

## CITY COUNCIL MEMORANDUM

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**TO** Mayor Volk and City Council  
**FROM** Jenny Floyd, Management Analyst II  
Adam Murr, Budget & Evaluation Director  
**SUBJECT** FY25 Mid-Year Report  
**DATE** January 31, 2025  
**COPIED** John Connet, City Manager  
Brian Pahle, Assistant City Manager

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This memo communicates the City of Hendersonville's fiscal year 2024-2025 (FY25) 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 7<sup>th</sup> Avenue MSD Fund. As of January 27, 2025, the General Fund revised budget totals \$29,088,929 including a budgeted fund balance appropriation of \$2,724,552. The Main Street MSD Fund revised budget totals \$824,549 including a budgeted fund balance appropriation of \$182,719. The 7<sup>th</sup> Avenue MSD Fund revised budget totals \$169,343 including a budgeted fund balance appropriation of \$47,843.

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

**Ad Valorem Tax (Revenues).** For tax year 2024 (FY25), 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 0.50% of the total collections. At mid-year, General Fund ad valorem taxes total approximately \$8,015,289 (51.71%) of the total budgeted \$15,500,000 levy. Comparably, this time in the prior year, collections totaled 52.57%. We anticipate \$15,582,810 (+\$82,810) total collections for the year based on forecasting and property tax distribution expectations. The Main Street MSD fund property tax actuals total \$100,989 (33.55% of the revised budget), to date. We anticipate \$314,680 total collections for the year. 7<sup>th</sup> Avenue MSD fund property tax actuals total \$16,014 (32.68% of the revised budget), to date.

The City also receives ad valorem taxes on motor vehicles (DMV). Based on Henderson County's TR1 report (January 21, 2025), the City will receive \$1,029,405.69 from this source, exceeding the \$935,000 adopted budget by \$94,405. An increase in this revenue source is recommended in the mid-year amendments.

Prior year collections exceeded initial estimates in the General Fund by \$78,025. Our mid-year amendments include adjustments considering the increased collection amount.

**Unrestricted Intergovernmental Taxes (Revenues).** The City adopted an FY25 ad valorem sales tax revenue budget of \$6,396,500, an increase of 1.69% over the prior year. On average, our sales tax collections are exceeding budget by 9.33%; however, Staff recommends keeping sales tax revenues at the current level due to economic uncertainties driven by (1) Hurricane Helene, (2) changes in Federal Government Administration, and (3) uncertain fiscal and economic policy landscapes. To date, the City has received a total of \$2,196,385 for four (4) of twelve (12) total collection months, an increase of \$157,409 or, 7.72% over the same collection periods from the prior year. Based on assessed values, the General Fund receives 94.00% of total sales tax revenues, Main Street MSD Fund receives 5.00%, and 7<sup>th</sup> Avenue MSD Fund receives 1.00%. By the end of FY25, we anticipate collections will be in-line with budget: \$6,017,500 in the General Fund, \$316,000 in the Main Street MSD Fund, and \$63,000 in the 7<sup>th</sup> Avenue MSD Fund.

**Debt Proceeds (Revenues).** In FY25, the City adopted a project ordinance for major vehicle and equipment acquisitions. Due to the adopted project ordinance, the FY25 General Fund, Main Street MSD Fund, and 7<sup>th</sup> 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 FY25, the City collected \$573,796, exceeding our adopted budget of \$560,000 by \$13,796. FY25 Powell Bill revenues have been leveraged in the 7<sup>th</sup> Avenue Streetscape project.

Additional revenue amendments include a \$11,500 increase to Edwards Park golf and concession revenues, a \$3,150 increase to fire permits & fee revenues, a \$7,000 increase to coming permit revenues, a \$16,000 increase to market adjustment revenues, a \$39,700 increase to miscellaneous revenues, and a \$1,551,750 increase to insurance proceeds.

**Summary (Revenues).** Collectively, the recommended amendments result in a net increase of \$434,336 in the General Fund. Our mid-year amendment does include a decrease of \$2,056,046 to fund balance appropriations in the General Fund. The Main Street MSD Fund amendment increases revenues \$16,085, including a \$10,790 increase to ad valorem taxes, a \$1,280 increase to interest income, and a \$2,370 increase to miscellaneous income. Increased Main Street MSD revenues are being used to balance salaries and benefits. The 7<sup>th</sup> Ave Fund amendment increases revenues \$890, including a \$730 increase to interest income and \$160 increase to market adjustment.

**Salaries & Benefits (Expenditures).** Included in the mid-year budget amendment recommendations are net increases for salaries and benefits throughout the General Fund, which total \$344,645. This increase is due to a one-time \$1,000 bonus for employees employed during Helene and the implementation of non-competitive promotion opportunities in the Public Works and Water & Sewer Departments.

**Other Equipment, Supplies, & Services (Expenditures).** There are minimal changes being made to operating accounts this fiscal year. The Budget Office has identified flexibility in operating accounts to offset the necessary increases to salary and benefit accounts.

**Contingencies (Expenditures).** The General Fund’s adopted budget included a modest contingency of \$38,000. Contingency was increased by \$85,000 in August 2024 attributable to the sale of a street sweeper. The available contingency budget is currently \$94,664. There are no recommended changes to the contingency account at mid-year. Staff continue to leverage contingency for unforeseen challenges and opportunities as identified throughout the year.

**Transfers (Other).** The adopted General Fund transfer out budget was \$915,365, supporting the 7<sup>th</sup> Avenue Streetscape Project (\$560,000), Parking Fund (\$194,340), and the Environmental Services Fund (\$87,025). Since adoption, the General Fund’s transfer out budget has increased to \$1,353,030, which supports the Fire Station 1 and Edward’s Park projects (\$100,000), Pisgah Legal Services ARP Appropriation (\$320,000), City Hall 3<sup>rd</sup> Floor Project (\$12,880), Strategic Housing Plan (\$2,600), Pothole Patcher Acquisition (\$2,000), and Safer School Project closeout (\$185). The General Fund amendment increases transfers out by \$335,746, supporting non-reimbursable Helene expenditures (\$189,591), the creation of an Oakdale Cemetary Capital Project (\$29,000), the creation of a Main St. & 7 Ave Camera Capital Project (\$75,000), and a transfer out to the Environmental Services Fund (\$42,155).

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

Fund	Net Change (\$)	FY25 Revised Appropriation
General Fund (010)	Increase \$434,336	\$29,523,265
Main Street MSD Fund (020)	Increase \$16,085	\$840,634
7 <sup>th</sup> Avenue MSD (021)	Increase \$890	\$170,233

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 01/07/2025 totals \$28,404,997, including a budgeted fund balance appropriation of \$2,032,437. The Parking Fund revised budget totals \$1,289,826, including a \$201,251 fund balance appropriation. The Stormwater Fund revised budget totals \$1,454,050 with no fund balance appropriation. The Environmental Services Fund revised budget totals \$1,894,100 including budgeted transfer in from the General Fund of \$90,100 in lieu of a 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 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 January 27, 2025, the City has collected \$7,439,701 in water sales revenue, 43.63% of the budgeted \$17,050,000. This collection amount reflects approximately 21 cycles of revenue collection out of 48 total cycles. 27 major collection cycles remain this fiscal year. This collection percentage is on-pace with historical trends. At the same point last fiscal year, the City collected 44.52% of budgeted water sales revenue. By end of year, we estimate water sales revenue totaling \$17,396,346. The City has collected sewer charges totaling \$3,433,394, 44.58 % of budgeted revenues.

The City has collected \$83,645 in monthly parking revenues (41.82% of \$200,000 budget), \$278,303.25 in parking meter revenues (39.19% of \$710,000 budget), \$86,715 in parking garage revenues (55.94% of \$155,000 budget), and \$30,072 in parking citations (150.36% of \$20,000 budget).

The Stormwater Fund collects fees based on "equivalent residential units" of impervious surface area on properties. The City's Stormwater Fund has collected \$617,225 in stormwater fees, 42.56% of the budgeted \$1,450,000.

The Environmental Services Fund (ESF) collects revenues from both commercial and residential waste pickup services. The ESF has collected \$104,205 in commercial waste fees (40.08% of \$260,000 budget), and \$653,970 in residential waste fees (42.47% of budget). The Budget Office continues to closely monitor the ESF's revenue performance.

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 FY25, we have collected \$255,050 (69.44%) 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: \$3,460 increase to rental income, a \$5,120 increase to water sales-miscellaneous, a \$4,600 increase to lease revenues, \$49,000 increase to sewer surcharges, a \$106,000 increase to interest income, a \$474,000 increase to insurance proceeds, a \$8,700 increase to parking violations, and a \$85,000 increase to sale of capital assets in the Environmental Services fund.

**Salary & Benefits (Expenditures).** Included in the mid-year amendments are recommendations to increase salaries and benefits across Enterprise Funds, which total \$437,156. This increase is due to a one-time \$1,000 bonus for employees employed during Helene and the implementation of non-competitive promotion opportunities in the Water & Sewer department.

**Other Equipment, Supplies, & Services (Expenditures).** Other operating expenditure adjustments include increases for contracted services, credit card processing fees, and repair and maintenance accounts.

**Contingencies, Transfers, and Others (Expenditures).** Contingencies in the Water and Sewer Fund have decreased from \$100,000 to \$69,173 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 FY25. There are no contingency changes recommended for the Stormwater Fund or Environmental Services Fund. The Environmental Services amendments include a \$42,155 transfer in from the General Fund to cover personnel and benefits increases.

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

Fund	\$ Change (Net)	FY25 Revised Appropriation
Water & Sewer Fund (060)	Increase \$267,180	\$28,672,177
Parking Fund (064)	Increase \$8,830	\$1,298,656
Stormwater Fund (067)	No Change	No Change
Environmental Services Fund (068)	Increase \$128,635	\$2,022,735

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