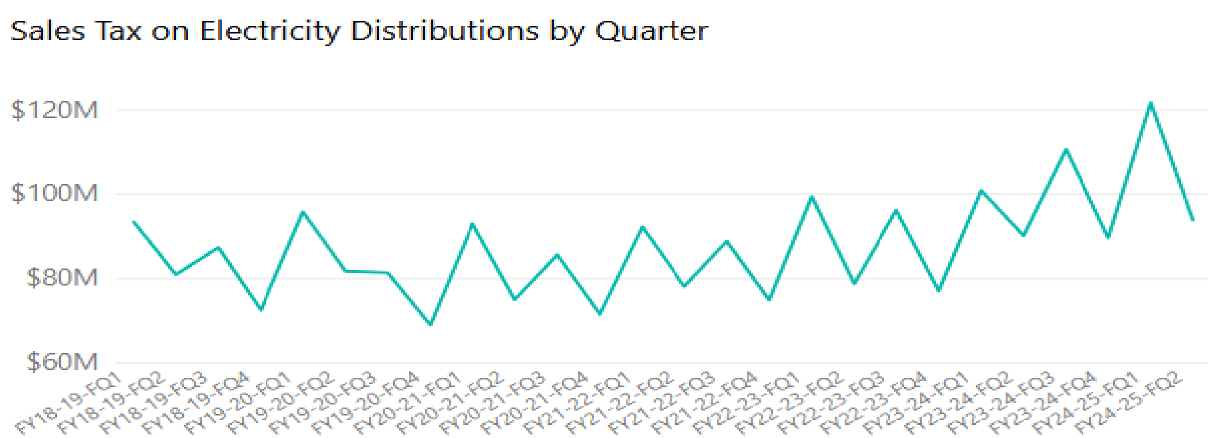
3.2.1 Electricity Sales Tax

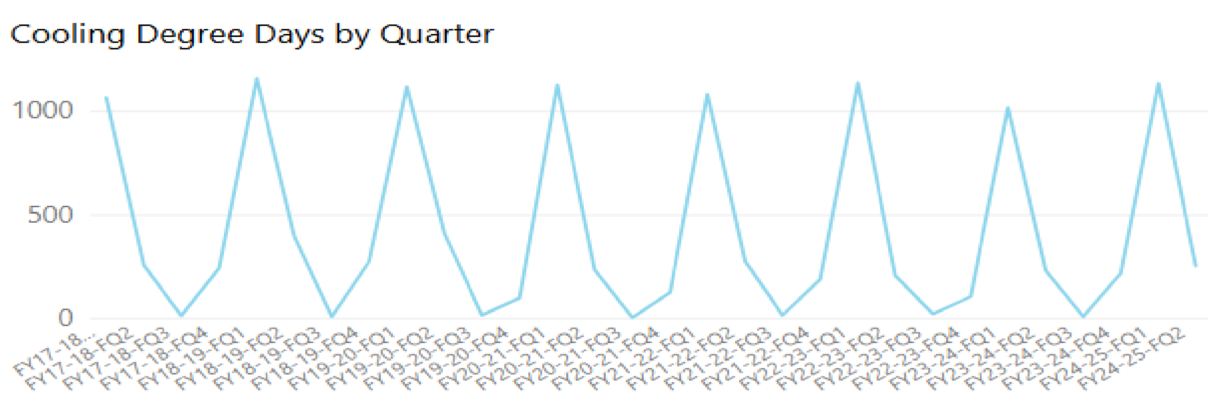
Historically, electricity sales tax revenue has been stable from year to year, typically fluctuating less than 5% in either direction. However, revenues for FY23-24 finished more than 11% above the previous year's levels, and halfway through FY24-25, revenues are up an additional 12.84%. Electric prices have been elevated this year over much of last year, though that trend has tailed off in recent months.

The Energy Information Administration (EIA) projects that electricity prices in the South Atlantic will increase from the current year's rates in the coming fiscal year. However, we do not foresee additional years of double-digit growth. For the current year, **we project that statewide electricity sales tax revenue for FY24-25 will end 9.8% higher than FY23-24.** Based on available data, we expect somewhat reduced growth in this revenue next year and **project that electricity sales tax revenue will increase by 6.3% in FY25-26.**



As always, weather remains one of the largest contributing factors to consumption and revenue trends. January 2025's average temperature of 35.4 was the coldest average temperature for a single month in at least a decade, which should impact upcoming distributions of both electric sales tax and sales tax on natural gas (see below). To illustrate the relationship between weather and collections, the below graphs show the relationship between spikes in collections and cooling degree days by quarter.





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 quarters.

Please remember that 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

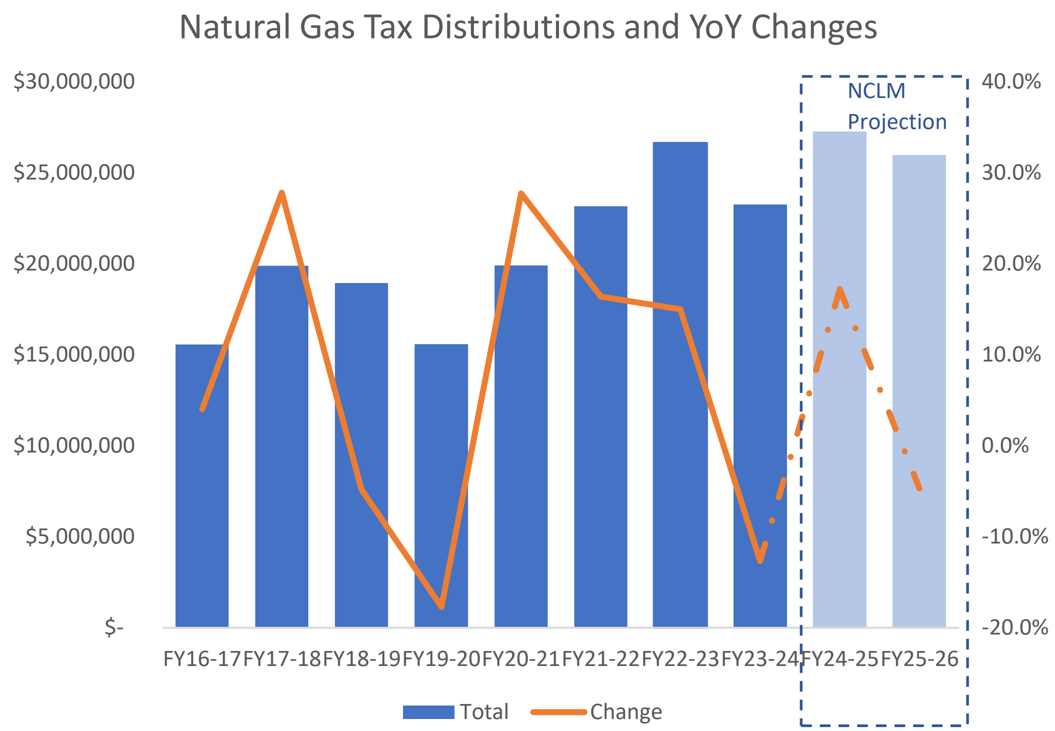
Piped natural gas tax distributions tend to fluctuate more dramatically than electricity sales tax distributions or other utilities which follow a clear trend and are thus more difficult to predict.

For each of the last five full fiscal years, natural gas revenues have seen a double-digit percentage swing from the year before. Three consecutive years of growth of at least 15% were bookended by similar declines, including a decrease in revenue of 12.7% in FY23-24. The last time there was a decline in year-over-year revenues, it was followed the next fiscal year by an increase of nearly 30%. Revenues are not up that much in FY24-25, though they have increased by 14% over the same time period last year.

The third quarter's distribution has an outsized impact on annual natural gas revenues, as it can be as much or more than half of the total year's distribution. The average temperature for December 2024-February 2025 was lower than the corresponding months in the previous fiscal year, and the number of heating degree days were higher. This should lead to a higher third-quarter distribution and increased growth for natural gas beyond what has already been experienced this year.

Going forward, the natural gas distribution will continue to be based on price and consumption, which means the weather will play a large part in the performance of these revenues. It is difficult to predict revenues on the basis of long-term weather forecasts. Energy Information Administration data does project natural gas prices for the coming year, with a decrease predicted in the second half of calendar year 2025 followed by a slight increase in early 2026. We are hopeful that any increase in prices will help mitigate any change in weather patterns from this year to the next.

Based on available data, **we project a 17.2% increase in natural gas sales tax revenues in FY24-25.** While we do not see another increase in the coming year, our prediction is that any decrease will be less drastic than the changes we have seen in recent years. **We project a decrease of 4.7% for FY25-26.**

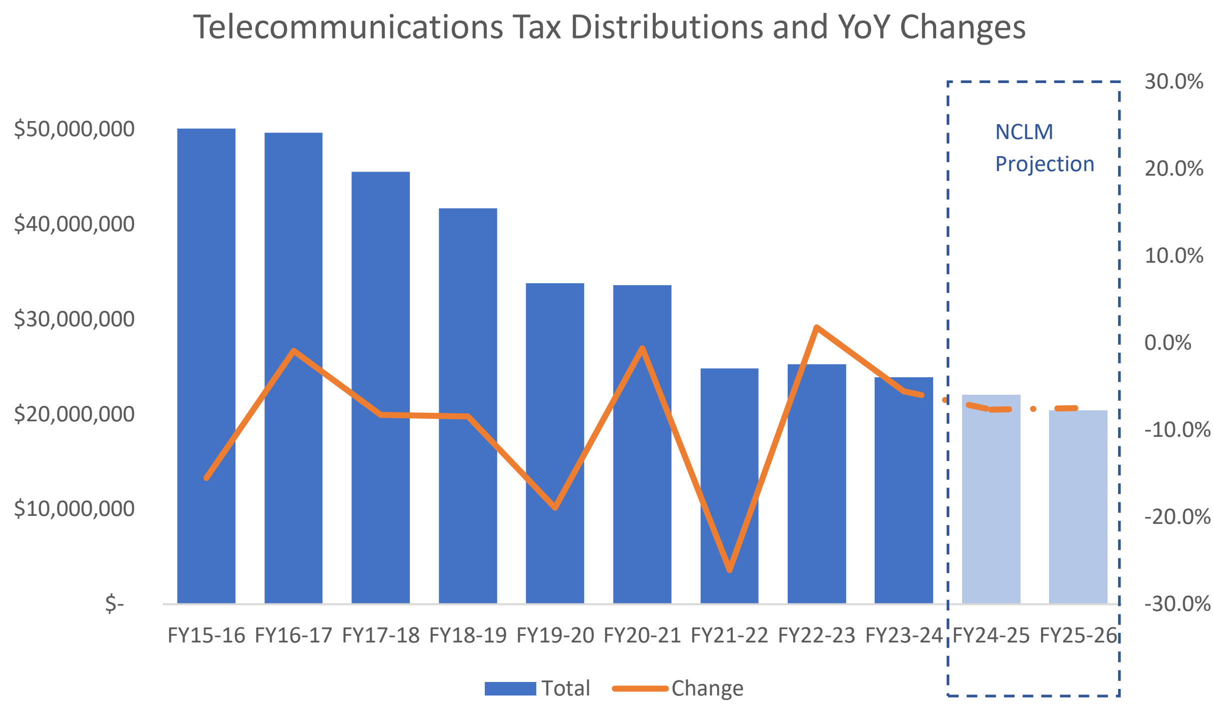


Because any future adjustments to this distribution will be made based on statewide property tax levies, it will not be affected by any changes in current users of natural gas in your town or by any population gains or losses you experience.

3.2.3 Telecommunications Sales Tax

Annual telecommunications tax distributions have been decreasing almost every year for the last decades. Given the tax base associated with this revenue source, it is no surprise. A portion of the telecommunications sales tax revenue is based on landline phone subscriptions and associated services. CDC data shows increasing numbers of adults living in wireless-only households, while households with both landline and wireless service steadily decline.

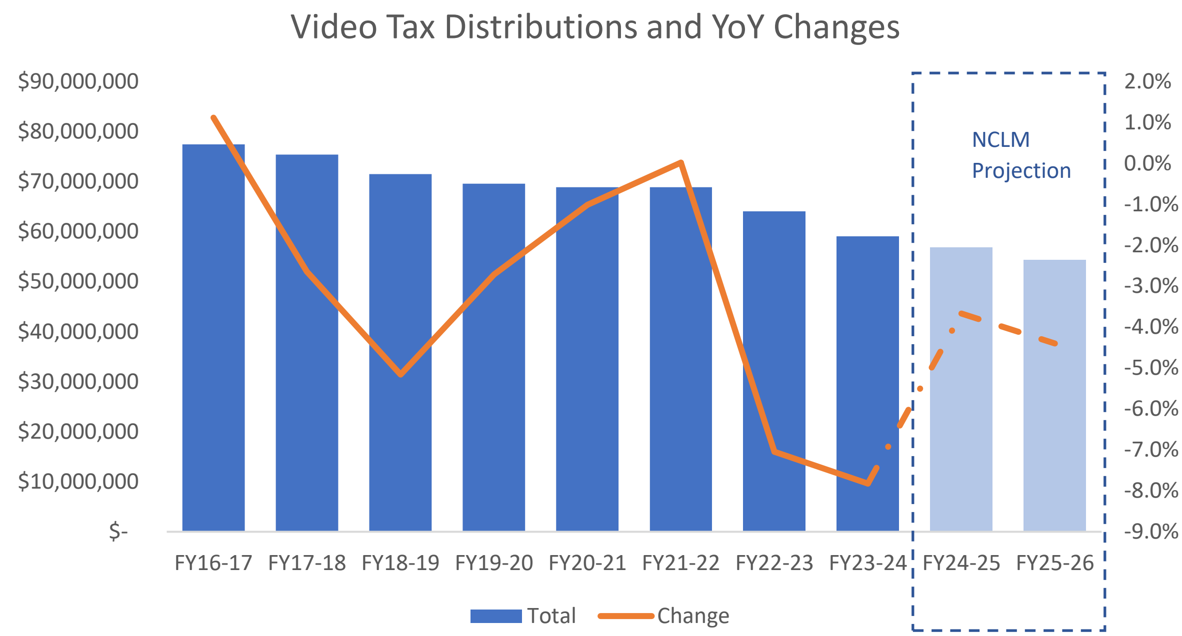
Based on the first two quarters of FY25 and prior trends, we expect that annual statewide telecommunications revenues for FY24-25 will decrease by 7.7%. We expect a continued decrease of 6.6% in FY 25-26.



For cities and towns **incorporated <u>before</u> July 1, 2001**, the distribution of this revenue is based on each municipality's past share of the old telephone franchise tax, so there should be no local economic adjustments to the statewide growth estimate. These cities and towns will also be unaffected by any population changes. For towns **incorporated <u>on or after</u> July 1, 2001**, the distribution is based on population, so some local variation from the statewide percentage is possible, and differences between annual Certified Population estimates will affect distributions.

3.2.4 Local Video Programming Tax

Video programming tax, which is primarily driven by cable providers, has declined or remained flat year over year for every but one for the last decade. The rate of decline increased in FY22-23 and FY23-24, peaking with a nearly 8% year-over-year decline in the latter fiscal year. This decline in revenues coincides with declines in the customer base of the cable TV Industry. According to one compilation of cable TV industry trends, the number of cable TV subscribers in 2024 had decreased by almost 30 million since 2017. No current projections forecast a turnaround in these trends. While we do not expect the significant declines of the last two fiscal years to continue, we do not see increases in this revenue source moving forward. As shown in the below graph, **we expect that statewide annual distributions will decrease by 3.7% in FY25, and by another 4.4% in FY26.**



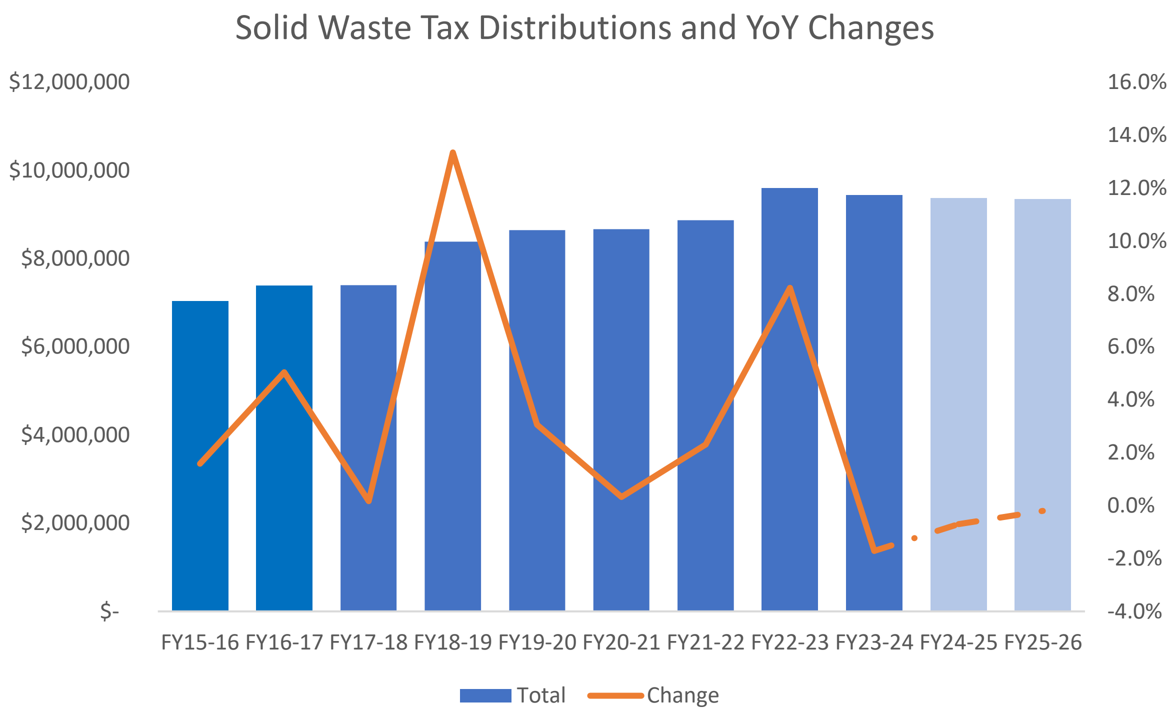
Cities with qualifying Public, Educational, and Governmental (PEG) channels are entitled to supplemental PEG channel support funds for up to three channels. These funds must be provided to the organization that operates the channel. Factors that affect PEG funding include the total number of PEG channels and any returns of PEG channel money. We do not expect these factors to change materially next fiscal year. To receive supplemental PEG channel funds, **you must certify your PEG channels to DOR each year by July 15.** The 2025 certification forms will be available on the DOR website here: https://www.ncdor.gov/documents/tr-peg-cable-peg-channel-certification.

3.3 Solid Waste Disposal Tax

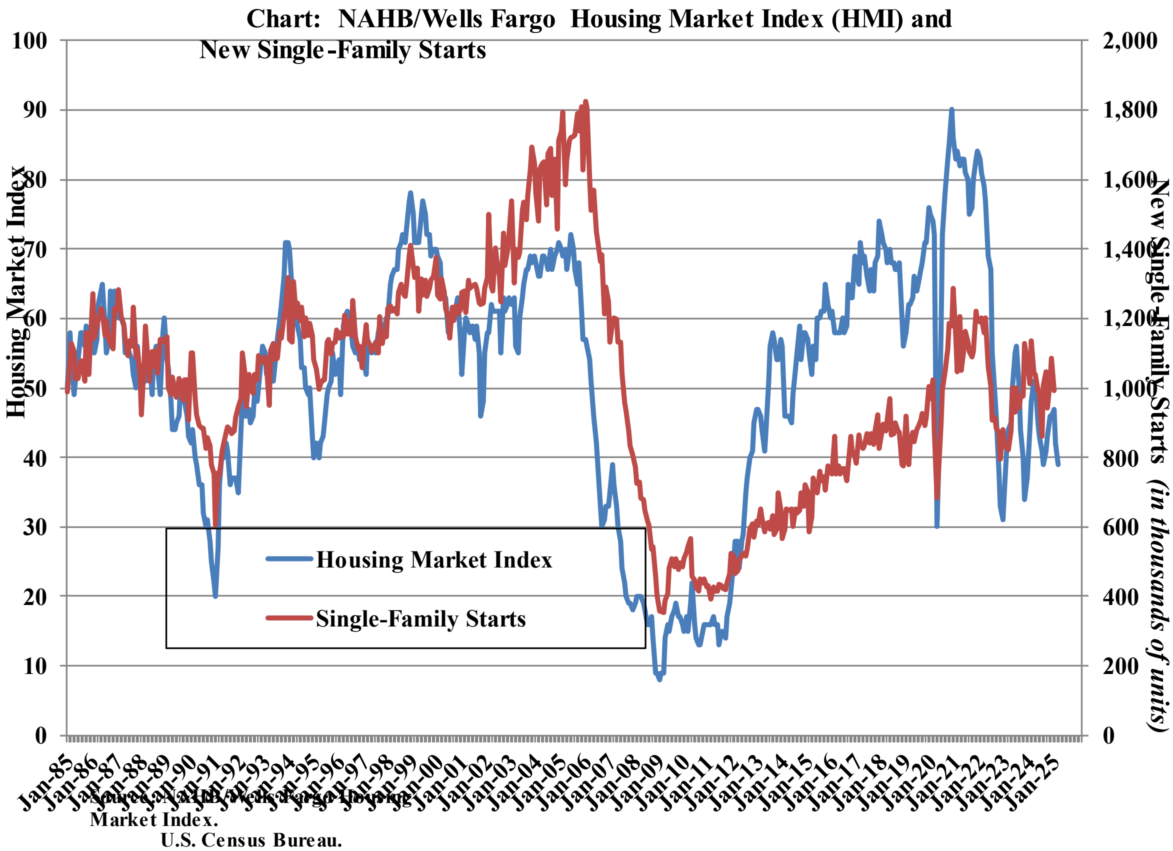
The State levies a $2 per-ton "tipping tax" on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. Cities and counties each receive 18.75% of the tax, and revenues are distributed on a per capita basis. Over the last decade, the annual distribution has generally increased consistently, though revenues declined in FY23-24 for the first time in recent years.

Trends are pointing toward another overall decline in revenues in FY24-25. Collections for the first half of FY25 have actually been slightly below FY24's reduced figures, and we believe it is unlikely revenues will rebound enough in the second half of the year to provide for a year-over-year increase. Based on recent trends, **we are projecting an overall decrease of 0.7% in FY25.** We expect marginally better performance next year and are projecting nearly flat revenues from the current year, **an overall 0.2 decrease**

in distributions in FY26. Because these distributions are based on population, it is also important to incorporate your municipality's anticipated growth relative to others into your local projection.



Activity within the construction sector is one of the largest contributing factors to solid waste revenue. Much of the uncertainty surrounding the overall economy is directly relevant to construction industry prospects as well. A [survey of N.C. construction firms by the Associated General Contractors of America] (AGC) noted that N.C. firms had more concerns about labor costs and worker supply than their nationwide counterparts overall. That survey was conducted in November and December of 2024. An AGC presentation in March also noted concerns over whether higher tariffs would disrupt supply chains, and whether federal immigration actions could exacerbate labor issues in the industry. The [NAHB/Wells Fargo Housing Market Index] fell to 39, the lowest in seven months (see below).

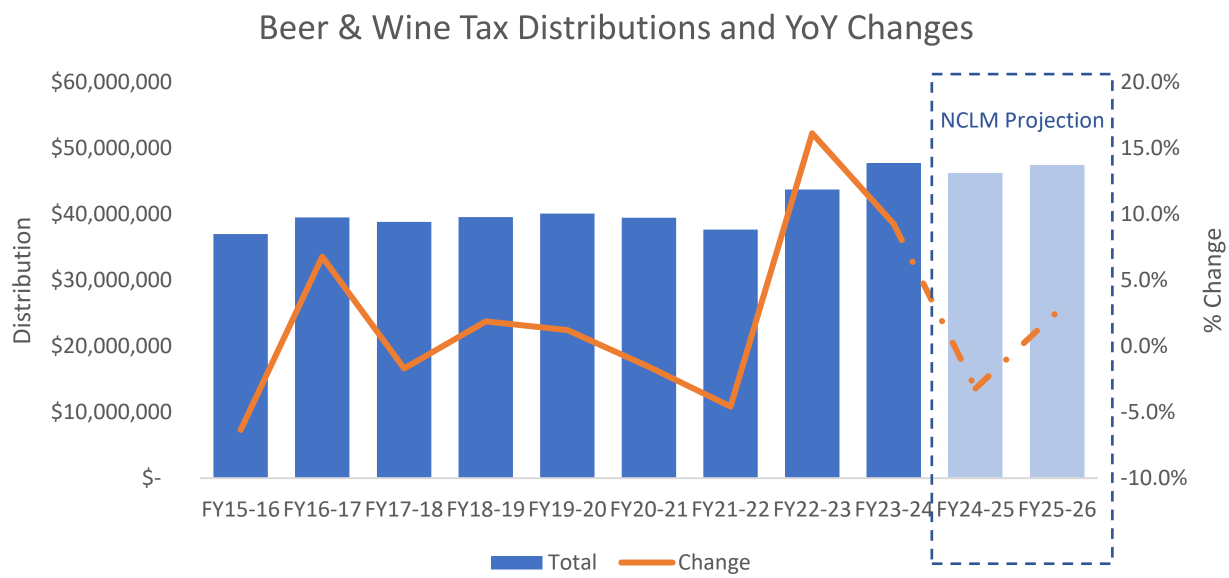


3.4 Alcoholic Beverages Tax

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 DOR to municipalities based on population. These revenues are collected during a period of April through March of the following year, with revenues typically distributed to municipalities by June. 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.

The last two years have seen unusually strong growth in this revenue source, with over 16% growth in the spring 2023 distribution followed by over 9% growth last year. We do not believe that this atypical growth will continue. **We project that the upcoming annual distribution for the period of April 2024 through March 2025 will decrease by approximately 3.2% compared to last year's distribution.** Details on the exact amount of this year's distribution, which will likely arrive shortly after the publishing of this memo, will be contained in upcoming [quarterly Revenue Reports.]

Our expectation is that we will see a return to more typical patterns of relatively modest year-to-year changes in this revenue source in the year to come. Following this year's projected decline, **we project that FY26 revenues will increase by approximately 2.6%.**

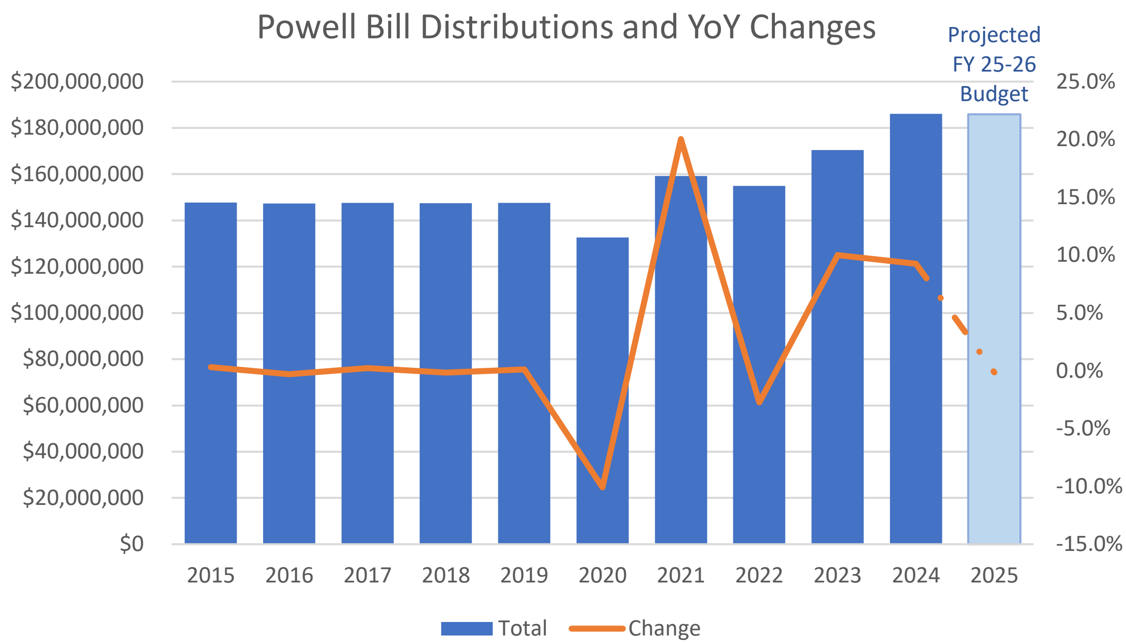


Because these distributions are based on population, it is also important to incorporate your municipality's anticipated growth relative to others into your local projection.

3.5 Powell Bill

State Street-Aid (Powell Bill) funds are distributed to eligible municipalities twice a year in October and January. The appropriated amount of FY25 Powell Bill funds was $185.875 million, an increase of $15.5 million from the FY24 appropriated amount. Including adjustments from previous allocations, a total of more than $186.1 million was distributed to Powell Bill program participants in FY24. Just over $93 million was sent out in each distribution during the current fiscal year.

Powell Bill funds are appropriated annually by the General Assembly. As of the writing of this memo, the General Assembly had not yet presented or voted on any state budget proposals. In his proposed budget, Governor Josh Stein calls for the total amount of appropriated Powell Bill funds to remain at $185.875 million. However, the General Assembly could choose to adjust that amount during budget consideration this year. The League will continue to advocate for increased Powell Bill funding for cities and towns, and we will keep you updated if there are any changes when a state budget for FY25-26 is passed. The below graph summarizes overall Powell Bill distribution trends:



Of the total annual distribution of Powell Bill funds, 75% is allocated among eligible cities based on population, and 25% is based on mileage. Statutory language around the Powell Bill budget currently in place specified that cities with a population over 400,000 would receive the same amount of Powell Bill funds that they did in FY20-21, when the state appropriation was reduced due to concerns about transportation revenues in the wake of the COVID-19 pandemic. In effect, this means that the Powell Bill distribution for the cities of Charlotte and Raleigh has been frozen at FY20-21 levels, and the increase in the Powell Bill appropriation is shared between the remaining cities in the program.

4 MUNICIPAL BOUNDARIES AND U.S. CENSUS

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 DOR, as this is no longer required.

In addition, your municipality should respond to the Annexation Survey included as part of the State Demographer's annual North Carolina Demographic Survey (NCDS), which can be found online at https://ncds.osbm.nc.gov/. 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 email will then be sent to the designated point of contact for each municipality by June 30 directing them to the online survey. The Certified Population Estimates – used for revenue distributions – estimate the 2024 population living in areas annexed on or before July 1, 2025. The State Demographer cannot include these populations if the annexations have not been reported through the survey.

Local governments are now updating their boundary information with the U.S. Census Bureau through the annual Boundary Annexation Survey (BAS). **The N.C. Geographic Information Coordinating Council (GICC) has established an online Municipal Boundaries tool** to provide an authoritative boundary resource. This resource will provide statewide BAS updates in the future and reduce boundary requests from multiple state agencies. We encourage all local governments to verify their boundaries as soon as possible and begin using the tool to submit annexations and boundary corrections. At the moment, local governments should respond to boundary surveys they receive as well as using the Municipal Boundaries tool. When the boundary verification process is more complete, the new tool will support most boundary needs from most state and federal agencies and reduce the number of requests you receive. Local governments should verify their boundary information in the Municipal Boundary Tool.

For questions related to municipal boundaries or the U.S. Census, please contact State Demographer Mike Cline or N.C. Census Liaison Bob Coats at N.C. OSBM for additional questions.

5 Department of Revenue Contact List

Listed below are the appropriate contacts at DOR for questions regarding municipal concerns.

- Questions about the amount of revenue included in a distribution – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov

- Questions about the status of a municipality's sales tax refund – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov

- Questions about the allocation of sales tax refunds to a municipality – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov

- 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 – Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov

- 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 –Distribution Unit, (919) 814-1118 or via email at ncdor_distributionunit@ncdor.gov

- Requests for statistical data related to local taxes – George Hermane, Information Unit, (919) 814-1129

- Requests for statistical data related to state-collected taxes – Michelle Felker, Public Engagement and Strategic Planning Officer, (919) 800-9430

- To change the email address at which you receive notification of distributions – financial_services_tax_services@ncdor.gov, (919) 814-1118, or via email at ncdor_distributionunit@ncdor.gov