

Quarterly Revenue Report

Q3 FY 2023-2024 (January-March)

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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 was released since the League's Annual Revenue Projections Memo was published in April of 2024.

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax ¹	February, March, April 2024	April, May, June 2024
Taxable Sales Data	January, February, March 2024	June 2024
Utility Sales Tax	January, February, March 2024	May 2024
Solid Waste Tax	January, February, March 2024	June 2024
Alcohol Sales Tax	April 2023-March 2024	June 2024

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 Q3 of FY24:

FY24 Q3 Summary		
Revenue Source	Total Distributed FY24 Q3	% Change from FY23 Q3
Sales & Use Tax	\$1.29 B	+ 3.06%
Sales & Use Tax Refunds	\$92.72 M	+ 18.30%
Electricity Sales Tax	\$110.52 M	+ 15.04%
Video Programming Sales Tax	\$15.68 M	- 3.25%
Telecommunication Services Sales Tax	\$5.99 M	-3.80%
Natural Gas Sales Tax	\$12.64 M	-7.28%
Solid Waste Tax	\$2.30 M	+ 0.73%
Alcohol Sales Tax	\$47.79 M	+ 9.26%

LOCAL GOVERNMENT SALES & USE TAXES

Sales taxes make up the largest portion of state-shared revenue received by local governments. Post-pandemic, sales tax revenue has slowed in FY24 Q3 when compared to the same quarter in prior fiscal years. It is important to note that while this downturn in year-over-year growth is expected based on the economic anomaly of the past few years, this slow-down is a return to more typical, baseline level growth reflective of more standard economic conditions.

Q3 Sales Tax Distributions, YoY % Change, by Article

	FY20-21-FQ3	FY21-22-FQ3	FY22-23-FQ3	FY23-24-FQ3
Art 39 % Change Y-O-Y	18.94%	11.37%	8.28%	3.19%
Art 40 % Change Y-O-Y	18.94%	11.37%	8.28%	3.18%
Art 42 % Change Y-O-Y	19.11%	11.41%	8.16%	3.22%

Based on summary data from the DOR, local governments saw 3.06% growth from Q3 of last year. Last year’s February and March numbers were skewed by delays in refund processing and distributions, causing the February 2023 distribution to look unusually high – 19.62% higher than the February distribution in the previous fiscal year. On the contrary, minimal growth was seen in March of 2023, with a year-over-year change of 1.02%. The extreme negative growth in February 2024 and extreme positive growth in March 2024 can be attributed to the anomalies in last year’s numbers.

Monthly Sales Tax Distributions Year-to-Date

FY.FQ	Total Distributed	Total % Change Y-O-Y	Difference from Last Year
FY23-24-FQ3	\$1,299,112,861	3.06%	\$38,519,148
April 2024	\$485,538,712	1.38%	\$6,620,390
March 2024	\$400,241,674	13.48%	\$47,558,408
February 2024	\$413,332,475	-3.65%	(\$15,659,650)

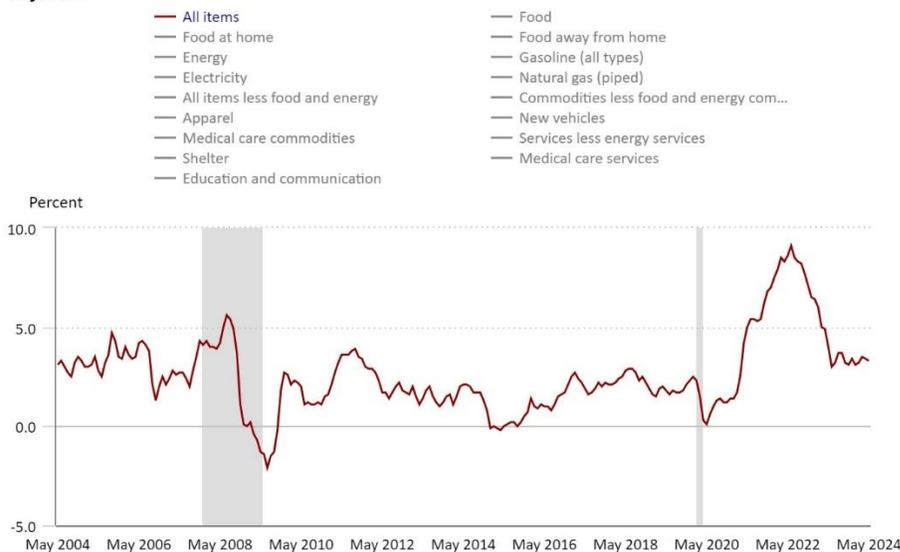
Viewing gross and net sales tax collections for Q3 reflects similar growth by sales month, but it is important to note that refund timing plays a role in the slightly different trends between gross and net sales tax collections. For example, refunds appear to have exacerbated the existing differences in the growth of January and February collections.

Gross & Net Sales Tax Collections (by Sales Month)

FY.FQ	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
FY23-24-FQ3	\$1,392,508,377	3.68%	\$1,304,998,827	3.00%
09-Mar	\$507,533,334	1.63%	\$487,648,905	1.32%
08-Feb	\$442,729,865	7.11%	\$402,143,857	13.40%
07-Jan	\$442,245,177	2.76%	\$415,206,065	-3.67%

As the League noted in the [FY 23-24 Revenue Projections Memo](#), the COVID-19 Pandemic proved to have widespread, rippling economic impacts that are still prevalent today. Rising costs, supply chain issues, and unemployment were all factors that contributed heavily to inflationary trends, and it has taken time for the economy adjust. As the price of goods has decreased, sales tax naturally decreased as well. That said, the trend in decreasing sales tax dollars has recently seemed to stabilize following the steep decline in early 2022. The chart below from the U.S. Bureau of Labor Statistics shows a steady decrease in inflation.

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

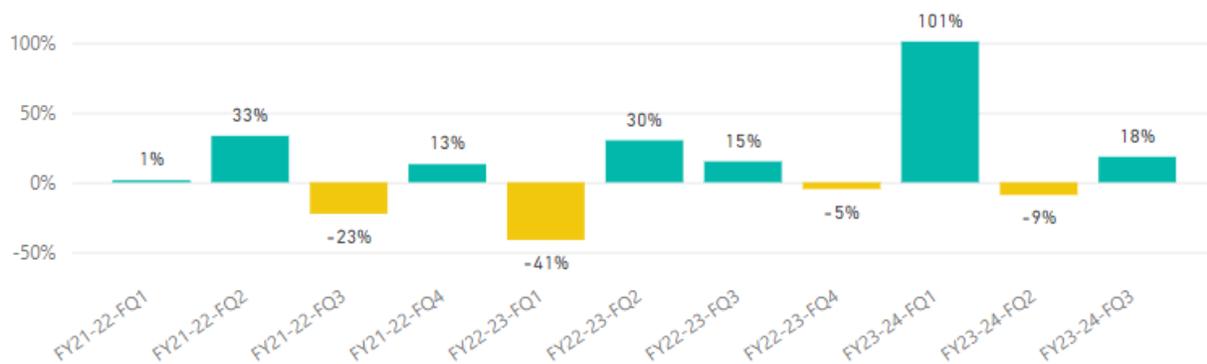
Sales tax refunds are a major factor driving the general volatility of collections as a whole. Refunds in FY24 Q3 were up 18.30% from the same quarter last fiscal year. It should be noted that DOR did not process any refunds in February of 2023, resulting in a negative refund being reported. This caused an astronomically high percentage for the year-over-year change in refunds from February 2023 to February of 2024.. Anomalies in data can occur, especially when dealing with delays and pauses in operations. Overall, refunds have increased in FY24 Q3 by 18.30%, which is slightly above last year's Q3 year-over-year change of 14.95%.

Refunds, by Quarter

FY.FQ	Refunds Last Year	Refunds This Year	Refunds as % of Collections	Refunds % Change YOY
FY23-24-FQ3	\$78,383,392	\$92,724,507	6.63%	18.30%

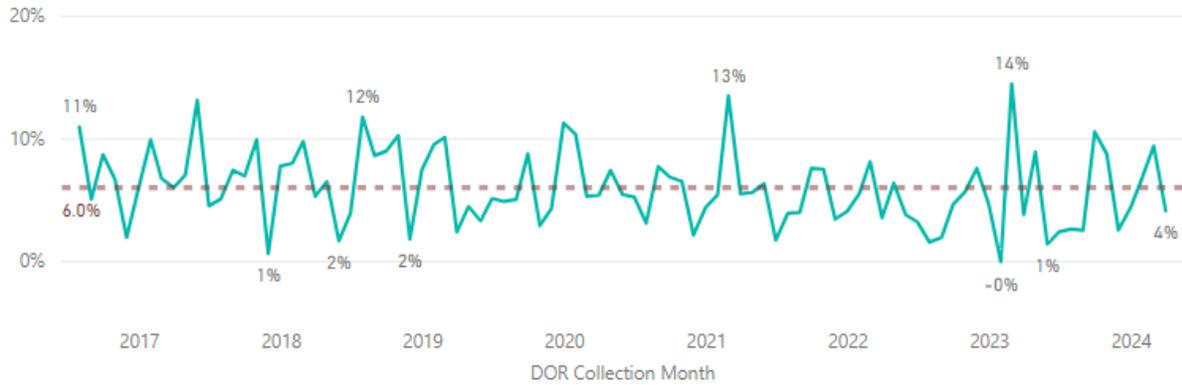
Various factors contribute to the volatility of sales tax refunds. The timing of organizations filing for refunds combined with the DOR's capacity to process the requests heavily impact the data, and as with previous years, no clear trends appear when observing refund collection growth by quarter.

Quarterly Refunds YoY % Change



As of FY24 Q3, the average refunds as a percent of collections since FY17 remains steady at 5.65% for the current fiscal year.

Monthly Refunds as % of Collections



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	October	November	December
2- Billing Month	November	December	January
3- Payment Due	December	January	February
4- DOR Collection Month	January	February	March
5- Report Distributed	June		

Collections during FY24 Q3 saw a moderate increase in electricity at 15.04% and decreases in all other areas. Overall, the total of these four utilities increased by 9.11% over last year’s Q3.

Q3 Utility Tax Distributions, YoY % Change

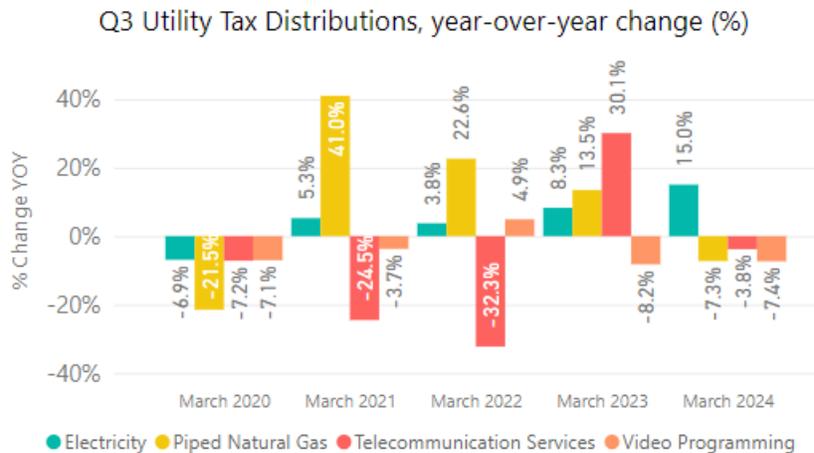
	FY21-22-FQ3	FY22-23-FQ3	FY23-24-FQ3
Electricity % Change YOY	3.76%	8.27%	15.04%
Nat Gas % Change YOY	22.61%	13.49%	-7.28%
Telecom % Change YOY	-32.27%	30.12%	-3.80%
Video % Change YOY	4.93%	-8.24%	-7.36%
Total % Change YOY	3.34%	7.27%	9.11%

Historical amounts of Q3 utility collections are shown below:

Q3 Utility Tax Distributions, YoY \$ Change

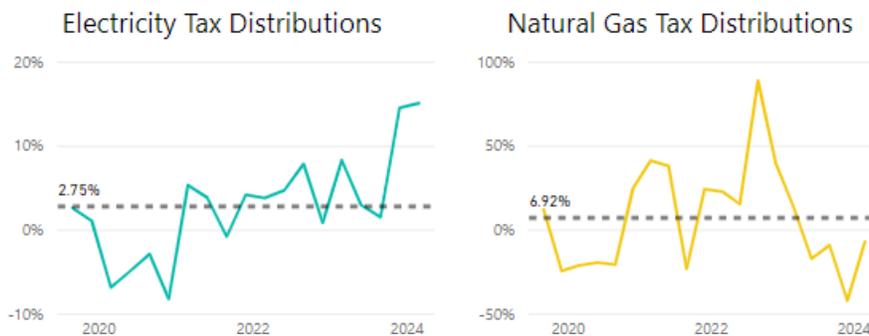
	FY21-22-FQ3	FY22-23-FQ3	FY23-24-FQ3
Sales Tax on Electricity	\$88,733,111	\$96,074,983	\$110,524,884
Sales Tax on Piped Natural Gas	\$12,017,734	\$13,638,456	\$12,646,216
Sales Tax on Telecommunication Services	\$4,785,450	\$6,226,694	\$5,990,004
Sales Tax on Video Programming	\$17,628,231	\$16,175,312	\$14,984,819
Total Distribution	\$123,164,525	\$132,115,445	\$144,145,924

Sales tax on electricity represented roughly 76% 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 third quarters:



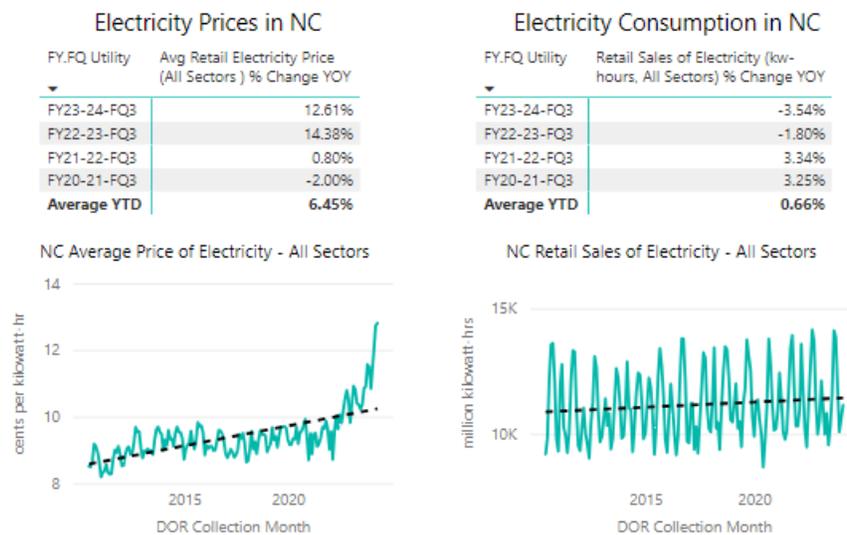
ELECTRICITY & NATURAL GAS

As shown in the tables above, electricity sales tax was up 15.0% compared to last year's Q3. Natural gas sales tax decreased by 7.3%, an obvious decline from the large increases seen in Q3 of 2021 and 2022.



Prices and weather patterns typically drive demand and impact electricity and natural gas distributions. Heating degree days increased by 16.24% compared to this quarter last year, and cooling degree days decreased by 32.26%. The decrease in electricity consumption this quarter could have been influenced by more moderate temperatures and increasing prices.

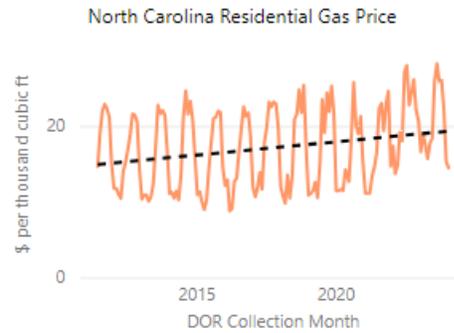
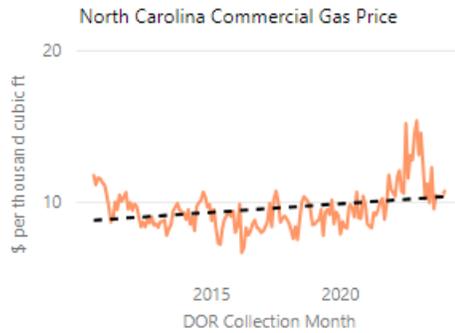
Electricity prices for Q3 in North Carolina rose at 12.61%, while consumption for the quarter decreased by 3.54%. Over the past decade, electricity prices have trended upward slightly faster than the rate of sales.



Natural gas prices declined significantly in FY24 Q3. The commercial gas price decreased by 25.54% and the residential gas price decreased by 19.68% when compared to last year's Q3. This decline is consistent with the downward trend recorded in FY24 Q1, where the commercial gas price decreased by 14.18% and the residential gas price decreased by 5.13%.

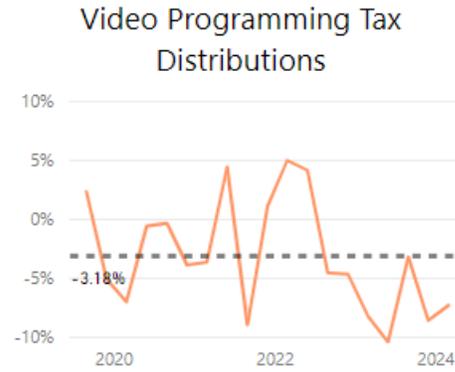
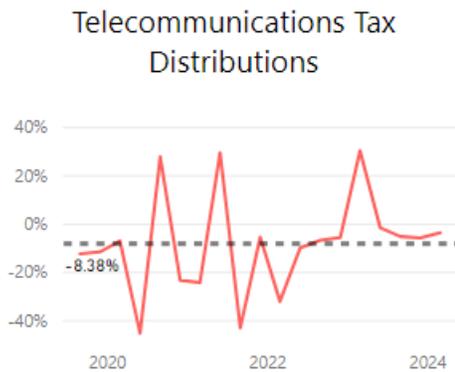
Natural Gas Prices in North Carolina

FY,FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY23-24-FQ3	-25.54%	-19.68%
FY22-23-FQ3	41.05%	25.25%
FY21-22-FQ3	16.85%	25.43%
FY20-21-FQ3	7.95%	8.38%
Average YTD	9.84%	12.53%



TELECOMMUNICATIONS & VIDEO PROGRAMMING

Revenue from the telecommunications tax fell 3.80% in FY24 Q3, and revenue from the video programming tax fell by 7.36%. Though there have been occasional spikes in revenue over recent years, it is expected that revenue from both sources will continue to trend downward as consumer behaviors shift away from land line telephones and over the air cable services that drive much of these revenue sources.



SOLID WASTE DISPOSAL TAX

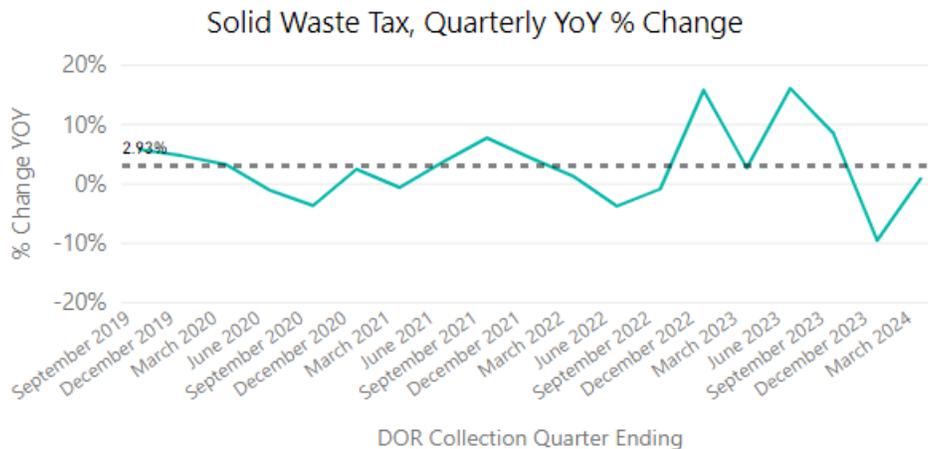
Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The Department of Revenue distributes this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

Solid Waste Tax Q3 YOY Comparison

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY23-24-FQ3	\$2,295,934	0.73%
FY22-23-FQ3	\$2,279,202	2.61%
FY21-22-FQ3	\$2,221,268	1.16%
FY20-21-FQ3	\$2,195,735	-0.73%

Solid Waste distributions have decreased by 0.78% so far this fiscal year following a drop in revenue during FY24 Q2, where there was a decrease of 9.65% following several quarters of consistent positive growth.

Proceeds available for distribution in FY24 Q3 totaled \$6.12M with \$2.3M allocated to cities and counties. This reflects an increase of 0.73% from last year’s allocation of \$2.28M, meaning the allocation has stayed relatively consistent when comparing quarters.



BEER & WINE DISTRIBUTION

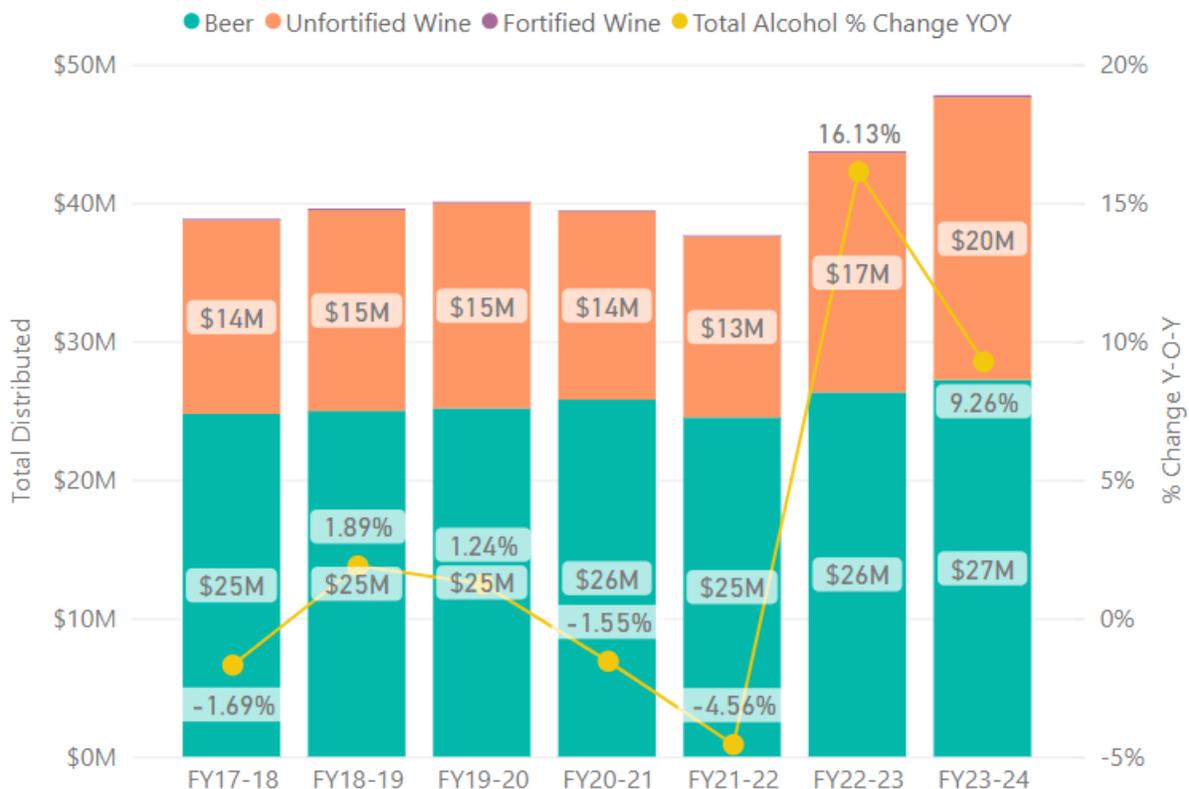
The alcoholic beverage tax (also referred to as the beer and wine tax) is an excise tax paid by the producers of alcohol based on their sales of alcohol in North Carolina. A portion of taxes collected are distributed by DOR to municipalities based on population. Beer and wine are taxed in different amounts, and the growth in this distribution depends on the proportion of beer and wine sold in North Carolina. 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.

These revenues are collected during a period of April through March of the following year, with revenues typically distributed in one report by June. These revenues were recently distributed, and as shown in the below chart, totaled \$47.8M, a 9.26% increase from the prior fiscal year. Last fiscal year, the revenue from this source jumped by 16.13%. This follows several years of relatively small fluctuations in the distribution as shown in the table and graph below.

Annual Beer & Wine Tax Distribution, by FY

FiscalYear	Distribution Amount	% change from prior year
FY23-24	\$47,786,930	9.26%
FY22-23	\$43,737,412	16.13%
FY21-22	\$37,661,809	-4.56%
FY20-21	\$39,461,620	-1.55%
FY19-20	\$40,083,680	1.24%
FY18-19	\$39,594,186	1.89%
FY17-18	\$38,859,777	-1.69%

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

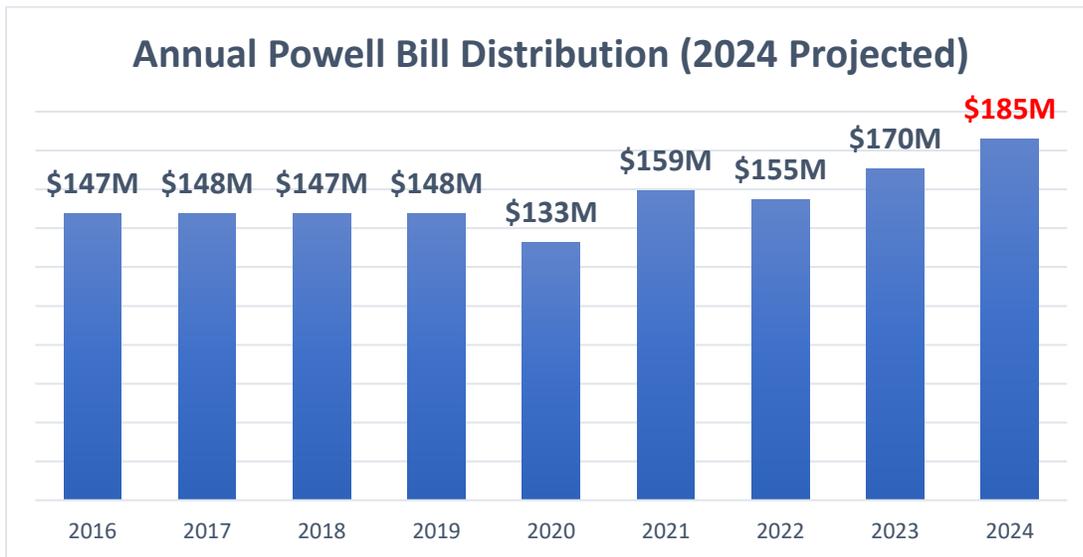


POWELL BILL DISTRIBUTIONS

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. Currently, both the House of Representatives and the Senate are working on budget adjustments for the upcoming fiscal year. While it is possible that Powell Bill allocations to municipalities will be higher than anticipated, it is also possible that the FY2024-25 appropriation stays at \$185.875 million.

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



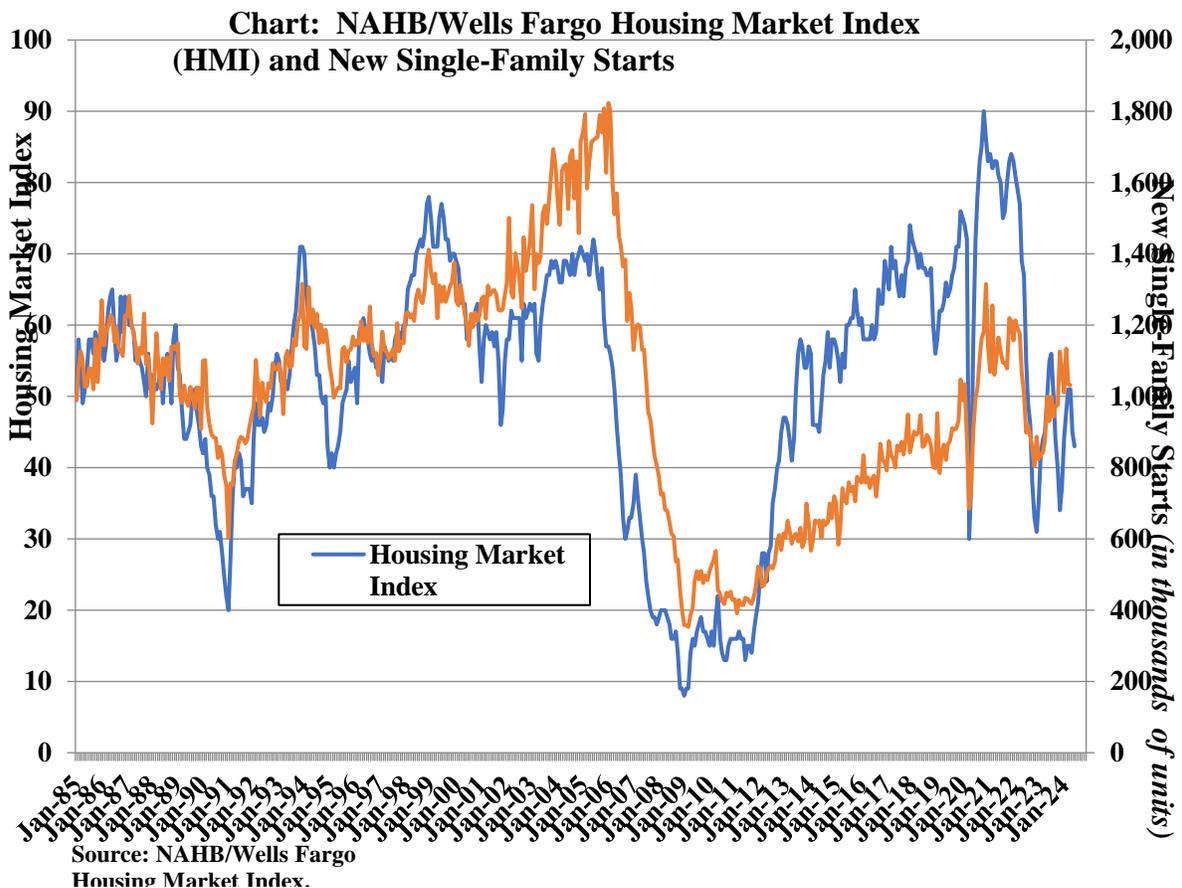
Year	Year-Over-Year % Change
2017	0.22%
2018	-0.15%
2019	0.10%
2020	-10.09%
2021	20.03%
2022	-2.73%
2023	10.00%
2024	9.10%

ECONOMIC UPDATE: NATIONAL OUTLOOK

At the time this report is being written, the U.S. Bureau of Labor Statistics is reporting a [CPI figure](#) of 3.3% for the 12-month period ending in May 2024. This figure has increased slightly since the League’s most [recent revenue report](#), but it is down from 4% in Q3 of FY 23. While inflationary decline naturally impacts local government sales tax revenue, the gradual decrease in inflation shows that the federal government may

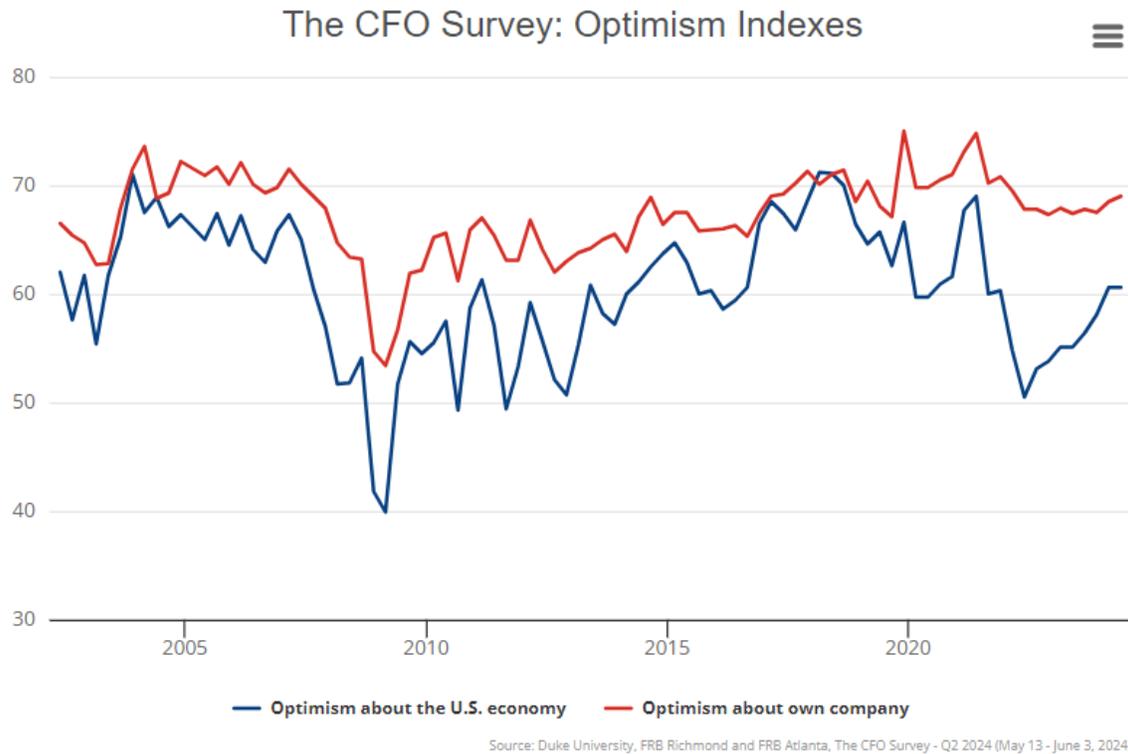
have achieved its goal of a “soft landing” where inflation is reduced while still avoiding a recession. Generally, the CPI has continued to trend downward toward the Federal Reserve’s goal of 2%. Despite seemingly avoiding an economic recession in 2024, the Federal Reserve is remaining cautious, anticipating only [one rate cut this year](#).

In the years following the COVID-19 pandemic, housing rates have been one of the most glaring signs of economic difficulty for individuals. While the Fed cannot fix the supply issue faced by those scouring the market for a home, the federal interest rate impacts the mortgage rates available to prospective home-buyers. According to [Freddie Mac](#), “lower mortgage rates coupled with the gradually improving housing supply bodes well for the housing market.” As of June 20, 2024, the average 30-year fixed rate mortgage sits at 6.87%. It is important to note that mortgage rates are only one factor impacting the housing market – material costs are also a key factor. Given supply chain volatility and overall uncertainty caused by the pandemic, housing costs continue to be an issue. However, a stronger economy created by lower interest rates, lower unemployment rates, and a general return to “normal” will hopefully help to combat the rising cost of home ownership moving forward.



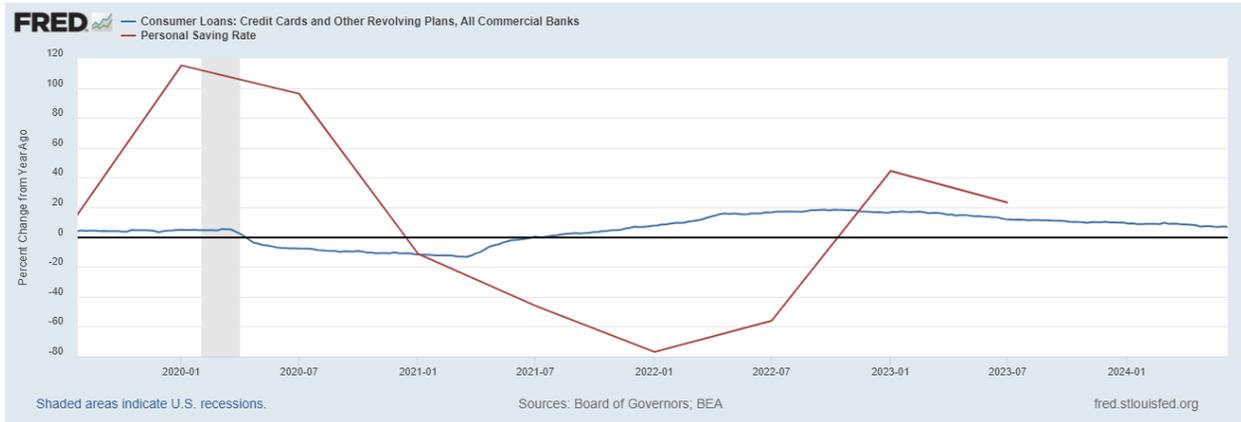
Optimism continues to increase among CFOs polled for the [quarterly CFO survey](#) conducted by Duke University and the Federal Reserve Banks of Atlanta and

Richmond. As shown in the graph below, CFOs remain steadily optimistic about their own companies and increasingly optimistic about the U.S. economy as a whole. Key concerns among the surveyed group are monetary policy, cost pressure/inflation, and labor quality/availability.



In March, the U.S. Senate completed the annual appropriations process and passed a \$1.2 trillion dollar funding package to avoid a partial government shutdown. The U.S. government is funded through the end of the federal fiscal year. While the economy as a whole seems to be trending upward, political division and continuing global conflict coupled with an upcoming election has created some uncertainty. Global conflicts can have a particularly heavy impact on costs. For example, the war in Ukraine heavily impacted energy prices in 2022 and 2023. While that impact has seemed to lessen since last fiscal year, gas prices in North Carolina are at \$3.25 at the time of this writing, trending behind the national average of \$3.46. In Q1 of FY24, the average national gas price was \$3.12.

The gap between personal savings and consumer loans is also an important trend that helps to indicate economic health. Year-over-year percentage changes in personal savings and consumer loans, as represented in the graph below, seem to show less tumultuous conditions for these two indicators. While personal savings grew quickly during the pandemic, consumer lending decreased. Both measures have been largely flat in recent months.

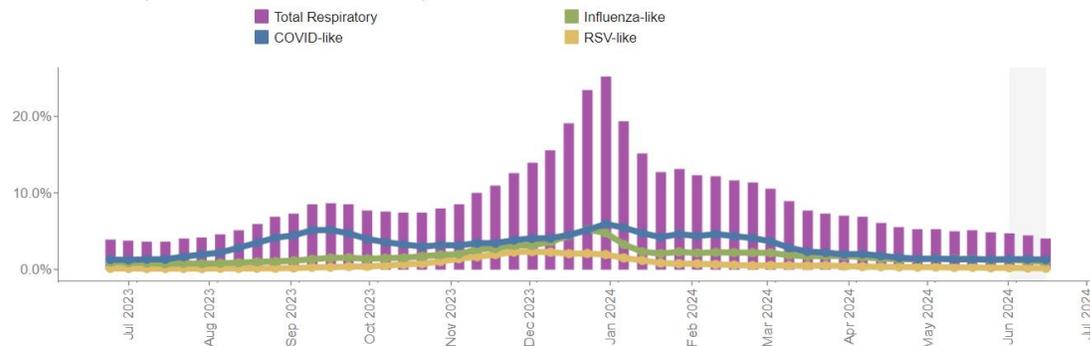


ECONOMIC UPDATE: STATE OUTLOOK

Since the start of the COVID-19 pandemic in March of 2020, the world faced economic disruptions far beyond typical expectations. Though the economic effects of the pandemic are still apparent, COVID-19 infections and hospitalizations have decreased significantly over time. Heading into 2024, North Carolina was seeing an increase in emergency department visits for respiratory viruses. While that has decreased this quarter, it has increased slightly from this time last year. During Q3 of last year, 3.5% of emergency room visits had symptoms of a respiratory virus. This year, 4.0% of ER visits had symptoms of a respiratory virus. As expected, these numbers were the highest during cold and flu season as shown in the graph below.

Emergency Department Visits for Respiratory Viruses

Latest Week: **4.0% of emergency room visits** had symptoms of a respiratory virus, a **decrease** from the week before. (The week before was 4.4%.)



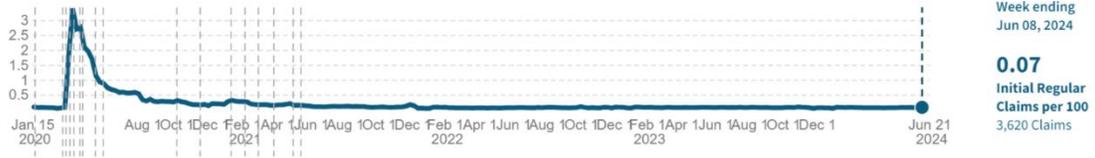
Percentage of North Carolina emergency department visits with symptoms or a diagnosis of a respiratory virus. [More info](#)

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

Unemployment claims in North Carolina continue to trend below the national average. As of June 8, 2024, the United States saw 0.14 initial claims for regular unemployment benefits per 100 people in the workforce. As shown in the graph below, North Carolina saw 0.07 initial claims per 100 people.

Current Unemployment Claims per 100 People*

In North Carolina, as of June 08 2024, there were 0.07 initial claims for regular unemployment benefits per 100 people in the labor force.

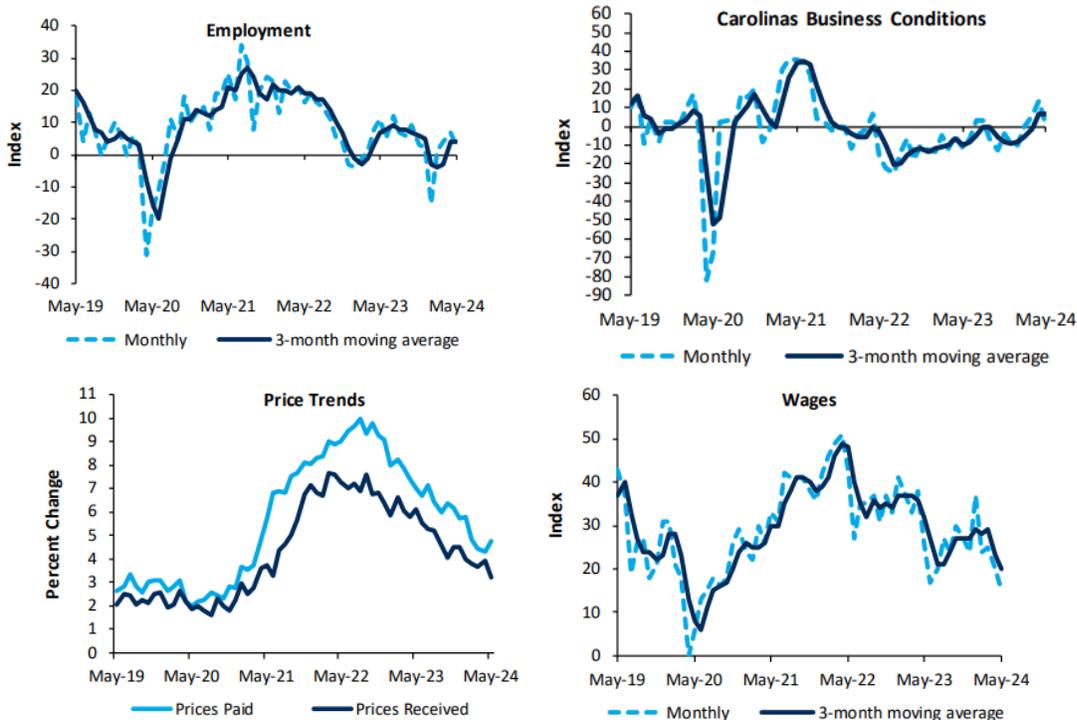


data source: Affinity Solutions

*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: June 19, 2024 next update expected: June 21, 2024

The Richmond Federal Reserve Bank’s [May 2024 Carolinas Survey of Business Activity](#) reported that business activity has “slowed” in the month of May. While the sales index and employment index both decreased, most firms “anticipated some improvement in their ability to find workers with the desired skills over the next six months.”



Dr. John Connaughton's [May 2024 economic update](#) projects increases in fourteen of the state's economic sectors during 2024, with inflation-adjusted GDP growing by 3% when compared to 2023.

In his most recent [NCSU Index of North Carolina Leading Economic Indicators](#), Dr. Michael Walden cites several factors contributing to North Carolina's economic health. Despite a slight decrease in the index in April, he forecasts that North Carolina will continue to expand in 2024.

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 Rachael Wyant, Research Program Manager, at RWyant@NCLM.org.