

# Quarterly Revenue Report

## *Q1 FY 2025-2026 (July-September)*

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## ABOUT THIS DOCUMENT

The League’s quarterly Revenue Reports provide a general economic update and a summary of tax revenues collected by the state that are returned to local governments (municipalities and counties) throughout the year. These include a portion of local option sales and use taxes, utility sales taxes (on electricity, piped natural gas, telecommunications and local video programming), beer and wine excise tax, and solid waste disposal tax. These taxes are distributed to municipalities throughout the year according to formulas outlined in state law, and relevant revenue sources will be highlighted in each quarterly report.

To view this information in a more interactive format, visit our most recent [quarterly revenue report dashboard](#). For more information on the different types of state-collected local taxes and distribution formulas, see the League’s most up-to-date “[State-Collected Local Taxes: Basis of Distribution](#)” memo.

## WHAT’S NEW THIS QUARTER?

The following NC Department of Revenue (DOR) data has been released following the [League’s most recent revenue report](#).

Distribution Data	Collection Period	Distribution Received
Sales & Use Tax <sup>1</sup>	August, September, October 2025	October, November, December 2025
Taxable Sales Data	August, September, October 2025	October, November, December 2025
Utility Sales Tax	June, July, August 2025	December 2025
Solid Waste Tax	June, July, August 2025	December 2025

<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 Q1 of the 2025-2026 fiscal year:

FY26 Q1 Summary		
Revenue Source	Total Distributed FY26 Q1	% Change from FY25 Q1
Sales & Use Tax	\$1.49 B	+6.33%
Sales & Use Tax Refunds	\$97 M	+12.0%
Electricity Sales Tax	\$118.3 M	-2.69%
Video Programming Sales Tax	\$12.3 M	-17.91%
Telecommunication Services Sales Tax	\$6.0 M	+0.88%
Natural Gas Sales Tax	\$3.2 M	+40.26%
Solid Waste Tax	\$2.52 M	+1.54%

## LOCAL GOVERNMENT SALES & USE TAXES

As sales tax revenue growth slowed in recent quarters, expectations were that the slowdown could continue into FY2025-26. The first quarter of the year did not meet those expectations. Though not the double-digit growth seen in some previous years, an over 6% increase in sales tax revenues from year to year made it one of the stronger quarters in recent memory. Fears of economic turmoil have yet to materialize, and local government sales taxes have remained resilient after several quarters of slower growth.

	FY22-23-FQ1	FY23-24-FQ1	FY24-25-FQ1	FY25-26-FQ1
Art 39 % Change Y-O-Y	15.02%	1.02%	0.02%	6.31%
Art 40 % Change Y-O-Y	15.02%	1.02%	0.02%	6.32%
Art 42 % Change Y-O-Y	14.98%	1.00%	-0.02%	6.32%

Overall, total distributions to local governments are 6.33% higher than they were in Q1 of FY2024-25:

Date	Total % Change Y-O-Y	Difference from Last Year	TOTAL DISTRIBUTED
August 2025	5.22%	\$24,914,724	\$502,258,830.14
September 2025	4.01%	\$19,329,203	\$501,110,725.02
October 2025	10.08%	\$44,284,943	\$483,442,032.03
<b>Total</b>	<b>6.33%</b>	<b>\$88,528,869</b>	<b>\$1,486,811,587.19</b>

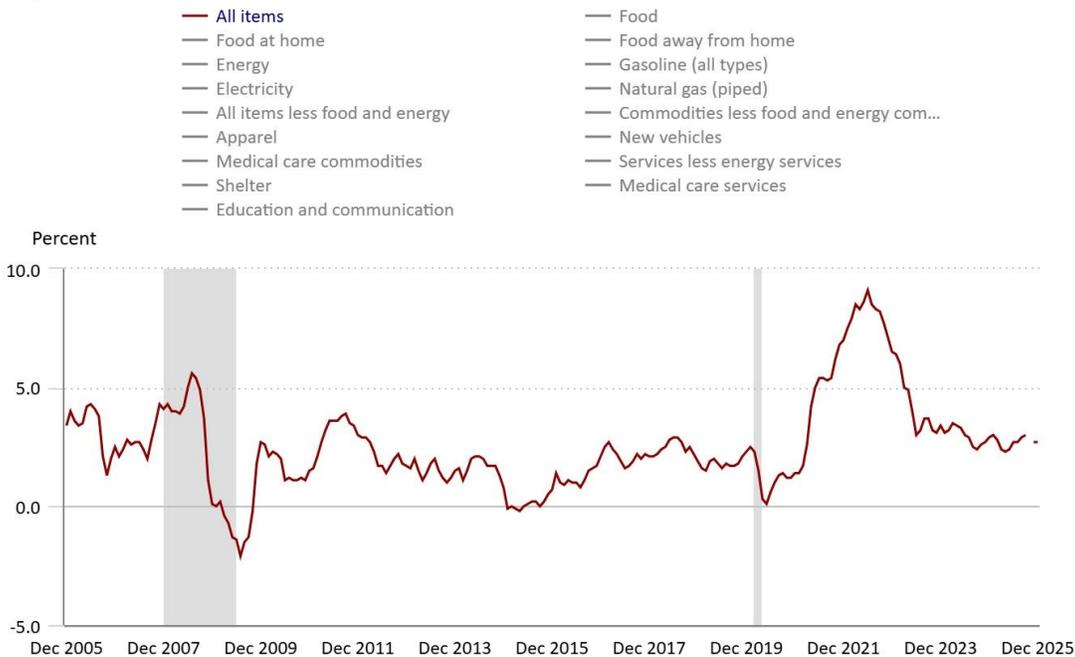
At a gross level, prior to refunds being taken out, sales tax collections have grown slightly faster than the net collections and distributions:

Date	Gross Collections	Gross Collections % Change YOY	Net Collections	Net Collections % Change YOY
August 2025	\$529,740,952	6.44%	\$504,491,743	5.24%
September 2025	\$524,397,556	5.23%	\$503,428,912	4.04%
October 2025	\$532,159,751	8.04%	\$485,689,472	10.10%
<b>Annual Total</b>	<b>\$1,586,298,259</b>	<b>6.57%</b>	<b>\$1,493,610,127</b>	<b>6.35%</b>

It is always difficult to pinpoint just one factor to explain the year-over-year trends in sales tax. Better-than-expected growth this year could represent something of a return to normal following stagnant growth at this time last year. It could also represent a less tumultuous economy than anticipated, despite signs of national and international unrest. Whatever the reason, through the first three months of the fiscal year, North Carolina consumers seem to have increased their spending as compared to the same time period in 2024.

Part of the increased sales tax revenues, in addition to consumer activity, is the price of goods. Through various forms of policy intervention, the United States economy has seemed to recover and return to a relatively steady rate of growth following the uncertain economic time that followed the COVID-19 pandemic. Inflation has softened, with the US Department of Labor reporting that it is resting at 2.7% at the time of this writing. That number is up slightly from last quarter's rate of 2.5%, but still down slightly from 3.1% in November of 2023 and down considerably from 7.1% in November of 2022.

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



Source: U.S. Bureau of Labor Statistics.



Note: The shaded areas are representative of a recession.

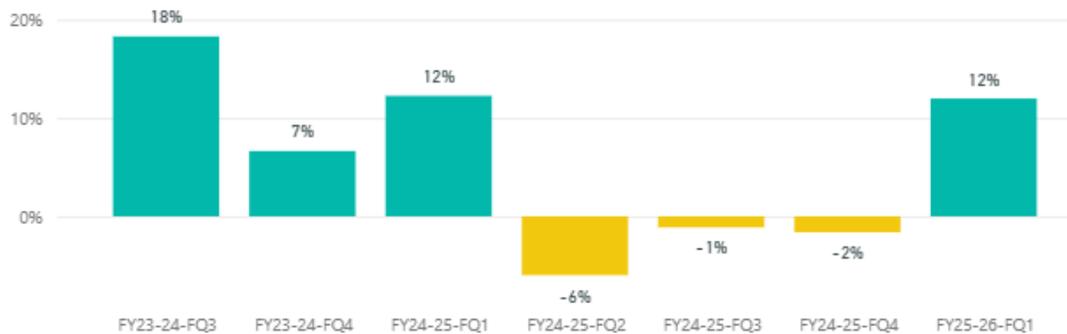
## SALES TAX REFUNDS

Sales tax refunds contribute to the general volatility of sales tax data; there are no apparent trends that appear within the refund data. The timing of organizations filing for refunds, combined with the DOR’s capacity to process these requests, can make refunds spike or drop during any given month. Refunds for the first quarter of FY25-26 were up on the whole from the previous year, but as a percentage of collections, they were roughly in line with the preceding quarters. The up and down nature of refund totals is shown in the line graph at the bottom of this page.

### Refunds, by Quarter

Sales_FY.FQ	Refunds This Year	Refunds Last Year	Refunds as % of Collections	Refunds % Change YOY
FY25-26-FQ1	\$96,964,608	\$86,588,515.41	6.10%	11.98%
FY24-25-FQ4	\$63,020,611	\$64,061,805.24	3.98%	-1.63%
FY24-25-FQ3	\$91,689,105	\$92,724,506.70	6.36%	-1.12%
FY24-25-FQ2	\$74,189,133	\$78,907,552.20	4.71%	-5.98%

### Quarterly Refunds YoY % Change



### 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 reflects the estimated time between when a customer uses the utility and the time at which the report is distributed by the Department of Revenue.

1- Customer Uses Utility	April	May	June
2- Billing Month	May	June	July
3- Payment Due	June	July	August
4- DOR Collection Month	July	August	September
5- Report Distributed	December		

Utility tax distributions during FY26 Q1 saw a significant increase in natural gas revenues and a somewhat unusual decrease in electricity revenues:

### Q1 Utility Tax Distributions, YoY % Change

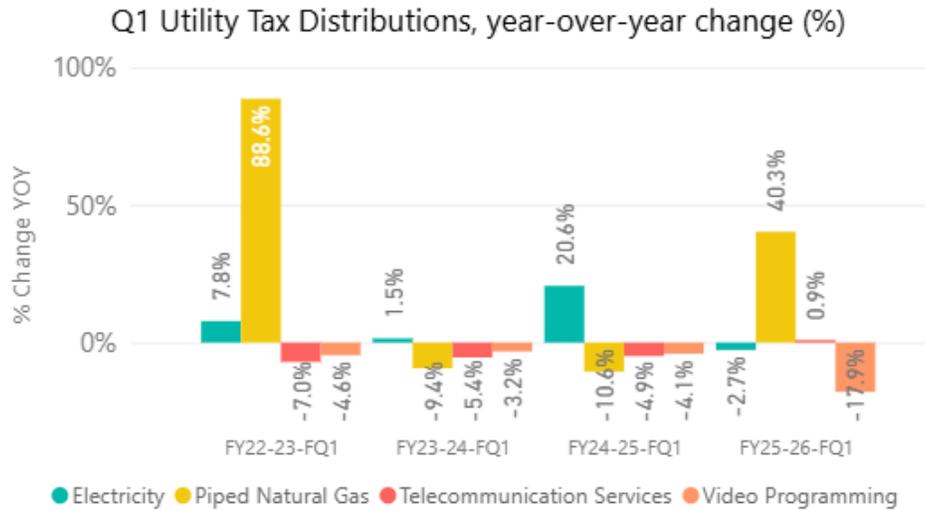
	FY23-24-FQ1	FY24-25-FQ1	FY25-26-FQ1
Electricity % Change YOY	1.48%	20.62%	-2.69%
Nat Gas % Change YOY	-9.37%	-10.57%	40.26%
Telecom % Change YOY	-5.42%	-4.93%	0.88%
Video % Change YOY	-3.25%	-4.06%	-17.91%

Historical dollar amounts of Q1 utility collections are shown below:

### Q1 Utility Tax Distributions, YoY \$ Change

	FY23-24-FQ1	FY24-25-FQ1	FY25-26-FQ1
Sales Tax on Electricity	\$100,794,736	\$121,573,914	\$118,298,495
Sales Tax on Piped Natural Gas	\$2,564,695	\$2,293,714	\$3,217,273
Sales Tax on Telecommunication Services	\$6,201,484	\$5,895,706	\$5,947,626
Sales Tax on Video Programming	\$15,675,858	\$15,039,271	\$12,346,174

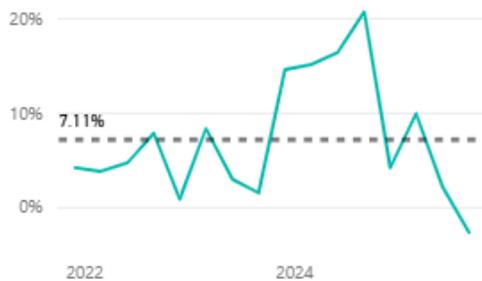
Telecommunications revenues remaining flat year over year, and video programming revenues declining, are largely in line with recent trends (though the video programming decline was particularly steep this quarter). The large increase in natural gas revenues and the year-over-year decline in electricity revenues were more unusual, though (as shown below), much of those changes can likely be explained through pricing trends.



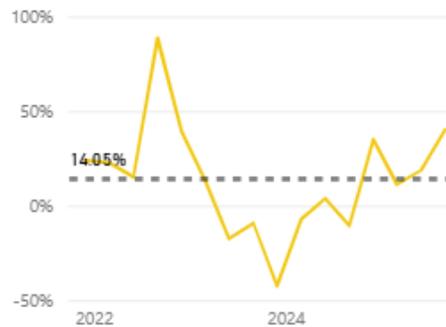
## ELECTRICITY & NATURAL GAS

As shown in the tables above, the increase in natural gas revenues for the first quarter of this year was unusual, though not entirely unprecedented. With around \$3 million of revenues typically distributed in the first quarter, it takes less change in this revenue source to create a high percentage differential than it does with other revenue streams, such as that of electricity. The decline in electricity sales tax year over year was, in some ways, more unusual, given that these revenues have shown positive growth dating back several years at this point. However, pricing likely explains much of the shifts in both of these revenue sources.

### Electricity Tax Distributions



### Natural Gas Tax Distributions



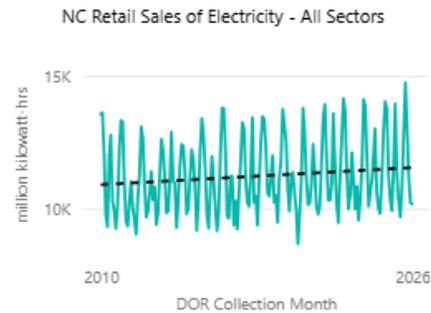
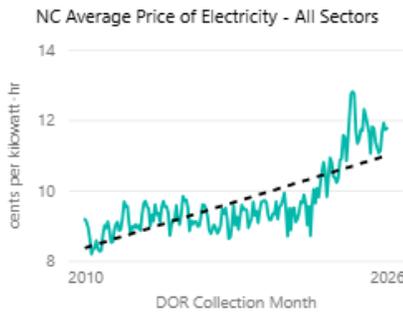
As noted in the tables and graphs below, electricity prices declined in NC for the first quarter of FY25-26 for the first time in years. Consumption was flatter, although still slightly down from FY24-25:

### Electricity Prices in NC

FY.FQ Utility	Avg Retail Electricity Price (All Sectors) % Change YOY
FY25-26-FQ1	-2.87%
FY24-25-FQ1	8.60%
FY23-24-FQ1	5.20%
FY22-23-FQ1	6.36%
<b>Average YTD</b>	<b>4.32%</b>

### Electricity Consumption in NC

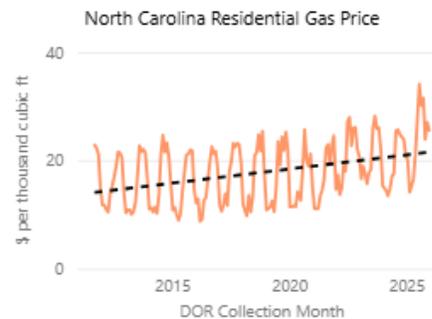
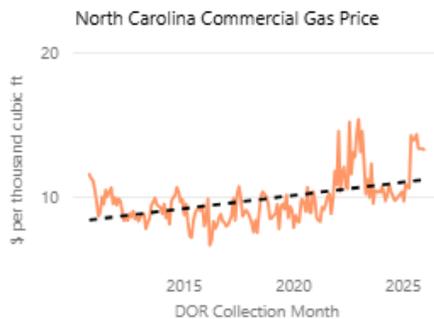
FY.FQ Utility	Retail Sales of Electricity (kw-hours, All Sectors) % Change YOY
FY25-26-FQ1	-0.37%
FY24-25-FQ1	3.38%
FY23-24-FQ1	-2.47%
FY22-23-FQ1	3.88%
<b>Average YTD</b>	<b>1.11%</b>



Meanwhile, the average natural gas price for both commercial users and residential users increased significantly during this quarter. Even for a revenue source that can be somewhat volatile, the degree of change in both prices was atypical.

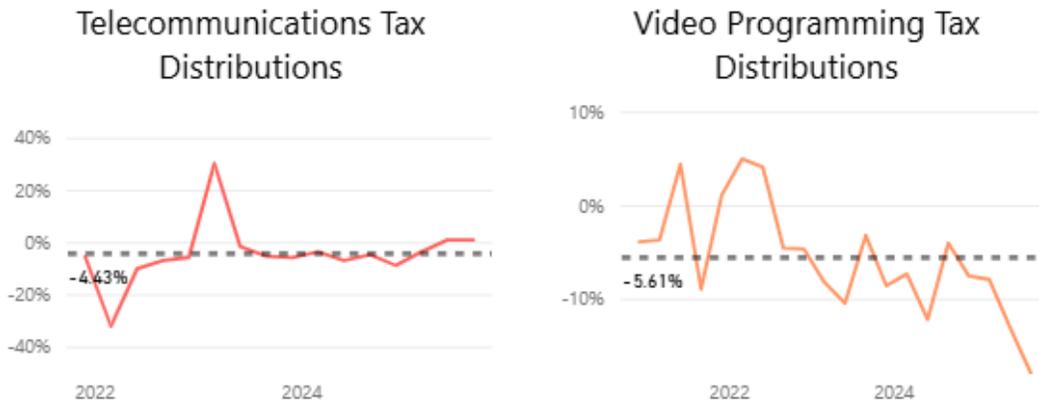
### Natural Gas Prices in North Carolina

FY.FQ Utility	Average of Commercial Gas Price % Change YOY	Average of Residential Gas Price % Change YOY
FY25-26-FQ1	41.33%	22.32%
FY24-25-FQ1	-8.75%	-6.66%
FY23-24-FQ1	-18.93%	5.46%
FY22-23-FQ1	37.57%	19.61%
<b>Average YTD</b>	<b>12.11%</b>	<b>10.65%</b>



## TELECOMMUNICATIONS & VIDEO PROGRAMMING

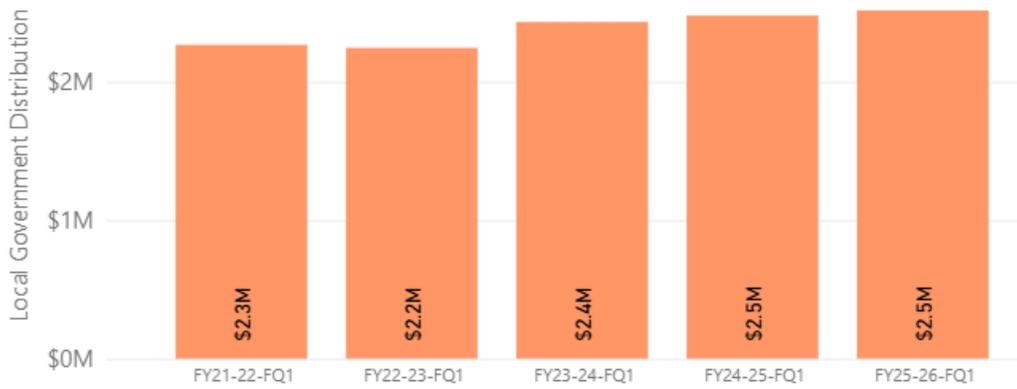
Revenue from the telecommunications tax showed a slight increase, which was a change from the slight decrease it had been experiencing in recent quarters. Meanwhile, the nearly 18% decline in video programming was large even by its recent standards. It is expected that revenue from both sources will continue to trend downward in the future as consumer behaviors change.



## SOLID WASTE DISPOSAL TAX

Revenue from solid waste comes from a \$2 per-ton solid waste disposal tax charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state. The Department of Revenue distributes this revenue to local governments quarterly. Solid waste distributions have increased by 1.54% this year when compared to the same time period last fiscal year. These revenues have alternated growth and decline in recent quarters, but for the last year have been nearly flat, with less than 1% growth overall.

### Q1 Solid Waste Disposal Tax History



### Solid Waste Tax, Quarterly YoY % Change



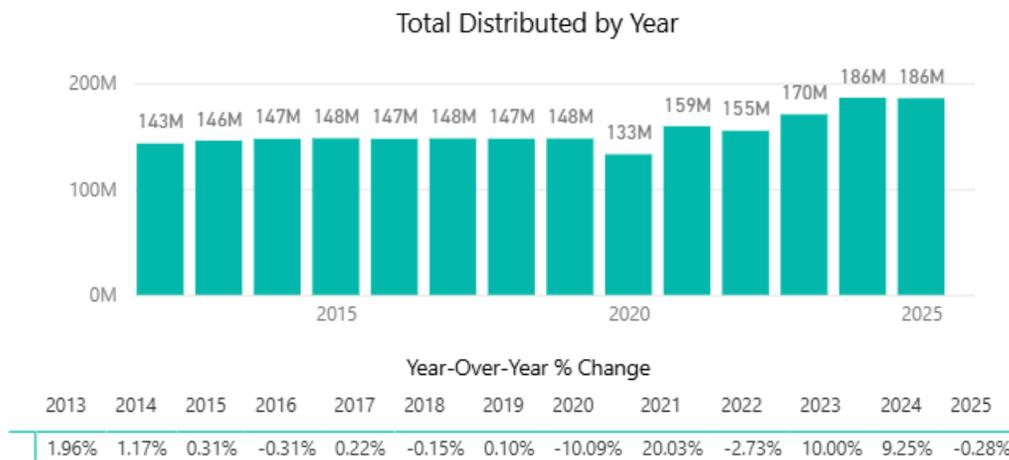
### FY26 YTD Solid Waste Tax Distributions

FY.FQ	Solid Waste Tax Distribution	Solid Waste Tax % Change YOY
FY25-26-FQ1	\$2,515,124	1.54%
FY24-25-FQ4	\$2,276,012	-0.08%
FY24-25-FQ3	\$2,419,024	5.36%
FY24-25-FQ2	\$2,357,845	-3.15%
<b>Total</b>	<b>\$9,568,005</b>	<b>0.87%</b>

## POWELL BILL FUNDS

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

The 2023-2025 biennial budget increased Powell Bill appropriations from \$15.5 million in each of the two years of the biennium, making the total appropriation \$170.417 million in FY2023-24 and \$186.137 million in FY2024-25. The October 2025 distribution to municipalities was \$92.81 million. The North Carolina General Assembly has not passed a new appropriation for the biennial budget for fiscal year 2025-2027. If nothing is passed, the previous biennial budget persists.



## ECONOMIC UPDATE: NATIONAL OUTLOOK

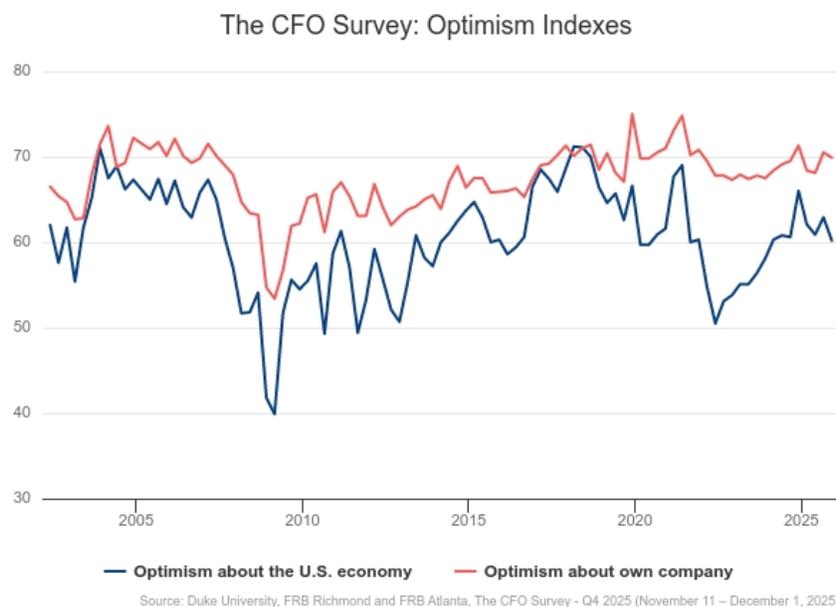
Recent national indicators point to steady but uneven economic conditions, with several policy areas contributing to uncertainty over the next few quarters. [According to the American Enterprise Institute](#), labor market signals remain a focal point as the effects of immigration reform unfold. Because the scope of reform is unprecedented, the [US Economic Outlook for 2026-2027](#), published by the University of Michigan, cautions that monthly payroll job gains are not a reliable forecasting tool at the moment. Net migration swings can distort those figures, so many analysts are turning instead to unemployment rates as a clearer measure of labor market health. Early indications suggest only a slight softening, some of which reflects delays associated with the recent federal shutdown rather than underlying weakness. For local governments already navigating hiring challenges, labor conditions are expected to remain somewhat tight and uneven as the national picture adjusts.

Inflation trends continue to show a [widening gap](#) between goods and services. Goods prices have largely normalized as supply chains settle, while service inflation continues

to accelerate. This widening gap suggests that wage-driven cost pressures in housing, healthcare, hospitality, and other service industries are persisting even as goods inflation cools. For local governments, the continued rise in service prices may help sustain sales tax levels through higher transaction values, but it also has the potential to increase local operating costs, particularly for contracted services, building repairs and maintenance.

Trade policy remains an unresolved variable. Tariffs implemented or announced this year have not yet produced the broad consumer price increases initially expected. A growing number of large organizations are pursuing [legal action](#) against the Trump administration’s tariff structure, and many importers have relied on bonded warehouses to defer tariff payments while waiting for clearer policy direction. These strategies have delayed the consumer impact, but sudden shifts remain possible. If tariff-driven costs materialize later, changes in trade costs could eventually affect the price of materials, equipment, and vehicles, items that many local governments depend on for capital and operational planning.

Optimism among CFO’s has declined from the previous quarter in 2025 and from where it was at this time last year. The CFO Survey conducted by [Duke University and the Federal Reserve Banks of Atlanta and Richmond](#) queries CFOs regarding monetary policy, cost pressure/inflation and labor quality/availability. Top concerns remain tariffs and the anticipation of price increases in 2026, though they still expect moderate employment growth and growth in overall economic activity.



Monetary policy offers a somewhat steadier outlook. After the [Federal Reserve's](#) October meeting, in which it made no changes to its federal funds rate, the group opted to reduce its benchmark interest rate to 3.50–3.75% at the December meeting. It also signaled the likelihood of an additional cut in 2026. These moves reflect a recalibration toward a more neutral stance in response to a gradually softening labor market and inflation that remains above the long-term target. However, news of a potential new Federal Reserve Chair injects some unpredictability into the path of monetary policy. For local governments considering new debt issuance or refinancing, the downward rate trend is encouraging but still subject to change.

At the federal level, the recent shutdown and ongoing reliance on continuing resolutions create data lags and uncertainty that complicate forecasting. While the shutdown itself is not expected to have a large direct economic impact, its timing has delayed the release of several key datasets. Many of these gaps will not be fully resolved until early 2026, which may make it harder for local governments to benchmark trends in unemployment, spending and growth. The continuation of short-term funding agreements at the federal level also increases the likelihood of further disruptions, which could affect grant timing, regulatory processes and public-sector confidence.

[Housing market indicators](#) provide a mix of caution and optimism. Demand for single-family homes remains subdued but has shown some recent improvement, while multifamily demand remains strong. The Housing Market Index remained below neutral in October, though analysts expect above-neutral readings within six months as mortgage rates decline. As of November 26, 2025, the average 30-year fixed [mortgage rate](#) stood at 6.23%, slightly lower than the previous week's 6.26% and materially improved from 6.81% one year ago. Lower mortgage rates typically support household financial stability and can help stimulate activity in the housing market—positive signals for local tax bases and broader consumer confidence.

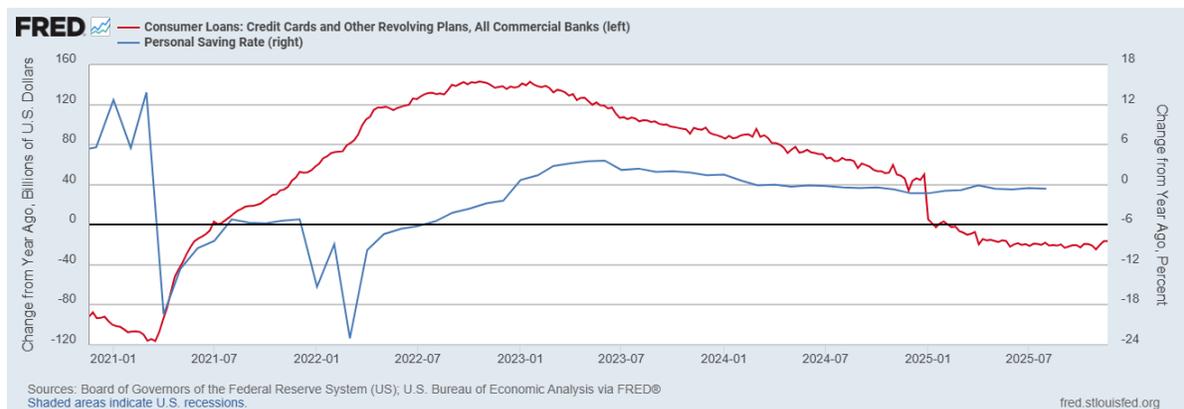


### Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 11/26/2025



[US Bureau of Labor Statistics](#) data shows moderate increases, 3.0% for the 12-month period ending in September 2025, in CPI heading into the holiday season, and if this trend holds, local governments may see a corresponding boost in sales tax disbursements in early 2026. However, household financial health remains a key variable. [Recent national data](#) shows that credit card balances have begun to fall while savings rates have not improved. This pattern suggests that households may be reaching the limits of what they can afford without additional borrowing. When this occurs, consumer spending often softens, and local revenues tied to retail activity can flatten or become more volatile.

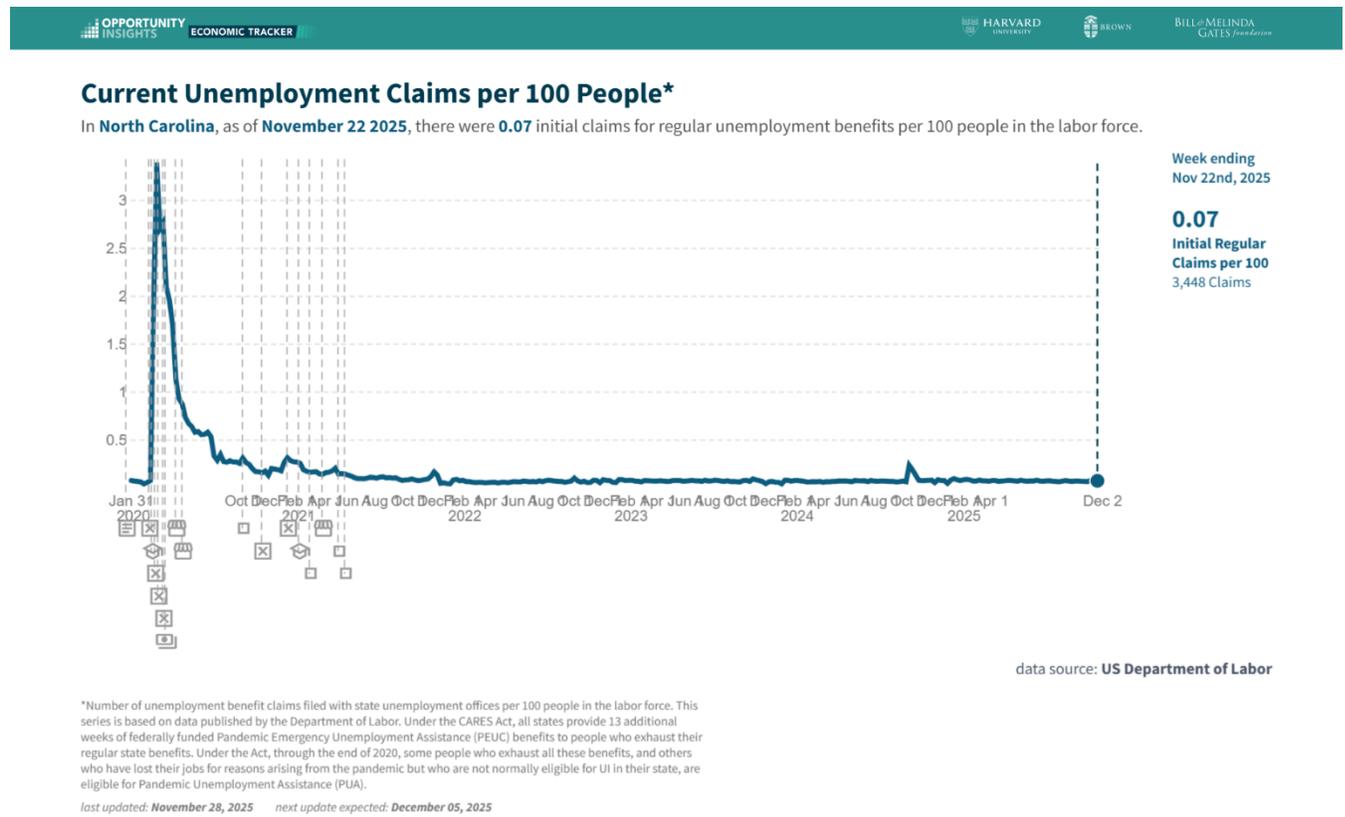


Overall, the national outlook continues to suggest moderate economic growth, though several areas merit close attention in the months ahead. For North Carolina's local governments, the most relevant themes include persistently elevated service costs, gradually improving borrowing conditions and the potential for greater variability in sales tax revenues as household budgets tighten. Monitoring federal

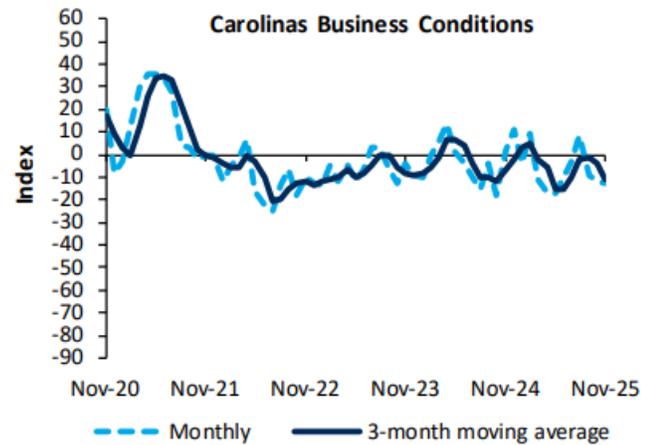
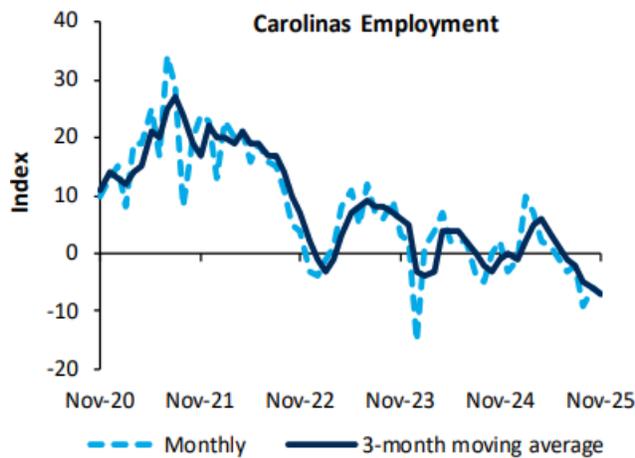
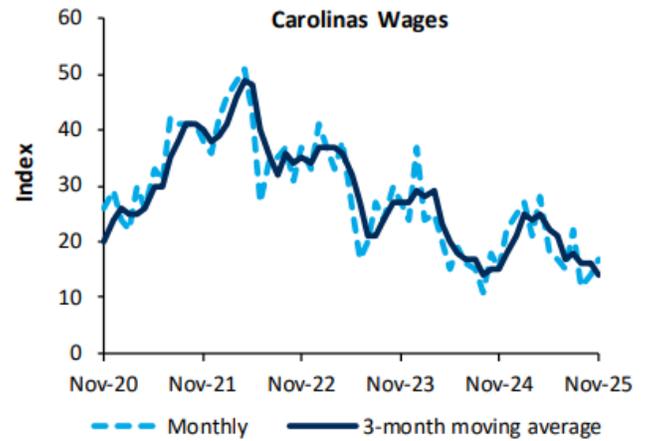
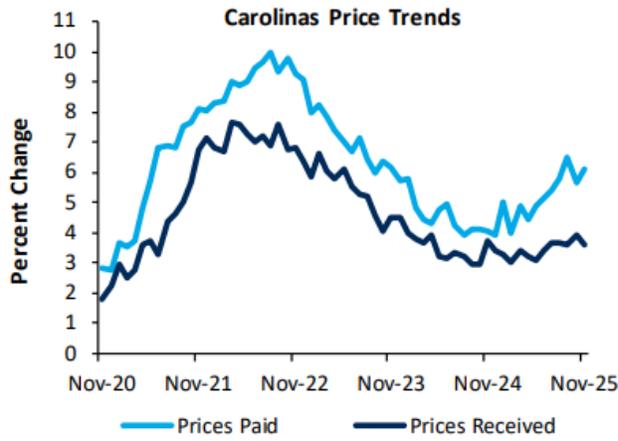
actions, inflation trends and consumer behavior will be essential to staying prepared as conditions evolve. Local governments may also want to anticipate possible delays in federal programs, slower grant reimbursements, or continued data reporting gaps, depending on how funding negotiations unfold early next year.

## ECONOMIC UPDATE: STATE OUTLOOK

Unemployment claims in North Carolina continue to trend below the national average. As of late November 2025, the United States saw 0.15 initial claims for regular unemployment benefits per 100 people in the workforce. As shown in the graph below, North Carolina saw 0.07 initial regular claims per 100 people. The number of initial claims remained at this level for some time.



The Richmond Federal Reserve Bank’s [December Survey of Business Activity](#) reported that overall business activity has declined and is slightly lower than this period last year. Notably, the expectations for the next six months are more positive than what we are currently experiencing.



Dr. John Connaughton’s [December 2025 North Carolina Economic Forecast](#) forecasts real GDP to increase by 2.6% in 2025 over the 2024 level, followed by an additional 3.0% growth in 2026. For the coming year, he predicts growth in 14 of the state’s 15 economic sectors, with agriculture the only exception. If 2026 ends with positive growth in GDP, it will mark the sixth full year of growth since COVID-19.

Notable North Carolina economist Dr. Michael Walden [recently said in an interview](#) that he predicts record business announcements and job growth in 2026, despite a more moderate outlook for the national economy.

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:

[Research & Surveys | NCLM](#)

## CONTACT

For questions on this report, contact Shelly Linker, Research Program Manager, at [slinker@nclm.org](mailto:slinker@nclm.org).