Introduction

Purpose

The Village of Pinehurst is a high performing, results oriented organization. We are focused on fulfilling our mission and achieving the short-term and long-term performance goals indicated on our Balanced Scorecard (BSC). A reliable long-term financial forecast is an important part of ensuring that adequate resources are available to meet future financial obligations. It also assists us in meeting the Council's strategic goal to "Maintain a Healthy Financial Condition" and achieving the long-term financial targets on our Balanced Scorecard.

Each year, the Financial Services Department prepares a five-year financial forecast to ensure the Village can achieve the long-term performance target levels on the Village's BSC and department balanced scorecards while maintaining a healthy and sustainable financial position.

The Village has budgetary and financial policies that set forth basic guidance for the financial management of the Village. These policies, provided in the *Strategic Operating Plan Guide* section of this document, are based upon long-standing principles of public stewardship. The forecast serves to inform decision makers of the mid-term financial implications of the decisions they are making today.

Methodology

The forecast includes five-year projections of revenues, operating expenditures, anticipated debt service for financed capital, and planned capital expenditures. It is inclusive of the Initiative Action Plans in the forecasted period and the impact those initiatives are projected to have on revenue, capital expenditures and ongoing operating costs.

Sound and conservative financial principles are utilized when preparing the plan. Much effort is taken to ensure that all revenue and costs associated with an Initiative Action Plan, capital addition, or program are included in the plan. This is done to ensure the plan is as accurate as possible in predicting financial outcomes and to ensure that adequate resources are available to meet future obligations.

After the issuance of the Village's audit report each fall, Financial Services staff begin compiling the data needed to update the forecast. Files containing historical financial information are updated to include the current year's audited data. This annual update ensures that the plan is based upon the most relevant data available.

Revenue Forecasting

Significant revenue sources of the Village are forecast on a line-by-line basis. They are generally projected based on historical trends and other available information. For instance, property tax revenue is dependent on new construction trends and property revaluations. All of these factors are taken into account to forecast property tax revenue. Some revenue, like sales taxes, is directly linked to the overall economy. This makes them more difficult to predict on a long-term basis.

The Village also relies heavily on information provided by the North Carolina League of Municipalities (NCLM). In conjunction with economists at the North Carolina General Assembly, the NCLM issues a revenue forecast memo each spring, which contains projected growth rates for state-collected local revenue.

Department heads and financial staff also review internal data on programs and activities to accurately forecast fees and charges revenue over the five-year planning horizon.

Operating Expenditure Forecasting

Salaries and benefits make up approximately half of the Village's budgeted expenditures each year, so forecasting them accurately is critical to producing a reliable plan. Staff begins by developing the current year personnel budget. Each department head also projects staffing needs over the five-year period and completes a staffing request for the staffing forecast. The Strategic Planning Team reviews these requests and determines which positions to include in the final plan. All positions included in the staffing forecast are incorporated into the five-year forecast. Part-time staffing requirements and overtime are also estimated and included.

Merit raise ranges are estimated for the five-year period in consultation with the Village Manager and the Human Resources Director. Cost of living adjustments are based on the annual average consumer price index percentage for the prior calendar year. Other benefit costs are estimated at their individual growth rates based upon information from the North Carolina Retirement System, our insurance providers, and our benefit consultants.

The current year forecast is then used to project the remaining four years of the plan using key assumptions set by the Financial Services Director, in consultation with the Village Managers.

Each year, departments develop Initiative Action Plans (IAPs) and Opportunities for Innovation and Improvement (OFIs) that are designed to improve performance and service levels indicated on the Village's BSC. These initiatives may include operating and capital expenditures. Each IAP or OFI has its own five-year financial plan that indicates the operating and capital expenditures as well as any revenue impact related to the initiative by year. Financial Services staff analyze the IAPs and OFIs and incorporate the financial data contained in their plans into the five-year forecast. The *Strategic Priorities* section provides a description and the estimated net cost of IAPs included in the five-year financial forecast.

The forecast for other operating expenditures is based on the current year's operating expenditures budget. The forecast takes current operating expenditures, which are not related to personnel or a specific IAP, and forecasts them based on an inflation factor. To ensure the accuracy of the plan, a listing of adjustments by year is maintained to adjust for known additions or deductions from the plan. For instance, if the Village has a significant operating lease that expires in the second year of the plan, the item is removed from the plan in the third year. The forecast will not contain these costs in the third year and going forward. The financial plans for all IAPs and OFIs are reviewed carefully to ensure that new operating costs that begin after the first year of the plan are included. Also, operating expenditures and revenue related to major capital additions are manually added to the forecast in the same manner.

Capital Expenditure Forecasting

The Village's Capital Improvement Plan (CIP) is a detailed plan of capital additions and replacements in the five-year period. The CIP is used to plan for the acquisition of vehicles, equipment, infrastructure, new facilities, and other capital assets valued at over $5,000. All capital expenditures are consistent with the implementation strategies detailed in the 2019 Comprehensive Plan.

Adequate resources must be made available for timely replacement of the Village's capital assets. The forecast allows decision makers to monitor planned capital investment levels to ensure that a balance between operating needs and capital needs is maintained across the planning horizon.

More details on how the capital forecast is developed is contained in the *Capital Improvement Plan* section of this document.

FY 2021-2025 Five-Year Financial Forecast

Revenue Forecast and Significant Assumptions

The FY 2021-2025 forecast projects operating revenue to grow from $19,658,450 to $21,632,000 over the next five years. The Village originally planned a one-half cent property tax rate increase for FY 2021. However, due to the economic impacts the COVID-19 pandemic has had on residents, the Village deferred this one-half cent property tax rate increase to FY 2022. The property tax rate will remain at $0.30 cents per $100 valuation for FY 2021. The tax rate is then projected to increase to $0.31 cents per $100 valuation for FY 2022, and increase by one-half cent in FY 2023 and FY 2024 to address operating expenditure pressures discussed below. Real property taxes are estimated to grow at 1% over the planning period due to the construction of new homes and commercial properties. Local option sales taxes are planned to remain flat in FY 2022 due to the economic downturn driven by the COVID-19 pandemic. However, local option sales taxes are projected to increase by 4% in FY 2023 after rebounding from the economic downturn, 5% in FY 2024 due to the favorable impacts of hosting the U.S. Open Championship, and 3% in FY 2025 returning to normal growth patterns. Other unrestricted intergovernmental revenues are planned to increase or decrease at varying rates based upon the NCLM forecast and other available information.

Operating Expenditure Forecast and Significant Assumptions

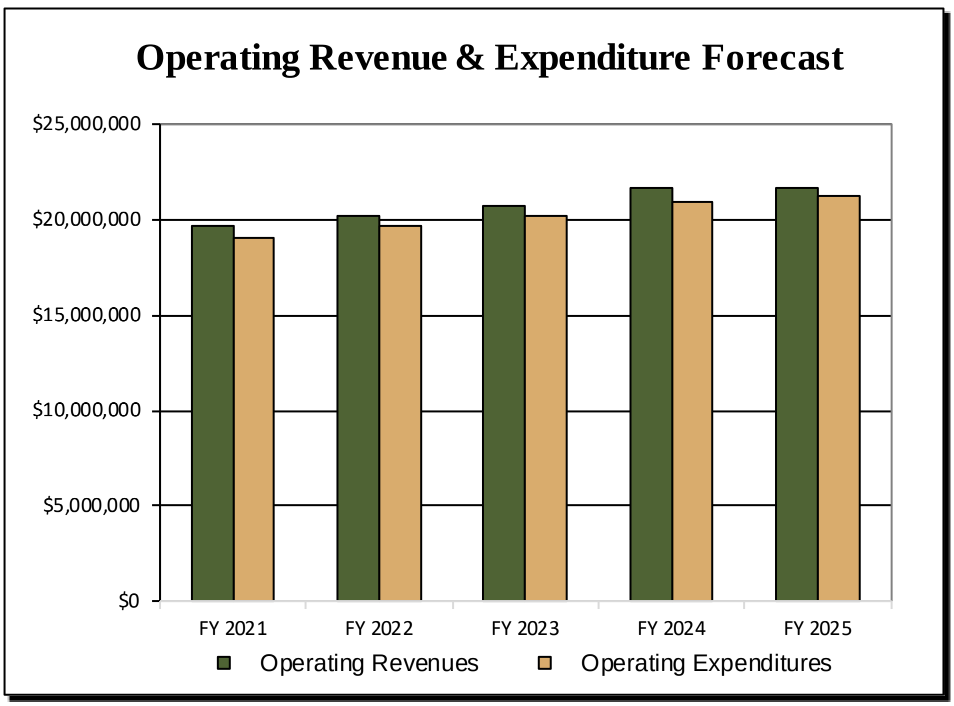
Salaries and benefits are forecast to increase by approximately 3.6% per year on average across the planning period before accounting for the addition of new positions. Although merit pay raises of 2% and cost of living adjustments of 1.8% account for the majority of this increase, increased required retirement contributions and projected continued increases in health insurance premiums are also contributing factors. Beyond the FY 2021 budget year, there is one planned change to paid staff. A full-time Building Inspector position will reduce to half-time in FY 2023 upon retirement of a Building Inspector. The net effect of these changes is a reduction of .50 FTEs.

In January 2019, The North Carolina Local Government Employees' Retirement System Board voted to increase employer contribution rates to address shortfalls in investment earnings in the pension plan. These contribution rates progressively increase over the five-year plan and are the primary reason for the projected tax increases in each year from FY 2022 to FY 2024. The base contribution rate for non-law enforcement officers increases from 10.15% in FY 2021 to 12.45% in FY 2023 and on.

Other operating expenditures are expected to increase by 2.5% per year based on economists' predictions of inflation. We believe this is a reasonable and conservative estimate. Some operating expenditures such as energy and fuel are more volatile than others, and the plan must account for the possibility that actual costs could be slightly higher than the baseline consumer price index.

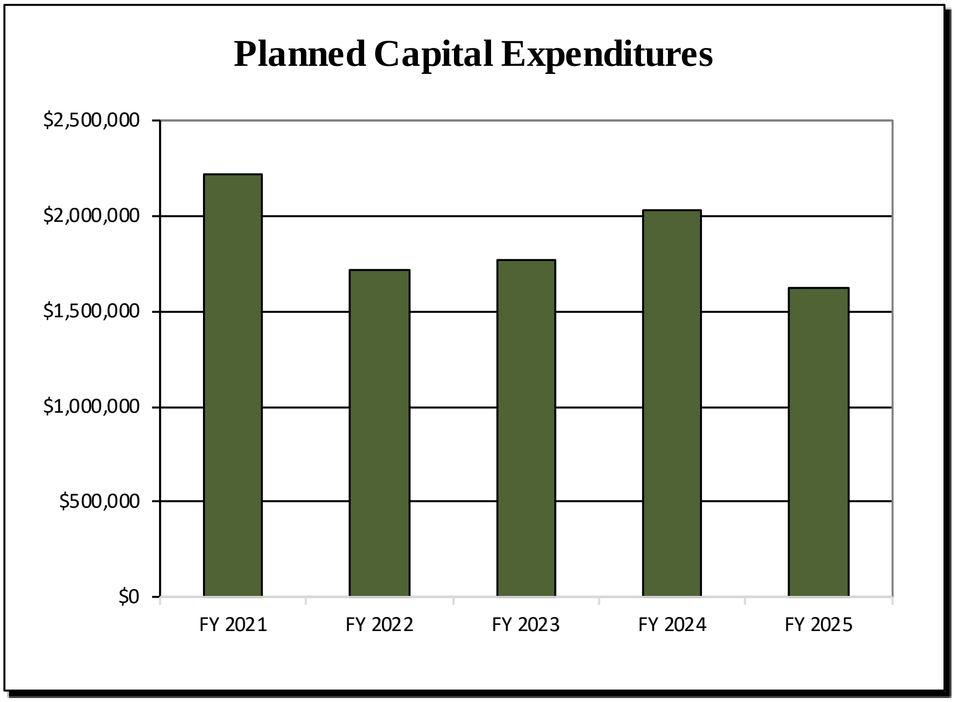
Debt service expenditures are projected using known amortization schedule payments for existing debts and estimated interest rates if new debt is projected to be issued in the five-year period. No new debt issuances are expected in the FY 2021-2025 planning period.

After adjusting for incremental operating expenditures from new initiatives and capital additions, total operating expenditure increases in the plan range from 1.9% to 4.0% in FY 2022-2024. There is a 1.0% decrease in operating expenditures in FY 2025, as expenditures related to hosting the U.S. Open Championship in FY 2024 are removed.



Capital Forecast

The forecast incorporates capital investments with an estimated cost of $9,369,200 over the next five years. These capital investments represent 7.1%-10.5% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



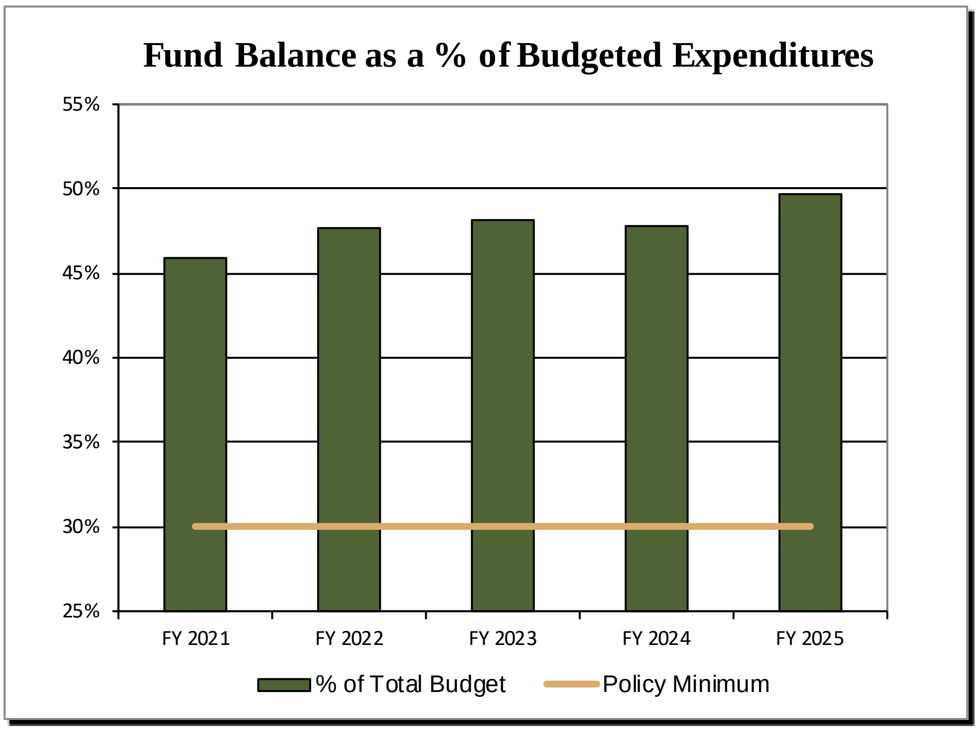
Forecast Summary

Table 1 on page 143 summarizes the key information of the five-year financial forecast. Management relies heavily on this data to make decisions on which programs, initiatives, and capital can be afforded within available revenues.

Two key financial management concepts guide management in these decisions. First, the Village strives to maintain a healthy operating margin. The operating margin ratio measures how much of available operating revenues are required to support operating expenditures. The Village strives to maintain an operating margin ratio between 0.89 and 0.91. For example, for each dollar in operating revenues received, approximately 89 cents will be used to support operating expenditures. This leaves the remaining 11 cents available for current or future capital investments. Monitoring this key ratio ensures that operating expenditures are kept in check and that funds will be available for capital improvements. In this year's plan, estimated operating ratios range from 0.89 in FY 2021 to 0.91 in the final year of the plan. This slight increase in the operating margin ratios in the out years is typical in the Village's forecast.

The second measure management uses to guide the development of the forecast is the fund balance ratio. The Village Council has adopted a Fund Balance Policy that requires management to develop budgets that maintain total fund balance in the range of 30%-40% of budgeted expenditures. Details on this policy are provided in the *Strategic Operating Plan Guide* section of this document. In the current plan, fund balance levels begin at 46.0% in FY 2021. Then, fund balance is expected to increase to approximately 48% by FY 2022 and stabilize at that level for the remainder of the plan. These ratios are above Council's adopted range, primarily due to $1 million that was returned to the Village from the library capital campaign escrow account in FY 2020. This one-time revenue source equates to approximately 4.7% of expenditures. This level of fund balance positions the Village well to address one or more anticipated significant future projects.

Historically, operating revenues come in at 101% of budget, while operating expenditures typically fall 7% below budget. This concept, known as the Budget to Actual Variance, is incorporated in each year of the forecast to more accurately predict ending fund balance.



Overall, management believes that the five-year financial plan provides a clear path forward for the Village to accomplish the goals and objectives set forth in the FY 2021 Strategic Operating Plan. The forecast was developed based on sound financial management principles and will guide the Village well throughout the planning period.

Table 1 - Five-Year Financial Forecast FY 2021-2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Population	**17,331**	**17,627**	**17,924**	**18,220**	**18,517**
Property Tax Rate	0.300	0.310	0.315	0.320	0.320
Operating Revenues					
Property Tax Revenue	$ 11,403,000	$ 11,904,000	$ 12,220,000	$ 12,542,000	$ 12,671,000
Intergovernmental Revenues	6,601,100	6,606,900	6,796,700	7,042,500	7,198,300
Permits & Fees	626,600	630,000	634,000	987,000	641,000
Sales & Services	725,400	745,000	765,000	785,000	806,000
Other Operating Revenues	274,950	274,000	277,000	281,000	285,000
Interest Income	25,400	26,000	27,000	27,000	28,000
Other Taxes & Licenses	2,000	2,000	2,000	2,000	2,000
Operating Revenues	$ 19,658,450	$ 20,188,000	$ 20,722,000	$ 21,667,000	$ 21,632,000
Operating Expenditures					
Personnel in FTEs	147	147	146	146	146
Salaries and Benefits	$ 11,766,750	$ 12,231,990	$ 12,664,374	$ 13,073,054	$ 13,537,975
Operating	7,123,800	7,392,973	7,531,414	7,833,849	7,756,355
Debt Service	148,167	-	-	-	-
Operating Expenditures	19,038,717	19,624,963	20,195,788	20,906,903	21,294,330
Operating Income	619,733	563,037	526,212	760,097	337,670
Capital Expenditures in GF	2,223,200	1,720,000	1,768,500	2,034,500	1,623,000
Total GF Expenditures	21,261,917	21,344,963	21,964,288	22,941,403	22,917,330
Revenues Over (Under) Exp	$ (1,603,467)	$ (1,156,963)	$ (1,242,288)	$ (1,274,403)	$ (1,285,330)

Capital As a Percent of Total Expenditures

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total Expenditures	21,261,917	21,344,963	21,964,288	22,941,403	22,917,330
Total Capital Expenditures	2,223,200	1,720,000	1,768,500	2,034,500	1,623,000
% of Total Expenditures	10.5%	8.1%	8.1%	8.9%	7.1%

Projected Impact on Fund Balance in the General Fund

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Beginning Fund Balance	$ 9,856,793	$ 9,772,249	$ 10,190,914	$ 10,569,551	$ 10,975,301
Revenues Over (Under) Exp	(1,603,467)	(1,156,963)	(1,242,288)	(1,274,403)	(1,285,330)
Budget to Actual Variance [1]	1,518,923	1,575,627	1,620,925	1,680,153	1,706,923
Projected Actual Gain/(Loss)	(84,544)	418,664	378,637	405,750	421,593
Projected Ending GF Bal	$ 9,772,249	$ 10,190,914	$ 10,569,551	$ 10,975,301	$ 11,396,894
% of Total Budget [2]	**46.0%**	**47.7%**	**48.1%**	**47.8%**	**49.7%**

[1] Assumes actual revenues of 101% of budget and actual expenditures of 93% of budget

[2] Includes $1 million returned from library escrow account in FY 2020

Estimated Operating Margin	0.89	0.90	0.90	0.89	0.91