

CITY COUNCIL MEMORANDUM

TO Mayor and City Council
FROM Adam Murr, Budget & Evaluation Director
Jenny Floyd, Management Analyst III
SUBJECT FY26 Mid-Year Amendments, for Consideration March 05, 2026
DATE February 19, 2026
COPIED John Connet, City Manager
Brian Pahle, Deputy City Manager

This memo communicates the City of Hendersonville's fiscal year 2025-2026 (FY26) 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).

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 02/13/2026 totals \$31,850,989 including a budgeted fund balance appropriation of \$3,356,167. The Main Street MSD Fund revised budget totals \$985,676 with no fund balance appropriation. The 7th Avenue MSD Fund revised budget totals \$214,787 including a budgeted fund balance appropriation of \$44,184.

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

Ad Valorem Tax (Revenues). For tax year 2025 (FY26), the City continued an interlocal agreement with Henderson County to consolidate tax collection. The County provides this service for a fee of 0.5% of the total collections. At mid-year, collections for the tax year 2025 (FY26) General Fund ad valorem taxes total approximately \$14,065,465 (87.09%) of the total budgeted \$16,150,000 levy. Comparably, this time in tax year 2024 (FY25), collections totaled \$12,866,537 (83.01%) of the budgeted \$15,500,000 levy. We estimate \$16,451,753 in FY26 total collections, based on Henderson County property tax billing reports and collection expectations (98.60% collection rate). The Main Street MSD fund property tax actuals total \$228,742 (73.08%) of budget, to date. 7th Avenue MSD fund property tax actuals total \$39,699 (83.31%) of budget, to date.

The City also receives ad valorem taxes on motor vehicles (DMV). Based on Henderson County's projection report (January 20, 2026), the City will receive \$1,199,545 from this source, exceeding the \$1,040,000 adopted budget by \$159,545.

Unrestricted Intergovernmental Taxes (Revenues). The City adopted an FY26 ad valorem sales tax revenue budget within the General Fund of \$6,800,000. The FY26 adopted budget is \$782,500; or, 13.00% greater than the \$6,017,500 FY25 adopted budget. This fiscal year-to-date, five (5) sales tax distributions totaling \$3,342,454 have been reported by the North Carolina Department of Revenue (NCDOR). By the end of FY26, we forecast collections will exceed budget. On the average month, these revenues are trending 16.27% greater than initial budget estimates. While maintaining a conservative approach to budgeting for this elastic revenue source, Staff recommend increasing the sales tax revenue budget by \$384,081 at mid-year.

Debt Proceeds (Revenues). There is no mid-year amendment recommended for debt service budgets in the General Fund, Main Street MSD Fund, or the 7th Avenue MSD Fund.

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 FY26, a \$4,742 decrease to the Powell Bill budget is recommended. This decrease reflects actual state street aid allocations received by the City in FY26, totaling \$569,054. This decrease is a result of the State decreasing the total allocation to municipalities from \$186.1 million in FY25 to \$185.1 million in FY26. At the local level, this decrease is offset by a recommended Powell Bill interest budget increase of \$8,300.

Additional revenue amendments include a \$10,100 combined increase to Boyd Park golf and concession revenues, a \$7,500 increase to zoning permit revenues, a \$950 increase to demolition fee revenues, a \$1,150 increase to sidewalk encroachment revenues, a \$167,000 increase to interest income budgeted revenues. Several sources that were not included in the adopted budget are also recommended to increase, these are: \$7,980 misc. income for HPD, \$21,800 contribution to HPD, \$20,500 in refunds/rebates, and \$8,259 in insurance proceeds.

Summary (Revenues). Collectively, the recommended amendments result in a net increase of \$632,878 to the General Fund. The mid-year amendment recommendation does not alter the budgeted \$3,132,565 fund balance appropriation in the General Fund. The Main Street MSD Fund amendment increases revenues \$12,080, including an \$8,690 increase to sales tax revenues, \$255 increase to tax interest, and \$3,135 increase to vendor permit revenues. Increases in Main Street MSD revenues are being used to balance personnel and operating needs. The recommended amendment increases the total 7th Avenue MSD Fund appropriation to \$The 7th Avenue MSD Fund amendment increases revenues \$3,715, including a \$3,680 increase to sales tax and \$35 increase in tax interest income. The 7th Avenue MSD revenues being increased are being increased to balance personnel and operating needs. The recommended amendment increases the total 7th Avenue MSD Fund appropriation to \$218,502.

Salaries and Benefits (Expenditures). Included in the mid-year budget amendment recommendations are net increases for salaries and benefits throughout the General Fund, which total \$119,291. The increases in salaries and benefits are attributable to changes in personnel (such as promotions) that occurred after the formation and adoption of the FY26 budget. A \$3,040 increase to Main Street MSD Fund and \$2,305 increase to 7th Avenue MSD fund salaries and benefits budgets is also included in the mid-year amendment recommendation.

It is important to note that a separate amendment was completed in December 2025 to address one-time bonuses to Staff, which resulted in a \$160,420 increase to General Fund total appropriations, a \$6,310 increase to Main Street MSD Fund total appropriations, and a \$1,820 increase to 7th Avenue MSD Fund total appropriations.

Other Equipment, Supplies, and Services (Expenditures). There are changes recommended to operating budgets for Council's consideration included in the mid-year amendment package. Operating expenditure increases total \$138,565 in the General Fund. One significant and notable increase is to administrative contracted services for the completion of a USDOT BUILD grant application for the recently rebranded "Hendersonville Downtown Streets Modernization Project" presented to Council at their February 05, 2026, regular meeting. Main Street MSD Fund operating expenditures are recommended to increase by a collective \$2,520 and 7th Avenue MSD Fund operating expenditures are recommended to increase by \$410.

Contingencies, Transfers, and Others (Expenditures). The General Fund's contingency has a current contingency budget of \$2,618. Contingency budget has been leveraged in FY26 for unforeseen opportunities under the City Manager's discretion. At mid-year, an increase to this budget by \$55,022 is recommended and would also be used for unanticipated challenges or opportunities through the end of the fiscal year. Likewise, a \$6,520 increase is recommended for Main Street MSD Fund contingency budget, and a \$1,000 increase is recommended for the 7th Avenue MSD Fund contingency budget for Council's consideration.

The single largest recommended use of the recommended revenue increase within the General Fund is a \$320,000 increase to transfers out. This transfer out is to the Governmental Special Revenue Fund to provide Pisgah Legal Services an agreed upon American Rescue Plan (ARP) appropriation in FY26.

The recommended change in total budget for governmental funds is provided below.

Fund	Net Change (\$)	Revised Appropriation
General Fund (010)	Increase \$ 632,878	\$38,179,867
Main Street MSD Fund (020)	Increase \$12,080	\$997,756
7 th Avenue MSD (021)	Increase \$3,715	\$218,502

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 02/10/2026 totals \$31,010,781, including a budgeted fund balance appropriation of \$2,466,441. The Parking Fund revised budget totals \$1,394,954, including a \$252,649 budgeted transfer from the General Fund in lieu of a fund balance appropriation. The Stormwater Fund revised budget totals \$1,686,020 with no budgeted fund balance appropriation. The Environmental Services Fund revised budget totals \$2,408,820 with no budgeted fund balance appropriation. Major highlights of these funds' mid-year performance and recommended adjustments are 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 consulted with rate experts to identify recommended rates. Adherence to recommendations for the current fiscal year 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 02/10/2026, the City has collected \$9,318,060 (52.64%) of budgeted \$17,700,000 water sales revenue. This collection amount reflects approximately 6 full months of revenue collection. The City has collected \$4,459,542 (53.09%) of budgeted \$8,400,000 sewer charge revenues. There are no recommended amendments to water sales or sewer charge revenues included in the recommended mid-year amendments.

The City has collected \$436,929.25 (61.54%) of budgeted \$710,000 monthly parking meter revenues, \$111,262 (55.63%) of budgeted \$200,000 permit sales revenues, \$117,976 (76.11%) of budgeted \$155,000 parking garage revenues, and finally \$58,922 (117.84%) of budgeted \$50,000 citation fees. A recommended \$5,590 increase to parking citation fees is included in the recommended mid-year amendments.

The Stormwater Fund collects fees based on an "equivalent residential unit" of impervious surface area calculated for City parcels. The Stormwater Fund has collected \$869,313 (51.90%) of budgeted \$1,675,000 stormwater fee revenue. There are no recommended amendments to Stormwater Fund revenues included in the mid-year amendments.

The Environmental Services Fund (ESF) collects revenues from both commercial and residential waste pickup services. The ESF has collected \$1,016,722 (49.24%) of budgeted \$2,065,000 residential sanitation fee revenue and \$171,546 (52.78%) of budgeted \$325,000 commercial sanitation fee revenue. There are no recommended amendments to sanitation fee revenues included in the recommended mid-year amendments; however, Staff are closely monitoring the ESF's revenue and expenditure performance throughout the year.

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 into the rate of development in the City and Henderson County. To date, the City has collected \$221,459 (73.21%) of budgeted \$302,500 water tap revenue and \$34,425 (53.13%) of budgeted \$64,800 sewer tap fee revenue.

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 recommend the following amendments to Water and Sewer Fund revenues: \$5,700 increase to rental income, non-taxable, \$3,000 increase to miscellaneous water sales, \$20,000 increase to septic disposal fees, \$2,800 increase to lease revenues, \$100,750 increase to sewer surcharge revenues, and \$9,400 increase to misc. income.

Recommended Parking Fund revenue amendments include a \$555 increase to misc. income, a \$5,590 increase to parking violation revenues, and a \$144 increase to refunds and rebates.

There are no recommended amendments related to Stormwater Fund or ESF revenues.

Salaries and Benefits (Expenditures). There are several increases recommended to salary lines, including adjustments for worker's comp. insurance claims, salaries– regular, retirement, and overtime budgets within the Water and Sewer Fund; the recommended amendments total \$46,455. Parking Fund personnel amendments include a total increase of \$1,712. Environmental Services Fund personnel budgets are recommended to increase by \$3,465.

Other Equipment, Supplies, and Services (Expenditures). Other operating expenditure adjustments include increases for professional services, utilities, vehicle and equipment maintenance, training, permits, licenses, and fees. Water and Sewer Fund recommended operating amendments represent a net increase by \$73,535, notably to increase contracted services accounts for continue work, and to increase credit card processing fees by \$28,250 – which is indicative of increased customer enrollment in online and automated payment options for utility billing. A \$4,577 net increase to Parking Fund operating budgets and a (\$3,465) net decrease to Environmental Services operating budgets are also included for Council's consideration in the recommended mid-year amendments.

Contingencies, Transfers, and Others (Expenditures). At mid-year, the Water and Sewer Fund contingency budget level is \$62,871, down from the adopted \$100,000 beginning of year budget. Contingency adjustments require City Manager approval and are often used to adjust for unforeseen challenges and opportunities occurring after budget adoption. At mid-year, it is recommended the Water and Sewer Fund contingency budget be increased by \$21,660 to a total of \$84,531 – well below the five percent (5.00%) of total appropriations threshold provided in North Carolina General Statute 15-13(b)(3).

The recommended change in total budget for enterprise funds is provided below.

Fund	Net Change (\$)	Revised Appropriation
Water and Sewer Fund (060)	Increase \$141,650	\$31,152,431
Parking Fund (064)	Increase \$6,289	\$1,401,243
Stormwater Fund (067)	No Change	\$1,686,020
Environmental Services Fund (068)	Increase \$7,070	\$2,415,890

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