

To: John Connet, City Manager
CC: City Council
Department Heads
Re: Mid-Year Budget Report
Date: January 22nd, 2021
From: Brian Pahle, Assistant City Manager
Adam Murr, Sr. Budget & Management Analyst

The following report provides information on the City of Hendersonville's FY20-21 budget and the respective analysis for revenues and expenditures at mid-year, through December 2020. The report will summarize high-level observations, provide an overview of recommended adjustments, and provide an amendment for accounts requiring Council approval.

The report is broken down by a governmental and enterprise section and reports on the main six City funds (General, Main St. MSD, 7th Ave. MSD, Water/Sewer, Stormwater, and Environmental Services). This report will be submitted to City Council at their regular February 4th, 2021 meeting.

Governmental Funds

The three governmental funds covered in this report include the General Fund, Main St. MSD Fund, and 7th Avenue MSD Fund. The General Fund revised budget as of 12/31/2020 totals \$19,717,610 including a budgeted fund balance appropriation of \$2,631,547. The Main Street MSD Fund revised budget totals \$509,553 including a budgeted fund balance appropriation of \$37,143. The 7th Avenue MSD Fund revised budget totals \$102,256 including a budgeted fund balance appropriation of \$27,006. Major highlights of these fund's mid-year performance and recommended adjustments are presented in the following sections.

Ad Valorem Tax (Revenues)

For the tax year 2020, the City continued an interlocal agreement with Henderson County to consolidate tax collection under the County. The County provides this service for a fee of 0.5% of the total collections. At mid-year, collections for the tax year 2020 (FY21) General Fund ad valorem taxes total approximately 81.18% of the total levy. Comparably, in 2019 (FY20), collections totaled 83.81%. Staff assumes this 2% decrease in collection period over period, is in part due to the on-going pandemic and strain being felt by businesses. Approximately 6% of the total levy is made up by personal property taxes. Knowing that tax bills are not delinquent until January, we will monitor to see if this collection percentage increases once the County officially begins collection of late tax payments. The Main Street MSD Fund and 7th Avenue MSD Fund are experiencing similar collection decreases, at 4% and 7% below 2019, respectively.

Prior year collections are up \$30,000 over budget and we have included an amendment to reflect that increase. The partnership with the County for tax collections continues to go well.

Unrestricted Intergovernmental Taxes (Revenues)

These taxes are revenues received through other governmental entities, primarily the State, and are not restricted, outside of the standard authorized expenditures provided to municipalities by the State. The largest revenue budget in this source, is the local sales and use tax. For the General Fund, the City seeing an average increase of 13.34% for FY21, after four collections. Even under a conservative 7.57% increase for the remaining collections, we would see a total of approximately \$4,214,924 in revenues at year end. Staff recommends amending the General Fund budget at an increase of \$400,000 for this

account and allow any additional collections to be used to offset the budgeted fund balance appropriation at year end. We estimate the General Fund could end the year \$687,140 over budget for sales taxes. For the MSD funds an increase of \$30,000 is recommended for Main Street, and an increase of \$5,000 is recommended for 7th Avenue.

ABC revenues is another revenue source, that has recommended changes in the General Fund. These revenues are distributed to the City as a share of total profit made by the local ABC board. The board's audit provided that the board's net profit was \$665,000 in 2020. This is an increase of 47.78% over FY19. Per State law, the City receives half of this net profit. The total revised FY21 budget in the General Fund is \$300,000. Concurrently, staff recommends this budget be increased by \$32,500 to reflect the total \$332,5000 the City received last year.

Other (Revenues)

The City's investment earnings are expected to take a major hit due to plummeting interest rates and the market's reaction to the pandemic. Out of an abundance of caution, this proposal includes decreasing interest income by \$140,000.

Additional proposed amendments for FY21 includes a decrease of \$38,482 in Powell Bill distribution as a result of cuts at NCDOT, a decrease of \$30,000 in parking meter revenues, an increase of \$10,500 in cemetery lot revenues, an increase of \$15,900 in payment in lieu of sidewalks, an increase of \$12,000 in insurance proceeds, and an increase of \$70,000 in sale of capital assets.

Overall, the proposed amendments result in a net increase in revenues of \$384,499 for the General Fund.

The Main St. Fund's revenues for Apple Festival vendor permits is proposed to decrease by \$12,000. This fund is also proposed to decrease its fund balance appropriation by \$15,750.

Salary & Benefits (Expenditures)

There are a few salary and benefit lines that are forecasted to exceed budget. The Finance Department will be looking into the payroll records and make sure the employees were allocated correctly across funds. We have included an amendment and increase to these accounts to cover this forecasted overage if it does turn out to be accurate in the system. If it is not, we will have additional cushion in those accounts through the remainder of the fiscal year.

Capital Outlay Land (Expenditures)

There is a proposed increase of \$100,000 in the administration capital outlay land account to cover costs associated with the purchase of 622 Pace Street, previously approved at the City Council January 2021 regular meeting.

Transfer Out (Expenditures)

There is a proposed increase of \$127,000 for additional improvements to the City Operations Center Assembly Room. This project will be split with the Water and Sewer Fund. This will reflect as a transfer to the governmental capital projects fund, Fund 410. This amendment includes AV upgrades at \$54,000, furniture at \$32,000, and a change order to the construction contract of \$41,000 (planned phase II).

Special Appropriations (Expenditures)

There is a proposed increase in special appropriations of \$95,000 to cover costs associated with the Center for Arts and Inspiration and Hand's On Children's Museum contracts that were approved by City Council at their December 2020 and January 2021 regular meetings, respectively.

Other Equipment, Supplies, & Services (Expenditures)

Additionally, there is a long list of smaller proposed amendments to regular operating accounts to fix budget issues that have arisen in the first half of the fiscal year. These are typical amendments for repairs and other supplies. Some items include street traffic light upgrades for \$18,000, FEMA expenditures, and a structural wall/tunnel study underneath the road of 8th Avenue and Locust Street for \$6,000. The total increase for these type of expenditures is approximately \$233,000.

Contingencies (Expenditures)

Finally, the General Fund's contingency account was increase by \$400,000 due to an increase in funding availability for firefighter salaries and CARES funds. This amendment proposes decreasing the contingencies by \$343,446 to balance the amendment, leaving \$77,141 available for the remainder of FY21.

The total recommended increase/decrease in total budget for the governmental funds is presented, as follows.

Fund	\$ Change
General Fund	Increase \$384,499
Main St. MSD Fund	Increase \$1,250
7 th Ave. MSD Fund	Increase \$4,000

The amendment detailing these changes is included with the agenda item.

Enterprise Funds

The three enterprise funds covered in this report include the Water and Sewer Fund, Stormwater Fund, and Environmental Services Fund. The Water and Sewer Fund revised budget as of 01/22/2021 totals \$18,802,395 including a budgeted fund balance appropriation of \$1,196,720. The Stormwater Fund revised budget totals \$584,315 including a budgeted fund balance appropriation of \$42,525. The Environmental Services Fund revised budget totals \$1,419,017 including a budgeted fund balance appropriation of \$110,217.

Major highlights of these fund's mid-year performance and recommended adjustments is presented in the following sections.

User Charges (Revenues)

User charges for the sale of utility services are the largest income source for the enterprise funds. Operating under a business-like structure, the City charges customers directly based on the amount of a service or resource consumed. The City has deliberated with rate experts and consultants to recommend rates to the City Council. Adherence to recommendations for the current fiscal year (FY20-21) and forward will be an important consideration as we continually prioritize capital projects, analyze the health and longevity of our utility systems, and meet financial covenants set through our revenue bond (parity bond) and other borrowings.

As of January 22, 2021, the water sales account has collected \$5,698,022 (52.04%) of budgeted user charge revenue. This collection amount reflects 24 weeks of revenue collection out of 52 total. 28 major collection cycles remain this fiscal year. Compared to prior fiscal years, water sales revenues are higher. This increased actual water sale revenue trend can be attributed to a few factors. Notably, the finance department has worked to improve collections and associated processes. The City has also added a major water-consuming industry which appears to use approximately 7,000 gallons of water per hour. Staff are monitoring this water customer for major changes in usage trends.

The sewer charges account has collected \$2,443,644 (43.40%) of budgeted revenues. At this same time in 2019, the account totaled approximately \$2,325,681, or 43.9% of budgeted revenues. The Stormwater Fund has collected \$303,493 (56.20%) of budgeted user charge revenue. Included in our mid-year budget amendment recommendations is an increase to stormwater fee budgeted revenue of \$57,475. The Environmental Services Fund has collected \$518,625 (46.31%) of budgeted user charge revenue; this collection level is comparable to the same time in FY19-20, where 46.21% of revenue had been collected.

Overall, staff recommends the following changes to user charge revenues at mid-year: increase water sales \$300,000, decrease sewer charges \$300,000, increase stormwater fee revenues \$57,475, and decrease environmental services waste collection fees \$19,222.

Tap Fees (Revenues)

In addition to user charges, the Water and Sewer Fund tracks revenues collected from the connection of customers to our infrastructure. The tap fee revenue source is a good indicator of the local economy, providing insight to the rate of development in the City and Henderson County. In FY20-21, we have collected \$206,425 (55.09%) of budgeted water and sewer tap revenues. Based on current collections, staff recommend a \$30,000 increase in budgeted revenues for water and sewer tap fees. The trend in this revenue source indicates more users are connecting to our water and wastewater utility.

Other (Revenues)

Various other minor revenue sources are accounted for in the enterprise funds. Some other sources of revenue include disconnect/reconnect fees, customer participation charges, investment earnings, sale of assets, and miscellaneous income. At mid-year FY20-21, staff recommends Council approve the following adjustments to other revenues: \$120,000 decrease in water and sewer late fee revenues, \$12,500 decrease in disconnection fees, \$30,300 decrease in Brightwater fees, \$35,000 increase in sewer surcharges, \$38,305 increase in market adjustment revenues, and a \$172,000 decrease in interest income revenues.

Salary & Benefits (Expenditures)

Several salary and benefit accounts have exceeded budget or are projected to do so. Many of these accounts involve uniforms, overtime expenses, and cellphone stipends. Each year, we budget for these items based on historical trends. Trend analysis provides a reasonably accurate insight to these accounts; however, adjustments are needed from time to time. In addition, some outliers are explained through expense codification conflicts in the Finance Department. The Finance Department will investigate records for the current year, ensuring salary and benefits expenses were appropriately categorized.

Salary and benefit expenses are split each year to match the anticipated work to be completed by employees in each fund. For example, a Water and Sewer Line Maintenance Mechanic may be paid on a 67% water, 33% sewer basis in one fiscal year and 50% water, 50% sewer the next fiscal year – depending on the work the department anticipates. For the Water and Sewer Fund, Stormwater Fund, and Environmental Services Fund, this factor may contribute to codification adjustment needs.

Professional and Contracted Services (Expenditures)

Professional and contracted services expenditures cover items we often request assistance with from outside firms. Engineering consulting, construction management, land surveying, information technology consulting, and master planning are a few common expenditures in this category within our Enterprise Funds. In FY20-21 there are limited changes to the Water and Sewer Fund's professional and contracted services budgets. The recommended changes include: an increase of the Administration Department's professional services engineering account of \$28,500, and a \$75,000 increase to the Water and Sewer I.T. Department's contracted services account.

Other Equipment, Supplies, & Services (Expenditures)

Included in equipment, supplies and services are a few items recommended for adjustment at mid-year. Staff recommends the following other expenditure changes in the Water and Sewer Fund: \$82,376 increase for a heavy-service vehicle, \$22,000 increase for sludge management, a \$43,018 increase for the repair of a generator at the water treatment facility, and \$60,532 for vehicle repairs.

Contingencies (Expenditures)

Contingencies in the Stormwater Fund, and Environmental Services Fund will be unaffected by the mid-year amendment as proposed. The Water and Sewer Fund's contingencies account will decrease by \$79,601 to transfer a portion of funds necessary for the operations center upgrades and to balance the mid-year amendment.

The total recommended increase/decrease in total budget for the enterprise funds is presented, as follows.

Fund	\$ Change
Water and Sewer Fund	Decrease \$220,595
Stormwater Fund	Increase \$56,535
Environmental Services Fund	Decrease \$35,237

The amendment detailing these changes is included with the agenda item.