

Quarterly Revenue Report

Q3 FY 2022-2023 (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 were released since the League's Annual Revenue Projections Memo was published in March 2023:

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax ¹	February, March, April 2023	April, May, June 2023
Utility Sales Tax	January, February, March 2023	June 2023
Beer and Wine Tax	April 2022 - March 2023	May 2023
Solid Waste Tax	January, February, March 2023	June 2023

¹ Distributions received are generally representative of sales three months prior and were collected by DOR two months prior. Based on state accounting guidelines, the League assumes that revenues are accrued for 90 days. Please refer to memo #1015, "[Recognition of Sales Tax and Other Revenues at Year-End](#)," issued by the LGC on March 31, 2004, for further details and guidance.

Based on the latest data, the following tables summarize our analysis of statewide trends for Q3 of FY23:

FY23 Q3 Summary		
Revenue Source	Total Distributed FY23 Q3	% Change from FY22 Q3
Sales & Use Tax	\$1.34 B	+ 9.17%
Sales & Use Tax Refunds	\$78.38 M	+ 14.95%
Electricity Sales Tax	\$96.07 M	+ 8.27%
Video Programming Sales Tax	\$16.18 M	- 8.24%
Telecommunication Services Sales Tax	\$6.22 M	+ 30.12%
Natural Gas Sales Tax	\$13.64 M	+ 13.49%
Solid Waste Tax	\$2.28 M	+ 2.61%

LOCAL GOVERNMENT SALES & USE TAXES

Sales taxes make up the largest portion of state-shared revenue received by local governments. FY23 Q3 marked two quarters in a row of single digit growth, following several quarters of unprecedented double digit growth including last year's Q3.

Q3 Sales Tax Distributions, YoY % Change, by Article

	FY19-20-FQ3	FY20-21-FQ3	FY21-22-FQ3	FY22-23-FQ3
Art 39 % Change Y-O-Y	2.38%	18.94%	11.37%	8.28%
Art 40 % Change Y-O-Y	2.38%	18.94%	11.37%	8.28%
Art 42 % Change Y-O-Y	2.36%	19.11%	11.41%	8.16%

Month by month growth this quarter appears unusual; the below table shows tremendous growth in the February distribution and minimal growth in the March distribution. This was due to delays in refund processing and distribution which is further explained later in this report. Based on summary data from the DOR, local governments saw 8.78% growth over last year's Q3 across all articles.

Monthly Sales Tax Distributions Year-to-Date

FY.FQ	Total Distributed	Total % Change Y-O-Y	Difference from Last Year
FY22-23-FQ3	\$1,260,593,714	8.78%	\$101,728,945
April 2023	\$478,918,322	6.16%	\$27,809,479
March 2023	\$352,683,267	1.02%	\$3,555,243
February 2023	\$428,992,125	19.62%	\$70,364,223

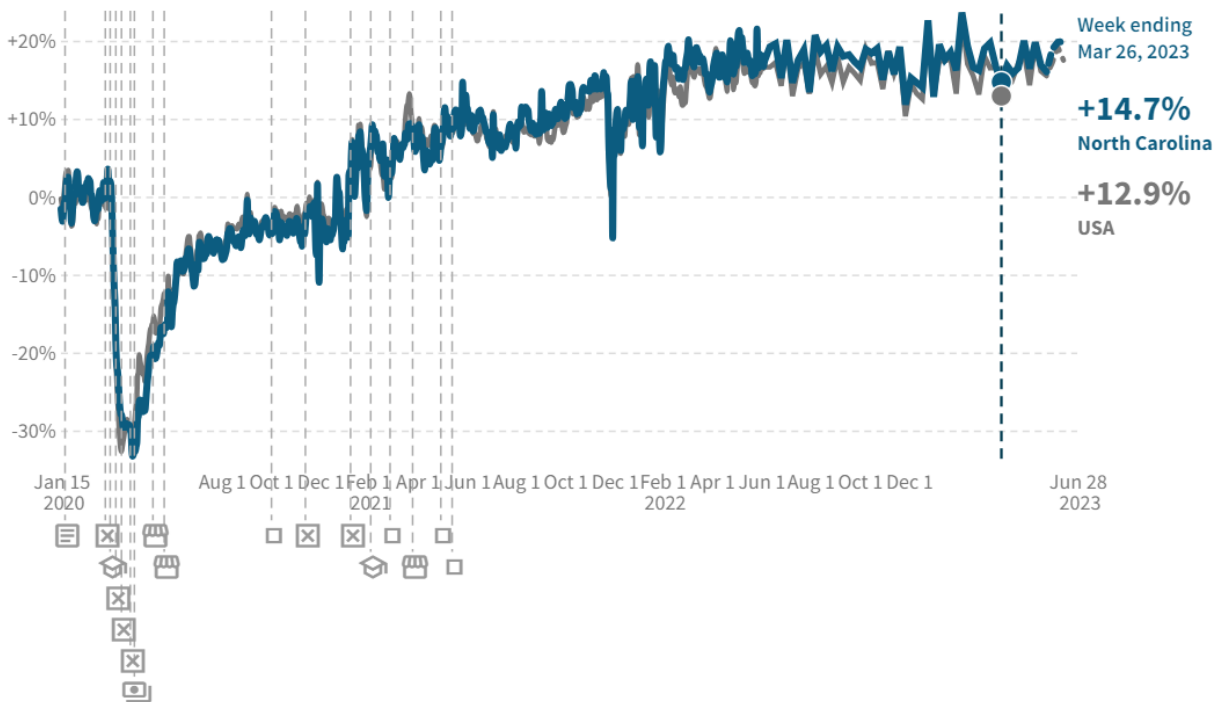
When viewing gross and net collections by sales month, similar growth is shown for Q3:

Gross & Net Sales Tax Collections (by Sales Month)

FY.FQ	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
FY22-23-FQ3	\$1,343,121,927	9.17%	\$1,266,935,287	8.79%
09-Mar	\$499,393,863	6.54%	\$481,305,692	6.19%
08-Feb	\$413,356,542	8.48%	\$354,613,397	1.06%
07-Jan	\$430,371,523	13.09%	\$431,016,197	19.58%

As outlined further in our economic update later in this report, economists have warned that the probability of an impending recession and its impacts on the economy are uncertain. In our [FY23-24 Revenue Projections Memo](#), we suggested that growth could begin to slow based on various economic factors. While sales tax growth has slowed over the last two quarters North Carolina continues to outpace various national figures which we believe bodes well for local government revenues.

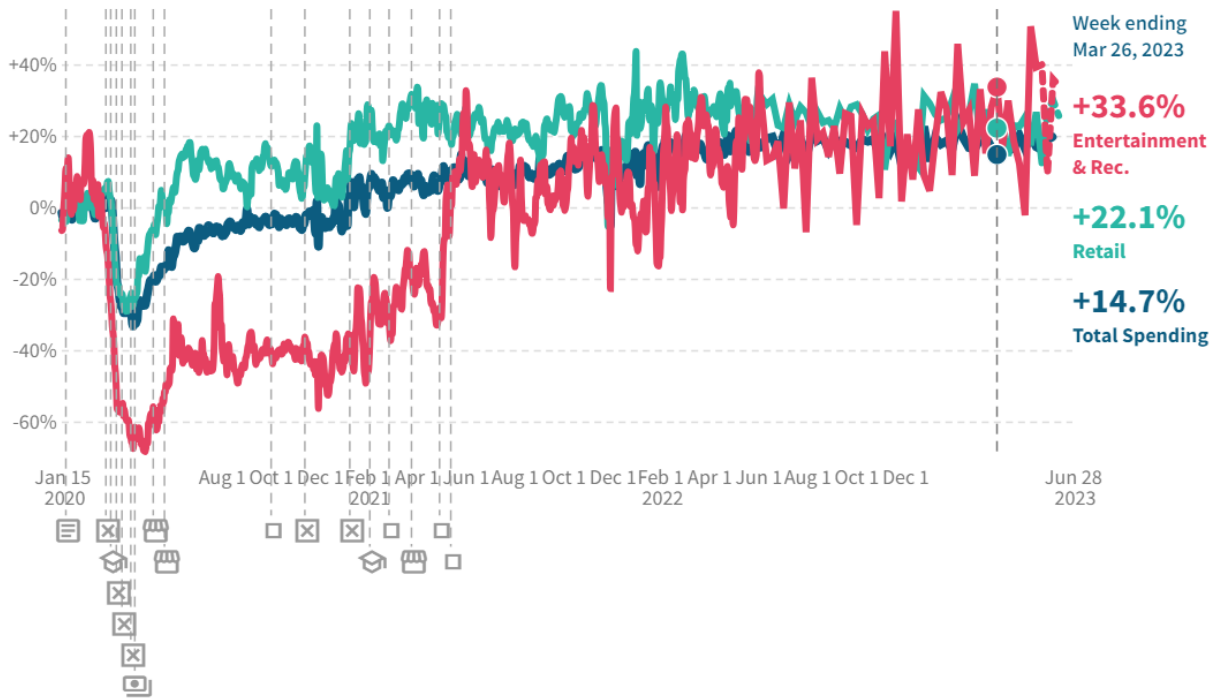
Sales tax collections in Q3 corresponded with sales in January, February, and March. By the end of March 2023, consumer spending in North Carolina was up 14.7% since January 2020, compared to 12.9% nationally:



data source: **Affinity Solutions**

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

Additional data show that as of Q3 of FY23, consumer spending in retail and entertainment categories were still up significantly and outpacing the average of total spending since January 2020:



data source: **Affinity Solutions**

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

SALES TAX REFUNDS

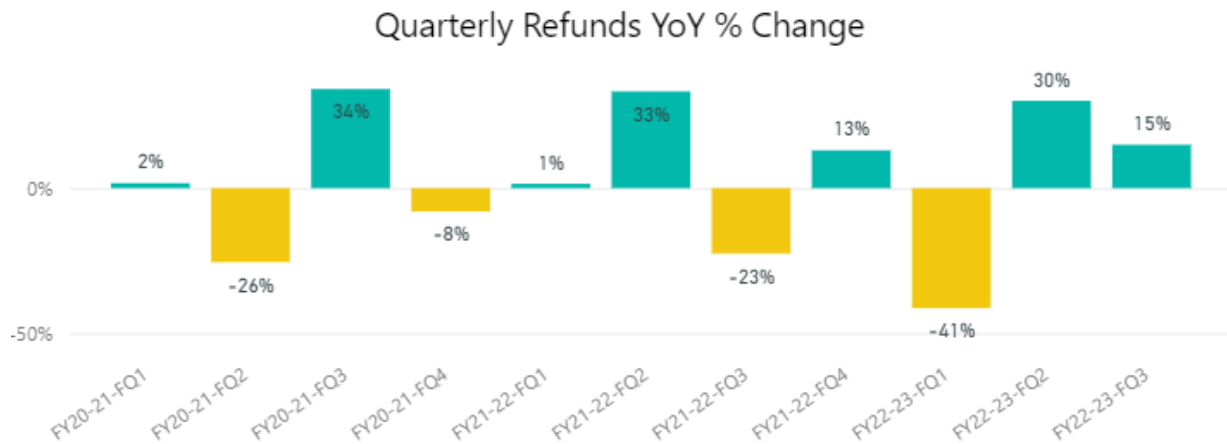
Sales tax refunds continue to be a major factor driving the general volatility of collections. Refunds in FY23 Q3 were up nearly 15% compared to last year’s Q3. As mentioned earlier in this report, month to month refunds were even more varied than usual this quarter due to a processing delay by DOR. The February distribution saw no refunds distributed while the March distribution saw at least two months’ worth distributed. While these caused major fluctuations in the short term, DOR has suggested that moving forward, refund distributions should proceed as usual.

Refunds, by Quarter

FY.FQ	Refunds Last Year	Refunds This Year	Refunds as % of Collections	Refunds % Change YOY
FY22-23-FQ3	\$68,187,650	\$78,383,392	5.83%	14.95%
April 2023	\$16,491,765	\$18,867,442	3.77%	14.41%
March 2023	\$30,877,308	\$59,813,591	14.43%	93.71%
February 2023	\$20,818,577	(\$297,640)	-0.07%	-101.43%

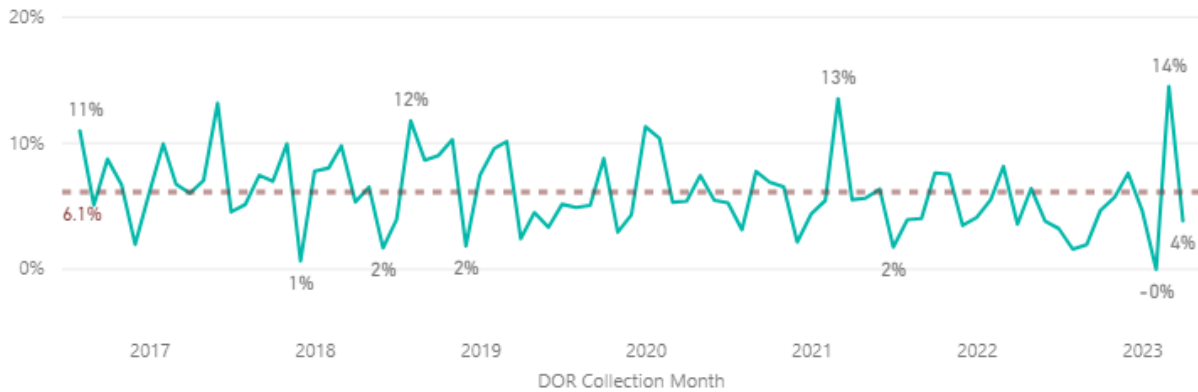
In our Q1 report earlier this fiscal year, we noted that refunds were lagging significantly compared to the same period in prior years and cautioned that local governments should monitor this issue. At the time of this report, refunds have risen significantly, which has caused overall sales tax growth to slow. 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 6.1%:

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 FY23 Q3 saw a significant increase in telecommunications, a moderate increase in natural gas and electricity, and decreases in video. Overall, the total of these four utilities increased by 7.27% over last year’s Q3.

Q3 Utility Tax Distributions, YoY % Change

	FY20-21-FQ3	FY21-22-FQ3	FY22-23-FQ3
Electricity % Change YOY	5.28%	3.76%	8.27%
Nat Gas % Change YOY	41.02%	22.61%	13.49%
Telecom % Change YOY	-24.52%	-32.27%	30.12%
Video % Change YOY	-3.71%	4.93%	-8.24%
Total % Change YOY	3.65%	3.34%	7.27%

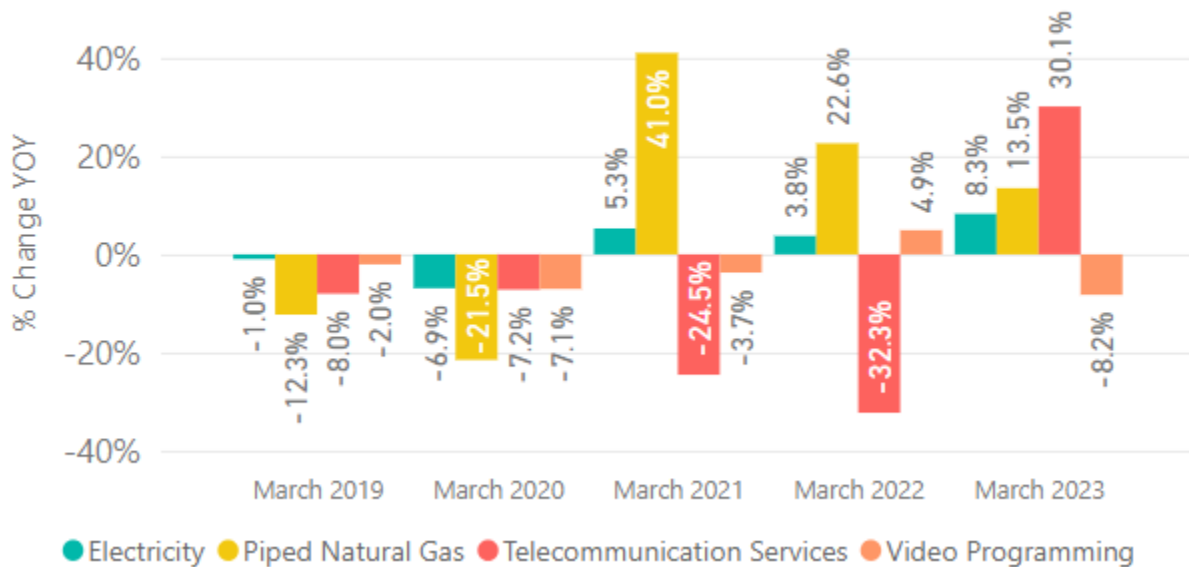
Historical amounts of Q3 utility collections are shown below:

Q3 Utility Tax Distributions, YoY \$ Change

	FY20-21-FQ3	FY21-22-FQ3	FY22-23-FQ3
Sales Tax on Electricity	\$85,519,125	\$88,733,111	\$96,074,983
Sales Tax on Piped Natural Gas	\$9,801,400	\$12,017,734	\$13,638,456
Sales Tax on Telecommunication Services	\$7,065,018	\$4,785,450	\$6,226,694
Sales Tax on Video Programming	\$16,800,290	\$17,628,231	\$16,175,312
Total Distribution	\$119,185,833	\$123,164,525	\$132,115,445

Sales tax on electricity represented approximately 72% of the total quarterly utility taxes distributed, and this share of the total has trended upwards over the last three years. The below chart illustrates changes in utility revenues for previous first quarters:

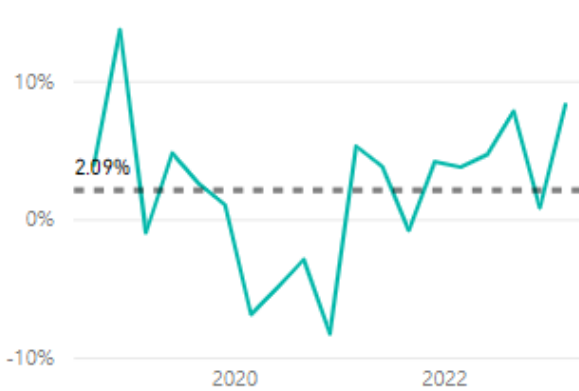
Q3 Utility Tax Distributions, year-over-year change (%)



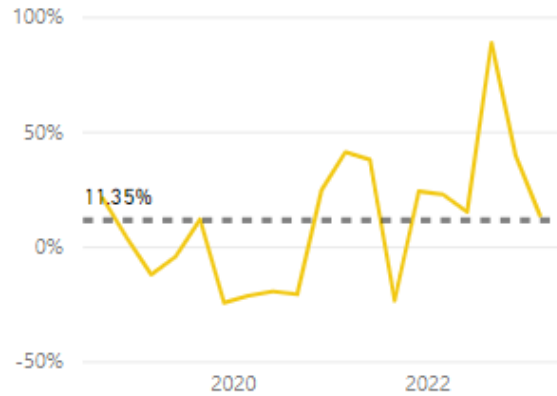
ELECTRICITY & NATURAL GAS

As shown in the tables above, electricity sales tax was up 8.27% compared to last year’s Q3. Natural gas sales tax was up 13.49% percent in the same period, reflecting a slowing in relatively high collections we have observed this year. Both revenue sources 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 Q3 correspond with electricity and natural gas consumption during the months of October through December. For this period, heating degree days were up 23.94% percent, and cooling degree days were down 75.00%.

Electricity prices for the quarter in North Carolina rose a relatively high 14.38% year-over-year, while consumption decreased 1.80% over the same period.

Electricity Prices in NC

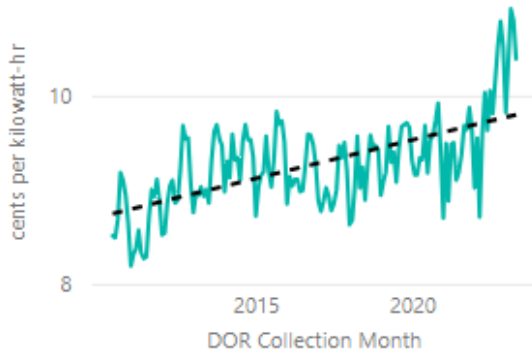
FY,FQ Utility	Avg Retail Electricity Price (All Sectors) % Change YOY
FY22-23-FQ3	14.38%
FY21-22-FQ3	0.80%
FY20-21-FQ3	-2.00%
FY19-20-FQ3	1.53%
Average YTD	3.68%

Electricity Consumption in NC

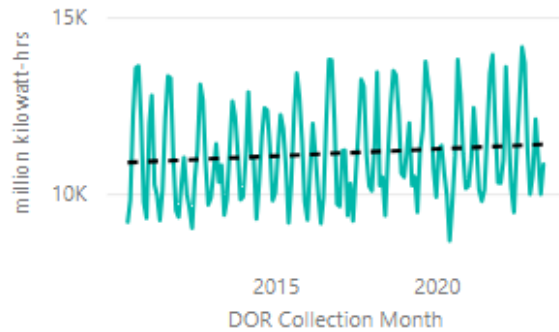
FY,FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
FY22-23-FQ3	-1.80%
FY21-22-FQ3	3.34%
FY20-21-FQ3	3.25%
FY19-20-FQ3	-3.37%
Average YTD	0.35%

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

NC Average Price of Electricity - All Sectors



NC Retail Sales of Electricity - All Sectors

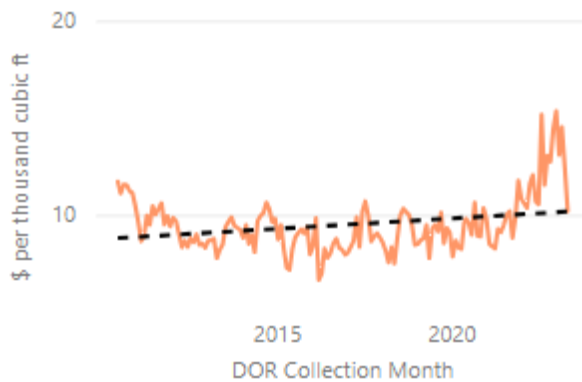


Natural gas prices continued to rise significantly compared to previous years' Q3 periods. Commercial gas prices rose 41.05%, leading to the largest spike in recent years and continuing a trend which was seen in the previous quarter. Residential gas prices saw a smaller yet still significant percent increase at 25.25% over the same quarter last year.

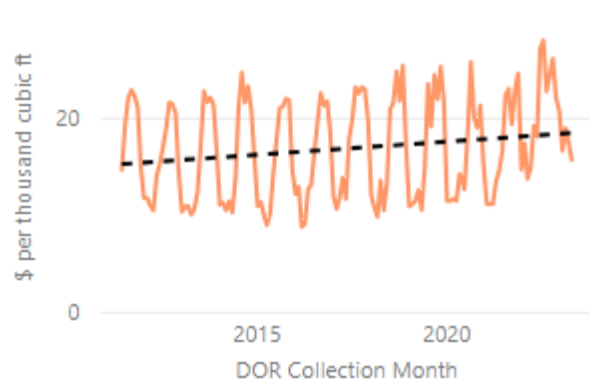
Natural Gas Prices in North Carolina

FY,FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY22-23-FQ3	41.05%	25.25%
FY21-22-FQ3	16.85%	25.43%
FY20-21-FQ3	7.95%	8.38%
FY19-20-FQ3	-4.38%	3.32%
Average YTD	12.65%	15.60%

North Carolina Commercial Gas Price

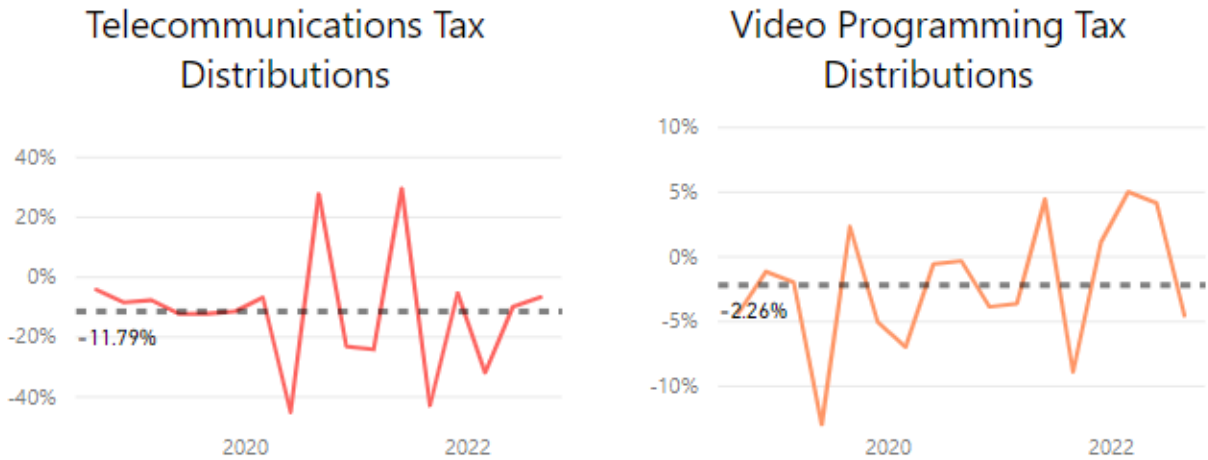


North Carolina Residential Gas Price



TELECOMMUNICATIONS & VIDEO PROGRAMMING

Revenue from the telecommunications tax grew 30.12% year-over-year in Q3 of FY23, while video programming continued to fall at a modest -8.24%. Both sources have trended downward on average despite the occasional spike, and are expected to continue gradually trending down as consumer behavior and technologies evolve.



SOLID WASTE DISPOSAL TAX

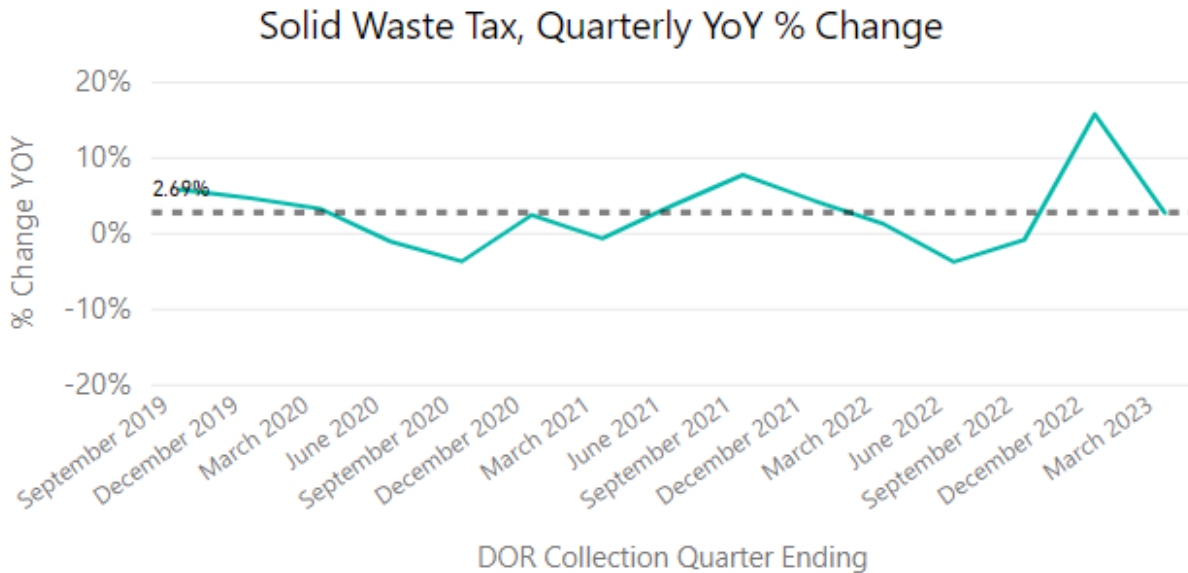
Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The Department of Revenue distributes this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

Proceeds available for distribution in FY23 Q3 totaled \$6.09M, with \$2.28M allocated to cities and counties. This amount was a slight 2.61% higher than last year's Q3:

Solid Waste Tax Q3 YOY Comparison

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY22-23-FQ3	\$2,279,202	2.61%
FY21-22-FQ3	\$2,221,268	1.16%
FY20-21-FQ3	\$2,195,735	-0.73%
FY19-20-FQ3	\$2,211,858	3.15%

Solid Waste distributions have generally trended upward, rising 2.69% on average since Q1 of 2019:

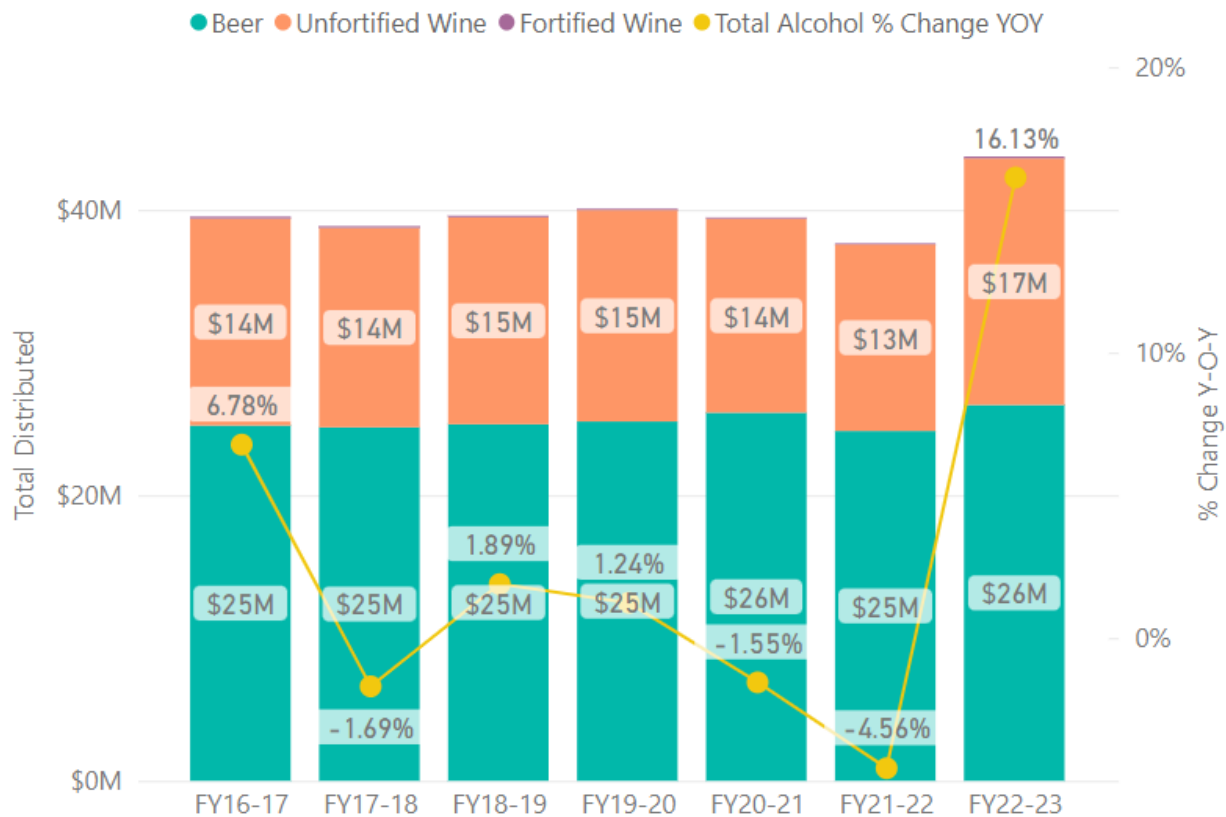


BEER & WINE DISTRIBUTION

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. 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 recently distributed, and as shown in the below chart, totaled \$43.7M, a 16.1% increase from the prior fiscal year. This was an unexpected, major increase compared to prior years where this revenue source fluctuated by much smaller percentages. Most of this increase occurred due to production in unfortified wine and appeared to occur during the final quarter of collections, as the first three quarters of the year were only slightly ahead of the same period the prior year. We will continue to communicate and update our reports as we learn additional context around this revenue source.

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



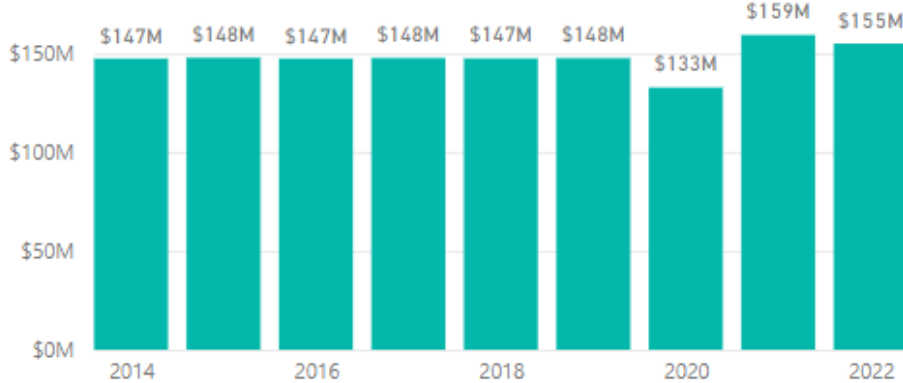
POWELL BILL DISTRIBUTIONS

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 state of Powell Bill funding for FY24 is uncertain, but it is likely that municipalities below 400,000 population will receive an increase. The North Carolina House of Representatives and Senate budgets which are currently being negotiated both contain increases to the overall Powell Bill allocation, but it is still unclear which, if any, of these figures will be signed into law. The League will communicate updates and associated projections to our members as the legislative session comes to a close.

The below tables summarize overall Powell Bill distribution trends:

Annual Powell Bill Distribution by Year



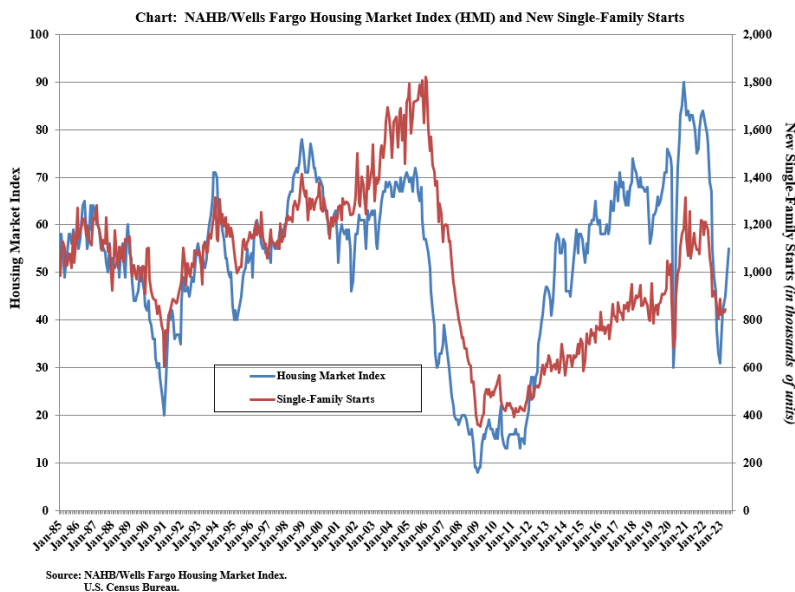
Year-Over-Year % Change

Year	PB YOY % Change
2022	-2.73%
2021	20.03%
2020	-10.09%
2019	0.10%
2018	-0.15%
2017	0.22%
2016	-0.31%
2015	0.31%
2014	1.17%

ECONOMIC UPDATE: NATIONAL OUTLOOK

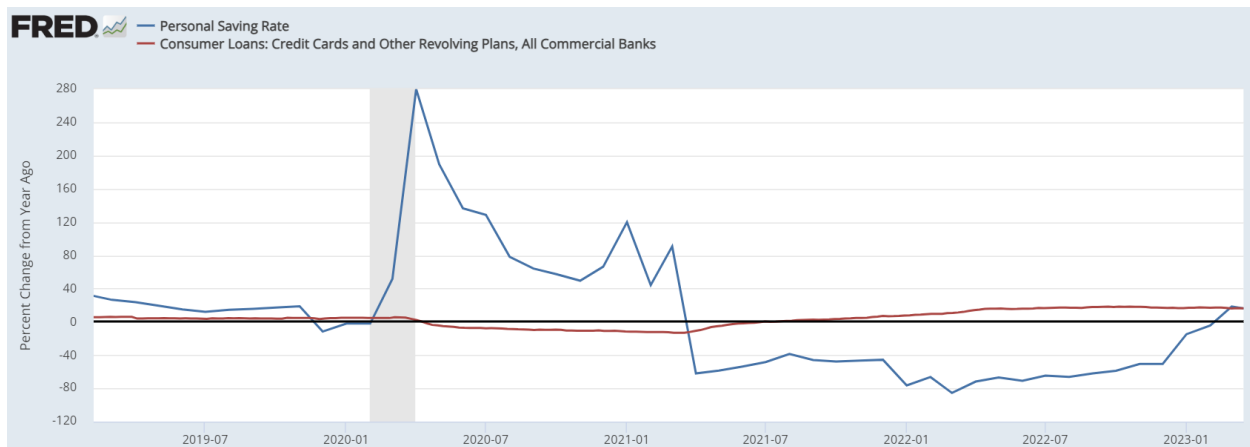
Inflation has continued to remain relatively high halfway into 2023, although the [most recent CPI figure](#) of 4.0% indicates that it has continued to cool and fall towards the Federal Reserve’s [target](#) of 2.0%. While inflation may lead to growth in sales tax revenue if consumer spending and consumption continue at a constant rate, economists continue to worry about its broader effects.

While the Federal Reserve has raised rates several times over the last year to combat inflation, they declined to raise rates in June 2023. They have [indicated](#) that further hikes could occur, and that it will likely take another two years to reach inflation targets. One effect of rising rates is the continued cooling of the housing market as seen in the [National Association of Home Builders / Wells Fargo Housing Market Index](#) which tracks factors such as sales and traffic of prospective buyers.



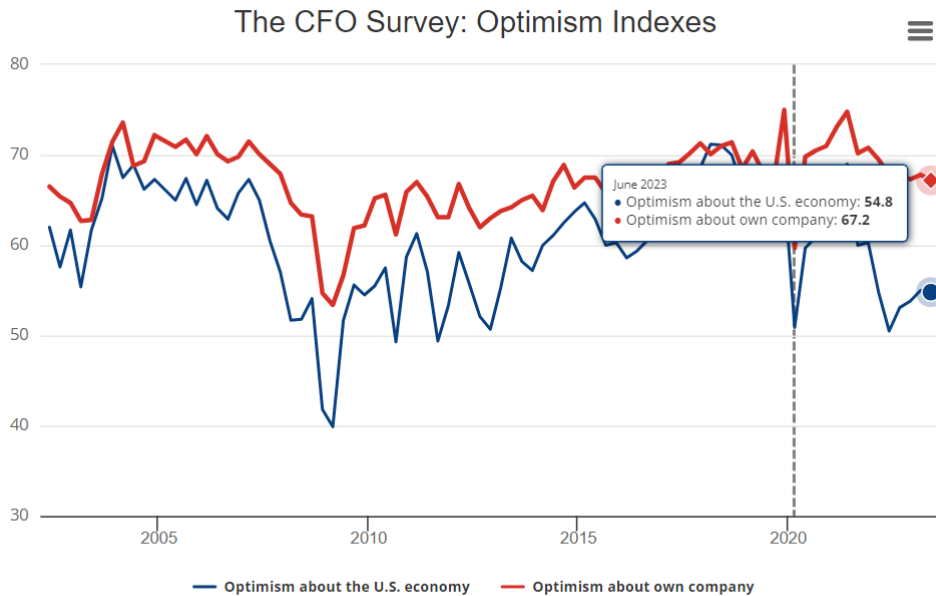
The Russian invasion of Ukraine has extended through 2023 and continues to have various effects on the world’s economies; energy prices have [notably risen in response to the conflict](#), but [other metrics](#) indicate general long-term economic resilience. [Gas prices](#) continue to fluctuate and put pressure on consumers; at the time of this memo’s release, North Carolina prices average \$3.26 per gallon, up from \$2.92 last quarter. National prices sit at \$3.55 per gallon, up from \$3.10 last quarter.

Another indicator to watch, pointed out by various economists, has been the gap in personal savings rates versus consumer loans. 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, debt has grown slightly while savings have begun to see positive percent increases compared to last year. This may indicate a slowdown in spending as consumers increasingly hold on to their earnings.



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

A [recent survey of CFOs](#) conducted by Duke University and the Federal Reserve Banks of Richmond and Atlanta found that CFOs across the country have once again downgraded their expectations for economic growth. As usual, the surveyed CFOs report far more optimism about their individual companies than the United States economy as a whole which indicates that individual circumstances are relevant when projecting future performance.



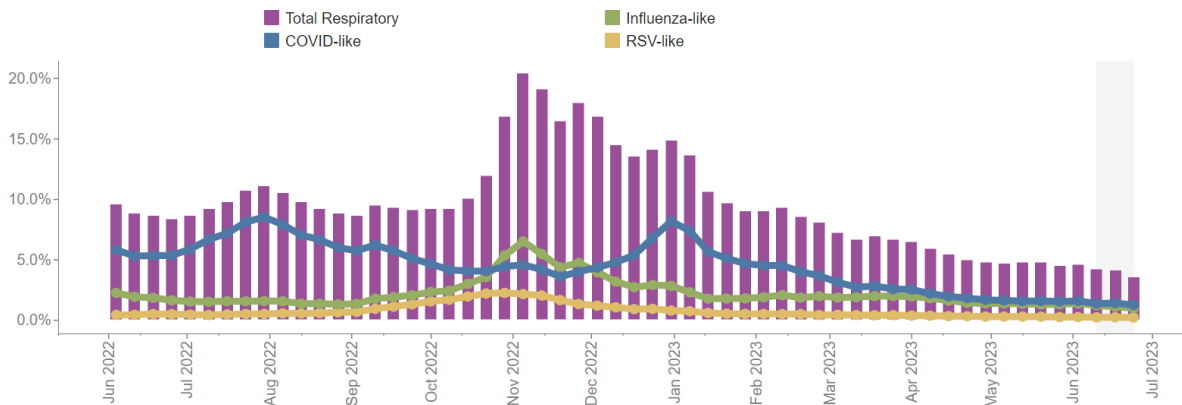
Note: The dashed vertical line denotes a moderate change in the question wording and presentation.
 Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey - Q2 2023 (May 24 - June 9, 2023)

ECONOMIC UPDATE: STATE OUTLOOK

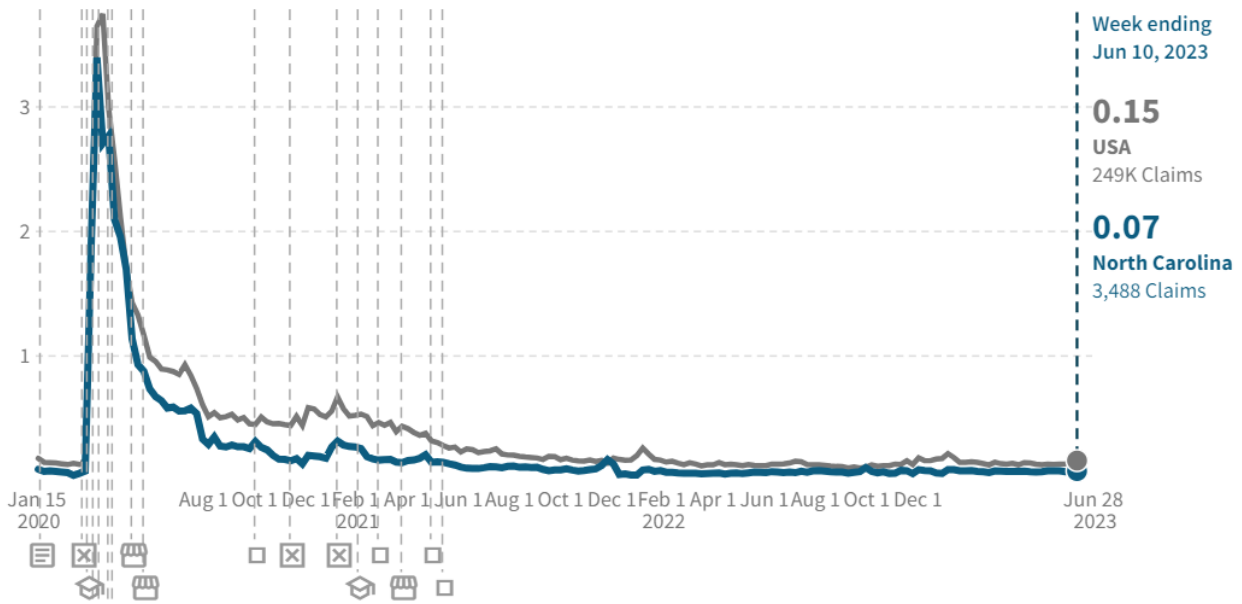
While COVID-19 and potential new variants may continue to influence the economy moving forward, the U.S. Department of Health and Human Services announced an [end to the public health emergency](#) in May of 2023, and North Carolina data show that [recent months have not seen any alarming spikes in cases or emergency room visits](#).

Emergency Department Visits for Respiratory Viruses

Latest Week: **3.5% of emergency room visits** had symptoms of a respiratory virus, a **decrease** from the week before. (The week before was 4.0%.)

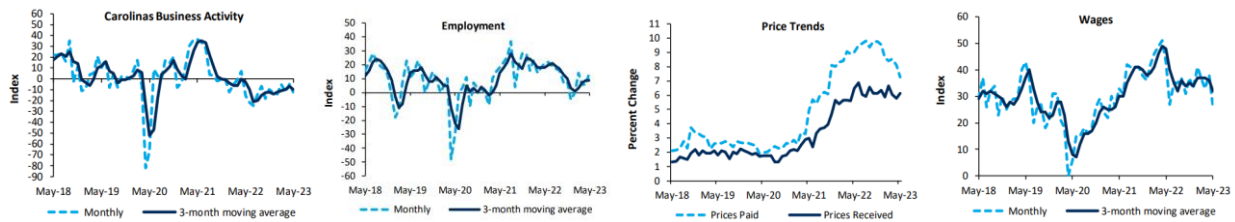


As seen below, unemployment continues to trend extremely low in North Carolina, with claims continuing to hover below the national average.



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

The Richmond Federal Reserve Bank’s [May 2023 Carolinas Survey of Business Activity](#) once again reported “softening economic activity,” with optimism that wages will remain high and businesses will improve their ability to find workers with desired skills over the next few months.



Dr. John Connaughton’s [May 2023 economic update](#) projects growth in 12 of North Carolina’s 15 sectors in 2023 and an increase of 1.4% in North Carolina’s GDP for the rest of 2023. Connaughton generally suggests slow growth and resilience in North Carolina’s economy and continues to note a chance of a recession this year driven by future decisions made by the Federal Reserve.

Dr. Michael Walden’s [June 2023 Index of North Carolina Leading Economic Indicators](#) declined 0.3% from the previous month and 7.5% from the previous year, continuing a general pullback which Walden suggests is a modest drop and not a “plunge.” The index saw increases in building permits and manufacturing hours while other parts of the index remained unchanged. Walden notes in regards to economic uncertainty that “If you’re confused, don’t worry – you have good company,” indicating that experts are currently navigating an unusual climate and set of circumstances.

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 Pat Madej, Research Program Manager, at 919-715-4323 or pmadej@nclm.org.