



# QUARTERLY REVENUE REPORT

## Q4 FY 2022-2023 (April - June)

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## Contents

About This Document.....	2
What’s New This Quarter?.....	3
Local Government Sales & Use Taxes.....	4
Sales Tax Refunds.....	6
Utility Sales Taxes.....	8
Electricity & Natural Gas.....	9
Telecommunications & Video Programming.....	12
Solid Waste Disposal Tax.....	12
Beer & Wine Distribution.....	13
Powell Bill Distributions.....	14
Economic Update: National Outlook.....	15
Economic Update: State Outlook.....	17
Additional Resources.....	20
Contact.....	20

## 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 were released since the League's Annual Revenue Projections Memo was published in June 2023:

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax <sup>1</sup>	May, June, July 2023	July, August, September 2023
Taxable Sales Data	May, June, July 2023	July, August, September 2023
Utility Sales Tax	April, May, June 2023	September 2023
Solid Waste Tax	April, May, June 2023	September 2023

<sup>1</sup> 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 FY23 and the entire 2022-23 fiscal year:

FY23 Q4 Summary		
Revenue Source	Total Distributed FY23 Q4	% Change from FY22 Q4
Sales & Use Tax	\$1.40 B	+ 2.69%
Sales & Use Tax Refunds	\$60.07 M	- 4.80%
Electricity Sales Tax	\$76.99 M	+ 2.93%
Video Programming Sales Tax	\$15.61 M	- 10.47%
Telecommunication Services Sales Tax	\$6.20 M	- 1.79%
Natural Gas Sales Tax	\$4.77 M	- 17.44%
Solid Waste Tax	\$2.39 M	+ 15.97%

FY23 Year-End Summary		
Revenue Source	Total Distributed FY23	Change from FY22
Sales & Use Tax	\$5.43 B	+ 8.38 %
Sales & Use Tax Refunds	\$263.62 M	+ 0.05%
Electricity Sales Tax	\$351.04 M	+ 5.20%
Video Programming Sales Tax	\$64.01 M	- 7.05%
Telecommunication Services Sales Tax	\$25.26 M	+ 1.78%
Natural Gas Sales Tax	\$26.63 M	+ 14.98%
Beer and Wine Tax	\$43.74 M	+ 16.13%
Solid Waste Tax	\$9.60 M	+ 8.23%

## Local Government Sales & Use Taxes

Sales taxes make up the largest portion of state-shared revenue received by local governments. FY23 Q4 marked three quarters in a row of single digit growth, following several quarters of unprecedented double-digit growth including last year's Q4. Overall Q4 growth was the lowest of these single digit growth quarters.

### Q4 Sales Tax Distributions, YoY % Change, by Article

	FY19-20-FQ4	FY20-21-FQ4	FY21-22-FQ4	FY22-23-FQ4
Art 39 % Change Y-O-Y	-1.16%	23.25%	14.00%	2.48%
Art 40 % Change Y-O-Y	-1.16%	23.25%	14.00%	2.48%
Art 42 % Change Y-O-Y	-1.22%	23.48%	13.99%	2.45%

Growth was positive overall, but in May local government distributions actually declined year-over-year for the first time since the initial months of the COVID-19 pandemic. Growth rebounded to more positive levels in June and July, which could indicate that May was an anomaly, but it still led to the lowest year-over-year quarterly growth since 2020. (It should be noted that sales tax refunds were up more than 36% for the month of May as well – see below for more information.) Overall, for FY2022-23, sales tax grew by nearly 8.4% year-over-year, but that was powered primarily by the growth in the first half of the year. Based on summary data from the DOR, local governments saw 2.69% growth over last year's Q4 across all articles.

### Monthly Sales Tax Distributions Year-to-Date

FY.FQ	Total Distributed	Total % Change Y-O-Y	Difference from Last Year
<b>FY22-23-FQ4</b>	<b>\$1,397,361,708</b>	<b>2.69%</b>	<b>\$36,646,194</b>
July 2023	\$502,828,137	5.61%	\$26,700,595
June 2023	\$473,803,526	7.52%	\$33,150,577
May 2023	\$420,730,044	-5.23%	(\$23,204,978)

When viewing gross and net collections by sales month, similar growth is shown for Q4:

### Gross & Net Sales Tax Collections (by Sales Month)

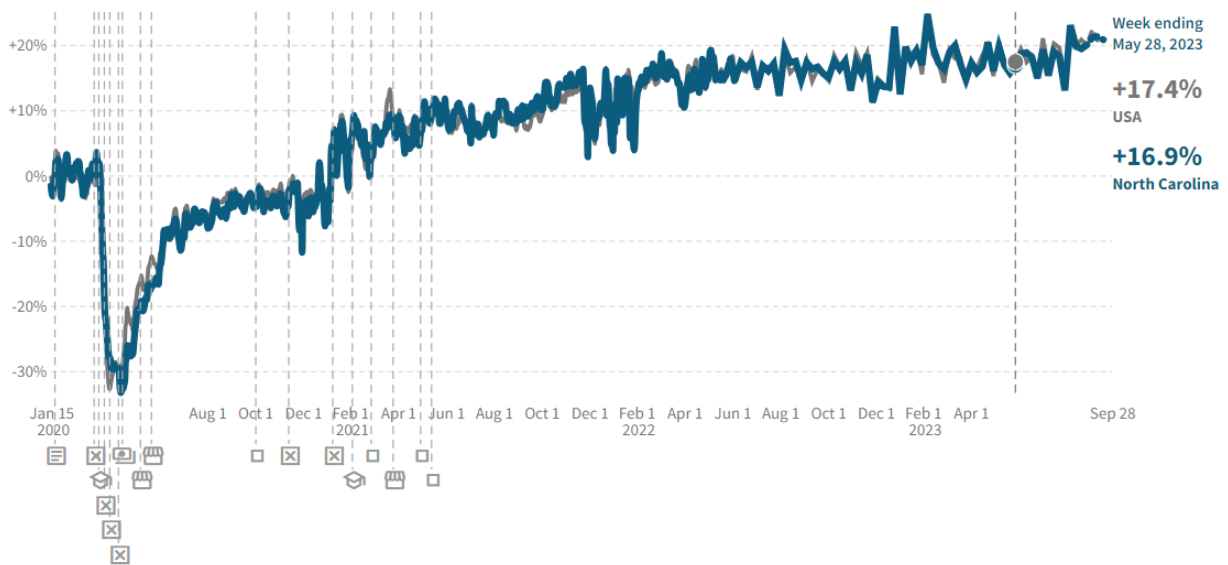
FY.FQ	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
<b>FY22-23-FQ4</b>	<b>\$1,462,334,411</b>	<b>2.40%</b>	<b>\$1,404,032,332</b>	<b>2.70%</b>
12-Jun	\$516,779,309	4.68%	\$505,114,689	5.61%
11-May	\$482,374,087	5.07%	\$476,064,735	7.53%
10-Apr	\$463,181,015	-2.53%	\$422,852,908	-5.22%

Economists have been warning of the dangers of a potential recession for much of 2023, but as outlined further in our economic update later in this report, optimism for a “soft landing” seems to have increased in recent months. Whether that is achieved, and what it might mean for sales tax revenues in N.C., remains to be seen. In our [FY23-24 Revenue Projections Memo](#), we suggested that growth could begin to slow based on various economic factors. Sales tax growth has slowed in N.C. over the last three quarters, and while N.C. has outpaced national figures for much of the time since 2020, in some respects N.C. is beginning to look more like the rest of the country.

Sales tax collections in Q4 corresponded with sales in April, May, and June. By the end of June 2023, consumer spending in North Carolina was up 16.9% since January 2020, compared to 17.4% nationally:

In **North Carolina**, as of August 27 2023, total spending by all consumers increased by **20%** compared to January 2020.

[DOWNLOAD CHART](#)



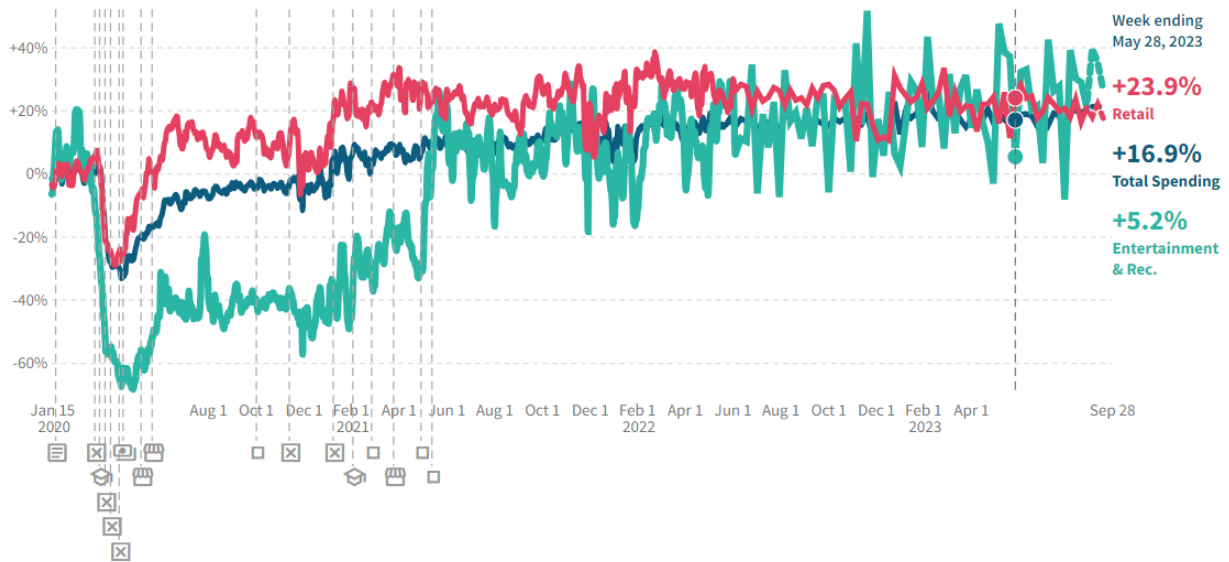
data source: **Affinity Solutions**

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

Additional data show that as of Q4 of FY23, consumer spending in retail was still outpacing overall total spending, but entertainment categories were more volatile overall and were up just 5.2% over January 2020 levels, well below total national spending.

In **North Carolina**, as of August 27, 2023, total spending by all consumers increased by **20%** compared to January 2020.

DOWNLOAD CHART



data source: **Affinity Solutions**

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

## Sales Tax Refunds

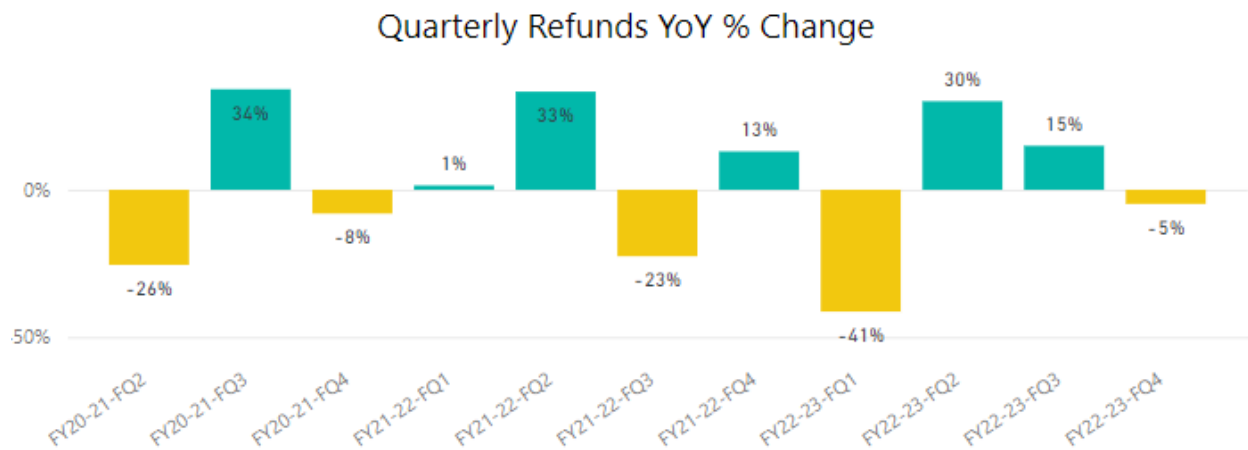
Sales tax refunds continue to be a major factor driving the general volatility of collections. As mentioned in our last Revenue Report, a processing delay by DOR impacted the timing and year over year trends in Q3. Refunds remained volatile in Q4, with a month of more than 36% growth in refunds year-over-year followed by double-digit declines in June and July. The end result was a slight decline in quarterly refunds as compared to the same quarter in FY2021-22.

### Refunds, by Quarter

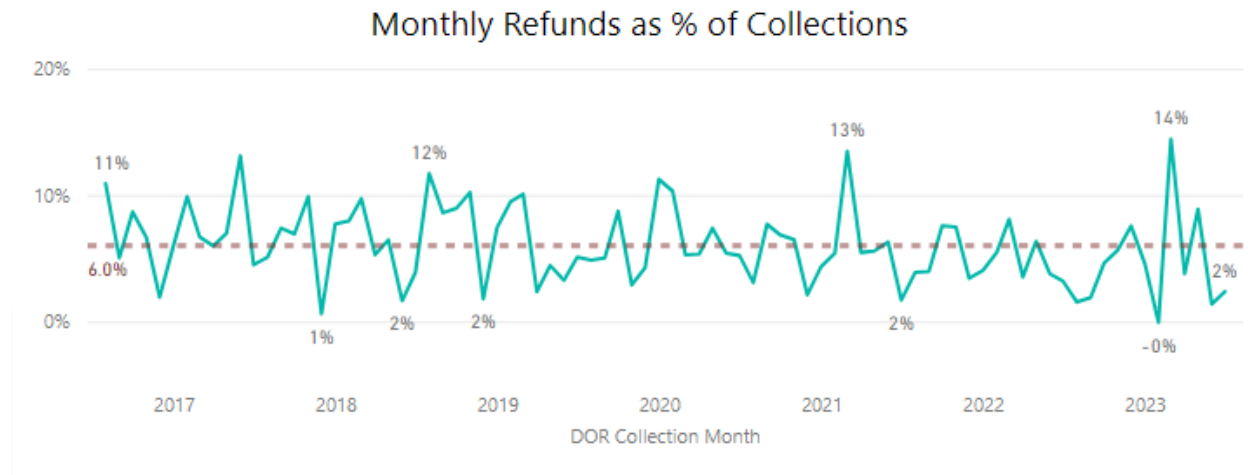
FY.FQ	Refunds Last Year	Refunds This Year	Refunds as % of Collections	Refunds % Change YOY
<b>FY22-23-FQ4</b>	<b>\$63,103,718</b>	<b>\$60,072,733</b>	<b>4.10%</b>	<b>-4.80%</b>
July 2023	\$15,635,630	\$12,229,959	2.36%	-21.78%
June 2023	\$17,271,177	\$6,617,515	1.37%	-61.68%
May 2023	\$30,196,911	\$41,225,259	8.88%	36.52%

In our Q1 report earlier this fiscal year, we noted that refunds were lagging significantly compared to the same period in prior years and cautioned that local governments should monitor this issue. Following the recent month-to-month volatility in refunds, though, the total amount of refunds issued in FY22-23 landed at almost exactly the same amount as in FY21-22, with growth of less than \$150,000 for the fiscal year. We continue to caution local governments to monitor their local circumstances and remind them that they can obtain refund data from DOR. Per [§ 105-164.29B. Information to counties and cities](#), jurisdictions can request the prior 12 months of refund data including which organizations claimed them, what the amounts were, and in which months they occurred. If you are interested in obtaining this data, please review the statute carefully as your inquiry must include a written request from your board chair, mayor, or other official designated by resolution.

In general, refunds are volatile due to a variety of factors including the timing of organizations filing for their refunds and the DOR's capacity to process these requests. As in previous years, no clear trends appear when observing refund collection growth by quarter:



As of FY23 Q3, the average of refunds as a percent of collections since FY17 remains steady at 6.0%:



## 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	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		

Collections during FY23 Q4 fell across all categories except electricity. However, because electricity is such a significant portion of the distribution, and it increased by nearly 3% in Q4, the overall decline in utility tax distributions for the quarter was less than 1%.

## Q4 Utility Tax Distributions, YoY % Change

	FY20-21-FQ4	FY21-22-FQ4	FY22-23-FQ4
Electricity % Change YOY	3.80%	4.65%	2.93%
Nat Gas % Change YOY	37.66%	15.05%	-17.44%
Telecom % Change YOY	29.27%	-10.13%	-1.79%
Video % Change YOY	4.37%	4.09%	-10.47%
Total % Change YOY	6.68%	4.04%	-0.72%



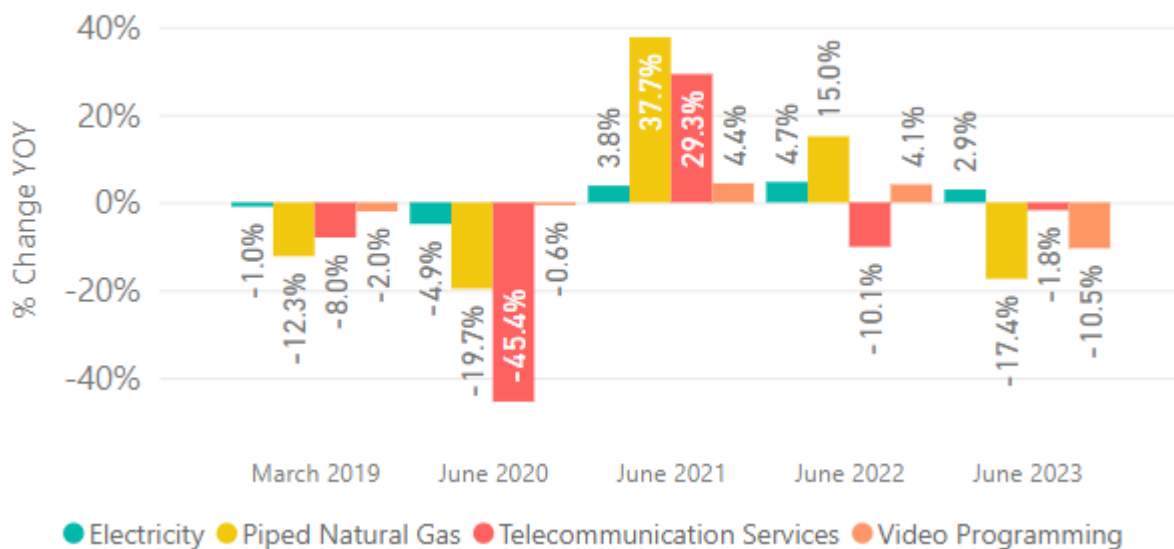
Historical amounts of Q4 utility collections are shown below:

### Q4 Utility Tax Distributions, YoY \$ Change

	FY20-21-FQ4	FY21-22-FQ4	FY22-23-FQ4
Sales Tax on Electricity	\$71,475,323	\$74,799,701	\$76,990,922
Sales Tax on Piped Natural Gas	\$5,017,179	\$5,772,260	\$4,765,330
Sales Tax on Telecommunication Services	\$7,021,571	\$6,310,485	\$6,197,435
Sales Tax on Video Programming	\$16,752,802	\$17,437,884	\$15,611,600
<b>Total Distribution</b>	<b>\$100,266,874</b>	<b>\$104,320,329</b>	<b>\$103,565,287</b>

Sales tax on electricity represented approximately 74% 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 fourth quarters:

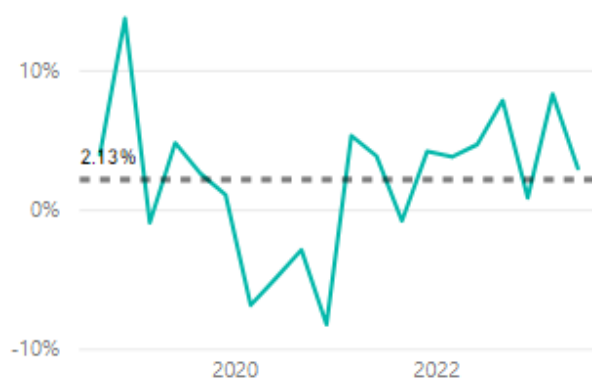
### Q4 Utility Tax Distributions, year-over-year change (%)



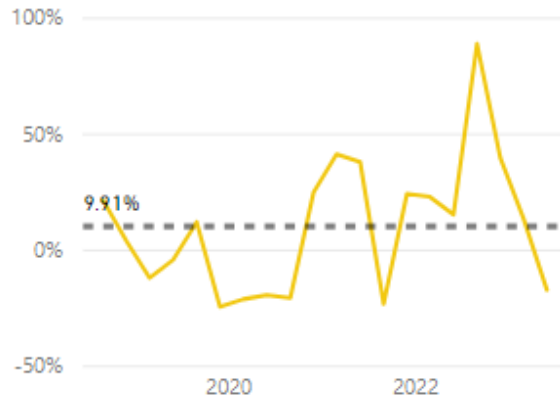
## Electricity & Natural Gas

As shown in the tables above, electricity sales tax was up nearly 3% compared to last year’s Q4. Natural gas sales tax was down more than 17% in the same period, a reversal of quarterly growth earlier in the year. Despite that, both natural gas and electricity are trending upward on average.

### Electricity Tax Distributions



### Natural Gas Tax Distributions



The factors affecting changes in electricity and natural gas distributions are typically prices and weather patterns driving demand. Collections for Q4 correspond with electricity and natural gas consumption during the months of January through March. For this period, heating degree days were down 20.32%, and cooling degree days were up over 83%.

Electricity prices for the quarter in North Carolina rose a relatively high 7.93% year-over-year, on the heels of 14.38% year-over-year growth in Q3. Meanwhile, Q4 consumption declined almost 2.5%.

#### Electricity Prices in NC

FY:FQ Utility	Avg Retail Electricity Price (All Sectors ) % Change YOY
FY22-23-FQ4	7.93%
FY21-22-FQ4	4.19%
FY20-21-FQ4	-0.85%
FY19-20-FQ4	-0.04%
<b>Average YTD</b>	<b>2.81%</b>

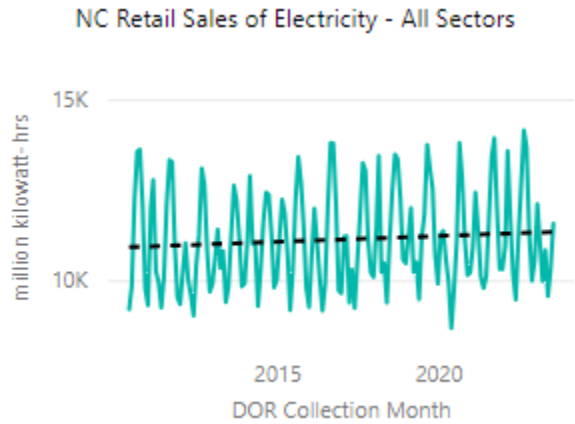
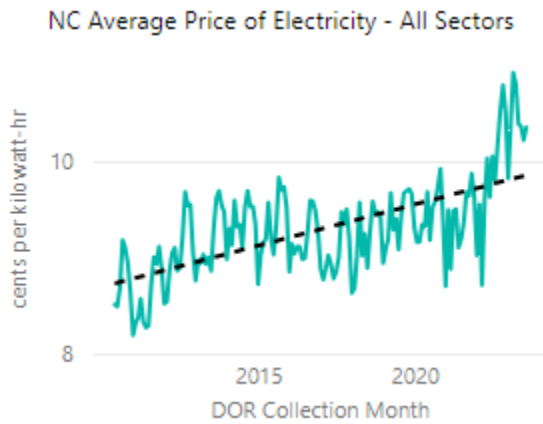
NC Average Price of Electricity - All Sectors

#### Electricity Consumption in NC

FY:FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
FY22-23-FQ4	-2.48%
FY21-22-FQ4	0.26%
FY20-21-FQ4	7.26%
FY19-20-FQ4	-3.46%
<b>Average YTD</b>	<b>0.39%</b>

NC Retail Sales of Electricity - All Sectors

Over the past decade, electricity prices have trended upward faster than the rate of sales.

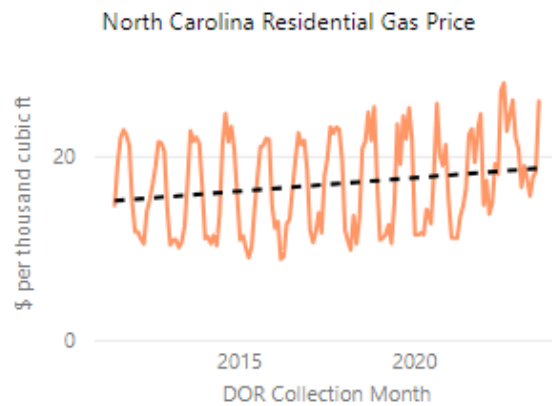
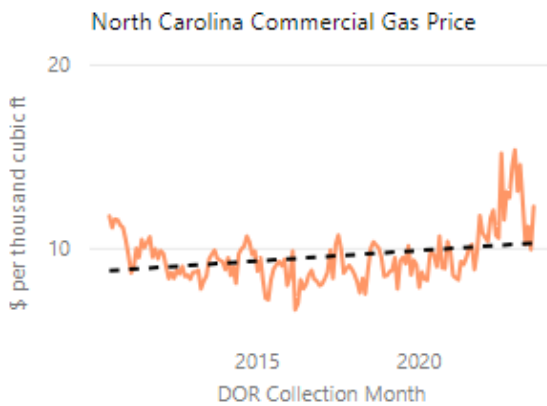


After double-digit year-over-year growth in both commercial and residential gas prices for Q3 and last year's Q4, natural gas prices leveled off this quarter. Commercial gas prices fell by 1.4% this quarter, while residential prices declined less than 1%.

### Natural Gas Prices in North Carolina

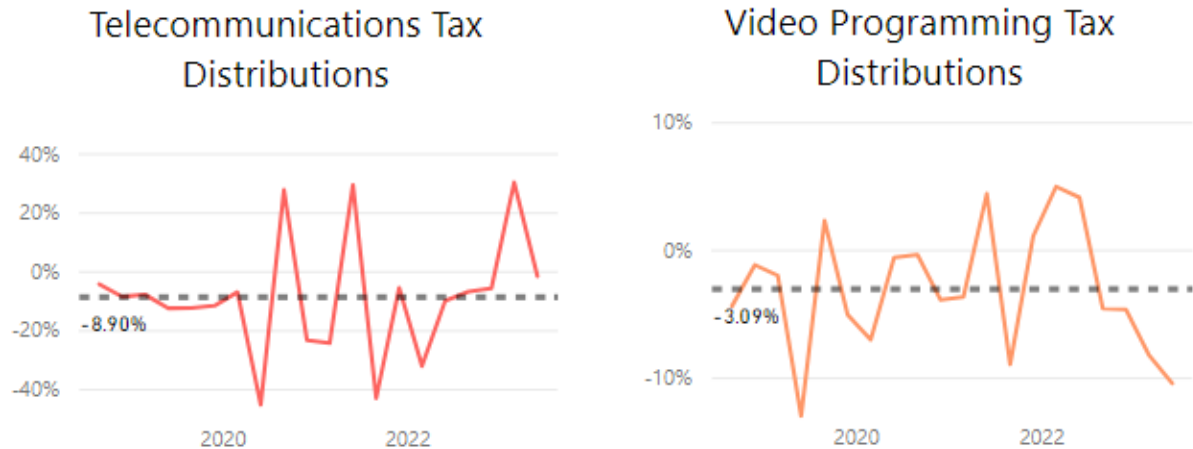
FY.FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY22-23-FQ4	-1.40%	-0.57%
FY21-22-FQ4	29.35%	33.31%
FY20-21-FQ4	-3.55%	-1.23%
FY19-20-FQ4	5.51%	6.43%
<b>Average YTD</b>	<b>7.48%</b>	<b>9.49%</b>

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## Telecommunications & Video Programming

Following a significant spike in Q3, revenue from the telecommunications tax declined by almost 2% in Q4, which is more in line with recent trends than Q3's performance. Video programming declined even further in Q4, which is what we expect from both revenue sources as consumer behavior and technologies evolve.



## Solid Waste Disposal Tax

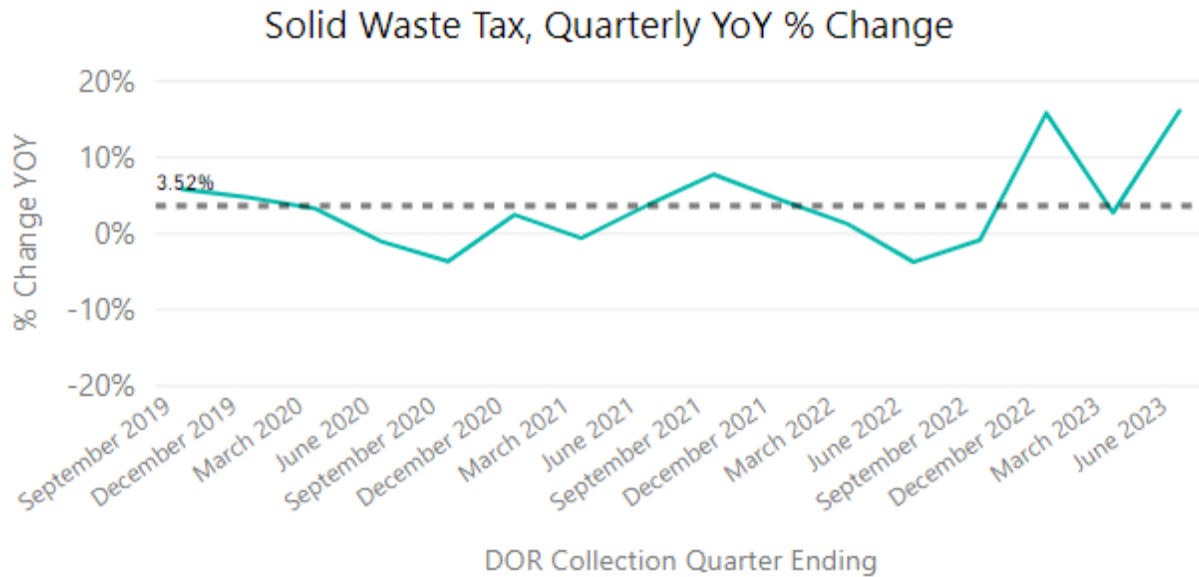
Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The Department of Revenue distributes this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

Proceeds available for distribution in FY23 Q4 totaled \$6.38M, with \$2.39M allocated to cities and counties. This amount was nearly 161% higher than last year's Q4:

### Solid Waste Tax Q4 YOY Comparison

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY22-23-FQ4	\$2,385,685	15.97%
FY21-22-FQ4	\$2,057,155	-3.85%
FY20-21-FQ4	\$2,139,549	3.62%
FY19-20-FQ4	\$2,064,826	-1.18%

Solid Waste distributions have generally trended upward, rising 3.52% on average since Q1 of 2019:

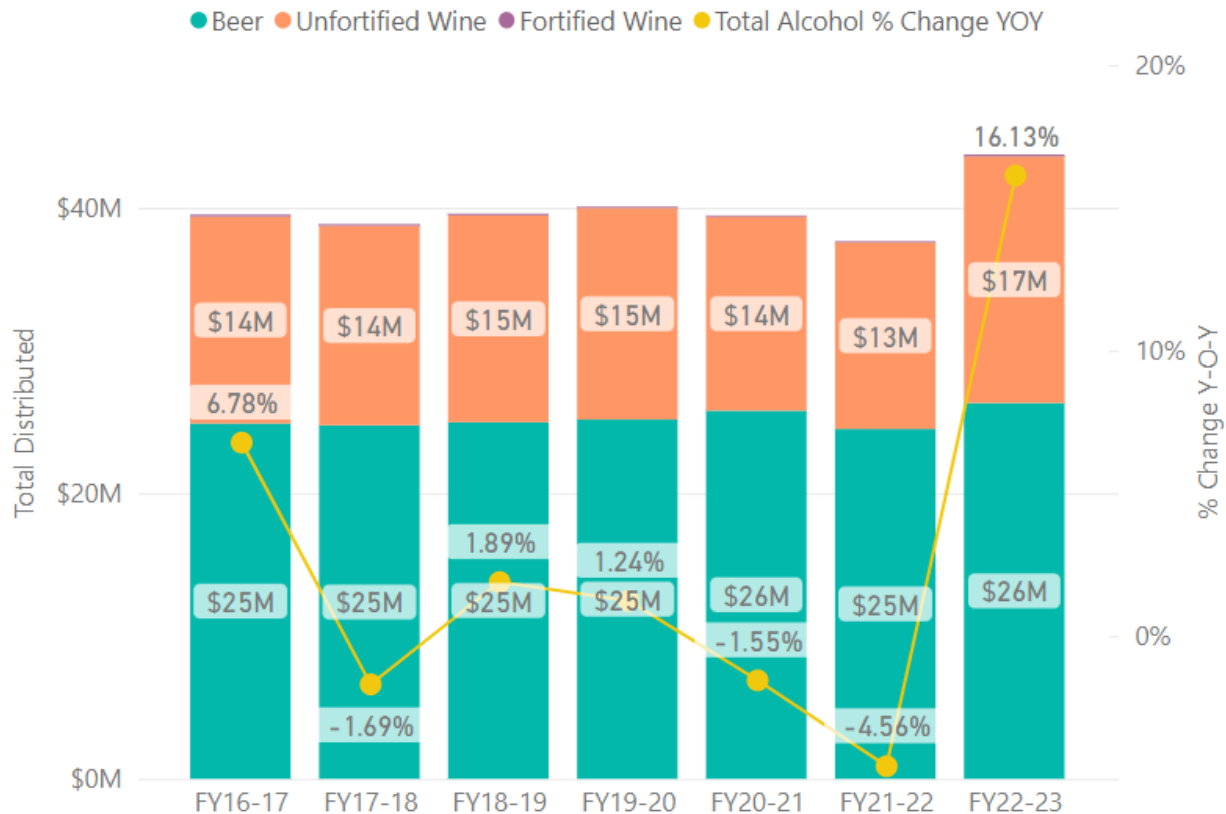


## Beer & Wine Distribution

There is no additional information on the 2023 alcoholic beverage tax distribution since our previous Revenue Report. 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. 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.

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 distributed earlier this year and, as shown in the below chart, totaled \$43.7M, a 16.1% increase from the prior fiscal year.

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



## Powell Bill Distributions

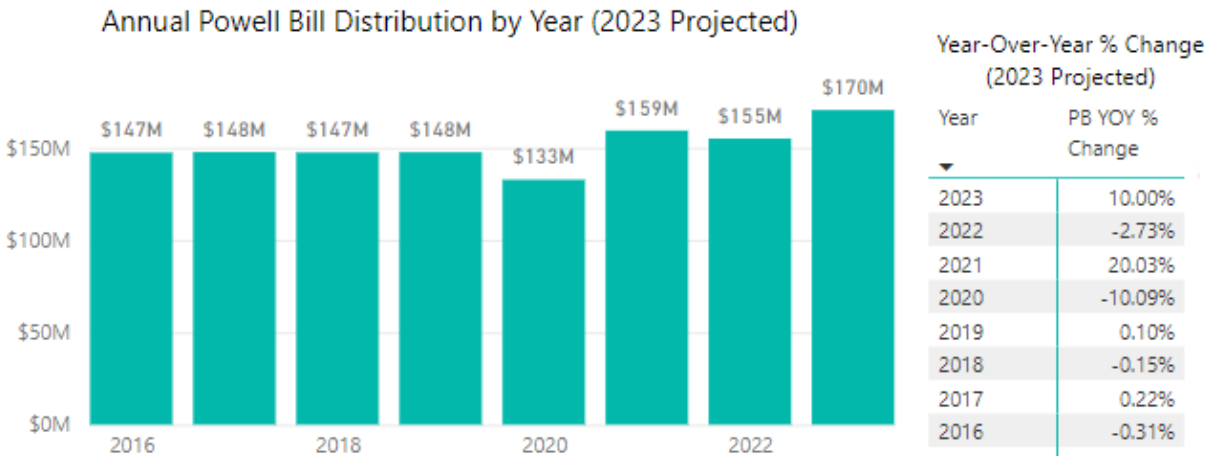
State Street-Aid (Powell Bill) funds are distributed to eligible municipalities twice a year in October and January. Of the total annual distribution of Powell Bill funds, 75% is allocated among eligible cities based on population, and 25% is based on mileage.

At the time of this report’s release, the N.C. General Assembly has passed a State of N.C. budget for this fiscal year and next. Governor Roy Cooper has announced that he will let the budget legislation become law without his signature, which requires a 10-day waiting period that has not yet expired. So, while we have a budget that will almost certainly become law, that budget is not yet official.

The budget expected to become law increases overall Powell Bill appropriations by \$15.5 million in each of the two years of the biennium, for a total appropriation of \$170.375m in FY2023-24 and \$185.875 million in FY2024-25. However, since that budget is not yet law, the distribution municipalities received in the last week of September 2023 was based on last year’s Powell Bill appropriation of \$154.875 million and totaled just over \$77 million. If and when the approved budget for this fiscal year

becomes law, the difference between the amount received this week and the newly appropriated amount will be made up in the January distribution to municipalities.

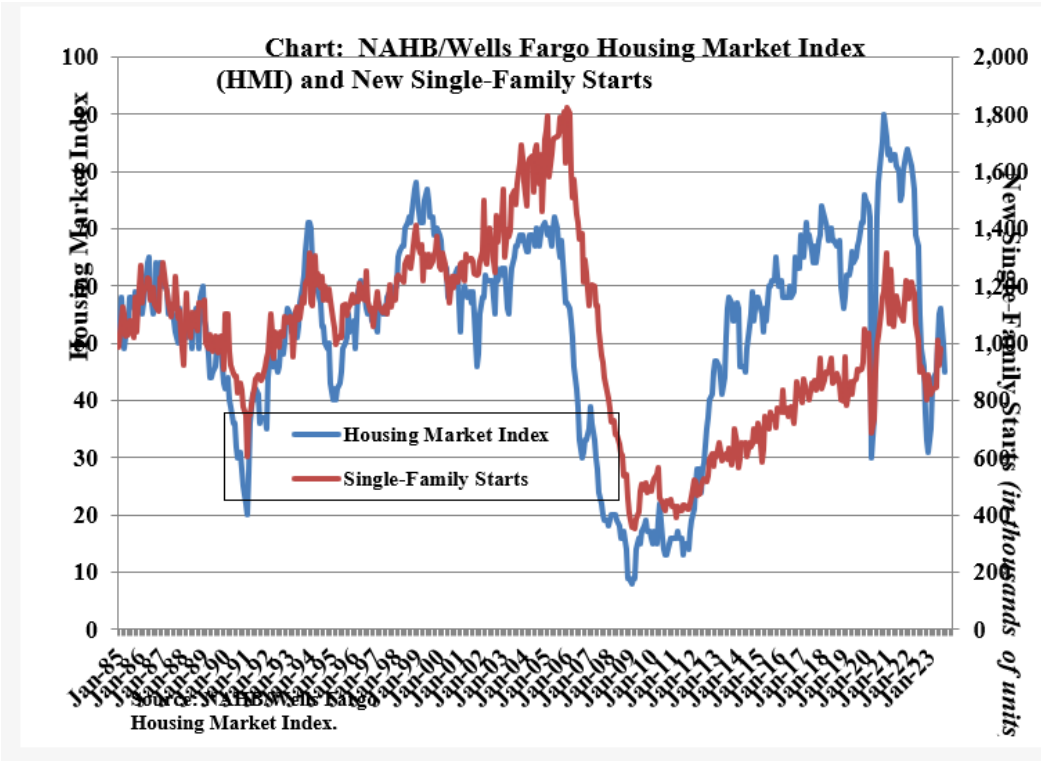
The below tables summarize overall Powell Bill distribution trends, with the projected total for FY2023-24 included:



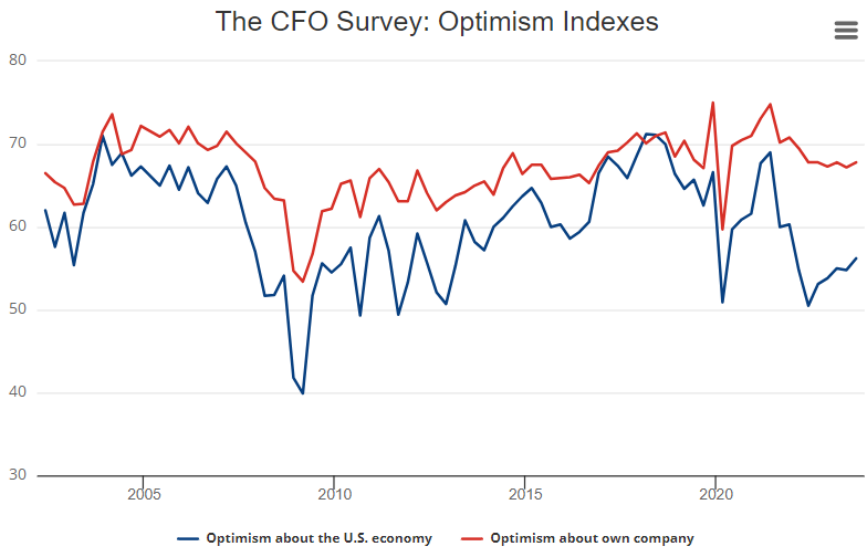
## Economic Update: National Outlook

As of the time of this writing, inflation remains somewhat high with [the most recent Consumer Price Index \(CPI\) figure](#) coming in at 3.7% for all items. This is down from 4.0% at the time of the last Revenue Report 3 months ago. Higher prices related to inflation can lead to growth in sales tax revenue as well, but there are broader concerns about the economic impact of consistently high inflation. The Federal Reserve’s [target](#) inflation rate is 2.0%, and officials have expressed optimism recently that they can approach that mark without the country falling into a recession. At its most recent meeting, the Federal Reserve opted to [leave its key inflation rate unchanged](#), but indicated they would likely raise rates once more this year and keep the benchmark higher in 2024 than had widely been expected.

One of the most visible impacts of higher benchmark interest rates can be seen in the housing market. Higher Federal Reserve interest rates mean higher rates on mortgages, which can both limit buyers’ entrance into the markets and encourage current home-owners to stay put. The [National Association of Home Builders / Wells Fargo Housing Market Index](#) tracks factors such as sales and traffic of prospective buyers and continues to decline in the year 2023.



The increase in interest rates is also topping the list of concerns for CFOs in the [quarterly CFO survey](#) conducted by Duke University and the Federal Reserve Banks of Richmond and Atlanta. While CFOs continue to be more optimistic about their own companies than they are for the economy as a whole, they are also more optimistic for 2024 than they are for the remainder of 2023.

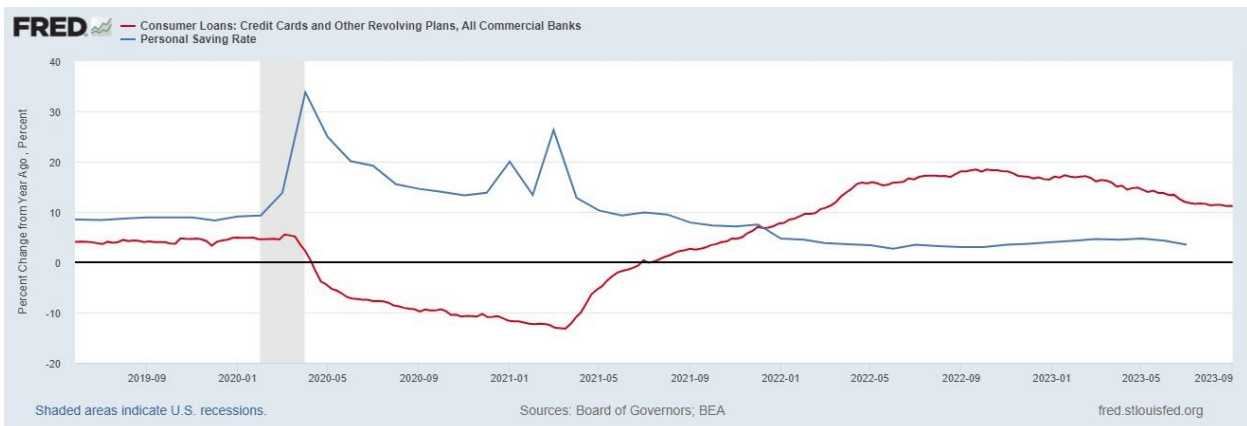


Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey - Q3 2023 (August 21 - September 8, 2023)



One of the biggest uncertainties at the time of this report was the potential for a federal government shutdown. Without some kind of agreement to continue funding the federal government, certain functions were to begin shutting down at 12:01 a.m. on Oct. 1. As of the final days of September the question seemed to be not whether there would be a shutdown, but how long it would last. A government shutdown would mean [furloughs and unpaid work for certain federal government employees](#) and could have second-order effects on the broader economy and local governments as well.

Other indicators pointed toward the potential for less discretionary income for consumers. [Gas prices](#) rose again in comparison to last quarter. North Carolina prices average \$3.45 per gallon, up from \$3.26 last quarter. National prices sit at \$3.84 per gallon, up from \$3.55 last quarter. Meanwhile, the gap in personal savings rates versus consumer loans continues to widen. During the COVID-19 pandemic, savings skyrocketed while consumer loans dropped, likely due to stimulus checks and other federal assistance. We noted in previous updates that this trend had flipped, with the percent change in loans rising and savings dropping. Over the last quarter, both the rate of debt growth and the rate of saving have declined, though the rate of debt increase remains higher.



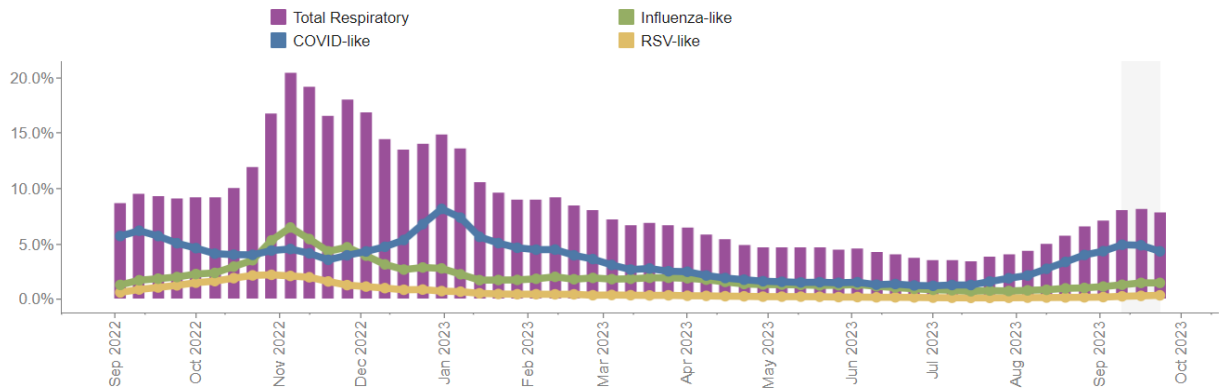
Source: <https://fred.stlouisfed.org/>

## Economic Update: State Outlook

While COVID-19 and potential new variants may continue to influence the economy moving forward, [North Carolina data show](#) that while there had been an increase in respiratory virus emergency room visits in recent months, they were still below levels of even late summer and early fall 2022. New vaccines becoming available in late September will hopefully help limit future outbreaks as well.

## Emergency Department Visits for Respiratory Viruses

Latest Week: **7.8% of emergency room visits** had symptoms of a respiratory virus, a **decrease** from the week before. (The week before was 8.2%.)

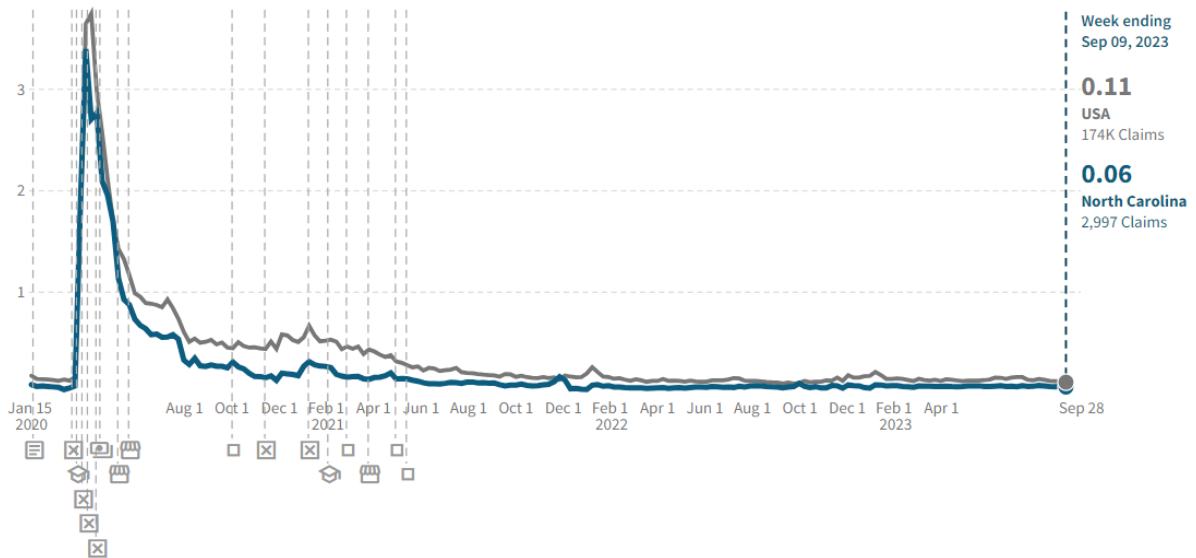


Percentage of North Carolina emergency department visits with symptoms or a diagnosis of a particular respiratory virus. [More info](#)

As seen below, unemployment continues to trend extremely low in North Carolina, with claims continuing to hover below the national average.

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

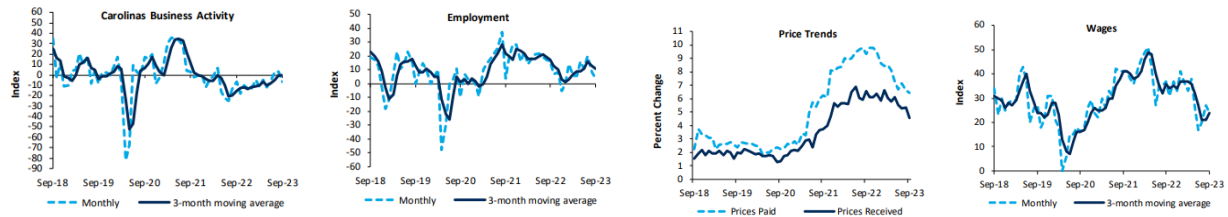
[DOWNLOAD CHART](#)



data source: **US Department of Labor**

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

The Richmond Federal Reserve Bank’s [September 2023 Carolinas Survey of Business Activity](#) reported “relatively flat” business activity for the month of September. Though the general business conditions index fell, firms reported improvement in their ability to find workers and expected wages to continue increasing over the near term.



Dr. John Connaughton’s outlook on the N.C. economy has improved some since his May 2023 economic update. In [the September 2023 economic update](#), he projects growth in 13 of the state’s 15 economic sectors and forecasts overall GDP growth for 2023 of 2.4% above 2022 levels. He projects that growth to continue into 2024 as well, reporting that the U.S. economy appears to be stronger than was believed in May 2023 and that a further 2.4% growth in GDP will take place in 2024.

The forecast also seems to be improving according to Dr. Michael Walden. His [September 2023 Index of North Carolina Leading Economic Indicators](#) improved over the previous month, breaking a string of 3 consecutive months of decline. Though still below levels from September 2022, N.C.’s positive gain was in contrast to a slight decline in the comparable national index. Gains in building permits and manufacturing hours were most responsible for N.C.’s positive turn. Walden says, “...it wouldn’t take much of a shift in the underlying factors to put the Index on an upward trend. As a result, the current watchword for the economy – at least in North Carolina – should be ‘awareness’ and not ‘alarm.’ ”

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

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