

City Council Memo

TO	Mayor Volk & City Council
FROM	Jenny Floyd, Budget & Mgmt. Analyst Adam Murr, Budget Manager
SUBJECT	FY24 Mid-Year Budget Report
DATE	January 22, 2024
COPY	John Connet, City Manager Brian Pahle, Assistant City Manager

This memo communicates the City of Hendersonville's fiscal year 2023-2024 (FY24) budget and mid-year revenue and expenditure analysis. The memo summarizes high-level observations and recommends both adjustments and amendments in need of Council's review and approval.

The report is divided into a governmental fund and enterprise fund section and reports on the City's seven (7) major operating funds: General Fund (010), Main Street MSD (020), 7th Avenue MSD (021), Water & Sewer (060), Parking (064), Stormwater (067), and Environmental Services (068). This report will be submitted to City Council ahead of their February 07, 2024 regular 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 01/08/2024 totals \$26,307,957 including a budgeted fund balance appropriation of \$2,916,519. The Main Street MSD Fund revised budget totals \$757,592 including a budgeted fund balance appropriation of \$130,762. The 7th Avenue MSD Fund revised budget totals \$181,843 including a budgeted fund balance appropriation of \$63,443.

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

Ad Valorem Tax (Revenues)

For tax year 2023 (FY24), 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 2023 (FY24) General Fund ad valorem taxes total approximately \$6,860,938 (52.57%) of the total budgeted \$13,050,000 levy. Comparably, this time in tax year 2022 (FY23), collections totaled 48.40%. We anticipate total collections for the year of \$13,530,000 based on forecasting and property tax distribution expectations. The Main Street MSD fund property tax actuals total \$128,543 (44.63%) of budget, to date. 7th Avenue MSD fund property tax actuals total \$12,777 (27.24%) of the revised budget, to date.

Prior year collections have exceeded initial budget estimates in the General Fund. Our mid-year amendment includes adjustments considering the increased collection amount.

Unrestricted Intergovernmental Taxes (Revenues)

The City adopted an FY24 ad valorem sales tax revenue budget of \$6,290,000 (+4.00% over FY23). Due to high state-wide refund trends in FY24, Staff recommends keeping sales tax revenues at the current level until additional data is available - a conservative approach at mid-year. The City has received a total of \$1,536,775 for three of twelve total collection months, a \$31,183, or, 2.07% increase over the same collection periods in FY23. By the end of FY24, we anticipate collections will be in-line with budget: \$5,914,000 in the General Fund, \$314,000 in the Main Street MSD Fund, and \$62,000 in the 7th Avenue MSD Fund.

Debt Proceeds (Revenues)

In FY24, the City adopted a project ordinance for major vehicle and equipment acquisitions. Due to this shift, the FY24 General Fund, Main Street MSD Fund, and 7th Avenue MSD Fund budgets do not include debt proceed revenues. Additionally, there are no planned debt issuances for major governmental construction projects or acquisitions.

Other (Revenues)

Powell Bill distributions are a large, restricted source of revenue in the General Fund. According to North Carolina General Statute (NCGS) 136-41.3(a), funds must be used primarily for street resurfacing within corporate limits, with some allowance to maintain bridges, drains, curbs, and other necessary public transportation amenities. At mid-year FY24, there is a recommended \$55,913 increase to Powell Bill Allocation revenues to bring the adopted \$460,000 budget to a level that matches the State's allocation amount, \$515,913.

Additional significant revenue amendments include a \$50,000 increase to electricity utility tax revenues, a \$34,000 increase to market adjustment revenues, a \$19,000 increase to refund revenues, a \$12,000 increase to insurance proceed revenues, and a \$515,000 increase to sale of capital asset revenues.

Summary (Revenues)

Overall, the proposed amendments result in a net increase of \$1,197,234 in the General Fund. Our mid-year amendment does include an increase of \$204,121 to fund balance appropriations in the General Fund. The Main Street MSD Fund amendment increases revenues \$44,112, including a \$2,000 increase to special event revenues and a \$40,000 increase in the fund balance appropriated. Increased Main Street MSD revenues are being used to balance salaries and benefits, as well as electricity use. No changes to 7th Avenue's budget are recommended currently.

Salaries & Benefits (Expenditures)

Included in the mid-year budget amendment recommendations are net increases for salaries and benefits throughout the General Fund, which total \$1,114,821. This increase, in large, is due to higher than anticipated job occupancy rates in the governmental funds. This trend, while costly, is a positive note since it indicates Council's personnel and benefits initiatives have promoted low vacancy and turnover. The increase also includes six (6) firefighter trainee positions that will launch the City of Hendersonville's first fire academy.

Other Equipment, Supplies, & Services (Expenditures)

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. Of note, there is a recommended increase of \$9,000 to permits, licenses & fees in the Community Development department for new planning software. There are also recommended increases to liability & property insurance accounts throughout the General Fund, which total \$44,100. Other operating increases cover needed increases to utilities, permits, licenses and fees, professional services-engineering, and contract services.

Contingencies (Expenditures)

Finally, the General Fund's contingency account had an adopted budget of \$227,500. At mid-year, this budget amount has decreased to \$48,963 to cover various overages across all departments within the General Fund. The account was also used to hold funds for the 2% 401k match approved by Council. The funds were moved from contingency into the appropriate account after it was created. There are no recommended changes to the contingency account.

The total recommended change in total budget for the governmental funds is presented, as follows.

Fund	Net Change (\$)	FY24 Revised Appropriation
General Fund (010)	Increase \$ 1,197,234	\$27,505,191
Main Street MSD Fund (020)	Increase \$44,112	\$801,704
7 th Avenue MSD (021)	No Change	\$181,843

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

Enterprise Funds

The four (4) enterprise funds covered in this report include the Water and Sewer Fund, Parking Fund, Stormwater Fund, and Environmental Services Fund. The Water and Sewer Fund revised budget as of 01/08/2024 totals \$24,513,088. including a budgeted fund balance appropriation of \$636,438. The Parking Fund revised budget totals \$1,168,920, including a \$138,420 fund balance appropriation. The Stormwater Fund revised budget totals \$1,500,344 including a budgeted fund balance appropriation of \$266,294. The Environmental Services Fund revised budget totals \$1,866,685 including a budgeted fund balance appropriation of \$62,035. Major highlights of these funds' 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 (FY24) and forward is 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 01/08/2024, the water sales account has collected \$6,124,619 (37.8%) of budgeted user charge revenue. This collection amount reflects approximately 21 cycles of revenue collection out of 48 total cycles. 27 major collection cycles remain this fiscal year. Compared to prior fiscal years at the same collection period, water sales revenues are higher. This increased actual water sale revenue trend can be attributed to a few factors including finance department efforts to improve utility bill collections and increased economic growth in greater Henderson County (with utility connections increasing over time). Prior to the adoption of the FY24 budget, a water and sewer rate study was completed. The results of the study aided in a more concise user charge budget. The sewer charges account has collected \$2,769,525 (41.96%) of budgeted revenues. The Parking Fund has collected \$95,372 (42.38%) of budgeted monthly parking revenues, \$334,873 (44.64%) in parking meter revenues, and \$96,017 in parking garage revenues which had no budget allocated. Due to the accounting needs of the city, we are recommending a decrease in the monthly parking and parking meter revenue accounts of \$45,000 and \$50,000 respectively, and an increase of \$150,000 in the parking garage revenue account. The Stormwater Fund has collected \$519,600 (42.24%) of budgeted stormwater fee revenue. The Environmental Services Fund has collected \$739,038 (41.05%) of budgeted user charge revenue (for both residential and commercial waste collection).

There are no recommended changes in user charges revenues in the Water and Sewer Fund, the Stormwater Fund, or the Environmental Services Fund.

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. Thus far, in FY24, we have collected \$246,050 (66.99%) of our \$367,300 budgeted water and sewer tap revenues. Based on current collections, staff recommend no change to budgeted revenues for water and sewer tap fees.

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, staff recommends Council approve the following adjustments to other revenues: \$4,300 increase to rental income, a \$10,400 increase to lease revenues, \$21,000 increase to W&S inspection line fees, a \$3,400 increase to sewer permits & fees, a \$7,000 increase to utility billing service charges, a \$15,000 increase to sewer surcharges, a \$9,800 increase to sewer pretreatment cost recovery, a \$64,000 increase to interest income, a \$25,800 increase to market adjustment, a \$25,000 increase to both public works and W&S miscellaneous income accounts, a \$15,000 increase to refunds, a \$2,060 increase to insurance proceeds, and a \$62,000 increase to sale of capital assets.

Salary & Benefits (Expenditures)

There are several needed increases to salary lines, including adjustments for worker's comp. insurance claims, salaries & wages - regular, retirement, and overtime budgets within the Water and Sewer Fund.

Inventory (Expenditures)

There are no recommended changes to inventory expenditure accounts.

Other Equipment, Supplies, & Services (Expenditures)

Other operating expenditure adjustments include increases for professional services, utilities, vehicle and equipment maintenance, training, permits, licenses, and fees.

Contingencies, Transfers, and Others (Expenditures)

Contingencies in the Water and Sewer Fund have decreased from \$222,586 to \$107,394 at mid-year. There are no recommended adjustments to contingencies with our mid-year amendments. The funds will be used for unforeseen opportunities and to supplant operating needs as we approach the end of FY24. There are no contingencies changes recommended for the Stormwater Fund or Environmental Services Fund.

The total recommended change in total budget for the enterprise funds is presented, as follows.

Fund	\$ Change (Net)	FY24 Revised Appropriation
Water & Sewer Fund (060)	Increase \$289,760	\$24,803,848
Parking Fund (064)	Increase \$57,600	\$1,226,520
Stormwater Fund (067)	No Change	\$1,500,344
Environmental Services Fund (068)	Increase \$650	\$1,867,335

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